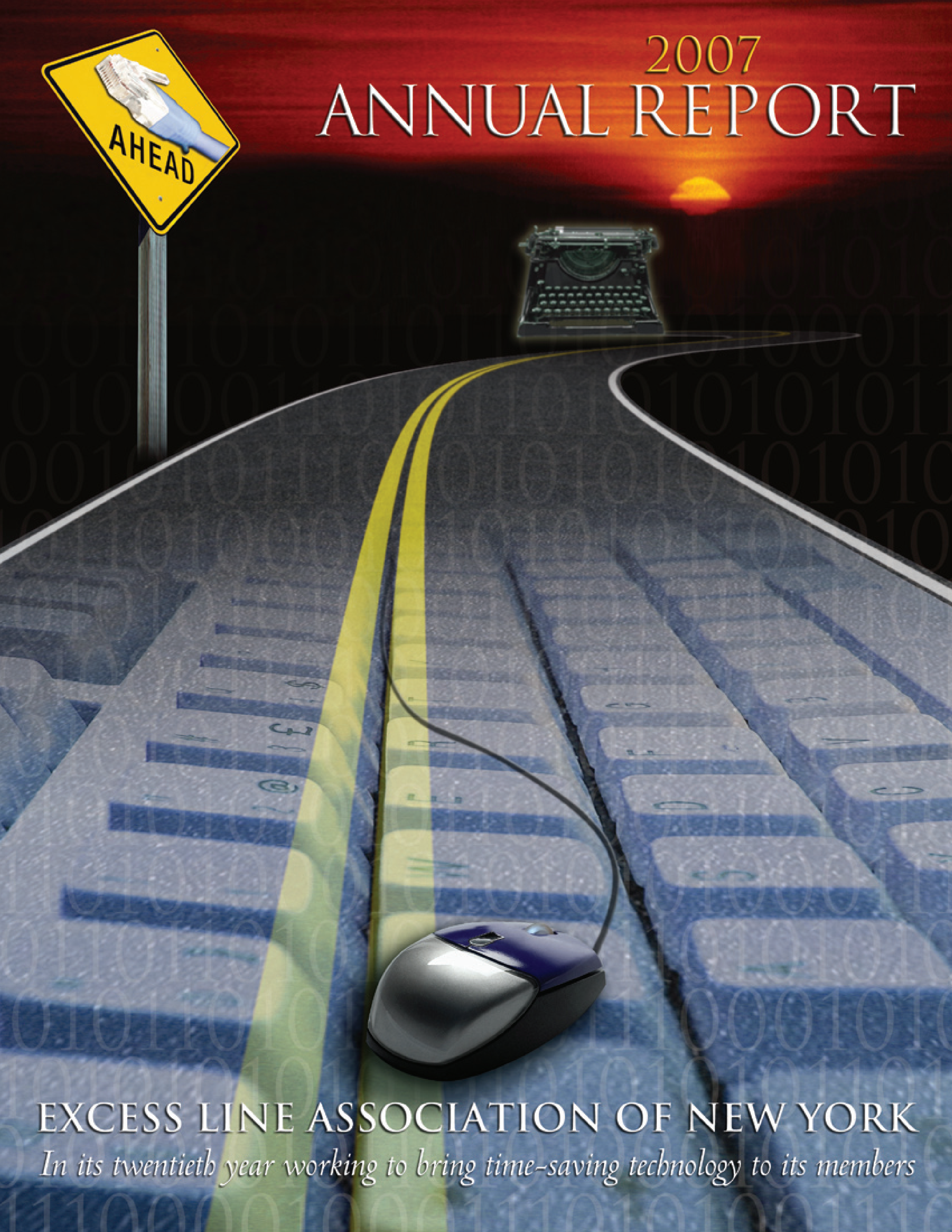
2007 ANNUAL REPORT



EXCESS LINE ASSOCIATION OF NEW YORK

In its twentieth year working to bring time-saving technology to its members

DANIEL F. MAHER
EXECUTIVE DIRECTOR

2007 proved to be a year in motion and transition. A new state administration swept into Albany in January. A new Superintendent of Insurance, Eric Dinallo, was nominated before the month of January was over.

The new Superintendent hit the ground running by appointing a number of colleagues from his days as an Assistant Attorney General to Deputy positions. Moreover, retirements at the New York State Insurance Department depleted the ranks of veteran regulators such as Mark Presser, Charles Rapacciuolo and Eugene Nunziata. [Much to ELANY's benefit, we picked up Gene Nunziata, our Education/Communications Director, in free agency from the retirement pool!]

With these major changes at the Department, ELANY moved immediately to establish a good working relationship with the Department's new leadership. Our ability to convey the needs of excess line brokers, retail producers, insureds and insurers greatly depends on creating a regular dialogue with the Superintendent and his staff.

Superintendent Dinallo has been accessible and open to discussions on regulatory reform and modernization. At ELANY's 2007 Annual Meeting, the Superintendent, as keynote speaker, offered his thoughts on these topics. He stated he will call hearings to consider expanding the excess line export list, one of ELANY's highest priorities.

ELANY was very much on the move in advancing and integrating new technology into the compliance and filing systems. There is no doubt that advanced technologies simplify and streamline the compliance process for members and speed the return of documents to producers. ELANY's substantial investment in technology will ultimately pay broker members high dividends by easing the compliance requirements through automation. In the long run, this will eliminate much of the hands-on processing by programming the data and document delivery system computer to computer.

ELANY's efforts as an industry advocate for reform and its role in education also advanced this year. With the addition of Eugene Nunziata in September of 2007, ELANY acquired a new team leader whose experience and expertise in the area of surplus lines regulation creates another resource for all members and the E&S community at large.

In the advocacy arena, ELANY continues to oppose optional federal charter legislation (National Insurance Act S40/HR3200) as the wrong solution for modernization and reform of the American property/casualty insurance regulatory system. ELANY continues to support the Nonadmitted and Reinsurance Reform Act (HR1065/S929) with the caveat that the bill is poorly worded and in need of substantial rewrite if it is to deliver the benefits you all read about in the trade press or hear about from various association lobbyists. If you would like to know more about ELANY's concerns regarding the bill, please contact me.

ELANY was also at the forefront of drafting an interstate compact, now known as SLIMPACT. If enacted by the states, SLIMPACT has the capability of delivering

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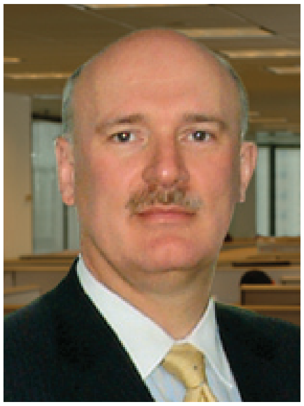

DONALD PRIVETT
CHAIRMAN

2007 marked the completion of ELANY's 19th full year of service to the excess line industry in New York. While ELANY has specific statutory duties related to reviewing transactions for compliance, it has developed a broader level of specific services to enhance its contribution to the industry. As ELANY matured, it targeted a number of areas where it could add value to the insurance community, such as educational programs, advocacy work, and an electronic platform to streamline and speed the filing process. As Chairman of the Association's Board, I am proud of the efforts undertaken by the Association in effecting positive change and leading by example.

Twenty years ago, we were experiencing the end of a very hard market. The market in the mid 80's collapsed when reinsurance and insurance companies failed. In the early 80's, cheap reinsurance and high interest rates gave many companies the ability to off load risk and use reinsurance commissions to support overly competitive, underpriced premiums. The end result was very little underwriting, as increasing market share, fee and interest income and risk transfer to the reinsurers were the goals. When the losses hit, many reinsurers and insurers folded. When reinsurance leverage collapsed, many companies were left without the protection they needed. The ultimate impact was losses, which far exceeded any reinsurance commissions and interest earned.

2007 ended with negative news about Wall Street; news that brought home the effect of leveraging at 30 to 32 times capital. The term subprime became known to every citizen in America, if not the world.

It appears some facet of the financial services industry will ultimately repeat the same mistakes of the past. While it is not always the same product, you can see how things develop. A business model that is not fully understood is implemented, the ultimate risk assumed is transferred and losses eventually cause a collapse of the market.

Today, we are in the middle of a soft market cycle that is surprisingly similar to the early 80's. Market share is being chased. The good news is that the rating bureaus have implemented many methods to reduce the potential for a similar collapse.

Bond insurers have recently found themselves more exposed to risk than they expected. The issue of minimum capital and solvency requirements is an issue for the excess line industry.

Financial review and oversight of non-admitted markets is one of the important roles ELANY provides. Capital requirements for insurance companies have not changed in New York for over 25 years. After careful consideration, ELANY's Board has made a request to the New York State Insurance Department to raise the minimum capital requirements for an insurance company in New York from $15,000,000 to $45,000,000. We hope this recommendation will be implemented in 2008.

2007 also saw a change in our State's administration. We worked quickly to meet with Eric Dinallo, the new Superintendent of Insurance, who has proven to be a very positive influence in the Department. He learned very quickly about the non-admitted market in New York and how it fills a very important role. We have established a very good working relationship with Superintendent Dinallo. It is important for ELANY to maintain a good working relationship with the Department. Our ability to serve the excess line community is directly related to our ability to communicate with and understand the Department. I am confident that we will continue to maintain a mutually respectful and appreciative relationship with the New York State Insurance Department.

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2008 should be an exciting year for ELANY, as we roll out our fully electronic filing platform. As Chairman, I continually receive compliments about our Website.

We expect to continue to be the preeminent surplus lines processing and servicing organization for the next twenty years and look forward to servicing the New York excess line community.

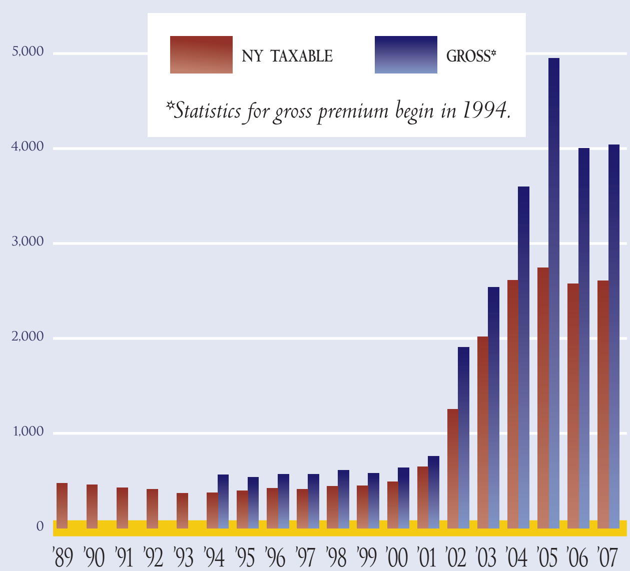
THOMAS J. DERELLA
CHAIRMAN

THE YEAR 2007 PROVED to be active from both a regulatory and legislative perspective. While ELANY's primary focus is on New York State issues, many potential changes to the Excess and Surplus (E&S) Lines industry seem to be coming from a federal perspective. It is because of this that ELANY has developed a bifurcated approach to help further our agenda in both Albany and Washington, DC.

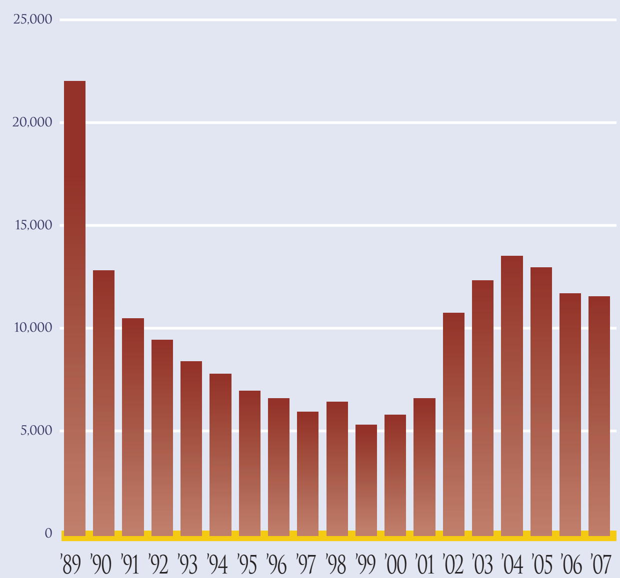
As the New York marketplace continues to soften, ELANY is doing what it can to make the placement of new and renewal E&S business easier on the broker community. The biggest push has been to expand the "export list." We have been actively working with other associations, which include PIANY, IIABNY, CIBGNY, IBANY and other stakeholders. This collective has worked hard to have classes of business included on the "export list" that have never been on the list previously. The New York State Insurance Department has agreed to hold a hearing on this topic, and we are looking forward to our members' support during this process.

The Nonadmitted and Reinsurance Reform Act (HR1065 and S929) dominated our legislative efforts in 2007. HR1065 passed in the House unanimously. The Senate version (S929) has yet to be acted on but may be on the Senate's agenda during 2008. While we support the bill's exemption for sophisticated purchasers and compliance for multi-state risks, several portions of these bills need to be amended if, and when, it is reviewed in conference. The major concerns have to do with multi-state tax allocation and the minimum financial solvency requirements carriers must meet

TOTAL PREMIUMS (IN MILLIONS)



NEW YORK TAXABLE PREMIUMS PER STAMPED INSURANCE DOCUMENT



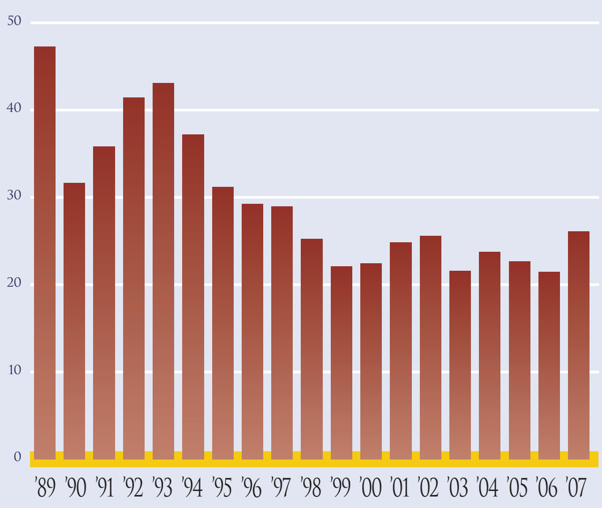
to be eligible and the ability to review a company's financial stability before allowing it to enter a new marketplace.

The Coalition Opposed to a Federal Insurance Regulator (COFIR) has continued to make ELANY's members' point of view known in Washington as well. ELANY has participated actively in an effort to keep insurance regulation under State purview. We have actively worked with the National Conference of Insurance Legislators (NCOIL) and the National Conference of State Legislatures (NCSL) to offer multi-state compact solutions to improve insurance regulation. We enjoy excellent working relationships with these groups and will continue to help proffer solutions that help the marketplace.

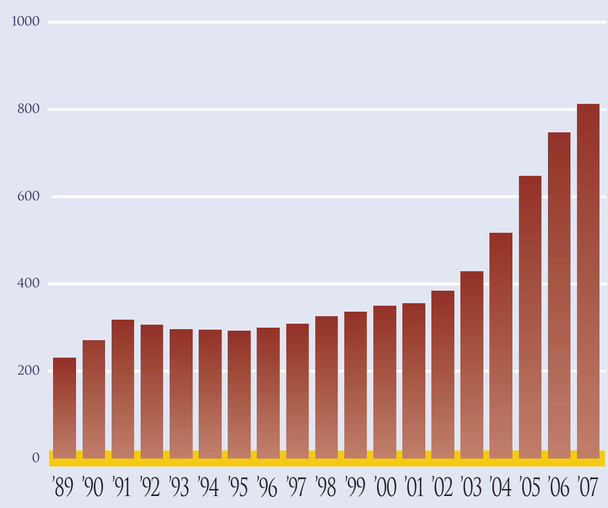
ELANY has worked hard to be a leader in the marketplace that supports modernization of the E&S market. We have worked with regulators, other associations, legislators, and lobbyists to ensure our agenda is well represented when it matters.

"...ELANY is doing what it can to make the placement of new and renewal E&S business easier on the broker community. The biggest push has been to expand the 'export list.' We have been actively working with other associations, which include PIANY, IIABNY, CIBGNY, IBANY and other stakeholders."

PROCESSING COST PER STAMPED ITEM



ELANY ACTIVE MEMBERS

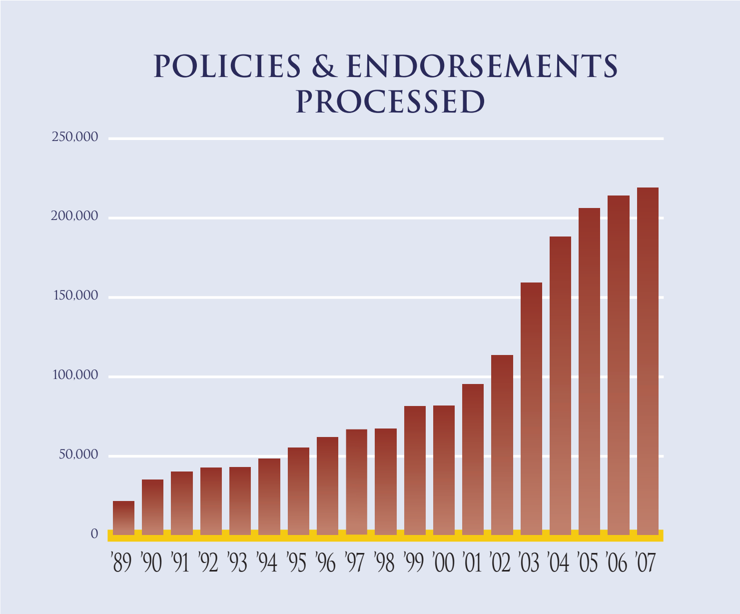


All figures and statistics are based on calendar year premium except where otherwise noted.

KEVIN McGILL
CHAIRMAN

IN 2007, ELANY MADE tremendous progress in terms of recent investments in both hardware and new systems coming online. The Association's new back office software was programmed, tested and implemented. ELANY's examination staff now fully utilize the system, which eases/enhances the examination and reporting process. It has essentially converted the historical manual paper process into fully integrated computerized actions. Efficiencies, gained by the new system, are remarkable. ELANY's ability to process transactions and report back to members has resulted in faster turnaround time, notwithstanding a nearly 300% increase in overall transaction volume since 2000.

Testing of the new broker affidavit filing system commenced in the latter part of 2007, with full implementation targeted for early 2008. This system provides for the automation of the filing process at the broker level via the utilization of internet based entry. The electronic return of documents, also targeted for early 2008, will enable brokers to directly transmit the images necessary for filing along with the required data elements.



Given the various new system implementations, the Association determined that a program of scheduled maintenance was required. The Board directed that a comparative cost analysis be completed to consider the most effective vehicle to provide for ongoing technical support. Options reviewed included the hiring of in-house programmers and software developers and the solicitation of bids from outside vendors. Ultimately, the Board approved an IT maintenance contract with Renaissance Systems Inc. (RSI). RSI provided the most cost effective option and, as developers of the original software, their in-depth knowledge of the systems will be invaluable in providing ongoing support.

On November 1, 2007, the Association finalized its disaster recovery protocol. It provides for our use of a state-of-the-art, secure IBM facility located in Sterling Forest, New York, should our New York City office become unavailable. The execution of the contract concluded a long and diligent search for a suitable solution for ELANY's disaster recovery requirements.

The "Online Affidavit System" continued to see increase usage in 2007, accounting for an average of 43% of all affidavits filed during the year. The electronic return of stamped documents vs. paper return was at approximately 98%. The Association processed 218,566 documents as compared to a 2006 total of 213,523.

Also during the past year, ELANY organized a Non-board Advisory Committee comprised of individuals from the membership of the Association. Their charter is to assist ELANY with various operational and implementation issues. The Advisory Committee will augment the efforts of the Board of Directors and the Operations & Procedures Committee by providing valuable feedback regarding member needs and how ELANY can best address them.

MARGARET M. BEIRNE
CHAIRMAN

INSURER YEAR-END RESULTS ARE being reported as I write this report. The lack of any significant catastrophes has produced another year of profitable underwriting results for the industry at large. A.M. Best is reporting a combined ratio of 93.8% through the first nine months of 2007. While far better than results produced just a few years back, underwriting results show deterioration from last year through nine months. Investment income showed a slight increase through the first nine months of 2007. However, further reductions in interest rates, weakness in the economy and continuing problems in the subprime market will impact future earnings. Aside from a few of the larger insurance groups, the industry, so far, has avoided asset write-downs related to the subprime market. Unknown at this time are any insurance-related losses, which will arise from this meltdown.

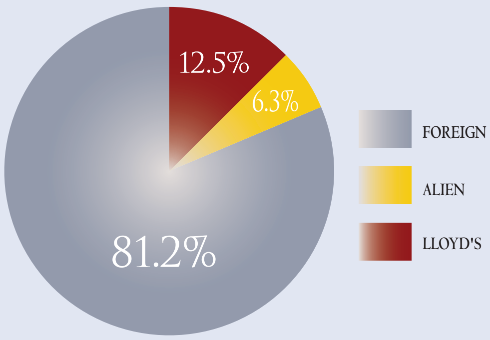
The Nonadmitted and Reinsurance Reform Act (HR1065/S929) has twice been passed, unanimously, by the House but has yet to be passed by the Senate. While ELANY supports the concept of the bill, there are major issues with several provisions. Among other items, the bill contains a provision whereby a surplus lines insurer would be automatically eligible in all states if the insurer is licensed in its home state to write the line of coverage, and the only other eligibility standard would be having stated net worth of $15,000,000 (unless the State's insurance commissioner agreed to a lower amount). This provision would allow a greater number of carriers to write risks based in New York but would also increase the likelihood of insolvencies. Recent developments in the bond market have highlighted the lack of insight into the quality of assets at both the company level and the rating agencies. This should act as a reminder to the entire industry about how quickly insurer financial vulnerability can deteriorate into a market crisis.

ELANY undertakes a rigorous review of all companies on the eligibility list on an annual basis and reviews any company seeking eligibility. This provision in HR1065, as currently proposed, raises major concern about the financial stability of some companies that would become eligible as New York excess line insurers. ELANY's review includes an analysis of statutory, GAAP and 10-K reports. Any unusual assets, liabilities or income items are questioned both at the insurer and holding company level. Our due diligence is evidenced by the fact the ELANY avoided adding several companies to the eligibility list that subsequently became financially impaired or insolvent. ELANY has recently proposed a regulation change to the New York State Insurance Department to increase the minimum surplus requirement for eligibility from $15 million to $45 million. The current $15 million requirement was established back in the early 1980's and has not been indexed for inflation. Further, in light of current underwriting exposures, the $45 million minimum will encourage better-capitalized companies to seek eligibility and protect solvency.

At year-end 2007, ELANY had 121 companies on the eligibility list compared with 116 companies at year-end 2006. There were 86 foreign and 35 alien companies eligible to write excess and surplus lines business in New York. The premium underwriting distribution for calendar year 2007 was 81% by foreign insurers and 19% by alien insurers and Lloyds.

The Information Resources & Security Committee is responsible for screening all new applicants for eligibility in addition to monitoring the financial strength and viability of those companies currently on the eligibility list. ELANY places great emphasis on this responsibility, as insureds covered under policies issued by surplus line carriers do not have the benefit of any guaranty fund protection. The Committee benefits from the expertise of ELANY's staff, who coordinate their efforts with the New York State Insurance Department and from feedback from member brokers. While the work of the Committee continues to serve ELANY, its members and the State, it is important to note that this oversight process is intended as a complement, not a substitute, for the due diligence of each broker.

PERCENTAGE OF YEAR 2007 NEW YORK TAXABLE PREMIUM DISTRIBUTION BY ELIGIBLE INSURERS*



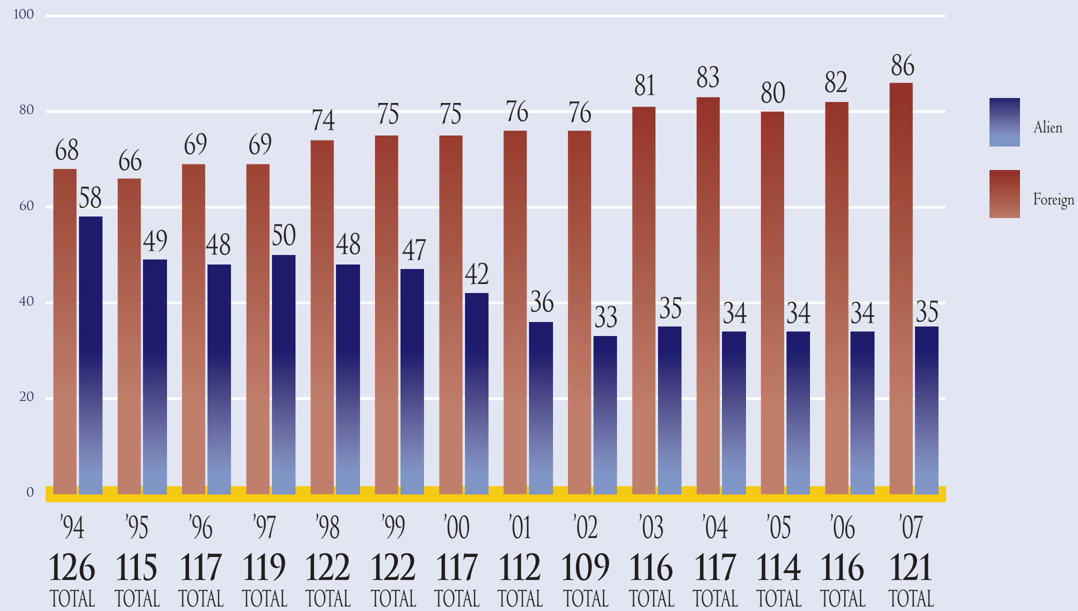
*Figures are on a risk attaching basis.

This year ELANY added 4 foreign companies and 2 alien companies to the list of eligible insurers. One alien company voluntarily withdrew. Since 1994, eligible foreign companies increased by 18 while eligible alien companies decreased by 23.

All figures and statistics are based on calendar year premium except where otherwise noted.

The chart below includes 24 Insurance Groups that each wrote 1% or more of the 2007 New York calendar year taxable premiums. Last year (2006) 23 groups wrote at least 1% each for a total of 89.9% of New York calendar year taxable premiums. The new group on the list for 2007 is First Mercury Financial Group. Since 2006, no groups have dropped from the list.

ACTIVE ELIGIBLE E&S INSURERS



2007 NEW YORK TAXABLE PREMIUM BY INSURANCE GROUP

American International Group	(3 companies)	$ 646,104,248	24.8%
Lloyd's of London		$ 311,528,528	12.0%
Nationwide Group	(2 companies)	$ 121,946,621	4.7%
Ace Group	(3 companies)	$ 118,337,571	4.5%
Berkshire Hathaway Insurance Group	(6 companies)	$ 98,419,985	3.8%
Travelers Companies, Inc	(5 companies)	$ 79,763,533	3.1%
Zurich Financial Services Group	(2 companies)	$ 75,958,692	2.9%
Markel Corporation Group	(4 companies)	$ 74,574,146	2.9%
Arch Group	(3 companies)	$ 69,667,016	2.7%
CNA Insurance Companies	(1 company)	$ 61,868,876	2.4%
W.R. Berkley Group	(3 companies)	$ 60,425,075	2.3%
AXIS Capital Group	(3 companies)	$ 58,058,193	2.2%
RLI Insurance Group	(1 company)	$ 52,619,894	2.0%
Allianz Insurance Group	(4 companies)	$ 52,011,951	2.0%
Aspen Insurance Holding Ltd.	(2 companies)	$ 51,213,491	2.0%
XL Capital Group	(2 companies)	$ 48,432,570	1.9%
Swiss Reinsurance Group	(4 companies)	$ 40,910,510	1.6%
Argonaut Group	(1 company)	$ 39,041,507	1.5%
IFG Companies	(1 company)	$ 34,416,547	1.3%
Great American P&C Group	(3 companies)	$ 31,656,199	1.2%
Alleghany Corporation	(2 companies)	$ 31,408,653	1.2%
United America Indemnity Group	(2 companies)	$ 30,899,462	1.2%
Chubb Group	(2 companies)	$ 25,750,474	1.0%
First Mercury Financial Group	(1 company)	$ 25,622,280	1.0%
All others		$ 364,341,682	14.0%
TOTAL		$ 2,604,977,704	

KEVIN McGILL
CHAIRMAN

2007 WITNESSED CONTINUED softening of both the casualty and property market place, continuing the downward trend in pricing that began in January 2003. This notwithstanding, overall taxable excess line premium volume rose over 2006 from $2,574,700,000 to a total of $2,604,900,000. This represents an increase of slightly more than one percent. The continued dependence on excess line market capacity for difficult-to-place risks, such as contractors, drives the growth in premium volume.

Based upon the above premium results, it is not surprising that stamping fee revenues were relatively flat year-on-year. For the period January 1 through December 31, 2007 stamping fees totaled $5,604,500. This compares to the 2006 annual figure of $5,607,900. Overall net income for 2007 was $822,160 versus a total of $1,782,850 for the prior year. The roughly $960,000 reduction was in keeping with the Board's directive to halt the revenue growth of the Association and maintain only a fund balance that is consistent with operational requirements and its charter.

In 2007, we reviewed the possibility of an additional stamping fee reduction and determined none was required at this time. Our assumption is that the market will flatten. Therefore, maintaining the current .2% stamping fee level, which is 50% of the historical fee, is appropriate for the time being.

The Association's fund balance at the end of 2007 totaled $21,593,345, increasing by approximately $822,000, when compared to the 2006 year-end balance of $20,772,182. This result was the smallest increase in several years, again evidencing the softening of the excess line market and ELANY's previous stamping fee reductions.

With respect to expenses, ELANY's Executive Director and management staff continue their historical practices of prudent business management. Total expenditures in 2007 amounted to approximately $5,699,600. The $1,118,000 increase over 2006 spending is due to additional temporary staffing costs, EDP, recognized depreciation associated with ELANY's newly implemented systems and enhanced spending for professional fees and industry/trade representation associated with our efforts to oppose optional federal charter legislation and support modernizing overall surplus lines regulation.

The Audit and Finance Committee continues to provide oversight for the accounting and reporting practices of the Association, monitors the systems of internal controls and ensures the quality and integrity of all financial reports.

2007 REVENUES

Stamping Fees	$5,604,503
Investment & Miscellaneous Income	917,228
TOTAL	**$6,521,731**

2007 EXPENSES

Payroll	1,956,839
Computer Charges	486,875
Rent & Utilities	342,254
Professional Fees	386,456
Postage/Printing/Stationery	77,716
All Other	2,449,427
TOTAL	**$5,699,567**
FUND BALANCE	**$21,593,346**

The annual independent audit of the Association's books and records has been completed and copies are available at the ELANY offices for members to review.

All figures and statistics are based on calendar year premium except where otherwise noted.

**The following statistics are on a year 2007 risk attaching basis.*

TOP 10 INSURERS

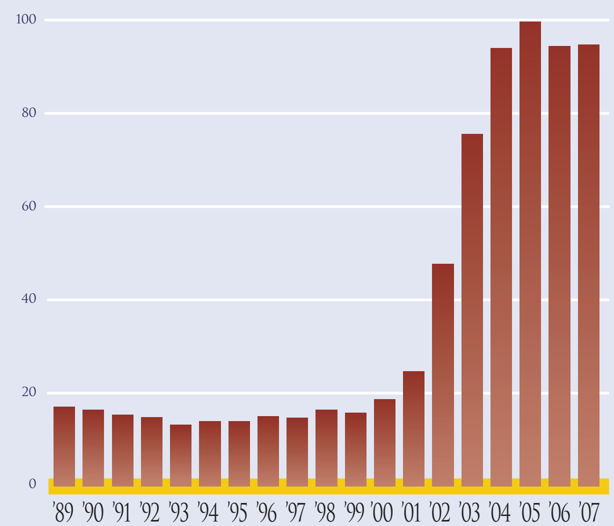
	Insurer	New York Premium	%
1.	Lexington Insurance Company	$ 596,103,844	23%
2.	Lloyd's Underwriters	$ 328,431,163	13%
3.	American International Specialty Lines Insurance Company	$ 149,123,035	6%
4.	Illinois Union Insurance Company	$ 112,035,849	4%
5.	Scottsdale Insurance Company	$ 109,574,691	4%
6.	Steadfast Insurance Company	$ 85,208,460	3%
7.	Arch Specialty Insurance Company	$ 67,973,839	3%
8.	Columbia Casualty Company	$ 61,253,365	2%
9.	Travelers Excess & Surplus Lines Company	$ 59,628,408	2%
10.	U.S. Underwriters Insurance Company	$ 56,294,071	2%
	SUBTOTAL	**$ 1,625,626,725**	**62%**
	All Others	$ 1,006,863,695	38%
	TOTAL	**$ 2,632,490,420**	**100%**

The top 10 insurers accounted for 61.7% of total premiums written in 2007, compared to 55.1% in 2006, 62.2% in 2005, and 57.7% in 2004.

TOP 10 PERILS

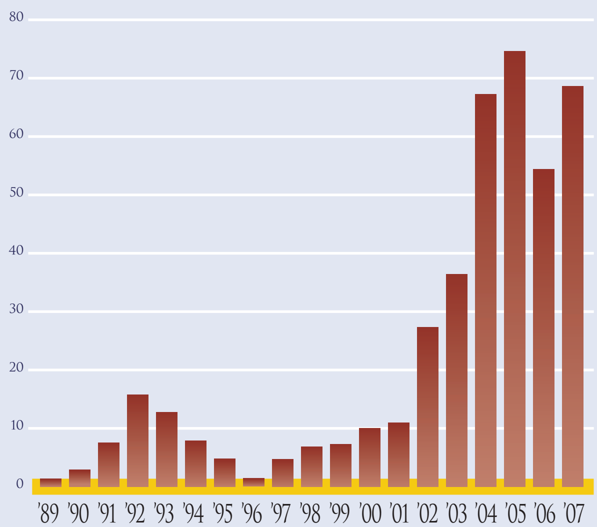
	Peril	New York Premium	2006 Ranking
1.	General Liability	$ 1,079,201,416	1
2.	Errors and Omissions	$ 421,890,968	3
3.	All Risk	$ 323,452,105	2
4.	Umbrella Liability	$ 199,239,063	4
5.	Multiple Peril	$ 135,417,622	5
6.	Fire	$ 101,562,447	6
7.	Miscellaneous Professional	$ 92,553,221	7
8.	Environmental Impairment	$ 73,177,756	9
9.	Inland Marine	$ 66,991,329	8
10.	Fidelity and Surety	$ 26,816,156	10
	SUBTOTAL	$ 2,520,302,083	
	All Others	$ 112,188,337	
	TOTAL	**$ 2,632,490,420**	

E&S TAX (IN MILLIONS)



Total excess line taxes (based on a 3.6% rate) paid to the State on business placed through licensed excess line brokers.

PURCHASING GROUP ACTIVITY (IN MILLIONS)



Beginning 1998, these statistics are on a risk attaching basis.

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the modernization and regulatory reform for which the E&S industry has cried out.

The most fundamental protection provided to insurance buyers and claimants is the financial security of the insurer which provides the coverage. Insurers need to demonstrate the highest degree of financial solvency to be eligible to underwrite E&S risks in New York. It is wonderful that the industry has benefited from a sustained period of profitability recently. While this often allows solvency concerns to retreat to the back of people's minds, it should never be ignored or forgotten. In New York, 95% of all E&S risks are insured by carriers with a policyholders' surplus in excess of $45,000,000. In fact, 77% of New York eligible E&S carriers maintain a policyholders' surplus of $45,000,000. In fact, many maintain a surplus far greater than that. This is why ELANY supports a regulatory change to the current minimum policyholders' surplus standard of $15,000,000 to $45,000,000. While minimum policyholders' surplus (net worth) is but one spoke in the wheel of solvency analysis, it will prevent the use of the extraordinary dividend mechanism, which has been used in the past to reduce an eligible insurer's surplus from over $100,000,000 to $15,000,000 in an overnight transaction.

I am happy to report that ELANY has in place a top-flight management staff that has grown quite accustomed to:

1. developing technology to make filing compliance and tax payment a seamless and integrated part of the broker placement process,

2. customizing our website and other communication devices to provide you the answers you need to complicated compliance questions, and

3. developing and advocating regulatory reform proposals to the benefit of our broker members.

With the loyal and professional support of ELANY's proactive Board of Directors, we look forward to maximizing the services and benefits we can provide as an industry advisory association.

"...ELANY supports a regulatory change to the current minimum policyholders' surplus standard of $15,000,000 to $45,000,000."

—DANIEL F. MAHER, EXECUTIVE DIRECTOR

EXCESS LINE ASSOCIATION STAFF

Daniel F. Maher, *Executive Director*
Nancy Born, *Office Manager*
Theresa Hetherington, *Stamping Office Manager*
Richard Schlesinger, *Financial Director*
Eugene Nunziata, *Education/Communications Director*
Brian Persaud, *IT Manager*
Genita Armstrong, *Examiner*
Arlyne Audige, *Examiner*
Benedict Bardeguez, *PC Analyst/Helpdesk*
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Darlene Moreta, *Administrative Assistant*
Deanna Olah, *Examiner*
Janette Perez, *Executive Assistant*
Beth Pfluger, *Stamping Office Supervisor*
Nicole Pugliese, *Examiner*
Loralyn Ray, *Examiner*
Tyra Robison, *Examiner*
Marilynn Rosado, *Examiner*
Keith Vittore, *Examiner*
Branan Whitehead, *Stamping Office Supervisor*

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