

US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

September 30, 2004 and the period from June 13, 2003 (inception of
Liquidation) to December 31, 2003
(Unaudited)

US International Reinsurance Company In Liquidation

Statement of Net Assets (Modified Cash Basis) (Unaudited)

	<u>September 30, 2004</u>	<u>December 31, 2003</u>
Assets		
Unrestricted bonds and cash at cost:		
Bonds (Note 3)	\$1,638,667	\$ -
Cash and cash equivalents	<u>1,793,227</u>	<u>991,083</u>
Total unrestricted bonds and cash at cost:	3,431,894	991,083
Interest income due and accrued	<u>16,087</u>	<u>-</u>
Total unrestricted liquid assets	3,447,981	991,083
Liabilities		
Payable to The Home Insurance Company in Liquidation - administrative expenses payable (Note 2)	994,667	2,898,000
Net assets (liabilities), excluding certain amounts	<u>\$ 2,453,314</u>	<u>\$ (1,906,917)</u>

See accompanying notes.

US International Reinsurance Company In Liquidation

**Statements of Receipts and Disbursements, and
Changes in Cash, Bonds and Cash Equivalents
(Modified Cash Basis)
(Unaudited)**

	January 1, 2004 To September 30, 2004	June 13, 2003 (inception of Receivership) to December 31, 2003
Cash and marketable securities received:		
Reinsurance collections	\$687,239	\$288,338
Net investment income	153,556	130,438
Return of special deposits	3,420,754	-
All other	125,921	1,180
Total cash and marketable securities received	<u>4,387,470</u>	<u>419,956</u>
Cash operating disbursements:		
Consultant and outside service fees	22,574	14,736
Net payments to Home Insurance Company	1,909,594	-
All other	14,491	-
Total cash operating disbursements	<u>1,946,659</u>	<u>14,736</u>
Excess of receipts over operating disbursements	2,440,811	405,220
Beginning cash and cash equivalents, at cost	991,083	585,863
Ending cash and marketable securities, at cost	<u><u>\$3,431,894</u></u>	<u><u>\$991,083</u></u>

See accompanying notes.

US International Reinsurance Company in Liquidation

Statement of Changes in Net Assets (Modified Cash Basis) (Unaudited)

	January 1, 2004 To September 30, 2004	June 13, 2003 (inception of Receivership) to December 31, 2003
Net Assets, beginning of period	(\$1,906,917)	\$585,863
Excess of unrestricted and restricted receipts over operating disbursements	2,440,811	405,220
Other changes in net assets:		
Interest income due and accrued	16,087	-
Payable to The Home Insurance Company in Liquidation	<u>1,903,333</u>	<u>(2,898,000)</u>
Net Assets, end of period	<u>\$2,453,314</u>	<u>(\$1,906,917)</u>

US International Reinsurance Company in Liquidation ("USI Re")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements

September 30, 2004

1) Basis of Accounting

These financial statements are prepared using the modified cash basis of accounting which differs from accounting principles generally accepted in the United States. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization is expected to occur, primarily investments and cash, and certain receivables, are recorded. Liabilities that have been acknowledged by the Liquidator are prioritized into creditor classes in accordance with the New Hampshire statute establishing creditor classes in insurer insolvencies, RSA 402-C:44. Only incurred but unpaid Class I (Administration Costs) liabilities, which are in a creditor class superior to all other classes, are presented in these financial statements.

These financial statements do not record the amounts of certain assets such as outstanding receivables, reinsurance recoverables, securities on deposit with various states, funds held and claims against others, and certain liabilities, including insurance claims, as such amounts have not been settled and agreed to with third parties.

2) Net Transfers to Home Insurance Company

In connection with an Asset Transfer Agreement approved by The State of New Hampshire, Merrimack County Superior Court (the Court), The Home Insurance Company in Liquidation, ("Home") USI Re's parent, paid \$7,500,000 for the right, title and interest in a number of technology assets. Included in the technology assets was an amount for an assumed reinsurance system, and USI Re's allocated share of this cost was \$2,898,000. On March 30, 2004 the Liquidator paid \$1,782,087, and the liability has been reduced to \$1,115,913.

Additionally, in July 2004 the Liquidator paid \$127,482 to Home for USI Re's allocated share of various administrative expenses incurred.

US International Reinsurance Company in Liquidation ("USI Re")
 (Modified Cash Basis)
 (Unaudited)

Notes to Financial Statements (continued)

3) Marketable Securities

The carrying values and estimated fair values of marketable securities by major category are summarized as follows:

	<u>September 30, 2004</u>			<u>Fair Value</u>
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
Unrestricted Marketable Securities				
Debt Securities:				
U.S. Treasury notes	<u>\$ 1,638,667</u>	<u>\$ -</u>	<u>\$ (35,826)</u>	<u>\$ 1,602,841</u>
Total	<u>\$ 1,638,667</u>	<u>\$ -</u>	<u>\$ (35,826)</u>	<u>\$ 1,602,841</u>

The carrying value and fair values of marketable debt securities by contractual maturity are as follows:

	<u>Unrestricted</u>		<u>Restricted</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
September 30, 2004				
One year or less	<u>\$ 1,638,667</u>	<u>\$ 1,602,841</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 1,638,667</u>	<u>\$ 1,602,841</u>	<u>\$ -</u>	<u>\$ -</u>