Executive Life Insurance Company Estate

Conservation & Liquidation Office

For the Period January 1, 2017 through December 31, 2017

Report No. 18-0845-056
May 2018

Team Members

Jennifer Whitaker, Chief
Cheryl L. McCormick, CPA, Assistant Chief
Rick Cervantes, CPA, Manager
Hanzhao Meng, CPA, Supervisor
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Final reports are available on our website at http://www.dof.ca.gov

You can contact our office at:

California Department of Finance
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DEPARTMENT OF FINANCE
CALIFORNIA
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Transmitted via e-mail

May 18, 2018

Mr. David E. Wilson, Chief Executive Officer
Conservation & Liquidation Office
100 Pine Street, 12th Floor
San Francisco, CA 94111

Dear Mr. Wilson:

Final Report—Executive Life Insurance Company Estate Financial Statement Review, December 2017

The California Department of Finance, Office of State Audits and Evaluations, has completed its review of the Executive Life Insurance Company Estate assigned to the Conservation & Liquidation Office (CLO) for the period January 1, 2017 through December 31, 2017.

The enclosed report is for your information and use. We appreciate the assistance and cooperation of CLO. If you have any questions regarding this report, please contact Rick Cervantes, Manager, or Hanzhao Meng, Supervisor, at (916) 322-2985.

Sincerely,

Cheryl L. McCormick

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Ray Minehan, Chief Financial Officer, Conservation & Liquidation Office
Ms. Regina Alava, Vice President, Finance, Conservation & Liquidation Office
Mr. Joel Laucher, Chief Deputy Insurance Commissioner, California Department of Insurance

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Mr. David E. Wilson, Chief Executive Officer
Conservation & Liquidation Office
100 Pine Street, 12th Floor
San Francisco, CA 94111

We have reviewed the accompanying financial statements of the Executive Life Insurance Company Estate, which comprise the Statement of Net Assets in Liquidation as of December 31, 2017, Statement of Changes in Net Assets in Liquidation, and Statement of Cash Flows in Liquidation for the period then ended; and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Conservation & Liquidation Office (CLO) management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

CLO's Responsibility for the Financial Statements

CLO, as assigned conservator/liquidator, is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements and the related notes to the financial statements of the Executive Life Insurance Company Estate for the year ended December 31, 2017, in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

This report is intended solely for the information and use of the California Department of Insurance, CLO, and the courts, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cheryl L. McCormick

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

April 26, 2018

Executive Life Insurance Company Estate
Statement of Net Assets in Liquidation
As of December 31, 2017

	Balance
Assets	
Cash and Investments	$ 76,687,648
Accrued Investment Income	273,190
Total Assets	$ 76,960,838
Liabilities	
Secured Claims	$ 83,960
Accrued Administrative Expenses (Class 1)	6,415
Policyholder Liability	7,280,664,326
Distributions	(115,299,605)
Total Liabilities	7,165,455,096
Net Assets (Deficiency) in Liquidation	**$ (7,088,494,258)**

The notes are an integral part of the financial statements.

Executive Life Insurance Company Estate
Statement of Changes in Net Assets in Liquidation
For the Year Ended December 31, 2017

Net Assets in Liquidation December 31, 2016	**$ (6,814,557,444)**
Revenue	
Other Revenue	$ 120
Total Revenue	120
Expenses	
Legal Expenses	48,413
Consultants and Temps	191,022
Office Expenses	55,359
Allocated Overhead Expenses	207,552
Total Administrative Expenses	502,346
Interest on Policyholder Liabilities	274,843,427
Total Expenses	275,345,773
Investments	
Investment Income	1,438,306
Investment Expenses	(66,301)
Gain (Loss) on Securities	(392,002)
Net Investment Income	980,003
Changes in Net Assets	**(274,365,650)**
Net Asset Adjustment	428,836
Net Assets in Liquidation December 31, 2017	**$ (7,088,494,258)**

The notes are an integral part of the financial statements.

Executive Life Insurance Company Estate
Statement of Cash Flows in Liquidation
For the Year Ended December 31, 2017

Cash Flows from Operating Activities	
Changes in Net Assets	$ (274,365,650)
Decrease (Increase) in Receivable from Affiliates	590,037
Increase (Decrease) in Secured Claim Liabilities	(508)
Increase (Decrease) in Accrued Administrative Expenses	6,415
Increase (Decrease) in Unpaid Policyholder Liabilities	274,835,624
Increase (Decrease) in General Creditor Claims	(428,836)
Adjustment to Net Assets	428,836
Net Cash Flows from Operating Activities	(1,065,918)
Cash Flows from Investing Activities	
Decrease (Increase) in Accrued Investment Income	(53,532)
Cash Flows from Financing Activities	0
Net Increase (Decrease) in Cash	**(1,012,386)**
Cash at Beginning of Period	75,675,262
Cash at End of Period	**$ 76,687,648**

The notes are an integral part of the financial statements.

1. Organization

The California Insurance Commissioner (Commissioner), an elected official of the State of California, acts under the supervision of the Superior Court (Court) when conserving and liquidating insurance enterprises. In this capacity, the Commissioner is responsible for taking possession (conservation) of the assets of financially troubled insurance enterprises domiciled or incorporated in California. An enterprise subject to a conservation or liquidation order is referred to as an estate.

Executive Life Insurance Company (ELIC) was placed in conservation by order of the Los Angeles County Superior Court on April 11, 1991. At the time, ELIC, which had more than 330,000 policyholders, was the largest life insurance insolvency in United States history. In the summer and fall of 1991, the Commissioner conducted an auction seeking bids to acquire the junk bond portfolio and insurance assets of ELIC. In December 1991, the Commissioner's selection of a group of French and European investors (the Altus/MAAF group) as the winning bidders was approved by the Court.

In March 1992, ELIC's junk bond portfolio was transferred to Altus Finance for a total purchase price of approximately $3 billion. In August 1993, the Court approved a final Rehabilitation Plan under which the majority of ELIC's assets and its restructured insurance policies were transferred to a new California insurance company created by the European consortium that had won the 1991 bid. The Rehabilitation Plan became effective in September 1993. Under the terms of the Rehabilitation Plan, former ELIC policyholders were given a choice either to accept new coverage (Opt-In) from Aurora National Life Assurance Company (Aurora) or to terminate their policies (Opt-Out) in return for a pro rata share of ELIC's assets. The Rehabilitation Plan also provided for the establishment of various trusts, collectively known as the Enhancement Trusts, to marshal and distribute assets for the benefit of former ELIC policyholders.

2. Basis of Presentation

The accompanying financial statements of the ELIC Estate (Estate) have been prepared on the liquidation basis of accounting in conformity with generally accepted accounting principles. These financial statements reflect the financial position and activity of the Estate, which has been assigned to CLO by the Commissioner in his role as liquidator.

3. Summary of Significant Accounting Policies

CLO, as liquidator, plans to complete its liquidation activities by December 2020 and close the Estate within a reasonable time thereafter. There can be no assurance that this date can be achieved due to the nature of the liquidation of an insurance estate. Further, due to uncertainties relative to the claims settlement process, reinsurance collections or settlements, and litigation activities, it is not possible to provide with any reasonable assurance the ultimate cost of closing the Estate.

ASSETS:

Cash and Investments
All investments, including short-term investments and debt and equity securities, are stated at market value. Market values are those provided by the depository trust institution in possession of the securities at the balance sheet date or through brokerage institutions. The majority of the invested assets of the estates are combined for investment purposes into an investment pool, divided equally between two investment management firms. Each of the participating estates owns a percentage of the pool based on its proportionate share of the fair value of the pool's net assets. The net assets are valued at fair value on a monthly basis and estate ownership is computed monthly based on contributions and withdrawals by participating estates. Realized and unrealized gains and losses are allocated monthly based on the Estate's ownership percentage in the pool at month-end.

Accrued Investment Income
Accrued Investment Income represents monthly estimates of interest and dividends earned on cash and investments held by the Estate. For pooled investments, interest accruals are allocated based on the Estate's percentage of ownership in the pool. Non-pooled interest accruals are on an estate by estate basis. Each month, interest and dividends are accrued and posted to the Estate’s account. Upon receipt of the earnings, the accruals are reversed and actual amounts received are posted.

LIABILITIES:

Secured Claims
An account held by Aurora, reserved for covering the additional costs to policyholder adjustments for Opt-In contracts as may be required. Any remaining amount will be returned to the Estate for distribution to all Opt In policyholders.

Accrued Administrative Expenses
Accrued Administrative Expenses represent administrative expenses, which have been accrued but not yet paid. Generally accepted accounting principles require that the financial statements of entities in liquidation provide for an estimate of future administrative costs. Because it is anticipated the Internal Revenue Service tax matters which impact the closure of an estate will take approximately about two more years to resolve, it is CLO's policy not to accrue estimates of future administrative costs, except when the Court has approved a final distribution order and the Estate is scheduled to be closed within the following twelve months.

Policyholder Liability
Policyholder Liability represents the amount the Estate owes to policyholders in accordance with provisions of the Modified Rehabilitation Plan and relevant judicial decisions, and includes accrued but unpaid interest of approximately $4 billion.

REVENUES:

Other Revenue
Other Revenue primarily consists of fees collected and miscellaneous income received by the Estate.

EXPENSES:

Administrative Expenses
Administrative Expenses consists of both direct and indirect expenses. Direct expenses are those expenses which are directly charged to the Estate, such as legal costs, consultants and contractors, office expenses, and federal income taxes. Indirect expenses are administrative expenses not directly charged to an estate but allocated to each estate on a proportional basis. Allocated expenses applicable to all of the estates include CLO employee compensation and benefits, payroll taxes, rent, utilities, and other general overhead costs. These shared expenses are allocated to each estate based on factors derived from the direct CLO labor hours charged to each estate.

Legal Expenses
Expenses are incurred with respect to the Court's oversight of the Estate's operations.

INVESTMENTS:

Investment Income
Investment Income is comprised of interest and dividends earned on cash and investments held by the Estate. For estates with investments in the pool, income is allocated based on the estate's proportional share in the pool.

Investment Expenses
Investment Expenses is comprised of investment and interest expenses related to cash and investments held by the Estate. For estates with investments in the pool, the expenses are allocated based on the estate's proportional share in the pool.

Gain (Loss) on Securities
Gain (Loss) on Securities consists of long and short-term gains and losses incurred as part of the investment pool, mark to market adjustments, gains and losses on non-pooled reappraisals of securities, and gains and losses incurred on the transfer of non-pooled securities into the pool. The long and short-term gains and losses and mark to market adjustments are allocated based on the estate's proportional share in the pool. Gains and losses on the reappraisal of non-pooled securities and the transfer of non-pooled securities into the pool are reported on an estate by estate basis.

Unrealized and realized gains and losses are included as a component of net investment income. The cost of securities sold is based on specific identification and realized gains or losses are computed based on the securities' original cost. Transfers of non-pooled investments to a pool are a sale resulting in non-pooled realized gains or losses and a non-cash transfer. Transfers from one pool to the other are a sale resulting in pooled realized gains or losses and a non-cash transfer.

4. Distributions

In 2017, the Estate made no distributions.

5. Litigation

There are no pending legal proceedings involving the Estate as of December 31, 2017.

6. Subsequent Events

There are no reportable subsequent events for the Estate.