ANNUAL REPORT OF THE NEW YORK LIQUIDATION BUREAU

For the Year Ended December 31, 2006

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For the Year Ended December 31, 2006

NEW YORK
LIQUIDATION BUREAU

123 William Street
New York, NY 10038 - 3889
(212) 341– 6400

Eric R. Dinallo
Superintendent as Receiver

Mark G. Peters
Special Deputy Superintendent in Charge

October 17, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Dear Policyholders and Creditors,

As Superintendent of Insurance, I serve as Receiver of all insurance companies in receivership in the State of New York. As Receiver, I am pleased to send to you the 2006 Audited Financial Statements ("Financial Statements") for the New York Liquidation Bureau ("NYLB") and the domestic estates in liquidation and rehabilitation ("domestic estates") that it manages. The Financial Statements, which have received an unqualified opinion from the auditor, are the product of the first comprehensive financial audit of the NYLB in its 99-year history. The Financial Statements represent the second stage of the exhaustive financial audit of the NYLB currently under way – previously, the auditor issued a report on the NYLB's internal controls and in the coming months the NYLB will publish the 2007 Audited Financial Statements.

The NYLB carries out my responsibilities as Receiver of impaired or insolvent New York insurers to protect a particularly vulnerable segment of the public: people who have suffered injuries or losses and are relying on insolvent or impaired insurance companies for compensation. NYLB's primary mission is to maximize assets and resolve liabilities of insolvent insurance company estates, return rehabilitated companies to the marketplace, and promptly distribute the proceeds of liquidated companies to policyholders and other creditors. Unfortunately, as I discuss further below, the NYLB under its prior management was a troubled agency that was not efficiently fulfilling its mission.

Accordingly, in April 2007, I installed a new management team for the NYLB, headed by Special Deputy Superintendent Mark G. Peters, and gave them the mandate to begin an era of reform. Because improved financial information was an essential step to help the NYLB better administer its estates and therefore fulfill its mission, the reforms included a drive to increase the quantity, quality and availability of financial information for the NYLB and its domestic estates.

Pursuing this goal, the NYLB in July 2007 hired the top-20 accounting firm of Amper, Politziner and Mattia, P.C. ("Amper") to perform an internal controls review and comprehensive financial audits for calendar years 2006 and 2007. Amper initially found the NYLB's financial records in poor condition, which required the NYLB to reconstruct and reconcile decades of financial history for the more than 60 domestic and non-domestic estates under its control. The NYLB has now completed this arduous but necessary work.

As a result of the audit, in June 2008, Amper issued, and the NYLB published, *The Report on Internal Controls,* which identified significant operational deficiencies under the prior management and the steps taken by the new management team to remedy them. Today the NYLB is publishing the attached Financial Statements, which describe in detail the activity and the financial position of the NYLB and the 28 domestic estates as of December 31, 2006. Later this year the NYLB will publish the 2007 Audited Financial Statements. These documents constitute essential milestones on the NYLB's road to financial transparency.

As noted above, Amper has issued an unqualified opinion on the Financial Statements, affirming without exception Amper's belief that the Financial Statements present a fair and accurate report of the financial positions of the NYLB and the domestic estates. Given the prior problems with the NYLB's financial recordkeeping, receiving a "clean opinion" on the NYLB's first audited financial statements is testament to the rapid progress of the NYLB's reforms.

The audit has yielded numerous benefits for the NYLB and its constituents. The NYLB and the public are gaining a substantial increase in the amount and the quality of financial information available about the NYLB and its domestic estates. The NYLB now has a vastly improved set of financial systems and a roadmap for the continued improvement of those systems and the NYLB's financial reporting. These improvements should assure the continuation of sound financial practices at the NYLB, give renewed confidence to NYLB constituents that their interests are being protected, and help safeguard the solvency of New York State's security funds, an important safety net for all New Yorkers.

Below are some of the highlights of the Financial Statements and the *The Report on Internal Controls*, as well as other important steps that the NYLB and I have taken to improve the NYLB's operations.

Audit Highlights

Amper's audit of the cash receipts and disbursements of the NYLB as a whole for 2006 are provided in the annual report. The table below summarizes the NYLB's assets and liabilities as of year-end 2006.

Key Performance Indicators For 2006 ($ in Millions)		
	Assets	Liabilities
NYLB Domestic Estates in Liquidation	$1,481.1	$5,144.3
Executive Life of NY in Rehabilitation	1,378.7	2,644.7
Frontier Insurance Company in Rehabilitation	137.2	253.7
Interboro Mutual Indemnity in Rehabilitation*	60.7	61.4
	$3,057.7	$8,104.1
* Amper was not asked to render an opinion regarding Interboro Mutual Indemnity because it was rehabilitated and returned to the market in February 2007 and is thus no longer subject to NYLB control.		

Items of particular note include:

- Improved reserving and higher quality financial data have resulted in enhanced estate models and better projections, which will enable more timely distributions and faster estate closings. For example, improved financial data enabled the NYLB to increase its receipt of early access distributions from $40 million in 2006 to $83 million in 2007. The higher quality data also enabled the NYLB to identify an additional source of early access monies that permitted the Public Motor Vehicle Liability Security Fund ("PMV Fund") to resume processing and paying claims covered by it.

- Higher quality data on estates with major policyholders has resulted in reconciliations of guaranty fund claims against such estates, which has permitted the NYLB to disburse full distributions to those guaranty funds. The better data has also allowed the NYLB to reevaluate the reserves on major policyholder claims, which will permit the faster adjudication of those claims.

- Better monitoring of loss adjustment expenses (*e.g.*, vendor and attorney fees) resulted in the audit of Group Council Mutual Insurance Company, whereby the NYLB was able to recoup approximately $225,000 in erroneous payments to law firms. Loss adjustment expenses decreased in 2007 and are projected to be even lower in 2008 due to enhanced controls.

<u>Reforming the NYLB</u>

Before I installed the NYLB's new management team in April 2007, the NYLB did not have a robust management structure or professional culture at its most senior level and failed to instill confidence in its constituents that the organization was fulfilling its mission. The prior special deputy superintendent in charge of the NYLB had been indicted for corruption in August 2006 (ultimately pleading guilty to a felony and misdemeanor in June 2008). The NYLB's new management inherited numerous challenges, which it is successfully addressing:

- The NYLB did not have a Chief Financial Officer to manage the NYLB's complex financial affairs or a Chief Compliance Officer to ensure the NYLB's compliance with all applicable laws, regulations and ethical guidelines. *I authorized the hiring of well-qualified professionals for these positions, who have undertaken to reform their respective divisions. The NYLB also hired Directors of Estate Management and Reinsurance with strong public and private industry experience to manage these distinct areas of NYLB operations.*

- No independent comprehensive audit of the NYLB and its domestic estates had ever been undertaken and none were required by law. *The NYLB hired Amper to conduct a top-to-bottom audit of the NYLB and its 28 domestic estates, the results of which have been and will continue to be published. Working with the New York State Legislature, the NYLB recommended a new statutory requirement mandating annual independent audits of the NYLB and its domestic estates. The new law, enacted in July 2008 and taking effect December 31, 2009, will promote the continuation of sound financial practices at the NYLB into the future.*

- The NYLB had no comprehensive plan for marshalling estate assets, including approximately $200 million in uncollected reinsurance assets. *The NYLB created a plan to track and analyze these assets. In 2007, the NYLB collected $150 million in reinsurance – far more than in any prior year.*

- Some claimants were complaining that distributions were not being paid promptly enough. *The NYLB sought and received authorization for an additional dividend to Midland Insurance Company policyholders in June 2007. In December 2007 the NYLB filed Union Indemnity Insurance Company of New York's first court report, which seeks authority to make a distribution to its policyholders.*

- The PMV Fund was paralyzed by a lack of cash and was unable to pay or even process claims, including claims that had been settled by the parties. *The new administration uncovered a temporary source of funds for the PMV Fund, permitting the NYLB for the time being to resume processing claims and paying injured parties.*

- The financial crisis of the Executive Life of New York ("ELNY") estate remained unaddressed, threatening thousands of severely injured annuitants with the collapse of their financial lifelines. *The new administration has spearheaded an industry rescue of ELNY, which seeks to assure the continued full payment of all of ELNY's liabilities for the next 70 years.*

- *The Report on Internal Controls* identified 84 deficiencies, including inefficient controls on funds and antiquated security processes. *The Report noted that the NYLB has made "significant" operational progress in the last 18 months, having resolved 39 of the 84 deficiencies and put in place corrective action plans for the remaining 45.*

- According to *The Report on Internal Controls*, the NYLB's technology systems were inadequate to fully protect the security of data or prevent fraud. *The NYLB hired a Chief Information Officer to oversee and improve its technology infrastructure, for example, by moving some critical systems to more secure offsite facilities, upgrading data infrastructure, and enhancing communications between systems.*

Looking Forward

The achievements represented by the 2006 Audited Financial Statements have put the NYLB on the road to greater financial accountability and transparency. The work, which is continuing, has resulted in a more efficient, accountable and transparent NYLB that should benefit its creditors and the public for years to come. For the latest news and updated information, please visit the NYLB Web site at www.nylb.org.

Sincerely,

Eric R. Dinallo
Superintendent of Insurance as Receiver

NEW YORK LIQUIDATION BUREAU

Statement of Cash Receipts and Disbursements – Cash Basis

As of December 31, 2006
With Report of Independent Auditors

NEW YORK LIQUIDATION BUREAU

Statement of Cash Receipts and Disbursements – Cash Basis

As of December 31, 2006
With Report of Independent Auditors

AMPER, POLITZINER & MATTIA, LLP

Report of Independent Auditors

Superintendent of Insurance of the State of New York as Receiver
New York Liquidation Bureau

We have audited the statement of cash receipts and disbursements – cash basis of the Central Disbursement Account of the New York Liquidation Bureau for the year ended December 31, 2006. This financial statement is the responsibility of the Bureau's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 1, these financial statements were prepared on the basis of cash accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the statement of cash receipts and disbursements – cash basis of the Central Disbursement Account of the New York Liquidation Bureau present fairly, in all material respects, the cash receipts and disbursements for the year ended December 31, 2006 in conformity with the basis of accounting as described in Note 1.

This report is intended solely for the information and use of the Superintendent of Insurance of the State of New York as Receiver to whose jurisdiction the New York Liquidation Bureau is subject and management of the New York Liquidation Bureau and is not intended to be and should not be used by anyone other than these specified parties.

Amper, Politziner & Mattia, LLP

October 15, 2008
New York, New York

NEW YORK LIQUIDATION BUREAU
Statement of Cash Receipts and Disbursements – Cash Basis
For the Year Ended December 31, 2006

Receipts:		
Investment Income Received	$	156,134
Reimbursement of Expenses		69,557,085
Reimbursement from Non-New York Liquidators		40,358,989
Other Receipts		15,233
Total Receipts		110,087,441
Disbursements:		
Early Access Distribution		40,358,989
Salvage and Subrogation Fees		30,049
Loss Adjustment Expenses		17,637,159
Transfer to Security Funds		931,315
Refund to Reinsurers		401,052
Salaries		22,653,291
Employee Relations and Welfare		9,338,007
Rent and Related Expenses		6,080,544
Professional Fees		10,951,782
General and Administrative Expense		2,289,506
Other Disbursements		2,301,007
Total Disbursements		112,972,701
Net Disbursements Over Receipts		(2,885,260)
Cash - Beginning of Year		3,508,470
Cash - End of Year	$	623,210

See accompanying notes to the Statement of Cash Receipts and Disbursements – Cash Basis. The Statement of Cash Receipts and Disbursements – Cash Basis and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and is not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Statement of Cash Receipts and Disbursements – Cash Basis and accompanying notes.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies

A. Background

Pursuant to Article 74 of the New York Insurance Law ("Insurance Law"), the Superintendent of Insurance of the State of New York ("Superintendent") in his capacity as receiver ("Receiver"), may appoint a Special Deputy Superintendent ("Special Deputy") as agent of the Receiver. The Special Deputy carries out, through the New York Liquidation Bureau ("NYLB"), the responsibilities of the Receiver. The NYLB manages the daily operations of each and every estate under the statutory supervision of the Receiver where the Special Deputy has been appointed as agent of the Receiver ("Estate"). The NYLB also performs certain aspects of the Superintendent's claims handling and payment functions in his role as administrator of the New York Property/Casualty Insurance Security Fund ("P/C Fund"), Public Motor Vehicle Liability Security Fund ("PMV Fund") and Workers' Compensation Security Fund ("WC Fund") (each, a "Security Fund," collectively, the "Security Funds"), established pursuant to Insurance Law Article 76 and New York Workers' Compensation Law Article 6-A. The Receiver appointed the Special Deputy, the First Assistant Special Deputy Superintendent and three Assistant Special Deputy Superintendents as agents of the Receiver (collectively, "Agents") for the Estates. The Agents, along with the directors of the NYLB's divisions and other senior managers of the NYLB are hereinafter collectively referred to as "Management."

B. Basis of Presentation

The Statement of Cash Receipts and Disbursements of the NYLB reflects the income received by and expenses paid out of the central disbursement account ("CDA") for the year ended December 31, 2006. The Statement of Cash Receipts and Disbursements was prepared on the cash basis of accounting, which is a comprehensive basis of accounting that is different from generally accepted accounting principles in the United States of America ("US GAAP"). The cash basis of presentation differs from US GAAP in that revenues are recognized when received, rather than when earned, and certain expenses are recognized when paid, rather than when the obligation is incurred.

The CDA, managed by the NYLB, is a pooled cash account funded solely by cash advances from the Estates and/or Security Funds. The CDA has an overnight interest-bearing sweep facility, stated at cost, whereby idle funds are invested. The NYLB uses the money in the CDA to pay, on behalf of the Estates and Security Funds, administrative expenses such as salaries, employee relations and welfare (*e.g.*, contributions to employee benefits such as health, pension and other fringe benefits) ("Employee Relations and Welfare"), payroll taxes, rent for premises, and office expenses. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

The NYLB does not itself own any assets but rather it holds and manages the assets of the Estates as a fiduciary in trust for the benefit of the creditors of the Estates.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The ownership interests of the Estates and the Security Funds to the cash within the CDA are apportioned through intercompany transactions among the NYLB, with the Estates and Security Funds.

C. Cash

Cash is comprised solely of the CDA and has an overnight interest-bearing sweep facility, stated at cost. The CDA is maintained at one financial institution that is insured by the Federal Deposit Insurance Corporation ("FDIC"). As of the date hereof, the FDIC secures accounts up to $250,000 at this institution. The NYLB monitors balances of cash in excess of insured limits and Management believes, based on the information currently available, that such balances do not represent a material credit risk to the NYLB.

D. Receipts

Investment Income Received

Earned investment income consists primarily of interest income received from the CDA account for the year ended December 31, 2006.

Reimbursement of General & Administrative Expenses

The NYLB pays general and administrative expenses such as salaries, Employee Relations and Welfare, payroll taxes, rent for premises and office expenses on behalf of the Estates and Security Funds. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Reimbursement of Loss Adjustment Expenses

Prior to September 2006, the NYLB paid loss adjustment expenses ("LAE") on behalf of the appropriate Estates. LAE are the expenses associated with adjusting and litigating a claim, excluding the payment for the loss itself. Such expenses were billed dollar-for-dollar to applicable Estates based on actual disbursement amounts recorded through the CDA. Each month's LAE is then reimbursed to the NYLB as appropriate by the respective Estate or Security Fund in a timely manner.

As of September 2006, LAE on Security Fund covered claims are paid directly from the Security Funds' cash account maintained by the NYLB and are no longer paid from the CDA.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

Reimbursement from Non-New York Liquidators

In connection with each ancillary receivership commenced in New York as a result of the commencement of a foreign (*i.e.*, non-New York) liquidation, the NYLB typically completes a financial information questionnaire ("FIQ") on behalf of the Security Funds in order to qualify for receipt of a dividend or early access distribution ("EAD") from the non-New York liquidator ("Non-New York Liquidator").

E. Disbursements

Early Access Distribution

EAD is a special distribution from a liquidator to a Security Fund pursuant to an agreement in order to permit the reimbursement of LAE and indemnification payments to the Security Fund for the handling and payment of claims on behalf of the Non-New York Liquidator. EAD, when paid by a Non-New York Liquidator, is paid either to the Superintendent as administrator of the Security Funds or as Ancillary Receiver. When the NYLB receives EAD monies from a Non-New York Liquidator, the NYLB reimburses the respective Security Funds.

Loss Adjustment Expenses

LAE represent disbursements processed through the CDA for the expenses associated with adjusting and litigating a claim, excluding the payment for the loss itself.

Transfer to the Security Funds

Prior to September 2006, the Commissioner of Taxation and Finance ("Commissioner") as custodian of the money in the Security Funds, advanced money to the NYLB for anticipated administrative expenses ("Advanced Funds"). The Advanced Funds were placed in the CDA. As of September 2006, the NYLB opened three separate bank accounts, one for each Security Fund. In order to fund such accounts, the NYLB transferred out of the CDA the amount equal to the Advanced Funds for each Security Fund.

Refund to Reinsurer

Refund to Reinsurer represents the monies refunded by Galaxy Insurance Company ("Galaxy") to Holborn Corporation for Holborn Corporation's duplicate payment of reinsurance recoverables.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

E. Disbursements (continued)

Salaries and Employee Relations and Welfare

Salary and Employee Relations and Welfare expenses are paid from the CDA and subsequently allocated among the Estates and Security Funds.

The breakdown of Employee Relations and Welfare expenses are as follows:

Pension Plan	$	2,639,119
Health Insurance		4,958,858
Employee Relations		853,362
Other		886,668
Total	$	9,338,007

Rent and Related Expenses

The NYLB as manager of the Estates leases office space at 123 William Street, New York, New York 10038 ("Premises") and storage space at 168 39th Street, Brooklyn, New York 11232 ("Warehouse"). Such rent expense is allocated to the Estates and Security Funds.

The NYLB has leased the Premises since 1986. The NYLB's current lease for the Premises ("Lease") expires on March 31, 2011, subject to the NYLB's right to exercise, prior thereto, its option to renew the Lease. The NYLB is currently evaluating its options regarding the Lease.

The NYLB has leased the Warehouse since 1986. The NYLB has negotiated a new ten-year lease for the Warehouse.

The NYLB paid approximately $6.1 million in rent and related expenses for the Premises and Warehouse during the year ended December 31, 2006.

Professional Fees

The NYLB has paid fees for the following types of professional services: reinsurance, accounting, information technology, and actuarial and legal services not involving defense of policyholders. These expenses were allocated among the Estates and/or Security Funds. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds. However, if a particular Estate incurred professional fees, that Estate is responsible for payment of such fees.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

E. Disbursements (continued)

General and Administrative Expense

The majority of the NYLB's general and administrative expenses paid for the procurement of information technology equipment, printing and stationery, telecommunication services, and expenses to maintain the Premises. Pursuant to the Allocation Formula, these expenses were allocated among the Estates and the CDA was subsequently reimbursed as appropriate by the respective Estates and/or Security Funds.

Other Disbursements

The majority of these expenses paid by the NYLB were for investment expenses, insurance, fees and assessments, sales and use taxes, business travel and other miscellaneous expenses. These expenses were allocated among the Estates and Security Funds. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Investment Expenses	$ 1,480,470
Insurance	471,348
Travel & Travel Related Items	163,970
Fees and Assessments	109,972
Transfer of Pre-Liquidation Recoveries	38,524
Other	36,723
Total	$ 2,301,007

Note 2: Employee Retirement

New York State and Local Employees' Retirement System – Defined Benefit Plan

The New York State Employees' Retirement System ("Retirement System") offers a variety of plans and benefits and provides retirement benefits based on years of service and the average of an employee's highest three years' salary. Other benefits include: vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. Participation is mandatory and employees are required to contribute three percent of their salary annually until the employee achieves 10 years of membership. Funding consists of contributions from active employees, as well as an annual employer-paid invoice based on the total salaries that were paid to Retirement System members in the NYLB's employ at the close of the previous New York State fiscal year.

New York State Deferred Compensation Plan – 457b

This is a voluntary retirement savings program funded entirely by employee contributions. Employees are eligible to contribute to this program as of their first day of employment with the NYLB. Through payroll deduction, participants may contribute from 1 percent to 25 percent of salary up to the specified annual maximum. Contributions are pre-tax for federal, state and local income tax purposes.

Note 3: Federal and State Taxes

The NYLB has no corporate form and no income or losses are generated by its operations. Accordingly, the NYLB is not subject to federal, New York State and local income taxes.

Note 4: Commitments

Lease Agreements

The estimated minimum future lease payments under the NYLB's current lease agreements for the Premises and Warehouse are as follows ($ in millions):

The Premises

The current lease for the Premises expires March 31, 2011 and the estimated minimum future lease payments are ($ in millions):

123 William St.	2007	2008	2009	2010	Jan-Mar 2011	Total
Rent	$4.7	$4.7	$4.7	$4.7	$1.2	$20.0
Real Estate Tax	0.2	0.3	0.3	0.3	0.1	1.2
Operating Exp.	0.4	0.4	0.4	0.5	0.1	1.8
Total	$5.3	$5.4	$5.4	$5.5	$1.4	$23.0

The Warehouse

The current lease for the Warehouse expired on August 31, 2008. Management is negotiating a new ten-year lease for the Warehouse. The estimated future minimum payments under the proposed lease are ($ in millions):

Brooklyn Warehouse	Jan–Dec 2007	Jan-Aug 2008	Sept - Dec 2008	2009 - 2018	Total
Rent & Related Expenses	$0.7	$0.5	$0.4	$12.0	$13.6

Note 5: Contributing Factors

In accordance with the NYLB's accounting policies, the NYLB does not itself have any assets or liabilities. From time to time and as highlighted in the internal controls report recently issued, the review of the control functions may warrant modifications and enhancements in the NYLB's internal controls. This review process may result in the discovery of administration, servicing or other errors, including errors relating to the timing or amount of payments or values due creditors. In certain cases the NYLB, on behalf of the Estates, may offer remediation and may incur charges, including the cost of such remediation and legal and administrative costs.

It is possible that the cash flow of the NYLB and/or the Estates in a particular quarter or annual period could be materially affected as a result of payments in connection

Note 5: Contributing Factors (continued)

with the matters discussed above or other matters, depending in part upon the cash flow of such period. Management believes, however, based on the information currently available to it, that those ultimate payments in connection with such matters, once consideration of applicable reserves and rights to indemnification are considered, should not have a material adverse effect on the NYLB's or the Estates' financial position.

Note 6: Subsequent Events

Lease Negotiations

The NYLB is negotiating a new ten-year lease for the Warehouse.

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY THE NEW YORK LIQUIDATION BUREAU

Combined Financial Statements of the
Domestic Estates in Liquidation Managed by the
New York Liquidation Bureau

As of December 31, 2006
With Report of Independent Auditors

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY THE NEW YORK LIQUIDATION BUREAU

Combined Financial Statements of the Domestic Estates in Liquidation Managed by the New York Liquidation Bureau

As of December 31, 2006
With Report of Independent Auditors

Report of Independent Auditors

Superintendent of Insurance of the State of New York as Receiver
Combined Domestic Estates in Liquidation managed by the
New York Liquidation Bureau

We have audited the combined statement of assets, liabilities, and deficit of assets over liabilities – modified cash basis of the Combined Domestic Estates in Liquidation managed by the New York Liquidation Bureau as of December 31, 2006, and the related combined statement of cash receipts and disbursements and changes in cash and invested assets – modified cash basis for the year ended December 31, 2006. These combined financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 2, these financial statements were prepared on the basis of modified cash, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the combined financial statements referred to in the first paragraph above present fairly, in all material respects, the combined financial position of the Combined Domestic

Estates in Liquidation managed by the New York Liquidation Bureau as of December 31, 2006 and the related combined statement of cash receipts and disbursements and changes in cash and invested assets – modified cash basis for the year then ended in conformity with the basis of accounting as described in Note 2.

As discussed in Note 2 to the combined financial statements, these financial statements were prepared on the modified cash basis of accounting. Given the nature of the liquidation process, until creditor claims are allowed, they are non-allowed and as such are preliminary estimates based on management's best estimate at the time. As a result management's estimate of these liabilities may change materially during the course of the liquidation at the point at which they become allowed. The financial statements also do not reflect any provision for incurred but not reported claim reserves.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental combining information, as listed in Appendix A, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplemental combining information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Superintendent of Insurance of the State of New York as Receiver to whose jurisdiction the Combined Domestic Estates in Liquidation managed by the New York Liquidation Bureau are subject and management of the New York Liquidation Bureau and is not intended to be and should not be used by anyone other than these specified parties.

Amper, Politziner & Mattia, LLP

October 15, 2008
New York, New York

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY THE NEW YORK LIQUIDATION BUREAU
Combined Statement of Assets, Liabilities, and Deficit of Assets Over Liabilities – Modified Cash Basis
As of December 31, 2006

Combined Assets	
Unrestricted Assets:	
Cash and Cash Equivalents	$ 115,257,039
Invested Assets:	
Short-term Investments, at fair market value, held to maturity, amortized cost $233,812,185	234,634,627
Bonds, at fair market value, held to maturity, amortized cost $460,148,212	454,574,447
Total Invested Assets	689,209,074
Total Cash and Invested Assets	804,466,113
Reinsurance Recoverables on Paid Losses and LAE	419,366,840
Less: Allowance for Uncollectible Reinsurance Recoverables	(315,088,872)
Net Reinsurance Recoverables on Paid Losses and LAE	104,277,968
Reinsurance Recoverables on Unpaid Losses and LAE	1,295,955,749
Less: Allowance for Uncollectible Reinsurance Recoverables	(802,607,564)
Net Reinsurance Recoverables on Unpaid Losses and LAE	493,348,185
Receivables from Affiliates	23,008,466
Accrued Investment Income	7,856,900
Other Assets	8,500,220
Total Unrestricted Assets	1,441,457,852
Restricted Assets:	
Statutory Deposits in New York or Other States	14,654,763
Other Restricted Assets	24,982,757
Total Restricted Assets	39,637,520
Total Combined Assets	$ 1,481,095,372

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying notes.

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY THE NEW YORK LIQUIDATION BUREAU
Combined Statement of Assets, Liabilities, and Deficit of Assets Over Liabilities – Modified Cash Basis
As of December 31, 2006

Combined Liabilities		
Secured Claims	$	14,975,199
Class One - Administrative Claims		64,241,714
Class Two - Claims and Related Costs		
Allowed		1,951,311,181
Non-Allowed		2,153,743,902
Total Class Two		4,105,055,083
Class Three - Federal Government Claims		137,686
Class Four - Employee Claims		10,164
Class Five - State and Local Government Claims		10,960,839
Class Six - General Creditors		576,584,316
Class Seven - Late Filed Claims		372,288,338
Class Eight - Section 1307 (Shareholder) Loans		60,001
Class Nine - Shareholder Claims		--
Total Combined Liabilities		**5,144,313,340**
Deficit of Combined Assets over Combined Liabilities		**(3,663,217,968)**
Total Combined Liabilities and Liquidator's Deficit	$	**1,481,095,372**

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying notes.

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY THE NEW YORK LIQUIDATION BUREAU

Combined Statement of Cash Receipts and Disbursements and Changes in Cash and Invested Assets – Modified Cash Basis

For the Year Ended December 31, 2006

Receipts:	
Investment Income Received	32,979,969
Reinsurance Recovered	78,664,576
Premiums Collected	415,431
Salvage and Subrogation	1,437,461
Expense Reimbursement Received from Security Funds	16,103,251
Proceeds from Liquidation	65,010,221
Partial payment of Workers' Compensation Security Fund Loan	7,293,562
Release from Ancillary Special Deposits	295,127
Litigation Awards	24,000
Miscellaneous	176,824
Total Receipts	**202,400,422**
Disbursements:	
Advance to Affiliate	1,688,175
Dividends	92,825,669
New York Misc. Special Revenue Fund	28,824,941
Collateral	28,482
Release to Reinsurer	401,052
Reimbursement of Allocated Expenses	31,785,512
Total Disbursements	**155,553,831**
Net Increase (Decrease) of Receipts Over Disbursements	**46,846,591**
Cash and Invested Assets (Unrestricted), Beginning of Year	762,370,852
Unrealized Gain/(Loss) on Investments	(4,751,330)
Cash and Invested Assets (Unrestricted), End of Year	**804,466,113**

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying notes.

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY THE NEW YORK LIQUIDATION BUREAU
Notes to Combined Financial Statements of the Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
As of December 31, 2006

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau

Background

Pursuant to Article 74 of the New York Insurance Law ("Insurance Law"), the Superintendent of Insurance of the State of New York ("Superintendent") in his capacity as receiver ("Receiver") may appoint a Special Deputy Superintendent ("Special Deputy") as agent of the Receiver. The Special Deputy carries out, through the New York Liquidation Bureau ("NYLB"), the responsibilities of the Receiver. The NYLB manages the daily operations of each and every estate under the statutory supervision of the Receiver where the Special Deputy has been appointed as agent of the Receiver ("Estate"). The Combined Estates Financial Statements (as defined in Note 2) pertain to the financial statements for each domestic Estate in liquidation set forth below:

> MML Assurance, Inc., MagnaHealth of New York, Inc., Medical Malpractice Insurance Association, Group Council Mutual Insurance Company, American Agents Insurance Company, Capital Mutual Insurance Company, Contractors Casualty and Surety Company, First Central Insurance Company, Galaxy Insurance Company, Home Mutual Insurance Company of Binghamton, New York, New York Merchant Bakers Insurance Company, New York Surety Company, Realm National Insurance Company, Transtate Insurance Company, U.S. Capital Insurance Company, Consolidated Mutual Insurance Company, Midland Insurance Company, Midland Property and Casualty Insurance Company, Whiting National Insurance Company, American Consumer Insurance Company, American Fidelity Fire Insurance Company, Union Indemnity Insurance Company of New York, Ideal Mutual Insurance Company, Horizon Insurance Company, Nassau Insurance Company, and Cosmopolitan Mutual Insurance Company.

The NYLB hereinafter refers to each of the foregoing domestic Estates in liquidation as a "Domestic Estate in Liquidation" and all of the Domestic Estates in Liquidation collectively as the "Combined Domestic Estates in Liquidation."

The following are not included in the Combined Estates Financial Statements: (i) Executive Life Insurance of New York in rehabilitation and Frontier Insurance Company in rehabilitation (collectively, "Domestic Estates in Rehabilitation"); (ii) Interboro Mutual Indemnity Insurance Company ("Interboro"); (iii) fraternal associations; (iv) ancillary estates; and (v) conservations.

Subsequent to the reporting period, the Receiver appointed the Special Deputy, the First Assistant Special Deputy Superintendent, and three Assistant Special Deputy Superintendents as agents of the Receiver for each Domestic Estate in

Note 1: <u>Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau</u> (continued)

<u>Background</u> (continued)

Liquidation (collectively, "Agents"). The Agents, along with the directors of the NYLB's divisions and other senior managers of the NYLB are hereinafter referred to as "Management."

The NYLB performs certain aspects of the Superintendent's claims handling and payment functions in his role as administrator of the New York Property/Casualty Insurance Security Fund ("P/C Fund"), Public Motor Vehicle Liability Security Fund ("PMV Fund") and Workers' Compensation Security Fund ("WC Fund") (each, a "Security Fund," collectively, the "Security Funds") established pursuant to Insurance Law Article 76 and New York Workers' Compensation Law ("Workers' Compensation Law") Article 6-A.

Pursuant to statute, the Security Funds pay eligible claims remaining unpaid, in whole or in part, by reason of an authorized insurer's inability due to insolvency to meet its insurance obligations under certain insurance policies.

The P/C Fund, pursuant to Insurance Law 7602(a)(1)(B), is obligated to pay only certain specified insurance claims with respect to coverage of property or risks located or resident in New York. Pursuant to Section 7603(a)(2), claims that have been allowed by an appropriate receivership court are paid up to the policy limit but in no event greater than the statutory cap.

The PMV Fund, pursuant to Insurance Law Section 7604, is obligated "to pay allowed claims of injured parties and policyholders under insurance policies or surety bonds." The PMV Fund generally covers vehicles which travel over state roads and are for hire or are used to transport the sick or injured. Claims that have been allowed by the appropriate receivership court are paid up to the policy limit but in no event greater than the statutory cap.

Workers' Compensation Law Article 6-A provides that the purpose of the WC Fund is to assure that injured workers, whose employers are insured by insolvent carriers and who are entitled to compensation and benefits, receive such compensation and benefits.

Once a PMV Fund or P/C Fund eligible claim is tried or settled, the NYLB is charged with: (i) preliminarily approving the payment amount; (ii) presenting the proposed payment to the receivership court; (iii) securing an order directing the payment; (iv) forwarding the order, with the directive to disburse funds, to the Commissioner of Taxation and Finance ("Commissioner"); and (v) upon receiving wire payment from the Commissioner, processing the funds, issuing a check from the Security Fund account, and forwarding same.

Note 1: <u>Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau</u> (continued)

<u>Background</u> (continued)

Unlike PMV Fund and P/C Fund eligible claims, workers' compensation claims are adjudicated by the Workers' Compensation Board, which renders a decision regarding, among other things, payment, and the NYLB is bound by such decision. Individual workers' compensation claims need not be allowed by the receivership court. Instead, the amounts paid on individual workers' compensation claims are allowed when the WC Fund's aggregate claim is allowed in a Domestic Estate in Liquidation's receivership proceeding.

<u>Guaranty Funds</u>

The guaranty funds of foreign (*i.e.*, Non-New York) states ("Guaranty Funds") pay the claims of insolvent insurance companies pursuant to their respective state laws.

<u>PROFILES OF COMBINED DOMESTIC ESTATES IN LIQUIDATION</u>

(1) <u>MML Assurance, Inc.</u>

On November 29, 2004, MML Assurance, Inc. ("MMLA") was incorporated under the laws of the State of New York and, as of August 4, 2005, was licensed to transact business in New York. MMLA was a wholly-owned subsidiary of MMLA Financial LLC, a Delaware company wholly-owned by Mass Mutual Holding LLC ("MMH"). Massachusetts Mutual Life Insurance Company is the parent company of MMH.

MMLA was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 16 (Fidelity and Surety), 17 (Credit) and 25 (Financial Guaranty).

On May 24, 2006, MMLA's board of directors unanimously consented in writing to a stock redemption plan ("Plan") for the purchase and cancellation of certain common shares of MMLA's capital stock. Pursuant to the board's action, on August 10, 2006, MMLA's board of directors formally notified the NYLB that MMLA no longer intended to pursue the financial guaranty business and consented to the commencement of a liquidation proceeding and to the entry of an order of liquidation against MMLA. A court order entered on December 22, 2006, placed MMLA into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MMLA.

(2) <u>MagnaHealth of New York, Inc.</u>

On May 15, 1995, MagnaHealth of New York, Inc. ("MagnaHealth") was incorporated under the laws of the State of New York and, as of April 4, 1996, the New York State Department of Health ("Department of Health") authorized MagnaHealth to operate as a health maintenance organization ("HMO") pursuant to Article 44 of the New York Public Health Law. MagnaHealth was at the time a for-profit corporation owned by five individual shareholders.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(2) MagnaHealth of New York, Inc. (continued)

On February 21, 2002, MagnaHealth's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation against MagnaHealth. Effective May 1, 2004, the Department of Health revised MagnaHealth's certificate of authority, limiting MagnaHealth's operations to those activities necessary to honor remaining liabilities and to close out activities. Notices were sent to subscribers terminating both coverage and participating provider agreements as of May 1, 2004.

The New York State Department of Insurance ("Insurance Department") determined that the HMO should be placed into liquidation in order to resolve any outstanding issues. A court order entered on August 24, 2005, placed MagnaHealth into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MagnaHealth.

(3) Medical Malpractice Insurance Association

Medical Malpractice Insurance Association ("MMIA") was a non-profit unincorporated association of insurers engaged in writing personal injury liability insurance in New York. MMIA was created in 1975 by legislative act to provide a market for medical malpractice insurance at a time when the availability of such coverage was severely limited. The enactment authorized MMIA for six years. The legislature extended this authority periodically. In 1999, pursuant to a plan approved by the then-Superintendent following a hearing in accordance with Insurance Law Section 5502, the legislature enacted legislation providing for MMIA's dissolution by August 31, 2000 ("MMIA Dissolution Statute").

Effective June 30, 2000, MMIA ceased writing policies and MMIA was replaced by a new assumed risk mechanism, Medical Malpractice Insurance Pool ("MMIP"). Effective July 1, 2000, MMIP began writing policies. MMIA acted as temporary administrator for MMIP from July 1, 2000 through March 31, 2001.

By legislative act effective July 11, 2000, the MMIA Dissolution Statute was amended to provide for its dissolution when the then-Superintendent deemed it proper, instead of August 31, 2000. In a supplemental opinion dated July 12, 2000, the then-Superintendent directed that MMIA would continue solely for purposes of winding-up its affairs upon implementation of the Medical Liability Malpractice Insurance Company ("MLMIC") Plan. On July 14, 2000, MMIA and MLMIC entered into an indemnity and assumption reinsurance agreement ("Reinsurance Agreement") and an administrative services agreement. The Reinsurance Agreement called for MMIA to pay MLMIC premium payments by December 27, 2000, at which

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

time MLMIC would assume all MMIA's insurance obligations. A court order entered on May 14, 2001, placed MMIA into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MMIA.

(4) Group Council Mutual Insurance Company

On November 23, 1976, Group Council Mutual Insurance Company ("Group Council") was incorporated under the laws of the State of New York and, as of April 1, 1977, was licensed to transact business in New York. Group Council was a mutual company property and casualty insurer that specialized in medical malpractice insurance. Underwriting practices were confined to medical professional liability for physicians and surgeons affiliated with the Health Insurance Plan of Greater New York. A limited number of general liability policies and surety bonds were also written. Medical malpractice policies were written at manual rates for policies up to $1 million per policy and $3 million in the aggregate.

Prior to March 2002, Group Council operated despite a negative surplus because Insurance Law Section 2343(c) prohibited placing a domestic insurer whose primary liability arises from the business of medical malpractice insurance into receivership due to insolvency. This law expired on June 30, 2001.

Group Council was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 13 (Personal Injury Liability), 14 (Property Damage Liability) and 16 (Fidelity & Surety).

On January 18, 2002, Group Council's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of a liquidation order against Group Council. A court order entered on March 19, 2002, placed Group Council into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Group Council.

(5) American Agents Insurance Company

On July 11, 1996, American Agents Insurance Company ("AAIC") was incorporated under the laws of the State of New York and, as of August 3, 1997, was licensed to transact business as a property and casualty insurer.

AAIC was owned by a sole shareholder, U.S. Agents Holding Corporation ("U.S. Agents"). AAIC was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 13 (Personal Injury Liability), 14 (Property Damage Liability) and 19 (Motor Vehicle and Aircraft Physical Damage).

On December 4, 2000, U.S. Agents board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(5) American Agents Insurance Company (continued)

liquidation against AAIC. A court order entered on February 5, 2001, placed AAIC into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of AAIC.

(6) Capital Mutual Insurance Company

As of April 5, 1933, the Capital District Grange Cooperative Fire Insurance Company ("Capital Grange") was licensed to transact business in New York State. On January 1, 1982, Capital Grange was reorganized and incorporated under its present name, Capital Mutual Insurance Company ("Capital Mutual"). Capital Mutual became the successor to the Capital District Cooperative Insurance Company, a non-assessable cooperative insurance company, which had previously acquired, by merger, Clinton Cooperative Insurance Company of Wadhams, Argyle Cooperative Insurance Company, Schaghticoke Mutual Fire Insurance Company, Rennselaer County Mutual and Farmers Mutual Fire Insurance Association of the Town of Catskill.

Effective June 26, 1996, Capital Mutual converted from an advance premium cooperative insurer to a mutual insurer. At that time, Capital Mutual became affiliated with Niagara Atlantic Holdings Corporation, a New York subsidiary of National Atlantic Holdings Corporation of Freehold, New Jersey.

Capital Mutual was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 27 (Prize Indemnification), 28 (Service Contract Reimbursement) and 29 (Legal Services).

On April 17, 2000, Capital Mutual's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Capital Mutual. A court order entered on June 7, 2000, placed Capital Mutual into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Capital Mutual.

The rehabilitation of Capital Mutual required a willing investor to invest sufficient capital in Capital Mutual to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Capital Mutual. Accordingly, further efforts to rehabilitate Capital Mutual were futile. A court order entered on October 5, 2000, placed Capital Mutual into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Capital Mutual.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(7) Contractors Casualty and Surety Company

On February 28, 1991, Contractors Casualty and Surety Company ("CCSC") was incorporated under the laws of the State of New York and, as of March 19, 1992, was licensed to transact business in New York as a stock casualty insurer. CCSC wrote performance and payment bonds for small and medium size contractors and ceased underwriting in early 1999. Frontier Insurance Company ("Frontier"), a New York insurer, was in negotiations to acquire CCSC, but the acquisition was never completed. During these negotiations, and subsequent thereto, CCSC wrote business on Frontier paper. CCSC was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraph 16 (Fidelity and Surety).

On June 11, 1999, CCSC's board of directors unanimously consented in writing to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against CCSC. A court order entered on July 1, 1999, placed CCSC into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of CCSC.

The rehabilitation of CCSC required a willing investor to invest sufficient capital in CCSC to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in CCSC. Accordingly, further efforts to rehabilitate CCSC were futile. A court order entered on October 4, 1999, placed CCSC into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of CCSC.

(8) First Central Insurance Company

On November 30, 1978, Central State Insurance Company was incorporated under the laws of the State of New York and, as of May 22, 1979, was licensed to transact business in New York. Central State Insurance Company's certificate of incorporation was amended to reflect the change in its name to First Central Insurance Company ("FCIC") on March 26, 1984.

All outstanding stock of FCIC was owned by the First Central Financial Corporation ("FCFC"). FCFC was a publicly traded holding company that was engaged primarily in property and casualty insurance through its subsidiary, FCIC.

FCIC was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine). FCIC

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(8) First Central Insurance Company (continued)

also offered specialty programs, including directors and officers liability insurance for cooperatives and condominiums and alternative business owners policies. FCIC ceased writing new business as of March 10, 1997.

On January 23, 1998, FCIC's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against FCIC. A court order entered on January 28, 1998, placed FCIC into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of FCIC.

The rehabilitation of FCIC required a willing investor to invest sufficient capital in FCIC to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in FCIC. Accordingly, further efforts to rehabilitate FCIC were futile. A court order entered on April 27, 1998, placed FCIC into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of FCIC.

(9) Galaxy Insurance Company

On September 3, 1980, Galaxy Reinsurance Company ("Galaxy Reinsurance") was incorporated under the laws of New York State and, as of November 28, 1980, was licensed to transact business in New York as a stock property/casualty insurer. Galaxy Reinsurance adopted the name Galaxy Insurance Company ("Galaxy") on February 17, 1987.

Galaxy was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity). Galaxy was authorized to write reinsurance in Maryland, Pennsylvania, West Virginia and Wyoming, but at the time of liquidation, 100 percent of premium was written in the State of New York.

As of December 16, 1986, all outstanding shares of Galaxy were held by Acceleration Life Insurance Company and Randjill Group Ltd. ("Randjill"), a New York based holding company that was formed as an investment vehicle for the purchase of Galaxy by a group of individual investors. Since July 30, 1991, 100 percent of Randjill's common stock was owned by ACCEL International Corporation, the owner

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(9) Galaxy Insurance Company

of Acceleration Life Insurance Company. It had paid-up capital of $8,250,000, consisting of 250 common shares of $10,000 par value each and $5,750,000 of contributed surplus. All authorized shares were outstanding.

Galaxy failed to comply with the then-Superintendent's directive to remove the impairment to Galaxy's capital and minimum surplus. On September 30, 1994, Galaxy's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation. A court order entered on October 7, 1994, placed Galaxy into liquidation and appointed the then-Superintendent (and his successors on office) liquidator of Galaxy.

(10) Home Mutual Insurance Company of Binghamton, New York

On February 1, 1901, Home Mutual Insurance Company of Binghamton, New York ("HMIC") was incorporated under the laws of the State of New York as an advance premium cooperative fire insurance corporation and, as of April 1, 1994, was converted to a mutual property and casualty company. HMIC and New York Merchant Bakers Insurance Company ("NYMB") were subsidiary companies of Home State Holdings Inc., a Delaware corporation.

In January 1996, the Home State New York Pool (the "Pool") was formed, which included NYMB and HMIC. The Pool called for all business to be pooled and combined losses and expenses to be pro-rated as follows: NYMB (85 percent) and HMIC (15 percent).

HMIC was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine). HMIC bought reinsurance protection in the form of quota share and excess of loss treaties.

On July 15, 1997, HMIC's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against HMIC. A court order entered on August 5, 1997, placed HMIC into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of HMIC.

On September 4, 1997, the Superintendent as rehabilitator entered into a policy acquisition agreement ("Agreement") with Eagle Insurance Company ("Eagle") whereby Eagle would assume all business in effect as of October 1, 1997. HMIC

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(10) Home Mutual Insurance Company of Binghamton, New York (continued)

issued a payment of $2.6 million and received a five percent ceding commission on all policies that were renewed. Despite the Agreement, HMIC remained liable for all of its obligations incurred prior to October 1, 1997.

The rehabilitation of HMIC required a willing investor to invest sufficient capital in HMIC to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in HMIC. Accordingly, further efforts to rehabilitate HMIC were futile. A court order entered on January 14, 1998, placed HMIC into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of HMIC.

(11) New York Merchant Bakers Insurance Company

On June 6, 1932, New York Merchant Bakers Insurance Company ("NYMB") was incorporated under the laws of the State of New York and, as of May 4, 1933, was licensed to transact business in New York as a mutual property/casualty insurer. It was authorized to convert to a stock property/casualty insurer on January 31, 1995. NYMB and HMIC were subsidiary companies of Home State Holdings Inc., a Delaware corporation.

NYMB was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine).

On July 14, 1997, NYMB's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against NYMB. A court order entered on August 5, 1997, placed NYMB into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of NYMB.

The rehabilitation of NYMB required a willing investor to invest sufficient capital in NYMB to eliminate its insolvency and meet minimum surplus requirements. In October 1997, the Superintendent as rehabilitator entered into a policy acquisition agreement ("Agreement") with Eagle Insurance Company ("Eagle") by which Eagle assumed all liability for claims and expenses on all in-force NYMB private passenger business incurred after October 1, 1997.

The Agreement did not include the commercial automobile policies, which were canceled as of October 1997 and for which NYMB remained liable. No person or entity was willing to make the required investment in NYMB with respect to the

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(11) New York Merchant Bakers Insurance Company (continued)

commercial automobile policies. Accordingly, further efforts to rehabilitate NYMB were futile. A court order entered on January 26, 1998, placed NYMB into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of NYMB.

(12) New York Surety Company

On June 9, 1983, New York Surety Company ("NYSC") was incorporated under the laws of the State of New York and, as of March 6 1984, was licensed to transact business in New York. On March 20, 1998, NYSC voluntarily ceased writing new business. A court order entered on June 24, 1998, placed NYSC into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of NYSC.

The rehabilitation of NYSC required a willing investor to invest sufficient capital into NYSC to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in NYSC. Accordingly, further efforts to rehabilitate NYSC were futile. A court order entered on September 21, 1998, placed NYSC into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of NYSC.

(13) Realm National Insurance Company

On March 12, 1892, Realm National Insurance Company ("Realm") was incorporated under the laws of the State of New York under the name Lloyd's, New York and, as of the same day, was licensed to transact business as an insurer. On July 1, 1992, Realm was converted to a stock company and changed its name to Lloyd's New York Insurance Company. On September 5, 1996, Stirling Cooke North American Holdings, Ltd. ("Stirling Cooke"), a Delaware corporation purchased 100 percent of the capital stock and, on September 26, 1996, the name Realm National Insurance Company was adopted. Realm was a wholly-owned subsidiary of Stirling Cooke, whichis wholly-owned by AlphaStar Insurance Group Ltd. (Bermuda). On December 15, 2003, AlphaStar filed for bankruptcy protection under Chapter 11, Title 11 of the United States Code.

Realm was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 17 (Credit), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 21 (Marine Protection and Indemnity) and 24 (Credit Unemployment).

Note 1: <u>Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau</u> (continued)

(13) <u>Realm National Insurance Company</u> (continued)

On June 8, 2005, Realm's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation against Realm. A court order entered June 15, 2005, placed Realm into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Realm.

(14) <u>Transtate Insurance Company</u>

On March 15, 1989, Transtate Insurance Company ("Transtate") was incorporated under the laws of the State of New York and, as of March 2, 1990, was licensed to commence business in New York as an insurer.

Transtate was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity).

Transtate did not maintain minimum capital or surplus and failed to comply with the then-Superintendent's directive to eliminate its capital impairment and insolvency. Transtate entered into a stipulation wherein Transtate consented to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Transtate. A court order entered on October 23, 1997, placed Transtate into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Transtate.

The rehabilitation of Transtate required a willing investor to invest sufficient capital in Transtate to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Transtate. Accordingly, further efforts to rehabilitate Transtate were futile. A court order entered on July 9, 1998, placed Transtate into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Transtate.

(15) <u>U.S. Capital Insurance Company</u>

On January 11, 1985, the Multiplus Insurance Company ("Multiplus") was incorporated under the laws of the State of New York and, as of March 1 1987, was licensed to commence business in New York as a stock casualty insurer. Effective May 25, 1989, Multiplus changed its name to United Capital Insurance Company and on June 14, 1989, the current name, U.S. Capital Insurance Company ("U.S. Capital"), was adopted.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(15) U.S. Capital Insurance Company (continued)

Outstanding capital stock was held by U.S. Capital Group Inc. (formerly known as Pan Atlantic, Inc.), a publicly traded Delaware corporation. The holding company group was comprised of 12 companies fully integrated into the international insurance markets and operated through five subsidiary insurance and reinsurance companies.

U.S. Capital was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage),
7 (Burglary and Theft), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine). U.S. Capital ceased underwriting in April 1996. On July 22, 1997, the executive committee of U.S. Capital's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against U.S. Capital. A court order entered on August 22, 1997, placed U.S. Capital into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of U.S. Capital.

The rehabilitation of U.S. Capital required a willing investor to invest sufficient capital in U.S. Capital to eliminate its insolvency and meet minimum surplus requirements.

No person or entity was willing to make the required investment in U.S. Capital. Accordingly, further efforts to rehabilitate U.S. Capital were futile. A court order entered on November 20, 1997, placed U.S. Capital into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of U.S. Capital.

(16) Consolidated Mutual Insurance Company

On October 24, 1927, Consolidated Taxpayers Mutual Insurance Company ("Consolidated Taxpayers") was incorporated under the laws of the State of New York and, as of September 1, 1928, was licensed to transact business in New York as a mutual casualty insurer. On May 1, 1933, Consolidated Taxpayers merged with Williamsburg Taxpayers Mutual Insurance and Brooklyn Taxpayers Mutual. On May 9, 1952, the name Consolidated Mutual Insurance Company ("Consolidated Mutual") was adopted. A court order entered May 31, 1979, placed Consolidated Mutual into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Consolidated Mutual.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(17) Midland Insurance Company

On October 29, 1959, Midland Insurance Company ("Midland") was incorporated under the laws of the State of New York and, as of December 31, 1959, Midland was licensed to transact business in New York as a stock casualty insurer.

Midland was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 17 (Credit), 18 (Title), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity). Midland wrote a substantial amount of excess coverage for major Fortune 500 companies. Midland was also a reinsurer.

On March 31, 1986, Midland's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation against Midland. A court order entered on April 3, 1986, placed Midland into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Midland.

Current options being reviewed by Management relating to Midland are discussed in further detail in Note 12 herein.

(18) Midland Property and Casualty Insurance Company

Reserve Insurance Company of New York ("Reserve") was incorporated on December 19, 1973 under the laws of the State of New York, and licensed to transact business in New York as a stock casualty insurer as of April 1, 1974. On January 29, 1981, Midland purchased all the outstanding capital stock of Reserve from the Market Insurance Company and changed Reserve's name to Midland Property and Casualty Insurance Company ("MIDPAC").

MIDPAC was authorized to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 17 (Credit), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity).

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(18) Midland Property and Casualty Insurance Company (continued)

Because MIDPAC's parent company, Midland, was placed into liquidation on April 3, 1986, the NYLB took control of the daily operations of its wholly-owned subsidiary, MIDPAC. As of that date MIDPAC ceased writing new business and restricted its underwriting acceptances almost exclusively to the handling of excess and surplus lines of business.

Despite being solvent, on March 2, 1990 MIDPAC's board of directors consented to the entry of an order of liquidation. On June 1, 1990, MIDPAC was placed into liquidation by court order, which appointed the then-Superintendent (and his successors in office) liquidator of MIDPAC. Due to MIDPAC's solvency, none of the New York security funds or guaranty funds were triggered. Accordingly, all claims and expenses within MIDPAC's liquidation proceeding must be paid from MIDPAC's assets.

(19) Whiting National Insurance Company

On September 4, 1969, Whiting National Insurance Company ("Whiting") was incorporated under the laws of the State of New York to serve as the corporate vehicle in the domestication of the U.S. Branch of the Maritime Insurance Company, Limited and, as of October 1, 1969, Whiting was licensed to transact business in New York as a stock casualty insurer. Whiting was a wholly-owned subsidiary of Poe & Associates, Inc.

Whiting was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 18 (Title), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 21 (Marine Protection and Indemnity), 22 (Residual Value), 23 (Mortgage Guaranty) and 24 (Credit Unemployment).

On October 28, 1988, Whiting's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation against Whiting. A court order entered on November 21, 1988, placed Whiting into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Whiting.

(20) American Consumer Insurance Company

On October 2, 1946, the Eastern Casualty and Surety Company was incorporated under the laws of the State of New York and, on September 26, 1949, it adopted the name Eastern Casualty Company ("Eastern Casualty"). On March 15, 1950, Eastern

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(20) American Consumer Insurance Company (continued)

Casualty was licensed to transact business in New York as an insurer. In 1956, Eastern Casualty was acquired by the American Casualty Company of ReadingPennsylvania. On December 16, 1959, ownership of Eastern Casualty was passed to the American Plan Corporation. In May 1960, Eastern Casualty's present name, American Consumer Insurance Company ("American Consumer"), was adopted. In 1963, American Fidelity Fire Insurance Company acquired ownership of American Consumer, at which time it became a subsidiary of American Plan Corporation. A court order, entered on March 26, 1986, placed American Consumer into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of American Consumer.

(21) American Fidelity Fire Insurance Company

On December 14, 1923, Lincoln Fire Insurance Company of New York was incorporated under the laws of the State of New York and, as of the same day, was licensed in New York as a stock casualty insurer. On August 31, 1931, capital was increased by the absorption of Chicago Fire and Marine Insurance Company of Chicago, Illinois. The present name, American Fidelity Fire Insurance Company ("American Fidelity"), was adopted in 1943.

American Fidelity was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine).

On November 1, 1963, American Plan Corporation of Woodbury, New York acquired approximately 90 percent of American Fidelity, which then acquired control of American Consumer Insurance Company of Woodbury, New York. A court order entered on September 6, 1985 and amended on September 20, 1985, placed American Fidelity into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of American Fidelity.

Efforts to rehabilitate American Fidelity proved futile. Accordingly a court order entered on March 26, 1986, placed American Fidelity into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of American Fidelity.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(22) Union Indemnity Insurance Company of New York

On October 20, 1975, Union Indemnity Insurance Company ("Union") was incorporated under the laws of the State of New York and, as of the same day, was licensed to transact business as a stock casualty insurer. Union was a wholly-owned subsidiary of Frank B. Hall & Co., Inc. ("F.B. Hall").

Union was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 17 (Credit), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine).

Union did not maintain minimum capital or surplus and failed to comply with the Superintendent's directive to eliminate its capital impairment and insolvency. A court order entered on July 16, 1985, placed Union into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Union.

(23) Ideal Mutual Insurance Company

On November 17, 1944, Ideal Mutual Insurance Company ("Ideal") was incorporated under the laws of the State of New York and, as of December 28, 1944, was licensed to transact business in New York as a mutual casualty insurer.

Ideal was licensed to transact the kinds of business specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity) and Section 4107paragraphs d, e and f.

On December 21, 1984, Ideal's board of directors consented to an order of rehabilitation against Ideal. A court order entered on December 26, 1984, placed Ideal into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Ideal.

Note 1: <u>Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau</u> (continued)

(23) <u>Ideal Mutual Insurance Company</u> (continued)

Ideal's rehabilitation required an infusion of capital into Ideal to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Ideal. Accordingly, further efforts to rehabilitate Ideal were futile. A court order entered on February 7, 1985, placed Ideal into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Ideal.

(24) <u>Horizon Insurance Company</u>

On June 28, 1971, Horizon Insurance Company ("Horizon") was incorporated under the laws of the State of New York and, as of the same day, was licensed to transact business in New York as a stock casualty insurer. Horizon was a wholly-owned subsidiary of the Ambassador Group, Inc., ("Group") a Delaware holding company based in North Bergen, New Jersey. Ambassador Insurance Company ("Ambassador"), a Vermont company, was the other subsidiary of Group.

Horizon was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine but not Ocean Marine).

Horizon was established to provide an underwriting market for Group because Ambassador Insurance Company was not licensed in New York. Horizon had paid-in capital of $100,000. On January 10, 1980, Ambassador purchased all of Horizon's outstanding capital stock from Dasco Holding Corporation and, subsequently, Horizon's administrative offices were moved from Valley Stream, New York, to North Bergen, New Jersey. On December 29, 1980, Horizon entered into a full service agreement with Ambassador whereby Ambassador was to furnish all administrative services and functions necessary to operate Horizon.

On November 10, 1983, Ambassador was placed into rehabilitation by a court of competent jurisdiction in the State of Vermont. The Supreme Court of the State of New York, County of New York, entered an order on November 29, 1984, placing Horizon into liquidation and appointing the then-Superintendent (and his successors in office) liquidator of Horizon.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(25) Nassau Insurance Company

On December 2, 1964, Nassau Insurance Company ("Nassau") was incorporated under the laws of the State of New York and, as of May 5, 1965, was authorized to transact business in New York as a stock casualty insurer.

Nassau was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability) and 20 (Marine but not Inland Marine).

On March 5, 1984, a court placed Nassau into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Nassau. Efforts to rehabilitate Nassau proved futile. A court order entered on June 22, 1984, placed Nassau into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Nassau.

(26) Cosmopolitan Mutual Insurance Company

On December 11, 1923, Butchers' Mutual Casualty Company of New York ("Butchers' Mutual") was incorporated under the laws of the State of New York and, as of April 19, 1924, was licensed to transact business in New York as a mutual casualty insurer. On January 21, 1947, Butchers' Mutual adopted the name Cosmopolitan Mutual Casualty Insurance Company ("CMCIC"). On January 1, 1956, Cosmopolitan Mutual Fire Insurance Company, organized in 1945, was absorbed by CMCIC and CMCIC's current name, Cosmopolitan Mutual Insurance Company ("Cosmopolitan"), was adopted on January 1, 1956.

Cosmopolitan was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity).

On February 15, 1980, Cosmopolitan's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Cosmopolitan. A court order entered on August 5, 1980, placed Cosmopolitan into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Cosmopolitan.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation Managed by the New York Liquidation Bureau (continued)

(26) Cosmopolitan Mutual Insurance Company (continued)

Efforts to rehabilitate Cosmopolitan proved futile. Accordingly a court order entered on October 24, 1980, placed Cosmopolitan into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Cosmopolitan.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The Combined Statement of Assets, Liabilities, and Deficit of Assets over Liabilities-modified cash basis and Combined Statement of Cash Receipts and Disbursements and Changes in Cash and Invested Assets-modified cash basis (collectively, "Combined Financial Statements of the Domestic Estates in Liquidation Managed by the New York Liquidation Bureau" or "Combined Estates Financial Statements") reflect the financial position of the Combined Domestic Estates in Liquidation. The Combined Estates Financial Statements have been prepared on the modified cash basis, which is a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America ("US GAAP"). This modified cash basis of presentation differs from US GAAP in that revenues are recognized when received, rather than when earned, and certain expenses are recognized when paid, rather than when the obligation is incurred. This modified cash basis presentation is cash basis accounting that incorporates the following accruals: (i) investment income earned but not yet received; (ii) earned unused vacation benefits; (iii) post-retirement medical benefits; (iv) unpaid claims and related expenses; (v) reinsurance; and (vi) unrealized gains and losses on investments.

The Combined Estates Financial Statements do not include incurred but not reported ("IBNR") reserves.

The schedules of Combined Estates Assets-modified cash basis; Combined Estates Liabilities-modified cash basis; Accumulated Surplus (Deficit) of Assets over Liabilities-modified cash basis; and Estate Cash Receipts and Disbursements and Changes in Cash and Invested Assets-modified cash basis (collectively, "Combining Schedules"), which are contained in Appendix A, include cash transactions, the accruals noted above, case reserves and paid liabilities.

In the first stage of a liquidation proceeding, the liabilities are typically preliminary estimates that may change materially during the course of the liquidation, depending on the types of business that were written by the insurance company and the complexity of the insurance company's activities and organization.

Note 2: Summary of Significant Accounting Policies (continued)

Use of Estimates

Preparation of the Combined Estates Financial Statements requires Management to make estimates and assumptions that may affect the amounts reported therein and related accompanying notes. Actual results may differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents are presented at cost, which approximates fair market value, and include cash and repurchase agreements held at several financial institutions.

The NYLB maintains the cash balances of the Combined Domestic Estates in Liquidation at several financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). As of the date hereof, the FDIC insures accounts up to $250,000 at these institutions. Management monitors balances of cash in excess of insured limits and believes, based on the information currently available to it, that such balances do not represent a material credit risk to the Combined Domestic Estates in Liquidation.

Invested Assets

Short-term investments are stated at fair market value and include securities that mature within one year from the date of acquisition or may be subject to demand features. These investments include money market funds and other highly liquid investments with remaining maturities of one year or less.

Long-term investments include securities and actively managed fixed-income debts that are held until maturity. These investments are recorded at estimated fair market value based on quoted market prices. The unrealized gains or losses on these securities are recorded in the Combined Estates Financial Statements.

Investment income is accrued and includes revenue from the investment portfolio that is earned but not yet received. Realized gains and losses on investments sold are computed using the specific identification method, wherein gains and losses are recognized as of the trade date and included in proceeds from investments.

The sale of securities may be restricted pursuant to insolvency deposit requirements in states where one or more of the Combined Domestic Estates in Liquidation previously conducted business. Due to their restrictive nature, these investments are classified as restricted assets and recorded at an amortized cost without regard to contractual maturity.

The NYLB's fixed-income debt portfolio is sensitive to interest rate fluctuations, which impact the fair market value of individual securities. A predominant portion of the unrealized losses aged greater than 12 months was caused by the effect of a rising interest rate environment. The NYLB has the intent and ability to hold the securities until full recovery. The NYLB does not consider the unrealized losses aged less than

Note 2: Summary of Significant Accounting Policies (continued)

Invested Assets (continued)

or greater than 12 months on its fixed-income debt and equity portfolios represent other-than-temporary impairments as of December 31, 2006.

Reinsurance

Reinsurance recoverable on paid or allowed losses and loss adjustment expenses ("LAE") is reported as an asset.

Reinsurance recoverable on unpaid and non-allowed losses and LAE case reserves is reported as an asset. These unpaid losses and LAE case reserves reflect Management's best estimate, and as such, the related reinsurance recoverables on these unpaid loss and LAE reserves are subject to adjustment.

Retroactive reinsurance agreements and loss portfolio transactions (if any), including subsequent development, are accounted for and recorded as prospective reinsurance.

Commutations are recorded upon transaction settlement, which discharges present and future obligations between the parties arising out of the reinsurance agreement.

Reinsurance is ceded to permit the recovery of a portion of the direct incurred losses and LAE. However, such a transfer does not relieve the individual estate of its obligation should the reinsurer not honor its commitments.

Advance to Affiliates

Advance to affiliate, if present, relates to the advance payments made to the NYLB's central disbursement account ("CDA") for future administrative expenses.

Restricted Assets

Statutory Deposits in New York or Other States: These deposits are held by various state regulating authorities in compliance with the insurance laws of the respective states.

Security Fund Cash: Security Fund Cash consists of dedicated monies received from the Security Funds solely to pay specific policy-related claims and expenses.

Funds Held for Secured Creditors: These funds are held for claims secured by letter of credit ("LOC") or other collateral securities, but do not include special deposit claims or claims against general assets.

Other Restricted Assets: Restricted assets are held by the Combined Domestic Estates in Liquidation to meet other obligations, such as dividends, second injury claim payments and escheated funds. In addition, the Guarantee Insurance Company is holding a deposit in favor of Whiting.

Note 2: Summary of Significant Accounting Policies (continued)

Restricted Assets (continued)

The details of the Restricted Assets per Domestic Estate in Liquidation are set forth in the table below:

	Domestic Estates in Liquidation	Special Deposits	Security Fund Cash	Funds Held for Secured Claims	Other Restricted	Total
(1)	MMLA	$	$ -	$ -	$ -	$ -
(2)	MagnaHealth	-	-	-	-	-
(3)	MMIA	-	-	-	577	577
(4)	Group Council	-	359,412	-	-	359,412
(5)	AAIC	-	1,090,822	-	-	1,090,822
(6)	Capital Mutual	-	913,710	54,941	-	968,651
(7)	CCSC	-	188,391	214,838	-	403,229
(8)	FCIC	-	1,039,821	52,034	426,742	1,518,597
(9)	Galaxy	-	154,122	127,629	-	281,751
(10)	HMIC	-	160,514	-	-	160,514
(11)	NYMB	-	4,048,147	161,800	-	4,209,947
(12)	NYSC	-	126,552	1,206,443	-	1,332,995
(13)	Realm	1,688,995	-	-	-	1,688,995
(14)	Transtate	-	290,678	-	-	290,678
(15)	U.S. Capital	-	775,133	109,012	-	884,145
(16)	Consolidated Mutual	29,855	1,556	10,661	360,544	402,616
(17)	Midland	7,981,655	17,846	1,310,961	136,070	9,446,532
(18)	MIDPAC	-	-	-	-	-
(19)	Whiting	-	-	-	111,072	111,072
(20)	American Consumer	-	8,517	-	38,061	46,578
(21)	American Fidelity	185,250	203,181	62,968	105,823	557,222
(22)	Union	351,705	229,090	5,595,508	26,606	6,202,909
(23)	Ideal	4,084,988	6,965	3,574,782	335,657	8,002,392
(24)	Horizon	-	4,884	-	316,077	320,961
(25)	Nassau	-	12,500	-	-	12,500
(26)	Cosmopolitan	332,315	78,730	648,216	285,164	1,344,425
	Total:	$ 14,654,763	$ 9,710,571	$ 13,129,763	$ 2,142,393	$ 39,637,520

Secured Claims

A secured claim, if present, relates to any claim secured by LOCs or other collateral securities, but does not include special deposit claims or claims against general assets. A secured claim also includes claims which have become liens upon specific assets by reason of judicial process more than four months prior to the commencement of delinquency proceedings.

Note 2: Summary of Significant Accounting Policies (continued)

Secured Claims (continued)

The NYLB may elect to draw down on an LOC: (i) to collect unpaid recoverable balances due from a reinsurer; (ii) to collect reinsurance recoverables due to a Combined Domestic Estates in Liquidation upon receipt of notification from the applicant or bank that the LOC will not be renewed or is to be canceled; or (iii) to fund a settlement of a commutation agreement.

Class One – Administrative Claims

Claims with respect to the actual and necessary costs and expenses of administration incurred by the liquidator or rehabilitator. Included in the administrative claims are accruals for vacation benefits and post-retirement benefits that have been allocated among the Combined Domestic Estates in Liquidation and Security Funds.

Class Two – Claim and Related Costs

All claims under policies, including such claims of federal, state or local government for losses incurred, third party claims, claims for unearned premiums, and all claims of security funds or guaranty associations, but excluding claims under reinsurance contracts.

The reserves for general creditor claims and LAE are comprised of one or more of the following:

(i) Allowed Claims

Allowed claims represent reserves for claim and/or LAE amounts that have received court approval. The liability carried is net of distributions, if any, that may have been paid as early access distributions or dividends.

(ii) Non-Allowed Claims

Non-allowed claims consist of one or both of the following:

1. Adjudicated Reserves

Adjudicated reserves are amounts determined as representative of incurred losses and LAE claims attributable to insured events that have not yet received approval from the receivership court.

Claims in the course of settlement and unreported claims, if present, represent Management's best estimate of the ultimate net cost of all reported and unreported claims incurred through December 31, 2006. Reserves for unpaid claims are estimated using individual case basis valuations and statistical analyses. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, Management believes that the reserves for unpaid claims are reasonable. The estimates are continually reviewed and adjusted as necessary, as experience develops or new

Note 2: Summary of Significant Accounting Policies (continued)

Secured Claims (continued)

information becomes known; such adjustments are included in current operations. Generally, no provision is made for IBNR loss reserves, including expected future development on claims already reported, because of the inordinate expense of hiring actuaries on a regular basis to calculate IBNR loss reserves. All reserves are estimated and may be understated or overstated because the ultimate liability cannot be determined for any individual Domestic Estate in Liquidation until the closure of such estate.

Loss and LAE reserves are calculated on an undiscounted basis and stated gross of reinsurance recoverables, with the exception of workers' compensation reserves, which are discounted and adjusted annually to reflect life expectancy and present value of that reserve. Loss reserves are estimated based on reported information and may be understated or overstated because the ultimate liability has not been verified for any particular Domestic Estate in Liquidation. Security Fund LAE reserves are calculated as a percentage of loss reserves, which reflects the historical percentage of LAE expenses paid as a percentage of losses paid, and Guaranty Fund LAE reserves are stated as reported from the respective Guaranty Funds. In addition, the NYLB is taking steps to refine its reserving practices to capture the most accurate reserve possible for both potential indemnity and expense exposure going forward.

2. Claimed Reserves

Claimed reserves are amounts claimed by creditors which have neither been adjudicated nor received approval from the receivership court. As such, claimed reserves may be overstated.

LAE is allocated to a Domestic Estate in Liquidation as either direct or indirect LAE. Direct LAE is charged to a specific Domestic Estate in Liquidation. Indirect LAE is allocated among the Estates and Security Funds.

Distribution of Assets

The Receiver seeks court approval for all proposed distributions that he recommends be made from a Domestic Estate in Liquidation. Distributions are made in a manner that assures the proper recognition of priorities and a reasonable balance between the expeditious completion of the liquidation and the protection of non-adjudicated and undetermined claims. The priority of distribution of assets is in accordance with Insurance Law Section 7434 as set forth below. Every claim in each class is paid in full or adequate funds are retained for such payment before the members of the next

Note 2: Summary of Significant Accounting Policies (continued)
Distribution of Assets (continued)

class receive any payment. No sub-classes are established within any class. Also, no claim by a shareholder, policyholder or other creditor is permitted to circumvent, through the use of equitable remedies, the order of class priority as set forth in Insurance Law Section 7434.

The 1999 amendments to Insurance Law Section 7434 set forth a comprehensive list of nine classes of creditor claims in specific order of priority of distribution. The statute provides that no distribution can be made to a class of creditors until each claim in the preceding class had been paid in full. This amendment applied to any proceeding under Insurance Law Article 74 as to which an order of liquidation had been entered on or after such effective date, to wit, June 29, 1999. However, in May 2005, Insurance Law Article 74 was again amended, pursuant to New York Law Chapter 33 of the Laws of 2005 ("Chapter 33"), which permitted the WC Fund, upon certification of the Superintendent, to take loans against the assets of certain insolvent Domestic Estates in Liquidation. In addition, Chapter 33 has made the scheme of distribution of assets provided in Insurance Law Section 7434 retroactive so that it applies to liquidation proceedings commenced prior to June 29, 1999.

The details for dividends distributed from the Combined Domestic Estates in Liquidation for the year ended December 31, 2006, are as follows:

American Consumer	$ 7,496
American Fidelity	6,616
FCIC	9,538,832
Galaxy	12,365,558
Ideal	8,614
MMIA	9,057,642
Midland	51,074,388
U.S. Capital	10,766,523
Total	$ 92,825,669

The list of creditor classes in order of priority as set forth by Insurance Law Section 7434 is as follows:

(i) Class One – Administrative Claims
Claims with respect to the actual and necessary costs and expenses of administration incurred by the liquidator or rehabilitator.

(ii) Class Two – Claim and Related Costs
All claims under policies, including claims of federal, state or local government for losses incurred, third party claims, claims for unearned premiums, and all claims of security funds or guaranty associations, but excluding claims under reinsurance contracts.

Note 2: Summary of Significant Accounting Policies (continued)

Distribution of Assets (continued)

(iii) Class Three – Federal Government Claims
Claims of the federal government, except those under Class two.

(iv) Class Four – Employee Claims
Claims for wages owing to employees of an insurer against whom an Article 74 proceeding is commenced and claims for unemployment insurance contributions required by Article 18 of the New York Labor Law.

(v) Class Five – State and Local Government Claims
Claims of state and local governments, except those under Class two.

(vi) Class Six – General Creditors
Claims of general creditors, including but not limited to claims arising under reinsurance contracts.

(vii) Class Seven – Late Filed Claims
Claims filed late or any other claims other than claims stated in Class eight or Class nine below.

(viii) Class Eight – Section 1307 Loans
Claims for advanced or borrowed funds made pursuant to Insurance Law Section 1307.

(ix) Class Nine – Shareholder Claims
Claims of shareholders or other owners in their capacity as shareholders.

Class Three through Class Nine – Subordinate Class of Creditor Claims

Liabilities posted reflect court approved allowances and Management's best estimate based on reported claims for non-allowed claims. Should there be sufficient assets after paying Class two claims, these subordinate classes of creditor claims will be thoroughly investigated and recommended for allowance prior to dividend distribution. The NYLB's policy is not to incur additional costs on claims not expected to be paid. Therefore, these subordinate creditors' claims will not be handled until such time as assets are available to pay such claims. Prior to the 2005 amendment to Insurance Law Section 7434, certain Domestic Estates in Liquidation made distributions to creditors that are currently classified as Class three through Class six. These claims received court approval for each distribution. However, no distributions have been made to these creditors after the implementation of the 2005 amendment to Insurance Law Section 7434.

Allocation of Expenses

The NYLB allocates general and administrative expenses, such as salaries, employee relations and welfare (*e.g.*, contributions to employee benefits such as health, pension and other fringe benefits) ("Employee Relations and Welfare"), payroll taxes, rent for

Note 2: Summary of Significant Accounting Policies (continued)

Contributing Factors

premises, and office expenses, among the Estates and Security Funds. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Income Taxes

For the Combined Domestic Estates in Liquidation, when net income or losses are generated from operations, it is subject to federal, New York State and local income taxes. The net income is offset against any net operating loss carry forwards or, in the case of net losses, the net operating loss carry forwards are increased.

From time to time and as highlighted in the internal controls report recently issued, the review of the control functions may warrant modifications and enhancements in the NYLB's internal controls. This review process may result in the discovery of administration, servicing or other errors, including errors relating to the timing or amount of payments or values due creditors. In certain cases, the NYLB, on behalf of the Combined Domestic Estates in Liquidation, may offer remediation and may incur charges, including the cost of such remediation and legal and administrative costs.

Management believes based on the information currently available to it, that those ultimate payments in connection with such matters, once consideration of applicable reserves and rights to indemnification are considered, should not have a material adverse effect on the Combined Domestic Estates in Liquidation's financial position.

Note 3: Investments

For the year ended December 31, 2006, the components of net investment income earned include investment income received and accrued from cash and investments in U.S. treasury securities and obligations of U.S. government corporations and agencies.

The components of investment income for the year ended December 31, 2006, are as follows:

	2006
Interest on fixed income debt securities	$ 16,629,858
Interest on short-term investments and cash equivalents	16,044,056
Dividends	-
Total Gross Investment Income	32,673,914
Amortization of bond premium and discount, net	306,055
Total Investment Income	$ 32,979,969

Note 3: **Investments (continued)**

As of December 31, 2006, the amortized cost and fair market value of the short-term investments and bonds for each Domestic Estate in Liquidation is as follows:

		2006			
	Domestic Estates in Liquidation	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Market Value**
(1)	MMLA	$ 63,715,178	$ -	$ (1,367,741)	$ 62,347,437
(2)	MagnaHealth	-	-	-	-
(3)	MMIA	-	-	-	-
(4)	Group Council	-	-	-	-
(5)	AAIC	12,645,032	-	(80,742)	12,564,290
(6)	Capital Mutual	6,438,586	-	(33,315)	6,405,271
(7)	CCSC	500,000	-	(5,450)	494,550
(8)	FCIC	53,087,648	-	(627,517)	52,460,131
(9)	Galaxy	18,007,075	-	(312,268)	17,694,807
(10)	HMIC	8,795,227	-	(59,806)	8,735,421
(11)	NYMB	25,671,354	-	(271,021)	25,400,333
(12)	NYSC	-	-	-	-
(13)	Realm	1,327,016	-	(40,685)	1,286,331
(14)	Transtate	36,472,588	934,595	(627,439)	36,779,744
(15)	U.S. Capital	10,326,636	2,559	(154,359)	10,174,836
(16)	Consolidated Mutual	4,875,706	1,562	-	4,877,268
(17)	Midland	228,286,750	542,435	(945,329)	227,883,856
(18)	MIDPAC	7,152,090	31,765	(53,605)	7,130,250
(19)	Whiting	7,019,427	2,919	(13,507)	7,008,839
(20)	American Consumer	3,524,864	-	(14,944)	3,509,920
(21)	American Fidelity	14,912,998	-	(93,790)	14,819,208
(22)	Union	88,729,903	-	(527,405)	88,202,498
(23)	Ideal	68,569,007	-	(1,036,546)	67,532,461
(24)	Horizon	3,700,000	-	(45,140)	3,654,860
(25)	Nassau	-	-	-	-
(26)	Cosmopolitan	30,203,312	136,198	(92,747)	30,246,763
	Total	$ 693,960,397	$ 1,652,033	$ (6,403,356)	$ 689,209,074

Note 3: Investments (continued)

The NYLB's investment with gross unrealized losses, showing fair market value, and aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006 are as follows:

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Market Value	Unrealized (losses)	Fair Market Value	Unrealized (losses)	Fair Market Value	Unrealized (losses)
U.S. Treasury and Agency Securities held to Maturity, at amortized Cost	$ 118,194,235	$ (1,399,813)	$ 363,835,009	$ (5,003,543)	$ 482,029,244	$ (6,403,356)
Total Fixed Income	118,194,235	(1,399,813)	363,835,009	(5,003,543)	482,029,244	(6,403,356)
Total Equity Securities	-	-	-	-	-	-
Total	$ 118,194,235	$ (1,399,813)	$ 363,835,009	$ (5,003,543)	$ 482,029,244	$ (6,403,356)

The NYLB's fixed income debt portfolio is sensitive to interest rate fluctuations, which impact fair market value of individual securities. A predominant portion of the unrealized losses aged greater than 12 months was caused by the effect of a rising interest rate environment. Management has the intent and ability to hold the securities until full recovery. Management does not consider the unrealized losses aged less than or greater than 12 months on its fixed income debt and equity portfolios represent other-than-temporary impairments as of December 31, 2006.

The amortized cost and fair market value of fixed maturities at December 31, 2006, by contractual maturity, are shown below. Actual maturity dates may differ from contractual maturity dates because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Combined Estates	**Amortized Cost**	**Fair Market Value**
Due within one year	$ 334,393,093	$ 334,532,142
Due after one year through five years	208,714,880	206,102,073
Due after five years through ten years	145,489,926	142,515,662
Due after ten years through fifteen years	2,395,335	2,709,200
Due after fifteen years	2,967,163	3,349,997
Total Combined Estates	$ 693,960,397	$ 689,209,074

Galaxy received proceeds from the sales of bonds in 2006 in the amount of $9,574,270, excluding maturities and repayments. Gross losses of $95,755 were realized on those sales.

Note 3: Investments (continued)

Mortgage-Backed Securities

U.S. Capital received proceeds from the sales of bonds in 2006 in the amount of $3,330,568, excluding maturities and repayments. Gross losses of $56,838 were realized on those sales.

Management has identified seven mortgage-backed securities with an amortized cost of approximately $100,000. After reviewing these seven securities, Management has determined, based on the information currently available to it, that there is no material direct subprime exposure through investments in these seven mortgage-backed securities.

Note 4: Reinsurance

Prior to their liquidations, most Domestic Estates in Liquidation wrote insurance coverage on a direct basis (and assumed reinsurance, if applicable). These policies or assumed reinsurance contracts were reinsured with other insurance or reinsurance companies in the ordinary course of business. Reinsurance arrangements include a wide variety of treaty and facultative contracts providing pro-rata, excess of loss and catastrophe coverage. Reinsurance recoverables, if any, for a particular Domestic Estate in Liquidation pertain to loss events occurring prior to the cut-off date established by such estate's liquidation order. The net reinsurance recoverables represent amounts due from reinsurers who are solvent or impaired (but not in receivership) for paid or allowed paid loss claims and allocated loss adjustment expense ("ALAE"). Reinsurance recoverables are also calculated on outstanding case reserves (unpaid losses and unpaid ALAE).

Because the Combined Domestic Estates in Liquidation are not relieved of their primary obligation to their policyholders, allowance accounts for reinsurance recoverables have been established for each Domestic Estate in Liquidation. Valuation allowances are maintained and determined based on several factors, such as a reinsurer's current payment history, aging and solvency. A percentage (less than 100 percent) is applied to reinsurance recoverable balances of reinsurers who are solvent or impaired (but not in receivership). A 100 percent allowance is applied to all reinsurance recoverables due from reinsurers that have been ordered into receivership. In addition, some balances may be in dispute or litigation.

Reinsurance recoverables are reviewed and updated periodically based on the collection history of the accounts and other material factors. The failure or inability to collect reinsurance recoverables due to a Domestic Estate in Liquidation may have a material effect on estate.

Note 4: Reinsurance (continued)

Letters of Credit

The NYLB may elect to draw down on an LOC: (i) to collect unpaid recoverable balances due from a reinsurer; (ii) to collect reinsurance recoverables due to a Domestic Estate in Liquidation upon receipt of notification from the applicant or bank that the LOC will not be renewed or is to be canceled; or (iii) to fund the settlement of a commutation agreement.

If an LOC is drawn down, the monies collected are credited to the appropriate Domestic Estate in Liquidation.

Note 5: Related-Party Transactions

The daily operations of the Combined Domestic Estates in Liquidation are managed by the NYLB on behalf of the Receiver. Through December 31, 2006, NYLB personnel performed certain administrative and investment functions, such as accounting, data processing, human resources and treasury management, for the Combined Domestic Estates in Liquidation. The Combined Domestic Estates in Liquidation paid or accrued expenses for such functions pursuant to the NYLB's longstanding policy of charging the intercompany accounts of each respective Domestic Estate in Liquidation for expenses paid by the NYLB on behalf of such estate.

In May 2005, Insurance Law Article 74 was amended pursuant to Chapter 33 to permit the WC Fund to receive a loan out of the assets of insolvent domestic estates. As such, the Superintendent is authorized to make one or more loans to the WC Fund, up to $70,000,000 in the aggregate, from the assets of one or more insolvent domestic estates. Chapter 33 provides that any loan pursuant to Insurance Law Section 7433(a) shall be a liability of the WC Fund and shall be repaid pursuant to a plan of repayment prescribed by the Superintendent. Chapter 33 further provides that the repayment plan shall, among other things, require that any loan be made upon commercially reasonable terms in accordance with the Superintendent's fiduciary responsibilities and that no less than one-fourth of the payment collected pursuant to Section 108 of the Workers' Compensation Law shall be dedicated to the repayment of such loans.

Pursuant to the above provisions, Cosmopolitan, First Central, Ideal, Midland, Transtate and Union ("Lending Estates") lent the WC Fund a total of $17,072,258, of which $12,000,000 was lent to the WC Fund on June 29, 2005, and $5,072,528 was lent to the WC Fund on July 28, 2005. Pursuant to the loan agreement, the WC Fund has made quarterly payments to the Lending Estates in the total amount of $11,250,000, leaving a balance of $5,822,258 as of December 31, 2006, which is included in the Other Assets balance.

Note 6: **<u>Expense Reimbursement</u>**

The CDA, managed by the NYLB, is a pooled cash account funded solely by cash advances from the Estates and Security Funds. The CDA has an overnight interest-bearing sweep facility, stated at cost, whereby idle funds are invested. The NYLB uses the money in the CDA to pay, on behalf of the Estates and Security Funds, administrative expenses such as Employee Relations and Welfare, payroll taxes, rent for premises, and office expenses. Such administrative expenses are allocated on a monthly basis among the Estates and Security Funds.

Note 7: **<u>Asbestos and Environmental Reserves</u>**

The NYLB has asbestos, environmental and product claims on three of the Domestic Estates in Liquidation: Midland, Ideal and Union. In establishing the liability for unpaid claims and claim adjustment expenses related to asbestos, environmental and product claims on these estates, Management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy and the NYLB can reasonably estimate the estate's liability. Estimates of liabilities are reviewed and updated continually and as needed based on developed case law, claim history and experience.

The NYLB has made no provision in the Combined Estates Financial Statements, for IBNR loss reserves, including expected future development on claims already reported.

As of December 31, 2006, Union carried reserves of $14,825,477 (Asbestos), $2,575,612 (Environmental), and $4,460,531 (Product). Currently, no applicable reinsurance has been identified for these losses.

As of December 31, 2006, Ideal carried reserves of $144,124,847 (Asbestos), $118,911,955 (Environmental), and $35,825,243 (Product). To the extent that reinsurance has been identified, reinsurance reserves of $450,000 (Asbestos), $-0- (Environmental), and $1,350,000 (Product) have been calculated and recorded prior to any allowance for collectability.

As of December 31, 2006, Midland carried reserves of $934,526,091 (Asbestos), $45,872,930 (Environmental), and $287,657,102 (Product). To the extent that reinsurance has been identified, reinsurance reserves of $602,874,069 (Asbestos), $16,687,560 (Environmental), and $206,979,668 (Product) have been calculated and recorded prior to any allowance for collectability.

Note 8: **Income Taxes**

The Combined Domestic Estates in Liquidation are subject to federal and New York State income tax, but generally these estates do not generate taxable income or tax liability because they are in liquidation. However, the Combined Domestic Estates in Liquidation are subject to New York State franchise tax. Each Domestic Estate in Liquidation's franchise tax is generally calculated at the minimum because the estates are in liquidation and do not write premiums. The New York State franchise tax expense was $5,750 in 2006.

Because each Domestic Estate in Liquidation, through the NYLB, maintains an office and conducts business in the metropolitan New York area, it is also subject to the Metropolitan Transit Authority ("MTA") surcharge. Each Domestic Estate in Liquidation's MTA surcharge is generally calculated as a percentage of the New York franchise tax because the estates are in liquidation and do not write premiums. The MTA surcharge was $978 in 2006.

At December 31, 2006, each Domestic Estate in Liquidation has unused operating loss carry-forwards available to offset against future taxable income as follows:

Domestic Estate in Liquidation		Net Operating Loss Carry- Forwards		Net Operating Loss Carry-Forwards used during 2006
MMIA	$	909,483,220	$	-
Group Council		445,834,562		-
AAIC		55,609,949		1,562,512
Capital Mutual		31,781,781		-
CCSC		7,390,869		120,175
FCIC		149,923,525		-
Galaxy		45,117,212		783,339
HMIC		37,839,648		-
NYMB		132,549,061		-
NYSC		17,149,250		-
Transtate		43,601,767		1,137,002
U.S. Capital		46,499,557		-
Consolidated		10,190,903		158,950
Midland		1,716,284,499		-
MIDPAC		12,449,821		-
Whiting		28,876,683		13,308
American Consumer		17,146,662		-
American Fidelity		37,176,943		-
Union		583,776,275		3,643,259
Ideal		421,028,907		-
Horizon		48,994,288		-
Nassau		30,273,803		319,402
Cosmopolitan		50,994,023		-
Valuation Allowance		(4,879,973,208)		-
Operating Loss Carry Forward, Net of Valuation Allowance	$	-	$	7,737,947

Note 8: Income Taxes (continued)

A full valuation allowance was provided because of the uncertainty about its realization and Management believes, based on the information currently available to it, that the carry-forwards will expire unused. Because the estates are in liquidation, the current year utilization of $7,737,947 is not indicative of future estimates.

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans* an amendment of FASB Statements Nos. 87, 88, 106 and 132(R) ("SFAS No. 158").

SFAS No. 158 requires an employer who sponsors a defined benefit plan to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur. Accordingly, assets would be reflected for defined benefit plans, which are overfunded and liabilities for plans which are underfunded.

For the financial year ending December 31, 2006, the NYLB, as an employer without publicly traded equity securities, was not required by SFAS 158 to recognize the funded status of a defined benefit post-retirement plan or provide the required disclosures.

Because the NYLB has adopted the provisions of SFAS 158, effective December 31, 2006, and this Annual Report is being issued subsequent to that date, the NYLB recorded the post-retirement benefit liability for the Combined Domestic Estates in Liquidation as a Class one claim.

The NYLB has funded and non-funded contributory and non-contributory defined benefit pension plans, which cover the majority of its employees. The NYLB sponsors a post-retirement medical benefit plan for its employees. Health insurance benefits are administered through the New York State Health Insurance Program ("NYSHIP"). Active employees and retirees and their dependents who enroll are covered by NYSHIP, which provides hospital, medical, prescription drug and other health benefits through either the Empire Plan or a participating HMO, as selected by the enrollee. NYSHIP is funded by both employer and employee/retiree contributions. Active employees are eligible for continued health insurance coverage subject to years of service requirements with one or more public employers (including at least one year with the NYLB). Terminated vested employees who pay the full premium until they reach retirement age are also eligible for retirement benefits.

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans (continued)

An independent actuarial firm conducted a valuation of the post-retirement plan for the year ending December 31, 2006, using SFAS 158 and reported its conclusions in a report dated July 21, 2008 ("Actuarial Report"). Pursuant to the Actuarial Report, a 5.55 percent discount rate was used to determine the initial accumulated post-retirement benefit obligation ("APBO") and a 5.91 percent discount rate was used to determine the APBO as of December 31, 2006. The post-retirement benefit liability is as follows:

APBO (Initial Accrual) as of January 1, 2006:	$ 63,856,429
APBO as of December 31, 2006:	$ 64,007,084
Net Periodic Benefit Cost for the fiscal year:	$ 5,631,674

Note 9: <u>Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans</u> (continued)

The following presentation was adopted from the Actuarial Report for the year ended December 31, 2006:

		Post-Retirement Benefits
Reconciliation of benefit obligation		2006
Obligation at beginning of year	$	63,856,429
Service cost including expenses		2,134,739
Interest cost		3,496,935
Plan amendments		-
Actuarial (gain) / loss		(3,739,209)
Acquisitions / (divestitures)		-
Benefit payments and expected expenses		(1,867,429)
Medicare Part D reimbursements		125,619
Curtailments		-
Special termination benefits		-
Settlements		-
Obligation at end of year	$	64,007,084
Reconciliation of fair market value of plan assets		
Fair market value of plan assets at beginning of year		-
Actual return on plan assets		-
Acquisitions / (divestitures)		-
Employer contributions	$	1,741,810
Benefit payments and expected expenses		(1,867,429)
Medicare Part D reimbursements		125,619
Settlements		-
Fair market value of plan assets at end of year		0
Funded status at end of year	$	(64,007,084)

As of December 31, 2006, the NYLB has accrued as a liability approximately $64 million toward its post-retirement medical benefit plan among the estates under the receivership of the Receiver. Of the $64 million, $50.6 million has been allocated to the Combined Domestic Estates in Liquidation.

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans (continued)

Cash Flows

Expected Future Benefit Payments

Based on the information available as of December 31, 2006, Management expects that the NYLB will make the following benefit payments:

Fiscal Year Beginning:

2007	$	1,809,911
2008	$	1,921,135
2009	$	2,157,740
2010	$	2,405,610
2011	$	2,675,799
Years 2012-2016	$	18,095,385

Employee Retirement Plans

- **New York State and Local Employees' Retirement System – Defined Benefit Plan**
  The New York State and Local Employees' Retirement System ("Retirement System") offers a variety of plans and benefits and provides retirement benefits based on years of service and the average of an employee's highest three years' salary. Other benefits include: vesting of retirement benefits, death and disability benefits, and optional methods of benefit payments. Participation is mandatory and employees are required to contribute three percent of their salary annually until the employee achieves 10 years of membership. Funding consists of contributions from active employees, as well as an annual employer-paid invoice based on the total salaries that were paid to the Retirement System members in the NYLB's employ at the close of the previous New York State fiscal year.

- New York State Deferred Compensation Plan – 457b
  This is a voluntary retirement savings program funded entirely by employee contributions. Employees are eligible to contribute to this program as of their first day of employment with the NYLB. Through payroll deduction, participants may contribute from 1 percent to 25 percent of salary up to the specified annual maximum. Contributions are pre-tax for federal, state and local income tax purposes.

Note 10: Repurchase Agreements

The NYLB on behalf of the Combined Domestic Estates in Liquidation invests in overnight tri-party repurchase agreements ("Repurchase Agreements"). Repurchase Agreements consist of one-day maturity transactions among three parties: the NYLB as the investor, the counterparty (*e.g.*, broker or dealer), and the custodian bank that acts as an intermediary between the two.

Note 10: Repurchase Agreements (continued)

Each Repurchase Agreement account ("RAA") is linked to an NYLB demand deposit account ("DDA"). The NYLB either draws funds from the RAA to cover checks and other debits (*e.g.*, wire transfers) or adds to the RAA if there is excess cash in the DDA. If there is no activity in the DDA, the corresponding RAA rolls over automatically with the interest rate established by the broker/dealer for that day.

Pursuant to the Repurchase Agreements, the broker/dealer pledges collateral in the form of U.S. Treasury securities ("Collateral"), which must be 102 percent of the value of the cash invested. A schedule indicating the amount and type of Collateral is faxed to the NYLB after 6:00 p.m. each business day.

The custodian bank verifies and monitors the Collateral pledged by the broker/dealer and keeps it specifically earmarked for the NYLB in a special custody account. If there is a default by the broker/dealer, then the NYLB can request the custodian bank to sell the Collateral or the NYLB can take possession of such Collateral and have it transferred to a designated custody account. Interest is credited to the RAA daily and the Collateral cycle begins again for the new day's investment.

Balance of RAA as of December 31, 2006: $112,902,756. Amount of Collateral as of December 31, 2006: $115,160,811 (approximately 102 percent of the RAA balance).

Note 11: Legal Matters, Commitments and Contingencies

After inquiry and review of the records of each Domestic Estate in Liquidation, the NYLB, based on the information currently available to it, is unaware of any pending or threatened litigation or unasserted claim that the NYLB reasonably believes will have a material adverse effect on the financial condition or the results of operations of the Combined Domestic Estates in Liquidation.

The NYLB, in furtherance of the Receiver's statutory obligations, continuously endeavors to: (i) recover the assets of the Combined Domestic Estates in Liquidation; and (ii) wind up the business affairs of the Combined Domestic Estates in Liquidation, including without limitation the litigation of policyholder and reinsurance claims. After inquiry and review of the records of each Domestic Estate in Liquidation, the NYLB, based on the information currently available to it, is unaware at this time of: (i) any potential material monetary loss that the reclassification of creditor claims will have on the Combined Domestic Estates in Liquidation; and (ii) any material direct impact the Court of Appeals decision in the *Matter of Dinallo v. DiNapoli*, 9 N.Y.3d 94 (2007), will have on the Combined Estates Financial Statements.

Note 12: Subsequent Events

A. Reinsurance Collected

The amount of reinsurance collected for each Domestic Estate in Liquidation subsequent to the end of the reporting period is listed in the table below (for the period January 1, 2007 through June 30, 2008). This table represents all cash collected relating to reinsurance recoverable balances open at December 31, 2006 and billed and subsequently paid in 2007 and the first six months of 2008.

	Domestic Estate in Liquidation	Collections of Reinsurance Recoverable on Paid Losses and LAE
(1)	MMLA	$ -
(2)	MagnaHealth	-
(3)	MMIA	-
(4)	Group Council	55,809
(5)	AAIC	505,302
(6)	Capital Mutual	901,001
(7)	CCSC	7,709
(8)	FCIC	515,487
(9)	Galaxy	816,726
(10)	HMIC	17,373
(11)	NYMB	491,812
(12)	NYSC	525,112
(13)	Realm	51,231
(14)	Transtate	453,586
(15)	U.S. Capital	184,054
(16)	Consolidated Mutual	-
(17)	Midland	164,737,259
(18)	MIDPAC	781,038
(19)	Whiting	22,474
(20)	American Consumer	126
(21)	American Fidelity	13,495
(22)	Union	71,169
(23)	Ideal	4,376,114
(24)	Horizon	-
(25)	Nassau	33,747
(26)	Cosmopolitan	541,856
	Total	**$175,102,480**

B. Midland Estate

The NYLB has engaged outside consultants and is continuing to review options for the potential sale of the Midland estate.

C. Major Policyholder Reserves

In the Ideal estate, the unpaid reserves as of December 31, 2006, were increased by $270 million to reflect policy limits on all of Ideal's known Major Policyholder ("MPH") Claims (*i.e.*, the claims of insureds who have substantial exposure to

Note 12: Subsequent Events (continued)

C. Major Policyholder Reserves (continued)

long-tail industry-wide tort claims and who are generally recognized within the insurance industry as being major policyholders). The increase was prompted by the commencement of litigation by certain reinsurers seeking to challenge the legislative reclassification of their claims from Class two to Class six. The reclassification was done pursuant to the May 2005 amendment to Insurance Law Section 7434. Because the NYLB made a distribution of Ideal's assets prior to May 2005, the outcome of this litigation has the potential to affect the Ideal estate, but not the Midland and Union estates. It was determined that, pending receipt of more detailed and specific claims information on individual MPH Claims in the Ideal estate, and until a clearer evaluation of the merits of the litigation, as a precautionary measure, reserves should be set at policy limits on Ideal MPH Claims. The amount of such increase was recorded in the general ledger in 2007 and is reflected in Class two claims and Related Costs, Non-Allowed Liability on the Combined Estates Financial Statements.

The NYLB anticipates going forward that, as more detailed information and documentation is received and reviewed on individual MPH Claims in the Ideal or other estates managed by the NYLB, these reserves will be maintained as currently set, increased, lowered or eliminated as warranted on each policyholder claim.

Appendix A
Domestic Estates Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets – Modified Cash Basis
As of December 31, 2006

Appendix A
Domestic Estates In Liquidation Managed by the New York Liquidation Bureau
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As of December 31, 2006

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	MMLA	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Assets						
Unrestricted Assets:						
Cash	$ 1,295,043	$ 2,328,570	$ 665,341	$ 1,982,240	$ 5,004,259	$ 1,206,565
Invested Assets:						
Short-term Investments, at fair value	-	-	-	-	6,106,790	3,437,971
Bonds, at fair value	62,347,437	-	-	-	6,457,500	2,967,300
Total Invested Assets	62,347,437	-	-	-	12,564,290	6,405,271
Total Cash and Invested Assets	63,642,480	2,328,570	665,341	1,982,240	17,568,549	7,611,836
Reinsurance Recoverables on Paid Losses and LAE	-	-	-	23,119,294	119,888	4,633,000
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	-	-	-	(23,119,294)	-	(4,633,000)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	119,888	-
Reinsurance Recoverables on UnPaid Losses and LAE	-	-	-	-	1,072,351	8,287,579
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-	(8,287,579)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	1,072,351	-
Receivable from Affiliates	-	-	-	2,658,524	2,151,242	1,443,473
Accrued Investment Income	-	-	-	-	193,780	94,547
Other Assets	-	-	-	-	-	38,948
Total Unrestricted Assets	63,642,480	2,328,570	665,341	4,640,764	21,105,810	9,188,804
Restricted Assets:						
Statutory Deposits in This or Other States	-	-	-	-	-	-
Other Restricted Assets	-	-	577	359,412	1,090,822	968,651
Total Restricted Assets	-	-	577	359,412	1,090,822	968,651
Total Assets	$ 63,642,480	$ 2,328,570	$ 665,918	$ 5,000,176	$ 22,196,632	$ 10,157,455

Appendix A
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Schedule of Combined Estates Assets - Modified Cash Basis
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	CCSC	FCIC	GALAXY	HMIC	NYMB	NYSCO
Assets						
Unrestricted Assets:						
Cash	$ 858,966	$ 8,210,699	$ 799,148	$ 654,775	$ 3,870,638	$ 1,008,638
Invested Assets:						
Short-term Investments, at fair value	-	-	-	4,543,996	1,923,208	-
Bonds, at fair value	494,550	52,460,131	17,694,807	4,191,425	23,477,125	-
Total Invested Assets	494,550	52,460,131	17,694,807	8,735,421	25,400,333	-
Total Cash and Invested Assets	1,353,516	60,670,830	18,493,955	9,390,196	29,270,971	1,008,638
Reinsurance Recoverables on Paid Losses and LAE	588,563	326,536	638,407	1,964,825	20,867,903	2,662,380
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(588,563)	-	(638,407)	(1,964,825)	(20,867,903)	(2,662,380)
Net Reinsurance Recoverables on Paid Losses and LAE	-	326,536	-	-	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	785,927	8,336,103	1,622,016	464,706	7,378,764	1,478,965
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(785,927)	-	(1,622,016)	(464,706)	(7,378,764)	(1,478,965)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	8,336,103	-	-	-	-
Receivable from Affiliates	17,244	2,764,199	1,266,449	262,018	5,031,776	77,975
Accrued Investment Income	1,833	679,488	186,489	149,498	265,129	-
Other Assets	-	975,034	-	288,460	104,034	-
Total Unrestricted Assets	1,372,593	73,752,190	19,946,893	10,090,172	34,671,910	1,086,613
Restricted Assets:						
Statutory Deposits in This or Other States	-	-	-	-	-	-
Other Restricted Assets	403,229	1,518,597	281,751	160,514	4,209,947	1,332,995
Total Restricted Assets	403,229	1,518,597	281,751	160,514	4,209,947	1,332,995
Total Assets	$ 1,775,822	$ 75,270,787	$ 20,228,644	$ 10,250,686	$ 38,881,857	$ 2,419,608

Appendix A
Domestic Estates In Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2006

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	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED	MIDLAND	ELIMINATION OF IBNR	MIDLAND (ADJUSTED)
Assets							
Unrestricted Assets:							
Cash	$ 152,156	$ 11,928,698	$ 423,471	$ 1,880,381	$ 38,231,478		$ 38,231,478
Invested Assets:							
Short-term Investments, at fair value	-	2,485,377	-	4,873,290	149,644,156		149,644,156
Bonds, at fair value	1,286,331	34,339,367	10,174,836	3,978	78,239,700		78,239,700
Total Invested Assets	1,286,331	36,824,744	10,174,836	4,877,268	227,883,856	-	227,883,856
Total Cash and Invested Assets	1,438,487	48,753,442	10,598,307	6,757,649	266,115,334	-	266,115,334
Reinsurance Recoverables on Paid Losses and LAE	3,796,177	259,451	589,394	1,411,497	195,112,368		195,112,368
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(3,796,177)	-	(589,394)	(1,411,497)	(91,804,669)		(91,804,669)
Net Reinsurance Recoverables on Paid Losses and LAE	-	259,451	-	-	103,307,699	-	103,307,699
Reinsurance Recoverables on UnPaid Losses and LAE	22,403,748	15,168,923	181,651	749,062	1,760,695,999	(558,717,500)	1,201,978,499
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(22,403,748)	(11,000,000)	(181,651)	(749,062)	(1,220,712,158)	495,861,781	(724,850,377)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	4,168,923	-	-	539,983,841	(62,855,719)	477,128,122
Receivable from Affiliates	951,408	360,626	287,527	214,000	1,804,231		1,804,231
Accrued Investment Income	13,913	627,266	92,891	96,112	2,705,983	-	2,705,983
Other Assets	1,189,731	61,751	-	-	1,071,174		1,071,174
Total Unrestricted Assets	3,593,539	54,231,459	10,978,725	7,067,761	914,988,262	(62,855,719)	852,132,543
Restricted Assets:							
Statutory Deposits in This or Other States	1,688,995	-	-	29,855	7,981,655		7,981,655
Other Restricted Assets	-	290,678	884,145	372,761	1,464,877	-	1,464,877
Total Restricted Assets	1,688,995	290,678	884,145	402,616	9,446,532	-	9,446,532
Total Assets	$ 5,282,534	$ 54,522,137	$ 11,862,870	$ 7,470,377	$ 924,434,794	$ (62,855,719)	$ 861,579,075

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	MIDPAC	ELIMINATION OF IBNR	MIDPAC (ADJUSTED)	WHITING	ACIC	AMERICAN FIDELITY	UNION
Assets							
Unrestricted Assets:							
Cash	$ 285,438		$ 285,438	$ 901,088	$ 132,793	$ 1,708,076	$ 8,470,137
Invested Assets:							
Short-term Investments, at fair value	2,915,700		2,915,700	5,522,489	1,425,070	2,029,358	9,443,048
Bonds, at fair value	4,214,550		4,214,550	1,486,350	2,084,850	12,789,850	78,714,450
Total Invested Assets	7,130,250	-	7,130,250	7,008,839	3,509,920	14,819,208	88,157,498
Total Cash and Invested Assets	7,415,688	-	7,415,688	7,909,927	3,642,713	16,527,284	96,627,635
Reinsurance Recoverables on Paid Losses and LAE	417,661		417,661	1,063,631	5,723,172	1,582,239	48,598,003
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(153,267)		(153,267)	(1,063,631)	(5,723,172)	(1,582,239)	(48,598,003)
Net Reinsurance Recoverables on Paid Losses and LAE	264,394	-	264,394	-	-	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	6,644,197	(2,491,710)	4,152,487	136,779	568,667	464,708	1,117,885
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(3,734,225)	2,224,424	(1,509,801)	(136,779)	(568,667)	(464,708)	(1,117,885)
Net Reinsurance Recoverables on Unpaid Losses and LAE	2,909,972	(267,286)	2,642,686	-	-	-	-
Receivable from Affiliates	40,000		40,000	145,435	177,592	257,722	1,295,161
Accrued Investment Income	72,269		72,269	156,574	51,809	126,028	985,287
Other Assets	-		-	-	-	15,000	140,512
Total Unrestricted Assets	10,702,323	(267,286)	10,435,037	8,211,936	3,872,114	16,926,034	99,048,595
Restricted Assets:							
Statutory Deposits in This or Other States	-		-	-	-	185,250	351,705
Other Restricted Assets	-		-	111,072	46,578	371,972	5,851,204
Total Restricted Assets	-	-	-	111,072	46,578	557,222	6,202,909
Total Assets	$ 10,702,323	$ (267,286)	$ 10,435,037	$ 8,323,008	$ 3,918,692	$ 17,483,256	$ 105,251,504

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	IDEAL	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Assets					
Unrestricted Assets:					
Cash	$ 12,734,899	$ 459,459	$ 775,173	$ 9,288,910	$ 115,257,039
Invested Assets:					
Short-term Investments, at fair value	18,075,611	-	-	22,208,563	234,634,627
Bonds, at fair value	49,456,850	3,654,860	-	8,038,200	454,574,447
Total Invested Assets	67,532,461	3,654,860	-	30,246,763	689,209,074
Total Cash and Invested Assets	80,267,360	4,114,319	775,173	39,535,673	804,466,113
Reinsurance Recoverables on Paid Losses and LAE	55,298,805	33,095,011	13,009,463	4,489,172	419,366,840
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(55,298,805)	(33,095,011)	(13,009,463)	(4,489,172)	(315,088,872)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	104,277,968
Reinsurance Recoverables on UnPaid Losses and LAE	9,486,401	445,582	-	9,674,946	1,295,955,749
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(9,486,401)	(445,582)	-	(9,674,946)	(802,607,564)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	493,348,185
Receivable from Affiliates	1,034,255	517,717	-	249,892	23,008,466
Accrued Investment Income	967,120	57,556	-	333,328	7,856,900
Other Assets	1,592,614	-	-	3,022,962	8,500,220
Total Unrestricted Assets	83,861,349	4,689,592	775,173	43,141,855	1,441,457,852
Restricted Assets:					
Statutory Deposits in This or Other States	4,084,988	-	-	332,315	14,654,763
Other Restricted Assets	3,917,404	320,961	12,500	1,012,110	24,982,757
Total Restricted Assets	8,002,392	320,961	12,500	1,344,425	39,637,520
Total Assets	$ 91,863,741	$ 5,010,553	$ 787,673	$ 44,486,280	$ 1,481,095,372

Appendix A
Domestic Estates In Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities - Modified Cash Basis
As of December 31, 2006

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	MMLA	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Liabilities						
Secured Claims	$ -	$ -	$ 102,315	$ -	$ -	$ 54,941
Class One - Administrative Claims	10,360	93,814	615,040	1,843,407	6,283,763	2,163,384
Class Two - Claims and Related Costs						
Allowed	-	-	-	145,672,084	47,594,345	36,425,507
Non Allowed	-	60,582	-	171,573,291	8,357,901	7,010,571
IBNR	-	-	-	-	-	-
Total - Class Two	-	60,582	-	317,245,375	55,952,246	43,436,078
Class Three - Federal Government Claims:	-	-	-	-	-	441
Class Four - Employee Claims:	-	-	-	4,425	-	3,123
Class Five - State and Local Government Claims:	-	-	-	22,828	308,252	52,295
Class Six - General Creditors Claims:	-	142,571	-	57,515,060	1,102,220	3,906,865
Class Seven - Late Filed Claims:	-	6,901	-	-	335	-
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-	-
Total Liabilities	10,360	303,868	717,355	376,631,095	63,646,816	49,617,127
Liquidator's Surplus (Deficit)	63,632,120	2,024,702	(51,437)	(371,630,919)	(41,450,184)	(39,459,672)
Total Liabilities and Liquidator's Surplus (Deficit	$ 63,642,480	$ 2,328,570	$ 665,918	$ 5,000,176	$ 22,196,632	$ 10,157,455

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	CCSC	FCIC	GALAXY	HMIC	NYMB	NYSCO
Liabilities						
Secured Claims	$ 214,838	$ 84,665	$ 127,629	$ -	$ 161,800	$ 1,206,443
Class One - Administrative Claims	437,070	7,093,271	3,244,142	3,483,152	4,913,293	500,965
Class Two - Claims and Related Costs						
Allowed	5,213,922	113,752,023	49,716,306	30,235,367	129,245,481	7,986,032
Non Allowed	1,535,978	34,357,479	4,715,168	850,794	18,426,613	3,014,295
IBNR	-	-	-	-	-	-
Total - Class Two	6,749,900	148,109,502	54,431,474	31,086,161	147,672,094	11,000,327
Class Three - Federal Government Claims:	-	-	-	-	-	-
Class Four - Employee Claims:	-	-	-	-	-	-
Class Five - State and Local Government Claims:	7,941	874,434	2,720	126,590	482,493	17,725
Class Six - General Creditors Claims:	960,746	1,763,388	468,282	1,903,755	2,897,038	384,316
Class Seven - Late Filed Claims:	-	-	-	-	-	-
Class Eight - Section 1307 (Shareholder) Loans:	60,000	1	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-	-
Total Liabilities	8,430,495	157,925,261	58,274,247	36,599,658	156,126,718	13,109,776
Liquidator's Surplus (Deficit)	(6,654,673)	(82,654,474)	(38,045,603)	(26,348,972)	(117,244,861)	(10,690,168)
Total Liabilities and Liquidator's Surplus (Deficit	$ 1,775,822	$ 75,270,787	$ 20,228,644	$ 10,250,686	$ 38,881,857	$ 2,419,608

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	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED	MIDLAND	ELIMINATION OF IBNR	MIDLAND (ADJUSTED)
Liabilities							
Secured Claims	$ 161,865	$ -	$ 109,012	$ 338,211	$ 1,400,112	$ -	$ 1,400,112
Class One - Administrative Claims	1,300,793	2,225,025	1,844,142	918,304	12,315,093	-	12,315,093
Class Two - Claims and Related Costs							
Allowed	2,191,983	73,194,995	30,346,454	13,459,517	528,347,354		528,347,354
Non Allowed	50,177,308	10,258,660	2,142,056	21,216	1,434,650,412		1,434,650,412
IBNR	-	-	-	-	605,000,000	(605,000,000)	-
Total - Class Two	52,369,291	83,453,655	32,488,510	13,480,733	2,567,997,766	(605,000,000)	1,962,997,766
Class Three - Federal Government Claims:	-	-	-	-	-		-
Class Four - Employee Claims:	2,616	-	-	-	-		-
Class Five - State and Local Government Claims:	61,013	-	109,175	3,053	8,317,575		8,317,575
Class Six - General Creditors Claims:	22,866,051	931,512	3,257,796	3,314,197	170,758,636		170,758,636
Class Seven - Late Filed Claims:	401	-	-	15,120,795	170,033,011		170,033,011
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-		-
Class Nine - Shareholder Claims:	-	-	-	-	-		-
Total Liabilities	76,762,030	86,610,192	37,808,635	33,175,293	2,930,822,193	(605,000,000)	2,325,822,193
Liquidator's Surplus (Deficit)	(71,479,496)	(32,088,055)	(25,945,765)	(25,704,916)	(2,006,387,399)	605,000,000	(1,464,243,118)
Total Liabilities and Liquidator's Surplus (Deficit	$ 5,282,534	$ 54,522,137	$ 11,862,870	$ 7,470,377	$ 924,434,794	$ (62,855,719)	$ 861,579,075

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	MIDPAC	ELIMINATION OF IBNR	MIDPAC (ADJUSTED)	WHITING	ACIC	AMERICAN FIDELITY	UNION
Liabilities							
Secured Claims	$ -	$ -	$ -	$ 1,042	$ 34,217	$ 161,498	$ 5,792,504
Class One - Administrative Claims	371,059	-	371,059	533,910	479,733	834,794	3,616,661
Class Two - Claims and Related Costs							
Allowed	-		-	25,922,183	17,374,628	47,810,215	238,201,481
Non Allowed	6,500,000		6,500,000	794,185	281,626	1,984,664	36,182,993
IBNR	3,900,000	(3,900,000)	-	-	-	-	-
Total - Class Two	10,400,000	(3,900,000)	6,500,000	26,716,368	17,656,254	49,794,879	274,384,474
Class Three - Federal Government Claims:	-		-	-	-	-	137,245
Class Four - Employee Claims:	-		-	-	-	-	-
Class Five - State and Local Government Claims:	-		-	-	44,842	92,237	71,337
Class Six - General Creditors Claims:	1,607		1,607	8,376,002	5,353,254	9,459,370	160,940,838
Class Seven - Late Filed Claims:	-		-	51,242	67,852	6,324,613	72,046,219
Class Eight - Section 1307 (Shareholder) Loans:	-		-	-	-	-	-
Class Nine - Shareholder Claims:	-		-	-	-	-	-
Total Liabilities	10,772,666	(3,900,000)	6,872,666	35,678,564	23,636,152	66,667,391	516,989,278
Liquidator's Surplus (Deficit)	(70,343)	3,900,000	3,562,371	(27,355,556)	(19,717,460)	(49,184,135)	(411,737,774)
Total Liabilities and Liquidator's Surplus (Deficit	$ 10,702,323	$ (267,286)	$ 10,435,037	$ 8,323,008	$ 3,918,692	$ 17,483,256	$ 105,251,504

Appendix A
Domestic Estates In Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities - Modified Cash Basis
As of December 31, 2006

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely NYLB and Management and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Ma NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upo Statements and accompanying note.

	IDEAL	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Liabilities					
Secured Claims	$ 3,806,146	$ 300,293	$ -	$ 917,668	$ 14,975,199
Class One - Administrative Claims	6,832,233	926,169	11,262	1,350,875	64,241,714
Class Two - Claims and Related Costs					
Allowed	250,171,380	68,291,086	38,512,801	51,646,037	1,951,311,181
Non Allowed	342,642,622	128,683	78,082	17,998,723	2,153,743,902
IBNR	-	-	-	-	-
Total - Class Two	592,814,002	68,419,769	38,590,883	69,644,760	4,105,055,083
Class Three - Federal Government Claims:	-	-	-	-	137,686
Class Four - Employee Claims:	-	-	-	-	10,164
Class Five - State and Local Government Claims:	280,887	-	77,966	7,476	10,960,839
Class Six - General Creditors Claims:	100,506,369	628,562	587,207	18,558,674	576,584,316
Class Seven - Late Filed Claims:	70,961,251	23,758,815	3,943,046	9,973,857	372,288,338
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	60,001
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	775,200,888	94,033,608	43,210,364	100,453,310	5,144,313,340
Liquidator's Surplus (Deficit)	(683,337,147)	(89,023,055)	(42,422,691)	(55,967,030)	(3,663,217,968)
Total Liabilities and Liquidator's Surplus (Deficit	$ 91,863,741	$ 5,010,553	$ 787,673	$ 44,486,280	$ 1,481,095,372

Appendix A
Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Receipts Disbursements - Modified Cash Basis
As of December 31, 2006

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use c or reliance upon the Combined Estates Financial Statements and accompanying note.

	MMLA	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Receipts						
Investment Income Received	$ -	$ 107,535	$ 1,956,041	$ 110,754	$ 750,966	$ 286,078
Reinsurance Recovered	-	-	-	37,656	783,860	120,401
Premiums Collected	-	20,611	-	234,316	-	-
Salvage and Subrogation	-	-	-	-	18,919	1,274
Expense Reimbursement Received from NYSF	-	-	-	4,519,499	1,977,963	820,782
Proceeds from Liquidation	65,010,221	-	-	-	-	-
Partial payment of WCP loan	-	-	-	-	-	-
Release of Special Deposit	-	-	-	-	-	-
Litigation Awards	-	-	-	-	-	-
Miscellaneous Receipts	-	-	-	-	1,523	1,888
Total Receipts	65,010,221	128,146	1,956,041	4,902,225	3,533,231	1,230,423
Disbursements						
Advanced to Affiliate	-	-	-	564,915	-	-
Dividend	-	-	9,057,642	-	-	-
Salvage and Subrogation Fees	-	-	-	-	6,089	1,488
Loss Adjustment Expense	-	-	29,899	2,784,824	92,858	72,676
NY Misc Special Revenue Fund	-	-	28,824,941	-	-	-
Collateral	-	-	-	-	-	-
Release to Reinsurer	-	-	-	-	-	-
Salaries	-	138,314	105,092	410,184	1,053,671	427,516
Employee Relations and Welfare	-	48,554	46,542	141,524	310,970	128,681
Rent and Related Expenses	-	30,951	21,477	102,232	222,654	94,957
Professional Fees	-	17,521	141,135	44,407	106,983	37,484
General and Administrative Expenses	-	9,227	4,901	68,476	61,568	31,816
Other Expenses	-	4,032	22,922	12,682	37,331	2,206
Total Disbursements	-	248,599	38,254,551	4,129,244	1,892,124	796,824
Net Increase of Receipts over Disbursements	65,010,221	(120,453)	(36,298,510)	772,981	1,641,107	433,599
Cash (Unrestricted), Beginning of Year	-	2,449,023	36,963,851	1,209,259	16,008,184	7,211,552
Unrealized Gain / (Loss)	(1,367,741)	-	-	-	(80,742)	(33,315)
Cash (Unrestricted), End of Year	$ 63,642,480	$ 2,328,570	$ 665,341	$ 1,982,240	$ 17,568,549	$ 7,611,836

Appendix A
Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Receipts Disbursements - Modified Cash Basis
As of December 31, 2006

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use c or reliance upon the Combined Estates Financial Statements and accompanying note.

	CCSC	FCIC	GALAXY	HMIC	NYMB	NYSCO
Receipts						
Investment Income Received	$ 58,410	$ 2,807,634	$ 1,037,769	$ 384,987	$ 1,210,769	$ 45,439
Reinsurance Recovered	5,796	1,678,271	1,686,401	-	186,241	-
Premiums Collected	-	10,301	-	833	-	-
Salvage and Subrogation	11,250	32,769	6,135	-	6,460	183,058
Expense Reimbursement Received from NYSF	38,403	1,923,331	411,631	96,140	1,467,500	55,351
Proceeds from Liquidation	-	-	-	-	-	-
Partial payment of WCP loan	-	1,178,426	-	-	-	-
Release of Special Deposit	-	-	-	-	-	-
Litigation Awards	-	-	-	-	24,000	-
Miscellaneous Receipts	54,742	30	7,698	-	21	-
Total Receipts	168,601	7,630,762	3,149,634	481,960	2,894,991	283,848
Disbursements						
Advanced to Affiliate	-	-	278,216	-	-	-
Dividend	-	9,538,832	12,365,558	-	-	-
Salvage and Subrogation Fees	-	4,970	-	-	1,053	-
Loss Adjustment Expense	7,063	414,803	169,971	774	106,968	5,870
NY Misc Special Revenue Fund	-	-	-	-	-	-
Collateral	-	-	-	-	-	-
Release to Reinsurer	-	-	401,052	-	-	-
Salaries	66,658	722,017	282,248	153,948	447,171	84,025
Employee Relations and Welfare	26,813	226,826	96,911	51,433	138,180	27,094
Rent and Related Expenses	17,356	168,763	68,711	34,611	99,024	18,407
Professional Fees	7,360	69,802	26,199	558,668	710,565	8,440
General and Administrative Expenses	7,509	55,841	20,335	12,356	33,229	7,953
Other Expenses	2,539	7,135	6,557	4,240	4,636	3,169
Total Disbursements	135,298	11,208,989	13,715,758	816,030	1,540,826	154,958
Net Increase of Receipts over Disbursements	33,303	(3,578,227)	(10,566,124)	(334,070)	1,354,165	128,890
Cash (Unrestricted), Beginning of Year	1,325,663	64,876,574	29,372,347	9,784,073	28,187,828	879,748
Unrealized Gain / (Loss)	(5,450)	(627,517)	(312,268)	(59,807)	(271,022)	-
Cash (Unrestricted), End of Year	$ 1,353,516	$ 60,670,830	$ 18,493,955	$ 9,390,196	$ 29,270,971	$ 1,008,638

Appendix A
Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Receipts Disbursements - Modified Cash Basis
As of December 31, 2006

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying note.

	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED	MIDLAND
Receipts					
Investment Income Received	$ 129,428	$ 2,026,521	$ 765,601	$ 278,229	$ 11,303,537
Reinsurance Recovered	835,124	714,527	163,210	20,391	69,957,731
Premiums Collected	149,370	-	-	-	-
Salvage and Subrogation	847,253	16,000	-	-	47,525
Expense Reimbursement Received from NYSF	2,627,907	715,938	135,617	-	583,999
Proceeds from Liquidation	-	-	-	-	-
Partial payment of WCP loan	-	77,354	-	-	1,288,348
Release of Special Deposit	295,127	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	98,435	-	-	-	7,319
Total Receipts	4,982,644	3,550,340	1,064,428	298,620	83,188,459
Disbursements					
Advanced to Affiliate	845,044	-	-	-	-
Dividend	-	-	10,766,523	-	51,074,388
Salvage and Subrogation Fees	6,533	1,332	6	-	-
Loss Adjustment Expense	643,727	156,748	9,997	-	219,831
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	-	28,482	-	-
Release to Reinsurer	-	-	-	-	-
Salaries	1,590,626	284,601	160,490	65,073	3,933,637
Employee Relations and Welfare	475,870	89,339	51,822	20,024	1,111,627
Rent and Related Expenses	343,828	56,808	33,395	13,252	746,434
Professional Fees	430,885	29,186	18,773	9,201	5,616,943
General and Administrative Expenses	171,152	26,640	12,135	993	194,225
Other Expenses	37,559	6,192	4,202	3,044	92,440
Total Disbursements	4,545,224	650,846	11,085,825	111,587	62,989,525
Net Increase of Receipts over Disbursements	437,420	2,899,494	(10,021,397)	187,033	20,198,934
Cash (Unrestricted), Beginning of Year	1,041,752	45,501,792	20,771,505	6,569,054	246,319,295
Unrealized Gain / (Loss)	(40,685)	352,156	(151,801)	1,562	(402,895)
Cash (Unrestricted), End of Year	$ 1,438,487	$ 48,753,442	$ 10,598,307	$ 6,757,649	$ 266,115,334

Appendix A
Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Receipts Disbursements - Modified Cash Basis
As of December 31, 2006

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying note.

	MIDPAC	WHITING	ACIC	AMERICAN FIDELITY	UNION
Receipts					
Investment Income Received	$ 297,885	$ 311,053	$ 130,861	$ 560,129	$ 4,123,474
Reinsurance Recovered	5,861	30,603	33,653	166,670	87,733
Premiums Collected	-	-	-	-	-
Salvage and Subrogation	-	-	-	-	220,000
Expense Reimbursement Received from NYSF		122,595	10,443	14,728	57,901
Proceeds from Liquidation	-	-	-	-	-
Partial payment of WCP loan	-	-	-	-	176,021
Release of Special Deposit	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	-	-	-	-	-
Total Receipts	303,746	464,251	174,957	741,527	4,665,129
Disbursements					
Advanced to Affiliate	-	-	-	-	-
Dividend	-	-	7,496	6,616	-
Salvage and Subrogation Fees	-	-	-	-	54,285
Loss Adjustment Expense	-	49,691	-	4,050	19,886
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	-	-	-	-
Release to Reinsurer	-	-	-	-	-
Salaries	16,468	76,706	108,883	132,723	212,760
Employee Relations and Welfare	6,147	28,616	39,398	48,050	60,195
Rent and Related Expenses	3,994	19,773	26,857	32,260	39,261
Professional Fees	1,494	8,283	12,598	13,732	353,488
General and Administrative Expenses	826	8,320	4,696	8,171	21,963
Other Expenses	741	3,006	3,620	748	6,294
Total Disbursements	29,670	194,395	203,548	246,350	768,132
Net Increase of Receipts over Disbursements	274,076	269,856	(28,591)	495,177	3,896,997
Cash (Unrestricted), Beginning of Year	7,163,453	7,650,660	3,686,248	16,125,897	93,303,043
Unrealized Gain / (Loss)	(21,841)	(10,589)	(14,944)	(93,790)	(572,405)
Cash (Unrestricted), End of Year	$ 7,415,688	$ 7,909,927	$ 3,642,713	$ 16,527,284	$ 96,627,635

Appendix A
Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Receipts Disbursements - Modified Cash Basis
As of December 31, 2006

See accompanying notes to the Combined Estates Financial Statements. The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying note.

	IDEAL	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Receipts					
Investment Income Received	$ 2,544,298	$ 171,078	$ 33,130	$ 1,548,363	$ 32,979,969
Reinsurance Recovered	498,734	-	18,732	1,632,981	78,664,576
Premiums Collected	-	-	-	-	415,431
Salvage and Subrogation	1,361	757	44,000	700	1,437,461
Expense Reimbursement Received from NYSF	275,030	23,784	-	224,709	16,103,251
Proceeds from Liquidation	-	-	-	-	65,010,221
Partial payment of WCP loan	1,995,071	-	-	2,578,342	7,293,562
Release of Special Deposit	-	-	-	-	295,127
Litigation Awards	-	-	-	-	24,000
Miscellaneous Receipts	-	-	-	5,168	176,824
Total Receipts	5,314,494	195,619	95,862	5,990,263	202,400,422
Disbursements					
Advanced to Affiliate	-	-	-	-	1,688,175
Dividend	8,614	-	-	-	92,825,669
Salvage and Subrogation Fees	-	-	-	-	75,756
Loss Adjustment Expense	40,002	1,489	-	13,836	4,844,963
NY Misc Special Revenue Fund	-	-	-	-	28,824,941
Collateral	-	-	-	-	28,482
Release to Reinsurer	-	-	-	-	401,052
Salaries	525,637	104,524	6,868	282,042	11,391,882
Employee Relations and Welfare	176,441	37,556	2,278	100,026	3,490,917
Rent and Related Expenses	108,237	24,737	1,426	72,688	2,402,093
Professional Fees	150,966	10,054	8,656	31,191	8,424,014
General and Administrative Expenses	67,464	8,639	371	26,422	865,228
Other Expenses	15,931	610	584	8,239	290,659
Total Disbursements	1,093,292	187,609	20,183	534,444	155,553,831
Net Increase of Receipts over Disbursements	4,221,202	8,010	75,679	5,455,819	46,846,591
Cash (Unrestricted), Beginning of Year	77,082,704	4,151,449	699,494	34,036,404	762,370,852
Unrealized Gain / (Loss)	(1,036,546)	(45,140)	-	43,450	(4,751,330)
Cash (Unrestricted), End of Year	$ 80,267,360	$ 4,114,319	$ 775,173	$ 39,535,673	$ 804,466,113

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK
IN REHABILITATION

Statutory Basis Balance Sheet

As of December 31, 2006
With Report of Independent Auditors

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK
IN REHABILITATION

Statutory Basis Balance Sheet

As of December 31, 2006
With Report of Independent Auditors

AMPER, POLITZINER & MATTIA, LLP

Report of Independent Auditors

To the Superintendent of Insurance of the State of New York as Receiver and the Management of Executive Life Insurance Company of New York in Rehabilitation

We have audited the accompanying statutory basis balance sheet of Executive Life Insurance Company of New York in Rehabilitation ("Company") as of December 31, 2006. This statutory basis balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this statutory basis balance sheet based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis balance sheet is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory basis balance sheet, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis balance sheet presentation. We believe that our audit of the statutory basis balance sheet provides a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis balance sheet has been prepared in conformity with accounting practices prescribed or permitted by the New York State Insurance Department ("Insurance Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As more fully described in Note 6 to the statutory basis balance sheet, the Company did not calculate or disclose the components of deferred taxes in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10, *Income Taxes*, which is not in conformity with the accounting practices prescribed or permitted by the Insurance Department as described in Note 2.

In our opinion, except for not calculating and disclosing the components of deferred taxes in accordance with SSAP No. 10, as discussed in the preceding paragraph, the statutory basis balance sheet referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2006, in conformity with accounting practices prescribed or permitted by the Insurance Department, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States as described in Note 2.

As more fully described in Note 1 to the statutory basis balance sheet, the Company changed the valuation basis of its life insurance and annuity reserves resulting in a significant increase to life insurance and annuity reserves of $1,020,958,572 and corresponding increase in unassigned deficit.

The accompanying statutory basis balance sheet has been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the statutory basis balance sheet, the Company has been in rehabilitation since 1991, has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Managements' plans in regards to these matters are also described in Note 1. The statutory basis balance sheet does not include any adjustments that might result from the outcome of this uncertainty.

This report is intended solely for the information and use of the Superintendent of Insurance of the State of New York in his capacity as Receiver and management of the Company and is not intended to be and should not be used by anyone other than these specified parties.

Amper, Politziner & Mattia, LLP

October 15, 2008
New York, New York

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK IN REHABILITATION
Statutory Basis Balance Sheet
As of December 31, 2006

Admitted assets	
Cash and invested assets:	
Bonds (Note 3)	$ 825,705,792
Preferred stocks (Note 3)	13,387,258
Common stocks (Note 3)	497,662,042
Cash, cash equivalents and short-term investments	27,691,061
Total cash and invested assets	1,364,446,153
Accrued investment income	13,607,963
Revolving fund (Note 2)	650,000
Total admitted assets	$ 1,378,704,116
Liabilities and capital and deficit	
Liabilities:	
Life insurance and annuity reserves (Notes 1, 2 and 5)	$ 2,407,595,507
Claims in course of settlement and unreported claims (Note 2)	6,134,519
Interest maintenance reserve (Note 2)	91,238,719
Asset valuation reserve (Note 2)	99,532,408
Amounts withheld or retained by company as agent (claim-overs) (Note 7)	33,746,403
Amounts held for agents' account (Note 2)	3,825,418
General expenses due and accrued (Note 2)	2,507,756
Drafts outstanding	116,280
Taxes, licenses and fees	8,406
Total liabilities	2,644,705,416
Capital and deficit:	
Common stock	14,392,214
Gross paid-in and contributed surplus	336,493,729
Unassigned deficit	(1,616,887,243)
Total capital and deficit	(1,266,001,300)
Total liabilities and capital and deficit	$ 1,378,704,116

See accompanying notes to the Statutory Basis Balance Sheet. The Statutory Basis Balance Sheet and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Statutory Basis Balance Sheet and accompanying notes.

Note 1: **Business Plan and Management Directives**

Introduction

Executive Life Insurance Company of New York ("ELNY") is a subsidiary of Executive Life Insurance Company ("ELIC"), a California company. ELNY was licensed to write various lines of life insurance and annuities, including traditional life policies, single premium deferred annuities ("SPDAs"), single premium immediate annuities ("SPIAs") and closeout qualified retirement accounts ("CQRAs").

Causes of Rehabilitation

In early 1991, ELNY received considerable adverse publicity relating primarily to the distressed asset portfolio of its parent company, ELIC. This adverse publicity increased with the commencement of conservation proceedings against ELIC on April 11, 1991. An April 12, 1991 report ("Report") of the Assistant Deputy Superintendent and Chief Examiner of the Life Insurance Companies Bureau of the New York State Insurance Department ("Insurance Department") stated that the adverse publicity concerning ELNY had caused policyholders, creditors and the public to lose confidence in ELNY, as indicated by an acceleration of cash surrenders by policyholders. The Report further stated that the increase in surrenders had caused a material erosion of ELNY's assets to the detriment of policyholders with nonsurrenderable policies, primarily structured settlement annuities. On the basis of the Report and other information, the Superintendent of Insurance of the State of New York ("Superintendent") concluded that further transaction of business by ELNY would be hazardous to its policyholders and creditors and the public.

History

Pursuant to an order ("Rehabilitation Order") of the Supreme Court of the State of New York, County of Nassau ("Receivership Court"), ELNY was placed into rehabilitation on April 23, 1991, and the then-Superintendent (and his successors in office) was appointed Rehabilitator of ELNY ("Rehabilitator"). The Rehabilitation Order directed the Rehabilitator to, among other things, take possession of the property of ELNY, conduct the business of ELNY, and take steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary.

Separate from his capacity as regulator, the Superintendent acts in his capacity as receiver ("Receiver") when he is appointed as rehabilitator, liquidator, conservator or ancillary receiver of an impaired insurance company pursuant to Insurance Law Article 74. Pursuant to Insurance Law Section 7422, the Receiver may appoint a Special Deputy Superintendent ("Special Deputy") as agent of the Receiver. The Special Deputy carries out, through the New York Liquidation Bureau ("NYLB"), the responsibilities of each and every estate under the statutory supervision of the Receiver where the Special Deputy has been appointed as agent of the Receiver

Note 1: **Business Plan and Management Directives (continued)**

History (continued)

("Estate"), including ELNY. The NYLB manages the daily operations of all Estates.

On July 24, 1991, the Receivership Court entered an order approving and confirming the Rehabilitator's engagement of Credit Suisse Asset Management ("CSAM"), formerly First Boston Asset Management Corporation, as investment advisor. The Rehabilitation Order further provided the Rehabilitator with relief from Insurance Law Section 7424, thereby permitting the Rehabilitator to invest funds in vehicles other than state or national banks, savings banks or trust companies.

Thereafter, the Rehabilitator, with his advisors, began a thorough analysis of ELNY's assets and liabilities and consulted with members of the Life Insurance Company Guaranty Corporation of New York and potentially interested life insurers concerning possible dispositions of ELNY's assets. During that process, those life insurers having the financial wherewithal to run ELNY's business made it clear they would not accept ELNY's high-yield bonds in connection with an acquisition of any part of ELNY's business. However, the Rehabilitator, in consultation with his advisors, recognized that a liquidation of ELNY's bond portfolio would crystallize the losses contained therein, thereby eliminating the possibility of recovery.

After extensive review, the Rehabilitator concluded that the best alternative for maximizing policyholder benefits would be: (1) the sale of ELNY's SPDAs and life insurance policies, as described in Note 7, and the transfer by ELNY of assets, other than high-yield bonds, to support such transfer net of a ceding commission; and (2) the retention by ELNY of its SPIAs and CQRAs (typically issued in connection with structured settlements and pension close-outs, respectively) together with its other assets, including its then-substantial holdings of high-yield bonds. This transaction structure was supported by stochastic simulation modeling performed by the Rehabilitator's outside actuarial advisor. The modeling indicated that ELNY would be able to meet 100 percent of its remaining SPIA obligations in more than 90 percent of 500 randomly generated scenarios using base case assumptions concerning default and recovery rates on ELNY's bond portfolio and certain assumptions concerning equity returns and interest rates on reinvested assets. These investment assumptions were made in consultation with CSAM. As set forth below under the heading "Change in Reserve Valuation Basis," the assumptions ultimately proved to be overly optimistic and have been adjusted to bring the reserves to a more realistic level.

In his subsequent solicitation of ELNY transaction proposals, the Rehabilitator indicated he was particularly interested in potential purchasers of the SPDAs and

Note 1: Business Plan and Management Directives (continued)

History (continued)

life insurance policies who could also administer the payout of the SPIAs and CQRAs. After solicitation of proposals, the Rehabilitator negotiated such a transaction with Metropolitan Life Insurance Company ("MetLife"). The plan of rehabilitation ("Rehabilitation Plan"), including the transaction with MetLife, was approved by the Receivership Court on December 16, 1992.

The Rehabilitation Plan

The Rehabilitation Plan provides, among other things, that:

- Liability under the SPIAs and CQRAs remains with ELNY, under the supervision of the Rehabilitator.
- MetLife administers the payout of the SPIA and CQRA liabilities, subject to the Rehabilitator's discretion.
- An investment strategy concerning the reinvestment of ELNY's assets and consistent with the extremely long-term nature of the SPIA liabilities must be established and maintained.

Change in Reserve Valuation Basis for Life Insurance and Annuity Reserves

ELNY's management prior to April 2007 ("Prior Management") reported ELNY's reserve requirements on a basis of historic reserve standards solely for the purpose of comparison to prior periods. The use of historic reserve standards, primarily due to the decline in interest rates, substantially understates reserves when compared to reserves that would be required to satisfy regulatory requirements for a going concern insurance carrier (albeit, without factoring in cash flow testing requirements). The historic reserve standards used by Prior Management assumed valuation rates of between 10 percent and 11 percent.

Subsequent to April 2007, the Special Deputy, the First Assistant Special Deputy Superintendent and three Assistant Special Deputy Superintendents were, at the request of the Superintendent, appointed by the respective courts overseeing the Estates as agents of the Superintendent for the Estates (collectively, "Agents"). The Agents, along with the directors of the NYLB's divisions and other senior managers of the NYLB, are hereinafter referred to as "Management."

In order to provide a more accurate picture of ELNY's finances as of December 31, 2006, Management calculated ELNY's reserve requirements on the current issue year statutory basis of 5.25 percent.

ELNY's reported reserves as of December 31, 2006, using historic reserve standards, were $1,386,636,935, whereas the reserves for the same period, using the current issue year statutory basis, were $2,407,595,507. As a result of this change in valuation basis and in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 51, *Life Contracts* and SSAP No. 3, *Accounting Changes*

Note 1: **Business Plan and Management Directives (continued)**

Change in Reserve Valuation Basis for Life Insurance and Annuity Reserves (continued)

and Corrections of Errors, Management has recorded the $1,020,958,572 adjustment on the Statutory Basis Balance Sheet as unassigned deficit.

Due to the increase in reserves, Management has worked diligently with representatives of the life insurance industry and life guaranty funds, along with the owners of ELNY annuities (primarily property and casualty insurance companies), to develop a plan to raise sufficient funds to permit ELNY to meet all of its future obligations, although no guaranties can be made that such a plan will be finalized, approved and ultimately successful. The Change in Reserve Valuation Basis is discussed in further detail in Note 5 below.

Securities and Other Asset Management

Investments of assets are managed by CSAM in accordance with the investment guidelines established under the Rehabilitation Plan and may be modified in consultation with, and with the approval of, the Rehabilitator.

Note 2: **Summary of Significant Accounting Policies**

A. **Accounting Practices**

The *Accounting Practices and Procedures Manual* ("APP Manual") of the National Association of Insurance Commissioners ("NAIC") summarizes statutory accounting practices and provides guidance to regulatory agencies in formulating prescribed or permitted practices. The Insurance Department has adopted portions of the APP Manual, subject to exceptions, conflicts and additions set forth in Section 83.4 of 11 N.Y.C.R.R. 83 (Regulation 172) ("Prescribed Practices"). The Prescribed Practices used to prepare the Statutory Basis Balance Sheet are a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America ("US GAAP").

Management elected to prepare ELNY's balance sheet as of December 31, 2006 ("Statutory Basis Balance Sheet"), in accordance with Prescribed Practices.

Permitted statutory accounting practices include practices that differ from Prescribed Practices but that are allowed by the Insurance Department. Management did not seek permission from the Insurance Department to deviate from the Prescribed Practices. As a result, there are no permitted practices applicable to ELNY. The outcome of applying the Prescribed Practices to ELNY would not be significantly different from the outcome of applying the APP Manual to ELNY.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Below are the significant differences between the Prescribed Practices and US GAAP:

Investments

Pursuant to the Prescribed Practices, investments in bonds are reported at amortized cost or fair market value based on their NAIC rating. Pursuant to US GAAP, such fixed-maturity investments would be designated at purchase as held-to-maturity, trading or available-for-sale. Held-to-maturity investments under US GAAP would be reported at amortized cost. Trading investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported in the statement of operations. Available-for-sale investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported as a separate component of shareholders' equity in the category of other comprehensive income.

Pursuant to the Prescribed Practices, cumulative and current year changes in unrealized gains and losses are included in unassigned surplus, net of deferred taxes. For US GAAP purposes, unrealized gains or losses are recognized in surplus or income, depending on whether management plans to hold or actively trade the related securities.

Pursuant to the Prescribed Practices, asset-backed securities (*e.g.*, mortgage-backed securities) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under US GAAP, all asset-backed securities, other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If high credit quality securities are adjusted, the retrospective method is used. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the discounted fair market value.

Special Statutory Reserves

Under the Prescribed Practices, realized capital gains and losses are reported in income net of transfers to the interest maintenance reserve ("IMR"). Under US GAAP, realized capital gains and losses would be reported in the income statement on a pretax basis in the period that the assets giving rise to the gains or losses are sold.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Special Statutory Reserves (continued)

The asset valuation reserve ("AVR") acts to mitigate the effects on unassigned surplus of fluctuations in the gains and losses on invested assets. The AVR is determined by the NAIC Securities Valuation Office ("SVO"), with changes reflected directly in unassigned surplus.

Benefit Reserves

Certain policy reserves stated in the Statutory Basis Balance Sheet are calculated based on statutorily required interest and mortality assumptions, rather than on estimated expected experience or actual account balances, as would be required under US GAAP.

Non-Admitted Assets

Under the Prescribed Practices, certain assets designated as "non-admitted," such as investments in excess of statutory limitations and those not in compliance with statutory requirements (*i.e.*, deferred federal income tax assets, overdue agents' balances in the course of collection, non-operating system software, furniture and equipment, prepaid expenses and other assets not specifically identified as an admitted asset), are excluded from the Statutory Basis Balance Sheet and are charged directly to unassigned surplus. These assets would be recognized under US GAAP.

Federal Income Taxes

Pursuant to the Prescribed Practices, deferred federal income taxes are recognized subject to statutory requirements and limitations set forth in the Internal Revenue Code, with such changes in deferred taxes recorded in surplus. For US GAAP purposes, such changes in deferred taxes are recorded in income tax expense (benefit).

Policy Acquisition Costs

Under the Prescribed Practices, policy acquisition costs such as commissions, premium taxes, and other items are charged to current operations as they are incurred. Under US GAAP, these costs are deferred to the extent recoverable and reported in the statement of operations on a pro-rata basis over the periods covered by the policies.

Variable Interest Entities

Pursuant to Financial Accounting Standards Board Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, statutory basis accounting does not require certain disclosures or the consolidation of certain variable interest entities. Under US GAAP, such disclosures would be required and variable interest entities would be consolidated.

Note 2: Summary of Significant Accounting Policies (continued)

B. Use of Estimates in the Preparation of the Statutory Basis Balance Sheet

The preparation of this Statutory Basis Balance Sheet required Management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures. It also required disclosure of contingent assets and liabilities at the date of the Statutory Basis Balance Sheet. Such estimates and assumptions could change in the future as more information becomes known and actual results could differ from those estimates reported and disclosed herein.

C. Accounting Policies

Management used the following methods and assumptions in the preparation of the Statutory Basis Balance Sheet.

Cash and Invested Assets

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, including money market mutual funds, and are typically stated at amortized cost.

Short-term investments, excluding cash equivalents, consist of investments with original maturities of one year or less at the time of acquisition and are typically stated at amortized cost.

Bonds not backed by loans are principally stated at amortized cost using the interest method.

As prescribed by the SVO, preferred stocks are stated at cost, amortized cost or fair market value, if fair market value is lower than cost or amortized cost. The related net unrealized capital gains (losses) are reported in unassigned surplus.

As prescribed by the SVO, common stocks are stated at fair market value and the net unrealized capital gains (losses) are reported in unassigned surplus/deficit, except that investments in insurance subsidiaries and affiliates are carried on the equity basis.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

Investment income due and accrued includes revenues that are earned but not yet received. Amounts greater than 90 days past due are recognized as non-admitted assets.

Realized capital gains and losses are determined using the "first in, first out" method and recognized on the trade date. Investments that have declined in fair market value below cost, and for which the decline is judged to be other-than-temporary, are written down to fair market value and reported as unrealized losses.

Loan-backed securities are stated at amortized cost using the interest method, including anticipated prepayments, with the effective yield recalculated to reflect the actual payments received and the anticipated future payments. Prepayment assumptions are obtained from external pricing services (*e.g.*, Bloomberg, Hub-Data or brokers) or internal estimates and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities except principal-only and interest-only securities, which are valued using the prospective method.

ELNY does not own derivative instruments.

Income Taxes

ELNY is subject to federal income tax and New York State income tax and files a tax return with both taxing authorities, but ELNY does not generate taxable income or tax liability because it is in rehabilitation.

Pursuant to the Prescribed Practices, deferred tax assets and liabilities are reported on the Statutory Basis Balance Sheet in order to recognize the future tax consequences that may occur as a result of the differences between the amounts of existing assets and liabilities stated in the Statutory Basis Balance Sheet and those amounts stated on a tax basis. Deferred tax assets and liabilities are measured using rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Such temporary differences relate primarily to net operating losses.

Claims in the Course of Settlement

Claims in the course of settlement represent annuity payments that are due to annuitants but unpaid, which claims aggregate in the amount of $6,134,519 through December 31, 2006.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Revolving Fund

A revolving fund of $650,000 at December 31, 2006, represents a contingency fund held by the NYLB to cover expenses owed to the NYLB by ELNY.

General Expenses Due and Accrued

The amount of $2,507,756, representing expenses incurred by the NYLB but unpaid, is recorded in the Statutory Basis Balance Sheet as general expenses due and accrued.

Amounts Held for Agents' Account

A reserve for unpaid commissions claimed by agents for placements prior to rehabilitation in the amount of $3,825,418 is maintained as a liability in the Statutory Basis Balance Sheet.

Allocation of Expenses

The NYLB allocates general and administrative expenses, such as salaries, employee relations and welfare (*e.g.*, contributions to employee benefits such as health, pension and other fringe benefits), payroll taxes, rent for premises, and office expenses, among the Estates and the security funds established pursuant to Insurance Law Article 76 and New York Workers' Compensation Law Article 6-A. Such allocation is then reimbursed as appropriate by ELNY in a timely manner.

Special Statutory Reserves

Under a formula prescribed by the SVO, ELNY defers the portion of realized capital gains and losses on sales of fixed-income investments, principally bonds, attributable to changes in the general level of interest rates and amortizes those deferrals over the remaining period to maturity. Reported as the IMR in the Statutory Basis Balance Sheet is the net deferral in the amount of $91,238,719, as of December 31, 2006.

As of December 31, 2006, the AVR balance of $99,532,408 represents credit-related losses on fixed-income assets (default component) and all types of equity investments (equity component). An AVR balance is not recognized for US GAAP reporting purposes.

Policy Acquisition Costs

Because ELNY is in rehabilitation and not writing new business, it does not incur policy acquisition costs.

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK IN REHABILITATION
Notes to the Statutory Basis Balance Sheet
As of December 31, 2006

Note 3: <u>Investments</u>

<u>Bonds</u>

The amortized cost, gross unrealized gains and losses, and fair market value of investments in bonds are summarized as follows:

	Amortized Cost/Book Adjusted Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
At December 31, 2006:					
U.S. Government	$ 6,194,285	$ 6,323,912	$ 198,454	$ -	$ 6,522,366
Special Revenue Obligations (Non-Guaranteed)	18,047,253	18,388,150	1,670,135	(77,754)	19,980,531
Public Utilities	112,453,813	112,970,803	11,193,294	(680,864)	123,483,233
Industrial & Miscellaneous	689,010,441	700,312,446	41,170,226	(22,261,687)	719,220,985
Total Bonds	$ 825,705,792	$ 837,995,311	$ 54,232,109	$ (23,020,305)	$ 869,207,115

At December 31, 2006, bonds with an amortized cost of $1,016,996 were on deposit with various state insurance departments to satisfy regulatory requirements.

The amortized cost of debt securities at December 31, 2006, by date of contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost
Less than one year	$ 8,415,298
One to five years	-
Five to ten years	10,305,706
Ten years or greater	796,045,423
	814,766,427
Mortgage and asset-backed securities	10,939,365
Total	$ 825,705,792

<u>Preferred and Common Stocks</u>

The cost, gross unrealized gains and losses, and fair market value of preferred and common stocks are summarized as follows:

At December31, 2006:	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value	Carrying Value
Preferred Stocks	$ 13,387,258	$ 648,430	$ -	$ 14,035,688	$ 13,387,258
Common Stocks	371,985,870	138,700,125	(13,023,953)	497,662,042	497,662,042
Total	$ 385,373,128	$ 139,348,555	$ (13,023,953)	$ 511,697,730	$ 511,049,300

Note 3: Investments (continued)

Preferred and Common Stocks (continued)

The tax impact of realized capital losses is not recorded in the Statutory Basis Balance Sheet.

Net Unrealized Capital Losses

Aggregate unrealized losses on bonds, preferred stocks and common stocks were as follows at December 31, 2006:

	Aggregate Fair Market Value With Unrealized Losses For 12 Months Or Less	Aggregate Unrealized Losses For 12 Months Or Less	Aggregate Fair Market Value With Unrealized Losses For Greater Than 12 Months	Aggregate Unrealized Losses For Greater Than 12 Months	Total Fair Market Value	Total Unrealized Losses
Bonds	$ 239,794,272	$ (18,032,415)	$ 85,311,424	$(4,987,890)	$ 325,105,696	$ (23,020,305)
Preferred stocks	-	-	-	-	-	-
Common stocks	54,360,344	(9,576,404)	17,720,572	(3,447,549)	72,080,916	(13,023,953)
	$ 294,154,616	$ (27,608,819)	$ 103,031,996	$(8,435,439)	$ 397,186,612	$ (36,044,258)

Management concluded that these unrealized losses were not other-than-temporary, based on its review of the nature of the investments, including credit quality of the obligor, the payment history and repayment terms for the particular investment, and the severity and duration of the fair market value decline. Where bonds and stocks suffered continuous unrealized losses, such losses were primarily due to the impact of changes in the general level of interest rates. None of these securities were deemed to have any valuation issues that would lead Management to believe that they were other than temporarily impaired. To the extent that ELNY does not have the ability to hold these bonds and stocks to maturity, provision for future losses has been made through the establishment of additional reserves.

Note 3: Investments (continued)

Subprime Exposure

Management has reviewed ELNY's portfolio as of December 31, 2006 and has determined that:

(1) ELNY has no direct subprime exposure through investments in subprime mortgage loans.

(2) ELNY has indirect subprime exposure through mortgage-backed securities. All such holdings are fixed-income instruments. At this time ELNY holds three investments in mortgage-backed securities with a par value of $9,367,449 and cost of $9,895,155. These three securities have been written down to current fair market value of $9,818,131, resulting in an unrealized loss of $77,024.

ELNY has no underwriting exposure to subprime mortgage risk through mortgage guaranty or financial guaranty insurance coverage.

Note 4: Fair Market Value of Cash and Invested Assets

Cash and Cash Equivalents, Short-Term Investments and Other Invested Assets

The carrying amounts reported in the Statutory Basis Balance Sheet for cash and cash equivalents, short-term investments and other invested assets are a reasonable estimate of fair market value.

Financial instruments that have the potential to subject ELNY to credit risk consist of cash, cash equivalents and short-term investments.

Cash and cash equivalents are deposited with one high-quality financial institution. At times, such amounts may exceed the insured limits of the Federal Deposit Insurance Corporation ("FDIC") and/or the Securities Investor Protection Corporation. Certain cash equivalents and short-term investments include investments in money market mutual fund securities, which are not necessarily insured by the FDIC.

Investment Securities

Fair market values for investment securities are based on unit prices published by the SVO. However, for certain securities for which the SVO does not provide a value, Management uses market prices quoted by third parties, if available. When both SVO-published unit prices and market quotes are unavailable, Management's best estimate of fair market value is based on quoted market prices of financial instruments with similar characteristics or on industry-recognized valuation techniques. The fair market values of ELNY's investments are disclosed in Note 3 hereof.

Note 5: Life Insurance and Annuity Reserves

Life insurance and annuity reserves are developed by actuarial methods and are determined based on statutory valuation methods and mortality tables developed by the Society of Actuaries Committee on Annuities and adopted as a recognized

Note 5: Life Insurance and Annuity Reserves (continued)

mortality table by the NAIC. ELNY's independent actuarial firm applied the 1971 individual annuitant mortality table and the 1971 group annuity mortality table for individual annuities and group annuities issued as of December 31, 1983. ELNY's independent actuarial firm applied the 1983 individual annuitant mortality table and the 1983 group annuity mortality table for individual annuities and group annuities issued subsequent to December 31, 1983. ELNY's independent actuarial firm applied the 1983 group annuity mortality table for CQRAs.

As previously discussed in Note 1, in 2006, in an effort to more accurately reflect the financial status of ELNY, valuation rates were adjusted to reflect current year maximum valuation rates. In the Statutory Basis Balance Sheet, the reserves are calculated using the 2006 statutory valuation rates of 5.25 percent for the annuity line of business. Because ELNY is in rehabilitation and is not operating as a going concern, ELNY's independent actuarial firm did not calculate any additional cash flow testing reserves that might have otherwise been required under 11 N.Y.C.R.R. 95 (Regulation 126).

Accordingly, Management has accounted for this change in the Statutory Basis Balance Sheet by increasing aggregate reserves to $1,020,958,572. In future years, Management anticipates the valuation interest rate will be adjusted to the then-current year maximum statutory valuation rate. This will result in a basis change and corresponding change in reserves.

Note 6: Federal Income Taxes

Deferred income taxes arise from the temporary differences in the valuation of certain assets and liabilities as determined for financial reporting purposes and income tax purposes. Such temporary differences relate primarily to net operating losses. Because ELNY is in rehabilitation and not operating as a going concern, it does not generate net income. Therefore, Management has not calculated or disclosed the components of net deferred tax assets ("DTA") or of deferred tax liability ("DTL") because all such amounts would be deemed non-admitted assets as specified by SSAP No. 10, *Income Taxes*. Further, due to recurring operating losses, Management does not expect ELNY to realize the benefit of the temporary differences giving rise to the DTA in the near term. ELNY does not have any DTL as of December 31, 2006.

ELNY files a stand-alone federal income tax return. There was no provision for income taxes incurred on earnings for the year ended December 31, 2006.

Note 6: <u>Federal Income Taxes</u> (continued)

At December 31, 2006, ELNY had the following unused operating loss carry forwards available to offset future taxable income, which carry forwards begin to expire in 2010:

Arising from Tax Year:	Net Operating Losses	Year of Expiry
1994	$ 13,528,567	2010
1995	7,415,519	2011
1996	32,205,611	2012
1997	11,408,371	2013
1998	49,182,515	2014
1999	63,117,721	2015
2000	3,726,080	2016
2001	51,450,147	2017
2002	58,369,798	2018
2003	72,600,417*	2019
2004	69,529,977	2020
2005	67,886,433	2021
2006	40,430,763	2033
Total	$ 540,851,919	

***** Includes adjustment to original filed federal income tax return.

Note 7: <u>Amounts Withheld or Retained by ELNY</u>

<u>Amounts Retained by ELNY (Claim-Overs)</u>

Generally, holders of ELNY SPDAs received MetLife SPDAs in exchange for their ELNY contracts. Because the MetLife SPDAs had substantially higher surrender charges than the ELNY SPDAs exchanged therefor, former ELNY SPDA holders who surrendered their MetLife SPDAs before the applicable surrender charges decreased to zero were allowed a claim against the ELNY estate for the amount of the surrender charge so incurred. These claims are called claim-overs. The Rehabilitation Plan provides that: (a) the claim-overs rank *pari passu* with the claims of ELNY SPIA policyholders; and (b) there will be no payment on the claim-overs until the earlier of such time as: (i) the ELNY estate is liquidated and a payout of 95 or 97½ percent (depending on the age of the annuitant) of obligations to ELNY SPIA beneficiaries has been funded with certainty, or (ii) the Rehabilitator has determined with certainty that, due to ELNY's ownership of sufficient assets having appropriate quality and liquidity, ELNY SPIA beneficiaries will receive 95 or 97½ percent (depending on age of the annuitant) of the obligations owing to them. These conditions have not yet been satisfied and no payment of claim-overs has been made. Interest accrues on the claim-overs at four percent per annum from the date of surrender of the ELNY policy. As of December 31, 2006, claim-overs in the amount of $33,746,403 are reported as a liability in the Statutory Basis Balance Sheet, with current year interest accrued in the amount of $1,297,660.

Note 8: **Capital and Deficit**

As of December 31, 2006, the capital and deficit on a statutory basis is ($1,266,001,300).

Note 9: **Reconciliation to Annual Statement**

The following is a reconciliation of differences that exist between the amounts stated in the annual statement filed with the Insurance Department ("Annual Statement") for 2006 and the audited Statutory Basis Balance Sheet contained herein.

	Admitted Assets	Liabilities	Capital and (Deficit)
As filed in the Annual Statement	$1,371,399,781	$1,583,099,312	$(211,699,531)
Reclassification of due and unpaid amounts from cash to liabilities	4,830,886	4,830,886	-
Adjustment to increase general expenses due and accrued	-	1,443,129	(1,443,129)
Adjustment to reconcile benefits and outstanding cash	2,573,449	-	2,573,449
Adjustment to bonds for assets no longer held	(100,000)	-	(100,000)
Adjustment to asset value reserves	-	34,373,517	(34,373,517)
Adjustment for change in valuation basis (Note 1)	-	1,020,958,572	(1,020,958,572)
As filed in the audited balance sheet herein	$1,378,704,116	$2,644,705,416	$(1,266,001,300)

Note 10: **Subsequent Events**

Market Volatility

The financial markets' volatility in 2008 may materially impact the valuation of ELNY's investments subsequent to December 31, 2006, as well as the ability to raise sufficient funds to meet all of ELNY's future obligations. Accordingly, the valuation of investments at December 31, 2006, may not necessarily be indicative of amounts that could be realized in a current market exchange.

Potential ELNY Plan

As discussed in Note 1, Management is presently working to develop a plan to permit ELNY to meet all of its future obligations. The approval of such a plan could affect ELNY's reserve calculations and assets.

FRONTIER INSURANCE COMPANY IN REHABILITATION
(A Wholly Owned Subsidiary of Frontier Insurance Group, LLC)

Statutory Basis Balance Sheet

As of December 31, 2006
With Report of Independent Auditors

FRONTIER INSURANCE COMPANY IN REHABILITATION
(A Wholly Owned Subsidiary of Frontier Insurance Group, LLC)

Statutory Basis Balance Sheet

As of December 31, 2006
With Report of Independent Auditors

Report of Independent Auditors

To the Superintendent of Insurance of the State of New York as Receiver and the Management of Frontier Insurance Company in Rehabilitation

We have audited the accompanying statutory basis balance sheet of Frontier Insurance Company in Rehabilitation ("Company") as of December 31, 2006. This statutory basis balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this statutory basis balance sheet based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis balance sheet is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory basis balance sheet, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis balance sheet presentation. We believe that our audit of the statutory basis balance sheet provides a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis balance sheet has been prepared in conformity with accounting practices prescribed or permitted by the New York State Insurance Department (the "Insurance Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As more fully described in Note 11 to the statutory basis balance sheet, the Company did not calculate or disclose the components of deferred taxes in accordance with Statements of Statutory Accounting Principles ("SSAP") No. 10, *Income Taxes* which is not in conformity with the accounting practices prescribed or permitted by the Insurance Department as described in Note 2.

As more fully described in Note 12, the Reinsurance Contract is not accounted for in accordance with reinsurance accounting pursuant to SSAP No. 62 *Property and Casualty Reinsurance*, which is not conformity with the accounting practices prescribed or permitted by the Insurance Department as described in Note 2.

In our opinion, except for not calculating and disclosing the components of deferred taxes in accordance with SSAP No. 10 and for not accounting for the Reinsurance Contract in accordance with SSAP No. 62, as discussed in the preceding paragraphs, the statutory basis balance sheet referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2006, in conformity with accounting practices prescribed or permitted by the Insurance Department, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as described in Note 2.

The accompanying statutory basis balance sheet has been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the statutory basis balance sheet, the Company is in rehabilitation since 2001, has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management does not have finalized plans with regard to these matters. The statutory basis balance sheet does not include any adjustments that might result from the outcome of this uncertainty.

This report is intended solely for the information and use of the Superintendent of Insurance of the State of New York in his capacity as Receiver and management of the Company and is not intended to be and should not be used by anyone other than these specified parties.

Amper, Politziner & Mattia, LLP

October 15, 2008
New York, New York

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Balance Sheet
As of December 31, 2006

Admitted assets	
Cash and invested assets	
Bonds, at amortized cost or fair market value (Note 4)	$ 28,282,326
Common stocks, at fair market value (Note 4)	2,994,141
Mortgage loans, at carrying value (Note 4)	2,880,000
Home office building and improvements, net of allowance (Note 4)	9,000,000
Cash and short-term investments	24,771,862
Other invested assets (Note 4)	16,161,418
Total cash and invested assets	84,089,747
Agents' balances and uncollected premiums (Note 2)	27,083,411
Less: Allowance for agents' balances and uncollected premiums (Note 2)	(27,083,411)
Net Agents' balances and uncollected premiums	-
Reinsurance recoverables on paid losses and loss adjustment expenses (Note 8)	47,741,969
Less: Allowance for uncollectible reinsurance recoverables	(4,227,247)
Net Reinsurance balance recoverable on paid losses and loss adjustment expenses	43,514,722
Electronic data processing equipment	19,141
Accrued investment income	585,627
Receivable under Retroactive Reinsurance Contract (Note 8)	7,699,755
Other admitted assets	1,245,602
Total admitted assets	$ 137,154,594
Liabilities and Capital and Deficit	
Liabilities	
Reserves	
Unpaid losses	$ 183,719,224
Unpaid loss adjustment expenses	30,109,008
Total reserves on unpaid loss and loss adjustment expenses (Note 3 and 8)	213,828,23
Unearned premiums (Note 8)	1,406,002
Reinsurance balances payable	8,639,569
Provision for reinsurance (Note 2)	26,771,525
Accounts payable and accrued expenses (Note 9)	13,778,251
Reinsurance payable on paid losses and loss adjustment expenses	18,481,837
Funds held under reinsurance agreements	649,659
Taxes, licenses and fees	678,895
Amounts withheld for account of others	1,537,480
Retroactive Reinsurance Reserves – Ceded (Note 8)	(97,135,289)
Other liabilities (Note 9)	65,023,447
Total liabilities	253,659,608
Commitments and contingencies (Note 10)	-
Capital and Deficit	
Common stock, par value $20 per share authorized, issued and outstanding – 250,000 shares	5,000,000
Aggregate write in for special surplus (Note 8)	146,847,710
Paid-in surplus	265,974,602
Unassigned deficit	(534,327,326)
Total capital and deficit	(116,505,014)
Total liabilities and capital and deficit	$ 137,154,594

See accompanying notes to the Statutory Basis Balance Sheet. The Statutory Basis Balance Sheet and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and is not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based on such person's or entity's use of or reliance upon the Statutory Basis Balance Sheet and accompanying notes.

FRONTIER INSURANCE COMPANY IN REHABILITATION
Notes to Statutory Basis Balance Sheet
As of December 31, 2006

Note 1: <u>Organization and Nature of Operations</u>

On November 2, 1962, P.T.F. Health Insurance Company, Inc. ("P.T.F") was incorporated in the State of New York. In 1977, P.T.F. changed its name to Frontier Insurance Company ("FIC"). FIC was licensed to write insurance in 50 states, the District of Columbia and the U.S. territories of Puerto Rico and the Virgin Islands. It was authorized to transact all lines of business typical of a property/casualty insurance writer, including workers' compensation, surety, and medical malpractice lines of business. On October 1, 1986, FIC was acquired by Frontier Insurance Group, Inc. ("FIGI"), an insurance holding company. On July 5, 2005, FIGI filed for reorganization under Chapter 11, Title 11 of the United States Code ("Bankruptcy Code"). Thereafter, FIGI was merged into Frontier Insurance Group, LLC and is currently owned by Lancer Financial Group, Inc. ("Lancer"), an Illinois holding company.

On October 1, 1991, FIC purchased Frontier Pacific Insurance Company ("FPIC"), formerly known as Contractors' Surety Company. FPIC was a California-domiciled property and casualty insurance company. On November 30, 2001, the California Department of Insurance placed FPIC into liquidation.

On May 22, 1996, FIC purchased United Capitol Holding Company ("UCHC") and its wholly-owned subsidiaries, United Capitol Insurance Company ("United Capitol"), United Capitol Managers, Inc. and Fischer Underwriting Group. On November 14, 2001, the State of Illinois placed United Capitol into liquidation.

On November 2, 1998, FIC entered into a stock purchase agreement to acquire all of the issued and outstanding shares of Surety Bond Connection Agency, Inc. ("Surety Bond Connection") and its wholly-owned subsidiary, Agents Bond Connection Agency. Initially, the investment was funded and reported by FIGI. In 1999, the investment was transferred to FIC's books at a value of $2,821,507, the net book value of Surety Bond Connection at June 30, 1999.

Because FIC suffered deficiencies in its reserves, FIC voluntarily agreed with the New York State Insurance Department ("Insurance Department"), among other things, not to write any new or renewal business effective March 12, 2001.

Pursuant to Article 74 of the New York Insurance Law ("Insurance Law"), on October 15, 2001, the Supreme Court of the State of New York, County of New York ("Receivership Court"), issued an order of rehabilitation ("Rehabilitation Order") placing FIC into rehabilitation and appointing the then-Superintendent of Insurance of the State of New York (and his successors in office) ("Superintendent") rehabilitator of FIC ("Rehabilitator"). The Rehabilitation Order directed the Rehabilitator to, among other things, take possession of the FIC's property, conduct FIC's business and take such steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary.

Note 1: Organization and Nature of Operations (continued)

Separate from his capacity as regulator, the Superintendent acts in his capacity as receiver ("Receiver") when he is appointed as rehabilitator, liquidator, conservator or ancillary receiver of an impaired insurance company pursuant to Insurance Law Article 74. Pursuant to Insurance Law Section 7422, the Receiver may appoint a Special Deputy Superintendent ("Special Deputy") as agent of the Receiver. The Special Deputy carries out, through the New York Liquidation Bureau ("NYLB"), the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver where the Special Deputy has been appointed as agent of the Receiver ("Estate"), including FIC. The NYLB manages the daily operations of all Estates. The Receiver appointed the Special Deputy, the First Assistant Special Deputy Superintendent and three Assistant Special Deputy Superintendents as agents of the Receiver (collectively, "Agents") for the Estates. The Special Deputy has appointed a Chief Executive Officer ("CEO") of FIC to manage the daily operations of FIC and a Chief Reinsurance Officer ("CRO") to manage its reinsurance operations. The Agents, along with the CEO, the CRO, the directors of the NYLB's divisions and other senior managers of the NYLB are hereinafter referred to as "Management."

While Management believes that the rehabilitation effort will continue mainly due to cash received from its primary reinsurer, National Indemnity Company ("NICO"), no formal rehabilitation plan has been submitted for approval by the Receivership Court.

Note 2: Summary of Significant Accounting Policies

A. Accounting Practices

The *Accounting Practices and Procedures Manual* ("APP Manual") of the National Association of Insurance Commissioners ("NAIC") summarizes statutory accounting practices and provides guidance to regulatory agencies in formulating prescribed or permitted practices. The Insurance Department adopted portions of the APP Manual, subject to exceptions, conflicts and additions set forth in Section 83.4 of 11 N.Y.C.R.R. 83 (Regulation 172) ("Prescribed Practices").

Permitted statutory accounting practices include practices that differ from Prescribed Practices but that are allowed by the Insurance Department. Management did not seek permission from the Insurance Department to deviate from the Prescribed Practices. As a result, there are no permitted practices applicable to FIC. The outcome of applying the Prescribed Practices to FIC would not be significantly different from the outcome of applying the APP Manual to FIC.

Management elected to prepare FIC's balance sheet as of December 31, 2006, in accordance with Prescribed Practices ("Statutory Basis Balance Sheet").

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

The Prescribed Practices used to prepare the Statutory Basis Balance Sheet are a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America ("US GAAP"). Below are the significant differences between the Prescribed Practices and US GAAP:

Investments

Pursuant to the Prescribed Practices, investments in bonds are reported at amortized cost or fair market value based on their NAIC rating. Pursuant to US GAAP, such fixed-maturity investments would be designated at purchase as held-to-maturity, trading or available-for-sale. Held-to-maturity investments under US GAAP would be reported at amortized cost. Trading investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported in the statement of operations. Available-for-sale investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported as a separate component of shareholders' equity in the category of other comprehensive income.

Pursuant to the Prescribed Practices, cumulative and current year changes in unrealized gains and losses are included in unassigned surplus, net of deferred taxes. For US GAAP purposes, unrealized gains or losses are recognized in surplus or income, depending on whether management plans to hold or actively trade the related securities.

Pursuant to the Prescribed Practices, asset-backed securities (*e.g.*, mortgage-backed securities) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities, using either the retrospective or prospective methods. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under US GAAP, all asset-backed securities, other than high-credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If high-credit quality securities are adjusted, the retrospective method is used. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the discounted fair market value.

Non-Admitted Assets

Pursuant to the Prescribed Practices, certain assets designated as "non-admitted" such as investments in excess of statutory limitations and those not in compliance with statutory requirements (*i.e.*, deferred federal income tax assets, over due agents' balances in the course of collection, non-operating system software, furniture and equipment, prepaid expenses and other assets not specifically identified as an admitted asset), are excluded from the Statutory Basis Balance Sheet and are charged directly to unassigned surplus. These assets would be recognized under US GAAP.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Real Estate

Pursuant to the Prescribed Practices, investment in real estate is shown net of encumbrances, whereas for US GAAP purposes such investments do not reflect encumbrances.

Federal Income Taxes

Pursuant to the Prescribed Practices, deferred federal income taxes are recognized subject to statutory requirements and limitations set forth in the Internal Revenue Code, with such changes in deferred taxes recorded in surplus. Whereas, for US GAAP purposes, such changes in deferred taxes are recorded in income tax expense (benefit).

Reinsurance

Pursuant to the Prescribed Practices, estimated reinsurance recoverables arising from ceding transactions and amounts paid to reinsurers related to unexpired portions of reinsurance contracts are netted against related gross liabilities. Whereas for US GAAP purposes such estimated reinsurance recoverables are reported as separate assets.

Policy Acquisition Costs

Under the Prescribed Practices, policy acquisition costs such as commissions, premium taxes, and other items, are charged to current operations as they are incurred. Under US GAAP, these costs are deferred to the extent recoverable and reported in the statement of operations on a pro-rata basis over the periods covered by the policies.

Variable Interest Entities

Pursuant to Financial Accounting Standards Board Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, statutory basis accounting does not require certain disclosures or the consolidation of certain variable interest entities. Under US GAAP, such disclosures would be required and variable interest entities would be consolidated.

B. Use of Estimates in the Preparation of the Statutory Basis Balance Sheet

The preparation of this Statutory Basis Balance Sheet required Management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures. It also required disclosure of contingent assets and liabilities at the date of the Statutory Basis Balance Sheet. Such estimates and assumptions could change in the future as more information becomes known and actual results could differ from those estimates reported and disclosed herein.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies

Management used the following methods and assumptions in the preparation of the Statutory Basis Balance Sheet.

Cash and Invested Assets

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, including money market mutual funds, and are typically stated at amortized cost.

Short-term investments, excluding cash equivalents, consist of investments with original maturities of one year or less at the time of acquisition and are typically stated at amortized cost.

Bonds not backed by loans are principally stated at amortized cost using the interest method.

As prescribed by the Securities Valuation Office ("SVO"), preferred stocks are stated at cost, amortized cost or fair market value, if fair market value is lower than cost or amortized cost. The related net unrealized capital gains (losses) are reported in unassigned surplus.

As prescribed by the SVO, common stocks are stated at fair market value and the net unrealized capital gains (losses) are reported in unassigned surplus/deficit, except that investments in insurance subsidiaries and affiliates are carried on the equity basis.

FIC owns 100 percent of the common stock of FPIC and 100 percent of UCHC. United Capitol, a subsidiary of UCHC, and FPIC were placed into liquidation by their respective states of domicile, therefore, the stock value of FPIC and UCHC has been reduced to $0.

Investment income due and accrued includes revenues that are earned but not yet received. Amounts greater than 90 days past due are recognized as non-admitted assets.

Realized capital gains and losses are determined using the "first in, first out" method and recognized on the trade date. Investments that have declined in fair market value below cost, and for which the decline is judged to be other-than-temporary, are written down to fair market value and reported as unrealized losses.

Mortgage loans on real estate are stated at the aggregate carrying value less accrued interest.

Loan-backed securities are stated at amortized cost using the interest method, including anticipated prepayments, with the effective yield recalculated to reflect the actual payments received and the anticipated future payments. Prepayment assumptions are obtained from external pricing services (*e.g.*, Bloomberg, Hub-Data

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

or brokers) or internal estimates and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities except principal-only and interest-only securities, which are valued using the prospective method.

FIC has ownership interest in equity partnerships and such interest is reported on the Statutory Basis Balance Sheet as other invested assets. FIC carries these interests based on the underlying audited US GAAP equity of the investee.

FIC does not own derivative instruments.

Because FIC is in rehabilitation and not operating as a going concern, Management did not calculate premium deficiency reserves.

Real Estate

Real estate owned and occupied by FIC is included on the Statutory Basis Balance Sheet in investments and investment income. Real estate is reported at cost, net of depreciation and a mortgage. Depreciation is calculated on a straight-line basis over the estimated useful life of the building owned by FIC. The estimated useful life of the building owned and occupied by FIC is 20 years. Real Estate is discussed in further detail in Note 4 below.

Premiums

Premiums are earned over the term of the insurance policies. Unearned premium reserves are established to cover premium due on non-cancellable surety bonds.

Reserves on Unpaid Losses and Loss Adjustment Expenses

Reserves on unpaid losses and loss adjustment expenses ("LAE") include an amount determined from individual case estimates and loss reports and an amount, based on past experience, on an undiscounted basis. LAE are the expenses associated with adjusting and litigating a claim (*e.g.*, expert witness and investigation costs), excluding the payment for the loss itself. FIC's reserve on unpaid loss and LAE are stated net of reinsurance recoverables. Reserves for losses incurred but not reported are set by an independent actuary on an undiscounted basis. Such liabilities are based on assumptions and estimates and, while Management believes the amount to be adequate, the ultimate liability may be in excess of or less than the amount provided.

Reserves on Unpaid Losses and Loss Adjustment Expenses

The methods for making such estimates and for establishing resulting liabilities are continually reviewed and adjustments are reflected in the period determined.

Non-Admitted Assets

Insurance agents' balances in the course of collection and reinsurance recoverables on paid loss and LAE which are over 90 days due are considered non-admitted assets.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Non-Admitted Assets (continued)

As of December 31, 2006, the agents' balances in the course of collection totaled $27,083,411 and the reinsurance recoverables on paid and unpaid loss and LAE totaled $26,771,525 and was reported as a liability.

Data Processing Equipment and Software

Data processing equipment and operating systems software is carried at cost less accumulated depreciation. Non-operating system software is charged to surplus as a non-admitted asset. The equipment and all software is being depreciated over three to five years using the straight-line method.

Reinsurance

Prospective reinsurance premiums, losses and LAE are accounted for on a basis consistent with the accounting for the original policies issued and the terms of the reinsurance contracts.

Retroactive reinsurance loss and LAE reserves are recorded on a gross basis without recognition of the retroactive reinsurance. The difference between consideration paid to the reinsurer and the total reserves ceded is recorded as a retroactive reinsurance gain or loss and reported as other income or expense. Retroactive reinsurance reserves ceded are reported as a contra-liability on the Statutory Basis Balance Sheet. Surplus gains and losses are recorded as restricted surplus and not unassigned funds. Subsequent increases or reductions in ceded reserves will realize a gain or loss arising from these increases or reductions.

Income Taxes

FIC consolidates its federal and state income tax returns with Lancer.

Pursuant to the Prescribed Practices, deferred tax assets and liabilities are reported on the Statutory Basis Balance Sheet in order to recognize the future tax consequences that may occur as a result of the differences between those amounts of existing assets and liabilities stated in the Statutory Basis Balance Sheet and the amounts stated on a tax basis. Deferred tax assets and liabilities are measured using rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Such temporary differences relate primarily to net operating losses.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Allocation of Expense

Certain NYLB employees work on FIC matters in addition to matters pertaining to other Estates. Based on the amount of time spent by each such NYLB employee on FIC matters, the proportional share of his or her salary (and salary-related taxes) is charged to FIC on a monthly basis. Each month's charges are then reimbursed as appropriate by FIC. Management is presently considering whether changes to this method of allocation are warranted. Such changes could retroactively affect the Statutory Basis Balance Sheet.

Note 3: Reserve for Unpaid Losses and LAE

FIC's reserves for unpaid losses and LAE as of December 31, 2006 include: (a) estimates for claims reported; (b) estimates for claims incurred but not reported; (c) development of claims paid and/or reported; and (d) deductions for anticipated reinsurance recoverables related to (a), (b) and (c) above.

The following table provides a reconciliation of reserves for unpaid losses and LAE, net of reinsurance recoverables, in the amount of $46,867,621 as of and for the year ended December 31, 2006:

	2006
Loss and LAE Reserves, at beginning of year	$ 275,315,097
Incurred Loss and LAE related to:	
Current Year	-
Prior Years	785
Total Incurred	785
Paid Loss and LAE related to:	
Current Year	9,481
Prior Years	61,478,168
Total Paid	61,487,649
Loss and LAE Reserves, at end of year	$ 213,828,232

The provision for incurred losses of prior years decreased in 2006 primarily as a result of the re-estimation of unpaid losses and LAE principally in the "Other Liability" line of business as categorized by the NAIC.

Note 4: Investments

Bonds

At December 31, 2006, the amortized cost, gross unrealized gains and losses and fair market value of investments in bonds are summarized as follows:

	Amortized Cost/Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
At December 31, 2006:					
U.S. Government	$ 4,059,203	$ 4,037,322	$ 58,649	$ 483	$ 4,095,488
Special Revenue Obligations (Non-guaranteed)	22,731,582	22,701,704	241,835	69,444	22,874,095
Other Government	33,409	21,376	12,033	-	33,409
Industrial & Miscellaneous	1,458,132	9,348,814	-	7,890,682	1,458,132
Total Bonds	$ 28,282,326	$ 36,109,216	$ 312,517	$ 7,960,609	$ 28,461,124

At December 31, 2006, bonds with an amortized cost of $6,159,419 were on deposit with various state insurance departments to satisfy regulatory requirements.

The amortized cost of debt securities at December 31, 2006, by date of contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Market Value
Less than one year	$ 3,773,041	$ 3,759,034
One to five years	24,223,494	24,414,285
Five to ten years	245,379	247,393
Ten years or greater	-	-
	28,241,914	28,420,712
Mortgage-backed securities	40,412	40,412
Total	$ 28,282,326	$ 28,461,124

FIC utilizes the specific identification method for calculating gains or losses on the sale of debt securities and other investments. Gross realized gains on sales of debt securities were $101,608 in 2006. There were no gross realized losses on sales of debt securities in 2006.

Note 4: Investments (continued)

Preferred and Common Stocks

The cost, gross unrealized gains and losses, and fair market value of preferred and common stocks are summarized as follows:

	Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Preferred Stocks	$ -	$ 1,000,000	$ -	$ 1,000,000	$ -
Common Stocks	2,994,141	7,079,992	1,078,385	5,164,236	2,994,141
Total	$ 2,994,141	$ 8,079,992	$ 1,078,385	$ 6,164,236	$ 2,994,141

Unrealized losses

The estimated fair market value and unrealized loss for temporarily impaired securities as of December 31, 2006, is as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
U.S Government	$ 357,871	$ 483	$ -	$ -	$ 357,871	$ 483
Special Revenue Bonds	-	-	4,427,656	69,444	4,427,656	69,444
Corporate Securities	-	-	592,589	6,676,001	592,589	6,676,001
Residential Mortgage Backed Securities	-	-	40,412	1,214,681	40,412	1,214,681
Subtotal, Debt Securities	357,871	483	5,060,657	7,960,126	5,418,528	7,960,609
Common Stocks	68,669	10,951	412,162	5,153,285	480,831	5,164,236
Preferred Stock	-	-	-	1,000,000	-	1,000,000
Subtotal, Equity Securities	68,669	10,951	412,162	6,153,285	480,831	6,164,236
Total Temporarily Impaired Securities	$ 426,540	$ 11,434	$5,472,819	$14,113,411	$5,899,359	$14,124,845

The unrealized losses related to corporate securities total $6,676,001. Because those corporate securities had an NAIC rating designation of six as of December 31, 2006, the fair market value of those corporate securities was $592,589. Generally, securities with an NAIC rating designation of six are reported at the lower of cost or fair market value. Because FIC is in rehabilitation, Management elected to record the impairment for these corporate securities as an unrealized loss rather than a permanent impairment.

The unrealized losses related to common stocks total $5,164,236. As of December 31, 2006, the fair market value of those securities was $480,831 because one common stock had no identifiable fair market value. Because FIC is in rehabilitation, Management elected to record the impairment in the amount of $5,000,000 as an unrealized loss for the entire carrying value for this one particular common stock.

Note 4: Investments (continued)

Unrealized losses (continued)

Subsequent to December 31, 2006, the stock with no identifiable fair market value discussed herein was sold for $4,000,000.

The unrealized loss related to preferred stocks is from one investment with no identifiable fair market value. Because FIC is in rehabilitation, Management elected to record the impairment as an unrealized loss in the amount of $1,000,000, which amount is the entire carrying value of the investment.

Limited Partnerships

Prior to rehabilitation, FIC participated in limited partnerships that invested primarily in equity securities that FIC could not invest in directly ("Limited Partnerships"). The Limited Partnerships provided FIC with access to management services and investments that FIC did not possess directly. As of December 31, 2006, FIC's aggregate investment in the Limited Partnerships was $16,161,418. FIC has not recorded losses from other-than-temporary declines in fair market value of its investment in the Limited Partnerships. Measurement of the impairment is based on the extent of fair market value decline and length of time in decline of the underlying investment held by the Limited Partnerships. FIC's exposure is equal to its financial investment in the Limited Partnerships and such amount is reported on the Statutory Balance Sheet as a realized capital loss. Management has not committed any additional capital for FIC's existing investments in Limited Partnerships, nor does Management have any plans to invest in any new limited partnerships.

Subprime Exposures

Management, in conjunction with its outside investment advisors, has reviewed FIC's portfolio as of December 31, 2006 and has determined that:

(1) FIC has no direct subprime exposure through investments in subprime mortgage loans.

(2) FIC has indirect subprime exposure through residential mortgage-backed securities. All such holdings are fixed-income instruments. At this time FIC holds three investments in mortgage-backed securities with a par value of $1,245,072 and cost of $1,255,093. These three securities have been written down to current fair market value of $40,412, resulting in an unrealized loss of $1,214,681.

FIC has no underwriting exposure to subprime mortgage risk through mortgage guaranty or financial guaranty insurance coverage.

Note 4: Investments (continued)

Real Estate

FIC's investment in real estate is its ownership and occupation of a commercial building and the property on which the building is located in Rock Hill, New York ("Rock Hill Property"). As of December 31, 2006, the value of the Rock Hill Property is broken-down as follows:

Land	$ 577,483
Building	18,922,518
Accumulated depreciation	(5,676,755)
Valuation allowance	(4,823,246)
Value of Rock Hill Property	$9,000,000

Mortgage Loans

As of December 31, 2006, FIC held two outstanding mortgages.

Mortgagor	Interest Rate	Location	Outstanding Balance	Non-admitted	Carrying Value
Well Assist, Inc.	6.00%	New York	$ 342,919	$ (342,919)	$ -
IPX Exchange Services	6.00%	California	2,880,000	-	2,880,000
			$ 3,222,919	$ (342,919)	$ 2,880,000

In February 2008, the mortgage loan to IPX Exchange Services ("IPX") was paid in full.

Note 5: Fair Market Value of Cash and Invested Assets

Cash and Cash Equivalents, Short-term Investments and Other Invested Assets

The carrying amounts reported in the Statutory Basis Balance Sheet for cash and cash equivalents, short-term investments and other invested assets are a reasonable estimate of fair market value.

Investment Securities

Fair market values for investment securities are based on unit prices published by the SVO. However, for certain securities for which the SVO does not provide a value, Management uses market prices quoted by third parties, if available. When both SVO-published unit prices and market quotes are unavailable, Management's best estimate of fair market value is based on quoted market prices of financial instruments with similar characteristics or on industry recognized valuation techniques. The fair market values of FIC's invested assets are disclosed in Note 4 hereof.

FIC has no derivative financial instruments as defined by Statement of Statutory Accounting Practices ("SSAP") No. 86, *Accounting for Derivative Instruments and Hedging Activities*.

Note 5: Fair Market Value of Cash and Invested Assets (continued)

Mortgage Loans

As of December 31, 2006, the Well Assist, Inc. mortgage loan was in default and carried as a non-admitted asset. As of December 31, 2006, the IPX mortgage loan, with an outstanding balance of $2,880,000, was current and paying in accordance to the mortgage note. As such, no valuation or impairment analysis was performed. Subsequent to December 31, 2006, the IPX mortgage loan was paid in full.

Note 6: Capital and Surplus, Dividend Restrictions and Statutory Requirements

Pursuant to Insurance Law Section 4105, all dividends on capital stock must be distributed out of earned surplus only. Dividends that exceed the lesser of: (i) 10 percent of FIC's most recent year-end policyholders' surplus, (ii) the net income earned for the year, or (iii) 100 percent of adjusted net investment income for such period, cannot be declared or distributed without prior approval of the Superintendent.

FIC's required minimum level of capital and surplus is $3,300,000. For the year ended December 31, 2006, FIC did not declare or pay any dividends on common stock.

The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

Unrealized losses	$ (62,730,365)
Non-admitted asset values	(65,103,606)
Provision for reinsurance	(26,771,525)

Note 7: Concentration of Credit Risk

Financial instruments that have the potential to subject FIC to credit risk consist of cash, cash equivalents and short-term investments.

Cash and cash equivalents are deposited with high quality financial institutions. At times such amounts may exceed the insured limits of the Federal Deposit Insurance Corporation ("FDIC") and/or the Securities Investor Protection Corporation. Certain cash equivalents and short-term investments include investments in money market mutual fund securities, which are not necessarily insured by the FDIC.

Note 8: Reinsurance Recoverables

Prospective Reinsurance Recoverables

FIC wrote insurance coverage on a direct basis and entered into reinsurance agreements with other insurance companies in the ordinary course of business. The reinsurance arrangements include a wide variety of treaty and facultative contracts providing pro-rata, excess of loss, quota share and catastrophe coverage. Reinsurance recoverables relate to amounts due to FIC arising under reinsurance agreements originating prior to FIC's rehabilitation. The net reinsurance recoverable represents amounts due from reinsurers for paid loss claims and LAE and the estimated recovery for outstanding loss case reserves. FIC remains liable in the event that a reinsurer is unable to meet the obligations assumed under the reinsurance agreements.

Note 8: Reinsurance Recoverables(continued)

The effect of reinsurance on unearned premiums as of December 31, 2006 is as follows:

	2006
Direct business	$ 1,029,936
Reinsurance assumed	376,112
Reinsurance ceded	(42)
	$ 1,406,006

The effect of reinsurance on the liabilities for losses and LAE reserves as of December 31, 2006 is as follows:

	Liability for losses and LAE
Direct business	$ 246,933,637
Reinsurance assumed	13,762,216
Reinsurance ceded	(46,867,621)
	$ 213,828,232

As of December 31, 2006, there were no return commissions due to or from reinsurers because all reinsurance policies were cancelled.

Reinsurance Recoverables in Dispute

The reinsurance recoverables on paid loss and LAE, on a gross basis, listed below, are in dispute and are recorded in reinsurance balances recoverable on paid loss and LAE:

Name of Reinsurer	**Amount in Dispute**
Everest Reinsurance Company	$ 2,238,973
Hannover Rueckversicherung AG	944,054
Hurst Holme Insurance Company Ltd.	628,390
XL Reinsurance America Inc.	5,007,290
Toa Reinsurance Company of America	3,095,706
Automotive Services Insurance Ltd.	242,805
	$12,157,218

Note 8: Reinsurance Recoverables (continued)

Unsecured Reinsurance Recoverables

FIC had the following unsecured reinsurance recoverables on paid losses and LAE as of December 31, 2006:

ACE USA	$ 323,478
Automotive Services Insurance Ltd.	242,805
Bowling Green Indemnity Ltd.	2,919,165
Chubb Atlantic Indemnity Ltd.	168,998
Connecticut General Life Insurance Company	133,541
Connecticut Surety Company	165,890
Continental Casualty Company	77,479
Delphi Insurance Company Ltd.	350,345
The Doctors Company	136,802
Everest Reinsurance Company	9,744,034
First Professionals Insurance Company	38,231
GE Reinsurance Corporation	391,025
Global Reinsurance Corporation	1,067,528
Hannover Rueckversicherung AG	944,054
Hartford Fire Insurance Company	1,248,361
Hurst Holme Insurance Company Ltd.	1,239,645
John Hancock Life Insurance Company	32,087
Lincoln National Life Insurance Company	71,222
Lloyd's of London Syndicate 435	564,201
Markel International Insurance Company	247,888
The Medical Assurance Company Inc.	24,622
Munich Reinsurance America Inc.	1,721,019
National Guaranty Insurance Company	257,052
Nursing Home Risk & Indemnity Ltd.	1,033,811
Odyssey America Reinsurance Company	4,661,741
Paradym Insurance Company Ltd.	995,199
Phoenix Home Life Mutual Insurance Company	89,027
Platinum Indemnity Ltd.	1,557,712
Potomac Indemnity Company	3,430,897
QBE Insurance Corporation	237,864
QBE Insurance (Europe)	82,302
Quest Insurance Solutions Ltd.	198,001
ReliaStar Life Insurance Company	728,796
RSUI Indemnity Company	56,260
Security Insurance Company of Hartford	89,782
St. Paul Fire & Marine Insurance Company	832,792
Swiss Reinsurance America Corporation	1,598,383
Toa Reinsurance Company of America	3,095,707
Transatlantic Reinsurance Company	1,921,353
Trenwick America Reinsurance Corporation	120,794
XL Reinsurance America Inc.	5,007,290
Sub Total	$47,847,483
Other	(105,514)
Net Total	$47,741,969

Note 8: **Reinsurance Recoverables (continued)**

Retroactive Reinsurance Agreement

In 2000, FIC entered into a retroactive aggregate reinsurance agreement with NICO for the purpose of mitigating the impact of claims arising under accident years prior to December 31, 1999 ("NICO Agreement"). The following table sets forth data related to the NICO Agreement:

	Ceded
Reserves transferred:	
Initial reserves	$542,986,936
Adjustments – prior year	164,780,015
Adjustments – current year	(2,258,579)
Current total	$705,508,372
Consideration paid:	
Initial consideration	$533,728,693
Adjustments – prior year	24,931,969
Adjustments – current year	-
Current total	$558,660,662
Paid losses recovered:	
Prior year	$463,088,183
Current year	32,472,973
Current total	$495,561,156
Special Surplus from Retro Active Reinsurance	
Initial surplus gain	$9,258,243
Adjustments – prior year	$139,848,046
Adjustments – current year	(2,258,579)
Current year restricted surplus	$146,847,710
Cumulative total transferred to unassigned surplus	$146,847,710

In accordance with SSAP No. 62, *Property and Casualty Reinsurance* ("SSAP No. 62"), the surplus gain of $146,847,710 is restricted surplus until such time as amounts recovered exceed consideration paid. Retroactive reinsurance reserves ceded of $97,135,289 do not offset reserves and/or are recorded as a separate contra-liability. The $2,258,579 change in the balance of special surplus funds from the prior year represents a gain from the NICO Agreement. Current amounts receivable under this NICO Agreement are $7,699,755.

Note 9: **Other Liabilities**

Creditor Database

As of December 31, 2006, Management reported in the Statutory Basis Balance Sheet as accounts payable and accrued expenses the amount of $13,778,251, which amount includes creditor claims in the amount of $11,011,369 and other various accounts payable in the amount of $2,766,882. Management reviewed the submitted creditors' claims and found that some claims or portions thereof were

Note 9: Other Liabilities (continued)

Creditor Database (continued)

duplicative. Management continues to update the creditor database to correct this estimate.

Other Liabilities

As of December 31, 2006, Management reported in the Statutory Basis Balance Sheet $65,023,447 in other liabilities, which amount includes $52,332,075 as a bulk reserve and other payables, primarily to Clarendon National Insurance Company ("Clarendon") of $12,691,372.

The bulk reserve of $52,332,075, while not specific to any line of business or program, has been established to estimate the ultimate liability of a pattern of emerging or unreported substantial claims that have been incurred from non-traditional and, in some cases, unlicensed underwriting activity or related continual obligations. While Management vigorously investigates and defends, where appropriate, each irregular or non-traditional claim, this reserve is Management's best estimate as to total potential liability.

The $12,691,372 reported as other payables is due to Clarendon on those FIC policies where: (i) Clarendon issued cut-through endorsements, and (ii) FIC collected reinsurance on Clarendon's behalf or owed Clarendon premiums.

Note 10: Commitments and Contingencies

Contingent Commitments

FIC is contingently liable for its proportional share of three insurance pools that FIC participated in prior to rehabilitation: (i) Mississippi Workers' Compensation Pool; (ii) National Workers' Compensation Pool; and (iii) New Jersey Fair Plan (collectively, "Pools"). As of December 31, 2006, FIC's liability under the Pools totaled $447,154.

When FIC ceased writing new business in March 2001, its participation in the Pools ended. Therefore, Management does not anticipate any additional losses from the Pools.

Leases

FIC leases storage space under two separate lease arrangements. Rental expense for 2006 was approximately $68,676. At December 31, 2006, approximate rental commitments under non-cancelable real estate leases are as follows:

Year Ending December 31,	Amount
2007	$ 61,800
2008	61,800

Note 10: Commitments and Contingencies (continued)

Other Contingencies

FIC recognizes and accrues known or probable loss contingencies in the period when such contingencies become known and estimable.

Various legal actions have been commenced arising principally from claims made under insurance policies and contracts issued by FIC. Those actions are considered by FIC in estimating reserves for policy and contract liabilities. Contingent liabilities arise from litigation, income taxes, and other matters, but are not considered material in relation to the financial position of FIC.

Note 11: Federal Income Taxes

Deferred income taxes arise from the temporary differences in the valuation of certain assets and liabilities as determined for financial reporting purposes and income tax purposes. Such temporary differences relate primarily to net operating losses.

Because FIC is in rehabilitation and not operating as a going concern, it does not generate net income. Therefore, Management has not calculated or disclosed the components of net deferred tax assets ("DTA") or of deferred tax liability ("DTL") because all such amounts would be deemed non-admitted as specified by SSAP No. 10, *Income Taxes*. Further, due to recurring operating losses, Management does not expect FIC to realize the benefit of the temporary differences giving rise to the DTA in the near term. FIC does not have DTL as of December 31, 2006.

FIC files a consolidated tax return with Lancer as discussed in Note 2. No provision for income taxes incurred has been recorded for the year ended December 31, 2006.

FIC has net operating loss carry forwards in the amount of $231,151,674, which begin to expire in 2020.

Note 12: Reinsurance Litigation

In May 2005, FIC initiated a lawsuit against Everest Reinsurance Company ("Everest Re") and Benfield Inc. f/k/a E.W. Blanch Company, Inc. ("Benfield") to rescind a professional liability excess loss reinsurance contract ("Everest Re Contract") and related trust agreement ("Trust Agreement") or alternatively to recover all funds paid by FIC to Benfield and Everest Re as fraudulent conveyances ("Everest Re Litigation"). Management has alleged that the Everest Re Contract was entered into while FIC was insolvent and consequently any fees paid to Benfield and Everest Re, and investment income and interest thereon, must be returned to FIC. Management has also alleged that the Everest Re Contract did not meet risk-transfer standards set forth in SSAP No. 62.

Prior to rehabilitation, Management reported the reinsurance recoverables due under the Everest Re Contract as reinsurance. Given Management's allegation that

Note 12: Reinsurance Litigation (continued)

the Everest Re Contract did not meet the risk-transfer standards of SSAP No. 62, the reinsurance recoverables due under the Everest Re Contract should be reported in the Statutory Basis Balance Sheet as a deposit, not reinsurance. Management, as part of its litigation strategy and for consistency with reporting methodologies used in prior years, has reported the reinsurance recoverables due under the Everest Re Contract as reinsurance.

Pending resolution of the Everest Re Litigation, Management has reported $7,375,627 as reinsurance recoverable on paid losses and paid LAE and $4,426,877 as reinsurance recoverable on outstanding reserves for losses and LAE. Management did not establish a receivable for the full amount in the account established pursuant to the Trust Agreement, but rather only that amount necessary to offset losses recoverable.

Note 13: National Indemnity Company Reinsurance Arrangement with Frontier Insurance Company in Rehabilitation

As previously discussed in Note 8 herein, after rehabilitation the NICO Agreement was amended by three different endorsements discussed below:

Endorsement No. 1 increased NICO's ultimate net loss obligation from $780,000,000 to $811,464,476 and provided coverage for FIC's surety business for years 2000 forward.

Endorsement No. 2 sets forth NICO's administrative duties and obligations with respect to handling the claims reinsured by NICO.

Endorsement No. 3 provided for a reduced limit of $225,000,000, the payment of $45,000,000 by NICO to FIC, and the forgiveness of loans between FIC and NICO totaling $145,000,000. Additionally, NICO will no longer cover FIC's surety business.

Note 14: Employee Retirement Plan

Prior to rehabilitation, FIC, along with its affiliates, participated in a profit sharing plan and a 401(k) plan sponsored by FIGI, covering officers and employees.

Beginning in 2003, FIC sponsored a 401(k) tax-qualified defined contribution plan ("Plan"). Substantially all FIC employees, subject to certain waiting periods, are eligible to participate in the Plan. Plan participants may elect to contribute up to 100 percent of their compensation (subject to an annual IRS limit) into the Plan. Contribution amounts vary by employee up to the maximum limits defined by the IRS. FIC made no contribution to the Plan for 2006. As of December 31, 2006, the fair market value of Plan assets was $1,320,235.

Note 15: **Related Party Transactions**

Prior to rehabilitation, FIC participated in a tax allocation agreement with its parent, FIGI. As a result of this tax allocation agreement, FIC for the years 1999 through 2001 accumulated $24,233,901 in federal income tax recoverables from FIGI. This balance is considered a non-admitted asset, as FIGI has failed to remit to FIC within 90 days from the date of billing. Subsequent to December 31, 2006, FIGI petitioned for and was granted relief under the Bankruptcy Code. The recoverable was then written off by FIC in 2007.

Note 16: **Subsequent Events**

Settlement with Clarendon

As discussed in Note 9 herein, on February 4, 2008, FIC and Clarendon entered into a settlement agreement ("Clarendon Agreement"). Pursuant to the terms of the Clarendon Agreement, Clarendon will continue to perform its obligations under the cut-through endorsements with FIC and FIC will continue to bill and collect reinsurance on Clarendon's behalf.

Market Volatility

The financial markets' volatility in 2008 may materially impact the valuation of FIC's investments subsequent to December 31, 2006. Accordingly, the valuation of investments at December 31, 2006 may not necessarily be indicative of amounts that could be realized in a current market exchange.

FRONTIER INSURANCE COMPANY IN REHABILITATION
Notes to Statutory Basis Balance Sheet
As of December 31, 2006

Note 17: **Reconciliation to Annual Statement**

Following is a summary of the changes between the FIC's 2006 Statutory Basis Balance Sheet as prepared in the 2006 annual statement filed with the Insurance Department and the amounts reported in this audited Statutory Basis Balance Sheet:

	Admitted Assets	Liabilities	Capital & (Deficit)
As reported in the December 31, 2006 Statutory Basis Balance Sheet	$ 153,474,491	$ 252,518,723	$ (99,044,232)
Increase in non-admitted assets	(4,750,000)	–	(4,750,000)
Increase to accrued expenses	–	771,892	(771,892)
Increase to provision for reinsurance	–	368,993	(368,993)
Increase to valuation allowance on reinsurance recoverables on paid losses and lae	(4,227,247)	–	(4,227,247)
Correction to bond portfolio for assets no longer held	(289,843)	–	(289,843)
Write down of preferred stock	(1,000,000)	–	(1,000,000)
Write down of common stock	(1,369,250)	–	(1,369,250)
Increase to valuation on limited partnerships	139,689	–	139,689
Valuation adjustment to building	(4,823,246)	–	(4,823,246)
As reported in the audited December 31, 2006 Statutory Basis Balance Sheet	$ 137,154,594	$ 253,659,608	$ (116,505,014)