DEPARTMENT OF FINANCE
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Transmitted via e-mail

April 26, 2016

Mr. David E. Wilson, Chief Executive Officer
Conservation & Liquidation Office
100 Pine Street, 26th Floor
San Francisco, CA 94111

Dear Mr. Wilson:

Final Report—Executive Life Insurance Company Estate Financial Statement Review, December 2015

The Department of Finance, Office of State Audits and Evaluations, has completed its review of the Executive Life Insurance Company Estate assigned to the Conservation & Liquidation Office (CLO) for the period January 1, 2015 through December 31, 2015.

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

Sincerely,

Cheryl L. McCormick

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

Enclosure

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

Financial Statement Review

Executive Life Insurance Company Estate
Conservation & Liquidation Office
For the Period January 1, 2015 through December 31, 2015

Prepared By:
Office of State Audits and Evaluations
Department of Finance

160845055

April 2016

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INDEPENDENT ACCOUNTANT'S REPORT

Mr. David E. Wilson, Chief Executive Officer
Conservation & Liquidation Office
100 Pine Street, 26th Floor
San Francisco, CA 94111

We have reviewed the accompanying financial statements of the Executive Life Insurance Company Estate which comprise the Statement of Net Assets in Liquidation as of December 31, 2015, Statement of Changes in Net Assets in Liquidation, and Statement of Cash Flows in Liquidation for the period then ended; and the related notes to the financial statements. The Conservation & Liquidation Office (CLO), as assigned conservator/liquidator, is responsible for the financial statements.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the financial statements. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the financial statements and the related notes to the financial statements of the Executive Life Insurance Company Estate for the year ended December 31, 2015 are not presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

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

Cheryl L. McCormick

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

April 22, 2016

Executive Life Insurance Company Estate
Statement of Net Assets in Liquidation
As of December 31, 2015

Assets	
Cash and Investments	$ 108,442,198
Accrued Investment Income	171,726
Receivable from ELIC Opt-Out Trust	590,037
Other Receivables	88,505,925
Total Assets	197,709,886
Liabilities	
Secured Claims	2,701,078
Policyholder Liability	6,835,111,235
Other Claims	428,836
Total Liabilities	6,838,241,149
Net Assets (Deficiency) in Liquidation	**$ (6,640,531,263)**

The notes are an integral part of the financial statements.

Executive Life Insurance Company Estate
Statement of Changes in Net Assets in Liquidation
For the Year Ended December 31, 2015

Net Assets in Liquidation December 31, 2014	**$ (6,586,556,797)**
Revenue	
Litigation Recoveries	90,305,057
Other Revenue	(2,854)
Total Revenue	90,302,203
Expenses	
Legal Expenses	650,052
Consultants and Temps	296,183
Office Expenses	86,262
Allocated Overhead Expenses	551,927
Total Administrative Expenses	1,584,424
Interest on Policyholder Liability	227,508,569
Total Expenses	229,092,993
Investments	
Investment Income	85,180,603
Investment Expenses	(20,371)
Gain (Loss) on Securities	(343,908)
Net Investment Income	84,816,324
Net Income (Loss)	**(53,974,466)**
Net Assets in Liquidation December 31, 2015	**$ (6,640,531,263)**

The notes are an integral part of the financial statements.

Executive Life Insurance Company Estate
Statement of Cash Flows in Liquidation
For the Year Ended December 31, 2015

Cash Flows from Operating Activities	
Net Income (Loss)	$ (53,974,466)
Decrease (Increase) in Other Receivable	(88,503,070)
Increase (Decrease) in Secured Claim Liabilities	(341,939)
Increase (Decrease) in Accrued Administrative Expenses	17,528
Increase (Decrease) in Policyholder Liability	227,623,288
Net Cash Flows from Operating Activities	84,821,341
Cash Flows from Investing Activities	
Decrease (Increase) in Accrued Investment Income	(107,919)
Cash Flows from Financing Activities	0
Net Increase (Decrease) in Cash	**84,713,422**
Cash at Beginning of Period	23,728,776
Cash at End of Period	**$ 108,442,198**

The notes are an integral part of the financial statements.

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

Executive Life Insurance Company (ELIC) was placed in conservation by order of the Los Angeles County Superior Court on April 11, 1991. At the time, ELIC, which had more than 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 was approved by the Court.

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

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

3. Summary of Significant Accounting Policies

CLO, as liquidator, plans to complete its liquidation activities by December 2019 and close the Estate within a reasonable time thereafter. There is no assurance that this date can be achieved due to the nature of the liquidation of an insurance estate. Further, due to uncertainties relative to the claims settlement process, reinsurance collections or settlements, and litigation activities, it is not possible to provide with any reasonable assurance, the ultimate cost of closing the Estate.

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

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

Other Receivables
Other Receivables consist of an account held by Aurora reserved for covering the additional costs to policyholder adjustments for Opt-In contracts as may be required. Any remaining amount will be returned to the Estate for distribution to all Opt-In policyholders.

LIABILITIES:

Secured Claims
Secured Claims represents funds allocated to Opt-In policyholders, National Organization of Life and Health Insurance Guaranty Associations, and unclaimed funds payable, which are funds distributed to claimants that were returned as undeliverable and/or an accurate address could not be located. Unclaimed funds are eventually escheated to the state agency of the claimants' last known address.

Accrued Administrative Expenses
Accrued Administrative Expenses represent administrative expenses which have been accrued but not yet paid. The final resolution of litigation and other matters which impact the closure of an estate may take an indefinite time to resolve. Therefore, CLO does not accrue estimates of future administrative costs because a reasonable basis for the costs cannot be determined, except when the Court has approved a final distribution order and the estate is scheduled to be closed within the following twelve months.

Policyholder Liability
Policyholder Liability represents the amount the Estate owes to policyholders in accordance with provisions of the Modified Rehabilitation Plan and relevant judicial decisions, and includes accrued but unpaid interest of approximately $3.4 billion.

Other Claims
Other Claims represent pre-liquidation accounts payable and claims due to general creditors. The stated amount does not include interest that has accrued on such claims. Accrued interest on these Other Claims will not be paid unless and until the Estate has sufficient funds to do so

after paying all principal and interest owed to policyholders and other creditors with priority over these Other Claims.

REVENUES:

Litigation Recoveries
Litigation Recoveries represents income from a lawsuit settlement (See Note 4).

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

EXPENSES:

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

INVESTMENTS:

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

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

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

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

4. Litigation

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 the Estate through fraud. Settlements were reached with Altus and some of the other defendants in 2004 and 2005.

A trial against the remaining defendants 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.

The new trial concluded on October 29, 2012 and the jury rendered a verdict finding no damages. Thereafter, the judge indicated his tentative decision to reinstate the restitution award of $241 million which the court previously awarded at the end of the 2005 trial. The U.S. Court of Appeals for the Ninth Circuit (Appeals Court) vacated the award, but mandated that the reinstatement of the award can be reconsidered at this trial. As of December 7, 2012, the restitution matter had been fully briefed by the parties.

After review and consideration of the relevant law and facts, and the parties' arguments, on April 3, 2013, the U.S. District Court for the Central District of California found the restitution amount awarded at the end of the 2005 trial appropriate. Therefore, the court reinstated the $241 million restitution award, offset by the previously received $110 million, in favor of the Commissioner. Both parties filed an appeal. The Commissioner also filed an appeal against the court's decision in the main case. The Appeals Court ordered a briefing schedule for both parties to present its arguments between the periods September 2013 to April 2014. The Artemis S.A. litigation briefings were filed January 10, 2014 and March 17, 2014 with an option to file another reply by April 16, 2014.

On July 8, 2015, Artemis S.A. and the Commissioner settled for $200 million. The Conservation Court approved the settlement and the lawsuit was dismissed by the U. S. Appeals Court for the 9th Circuit and the U.S. District Court. Proceeds to the Estate, net of $25 million due to a third party, amounted to $175 million. As of December 31, 2015, CLO has received $90,305,507 of the settlement. The remainder of the settlement proceeds was received in January 2016.

5. Subsequent Events

The Estate plans to distribute part or all of the settlement funds, depending on the resolution of certain legal and tax contingencies, to Opt-in and Opt-Out policyholders in 2016.