

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS

SUPERIOR COURT

Docket No. 03-E-0106

**In the Matter of the Liquidation of
The Home Insurance Company**

Docket No. 03-E-0112

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

LIQUIDATOR'S THIRTY FIRST REPORT

I, Roger A. Sevigny, Insurance Commissioner for the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("Home") and US International Reinsurance Company ("USI Re") (collectively, the "Companies"), hereby submit this Thirty First Report on the liquidations of the Companies, as of December 5, 2008, in accordance with RSA 402-C:25 and the Order Concerning Liquidator's Reports issued January 19, 2005.

1. Proofs of claim. The claim filing deadline in the Home and USI Re liquidations was June 13, 2004. The Liquidator has received a total of 24 new proofs of claim for Home between the last Liquidator's report and December 2, 2008. The proofs of claim submitted now total 20,223 (19,960 for Home and 263 for USI Re). These numbers include as a single proof of claim (a) multiple proofs received from a claimant that appear to assert the same claim, and (b) claims filed on behalf of mass tort claimants against a single insured. It is difficult to summarize the proofs of claim in advance of the claim determination process because (a) those proofs of claim that quantify the claim may be overstated or understated, (b) most proofs of claim do not quantify the amount claimed, and (c) an individual proof of claim may involve many different claims and claimants.

2. Claim determinations and reports. The process of determining proofs of claim continues. Since the last Liquidator's report, the Liquidator has issued partial or final notices of determination addressing 803 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005. As of December 2, 2008, the notices of determination issued since the beginning of the process have addressed 7,684 proofs of claim (7,596 for Home and 88 for USI Re). Three hundred nine claimants have filed requests for review and 105 of these have been sent notices of redetermination. Included among the requests for review are 82 requests filed by guaranty associations concerning the priority of certain claim expenses and unallocated expenses. There now are eight unresolved disputed claim proceedings pending before the Referee, plus one (2005-HICIL-4) that has been stayed. The Liquidator continues to file reports of claims and recommendations when a sufficient number of the claims have passed the 60-day period for objections. There is currently a total of \$500,000 in determinations in the pipeline pending the 60-day period running for submission to the Court. Since the last Liquidator's report, the Liquidator has submitted two further reports of claims and recommendations to the Court. The Liquidator has now presented and the Court has approved claims recommendations, including settlements, for a total of 6,623 claims (6,548 for Home and 75 for USI Re) involving a total allowed amount of \$696.4 million.

3. Financial reports. Copies of the unaudited September 30, 2008 financial statements for Home and USI Re are attached as Exhibits A and B to this report. The September 30, 2008 Home statements reflect \$868,522,581 in assets under the Liquidator's direct control at September 30, 2008, and \$63,281,962 in reinsurance collections, net investment income, and other receipts and \$20,695,803 in operating disbursements from January 1 through September 30, 2008. The September 30, 2008 USI Re statements reflect \$5,512,389 in assets

under the Liquidator's direct control at September 30, 2008, and \$200,388 in reinsurance collections, net investment income and other receipts and \$156,827 in operating disbursements from January 1 through September 30, 2008.

4. 2008 budget. A comparison of the actual and budgeted general and administrative expenses, on an incurred basis, through September 30, 2008 is attached as Exhibit C. As of June 30, 2008, actual expenses were below budget by approximately \$914,000 or 5.7%, with favorable variances in nearly all categories. Below is a comparison of Home's annual budgeted and actual operating expenses (in millions) beginning January 1, 2004:

Year	Budget	Actual
2004	\$33.8	\$26.9
2005	\$26.8	\$26.2
2006	\$25.6	\$23.5
2007	\$22.8	\$21.5
2008	\$21.4	\$20.6 est.
2009	\$20.6	

The Liquidator filed a copy of the 2009 Expense Budget on November 5, 2008 as part of the Liquidator's Filing Regarding Status Report.

5. Investment update. A summary of the Companies' holdings of bonds and short-term investments as of September 30, 2008 is attached as Exhibit D, and a report listing the individual holdings of Home as of that date is attached as Exhibit E (the groupings on Exhibit D differ from those on Exhibit E). The book value of Home's bonds and short-term investments managed by Conning Asset Management ("Conning") at September 30, 2008, was approximately \$830 million compared to the market value of approximately \$818 million, an unrealized loss of \$12 million, a deterioration of \$9 million since the end of the second quarter due to increases in interest rates as credit spreads widened and investors took refuge in US Treasury securities. (As of December 5, 2008, the Conning managed portfolio had an

unrealized loss of \$ 9.6 million.) Short-term holdings in the Conning portfolio at September 30, 2008 were \$70 million. The average credit rating for portfolio holdings continues to be AA by Moody's and S&P. The Liquidator also continues to maintain, outside of Conning's control, investments in US Treasury bills and notes. As of September 30, 2008, such investments respecting Home and USI Re had a market value of approximately \$10 million and \$4 million, respectively. These assets, along with sweep bank accounts, will be used to fund operating requirements.

On October 10, 2008, the Liquidator filed an Investment Status Report with the Court, addressing certain developments regarding the investment portfolio. The report discussed, among other matters, sales of investments by the Liquidator to reduce the risk of losing principal and to maintain a high quality portfolio during a period of extreme turmoil in the credit markets. For the quarter ended September 30, 2008, realized losses on sales were approximately \$2.5 million and realized gains on sales were approximately \$600,000, resulting in a net realized loss of approximately \$1.9 million. For the year to date through December 5, 2008, realized losses on sales were approximately \$5.8 million and realized gains on sales were approximately \$2.5 million, resulting in a year to date net realized loss of approximately \$3.3 million. Additionally, in October, 2008, the Liquidator purchased approximately \$42 million of U.S. government agency bonds.

Home continues to own investments in mortgage pools, both residential (MBS) and commercial (CMBS). As of December 5, 2008, MBS holdings had book value and market values of \$152.4 million and \$152.1 million, respectively, and CMBS holdings had book and market values of \$23.8 million and \$20.3 million, respectively. The Liquidator is not acquiring additional positions in CMBS or MBS, except for MBS pools issued by the Government

National Mortgage Association, which are guaranteed by the U.S. government. Consistent with the investment guidelines, the Liquidator and Conning continue to focus on (1) preservation of capital on investments, (2) maintaining a high quality portfolio, and (3) consistent with objectives (1) and (2), maximizing current income. The Liquidator and Conning believe that, as of December 2, 2008, all securities in the portfolio will pay full amounts of principal in spite of fluctuating market values.

6. Early access distributions to guaranty funds. As described in the Liquidator's previous reports, the Liquidator has made four early access distributions to guaranty funds in early 2005, 2006, 2007 and 2008 after obtaining approval from the Court and the required "claw back" agreements with the guaranty funds requiring the return of any amounts advanced that exceed the eventual distribution percentage for their creditor class. See RSA 402-C:29, III. Total cash early access payments from the Home liquidation to guaranty funds now total \$165.6 million, of which \$33.8 million was paid in February 2008. On November 25, 2008, the Liquidator filed a Motion For Approval of Fifth Early Access Distribution to Insurance Guaranty Associations. It is expected that the distribution (after deduction of deposits retained by certain states and other applicable items) will be approximately \$22.9 million. The distribution will be subject to the Liquidator obtaining a waiver of claims under the federal priority statute from the United States. The effect of these early access distributions will be to reimburse most guaranty funds for 100% of their loss payments for Home-related policies through September 2008.

7. Significant litigation. Century Indemnity Company ("CIC"). On June 6, 2008, the Liquidator filed an appeal with the New Hampshire Supreme Court of the Superior Court's May 9, 2008 Order on Liquidator's Motion to Recommit. The appeal concerns the application of RSA 402-C:34, II(b) to certain asserted setoffs. The Liquidator filed his brief on August 11,

2008; CIC filed its brief on September 10, 2008; and the Liquidator filed his reply on September 30, 2008.

On November 13, 2008, the Superior Court issued its Order on Century Indemnity Company's Motion to Lift Stay and Compel Arbitration, which denied CIC's motion.

Sheiness, Scott, Grossman & Cohn, LLP ("SSGC") – On June 19, 2008, SSGC filed an appeal with the New Hampshire Supreme Court of the Superior Court's May 22, 2008 Order on Claimant's Motion to Recommit. The appeal concerns the priority under RSA 402-C:44 of SSGC's claim for pre-receivership attorney's fees. SSGC filed its brief on August 18, 2008, and the Liquidator filed his memorandum of law on September 16, 2008

8. Reinsurance commutations and settlements. The Liquidator reports, in accordance with the Court's March 23, 2004 order, that since his last report he has completed two additional Home commutations, one with AXA RE and the other with Swiss Reinsurance America Corporation. The Court approved the commutations on October 9 and December 2, 2008, respectively. There have been no ceded commutations with respect to USI Re.

9. Asset dispositions (including compromises) and assumptions of obligations. In accordance with paragraph 5 of the Order Establishing Procedures for Review of Certain Agreements to Assume Obligations or Dispose of Assets entered April 29, 2004, and paragraph 5 of the Liquidator's Eleventh Report, the Liquidator submits a confidential schedule of asset dispositions (including compromises) and obligation assumptions since the last report which is filed under seal as an appendix to this report.

10. Ancillary proceedings in the United States. The New Mexico ancillary proceeding is now being closed. By Order dated September 10, 2008, the First Judicial District Court, County of Santa Fe, New Mexico approved the motion of the Ancillary Receiver to

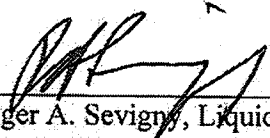
Determine and Pay Claims and to Dissolve Receivership. The Order provides that when all claims for which reserves are held are finally resolved, the New Mexico Guaranty Association shall remit to the Liquidator any remaining balance held as reserves, together with an accounting. The Order also requires that the Ancillary Receiver file a final accounting reflecting all credits and debits throughout the course of the Ancillary Receivership which filing is expected to be made within the next 90 days.

Ancillary receiverships for Home remain pending in Oregon, New York, and Massachusetts. There are no pending ancillary proceedings for USI Re.

11. The Canadian Proceeding. The Provisional Liquidator still holds approximately US\$4.2 million at current exchange rates. All claims in the Canadian Branch estate have been settled by the Canadian Provisional Liquidator. The Provisional Liquidator is preparing to close the estate and to apply to the Canadian Court for a final discharge as the Liquidator of the Home's Canadian operations effective December 31, 2008. In connection with the closure of the Canadian liquidation proceeding, the funds remaining in the Canadian estate are expected to be paid into an escrow account to be used to pay any remaining tax liabilities, and administrative expenses. Final tax returns are expected to be filed with Revenue Canada before year-end, and a request will be made for the final tax clearance certificate. Once the tax clearance certificate is received, the remaining funds, net of administrative expenses, will be released directly to Home's US Liquidator.

12. 2009 Compensation Plans. The Liquidator filed a motion for approval of the 2009 Compensation Plans on December 3, 2008.

Respectfully submitted,



Roger A. Sevigny, Liquidator

December 10, 2008

CERTIFICATE OF SERVICE

I hereby certify that on December 10, 2008, a copy of the Liquidator's Thirty-First Report, without the confidential appendix, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: December 10, 2008



Eric A. Smith
NH Bar ID No. 16952

THE STATE OF NEW HAMPSHIRE

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Exhibits:

A – 9/30/08 Financial Statement – Home

B – 9/30/08 Financial Statement – USI Re

C – Comparison of actual and budgeted general and administrative expenses through 9/30/08

D – Companies' holdings of bonds and short- term investments as of 9/30/08

E—Home individual holdings report as of 9/30/08

Confidential Appendix

THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

**September 30, 2008 and December 31, 2007
(Unaudited)**

The Home Insurance Company In Liquidation

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

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$775,095,609	\$735,099,733
Short-term investments	-	10,771,262
Cash and cash equivalents	<u>87,709,889</u>	<u>108,145,048</u>
Total unrestricted bonds, short-term investments and cash at cost	862,805,498	854,016,043
Common stocks, marketable, at market value (Note 2)	577	1,078
Interest income due and accrued	8,475,839	7,505,546
Receivable from US International Reinsurance Company (Note 4)	<u>25,670</u>	<u>26,056</u>
Total unrestricted liquid assets	871,307,584	861,548,723
Unrestricted illiquid assets: (Note 1)		
Surplus notes, at fair value	146,800	146,800
Common stocks, at fair value	1,709,128	1,745,251
Limited partnership interests, at fair value	<u>2,014,731</u>	<u>1,903,995</u>
Total unrestricted illiquid assets	3,870,659	3,796,046
Restricted liquid assets - cash and cash equivalents (Note 5)	340,917	340,917
Total assets, excluding certain amounts	875,519,160	865,685,686
Liabilities		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	4,059,298	6,069,256
Notices of Determination approved for Class I creditors (Note 8)	2,932,508	80,610
Claims checks payable (Note 1)	<u>4,773</u>	<u>22,134</u>
Total liabilities	6,996,579	6,172,000
Net assets, excluding certain amounts	<u>\$868,522,581</u>	<u>\$859,513,686</u>

See accompanying notes.

The Home Insurance 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, 2008</u> To <u>September 30, 2008</u>	<u>January 1, 2007</u> To <u>December 31, 2007</u>
Cash and marketable securities received:		
Net investment income	\$ 31,205,421	\$ 38,566,462
Reinsurance collections - unrestricted	22,819,571	86,785,739
Receivable from Canadian Liquidator	3,330,950	-
Agents' balances	1,899,983	3,882,353
Realized capital gains on sale of bonds (Note 1)	1,887,926	94,493
Miscellaneous income	1,241,985	712,915
Salvage, subrogation and other claim recoveries	670,660	5,477,364
Receivable collected from USI Re	86,721	135,884
Return of special deposits	86,395	-
Deposits with outside claim adjusters	-	420
All other	52,350	505,500
Total cash receipts	63,281,962	136,161,130
Cash operating disbursements:		
Human resources costs (Note 3)	11,345,874	13,734,534
Realized capital losses on sale of bonds (Note 1)	2,506,189	436,714
Consultant and outside service fees	2,236,667	2,817,804
General office and rent expense	2,163,659	2,889,005
Legal and audit fees	948,385	1,321,503
Investment expenses	498,158	614,293
Losses and loss expenses paid (Note 1)	413,350	890,523
Computers and equipment cost	406,870	557,361
Administration costs	160,744	218,086
All other	15,907	734,484
Total cash operating disbursements	20,695,803	24,214,307
Excess of receipts over operating disbursements	42,586,159	111,946,823
Distributions to state guaranty associations (Note 8)	33,796,704	39,166,827
Class I Distributions	-	14,307,128
Excess of receipts over disbursements and distributions	8,789,455	58,472,868
Beginning cash and marketable securities, at cost	854,356,960	795,884,092
Ending cash and marketable securities, at cost	\$ 863,146,415	\$ 854,356,960

See accompanying notes.

The Home Insurance Company in Liquidation

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

	January 1, 2008 To <u>September 30, 2008</u>	January 1, 2007 To <u>December 31, 2007</u>
Net Assets, beginning of period	\$859,513,686	\$795,201,367
Excess of unrestricted and restricted receipts over disbursements and distributions	8,789,455	58,472,868
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(501)	(9,281)
Fair value of common stocks, including stock sale, illiquid (Note 1)	(36,123)	(189,825)
Fair value of limited partnership interests, illiquid	110,736	(390,518)
Interest income due and accrued	970,293	1,104,935
Due from USI Reinsurance	(386)	(8,626)
Incurred but unpaid administrative and investment expenses (Note 3)	2,009,958	172,172
Notices of Determination approved for Class I creditors (Note 8)	(2,851,898)	5,171,603
Claims checks payable	17,361	(11,009)
Net Assets, end of period	<u>\$868,522,581</u>	<u>\$859,513,686</u>

See accompanying notes.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements

September 30, 2008

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, early access distributions, 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.

The amount shown for losses and loss expenses paid primarily represents (1) loss expenses accorded administrative expense priority by the rehabilitation order and liquidation order, and (2) expenses relating to obtaining claim recoveries. Checks issued for such losses and loss expenses that are not cashed are reflected as liabilities.

Unrestricted illiquid assets represent investments in common stock and limited partnership interests which are not liquid since these are not publicly traded.

Realized capital gains and losses on sale of bonds are calculated based on original cost of the bonds. Proceeds received above or below cost on maturity of bonds are included as part of net investment income.

This statement does not include any assets of Home's branches outside of the United States.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements (continued)

2) Marketable Securities

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

	September 30, 2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Bonds:				
U.S. Treasury notes	\$ 112,063,935	\$ 1,790,814	\$ (86,650)	\$ 113,768,099
Government agencies	135,858,120	1,128,982	(392,615)	136,594,487
Corporate	281,479,631	770,543	(16,554,510)	265,695,664
Mortgage Backed	180,099,300	632,418	(3,125,450)	177,606,268
Asset Backed	<u>65,594,623</u>	<u>315,584</u>	<u>(1,999,382)</u>	<u>63,910,825</u>
Total Marketable Bonds	<u>\$ 775,095,609</u>	<u>\$ 4,638,341</u>	<u>\$ (22,158,607)</u>	<u>\$ 757,575,343</u>
Total Common Stock	\$ 1,628,052	\$ -	\$ (1,627,475)	\$ 577

The book value of unrestricted marketable bonds is \$770,120,492. Based on such book value, gross unrealized gains are \$4,663,586 and gross unrealized losses are \$17,208,735.

	December 31, 2007			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Bonds:				
U.S. Treasury notes	\$ 58,868,862	\$ 605,358	\$ (42,969)	\$ 59,431,251
Government agencies	164,515,040	3,268,410	-	167,783,450
Corporate	268,409,464	1,935,231	(6,176,732)	264,167,963
Mortgage Backed	174,215,686	652,441	(1,403,564)	173,464,563
Asset Backed	<u>69,090,681</u>	<u>1,516,701</u>	<u>(302,986)</u>	<u>70,304,396</u>
Total Marketable Bonds	<u>\$ 735,099,733</u>	<u>\$ 7,978,141</u>	<u>\$ (7,926,251)</u>	<u>\$ 735,151,623</u>
Total Common Stock	\$ 1,628,052	\$ -	\$ (1,626,974)	\$ 1,078

The book value of unrestricted marketable bonds is \$731,117,077. Based on such book value, gross unrealized gains are \$7,809,368 and gross unrealized losses are \$3,774,822.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements (continued)

2) Marketable Securities (continued)

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

Marketable Bonds	<u>Unrestricted</u>	
	<u>Cost</u>	<u>Fair Value</u>
September 30, 2008		
One year or less	\$ 38,864,643	\$ 37,338,144
Over one year through five years	382,389,117	374,727,652
Over five years through twenty years	108,147,926	103,992,454
Mortgage Backed	180,099,300	177,606,268
Asset Backed	<u>65,594,623</u>	<u>63,910,825</u>
Total	<u>\$ 775,095,609</u>	<u>\$ 757,575,343</u>

Marketable Bonds	<u>Unrestricted</u>	
	<u>Cost</u>	<u>Fair Value</u>
December 31, 2007		
One year or less	\$ 74,865,155	\$ 74,294,176
Over one year through five years	290,922,071	290,208,646
Over five years through twenty years	126,006,140	126,879,842
Mortgage Backed	174,215,686	173,464,563
Asset Backed	<u>69,090,681</u>	<u>70,304,396</u>
Total	<u>\$ 735,099,733</u>	<u>\$ 735,151,623</u>

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

Notes to Financial Statements (continued)

3) Incurred But Unpaid Administrative Expenses and Investment Expenses

Accrued administrative expenses incurred in the normal course of Home's liquidation, but unpaid as of September 30, 2008, are as follows:

Human resources costs	\$2,905,998
Consultant and outside service fees	622,898
Other administration costs	198,936
General office and rent expense	74,861
Legal and auditing fees	68,751
Computer and equipment costs	<u>14,240</u>
Total accrued administrative expenses	<u>\$3,885,684</u>
Accrued investment expenses	<u>173,614</u>
Total accrued expenses	<u>\$4,059,298</u>

The amount of accrued expenses at December 31, 2007 was \$6,069,256 and net assets for 2008 increased by \$2,009,958 due to the decrease in the accrual.

Substantially all full-time employees of Home are covered by various employee incentive plans, which were approved by Merrimack County Superior Court of the State of New Hampshire (the Court) on January 29, 2008. The costs of these plans are primarily payable in 2009, but are based on 2008 service and were being accrued over the service period in 2008. Accrued administrative expense includes \$2,905,173 of incentive plan costs.

4) Receivable from US International Reinsurance Company (USI Re)

At September 30, 2008 and December 31, 2007, Home had amounts receivable of \$25,670 and \$26,056, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$86,721 and \$135,884 for such expenses in 2008 and 2007 respectively.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

(Notes to Financial Statements (continued))

5) Restricted Funds

The Liquidator has drawn down on letters of credit (LOC) upon receiving notices of cancellation or notices of non-renewal from the issuing bank. Such LOC draw downs relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Liquidator. Restricted funds related to reinsurance recoveries total \$340,917 at the end of September 30, 2008.

6) Securities on Deposit

Investments on deposit at the original cost with various states were \$1,812,775, \$1,869,677 and \$73,947,287 at September 30, 2008, December 31, 2007, and June 11, 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.

Various states have withdrawn such deposits at par value of \$48,102,110, and market value as of September 30, 2008 of \$49,516,486, for use by the related state guaranty associations, and these amounts may be offset against future distributions to such guaranty associations.

7) Early Access Distribution

On November 19, 2007, the Court approved a fourth early access distribution to insurance guaranty associations based on guaranty association payments through September 30, 2007. The Liquidator paid \$33,796,704 in February 2008 relating to this early access distribution. Early access payments through September 30, 2008 were \$165.6 million. The Liquidator may periodically make additional early access distributions in the future, subject to Court approval.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(Unaudited)

(Notes to Financial Statements (continued))

7) Early Access Distribution (continued)

Early access distributions and related advances are not recorded as assets in the accompanying Statement of Net Assets although they represent payments in advance of distributions to other claimants. Early access distributions and related advances will ultimately be credited against amounts payable to Guaranty Associations to ensure pro rata distributions amongst members of the same class of creditor of Home. The following summary represents early access distributions and related advances that are not reflected in the Statement of Net Assets.

Early Access Distributions paid in cash	\$165,619,757
Assets withdrawn from special deposits held by states to pay Home claims (market value, see note 7)	49,516,486
Other deemed Early Access advances paid in cash	<u>3,152,304</u>
Total	<u>\$218,288,547</u>

8) Allowed Claims

As of September 30, 2008, the Liquidator has allowed, and the Court has approved, \$17,622,716 of Class I claims, \$499,589,406 of Class II claims, \$72,979,798 of Class V claims and \$5,315 of Class VIII claims. The Class I claims, which were primarily paid in April 2007, include \$14,744,631 for Guaranty Associations administrative costs (net of offsets), and \$26,187 for other creditors. Class I claims for Guaranty Association administrative costs of \$2,932,508 are unpaid at September 30, 2008. It is management's judgment that there will not be sufficient assets to make distributions on allowed claims below the Class II priority. 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.

US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

**September 30, 2008 and December 31, 2007
(Unaudited)**

US International Reinsurance Company In Liquidation

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

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Assets		
Unrestricted liquid bonds, short-term investments and cash at cost:		
Bonds, at cost (Note 3)	\$ 2,024,821	\$ 442,082
Short-term investments	2,065,503	3,530,746
Cash and cash equivalents	<u>1,095,927</u>	<u>1,174,240</u>
Total unrestricted liquid bonds, short-term investments and cash at cost	5,186,251	5,147,068
Interest income due and accrued	7,218	1,884
Total unrestricted liquid assets	<u>5,193,469</u>	<u>5,148,952</u>
Restricted liquid assets:		
Bonds, at cost (Note 3)	<u>343,487</u>	<u>339,109</u>
Total restricted liquid bonds at cost	343,487	339,109
Interest income due and accrued	1,299	4,385
Total restricted liquid assets	<u>344,786</u>	<u>343,494</u>
Total assets, excluding certain amounts	5,538,255	5,492,446
Liabilities		
Incurred but unpaid administrative expenses (Note 6)	196	11,466
Payable to The Home Insurance Company in Liquidation (Note 2 & 5)	25,670	26,056
Net assets, excluding certain amounts	<u><u>\$ 5,512,389</u></u>	<u><u>\$ 5,454,924</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)**

	January 1, 2008 To <u>September 30, 2008</u>	January 1, 2007 To <u>December 31, 2007</u>
Cash and marketable securities received:		
Reinsurance collections	\$ 8,803	\$ 121,574
Net investment income	191,585	208,735
All other	-	9,804
Total cash and marketable securities received	<u>200,388</u>	<u>340,113</u>
Cash operating disbursements:		
Consultant and outside service fees	65,565	61,500
Net payments to Home Insurance Company (Note 2)	86,721	135,884
All other	4,541	10,834
Total cash operating disbursements	<u>156,827</u>	<u>208,218</u>
Excess of receipts over operating disbursements	43,561	131,895
Beginning cash and marketable securities, at cost	5,486,177	5,354,282
Ending cash and marketable securities, at cost	<u>\$ 5,529,738</u>	<u>\$ 5,486,177</u>

See accompanying notes.

US International Reinsurance Company in Liquidation

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

	January 1, 2008 To September 30, 2008	January 1, 2007 To December 31, 2007
Net Assets, beginning of period	\$5,454,924	\$5,316,602
Excess of receipts over operating disbursements	43,561	131,895
Other changes in net assets:		
Interest income due and accrued	2,248	6,269
Incurred but unpaid administrative expenses	11,270	(8,468)
Payable to The Home Insurance Company in Liquidation	386	8,626
Net Assets, end of period	<u>\$5,512,389</u>	<u>\$5,454,924</u>

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

Notes to Financial Statements

September 30, 2008

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 September 30, 2008 and December 31, 2007, the Liquidator accrued liabilities of \$25,670 and \$26,056, respectively, to Home for USI Re's allocated share of various administrative expenses incurred. In 2008, the amount paid to Home was \$86,721 for such expenses.

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>September 30, 2008</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Unrestricted Marketable Bonds				
U.S. Treasury notes	\$ 2,024,821	\$ -	\$ (25,881)	\$ 1,998,940
Restricted Marketable Bonds				
U.S. Treasury notes	\$ 343,487	\$ -	\$ (2,527)	\$ 340,960
	<u>December 31, 2007</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Unrestricted Marketable Bonds				
U.S. Treasury notes	\$ 442,082	\$ 2,610	\$ -	\$ 444,692
Restricted Marketable Bonds				
U.S. Treasury notes	\$ 339,109	\$ 4,919	\$ -	\$ 344,028

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

Notes to Financial Statements (continued)

3) Marketable Securities (continued)

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

Marketable Bonds	Unrestricted		Restricted	
	Cost	Fair Value	Cost	Fair Value
September 30, 2008 One year or less	\$ 2,024,821	\$ 1,998,940	\$ 343,487	\$ 340,960

Marketable Bonds	Unrestricted		Restricted	
	Cost	Fair Value	Cost	Fair Value
December 31, 2007 One year or less	\$ 442,082	\$ 444,692	\$ 339,109	\$ 344,028

4) Securities on Deposit

Investments on deposit with various states were \$487,277, \$477,938, and \$4,964,360 at September 30, 2008, December 31, 2007, 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 September 30, 2008 and December 31, 2007, the Statement of Restricted and Unrestricted Net Assets reflects restricted bonds for New Mexico of \$343,487 and \$339,109 respectively. These funds are held for the policyholders and creditors, as such amounts have not been settled and agreed to with New Mexico.

5) Incurred But Unpaid Administrative Expenses

USI Re incurred administrative expenses relating to outside service fees of \$25,866, in the normal course of liquidation, that were unpaid as of September 30, 2008.

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

Notes to Financial Statements (continued)

6) Allowed Claims

As of September 30, 2008, the Liquidator has allowed, and the Court has approved, \$3,811,450 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.

The Home Insurance Company in Liquidation
 US International Reinsurance Company in Liquidation
 G&A Expenses (Actual vs Budget)
 September 30, 2008

	YTD			Full Year Budget
	Actual 9/30/08	Budget 9/30/08	Variance 9/30/08	
General & Administrative Expense				
Salary and Benefits	10,316,995	10,252,649	64,347	13,672,394
Travel	45,069	121,530	(76,461)	166,598
Rent	1,697,189	1,691,067	6,121	2,254,765
Equipment	334,015	418,125	(84,110)	557,500
Printing and Stationery	45,092	68,600	(23,507)	91,767
Postage	30,356	39,450	(9,094)	52,636
Telephone	237,237	274,200	(36,963)	365,600
Disaster Recovery	10,700	8,100	2,600	10,800
Outside Services, including Special Deputy	1,807,910	2,042,656	(234,746)	2,727,628
Licensing Fees	630	1,000	(370)	1,000
Legal and Auditing	465,471	945,300	(479,829)	1,221,900
Bank Fees	102,349	114,750	(12,401)	153,000
Corporate Insurance	100,565	116,198	(15,633)	116,600
Miscellaneous (Income) Expenses	(9,565)	4,588	(14,153)	6,120
Total Expenses Incurred	15,184,013	16,098,213	(914,199)	21,398,308

The Home Insurance Company in Liquidation
 Portfolio Summary Report- Bonds and Short Term Investments
 Securities Held as of September 30, 2008
 (000's)

Conning Managed:

% of AV Fixed Income	Book Value	Market Value	Unrealized Gain (Loss)	Eff Mat (Years)	Book Yield	Average Credit Quality	Earned Income 9/30/08
8%	69,954	69,954	-	0.11	2.49	Aaa	1,088
12%	101,863	103,963	2,100	4.63	3.37	Aaa	1,202
16%	135,810	136,594	784	2.80	4.63	Aaa	5,220
33%	277,213	265,696	(11,517)	3.77	4.84	A1	10,551
19%	155,829	155,025	(804)	5.49	5.45	Aaa	5,695
3%	23,897	22,581	(1,315)	2.99	4.40	Aaa	791
8%	65,743	63,911	(1,832)	2.42	5.30	Aa1	2,631
100%	830,308	817,724	(12,584)	3.60	4.56	Aa2	27,178

Other investments- Home Insurance

100%	9,766	9,805	39	0.25	2.02	Aaa	736
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Total Home Insurance

	840,074	827,529	(12,545)	3.56	4.53	Aa1	27,914
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Other investments- USI Re

100%	4,410	4,416	6	0.28	1.67	Aaa	77
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Grand total (1)

	844,484	831,945	(12,539)	3.55	4.51	Aa1	27,991 (2)
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(1) Investment balances do not include cash amounts invested in sweep accounts of Citizens Bank and investments in common stocks and limited partnerships.

(2) On an annualized basis, the total estimated income generated by the portfolio, calculated based on holdings as of September 30, 2008, would be \$ 39.9 million.

**THE HOME INSURANCE COMPANY IN LIQUIDATION
HOLDINGS REPORT
AS OF SEPTEMBER 30, 2008**

CUSIP	DESCRIPTION	CPN MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
1667T0KG7	CHEVRON CORPORATION	10/16/2008	5,000,000.00	4,995,208.35	4,995,208.35
4042F0K26	HSBC FINANCE CORP	10/02/2008	3,000,000.00	2,999,791.68	2,999,791.68
74433GLE4	PRUDENTIAL FUNDING LLC	11/14/2008	5,000,000.00	4,982,277.80	4,982,277.80
89233GKU9	TOYOTA MOTOR CREDIT CORP	10/28/2008	5,000,000.00	4,989,687.50	4,989,687.50
313384L72	FED HOME LN DISCOUNT NT	10/23/2008	5,000,000.00	4,993,583.36	4,993,583.36
313384L80	FED HOME LN DISCOUNT NT	10/24/2008	10,000,000.00	9,985,305.60	9,985,305.60
313384P37	FED HOME LN DISCOUNT NT	11/12/2008	10,000,000.00	9,972,583.30	9,972,583.30
313384P94	FED HOME LN DISCOUNT NT	11/18/2008	5,000,000.00	4,983,666.65	4,983,666.65
313384Q85	FED HOME LN DISCOUNT NT	11/25/2008	5,000,000.00	4,980,902.80	4,980,902.80
313384R76	FED HOME LN DISCOUNT NT	12/02/2008	2,000,000.00	1,990,527.78	1,990,527.78
313384S75	FED HOME LN DISCOUNT NT	12/10/2008	5,000,000.00	4,971,805.55	4,971,805.55
313396N33	FREDDIE MAC DISCOUNT NT	11/04/2008	5,000,000.00	4,989,289.60	4,989,289.60
313396U35	FREDDIE MAC DISCOUNT NT	12/22/2008	5,000,000.00	4,969,250.00	4,969,250.00
177366101	CITIZENSSELECT PRIME MMF	2.570 10/15/2008	150,040.58	150,040.58	150,040.58
TOTAL CASH & CASH EQUIVALENTS			70,150,040.58	69,953,920.55	69,953,920.55
U S TREASURY					
912810DV7	US TREASURY N/B	9.250 02/15/2016	74,000.00	79,212.74	101,310.44
9128277B2	US TREASURY N/B	5.000 08/15/2011	5,000,000.00	5,168,816.95	5,397,655.00
912828AJ9	US TREASURY N/B	4.375 08/15/2012	5,000,000.00	5,117,031.15	5,324,610.00
912828CT5	US TREASURY N/B	4.250 08/15/2014	25,000,000.00	26,043,898.00	26,619,150.00
912828FH8	US TREASURY N/B	4.875 05/31/2011	5,000,000.00	4,981,508.75	5,359,375.00
912828GT1	US TREASURY N/B	4.875 05/31/2009	9,510,000.00	9,687,074.49	9,703,908.90
912828HK9	US TREASURY N/B	3.375 11/30/2012	30,000,000.00	30,310,787.10	30,721,860.00
912828JD3	US TREASURY N/B	3.375 6/30/2013	25,000,000.00	25,192,732.75	25,501,950.00
912828JK7	US TREASURY N/B	3.125 8/31/2013	5,000,000.00	5,048,573.55	5,038,280.00
TOTAL U S TREASURY			109,584,000.00	111,629,635.48	113,768,099.34
GOVERNMENT AGENCIES					
3128X3VA8	FREDDIE MAC	4.125 09/01/2009	10,000,000.00	9,994,327.70	10,068,290.00
3128X4N56	FREDDIE MAC	5.250 02/24/2011	5,000,000.00	4,984,697.55	5,039,470.00
3128X5LP1	FREDDIE MAC	5.250 10/06/2011	35,000,000.00	34,979,816.95	35,011,375.00
3128X6NS1	FREDDIE MAC	5.050 10/15/2012	10,000,000.00	9,987,600.00	10,198,790.00
3134A4UK8	FREDDIE MAC	4.875 11/15/2013	10,000,000.00	10,574,088.80	10,406,250.00
3134A4VG6	FREDDIE MAC	4.750 11/17/2015	10,000,000.00	9,981,759.90	10,159,375.00
31359MXJ7	FANNIE MAE	4.350 1/25/2010	35,000,000.00	34,999,100.15	35,426,562.50
3137EABE8	FREDDIE MAC	4.125 12/21/2012	10,000,000.00	10,242,654.90	10,103,125.00
31398AGR7	FANNIE MAE	5.200 09/10/2012	10,000,000.00	10,066,174.00	10,181,250.00
TOTAL GOVERNMENT AGENCIES			135,000,000.00	135,810,219.95	136,594,487.50
TOTAL GOVERNMENT & AGENCIES			244,584,000.00	247,439,855.43	250,362,586.84
CORPORATE					
00206RAF9	AT&T INC	4.950 01/15/2013	2,000,000.00	1,998,696.12	1,916,000.00
013817AD3	ALCOA INC	6.500 06/01/2011	3,000,000.00	3,147,828.21	3,062,886.00
025816AQ2	AMERICAN EXPRESS	4.875 07/15/2013	3,000,000.00	3,010,158.84	2,678,175.00
02581FYM5	AMERICAN EXPR CENTURION	5.200 11/26/2010	4,250,000.00	4,248,131.79	3,981,808.00

**THE HOME INSURANCE COMPANY IN LIQUIDATION
HOLDINGS REPORT
AS OF SEPTEMBER 30, 2008**

CUSIP	DESCRIPTION	CPN	MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
03076CAA4	AMERIPRISE FINANCIAL INC	5.350	11/15/2010	3,000,000.00	2,989,509.90	2,947,311.00
031162AJ9	AMGEN INC	4.850	11/18/2014	7,000,000.00	6,727,970.91	6,707,449.00
035229CH4	ANHEUSER-BUSCH COS INC	6.000	04/15/2011	5,000,000.00	5,196,969.91	4,972,950.00
037411AQ8	APACHE CORP	6.250	04/15/2012	3,000,000.00	3,153,354.51	3,101,934.00
054937AC1	BB&T CORP	6.500	08/01/2011	4,000,000.00	4,126,915.88	3,901,496.00
06406HBE8	BANK OF NEW YORK MELLON	4.950	11/01/2012	4,000,000.00	3,973,212.96	3,803,264.00
07385TAJ5	BEAR STEARNS CO INC	5.700	11/15/2014	5,000,000.00	5,214,434.55	4,674,440.00
084664AR2	BERKSHIRE HATHAWAY FIN	4.125	01/15/2010	3,000,000.00	2,998,530.58	3,011,631.00
097014AG9	BOEING CAPITAL CORP	6.500	02/15/2012	4,000,000.00	4,346,932.56	4,250,544.00
125577AZ9	CIT GROUP INC	7.625	11/30/2012	3,425,000.00	3,395,110.30	2,172,703.55
125581AR9	CIT GROUP INC	5.000	02/01/2015	2,000,000.00	1,924,599.06	988,594.00
126650AV2	CVS CORP	4.875	09/15/2014	3,000,000.00	3,021,106.14	2,806,377.00
134429AM1	CAMPBELL SOUP COMPANY	6.750	02/15/2011	3,000,000.00	3,142,099.44	3,193,587.00
14912L2M2	CATERPILLAR FIN SERV CRP	4.750	02/17/2015	4,000,000.00	3,835,689.96	3,638,308.00
14912L3G4	CATERPILLAR FIN SERV CRP	5.125	10/12/2011	2,000,000.00	1,994,016.44	2,009,426.00
17275RAB8	CISCO SYSTEMS INC	5.250	02/22/2011	4,000,000.00	3,994,583.04	4,083,332.00
20825UAB0	CONOCO FUNDING CO	6.350	10/15/2011	5,000,000.00	5,219,615.52	5,178,120.00
22541LAC7	CREDIT SUISSE FB USA INC	6.500	01/15/2012	5,000,000.00	5,243,220.96	4,933,980.00
24422EQM4	JOHN DEERE CAPITAL CORP	4.950	12/17/2012	6,500,000.00	6,494,368.53	6,323,473.00
278058DF6	EATON CORP	4.900	05/15/2013	7,000,000.00	7,006,580.42	6,830,404.00
291011AU8	EMERSON ELECTRIC	4.750	10/15/2015	3,000,000.00	2,905,131.00	2,897,232.00
302570AJ5	FPL GROUP CAPITAL INC	7.375	06/01/2009	3,000,000.00	3,065,492.13	3,074,040.00
33738MAD3	FIRST UNION NATL BANK	7.875	02/15/2010	3,000,000.00	3,145,548.21	2,619,099.00
341081EN3	FLORIDA POWER & LIGHT	4.850	02/01/2013	2,000,000.00	2,030,887.00	1,996,320.00
341099BZ1	FLORIDA POWER CORP	6.650	07/15/2011	2,000,000.00	2,133,013.42	2,089,520.00
368710AG4	GENENTECH INC	4.750	07/15/2015	3,000,000.00	2,892,717.30	2,786,541.00
369550AM0	GENERAL DYNAMICS CORP	5.375	08/15/2015	3,000,000.00	3,004,424.01	2,999,715.00
36962GP65	GENERAL ELEC CAP CORP	4.875	03/04/2015	5,000,000.00	4,864,365.75	4,516,130.00
36962GY4	GENERAL ELEC CAP CORP	6.000	06/15/2012	5,000,000.00	5,144,551.60	4,825,870.00
37247XAC6	GENWORTH GLOBAL FUNDING	5.125	03/15/2011	3,270,000.00	3,265,152.03	3,090,499.89
373334FN6	GEORGIA POWER COMPANY	5.125	11/15/2012	4,000,000.00	4,072,964.48	3,999,640.00
377372AA5	GLAXOSMITHKLINE CAP INC	4.375	04/15/2014	5,000,000.00	4,948,425.50	4,743,280.00
41283DAA1	HARLEY-DAVIDSON FUNDING	5.250	12/15/2012	7,000,000.00	6,993,214.41	6,651,120.00
41659EEV5	HARTFORD LIFE GLOB FUND	5.200	02/15/2011	4,000,000.00	3,994,534.36	3,926,816.00
427866AK4	HERSHEY CO	6.950	08/15/2012	2,000,000.00	2,126,194.88	2,148,374.00
428236AQ6	HEWLETT-PACKARD CO	4.500	03/01/2013	5,000,000.00	5,003,631.48	4,804,390.00
438516AK2	HONEYWELL INTERNATIONAL	7.500	03/01/2010	3,000,000.00	3,126,568.92	3,155,058.00
441812KA1	HSBC FINANCE CORP	6.375	11/27/2012	2,000,000.00	2,110,209.60	1,924,764.00
459200BA8	IBM CORP	4.750	11/29/2012	3,000,000.00	3,007,750.08	3,003,183.00
459745FM2	INTL LEASE FINANCE CORP	4.750	07/01/2009	3,000,000.00	3,003,601.32	2,474,730.00
49337WAB8	KEYSPAN CORP	7.625	11/15/2010	3,000,000.00	3,183,166.17	3,153,990.00
548661CH8	LOWES COMPANIES INC	5.000	10/15/2015	3,000,000.00	2,918,551.26	2,884,560.00
585515AD1	MELLON FUNDING CORP	5.000	12/01/2014	3,000,000.00	3,057,496.08	2,576,718.00
629491AA9	NYSE EURONEXT	4.800	06/28/2013	7,000,000.00	6,984,337.99	6,664,140.00
637432CV5	NATIONAL RURAL UTILITIES	5.750	08/28/2009	3,000,000.00	3,042,344.04	3,038,070.00
638585AN9	BANK OF AMERICA CORP	7.750	08/15/2015	2,000,000.00	2,255,097.64	1,959,614.00
67021CAA5	NSTAR ELECTRIC CO	4.875	10/15/2012	5,000,000.00	5,064,113.95	4,954,700.00
670346AE5	NUCOR CORP	4.875	10/01/2012	5,475,000.00	5,571,467.31	5,497,644.60
695114BU1	PACIFICORP	6.900	11/15/2011	3,000,000.00	3,206,314.59	3,168,960.00
713448BG2	PEPSICO INC	4.650	02/15/2013	7,000,000.00	6,998,628.77	7,104,615.00
724479AG5	PITNEY BOWES INC	5.000	03/15/2015	2,000,000.00	1,944,793.00	1,904,282.00
72447WUJ3	PITNEY BOWES INC	4.875	08/15/2014	3,000,000.00	2,988,356.25	2,924,103.00
74005PAJ3	PRAXAIR INC	6.375	04/01/2012	2,000,000.00	2,142,112.24	2,079,970.00
74254PLA8	PRINCIPAL LIFE INC FDG	5.125	03/01/2011	4,000,000.00	3,989,145.44	3,997,436.00
742718BZ1	PROCTER & GAMBLE CO	4.850	12/15/2015	3,000,000.00	2,919,664.71	3,007,005.00
74367FAB4	PROTECTIVE LIFE SECD TR	4.000	04/01/2011	4,000,000.00	3,884,624.44	3,970,972.00
744448BU4	PUBLIC SERV CO OF COLO	7.875	10/01/2012	2,000,000.00	2,228,806.72	2,177,520.00
78387GAS2	AT&T INC	5.300	11/15/2010	5,000,000.00	4,992,480.95	5,076,200.00
78442FBG2	SLM CORP	5.000	10/01/2013	3,000,000.00	2,965,840.20	1,860,000.00
87612EAG1	TARGET CORP	5.400	10/01/2008	3,000,000.00	3,000,000.00	3,000,000.00

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CUSIP	DESCRIPTION	CPN MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
88319QJ20	TEXTRON FINANCIAL CORP	5.125 02/03/2011	3,000,000.00	2,978,481.36	3,004,317.00
893526CC5	TRANS-CANADA PIPELINES	8.625 05/15/2012	2,000,000.00	2,256,555.66	2,163,760.00
90331VBA9	US BANK NA	5.700 12/15/2008	3,000,000.00	3,012,691.08	3,006,498.00
911312AG1	UNITED PARCEL SERVICE	4.500 01/15/2013	7,000,000.00	7,152,408.55	7,075,670.00
913017BF5	UNITED TECHNOLOGIES CORP	6.100 05/15/2012	3,000,000.00	3,253,466.49	3,105,015.00
913017BG3	UNITED TECHNOLOGIES CORP	4.375 05/01/2010	4,000,000.00	3,995,286.76	4,067,448.00
91324PAK8	UNITEDHEALTH GROUP INC	4.125 08/15/2009	3,000,000.00	2,997,689.04	2,972,607.00
92857WAF7	VODAFONE GROUP PLC	5.000 12/16/2013	3,000,000.00	2,981,297.10	2,832,021.00
931142BV4	WAL-MART STORES	4.125 02/15/2011	3,000,000.00	3,010,284.75	3,014,820.00
949746CL3	WELLS FARGO & COMPANY	5.125 09/01/2012	2,000,000.00	1,997,553.06	1,923,564.00
98151GAA3	WACHOVIA MORTGAGE FSB	4.125 12/15/2009	3,000,000.00	2,997,595.56	2,634,930.00
TOTAL CORPORATE			273,920,000.00	277,212,665.17	265,695,664.04

MORTGAGE BACKED

07383FA57	BSCMS 2004-T14 A2	4.170 01/12/2041	1,651,755.27	1,651,755.27	1,639,278.41
07383FQ50	BSCMS 2004-PWR5 A5	4.978 07/11/2042	5,000,000.00	5,104,463.45	4,592,813.50
3128L0DF6	FHLMC POOL A68202	6.000 11/01/2037	2,199,787.07	2,252,328.46	2,228,930.09
3128L0EF5	FHLMC POOL A68234	6.000 11/01/2037	9,476,831.90	9,541,780.80	9,602,382.01
3128MJAD2	FHLMC POOL G08003	6.000 07/01/2034	4,527,758.30	4,614,632.53	4,597,647.01
31292JBR0	FHLMC POOL C01848	6.000 06/01/2034	4,802,584.97	4,940,016.99	4,881,260.39
31297ECP9	FHLMC POOL A2-6378	6.000 09/01/2034	3,419,101.50	3,509,470.81	3,471,877.42
31297HX46	FHLMC POOL A2-9699	5.000 01/01/2035	3,455,082.20	3,456,220.48	3,370,995.45
31335H5U3	FHLMC POOL C90859	5.500 10/01/2024	5,435,956.60	5,557,016.33	5,450,344.16
31376KEL6	FNMA POOL 357539	5.500 04/01/2034	5,459,634.10	5,452,949.54	5,455,446.29
31395RAR9	FHRR R001 AE	4.375 04/15/2015	8,127,171.88	8,068,174.38	8,125,817.89
31396LYT1	FNBR 2006-B2 AB	5.500 05/25/2014	5,639,821.30	5,669,220.39	5,722,552.97
31396NPF7	FHRR R007 AC	5.875 05/15/2016	7,549,241.01	7,571,250.97	7,709,851.87
31396V2P2	FNBR 2007-B2 AB	5.500 12/25/2020	8,345,889.90	8,352,737.87	8,420,702.46
31397G7M6	FHRR R011 AB	5.500 12/15/2020	8,218,561.60	8,278,435.88	8,267,877.90
31407K5D7	FNMA POOL 833444	6.000 09/01/2035	2,778,097.10	2,827,396.46	2,817,940.18
31413FGK2	FNMA POOL 944002	6.000 08/01/2037	9,365,137.01	9,307,547.32	9,495,997.10
36202D5C1	GNMA 2M POOL 3543	5.000 04/20/2034	5,198,765.50	5,192,246.92	5,084,144.47
36202EAK5	GNMA 2M POOL 3610	5.500 09/20/2034	5,133,590.70	5,231,414.76	5,129,106.97
36202EUT4	GNMA 2M POOL 4194	5.500 07/20/2038	14,961,574.95	14,994,303.40	14,938,858.19
36202EUU1	GNMA 2M POOL 4195	6.000 07/20/2038	14,958,605.85	15,253,103.40	15,174,334.08
36202EVN6	GNMA 2M POOL 4221	5.500 08/20/2038	9,986,740.60	9,908,825.55	9,971,577.33
36202EVP1	GNMA 2M POOL 4222	6.000 08/20/2038	9,986,088.40	10,107,596.83	10,130,104.57
396789JR1	GCCFC 2005-GG3 A2	4.305 08/10/2042	3,000,000.00	3,002,505.81	2,940,389.70
466247TW3	JPMMT 2005-A6 3A2	5.207 09/25/2035	3,979,000.00	3,970,962.44	3,450,851.41
52108H4U5	LBUBS 2005-C3 AAB	4.664 07/15/2030	3,000,000.00	3,008,643.15	2,783,483.40
52108HE34	LBUBS 2004-C4 A3	5.144 06/15/2029	3,000,000.00	3,051,101.61	2,933,555.70
52108HE42	LBUBS 2004-C4 A4	5.294 06/15/2029	2,000,000.00	2,065,954.98	1,888,841.80
61745ML27	MSC 2004-T15 A2	4.690 06/13/2041	3,000,000.00	3,005,876.46	2,948,903.10
61745MW25	MSC 2005-T17 A4	4.520 12/13/2041	3,000,000.00	3,006,560.01	2,854,161.60
94981UAF6	WFMBBS 2005-AR2 2A2	4.549 03/25/2035	1,765,036.47	1,770,955.86	1,526,239.57
TOTAL MORTGAGE BACKED			178,421,814.18	179,725,449.11	177,606,266.99

ASSET BACKED

030612AC9	AMCAR 2006-RM A3	5.530 01/06/2014	5,000,000.00	4,999,268.60	4,314,170.50
048312AF9	ACETF 2003-1 A2	4.460 10/20/2016	3,500,000.00	3,427,472.48	3,400,825.05
14041NCU3	COMET 2006-A6 A6	5.300 02/18/2014	5,000,000.00	4,991,523.44	4,895,767.00
14041NDA6	COMET 2006-A10 A10	5.150 06/16/2014	3,000,000.00	2,978,463.00	2,963,708.40
161571AQ7	CHAIT 2005-A7 A7	4.550 03/15/2013	5,000,000.00	4,953,446.79	4,935,144.50
161571AW4	CHAIT 2005-A10 A10	4.650 12/17/2012	5,000,000.00	4,928,418.30	4,929,950.50
17305ECU7	CCCIT 2005-A7 A7	4.750 10/22/2012	7,500,000.00	7,436,016.62	7,435,749.00

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17305EDF9	CCCIT 2006-A4 A4	5.450 05/10/2013	5,000,000.00	4,998,719.45	4,998,427.00
233046AA9	DUNKN 2006-1 A2	5.779 06/20/2031	5,000,000.00	5,003,346.68	4,284,800.00
41283ABJ7	HDMOT 2004-1 B	2.000 11/15/2011	599,749.26	599,749.26	598,835.36
477876AD8	JDOT 2007-A A4	5.070 04/15/2014	5,000,000.00	4,989,226.80	4,909,215.00
55264TDE8	MBNAS 2005-A6 A6	4.500 01/15/2013	5,000,000.00	4,922,767.90	4,959,133.50
693401AE1	PERF 2005-1 A5	4.470 12/25/2014	3,250,000.00	3,250,000.00	3,083,565.23
69361YAF0	PEGTF 2001-1 A6	6.610 06/15/2015	4,000,000.00	4,211,740.27	4,147,267.60
705220AM3	PECO 2001-A A1	6.520 12/31/2010	3,000,000.00	3,052,391.04	3,078,837.60
962215AG4	WESTO 2005-3 B	4.500 05/17/2013	1,000,000.00	999,971.18	975,429.00
TOTAL ASSET BACKED			65,849,749.26	65,742,521.81	63,910,825.24
TOTAL MARKETABLE SECURITIES			762,775,563.44	770,120,491.52	757,575,343.11
TOTAL MARKETABLE , CASH AND C/E			832,925,604.02	840,074,412.07	827,529,263.66