

STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

Docket No. 03-E-0112

**In the Matter of the Liquidation of
US International Reinsurance Company**

**AFFIDAVIT IN SUPPORT OF
MOTION FOR APPROVAL OF DISTRIBUTION OF ASSETS,
DISPOSAL OF RECORDS AND TERMINATION OF PROCEEDING**

I, Peter A. Bengelsdorf, hereby depose and say:

1. I am the Special Deputy Liquidator of US International Reinsurance Company (“USI Re”), appointed by the Insurance Commissioner for the State of New Hampshire, as Liquidator (“Liquidator”) of USI Re. I submit this affidavit in support of the Liquidator’s Motion for Approval of Distribution of Assets, Disposal of Records and Termination of Proceeding. The facts and information set forth are either within my own knowledge gained through my involvement with this matter, in which case I confirm that they are true, or are based on information provided to me by others, in which case they are true to the best of my knowledge, information, and belief.

2. USI Re is a New Hampshire corporation and a New Hampshire-domiciled insurance company subject to regulation by the New Hampshire Insurance Department. On May 8, 2003, the Commissioner filed a petition for an order of liquidation for USI Re. On June 13, 2003, the Court entered an Order of Liquidation declaring that USI Re was insolvent, appointing the Commissioner as Liquidator, and directing the liquidation of USI Re. Since that time, the liquidation has been proceeding under the supervision of the Court and in accordance with the New Hampshire Insurers Rehabilitation and Liquidation Act, RSA 402-C (“Act”).

3. As described below, the assets of USI Re have been collected, and the claims against USI Re have been determined. The Liquidator accordingly seeks approval of the process set forth below to distribute assets, dispose of records, discharge the Liquidator, and terminate the proceeding in accordance with the Act. In light of potential claims of the United States and the federal priority statute, 31 U.S.C. § 3713, these final steps will be subject to receipt of a waiver of claims from the United States. The Liquidator will best be able to close this proceeding as promptly and efficiently as possible by obtaining approval for the closure process now, handling the few administrative matters and requesting the waiver, and then holding the matter in “suspense” pending resolution of the waiver issue and final distribution to creditors.

4. As described in the Liquidator’s various reports, the claim determination process has now concluded. The Order of Liquidation established June 13, 2004 as the claim filing deadline in the USI Re liquidation. On August 19, 2008, the Court entered an order establishing December 31, 2008 as the deadline for the final submission or amendment of proofs of claim in the USI Re liquidation. A total of 292 proofs of claim were submitted in the liquidation. All 292 proofs of claim have now been resolved. The Liquidator has submitted over forty reports of claims and recommendations to the Court, and the Court has issued orders approving the claim reports and establishing allowed amounts and priorities for all of the claims. In total, the Liquidator presented and the Court has approved claims recommendations with a total allowed amount of \$52,769,997 consisting of \$52,721,425 in Class V and \$48,572 in Class VIII. As all proofs of claim have been determined, USI Re’s liabilities have now been finalized.

5. As described in the Liquidator’s various reports, the Liquidator has been collecting the assets of USI Re, which consisted mainly of reinsurance and security deposits. USI Re’s principal reinsurer was The Home Insurance Company (“Home”). No amount has

been collected from Home due to its insolvency and liquidation. (USI Re's claim in the Home liquidation is a Class V claim as to which no distribution is expected. Home has a smaller Class V claim in the USI Re liquidation which will be setoff against USI Re's claim and receive no distribution.) The Liquidator has collected \$3,234,744 in reinsurance from approximately 203 other reinsurers, including entering commutations with 65 reinsurers. It would not be economical for the Liquidator to attempt to collect the small remaining amount of potential reinsurance collectibles (involving approximately thirty reinsurers spread around the world), and the Liquidator has, for a payment received, assigned rights to those potential receivables to a firm specializing in such collections. The Liquidator has also collected a total of \$4,948,494 from eleven states by obtaining release of USI Re's security deposits. I believe that all USI Re assets justifying the expense of collection have now been collected.

6. The audited December 31, 2010 financial statements for USI Re and the unaudited March 31, 2011 financial statements for USI Re are attached as Exhibits 1 and 2.¹ The March 31, 2011 USI Re statements reflected \$5,828,719 in assets under the Liquidator's direct control at March 31, 2011. As of June 17, 2011, the assets of USI Re under the Liquidator's direct control – constituting all of the assets of USI Re – totaled \$6,237,210. This includes recent reinsurance commutations, the assignment, and the collection of security deposits. The USI Re assets are invested in cash equivalent mutual funds (\$1,866,963) and U.S. Treasury notes and bills (\$4,370,247). Administrative expenses paid since March 31, 2011 have totaled \$47,976.

7. As the liabilities of USI Re have been determined and the assets collected, the next step in the liquidation is to distribute assets on allowed claims in accordance with the

¹ These financial statements were also attached as Exhibits F and G to the Liquidator's Forty-First Report. Annual and quarterly statements for prior periods have been submitted as exhibits to previous Liquidator's Reports.

statutory priorities. For the reasons described below, however, the distribution will be subject to a waiver from the United States. Accordingly, in order to minimize judicial proceedings and administrative expense, the Liquidator has determined to address other issues that need to be resolved together with the distribution issue and bring all matters concerning closure of the estate before the Court at the same time. These issues include disposal of records, dissolution of the company, handling of unclaimed funds, and discharge of the liquidator and termination of the proceedings.

8. USI Re is a reinsurance company and has no direct policyholders, only reinsureds. Accordingly, all claims other than administrative expenses have been assigned to Class V (the residual priority class) or Class VIII (penalty claims “postponed” to Class VIII) in the amounts set forth in the schedules to the Liquidator’s reports of claims and recommendations approved by the Court. Administrative expenses (which are Class I priority) are being paid on an ongoing basis during the liquidation. The Liquidator accordingly proposes to make a distribution of all assets after payment of administrative expenses (and withholding a small reserve not to exceed \$34,000 for post-distribution expenses) to pay a first and final dividend to allowed Class V creditors based on the amounts of their respective allowed claims minus the statutory \$50 deductible.

9. The available assets are \$6,237,210 as of June 17, 2011 (any interest earned or other cash received before the distribution will be added). The Liquidator projects that the administrative expenses from June 17, 2011 to closure of the estate, including incurred but unpaid amounts and the reserve for post-distribution expenses, will be approximately \$107,000. The Class V allowed claims total \$52,721,425. Home and certain other Class V creditors are also debtors of USI Re, and their allowed claims will be or have been offset against their

obligations to USI Re. After removing these allowed claims, the allowed Class V claims eligible to receive a distribution total \$43,001,326.² The Liquidator accordingly estimates that the distribution will represent a payment of approximately 14.3% on each of these eligible Class V allowed claims. This estimate assumes that there will be no unexpected expenses or developments in closing the estate, that the process of obtaining the waiver is not prolonged, and that investment return on the USI Re assets does not decline. These factors individually or combined could result in a change in the distribution percentage.

10. Making a distribution is complicated by the federal priority statute, 31 U.S.C. § 3713. As a result of that statute and judicial decision, I understand that the United States can – subject to any applicable statutes of limitation – assert claims at any time, regardless of claim-filing deadlines under state insurer liquidation statutes. Moreover, there is the possibility that, if a liquidator distributed all the assets of the estate, the United States might file a late claim and contend that the estate’s inability to pay the claim makes the liquidator personally liable for the claim under the federal priority statute. The Liquidator is not aware of any liability of USI Re to the United States Government or of any United States’ claim against USI Re. However, in view of the uncertainties created by the federal priority statute and the decisions, it is prudent for the Liquidator to raise these issues with the United States before making a distribution. The United States Department of Justice has provided waivers of federal priority claims to permit distributions in other liquidations, including waivers to permit early access distributions in the Home liquidation.

11. It is unknown how long it may take to obtain such a waiver from the United States. In order to move this matter forward, the Liquidator accordingly plans to resolve the

²As Class V claims will not be paid in full, Class VIII claims will receive no distribution.

other outstanding issues by this motion and then request a waiver from the United States. The proceeding will essentially be in “suspense” while the waiver issue is pending so as to minimize administrative expense. The process as described above is provided for in the proposed form of order.

12. The Liquidator has disposed of many of USI Re’s paper records pursuant to orders of this Court entered December 16, 2004, August 12, 2005, August 19, 2008, and May 2, 2011. Now that the claims have been determined and the assets collected, the records of USI Re are generally no longer useful. The only exceptions are financial, tax, and corporate records necessary for preparation of the final USI Re tax returns (the consolidated returns for Home and USI Re are due in September, 2011); the investment records necessary to administer USI Re’s assets until distribution; and the records of the allowed claims necessary for making the distribution. Certain records may also be subject to a stipulation concerning retention of documents approved in the Home liquidation on June 22, 2006. Accordingly, the Liquidator recommends that the Court authorize the Liquidator to dispose of all remaining paper records of USI Re except documents in these categories. Documents that the Liquidator identifies as confidential or commercially sensitive will be shredded. The Liquidator proposes to retain records in the categories and imaged records until the distribution has been made, at which point the Liquidator recommends that all these remaining USI Re records be disposed of or deleted except for (1) the imaged records of the filings and orders in the liquidation proceeding itself, which will be retained on the Liquidation Clerk’s website at www.hicilclerk.org, (2) a record of the allowed claims, which will be retained at the New Hampshire Insurance Department in the event it is needed by the state treasurer to address unclaimed funds as set forth in paragraph 16 below, and (3) USI Re tax records and those records identified as potentially subject to the 2006

stipulation, which will be turned over to the Liquidator of Home (Home and USI Re have always filed tax returns on a consolidated basis and the Home Liquidator was party to the stipulation).

13. The Liquidator recommends that USI Re's corporate existence be dissolved at the time the Liquidator is discharged. A provision to that effect is included in the proposed form of order submitted herewith.

14. The Liquidator proposes that funds not collected within 120 days after the distribution checks are mailed to claimants be turned over to the state treasurer. Since the claimants in the USI Re proceeding are insurance or reinsurance companies or other corporate entities, not individual claimants, this should not cause any hardship.

15. In order to minimize administrative expense, the Liquidator is proceeding with this closure motion to address all issues at one time. The Liquidator proposes that the Court enter an order that has two parts. First, it authorizes the distribution, subject to obtaining the waiver, and the other remaining steps in the closure process. Second, it provides for the subsequent discharge of the Liquidator and termination of the proceeding upon the Liquidator's filing of a certificate of compliance after the remaining steps have been completed. This will minimize administrative expense and judicial proceedings by allowing the Liquidator to move forward with the closure process and proceed as far as possible now. The proceeding will then be placed in suspense until the United States acts on the request for waiver. Since there will be no activity other than monitoring the investments, the Liquidator's reports should be limited to a description of progress with the federal government and unaudited statements of expenses and assets showing changes since the March 31, 2011 financial statement attached as Exhibit 2.

When the waiver is received, the distribution will go forward.³ Once it is completed, the Liquidator will file the certificate to obtain discharge and terminate the proceeding. A form of the certificate is attached to the proposed form of order.

16. I believe that the process described above for distributing assets, disposing of records, and terminating the liquidation proceeding for USI Re is reasonable, prudent and in the best interest of the creditors of USI Re.

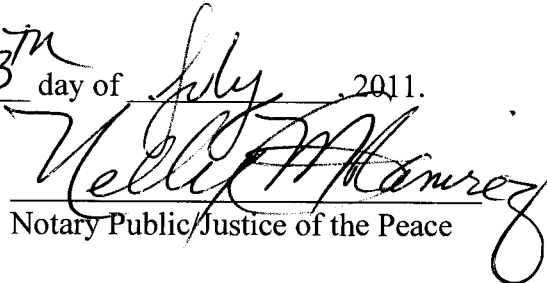
Signed under the penalties of perjury this 13 day of July, 2011.



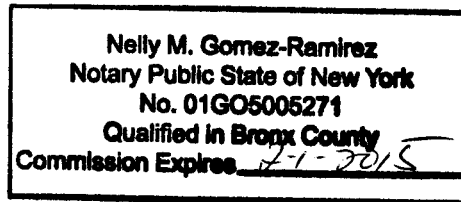
Peter A. Bengelsdorf
Special Deputy Liquidator of US International Reinsurance
Company

STATE OF NEW YORK
COUNTY OF NEW YORK

Subscribed and sworn to, before me, this 13th day of July, 2011.



Notary Public/Justice of the Peace



³ The Liquidator does not anticipate receiving any additional assets, but if any assets are received prior to the calculation of the dividend payments, they will be added to the distribution. If assets are subsequently received that are uneconomic to distribute, they will be transferred to the state treasury. The unexpected receipt of material assets would be cause to petition to reopen the proceeding.



**FINANCIAL STATEMENTS
(MODIFIED-CASH BASIS)**

**US International Reinsurance Company in Liquidation
Years Ended December 31, 2010 and 2009
With Report of Independent Auditors**

Ernst & Young LLP

 **ERNST & YOUNG**

US International Reinsurance Company in Liquidation

Financial Statements (Modified-Cash Basis)

Years Ended December 31, 2010 and 2009

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Report of Independent Auditors

Special Deputy Liquidator
US International Reinsurance Company in Liquidation

We have audited the accompanying statements of restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) of US International Reinsurance Company in Liquidation (the Liquidating Company) as of December 31, 2010 and 2009, and the related statements of restricted and unrestricted cash receipts and disbursements and changes in bonds, short-term investments and cash (modified-cash basis) and changes in restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) for the years then ended. These financial statements are the responsibility of the Liquidating Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Liquidating Company's internal controls over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Liquidating Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) of US International Reinsurance Company in Liquidation as of December 31, 2010 and 2009, the restricted and unrestricted cash receipts and disbursements and changes in bonds, short-term investments and cash (modified-cash basis), and changes in restricted and unrestricted net assets, excluding certain amounts (modified-cash basis) for the years then ended, on the basis of accounting described in Note 1.



This report is intended solely for the information and use of the Liquidating Company, the New Hampshire Department of Insurance, the Insurance Commissioner of the State of New Hampshire (the Liquidator), and the Liquidation Court to whose jurisdiction the Liquidating Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

May 31, 2011

US International Reinsurance Company in Liquidation

Statements of Restricted and Unrestricted Net Assets,
Excluding Certain Amounts
(Modified-Cash Basis)

	December 31	
	2010	2009
Assets		
Unrestricted bonds, short-term investments and cash, at cost:		
Bonds	\$ 427,462	\$ 1,540,653
Short-term investments	3,616,677	2,509,290
Cash	1,250,618	1,075,019
Total unrestricted bonds, short-term investments and cash, at cost	<u>5,294,757</u>	<u>5,124,962</u>
Interest income due and accrued on unrestricted assets	3,736	6,801
Total unrestricted assets	<u>5,298,493</u>	<u>5,131,763</u>
Restricted assets:		
Short-term investments, at cost	338,153	337,618
Total restricted assets	<u>338,153</u>	<u>337,618</u>
Total restricted and unrestricted assets, excluding certain amounts	5,636,646	5,469,381
Liabilities		
Incurred but unpaid administrative expenses	7,131	12,306
Payable to The Home Insurance Company in Liquidation	3,110	32,417
Net assets, excluding certain amounts	<u>\$ 5,626,405</u>	<u>\$ 5,424,658</u>

See accompanying notes.

US International Reinsurance Company in Liquidation

Statements of Restricted and Unrestricted Cash Receipts and
Disbursements and Changes in Bonds, Short-Term Investments and Cash
(Modified-Cash Basis)

	Year Ended December 31	
	2010	2009
Cash and marketable securities received		
Reinsurance collections	\$ 234,614	\$ 109,098
Net investment income	16,573	34,854
Other	62,477	912
Total cash and marketable securities received	313,664	144,864
Cash operating disbursements		
Consultant and outside service fees	49,499	59,621
Net payments to The Home Insurance Company in Liquidation	87,069	124,690
Other	6,766	19,766
Total cash operating disbursements	143,334	204,077
Excess (deficiency) of receipts over operating disbursements	170,330	(59,213)
Beginning restricted and unrestricted bonds, short-term investments and cash, at cost	5,462,580	5,521,793
Ending restricted and unrestricted bonds, short-term investments and cash, at cost	\$ 5,632,910	\$ 5,462,580

See accompanying notes.

US International Reinsurance Company in Liquidation

Statements of Changes in Restricted and Unrestricted Net Assets,
Excluding Certain Amounts
(Modified-Cash Basis)

	Year Ended December 31	
	2010	2009
Restricted and unrestricted net assets, excluding certain amounts, beginning of year	\$ 5,424,658	\$ 5,512,878
Excess (deficiency) of unrestricted and restricted receipts over operating disbursements	170,330	(59,213)
Other changes in restricted and unrestricted net assets:		
Interest income due and accrued	(3,065)	(16,562)
Incurred but unpaid administrative expenses	5,175	(3,116)
Payable to The Home Insurance Company in Liquidation	29,307	(9,329)
Restricted and unrestricted net assets, excluding certain amounts, end of year	\$ 5,626,405	\$ 5,424,658

See accompanying notes.

US International Reinsurance Company in Liquidation

Notes to Financial Statements (Modified-Cash Basis)

Year Ended December 31, 2010

1. Background and Significant Accounting Policies

US International Reinsurance Company (the Company or USI Re), a wholly owned subsidiary of The Home Insurance Company in Liquidation (the Home), was declared insolvent on June 13, 2003, and the liquidation of the Company was ordered (the Liquidation Order) by the Merrimack County Superior Court of the State of New Hampshire (the Liquidation Court). The Insurance Commissioner of the State of New Hampshire (the Liquidator) was appointed Liquidator of the Company. The liquidation of the Company (since June 13, 2003, US International Reinsurance Company in Liquidation) is being conducted in accordance with New Hampshire statutes governing insurance insolvency proceedings. The Company has issued no new insurance policies since 1990, and it was placed in supervision by the New Hampshire Insurance Department in 1997. The principal activities since the date of the Liquidation Order (insolvency) consist of determining claims under contracts issued prior to the date of insolvency, recovering reinsurance balances for losses ceded under reinsurance agreements and collecting assets to distribute to creditors.

The following represents the significant accounting policies affecting US International Reinsurance Company in Liquidation (the Liquidating Company) that are used in preparing the accompanying financial statements. These policies differ from accounting principles generally accepted in the United States (GAAP).

Basis of Accounting

The Liquidating Company's financial statements are prepared using a modified-cash basis of accounting, which differs from GAAP. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization by the Liquidating Company is expected to occur, primarily cash, cash equivalents, bonds, short-term investments, and investment-related receivables are recorded. Liabilities that have been acknowledged by the Liquidating Company are prioritized into ten creditor classes in accordance with the New Hampshire statute establishing creditor classes in insurer insolvencies (Revised Statutes Section (RSA) 402-C:44). Since only Class I liabilities are currently being paid, only incurred but unpaid Class I (Administration Costs) liabilities, which is a creditor class superior to all other classes, are presented in the financial statements.

US International Reinsurance Company in Liquidation

Notes to Financial Statements (Modified-Cash Basis) (continued)

1. Background and Significant Accounting Policies (continued)

The Liquidating Company does not record the amounts of certain assets, such as reinsurance recoverable, securities on deposit with various states, funds held and claims against others, and certain liabilities, including insurance policy claims and losses, as such amounts have not been settled and agreed to with third parties or the Liquidation Court.

Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions by management that affect amounts reported in these financial statements and accompanying notes. Actual results may vary from these estimates as more information becomes known.

Short-Term Investments and Bonds

Short-term investments are reported at cost, which approximates fair value and consists of U.S. Treasury securities with maturities at the date of acquisition between 90 days and one year.

Marketable bonds are carried at cost with no provision for amortization of premium or discount on purchase price. Amounts received over or under original cost are treated as a gain or loss upon disposition and are treated as net investment income at maturity. The types of bonds that the Liquidating Company may invest in are prescribed by order of the Liquidation Court and consist principally of U.S. Treasury securities. The Liquidating Company accrues interest income on marketable bonds as the realization of such amounts is expected to occur.

Priority of Claims and Distributions to Creditors

The Liquidating Company will distribute funds to creditors in accordance with RSA 402-C:44, which governs asset distributions from the estate of the Liquidating Company. The RSA establishes the following classes of creditors:

Class I: Payment of all administration expenses of closing the business and liquidating the Company.

Class II: Payment of policy claims (excluding any loss for which indemnification is provided by other benefits or advantages recovered or recoverable by the claimant).

US International Reinsurance Company in Liquidation

Notes to Financial Statements (Modified-Cash Basis) (continued)

1. Background and Significant Accounting Policies (continued)

Class III: Claims of the federal government.

Class IV: Debts due to employees for services performed.

Class V: All other claims, including claims of any state or local government, not falling within other classes.

Class VI: Claims based solely on judgments.

Class VII: Interest on claims already paid.

Class VIII: Miscellaneous subordinated claims.

Class IX: Preferred ownership claims, including surplus or contribution notes, or similar obligations, and premium funds on assessable policies.

Class X: The claims of shareholders or other owners.

The claims of a higher class of creditor (e.g., Class I) must be paid in full before a lower creditor class becomes eligible for payment. The Liquidating Company is currently paying only Class I (Administration Costs) creditors. It is uncertain whether there will be sufficient assets to pay any claims below Class I (Administration Costs).

US International Reinsurance Company in Liquidation

Notes to Financial Statements (Modified-Cash Basis) (continued)

2. Marketable Securities

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

		December 31, 2010		
		Gross	Gross	
		Unrealized	Unrealized	
		Cost	Gains	Losses
		Fair Value		
Unrestricted:				
	U.S. Treasury notes	\$ 427,462	\$ -	\$ (1,251)
		\$ 426,211		
		December 31, 2009		
		Gross	Gross	
		Unrealized	Unrealized	
		Cost	Gains	Losses
		Fair Value		
Unrestricted:				
	U.S. Treasury notes	\$1,540,653	\$ -	\$ (13,767)
		\$ 1,526,886		

All bonds are scheduled to mature in one year or less as of December 31, 2010.

3. Fair Value Measurements

The fair value measurements and disclosures topic of the Financial Accounting Standards Board Accounting Standards Codification with respect to financial statements prepared in accordance with GAAP clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements.

Various inputs are used in determining the fair value of the Liquidating Company's unrestricted investments. These inputs are summarized in three broad levels as follows:

Level 1 Inputs – Quoted prices in active markets for identical securities without adjustment. The Level 1 assets of the Liquidating Company, if reported at fair value on a recurring basis, would include investments in U.S. Treasury securities.

US International Reinsurance Company in Liquidation

Notes to Financial Statements (Modified-Cash Basis) (continued)

3. Fair Value Measurements (continued)

Level 2 Inputs – Other significant observable inputs other than Level 1 inputs (including quoted prices for similar securities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data). At December 31, 2010 and 2009, the Liquidating Company did not hold investments that would be classified as Level 2 assets if reported at fair value.

Level 3 Inputs – Significant unobservable inputs, including the Liquidating Company's own assumptions in determining the fair value of investments. At December 31, 2010 and 2009, the Liquidating Company did not hold investments that would be classified as Level 3 assets if reported at fair value.

4. Securities on Deposit

Investments on deposit at original cost with various states were \$502,663 and \$502,451 at December 31, 2010 and 2009, 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.

At December 31, 2010 and 2009, the statement of restricted and unrestricted net assets reflects restricted short-term investments of \$338,153 and \$337,618, respectively. These funds were held for the policyholders and creditors in New Mexico and such amounts had not been settled and agreed to with New Mexico as of December 31, 2010. In March 2011, New Mexico had advised the Liquidating Company that the restriction of the funds was no longer required.

There were no assets pledged as collateral for letters of credit placed for the benefit of reinsurers as of December 31, 2010.

5. Payable to the Home

At December 31, 2010 and 2009, the payable to the Home of \$3,110 and \$32,417, respectively, related to expenses incurred by the Home on behalf of the Liquidating Company for administrative expenses. In 2010 and 2009, the Liquidating Company paid the Home \$87,069 and \$124,690, respectively, for administrative expenses.

US International Reinsurance Company in Liquidation

Notes to Financial Statements (Modified-Cash Basis) (continued)

6. Income Taxes

The Liquidating Company is included in the Home's consolidated federal income tax return. The Home has a written income tax agreement with the Liquidating Company, which provides for the amounts and timing of payments by the Liquidating Company to the Home with respect to any federal income tax liability of the Liquidating Company. To date, the Liquidating Company has not incurred any tax obligations under this income tax agreement.

7. Incurred But Unpaid Administrative Expenses

The Liquidating Company incurred administrative expenses relating to outside service fees of \$7,131 and \$12,306, in the normal course of liquidation, that were unpaid as of December 31, 2010 and 2009, respectively.

8. Allowed Claims

As of December 31, 2010, the Liquidator has allowed, and the Court has approved, \$47,093,309 of Class V claims and \$48,572 of Class VIII 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. The Liquidator is now considering the remaining steps for distributing assets and closing the liquidation, and he will be preparing a motion regarding the distribution and closure process.

9. Subsequent Events

The Liquidating Company evaluated its financial statements for subsequent events through May 31, 2011, the date the financial statements were available to be issued. The Liquidating Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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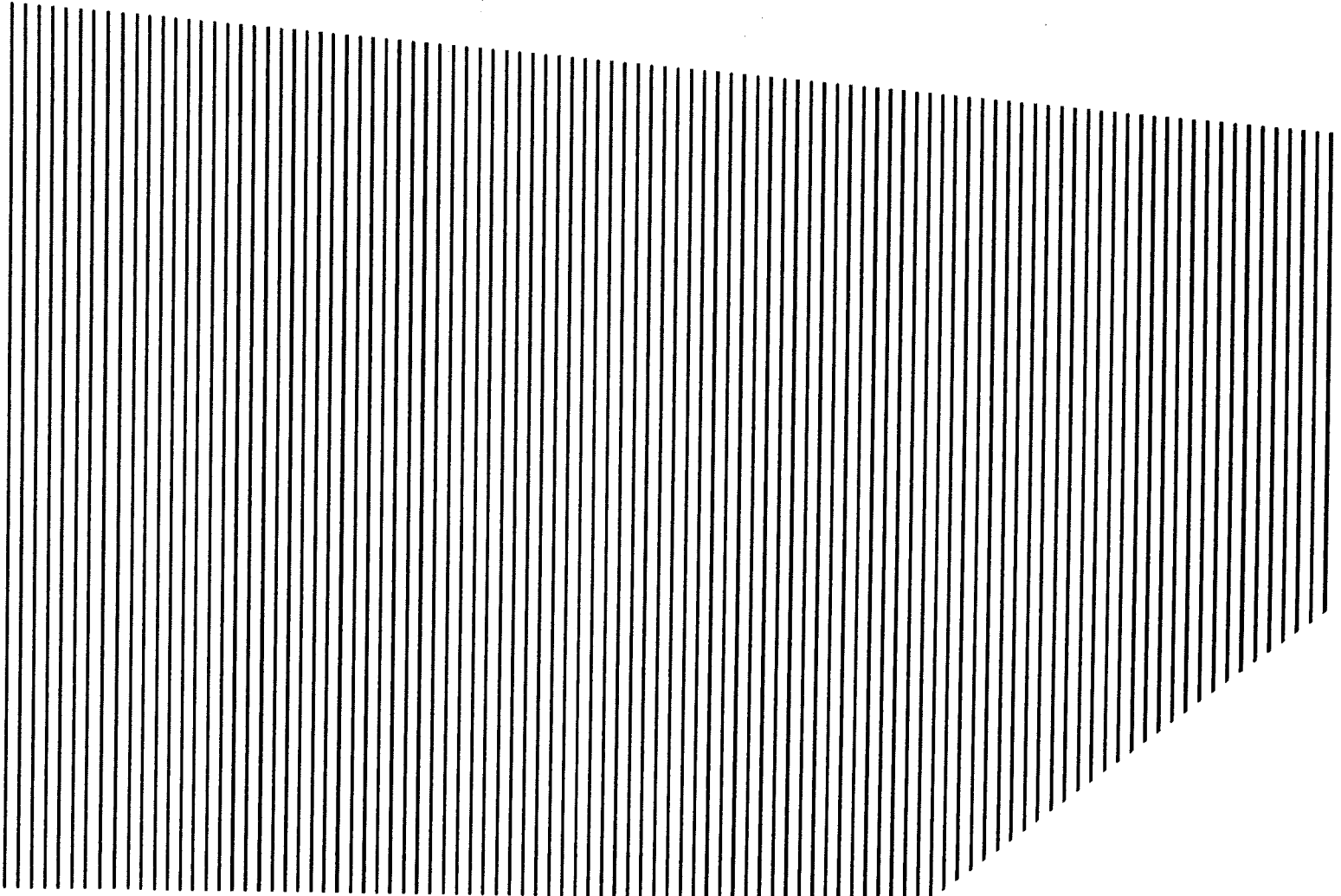
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US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

**March 31, 2011 and December 31, 2010
(Unaudited)**

US International Reinsurance Company In Liquidation

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

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Assets		
Unrestricted liquid bonds, short-term investments and cash at cost:		
Bonds, at cost (Note 3)	\$ 427,462	\$ 427,462
Short-term investments	2,421,443	3,616,677
Cash	<u>2,991,679</u>	<u>1,250,618</u>
Total unrestricted liquid bonds, short-term investments and cash at cost	5,840,584	5,294,757
Interest income due and accrued	<u>1,246</u>	<u>3,736</u>
Total unrestricted liquid assets	5,841,830	5,298,493
Restricted liquid assets at cost:		
Short-term investments	<u>-</u>	<u>338,153</u>
Total restricted liquid assets at cost	-	338,153
Total assets, excluding certain amounts	5,841,830	5,636,646
Liabilities		
Incurred but unpaid administrative expenses (Note 5)	230	7,131
Payable to The Home Insurance Company in Liquidation (Note 2 & 5)	12,881	3,110
Net assets, excluding certain amounts	\$ <u>5,828,719</u>	\$ <u>5,626,405</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, 2011 To March 31, 2011</u>	<u>January 1, 2010 To December 31, 2010</u>
Cash and marketable securities received:		
Return of special deposits	\$ 120,000	\$ -
Reinsurance collections	106,340	234,614
Net investment income	522	16,573
Miscellaneous income	-	62,477
Total cash and marketable securities received	<u>226,862</u>	<u>313,664</u>
Cash operating disbursements:		
Consultant and outside service fees	16,078	49,499
Net payments to Home Insurance Company (Note 2)	3,110	87,069
All other	-	6,766
Total cash operating disbursements	<u>19,188</u>	<u>143,334</u>
Excess receipts over operating disbursements	207,674	170,330
Beginning cash and marketable securities, at cost	<u>5,632,910</u>	<u>5,462,580</u>
Ending cash and marketable securities, at cost	<u>\$ 5,840,584</u>	<u>\$ 5,632,910</u>

See accompanying notes.

US International Reinsurance Company in Liquidation

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

	January 1, 2011 To March 31, 2011	January 1, 2010 To December 31, 2010
Net Assets, beginning of period	\$5,626,405	\$5,424,658
Excess receipts over operating disbursements	207,674	170,330
Other changes in net assets:		
Interest income due and accrued	(2,490)	(3,065)
Incurred but unpaid administrative expenses	6,901	5,175
Payable to The Home Insurance Company in Liquidation	(9,771)	29,307
Net Assets, end of period	<u>\$5,828,719</u>	<u>\$5,626,405</u>

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

Notes to Financial Statements

March 31, 2011

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 Liabilities to Home Insurance Company

At March 31, 2011 and December 31, 2010, the Liquidator accrued liabilities of \$12,881 and \$3,110, respectively, to Home for USI Re’s allocated share of various administrative expenses incurred. The amount paid to Home was \$3,110 and \$87,069 for such expenses in 2011 and 2010, respectively.

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:

Unrestricted Marketable Bonds	March 31, 2011			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury notes	\$ 427,462	\$ -	\$ (1,931)	\$ 425,531

Unrestricted Marketable Bonds	December 31, 2010			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury notes	\$ 427,462	\$ -	\$ (1,251)	\$ 426,211

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 bonds by contractual maturity are as follows:

	Unrestricted	
Marketable Bonds	Cost	Fair Value
March 31, 2011		
One year or less	\$ 427,462	\$ 425,531

	Unrestricted	
Marketable Bonds	Cost	Fair Value
December 31, 2010		
One year or less	\$ 427,462	\$ 426,211

4) Securities on Deposit

Investments on deposit with various states were \$382,663, \$502,663, and \$4,964,360 at March 31, 2011, December 31, 2010 and June 13, 2003, respectively. As described in Note 1, the Liquidator does not record the amount of these assets as such amounts have not been settled and agreed to with the states.

At December 31, 2010 the Statement of Restricted and Unrestricted Net Assets reflected, for New Mexico, restricted short term investments of \$338,153. These funds were held for the policyholders and creditors as such amounts had not been settled and agreed to with New Mexico. In March, 2011, New Mexico advised the Liquidating Company that the restriction of the funds was no longer required.

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

Notes to Financial Statements (continued)

5) Incurred But Unpaid Administrative Expenses

USI Re incurred administrative expenses relating to outside service fees of \$230 in the normal course of liquidation that were unpaid as of March 31, 2011.

6) Allowed Claims

As of March 31, 2011, the Liquidator has allowed, and the Court has approved, \$52,721,425 of Class V claims and \$48,572 of Class VIII 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. The Liquidator is now considering the remaining steps for distributing assets and closing the liquidation, and he will be preparing a motion regarding the distribution and closure process.