US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

Year ended December 31, 2004 and the period from June 13, 2003 (inception of Liquidation) to December 31, 2003 with Report of Independent Auditors

0505-0644642-PH

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Financial Statements
(Modified Cash Basis)

Year ended December 31, 2004 and the period from June 13, 2003
(inception of Liquidation) to December 31, 2003

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Report of Independent Auditors

Special Deputy Liquidator
US International Reinsurance Company in Liquidation

We have audited the accompanying statements of net assets (deficiency), excluding certain amounts (modified cash basis) of US International Reinsurance Company in Liquidation (the Liquidating Company) as of December 31, 2004 and 2003, and the related statements of cash receipts and disbursements and changes in cash, bonds, short-term investments and cash equivalents (modified cash basis) and changes in net assets (deficiency), excluding certain amounts (modified cash basis) for the year ended December 31, 2004 and for the period from June 13, 2003 (inception of Liquidation) to December 31, 2003. 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 audit 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 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 and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets (deficiency), excluding certain amounts (modified cash basis) of US International Reinsurance Company in Liquidation as of December 31, 2004 and 2003, the cash receipts and disbursements and changes in cash, bonds, short-term investments and cash equivalents (modified cash basis), and changes in net assets (deficiency), excluding certain amounts (modified cash basis) for the year ended December 31, 2004 and for the period from June 13, 2003 (inception of liquidation) to December 31, 2003, 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 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 13, 2005

US International Reinsurance Company in Liquidation

Statements of Net Assets (Deficiency), Excluding Certain Amounts
(Modified Cash Basis)

	December 31	
	2004	**2003**
Assets		
Unrestricted bonds and cash at cost:		
Bonds	**$ 1,959,741**	$ –
Short-term investments	**1,499,452**	–
Cash and cash equivalents	**293,766**	991,083
Total unrestricted bonds and cash at cost	**3,752,959**	991,083
Interest income due and accrued	**45,622**	–
Total unrestricted liquid assets	**3,798,581**	991,083
Liabilities		
Incurred but unpaid administrative expenses	**126,754**	–
Payable to The Home Insurance Company in Liquidation	**1,115,913**	2,898,000
Net assets (deficiency), excluding certain amounts	**$ 2,555,914**	$ (1,906,917)

See accompanying notes.

US International Reinsurance Company in Liquidation

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

	Year ended December 31, 2004	Period from June 13, 2003 (inception of Liquidation) to December 31, 2003
Cash and marketable securities received		
Reinsurance collections	$ 731,106	$ 288,338
Net investment income	181,540	130,438
Return of special deposits	3,913,863	–
Other	626	1,180
Total cash and marketable securities received	4,827,135	419,956
Cash operating disbursements		
Consultant and outside service fees	28,953	14,736
Net payments to The Home Insurance Company in Liquidation	1,975,039	–
Other	61,267	–
Total cash operating disbursements	2,065,259	14,736
Excess of receipts over operating disbursements	2,761,876	405,220
Beginning cash, cash equivalents, and short-term investments, at cost	991,083	585,863
Ending cash, cash equivalents, and short-term investments, at cost	$ 3,752,959	$ 991,083

See accompanying notes.

US International Reinsurance Company in Liquidation

Statements of Changes in Net Assets (Deficiency), Excluding Certain Amounts (Modified Cash Basis)

	Year ended December 31, 2004	Period from June 13, 2003 (inception of Liquidation) to December 31, 2003
Net assets (deficiency), excluding certain amounts, beginning of period	**$ (1,906,917)**	$ 585,863
Excess of unrestricted receipts over operating disbursements	**2,761,876**	405,220
Other changes in net assets:		
Interest income due and accrued	**45,622**	–
Incurred but unpaid administrative expenses	**(126,754)**	–
Payable to The Home Insurance Company in Liquidation	**1,782,087**	(2,898,000)
Net assets (deficiency), excluding certain amounts, end of period	**$ 2,555,914**	$ (1,906,917)

See accompanying notes.

1. Background and Significant Accounting Policies

US International Reinsurance Company (the Company), 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 was appointed Liquidator of the Company (the Liquidator). 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 preparing to determine 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 represent 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.

Basis of Accounting

The Liquidating Company's financial statements are prepared using a modified cash basis of accounting, which differs from accounting principles generally accepted in the United States. These financial statements reflect the net assets and the operating expenses. 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, and short-term investments 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 State 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.

1. Significant Accounting Policies (continued)

Basis of Accounting (continued)

The Liquidating Company does not record the amounts of certain assets, such as reinsurance recoverables, 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.

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.

Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents are presented at cost which approximates fair value. Cash equivalents consist principally of money market accounts.

Short-term investments are reported at cost, which approximates fair value and consists of a United States Treasury security.

Priority of Claims and Distributions to Creditors

The 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).

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.

1. Significant Accounting Policies (continued)

Priority of Claims and Distributions to Creditors (continued)

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).

2. Marketable Securities

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

	December 31, 2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Unrestricted marketable securities				
Debt securities:				
U.S. Treasury notes	$1,959,741	$ –	$ (74,578)	$1,885,163
Total	$1,959,741	$ –	$ (74,578)	$1,885,163

2. Marketable Securities (continued)

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

	Cost	Fair Value
Unrestricted marketable debt securities		
December 31, 2004:		
One year or less	$ 1,959,741	$ 1,885,163
Total	$ 1,959,741	$ 1,885,163

Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

3. Securities on Deposit

Investments on deposit with various states were $938,240 and $4,971,356 at December 31, 2004 and 2003, respectively. In 2004, the Liquidating Company received $3,913,863 of securities previously on deposit with various states. 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 the Liquidating Company was holding $125,000 of an investment security which had been withdrawn from Oregon's deposit account. The security was returned to the Liquidating Company in January 2005.

The Liquidating Company has pledged certificates of deposit in the amount of $116,877 at December 31, 2004 and 2003, respectively, as collateral for letters of credit placed for the benefit of reinsurers. As the certificates of deposit are pledged as collateral, the Liquidating Company does not record them as assets.

4. Asset Transfer Agreement

In connection with an Asset Transfer Agreement approved by the Liquidation Court, The Home 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. The Liquidating Company's allocated share of this cost was $2,898,000 and is recorded as a liability. On March 30, 2004, $1,782,087 was paid to The Home and the liability has been reduced to $1,115,913 at December 31, 2004.

5. 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 times 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.

6. Incurred But Unpaid Administrative Expenses

The Liquidating Company incurred administrative expenses relating to outside service fees of $126,754, in the normal course of liquidation, that were unpaid as of December 31, 2004.