

US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

**March 31, 2005 and December 31, 2004
(Unaudited)**

US International Reinsurance Company In Liquidation

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

	<u>March 31, 2005</u>	<u>December 31, 2004</u>
Assets		
Unrestricted bonds and cash at cost:		
Bonds (Note 3)	\$1,880,937	\$1,959,741
Short-term investments	1,499,452	1,499,452
Cash and cash equivalents	<u>287,391</u>	<u>293,766</u>
Total unrestricted bonds and cash at cost:	<u>3,667,780</u>	<u>3,752,959</u>
Interest income due and accrued	<u>16,839</u>	<u>45,622</u>
Total unrestricted liquid assets	<u>3,684,619</u>	<u>3,798,581</u>
Restricted liquid assets:		
Bonds, at cost (Note 3)	<u>125,000</u>	<u>-</u>
Total restricted liquid assets	<u>125,000</u>	<u>-</u>
Total assets, excluding certain amounts	3,809,619	3,798,581
Liabilities		
Incurred but unpaid administrative expenses (Note 5)	120,414	126,754
Payable to The Home Insurance Company in Liquidation (Note 2)	1,115,913	1,115,913
Net assets, excluding certain amounts	<u><u>\$2,573,292</u></u>	<u><u>\$2,555,914</u></u>

See accompanying notes.

US International Reinsurance Company In Liquidation

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

	<u>January 1, 2005 To March 31, 2005</u>	<u>January 1, 2004 To December 31, 2004</u>
Cash and marketable securities received:		
Reinsurance collections	\$34,207	\$731,106
Net investment income	81,661	181,540
Return of special deposits	125,000	3,913,863
All other	-	626
Total cash and marketable securities received	<u>240,868</u>	<u>4,827,135</u>
Cash operating disbursements:		
Consultant and outside service fees	13,068	28,953
Net payments to Home Insurance Company	114,785	1,975,039
All other	73,194	61,267
Total cash operating disbursements	<u>201,047</u>	<u>2,065,259</u>
Excess of receipts over operating disbursements	39,821	2,761,876
Beginning cash and cash equivalents, at cost	<u>3,752,959</u>	<u>991,083</u>
Ending cash and marketable securities, at cost	<u><u>\$3,792,780</u></u>	<u><u>\$3,752,959</u></u>

See accompanying notes.

US International Reinsurance Company in Liquidation

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

	January 1, 2005 To March 31, 2005	January 1, 2004 To December 31, 2004
Net Assets, beginning of period	\$2,555,914	(\$1,906,917)
Excess receipts over operating disbursements	(85,179)	2,761,876
Other changes in net assets:		
Interest income due and accrued	(28,783)	45,622
Bonds at cost, liquid	125,000	-
Incurred but unpaid administrative expenses	6,340	(126,754)
Payable to The Home Insurance Company in Liquidation	-	1,782,087
Net Assets, end of period	<u>\$2,573,292</u>	<u>\$2,555,914</u>

See accompanying notes.

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

Notes to Financial Statements

March 31, 2005

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, to Home and the liability has been reduced to \$1,115,913.

Additionally, in January 2005, October 2004 and July 2004 the Liquidator paid \$114,972, \$66,508 and \$127,482, respectively, 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>March 31, 2005</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>\$ 1,880,937</u>	<u>\$ -</u>	<u>\$ (27,600)</u>	<u>\$ 1,853,337</u>
Total	<u>\$ 1,880,937</u>	<u>\$ -</u>	<u>\$ (27,600)</u>	<u>\$ 1,853,337</u>

Restricted Marketable Securities				
Debt Securities:				
Total U.S. Treasury notes	<u>\$ 125,000</u>	<u>\$ 547</u>	<u>\$ -</u>	<u>\$ 125,547</u>

	<u>December 31, 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>\$ 1,959,741</u>	<u>\$ -</u>	<u>\$ (74,578)</u>	<u>\$ 1,885,163</u>
Total	<u>\$ 1,959,741</u>	<u>\$ -</u>	<u>\$ (74,578)</u>	<u>\$ 1,885,163</u>

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

Notes to Financial Statements (continued)

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

Marketable Debt Securities	Unrestricted		Restricted	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
March 31, 2005				
One year or less	<u>\$ 1,880,937</u>	<u>\$ 1,853,337</u>	<u>\$ 125,000</u>	<u>\$ 125,547</u>
Total	<u>\$ 1,880,937</u>	<u>\$ 1,853,337</u>	<u>\$ 125,000</u>	<u>\$ 125,547</u>

Unrestricted Marketable Debt Securities	<u>Cost</u>	<u>Fair Value</u>
December 31, 2004		
One year or less	<u>\$ 1,959,741</u>	<u>\$ 1,885,163</u>
Total	<u>\$ 1,959,741</u>	<u>\$ 1,885,163</u>

4) Securities on Deposit

Investments on deposit with various states were \$956,746, \$938,240 and \$4,964,360 at March 31, 2005, December 31, 2004 and June 13, 2003, respectively. As described in Note 1, the Liquidating Company does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

As of December 31, 2004, the state of Oregon's ancillary receivership of USI Re was holding \$125,000 of investments which had been withdrawn from deposits. The security was returned to USI Re in February 2005.

5) Incurred But Unpaid Administrative Expenses

USI Re incurred administrative expenses relating to outside service fees of \$120,414, in the normal course of liquidation, that were unpaid as of March 31, 2005.

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

Notes to Financial Statements (continued)

6) Allowed Claims

As of March 31, 2005, the Liquidator has allowed, and the Court has approved, \$206,245 dollars of Class V claims. Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C: 44.