General American Mutual Holding Company in Liquidation

Independent Auditor's Report and Combined Financial Statements

December 31, 2012

BKD LLP
CPAs & Advisors

General American Mutual Holding Company in Liquidation

December 31, 2012

Contents

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Independent Auditor's Report

Special Deputy Liquidator
General American Mutual Holding Company
in Liquidation
Kansas City, Missouri

We have audited the accompanying combined statement of net assets of General American Mutual Holding Company in Liquidation and the related Settlement Funds 1 and 2 (the Company) as of December 31, 2012, and the related combined statements of changes in net assets and cash receipts and disbursements for the periods from November 30, 1999 to December 31, 2011 and December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with the basis of accounting required by Missouri statutes for insurance companies in liquidation (liquidation basis of accounting); this includes determining that the liquidation basis of accounting is an acceptable basis for the preparation of these combined financial statements in the circumstance. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Company has not recorded the federal and state taxes recoverable and has not presented the related income tax footnote disclosures as required under the liquidation basis of accounting.

Qualified Opinion

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Company as of December 31, 2012, and the changes in its net assets and its cash receipts and disbursements for the periods from November 30, 1999 to December 31, 2011 and December 31, 2012 in accordance with the liquidation basis of accounting as discussed in Note 1.

Liquidation Basis of Accounting

We draw attention to Note 1 of the combined financial statements, which describes the basis of accounting. The combined financial statements are prepared on the liquidation basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

BKD, LLP

Kansas City, Missouri
May 24, 2013

General American Mutual Holding Company in Liquidation

Combined Statement of Net Assets

December 31, 2012

Assets

		December 31, 2012
Cash	$	(2,490)
U.S. Government and agency securities, at cost		10,376,389
Equipment, furnishings and supplies		15,992
Depreciation on equipment, furnishings and supplies		(13,433)
Equipment, furnishings and supplies, net		2,559
Total assets	$	10,376,458

Liabilities

Accrued liabilities	$	373,740
Unpaid eligible member distribution checks		6,104,722
Total liabilities		6,478,462
Excess of assets over liabilities		3,897,996
Total	$	10,376,458

General American Mutual Holding Company in Liquidation

Combined Statements of Changes in Net Assets
For the Periods from November 30, 1999 to December 31, 2011 and December 31, 2012

	Period From November 30, 1999 to December 31, 2011	Period From November 30, 1999 to December 31, 2012
Net Assets at Beginning of Period	$ -	$ -
Increases in Net Assets		
Proceeds from sale of GenAmerica Corporation to MetLife	1,204,630,176	1,204,630,176
Taxes		
2000 federal income tax	32,317,725	32,317,725
Recovery of taxes previously paid	57,413,876	57,413,876
Income tax reciepts from pre-closing payments	32,849,860	32,849,860
Proceeds from MetLife for 1999 income tax refund	33,705,000	33,705,000
Proceeds from MetLife recovery of taxes previously paid	43,717,670	43,717,670
Proceeds from 1999 income tax refund	33,705,000	33,705,000
Federal and state income tax refunds	14,787,643	14,787,643
Other income - tax penalties refund from IRS	139,204	141,204
Other income - refund of interest and penalty	12,243,688	12,243,696
Total tax income	260,879,666	260,881,674
Settlements		
Proceeds from legal settlements	242,505,000	258,013,413
Settlement of Article VIII claims	35,872,550	35,872,550
Total settlement income	278,377,550	293,885,963
Investment activity		
Interest and dividend income	231,812,492	231,857,787
Unrealized appreciation in investments	17,944,850	17,944,850
Realized gain on sale of investments	5,302,530	5,302,530
Total investment income	255,059,872	255,105,167
Total increases in net assets	1,998,947,264	2,014,502,980

General American Mutual Holding Company in Liquidation

Combined Statements of Changes in Net Assets (Continued)

For the Periods from November 30, 1999 to December 31, 2011 and December 31, 2012

	Period From November 30, 1999 to December 31, 2011	Period From November 30, 1999 to December 31, 2012
Decreases in Net Assets		
Liquidating distributions to members (Class 9)	$ 1,456,885,190	$ 1,524,886,725
Administrative expenses (Class 1)		
Policy holder notification expenses	14,045,719	15,793,851
Legal fees	12,685,824	12,860,878
Accounting and actuarial fees	8,975,329	9,182,710
Special deputy receiver fees	3,610,147	3,882,922
Payroll and related taxes	1,339,239	1,425,706
Employee benefits	312,960	350,267
Rent and related expenses	254,444	282,644
Office expenses	377,343	402,012
Consulting fees	35,852	35,852
	41,636,857	44,216,842
Tax expenses (Class 2)		
Quarterly federal and state income tax repayments	93,285,565	93,285,565
Pre-closing federal income tax prepayments, including penalty and interest	53,562,476	53,562,476
Federal and state income tax payments	72,146,503	76,281,503
Repayment to GALIC for recovery of taxes previously paid	43,717,670	43,717,670
Repayment to GALIC for 1999 income tax refund	33,705,000	33,705,000
	296,417,214	300,552,214
Settlement expenses (Class 1)		
Expenses associated with lawsuit settlement	67,585,734	67,585,734
MetLife indemnity	42,661,205	42,661,205
Rubenstein defense	1,286,574	1,286,574
	111,533,513	111,533,513
Investment expenses (Class 1)		
Investment fees	10,010,094	10,027,587
Unrealized depreciation of investments	17,940,784	17,944,850
Realized loss on sale of investments	1,318,873	1,318,873
	29,269,751	29,291,310
Interest expense (Class 1)	124,380	124,380
Total decreases in net assets	1,935,866,905	2,010,604,984
Change in Net Assets for the Period	63,080,359	3,897,996
Net Assets at End of Period	$ 63,080,359	$ 3,897,996

General American Mutual Holding Company in Liquidation

Combined Statements of Cash Receipts and Disbursements
For the Periods from November 30, 1999 to December 31, 2011 and December 31, 2012

	Period From November 30, 1999 to December 31, 2011	Period From November 30, 1999 to December 31, 2012
Receipts		
Advance from GALIC	$ 5,000,000	$ 5,000,000
Proceeds from sale of General American Corporation to MetLife	1,204,630,176	1,204,630,176
Tax receipts		
Recovery of taxes previously paid	104,394,244	104,396,244
Proceeds from MetLife for 1999 income tax refund	33,705,000	33,705,000
Proceeds from MetLife for recovery of taxes previously paid	43,717,670	43,717,670
Proceeds from 1999 income tax refund	33,705,000	33,705,000
Income tax receipts from pre-closing payments	32,849,860	32,849,860
Refund of interest expense from the IRS	12,243,623	12,243,631
Refund of tax penalties from the IRS	139,269	139,269
Deposit from GALIC for expected income tax liability for 2000	125,000	125,000
	260,879,666	260,881,674
Settlement receipts		
Lawsuit settlements	242,505,000	258,013,413
Settlement of Article VIII claims with MetLife	35,872,550	35,872,550
	278,377,550	293,885,963
Interest and dividend receipts	277,721,765	277,767,060
Total before proceeds from investment sales and maturities	2,026,609,157	2,042,164,873
Proceeds from sales and maturities of		
Short-term investments (net)	78,129,424,835	89,701,015,499
Bonds	45,113,039,005	45,113,039,005
Total proceeds from investment sales and maturities	123,242,463,840	134,814,054,504
Total Receipts	$ 125,269,072,997	$ 136,856,219,377

General American Mutual Holding Company in Liquidation

Combined Statements of Cash Receipts and Disbursements (Continued)

For the Periods from November 30, 1999 to December 31, 2011 and December 31, 2012

	Period From November 30, 1999 to December 31, 2011	Period From November 30, 1999 to December 31, 2012
Disbursements		
Repayment of GALIC note	$ 5,000,000	$ 5,000,000
Interim distributions to members	1,453,045,665	1,518,782,003
Administrative expenses		
Policy holder notification expenses	13,883,384	15,538,930
Legal fees	12,557,403	12,846,926
Accounting and actuarial fees	8,958,001	9,152,842
Special deputy receiver fees	3,560,147	3,807,922
Payroll and related taxes	1,339,239	1,425,706
Office expenses	334,111	356,835
Employee benefits	312,960	350,267
Rent and related expenses	254,444	282,644
Acquisition of fixed assets	39,997	39,997
Consulting fees	35,852	35,852
	41,275,538	43,837,921
Tax payments		
Estimated income tax payments	89,324,429	93,459,429
Repayment of 1999 income tax refund to GALIC	33,705,000	33,705,000
Repayment of amended income tax refund to GALIC	43,717,670	43,717,670
Pre-closing federal income tax payments, including penalty and interest	53,562,476	53,562,476
Quarterly federal and state income tax payments	62,117,658	62,117,658
2000 federal income tax payment, including penalty and interest	12,486,269	12,486,269
2003 federal and state income tax payments	1,503,712	1,503,712
	296,417,214	300,552,214
Legal expenses		
Legal fees associated with legal settlement	68,872,308	68,872,308
MetLife Article 10 indemnification claims	40,612,645	40,612,645
Expenses associated with MetLife	2,048,560	2,048,560
	111,533,513	111,533,513

General American Mutual Holding Company in Liquidation

Combined Statements of Cash Receipts and Disbursements (Continued)

For the Periods from November 30, 1999 to December 31, 2011 and December 31, 2012

	Period From November 30, 1999 to December 31, 2011	Period From November 30, 1999 to December 31, 2012
Investment expenses		
Purchased interest	$ 42,743,106	$ 42,743,106
Investment expenses	10,010,094	10,027,587
	52,753,200	52,770,693
Interest expense	124,380	124,380
Total disbursements and disbursements before investment purchases	1,960,149,510	2,032,600,724
Investment purchases		
Short-term investments	78,063,237,548	89,578,156,667
Bonds	45,245,464,476	45,245,464,476
Total investment purchases transactions	123,308,702,024	134,823,621,143
Total Disbursements	125,268,851,534	136,856,221,867
Net increase (decrease) in cash	221,463	(2,490)
Cash at Beginning of Period	-	-
Cash at End of Period	$ 221,463	$ (2,490)

General American Mutual Holding Company in Liquidation

Notes to Combined Financial Statements

December 31, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

On September 17, 1999, General American Mutual Holding Company ("GAMHC") was placed into rehabilitation by the Missouri Department of Insurance ("DOI"). GAMHC entered into a $1,200,000,000 stock purchase agreement ("SPA") with Metropolitan Life Insurance Company ("MetLife") on August 26, 1999, to sell the common stock of GenAmerica Corporation, a subsidiary of GAMHC and parent company of General American Life Insurance Company ("GALIC") to MetLife. In accordance with the SPA, the funds, once received by GAMHC, were to be held in an account fund which could be used to indemnify MetLife with respect to outstanding claims and losses as set forth in the SPA, and to pay certain taxes and expenses of GAMHC as set forth in the SPA, including those associated with a future liquidation. The SPA was closed on January 6, 2000.

GAMHC was placed into receivership on September 17, 1999, by an Order of the Circuit Court of Cole County, Missouri ("receivership court"). In conjunction with this court order, the control of the assets and liabilities of GAMHC was transferred to the Director of the DOI, now known as the Department of Insurance, Financial Institutions and Professional Registration ("DIFP"). The Director of DIFP became the statutory Receiver for GAMHC. On December 1, 1999, the Receiver appointed Albert A. Riederer as Special Deputy Receiver ("SDR") and this appointment was approved by the receivership court. Mr. Riederer resigned effective November 30, 2012. Leland M. Shurin was appointed as the Special Deputy Liquidator (SDL) effective February 15, 2013.

In 2002, GAMHC's SDR, with the approval of the receivership court, established General American Qualified Settlement Fund #1 ("QSF1") to receive proceeds from a settlement with the insurance company that wrote the policy covering the Directors and Officers of GALIC. During 2004, GAMHC established General American Qualified Settlement Fund #2 ("QSF2") in the same manner to receive proceeds from a settlement with an accounting firm. Subsequent settlements with other parties were shared between GAMHC and QSF2. QSF1 was operated from October 2002 through November 2007, at which time the proceeds from QSF1 were distributed to the Eligible Members of GAMHC. QSF2 was substantially distributed to Eligible Members during 2009, with all remaining assets transferred to GAMHC during 2012.

The liquidation of GAMHC was ordered by the receivership court on May 23, 2002, and is being conducted in accordance with Missouri statutes governing insurance insolvency proceedings. The principal but not exclusive activities of GAMHC since it was ordered into receivership have been the investing of the proceeds of the SPA, pursuing claims against those responsible for the liquidity crisis and damages suffered by GALIC and GAMHC and its members, and distributing net assets to the Eligible Members.

Principles of Accounting

The combined financial statements are prepared using the basis of accounting required by the Missouri statutes for companies in liquidation, which is a basis of accounting other than generally accepted accounting principles and, accordingly, certain accounting policies differ from accounting principles generally accepted in the United States of America. Only those assets that are within the possession of the Company and other known amounts for which ultimate realization by the Company is expected to occur, primarily investments and cash, funds held and interest income receivable, are recorded. Accordingly, these financial statements do not include certain receivables or certain liabilities. Liabilities that have been acknowledged by the Company are prioritized into nine creditor classes in accordance with Missouri statutes governing insurance insolvencies. (See discussion on pages 10 and 11.)

"Restricted" is a term used to denote certain assets held and managed by the Liquidator for parties of interest. The right of ownership to these assets is conditional upon future events. Accordingly, such amounts are shown separately where appropriate.

Principles of Combination

The combined financial statements include the accounts of the GAMHC, QSF1 and QSF2 (while active). All significant intercompany accounts and transactions have been eliminated in combination.

Use of Estimates

The preparation of combined financial statements in conformity with the accounting basis discussed previously requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of increases and decreases in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Short-Term Investments

The Company considers all cash in non-interest bearing accounts and cash held in the Company's offices as cash in the combined financial statements. At December 31, 2012, short-term investments consisted primarily of U.S. Government and agency securities with initial maturities less than one year that are held at Central Bank and US Bank.

At December 31, 2012, the Company's cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

Restricted Assets

Restricted assets are required to be accounted for at fair market value and represent those investment accounts that are jointly held by the Company and MetLife under the terms of their settlement agreement dated June 12, 2007 that restricts the use of funds to expenses related to the MetLife indemnity claims. In a letter dated October 10, 2007, the parties agreed to limit the funds required to be held at $15,000,000. Effective June 15, 2012, this indemnification under the settlement agreement was considered fully and finally satisfied and all funds were released.

Claims Against the Company Assets

On January 13, 2003, the Company received a summary of “Three Year Indemnity Claims” from MetLife (MetLife Claims). This summary was required by the Plan of Organization. The MetLife Claims included two categories: Article VIII – Income Taxes and Article X – Other Claims. The Article VIII claims were settled in 2003 and the Article X claims were settled in 2007.

No known filed or pending claims are outstanding at December 31, 2012. Any potential filed or pending claims could have a material impact on the financial statements.

Priority of Claims and Distributions to Creditors

GAMHC distributes funds to Eligible Members/creditors in accordance with Missouri Revised Statutes Section 375.1218, which now governs asset distributions from the GAMHC estate. The statute establishes the following classes of creditors:

Class 1: Payment of the costs and expenses of administration during rehabilitation and liquidation including but not limited to the following:

1. The actual and necessary costs of preserving and recovering the assets of the insurer and costs necessary to store records required to be preserved;
2. Compensation for all authorized services rendered in the rehabilitation and liquidation;
3. Any necessary filing fees;
4. The fees and mileage payable to witnesses;
5. Authorized reasonable attorney’s fees and other professional services rendered in the rehabilitation and liquidation.

Class 2: Payment of all claims under policies including such claims of the federal or any state or local government for losses incurred (“loss claims”), including third party claims and all claims of a guaranty association or foreign guaranty association, including reasonable allocated loss adjustment expenses and all claims of a life and health insurance guaranty association of foreign guaranty association, which covers claims of life and health insurance policies, relating to the handling of such claims.

Class 3: Payment of claims by the United States government other than those claims included in Class 2.

Class 4: Payment of reasonable compensation for some employee services performed prior to liquidation.

Class 5: Payment of claims for unearned premiums under nonassessable policies, premium refunds, claims of general creditors, including claims of ceding and assuming reinsurers.

Class 6: Claims of any state or local government except under Class 2.

Class 7: Late filed claims other than under Class 8 and 9.

Class 8: Payment of surplus notes and similar obligations.

Class 9: Claims of shareholders.

Payments reflected in the combined statement of changes in net assets were primarily for administrative, settlement, interest and investment expenses (Class 1), income taxes (Class 2) and distributions to members (Class 9).

Property and Equipment

Property and equipment are depreciated over the estimated useful life of each asset. Annual depreciation is primarily computed using the straight-line method.

Income Taxes

The Special Deputy Liquidator has engaged third parties (GALIC for the years ended December 31, 1998, 1999 and 2000 and CBIZ from December 31, 2001 to 2012) to prepare their federal and state income tax returns. Due to the very complex nature of taxation of companies in liquidation and the fact that several of the tax returns are currently pending review and approval by both the IRS and the Missouri Department of Revenue, the Special Deputy Liquidator has elected to record income taxes on a cash basis as he believes there is significant uncertainty around the ultimate amounts that will be collected upon final resolution by the Internal Revenue Service (IRS) and Missouri Department of Revenue.

The basis of accounting established by Missouri statutes for insurance companies in liquidation requires that these amounts be recorded on an accrual basis in the accompanying financial statements.

At December 31, 2012, the estimated refundable taxes totaled approximately $42,000.

The Company, QSF1 and QSF2 filed (while they were active) separate income tax returns.

General American Mutual Holding Company in Liquidation

Notes to Combined Financial Statements

December 31, 2012

Note 2: Investments

Short-term Investments

The costs and fair values of short-term investments are as follows:

	Carrying Amount 2012	Fair Value 2012
Short-term investments:		
U.S. Government treasury bill	$ 3,000,000	$ 3,000,000
Investments subject to repurchase agreements backed by U.S. Government Agencies' securites	7,376,389	7,376,389
Total short-term investments	$ 10,376,389	$ 10,376,389

Proceeds from the sales and maturities of short-term investments and bonds totaled $134,814,054,504 for the period ended November 30, 1999 to December 31, 2012. There were $5,302,530 cumulative gains and $1,318,873 cumulative losses realized for the period ended November 30, 1999 to December 31, 2012.

Note 3: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying combined statement of net assets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Short-term Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. When quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government and agency securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy of which the client has none.

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2012.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Financial assets				
Short-term investments	$ 10,376,389	$ -	$ 10,376,389	$ -

Note 4: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the combined financial statements were available to be issued.