# 2012 ANNUAL REPORT
# CONSERVATION AND LIQUIDATION OFFICE

# Conservation and Liquidation Office

## Section 1 – The Conservation and Liquidation Office

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## Section 2 – Estate Specific Information



## Section 3 – Cross Reference to California Insurance Code

## Background

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

The Commissioner, through the state Attorney General's office, applies to the Superior Court for a conservation order to place a financially troubled enterprise in conservatorship. Under a conservation order, the Commissioner takes possession of the estate's financial records and real and personal property, and conducts the business of the estate until a final disposition regarding the estate is determined. The conservation order allows the Commissioner to begin an investigation that will determine, based on the estate's financial condition, if the estate can be rehabilitated, or if continuing business would be hazardous to its policyholders, creditors, or the public.

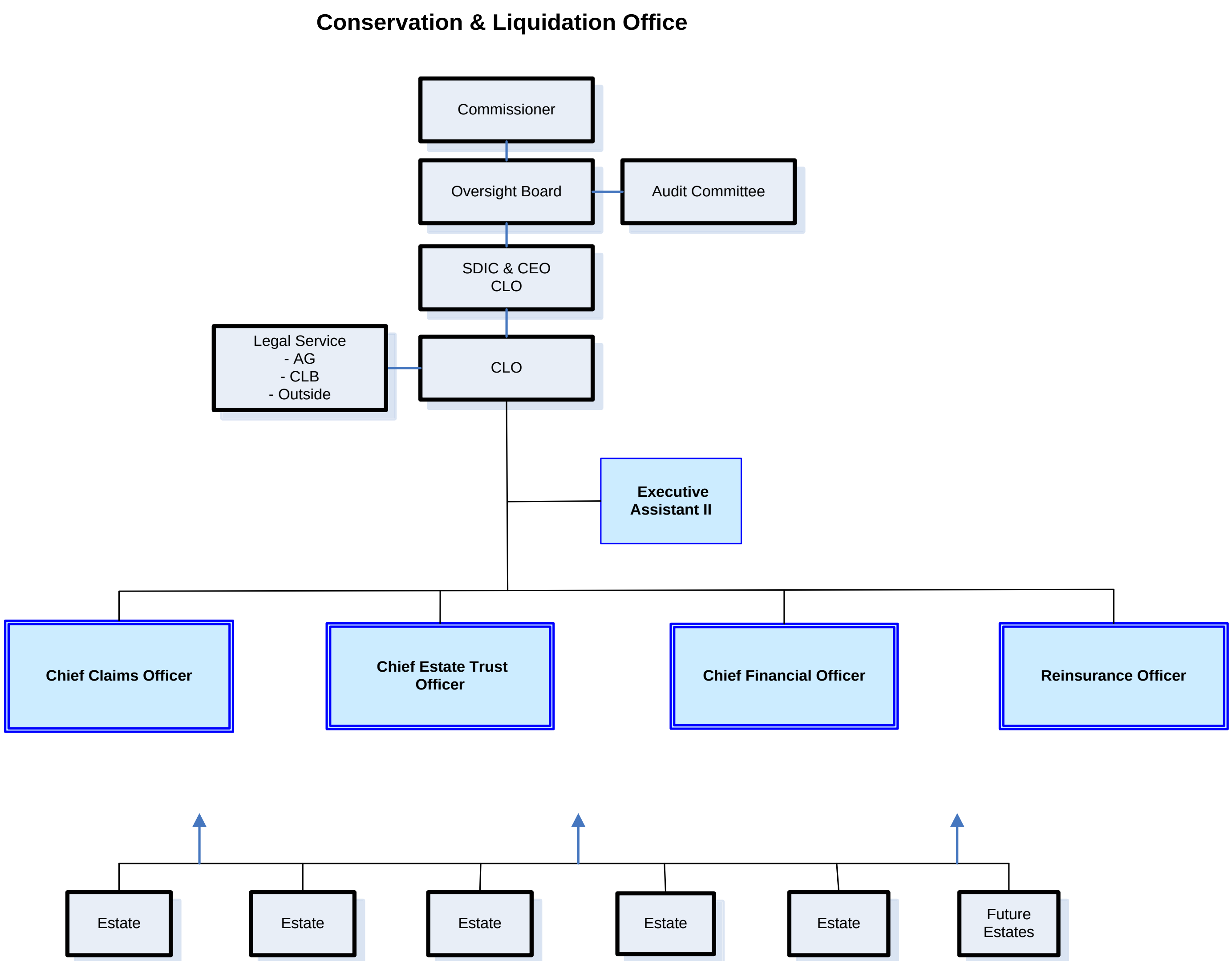
If, at the time the conservation order is issued or anytime thereafter, it appears to the Commissioner that it would be futile to proceed with the conservation of the financially troubled estate, the Commissioner will apply for an order to liquidate the estate's business. In response to the Commissioner's application, the Court generally orders the Commissioner to liquidate the estate's business in the most expeditious fashion.

The Commissioner formed the Conservation & Liquidation Office ("CLO") to fulfill the Commissioner's responsibilities as conservator, receiver and liquidator.

The CLO was created in 1994 as the successor to the Conservation & Liquidation Division of the Department of Insurance which was managed by State employees. The CLO is based in San Francisco, California. As of December 31, 2012, the CLO is responsible for the administration of 20 insurance estates.

In addition to the role described above, the CLO at times provides special examination services to the Financial Surveillance Branch of the Department of Insurance. The CLO is reimbursed directly by the company being examined. During 2012 the CLO assisted with two such examinations.

## Organizational Structure




## Oversight Board and Audit Committee Meetings

CLO activities are overseen by an Oversight Board composed of four senior executives of the California Department of Insurance. The current Committee members are Ms. Nettie Hoge, Chief Deputy Commissioner, Mr. John Finston, Deputy Insurance Commissioner – Corporate and Regulatory Affairs, Mr. Adam Cole, Deputy Commissioner and General Counsel, and Mr. Al Botallico, Deputy Commissioner-Financial Surveillance. The Committee meets on a quarterly basis throughout the year and members have a 100% attendance record.

During 2012, the Oversight Board and Audit Committee held four regularly scheduled meetings.

## 2012 Organizational Goals and Results

On an annual basis, the CLO prepares a Business Plan for the organization supporting the CLO Mission Statement. The Business Plan is then presented to the Oversight Board Committee for approval. The CLO's Mission Statement is as follows:

> On behalf of the Insurance Commissioner, the CLO acts to rehabilitate and/or liquidate, under court supervision, troubled insurance enterprises. The CLO operates as a fiduciary for the benefit of claimants, handling the property of the failed enterprises in a prudent, cost-effective, fair, timely, and expeditious manner.

The 2012 Business Plan was a continuation of the objectives of the 2011 Business Plan, focusing on estate closings and distributions, collecting/converting assets, evaluating claims and enhancing the operating efficiencies of the CLO.

Entering 2012, there were 22 open estates under management by the CLO. The open estates consist of 19 Property & Casualty Estates and three Life/Health Estates. The CLO goal in 2012 was to close two estates and distribute $111 million.

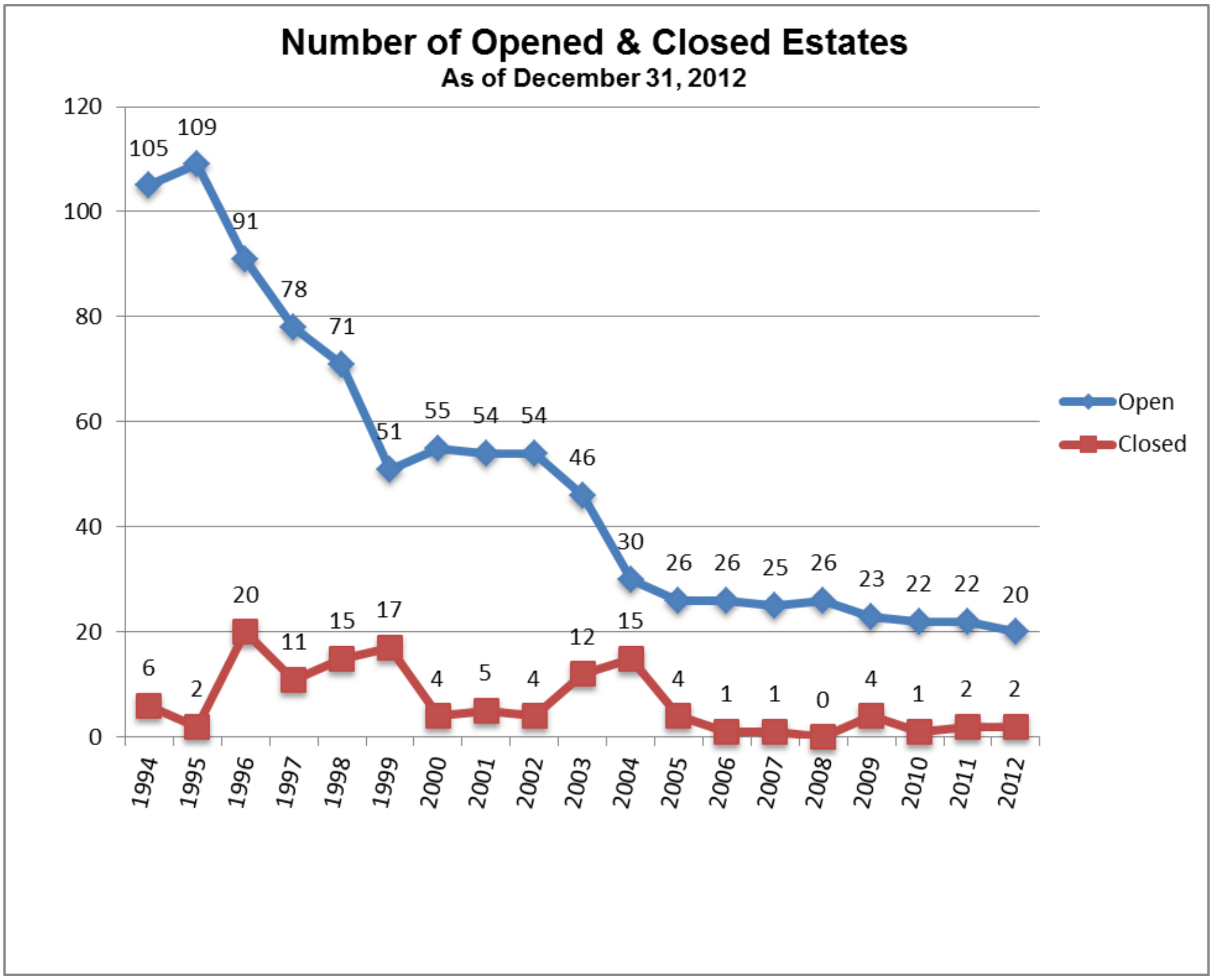
In addition to the Business Plan, there are individual work plans and cross-departmental estate teams for each estate. The individual Estate teams provide a written update on a quarterly basis.

The 2012 goals and results were as follows:

### 1. Closings

| GOAL | RESULTS |
|---|---|
| Close 2 Estates:<br>1) Alistar Ins. Co.<br>2) Municipal Mutual | Both estates were closed during 2012. |

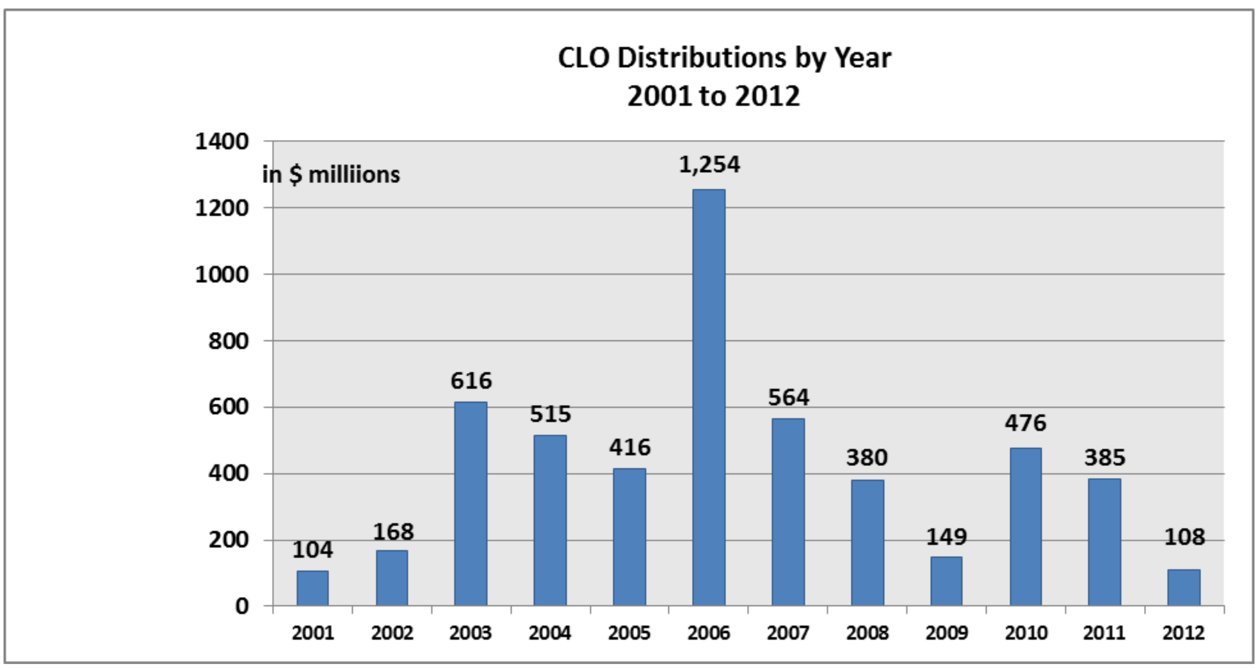
**Number of Opened & Closed Estates as of 12/2012**




Since 1994, there have been approximately 124 estates closed. These estates consisted of 55 ancillaries, 22 title companies and 47 "regular" insurers. Ancillary and title companies typically require only limited work on behalf of the Liquidator.

## 2. Distributions

| | 2012 Actual ($ Millions) | 2012 Goal ($ Millions) |
|---|---|---|
| Early Access and Interim Distributions | | |
| SNICIL | $40.8 | $40 |
| Commercial Comp (NM stat deposit release) | .2 | 0 |
| Fremont Indemnity | 39.6 | 40 |
| Frontier Pacific EAD/Interim | 22.2 | 25 |
| American Sterling | .2 | 0 |
| | **103.0** | **105** |
| Final Distributions | | |
| Municipal Mutual | 5.0 | 5 |
| Fremont Life | 0 | 1 |
| | **5.0** | **6** |
| Total Distributions: | **$108.0** | **$111** |



## CLO Investment Policy

The CLO has a formal investment policy, as approved by its Oversight Board, requiring that investments be investment grade fixed income obligations of any type. These investments may be issued or guaranteed by (1) the U.S. and agencies, instrumentalities, and political sub-divisions of the U.S., and (2) U.S. corporations, trusts and special purpose entities. Such securities must be traded on exchanges or in over-the-counter markets in the U.S. None of the portfolio will be invested in fixed income securities rated below investment grade quality by Standard & Poor's, Moody's, or by another nationally recognized statistical rating organization. In addition, the duration must be maintained within +/- 12 months of the Barclays Capital U.S. Government/Credit 1-3 Yr. The duration was 19 months at December 31, 2012.

The investments are managed in equal parts by two professional money management firms and are warehoused at the Union Bank of California.

At December 31, 2012, the CLO had $496.1 million of estate marketable investment securities under management.

For the year ending December 31, 2012, the average portfolio balance was approximately $545.7 million. The portfolio earned an interest yield of 2.6% and a net yield after security gains/losses and mark-to-market adjustments of 3.1%.

## Administrative Expenses

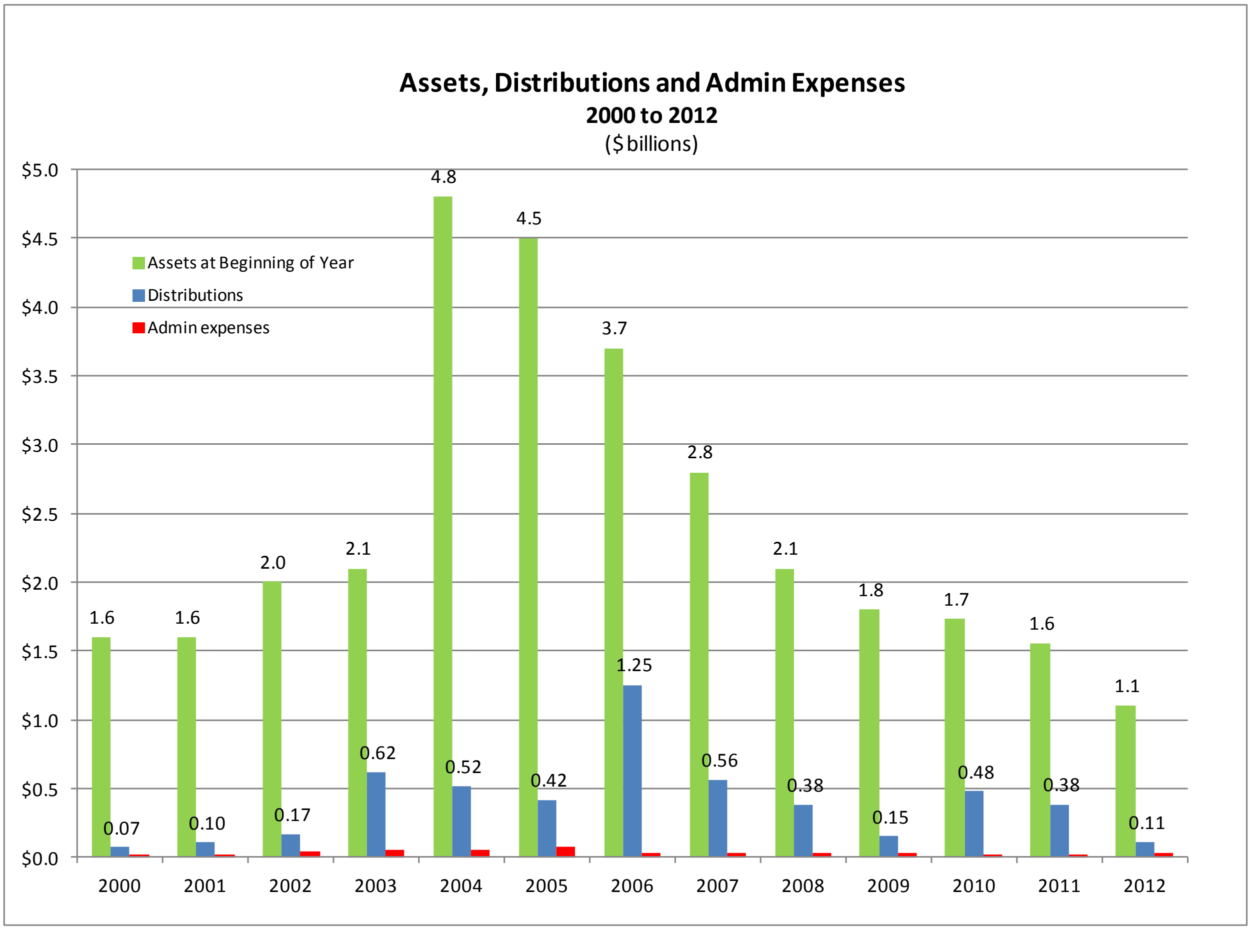
Administrative expenses consist of both direct and indirect expenses. [1]

Direct expenses charged to estates consist of legal costs, consultants and contractors, salaries and benefits for employees working exclusively for a single estate, office expenses, and depreciation of property and equipment.

Indirect expenses that are not incurred on behalf of a specific estate are allocated using an allocation method based on the ratio of employee hours directly charged to a specific estate to total direct hours charged to all estates, and in some instances direct contract hours charged. For example, if employees charged 200 hours to a specific estate and in total 2,000 hours was incurred by all estates, that specific estate would be allocated 10% (200 hours divided by 2,000 total hours charged to all estates). Indirect expenses include CLO employee compensation, rent and other facilities charges and office expenses.

In accordance with California Insurance Code Section 1035, the Commissioner may petition funds from a general appropriation of the State of California Insurance Fund if an estate does not have sufficient assets to pay for administrative expenses.

[1] *See "CLO Financial Results" section of this report on the budget and actual expenditures for 2012 for direct and indirect expenses.*




The chart above displays the Conservation & Liquidation Office assets at beginning of year, distributions, and administrative expenses from the year 2000 to 2012. The table below lists these figures.

| Year | Assets<br>($ billions) | Distributions<br>($ millions) | Admin. Expenses<br>($ millions) |
|---|---|---|---|
| 2000 | $1.6 | $70 | $21 |
| 2001 | $1.6 | $104 | $24 |
| 2002 | $2.0 | $168 | $40 |
| 2003 | $2.1 | $616 | $53 |
| 2004 | $4.8 | $515 | $50 |
| 2005 | $4.5 | $416 | $76 |
| 2006 | $3.7 | $1,254 | $32 |
| 2007 | $2.8 | $564 | $24 |
| 2008 | $2.1 | $380 | $29 |
| 2009 | $1.8 | $149 | $29 |
| 2010 | $1.7 | $476 | $22 |
| 2011 | $1.6 | $385 | $21 |
| 2012 | $1.1 | $108 | $25 |

## CLO Compensation

The CLO is not part of the State's civil service system. All employees are at-will. The CLO does not have a bonus plan or pay incentive compensation. To that end, the CLO has established policies and procedures that are more akin to the private marketplace.

## Compensation Methodology

The CLO engages an outside consultant to assist in establishing compensation ranges. In developing this report for the CLO, two published survey sources were used. These survey sources are described below:

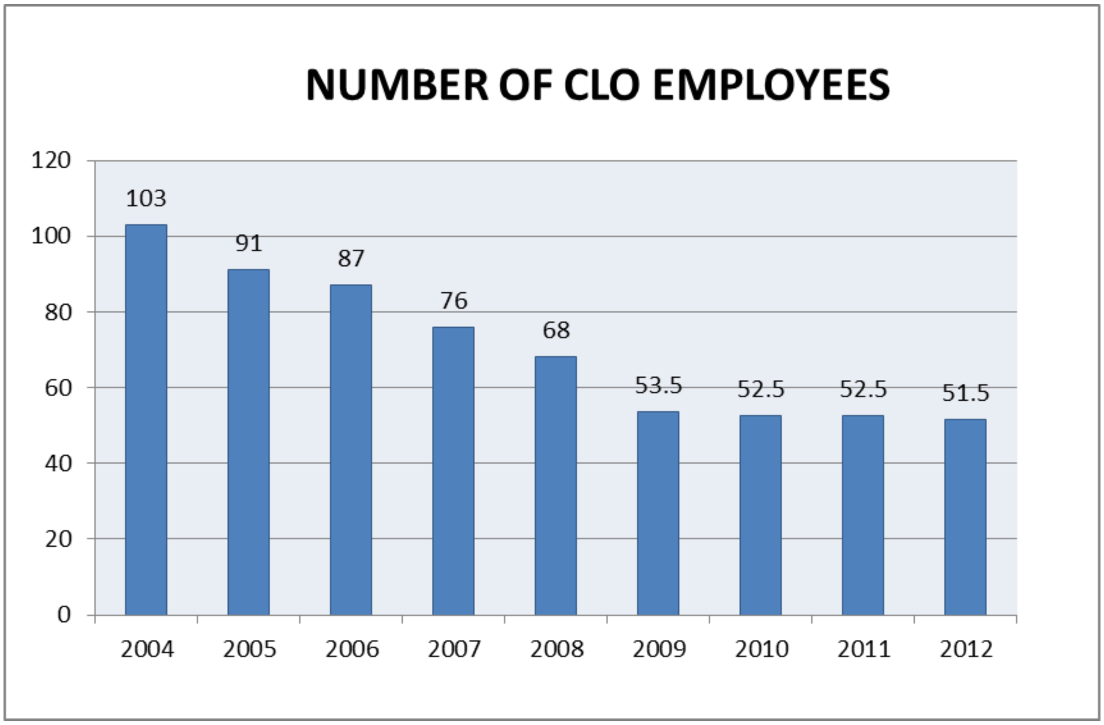
- Comp Analyst: Large survey representing thousands of companies across the U.S. which include hundreds of jobs. This subscription survey collects marketplace compensation data from many sources, and uses mathematical algorithms to predict the pay level of any of its survey jobs in major industries and geographical locations. The data used in this study was the nonprofit industry segment located in San Francisco.
- Economic Research Institute: Large survey representing thousands of companies across the U.S. which includes hundreds of jobs. This subscription survey collects marketplace compensation data from many sources and uses mathematical algorithms to predict the pay level of any of its survey jobs in major industries and geographical locations. The data used in this study was the nonprofit industry segment, organizations similar in size to the CLO, and located in San Francisco.

A summary of the compensation procedures follows:

- A written job description is developed for each position.
- Salary grades are derived from comparable external market data.
- Salary ranges are identified (low, middle, and high) based on market comparisons obtained by an outside independent compensation consultant.
- Salary ranges are updated periodically.
- The creation of a "new job position" is sent to an outside consultant for external evaluation.
- All employees receive an annual compensation review.

CLO employment and total compensation for employees are summarized below:

| | 31-Dec-12 | 31-Dec-13 (Budget) |
|---|---|---|
| Number of CLO employees at beginning of year | 51.5 | 39.1 |
| Total compensation and benefits for CLO employees | $7,766,022 | $6,214,070 |




The chart above shows the number of CLO full-time employees from 2004 to 2012.

As estates have closed resulting in reduced workloads, and as a result of internal operating efficiencies, the number of full-time employees decreased by 50% compared to December 31, 2004.

For calendar year 2013 the CLO further reduced its full-time employee equivalent headcount to 39.1.

## CLO Financial Results

For Years Ended December 31, 2012 and December 31, 2011

| Cash received | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|
| | Actual | Budget | |
| Litigation, reinsurance recoveries, and miscellaneous income | $15,694,100 | N/A[2] | $195,829,200 |
| Investment income, net of expenses | 17,179,300 | N/A[3] | 13,240,700 |
| **Total:** | **$32,873,400** | | **$209,069,900** |

*[2] Litigation, reinsurance recoveries, and miscellaneous income are not amendable to budgeting due to the irregular timing of their occurrence.*

*[3] Investment income is not budgeted due to the large changes in investment balances that occur throughout the year, as well as changes in investment return rates.*

| | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|
| | Actual | Budget | |
| **Distributions** | **$108,044,400** | **$111,000,000** | **$384,770,000** |

### Administrative – Estate Direct Expenses

| Estate Direct Expenses | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|
| | Actual | Budget | |
| Legal expenses | $10,809,100 | $8,772,800 | $7,937,700 |
| Consultants and contractors | 2,175,900 | 2,354,400 | 2,063,400 |
| Office expenses | 1,961,300 | 1,560,600 | 2,027,700 |
| Compensation and benefits | 7,300 | 0 | 116,500 |
| **Total** | $14,953,600 | $12,687,800 | $12,145,300 |

### Administrative – CLO Overhead Expenses

| CLO overhead expenses | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|
| | Actual | Budget | |
| Compensation and benefits | $7,766,000 | $7,902,700 | $7,320,200 |
| Office expenses | 1,655,200 | 1,868,600 | 1,905,200 |
| Consultants and contractors | 220,200 | 137,000 | 167,800 |
| Legal expenses | 70,000 | 39,400 | 14,000 |
| **Total** | $9,711,400 | $9,947,700 | $9,407,200 |

| Administrative Totals | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|
| | Actual | Budget | |
| **Estate Direct Expense Total** | $14,953,600 | $12,687,800 | $12,145,300 |
| **CLO Overhead Expense Total** | 9,711,400 | $9,947,700 | 9,407,200 |
| **Total:** | **$24,665,000** | **$22,635,500** | **$21,552,500** |

## Estates Open Longer Than Ten Years

After the entry of an order placing an impaired California insurer into conservation and/or liquidation, the Insurance Commissioner and the CLO have the statutory responsibility to marshal and resolve the assets and liabilities of the failed entity.

The time required to close an insolvency proceeding is largely determined by the amount and complexity of the assets to be monetized and distributed to claimants. In addition, the length of an insolvency is equally affected by the amount of time required to make a final determination of an estate's liability.

Most of the insolvencies that remain open for more than ten years have some combination of on-going litigation; complicated tax exposure; potential collection of additional material assets; and challenges associated with the evaluation of liabilities. Until both sides of the insolvent estate's balance sheet are resolved (assets collected and liabilities fixed), the insolvency proceeding will remain open. In addition, estates are subject to federal tax reporting and escheatment requirements after the final distribution. The estates listed below have been in liquidation for ten years or more.

### *Executive Life & ELIC Opt Out Trust:*

Continuing asset recovery, via complex litigation, has required the Estate to remain open. The Commissioner's lawsuit against Altus S.A. et al has been completed, except for the court's decision on the restitution award of $131 million (net) which remains pending. As a result of the jury verdict of no compensation in the damages phase of the case, the Commissioner is considering his next steps. The Estate and associated trust will be required to complete any escheatment of unclaimed funds post the final distribution. Since the Estate was transferred to the CLO in 1997, the Estate has recovered $731 million from litigation and distributed $737 million to claimants. Assets presently in the Estate are held to fund ongoing litigation and operations.

### *Frontier Pacific Insurance Company:*

The Estate has an estimated $16.1 million in current and future reinsurance recoveries as of December 31, 2012. These balances are due from approximately 29 reinsurers. As a result of the arbitration proceedings against National indemnity Company (NICO), the Estate was awarded approximately $18 million. The Estate in cooperation with its parent company, Frontier Insurance Company (FIC) has filed its Unallocated Loss Adjustment Expense (ULAE) claim against NICO for approximately $3.4 million. Frontier Pacific's remaining reinsurance programs are labor intensive to administer. The Estate completed an interim distribution in the third quarter of 2012 for approximately $22 million.

### *Golden Eagle:*

The Estate is in long-term run off. Although all policyholder claims have been 100% reinsured and policyholder claims are being paid timely, Golden Eagle remains liable to the policyholders should the reinsurer not be able to fulfill their obligations. The reinsurance program is structured to accommodate all remaining claims exposure. Until all claims are resolved or paid out, the Estate must remain open. The CLO acts in a pure monitoring capacity to ensure that the reinsurance contract continues to pay all claims.

### *Great States:*

The Estate continues to seek a resolution on the AHA Surety Bond matter. The Estate continues to collect funds on behalf of the California Insurance Guarantee Association (CIGA) from the billings of paid workers compensation claims. The estate continues to rely upon CIGA for certain claim documentation to complete the billing to the surety. In an effort to resolve the remaining liability the parties will discuss updating certain actuarial studies and explore commutation possibilities. The balance of the remaining reinsurance program is in the commutation negotiation phase and requires certain releases from four participating guarantee associations. To date the Estate has distributed 40.3 percent of the paid losses to the Insurance Guarantee Associations.

### *HIH America Compensation & Liability:*

The Estate's remaining reinsurance program involving upper layer treaties is being reviewed for potential collectability. The upper layer exposure has proven to be a challenge to negotiate and commute at a fair value with reinsurers. The Estate will await substantiation of the exposure and probability of recovery before booking the asset. To date, all Insurance Guarantee Associations (IGAs) have received a payment of 52 percent of their paid losses and the non-IGAs have received 45 percent of their approved claims.

### *Mission/ Mission National/ Enterprise:*

The Mission estates processed all proofs of claims filed prior to the estate closing orders issued for each estate. In 2012, Mission Insurance Company Trust, Mission National Insurance Company Trust and Enterprise Insurance Company Trust each applied to the United States Department of Justice for a release from all super-priority claims. A release agreement has been entered into and court-approved as to Enterprise Insurance Company Trust. As to Mission Insurance Company Trust and Mission National Insurance Company Trust, no release has yet been approved. Mission Insurance Company Trust and Mission National Insurance Company Trust are in communication with the United States Department of Justice about information the Department of Justice requested in connection with the request for a release. The Enterprise Insurance Company Trust will commence preparations for final distribution and closure.

### *Superior National Insurance Companies in Liquidation ("SNICIL"):*

SNICIL resolved a long running indemnity action with the parent corporation in 2012. There is another $163.7 million of collectible reinsurance still on the books. Nearly all of the collectible reinsurance involves long tail Workers Compensation business; thus, the strategy is to attempt to commute the remaining balances. This will continue to require a significant amount of time and effort to commute all of the reinsurance contracts and programs.

### ***Western Employers:***

Western Employers underwrote coverages on very long-tail exposures (workers compensation, asbestos, tobacco, landfills, etc.) and has been subject to extensive litigation associated with claims that exceed state guaranty fund coverage limits or were altogether not covered by the guaranty funds. The CLO has worked to overcome pre-receivership record-keeping issues inherited at the time of liquidation. Western Employers has also applied to the United States Department of Justice for a release of all super-priority (non-tax) claims. The CLO on behalf of Western Employers has provided substantial supporting material to justify its request. The timing of the United States Department of Justice in responding to this request is indefinite at this time. Secondly, Western Employers awaits a response from the United States Department of Justice to its request for a release of any super-priority claims, after having provided detailed claims information to that agency.

## Claims History

### Property and Casualty Estates

| Estate | Liquidation Date | Proof Of Claims Filed | Proof Of Claims Resolved | Open POCs |
|---|---|---|---|---|
| American Sterling | 10/26/2011 | 90 | 1 | 89 |
| Frontier Pacific | 11/30/2001 | 43,573 | 43,571 | 2 |
| Fremont | 7/2/2003 | 45,664 | 45,353 | 311 |
| Golden Eagle [4] | 2/18/1998 | | n/a (see below) | |
| HIH (2 estates) | 5/8/2001 | 3,175 | 3,167 | 8 |
| Majestic | n/a | 90 | 77 | 13 |
| Mission (3 estates) | 2/24/1987 | 173,920 | 173,920 | 0 |
| Pacific National | 8/5/2003 | 4,448 | 4,448 | 0 |
| Superior (5 estates) | 9/26/2000 | 13,934 | 13,885 | 49 |
| Western Employers | 4/19/1991 | 9,809 | 9,577 | 232 |
| | **Total:** | **294,703** | **293,999** | **704** |

*[4] Golden Eagle is not subject to a finding of statutory insolvency. All claims are covered under a reinsurance agreement and are being paid by the reinsurer.*

### Life Insurance Estates

Executive Life Insurance Company: Executive Life is a life insurance company and has policies rather than claims. There were 327,000 policies/contracts at time of liquidation.

Fremont Life Insurance Company: Fremont Life transferred approximately 3,500 in-force policies to assuming insurers via reinsurance agreements. All policy administration is handled by the successor insurers. The Estate is a wholly owned subsidiary of the Fremont Indemnity estate.

Golden State Mutual Life Insurance Company: Golden State transferred approximately 120,000 in-force policies to an assuming insurer via a reinsurance agreement. All remaining policy liabilities were assumed by National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) via consensual agreement subject to court approval in 2012.

## 2013 Business Goals

The 2013 Business Plan is a continuation of the objectives of the 2012 Business Plan, focusing on estate closings and distributions, collecting/converting assets, evaluating claims and enhancing operating efficiencies.

Entering 2013, there are 20 open estates under management by the CLO. The open estates consist of 17 Property & Casualty Estates and three Life/Health Estates. Our goal in 2013 is to close two estates and distribute $58 million.

Starting 2013, we have 39.1full-time employees and no temporary employees. We will re-assess staffing requirements at mid-year and will make any changes deemed necessary during the second half of 2013. In addition to the organizational goals, there are individual work plans and cross-departmental Estate teams for each of the 20 estates. The individual estate teams provide a written update on a quarterly basis.

The 2013 Goals are as follows:

1. Close 2 Estates[5]
   - Enterprise Ins. Co.
   - Fremont Life Ins. Co.

[5] *Closing is defined as fully releasing the Commissioner from all legal responsibilities for an estate.*

2. Early Access, Interim, and Final Distributions

| | |
|---|---|
| Early Access Distributions: | |
| Superior National Estates | $25,000,000 |
| Fremont | 25,000,000 |
| | |
| Final Distributions: | |
| Enterprise | 7,000,000 |
| Fremont Life | 1,000,000 |
| | **$58,000,000** |

## Section 2 – Estate Specific Information

Page

## Conservation or Liquidation Estates Opened During the Year 2012

None

## Conservation or Liquidation Estates Closed During the Year 2012

Alistar Ins. Co. – March 23, 2012

Municipal Mutual Ins. Co. – February 2, 2012

### Current Year and Cumulative Distributions by Estate (in $000) [6]

| | Year Ended 12/31/2012 | | | | Cumulative to 12/31/2012 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Policyholders | Federal and State Claims | General Creditors | Total | Policyholders | Federal and State Claims | General Creditors | Total | |
| American Sterling Ins Co | 205 | - | - | 205 | 205 | - | - | 205 | |
| Executive Life Ins Co | - | - | - | - | 737,276 | - | - | 737,276 | * |
| Fremont Indemnity Co | 39,617 | - | - | 39,617 | 941,978 | - | - | 941,978 | |
| Frontier Pacific Ins Co | 22,215 | - | - | 22,215 | 22,215 | - | - | 22,215 | |
| Great States Ins Corp | - | - | - | - | 10,155 | - | - | 10,155 | |
| HIH America Ins Co | - | - | - | - | 328,500 | - | - | 328,500 | |
| Mission Ins Co | - | - | - | - | 846,833 | 111 | 265,664 | 1,112,608 | |
| Mission National Ins Co | - | - | - | - | 499,852 | - | 27,077 | 526,929 | |
| Enterprise Ins Co | - | - | - | - | 120,573 | 40 | 5,339 | 125,952 | |
| Municipal Mutual Ins Co | 5,027 | - | - | 5,027 | 5,027 | - | - | 5,027 | |
| Pacific National Ins Co | - | - | - | - | 52,416 | - | - | 52,416 | |
| California Comp Ins Co | 34,680 | - | - | 34,680 | 875,588 | - | - | 875,588 | |
| Combined Benefits Ins Co | 573 | - | - | 573 | 22,055 | - | - | 22,055 | |
| Superior National Ins Co | 3,294 | - | - | 3,294 | 394,312 | - | - | 394,312 | |
| Superior Pacific Cas Co | 1,874 | - | - | 1,874 | 39,970 | - | - | 39,970 | |
| Commercial Comp Cas Co | 560 | - | - | 560 | 94,544 | - | - | 94,544 | |
| Western Employers Ins Co | - | - | - | - | 68,190 | - | - | 68,190 | |
| | $108,044 | $0 | $0 | $108,044 | $5,059,688 | $151 | $298,081 | $5,357,920 | |

[6] *Fremont Life, Golden Eagle, Golden State Mutual, and Majestic estates are not included on this schedule as no distributions have occurred.*

** Since administration was transferred to CLO in 1997.*

## Estates in Conservation and/or Liquidation as of December 31, 2012

| Estate Name | Date Conserved | Date Liquidated |
|---|---|---|
| American Sterling Insurance Company | 09/26/11 | 10/26/11 |
| California Compensation Insurance Company | 03/06/00 | 09/26/00 |
| Combined Benefits Insurance Company | 03/06/00 | 09/26/00 |
| Commercial Compensation Casualty Company | 06/09/00 | 09/26/00 |
| Enterprise Insurance Company | 11/26/85 | 02/24/87 |
| Executive Life Insurance Company | 04/11/91 | 12/06/91 |
| Fremont Indemnity Company | 06/04/03 | 07/02/03 |
| Fremont Life Insurance Company | 06/05/08 | * |
| Frontier Pacific Insurance Company | 09/07/01 | 11/30/01 |
| Golden Eagle Insurance Company | 01/31/97 | 02/18/98 |
| Golden State Mutual Life Insurance Company | 09/30/09 | 01/28/11 |
| Great States Insurance Company | 03/30/01 | 05/08/01 |
| HIH America Comp. & Liability Insurance Company | 03/30/01 | 05/08/01 |
| Majestic Insurance Company | 04/21/11 | * |
| Mission Insurance Company | 10/31/85 | 02/24/87 |
| Mission National Insurance Company | 11/26/85 | 02/24/87 |
| Pacific National Insurance Company | 05/14/03 | 08/05/03 |
| Superior National Insurance Company | 03/06/00 | 09/26/00 |
| Superior Pacific Casualty Company | 03/06/00 | 09/26/00 |
| Western Employers Insurance Company | 04/02/91 | 04/19/91 |

**No Liquidation Order obtained*

## Report on Individual Estates

Each estate has its own unique set of challenges to monetizing assets, valuing the claims, distributing assets and closing. No two estates are the same. The remaining portion of Section 2 provides a brief summary of the 2012 operating goals and results, the current status of the estate in the conservation or liquidation process, and summarized financial information.[7]

In reviewing the financial information, the following must be taken into account:

- The Statement of Assets and Liabilities have been prepared on the liquidation basis of accounting. Under the liquidation basis of accounting, assets reported on the financial statements are assets that are determined to be collectible. The liabilities may change during the course of the liquidation depending on the types of business written by the company, and as claims are reviewed and adjudicated.
- No estimates for future administrative expenses are included in the liabilities, unless the estate has been approved for final distribution and closure by the Court.
- California Insurance Code Section 1033 prescribes that claims on estate assets are paid according to a priority, except when otherwise provided in a rehabilitation plan. The probability of a valid claim being paid is dependent on the valuation of the claim, the order of preference of the claim, and the amount of funds remaining after other claims having higher preference have been discharged. Each priority class of claims must be fully paid before any distribution may be made to the next priority class. All members of a class receiving partial payment must receive the same pro-rata amount.
- For estates where available assets are insufficient to pay all policyholder claims, the CLO intentionally does not evaluate the lower priority proofs of claims, since to do so would incur unnecessary administrative time and expenses, reducing funds available for distribution to higher-priority claimants.
- Shareholders receive any remaining residual value of the estate's net assets only after the general creditors have been paid.
- Beginning Monetary Assets at takeover represent cash and investment balances at the time of liquidation or, in cases where the estate was first liquidated and managed by other parties, at the time the estate was taken over by the Conservation & Liquidation Office.

[7] *Estates under management of the CLO have an annual independent review of its financial statements. Copies of the independently reviewed financial statements can be accessed through the CLO webpage (www.caclo.org). Annual audits or reviews are waived for estates with little or no assets or activity.*

## ESTATE SPECIFIC INFORMATION

### American Sterling Insurance Company

**Conservation Order: September 26, 2011**
**Liquidation Order: October 26, 2011**

**<u>2012 Report</u>**
American Sterling Insurance Company (ASIC) was a California domiciled property and casualty insurance company formerly located at 28202 Cabot Road, Laguna Nigel, CA 92677. ASIC is a wholly owned subsidiary of American Sterling Corporation (ASC), a California corporation. ASIC has a wholly owned subsidiary American Sterling Productions, Ltd, which in turn has four wholly owned subsidiaries, three that appear dormant and one that holds a material real estate investment.

ASIC was licensed to write multiple classes of coverage. Pre-liquidation ASIC wrote only liability and automobile classes of insurance in Arizona, Kansas and Nevada. ASIC was not writing business in California.

Due to a continuing lack of adequate cash flow to meet claims and overhead obligations, ASIC and its subsidiaries were placed into conservation on September 26$^{th}$ 2011. Control of the company was transferred to the Commissioner. After repeated assurances and promises from the company's CEO, no immediate prospect of new cash materialized. As a result, the conservator had to seek an insolvency order to trigger the state guaranty funds to honor current claims payments. ASIC and its subsidiaries were placed into liquidation on October 26, 2011.

As of December 31, 2011 essentially all open policyholder claims had been transferred to the three participating IGAs, 30-day cancellation notices were issued at liquidation to all in force policyholders and insolvency orders were either served on key entities and principals or recorded in counties where ASIC or its subsidiaries have assets.

The primary focus of the estate in 2012 was to monetize one or more of three highly illiquid assets and plan a distribution to the creditor group. After months of discussions seeking resolution to two promissory notes held by ASIC, the estate commenced formal repossession efforts in August 2012. The borrowers under a $3 million promissory note secured by land paid the note in full plus Trustee fees in October 2012. A second note in the amount of $7.5 million made by ASIC's parent company, ASC was not repaid and ASIC foreclosed its security interest in a residential property in Orange County that was pledged as collateral for the loan. American Sterling Capital Corporation (ASCC) a wholly owned subsidiary of ASIC placed a luxury corporate facility on the market for sale in July 2012. As of year end the subsidiary had only a couple low offers on the property. Absent a purchase offer at or near the $13 million debt on the property the estate will consider a settlement with the lender.

The ASIC estate received 90 proofs of claim on or before the July 31, 2012 claims bar date. The estate will make every effort to determine all claims including the three participating Insurance Guaranty Associations (IGAs) in 2013. If the IGA run off of claims can be closed and the ASCC debt resolved and released by September 2013, there is a good chance the estate could make a distribution and close the proceeding at or near year end 2013.

## American Sterling Ins Co

### ASSETS AND LIABILITIES

As of December 31, 2012 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | ($150,800) | $2,272,500 |
| Other assets | 11,747,100 | 5,418,000 |
| Total assets | 11,596,300 | 7,690,500 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 418,800 | 66,600 |
| Claims against policies, before distributions | 1,163,500 | 1,163,500 |
| Less distributions to policyholders | - | (205,100) |
| All other claims | 276,700 | 903,600 |
| Total liabilities | 1,859,000 | 1,928,600 |
| Net assets (deficiency) | $9,737,300 | $5,761,900 |

### INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | ($900) | $240,900 |
| Salvage and other recoveries | 38,500 | 88,200 |
| Total income | 37,600 | 329,100 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 439,100 | 750,100 |
| Administrative expenses | 266,100 | 861,100 |
| Total expenses | 705,200 | 1,611,200 |
| Net income (loss) | ($667,600) | ($1,282,100) |

### CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $104,500 |
| Recoveries, net of expenses | 2,373,100 |
| Distributions | (205,100) |
| Monetary assets available for distribution | $2,272,500 |

**Executive Life Insurance Company**

**Conservation Order:** **April 11, 1991**
**Liquidation Order:** **December 6, 1991**

**2012 Report**

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 350,000 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 bidder, and the transaction was approved by the Conservation Court.

In March 1992, ELIC's junk bond portfolio was transferred to Altus Finance for a 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 ELIC 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.

The Commissioner, in his capacity as conservator, rehabilitator and liquidator of the Estate, commenced a civil action in 1999 against Altus Finance S.A. (Altus) and other defendants alleging that they had acquired the junk bond portfolio and insurance assets of ELIC through fraud. Settlements were reached with Altus and some of the other co-defendants in 2004 and 2005.

A trial against the remaining defendant in 2005 resulted in a jury verdict finding Artemis S.A., a two-thirds owner of Aurora, liable for knowing participation in a conspiracy with members of the Altus/MAAF group to defraud the Commissioner. In August 2008, the jury's verdict of liability was upheld on appeal and the case was remanded to the U.S. District Court for a new trial on the issue of damages.

Continuing asset recovery, via complex litigation, has required the Estate to remain open. The Commissioner's lawsuit against Altus S.A. et al has been completed, except for the court's decision on the restitution award of $131 million (net) which remains pending. As a result of the jury verdict of no compensation in the damages phase of the case, the Commissioner is considering his next steps.

The Estate is a party to a proceeding brought by certain Indenture Trustee policyholders who challenged various CLO administrative expenses for the period January 1, 1997 to June 30, 2008. The Court issued an order on December 7, 2009 approving those expenses and subsequently denied the request by the Indenture Trustee policyholders for attorney fees. On February 4, 2010, the Indentured Trustee Policyholders filed a Notice of Appeal against the court's approval of CLO administrative expenses of ELIC for the period January 1, 1997 to June 30, 2008 (approximately $12 million), as well as the court's denial of ITP's attorney fees of $395,730.50. The ITP's appeal brief was filed in December 2010 and the Commissioner's response brief was filed January 27, 2011. The appeal matter has not been heard yet.

### ELIC Opt-Out Trust

The Opt-Out Trust receives approximately 33% of ELIC assets which are distributed to approximately 27,300 former ELIC policyholders ("Opt-Outs") who elected to terminate their policies. A distribution of $211 million of Altus Litigation Funds was made to Opt-Out policyholders in February 2006. Presently the remaining assets of the Opt-Out Trust consist of distributions allocated to policyholders with whom contact has been lost, in most cases due to bad addresses (funds for those for whom contact has been lost will be escheated to the last known state of residence). This trust however, continues to remain open to effect additional distributions to Opt-Out policyholders if the Commissioner is successful in the retrial.

# Executive Life Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $39,882,000 | $35,811,300 |
| Other assets | 1,605,800 | 574,400 |
| Total assets | 41,487,800 | 36,385,700 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 8,013,000 | 12,100,300 |
| Policyholder liability | 5,924,618,100 | 6,152,241,400 |
| All other claims | 428,800 | 428,800 |
| Total liabilities | 5,933,059,900 | 6,164,770,500 |
| Net assets (deficiency) | ($5,891,572,100) | ($6,128,384,800) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $708,100 | $1,153,500 |
| Litigation recoveries | 28,100 | - |
| Total income | 736,200 | 1,153,500 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Administrative expenses | 6,122,300 | 10,634,200 |
| Interest on policyholder liability | 227,750,300 | 227,661,900 |
| Total expenses | 233,872,600 | 238,296,100 |
| Net income (loss) | ($233,136,400) | ($237,142,600) |

## CHANGE IN MONETARY ASSETS [8]

| | |
|---|---|
| Beginning monetary assets at takeover | $112,111,400 |
| Recoveries, net of expenses | 660,975,800 |
| Distributions | (737,275,900) |
| Monetary assets available for distribution | $35,811,300 |

[8] *This schedule represents changes in monetary assets from August 1, 1997, when Executive Life's estate accounting was transferred to the CLO, to December 31, 2012.*

# ELIC Opt Out Trust

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $9,125,100 | $8,534,600 |
| Total assets | 9,125,100 | 8,534,600 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims | 6,662,500 | 6,132,600 |
| Unclaimed funds payable | 2,357,200 | 2,240,200 |
| Payable to Affiliates | - | 571,460 |
| Reserve for administrative expenses | 105,400 | (409,600) |
| Total liabilities | 9,125,100 | 8,534,660 |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income and Expenses | 2011 | 2012 |
|---|---|---|
| Investment income | $148,100 | $253,900 |
| Administrative expenses | (711,100) | (194,900) |
| Net income (loss) | ($563,000) | $59,000 |

## Fremont Indemnity Company

**Conservation Order: June 04, 2003**
**Liquidation Order: July 02, 2003**

### 2012 Report

Fremont was authorized as a multi-line Property & Casualty insurer, but at liquidation operated as a "Monoline" Workers' Compensation insurer writing only Workers' Compensation and Employer Liability coverage in 48 states. Fremont is the successor by merger of six affiliate insurers that were under the common ownership of Fremont Compensation Insurance Group, Inc. ("FCIG"), Fremont's immediate parent company. FCIG is wholly-owned by a publicly traded holding company, Fremont General Corporation ("FGC"). Approximately 65% of Fremont's Workers' Compensation claims are attributable to business written in California. Most of the general liability business was assumed by a group of life insurance companies and administered through a third party administrator named Riverstone. The "Claims Bar Date", or the final date to submit a claim against the insolvent entity, was June 30, 2004.

The Estate's parent company, FGC, filed for protection under Chapter 11 of the federal bankruptcy code in June of 2008. As part of the FGC consolidated tax group the Estate sought to protect certain tax attributes and to ensure financial recovery or preservation of its net operating losses. Counsel for the estate filed four proofs of claims seeking recovery from the FGC bankruptcy estate. In April 2009 the Estate commenced global settlement discussions with representatives of FGC to settle all disputes between the Estate and FGC as it relates to the pending POCs. After months of negotiation the Estate agreed to settle all disputes in exchange for two approved, unsecured general creditor claims totaling $40 million in approved voting claims that are capped at $27 million in payout plus post-petition interest on $5 million. In addition the estate received $9 million in cash at execution of the settlement, and agreement with FGC to help facilitate the deconsolidation of the Estate from the consolidated tax group in a matter that allows the Estate to preserve all of its net operating losses for future application (estimated to exceed $400 million).

All legal disputes have been resolved and essentially all amounts due under the global settlement with the FGC bankruptcy estate have been collected. The Estate has completed the deconsolidation process and is now a stand-alone taxpayer.

The Estate continues to bill and collect on active reinsurance treaties, as well as seeking commutations where advantageous. All on-going reinsurance processing is now being handled by the CLO San Francisco staff who will complete the balance of the run off of the reinsurance program.

The Estate released its eighth early access distribution in August 2012. The estate is planning a ninth early access distribution in 2013.

# Fremont Indemnity Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $122,027,000 | $84,959,400 |
| Recoverable from reinsurers | 132,515,500 | 110,543,100 |
| Other assets | 25,215,600 | 24,454,900 |
| Total assets | 279,758,100 | 219,957,400 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 15,646,200 | 15,652,000 |
| Claims against policies, before distributions | 3,062,130,500 | 3,053,988,400 |
| Less distributions to policyholders | (902,360,600) | (941,977,800) |
| All other claims | 349,598,400 | 337,862,500 |
| Total liabilities | 2,525,014,500 | 2,465,525,100 |
| Net assets (deficiency) | ($2,245,256,400) | ($2,245,567,700) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $2,331,900 | $2,681,300 |
| Salvage and other recoveries | 6,865,200 | 7,035,600 |
| Total income | 9,197,100 | 9,716,900 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 87,285,700 | 6,510,300 |
| Administrative expenses | 3,402,100 | 3,800,600 |
| Total expenses | 90,687,800 | 10,310,900 |
| Net income (loss) | ($81,490,700) | ($594,000) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $434,855,900 |
| Recoveries, net of expenses | 592,081,300 |
| Distributions | (941,977,800) |
| Monetary assets available for distribution | $84,959,400 |

**Fremont Life Insurance Company**

**Conservation Order: June 05, 2008**

**2012 Report**

Fremont Life Insurance Company ("Fremont Life"), a California domiciled life insurance company was located in Costa Mesa, California and licensed in 13 states and Guam. Fremont Life is a wholly owned subsidiary of Fremont Compensation Insurance Group Inc., whose ultimate parent is Fremont General Corporation ("FGC"). FGC filed for protection under Chapter 11 of the U.S. Bankruptcy Code in June of 2008. On May 15, 2008, Fremont Life filed their March 31, 2008 quarterly statement with the California Department of Insurance reporting surplus of $1,967,289. The minimum required capital and surplus for Fremont Life is $4,500,000. With the subsequent bankruptcy filing by its parent FGC the California insurance regulators opted to seek a conservation of Fremont Life.

All active insurance contracts have been transferred to successor insurance companies, and the operations of Fremont Life have been discontinued. The conserved estate has the responsibility to ensure all risk associated with the remaining policies and life products are properly assumed by the successor insurers.

The Estate was able to recover most protective deposits in 2010, and has documented that all risk has been transferred and novated. The Estate will seek to recover all remaining assets and to resolve all pending legal issues in 2012 and will work to close the conservation in 2013.

# Fremont Life Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $1,169,100 | $1,614,000 |
| Other assets | 159,300 | 500 |
| Total assets | 1,328,400 | 1,614,500 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 7,200 | 6,000 |
| All other claims | 1,336,200 | 1,609,200 |
| Total liabilities | 1,343,400 | 1,615,200 |
| Net assets (deficiency) | (15,000) | ($700) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $19,600 | $43,600 |
| Salvage and other recoveries | - | 521,700 |
| Total income | 19,600 | 565,300 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | - | 47,900 |
| Administrative expenses | 88,700 | 118,500 |
| Total expenses | 88,700 | 166,400 |
| Net income (loss) | ($69,100) | $398,900 |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $1,443,100 |
| Recoveries, net of expenses | 170,900 |
| Distributions | - |
| Monetary assets available for distribution | $1,614,000 |

## Frontier Pacific Insurance Company

**Conservation Order:** **September 7, 2001**
**Liquidation Order:** **November 30, 2001**

**<u>2012 Report</u>**

Frontier Pacific Insurance Company ("FPIC"), a California domiciled property and casualty insurer, was licensed in California, Nevada, New York and South Carolina. FPIC primarily wrote surety and private passenger auto liability. In August 2001, FPIC's parent company, Frontier Insurance Company ("FIC") of New York, voluntarily entered rehabilitation under the control of the New York Liquidation Bureau. As a result of the FIC rehabilitation, substantial reinsurance recoverables due FPIC from FIC were never paid. A subsequent financial examination by the California regulators disallowed the FIC reinsurance receivable, resulting in a negative surplus on FPIC's books, and FPIC was placed into conservation on September 7, 2001. During conservation, the Commissioner determined that FPIC's financial condition was such that rehabilitation was futile and an Order of Liquidation was obtained on November 30, 2001. The "Claims Bar Date," or the final date to submit a claim against the Estate, was August 30, 2002. The FPIC claims operation was transferred to the CLO in October 2005.

FPIC and its agents (including its parent, FIC) held collateral in various forms as security for the issuance of surety bonds, including large numbers of bail bonds. The Liquidator has finalized and released security for those obligations which have expired. All items of collateral associated with bail bonds have been returned, except those associated with forfeited bonds. As for those outstanding unliquidated obligations, the Liquidator is making suitable arrangements to affect release to the appropriate parties, including escheatment. The Liquidator has reached an agreement with the New York Liquidation Bureau on a procedure for the disposition of collateral securing joint and several obligations of FPIC and FIC.

Since FPIC's liquidation in November 2001, the Liquidator continues to marshal FPIC's assets to pay approved claims. In 2011, an arbitration proceeding against NICO, the main reinsurer of FPIC, not only awarded FPIC approximately $18 million, but also preserved FPIC's right to pursue an Unallocated Loss Adjustment Expense (ULAE) claim of approximately $3.4 million.

The Estate has an estimated $16.1 million in current and future reinsurance recoveries as of December 31, 2012. These balances are due from approximately 29 reinsurers. As a result of the arbitration proceedings against National indemnity Company (NICO) in which FPIC was awarded approximately $18 million, FPIC in cooperation with its parent company, Frontier Insurance Company (FIC) has filed its ULAE claim against NICO for approximately $3.4 million. Frontier Pacific's remaining reinsurance program are labor intensive to administer, but known case reserves are relatively small.

The Estate completed an interim distribution in the third quarter of 2012 for approximately $22 million.

## Frontier Pacific Ins Co

### ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $33,725,200 | $14,526,500 |
| Recoverable from reinsurers | 18,318,300 | 16,110,600 |
| Other assets | 1,363,200 | 1,363,300 |
| Total assets | 53,406,700 | 32,000,400 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 3,656,600 | 4,570,500 |
| Claims against policies, before distributions | 44,077,000 | 43,009,100 |
| Less distributions to policyholders | - | (22,214,700) |
| All other claims | 13,541,200 | 13,510,100 |
| Total liabilities | 61,274,800 | 38,875,000 |
| Net assets (deficiency) | ($7,868,100) | ($6,874,600) |

### INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $254,000 | $585,200 |
| Litigation recoveries | 4,700,000 | - |
| Salvage and other recoveries | 83,400 | 30,100 |
| Total income | 5,037,400 | 615,300 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 302,900 | (2,035,500) |
| Post-liquidation Federal tax expense | 1,003,200 | 326,800 |
| Administrative expenses | 2,272,100 | 1,330,500 |
| Total expenses | 3,578,200 | (378,200) |
| Net income (loss) | $1,459,200 | $993,500 |

### CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $18,531,900 |
| Recoveries, net of expenses | 18,209,300 |
| Distributions | (22,214,700) |
| Monetary assets available for distribution | $14,526,500 |

**Golden Eagle Insurance Company**

| | |
|---|---|
| **Conservation Order:** | **January 31, 1997** |
| **Rehab./Liquidation Plan Approved:** | **August 4, 1997** |
| **Liquidation Order:** | **February 18, 1998** |

**2012 Report**

Golden Eagle Insurance Company ("Golden Eagle") is the subject of a Plan of Rehabilitation and Liquidation ("Plan") approved by the Superior Court in 1997. Under the Plan, Golden Eagle's operating assets and future business was sold to affiliates of Liberty Mutual Insurance Company. The Plan also provides for an orderly "run-off" of claims under Golden Eagle's pre-1997 insurance policies, a process which is ongoing.

Prior to December 2006, the majority of the administrative aspects of the Plan were administered by the Golden Eagle Insurance Company Liquidating Trust ("The Trust"), which was created under the Plan and approved by the Superior Court as a neutral mechanism to manage the liquidation of Golden Eagle. Substantially all of the Trust's duties were fully discharged by the end of November 2006, at which point the Trust was terminated and the residual liquidation duties were assumed by the Commissioner's Conservation & Liquidation Office ("CLO"). The Trust was officially terminated and closed on November 30, 2006.

As part of the process for terminating the Trust, the Trust purchased additional reinsurance coverage from Liberty Mutual affiliates to cover the remaining covered insurance policy exposures, including liabilities under both workers' compensation and other property and casualty policies. Because payment in full of Golden Eagle's insurance liabilities are provided for under the Plan, the Liquidation Order does not contain a formal finding of insolvency, and thus the Insurance Guaranty Associations (IGAs) have not been triggered. As a result, no bar date has been set for the filing of insurance claims covered under a Golden Eagle policy. Such claims will continue to be received, adjusted and paid in the ordinary course of the run-off of Golden Eagle's policyholder liabilities. The IGAs remain as a back-up, in the unlikely event that the claims payment assets available under the Plan are exhausted prior to the final policyholder claim payment.

Prior to its termination, the Trust was responsible for the management of the third-party claim administrator and reinsurer (affiliates of Liberty Mutual Insurance Company) that were and continue to be responsible for the adjustment and payment of covered policyholder claims under the Plan. Those oversight duties now reside with the CLO. The Trust also managed the residual assets of the Estate and administered to resolution all proofs of claims filed by general creditors. The "Claims Bar Date," or the final date to submit general creditor claims (i.e., non-policyholder claims) against the Estate, was February 27, 1998. The adjustment and payment of non-policyholder claims was completed by the Trust shortly before the Trust termination near the end of 2006.

All remaining policyholder claims are being administered and paid under the Plan's indemnity reinsurance and excess of loss reinsurance agreements with Liberty Mutual affiliates. Given the "long-tail" nature of the claims portfolio, completing the run-off process is expected to take many more years. During 2012, the CLO continued negotiations with Liberty Mutual regarding a possible transfer of the remaining run-off claims via novation or the equivalent in order to allow the Commissioner to close the Estate. Claims continue to run off within the range of expected cost and reinsurance coverage. Until the entire remaining exposure is paid, assumed or novated, the Estate must remain open to monitor the long-term claim run-off and to give policyholders access to appeal rights through the OSC process that is incorporated into the Rehabilitation Plan.

## Golden Eagle Ins Co

### ASSETS AND LIABILITIES
As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $1,958,600 | $1,921,000 |
| Other assets | - | - |
| Total assets | 1,958,600 | 1,921,000 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 400 | 3,000 |
| Claims against policies, before distributions | - | - |
| Total liabilities | 400 | 3,000 |
| Net assets (deficiency) | $1,958,200 | $1,918,000 |

### INCOME AND EXPENSES
For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $31,500 | $55,400 |
| Salvage and other recoveries | 132,700 | 3,300 |
| Total income | 164,200 | 58,700 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Post-liquidation Federal tax expense | 4,000 | - |
| Administrative expenses | 89,800 | 98,900 |
| Total expenses | 93,800 | 98,900 |
| Net income (loss) | $70,400 | ($40,200) |

### CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover [9] ........................................................... | $2,029,000 |
| Recoveries, net of expenses .................................................................................. | (108,000) |
| Distributions.................................................................................................... | - |
| Monetary assets available for distribution ......................................................... | $1,921,000 |

[9] *As of December 31, 2006, when Golden Eagle's estate accounting was transferred to the CLO.*

**Golden State Mutual Life Insurance Company**
**Conservation Order: September 30, 2009**
**Liquidation Order: January 28, 2011**

**2012 Report**

Golden State Mutual Life Insurance Company (GSM) was a mutual life and health insurance company domiciled and incorporated in California, with its principal place of business and home office located at 1999 West Adams Boulevard in Los Angeles, California. Golden State's business focus has been to provide life insurance products to the minority middle-income marketplace with a geographic emphasis in California, Texas, North Carolina, Michigan and Illinois.

As of June 30, 2009, Golden State filed its Quarterly Statement reporting assets of $93,291,509 and liabilities of $91,640,816. Thus, Golden State's surplus was $1,650,693 or $3,349,307 less than the total aggregate of the minimum paid-in capital and minimum surplus required by the Insurance Code. Consequently, Golden State was deemed statutorily impaired and placed into conservation on September 30, 2009.

The Conservator determined that the best course of action for Golden State's policyholders and creditors was for the Conservator to position Golden State for a sale, merger or an assumption of its insurance book of business by a third party.

In November 2009, the Conservator conducted a national "request for proposal" process seeking a healthy successor insurer to purchase the mutual company or assume its book of business. IA American Life Insurance Company was the successful bidder and the Superior Court approved IA's assumption of all in-force GSM policies sale on June 24, 2010.

By December, 2010 the Conservator had determined that it would be futile to proceed as Conservator since Golden State's estimated liabilities of $9,291,895 exceed its estimated remaining assets of $5,721,154 by over $3 million. A hearing on the Liquidation Motion and an Order to Show Cause why the Court should not grant the Liquidation Motion was held on January 28, 2011, and an order of insolvency was granted.

During 2011 Golden State obtained court approval and completed the transfer of the company's pension plan obligation and administration to the Pension Benefit Guaranty Corporation. After quantifying approximately $2 million in un-assumed Class 2 policy liability (convertible Group Life & LTD coverage for former employees and dependents), the estate negotiated an agreement with the National Association of Life and Health Insurance Guaranty Associations (NOLHGA) whereby all un-assumed policy liability will be honored by the respective state guaranty association subject to any statutory limitations. As of December 2011 the form of replacement policy and rate structure for any excess coverage elections was still being reviewed by the CDI. Upon final approval of the form of policy and the rate schedule the estate will seek a court order authorizing the agreement and transfer of the liability.

Due to a continuing lack of available funds to distribute the estate filed a request with the court to suspend the formal proof of claim process and to extend the planned claims bar date by 12 months. The court granted a new claims bar date of December 31, 2012. The estate will revisit the POC process and bar date in June of 2012.

The Estate sold the Houston and Winston-Salem offices during 2012. The Chicago property was placed under contract but later terminated due to the buyer's concerns over certain underground storage tanks located near the property. The Chicago property is subject to an indemnification agreement with the oil company responsible for the underground tanks. The estate pursued a claim under the indemnification agreement and received a "No Further Requirements" letter from the oil company. The estate will work to secure a contract with the prior buyer now that title appears to be cleared. The last property in Vallejo continues to be listed on the open market. Given the lack of purchase activity and ongoing cost to hold the property the estate will consider a reasonable pricing adjustment in 2013.

The liquidation estate continues to defend its ownership and control over the two paintings currently located in the lobby of the former GSM building in Los Angeles. The landlord and owner of the building has been granted relief by the liquidation court to pursue its quiet title claim to the art works. The owner asserts the paintings are fixtures of the building, the liquidator argues the paintings are personal property of the estate. A trial to determine ownership was scheduled for December 2012 but postponed by the court to April 15, 2013. As a positive gesture to the local community, the estate has loaned a significant portion of the remaining GSM art collection (excluding the lobby paintings) to the California African American Museum as part of their Places of Validation exhibit. The same pieces will remain at the museum through early 2013 as part of a GSM exhibit.

# Golden State Mutual Life Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | ($147,000) | $55,400 |
| Other assets | 2,017,900 | 1,069,700 |
| Total assets | 1,870,900 | 1,125,100 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 591,400 | 664,700 |
| Policyholder claims | 2,212,900 | 1,664,200 |
| All other claims | 7,569,000 | 7,571,800 |
| Total liabilities | 10,373,300 | 9,900,700 |
| Net assets (deficiency) | ($8,502,400) | ($8,775,600) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income (loss) | ($4,100) | ($900) |
| Cessions and premium income | 148,600 | 34,500 |
| Other income | 34,300 | 7,600 |
| Total income | 178,800 | 41,200 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | (203,300) | (633,700) |
| Administrative expenses | 1,617,800 | 948,100 |
| Total expenses | 1,414,500 | 314,400 |
| Net income (loss) | ($1,235,700) | (273,200) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $72,139,200 |
| Recoveries, net of expenses | (72,083,800) |
| Distributions | - |
| Monetary assets available for distribution | $55,400 |

## HIH America Comp. & Liability Insurance Company

**Conservation Order:** **March 30, 2001**
**Liquidation Order:** **May 8, 2001**

### 2012 Report

HIH America Compensation Liability Insurance Company (HIH) was domiciled in California and licensed to transact business in 31 states with California being the primary state accounting for 82% of the business written. HIH wrote only workers' compensation insurance. The "Claims Bar Date," or the final date to submit a claim against the insolvent Estate, was December 2, 2001.

Given the number of states in which HIH wrote business, a significant effort was required at the time of liquidation to properly transfer all open covered claims to the insurance guaranty community. The Estate had a significant amount of intercompany relationships with various affiliates that required a considerable amount of work to resolve such intercompany balances. Additionally, the Estate had a significant reinsurance program that was placed under a run off plan but still has enough potential recovery for the estate to remain open while pursuing such reinsurance.

The balance of the reinsurance program has been essentially run-off to conclusion. All material assets have been collected or resolved and the Estate completed a $50 million interim distribution in December 2011. The Estate continues to collect periodic claim payments from the insolvency estate of its parent company and contingent on the reinsurance recovery status, will work to schedule a final distribution and closing in 2014.

# HIH America Comp & Liability Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $12,816,700 | $12,957,600 |
| Recoverable from reinsurers | 1,434,600 | 1,434,600 |
| Other assets | - | 500 |
| Total assets | 14,251,300 | 14,392,700 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 71,800 | 67,700 |
| Claims against policies, before distributions | 763,878,800 | 773,238,900 |
| Less distributions to policyholders | (328,499,900) | (328,499,900) |
| All other claims | 927,500 | 927,500 |
| Total liabilities | 436,378,200 | 445,734,200 |
| Net assets (deficiency) | ($422,126,900) | ($431,341,500) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $970,600 | $367,900 |
| Salvage and other recoveries | 1,599,900 | 1,678,000 |
| Total income | 2,570,500 | 2,045,900 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 16,951,300 | 11,036,800 |
| Administrative expenses | 473,800 | 223,500 |
| Total expenses | 17,425,100 | 11,260,300 |
| Net income (loss) | ($14,854,600) | ($9,214,400) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $147,637,800 |
| Recoveries, net of expenses | 193,819,700 |
| Distributions | (328,499,900) |
| Monetary assets available for distribution | $12,957,600 |

## Great States Insurance Company

**Conservation Order:** **March 30, 2001**
**Liquidation Order:** **May 8, 2001**

### 2012 Report

Great States Insurance Company was domiciled in California and was licensed to transact business in 14 states. Great States wrote only workers' compensation insurance and concentrated in Arizona, Colorado, and Nevada. Great States wrote a minimal amount in California and Illinois. The "Claims Bar Date," or the final date to submit a claim against the Estate, was December 2, 2001.

A significant portion of the Estate's statutory deposits are held in the form of surety bonds and are released as claims arise and formal awards are issued. The entity that has issued the surety bond has off-set rights related to certain reinsurance recoveries by Great States. The process of reconciling these releases and offsets has been an on-going requirement of the Estate.

The Estate continues to seek a resolution of the surety bond issue with American Home Assurance. Absent an agreement on the development of loss reserves, the Estate will consider foregoing a settlement and seek agreeable arrangement with the California Guarantee Association to assign the surety bonds and prepare the Estate for a final distribution in late 2013 or early 2014.

# Great States Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $7,083,000 | $6,908,500 |
| Recoverable from reinsurers | 18,326,300 | 18,326,300 |
| Total assets | 25,409,300 | 25,234,800 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 39,200 | 35,800 |
| Claims against policies, before distributions | 85,630,100 | 81,603,900 |
| Less distributions to policyholders | (10,154,800) | (10,154,800) |
| All other claims | 14,659,700 | 14,659,700 |
| Total liabilities | 90,174,200 | 86,144,600 |
| Net assets (deficiency) | ($64,764,900) | ($60,909,800) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $115,400 | $203,200 |
| Salvage and other recoveries | 15,800 | 6,222,600 |
| Total income | 131,200 | 6,425,800 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | (4,501,200) | 2,315,800 |
| Administrative expenses | 162,000 | 254,800 |
| Total expenses | (4,339,200) | 2,570,600 |
| Net income (loss) | $4,470,400 | $3,855,200 |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $7,889,700 |
| Recoveries, net of expenses | 9,173,600 |
| Distributions | (10,154,800) |
| Monetary assets available for distribution | $6,908,500 |

**Majestic Insurance Company**

**Conservation Order: April 21, 2011**

**<u>2012 Report</u>**

On April 21, 2011, an Order appointing Conservator and Restraining Orders ("Conservation Order") was entered by the Superior Court of the State of California with respect to Majestic Insurance Company, a California Corporation. The California Department of Insurance (CDI) conducted an examination of Majestic for the period January 1, 2005 through December 31, 2010. CDI found Majestic's recorded loss and loss adjustment expense reserves to be deficient by approximately $40.9 million. Also, due to the increase in reserves, a premium deficiency reserve was required in the amount of $5.5 million. After these examination adjustments, Majestic's Risk-Based Capital (RBC) fell within the Mandatory Control Level RBC. The CDI Examination determined that Majestic was operating in a hazardous financial condition in accordance with California Insurance Code Section (CICS) 1011(d). These findings were incorporated into the Commissioner's application for the Conservation Order.

The Commissioner was appointed as Conservator and directed to conduct the business of Majestic. The Conservator is authorized, in his discretion, to operate the business of Majestic, or so much of the business as he deems appropriate, and to pay or defer payment of some or all proper claims, expenses, liabilities and obligations of Majestic, in whole or in part, accruing prior or subsequent to his appointment. The Conservator continued to operate Majestic's business in substantially the manner the company was operating prior to conservation, solely for the purpose of preserving Majestic's business assets and going-concern value in order to facilitate a Plan of Rehabilitation for Majestic (the "Plan").

Immediately after the entry of the Conservation Order, the Conservator filed a motion seeking court approval of the Plan. Court approval of the Plan was granted on June 2, 2011 and the transactions contemplated by the Plan closed on July 1, 2011. The Plan provided for the assumption of 100% of Majestic's workers' compensation claim liabilities by an A-rated insurance company affiliate of AmTrust North America, Inc. ("AmTrust") via a Loss Portfolio Transfer and Quota Share Reinsurance Agreement (the "Reinsurance Agreement"). Under the Reinsurance Agreement, AmTrust (through an insurance company affiliate, Technology Insurance Company) has assumed the majority of Majestic's assets and liabilities relating to its workers' compensation business. Majestic's in-force policies and expired policies with reported claims have been novated to Technology Insurance Company. The Reinsurance Agreement also provides that all reinsurance contracts providing coverage for the business written by Majestic shall inure to the benefit of AmTrust.

Pursuant to the Conservation Order, continued prosecution of the lawsuits and the filing of any other claims, lawsuits or actions against the Company outside of the conservation proceedings pending in the Superior Court of the State of California, County of San Francisco (the "Conservation Court"), is enjoined. Alternative remedies for the assertion of any and all such claims are provided for under the Conservator's Rehabilitation Plan. The Rehabilitation Plan provides that the Conservator may request the Conservation Court to establish a claims bar date for filing proofs of claim against Majestic by non-policyholder creditors. The Rehabilitation Plan further provides that the Conservator shall administer, investigate, adjust and determine all such proofs of claim in a manner consistent with California Insurance Code Sections 1010 through 1062. In accordance with these provisions of the Rehabilitation Plan, the Conservation Court has established a claims bar date of January 31, 2012 for filing non-policyholder proofs of claim with the Conservator. Prior to the claims bar date, the Conservator received a total of 86 proofs of claim which set forth claims of non-policyholder creditors in the aggregate amount of $205 million. The Conservator is reviewing all such proofs of claim for the purpose of determining such claims as provided in the Rehabilitation Plan.

Majestic solicited potential purchasers for the insurance company, together with certain residual assets and licenses, to be sold as a clean “shell”, free and clear of pre-acquisition liabilities. The request for proposal (RFP) required bids to be received by August 31, 2012. The request for proposal (RFP) process was completed shortly thereafter by selecting a winning bid in the amount of $500 thousand. Agreements have been negotiated, signed, and filed with the court.

# Majestic Ins Co

## ASSETS AND LIABILITIES[10]

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $14,895,600 | $12,936,800 |
| Other assets | 1,877,700 | 1,877,700 |
| Total assets | 16,773,300 | 14,814,500 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 2,372,300 | 1,203,300 |
| All other claims | 629,500 | 590,800 |
| Total liabilities | 3,001,800 | 1,794,100 |
| Net assets (deficiency) | 13,771,500 | 13,020,400 |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $8,181,000 | $650,200 |
| Other income | 1,029,400 | 4,900 |
| Total income | 9,210,400 | 655,100 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 50,456,100 | 1,940,200 |
| Net loss from premium write-offs | 2,525,200 | (534,000) |
| Total expenses | 52,981,300 | 1,406,200 |
| Net income (loss) | ($43,770,900) | (751,100) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover[11] | $14,895,600 |
| Recoveries, net of expenses | (1,958,800) |
| Distributions | - |
| Monetary assets available for distribution | $12,936,800 |

[10] *Assets and liabilities of Majestic Ins. Co. and its operating income and expenses have been audited using statutory basis of accounting as of 12/31/2012.*

[11] *As of December 31, 2011, when Majestic's estate accounting was transferred to the CLO.*

**Mission Insurance Company**

**Conservation Order:** **October 31, 1985**
**Liquidation Order:** **February 24, 1987**

**Mission National Insurance Company**

**Conservation Order:** **November 26, 1985**
**Liquidation Order:** **February 24, 1987**

**Enterprise Insurance Company**

**Conservation Order:** **November 26, 1985**
**Liquidation Order:** **February 24, 1987**

**2012 Report**

The Mission Insurance Companies' insolvency proceedings began with a court-ordered conservation of the Mission entity on October 31, 1985 with the balance of the entities being conserved in November 1985. All were placed into conservation due to their hazardous financial condition. Efforts to rehabilitate the companies did not succeed, and on February 24, 1987, the companies were ordered into liquidation. Ancillary proceedings in California for HAIC and MRC were initiated concurrent with the Missouri Insurance Director's obtaining a receivership order as the domiciliary liquidator.

In accordance with a court approved closing plan, the Mission estates completed a final policyholder distribution in 2006 whereby all policyholder claimants for Mission, Mission National and Enterprise were paid 100% of their approved claim. As of year-end 2012, the general creditors of the Mission and Enterprise estates have unsatisfied portions remaining on their approved claims.

The Mission estates participate as members of a consolidated tax group (Covanta being the parent) and, as such, are joint and severally liable for the tax exposure of the group. With guidance and advice from tax counsel, the estates have established proper tax reserves for certain open tax years. During 2011 Covanta commenced an audit with the IRS of the consolidated group returns for a number of tax years. The Estate's expect to hear the final conclusion to the audit sometime in 2013.

# Mission Ins Co

## ASSETS AND LIABILITIES
As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $103,987,600 | $106,028,900 |
| Recoverable from reinsurers | 21,586,400 | 21,586,400 |
| Other assets | 23,979,500 | 23,816,400 |
| Total assets | 149,553,500 | 151,431,700 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 79,348,700 | 78,763,100 |
| Claims against policies, before distributions | 846,832,600 | 846,832,600 |
| Less distributions to policyholders | (846,832,600) | (846,832,600) |
| All other claims | 198,438,500 | 198,438,500 |
| Total liabilities | 277,787,200 | 277,201,600 |
| Net assets (deficiency) | ($128,233,700) | ($125,769,900) |

## INCOME AND EXPENSES
For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $1,659,000 | $3,049,100 |
| Salvage and other recoveries | 345,000 | 98,400 |
| Total income | 2,004,000 | 3,147,500 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 47,700 | 163,100 |
| Administrative expenses | 468,400 | 520,700 |
| Total expenses | 516,100 | 683,800 |
| Net income (loss) | $1,487,900 | $2,463,700 |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $133,667,000 |
| Recoveries, net of expenses | 1,084,969,900 |
| Distributions | (1,112,608,000) |
| Monetary assets available for distribution | $106,028,900 |

# Mission National Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $23,016,800 | $23,674,900 |
| Recoverable from reinsurers | 5,119,900 | 5,119,900 |
| Other assets | 89,300 | 48,400 |
| Total assets | 28,226,000 | 28,843,200 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 17,756,900 | 17,755,200 |
| Claims against policies, before distributions | 596,098,500 | 596,098,500 |
| Less distributions to policyholders | (499,851,900) | (499,851,900) |
| All other claims | 16,838,100 | 16,838,100 |
| Total liabilities | 130,841,600 | 130,839,900 |
| Net assets (deficiency) | ($102,615,600) | ($101,996,700) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $366,300 | $679,800 |
| Salvage and other recoveries | - | 100 |
| Total income | 366,300 | 679,900 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | (258,800) | (14,600) |
| Administrative expenses | 70,700 | 75,600 |
| Total expenses | (188,100) | 61,000 |
| Net income (loss) | $554,400 | $618,900 |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $18,289,000 |
| Recoveries, net of expenses | 532,315,100 |
| Distributions | (526,929,200) |
| Monetary assets available for distribution | $23,674,900 |

# Enterprise Ins Co

## ASSETS AND LIABILITIES
As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $7,245,600 | $7,435,300 |
| Total assets | 7,245,600 | 7,435,300 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 1,240,500 | 1,240,600 |
| Claims against policies, before distributions | 120,573,400 | 120,573,400 |
| Less distributions to policyholders | (120,573,400) | (120,573,400) |
| All other claims | 30,780,900 | 30,780,900 |
| Total liabilities | 32,021,400 | 32,021,500 |
| Net assets (deficiency) | ($24,775,800) | ($24,586,200) |

## INCOME AND EXPENSES
For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $114,400 | $213,700 |
| Salvage and other recoveries | 148,400 | 9,600 |
| Total income | 262,800 | 223,300 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Administrative expenses | 32,700 | 33,600 |
| Total expenses | 32,700 | 33,600 |
| Net income (loss) | $230,100 | $189,700 |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $3,281,000 |
| Recoveries, net of expenses | 130,106,800 |
| Distributions | (125,952,500) |
| Monetary assets available for distribution | $7,435,300 |

## Pacific National Insurance Company

**Conservation Order: May 14, 2003**
**Liquidation Order: August 5, 2003**

### 2012 Report

Pacific National Insurance Company ("PNIC") is a subsidiary of the Highlands Insurance Group. PNIC's principal business lines include workers' compensation, commercial multiple-peril, general liability, and commercial automobile insurance. PNIC wrote business exclusively in California.

In October 2002, Highlands Insurance Group and five of its non-insurance subsidiaries commenced Chapter 11 bankruptcy proceedings in the U.S. Bankruptcy Court in the District of Delaware.

On May 14, 2003, the Commissioner was appointed as Conservator of PNIC and on August 5, 2003, the Superior Court appointed the Commissioner as Liquidator of PNIC. Upon liquidation, covered claims were transferred to the appropriate insurance guaranty associations. PNIC's assets consist primarily of cash and reinsurance receivables. The "Claims Bar Date," the final date to submit a claim against the Estate, was July 30, 2004.

Highlands Insurance Company ("HIC") in New Jersey, a subsidiary of Highlands Insurance Group, continues to handle routine administrative services for PNIC under an inter-company agreement. HIC was placed in conservation by the Texas Department of Insurance in November 2003. The CLO continues to work with the Texas Department of Insurance on data transfer/storage and reinsurance collections.

The Estate was successful in commuting a significant reinsurance treaty completing the transaction and recovery in time to prepare for and release a $19 million early access distribution to the California Insurance Guarantee Association in October 2011. The Estate team continues to work to collect the remaining reinsurance recoveries in 2013 and position the estate for closure thereafter.

# Pacific National Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $3,995,900 | $4,191,800 |
| Recoverable from reinsurers | 2,918,800 | 2,604,900 |
| Total assets | 6,914,700 | 6,796,700 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 838,200 | 1,559,900 |
| Claims against policies, before distributions | 115,755,600 | 113,911,600 |
| Less distributions to policyholders | (52,416,400) | (52,416,400) |
| All other claims | 246,400 | 246,400 |
| Total liabilities | 64,423,800 | 63,301,500 |
| Net assets (deficiency) | ($57,509,100) | ($56,504,800) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $195,300 | $119,700 |
| Salvage and other recoveries | 765,500 | 548,200 |
| Total income | 960,800 | 667,900 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | (5,278,900) | (529,200) |
| Administrative expenses | 206,400 | 192,800 |
| Total expenses | (5,072,500) | (336,400) |
| Net income (loss) | $6,033,300 | $1,004,300 |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $36,519,100 |
| Recoveries, net of expenses | 20,089,100 |
| Distributions | (52,416,400) |
| Monetary assets available for distribution | $4,191,800 |

**Superior National Insurance Companies In Liquidation ("SNICIL")**
**(California Compensation Insurance Company, Combined Benefits Insurance Company, Commercial Compensation Casualty Company, Superior National Insurance Company, and Superior Pacific Casualty Company)**

**Conservation Order: March 6, 2000**
**Liquidation Order: September 26, 2000**

**<u>2012 Report</u>**

On March 6, 2000, the Los Angeles County Superior Court (the "Court") ordered and appointed the Insurance Commissioner to serve as Conservator of four workers' compensation insurance companies: Superior National Insurance Company, Superior Pacific Casualty Company, California Compensation Insurance Company and Combined Benefits Insurance Company. On June 9, 2000, the Court ordered and appointed the Commissioner to serve as conservator of a fifth workers' compensation insurance company named Commercial Compensation Casualty Company. In his capacity as Conservator, the Insurance Commissioner obtained title to and possession of all the property and assets of the five estates, collectively identified as Superior National Insurance Companies in Liquidation ("Superior National Estates").

In September 26, 2000, Court found that each of the Superior National Estates was insolvent and that it would be futile to proceed as Conservator; on that basis, the Court terminated the Insurance Commissioner's status as conservator of the five insurers and ordered and appointed the Commissioner to serve as Liquidator of the insurers.

The charge in liquidating the Superior National Estates was to marshal assets, pay claims and resolve the vast business affairs as efficiently as possible. In this regard, the Liquidator consolidated the Superior National Estates' operations into the Conservation and Liquidation Office (San Francisco) in September 2003.

In 2012 the Superior National Estates released its tenth early access distribution to Guaranty Associations. The Estates are planning an eleventh early access distribution in 2013.

Also in 2012, the Superior National Estates obtained court approval of an indemnity settlement agreement with the SNTL Litigation Trust and the Oversight Committee of the SNTL Litigation Trust.

Under the most optimistic estimates, SNICL has insufficient assets to fully pay the policyholder claims. Consequently, once all asset recoveries are fully monetized, the Estate will seek court approval not to review any claims below the policyholder class.

The largest remaining asset on the books of the estates are reinsurance recoverables of approximately $165,000,000 (includes IBNR). The Estates' continuing and ultimate goal is to fully resolve its reinsurance recoverables through treaty commutations since Workers Compensation claims are such long tailed claims that conceivably there could be reinsurance billing for the next 50 years. Once reinsurance has been resolved, there are no significant issues remaining and the Liquidator can seek closure.

# California Compensation Ins Co

## ASSETS AND LIABILITIES
As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $75,751,500 | $38,436,000 |
| Recoverable from reinsurers | 73,872,700 | 74,356,200 |
| Other assets | 2,200 | 1,800 |
| Total assets | 149,626,400 | 112,794,000 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 21,964,800 | 5,360,700 |
| Claims against policies, before distributions | 2,045,294,500 | 2,062,676,300 |
| Less distributions to policyholders | (840,907,800) | (875,588,200) |
| All other claims | 119,308,000 | 119,307,600 |
| Total liabilities | 1,345,659,500 | 1,311,756,400 |
| Net assets (deficiency) | ($1,196,033,100) | ($1,198,962,400) |

## INCOME AND EXPENSES
For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $2,001,800 | $1,874,700 |
| Litigation recoveries | - | 2,386,300 |
| Salvage and other recoveries | 3,948,300 | 5,347,300 |
| Total income | 5,950,100 | 9,608,300 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 60,771,200 | 21,331,500 |
| Administrative expenses | 1,322,800 | 1,253,700 |
| Total expenses | 62,094,000 | 22,585,200 |
| Net income (loss) | ($56,143,900) | ($12,976,900) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $165,879,200 |
| Recoveries, net of expenses | 748,145,000 |
| Distributions | (875,588,200) |
| Monetary assets available for distribution | $38,436,000 |

# Combined Benefits Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $13,297,400 | $12,969,400 |
| Recoverable from reinsurers | 216,400 | 205,300 |
| Total assets | 13,513,800 | 13,174,700 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 204,200 | 48,000 |
| Claims against policies, before distributions | 34,211,800 | 35,664,000 |
| Less distributions to policyholders | (21,482,200) | (22,054,800) |
| All other claims | 6,713,200 | 6,701,800 |
| Total liabilities | 19,647,000 | 20,359,000 |
| Net assets (deficiency) | ($6,133,200) | ($7,184,300) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $211,000 | $379,500 |
| Salvage and other recoveries | 276,800 | 4,100 |
| Total income | 487,800 | 383,600 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 1,384,000 | 1,455,900 |
| Administrative expenses | 73,900 | 73,200 |
| Total expenses | 1,457,900 | 1,529,100 |
| Net income (loss) | ($970,100) | ($1,145,500) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $11,115,400 |
| Recoveries, net of expenses | 23,908,800 |
| Distributions | (22,054,800) |
| Monetary assets available for distribution | $12,969,400 |

# Superior National Ins Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $32,851,400 | $29,402,100 |
| Recoverable from reinsurers | 47,099,100 | 47,466,700 |
| Other assets | 19,800 | 19,400 |
| Total assets | 79,970,300 | 76,888,200 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 5,045,000 | 1,240,500 |
| Claims against policies, before distributions | 884,667,000 | 887,194,000 |
| Less distributions to policyholders | (391,018,100) | (394,312,000) |
| All other claims | 28,745,900 | 28,724,300 |
| Total liabilities | 527,439,800 | 522,846,800 |
| Net assets (deficiency) | ($447,469,500) | ($445,958,600) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $1,332,200 | $604,600 |
| Litigation recoveries | - | 295,200 |
| Salvage and other recoveries | 3,495,100 | 4,186,400 |
| Total income | 4,827,300 | 5,086,200 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 33,363,100 | 5,410,000 |
| Administrative expenses | 434,600 | 475,100 |
| Total expenses | 33,797,700 | 5,885,100 |
| Net income (loss) | ($28,970,400) | ($798,900) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $68,622,300 |
| Recoveries, net of expenses | 355,091,800 |
| Distributions | (394,312,000) |
| Monetary assets available for distribution | $29,402,100 |

# Superior Pacific Casualty Co

## ASSETS AND LIABILITIES

As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $3,608,400 | $2,424,300 |
| Recoverable from reinsurers | 37,177,600 | 34,222,800 |
| Total assets | 40,786,000 | 36,647,100 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 72,800 | 17,900 |
| Claims against policies, before distributions | 224,074,200 | 225,574,800 |
| Less distributions to policyholders | (38,096,100) | (39,969,700) |
| All other claims | 62,503,300 | 62,503,300 |
| Total liabilities | 248,554,200 | 248,126,300 |
| Net assets (deficiency) | ($207,768,200) | ($211,479,200) |

## INCOME AND EXPENSES

For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $48,600 | $97,500 |
| Salvage and other recoveries | 110,600 | 480,600 |
| Total income | 159,200 | 578,100 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | (3,519,500) | 4,042,600 |
| Administrative expenses | 301,600 | 280,000 |
| Total expenses | (3,217,900) | 4,322,600 |
| Net income (loss) | $3,377,100 | ($3,744,500) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $58,666,300 |
| Recoveries, net of expenses | (16,272,300) |
| Distributions | (39,969,700) |
| Monetary assets available for distribution | $2,424,300 |

# Commercial Compensation Casualty Co

## ASSETS AND LIABILITIES
As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $13,443,000 | $12,969,000 |
| Recoverable from reinsurers | 7,477,300 | 7,446,000 |
| Other assets | 500 | - |
| Total assets | 20,920,800 | 20,415,000 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 1,770,200 | 939,900 |
| Claims against policies, before distributions | 137,882,600 | 138,714,300 |
| Less distributions to policyholders | (93,984,300) | (94,544,200) |
| All other claims | 13,754,500 | 13,754,500 |
| Total liabilities | 59,423,000 | 58,864,500 |
| Net assets (deficiency) | ($38,502,200) | ($38,449,500) |

## INCOME AND EXPENSES
For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $357,200 | $369,500 |
| Salvage and other recoveries | 608,200 | 189,300 |
| Total income | 965,400 | 558,800 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | 5,228,400 | 952,800 |
| Administrative expenses | 59,100 | 67,700 |
| Total expenses | 5,287,500 | 1,020,500 |
| Net income (loss) | ($4,322,100) | ($461,700) |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $6,420,700 |
| Recoveries, net of expenses | 101,092,500 |
| Distributions | (94,544,200) |
| Monetary assets available for distribution | $12,969,000 |

## Western Employers Insurance Company

**Conservation Order: April 2, 1991**
**Liquidation Order: April 19, 1991**

### 2012 Report

Western Employers Insurance Company ("WEIC") began as a New York-domiciled insurer known as Leatherby Insurance Company and was re-domesticated to California in the late 1970's. The company was licensed in all 50 states and D.C. and wrote primarily workers' compensation and commercial multi-peril insurance. After four years of attempted self-liquidation, WEIC determined it could no longer continue to liquidate without the assistance of the California Department of Insurance. An order placing WEIC into liquidation was entered on April 19, 1991.

WEIC's primary objective will be to resolve all asset recoveries, principally reinsurance assets at this juncture, determine final estate liability and position the Estate for closure by 2017. A significant requirement to meet that objective is to determine how to quantify the remaining long-tail exposure.

In 2010 the San Francisco Superior Court set a deadline by which all holders of claims, other than workers' compensation claims, must submit detailed claim updates which set forth the facts regarding the further developments of those claims. Currently all claims that were submitted with the update continue to be reviewed.

Two distinct problems slow the claims determination process. First, is the fact that claims must be liquidated before they can be approved, and WEIC wrote a significant number of excess and umbrella policies for environmental type exposures, and the losses continue to accumulate but have not reached an attachment point yet. Secondly, we have made an initial reporting to the Federal Department of Justice in an attempt to complete the Federal Claim Waiver process to insulate the estate from any potential of latent liability assessed by the Federal Government.

# Western Employers Ins Co

## ASSETS AND LIABILITIES
As of December 31, 2011 and December 31, 2012

| Assets | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Cash and investments | $127,666,100 | $130,421,100 |
| Recoverable from reinsurers | 16,269,800 | 16,598,300 |
| Total assets | 143,935,900 | 147,019,400 |

| Liabilities | 12/31/2011 | 12/31/2012 |
|---|---|---|
| Secured claims and accrued expenses | 1,000 | 351,400 |
| Claims against policies, before distributions | 180,490,700 | 181,628,500 |
| Less distributions to policyholders | (68,190,000) | (68,190,000) |
| All other claims | 6,377,300 | 3,040,100 |
| Total liabilities | 118,679,000 | 116,830,000 |
| Net assets (deficiency) | $25,256,900 | $30,189,400 |

## INCOME AND EXPENSES
For Year Ended December 31, 2011 and 2012

| Income | 2011 | 2012 |
|---|---|---|
| Investment income | $2,101,400 | $3,449,500 |
| Salvage and other recoveries | 20,000 | 92,000 |
| Total income | 2,121,400 | 3,541,500 |

| Expenses | 2011 | 2012 |
|---|---|---|
| Loss and claims expenses | (31,957,000) | (2,415,300) |
| Administrative expenses | 641,000 | 1,024,300 |
| Total expenses | (31,316,000) | (1,391,000) |
| Net income (loss) | $33,437,400 | $4,932,500 |

## CHANGE IN ASSETS AVAILABLE FOR DISTRIBUTION

| | |
|---|---|
| Beginning monetary assets at takeover | $74,867,900 |
| Recoveries, net of expenses | 123,743,200 |
| Distributions | (68,190,000) |
| Monetary assets available for distribution | $130,421,100 |

# Section 3 – Cross Reference to California Insurance Code (CIC)

CIC Section 1060 - The Commissioner shall transmit all of the following to the Governor, the Legislature, and to the committees of the Senate and Assembly having jurisdiction over insurance in the annual report submitted pursuant to Section 12922:

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