

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 TWENTY-THIRD 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 twenty-third report on the liquidations of the Companies, as of December 14, 2006, 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 149 new proofs of claim (145 for Home and 4 for USI Re) between the last Liquidator's report and December 4, 2006. The proofs of claim submitted now total 19,618 (19,394 for Home and 224 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) the 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 claims continues. Since the last Liquidator's report, the Liquidator has issued partial or final notices of determination addressing 592 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005. As of December 4, 2006, the notices of determination issued have addressed 3,649 proofs of claim (3,618 for Home and 31 for USI Re). Eight-five claimants have filed requests for review and sixty-one of these have been sent notices of redetermination. There now are eleven unresolved disputed claim proceedings pending before the Referee. 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. Since the last Liquidator's report, the Liquidator submitted two further reports of claims and recommendations to the Court. The Liquidator has now presented and the Court has approved claims recommendations for a total of 2,630 claims (2,608 for Home and 22 for USI Re) involving a total allowed amount of \$193 million.

3. Financial reports. Copies of the unaudited September 30, 2006 financial statements for Home and USI Re are attached as Exhibits A and B to this report. The September 30, 2006 Home statements reflect \$769,291,831 in assets under the Liquidator's direct control, and \$66,924,821 in collections and other receipts and \$20,219,136 in operating disbursements of the liquidation during 2006. The September 30, 2006 USI Re statements reflect \$3,415,024 in assets under the Liquidator's direct control, and \$662,285 in collections and other receipts and \$415,708 in operating disbursements of the liquidation during 2006.

4. 2006 and 2007 budgets. A comparison of the actual and budgeted general and administrative expenses, on an incurred basis, through September 30, 2006 is attached as Exhibit C. As of September 30, 2006, actual expenses were below budget by approximately \$1.8

million or 9.2%, with favorable variances in nearly all categories. Below is a comparison of Home's 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	23.7 expected
2007	22.8	

The 2007 general and administrative expense budget is \$22.8 million and is attached as Exhibit D.

5. Investment update. A summary of the Companies' holdings of bonds and short-term investments as of September 30, 2006 is attached as Exhibit E, and the Companies' Investment Guidelines as approved by the Court on February 17, 2005 are attached as Exhibit F. The book value of Home's bonds and short-term investments managed by Conning Asset Management (Conning) at September 30, 2006, was approximately \$674.2 million compared to the market value of approximately \$664.8 million, an unrealized loss of \$9.4 million due to a decrease in market interest rates during the quarter. Home maintains significant amounts of highly liquid investments to avoid realizing losses resulting from market fluctuations. Short-term holdings will likely increase by year-end due to \$80 million of bond maturities in the fourth quarter. While Conning intends to gradually reduce the amount of Home's short-term holdings, they are proceeding cautiously due to fluctuations in interest rates. Home and USI Re also continued to maintain approximately \$42.4 million and \$2.8 million, respectively, book value of Treasury bill investments outside of Conning's control. These assets will be used to fund operating requirements and the third early access distribution.

6. Early Access Distributions to Guaranty Funds. As described in the Liquidator's twenty-second report, the Liquidator has made early access distributions to guaranty funds in

early 2005 and 2006 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. Those early access distributions were in a total amount equal to 100% of guaranty fund loss and loss adjustment expense payments from the inception of this proceeding through September 30, 2005. The Liquidator intends to seek approval of a similar third early access distribution in the spring of 2007 based on guaranty fund payments through September 30, 2006 reported to the Liquidator as of December 15, 2006. This distribution will also be conditioned upon the Liquidator obtaining a waiver of claims from the United States under the federal priority statute, 31 U.S.C. 3713. It is expected that the proposed third early access distribution (after deduction of deposits retained by certain states) will be approximately \$59 million.

7. The Canadian proceeding. The Canadian Liquidator of Home’s insurance business in Canada remitted US \$7 million during November 2006 to the Liquidator pursuant to the agreement approved by the Court on November 13, 2006. The Canadian Liquidator still holds approximately US \$3.9 million at current exchange rates. The only remaining issue to be resolved before closure of the Canadian Branch estate is obtaining tax clearance from Revenue Canada, and an audit in that regard is currently in progress. While a reserve for potential Canadian tax obligations may be necessary, it is expected that most of the remaining funds will be repatriated by 2009.

8. KWELM. Pursuant to the KWELM companies’ scheme of arrangement (the “KWELM Scheme”), the Liquidator and KWELM agreed on the amount of the Home’s liabilities ceded to KWELM (\$19.7 million). Home’s assumed liabilities from KWELM (all AFIA related) were the subject of adjudication under the terms of the KWELM Scheme. The

KWELM Scheme Adjudicator determined Home's assumed liability in the amount of \$3.9 million in February 2006. Distributions of \$13.9 million were then made by KWELM to the Liquidator based upon KWELM's net obligation to Home. Of the \$3.9 million determined against Home by the Scheme Adjudicator, CIC has agreed approximately \$2.7 million. The remaining amount is disputed by CIC. In accordance with the Court's July 27, 2006 ruling, the Liquidator has referred the dispute to arbitration pursuant to the August 6, 2004 Claims Protocol approved by the Court on November 12, 2004.

9. AFIA. On September 22, 2005, the Court issued its Order granting the Liquidator's motion for approval of the agreement with AFIA Cedents, which the ACE Companies and Benjamin Moore & Co. appealed to the New Hampshire Supreme Court. On December 5, 2006, the New Hampshire Supreme Court issued its decision affirming the Court's order. In the Matter of the Liquidation of The Home Insurance Company (No. 2005-0740). The Special Deputy Liquidator attended a meeting of the Scheme Creditors in London with the Joint Provisional Liquidator as required by the now fully operational Scheme of Arrangement implemented as a result of the agreement with AFIA cedents. Increased claim prosecution activity by AFIA Cedents is anticipated in the wake of the New Hampshire Supreme Court's decision.

10. Other Significant Litigation.

(a) Utica – In light of the New Hampshire Supreme Court's August 10, 2006 decision in Sevigny v. Utica Mutual Insurance Company, a status conference was conducted by the Court on October 30, 2006. The parties exchanged document discovery on December 1, 2006. Depositions are scheduled for spring 2007, after which the parties are to engage in mediation scheduled for September 2007.

(b) Pennsylvania Retaliatory Taxes -- The Liquidator appealed to the Pennsylvania Supreme Court from the Commonwealth Court's adverse decision concerning whether the value of New Jersey second injury fund assessments is required to be included in City's/Home's New Jersey basis for the computation of Pennsylvania retaliatory tax for the years 1986, 1987 and 1988. By Order dated November 22, 2006, the Pennsylvania Supreme Court affirmed the Commonwealth Court's decision. The Pennsylvania Supreme Court decision results in Home being liable for the tax of approximately \$1.2 million.

11. Reinsurance commutations and settlements. In accordance with the Court's March 23, 2004 order, the Liquidator reports that, since the last Liquidator's report, the Liquidator, on behalf of Home, entered into reinsurance commutation agreements with AGF Belgium, Federal Insurance Company, Insko Limited and UNUM Life Insurance Company of America. The Court approved the Insko commutation on December 1, 2006. The other commutation agreements are discussed in the confidential appendix submitted with this report. Commutation discussions with other reinsurers of Home and USI Re are continuing.

12. Deposits. Liquidation staff has been seeking to collect deposits made by Home and USI Re with various states and has collected deposits from or resolved issues with most states. Of the remaining deposits, the return of the \$100,000 special deposit posted by The Home Insurance Company of Illinois (a former subsidiary of The Home) with the Massachusetts Department of Insurance, now held by the Home's Ancillary Receiver in Massachusetts, has been approved by the Massachusetts Supreme Judicial Court for Suffolk County and is expected to be returned to the Liquidator shortly. In addition, discussions are ongoing with the California Department of Insurance with respect to the return of a \$100,000 deposit posted by USI Re. The remaining deposits were posted as a condition of licensure, and liquidation staff is working to

determine if any of such deposits may be returned without jeopardizing Home or USI Re's licenses in the various states.

13. 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.

14. U.S. Ancillary Proceedings. As previously reported, ancillary receiverships for Home are ongoing in Idaho, Oregon, New York, Massachusetts, and New Mexico. There are no pending ancillary proceedings for USI Re.

15. Information Technology. The Liquidator and Zurich have entered into an amendment to the Information Technology Services Agreement with Zurich that extended the agreement for an additional five years, terminating on December 31, 2013. While the extension of the term of the Agreement was the primary substantive change of this agreement, it also included certain changes to cost provisions, as well as changes to the exhibits, none of which were material. The amendment was approved by the Court on December 1, 2006.

16. Document storage. The Liquidator has entered into a new contract with Iron Mountain regarding storage of the over 162,000 boxes of documents housed at Iron Mountain facilities. The contract is for an initial term of five years that can be extended for an additional five years at the Liquidator's option. The Court approved the contract on December 1, 2006.

17. California subpoenas. On May 1, 2006, the Liquidator filed a Motion for Protective Order against three non-party subpoenas issued in three actions commenced in

California by policyholders of Home against Zurich-American Insurance Company and certain affiliates of Zurich. A Stipulation Regarding California Subpoenas and Liquidator's Motion for Protective Order was agreed by the parties and filed with the Court on June 20, 2006 and, thereafter, an Order approving the Motion and staying the proceedings was issued on June 22, 2006. The Court approved an agreed confidentiality order on August 31, 2006. Document production pursuant to the terms of the Stipulation is proceeding and is expected to be completed in the near future.

18. 2007 Compensation Plan. The Liquidator expects to file a motion for approval of the 2007 Compensation Plans with the Court within the next few weeks.

Respectfully submitted,



Roger A. Sevigny, Liquidator

December 15, 2006

CERTIFICATE OF SERVICE

I hereby certify that on December 18, 2006, a copy of the Liquidator's Twenty-Third Report, without the confidential appendix, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: December 18, 2006



Eric A. Smith

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

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Docket No. 03-E-0106

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Exhibits:

A – 9/30/06 Financial Statement – Home

B – 9/30/06 Financial Statement – USI Re

C - Comparison of the actual and budgeted general and administrative expenses through 9/30/06

D – 2007 general and administrative expense budget

E - Companies' holdings of bonds and short- term investments as of 9/30/06

F – Companies' Investment Guidelines

Confidential Appendix

THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

**September 30, 2006 and December 31, 2005
(Unaudited)**

The Home Insurance Company In Liquidation

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

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$620,387,592	\$553,994,879
Short-term investments	42,306,015	31,014,119
Cash and cash equivalents	99,749,766	157,778,126
Total unrestricted bonds, short-term investments and cash at cost	762,443,373	742,787,124
Common stocks, marketable, at market value (Note 2)	422,848	156,570
Interest income due and accrued	6,122,322	5,531,287
Total unrestricted liquid assets	768,988,543	748,474,981
Unrestricted illiquid assets: (Note 1)		
Surplus notes, at fair value	146,800	146,800
Common stocks, at fair value	1,916,660	1,898,952
Limited partnership interests, at fair value	2,294,513	2,679,098
Total unrestricted illiquid assets	4,357,973	4,724,850
Restricted liquid assets:		
Cash and cash equivalents (Note 5)	542,606	30,702,606
Total restricted liquid assets	542,606	30,702,606
Receivable from US International Reinsurance Company (Note 4)	38,505	128,842
Total assets, excluding certain amounts	773,927,627	784,031,279
Liabilities		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	4,605,007	5,739,948
Claims checks payable	30,789	-
Reserve related to real estate tax refund (Note 6)	-	171,214
Total liabilities	4,635,796	5,911,162
Net assets, excluding certain amounts	\$769,291,831	\$778,120,117

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, 2006</u> To <u>September 30, 2006</u>	<u>January 1, 2005</u> To <u>December 31, 2005</u>
Cash and marketable securities received:		
Net investment income	\$ 26,984,156	\$ 28,348,367
Reinsurance collections - unrestricted	25,999,540	31,295,567
Reinsurance collections - restricted	-	30,160,000
Repatriation of funds - Canadian branch (Note 1)	-	22,000,000
Return of special deposits	-	19,862,425
Remittance of funds held by reinsurers	4,607,379	4,344,793
Salvage, subrogation and other claim recoveries	4,367,305	15,405,157
Proceeds from sale of common stock (Note 1)	-	12,671,469
Agents' balances	2,708,135	4,605,499
Proceeds from distribution by subsidiary (Note 1)	-	4,249,800
Proceeds from sale of certificates of deposit	-	4,180,000
Receivable collected from USI Re	372,869	1,601,337
Deposits with outside claim adjusters	274,978	-
Miscellaneous income	21,637	388,443
All other	1,588,821	787,257
Total cash receipts	66,924,821	179,900,114
Cash operating disbursements:		
Human resources costs (Note 3)	11,313,939	14,307,327
Consultant and outside service fees	2,627,732	3,343,660
General office and rent expense	2,075,009	3,144,184
Legal and audit fees	1,331,012	1,943,942
Losses and loss expenses paid (Note 1)	772,957	966,221
Computers and equipment cost	641,118	895,336
Administration costs	482,262	1,329,698
Investment expenses	444,891	669,683
Temporary services	35,620	304,936
Computer equipment - Disaster Recovery	10,700	236,447
All other (Note 6)	483,897	3,137,029
Total cash operating disbursements	20,219,136	30,278,463
Excess of receipts over operating disbursements	46,705,685	149,621,651
Distributions to state guaranty associations (Note 8)	57,209,437	35,321,789
Net receipts (under) over disbursements	(10,503,752)	114,299,862
Beginning cash and marketable securities, at cost	773,489,730	659,189,868
Ending cash and marketable securities, at cost	\$ 762,985,978	\$ 773,489,730

See accompanying notes.

The Home Insurance Company in Liquidation

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

	<u>January 1, 2006 To September 30, 2006</u>	<u>January 1, 2005 To December 31, 2005</u>
Net Assets, beginning of period	\$778,120,117	\$671,964,599
(Deficiency) excess of unrestricted and restricted receipts over operating disbursements	(10,503,752)	114,299,862
Other changes in net assets:		
Fair value of marketable common stocks, liquid	266,278	(240,178)
Fair value of surplus notes, illiquid	-	17,600
Fair value of common stocks, including stock sale, illiquid (Note 1)	17,708	(12,101,048)
Fair value of limited partnership interests, illiquid	(384,585)	(818,675)
Interest income due and accrued	591,036	1,467,118
Fixed assets	-	(424,106)
Due from USI Reinsurance	(90,337)	(987,071)
Incurred but unpaid administrative and investment expenses (Note 3)	1,134,941	(131,883)
Claims checks payable	(30,789)	-
Reserve related to real estate tax refund (Note 6)	171,214	5,073,899
Net Assets, end of period	<u>\$769,291,831</u>	<u>\$778,120,117</u>

See accompanying notes.

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

Notes to Financial Statements

September 30, 2006

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.

The amount shown for losses and loss expenses paid primarily represent (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.

This statement does not include any assets of Home's branches outside of the United States. In 2005, the Canadian Provisional Liquidator of Home's Canadian branch repatriated \$22 million in US dollars to the Liquidator.

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, 2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Bonds:				
U.S. Treasury notes	\$ 29,692,831	\$ 195,192	\$ (985,159)	\$ 28,902,864
Government agencies	170,191,825	22,420	(1,382,809)	168,831,436
Corporate	220,511,922	163,790	(8,431,773)	212,243,939
Mortgage Backed	110,326,383	3,639	(2,852,715)	107,477,307
Asset Backed	<u>89,664,631</u>	<u>657,326</u>	<u>(361,325)</u>	<u>89,960,632</u>
Total Marketable Bonds	<u>\$ 620,387,592</u>	<u>\$ 1,042,367</u>	<u>\$ (14,013,781)</u>	<u>\$ 607,416,178</u>
Common Stock	<u>1,628,052</u>	<u>396,508</u>	<u>(1,601,712)</u>	<u>422,848</u>
Total Common Stock	<u>\$ 1,628,052</u>	<u>\$ 396,508</u>	<u>\$ (1,601,712)</u>	<u>\$ 422,848</u>

The book value of unrestricted marketable bonds is \$616,853,109. Based on such book value, gross unrealized gains are \$864,560 and gross unrealized losses are \$10,301,492.

	December 31, 2005			
	Unrealized Cost	Gross Unrealized Gains	Gross Fair Losses	Value
Marketable Bonds:				
U.S. Treasury notes	\$ 47,628,613	\$ 80,212	\$ (927,783)	\$ 46,781,042
Government agencies	160,198,925	-	(2,551,091)	157,647,834
Corporate	188,360,020	47,197	(6,197,330)	182,209,887
Mortgage Backed	115,410,730	-	(2,503,837)	112,906,893
Asset Backed	<u>42,396,591</u>	<u>7,678</u>	<u>(410,418)</u>	<u>41,993,851</u>
Total Marketable Bonds	<u>\$ 553,994,879</u>	<u>\$ 135,087</u>	<u>\$ (12,590,459)</u>	<u>\$ 541,539,507</u>
Common Stock	<u>1,628,052</u>	<u>101,348</u>	<u>(1,572,830)</u>	<u>156,570</u>
Total Common Stock	<u>\$ 1,628,052</u>	<u>\$ 101,348</u>	<u>\$ (1,572,830)</u>	<u>\$ 156,570</u>

The book value of unrestricted marketable bonds was \$551,857,745. Based on such book value, gross unrealized gains were \$43,904 and gross unrealized losses were \$10,362,142.

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

Notes to Financial Statements (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, 2006		
One year or less	\$ 98,239,400	\$ 97,326,736
Over one year through five years	203,273,878	198,143,098
Over five years through twenty years	118,883,300	114,508,405
Mortgage Backed	110,326,383	107,477,307
Asset Backed	<u>89,664,631</u>	<u>89,960,632</u>
Total	<u>\$ 620,387,592</u>	<u>\$ 607,416,178</u>

Marketable Bonds	<u>Unrestricted</u>	
	<u>Cost</u>	<u>Fair Value</u>
December 31, 2005		
One year or less	\$ 101,779,199	\$ 100,618,740
Over one year through five years	155,007,915	150,268,326
Over five years through twenty years	139,400,444	135,751,697
Mortgage Backed	115,410,730	112,906,893
Asset Backed	<u>42,396,591</u>	<u>41,993,851</u>
Total	<u>\$ 553,994,879</u>	<u>\$ 541,539,507</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, 2006, are as follows:

Human resources costs	\$2,851,416
Consultant and outside service fees	842,311
Legal and auditing fees	324,322
General office and rent expense	276,892
Other administration costs	110,247
Computer and equipment costs	47,370
Total accrued administrative expenses	<u>\$4,452,558</u>
Accrued investment expenses	<u>152,449</u>
Total accrued expenses	<u>\$4,605,007</u>

The amount of accrued expenses at December 31, 2005 was \$5,739,948 and net assets for 2006 increased by \$1,134,941 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 February 8, 2006. The costs of these plans are primarily payable in 2007, but are based on 2006 service and are being accrued over the service period in 2006. Accrued administrative expense includes \$2,851,330 of incentive plan costs.

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

At September 30, 2006 and December 31, 2005, Home had amounts receivable of \$38,505 and \$128,842, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$372,869 for such of expenses in 2006.

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. As of September 30, 2006, restricted funds applied to reinsurance recoveries total \$542,606.

The Liquidating Company received \$30.2 million proceeds from commutations in 2005 which were restricted pending certain future contingencies. At September 30, 2006, these cash equivalent assets are no longer restricted as the future contingency was resolved.

6) Real Estate Tax Refund

In December 2004, the Liquidator collected \$16,455,195 in a tax settlement with New York City concerning the property at 59 Maiden Lane, New York, New York ("59 Maiden Lane"). The tax settlement results in a refund of real estate tax for the years' 1991/92 through 1995/96. In connection with this settlement, \$1,210,082 was paid as a legal contingency fee and a reserve of \$5,245,113 was established for amounts that may be payable to other tenants of 59 Maiden Lane. In 2005, the Liquidator paid \$2,727,524 in refunds, and in January 2006, additional refunds of \$171,214 were paid. The Liquidator believes that such payments fully satisfy amounts payable to other tenants and no additional reserve is required.

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

Notes to Financial Statements (continued)

7) Securities on Deposit

Investments on deposit at the original cost with various states were \$1,959,846, \$2,103,374 and \$73,947,287 at September 30, 2006, December 31, 2005, and June 11, 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.

Various states have withdrawn such deposits at par value of \$48,102,110, and market value as of September 30, 2006 of \$49,557,548, for use by the related state guaranty associations, and these amounts may be offset against future distributions to such guaranty associations.

8) Early Access Distribution

On October 15, 2004, the Court approved a first early access distribution to insurance guaranty associations based on reported guaranty association payments less recoveries through June 30, 2004. In 2005, the Liquidator paid \$35,321,789 relating to this early access distribution.

On December 9, 2005, the Court approved a second early access distribution to insurance guaranty associations based on guaranty association payments through September 30, 2005. In 2006, the Liquidator paid \$57,209,437 relating to this early access distribution. The Liquidator may periodically make additional early access distributions in the future, subject to Court approval.

9) Allowed Claims

As of September 30, 2006, the Liquidator has allowed, and the Court has approved, \$4,532 dollars of Class I claims, \$151,744,314 dollars of Class II claims, \$31,376,974 of Class V claims and \$42,426 of Class VIII claims. 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, 2006 and December 31, 2005
(Unaudited)**

US International Reinsurance Company In Liquidation

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

	<u>September 30, 2006</u>	<u>December 31, 2005</u>
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 3)	\$ -	\$1,865,237
Short-term investments	2,353,119	420,970
Cash and cash equivalents	<u>642,728</u>	<u>461,795</u>
Total unrestricted bonds, short-term investments and cash at cost	2,995,847	2,748,002
Interest income due and accrued	-	13,535
Total unrestricted liquid assets	<u>2,995,847</u>	<u>2,761,537</u>
Restricted liquid assets:		
Bonds, at cost (Note 3 & 4)	-	128,950
Short-term investments	457,682	-
Cash and cash equivalents (Note 4)	-	330,000
Total restricted liquid assets	<u>457,682</u>	<u>458,950</u>
Total assets, excluding certain amounts	3,453,529	3,220,487
Liabilities		
Incurred but unpaid administrative expenses (Note 5)	-	3,730
Payable to The Home Insurance Company in Liquidation (Note 2 & 5)	38,505	128,842
Net assets, excluding certain amounts	<u><u>\$3,415,024</u></u>	<u><u>\$3,087,915</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, 2006 To <u>September 30, 2006</u>	January 1, 2005 To <u>December 31, 2005</u>
Cash and marketable securities received:		
Reinsurance collections	\$ 549,602	\$ 410,697
Net investment income	94,251	187,813
Return of special deposits	-	580,000
All other	<u>18,432</u>	<u>7,018</u>
Total cash and marketable securities received	662,285	1,185,528
Cash operating disbursements:		
Consultant and outside service fees	42,839	31,498
Net payments to Home Insurance Company (Note 2)	372,869	1,601,336
All other	<u>-</u>	<u>98,701</u>
Total cash operating disbursements	415,708	1,731,535
Excess (deficiency) of receipts over operating disbursements	<u>246,577</u>	<u>(546,007)</u>
Beginning cash and marketable securities, at cost	<u>3,206,952</u>	<u>3,752,959</u>
Ending cash and marketable securities, at cost	\$ <u>3,453,529</u>	\$ <u>3,206,952</u>

See accompanying notes.

US International Reinsurance Company in Liquidation

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

	January 1, 2006 To <u>September 30, 2006</u>	January 1, 2005 To <u>December 31, 2005</u>
Net Assets, beginning of period	\$3,087,915	\$2,555,914
Excess (deficiency) receipts over operating disbursements	246,577	(546,007)
Other changes in net assets:		
Interest income due and accrued	(13,535)	(32,087)
Incurred but unpaid administrative expenses	3,730	8,052
Payable to The Home Insurance Company in Liquidation	<u>90,337</u>	<u>1,102,043</u>
Net Assets, end of period	<u><u>\$3,415,024</u></u>	<u><u>\$3,087,915</u></u>

See accompanying notes.

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

Notes to Financial Statements

September 30, 2006

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, 2006 and December 31, 2005 the Liquidator accrued liabilities of \$38,505 and \$128,842, respectively, to Home for USI Re's allocated share of various administrative expenses incurred. In 2006, the amount paid to Home was \$372,869 for such expenses.

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

Notes to Financial Statements (continued)

3) Marketable Securities

For the period ending September 30, 2006, USI Re investments are comprised of short term and cash equivalent securities including certain restricted short-term investments as discussed in Note 4. There were no unrestricted or restricted marketable bonds.

The carrying values and estimated fair values of marketable bonds at December 31, 2005, by major category, are summarized as follows:

	<u>December 31, 2005</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	<u>\$ 1,865,237</u>	<u>\$ 13,900</u>	<u>\$ -</u>	<u>\$ 1,879,137</u>
Total	<u>\$ 1,865,237</u>	<u>\$ 13,900</u>	<u>\$ -</u>	<u>\$ 1,879,137</u>
Restricted Marketable Bonds				
Total U.S. Treasury notes	<u>\$ 128,950</u>	<u>\$ 115</u>	<u>\$ -</u>	<u>\$ 129,065</u>

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

Notes to Financial Statements (continued)

4) Securities on Deposit

Investments on deposit with various states were \$464,071, \$460,232, and \$4,964,360 at September 30, 2006, December 31, 2005, 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.

Effective November 15, 2005, the state of New Mexico agreed to release to USI Re a special deposit of \$330,000 in trust for the benefit of New Mexico policyholders and creditors. Related funds were received in January 2006 and are reflected as restricted assets on the statement of Net Assets as of December 31, 2005.

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 \$38,505, in the normal course of liquidation, that were unpaid as of September 30, 2006.

6) Allowed Claims

As of September 30, 2006, the Liquidator has allowed, and the Court has approved, \$1,517,330 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.

The Home Insurance Company in Liquidation
 US International Reinsurance Company in Liquidation
 G&A Expenses (Actual vs Budget)
 September 30, 2006

	YTD			Full Year Budget
	Actual 2006	Budget 2006	Variance 2006	
General & Administrative Expense				
Salary and Benefits	10,703,831	10,908,927	(205,096)	14,495,920
Travel	67,083	164,953	(97,870)	222,249
Rent	1,794,980	1,642,950	152,030	2,177,382
Equipment	423,568	910,777	(487,209)	1,180,343
Printing and Stationery	50,393	101,077	(50,684)	134,355
Postage	39,152	59,124	(19,972)	78,832
Telephone	218,875	527,950	(309,075)	704,600
Outside Services, including Special Deputy	2,608,948	3,000,635	(391,687)	3,960,045
Licensing Fees	5,515	1,200	4,315	1,600
Legal and Auditing	1,043,611	1,405,997	(362,386)	2,038,000
Bank Fees	103,124	117,000	(13,876)	156,000
Corporate Insurance	120,847	122,044	(1,197)	122,392
Miscellaneous Expenses	2,842	22,500	(19,658)	30,000
Total US Expenses Incurred	17,182,769	18,985,134	(1,802,365)	25,301,718
UK Liquidation expenses paid by the US liquidator	205,975	175,000	30,975	250,000
Total US and UK Expenses Incurred	17,388,744	19,160,134	(1,771,390)	25,551,718

Exhibit D

The Home Insurance Company in Liquidation
 US International Reinsurance Company in Liquidation
 Budget 2007
 Actual and Budget 2006

General & Administrative Expense	Expected	Budget	Budget
	Actual 2006	2006	2007
Salary and Benefits	14,223,553	14,495,920	13,504,952
Travel	89,444	222,749	201,532
Rent	2,393,307	2,177,382	2,382,292
Equipment	698,091	1,180,343	932,100
Printing and Stationery	67,191	134,355	86,700
Postage	52,203	78,832	57,192
Telephone	291,833	704,600	435,400
Disaster Recovery	-	-	10,700
Outside Services, including Special Deputy	3,628,597	3,960,045	2,998,461
Licensing Fees	1,600	1,600	0
Legal and Auditing	1,541,481	2,038,000	1,908,973
Bank Fees	156,000	156,000	152,000
Corporate Insurance	161,129	122,392	146,600
Miscellaneous Expenses	30,000	30,000	3,600
Total US Expenses Incurred	23,334,429	25,302,218	22,820,502
UK Liquidation expenses paid by the US liquidator	355,975	250,000	-
Total US and UK Expenses Incurred	23,690,404	25,552,218	22,820,502

The Home Insurance Company in Liquidation
 Portfolio Summary Report- Bonds and Short Term Investments
 Securities Held as of September 30, 2006
 (000's)

Conning Managed:		Book Value	Market Value	Unrealized Gain (Loss)	Eff Maturity (Years)	Book Yield	Average Credit Quality	YTD Earned Income
% of Book Value								
9%	Short Term	57,427	57,427	-	0.03	5.22	Aaa	2,221
4%	Government	29,675	28,903	(772)	5.20	4.07	Aaa	1,162
25%	Agency	170,305	168,831	(1,474)	1.81	3.70	Aaa	4,392
32%	Corporate	217,137	212,244	(4,893)	4.41	4.48	A1	6,919
12%	Mortgage Backed	81,681	79,913	(1,768)	6.54	5.23	Aaa	3,300
4%	Commercial Mortgage Backed	28,370	27,565	(805)	4.73	4.59	Aaa	963
13%	Asset Backed	89,685	89,961	276	3.85	5.14	Aa1	2,544
100%	Total	674,280	664,844	(9,436)	3.61	4.51	Aa1	21,501
Other investments- Home Insurance								
100%	US Treasury Bills	42,430	42,427	(3)	0.25	4.76	Aaa	2,396
Total Home Insurance		716,710	707,271	(9,439)	0.00	0.00	Aa1	23,897
Other investments- USI Re								
	100% US Treasury Bills and Notes	2,832	2,833	1	0.28	4.76	Aaa	79
Grand total (1)		719,542	710,104	(9,438)	0.00	0.00	Aa1	23,976 (2)

(1) Investment balances do not include cash amounts invested in sweep accounts at Citizens Bank.
 (2) On an annualized basis, the total income generated by the portfolio, calculated based on holdings as of September 30, 2006, would be \$ 31.9 million.

EXHIBIT A – REVISED INVESTMENT GUIDELINES**Revised Statement of Investment Policy
The Home Insurance Company (in liquidation)****I. Investment Objective**

To maintain a portfolio of high quality, readily marketable investments that protects and enhances the assets of The Home Insurance Company (in liquidation) (“the Company”). The portfolio should produce a high level of investment income over a multiple year time horizon in accordance with expected liability payouts, and otherwise support the objectives of the Liquidator, consistent with safety and preservation of capital.

II. Investment Responsibility

The Special Deputy Liquidator and the Chief Financial Officer shall be responsible for the selection of investments and for their purchase or sale within the authority delegated to them by the Liquidator. They may seek investment advice from professional investment advisers outside the Company.

The Chief Financial Officer shall be responsible for periodic estimates and evaluation of the cash flow needs of the Company and the amounts available for investment.

III. Qualifications of Investment Policy

Those responsible for the Company’s investment program shall invest only in bonds and fixed income securities and shall, at all times, observe the General Guide to Maximum Commitment Size as stated in the Policy summary, attached hereto and made a part hereof, which supplements the following guidelines:

1. Only Baa (Moody’s), Triple B (S&P), or higher rated bonds, which are readily marketable, will be purchased.
2. Mortgage backed securities will exclude derivatives such as inverse floating rates and interest only tranches.
3. Asset backed securities will exclude franchise loan and equipment trust certificates transactions.
4. Only commercial paper with a Moody’s Rating of P-1 or S&P Rating of A-1, which are readily marketable, will be purchased.
5. The Company may invest excess cash required for operating purposes in overnight “Sweep Accounts” provided by its bank. These accounts utilize repurchase agreements which must have collateral consisting of full faith agencies, and be collateralized at approximately 101% of market value.
6. The investment portfolio shall reflect a maturity policy consistent with the cash flow needs of the Company.

EXHIBIT A – REVISED INVESTMENT GUIDELINES

Revised Policy Summary The Home Insurance Company (in liquidation)

General Guide to Maximum Commitment Size (1)

	Percentage of total portfolio (2)
Maximum asset allocation for a single issuer:	
• US Government and US Government Agency Obligations	No limit
• Corporate Bonds, Asset Backed, Mortgage Backed and Commercial Mortgage Backed (CMBS) (3):	
Triple A (S&P) or Aaa (Moody's)	2.50%
Double A (S&P) or Aa (Moody's)	2.00%
Single A (S&P and Moody's)	1.25%
Triple B (S&P) or Baa (Moody's)	.50% (4)
• Commercial paper – Prime Moody's Rating of P-1, and S&P rating of A-1	2.50%
• Certificates of Deposit	2.50%
Maximum asset allocation for an asset class:	
• US Government and US Government Agency Obligations	No limit
• Corporate	40.0%
• Mortgage Backed	25.0%
• Commercial Mortgage Backed (CMBS)	5.0%
• Asset Backed	25.0%
• Commercial paper – Prime Moody's Rating of P-1, and S&P rating of A-1	No limit
• Certificates of Deposit	No limit

- (1) The guidelines are based on percentages of the portfolio, and there may be a requirement to sell investments if the portfolio size decreases. In such circumstances, those responsible for selling investments will have 90 days to bring the portfolio into compliance with the guidelines.
- (2) Portfolio size is based on market value at prior month end.
- (3) The asset allocation will be based on the lower of the S&P or Moody's rating.
- (4) No more than 5% of the total portfolio may be invested in Triple B (S&P) or Baa (Moody's) securities.