OFFICE OF THE SPECIAL DEPUTY RECEIVER,
REPRESENTING THE DIRECTOR OF INSURANCE
OF THE STATE OF ILLINOIS, AS LIQUIDATOR

REINSURANCE COMPANY OF AMERICA, IN LIQUIDATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

December 31, 2013

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Independent Auditors' Report

The Honorable Andrew Boron
Director of Insurance of the State of Illinois

We have audited the accompanying financial statements of Reinsurance Company of America, in Liquidation, which comprise the statement of cash and invested assets as of December 31, 2013, and the related statement of changes in cash and invested assets for the year then ended, and the related notes to the financial statements.

**Office of the Special Deputy Receiver's Responsibility for the Financial Statements**

The Office of the Special Deputy Receiver (the "OSD"), representing the Director of Insurance of the State of Illinois, as Liquidator, is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Article XIII of the Illinois Insurance Code. The OSD is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the OSD's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the OSD's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the OSD, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America**

As described in Note A, the financial statements are prepared by the OSD on the basis of the financial reporting provisions of Article XIII of the Illinois Insurance Code, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of Article XIII of the Illinois Insurance Code. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Adverse Opinion on Accounting Principles Generally Accepted in the United States of America**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Reinsurance Company of America, in Liquidation, as of December 31, 2013, or the results of its operations for the year then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and invested assets of Reinsurance Company of America, in Liquidation, as of December 31, 2013, and its changes in cash and invested assets for the year then ended, on the basis of the financial reporting provisions as described in Note A.

Kerber, Eck + Braeckel LLP

Springfield, Illinois
August 27, 2014

Office of the Special Deputy Receiver,
Representing the Director of Insurance
of the State of Illinois, as Liquidator

Reinsurance Company of America, in Liquidation

STATEMENT OF CASH AND INVESTED ASSETS

December 31, 2013

| | | |
|---|---|---|
| Cash and cash equivalents (Note B) | $ | 219,109 |
| Invested assets (Note C) | | 356,192 |
| Total cash and invested assets | $ | 575,301 |

The accompanying notes are an integral part of this statement.

Office of the Special Deputy Receiver,
Representing the Director of Insurance
of the State of Illinois, as Liquidator

Reinsurance Company of America, in Liquidation

STATEMENT OF CHANGES IN CASH AND INVESTED ASSETS

Year ended December 31, 2013

| | |
|---|---|
| Cash and invested assets - January 1, 2013 | $ 1,188,238 |
| Receipts | |
| Interest and dividends (Note C) | 4,081 |
| Gain on sale of investments (Note C) | 18,640 |
| Salvage and subrogation | 456 |
| Proceeds from maturity of security under statutory deposit (Note E) | 668,416 |
| Guaranty fund claim deductible reimbursements | 132,257 |
| Other | 524 |
| Total receipts | 824,374 |
| Disbursements | |
| Loss and loss adjustment expenses | 20,847 |
| Transfer of security for statutory deposit (Note E) | 694,097 |
| Guaranty fund claim payments | 128,637 |
| Salaries | 302,001 |
| Professional fees | 6,054 |
| Employee benefits | 106,894 |
| Payroll and other taxes | 35,498 |
| Rent | 50,872 |
| Data processing | 60,887 |
| Investment fees | 2,477 |
| Office expense | 6,724 |
| Postage and freight | 4,663 |
| Equipment expenses | 102 |
| Travel | 1,356 |
| Other | 7,694 |
| Total disbursements | 1,428,803 |
| Change in fair value of investments | (8,508) |
| Cash and invested assets - December 31, 2013 | $ 575,301 |

The accompanying notes are an integral part of this statement.

Office of the Special Deputy Receiver,
Representing the Director of Insurance
of the State of Illinois, as Liquidator

Reinsurance Company of America, in Liquidation

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

## NOTE A - BACKGROUND AND BASIS OF PRESENTATION

Pursuant to the Illinois Insurance Code (the "Code"), the Director of Insurance of the State of Illinois ("Director" or "Receiver"), is appointed as Conservator, Rehabilitator, or Liquidator of domestic insurance companies which have been determined by state courts to be insolvent or to meet provisions or grounds for conservation, rehabilitation, or liquidation, as specified in the Code.

The Director, as Liquidator, marshals and liquidates the assets of the insurance company and winds down the business and affairs of the company, as approved by the state courts.

The Director is empowered by the Code to appoint a Special Deputy as his agent to supervise the conservation, rehabilitation, or liquidation of insurance companies. The Office of the Special Deputy Receiver (the "OSD"), an Illinois chartered not-for-profit corporation, supports the activity of the Special Deputy appointed by the Director, to manage the affairs of insurance companies placed in conservation, rehabilitation, or liquidation. Common expenses of the OSD are allocated to the insurance companies in receivership.

Reinsurance Company of America ("RCA") was placed in liquidation on April 27, 2011, by the Circuit Court of Cook County, State of Illinois ("Supervising Court"), and thereafter became known as Reinsurance Company of America, in Liquidation ("Estate").

Article XIII of the Code provides regulations governing insurance companies in conservation, rehabilitation, and liquidation. Section 202 of Article XIII requires that the Estate prepare a report including financial statements of cash and invested assets and cash receipts and disbursements. Section 200 of Article XIII requires an annual audit be completed for each estate under liquidation or rehabilitation, which had total cash and invested assets during the calendar year greater than $ 500,000.

The accompanying statement of cash and invested assets includes only the cash and invested assets of the Estate, at fair value; the accompanying statement of changes in cash and invested assets reflects only cash transactions, change in fair value of investments and the net amortization or accretion (netted with interest receipts) of invested assets held during the year; consequently, all other assets and all liabilities of the Estate are not reflected in the accompanying financial statements. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"), and, accordingly, the accompanying statements are not intended to present the financial position and results of operations in conformity with GAAP.

## NOTE B - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include any cash or short-term, highly-liquid investments readily convertible to known amounts of cash, which are under the complete and direct control of the OSD and are available to the Estate. At December 31, 2013, cash and cash equivalents consisted of the following:

| | |
|---|---|
| Cash | $ 37,014 |
| Money market fund | 182,095 |
| Total cash and cash equivalents | $ 219,109 |

## NOTE C - INVESTED ASSETS

Invested assets consist of those assets that are under the complete and direct control of the OSD, are available for liquidation by the Estate, and are being specifically held as investments. At December 31, 2013, invested assets consisted of the following:

| | Cost | Fair Value |
|---|---|---|
| Exchange traded funds | $ 364,700 | $ 356,192 |

The net amortization of debt securities, which were sold during 2013, totaling $ 16,300 was netted against interest receipts.. A gain on the sale of investments of $ 18,640 was recognized during 2013, as the proceeds on the sale were greater than the book value of the investments. As of December 31, 2013, unrealized losses on investments held at fair value totaled $ 8,508.

## NOTE D - FAIR VALUE MEASUREMENTS

The Estate follows the fair value measurement guidance for financial assets and financial liabilities. This guidance defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements.

Fair value is defined to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date. A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or liability as follows:

Level 1 - Valuation is based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuation is derived from inputs other than quoted prices included in Level 1, which are observable for the asset or liability either directly or indirectly. Investments classified as Level 2 are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The significant inputs used in this approach include interest rates, prepayment timing, yield spreads, maturities, credit losses and credit ratings of the securities.

Level 3 - Valuation is derived from unobservable inputs that are not corroborated by market data.

Fair values of exchange traded funds have been determined from observable market quotations.

The following table presents the Estate's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2013:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Invested assets | | | | |
| Exchange traded funds | $ 356,192 | $ 356,192 | $ - | $ - |

## NOTE E - STATUTORY DEPOSITS

In the normal course of writing insurance in various states, RCA was required by state statute to deposit funds with various state insurance departments. When RCA entered liquidation, the statutory deposits were transferred to the OSD's control on behalf of RCA, or impounded by the various state insurance departments for the protection of policyholders within their jurisdiction. Since the OSD does not have direct control over those assets held by state insurance departments or related entities, and it is uncertain whether any portion of such assets will be available to the OSD in satisfying the obligations of the liquidation proceedings, they are not considered invested assets by the OSD until complete and direct control is established.

At December 31, 2013, statutory deposits with a fair value of $ 1,034,746 were held by the states of Arizona, Georgia, New Mexico, and Texas. During 2013, various securities under statutory deposit matured and the proceeds totaling $ 668,416 were released to OSD. In exchange, securities with book values totaling $ 694,097 were deposited with the various states to replace the matured securities.

## NOTE F - LITIGATION/SETTLEMENTS

The United States government has previously asserted that insurance companies may be directly liable to the United States government where it has incurred a loss. The United States government has asserted that its right to distribution of the Estate's assets in these situations is superior to that of other creditors, although that position was rejected, in part, by the United States Supreme Court in the case Department of Treasury v. Fabe, decided in June, 1993. The United States government or any of its agencies may be eligible for a claim distribution on an allowed claim under the statutory asset distribution schedule, 215 ILCS 5/205(1).

The amount of the liability, if any, cannot be determined at this time.

The Receiver is reviewing federal priority claims and has undertaken discussions with the United States Department of Justice, or will at the appropriate time.

## NOTE G - SUBSEQUENT EVENTS

Management has evaluated subsequent events from recognition and disclosure in the financial statements through August 27, 2014, which is the date the financial statements were available to be issued. Through August 27, 2014, no subsequent events required recognition or disclosure in the financial statements.