ANNUAL REPORT OF THE NEW YORK LIQUIDATION BUREAU

December 31, 2009 and 2008

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NEW YORK LIQUIDATION BUREAU

Statements of Cash Receipts and Disbursements – Cash Basis

For the Years Ended December 31, 2009 and 2008
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 statements of cash receipts and disbursements – cash basis of the Central Disbursement Account of the New York Liquidation Bureau for the years ended December 31, 2009 and 2008. This statement of cash receipts and disbursements – cash basis is the responsibility of the New York Liquidation Bureau's management. Our responsibility is to express an opinion on these statements of cash receipts and disbursements – cash basis based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statements of cash receipts and disbursements – cash basis 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 New York Liquidation 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 statements of cash receipts and disbursements – cash basis, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 1, these statements of cash receipts and disbursements – cash basis 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 audits, the statements 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 years ended December 31, 2009 and 2008 in conformity with the basis of accounting as described in Note 1.

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

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

NEW YORK LIQUIDATION BUREAU
Statements of Cash Receipts and Disbursements – Cash Basis
For the Years Ended December 31, 2009 and 2008

	2009	2008
Receipts:		
Investment Income Received	$ 11,924	$ 120,765
Reimbursement of Expenses	62,339,565	59,457,826
Reimbursement from Non-New York Liquidators	37,355,143	67,003,040
Other Receipts	479,409	995,343
Total Receipts	100,186,041	127,576,974
Disbursements:		
Early Access Distributions	38,887,580	70,733,770
Transfer to Restricted Assets	-	197,893
Loss Adjustment Expenses	248,662	443,750
Claims Paid	193,198	-
Refunds to Domestic Estates	912,943	-
Transfer to Security Funds	107,241	884,690
Taxes Paid	102,746	1,049,640
Advance to Payroll Account	-	943,294
Salaries	23,780,331	24,930,650
Employee Relations and Welfare	7,595,041	8,042,069
Rent and Related Expenses	6,542,419	6,016,195
Professional Fees	10,292,172	8,672,390
General and Administrative Expense	1,563,598	1,423,840
Other Disbursements	2,552,919	2,954,715
Total Disbursements	92,778,850	126,292,896
Net Receipts	7,407,191	1,284,078
Cash - Beginning of Year	7,615,366	6,331,288
Cash - End of Year	$ 15,022,557	$ 7,615,366

See accompanying notes to the Statements of Cash Receipts and Disbursements – Cash Basis. The Statements 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 Statements 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 Section 7422 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 and assistant special deputy superintendents as his agents. The agents, along with division directors and senior managers of the New York Liquidation Bureau ("NYLB"), are collectively referred to herein as "Management." Management carries out, through the NYLB, the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver ("Estate"). The NYLB manages the daily operations of all Estates. 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") and Public Motor Vehicle Liability Security Fund ("PMV Fund"), established pursuant to Insurance Law Article 76, and the Workers' Compensation Security Fund ("WC Fund"), established pursuant to New York Workers' Compensation Law Article 6-A. The P/C Fund, PMV Fund and WC Fund are each referred to herein as a "Security Fund" and are collectively referred to herein as the "Security Funds."

B. Basis of Presentation

The Statements of Cash Receipts and Disbursements – Cash Basis of the NYLB reflect the amounts deposited in and disbursements made from the central disbursement account ("CDA") for the years ended December 31, 2009 and 2008. The Statements of Cash Receipts and Disbursements – Cash Basis were 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 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 NYLB uses the money in the CDA to pay, on behalf of the Estates and Security Funds, administrative expenses such as salaries, payroll taxes, rent and related expenses, office expenses and employee relations and welfare (*e.g.*, contributions to employee health insurance, pension plans and other fringe benefits) ("Employee Relations and Welfare"). Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

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

B. <u>Basis of Presentation</u> (continued)

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

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

C. <u>Cash</u>

Cash is comprised solely of the money deposited in the CDA, the excess of which may be invested in overnight investment options including RepoNet, a repurchase agreement facility, and Liquidity Direct, a facility that allows for the purchase of various U.S. Government related money market funds. In addition, for longer term investment opportunities, cash is placed in a Money Market Deposit Account ("MMDA") which provides for more attractive yields. The MMDA is insured by the Federal Deposit Insurance Corporation ("FDIC"), although balances are significantly in excess of the coverage limits. The MMDA is with JP Morgan Chase, whose current commercial paper ratings are P-1 (Moody's), A-1 (S & P) and F1+ (Fitch).

The CDA is maintained at one financial institution that is FDIC insured. 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. <u>Receipts</u>

<u>Investment Income Received</u>

Investment income received consists primarily of interest income earned by and received from the CDA account for the years ended December 31, 2009 and 2008.

<u>Reimbursement of Expenses</u>

Reimbursement of General & Administrative Expenses

The NYLB pays general and administrative expenses, such as salaries, payroll taxes, rent and related expenses, office expenses and Employee Relations and Welfare, 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

The NYLB pays loss adjustment expenses ("LAE") on behalf of certain Estates. LAE are the expenses associated with adjusting and litigating a claim, excluding the payment for the loss itself. Such expenses are billed dollar-for-dollar to applicable Estates based on actual disbursement amounts recorded through the CDA.

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

D. Receipts (continued)

Reimbursement of Expenses (continued)

Reimbursement of Loss Adjustment Expenses (continued)

Each month's LAE is then reimbursed to the NYLB as appropriate by the respective Estate in a timely manner.

LAE on Security Fund covered claims is paid directly from the Security Funds' cash account maintained by the NYLB and is not paid from the CDA.

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 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").

Other Receipts

The NYLB receives checks and wire transfers of funds on a daily basis from various sources. Certain receipts may require additional research in order to properly allocate such funds to the appropriate Estate or Security Fund. While Management determines the appropriate Estate or Security Fund, the funds are held and credited to a cash suspense account. For 2009, the largest component of Other Receipts consisted of recoveries from the Second Injury Fund.

E. Disbursements

Early Access Distribution

EAD is a special distribution from a Non-New York 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. When the NYLB receives EAD monies from a Non-New York Liquidator, the NYLB reimburses the respective Security Fund.

Loss Adjustment Expenses

LAE on claims not covered by a Security Fund represent disbursements processed through the CDA for the expenses associated with adjusting and litigating a claim, excluding the payment for the loss itself.

Claims Paid

During 2009, the NYLB made claim payments for losses incurred on behalf of Lion Insurance Company in Rehabilitation ("Lion") from the CDA. Lion reimbursed the CDA for those payments.

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

E. Disbursements (continued)

Refunds to Domestic Estates

The largest component of Refunds to Domestic Estates is monies owed to certain Domestic Estates in Liquidation as a result of overpayment of expenses in March and April 2009. The NYLB received such monies and returned them to the appropriate Domestic Estates in Liquidation.

Transfer to Security Funds

In 2009, the NYLB received monies from the Second Injury Fund on behalf of certain Estates and reimbursed the WC Fund accordingly.

Taxes Paid

Taxes paid represents income and franchise taxes and local assessments paid from the CDA by the NYLB on behalf of various Estates.

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 based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

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

	2009	2008
Pension Plan	$ 1,694,096	$ 1,729,926
Health Insurance	5,317,655	5,667,688
Employee Relations	477,347	289,546
Other	105,943	354,909
Total	$ 7,595,041	$ 8,042,069

Rent and Related Expenses

The NYLB leases office space at 123 William Street, New York, New York (“Premises”) and storage space at 168 39th Street, Brooklyn, New York (“Warehouse”). Such rent and related expenses are allocated to the Estates and Security Funds.

The NYLB has leased the Premises since 1986. The NYLB’s current lease for the Premises expires on March 31, 2011.

The NYLB has leased the Warehouse since 1986. The NYLB’s current lease for the Warehouse expires on August 31, 2018, subject to the NYLB’s right to exercise, prior thereto, its option to renew the lease for an additional term of five years.

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

E. Disbursements (continued)

Rent and Related Expenses (continued)

In 2009 and 2008, the NYLB paid approximately $6.5 million and $6.0 million, respectively, in rent and related expenses for the Premises and Warehouse.

Professional Fees

The NYLB has paid fees for the following types of professional services: reinsurance collection services, accounting and auditing services, information technology services, actuarial services 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 professional fees are incurred which relate solely to a specific Estate, that Estate is charged directly for such fees.

General and Administrative Expense

The NYLB paid general and administrative expenses, the majority of which were for the procurement of information technology equipment, printing and stationery, telecommunication services, and expenses to maintain the Premises. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Other Disbursements

Other Disbursements refers to expenses paid by the NYLB, the majority of which 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.

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

E. Disbursements (continued)

Other Disbursements (continued)

	2009	2008
Investment Expenses	$ 1,895,526	$ 1,653,161
Insurance	246,175	477,014
Travel and Travel Related Items	80,488	87,191
Real Estate Taxes	10,832	28,940
Books and Reference Material	68,420	33,934
MCT Mobility Tax	67,035	-
Refund of Medical Malpractice Insurance Association's Prepaid Expenses	-	476,052
Fees and Assessments	113,830	102,000
Other	70,613	96,423
Total	$ 2,552,919	$ 2,954,715

Note 2: Employee Retirement

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 of all NYLB employees 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 payment by the employer of an annual invoice which is 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 one 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. However, the NYLB does pay the taxes on behalf of various Estates as discussed in Note 1.

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):

Office Premises

In 2009 and 2008, the NYLB paid approximately $5.5 million and $5.3 million, respectively, in rent and related expenses for the Premises. The current lease for the Premises expires March 31, 2011 and the estimated minimum future lease payments are:

Office Premises	2010	Jan-Mar 2011	Total
Rent	$4.7	$1.2	$5.9
Real Estate Tax	0.4	0.1	0.5
Operating Expenses	0.4	0.1	0.5
Total	$5.5	$1.4	$6.9

Warehouse

For 2009 and 2008, the NYLB paid approximately $1.0 million and $.7 million respectively, for Warehouse rent and related expenses. In 2008, Management executed a new ten year lease for the Warehouse. The estimated future minimum payments under the lease are:

Warehouse	2010 -2018	Total
Rent and Related Expenses	$7.7	$7.7

Note 5: Subsequent Events

Subsequent events have been reviewed through July 28, 2010, the date on which these audited financials were available to be issued. Management is aware of the following subsequent events that may have a material impact on the financial condition or results of operations of the NYLB.

Early Access Distributions

During 2010, the NYLB received the following EAD monies from Non-New York Liquidators:

Credit General Insurance Company	$ 1,004,158
Far West Insurance Company	77,500
Legion Insurance Company	584,431
Phico Insurance Company	4,405,605
Reliance Insurance Company	70,206,418
Transit Casualty Company	4,996,458
	$ 81,274,570

Changes in Composition of Estates under NYLB Supervision

Pursuant to an order of the Supreme Court of the State of New York (“Court”), entered March 1, 2010, Colonial Cooperative Insurance Company was placed into rehabilitation and the Superintendent (and his successors in office) was appointed Rehabilitator.

Pursuant to an order of the Court, entered March 10, 2010, the rehabilitation proceeding of The Insurance Corporation of New York (“Inscorp”) was terminated and Inscorp was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

Pursuant to an order of the Court, entered April 30, 2010, Professional Liability Insurance Company of America was placed into rehabilitation and the Superintendent (and his successors in office) was appointed Rehabilitator.

Pursuant to an order of the Court, entered June 16, 2010, Titledge Insurance Company was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

Lease Agreement

In April 2010, the NYLB entered into a 15-year lease agreement for office space at 110 William Street, New York, New York.

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

Combined Financial Statements - Modified Cash Basis of the Domestic Estates in Liquidation

For the Years Ended December 31, 2009 and 2008
With Report of Independent Auditors

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

Combined Financial Statements - Modified Cash Basis of the Domestic Estates in Liquidation
For the Years Ended December 31, 2009 and 2008
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 statements 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, 2009 and 2008, and the related combined statements of cash receipts and disbursements and changes in cash and invested assets – modified cash basis for the years ended December 31, 2009 and 2008 (collectively referred to as "Combined Financial Statements"). These Combined Financial Statements are the responsibility of the New York Liquidation Bureau's management. Our responsibility is to express an opinion on these Combined Financial Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Combined Financial Statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2, these Combined 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 audits, 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, 2009 and 2008 and the related combined statements of cash receipts and disbursements and changes in cash and invested assets – modified cash basis for the years 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 combined 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 Combined Financial Statements also do not reflect any provision for incurred but not reported claim reserves.

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

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

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

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

	2009	2008
Combined Assets		
Unrestricted Assets:		
Cash and Cash Equivalents	$ 452,032,619	$ 233,030,907
Invested Assets:		
Short-term Investments, at fair market value	268,849,017	658,849,915
Bonds, at fair market value	260,583,939	32,410,394
Common Stock, at fair market value	1,295,962	-
Total Invested Assets	530,728,918	691,260,309
Total Cash, Cash Equivalents and Invested Assets (Unrestricted)	**982,761,537**	**924,291,216**
Reinsurance Recoverables on Paid Losses and LAE	353,220,313	364,197,742
Less: Allowance for Uncollectible Reinsurance Recoverables	(297,044,343)	(300,707,970)
Net Reinsurance Recoverables on Paid Losses and LAE	56,175,970	63,489,772
Reinsurance Recoverables on Unpaid Losses and LAE	1,264,507,962	1,264,847,573
Less: Allowance for Uncollectible Reinsurance Recoverables	(923,143,443)	(899,272,802)
Net Reinsurance Recoverables on Unpaid Losses and LAE	341,364,519	365,574,771
Receivables from Others	17,271,332	17,779,298
Accrued Investment Income	729,621	3,672,694
Other Assets	4,094,336	4,550,117
Total Unrestricted Assets	**1,402,397,315**	**1,379,357,868**
Restricted Assets:		
Statutory Deposits in New York or Other States	2,219,195	13,048,511
Other Restricted Assets	18,972,462	21,483,995
Total Restricted Assets	**21,191,657**	**34,532,506**
Total Combined Assets	**$ 1,423,588,972**	**$ 1,413,890,374**

See accompanying notes to the Combined Estates Financial Statements (as defined herein). 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 Statements of Assets, Liabilities, and Deficit of Assets Over Liabilities-Modified Cash Basis

As of December 31,

	2009	2008
Combined Liabilities		
Secured Claims	$ 15,585,348	$ 17,671,874
Unsecured Claims:		
Class One - Administrative Claims	52,346,264	51,547,992
Class Two - Claims and Related Costs		
Allowed	2,169,965,893	1,992,922,318
Non-Allowed	1,827,738,092	1,898,920,320
Total Class Two – Claims and Related Costs	3,997,703,985	3,891,842,638
Class Three - Federal Government Claims	137,686	137,686
Class Four - Employee Claims	10,164	10,164
Class Five - State and Local Government Claims	11,091,472	11,061,537
Class Six - General Creditor Claims	586,578,428	586,244,117
Class Seven - Late Filed Claims	371,776,314	371,799,337
Class Eight - Section 1307 (Shareholder) Loans	4,121,260	4,121,260
Class Nine - Shareholder Claims	32,446,845	13,580,000
Total Combined Liabilities	**5,071,797,766**	**4,948,016,605**
Deficit of Combined Assets over Combined Liabilities	**(3,648,208,794)**	**(3,534,126,231)**
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	**$ 1,423,588,972**	**$ 1,413,890,374**

See accompanying notes to the Combined Estates Financial Statements (as defined herein). 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 Statements of Cash Receipts and Disbursements and Changes in Cash and Invested Assets (Unrestricted) – Modified Cash Basis
For the Years Ended December 31, 2009 and 2008

	2009	2008
Receipts:		
Net Investment Income Received	$ 9,399,179	$ 30,842,139
Reinsurance Recovered	51,098,015	35,667,225
Premiums Collected	19,583	46,772
Salvage and Subrogation	1,515,082	358,773
Expense Reimbursement Received from Security Funds	768,942	1,628,591
Reimbursement from CDA	579,373	476,052
Medicaid Receipts	396,799	-
Release from Statutory Deposits	8,084,444	-
Litigation Awards	9,620,271	2,565,273
Abandoned Property	340,676	349,933
Miscellaneous	686,532	-
Total Receipts	**82,508,896**	**71,934,758**
Disbursements:		
Transfer to Segregated Funds	673,528	2,565,273
Dividends	10,304,778	61,630,261
New York Miscellaneous Special Revenue Fund	-	2,064,560
Transfer to Collateral Account	-	255,472
Claims and Loss Adjustment Expenses	255,342	-
Refund to New York Security Fund	648,436	-
Reimbursement of Allocated Expenses	28,920,287	27,763,653
Miscellaneous	-	27,265
Total Disbursements	**40,802,371**	**94,306,484**
Net Increase (Decrease) of Receipts Over Disbursements	**41,706,525**	**(22,371,726)**
Cash and Invested Assets (Unrestricted), Beginning of Year	**924,291,216**	**934,914,499**
Opening Cash Balances of New Estates	20,475,484	9,573,542
Unrealized (Loss) Gain on Investments	(4,120,573)	2,174,901
Foreign Exchange Revaluation	408,885	-
Cash and Invested Assets (Unrestricted) End of Year	**$ 982,761,537**	**$ 924,291,216**

See accompanying notes to the Combined Estates Financial Statements (as defined herein). 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.

Note 1: **Nature of Operations of the Combined Domestic Estates in Liquidation**

Background

Pursuant to Section 7422 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 and assistant special deputy superintendents as his agents. The agents, along with division directors and senior managers of the New York Liquidation Bureau ("NYLB"), are collectively referred to herein as "Management." Management carries out, through the NYLB, the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver ("Estate"). The NYLB manages the daily operations of all Estates.

The Combined Estates Financial Statements (as defined in Note 2) as of December 31, 2008 pertain to the financial statements for each domestic Estate in liquidation set forth below (collectively, "2008 Estates"):

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

In addition to the 2008 Estates, the audit of the Combined Estates Financial Statements as of December 31, 2009, includes Colonial Indemnity Insurance Company, which was placed into liquidation on July 7, 2009, and United Community Insurance Company, the oversight of which was transferred to the NYLB as of March 2009.

*The liquidation proceedings for these estates were terminated during the period ended December 31, 2009.

Note 1: **Nature of Operations of the Combined Domestic Estates in Liquidation**
Background (continued)

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

The financial statements for the following estates are not included in the Combined Estates Financial Statements for the years ended December 31, 2009 and 2008: (i) Colonial Cooperative Insurance Company in Rehabilitation, Lion Insurance Company in Rehabilitation, Executive Life Insurance Company of New York in Rehabilitation, Frontier Insurance Company in Rehabilitation, and Professional Liability Insurance Company of America in Rehabilitation (collectively, "Domestic Estates in Rehabilitation"); (ii) Titledge Insurance Company in Liquidation and The Insurance Corporation of New York in Liquidation; (iii) fraternal associations; (iv) ancillary estates; (v) conservations; and (vi) eight shell companies placed into liquidation in 2010.

NYLB's Role With Respect to the Security Funds

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") and Public Motor Vehicle Liability Security Fund ("PMV Fund"), established pursuant to Insurance Law Article 76, and the Workers' Compensation Security Fund ("WC Fund"), established pursuant to New York Workers' Compensation Law ("Workers' Compensation Law") Article 6-A. The P/C Fund, PMV Fund and WC Fund are each referred to herein as a "Security Fund" and are collectively referred to herein as the "Security Funds."

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 Section 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 Insurance Law 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" that fall within the coverage contemplated by Vehicle and Traffic Law Section 370. 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.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Background (continued)
NYLB's Role With Respect to the Security Funds (continued)

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 has been tried or settled, the NYLB is charged with: (i) preliminarily approving the payment amount; (ii) presenting the proposed payment to the appropriate 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 appropriate Security Fund account, and forwarding same.

Unlike PMV Fund and P/C Fund eligible claims, workers' compensation claims are adjudicated by the Workers' Compensation Board (the "Board") and the NYLB is bound by the decisions of the Board. 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 the receivership proceeding of a Domestic Estate in Liquidation.

Guaranty Funds

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

PROFILES OF COMBINED DOMESTIC ESTATES IN LIQUIDATION

(1) 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 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.

**Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)**

(2) 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 Casualty was licensed to transact business in New York as an insurer. In 1956, Eastern Casualty was acquired by the American Casualty Company of Reading Pennsylvania. On December 16, 1959, ownership of Eastern Casualty was passed to the American Plan Corporation and 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.

(3) 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.

American Fidelity's rehabilitation required improvement or elimination of its impaired capital and surplus. American Fidelity failed to correct its impairment.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(3) American Fidelity Fire Insurance Company (continued)

Accordingly, further efforts to rehabilitate American Fidelity were futile. 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.

(4) 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 as 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
Profiles of Combined Domestic Estates in Liquidation (continued)

(5) Colonial Indemnity Insurance Company

Colonial Indemnity Insurance Company ("Colonial") is a wholly-owned subsidiary of Eagle Insurance Company ("Eagle"), a New Jersey domiciled property and casualty insurance company, which is, in turn, a wholly-owned subsidiary of The Robert Plan Corporation ("The Robert Plan"), Colonial's ultimate parent.

Colonial is a property and casualty insurer domiciled in New York. Colonial was incorporated on September 13, 1961 as the Charter Indemnity Company, commenced business on August 24, 1962 and adopted its present name on March 10, 1986. Colonial was licensed to transact the kinds of insurance specified in New York Insurance Law ("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), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 21 (Marine Protection and Indemnity) and 30 (Involuntary Unemployment), in New York State.

Pursuant to Insurance Law Article 74, on September 6, 2007, the Receivership Court placed Colonial into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Colonial. Further efforts to rehabilitate Colonial were futile. On July 7, 2009, the Receivership Court placed Colonial into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Colonial.

(6) Community Health Plan

Pursuant to Section 402 of the New York Not-for-Profit Corporation Law, Community Health Plan ("CHP") was incorporated under the laws of the State of New York on November 6, 1974 as Capital Area Community Health Plan, Inc. As of June 28, 1976, the Insurance Department authorized CHP to solicit and enter into contracts with subscribers. On January 1, 1977, CHP became licensed by the Insurance Department to transact business as of December 9, 1976. On January 1, 1977, CHP received an operating certificate under Article 28 of the New York Public Health Law and commenced operations.

CHP was licensed and operated principally as a health maintenance organization ("HMO") in New York, Vermont and Massachusetts. Its insureds consisted of groups and individuals, including Medicare, Medicaid, and Child Health Plus memberships.

On January 11, 1995, a Certificate of Amendment was filed with the Secretary of State's office changing the company's name from Capital Area Community Health Plan, Inc. to Community Health Plan. On June 18, 1997, Kaiser Foundation Health Plan of New York, an HMO, was merged into CHP.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(6) Community Health Plan (continued)

On July 26, 2005, CHP board of directors unanimously consented to the entry of an order of liquidation pursuant to Insurance Law Article 74. A court order entered August 30, 2007, placed CHP into liquidation and appointed the then-Superintendent of Insurance of the State of New York (and his successors in office) liquidator of CHP.

In June 2009, the Receivership Court granted the Liquidator's petition to close the CHP receivership proceeding.

(7) 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, Consolidated Taxpayers adopted the name Consolidated Mutual Insurance Company ("Consolidated Mutual"). 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.

(8) Contractors Casualty and Surety Company

On February 28, 1991, Contractors Casualty and Surety Company ("Contractors Casualty") 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. Contractors Casualty wrote performance and payment bonds for small and medium size contractors and ceased underwriting in early 1999. Contractors Casualty was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraph 16 (Fidelity and Surety).

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

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

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(9) 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. On January 1, 1956, Cosmopolitan Mutual Fire Insurance Company, organized in 1945, was absorbed by Cosmopolitan Mutual Casualty Insurance Company, and its 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.

Cosmopolitan's rehabilitation required improvement or elimination of its impaired capital and surplus. Cosmopolitan failed to correct its impairment. 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.

(10) 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 ("First Central") on March 26, 1984.

All outstanding stock of First Central 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, First Central.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(10) First Central Insurance Company (continued)

First Central 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). First Central also offered specialty programs, including directors and officer's liability insurance for cooperatives and condominiums and alternative business owners policies. First Central ceased writing new business as of March 10, 1997.

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

The rehabilitation of First Central required a willing investor to invest sufficient capital in First Central to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in First Central.

Accordingly, further efforts to rehabilitate First Central were futile. A court order, entered on April 27, 1998, placed First Central into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of First Central.

(11) 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.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(11) Galaxy Insurance Company (continued)

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 of Acceleration Life Insurance Company.

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 adapted 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 in office) liquidator of Galaxy.

(12) 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 property and casualty insurer that specialized in writing 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 amount of general liability insurance was written as well as surety bonds. Medical malpractice policies were written at manual rates for policies up to $1 million per policy and $3 million in the aggregate.

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 and 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.

(13) Health Partners of New York, LLC

WSNCHS East Inc. d/b/a Broadlawn Health Partners d/b/a The Long Island Home ("The LI Home"), is a not-for-profit, tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. In September 2001, The LI Home entered into a contract with the New York State Department of Health (the "Health Department") to operate a managed long-term care plan ("Managed Care Plan") under Section 44403(f) of the New York Public Health Law ("Public Health Law").

Note 1: <u>Nature of Operations of the Combined Domestic Estates in Liquidation</u>
<u>Profiles of Combined Domestic Estates in Liquidation</u> (continued)

(13) <u>Health Partners of New York, LLC</u> (continued)

In 2006, the Health Department directed The LI Home to create a new and separate entity to operate the Managed Care Plan. Accordingly, on October 26, 2006, Health Partners of New York, LLC ("HPNY") was formed as a single member limited liability company whose sole member was The Home. As of January 1, 2007, HPNY assumed the operations of the Managed Care Plan.

In August 2007, HPNY notified the Health Department that it was withdrawing from the Managed Care Program and, as of October 31, 2007, HPNY ceased operations of the Managed Care Plan.

On June 19, 2008, the board of directors of The LI Home unanimously passed a resolution consenting to the entry of an order of liquidation pursuant to Insurance Law Article 74.

HPNY was placed into liquidation by a court order entered December 22, 2008, and the then-Superintendent (and his successors in office) was appointed liquidator of HPNY.

(14) <u>Home Mutual Insurance Company of Binghamton, New York</u>

On February 1, 1901, Home Mutual Insurance Company of Binghamton, New York ("Home Mutual") 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. Home Mutual 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 ("Pool") was formed, which included NYMB and Home Mutual. The Pool called for all business to be pooled and combined losses and expenses to be pro-rated as follows: NYMB (85 percent) and Home Mutual (15 percent).

Home 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), 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 15, 1997, Home 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 Home Mutual. A court order, entered on August 5, 1997, placed Home Mutual into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Home Mutual.

. **Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation**
Profiles of Combined Domestic Estates in Liquidation (continued)

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

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. Home Mutual issued a payment of $2.6 million and received a 5 percent ceding commission on all policies that were renewed. Despite the Agreement, Home Mutual remained liable for all its obligations incurred prior to October 1, 1997.

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

(15) Horizon Healthcare of New York, Inc.

On February 4, 1998, Horizon Healthcare of New York, Inc. ("HHNY") was incorporated under the laws of the State of New York under the name Medigroup of New York, Inc. On June 20, 1998, a certificate of amendment to the company's articles of incorporation was filed changing the company's name to its present name. HHNY was a wholly owned subsidiary of Horizon Healthcare Plan Holding Company, Inc. ("Horizon Healthcare Plan"), which in turn was a wholly owned subsidiary of Horizon Healthcare Services, Inc. d/b/a Horizon Blue Cross Blue Shield of New Jersey ("HHS").

Pursuant to Article 44 of the New York State Public Health Law, the Health Department issued a certificate of authority to HHNY, with an effective date of December 31, 1999, authorizing it to operate as a health maintenance organization ("HMO") in Bronx, Kings, Nassau, New York, Orange, Queens, Richmond, Rockland, Suffolk and Westchester counties.

Despite an infusion of $10.6 million by HHS into HHNY from January 1, 1999 through March 31, 2005, HHNY never became profitable.

Pursuant to a revised certificate of authority issued by the Health Department, effective April 1, 2005, HHNY was precluded from marketing to or enrolling new.members, and effective October 1, 2005, HHNY's authority was limited to conducting close-out activities and payment of outstanding claims.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(15) Horizon Healthcare of New York, Inc. (continued)

On April 13, 2005, HHNY's board of directors unanimously passed a resolution consenting to the entry of an order of liquidation pursuant to Insurance Law Article 74.

Pursuant to an order entered April 17, 2008, HHNY was placed into liquidation and the then-Superintendent (and his successors in office) was appointed liquidator of HHNY.

(16) Horizon Insurance Company

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., a Delaware holding company based in North Bergen, New Jersey. Ambassador Insurance Company ("Ambassador"), a Vermont company, was the other subsidiary of the 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).

On January 10, 1980, all outstanding capital stock was purchased from Sasco Holding Corporation by Ambassador and subsequently the administrative offices were moved from Valley Stream, New York to North Bergen, New Jersey. On December 29, 1980, Ambassador entered into a full service agreement with Horizon whereby Ambasador would furnish all administrative services and functions necessary to operate Horizon.

A court order entered November 29, 1984, placed Horizon into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Horizon.

(17) 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.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(17) Ideal Mutual Insurance Company (continued)

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 4107 paragraphs 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.

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.

(18) MagnaHealth of New York, Inc.

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 Health Department authorized MagnaHealth to operate as a health maintenance organization ("HMO") pursuant to Article 44 of the New York Public Health Law.

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 Health Department 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 Insurance Department determined that MagnaHealth 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.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(19) MDNY Healthcare, Inc.

MDNY Healthcare, Inc. ("MDNY") was originally incorporated under the laws of the State of New York on June 21, 1995, under the name MDLI Healthcare, Inc. ("MDLI"). On October 12, 1995, a certificate of amendment to its articles of incorporation was filed, changing MDLI's name to MDNY Healthcare, Inc. MDNY was licensed to operate as a health maintenance organization ("HMO") in Nassau and Suffolk counties pursuant to the provisions of Article 44 of the New York Public Health Law. On November 1, 1995, the Insurance Department granted a conditional certificate of authority to MDNY, which commenced operations as an HMO on January 1, 1996. In November 1996, MDNY received approval from the United States Department of Health and Human Services' Health Care Finance Administration ("HCFA"), effective as of February 1, 1997, to enroll Medicare eligible members.

On September 14, 1998, MDNY received approval from the Health Department, effective as of January 1, 1999, to expand its service areas to include Erie and Niagara counties. MDNY subsequently requested and received approval from the Health Department to withdraw its marketing and enrollment services from Erie and Niagara counties as of April 1, 2000. In October 2000, MDNY was also granted approval from HCFA to terminate its enrollment of Medicare-eligible members.

On June 27, 2008, MDNY's board of directors unanimously passed a resolution consenting to the entry of an order of liquidation pursuant to Insurance Law Article 74. A court order entered July 31, 2008, placed MDNY into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MDNY.

(20) 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 New York State Legislature subsequently extended this authority on a periodic basis. In 1999, the Legislature enacted a statute (L. 1999, Ch. 407, Part JJ, hereinafter, "MMIA Dissolution Statute") providing for the dissolution of MMIA by August 31, 2000. MMIA was replaced by the New York Medical Malpractice Insurance Plan ("MMI Plan"), an assigned risk plan that was intended to begin writing policies on July1, 2000.

Members of the MMI Plan, as an alternative to receiving direct assignments of medical malpractice policies under the MMI Plan, established the Medical

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(20) Medical Malpractice Insurance Association (continued)

Malpractice Insurance Pool ("MMI Pool"), which held each participating insurer liable for each MMI Pool risk in an amount proportional to the premiums that the participating insurer writes in the medical malpractice insurance market.

By legislative act effective July 11, 2000, the MMIA Dissolution Statute was amended to provide for MMIA's dissolution when the then-Superintendent deemed it proper, instead of August 31, 2000. On July 14, 2000, MMIA and Medical Liability Malpractice Insurance Company ("MLMIC"), entered into an agreement, whereby MLMIC assumed all of MMIA's liabilities, with no cap, for a sum certain. Effective June 30, 2000, MMIA ceased writing policies. 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.

Pursuant to a court order issued in 2006, the Liquidator was authorized: (i) to the extent assets are available, pay all MMIA's administrative costs and expenses, (ii) to the extent assets are available, make a distribution, consistent with Insurance Law Article 74, to MMIA's creditors with allowed claims, including interest and (iii) after the payment of all administrative expenses and allowed claims, to transfer all of MMIA's remaining assets to the Miscellaneous Special Revenue Fund, the New York State fund authorized pursuant to New York State Finance Law Section 71, to receive the proceeds of special sources that are specifically restricted by law from being deposited in the general funds of the State.

Pursuant to an order of the Court entered April 2, 2009, the MMIA liquidation proceeding was terminated.

(21) 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.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(21) Midland Insurance Company (continued)

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.

(22) Midland Property and Casualty Insurance Company

On December 19, 1973, Reserve Insurance Company of New York ("Reserve Insurance") was incorporated under the laws of the State of New York and as of April 1, 1974, was licensed to transact business in New York as a stock casualty insurer. On January 29, 1981, Midland Insurance Company purchased all of the outstanding capital stock of Midland Property and Casualty Insurance Company ("MIDPAC") from the Market Insurance Company, which acquired its interest by a surplus contribution from its former parent, Reserve Insurance. In 1981, Reserve Insurance, with administrative offices in Chicago, Illinois, adopted the company name Midland Property and Casualty Insurance Company ("MIDPAC") and moved its offices to New York, New York.

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).

As a specialty carrier, MIDPAC restricted underwriting acceptances almost exclusively to the handling of excess and surplus lines of business. On an admitted basis in the states in which MIDPAC was licensed, MIDPAC wrote a limited volume of excess limits and umbrella liability coverage. MIDPAC, an asset and wholly -owned subsidiary of Midland, was taken over by the NYLB on April 3, 1986 when Midland was placed into liquidation by a court order.

On March 2, 1990, MIDPAC'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 MIDPAC, despite being solvent. A court order entered on June 1, 1990 placed MIDPAC into liquidation and 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.

**Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)**

(23) MML Assurance, Inc.

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 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 Superintendent 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.

(24) 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).

A court order entered on March 5, 1984 placed Nassau into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Nassau. Further, 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.

(25) 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.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

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

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 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. 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.

(26) New York Surety Company

On June 9, 1983, New York Surety Company ("NY Surety") 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, NY Surety voluntarily ceased writing new business. A court order, entered on June 24, 1998, placed NY Surety into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of NY Surety.

The rehabilitation of NY Surety required a willing investor to invest sufficient capital into NY Surety to eliminate its insolvency and meet minimum surplus requirements.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(26) New York Surety Company (continued)

No person or entity was willing to make the required investment in NY Surety. Accordingly, further efforts to rehabilitate NY Surety were futile. A court order entered on September 21, 1998, placed NY Surety into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of NY Surety.

(27) 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 Realm's capital stock and, on September 26, 1996, the name Realm National Insurance Company was adopted. Stirling Cooke is wholly-owned by AlphaStar Insurance Group Ltd. (Bermuda). On December 15, 2003, AlphaStar filed for bankruptcy protection under Chapter XI of the Federal Bankruptcy Laws.

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).

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.

(28) Transtate Insurance Company

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),

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(28) Transtate Insurance Company (continued)

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 December 17, 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.

(29) 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.

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.

Note 1: **Nature of Operations of the Combined Domestic Estates in Liquidation**
Profiles of Combined Domestic Estates in Liquidation (continued)

(30) United Community Insurance Company

As of February 28, 1967, Urban Community Insurance Company ("Urban Community") was incorporated under the laws of the State of New York. Urban Community was authorized to transact business as a stock property/casualty insurer in thirty eight states. On December 30, 1981, Albert W. Lawrence acquired Urban Community. On February 12, 1982, Urban Community was reorganized and incorporated as United Community Insurance Company ("UCIC"). In 1982, Lawrence Group Inc. ("Lawrence Group") acquired UCIC as a subsidiary and in 1986 Lawrence Insurance Group acquired UCIC as a wholly owned subsidiary.

In 1985 UCIC commenced underwriting commercial business, targeting industry associations and groups providing coverage through insurance programs designed for public schools, municipalities, hospitals, related business associations, and commercial enterprises. UCIC also wrote workers' compensation policies in many of the states in which it had been licensed.

In February 1994, UCIC voluntarily ceased underwriting all new and renewal personal and commercial lines of business. Pursuant to Insurance Law Article 74, on July 7, 1994, the Supreme Court of the State of New York, County of Schenectady, issued an order of rehabilitation placing UCIC into rehabilitation and appointing the then-Superintendent as Rehabilitator. On June 9, 1995, pursuant to an agreement, Andrew A. Alberti was appointed as agent for the Rehabilitator to ascertain whether UCIC could be rehabilitated. Efforts to rehabilitate UCIC proved futile. Accordingly the Receivership Court entered an order, on November 10, 1995, placing UCIC into liquidation and appointing the then-Superintendent and each of his successors in office as liquidator of UCIC.

Effective March 1, 2009, oversight of the UCIC liquidation proceeding was transferred to the NYLB and as a result is included in the Combined Estates Financial Statements as of December 31, 2009.

(31) U.S. Capital Insurance Company

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. The current name, U.S. Capital Insurance Company ("U.S. Capital"), was adopted on June 14, 1989.

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 full integrated into the international insurance markets and operated through five subsidiary insurance and reinsurance companies.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

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

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.

(32) 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

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(32) Whiting National Insurance Company (continued)

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.

Note 2: Summary of Significant Accounting Policies
Basis of Presentation

The Combined Statements of Assets, Liabilities, and Deficit of Assets Over Liabilities – Modified Cash Basis and Combined Statements of Cash Receipts and Disbursements and Changes in Cash and Invested Assets (Unrestricted) – Modified Cash Basis (collectively, "Combined Estates Financial Statements") reflect the financial position and cash receipts and disbursements 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 following supplemental schedules are attached hereto as:

- Appendix A: December 31, 2009: The Domestic Estates in Liquidation Managed by the New York Liquidation Bureau Schedule of Combined Estates Assets, Liabilities and Accumulated Surplus (Deficit) of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash and Invested Assets – Modified Cash Basis ("2009 Supplemental Combining Schedules"); and

Note 2: Summary of Significant Accounting Policies (continued)
Basis of Presentation (continued)

- Appendix B: December 31, 2008: The Domestic Estates in Liquidation Managed by the New York Liquidation Bureau Schedule of Combined Estates Assets, Liabilities and Accumulated Surplus (Deficit) of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash and Invested Assets – Modified Cash Basis ("2008 Supplemental Combining Schedules")

The 2009 and 2008 Supplemental Combining Schedules both include cash transactions, the accruals noted above, case reserves and paid liabilities.

In the beginning 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.

Use of Estimates

Preparation of the Combined Estates Financial Statements requires Management to make estimates and assumptions that may affect the amounts reported herein and related accompanying notes. When these amounts are ultimately determined (*i.e.*, no longer require the use of estimates and assumptions to be calculated), the determined amounts may differ significantly from the amounts reported herein.

Cash and Cash Equivalents

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

The NYLB maintains the cash balances of the Combined Domestic Estates in Liquidation in investments pursuant to statutory requirements and at financial institutions that are insured by the Federal Deposit Insurance Corporation. These institutions currently have short term ratings of P-1 (Moody's), A-1 (S&P) and F1+ (Fitch). These ratings are the highest possible short term ratings. Management monitors balances of cash in excess of insured limits and believes that, 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.

Note 2: Summary of Significant Accounting Policies (continued)

Invested Assets (continued)

Bonds include long-term U.S. treasury and agency securities that are generally 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.

Equity securities include common stocks and are carried at market value with the related unrealized gains or losses shown in the Combined Statements of Cash Receipts and Disbursements and Changes in Cash and Invested Assets (Unrestricted) Modified Cash Basis.

Accrued investment income includes revenue from the investment portfolio that is earned but not yet received and is reported as Accrued Investment Income in the Combined Statement of Assets, Liabilities and Deficit of Assets Over Liabilities – Modified Cash Basis. The change in accrued investment income is recorded in the Deficit of Combined Assets over Combined Liabilities.

Investment income received includes interest income received from cash deposits, interest on bonds and short-term investments, dividends, realized gains/losses on sale of investments and the amortization of bond premium and discount.

Realized gains and losses on investments sold are computed using the specific identification method, wherein gains and losses are recognized as of the settlement date and included in proceeds from investments.

For each reporting period (annual and interim periods), Management reviews investments with unrealized losses on a security-by-security basis and assesses whether such declines are other-than-temporary. In assessing whether a decline is other-than-temporary, Management considers various factors including, but not limited to: (i) the rating of the security available from external sources; (ii) the issuer's record of default, if any, on scheduled interest and/or principal payments; (iii) an analysis of the security's market value (*e.g.*, amount, duration and significance of the decline); (iv) Management's intent and ability to hold the investment until recovery; (v) the market conditions during which the decline has occurred; (vi) an economic analysis of the issuer's industry; and (vii) the financial strength and liquidity of the issuer. Once a determination has been made that a specific other -than-temporary impairment exists, a decrease in surplus is incurred and an allowance is recorded in a valuation account against the cost basis of the impaired asset and adjusted to its fair market value. The cost basis is not adjusted directly but rather through this valuation account.

Note 2: Summary of Significant Accounting Policies (continued)

Reinsurance

Reinsurance recoverables on paid or allowed losses and loss adjustment expenses ("LAE") are reported as an asset when billed to reinsurers. Reinsurance recoverables on unpaid and non-allowed losses and LAE case reserves are reported as an asset when the reserve is set. 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 case 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 from the reinsurer. However, such a transfer does not relieve the individual Domestic Estate in Liquidation of its obligation should the reinsurer not honor its commitments.

Receivables from Others

Receivables from Others include: (i) net balances receivable from affiliates of NYMB and Cosmopolitan; (ii) cash deposited with the central disbursement account ("CDA") for administrative expenses; and (iii) expense reimbursement receivables from the Security Funds.

As of December 31, 2009 and 2008, the Receivables from Others are as follows:

	2009	2008
Receivable From Affiliates of NYMB/ Cosmopolitan	$ 690,120	$ 690,120
Cash on Deposit with CDA	15,941,000	15,941,000
Security Fund Expense Reimbursement Receivables	640,212	1,148,178
Total	$ 17,271,332	$ 17,779,298

The CDA is discussed in further detail in Note 6 below.

Other Assets

As of December 31, 2009 and 2008, the components of other assets held by certain Domestic Estates in Liquidation are as follows:

	2009	2008
Real Estate	$ 2,485,000	$ 2,485,000
Other Assets	1,609,336	2,065,117
Total	$ 4,094,3364,094,336	$ 4,550,117

Note 2: Summary of Significant Accounting Policies (continued)

Restricted Assets

Statutory Deposits in New York or Other States: Statutory deposits in New York or other states are held by various state regulatory authorities in compliance with the insurance laws of the respective states and recorded at fair market value.

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

Other Restricted Assets

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 Claims:

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 Assets:

Restricted assets are held to meet other obligations, such as dividends, second injury claim payments and escheated funds.

Note 2: Summary of Significant Accounting Policies (continued)

Restricted Assets (continued)

As of December 31, 2009, the details of the Restricted Assets per Domestic Estate in Liquidation are set forth in the table below:

	Domestic Estate in Liquidation	Statutory Deposits	Security Fund Cash	Funds Held for Secured Claims	Other	Total
(1)	American Agents	$ -	$ 19,162	$ -	$ -	$ 19,162
(2)	American Consumer	-	-	-	40,792	40,792
(3)	American Fidelity	189,740	28,293	64,628	113,017	395,678
(4)	Capital Mutual	-	247,497	56,389	-	303,886
(5)	Colonial	-	-	-	-	-
(6)	CHP	` -	-	-	50,155	50,155
(7)	Consolidated Mutual	-	-	10,942	388,285	399,227
(8)	Contractors Casualty	-	-	158,453	-	158,453
(9)	Cosmopolitan	-	4,564	665,301	239,231	909,096
(10)	First Central	-	66,160	53,405	386,861	506,426
(11)	Galaxy	-	-	161,101	-	161,101
(12)	Group Council	-	201,280	-	-	201,280
(13)	HPNY	-	-	-	-	-
(14)	Home Mutual	-	-	-	-	-
(15)	HHNY	-	-	-	-	-
(16)	Horizon	-	-	-	336,191	336,191
(17)	Ideal	153,709	-	3,254,220	339,199	3,747,128
(18)	MagnaHealth	-	-	-	-	-
(19)	MDNY	-	-	-	-	-
(20)	Midland	229,343	250	1,091,891	80,278	1,401,762
(21)	MIDPAC	-	-	-	-	-
(22)	MMIA	-	-	-	-	-
(23)	MMLA	-	-	-	-	-
(24)	Nassau	-	10,792	-	-	10,792
(25)	NYMB	-	2,932,133	166,065	-	3,098,198
(26)	NY Surety	-	-	991,794	-	991,794
(27)	Realm	1,173,192	14,715	164,995	25,933	1,378,835
(28)	Transtate	-	-	-	-	-
(29)	Union	368,768	-	5,876,102	28,894	6,273,764
(30)	UCIC	104,443	-	-	507,879	612,322
(31)	U.S. Capital	-	1,500	82,731	-	84,231
(32)	Whiting	-	-	-	111,384	111,384
	Total:	$ 2,219,195	$ 3,526,346	$ 12,798,017	$ 2,648,099	$ 21,191,657

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY
THE NEW YORK LIQUIDATION BUREAU
Notes to Combined Financial Statements
of the Domestic Estates in Liquidation
For the Years Ended December 31, 2009 and 2008

Note 2: Summary of Significant Accounting Policies (continued)

Restricted Assets (continued)

As of December 31, 2008, the details of the Restricted Assets per Domestic Estate in Liquidation are set forth in the table below:

	Domestic Estate in Liquidation	Statutory Deposits	Security Fund Cash	Funds Held for Secured Claims	Other	Total
(1)	American Agents	$ -	$ 19,159	$ -	$ -	$ 19,159
(2)	American Consumer	-	-	-	40,746	40,746
(3)	American Fidelity	188,352	28,289	64,595	112,886	394,122
(4)	Capital Mutual	-	247,460	56,361	-	303,821
(5)	CHP	-	-	-	-	-
(6)	Consolidated Mutual	-	-	10,936	387,849	398,785
(7)	Contractors Casualty	-	-	158,068	-	158,068
(8)	Cosmopolitan	-	4,663	664,969	238,873	908,505
(9)	First Central	-	66,151	53,378	386,806	506,335
(10)	Galaxy	-	-	161,036	-	161,036
(11)	Group Council	-	201,250	-	-	201,250
(12)	HPNY	-	-	-	-	-
(13)	Home Mutual	-	-	-	-	-
(14)	HHNY	-	-	-	-	-
(15)	Horizon	-	-	-	335,792	335,792
(16)	Ideal	3,143,979	-	2,833,455	337,863	6,315,297
(17)	MagnaHealth	-	-	-	-	-
(18)	MDNY	-	-	-	-	-
(19)	Midland	7,651,237	250	1,094,411	80,226	8,826,124
(20)	MIDPAC	-	-	-	-	-
(21)	MMIA					
(22)	MMLA		-	-	-	-
(23)	Nassau	-	10,790	2,565,617	-	2,576,407
(24)	NYMB	-	2,931,693	165,981	-	3,097,674
(25)	NY Surety	-	-	1,237,624	-	1,237,624
(26)	Realm	1,698,393	14,713	164,916	25,933	1,903,955
(27)	Transtate	-	-	-	-	-
(28)	Union	366,550	-	6,556,817	28,866	6,952,233
(29)	U.S. Capital	-	1,500	82,691	-	84,191
(30)	Whiting	-	-	-	111,382	111,382
	Total:	$ 13,048,511	$ 3,525,918	$ 15,870,855	$ 2,087,222	$ 34,532,506

Note 2: <u>Summary of Significant Accounting Policies</u> (continued)

<u>Secured Claims</u>

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

<u>Unsecured Claims</u>

Unsecured claims are comprised of one or more of the following:

(i) <u>Allowed Claims</u>

Allowed claims are the amounts that have been approved by the Supreme Court of the State of New York ("Receivership Court") for incurred covered losses 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 or dividends. The dividend distributions for the Combined Domestic Estates in Liquidation are set forth and discussed in detail in Distribution of Assets, below.

(ii) <u>Non-Allowed Claims</u>

Non-allowed claim liabilities consist of one or both of the following:

1. <u>Established Reserves</u>

Established reserves are amounts that have been determined by the NYLB to be reasonable estimates of claims for incurred covered losses and associated LAE not yet approved by the appropriate Receivership Court.

Established reserves are estimated using individual case basis valuations and statistical analyses and are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, Management believes that the established reserves for claims for incurred covered losses and the associated LAE are reasonable. The established reserves are continually reviewed and adjusted as necessary, as experience develops or new information becomes known.

Established 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 the reserve.

Because the Estates are in liquidation, no provision is made for IBNR loss reserves, including expected future development on claims already reported.

Note 2: Summary of Significant Accounting Policies (continued)
Unsecured Claims (continued)
Established Reserves (continued)

Security Fund LAE reserves are calculated as a percentage of loss reserves, which reflect the historical percentage of LAE expenses paid as a percentage of losses paid. 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. **Reserves for Amounts Claimed**

The liabilities for creditor claims which have neither been established by the NYLB nor received approval from the appropriate Receivership Court are carried as claimed amounts. Therefore, claimed amount reserves may be overstated.

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

Distribution of Assets

The Receiver recommends and seeks court approval regarding any distributions from any 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 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 class receive any payment. No sub-classes are established within any class. No equitable remedy may be used to avoid the order of the classification of claims 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 June 29, 1999. In 2005, the scheme of distribution of assets provided in Insurance Law Section 7434 was applied retroactively.

Note 2: Summary of Significant Accounting Policies (continued)

Distribution of Assets (continued)

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.

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

(vi) Class Six – General Creditor Claims
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.

Note 2: Summary of Significant Accounting Policies (continued)

Distribution of Assets (continued)

Provided below is a detailed description of the creditor classes.

Class One – Administrative Claims

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

Class Two – Claims 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 Funds, but excluding claims under reinsurance contracts.

Class Three through Class Nine – Subordinate Class of Creditor 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 classes of creditor 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.

The details for dividends distributed from the Domestic Estates in Liquidation listed below for the years ended December 31, 2009 and 2008, are as follows and reported as an offset to liabilities on the balance sheet:

	2009	2008
American Agents	$ -	$ -
American Consumer	6,178	-
American Fidelity	3,455	-
CHP	178,460	-
Cosmopolitan	62,972	-
First Central	3,020,068	-
Horizon	33,717	-
Ideal	753,422	7,041
MagnaHealth	295,795	1,623,220
Midland	129,213	-
MMLA	5,770,425	60,000,000
NYMB	-	-
Whiting	51,073	-
Total	$ 10,304,778	$ 61,630,261

Note 2: **Summary of Significant Accounting Policies (continued)**

Allocation of Expenses

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

Taxes

When net income is generated for a specific Domestic Estate in Liquidation such income is subject to federal, New York State franchise and local taxes. The net income is offset against any net operating loss ("NOL") carry forwards. Net losses are added to the NOL carry forwards.

Note 3: **Investments**

The components of net investment income received for the years ended December 31, 2009 and 2008, are as follows:

	2009	2008
Interest on Bonds	$ 1,414,465	$ 8,122,246
Interest on Short-Term Investments and Cash Equivalents	7,305,960	22,337,847
Realized Gain on Sale of Investments	513,853	343,905
Dividends	125,026	2,780
Total Gross Investment Income	9,359,304	30,806,778
Net Amortization of Bond Premium and Discount	39,875	35,361
Net Investment Income Received	$ 9,399,179	$ 30,842,139

Note 3: Investments (continued)

As of December 31, 2009, the amortized cost and fair market value of short-term investments, bonds and equities for each Domestic Estate in Liquidation is as follows:

Domestic Estates in Liquidation	December 31, 2009 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(1) American Agents	$ 7,999,005	$ 3,550	$ -	$ 8,002,555
(2) American Consumer	-	-	-	-
(3) American Fidelity	16,483	-	(2,029)	14,454
(4) CHP				
(5) Capital Mutual	4,056,807	2,586	-	4,059,393
(6) Colonial	-	-	-	-
(7) Consolidated Mutual	4,487,223	4,073	-	4,491,296
(8) Contractors Casualty	-	-	-	-
(9) Cosmopolitan	14,853,444	137,134	(22,500)	14,968,078
(10) First Central	44,547,442	55,706	(48,649)	44,554,499
(11) Galaxy	17,965,898	11,420	(21,774)	17,955,544
(12) Group Council	-	-	-	-
(13) HPNY	625,642	36,018	-	661,660
(14) Home Mutual	5,992,758	2,288	(4,063)	5,990,983
(15) HHNY	-	-	-	-
(16) Horizon	499,336	148	-	499,484
(17) Ideal	51,995,312	28,584	(118,063)	51,905,833
(18) MagnaHealth	-	-	-	-
(19) MDNY	450,922	22,281	-	473,203
(20) Midland	265,012,153	26,047	(736,171)	264,302,029
(21) MIDPAC	4,996,378	921	(7,443)	4,989,856
(22) MMIA	-	-	-	-
(23) MMLA	-	-	-	-
(24) Nassau	2,372	-	(292)	2,080
(25) NYMB	12,989,043	2,806	(5,938)	12,985,911
(26) NY Surety	-	-	-	-
(27) Realm	426,463	13,135	(1,007)	438,591
(28) Transtate	31,185,286	983,266	-	32,168,552
(29) Union	52,972,727	38,114	(72,866)	52,937,975
(30) UCIC	1,255,106	21,027	(26)	1,276,107
(31) U.S. Capital	6,540,184	12,199	-	6,552,383
(32) Whiting	1,498,009	443	-	1,498,452
Total	$ 530,367,993	$ 1,401,746	$ (1,040,821)	$ 530,728,918

Note 3: Investments (continued)

As of December 31, 2008, the amortized cost and fair market value of the short-term investments and bonds for each Domestic Estate in Liquidation is as follows:

		December 31, 2008			
	Domestic Estates in Liquidation	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Market Value**
(1)	American Agents	$ 9,889,719	$ 11,593	$ -	$ 9,901,312
(2)	American Consumer	1,875,894	5,784	-	1,881,678
(3)	American Fidelity	15,852,568	72,871	-	15,925,439
(4)	Capital Mutual	7,965,241	1,033	-	7,966,274
(5)	CHP	-	-	-	-
(6)	Consolidated Mutual	6,922,645	70,942	(112)	6,993,475
(7)	Contractors Casualty	499,447	144	-	499,591
(8)	Cosmopolitan	42,556,758	480,958	-	43,037,716
(9)	First Central	53,400,295	261,349	-	53,661,644
(10)	Galaxy	9,972,037	31,410	(1,660)	10,001,787
(11)	Group Council	-	-	-	-
(12)	HPNY	1,348,013	73,049	-	1,421,062
(13)	Home Mutual	3,904,064	5,343	-	3,909,407
(14)	HHNY	4,003,577	1,155	-	4,004,732
(15)	Horizon	3,211,302	5,958	-	3,217,260
(16)	Ideal	63,048,624	293,323	-	63,341,947
(17)	MagnaHealth	-	-	-	-
(18)	MDNY	5,252,454	55,612	-	5,308,066
(19)	Midland	304,218,486	1,084,676	-	305,303,162
(20)	MIDPAC	7,487,052	7,038	-	7,494,090
(21)	MMIA	-	-	-	-
(22)	MMLA	-	-	-	-
(23)	Nassau	-	-	-	-
(24)	NYMB	14,963,334	48,332	-	15,011,666
(25)	NY Surety	-	-	-	-
(26)	Realm	912,965	24,960	-	937,925
(27)	Transtate	36,882,655	1,743,895	-	38,626,550
(28)	Union	82,029,411	182,242	(167)	82,211,486
(29)	U.S. Capital	8,098,627	16,771	-	8,115,398
(30)	Whiting	2,483,373	5,269	-	2,488,642
	Total	$ 686,778,541	$ 4,483,707	$ (1,939)	$ 691,260,309

Note 3: Investments (continued)

The NYLB's short-term investments and bonds in a continuous unrealized loss position are as follows:

December 31, 2009

	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	$ 221,256,908	$ (1,039,671)	$ 847	$ (1,149)	$ 221,257,754	$ (1,040,820)
Total Fixed Income	221,256,908	(1,039,671)	847	(1,149)	221,257,754	(1,040,820)
Total	$ 221,256,908	$ (1,039,671)	$ 847	$ (1,149)	$ 221,257,754	$ (1,040,820)

December 31, 2008

	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	$ 42,537,445	$ (278)	$ 853	$ (1,660)	$ 42,538,298	$ (1,938)
Total Fixed Income	42,537,445	(278)	853	(1,660)	42,538,298	(1,938)
Total	$ 42,537,445	$ (278)	$ 853	$ (1,660)	$ 42,538,298	$ (1,938)

The NYLB's portfolio of short-term investments and bonds is sensitive to interest rate fluctuations which affect the fair market value of individual securities. Management has the intent and ability to hold the securities until recovery and/or maturity. Management does not consider the unrealized losses on the NYLB's portfolio of short-term investments and bonds as other-than-temporary impairments as of December 31, 2009 and 2008.

The amortized cost and fair market value of bonds held to maturity at December 31, 2009 are shown below by the date of contractual maturity. Actual maturity dates may differ from contractual maturity dates because borrowers may have the right to call or prepay obligations.

Note 3: Investments (continued)

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	2009	
	Fair Market Value	Amortized Cost
Combined Estates		
Due within one year	$ 6,557,585	$ 6,420,230
Due after one year and before five years	247,429,910	248,302,652
Due after five years and before ten years	3,048,282	2,582,901
Due after ten years and before fifteen years	3,548,162	3,016,591
Due after fifteen years	-	-
Total Combined Estates	$ 260,583,939	$ 260,322,374

Proceeds Received and Gains on Called Bonds

	Proceeds Received		Gain on Call	
	2009	2008	2009	2008
American Agents	$ 5,007,500	$ 4,709,250	$ -	$ 40,226
American Fidelity	-	1,431,750	-	10,102
Capital Mutual	2,503,750	-	-	-
Cosmopolitan	10,025,000	16,339,618	2,004	18,855
First Central	28,643,750	17,801,508	2,405	295
Galaxy	6,078,750	3,025,500	601	677
HPNY	338,074	-	25	-
Ideal	-	37,571,472	-	13,655
Midland	2,047,500	68,712,382	-	147,762
MIDPAC	-	29,252,000	-	20,113
MMLA	-	39,982,593	-	102,319
Transtate	11,150,000	-	-	-
U.S. Capital	-	17,425,000	-	168
Whiting	-	1,535,625	-	68
TOTALS	$ 65,794,324	$ 237,786,698	$ 5,035	$ 354,240

Note 3: Investments (continued)

Mortgage-Backed Securities

In 2009 and 2008, Management identified fourteen and seven mortgage-backed securities, respectively, with amortized costs of approximately $159,439 and $75,288, respectively.

After reviewing these securities, Management has determined, based on the information currently available to it, that there is no material direct subprime exposure through these investments.

Note 4: Reinsurance

Prior to their liquidations, most Domestic Estates in Liquidation wrote insurance coverage on a direct basis (and assumed reinsurance, if applicable). Many of these policies and 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 approved by the appropriate Receivership Court. 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 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 owed to a specific Domestic Estate in Liquidation may have a material effect on such 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

For the years ended December 31, 2009 and 2008, 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.

During 2009 and 2008, the Combined Domestic Estates in Liquidation paid $28.5 million and $27.3 million, respectively, of allocated expenses. As of December 31, 2009 and 2008, the amounts remaining due to the NYLB are $2.9 million and $4.4 million, respectively.

Note 6: Expense Reimbursement

The NYLB manages the CDA which is a pooled cash account funded solely by cash advances from the Estates and/or Security Funds. Any excess funds in the CDA may be invested in overnight investment options including RepoNet, a repurchase agreement facility, and Liquidity Direct, a facility that allows for the purchase of various U.S. Government related money market funds. The NYLB uses the money in the CDA to pay on behalf of the Estates and Security Fund administrative expenses such as employee relations and welfare, payroll, rent and related expenses, and office expenses. Such administrative expenses are allocated on a monthly basis among the Estates and Security Funds.

Note 7: Asbestos and Environmental Reserves

Major policyholders ("MPHs") – *i.e.*, the insureds who have substantial exposure to long-tail industry-wide tort claims and who are generally recognized within the insurance industry as being major policyholders – have assorted asbestos, environmental and product claims against 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 Combined Estates Financial Statements do not include IBNR reserves, including expected future development on claims already reported.

Management anticipates that, as more detailed information and documentation is received and reviewed regarding the claims of individual MPHs ("MPH Claims") in the Ideal, Union and Midland estates, these reserves will be maintained as currently set, raised, lowered or eliminated as warranted on each policyholder claim.

Note 7: <u>Asbestos and Environmental Reserves</u> (continued)

As of December 31, 2009 and 2008, the reserves for Union, Ideal and Midland and the corresponding reinsurance, if any, are as follows and reported as a Class II – Non-Allowed Liability:

	2009	2008
Union		
Gross Reserves		
Asbestos	$ 14,825,459	$ 14,825,504
Environmental	575,612	1,575,612
Products	4,130,919	4,131,018
Total Gross Reserves	19,531,990	20,532,134
Less Ceded Reserves	-	-
Net Reserves	$ 19,531,990	$ 20,532,134

	2009	2008
Ideal		
Gross Reserves		
Asbestos	$ 62,249,946	$ 79,749,946
Environmental	35,662,027	55,662,027
Products	25,200,027	27,200,027
Total Gross Reserves	123,112,000	162,612,000
Less Ceded Reserves	(13,625,000)	(13,854,375)
Net Reserves	$ 109,487,000	$ 148,757,625

	2009	2008
Midland		
Gross Reserves		
Asbestos	$ 825,149,896	$ 827,152,556
Environmental	43,253,587	43,420,344
Products	306,206,236	306,156,930
Total Gross Reserves	1,174,609,719	1,176,729,830
Less Ceded Reserves	(558,504,320)	(611,346,431)
Net Reserves	$ 616,105,399	$ 565,383,399

Note 8: <u>Taxes</u>

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 due to offsets available from NOL carry forwards.

However, for the 2009 tax year the following Domestic Estates in Liquidation paid estimated federal income tax liabilities with their tax extensions filed in March 2010, in the amounts of:

Home Mutual	-	$ 17,010
Nassau	-	$ 30,225
NYMB	-	$ 70,625

Note 8: Taxes (continued)

During the 2007 tax year, MMLA generated taxable income which triggered a federal tax liability of $1,039,058, which was paid in 2008. The Combined Domestic Estates in Liquidation are subject to New York State franchise tax and MTA local tax. Each Domestic Estate in Liquidation's tax is generally calculated at the minimum because the estates are in liquidation and do not generate premium income. State and local taxes paid on a combined basis were $19,480 in 2009, which was offset by a refund of $39,636 collected during that year. In 2008, state and local taxes paid on a combined basis were $6,750.

Effective March 1, 2009, the Combined Domestic Estates in Liquidation were subject to the Metropolitan Commuter Transportation ("MCT") mobility tax. In 2009, the total MCT mobility tax paid by the Combined Domestic Estates in Liquidation was $24,938.

At December 31, 2008, certain Domestic Estates in Liquidation had unused net operating loss carry-forwards available to offset against future taxable income as follows:

Note 8: Taxes (continued)

Estate	Trued Up Net Operating Loss Carry-Forward @ 12/31/07	Expired Year 1993	Taxable Income (Loss) for 2008	Adjusted Net Operating Loss Carry forward @ 12/31/2008
American Agents	$ (66,984,755)	$ -	$ (19,799,944)	$ (86,784,699)
American Consume	(15,586,349)	(1,040,901)	(827,115)	(15,372,563)
American Fidelity	(37,907,353)	(1,298,278)	(965,728)	(37,574,803)
Capital Mutual	(31,134,701)	-	(14,154,350)	(45,289,051)
CHP	-	-	-	-
Consolidated Mutual	(1,049,444)	-	-	(1,049,444)
Contractors Casualty	(7,634,429)	-	(1,098,252)	(8,732,681)
Cosmopolitan	(49,822,800)	-	(11,002,410)	(60,825,210)
First Central	(151,858,522)	-	(1,537,282)	(153,395,804)
Galaxy	(46,739,890)	-	(1,722,921)	(48,462,811)
Group Council	(434,886,334)	-	(332,774)	(435,219,108)
HPNY	-	-	-	-
Home Mutual	(38,282,567)	-	(1,487,369)	(39,769,936)
Horizon	(39,522,618)	-	(137,832)	(39,660,450)
HHNY	-	-	-	-
Ideal	(713,500,265)	-	(515,609)	(714,015,874)
MagnaHealth	(968,782)	-	(84,145)	(1,052,927)
MDNY	(26,364,645)	-	(24,974,223)	(51,338,868)
Midland	(1,733,601,764)	-	1,075,457	(1,732,526,307)
MIDPAC	(12,486,722)	-	2,136,276	(10,350,446)
MMIA	(1,319,086,501)	-	357,993	(1,318,728,508)
MMLA	-	-	1,165,472	-
Nassau	(28,317,521)	(630,665)	(3,108,407)	(30,795,263)
NYMB	(152,310,467)	-	(9,234,124)	(161,544,591)
NY Surety	(17,129,825)	-	(781,892)	(17,911,717)
Realm	(144,849,979)	-	(5,542,324)	(150,392,303)
Transtate	(41,227,510)	-	1,169,803	(40,057,707)
Union	(565,615,140)	(23,418,955)	(93,000,555)	(635,196,740)
U.S. Capital	(46,849,223)	-	91,513	(46,757,710)
Whiting	(19,431,624)	-	(792,685)	(20,224,309)
Totals	(5,743,149,730)	(26,388,799)	(185,103,427)	(5,903,029,830)
Valuation Allowance	5,743,149,730	26,388,799	185,103,427	5,903,029,830
Operating Loss Carry Forward, Net of Valuation Allowance	$ -	$ -	$ -	$ -

Note 8: Taxes (continued)

As of December 31, 2008, the Combined Domestic Estates in Liquidation have accumulated net operating losses of $5,903,029,830. The NOLs for 2009 will be updated upon completion of the 2009 tax returns. Because the estates are in liquidation, Management believes, based on the information currently available to it, that uncertainty exists as to whether these NOLs will be realized and whether the carry-forwards will expire unused.

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

Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") 715, *Compensation – Retirement Benefits* ("ASC 715") 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, defined benefit plans that are overfunded are shown as assets and defined benefit plans that are underfunded are shown as liabilities.

Since December 31, 2006, the NYLB has recorded the post-retirement benefit liability for each Domestic Estate in Liquidation as a Class one claim.

The NYLB has funded and non-funded contributory and non-contributory defined benefit pension and welfare 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 years ended December 31, 2009 and 2008, using ASC 715 and reported its conclusions in reports dated January 2010 and June 2009, respectively (collectively, "Actuarial Reports"). Pursuant to the Actuarial Reports, discount rates of 6.00 and 6.50 percent were selected by Management and used to determine the initial accumulated post-retirement benefit obligation ("APBO") and discount rates of 6.00 and 6.50 percent were applied to determine the APBO as of December 31, 2009 and 2008, respectively. The post-retirement benefit liability is as follows:

		2009			**2008**
APBO (Initial Accrual) as of January 1, 2009:	$	76,585,684	APBO (Initial Accrual) as of January 1, 2008:	$	70,842,109
APBO as of December 31, 2009:		81,468,263	APBO as of December 31, 2008:		76,585,684
Net Periodic Benefit Cost for the fiscal year 2009:	$	6,546,380	Net Periodic Benefit Cost for the fiscal year 2008:	$	5,790,918

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

The following presentation was extracted from the Actuarial Reports for the years ended December 31, 2009 and 2008:

	Post-Retirement Benefits	
Reconciliation of benefit obligation	2009	2008
Obligation at beginning of year	$ 76,585,684	$ 70,842,109
Service cost including expenses	1,890,023	1,454,081
Interest cost	4,656,357	4,336,837
Plan amendments	-	-
Actuarial (gain) / loss	516,465	2,122,229
Acquisitions / (divestitures)	-	-
Benefit payments and expected expenses	(2,313,833)	(2,316,857)
Medicare Part D reimbursements	133,567	147,285
Curtailments	-	-
Special termination benefits	-	-
Settlements	-	-
Obligation at end of year	$ 81,468,263	$ 76,585,684
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Actual return on plan assets	-	-
Acquisitions / (divestitures)	-	-
Employer contributions	2,180,266	2,169,572
Benefit payments and actual expenses	(2,313,833)	(2,316,857)
Medicare Part D reimbursements	133,567	147,285
Settlements	-	-
Fair value of plan assets at end of year	-	-
Unfunded status at end of year	$ (81,468,263)	$ (76,585,684)

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

As of December 31, 2009 and 2008, the Combined Domestic Estates in Liquidation have accrued as liabilities approximately $81 million and $77 million, respectively, relating to post-retirement medical benefit plan expenses. This liability is allocated among the Estates and Security Funds based on allocated salary expense. As of December 31, 2009 and 2008, the Combined Domestic Estates in Liquidation share of the estimated liability was $36.0 million and $33.6 million, respectively.

Cash Flows

Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid:

Fiscal Year Beginning:		
2010	$	2,724,000
2011		3,029,000
2012		3,386,000
2013		3,670,000
2014		3,963,000
Years 2015-2019		24,314,000

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 of all NYLB employees 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 payment by the employer of an annual invoice which is 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: <u>Repurchase Agreements</u>

The NYLB 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.

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. The repurchase agreements subsequently settle at full value.

Pursuant to the Repurchase Agreements, the broker/dealer pledges collateral in the form of U.S. Treasury securities ("Collateral"), which must be no less than 102 percent of the value of the cash invested. Management and the custodian bank verify and monitor the collateral pledged by the broker/dealer. The pledged collateral is maintained in a custody account controlled by the NYLB.

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 pledging of collateral begins again for the new day's investment.

The balances of the RAA as of December 31, 2009 and 2008, were -0- and $232,390,555, respectively. The collateral balances as of December 31, 2009 and 2008, were -0- and $237,038,366, respectively.

Note 11: <u>Legal Matters, Commitments and Contingencies</u>

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 Management reasonably believes will have a material adverse effect on the financial condition or the results of operations of the Combined Domestic Estates in Liquidation.

Management, in furtherance of the Receiver's statutory obligations, continuously endeavors to: (i) recover the assets of Domestic Estates in Liquidation; and (ii) wind up the business affairs of Domestic Estates in Liquidation including, without limitation, the litigation of policyholder and reinsurance claims.

Note 12: <u>Subsequent Events</u>

Subsequent events have been reviewed through July 28, 2010, the date which these audited statements were available to be issued. Management is aware of the following subsequent events that may have a material impact on the financial condition or results of operations of the Combined Domestic Estates in Liquidation.

A. <u>Reinsurance Collected</u>

The amount of reinsurance collected for each Domestic Estate in Liquidation subsequent to December 31, 2009, is listed in the table below. This table represents all cash collected relating to reinsurance recoverable balances open at December 31, 2009, and billed and subsequently paid in 2010.

	Domestic Estate in Liquidation	Collections of Reinsurance Recoverable on Paid Losses and LAE
(1)	American Agents	$ 28,988
(2)	American Consumer	22,529
(3)	American Fidelity	182,375
(4)	Capital Mutual	91,662
(5)	Colonial	-
(6)	CHP	-
(7)	Consolidated Mutual	-
(8)	Contractors Casualty	27,027
(9)	Cosmopolitan	320,480
(10)	First Central	1,177,672
(11)	Galaxy	530,170
(12)	Group Council	155
(13)	HPNY	-
(14)	Home Mutual	8,769
(15)	HHNY	-
(16)	Horizon	-
(17)	Ideal	1,179
(18)	MagnaHealth	-
(19)	MDNY	76,776
(20)	Midland	156,498
(21)	MIDPAC	-
(22)	MMLA	-
(23)	Nassau	-
(24)	NYMB	754,284
(25)	NY Surety	-
(26)	Realm	-
(27)	Transtate	245,896
(28)	Union	-
(29)	UCIC	204,793
(30)	U.S. Capital	-
(31)	Whiting	-
	Total	**$ 3,829,253**

Note 12: Subsequent Events (continued)

B. Market Volatility

The financial markets' continuing volatility in 2010 may materially impact the valuation of the Combined Domestic Estates in Liquidation's investments subsequent to December 31, 2009. Accordingly, the valuation of investments at December 31, 2009 and 2008, may not necessarily be indicative of amounts that could be realized in a current market exchange.

C. Changes in Composition of Estates Under NYLB Supervision

Pursuant to an order of the Receivership Court, entered March 1, 2010, Colonial Cooperative Insurance Company was placed into rehabilitation and the Superintendent (and his successors in office) was appointed Rehabilitator.

Pursuant to an order of the Receivership Court, entered March 10, 2010, the rehabilitation proceeding of The Insurance Corporation of New York ("Inscorp") was terminated and Inscorp was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

Pursuant to an order of the Receivership Court, entered April 30, 2010, Professional Liability Insurance Company of America was placed into rehabilitation and the Superintendent (and his successors in office) was appointed Rehabilitator.

Pursuant to an order of the Receivership Court, entered June 16, 2010, Titledge Insurance Company was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

D. Dividends Distributed

The following estates made dividend distributions subsequent to December 31, 2009:

American Agents	$ 792,358
CHP	50,157
MMIA	498,523
Union	33,769,203
	$ 35,088,713

E. Lease Agreement

In April 2010, the NYLB entered into a 15-year lease agreement for office space at 110 William Street, New York, New York.

F. Reclassification of Creditor Claims

Allstate Insurance Company ("Allstate") objected to the re-classification of its claim in the Ideal liquidation proceeding. On August 17, 2009, the court-appointed referee ruled in favor of Ideal. Pursuant to an order entered June 2, 2010, the Receivership Court denied Allstate's motion for an order rejecting the referee's decision and granted Ideal's cross-motion to affirm the decision.

Appendix A
December 31, 2009
The Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets, Liabilities and Accumulated Surplus (Deficit)
of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes
in Cash and Invested Assets – Modified Cash Basis

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Assets	**AAIC**	**ACIC**	**AFF**	**CMIC**	**COLONIAL**
Unrestricted Assets:					
Cash	5,351,055	3,398,735	17,586,021	11,318,304	879,063
Invested Assets					
Short-term Investments, at fair value	8,002,555	-	-	4,059,393	-
Bonds, at fair market value	-	-	-	-	-
Common Stock, at fair market value	-	-	14,454	-	-
Total Invested Assets	8,002,555	-	14,454	4,059,393	-
Total Cash and Invested Assets	13,353,610	3,398,735	17,600,475	15,377,697	879,063
Reinsurance Recoverables on Paid Losses and LAE	20,089	5,722,067	2,196,296	7,250,964	2,754,185
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(5,722,067)	(2,196,296)	(7,250,964)	(2,754,185)
Net Reinsurance Recoverables on Paid Losses and LAE	20,089	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	334,533	520,334	1,602,592	1,010,386	3,835,839
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(520,334)	(1,602,592)	(1,010,386)	(3,835,839)
Net Reinsurance Recoverables on Unpaid Losses and LAE	334,533	-	-	-	-
Receivables from Affiliates	2,005,000	175,000	255,000	116,000	-
Accrued Investment Income	22,891	-	-	5,263	-
Other Assets	-	-	-	38,948	-
Total Unrestricted Assets	15,736,123	3,573,735	17,855,475	15,537,908	879,063
Restricted Assets:					
Statutory Deposits in New York or Other States	-	-	189,740	-	-
Other Restricted Assets	19,162	40,792	205,938	303,886	-
Total Restricted Assets	19,162	40,792	395,678	303,886	-
Total Combined Assets	15,755,285	3,614,527	18,251,153	15,841,794	879,063

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Assets	CHP	CONSOLIDATED	CCSC	COSMOPOLITAN	FCIC
Unrestricted Assets:					
Cash	3	2,523,835	900,665	29,844,860	23,391,726
Invested Assets					
Short-term Investments, at fair value	-	4,491,296	-	2,997,493	26,986,397
Bonds, at fair market value	-	-	-	11,970,585	17,568,103
Common Stock, at fair market value	-	-	-	-	-
Total Invested Assets	-	4,491,296	-	14,968,078	44,554,500
Total Cash and Invested Assets	3	7,015,131	900,665	44,812,938	67,946,226
Reinsurance Recoverables on Paid Losses and LAE	-	1,411,497	644,219	5,102,951	1,535,321
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(1,411,497)	(644,219)	(5,102,951)	-
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	1,535,321
Reinsurance Recoverables on Unpaid Losses and LAE	-	749,062	763,201	8,576,852	5,469,683
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(749,062)	(763,201)	(8,576,852)	-
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	5,469,683
Receivables from Affiliates	-	214,000	10,000	214,609	2,489,000
Accrued Investment Income	-	6,581	-	12,828	62,420
Other Assets	-	-	-	964,741	34,330
Total Unrestricted Assets	3	7,235,712	910,665	46,005,116	77,536,980
Restricted Assets:					
Statutory Deposits in New York or Other States	-	-	-	-	-
Other Restricted Assets	50,155	399,227	158,453	909,096	506,426
Total Restricted Assets	50,155	399,227	158,453	909,096	506,426
Total Combined Assets	50,158	7,634,939	1,069,118	46,914,212	78,043,406

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Assets	GALAXY	GROUP COUNCIL	HPNY	HMIC	HHNY
Unrestricted Assets:					
Cash	4,127,362	2,983,635	1,430,535	4,581,896	3,740,141
Invested Assets					
Short-term Investments, at fair value	14,975,322	-	1,253	2,995,046	-
Bonds, at fair market value	2,980,222	-	660,407	2,995,938	-
Common Stock, at fair market value	-	-	-	-	-
Total Invested Assets	17,955,544	-	661,660	5,990,984	-
Total Cash and Invested Assets	22,082,906	2,983,635	2,092,195	10,572,880	3,740,141
Reinsurance Recoverables on Paid Losses and LAE	62,403	23,061,998	-	1,939,952	-
Less: Allowance for Uncollectible Reinsurance Recoverables	(62,403)	(23,061,998)	-	(1,939,952)	-
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	1,804,424	-	-	265,612	-
Less: Allowance for Uncollectible Reinsurance Recoverables	(1,804,424)	-	-	(265,612)	-
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-
Receivables from Affiliates	1,212,000	1,867,000	-	252,000	-
Accrued Investment Income	19,011	-	3,295	6,049	-
Other Assets	-	-	-	288,460	-
Total Unrestricted Assets	23,313,917	4,850,635	2,095,490	11,119,389	3,740,141
Restricted Assets:					
Statutory Deposits in New York or Other States	-	-	-	-	-
Other Restricted Assets	161,101	201,280	-	-	-
Total Restricted Assets	161,101	201,280	-	-	-
Total Combined Assets	23,475,018	5,051,915	2,095,490	11,119,389	3,740,141

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Assets	**HORIZON**	**IDEAL**	**MAGNAHEALTH**	**MDNY**
Unrestricted Assets:				
Cash	3,483,630	37,736,795	-	4,801,112
Invested Assets				
Short-term Investments, at fair value	499,483	13,988,067	-	-
Bonds, at fair market value	-	37,917,765	-	473,203
Common Stock, at fair market value	-	-	-	-
Total Invested Assets	499,483	51,905,832	-	473,203
Total Cash and Invested Assets	3,983,113	89,642,627	-	5,274,315
Reinsurance Recoverables on Paid Losses and LAE	28,371,135	53,574,239	-	76,777
Less: Allowance for Uncollectible Reinsurance Recoverables	(28,371,135)	(53,574,239)	-	-
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	76,777
Reinsurance Recoverables on Unpaid Losses and LAE	17,392	21,596,271	-	-
Less: Allowance for Uncollectible Reinsurance Recoverables	(17,392)	(21,596,271)	-	-
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-
Receivables from Affiliates	515,000	985,000	-	-
Accrued Investment Income	514	55,574	-	2,884
Other Assets	-	-	-	7,093
Total Unrestricted Assets	4,498,627	90,683,201	-	5,361,069
Restricted Assets:				
Statutory Deposits in New York or Other States	-	153,709	-	-
Other Restricted Assets	336,191	3,593,419	-	-
Total Restricted Assets	336,191	3,747,128	-	-
Total Combined Assets	4,834,818	94,430,329	-	5,361,069

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Assets	**MIDLAND**	**Elimination of IBNR**	**Midland Adjusted**	**MIDPAC**	**Elimination of IBNR**	**MIDPAC Adjusted**
Unrestricted Assets:						
Cash	173,658,982		173,658,982	3,618,445		3,618,445
Invested Assets						
Short-term Investments, at fair value	124,895,187		124,895,187	2,997,298		2,997,298
Bonds, at fair market value	139,300,762		139,300,762	1,992,558		1,992,558
Common Stock, at fair market value	106,080		106,080	-		-
Total Invested Assets	264,302,029		264,302,029	4,989,856		4,989,856
Total Cash and Invested Assets	437,961,011		437,961,011	8,608,301		8,608,301
Reinsurance Recoverables on Paid Losses and LAE	117,955,863		117,955,863	140,440		140,440
Less: Allowance for Uncollectible Reinsurance Recoverables	(63,526,771)		(63,526,771)	(70,101)		(70,101)
Net Reinsurance Recoverables on Paid Losses and LAE	54,429,092		54,429,092	70,339		70,339
Reinsurance Recoverables on Unpaid Losses and LAE	1,732,207,370	(558,717,500)	1,173,489,870	6,184,619	(2,199,600)	3,985,019
Less: Allowance for Uncollectible Reinsurance Recoverables	(1,337,982,670)	495,861,781	(842,120,889)	(3,421,823)	1,969,388	(1,452,435)
Net Reinsurance Recoverables on Unpaid Losses and LAE	394,224,700	(62,855,719)	331,368,981	2,762,796	(230,212)	2,532,584
Receivables from Affiliates	1,760,000		1,760,000	40,000		40,000
Accrued Investment Income	213,980		213,980	3,634		3,634
Other Assets	-		-			-
Total Unrestricted Assets	888,588,783	(62,855,719)	825,733,064	11,485,070	(230,212)	11,254,858
Restricted Assets:						
Statutory Deposits in New York or Other States	229,343		229,343	-		-
Other Restricted Assets	1,172,419		1,172,419	-		-
Total Restricted Assets	1,401,762		1,401,762	-		-
Total Combined Assets	889,990,545	(62,855,719)	827,134,826	11,485,070	(230,212)	11,254,858

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Assets	MMLA	NASSAU	NYMB	NYSCO	REALM
Unrestricted Assets:					
Cash	2,109,528	2,601,317	6,974,369	1,288,005	370,947
Invested Assets					
Short-term Investments, at fair value	-	-	8,991,849	-	-
Bonds, at fair market value	-	-	3,994,063	-	438,591
Common Stock, at fair market value	-	2,080	-	-	-
Total Invested Assets	-	2,080	12,985,912	-	438,591
Total Cash and Invested Assets	2,109,528	2,603,397	19,960,281	1,288,005	809,538
Reinsurance Recoverables on Paid Losses and LAE	-	12,969,954	25,557,867	1,847,456	3,425,159
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(12,969,954)	(25,557,867)	(1,847,456)	(3,425,159)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	-	-	1,420,081	906,418	22,202,216
Less: Allowance for Uncollectible Reinsurance Recoverables	-	-	(1,420,081)	(906,418)	(22,202,216)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-
Receivables from Affiliates	-	-	2,713,725	63,996	500,000
Accrued Investment Income	-	-	10,649	-	7,524
Other Assets	-	-	104,034	-	2,656,730
Total Unrestricted Assets	2,109,528	2,603,397	22,788,689	1,352,001	3,973,792
Restricted Assets:					
Statutory Deposits in New York or Other States	-	-	-	-	1,173,192
Other Restricted Assets	-	10,792	3,098,198	991,794	205,644
Total Restricted Assets	-	10,792	3,098,198	991,794	1,378,836
Total Combined Assets	2,109,528	2,614,189	25,886,887	2,343,795	5,352,628

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Assets	**TRANSTATE**	**UNION**	**UCIC**	**Elimination of IBNR**	**UCIC Adjusted**
Unrestricted Assets:					
Cash	24,689,924	49,691,894	17,346,429		17,346,429
Invested Assets					
Short-term Investments, at fair value	23,003,713	21,980,501	(1,591)		(1,591)
Bonds, at fair market value	9,164,838	30,957,475	104,352		104,352
Common Stock, at fair market value	-	-	1,173,346		1,173,346
Total Invested Assets	32,168,551	52,937,976	1,276,107		1,276,107
Total Cash and Invested Assets	56,858,475	102,629,870	18,622,536		18,622,536
Reinsurance Recoverables on Paid Losses and LAE	44,511	46,985,734	8,980,437		8,980,437
Less: Allowance for Uncollectible Reinsurance Recoverables	(159)	(46,985,734)	(8,980,437)		(8,980,437)
Net Reinsurance Recoverables on Paid Losses and LAE	44,352	-	-		-
Reinsurance Recoverables on Unpaid Losses and LAE	12,658,738	1,117,885	2,252,272	(263,202)	1,989,070
Less: Allowance for Uncollectible Reinsurance Recoverables	(11,000,000)	(1,117,885)	(2,252,272)	263,202	(1,989,070)
Net Reinsurance Recoverables on Unpaid Losses and LAE	1,658,738	-	-	-	-
Receivables from Affiliates	315,000	1,270,000	-		-
Accrued Investment Income	207,122	77,474	565		565
Other Assets	-	-	-		-
Total Unrestricted Assets	59,083,687	103,977,344	18,623,101	-	18,623,101
Restricted Assets:					
Statutory Deposits in New York or Other States	-	368,768	104,443		104,443
Other Restricted Assets	-	5,904,995	507,879		507,879
Total Restricted Assets	-	6,273,763	612,322	-	612,322
Total Combined Assets	59,083,687	110,251,107	19,235,423	-	19,235,423

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Assets	**U. S. CAPITAL**	**WHITING**	**ESTATE TOTALS**
Unrestricted Assets:			
Cash	4,868,162	6,735,244	452,032,619
Invested Assets			
Short-term Investments, at fair value	6,487,304	1,498,451	268,849,017
Bonds, at fair market value	65,079	-	260,583,941
Common Stock, at fair market value	-	-	1,295,960
Total Invested Assets	6,552,383	1,498,451	530,728,918
Total Cash and Invested Assets	11,420,545	8,233,695	982,761,537
Reinsurance Recoverables on Paid Losses and LAE	444,437	1,144,362	353,220,313
Less: Allowance for Uncollectible Reinsurance Recoverables	(444,437)	(1,144,362)	(297,044,343)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	56,175,970
Reinsurance Recoverables on Unpaid Losses and LAE	181,651	10,833	1,264,507,962
Less: Allowance for Uncollectible Reinsurance Recoverables	(181,651)	(10,833)	(923,143,443)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	341,364,519
Receivables from Affiliates	167,000	132,002	17,271,332
Accrued Investment Income	9,822	1,541	729,621
Other Assets		-	4,094,336
Total Unrestricted Assets	11,597,367	8,367,238	1,402,397,315
Restricted Assets:			
Statutory Deposits in New York or Other States	-	-	2,219,195
Other Restricted Assets	84,231	111,384	18,972,462
Total Restricted Assets	84,231	111,384	21,191,657
Total Combined Assets	11,681,598	8,478,622	1,423,588,972

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE
LIABILITIES AND LIQUIDATOR'S SURPLUS/(DEFICIT) -MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Liabilities	**AAIC**	**ACIC**	**AFF**	**CMIC**	**COLONIAL**
Secured Claims	-	34,217	163,158	56,389	295,776
Unsecured Claims:					
Class I - Administrative Claims:	3,149,512	385,311	577,895	1,361,643	161,197
Class II - Claims and Related Costs:					
Allowed	50,526,224	17,592,104	47,866,102	39,541,636	-
Non Allowed	1,983,754	-	2,881,549	4,607,061	5,717,171
IBNR	-	-	-	-	-
Total	52,509,978	17,592,104	50,747,651	44,148,697	5,717,171
Class III - Federal Government Claims:	-	-	-	441	-
Class IV - Employee Claims:	-	-	-	3,123	-
Class V - State and Local Government Claims:	306,878	44,842	92,237	52,295	-
Class VI - General Creditors:	682,397	5,353,253	9,347,291	3,922,064	1,326,743
Class VII - Late Filed Claims:	335	67,852	6,324,613	-	-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class IX - Share Holder Claims:	-	-	-	-	-
Total Combined Liabilities	56,649,100	23,477,579	67,252,845	49,544,652	7,500,887
Surplus/(Deficit) of Combined Assets over Combined Liabilities	(40,893,815)	(19,863,052)	(49,001,692)	(33,702,858)	(6,621,824)
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	15,755,285	3,614,527	18,251,153	15,841,794	879,063

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE
LIABILITIES AND LIQUIDATOR'S SURPLUS/(DEFICIT) -MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Liabilities	**CHP**	**CONSOLIDATED**	**CCSC**	**COSMOPOLITAN**	**FCIC**
Secured Claims	-	338,492	158,453	934,753	86,036
Unsecured Claims:					
Class I - Administrative Claims:	-	377,804	329,560	907,429	3,591,708
Class II - Claims and Related Costs:					
Allowed	-	13,459,517	5,366,101	51,905,951	126,489,419
Non Allowed	-	-	1,495,267	18,511,519	21,738,136
IBNR	-	-	-	-	-
Total	-	13,459,517	6,861,368	70,417,470	148,227,555
Class III - Federal Government Claims:	-	-	-	-	-
Class IV - Employee Claims:	-	-	-	-	-
Class V - State and Local Government Claims:	-	3,053	7,941	7,476	874,434
Class VI - General Creditors:	-	3,317,898	928,784	18,642,620	1,763,389
Class VII - Late Filed Claims:	-	15,120,795	-	9,973,857	-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	60,000	-	1
Class IX - Share Holder Claims:	-	-	-	-	-
Total Combined Liabilities	-	32,617,559	8,346,106	100,883,605	154,543,123
Surplus/(Deficit) of Combined Assets over Combined Liabilities	50,158	(24,982,620)	(7,276,988)	(53,969,393)	(76,499,717)
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	50,158	7,634,939	1,069,118	46,914,212	78,043,406

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE
LIABILITIES AND LIQUIDATOR'S SURPLUS/(DEFICIT) -MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Liabilities	**GALAXY**	**GROUP COUNCIL**	**HPNY**	**HMIC**	**HHNY**
Secured Claims	161,101	-	-	1,659	-
Unsecured Claims:					
Class I - Administrative Claims:	1,701,966	2,191,956	49,530	2,389,579	5,410
Class II - Claims and Related Costs:					
Allowed	52,544,632	200,583,091	-	31,029,455	-
Non Allowed	3,130,173	93,480,248	2,814,400	477,907	-
IBNR	-	-	-	-	-
Total	55,674,805	294,063,339	2,814,400	31,507,362	-
Class III - Federal Government Claims:	-	-	-	-	-
Class IV - Employee Claims:	-	4,425	-	-	-
Class V - State and Local Government Claims:	2,720	22,828	29,935	126,590	-
Class VI - General Creditors:	506,612	56,202,748	-	1,903,565	61,750
Class VII - Late Filed Claims:	-	-	-	-	-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class IX - Share Holder Claims:	-	-	-	-	-
Total Combined Liabilities	58,047,204	352,485,296	2,893,865	35,928,755	67,160
Surplus/(Deficit) of Combined Assets over Combined Liabilities	(34,572,186)	(347,433,381)	(798,375)	(24,809,366)	3,672,981
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	23,475,018	5,051,915	2,095,490	11,119,389	3,740,141

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE
LIABILITIES AND LIQUIDATOR'S SURPLUS/(DEFICIT) -MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Liabilities	**HORIZON**	**IDEAL**	**MAGNAHEALTH**	**MDNY**
Secured Claims	301,064	3,486,452	-	35,160
Unsecured Claims:				
Class I - Administrative Claims:	539,625	6,236,172	-	303,025
Class II - Claims and Related Costs:				
Allowed	68,371,236	251,228,242	-	-
Non Allowed	19,530	167,275,105	-	12,134,715
IBNR	-	-	-	-
Total	68,390,766	418,503,347	-	12,134,715
Class III - Federal Government Claims:	-	-	-	-
Class IV - Employee Claims:	-	-	-	-
Class V - State and Local Government Claims:	-	280,887	-	102,072
Class VI - General Creditors:	628,562	101,281,967	-	29,110,131
Class VII - Late Filed Claims:	23,758,815	70,961,525	-	-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	4,061,259
Class IX - Share Holder Claims:	-	-	-	13,580,000
Total Combined Liabilities	93,618,832	600,750,350	-	59,326,362
Surplus/(Deficit) of Combined Assets over Combined Liabilities	(88,784,014)	(506,320,021)	-	(53,965,293)
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	4,834,818	94,430,329	-	5,361,069

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE
LIABILITIES AND LIQUIDATOR'S SURPLUS/(DEFICIT) -MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Liabilities	**MIDLAND**	**Elimination of IBNR**	**Midland Adjusted**	**MIDPAC**	**Elimination of IBNR**	**MIDPAC Adjusted**
Secured Claims	1,131,392		1,131,392	-		-
						-
Unsecured Claims:						
Class I - Administrative Claims:	14,329,114		14,329,114	396,002		396,002
						-
Class II - Claims and Related Costs:						-
Allowed	542,004,055		542,004,055	-		-
Non Allowed	1,347,363,502		1,347,363,502	7,500,036		7,500,036
IBNR	605,000,000	(605,000,000)	-	3,900,000	(3,900,000)	-
Total	2,494,367,557	(605,000,000)	1,889,367,557	11,400,036	(3,900,000)	7,500,036
						-
Class III - Federal Government Claims:	-		-	-		-
						-
Class IV - Employee Claims:	-		-	-		-
						-
Class V - State and Local Government Claims:	8,317,575		8,317,575	-		-
						-
Class VI - General Creditors:	153,592,734		153,592,734	570		570
			-			-
Class VII - Late Filed Claims:	169,550,637		169,550,637	-		-
						-
Class VIII - Section 1307 (Shareholder) Loans:	-		-	-		-
						-
Class IX - Share Holder Claims:	-		-	-		-
						-
Total Combined Liabilities	2,841,289,009	(605,000,000)	2,236,289,009	11,796,608	(3,900,000)	7,896,608
						-
Surplus/(Deficit) of Combined Assets over Combined Liabilities	(1,951,298,464)	542,144,281	(1,409,154,183)	(311,538)	3,669,788	3,358,250
						-
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	889,990,545	(62,855,719)	827,134,826	11,485,070	(230,212)	11,254,858

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE
LIABILITIES AND LIQUIDATOR'S SURPLUS/(DEFICIT) -MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Liabilities	**MMLA**	**NASSAU**	**NYMB**	**NYSCO**	**REALM**
Secured Claims	-	-	180,108	991,794	326,860
Unsecured Claims:					
Class I - Administrative Claims:	11,933	32,297	2,660,173	331,764	3,756,568
Class II - Claims and Related Costs:					
Allowed	-	38,512,801	121,912,293	8,331,224	12,540,473
Non Allowed	-	78,083	4,228,773	2,225,252	65,612,368
IBNR	-	-	-	-	-
Total	-	38,590,884	126,141,066	10,556,476	78,152,841
Class III - Federal Government Claims:	-	-	-	-	-
Class IV - Employee Claims:	-	-	-	-	2,616
Class V - State and Local Government Claims:	-	77,966	482,493	17,725	61,013
Class VI - General Creditors:	-	587,206	2,788,668	707,134	17,176,132
Class VII - Late Filed Claims:	-	3,943,046	-	-	401
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class IX - Share Holder Claims:	-	-	-	-	-
Total Combined Liabilities	11,933	43,231,399	132,252,508	12,604,893	99,476,431
Surplus/(Deficit) of Combined Assets over Combined Liabilities	2,097,595	(40,617,210)	(106,365,621)	(10,261,098)	(94,123,803)
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	2,109,528	2,614,189	25,886,887	2,343,795	5,352,628

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE
LIABILITIES AND LIQUIDATOR'S SURPLUS/(DEFICIT) -MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Liabilities	**TRANSTATE**	**UNION**	**UCIC**	**Elimination of IBNR**	**UCIC Adjusted**
Secured Claims	-	6,129,886	658,622		658,622
					-
Unsecured Claims:					
Class I - Administrative Claims:	1,070,452	3,274,019	1,055,962		1,055,962
					-
Class II - Claims and Related Costs:					-
Allowed	78,824,206	239,695,455	115,119,994		115,119,994
Non Allowed	4,331,517	33,188,235	25,205,106		25,205,106
IBNR	-	-	263,202	(263,202)	-
Total	83,155,723	272,883,690	140,588,302	(263,202)	140,325,100
					-
Class III - Federal Government Claims:	-	137,245	-		-
					-
Class IV - Employee Claims:	-	-	-		-
					-
Class V - State and Local Government Claims:	-	71,337	-		-
					-
Class VI - General Creditors:	931,512	161,057,072	2,581,715		2,581,715
					-
Class VII - Late Filed Claims:	-	72,023,196	-		-
					-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-		-
					-
Class IX - Share Holder Claims:	-	-	18,866,845		18,866,845
					-
Total Combined Liabilities	85,157,687	515,576,445	163,751,446	(263,202)	163,488,244
					-
Surplus/(Deficit) of Combined Assets over Combined Liabilities	(26,074,000)	(405,325,338)	(144,516,023)	263,202	(144,252,821)
					-
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	59,083,687	110,251,107	19,235,423	-	19,235,423

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE
LIABILITIES AND LIQUIDATOR'S SURPLUS/(DEFICIT) -MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

Liabilities	**U. S. CAPITAL**	**WHITING**	**ESTATE TOTALS**
Secured Claims	112,934	1,042	15,585,348
Unsecured Claims:			
Class I - Administrative Claims:	863,596	305,062	52,346,264
Class II - Claims and Related Costs:			
Allowed	30,387,896	26,133,786	2,169,965,893
Non Allowed	1,738,685	-	1,827,738,092
IBNR	-	-	-
Total	32,126,581	26,133,786	3,997,703,985
Class III - Federal Government Claims:	-	-	137,686
Class IV - Employee Claims:	-	-	10,164
Class V - State and Local Government Claims:	109,175	-	11,091,472
Class VI - General Creditors:	3,799,909	8,376,002	586,578,428
Class VII - Late Filed Claims:	-	51,242	371,776,314
Class VIII - Section 1307 (Shareholder) Loans:	-	-	4,121,260
Class IX - Share Holder Claims:	-	-	32,446,845
Total Combined Liabilities	37,012,195	34,867,134	5,071,797,766
Surplus/(Deficit) of Combined Assets over Combined Liabilities	(25,330,597)	(26,388,512)	(3,648,208,794)
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	11,681,598	8,478,622	1,423,588,972

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE CHANGES IN CASH AND INVESTED ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2009

	AAIC	ACIC	AFF	CMIC	COLONIAL
Receipts:					
Investment Income Received	49,932	17,077	218,495	38,027	291
Reinsurance Recovered	33,753	-	18,280	2,666,238	-
Premiums Collected	-	-	-	-	-
Salvage and Subrogation	64,570	-	-	5,711	-
Expense Reimb from NYSF	-	1,393	1,699	-	-
Reimb from CDA	-	-	-	-	-
Medicaid Receipts	-	-	-	-	-
Release from Statutory Deposits	-	-	-	-	-
Littigation Awards	-	-	-	-	-
Abandoned Property					
Miscellaneous	82,647	-	413	1,852	-
Total Receipts	230,902	18,470	238,887	2,711,828	291
Disbursements:					
Transfer to Segregated Funds	-	-	-	-	-
Dividends	-	6,178	3,455	-	-
Refund to New York Security Fund	91,727	-	-	7,503	-
Claims & Loss Adjustment Expense	9,527	-	-	6,183	-
Salaries	398,258	68,162	111,091	319,618	119,160
Employee Relations & Welfare	141,086	24,907	39,973	113,880	44,061
Rent and Related Expenses	105,892	18,565	30,595	86,913	34,729
Professional Fees	85,390	66,788	66,449	75,612	34,807
General and Administrative Expenses	21,975	4,047	6,001	17,113	6,747
Miscellaneous	13,376	2,326	3,590	10,149	68,618
Total Disbursements	867,231	190,973	261,154	636,971	308,122
Net Increase (Decrease) of Receipts Over Disbursements	(636,329)	(172,503)	(22,267)	2,074,857	(307,831)
Cash and Invested Assets (Unrestricted), Beginning of Year	13,997,981	3,577,022	17,697,641	13,301,286	-
Opening Cash Balance of New Estates					1,186,894
Unrealized Gain / (Loss) on Investments	(8,042)	(5,784)	(74,899)	1,554	-
Foreign Exchange Revaluation					
Cash and Invested Assets (Unrestricted), End of Year	13,353,610	3,398,735	17,600,475	15,377,697	879,063

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE CHANGES IN CASH AND INVESTED ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2009

	CHP	CONSOLIDATED	CCSC	COSMOPOLITAN	FCIC
Receipts:					
Investment Income Received	8	128,516	1,468	651,422	921,630
Reinsurance Recovered	-	79,085	7,414	339,251	1,839,981
Premiums Collected	-	-	-	-	-
Salvage and Subrogation	-	-	-	459	143,021
Expense Reimb from NYSF	-		1,031	-	25,180
Reimb from CDA	-	-	-	-	-
Medicaid Receipts	-	-	-	-	-
Release from Statutory Deposits	-	-	-	-	-
Littigation Awards	-	-	-	-	833,838
Abandoned Property					
Miscellaneous	50,146	2,072	-	1,962	649
Total Receipts	50,154	209,673	9,913	993,094	3,764,299
Disbursements:					
Transfer to Segregated Funds	-	-	-	-	-
Dividends	178,460	-	-	62,972	3,020,068
Refund to New York Security Fund	-	-	-	9,252	40,238
Claims & Loss Adjustment Expense	-	-	856	2,420	15,805
Salaries	3,917	89,188	84,796	255,518	264,895
Employee Relations & Welfare	1,580	34,668	32,518	95,625	94,638
Rent and Related Expenses	1,121	24,348	23,420	70,637	72,930
Professional Fees	19	77,525	64,234	78,270	97,723
General and Administrative Expenses	13,269	4,983	4,588	18,438	14,463
Miscellaneous	4,006	2,904	3,142	9,291	8,161
Total Disbursements	202,372	233,616	213,554	602,423	3,628,921
Net Increase (Decrease) of Receipts Over Disbursements	(152,218)	(23,943)	(203,641)	390,671	135,378
Cash and Invested Assets (Unrestricted), Beginning of Year	152,221	7,105,830	1,104,450	44,788,589	68,065,140
Opening Cash Balance of New Estates					
Unrealized Gain / (Loss) on Investments	-	(66,756)	(144)	(366,322)	(254,292)
Foreign Exchange Revaluation					
Cash and Invested Assets (Unrestricted), End of Year	3	7,015,131	900,665	44,812,938	67,946,226

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE CHANGES IN CASH AND INVESTED ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2009

	GALAXY	GROUP COUNCIL	HPNY	HMIC	HHNY
Receipts:					
Investment Income Received	262,059	14,950	56,491	22,769	15,361
Reinsurance Recovered	81,435	1,850	-	41,141	-
Premiums Collected	-	-	-	-	-
Salvage and Subrogation	36,321	-	-	-	-
Expense Reimb from NYSF	-	349,366	-	-	-
Reimb from CDA	113,011	466,362	-	-	-
Medicaid Receipts	-	-	396,799	-	-
Release from Statutory Deposits	-	-	-	-	-
Littigation Awards	-	-	-	1,500,000	-
Abandoned Property					
Miscellaneous	-	-	9,093	452	5,136
Total Receipts	492,826	832,528	462,383	1,564,362	20,497
Disbursements:					
Transfer to Segregated Funds	-	-	-	-	-
Dividends	-	-	-	-	-
Refund to New York Security Fund	18,963	-	-	9,130	-
Claims & Loss Adjustment Expense	-	-	-	2,742	-
Salaries	78,787	98,376	66,494	183,013	4,246
Employee Relations & Welfare	29,678	39,887	24,671	69,523	1,541
Rent and Related Expenses	22,069	28,112	19,724	48,433	1,187
Professional Fees	61,544	63,319	25,616	279,732	981
General and Administrative Expenses	3,937	13,269	6,859	12,141	3,953
Miscellaneous	2,747	8,603	2,415	6,668	383
Total Disbursements	217,725	251,566	145,779	611,382	12,291
Net Increase (Decrease) of Receipts Over Disbursements	275,101	580,962	316,604	952,980	8,206
Cash and Invested Assets (Unrestricted), Beginning of Year	21,847,908	2,402,673	1,812,358	9,627,019	3,737,894
Opening Cash Balance of New Estates					
Unrealized Gain / (Loss) on Investments	(40,103)	-	(36,767)	(7,119)	(5,959)
Foreign Exchange Revaluation					
Cash and Invested Assets (Unrestricted), End of Year	22,082,906	2,983,635	2,092,195	10,572,880	3,740,141

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE CHANGES IN CASH AND INVESTED ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2009

	HORIZON	IDEAL	MAGNAHEALTH	MDNY	MIDLAND
Receipts:					
Investment Income Received	11,480	810,934	60	68,756	3,562,351
Reinsurance Recovered	-	901,282	-	-	41,924,643
Premiums Collected	-	-	-	-	-
Salvage and Subrogation	617	6,532	-	13,507	-
Expense Reimb from NYSF	1,926	176	-	-	2,901
Reimb from CDA	-	-	-	-	-
Medicaid Receipts	-	-	-	-	-
Release from Statutory Deposits	-	832,357	-	-	6,991,840
Littigation Awards	-	-	-	220,500	-
Abandoned Property		320,753			
Miscellaneous	-	3,433	3,359	273,082	137,356
Total Receipts	14,023	2,875,467	3,419	575,845	52,619,091
Disbursements:					
Transfer to Segregated Funds	-	-	-	-	-
Dividends	33,717	753,422	295,795	-	129,213
Refund to New York Security Fund	-	6,609	-	-	160,474
Claims & Loss Adjustment Expense	228	9,987	-	-	24,448
Salaries	106,100	1,006,797	2,073	452,447	4,588,062
Employee Relations & Welfare	39,771	365,453	52,366	173,210	1,721,224
Rent and Related Expenses	28,357	273,498	461	127,793	1,255,110
Professional Fees	63,458	187,233	60,141	89,142	4,993,278
General and Administrative Expenses	6,179	96,879	8,949	36,671	251,752
Miscellaneous	2,203	82,805	4,988	26,634	221,529
Total Disbursements	280,013	2,782,683	424,773	905,897	13,345,090
Net Increase (Decrease) of Receipts Over Disbursements	(265,990)	92,784	(421,354)	(330,052)	39,274,001
Cash and Invested Assets (Unrestricted), Beginning of Year	4,250,111	89,896,072	421,354	5,637,698	400,109,499
Opening Cash Balance of New Estates					
Unrealized Gain / (Loss) on Investments	(1,008)	(382,802)	-	(33,331)	(1,794,801)
Foreign Exchange Revaluation		36,573			372,312
Cash and Invested Assets (Unrestricted), End of Year	3,983,113	89,642,627	-	5,274,315	437,961,011

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE CHANGES IN CASH AND INVESTED ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2009

	MIDPAC	MMLA	NASSAU	NYMB	NYSCO
Receipts:					
Investment Income Received	48,161	949	1,684	119,147	1,061
Reinsurance Recovered	43,627	-	2,372	921,657	-
Premiums Collected		-	-	-	-
Salvage and Subrogation		-	-	23,439	2,839
Expense Reimb from NYSF		-	-	-	-
Reimb from CDA		-	-	-	-
Medicaid Receipts		-	-	-	-
Release from Statutory Deposits		-	-	-	-
Littigation Awards		-	2,565,933	4,500,000	-
Abandoned Property					
Miscellaneous		-	341	529	-
Total Receipts	91,788	949	2,570,330	5,564,772	3,900
Disbursements:					
Transfer to Segregated Funds	-	-	-	-	-
Dividends	-	5,770,425	-	-	-
Refund to New York Security Fund	-	-	-	44,152	2,616
Claims & Loss Adjustment Expense	-	-	-	23,061	787
Salaries	55,724	10,181	47,412	289,244	54,719
Employee Relations & Welfare	22,007	2,059	19,263	103,624	21,013
Rent and Related Expenses	20,891	2,147	14,348	77,053	14,791
Professional Fees	112,078	76,899	573,215	231,605	65,141
General and Administrative Expenses	3,352	320	2,680	16,168	3,524
Miscellaneous	46,316	31,286	1,440	7,782	2,124
Total Disbursements	260,368	5,893,317	658,358	792,689	164,715
Net Increase (Decrease) of Receipts Over Disbursements	(168,580)	(5,892,368)	1,911,972	4,772,083	(160,815)
Cash and Invested Assets (Unrestricted), Beginning of Year	8,790,442	8,001,896	691,718	15,239,661	1,448,820
Opening Cash Balance of New Estates					
Unrealized Gain / (Loss) on Investments	(13,561)	-	(293)	(51,463)	-
Foreign Exchange Revaluation					
Cash and Invested Assets (Unrestricted), End of Year	8,608,301	2,109,528	2,603,397	19,960,281	1,288,005

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE CHANGES IN CASH AND INVESTED ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2009

	REALM	TRANSTATE	UNION	UCIC
Receipts:				
Investment Income Received	103,809	798,753	497,154	908,408
Reinsurance Recovered	26,461	1,241,051	102,873	732,526
Premiums Collected	19,583	-	-	-
Salvage and Subrogation	1,027,445	50,500	133,123	6,998
Expense Reimb from NYSF	-	4,244	6,354	264,108
Reimb from CDA	-	-	-	-
Medicaid Receipts	-	-	-	-
Release from Statutory Deposits	260,247	-	-	-
Littigation Awards	-	-	-	-
Abandoned Property				19,923
Miscellaneous	33,815	135	1,790	28,363
Total Receipts	1,471,360	2,094,683	741,294	1,960,326
Disbursements:				
Transfer to Segregated Funds	-	-	61,822	611,706
Dividends	-	-	-	-
Refund to New York Security Fund	205,504	29,324	7,773	-
Claims & Loss Adjustment Expense	-	20,770	-	130,632
Salaries	957,975	179,529	513,767	835,132
Employee Relations & Welfare	366,442	67,166	190,428	204,911
Rent and Related Expenses	271,805	48,931	144,415	158,554
Professional Fees	76,621	72,741	307,925	590,878
General and Administrative Expenses	50,942	27,595	25,581	38,313
Miscellaneous	54,799	21,329	15,717	77,264
Total Disbursements	1,984,088	467,385	1,267,428	2,647,390
Net Increase (Decrease) of Receipts Over Disbursements	(512,728)	1,627,298	(526,134)	(687,064)
Cash and Invested Assets (Unrestricted), Beginning of Year	1,335,098	55,991,806	103,372,831	-
Opening Cash Balance of New Estates				19,288,594
Unrealized Gain / (Loss) on Investments	(12,832)	(760,629)	(216,827)	21,006
Foreign Exchange Revaluation				
Cash and Invested Assets (Unrestricted), End of Year	809,538	56,858,475	102,629,870	18,622,536

NEW YORK LIQUIDATION BUREAU
SCHEDULES OF ESTATE CHANGES IN CASH AND INVESTED ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2009

	U. S. CAPITAL	WHITING	ESTATE TOTALS
Receipts:			
Investment Income Received	40,394	27,582	9,399,179
Reinsurance Recovered	20,710	72,385	51,098,015
Premiums Collected	-	-	19,583
Salvage and Subrogation	-	-	1,515,082
Expense Reimb from NYSF	107,910	2,654	768,942
Reimb from CDA	-	-	579,373
Medicaid Receipts	-	-	396,799
Release from Statutory Deposits	-	-	8,084,444
Littigation Awards	-	-	9,620,271
Abandoned Property			340,676
Miscellaneous	39,636	10,271	686,532
Total Receipts	208,650	112,892	82,508,896
Disbursements:			
Transfer to Segregated Funds	-	-	673,528
Dividends	-	51,073	10,304,778
Refund to New York Security Fund	15,171	-	648,436
Claims & Loss Adjustment Expense	-	7,896	255,342
Salaries	115,917	66,269	11,426,867
Employee Relations & Welfare	43,215	23,381	4,203,769
Rent and Related Expenses	32,299	17,118	3,076,246
Professional Fees	68,355	86,993	8,733,712
General and Administrative Expenses	5,873	3,948	730,509
Miscellaneous	3,915	2,674	749,184
Total Disbursements	284,745	259,352	40,802,371
Net Increase (Decrease) of Receipts Over Disbursements	(76,095)	(146,460)	41,706,525
Cash and Invested Assets (Unrestricted), Beginning of Year	11,501,211	8,384,983	924,291,212
Opening Cash Balance of New Estates			20,475,488
Unrealized Gain / (Loss) on Investments	(4,571)	(4,828)	(4,120,573)
Foreign Exchange Revaluation			408,885
Cash and Invested Assets (Unrestricted), End of Year	11,420,545	8,233,695	982,761,537

Appendix B
December 31, 2008
The Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets, Liabilities and Accumulated Surplus (Deficit)
of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes
in Cash and Invested Assets – Modified Cash Basis

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	HPNY	MDNY	HHNY	CHP	MMLA
Assets					
Unrestricted Assets:					
Cash	$ 58,828	$ 329,633	$ 520,634	$ 152,221	$ 8,001,896
Invested Assets:					
Short-term Investments, at fair value	332,469	3,499,972	2,999,976	-	-
Bonds, at fair value	1,421,062	1,808,094	217,284	-	-
Total Invested Assets	1,753,531	5,308,066	3,217,260	-	-
Total Cash and Invested Assets	1,812,359	5,637,699	3,737,894	152,221	8,001,896
Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	-	-	-	-	-
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-
Receivable from Affiliates	-	-	-	-	-
Accrued Investment Income	10,219	19,473	4,806	-	-
Other Assets	396,799	66,075	-	-	-
Total Unrestricted Assets	2,219,377	5,723,247	3,742,700	152,221	8,001,896
Restricted Assets:					
Statutory Deposits in This or Other States	-	-	-	-	-
Other Restricted Assets	-	-	-	-	-
Total Restricted Assets	-	-	-	-	-
Total Assets	$ 2,219,377	$ 5,723,247	$ 3,742,700	$ 152,221	$ 8,001,896

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Assets					
Unrestricted Assets:					
Cash	$ 421,354	$ -	$ 2,402,673	$ 4,096,669	$ 5,335,012
Invested Assets:					
Short-term Investments, at fair value	-	-	-	9,901,312	7,966,274
Bonds, at fair value	-	-	-	-	-
Total Invested Assets	-	-	-	9,901,312	7,966,274
Total Cash and Invested Assets	421,354	-	2,402,673	13,997,981	13,301,286
Reinsurance Recoverables on Paid Losses and LAE	-	-	23,063,485	19,149	9,599,667
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	-	-	(23,063,485)	-	(9,599,667)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	19,149	-
Reinsurance Recoverables on UnPaid Losses and LAE	-	-	-	346,940	1,714,627
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	(1,714,627)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	346,940	-
Receivable from Affiliates	-	-	2,216,366	1,913,273	108,497
Accrued Investment Income	-	-	-	18,151	12,374
Other Assets	-	-	-	-	38,948
Total Unrestricted Assets	421,354	-	4,619,039	16,295,494	13,461,105
Restricted Assets:					
Statutory Deposits in This or Other States	-	-	-	-	-
Other Restricted Assets	-		201,250	19,159	303,821
Total Restricted Assets	-	-	201,250	19,159	303,821
Total Assets	$ 421,354	$ -	$ 4,820,289	$ 16,314,653	$ 13,764,926

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	CCSC	FCIC	GALAXY	HMIC	NYMB
Assets					
Unrestricted Assets:					
Cash	$ 604,859	$ 14,403,496	$ 11,846,122	$ 5,717,612	$ 227,996
Invested Assets:					
Short-term Investments, at fair value	499,591	49,044,238	6,994,370	3,909,407	15,011,665
Bonds, at fair value	-	4,617,407	3,007,416	-	-
Total Invested Assets	499,591	53,661,645	10,001,786	3,909,407	15,011,665
Total Cash and Invested Assets	1,104,450	68,065,141	21,847,908	9,627,019	15,239,661
Reinsurance Recoverables on Paid Losses and LAE	638,162	352,859	478,058	1,945,687	22,246,923
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(638,162)	-	(478,058)	(1,945,687)	(22,246,923)
Net Reinsurance Recoverables on Paid Losses and LAE	-	352,859	-	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	763,204	7,841,992	2,179,424	265,612	5,654,356
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(763,204)	-	(2,179,424)	(265,612)	(5,654,356)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	7,841,992	-	-	-
Receivable from Affiliates	11,031	2,448,762	1,193,037	242,870	2,669,573
Accrued Investment Income	65	391,252	99,003	4,856	42,643
Other Assets	-	34,330	-	288,460	104,034
Total Unrestricted Assets	1,115,546	79,134,336	23,139,948	10,163,205	18,055,911
Restricted Assets:					
Statutory Deposits in This or Other States	-	-	-	-	-
Other Restricted Assets	158,068	506,335	161,036	-	3,097,674
Total Restricted Assets	158,068	506,335	161,036	-	3,097,674
Total Assets	$ 1,273,614	$ 79,640,671	$ 23,300,984	$ 10,163,205	$ 21,153,585

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	NYSCO	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED
Assets					
Unrestricted Assets:					
Cash	$ 1,448,820	$ 397,172	$ 17,365,257	$ 3,385,813	$ 112,354
Invested Assets:					
Short-term Investments, at fair value	-	599,510	25,731,183	8,048,997	6,992,179
Bonds, at fair value	-	338,416	12,895,367	66,401	1,297
Total Invested Assets	-	937,926	38,626,550	8,115,398	6,993,476
Total Cash and Invested Assets	1,448,820	1,335,098	55,991,807	11,501,211	7,105,830
Reinsurance Recoverables on Paid Losses and LAE	2,137,268	3,451,619	9,437	465,147	1,411,497
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(2,137,268)	(3,451,619)	(159)	(465,147)	(1,411,497)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	9,278	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	906,418	22,202,216	12,984,301	181,651	749,062
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(906,418)	(22,202,216)	(11,000,000)	(181,651)	(749,062)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	1,984,301	-	-
Receivable from Affiliates	61,380	824,454	289,921	259,740	214,000
Accrued Investment Income	-	5,534	320,151	11,157	44,523
Other Assets	-	2,656,730	-	-	-
Total Unrestricted Assets	1,510,200	4,821,816	58,595,458	11,772,108	7,364,353
Restricted Assets:					
Statutory Deposits in This or Other States	-	1,698,393	-	-	-
Other Restricted Assets	1,237,624	205,562	-	84,191	398,785
Total Restricted Assets	1,237,624	1,903,955	-	84,191	398,785
Total Assets	$ 2,747,824	$ 6,725,771	$ 58,595,458	$ 11,856,299	$ 7,763,138

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	Unadjusted Midland	AJE	MIDLAND	ELIMINATION OF IBNR	MIDLAND (ADJUSTED)	MIDPAC	ELIMINATION OF IBNR	MIDPAC (ADJUSTED)
Assets								
Unrestricted Assets:								
Cash	$ 94,806,337		$ 94,806,337		$ 94,806,337	$ 1,296,352		$ 1,296,352
Invested Assets:								
Short-term Investments, at fair value	303,222,972	-	303,222,972		303,222,972	7,494,090		7,494,090
Bonds, at fair value	2,080,190	-	2,080,190		2,080,190	-		-
Total Invested Assets	305,303,162	-	305,303,162	-	305,303,162	7,494,090	-	7,494,090
Total Cash and Invested Assets	400,109,499	-	400,109,499	-	400,109,499	8,790,442	-	8,790,442
Reinsurance Recoverables on Paid Losses and LAE	136,668,218		136,668,218		136,668,218	140,440		140,440
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(73,668,213)		(73,668,213)		(73,668,213)	(70,101)		(70,101)
Net Reinsurance Recoverables on Paid Losses and LAE	63,000,005	-	63,000,005	-	63,000,005	70,339	-	70,339
Reinsurance Recoverables on UnPaid Losses and LAE	1,728,036,977		1,728,036,977	(558,717,500)	1,169,319,477	6,429,827	(2,199,600)	4,230,227
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(1,312,393,771)		(1,312,393,771)	495,861,781	(816,531,990)	(3,585,564)	1,969,388	(1,616,176)
Net Reinsurance Recoverables on Unpaid Losses and LAE	415,643,206	-	415,643,206	(62,855,719)	352,787,487	2,844,263	(230,212)	2,614,051
Receivable from Affiliates	1,749,215		1,749,215		1,749,215	40,000		40,000
Accrued Investment Income	1,798,161	-	1,798,161	-	1,798,161	32,317		32,317
Other Assets	-		-		-	-		-
Total Unrestricted Assets	882,300,086	-	882,300,086	(62,855,719)	819,444,367	11,777,361	(230,212)	11,547,149
Restricted Assets:								
Statutory Deposits in This or Other States	7,651,237		7,651,237		7,651,237	-		-
Other Restricted Assets	1,174,887	-	1,174,887	-	1,174,887	-		-
Total Restricted Assets	8,826,124	-	8,826,124	-	8,826,124	-	-	-
Total Assets	$ 891,126,210	$ -	$ 891,126,210	$ (62,855,719)	$ 828,270,491	$ 11,777,361	$ (230,212)	$ 11,547,149

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	WHITING	ACIC	AMERICAN FIDELITY	UNION	IDEAL
Assets					
Unrestricted Assets:					
Cash	$ 5,896,341	$ 1,695,344	$ 1,772,202	$ 21,161,345	$ 26,554,125
Invested Assets:					
Short-term Investments, at fair value	2,488,642	1,881,678	15,925,439	82,211,486	63,341,947
Bonds, at fair value	-	-	-	-	-
Total Invested Assets	2,488,642	1,881,678	15,925,439	82,211,486	63,341,947
Total Cash and Invested Assets	8,384,983	3,577,022	17,697,641	103,372,831	89,896,072
Reinsurance Recoverables on Paid Losses and LAE	1,213,140	5,722,067	1,553,142	48,546,425	53,943,671
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(1,213,140)	(5,722,067)	(1,553,142)	(48,508,247)	(53,943,707)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	38,178	(36)
Reinsurance Recoverables on UnPaid Losses and LAE	10,833	589,066	464,708	1,117,885	23,662,245
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(10,833)	(589,066)	(464,708)	(1,117,885)	(23,662,245)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-
Receivable from Affiliates	134,656	176,393	256,699	1,268,581	978,567
Accrued Investment Income	10,672	3,644	110,211	214,817	347,638
Other Assets	-	-	-	-	-
Total Unrestricted Assets	8,530,311	3,757,059	18,064,551	104,894,407	91,222,241
Restricted Assets:					
Statutory Deposits in This or Other States	-	-	188,352	366,550	3,143,979
Other Restricted Assets	111,382	40,746	205,770	6,585,683	3,171,318
Total Restricted Assets	111,382	40,746	394,122	6,952,233	6,315,297
Total Assets	$ 8,641,693	$ 3,797,805	$ 18,458,673	$ 111,846,640	$ 97,537,538

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Assets				
Unrestricted Assets:				
Cash	$ 245,380	$ 691,718	$ 1,750,873	$ 232,698,438
Invested Assets:				
Short-term Investments, at fair value	4,004,731	-	37,080,256	659,182,384
Bonds, at fair value	-	-	5,957,460	32,410,394
Total Invested Assets	4,004,731	-	43,037,716	691,592,778
Total Cash and Invested Assets	4,250,111	691,718	44,788,589	924,291,216
Reinsurance Recoverables on Paid Losses and LAE	33,095,011	12,972,326	4,524,344	364,197,742
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(33,095,011)	(12,972,326)	(4,524,344)	(300,707,970)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	63,489,772
Reinsurance Recoverables on UnPaid Losses and LAE	445,582	-	9,217,747	1,264,847,573
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(445,582)	-	(9,217,747)	(899,272,802)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	365,574,771
Receivable from Affiliates	516,926	-	205,357	17,779,298
Accrued Investment Income	523	-	170,504	3,672,694
Other Assets	-	-	964,741	4,550,117
Total Unrestricted Assets	4,767,560	691,718	46,129,191	1,379,357,868
Restricted Assets:				
Statutory Deposits in This or Other States	-	-	-	13,048,511
Other Restricted Assets	335,792	2,576,407	908,505	21,483,995
Total Restricted Assets	335,792	2,576,407	908,505	34,532,506
Total Assets	$ 5,103,352	$ 3,268,125	$ 47,037,696	$ 1,413,890,374

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	HPNY	MDNY	HHNY	CHP	MMLA
Liabilities					
Secured Claims	$ -	$ -	$ -	$ -	$ -
Class One - Administrative Claims	7,324	361,398	10,872	7,874	41,462
Class Two - Claims and Related Costs					
Allowed	-	-	-	-	-
Non Allowed	2,774,925	12,891,102	-	-	-
IBNR	-	-	-	-	-
Total - Class Two	2,774,925	12,891,102	-	-	-
Class Three - Federal Government Claims:	-	-	-	-	-
Class Four - Employee Claims:	-	-	-	-	-
Class Five - State and Local Government Claims:	-	102,072	-	-	-
Class Six - General Creditors Claims:	-	29,113,758	61,750	-	-
Class Seven - Late Filed Claims:	-	-	-	-	-
Class Eight - Section 1307 (Shareholder) Loans:	-	4,061,259	-	-	-
Class Nine - Shareholder Claims:	-	13,580,000	-	-	-
Total Liabilities	2,782,249	60,109,589	72,622	7,874	41,462
Liquidator's Surplus (Deficit)	(562,872)	(54,386,342)	3,670,078	144,347	7,960,434
Total Liabilities and Liquidator's Surplus (Deficit)	$ 2,219,377	$ 5,723,247	$ 3,742,700	$ 152,221	$ 8,001,896

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Liabilities					
Secured Claims	$ -	$ -	$ -	$ -	$ 77,070
Class One - Administrative Claims	65,085	-	1,788,356	4,031,951	1,401,906
Class Two - Claims and Related Costs					
Allowed	-	-	178,982,442	43,348,598	38,166,292
Non Allowed	-	-	115,672,471	8,452,654	5,112,148
IBNR	-	-	-	-	-
Total - Class Two	-	-	294,654,913	51,801,252	43,278,440
Class Three - Federal Government Claims:	-	-	-	-	441
Class Four - Employee Claims:	-	-	4,425	-	3,123
Class Five - State and Local Government Claims:	-	-	22,828	306,878	52,295
Class Six - General Creditors Claims:	-	-	56,799,957	682,397	3,922,064
Class Seven - Late Filed Claims:	-	-	-	335	-
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	65,085	-	353,270,479	56,822,813	48,735,339
Liquidator's Surplus (Deficit)	356,269	-	(348,450,190)	(40,508,160)	(34,970,413)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 421,354	$ -	$ 4,820,289	$ 16,314,653	$ 13,764,926

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	CCSC	FCIC	GALAXY	HMIC	NYMB
Liabilities					
Secured Claims	$ 158,068	$ 86,009	$ 161,036	$ -	$ 166,388
Class One - Administrative Claims	386,230	3,912,676	1,544,210	2,818,884	1,754,939
Class Two - Claims and Related Costs					
Allowed	5,234,987	121,326,746	50,042,989	30,314,702	114,594,815
Non Allowed	1,511,417	31,155,278	5,342,596	1,117,453	10,868,685
IBNR	-	-	-	-	-
Total - Class Two	6,746,404	152,482,024	55,385,585	31,432,155	125,463,500
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
Class Six - General Creditors Claims:	939,562	1,763,388	506,542	1,903,566	2,861,281
Class Seven - Late Filed Claims:	-	-	-	-	-
Class Eight - Section 1307 (Shareholder) Loans:	60,000	1	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	8,298,205	159,118,532	57,600,093	36,281,195	130,728,601
Liquidator's Surplus (Deficit)	(7,024,591)	(79,477,861)	(34,299,109)	(26,117,990)	(109,575,016)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 1,273,614	$ 79,640,671	$ 23,300,984	$ 10,163,205	$ 21,153,585

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	NYSCO	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED
Liabilities					
Secured Claims	$ 1,237,624	$ 326,781	$ -	$ 112,894	$ 338,487
Class One - Administrative Claims	384,621	2,802,377	1,291,214	944,685	430,766
Class Two - Claims and Related Costs					
Allowed	7,982,829	3,663,376	75,270,815	30,370,305	13,459,517
Non Allowed	2,573,772	75,446,384	7,883,409	1,677,400	-
IBNR	-	-	-	-	-
Total - Class Two	10,556,601	79,109,760	83,154,224	32,047,705	13,459,517
Class Three - Federal Government Claims:	-	-	-	-	-
Class Four - Employee Claims:	-	2,616	-	-	-
Class Five - State and Local Government Claims:	17,725	61,013	-	109,175	3,053
Class Six - General Creditors Claims:	707,017	17,175,503	931,512	3,799,909	3,317,898
Class Seven - Late Filed Claims:	-	401	-	-	15,120,795
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	12,903,588	99,478,451	85,376,950	37,014,368	32,670,516
Liquidator's Surplus (Deficit)	(10,155,764)	(92,752,680)	(26,781,492)	(25,158,069)	(24,907,378)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 2,747,824	$ 6,725,771	$ 58,595,458	$ 11,856,299	$ 7,763,138

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	MIDLAND	ELIMINATION OF IBNR	MIDLAND (ADJUSTED)	MIDPAC	ELIMINATION OF IBNR	MIDPAC (ADJUSTED)
Liabilities						
Secured Claims	$ 1,133,912	$ -	$ 1,133,912	$ -	$ -	$ -
Class One - Administrative Claims	14,303,281	-	14,303,281	435,011	-	435,011
Class Two - Claims and Related Costs						
Allowed	541,048,245		541,048,245	-		-
Non Allowed	1,341,356,065		1,341,356,065	7,500,036		7,500,036
IBNR	605,000,000	(605,000,000)	-	3,900,000	(3,900,000)	-
Total - Class Two	2,487,404,310	(605,000,000)	1,882,404,310	11,400,036	(3,900,000)	7,500,036
Class Three - Federal Government Claims:	-		-	-		-
Class Four - Employee Claims:	-		-	-		-
Class Five - State and Local Government Claims:	8,317,575		8,317,575	-		-
Class Six - General Creditors Claims:	156,441,004		156,441,004	1,218		1,218
Class Seven - Late Filed Claims:	169,550,637		169,550,637	-		-
Class Eight - Section 1307 (Shareholder) Loans:	-		-	-		-
Class Nine - Shareholder Claims:	-		-	-		-
Total Liabilities	2,837,150,719	(605,000,000)	2,232,150,719	11,836,265	(3,900,000)	7,936,265
Liquidator's Surplus (Deficit)	(1,946,024,509)	542,144,281	(1,403,880,228)	(58,904)	3,669,788	3,610,884
Total Liabilities and Liquidator's Surplus (Deficit)	$ 891,126,210	$ (62,855,719)	$ 828,270,491	$ 11,777,361	$ (230,212)	$ 11,547,149

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	WHITING	ACIC	AMERICAN FIDELITY	UNION	IDEAL
Liabilities					
Secured Claims	$ 1,042	$ 34,217	$ 163,126	$ 6,810,603	$ 3,063,515
Class One - Administrative Claims	370,124	435,866	590,269	3,270,474	6,568,534
Class Two - Claims and Related Costs					
Allowed	26,063,658	17,572,188	47,846,347	238,791,507	250,142,091
Non Allowed	121,201	26,094	2,929,696	35,286,261	211,377,558
IBNR	-	-	-	-	-
Total - Class Two	26,184,859	17,598,282	50,776,043	274,077,768	461,519,649
Class Three - Federal Government Claims:	-	-	-	137,245	-
Class Four - Employee Claims:	-	-	-	-	-
Class Five - State and Local Government Claims:	-	44,842	92,237	71,337	280,887
Class Six - General Creditors Claims:	8,372,395	5,353,253	9,459,371	161,053,252	101,301,557
Class Seven - Late Filed Claims:	51,242	67,852	6,324,613	72,046,219	70,961,525
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	34,979,662	23,534,312	67,405,659	517,466,898	643,695,667
Liquidator's Surplus (Deficit)	(26,337,969)	(19,736,507)	(48,946,986)	(405,620,258)	(546,158,129)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 8,641,693	$ 3,797,805	$ 18,458,673	$ 111,846,640	$ 97,537,538

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Liabilities				
Secured Claims	$ 301,064	$ 2,565,617	$ 934,421	$ 17,671,874
Class One - Administrative Claims	618,806	31,583	937,214	51,547,992
Class Two - Claims and Related Costs				
Allowed	68,315,026	38,512,801	51,872,042	1,992,922,318
Non Allowed	108,459	78,082	17,657,174	1,898,920,320
IBNR	-	-	-	-
Total - Class Two	68,423,485	38,590,883	69,529,216	3,891,842,638
Class Three - Federal Government Claims:	-	-	-	137,686
Class Four - Employee Claims:	-	-	-	10,164
Class Five - State and Local Government Claims:	-	77,966	7,476	11,061,537
Class Six - General Creditors Claims:	628,562	587,206	18,560,195	586,244,117
Class Seven - Late Filed Claims:	23,758,815	3,943,046	9,973,857	371,799,337
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	4,121,260
Class Nine - Shareholder Claims:	-	-	-	13,580,000
Total Liabilities	93,730,732	45,796,301	99,942,379	4,948,016,605
Liquidator's Surplus (Deficit)	(88,627,380)	(42,528,176)	(52,904,683)	(3,534,126,231)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 5,103,352	$ 3,268,125	$ 47,037,696	$ 1,413,890,374

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	HPNY	MDNY	HHNY	CHP	MMLA
Receipts					
Investment Income Received	$ -	$ 76,421	$ 20,994	$ 2,027	$ 1,879,057
Reinsurance Recovered	-	2,511,828	-	-	-
Premiums Collected	-	4,692	-	-	-
Salvage and Subrogation	-	-	-	-	-
Expense Reimbursement Received from NYSF	-	-	-	-	-
Return of Advanced Deposit from CDA	-	-	-	-	-
Release of Special Deposit	-	-	-	-	-
Release of Collateral	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	-	217,582	-	-	-
Total Receipts	-	2,810,523	20,994	2,027	1,879,057
Disbursements					
Advanced to Affiliate	-	-	-	-	-
Dividend	-	-	-	-	60,000,000
Transfer to Segregated funds	-	-	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	-	-	-	-
Refund to New York Security Fund	-	-	-	-	-
Salaries	-	450,038	15,411	14,082	9,872
Employee Relations and Welfare	-	131,425	7,067	5,651	19,042
Rent and Related Expenses	-	88,875	4,401	3,429	14,242
Professional Fees	-	6,800	134	111	233,974
General and Administrative Expenses	-	85,128	3,327	706	15,549
Other Expenses	-	310,593	479	827	1,072,766
Closing cost					
Total Disbursements	-	1,072,859	30,819	24,806	61,365,445
Net Increase of Receipts over Disbursements	-	1,737,664	(9,825)	(22,779)	(59,486,388)
Cash (Unrestricted), Beginning of Year	1,812,359	3,844,423	3,741,761	175,000	67,611,309
Unrealized Gain / (Loss)	-	55,612	5,958	-	(123,025)
Cash (Unrestricted), End of Year	$ 1,812,359	$ 5,637,699	$ 3,737,894	$ 152,221	$ 8,001,896

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Receipts					
Investment Income Received	$ 12,024	$ 7,760	$ 31,522	$ 487,155	$ 290,238
Reinsurance Recovered	-	-	5,371	89,718	3,104,046
Premiums Collected	-		4,000	-	-
Salvage and Subrogation	-	-	-	8,158	-
Expense Reimbursement Received from NYSF	-	-	442,158	237,969	42,451
Return of Advanced Deposit from CDA	-	476,052	-	-	-
Release of Special Deposit	-	-	-	-	-
Release of Collateral	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	2,719	-	15		2,679
Total Receipts	14,743	483,812	483,066	823,000	3,439,414
Disbursements					
Advanced to Affiliate	-	-	-	-	
Dividend	1,623,220	-	-		-
Transfer to Segregated funds	-		-	-	-
Salvage and Subrogation Fees	-		-	-	-
Loss Adjustment Expense	-		-	-	-
NY Misc Special Revenue Fund	-	2,064,560	-	-	-
Collateral	-	-	-	-	-
Refund to New York Security Fund	-	-	-	-	-
Salaries	41,556	20,600	128,050	320,307	285,391
Employee Relations and Welfare	15,790	60,532	54,721	133,789	116,108
Rent and Related Expenses	10,765	6,438	33,894	87,107	76,107
Professional Fees	89,484	104,414	87,376	130,065	118,855
General and Administrative Expenses	2,029	1,396	13,938	18,134	15,780
Other Expenses	2,796	1,233	6,280	10,822	9,437
Closing cost		23,245			
Total Disbursements	1,785,640	2,282,418	324,259	700,224	621,678
Net Increase of Receipts over Disbursements	(1,770,897)	(1,798,606)	158,807	122,776	2,817,736
Cash (Unrestricted), Beginning of Year	2,192,251	1,798,606	2,243,866	13,917,337	10,487,250
Unrealized Gain / (Loss)	-	-	-	(42,132)	(3,700)
Cash (Unrestricted), End of Year	$ 421,354	$ -	$ 2,402,673	$ 13,997,981	$ 13,301,286

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	CCSC	FCIC	GALAXY	HMIC	NYMB
Receipts					
Investment Income Received	$ 24,844	$ 2,113,423	$ 685,619	$ 320,224	$ 358,931
Reinsurance Recovered	1,885	1,772,900	1,545,105	223,229	465,259
Premiums Collected	-	-	-	-	-
Salvage and Subrogation		-		-	
Expense Reimbursement Received from NYSF	-	315,436	73,412	19,148	61,155
Return of Advanced Deposit from CDA	-		-	-	-
Release of Special Deposit	-	-	-	-	-
Release of Collateral	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	6,214	40		15	
Total Receipts	32,943	4,201,799	2,304,136	562,616	885,345
Disbursements					
Advanced to Affiliate	-	-	-	-	-
Dividend	-		-	-	
Transfer to Segregated funds	-	-	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-
Loss Adjustment Expense	-		-	-	-
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	-	-	-	-
Refund to New York Security Fund	-	-	-	-	-
Salaries	103,892	401,754	83,643	259,018	299,562
Employee Relations and Welfare	43,298	167,770	35,509	114,345	127,278
Rent and Related Expenses	28,376	109,724	22,235	70,578	81,596
Professional Fees	111,589	136,772	86,741	224,182	461,177
General and Administrative Expenses	5,797	22,378	4,810	15,877	17,204
Other Expenses	3,559	13,856	3,292	8,861	10,285
Closing cost					
Total Disbursements	296,511	852,254	236,230	692,861	997,102
Net Increase of Receipts over Disbursements	(263,568)	3,349,545	2,067,906	(130,245)	(111,757)
Cash (Unrestricted), Beginning of Year	1,368,066	64,530,783	19,754,747	9,755,622	15,319,886
Unrealized Gain / (Loss)	(48)	184,813	25,255	1,642	31,532
Cash (Unrestricted), End of Year	$ 1,104,450	$ 68,065,141	$ 21,847,908	$ 9,627,019	$ 15,239,661

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	NYSCO	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED
Receipts					
Investment Income Received	$ 32,193	$ 104,200	$ 1,889,937	$ 400,653	$ 182,662
Reinsurance Recovered	525,112	164,916	1,446,012	58,988	-
Premiums Collected	-	38,080	-	-	-
Salvage and Subrogation	1,111	348,713	-	-	-
Expense Reimbursement Received from NYSF	16,596	126,954	70,705	27,788	-
Return of Advanced Deposit from CDA	-	-		-	-
Release of Special Deposit	-	-	-	-	-
Release of Collateral	-	-	-	30,203	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	-	4,091	-		736
Total Receipts	575,012	786,954	3,406,654	517,632	183,398
Disbursements					
Advanced to Affiliate	-	-	-	-	-
Dividend	-	-	-	-	-
Transfer to Segregated funds	-	-	-	-	-
Salvage and Subrogation Fees	-	4,000	-	-	-
Loss Adjustment Expense	-	-	-	-	-
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	164,916	-	-	-
Refund to New York Security Fund	-	-	-	-	
Salaries	82,651	803,589	153,653	91,462	68,124
Employee Relations and Welfare	33,060	345,905	63,519	37,483	28,626
Rent and Related Expenses	23,102	217,411	41,537	24,811	18,727
Professional Fees	110,575	82,103	112,371	113,310	112,022
General and Administrative Expenses	4,610	46,120	8,064	5,147	2,311
Other Expenses	3,360	81,127	6,048	2,948	3,695
Closing cost					
Total Disbursements	257,358	1,745,171	385,192	275,161	233,505
Net Increase of Receipts over Disbursements	317,654	(958,217)	3,021,462	242,471	(50,107)
Cash (Unrestricted), Beginning of Year	1,131,166	2,272,718	52,173,530	11,275,193	7,086,336
Unrealized Gain / (Loss)	-	20,597	796,815	(16,453)	69,601
Cash (Unrestricted), End of Year	$ 1,448,820	$ 1,335,098	$ 55,991,807	$ 11,501,211	$ 7,105,830

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	MIDLAND	MIDPAC	WHITING	ACIC	AMERICAN FIDELITY
Receipts					
Investment Income Received	$ 13,460,117	$ 263,916	$ 288,477	$ 119,385	$ 496,555
Reinsurance Recovered	21,821,720	289,213		2,880	25,190
Premiums Collected	-	-	-	-	-
Salvage and Subrogation		-	-	-	-
Expense Reimbursement Received from NYSF	55,016		10,779	1,199	1,023
Return of Advanced Deposit from CDA		-	-	-	-
Release of Special Deposit		-	-	-	-
Release of Collateral		-	-	-	-
Litigation Awards		-	-	-	-
Miscellaneous Receipts	74,707	-		-	-
Total Receipts	35,411,560	553,129	299,256	123,464	522,768
Disbursements					
Advanced to Affiliate	-	-	-	-	-
Dividend		-			
Transfer to Segregated funds	-	-	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	-	-	-	-
Refund to New York Security Fund	-	-	-	-	-
Salaries	4,660,601	76,349	85,352	95,786	66,790
Employee Relations and Welfare	1,904,866	31,093	36,516	41,820	27,430
Rent and Related Expenses	1,266,815	20,541	23,441	26,215	18,391
Professional Fees	3,518,098	121,629	111,180	112,514	111,149
General and Administrative Expenses	263,316	4,230	4,843	5,696	4,094
Other Expenses	131,647	2,522	3,595	3,503	2,263
Closing cost					
Total Disbursements	11,745,343	256,364	264,927	285,534	230,117
Net Increase of Receipts over Disbursements	23,666,217	296,765	34,329	(162,070)	292,651
Cash (Unrestricted), Beginning of Year	375,994,733	8,510,706	8,352,685	3,736,391	17,351,181
Unrealized Gain / (Loss)	448,549	(17,029)	(2,031)	2,701	53,809
Cash (Unrestricted), End of Year	$ 400,109,499	$ 8,790,442	$ 8,384,983	$ 3,577,022	$ 17,697,641

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	UNION	IDEAL	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Receipts						
Investment Income Received	$ 3,103,725	$ 2,673,805	$ 165,606	$ 19,552	$ 1,331,117	$ 30,842,139
Reinsurance Recovered	87,798	899,533	-	4,088	622,434	35,667,225
Premiums Collected	-	-	-	-	-	46,772
Salvage and Subrogation		-	791	-	-	358,773
Expense Reimbursement Received from NYSF	26,579	55,688	-	-	44,535	1,628,591
Return of Advanced Deposit from CDA			-	-		476,052
Release of Special Deposit		-	-	-	-	-
Release of Collateral	-	-	-	-	-	30,203
Litigation Awards	-	-	-	2,565,273	-	2,565,273
Miscellaneous Receipts	-	9,772	-	46	1,114	319,730
Total Receipts	3,218,102	3,638,798	166,397	2,588,959	1,999,200	71,934,758
Disbursements						
Advanced to Affiliate	-	-	-	-	-	-
Dividend	-	7,041		-		61,630,261
Transfer to Segregated funds	-	-	-	2,565,273	-	2,565,273
Salvage and Subrogation Fees	-	-	-	-	-	4,000
Loss Adjustment Expense	20	-	-	-	-	20
NY Misc Special Revenue Fund	-	-	-	-	-	2,064,560
Collateral	90,556	-	-	-	-	255,472
Refund to New York Security Fund	-	-	-	-	-	-
Salaries	894,552	977,645	51,124	7,791	244,588	10,793,233
Employee Relations and Welfare	359,656	404,124	21,770	3,623	100,426	4,472,242
Rent and Related Expenses	246,144	267,365	14,128	2,229	66,056	2,914,680
Professional Fees	160,598	199,472	108,611	158,392	118,736	7,042,434
General and Administrative Expenses	68,371	119,471	2,964	497	13,672	775,459
Other Expenses	26,878	30,811	2,371	1,236	8,515	1,765,605
Closing cost						23,245
Total Disbursements	1,846,775	2,005,929	200,968	2,739,041	551,993	94,306,484
Net Increase of Receipts over Disbursements	1,371,327	1,632,869	(34,571)	(150,082)	1,447,207	(22,371,726)
Cash (Unrestricted), Beginning of Year	101,893,029	88,016,141	4,286,857	841,800	43,012,309	944,488,041
Unrealized Gain / (Loss)	108,475	247,062	(2,175)	-	329,073	2,174,901
Cash (Unrestricted), End of Year	$ 103,372,831	$ 89,896,072	$ 4,250,111	$ 691,718	$ 44,788,589	$ 924,291,216

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK IN REHABILITATION

Statutory Basis Balance Sheets

As of December 31, 2009 and 2008
With Report of Independent Auditors

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK IN REHABILITATION

Statutory Basis Balance Sheets

As of December 31, 2009 and 2008
With Report of Independent Auditors

Report of Independent Auditors

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

We have audited the accompanying statutory basis balance sheets of Executive Life Insurance Company of New York in Rehabilitation (the "Company") as of December 31, 2009 and 2008. These statutory basis balance sheets are the responsibility of the Company's management. Our responsibility is to express an opinion on these statutory basis balance sheets based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory basis balance sheets 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 statutory basis balance sheets, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis balance sheets presentation. We believe that our audits of the statutory basis balance sheets provide a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis balance sheets have 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 7 to the statutory basis balance sheets, the Company did not calculate or disclose the components of deferred taxes in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10R, *Income Taxes - Revised*, 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. 10R, as discussed in the preceding paragraph, the statutory basis balance sheets referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, 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 sheets have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the statutory basis balance sheets, the Company has been in rehabilitation since 1991 and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 1. The statutory basis balance sheets do not include any adjustments that might result from the outcome of this uncertainty.

As more fully described in Note 1 to the statutory basis balance sheets, 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 $75,466,551 as of December 31, 2009 which is recorded through unassigned deficit on the statutory basis balance sheets. As of December 31, 2008, there was no change in the valuation basis.

This report is intended solely for the information of and restricted to the use of the Superintendent of Insurance of the State of New York as Rehabilitator and management of the Company and is not intended to be and should not be used by other than the above specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK IN REHABILITATION
Statutory Basis Balance Sheets
As of December 31, 2009 and 2008

	2009	2008
Admitted assets		
Cash and invested assets:		
Bonds	$ 782,195,496	$ 744,975,995
Preferred stocks	371,702	210
Common stocks	161,781,086	282,009,744
Cash, cash equivalents and short-term investments	11,400,439	942,016
Receivables for securities	14,534,070	1,391,313
Total cash and invested assets	970,282,793	1,029,319,278
Accrued investment income	13,088,801	12,444,561
Revolving fund	650,000	650,000
Total admitted assets	$ 984,021,594	$ 1,042,413,839
Liabilities and capital and deficit		
Liabilities:		
Life insurance and annuity reserves	$ 2,332,995,708	$ 2,293,209,794
Claims in course of settlement and unreported claims	7,104,612	7,026,210
Interest maintenance reserve	97,866,412	93,247,417
Asset valuation reserve	33,240,506	-
Amounts withheld or retained by company as agent (claim-overs)	37,964,192	36,504,030
Amounts held for agents' account	3,825,418	3,825,418
General expenses due and accrued	3,149,262	3,767,861
Drafts outstanding	-	119,103
Payable for securities	108,431	-
Total liabilities	2,516,254,541	2,437,699,833
Capital and deficit:		
Common stock	14,392,214	14,392,214
Gross paid-in and contributed surplus	336,493,729	336,493,729
Unassigned deficit	(1,883,118,890)	(1,746,171,937)
Total capital and deficit	(1,532,232,947)	(1,395,285,994)
Total liabilities and capital and deficit	$ 984,021,594	$ 1,042,413,839

See accompanying notes to the Statutory Basis Balance Sheets. The Statutory Basis Balance Sheets 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 Sheets 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.

Pursuant to Insurance Law Section 7422, the Rehabilitator may appoint a special deputy and assistant special deputy superintendents as his agents. The agents, along with division directors and senior managers of the New York Liquidation Bureau ("NYLB"), are collectively referred to as herein as "Management". Management carries out, through the NYLB, the responsibilities of the Rehabilitator.

Note 1: Business Plan and Management Directives (continued)

History (continued)

On July 24, 1991, the Receivership Court entered an order approving and confirming the Rehabilitator's engagement of First Boston Asset Management Corporation ("FBAM"), as investment advisor, which merged with Credit Suisse Asset Management ("CSAM"). In 2009, the Rehabilitator replaced CSAM with Wellington Management Company, LLP ("Wellington") and Goldman Sachs Asset Management ("GSAM"), as investment advisors. 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 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 FBAM. 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 Plan of Rehabilitation

The salient features of the ELNY Rehabilitation Plan are as follows:

- 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

Prior to April 2007 ELNY's reserve requirements were reported 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 assumed valuation rates of between 10 percent and 11 percent.

In order to provide a more accurate picture of ELNY's finances as of December 31, 2006, ELNY's reserve requirements were calculated on the then-current issue year statutory basis of 5.25 percent. As of December 31, 2006, ELNY's reported reserves, using historic reserve standards, were $1,386,636,935, whereas the reserves for the same period, using the then-current year issue statutory basis, were $2,407,595,507. As of December 31, 2008, ELNY's reported reserves, using the then-current issue year statutory basis of 5.50 percent, were $2,293,209,794. The same reserves for 2007 were $2,301,907,670. As of December 31, 2009, ELNY determined that continuation of the 2006 valuation rate of 5.25% is the most appropriate approach to both reflect the current economics of the business and provide stability to measure performance across periods. Management expects to continue the use of the 5.25% rate going forward, but subject to periodic re-evaluation if the interest environment changes substantially. As of December 31, 2009, ELNY's reported reserves at 5.25% are $2,332,995,708. As a result of these changes in valuation basis, and in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 51, *Life Contracts and Corrections of Errors*, and SSAP No. 3, *Accounting Changes and Corrections of Errors*, ELNY has recorded the following adjustments on the Statutory Basis Balance Sheets as

Note 1: Business Plan and Management Directives (continued)

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

unassigned deficit: (i) an increase of $1,020,958,572 as of December 31, 2006; (ii) a decrease of $0 and $76,788,748 as of December 31, 2008 and 2007 respectively; and (iii) an increase of $75,466,551 as of December 31, 2009.

ELNY is in rehabilitation and, as shown in the Statutory Basis Balance Sheets, has a net capital deficiency. These factors raise substantial doubt about ELNY's ability to continue as a going concern. Management is presently working to develop a plan to permit ELNY to meet its future obligations. The approval of such a plan could affect ELNY's reserve calculations and assets. The Statutory Basis Balance Sheets do not include any adjustments that may be necessary if ELNY is unable to continue as a going concern.

Securities and Other Asset Management

As of December 31, 2009 and 2008, investments of assets were managed by GSAM, Wellington and 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 Sheets are a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America ("US GAAP").

ELNY's balance sheets as of December 31, 2009 and 2008 ("Statutory Basis Balance Sheets"), were prepared in accordance with Prescribed Practices.

Permitted statutory accounting practices include practices that differ from Prescribed Practices but that are allowed by the Insurance Department. ELNY 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.

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

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Invested Assets (continued)

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. If it is determined that a decline in fair market value is other than temporary, then the cost basis of the security is written down to the fair market value.

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.

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.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Benefit Reserves

Certain policy reserves stated in the Statutory Basis Balance Sheets 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 Sheets 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).

The Prescribed Practices, which do not adhere to Financial Accounting Standards Board ("FASB") Topic 740, *Income Taxes* ("Topic 740"), require neither recognition and measurement of a tax position taken or expected to be taken, nor certain other related disclosures. By contrast, pursuant to US GAAP, accounting and disclosure for uncertainty in income taxes recognized in Topic 740 would be required.

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 FASB, Topic 810, *Consolidation* ("Topic 810"), 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)

A. Accounting Practices (continued)

Fair Value Measurements

FASB issued Topic 820, *Fair Value Measurement and Disclosure*, ("Topic 820") which clarifies the definition of fair value, establishes a framework for measuring fair value in US GAAP, and expands required disclosures about the use of fair value measurements in US GAAP financial statements. Fair value information is relevant to users of financial statements and is required as an objective means of measurement. The NAIC has issued guidance similar to Topic 820 through Statement of Statutory Accounting Principle No. 100, *Fair Value Measurements* ("SSAP No. 100") effective for the period ending December 31, 2010. Management has considered Topic 820 and SSAP No. 100 and has included an overview of the framework in Note 4 herein.

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

The preparation of these Statutory Basis Balance Sheets requires Management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures. It also requires disclosure of contingent assets and liabilities at the dates of the Statutory Basis Balance Sheets. 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 Sheets.

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.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

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.

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 realized 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 have any tax liability because it is in rehabilitation.

Pursuant to the Prescribed Practices, deferred tax assets and liabilities are reported on the Statutory Basis Balance Sheets 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 Sheets 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 are unpaid. As of December 31, 2009 and 2008, the aggregated

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Claims in the Course of Settlement (continued)
amount of claims in the course of settlement was $7,104,612 and $7,026,210, respectively.

Revolving Fund
A revolving fund of $650,000 at December 31, 2009 and 2008, represents a contingency fund held by the NYLB to cover expenses owed to the NYLB by ELNY.

General Expenses Due and Accrued
As of December 31, 2009 and 2008, $3,149,262 and $3,767,861 respectively, represent expenses incurred but not paid by the NYLB and are recorded in the Statutory Basis Balance Sheets as general expenses due and accrued.

Amounts Held for Agents' Accounts
A reserve for unpaid commissions claimed by agents for placements prior to rehabilitation in the amount of $3,825,418 as of December 31, 2009 and 2008, is maintained as a liability in the Statutory Basis Balance Sheets.

Allocation of Expenses
The NYLB allocates general and administrative expenses, such as salaries, payroll taxes, rent for premises, office expenses and employee relations and welfare (*e.g.*, contributions to employee health, pension and other fringe benefits), 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. As of December 31, 2009 and 2008, the IMR is reported in the Statutory Basis Balance Sheets as net deferral in the amounts of $97,866,412 and $93,247,417, respectively. IMR balances are not recognized for US GAAP reporting purposes.

As of December 31, 2009 and 2008, the AVR balances of $33,240,506 and $0, respectively, represent credit-related losses on fixed-income assets (default component) and all types of equity investments (equity component). The increase in the asset valuation reserve was primarily due to recognition of the period's credit and equity related capital gains/losses net of taxes of $16,717,354 as well as the unrealized gains/losses net of taxes of $15,823,743. An AVR balance is not recognized for US GAAP reporting purposes.

Note 3: Investments

Bonds

At December 31, 2009, the book adjusted carrying value, gross unrealized gains and losses, and fair market value of investments in bonds are summarized as follows:

December 31, 2009	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
U.S. Government	$ 1,974,157	$ 171,024	$ -	$ 2,145,181
States, Territories and Possessions	5,747,563	66,857	-	5,814,420
Special Revenues (non- guaranteed)	57,380,958	807,142	(681,545)	57,506,555
Industrial & Miscellaneous	717,092,818	83,446,596	(5,112,776)	795,426,638
Total Bonds	$ 782,195,496	$ 84,491,619	$ (5,794,321)	$ 860,892,794

At December 31, 2008, the book adjusted carrying value, gross unrealized gains and losses, and fair market value of investments in bonds are summarized as follows:

December 31, 2008	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
U.S. Government & Special Revenue (Non - Guaranteed)	$ 18,490,437	$ 5,944,955	$ -	$ 24,435,392
Public Utilities	66,785,848	6,206,973	(2,430,222)	70,562,599
Industrial & Miscellaneous	659,699,710	16,625,955	(26,512,655)	649,813,010
Total Bonds	$ 744,975,995	$ 28,777,883	$ (28,942,877)	$ 744,811,001

At December 31, 2009 and 2008, bonds with book adjusted carrying value of $1,021,208 and $1,030,680, respectively, were on deposit with various state insurance departments to satisfy regulatory requirements.

Note 3: Investments (continued)

Bonds (continued)

The book adjusted carrying value of debt securities at December 31, 2009, 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.

	Book Adjusted Value	Fair Market Value
Less than one year	$ -	$ -
One to five years	2,783,156	4,030,560
Five to ten years	31,152,512	34,392,705
Ten years or greater	729,891,734	803,624,204
	763,827,402	842,047,469
Mortgage and asset-backed securities	18,368,094	18,845,325
Total	$ 782,195,496	$ 860,892,794

Preferred and Common Stocks

The cost, gross unrealized gains and losses, and fair market value of preferred and common stocks at December 31, 2009 are summarized as follows:

December 31, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Preferred stocks	$ 373,695	$ 7,257	$ (1,992)	$ 378,960
Common stocks	142,821,578	22,169,643	(3,210,135)	161,781,086
Total	$ 143,195,249	$ 22,176,900	$ (3,212,127)	$ 162,160,022

The cost, gross unrealized gains and losses, and fair market value of preferred and common stocks at December 31, 2008 are summarized as follows:

December 31, 2008	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Preferred stocks	$ 210	$ -	$ -	$ 210
Common stocks	278,875,973	13,243,620	(10,109,849)	282,009,744
Total	$ 278,876,183	$ 13,243,620	$ (10,109,849)	$ 282,009,954

Note 3: **Investments (continued)**

Other-than-Temporary Analysis

For each reporting period (annual and interim periods), ELNY's investments with unrealized losses are reviewed on a security-by-security basis and assessed whether such declines are other-than-temporary. In assessing whether a decline is other-than-temporary, various factors are considered including, but not limited to: (i) the rating of the security available from external sources; (ii) the issuer's record of default, if any, on scheduled interest and principal payments; (iii) an analysis of the security's market value (e.g., amount, duration and significance of the decline); (iv) ELNY's intent and ability to hold the investment until recovery; (v) the market conditions during which the decline has occurred; (vi) an economic analysis of the issuer's industry; and (vii) the financial strength and liquidity of the issuer. Once a determination has been made that a specific other-than-temporary impairment exists, a decrease in surplus is incurred and the cost basis of the impaired asset is adjusted to its fair market value.

At December 31, 2009 ELNY did not have to write down any investments. At December 31, 2008, ELNY wrote down the cost of certain debt and equity investments to fair market value. At December 31, 2008, the write-downs amounted to approximately $100,530,401 on bonds, $1,674,999 on preferred stocks, and $94,808,650 for common stocks which were all due to a decline in the fair market value of the debt and equity securities which, in the opinion of ELNY, were considered to be other-than-temporary. The write-downs on bonds and preferred stocks are included in the unassigned deficit in the accompanying Statutory Basis Balance Sheet as of December 31, 2008. The write-downs to common stocks resulted in a change from an unrealized loss to a realized loss which was recorded to operations.

Note 3: Investments (continued)

Net Unrealized Capital Losses

Aggregate unrealized losses on bonds, preferred stocks and common stocks were as follows at December 31, 2009:

December 31, 2009	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	$ 40,042,174	$ (2,111,168)	$ 93,393,603	$ (3,683,153)	$ 133,435,777	$ (5,794,321)
Preferred stocks	371,493	(1,992)	-	-	371,493	(1,992)
Common stocks	11,745,068	(1,010,181)	13,207,761	(2,199,954)	24,952,829	(3,210,135)
	$ 52,158,735	$ (3,123,341)	$ 106,601,364	$ (5,883,107)	$ 158,760,099	$ (9,006,448)

Net Unrealized Capital Losses

Aggregate unrealized losses on bonds, preferred stocks and common stocks were as follows at December 31, 2008:

December 31, 2008	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	$ 160,094,859	$ (11,351,798)	$ 149,728,540	$ (17,591,079)	$ 309,823,399	$ (28,942,877)
Preferred stocks	-	-	-	-	-	-
Common stocks	70,991,299	(8,510,244)	10,349,040	(1,599,605)	81,340,339	(10,109,849)
	$ 231,086,158	$ (19,862,042)	$ 160,077,580	$ (19,190,684)	$ 391,163,738	$ (39,052,726)

Note 3: Investments (continued)

Net Unrealized Capital Losses (continued)

ELNY 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 ELNY 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.

Subprime Exposure

As of December 31, 2009 and 2008, ELNY 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 December 31, 2009, ELNY held eleven mortgage-backed securities with a total par value of $20,943,452, a cost of $18,237,829, a book carrying value of $18,368,094, and a fair value of $18,845,325, which resulted in an unrealized gain of $477,231. At December 31, 2008, ELNY held one investment in mortgage-backed securities with a par value of $4,308, a cost of $4,090, a book carrying value of $4,194, and a fair value of $4,228, which resulted in an unrealized gain of $34.

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 Sheets 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, ELNY uses market prices quoted by third parties, if available. When both SVO-published unit prices and market quotes are unavailable, ELNY'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 4: Fair Market Value of Cash and Invested Assets (continued)

Fair Value Measurements

Certain investment related line items in the Statutory Basis Financial Statements are consistently carried at fair market value. Others are periodically measured at fair market value, such as when impaired, or, for certain bonds and preferred stocks, when carried at the lower of cost or fair market value.

The fair market value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties other than in a forced or liquidation sale. The fair market value of a liability is the amount at which that liability could be released or otherwise resolved in a current transaction between willing parties other than in a forced transaction.

Fair market values are based on quoted market prices when available. When market prices are not available, fair market value is generally estimated using discounted cash flow analyses and incorporating current market inputs for similar financial instruments with comparable terms and credit quality. In instances where there is little or no market activity for the same or similar instruments, ELNY estimates fair market value using methods, models and assumptions that ELNY believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes increasingly significant with complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

SSAP No. 100 requires that financial statements prepared pursuant to Prescribed Practices classify financial assets and liabilities carried at fair value by using the fair value hierarchy for the period ended December 31, 2010. Management has not early adopted the fair value hierarchy classification as outlined in SSAP No. 100, however has provided additional disclosure regarding the fair value framework below.

SSAP No. 100 establishes a fair value hierarchy that prioritizes the use of inputs in valuation techniques into the following three levels:

Level One:	observable prices in active markets for identical assets and liabilities;
Level Two:	observable inputs other than quoted prices in active markets for identical assets and liabilities; and
Level Three:	unobservable inputs.

An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

Note 5: **Concentration of Credit Risk**

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.

ELNY maintains cash balances at a financial institution that is insured by the FDIC. As of the date hereof, the FDIC insures accounts up to $250,000 at this institution. ELNY 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 ELNY. As of December 31, 2009, balances in excess of these limits were approximately $12,009,563.

Note 6: **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 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 then-current year maximum valuation rates. The 2008 and 2007 reserves for the annuity line of business, reported in the Statutory Basis Balance Sheets, were calculated using the statutory valuation rates of 5.50 and 5.50 percent, respectively. 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, ELNY has accounted for this change in the Statutory Basis Balance Sheets by increasing aggregate reserves by $968,690,023 and $907,829,162 for 2009 and 2008, respectively, over the original reserve basis. As set forth in Note 1, ELNY first instituted the valuation rate adjustment, to the then-current year rate, in connection with the preparation of the 2006 Statutory Basis Balance Sheet. ELNY, in preparation of the 2009 Statutory Basis Balance Sheets, used the 2006 valuation rate of 5.25 percent and expects to continue to use the 5.25 percent rate going

Note 6: Life Insurance and Annuity Reserves (continued)

forward, subject to periodic re-evaluation if the interest environment changes substantially.

Note 7: 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, ELNY 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. 10R, *Income Taxes- Revised*. Further, due to recurring operating losses, ELNY does not expect to realize the benefit of the temporary differences giving rise to the DTA in the near term. As of December 31, 2009 and 2008, ELNY did not have any DTL.

ELNY files a stand-alone federal income tax return. There was no provision for income taxes incurred on earnings for the years ended December 31, 2009 and 2008.

At December 31, 2009, 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:	2009 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	2022
2007	5,705,055	2023
2008	40,249,109	2024
Total	$586,806,083	

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

Note 8: Capital and Surplus

The portion of unassigned deficit represented or reduced by each item below is as follows for December 31, 2009 and 2008:

	2009	2008
Net income - unaudited	$ (45,979,108)	$ (228,695,404)
Change in net unrealized capital gains (losses)	15,823,742	(100,564,296)
Change in non-admitted assets	-	33,046,428
Change in reserve on account of change in valuation basis	(75,466,550)	-
Change in asset valuation reserve	(33,240,506)	64,052,593
Aggregate write-ins for gains & losses in surplus	2,596,871	-
Net change in capital and surplus for the year	$ (136,265,551)	$ (232,160,679)

Note 9: Amounts Withheld or Retained by ELNY (Claim-Overs)

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 exchanged ELNY SPDAs, 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 97.5 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, 2009, ELNY reported, as a liability in the Statutory Basis Balance Sheets, claim-overs in the amount of $37,964,192, which included then-current year interest accrued of $1,460,162. As of December 31, 2008, ELNY reported, as a liability in the Statutory Basis Balance Sheets, claim-overs in the amount of $36,504,030, which included then-current year interest accrued of $1,407,771.

Note 10: **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 for 2009 ("2009 Annual Statement") and the audited Statutory Basis Balance Sheets contained herein.

	Admitted Assets	Liabilities	Capital and (Deficit)
As filed in the 2009 Annual Statement	$ 984,880,718	$ 2,516,254,541	$ (1,531,373,823)
Reclassification of due and unpaid amounts from cash to liabilities	-	-	-
Adjustment to increase general expenses due and accrued	-	-	-
Adjustment to reconcile benefits and outstanding cash	(859,124)		(859,124)
Adjustment to bonds for assets no longer held	-	-	-
As filed in the audited balance sheet herein	$ 984,021,594	$ 2,516,254,541	$ (1,532,232,947)

The following is a reconciliation of differences that exist between the amounts stated in the Annual Statement filed with the Insurance Department for 2008 ("2008 Annual Statement") and the audited Statutory Basis Balance Sheets contained herein.

	Admitted Assets	Liabilities	Capital and (Deficit)
As filed in the 2008 Annual Statement	$ 1,034,456,386	$ 2,430,423,780	$ (1,395,967,394)
Reclassification of due and unpaid amounts from cash to liabilities	5,616,201	5,616,201	-
Adjustment to increase general expenses due and accrued	-	1,659,852	(1,659,852)
Adjustment to reconcile benefits and outstanding cash	2,441,252	-	2,441,252
Adjustment to bonds for assets no longer held	(100,000)	-	(100,000)
As filed in the audited balance sheet herein	$ 1,042,413,839	$ 2,437,699,833	$ (1,395,285,994)

Note 11: **Subsequent Events**

Subsequent Events have been reviewed in accordance with SSAP No. 9R, *Subsequent Events,* for both annual statement reporting and through issuance of these audited financial statements. Subsequent events were initially reviewed through April 30, 2010, for annual statement reporting, which is the date when the annual statement was issued. After this date, subsequent events have been reviewed through July 28, 2010, the date which these audited statements were available to be issued.

Market Volatility

The financial markets' continuing volatility in 2010 may materially impact the valuation of ELNY's investments, as well as the ability to meet all of ELNY's future obligations. Accordingly, the valuation of investments at December 31, 2009, may not necessarily be indicative of amounts that could be realized in a current market exchange.

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

Statutory Basis Financial Statements

December 31, 2009 and 2008
With Report of Independent Auditors

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

Statutory Basis Financial Statements

December 31, 2009 and 2008
With Report of Independent Auditors

Report of Independent Auditors

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

We have audited the accompanying statutory basis balance sheets of Frontier Insurance Company in Rehabilitation (the "Company") as of December 31, 2009 and 2008 and the related statutory basis statements of operations, changes in capital and deficit and cash flows for the years then ended (collectively referred to as the "statutory basis financial statements"). These statutory basis financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory basis financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory basis 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 statutory basis financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis financial statements presentation. We believe that our audits of the statutory basis financial statements provide a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis financial statements have 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 financial statements, the Company did not calculate or disclose the components of deferred taxes in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10R, *Income Taxes – Revised* 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 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. 10R and for not accounting for the Reinsurance Contract in accordance with SSAP No. 62, as discussed in the preceding paragraphs, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations, changes in capital and deficit and its cash flows for the years then ended, 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 financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the statutory basis financial statements, the Company has been in rehabilitation since 2001, has a net capital deficiency and recurring losses 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 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 and Note 8 to the statutory basis financial statements, the Company's receivables from its primary reinsurer, National Indemnity Company, is significant with current reinsurance receivables of $3,190,451 and $6,018,084 and ceded reinsurance reserves of $37,901,889 and $62,334,868, respectively, as of December 31, 2009 and 2008.

This report is intended solely for the information of and restricted to the use of the Superintendent of Insurance of the State of New York as Rehabilitator and management of the Company and is not intended to be and should not be used by other than the above specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Balance Sheets
As of December 31, 2009 and 2008

	2009	2008
Admitted assets		
Cash and invested assets		
Bonds, at amortized cost or fair market value (Note 4)	$ 27,800,980	$ 25,672,597
Common stocks, at fair market value (Note 4)	50,001	1,691,537
Home office building and improvements, net of allowance (Note 4)	7,195,178	7,796,786
Cash and short-term investments	17,519,318	21,047,494
Other invested assets (Note 4)	2,016,082	2,330,345
Receivable for securities	-	540,000
Total cash and invested assets	**54,581,559**	**59,078,759**
Agents' balances and uncollected premiums (Note 2)	12,114,045	17,366,943
Less: Allowance for agents' balances and uncollected premiums (Note 2)	(12,114,045)	(17,366,943)
Net Agents' balances and uncollected premiums	-	-
Reinsurance recoverables on paid losses and loss adjustment expenses (Note 8)	23,117,062	30,760,243
Less: Allowance for uncollectible reinsurance recoverables (Note 2)	(3,861,682)	(4,270,222)
Net Reinsurance balance recoverable on paid losses and loss adjustment expenses	19,255,380	26,490,021
Electronic data processing equipment	11,827	556
Accrued investment income	383,563	460,622
Receivable under retroactive reinsurance contract (Note 8)	3,190,451	6,018,084
Other admitted assets	2,001,484	1,264,526
Total admitted assets	**$ 79,424,264**	**$ 93,312,568**
Liabilities		
Reserves		
Unpaid losses	$ 78,237,788	$ 95,346,266
Unpaid loss adjustment expenses	24,146,471	33,472,901
Total reserves on unpaid loss and loss adjustment expenses (Note 3 and 8)	102,384,259	128,819,167
Unearned premiums (Note 8)	456,744	644,431
Reinsurance balances payable	7,207,511	7,166,803
Provision for reinsurance (Note 2)	12,913,427	14,121,891
Accounts payable and accrued expenses (Note 9)	19,574,274	17,955,000
Reinsurance payable on paid losses and loss adjustment expenses	13,808,000	18,164,824
Funds held under reinsurance agreements	161,201	161,202
Taxes, licenses and fees	1,382,256	1,383,600
Amounts withheld for account of others	651,226	1,438,144
Retroactive reinsurance reserves – ceded (Note 8)	(37,901,889)	(62,334,868)
Other liabilities (Note 9)	52,409,438	59,001,053
Total liabilities	**173,046,447**	**186,521,247**
Capital and Deficit		
Common stock, par value $20 per share authorized, issued and outstanding – 250,000 shares	5,000,000	5,000,000
Aggregate write in for special surplus (Note 8)	20,630,055	30,330,055
Paid-in surplus	265,974,592	265,974,592
Unassigned deficit	(385,226,830)	(394,513,327)
Total capital and deficit	**(93,622,183)**	**(93,208,680)**
Total liabilities and capital and deficit	**$ 79,424,264**	**$ 93,312,568**

See accompanying notes to the Statutory Basis Financial Statements. The Statutory Basis Financial Statements 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 Financial Statements and accompanying notes.

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statements of Operations
For the Years Ended December 31, 2009 and 2008

	2009	2008
Premiums earned (returned)	$ (1,740,858)	$ (2,265,988)
Losses and loss adjustment expenses incurred (income)	9,869	(13,255,178)
Other underwriting expenses incurred (Note 16)	3,753,581	3,751,561
Underwriting (loss) gain	$ (5,504,308)	$ 7,237,629
Net investment income earned (Note 4)	1,145,474	1,839,387
Net realized capital losses (Note 4)	(24,043)	(7,407,960)
Net investment income (loss)	1,121,431	(5,568,573)
Other income (expenses)		
Allowance for uncollectible reinsurance recoverables (Note 2)	(3,861,682)	(4,270,222)
Income (expense) on changes in creditor database, settlement of reinsruance payable amounts and other liabilities	11,342,867	(2,272,428)
(Loss) gain on commutations and Clarendon Settlement	(5,460,028)	3,342,926
Miscellaneous income	60,325	406,344
Total other income (expenses)	2,081,482	(2,793,380)
Retroactive reinsurance gain (Note 8)	(9,700,000)	1,808,649
Loss (income) before federal income taxes	(12,001,395)	684,325
Federal income tax incurred (Note 11)	-	-
Net (loss) income	$ (12,001,395)	$ 684,325

See accompanying notes to the Statutory Basis Financial Statements. The Statutory Basis Financial Statements 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 Financial Statements and accompanying notes

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statement of Changes in Capital and Deficit
December 31, 2009 and 2008

2008	Common Stock	Paid-In Surplus	Aggregate Write in for Special Surplus	Unassigned Deficit	Total Capital and Deficit
Balances at December 31, 2007	$ 5,000,000	$ 265,974,602	$ 28,521,406	$ (412,148,296)	$ (112,652,288)
Net income	-	-	-	684,325	684,325
Reversal of prior year valuation	-	-	-	(2,749,113)	(2,749,113)
Increase in net unrealized capital gains	-	-	-	7,075,182	7,075,182
Decrease in provision for reinsurance	-	-	-	4,053,617	4,053,617
Decrease in non-admitted assets	-	-	-	10,379,597	10,379,597
Change in special surplus	-	-	1,808,649	(1,808,649)	-
Correction of error	-	(10)	-	10	-
Balances at December 31, 2008	$ 5,000,000	$ 265,974,592	$ 30,330,055	$ (394,513,327)	$ (93,208,680)

2009	Common Stock	Paid-In Surplus	Aggregate Write in for Special Surplus	Unassigned Deficit	Total Capital and Deficit
Balances at December 31, 2008	$ 5,000,000	$ 265,974,592	$ 30,330,055	$ (394,513,327)	$ (93,208,680)
Net loss	-	-	-	(12,001,395)	(12,001,395)
Reversal of prior year valuation	-	-	-	1,799,277	1,799,277
Decrease in net unrealized capital gains	-	-	-	(165,869)	(165,869)
Decrease in provision for reinsurance	-	-	-	1,208,464	1,208,464
Decrease in non-admitted assets	-	-	-	8,746,020	8,746,020
Change in special surplus	-	-	(9,700,000)	9,700,000	-
Correction of prior year error	-	-	-	-	-
Balances at December 31, 2009	$ 5,000,000	$ 265,974,592	$ 20,630,055	$ (385,226,830)	$ (93,622,183)

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statements of Cash Flows
December 31, 2009 and 2008

	2009	2008
Operating activities:		
Premiums collected, net of reinsurance	$ 3,365,063	$ 4,097,236
Losses and loss adjustment expenses paid	(9,354,511)	(14,837,146)
Underwriting expenses paid	(7,840,082)	(18,089,171)
Net investment income received	1,036,438	2,024,770
Additional provision for uncollectibles	-	7,729,361
Decrease of liabilities now in creditors database	2,194,440	-
Increase in creditors data base	(3,774,699)	(199,813)
(Increase) decrease in reinsurance recoverables	-	(115,533)
Agents balance charged off	138,700	(56,306)
Gain (loss) on reinsurance commutation	1,861,751	(567,822)
Clarendon settlement loss net of F/H by reinsurer	(208,545)	(926,864)
Additional liability for corporate lawsuits	4,000,000	(4,000,000)
Income from settlement from corporate lawsuits	-	2,926,932
Miscellaneous other	196,591	1,022,359
Net cash used in operating activities	**(8,384,854)**	**(20,991,997)**
Investment activities:		
Proceeds from sales, maturities, or repayments of investments		
Bonds	22,479,000	10,062,209
Stocks	2,038,723	1,591,324
Mortgage loans	340,596	384
Other invested asset	1,442,017	5,324,002
Miscellaneous proceeds	645,010	52,304
Total proceeds from sales, maturities, or repayments of investments	26,945,346	17,030,223
Cost of investments acquired		
Bonds	24,549,099	10,090,094
Stocks	-	197,025
Other invested assets	-	569,042
Total cost of investments acquired	24,549,099	10,856,161
Net cash provided by investment activities	**2,396,247**	**6,174,062**
Financing and miscellaneous activities:		
Other cash provided		
Change in retrospective reinsurance reserve	14,732,979	8,450,036
Other, miscellaneous	(14,700,109)	(824,801)
Total other cash provided	32,870	7,625,235
Other cash applied		
Other application	(2,427,561)	(7,976,327)
Total other cash applied	(2,427,561)	(7,976,327)
Net cash used in financing and miscellaneous activities	(2,460,431)	(15,601,562)
Net (decrease) increase in cash and short-term investments	**(3,528,176)**	**783,627**
Cash and short-term investments		
Beginning of year	**21,047,494**	**20,263,867**
End of year	**$ 17,519,318**	**$ 21,047,494**

Note 1: Organization and Nature of Operations

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 of 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, Superintendent and his successors in office as 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)

Pursuant to Insurance Law Section 7422, the Rehabilitator has appointed a special deputy superintendent ("Special Deputy"). 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 ("Estate"). The NYLB manages the daily operations of all Estates. The Special Deputy, along with the Chief Executive Officer ("CEO") and the Accounting Manager are collectively referred to herein as "Management."

FIC has been in rehabilitation since 2001 and has a net capital deficiency. In addition, FIC had a loss from operations in the amount of $12,001,395 for the year ended December 31, 2009. These factors raise substantial reservations about FIC's ability to continue as a going concern. While Management believes that the rehabilitation effort will continue, no formal rehabilitation plan has been submitted for approval to the Receivership Court. The Statutory Basis Financial Statements (as defined below) do not include any adjustments that may be necessary if Frontier is unable to continue as a going concern.

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.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Management elected to prepare, in accordance with Prescribed Practices, FIC's Statutory Basis Balance Sheets, Statutory Basis Statements of Operations, Statements of Changes in Capital and Deficit and Statements of Cash Flows, all for the years ended December 31, 2009 and 2008 (collectively, "Statutory Basis Financial Statements").

The Prescribed Practices used to prepare the Statutory Basis Financial Statements 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.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

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, receivables from transactions with related parties without timely settlement in accordance with a written agreement, prepaid expenses and other assets not specifically identified as an admitted asset), are excluded from the Statutory Basis Financial Statements and are charged directly to unassigned surplus. These assets would be recognized under US GAAP.

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

The Prescribed Practices, which do not adhere to Financial Accounting Standards Board ("FASB") Topic 740, *Income Taxes* ("Topic 740"), require neither recognition and measurement of a tax position taken or expected to be taken, nor certain other related disclosures. By contrast, under US GAAP, accounting and disclosure for uncertainty in income taxes recognized in Topic 740, *Accounting for Income Taxes* would be required.

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

Pursuant to 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 FASB, Topic 810, *Consolidation* ("Topic 810") 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)

A. Accounting Practices (continued)

Fair Value Measurements

FASB issued Topic 820, *Fair Value Measurement and Disclosure* ("Topic 820") which clarifies the definition of fair value, establishes a framework for measuring fair value in US GAAP, and expands required disclosures about fair value measurements in US GAAP financial statements. Fair value information is relevant to users of financial statements and is required as an objective means of measuring fair value. The NAIC has issued guidance similar to Topic 820 through Statement of Statutory Accounting Principle ("SSAP") No. 100, Fair Value Measurements ("SSAP No. 100") effective for the period ending December 31, 2010. Management has considered Topic 820 and SSAP No. 100 and has included an overview of the framework in Note 4 herein.

B. Use of Estimates in the Preparation of the Statutory Basis Financial Statements

The preparation of these Statutory Basis Financial Statements 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 Financial Statements. When these amounts are ultimately determined (*i.e.*, no longer require the use of estimates and assumptions to be calculated), the determined amounts may differ significantly from the amounts reported herein.

C. Accounting Policies

Management used the following methods and assumptions in the preparation of the Statutory Basis Financial Statements.

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.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

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 realized 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 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 Sheets 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, Management did not calculate premium deficiency reserves.

Real Estate

Real estate owned and occupied by FIC is included on the Statutory Basis Balance Sheets in “invested assets” and on the Statutory Basis Statements of Operations in investment income. Real estate is reported at cost, net of depreciation. 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.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

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. 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

As of December 31, 2009 and 2008, the agents’ balances in the course of collection totaled $12,114,045 and $17,366,943, respectively and were recorded as non-admitted assets. As of December 31, 2009 and 2008, the receivable under the retroactive reinsurance contracts totaled $3,190,451 and $6,018,084, respectively, net of $1,764,611 and $1,364,539, respectively, and were recorded as non-admitted assets.

Data Processing Equipment and Software

Data processing equipment and operating systems software are carried at cost less accumulated depreciation. Non-operating system software is charged to surplus as a non-admitted asset. The equipment and all software are 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” in the Statutory Basis Statements of Operations. Retroactive reinsurance reserves ceded are reported as a contra-liability on the Statutory Basis Balance Sheets. 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.

Note 2: <u>Summary of Significant Accounting Policies</u> (continued)

C. <u>Accounting Policies</u> (continued)

Provision for reinsurance provides a minimum reserve for uncollectible reinsurance, which is recorded as a liability in the Statutory Basis Balance Sheets, and the change between years is recorded as a gain or loss directly to unassigned deficit. As of December 31, 2009 and 2008, "provision for reinsurance" totaled $12,913,427 and $14,121,891, respectively, resulting in a benefit of $1,208,464 and $4,053,617, respectively. In accordance with SSAP No. 62, *Property and Casualty Reinsurance* ("SSAP No. 62"), Management recorded allowances for uncollectible reinsurance recoveries as of December 31, 2009 and 2008 in the amounts of $3,861,682 and $4,270,222, respectively.

<u>Income Taxes</u>

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 Financial Statements 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 Financial Statements 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.

<u>Allocation of Expense</u>

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 Financial Statements.

Note 3: <u>Reserve for Unpaid Losses and LAE</u>

FIC's reserves for unpaid losses and LAE as of December 31, 2009 and 2008, 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 amounts of $24,165,101 and $27,029,463, as of December 31, 2009 and 2008, respectively.

Note 3: Reserve for Unpaid Losses and LAE (continued)

	2009	2008
Loss and LAE Reserves, at beginning of year	$ 128,819,167	$ 169,800,333
Incurred Loss and LAE related to:		
Current Year	-	10,998
Prior Years	9,867	(13,266,176)
Total Incurred (Income)	9,867	(13,255,178)
Paid Loss and LAE related to:		
Current Year	757	13,569
Prior Years	26,444,018	27,712,419
Total Paid	26,444,775	27,725,988
Loss and LAE Reserves, at end of year	$ 102,384,259	$ 128,819,167

The provision for incurred losses of prior years decreased in 2009 primarily as a result of the re-estimation of unpaid losses and LAE categorized as "Other Liability" by the NAIC.

Note 4: Investments

Bonds

At December 31, 2009, the amortized cost, gross unrealized gains and losses and fair market value of investments in bonds are summarized as follows:

	Amortized Cost/Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
U.S. Government	$ 27,216,156	$ 917,777	$ 9,652	$ 28,124,281
Special Revenue Obligations (Non guaranteed)	19,838	2,481	-	22,319
Industrial & Miscellaneous	564,986	-	-	564,986
Total Bonds	$ 27,800,980	$ 920,258	$ 9,652	$ 28,711,586

At December 31, 2008, the amortized cost, gross unrealized gains and losses and fair market values of investments in bonds are summarized as follows:

	Amortized Cost/Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
U.S. Government	$ 25,411,496	$ 1,486,314	$ -	$ 26,897,810
Special Revenue Obligations (Non guaranteed)	43,958	8,395	-	52,353
Industrial & Miscellaneous	217,143	-	-	217,143
Total Bonds	$ 25,672,597	$ 1,494,709	$ -	$ 27,167,306

Note 4: Investments (continued)

Bonds (continued)

At December 31, 2009 and 2008, securities on deposit with fair market values of $25,335,479 and $26,115,023, respectively, were on deposit with various state insurance departments to satisfy regulatory requirements.

The amortized cost of debt securities at December 31, 2009 by date of contractual maturity, are 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.

	2009	
	Amortized Cost	Fair Market Value
Less than one year	$ 7,214,391	$ 7,267,916
One to five years	20,529,237	21,386,318
	$ 27,743,628	$ 28,654,234
Mortgage-backed securities	57,352	57,352
Total	$ 27,800,980	$ 28,711,586

FIC utilizes the specific identification method for calculating gains or losses on the sale of debt securities and other investments. In 2009 and 2008, FIC received proceeds from sales of debt securities in the amount of $22,479,000 and $10,062,209 respectively, which proceeds include $4,851,000 and $7,050,209, respectively, from debt securities that matured or were repaid. In 2009 and 2008, gross realized gains (losses) on sales of debt securities were $(161,597) and $335, respectively.

Preferred and Common Stocks

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

December 31, 2009

	Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Common Stocks	$ 50,001	$ 2,117	$ 50,000	$ 2,116	$ 50,001
Total	$ 50,001	$ 2,117	$ 50,000	$ 2,116	$ 50,001

Note 4: Investments (continued)

Preferred and Common Stocks (continued)

December 31, 2008

	Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Common Stocks	$ 1,691,537	$ 1,986,241	$ 546,393	$ 841,097	$ 1,691,537
Total	$ 1,691,537	$ 1,986,241	$ 546,393	$ 841,097	$ 1,691,537

In 2009 and 2008, FIC received proceeds from the sale of common stocks in the amounts of $2,038,723 and $1,591,324, respectively. In 2009 and 2008, gross losses of $625,279 and $8,348, respectively and gross gains of $679,879 and $127,683, respectively were realized on those sales.

Unrealized losses

The estimated fair market value and unrealized loss for temporarily impaired securities as of December 31, 2009, 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	$ 5,481,166	$ 9,651	$ -	$ -	$ 5,481,166	$ 9,651
Subtotal, Debt Securities	5,481,166	9,651	-	-	5,481,166	9,651
Common Stocks	-	-	1	2,116	1	2,116
Subtotal, Equity Securities	-	-	1	2,116	1	2,116
Total Temporarily Impaired Securities	$ 5,481,166	$ 9,651	$ 1	$ 2,116	$ 5,481,167	$ 11,767

Note 4: <u>Investments</u> (continued)

<u>Unrealized Losses</u> (continued)

The estimated fair market value and unrealized loss for temporarily impaired securities as of December 31, 2008, 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
Subtotal, Debt Securities	$ -	$ -	$ -	$ -	$ -	$ -
Common Stocks	523,765	253,159	231,052	587,938	754,817	841,097
Subtotal, Equity Securities	523,765	253,159	231,052	587,938	754,817	841,097
Total Temporarily Impaired Securities	$ 523,765	$ 253,159	$ 231,052	$ 587,938	$ 754,817	$ 841,097

For each reporting period (annual and interim periods), Management reviews investments with unrealized losses on a security-by-security basis and assesses whether such declines are other-than-temporary. In assessing whether a decline is other-than-temporary, Management considers various factors including, but not limited to: (i) the rating of the security available from external sources; (ii) the issuer’s record of default, if any, on scheduled interest and principle payments; (iii) an analysis of the security’s market value (*e.g.*, amount, duration and significance of the decline); (iv) Management’s intent and ability to hold the investment until recovery; (v) the market conditions during which the decline has occurred; (vi) an economic analysis of the issuer’s industry; and (vii) the financial strength and liquidity of the issuer. Once a determination has been made that a specific other-than-temporary impairment exists, a decrease in surplus is incurred and the cost basis of the impaired asset is adjusted to its fair market value.

The unrealized losses related to corporate securities for December 31, 2009 and 2008, totaled $0 and $0, respectively. Because those corporate securities had an NAIC rating designation of six for December 31, 2009 and 2008, the fair market values of those corporate securities were $0 and $0, respectively. Generally, securities with an NAIC rating designation of six are reported at the lower of cost or fair market value.

As of December 31, 2009 and 2008, the unrealized losses related to common stocks totaled $2,116 and $841,097, respectively. As of December 31, 2009 and 2008, the fair market value of those securities was $1 and $754,817, respectively, because one common stock had no identifiable fair market value.

Note 4: Investments (continued)

Unrealized losses (continued)

At December 31, 2009 and 2008, Management wrote down the cost of certain debt investments to fair market value. The write-down amounted to approximately $0 and $9,207,038 for 2009 and 2008, respectively, and was due to a decline in the fair market value of the debt securities which, in the opinion of Management, was considered to be other-than-temporary. The write-down is included in "realized losses" in the Statutory Basis Statements of Operations.

At December 31, 2009 and 2008, Management did not write down the cost of equity investments to fair market value. If there is a write-down it is included in the "realized losses" in the Statutory Basis Statements of Operations.

On February 14, 2008, one of the aforementioned common stocks with no identifiable fair market value was sold for $1,312,500, resulting in a realized gain of $1,312,500 as recorded in the 2008 Statutory Basis Statements of Operations.

Other Invested Assets

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, 2009 and 2008, FIC's aggregate investment in the Limited Partnerships was $2,016,082 and $2,330,345, respectively. In 2009 and 2008, FIC received distributions from the Limited Partnerships in the amounts of $1,442,017 and $5,324,002, respectively. In 2009 and 2008, gross gains of $0 and $163,439, respectively, and gross losses of $271,410 and $0, respectively, were realized on such distributions.

FIC recorded losses of $0 and $191,777, for 2009 and 2008, respectively, 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 Basis Balance Sheets.

Note 4: Investments (continued)

Other Invested Assets (continued)

Management does not have any capital commitments 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, 2009 and 2008, 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. As of December 31, 2009 and 2008, FIC held three investments in mortgage-backed securities with combined par values of $1,490,542 and $1,490,542, respectively. As of December 31, 2009 and 2008, these three securities collectively, had been written down to fair market values of $57,352 and $59,509 respectively, resulting in unrealized losses of $0 and $0, respectively.

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

Net Investment Income Earned

Net investment income earned consisted of the following for the years ended December 31:

	2009	2008
Bonds	$ 1,800,176	$ 1,486,927
Common and preferred stocks	20,916	28,351
Cash and short-term investments	110,764	662,843
Mortgage loans	71,382	1,816
Net real estate	362,254	223,121
Other invested assets	8,329	45,282
Other income	403,963	791,336
Gross investment income	2,777,784	3,239,676
Less: Investment expenses	(1,632,310)	(1,400,289)
Net investment income earned	$ 1,145,474	$ 1,839,387

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, 2009 and 2008, the value of the Rock Hill Property is broken-down as follows:

	2009	2008
Land	$ 577,483	$ 577,483
Building	18,922,518	18,922,518
Accumulated depreciation	(7,481,577)	(6,879,969)
Valuation allowance	(4,823,246)	(4,823,246)
Value of Rock Hill Property	$ 7,195,178	$ 7,796,786

Mortgage Loans

As of December 31, 2009, FIC no longer held any outstanding mortgages.

As of December 31, 2008, FIC held one outstanding mortgage as shown below:

Mortgagor	Interest Rate	Location	Outstanding Balance	Non-admitted	Carrying Value
Well Assist, Inc.	6.00%	New York	$ 340,596	$ (340,596)	$ -

Net realized capital gains (losses)

Set forth below are the net realized capital gains/(losses) recognized by FIC in 2009 and 2008. These amounts include other-than-temporary impairments of ($24,043) and ($7,407,960) for 2009 and 2008, respectively.

	2009	2008
Bonds	$ 992	$ (9,206,703)
Short-term investments	-	52,304
Common stocks	54,600	1,431,834
Other invested assets	(79,635)	314,605
	$ (24,043)	$ (7,407,960)

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 Sheets 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

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

Investment securities (continued)

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 SSAP No. 86, *Accounting for Derivative Instruments and Hedging Activities*.

Mortgage Loans

As of December 31, 2009, the Well Assist, Inc. mortgage loan was paid in full.

As of December 31, 2008, the Well Assist, Inc. mortgage loan was in default and carried as a non-admitted asset.

Fair Value Measurements

Certain investment related line items in the Statutory Basis Financial Statements are consistently carried at fair market value. Others are periodically measured at fair market value, such as when impaired, or, for certain bonds and preferred stocks, when carried at the lower of cost or fair market value.

The fair market value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, other than in a forced or liquidation sale. The fair market value of a liability is the amount at which that liability could be released or otherwise resolved in a current transaction between willing parties, other than in a forced transaction.

Fair market values are based on quoted market prices when available. When market prices are not available, fair market value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality. In instances where there is little or no market activity for the same or similar instruments, Management estimates fair market value using methods, models and assumptions that Management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which become increasingly significant with complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

SSAP No. 100 requires that financial statements, prepared pursuant to Prescribed Practices, classify financial assets and liabilities at fair value by using the fair value hierarchy. Management has not early adopted the fair value hierarchy classification as outlined below in SSAP No. 100.

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

Fair Value Measurements (continued)

SSAP No.100 establishes a fair value hierarchy that prioritizes the use of inputs in valuation techniques into the following three levels:

Level One: observable prices in active markets for identical assets and liabilities;
Level Two: observable inputs other than quoted prices in active markets for identical assets and liabilities; and
Level Three: unobservable inputs.

An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

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

Pursuant to Insurance Law Section 4105, all dividends on capital stock must be distributed exclusively out of earned surplus. 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 years ended December 31, 2009 and 2008, FIC did not declare or pay any dividends on common stock.

The portion of unassigned deficit represented or reduced by each item below is as follows for December 31, 2009 and 2008:

	2009	2008
Net Unrealized losses	$ (54,222,116)	$ (54,564,705)
Non-admitted asset values	(16,251,531)	(20,727,325)
Provision for reinsurance	(12,913,427)	(14,121,891)

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.

FIC maintains cash balances at financial institutions that are insured by the 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

Note 7: Concentration of Credit Risk (continued)

a material credit risk to FIC. As of December 31, 2009 and 2008, when FDIC insured limits were $250,000, balances in excess of these limits were approximately $3,768,652 and $1,770,086, respectively. As of December 31, 2009 and 2008, money market funds not insured by the FDIC are in excess of $9,983,917 and $7,627,379, respectively.

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. The following is a summary of the components of net premiums written and earned for the years ended December 31, 2009 and 2008:

	2009 Premiums Written	2009 Premiums Earned	2008 Premiums Written	2008 Premiums Earned
Direct business	$ (1,942,775)	$ (1,828,679)	$ (1,457,710)	$ (1,016,007)
Reinsurance assumed	17,711	91,342	45,569	119,532
Reinsurance ceded	(3,480)	(3,521)	(1,369,549)	(1,369,513)
	$ (1,928,544)	$ (1,740,858)	$ (2,781,690)	$ (2,265,988)

The effect of reinsurance on unearned premiums as of December 31, 2009 and 2008, are as follows:

	2009	2008
Direct business	$ 176,484	$ 290,581
Reinsurance assumed	280,260	353,892
Reinsurance ceded	-	(42)
	$ 456,744	$ 644,431

Note 8: Reinsurance Recoverables (continued)

Prospective Reinsurance Recoverables (continued)

The effect of reinsurance on the liabilities for losses and LAE reserves and losses and loss expense incurred for the years ended December 31, 2009 and 2008 are as follows:

	2009 Liability for Losses and LAE	2009 Losses and LAE Incurred	2008 Liability for Losses and LAE	2008 Losses and LAE Incurred
Direct business	$ 124,227,946	$ (71,573)	$ 153,583,010	$ (10,034,058)
Reinsurance assumed	2,321,414	80,705	2,265,620	(11,268,964)
Reinsurance ceded	(24,165,101)	736	(27,029,463)	8,047,844
	$ 102,384,259	$ 9,868	$ 128,819,167	$ (13,255,178)

The following is a summary of the components of commission expense, net, for the years ended December 31, 2009 and 2008:

	2009	2008
Commissions:		
Direct	$ (146,703)	$ (287,061)
Reinsurance assumed	5,789	17,253
Reinsurance ceded	(988)	925
Contingent ceded	-	-
Net commissions	$ (141,902)	$ (268,883)

Reinsurance Recoverables in Dispute

The reinsurance recoverables on paid loss and LAE, on a gross basis, listed below as of December 31, 2009 and 2008, are in dispute and are recorded in reinsurance balances recoverable on paid loss and LAE:

Name of Reinsurer	**Amounts in Dispute** 2009	2008
Everest Reinsurance Company	$ 1,104,880	$ 1,747,474
Hartford Fire Insurance Company	-	547,540
Munich Re America	-	1,771,062
Swiss Reinsurance America Corp.	318,184	318,184
TOA Reinsurance Company of	-	2,881,403
Trenwick America Reinsurance Corp.	-	1,066,228
XL Reinsurance America Inc.	2,849,686	2,794,562
	$ 4,272,750	$ 11,126,453

Note 8: Reinsurance Recoverables (continued)

Reinsurance Recoverables

FIC had the following unsecured and secured reinsurance recoverables on paid losses and LAE as of December 31, 2009 and 2008:

Unsecured Reinsurance Recoverables	2009	2008
ACE USA	$ 477,966	$ 409,135
Automotive Services Insurance Ltd.	-	750
Bowling Green Indemnity Ltd.	3,468,979	3,221,108
Calvert	2,742	2,730
Chubb Atlantic Indemnity Ltd.	911,616	911,616
Cigna Insurance Group	-	11,691
Clearwater Insurance Company	50,999	17,799
Connecticut General Life Insurance Company	-	80,341
Continental Casualty Company	82,832	13,143
Delphi Insurance Company, Ltd.	58,003	-
The Doctors Company	136,802	136,802
Evanston Insurance Company	170,460	329,044
Everest Reinsurance Company	-	1,973,683
Federal Insurance Company	7,905	9,628
First Professional Insurance Company	348	(2,155)
Gerling Global Reinsurance Corporation	41,404	25,483
Hannover Ruckversicherungs	364,436	335,068
Hartford Fire Insurance Company	208,993	547,540
Houston Casualty Company	21,816	21,816
John Hancock Life Insurance Company	26,352	70,807
Lansdowne	727,920	727,920
Lincoln National Life Insurance Company	-	42,849
Lloyd’s of London Syndicate 435	320,590	410,483
Markel International Insurance Company	312,116	410,365
Munich Reinsurance America Inc.	1,339,396	1,771,063
Mutual Assurance	24,622	24,622
Nursing Home Risk & Indemnity Ltd.	1,033,811	1,033,811
Odyssey America Reinsurance Company	44,999	15,704
Paradym Insurance Company Ltd.	1,117,203	1,117,372
Phoenix Home Life Mutual Insurance Company	-	53,561
Potomac Indemnity Company	3,433,022	3,427,928
QBE Insurance (Europe)	-	82,302
ReliaStar Life Insurance Company	12,056	20,569
Security Insurance Company of Hartford	136,408	136,623
Sinser Insurance Ltd.	302,568	266,393
St. Paul Fire & Marine Insurance Company	35,959	19,989
Swiss Reinsurance America Corporation	992,016	1,968,225
TOA Reinsurance Company of America	-	2,881,403
Transatlantic Reinsurance Company	216,016	136,073
Trenwick America Reinsurance Corporation	-	1,066,228
Van Meter	-	151,997
XL Reinsurance America Inc.	2,849,686	2,794,564
Total Unsecured Reinsurance Recoverables	18,930,041	26,676,073
Secured Reinsurance Recoverables		
Total Secured Reinsurance Recoverables	4,187,021	4,084,170
Total Reinsurance Recoverables	$ 23,117,062	$ 30,760,243

Note 8: Reinsurance Recoverables (continued)

Retroactive Reinsurance Agreement

Effective July 1, 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 NICO Agreement has been amended three times, as more fully set forth in Note 13 below. The following table sets forth data related to the NICO Agreement:

	2009 Ceded	2008 Ceded
Reserves transferred:		
Initial reserves	$ 542,986,936	$ 542,986,936
Adjustments – prior years	46,003,781	44,195,132
Adjustments – current year	(9,700,000)	1,808,649
Current total	$ 579,290,717	$ 588,990,717
Consideration paid:		
Initial consideration	$ 533,728,693	$ 533,728,693
Adjustments – prior years	24,931,969	24,931,969
Adjustments – current year	-	-
Current total	$ 558,660,662	$ 558,660,662
Paid losses recovered:		
Prior years	$ 526,655,851	$ 516,397,167
Current year	14,732,979	10,258,684
Current total	$ 541,388,830	$ 526,655,851
Special Surplus from Retro Active Reinsurance		
Initial surplus gain	$ 9,258,243	$ 9,258,243
Adjustments – prior years	21,071,812	19,263,163
Adjustments – current year	(9,700,000)	1,808,649
Current year restricted surplus	$ 20,630,055	$ 30,330,055
Cumulative total transferred to unassigned surplus	$ 20,630,055	$ 30,330,055

In accordance with SSAP No. 62, the surplus gain of $20,630,055 and $30,330,055 as of December 31, 2009 and 2008, respectively, is restricted surplus until such time as amounts recovered exceed consideration paid.

Retroactive reinsurance reserves ceded to NICO under the NICO Agreement, as amended, totaled $37,901,889 and $62,334,868 as of December 31, 2009 and 2008, respectively. FPIC also maintains reinsurance with NICO as part of the NICO Agreement. Under the NICO Agreement, FPIC has its own contractual limit to the reinsurance coverage. NICO has disputed the FPIC reinsurance claims and the two parties are in the process of arbitrating the issue. Any recovery by FPIC against NICO would reduce the ceded reinsurance available to FIC under the NICO Agreement. Subsequent to the date of these financial statements, on July 6, 2010, NICO

Note 8: Reinsurance Recoverables (continued)

Retroactive Reinsurance Agreement (continued)

communicated to FIC that payments under the NICO Agreement will be suspended pending an allocation of the remaining reinsurance coverage between FIC and FPIC. Based on the most up-to-date information available on the FPIC claim, Management estimates that the reinsurance coverage available to FIC will be reduced by approximately $9,700,000.

Retroactive reinsurance reserves do not offset reserves and are recorded as a separate contra-liability. The change in the balance of special surplus funds from the prior year of $(9,700,000) and $1,808,649 for December 31, 2009 and 2008, respectively, represents a gain from the NICO Agreement. As of December 31, 2009 and 2008, the amounts receivable under the NICO Agreement were $3,190,451 and $6,018,084, respectively.

Note 9: Other Liabilities

Creditor Database

As of December 31, 2009 and 2008, Management reported in the Statutory Basis Balance Sheets as accounts payable and accrued expenses the amounts of $19,574,274 and $17,955,000, respectively. The 2009 amount includes creditor claims in the amount of $17,243,012 and other various accounts payable in the amount of $2,331,262. The 2008 amount includes creditor claims in the amount of $14,913,401 and other various accounts payable in the amount of $3,041,598. Management reviewed the submitted creditors' claims and found that some claims or portions thereof were duplicative. Management continues to update the creditor database to correct this estimate.

Other Liabilities

As of December 31, 2009 and 2008, Management reported in the Statutory Basis Balance Sheets $52,409,438 and $59,001,053, respectively, in other liabilities. This represents bulk reserves of $51,537,448 and $51,537,448, respectively, other payables of $871,989 and $4,870,343, respectively, and payables to Clarendon National Insurance Company ("Clarendon") of $0 and $2,593,263, respectively.

The bulk reserve for December 31, 2009 and 2008, of $51,537,448 and $51,537,448, respectively, 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 $0 and $2,593,263 reported as other payables as of December 31, 2009 and 2008, respectively is due to Clarendon on those FIC policies where (i) Clarendon issued cut-through endorsements, and (ii) FIC collected reinsurance on Clarendon's behalf

Note 9: Other Liabilities (continued)

Other Liabilities (continued)

or owed Clarendon premiums. Pursuant to the terms of a settlement agreement entered into February 4, 2008, between FIC and Clarendon, 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.

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. When FIC ceased writing new business in March 2001, its participation in the pools ended. The liability recorded for these commitments is recorded in the creditor database discussed above.

Leases

FIC leases storage space pursuant to two separate lease arrangements that expire on December 31, 2010. Rental expense for 2009 and 2008 was approximately $68,762 and $62,400, respectively. At December 31, 2009, approximate rental commitments under non-cancellable leases are as follows:

Year Ending December 31,	Amount
2010	$62,400
2011	$62,400

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.

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. 10R, *Income Taxes-Revised*. 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. As of December 31, 2009 and 2008, FIC did not have DTL.

Note 11: <u>Federal Income Taxes</u> (continued)

FIC files a consolidated tax return with Lancer as discussed in Note 2, along with related entities of Lancer. No provision for income taxes incurred has been recorded for the years ended December 31, 2009 and 2008.

As of December 31, 2008, FIC had net operating loss carry forwards in the amount of $136,617,125, which will begin to expire in 2020. The net operating loss for 2009 has not been calculated. Since there was a significant book income in the current year that would materially change the disclosure of the net operating losses, we determined only to disclose the 2008 net operating losses. Net operating losses were utilized during the period ended 2009 by Lancer and since FIC would not recognize a benefit from the use, no amounts have been recorded as defined in the tax allocation agreement. Any amount of net operating losses utilized in 2009 and 2008 is not indicative of future estimates.

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 is not in accordance with standards set forth in SSAP No. 62 because it did not meet risk-transfer standards. On March 6, 2009, the United States District Court for the Southern District of New York (the "Court") granted Everest Re's summary judgment motion and denied Benfield's. In 2010, FIC settled with Benfield and Management is currently considering its options with regard to the Court's decision.

Prior to rehabilitation, FIC reported the reinsurance recoverables due under the Everest Re Contract as reinsurance. Given Management's allegation that the Everest Re Contract is not in accordance with standards set forth in SSAP No. 62 because it did not meet the risk-transfer standards, the reinsurance recoverables due under the Everest Re Contract should be reported in the Statutory Basis Balance Sheets 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 as of December 31, 2009 and 2008, $3,712,884 and $4,084,170, respectively, as reinsurance recoverable on paid losses and paid LAE and $8,285,697 and $6,277,621 respectively, 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, which totaled $15,622,525 and

Note 12: Reinsurance Litigation (continued)

$16,193,073 as of December 31, 2009 and 2008, respectively, 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, the NICO Agreement has been subsequently amended three times as follows:

Endorsement No. 1, dated January 5, 2001, added coverage for FIC's surety business for years 2000 and forward, added FPIC as an insured party and also increased NICO's ultimate net loss obligation from $780,000,000 to $858,554,275, with a sublimit of $47,089,799 established for FPIC claims.

Endorsement No. 2, dated September 20, 2001, sets forth the administrative duties and the financial obligations of the parties with respect to the handling of claims reinsured by NICO.

Endorsement No. 3, dated March 24, 2004, eliminated the surety coverage afforded FIC under the NICO Agreement, resolved certain balances owed to NICO by FIC and reduced the remaining cover limit as of January 1, 2004, to $225 million, inclusive of both the FIC cover limit and the FPIC sublimit.

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 2009 or 2008. As of December 31, 2009 and 2008, the fair market value of Plan assets was $2,182,178 and $1,042,800, respectively.

Note 15: Related Party Transactions

FIC has a tax allocation agreement with Lancer.

Note 16: <u>Expenses</u>

The following table indicates the components of the FIC's expense categories for the year ended December 31, 2009:

		2009	
	General	Investment	Total
Salaries and benefits	$ 2,255,887	$ -	$ 2,255,887
Real property expenses, including taxes	-	1,549,173	1,549,173
Legal and auditing	764,953	-	764,953
Professional services	403,702	-	403,702
Bank servicing fees	-	79,213	79,213
Insurance	48,360	-	48,360
EDP and equipment costs	72,863	3,924	76,787
Rent and rent Items	24,279	-	24,279
All other expenses	325,439	-	325,439
Net commission & brokerage	(141,902)	-	(141,902)
	$ 3,753,581	$ 1,632,310	$ 5,385,891

The following table indicates the components of the FIC's expense categories for the year ended December 31, 2008:

		2008	
	General	Investment	Total
Salaries and benefits	$ 2,517,613	$ -	$ 2,517,613
Real property expenses, including taxes	-	1,328,708	1,328,708
Legal and auditing	856,024	-	856,024
Professional services	456,456	-	456,456
Bank servicing fees	-	71,581	71,581
Insurance	55,835	-	55,835
EDP and equipment costs	119,884	-	119,884
Rent and rent Items	20,494	-	20,494
All other expenses	(5,862)	-	(5,862)
Net commission & brokerage	(268,883)	-	(268,883)
	$ 3,751,561	$ 1,400,289	$ 5,151,850

No bonus or retention plans were in place for the years ending December 31, 2009 and 2008.

Note 17: <u>Subsequent Events</u>

Subsequent events have been reviewed in accordance with SSAP No. 9R, *Subsequent Events*. Subsequent events were originally reviewed through February 25, 2010, the date the annual statement was filed with the Insurance Department and reviewed once more through July 28, 2010, the date on which these audited statements were available to be issued.

Note 17: Subsequent Events (continued)

NICO Retro Reinsurance Agreement

By letter dated July 6, 2010, NICO notified FIC that it is suspending payment to FIC under the NICO Agreement (see Footnote 8 herein) until the remaining reinsurance limit under the NICO Agreement is apportioned between FIC and FPIC.

Market Volatility

FIC invests in various investment securities. Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that changes may materially affect the participants' account balances and the amounts reported in the Statutory Basis Financial Statements.

The financial markets' continuing volatility in 2010 may materially impact the valuation of FIC's investments subsequent to December 31, 2009 and 2008. Accordingly, the valuation of investments at December 31, 2009 and 2008 may not necessarily be indicative of amounts that could be realized in a current market exchange.

As of March 31, 2010, the market value of investments in Limited Partnerships increased in market value by approximately twelve and a half percent due to current market fluctuations.

Bar Dates

Pursuant to an order entered in November 2009, the Receivership Court established March 12, 2010, as the last date upon which a person may submit notice ("Notice") to the Rehabilitator for any claim under a policy or contract issued by Terramar Insurance Company, Terramar Insurance Agency, Advanced Risk International, Ltd. or Terramar General Agency (collectively, "Terramar") or any surety bond. Any surety bond or Terramar claim, where the Rehabilitator has not received Notice, is barred. In addition, any claim under any surety bond in which the triggering event occurred after January 11, 2010 is barred. In response to the bar date notification, FIC received 31 new bond claims and approximately 40 Terramar claims.

Note 18: Reconciliation to Annual Statement

Following is a summary of the changes between FIC's 2009 Statutory Basis Financial Statements as prepared in the 2009 annual statement filed with the Insurance Department and the amounts reported in these audited Statutory Basis Financial Statements:

	Admitted Assets	Liabilities	Capital & (Deficit)	Net Income (Loss)
As reported in the December 31, 2009 Statutory Basis Balance Sheet	$ 79,424,264	$(163,346,447)	$ (83,922,183)	$ 104,041
Reversal of prior year audit adjustments	-	-	-	9,500,695
Write down of bonds	-	-	-	(9,044,449)
Reclass of preferred stock realized gain/loss	-	-	-	1,000,000
Reclass potential for uncollectable reinsurance recoverable	-	-	-	(3,861,682)
Additional accrual related to FPIC/NICO Arbitration		(9,700,000)	(9,700,000)	(9,700,000)
As reported in the audited December 31, 2009 Statutory Basis Balance Sheet	$ 79,424,264	$(173,046,447)	$ (93,622,183)	$ (12,001,395)

Following is a summary of the changes between FIC's 2008 Statutory Basis Financial Statements as prepared in the 2008 annual statement filed with the Insurance Department and the amounts reported in these audited Statutory Basis Financial Statements:

	Admitted Assets	Liabilities	Capital & (Deficit)	Net Income (Loss)
As reported in the December 31, 2008 Statutory Basis Balance Sheet	$ 95,917,761	$(186,471,525)	$ (90,553,765)	$ 3,529,396
Reversal of prior year audit adjustments	-	-	-	10,582,905
Write down of bonds	(996,719)	-	(996,719)	(9,207,038)
Write down of due and accrued interest	(52,160)	-	(52,160)	(52,160)
Write down of limited partnerships	(191,775)	-	(191,775)	151,166
Reclass potential for uncollectable reinsurance recoverable	-	-	-	(4,270,222)
Increase in accrued expense	-	(49,722)	(49,722)	(49,722)
Decrease in receivable (balance over 90 days due)	(1,364,539)	-	(1,364,539)	-
As reported in the audited December 31, 2008 Statutory Basis Balance Sheet	$ 93,312,568	$(186,521,247)	$ (93,208,680)	$ 684,325

LION INSURANCE COMPANY IN REHABILITATION

Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory Basis

As of December 31, 2009 and 2008
With Report of Independent Auditors

LION INSURANCE COMPANY IN REHABILITATION

Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory Basis

As of December 31, 2009 and 2008
With Report of Independent Auditors

Report of Independent Auditors

To the Superintendent of Insurance of the State of New York as Rehabilitator and the Management of Lion Insurance Company in Rehabilitation

We have audited the accompanying schedules of cash, cash equivalents and short-term investments - statutory basis of Lion Insurance Company in Rehabilitation (the "Company") as of December 31, 2009 and 2008. The schedules of cash, cash equivalents and short-term investments - statutory basis are the responsibility of the Company's management. Our responsibility is to express an opinion on the schedules of cash, cash equivalents and short-term investments - statutory basis based on our audits.

We conducted our audits 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 schedules of cash, cash equivalents and short-term investments - statutory basis 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 schedule of cash, cash equivalents and short-term investments - statutory basis, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits of the schedules of cash, cash equivalents and short-term investments - statutory basis provides a reasonable basis for our opinion.

As described in Note 2, the accompanying schedules of cash, cash equivalents and short-term investments - statutory basis 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.

In our opinion, the schedules of cash, cash equivalents and short-term investments - statutory basis referred to above presents fairly, in all material respects, the cash, cash equivalents and short-term investments on a statutory basis of the Company as of December 31, 2009 and 2008, 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 schedules of cash, cash equivalents and short-term investments - statutory basis has been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the schedules of cash, cash equivalents and short-term investments - statutory basis, the Company has been in rehabilitation since 2007 that raises substantial doubt about its ability to continue as a going concern. Management has not finalized plans with regard to these matters. The schedules of cash, cash equivalents and short-term investments - statutory basis does not include any adjustments that might result from the outcome of this uncertainty.

This report is intended solely for the information of and restricted to the use of the Superintendent of Insurance of the State of New York as Rehabilitator and management of the Company and is not intended to be and should not be used by other than the above specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

LION INSURANCE COMPANY IN REHABILITATION
Schedules of Cash, Cash Equivalents and
Short Term Investments - Statutory Basis
As of December 31, 2009 and 2008

	2009	2008
Cash, Cash Equivalents and Short Term Investments - Statutory Basis		
Short-term investment at amortized cost (Note 3)	$ 1,984,883	$ 2,346,113
Cash and cash equivalents	-	224,630
Total Cash, Cash Equivalents and Short Term Investments - Statutory Basis	**$ 1,984,883**	**$ 2,570,743**

See accompanying notes to the Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory Basis. The Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory 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 on such person's or entity's use of or reliance upon the Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory Basis and accompanying notes.

LION INSURANCE COMPANY IN REHABILITATION
Notes to Schedules of Cash, Cash Equivalents and
Short Term Investments - Statutory Basis
As of December 31, 2009 and 2008

Note 1: Organization and Nature of Operations

Lion Insurance Company ("Lion") is a wholly-owned subsidiary of Eagle Insurance Company ("Eagle"), a New Jersey domiciled property and casualty insurance company, which is, in turn, a wholly-owned subsidiary of The Robert Plan Corporation ("The Robert Plan"), Lion's ultimate parent.

Lion was incorporated as a stock insurance company on July 14, 1989 and was licensed under the laws of the state of New York on October 1, 1990. Lion was licensed to transact the kinds of insurance specified in New York Insurance Law ("Insurance Law") Section 1113(a) paragraphs: 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage). In 1991, Lion began writing private passenger car insurance. Substantially all of the policies issued by Lion are located in New York State.

Lion had significant transactions with Eagle and The Robert Plan Corporation of New York ("Robert-NY"), a third party claims service administrator and a wholly-owned subsidiary of The Robert Plan. In return for servicing fees, Robert-NY provided Lion with claims administration services, which included loss adjustment and control and loss payment functions. This agreement has since been terminated.

On February 16, 2006, Lion transferred $1,500,000 to The Robert Plan, without first obtaining approval from The New York State Department of Insurance (the "Insurance Department").

On September 26, 2006, Lion entered into a stipulation with The Robert Plan and the Insurance Department (the "Stipulation") whereby, The Robert Plan agreed to repay the loans to Lion pursuant to a repayment schedule. Accordingly, if The Robert Plan defaulted in any manner in making repayment, Lion consented to being placed into rehabilitation. Simultaneous with the execution of the Stipulation, Lion's Board of Directors ("Board") held a special meeting at which the Board unanimously approved the resolution consenting to an entry of an order of rehabilitation and the commencement of proceedings for that purpose in the Supreme Court of the State of New York, County of New York ("Receivership Court").

The Robert Plan failed to make the required payments for October 2006 and all dates thereafter and thus defaulted, therefore violating the Stipulation. Accordingly, Lion consented to being placed into rehabilitation.

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

Pursuant to Insurance Law Article 74, on September 6, 2007, the Receivership Court issued an order of rehabilitation ("Rehabilitation Order") placing Lion into rehabilitation and appointing the then-Superintendent of Insurance of the State of New York (and his successors in office) ("Superintendent") rehabilitator of Lion ("Rehabilitator"). The Rehabilitation Order directed the Rehabilitator to, among other things, take possession of Lion's property, conduct Lion's business and take such steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary.

Pursuant to Insurance Law Section 7422, the Superintendent in his capacity as receiver ("Receiver") may appoint a special deputy and assistant special deputy superintendents as his agents. The agents along with division directors and senior managers of the New York Liquidation Bureau ("NYLB") are hereinafter referred to as "Management." Management through the NYLB carries out the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver where the agents have been appointed as agents of the Receiver ("Estate"), including Lion.

Lion has been in rehabilitation since 2007. This factor raises substantial doubt about Lion's ability to continue as a going concern. The Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory Basis do not include any adjustments that might be necessary if Lion is unable to continue as a going concern.

Note 2: <u>Summary of Significant Accounting Policies</u>

A. <u>Accounting Practices</u>

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").

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

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 Lion. The outcome of applying the Prescribed Practices to Lion would not be significantly different from the outcome of applying the APP Manual to Lion.

Management has elected to prepare in accordance with Prescribed Practices, Lion's Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory Basis as of December 31, 2009 and 2008. The Prescribed Practices used to prepare the Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory Basis 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:

Cash, Cash Equivalents and Short Term Investments

Cash, Cash Equivalents and Short Term Investments represent cash balances and unrestricted invested assets with maturities of one year or less at the date of purchase. Under US GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

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.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Investments (continued)

If it is determined that a decline in the fair market value is other than temporary, the cost basis of the security is written down to fair market value.

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.

Fair Value Measurements

Financial Accounting Standards Board Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures* ("ASC 820") clarifies the definition of fair value, establishes a framework for measuring fair value in US GAAP, and expands required disclosures about the use of fair value measurements in US GAAP financial statements. Fair value information is relevant to users of financial statements and is required as an objective means of measurement. The NAIC has issued guidelines similar to ASC 820 through Statement of Statutory Accounting Principle ("SSAP") No. 100, *Fair Value Measurements* ("SSAP No. 100") effective for periods ending December 31, 2010. Management has considered ASC 820 and SSAP No. 100 and has determined that the impact is immaterial.

B. Accounting Policies

Management used the following methods and assumptions in the preparation of the Schedules of Cash, Cash Equivalents and Short Term Investments - Statutory Basis.

Cash and Invested Assets

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, 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.

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.

Note 3: Fair Market Value of Cash, Cash Equivalents and Short term Investments

Cash, Cash Equivalents and Short-term Investments

The carrying amounts reported in the Schedules of Cash, Cash Equivalents and Short Term Investments – Statutory Basis for cash and cash equivalents, short-term investments and other invested assets are a reasonable estimate of fair market value.

Note 4: Concentration of Credit Risk

Financial instruments that have the potential to subject Lion 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.

Lion maintains cash balances at a financial institution that is insured by the FDIC. 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 Lion.

Lion also maintains an account at Wilmington Trust Company consisting of restricted collateral (securities) for the benefit of New York State policyholders. As of December 31, 2009, the account had money market funds in the amount of $11,675 and a US Treasury bill valued at $499,607, compared to money market funds in the amount of $13,765 and a US Treasury bill valued at $495,926 as of December 31, 2008.

Note 5: Subsequent Events

Subsequent events have been reviewed in accordance with SSAP No. 9R, *Subsequent Events* through the issuance of these audited financial statements. Subsequent events have been reviewed through July 28, 2010, the date on which these audited statements were available to be issued.

The financial markets’ continuing volatility in 2010 may materially impact the valuation of Lion’s investments subsequent to December 31, 2009. Accordingly, the valuation of investments at December 31, 2009 and 2008, may not necessarily be indicative of amounts that could be realized in a current market exchange.