

**Exhibit B**

**US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION**

**Financial Statements (Modified Cash Basis)**

**June 30, 2005 and December 31, 2004  
(Unaudited)**

## US International Reinsurance Company In Liquidation

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

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
<b>Assets</b>		
Unrestricted bonds and cash at cost:		
Bonds (Note 3)	\$1,865,237	\$1,959,741
Short-term investments	1,515,003	1,499,452
Cash and cash equivalents	<u>214,601</u>	<u>293,766</u>
<b>Total unrestricted bonds and cash at cost</b>	<b>3,594,841</b>	<b>3,752,959</b>
Interest income due and accrued	<u>13,431</u>	<u>45,622</u>
<b>Total unrestricted liquid assets</b>	<b>3,608,272</b>	<b>3,798,581</b>
Restricted liquid assets:		
Bonds, at cost (Note 3 & 4)	<u>128,950</u>	<u>-</u>
<b>Total restricted liquid assets</b>	<b>128,950</b>	<b>-</b>
<b>Total assets, excluding certain amounts</b>	<b>3,737,222</b>	<b>3,798,581</b>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses (Note 5)	120,622	126,754
Payable to The Home Insurance Company in Liquidation (Note 2)	<u>1,115,913</u>	<u>1,115,913</u>
<b>Net assets, excluding certain amounts</b>	<b><u>\$2,500,687</u></b>	<b><u>\$2,555,914</u></b>

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)**

	<b>January 1, 2005 To June 30, 2005</b>	<b>January 1, 2004 To December 31, 2004</b>
<b>Cash and marketable securities received:</b>		
Reinsurance collections	\$69,817	\$731,106
Net investment income	123,055	181,540
Return of special deposits	125,000	3,913,863
All other	-	626
<b>Total cash and marketable securities received</b>	<b>317,872</b>	<b>4,827,135</b>
<b>Cash operating disbursements:</b>		
Consultant and outside service fees	20,730	28,953
Net payments to Home Insurance Company	228,374	1,975,039
All other	97,936	61,267
<b>Total cash operating disbursements</b>	<b>347,040</b>	<b>2,065,259</b>
Excess of receipts over operating disbursements	(29,168)	2,761,876
Beginning cash and cash equivalents, at cost	3,752,959	991,083
<b>Ending cash and marketable securities, at cost</b>	<b>\$3,723,791</b>	<b>\$3,752,959</b>

See accompanying notes.

## US International Reinsurance Company in Liquidation

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

	January 1, 2005 To June 30, 2005	January 1, 2004 To December 31, 2004
Net Assets, beginning of period	\$2,555,914	(\$1,906,917)
Excess receipts over operating disbursements	(158,118)	2,761,876
Other changes in net assets:		
Interest income due and accrued	(32,191)	45,622
Bonds at cost, liquid	128,950	-
Incurred but unpaid administrative expenses	6,132	(126,754)
Payable to The Home Insurance Company in Liquidation	-	1,782,087
Net Assets, end of period	<u>\$2,500,687</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

June 30, 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 2005 and 2004 the Liquidator paid \$228,561 and \$193,990, 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>June 30, 2005</u>			<u>Fair Value</u>
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
<b>Unrestricted Marketable Securities</b>				
Debt Securities:				
U.S. Treasury notes	<u>\$ 1,865,237</u>	<u>\$ 1,460</u>	<u>\$ (370)</u>	<u>\$ 1,866,327</u>
Total	<u>\$ 1,865,237</u>	<u>\$ 1,460</u>	<u>\$ (370)</u>	<u>\$ 1,866,327</u>

<b>Restricted Marketable Securities</b>				
Debt Securities:				
Total U.S. Treasury notes	<u>\$ 128,950</u>	<u>\$ -</u>	<u>\$ (169)</u>	<u>\$ 128,781</u>

	<u>December 31, 2004</u>			<u>Fair Value</u>
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
<b>Unrestricted Marketable Securities</b>				
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	
	Cost	Fair Value	Cost	Fair Value
June 30, 2005				
One year or less	<u>\$ 1,865,237</u>	<u>\$ 1,866,327</u>	<u>\$ 128,950</u>	<u>\$ 128,781</u>
Total	<u>\$ 1,865,237</u>	<u>\$ 1,866,327</u>	<u>\$ 128,950</u>	<u>\$ 128,781</u>

Unrestricted Marketable Debt Securities	Cost	Fair Value
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 \$792,966, \$938,240 and \$4,964,360 at June 30, 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 and is held as a restricted asset.

**5) Incurred But Unpaid Administrative Expenses**

USI Re incurred administrative expenses relating to outside service fees of \$120,622, in the normal course of liquidation, that were unpaid as of June 30, 2005.

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

Notes to Financial Statements (continued)

**6) Allowed Claims**

As of June 30, 2005, the Liquidator has allowed, and the Court has approved, \$683,809 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.