

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-FOURTH 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-fourth report on the liquidations of the Companies, as of March 12, 2007, 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 38 new proofs of claim (36 for Home and 2 for USI Re) between the last Liquidator's report and February 26, 2007. The proofs of claim submitted now total 19,656 (19,430 for Home and 226 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 347 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005. As of February 26, 2007, the notices of determination issued since the beginning of the process have addressed 3,996 proofs of claim (3,957 for Home and 39 for USI Re). One hundred and twenty claimants have filed requests for review and 62 of these have been sent notices of redetermination. Additionally, 50 requests for review have been filed by Guaranty Associations questioning the creditor classification of claim expenses and unallocated expenses. There now are 6 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 2,836 claims (2,807 for Home and 29 for USI Re) involving a total allowed amount of \$210.2 million.

A number of proofs of claim (270) submitted to the Liquidator by or on behalf of third party claimants were incomplete because the insured was not identified and they failed to provide the conditional release required by RSA 402-C:38, I(a)(7), and set forth at item 14 of the proof of claim, was not executed. In light of the Supreme Court's decision in Gonya v. Commissioner, New Hampshire Ins. Dept., 899 A.2d 278 (N.H. 2006), the Liquidator sent letters to the claimants or law firms requesting that they complete the proofs of claim within thirty days. Several of the claimants and/or law firms responded that they did not wish to pursue the claims. Since those proofs of claim were incomplete and had been abandoned, the Liquidator will not

consider them. See RSA 402-C:38, I(b) (“No claim need be considered or allowed if it does not contain all the information under subparagraph (a) which may be applicable.”) In order to formally close out these proofs of claim, they were submitted in the Liquidator’s February 21, 2007 Report of Claims and Recommendations.

3. Financial reports. Copies of the unaudited December 31, 2006 financial statements for Home and USI Re are attached as Exhibits A and B to this report. The December 31, 2006 Home statements reflect \$795,201,750 in assets under the Liquidator’s direct control, and \$105,093,751 in 2006 reinsurance collections, net investment income, and other receipts and \$25,489,569 in 2006 operating disbursements. The December 31, 2006 USI Re statements reflect \$5,316,602 in assets under the Liquidator’s direct control, \$2,607,315 in 2006 proceeds from sale of an investment, reinsurance collections and other receipts and \$459,985 in 2006 operating disbursements.

4. 2006 Budget. A comparison of the actual and budgeted general and administrative expenses, on an incurred basis, through December 31, 2006 is attached as Exhibit C. As of December 31, 2006, actual expenses were below budget by approximately \$2.1 million or 8.1%, 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	

5. Investment update. A summary of the Companies’ holdings of bonds and short-term investments as of December 31, 2006 is attached as Exhibit D. The book value of Home’s bonds and short-term investments managed by Conning Asset Management (Conning) at

December 31, 2006, was approximately \$682.1 million compared to the market value of approximately \$673.1 million, an unrealized loss of \$9.0 million. This unrealized loss decreased in the fourth quarter by approximately \$400,000, as interest rates were relatively stable. Home maintains significant amounts of highly liquid investments to avoid actually realizing losses resulting from market fluctuations. Short-term holdings increased by \$20.7 million due to bond maturities in the fourth quarter. Short-term holdings in the Conning portfolio will likely be the source of funds for the anticipated third early access payment to be made in 2007. The level of short-term holdings in the Conning portfolio will fluctuate over time as bonds mature, but the Liquidator intends to lengthen the duration of the portfolio while managing the risks arising from fluctuations in interest rates. Home and USI Re also continue to maintain, outside of Conning's control, investments in US Treasury bills. As of December 31, 2006, such investments for Home and USI Re had a book value of approximately \$42.9 million and \$4.3 million, respectively. These assets will be used to fund operating requirements and various Class I distributions anticipated in 2007.

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 sought the Court's approval of a similar third early access distribution on February 2, 2007 based on guaranty fund payments through September 30, 2006 reported to the

Liquidator as of December 15, 2006, but limited to a distribution cap equal to forty percent of the total incurred costs (paid amounts plus case reserves but not including any incurred but not reported reserves) projected by each guaranty fund. This distribution would also be conditioned upon the Liquidator obtaining a release 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 \$42.8 million.

7. KWELM. Pursuant to the KWELM companies' scheme of arrangement (the "KWELM Scheme"), the Liquidator and KWELM agreed on the amount of 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. Home's obligations to KWELM were then deducted from KWELM's obligations to Home and, after application of the distribution percentage applicable to the net claims of creditors such as Home, \$13.9 million was paid to the Liquidator. Of the \$3.9 million determined against Home by the Scheme Adjudicator, CIC had agreed approximately \$2.7 million. The remaining \$1.26 million remained in dispute. In accordance with the Court's July 27, 2006 ruling, the Liquidator referred that dispute to arbitration pursuant to the August 6, 2004 Claims Protocol approved by the Court on November 12, 2004. On December 15, 2006, CIC filed a Motion for Stay of Arbitration of KWELM Claims Against Home and on January 5, 2007, the Liquidator filed a Cross-Motion to Compel Arbitration. On February 22, 2007, CIC and the Liquidator reached agreement to resolve the matter. The terms of the settlement are discussed in the confidential appendix submitted with this report.

8. AFIA. The ACE Companies, Benjamin Moore & Co. and the Reinsurance Association of America filed motions for rehearing and reconsideration of the December 5, 2006 decision of the New Hampshire Supreme Court affirming the Court's September 22, 2005 Order granting the Liquidator's motion for approval of the agreement with AFIA Cedents. On January 25, 2007, the Supreme Court denied each of those motions.

9. 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 planned for spring 2007, after which the parties are to engage in mediation scheduled for September 2007.

(b) Wausau – The parties continue to evaluate a possible commutation.

10. Reinsurance commutations and settlements. The Liquidator reports, in accordance with the Court's March 23, 2004 order, that since his last report he has entered into, on behalf of Home, reinsurance commutation agreements with QBE Reinsurance (UK) Ltd. and IF P&C Company Ltd. (Finland). The Liquidator, on behalf of USI Re, entered into reinsurance commutation agreements with Partner Reinsurance Company (U.S.), Ridgwell Fox and Partners Pool and Trenwick America Reinsurance Corp. These commutation agreements are discussed in the confidential appendix submitted with this report. Commutation discussions with other reinsurers of Home and USI Re are continuing. The Liquidator has also filed a motion for approval of the commutation agreement with INSCO Ltd., which is pending before the Court.

11. 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 \$100,000 special deposit posted by The Home Insurance Company of Illinois (a former subsidiary of Home) with the Massachusetts Division of Insurance, which had previously been held by the Home's Ancillary Receiver in Massachusetts, has been returned to the Liquidator. 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's or USI Re's licenses in the various states.

12. 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.

13. Ancillary Proceedings in the United States. 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.

14. Information Technology.

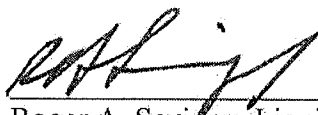
(a) Transfer of the City (UK) business process from CMGL to the Liquidator. In order to reduce cost and gain better control, during 2006 responsibility for processing the business of Home's City (UK) book of business was transferred from the London-based CMGL, a third party administrator, to the Liquidator's New York operation. Data from CMGL's computer system in London was converted for use on the Liquidator's New York system without

any business interruptions.

(b) Home UK AFIA Website. A Website was created to post the status of the AFIA Proofs-of-Claims (POCs) and Notices-of-Determinations (NODs). The content of the Web pages is being reviewed by Ernst & Young for additional enhancements. The Website address is WWW.HOMEUKAFIA.COM.

15. California subpoenas. On May 1, 2006, the Liquidator filed a Motion for Protective Order with respect to 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.

Respectfully submitted,




Roger A. Sevigny, Liquidator

March 23, 2007

CERTIFICATE OF SERVICE

I hereby certify that on March 26, 2007, a copy of the Liquidator's Twenty-Fourth Report, without the confidential appendix, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: March 26, 2007



Eric A. Smith

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

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The Home Insurance Company
Docket No. 03-E-0106

In the Matter of the Liquidation of
US International Reinsurance Company
Docket No. 03-E-0112

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THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

December 31, 2006 and December 31, 2005
(Unaudited)

The Home Insurance Company In Liquidation

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

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$608,099,834	\$553,994,879
Short-term investments	42,812,345	31,014,119
Cash and cash equivalents	144,429,307	157,778,126
Total unrestricted bonds, short-term investments and cash at cost	795,341,486	742,787,124
Common stocks, marketable, at market value (Note 2)	10,359	156,570
Interest income due and accrued	6,400,611	5,531,287
Total unrestricted liquid assets	801,752,456	748,474,981
Unrestricted illiquid assets: (Note 1)		
Surplus notes, at fair value	146,800	146,800
Common stocks, at fair value	1,935,076	1,898,952
Limited partnership interests, at fair value	2,294,513	2,679,098
Total unrestricted illiquid assets	4,376,389	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)	34,682	128,842
Total assets, excluding certain amounts	806,706,133	784,031,279
Liabilities		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	6,241,428	5,739,948
Notices of Determination approved for Class I creditors (Note 9)	5,252,213	-
Claims checks payable	11,125	-
Reserve related to real estate tax refund (Note 6)	-	171,214
Total liabilities	11,504,766	5,911,162
Net assets, excluding certain amounts	\$795,201,367	\$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)

	January 1, 2006 To December 31, 2006	January 1, 2005 To December 31, 2005
Cash and marketable securities received:		
Reinsurance collections - unrestricted	\$ 42,983,597	\$ 31,295,567
Reinsurance collections - restricted	-	30,160,000
Net investment income	36,578,417	28,348,367
Repatriation of funds - Canadian branch (Note 1)	6,999,990	22,000,000
Return of special deposits	-	19,862,425
Salvage, subrogation and other claim recoveries	6,062,086	15,405,157
Remittance of funds held by reinsurers	4,607,379	4,344,793
Agents' balances	4,800,526	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	412,965	1,601,337
Proceeds from sale of common stock (Note 1)	112,747	12,671,469
Deposits with outside claim adjusters	276,897	-
Miscellaneous income	255,960	388,443
All other	2,003,186	787,257
Total cash receipts	105,093,751	179,900,114
Cash operating disbursements:		
Human resources costs (Note 3)	13,629,000	14,307,327
Consultant and outside service fees	3,274,997	3,343,660
General office and rent expense	2,769,434	3,144,184
Legal and audit fees	1,631,758	1,943,942
Losses and loss expenses paid (Note 1)	1,011,573	966,221
Computers and equipment cost	991,293	895,336
Investment expenses	597,340	669,683
Administration costs	596,323	1,329,698
Temporary services	35,620	304,936
Computer equipment - Disaster Recovery	10,700	236,447
All other (Note 6)	816,915	3,137,029
Total cash operating disbursements	25,364,952	30,278,463
Excess of receipts over operating disbursements	79,728,799	149,621,651
Distributions to state guaranty associations (Note 8)	57,334,437	35,321,789
Net receipts over disbursements	22,394,362	114,299,862
Beginning cash and marketable securities, at cost	773,489,730	659,189,868
Ending cash and marketable securities, at cost	\$ 795,884,092	\$ 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 December 31, 2006</u>	<u>January 1, 2005 To December 31, 2005</u>
Net Assets, beginning of period	\$778,120,117	\$671,964,599
Excess of unrestricted and restricted receipts over operating disbursements	22,394,362	114,299,862
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(146,211)	(240,178)
Fair value of surplus notes, illiquid	-	17,600
Fair value of common stocks, including stock sale, illiquid (Note 1)	36,124	(12,101,048)
Fair value of limited partnership interests, illiquid	(384,585)	(818,675)
Interest income due and accrued	869,324	1,467,118
Fixed assets	-	(424,106)
Due from USI Reinsurance	(94,160)	(987,071)
Incurred but unpaid administrative and investment expenses (Note 3)	(501,480)	(131,883)
Notices of Determination approved for Class I creditors (Note 9)	(5,252,213)	-
Claims checks payable	(11,125)	-
Reserve related to real estate tax refund (Note 6)	171,214	5,073,899
Net Assets, end of period	<u>\$795,201,367</u>	<u>\$778,120,117</u>

See accompanying notes.

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

Notes to Financial Statements

December 31, 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 2006 and 2005, the Canadian Provisional Liquidator of Home's Canadian branch repatriated approximately \$7 million and \$22 million in US dollars, respectively, 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:

	December 31, 2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Bonds:				
U.S. Treasury notes	\$ 25,769,727	\$ 67,187	\$ (1,076,369)	\$ 24,760,545
Government agencies	145,206,200	16,930	(1,428,770)	143,794,360
Corporate	233,807,601	113,747	(8,439,579)	225,481,769
Mortgage Backed	114,951,309	19,984	(2,677,683)	112,293,610
Asset Backed	<u>88,364,997</u>	<u>593,078</u>	<u>(319,497)</u>	<u>88,638,578</u>
Total Marketable Bonds	<u>\$ 608,099,834</u>	<u>\$ 810,926</u>	<u>\$(13,941,898)</u>	<u>\$ 594,968,862</u>
Common Stock	<u>1,628,052</u>	-	<u>(1,617,693)</u>	<u>10,359</u>
Total Common Stock	<u>\$ 1,628,052</u>	<u>\$ -</u>	<u>\$ (1,617,693)</u>	<u>\$ 10,359</u>

The book value of unrestricted marketable bonds is \$604,027,660. Based on such book value, gross unrealized gains are \$694,549 and gross unrealized losses are \$9,753,348.

	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>
December 31, 2006		
One year or less	\$ 25,792,320	\$ 24,407,979
Over one year through five years	262,588,608	257,015,638
Over five years through twenty years	116,402,600	112,613,057
Mortgage Backed	114,951,309	112,293,610
Asset Backed	<u>88,364,997</u>	<u>88,638,578</u>
Total	<u>\$ 608,099,834</u>	<u>\$ 594,968,862</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 December 31, 2006, are as follows:

Human resources costs	\$3,904,653
Consultant and outside service fees	1,041,005
Legal and auditing fees	609,029
Other administration costs	156,733
General office and rent expense	324,359
Computer and equipment costs	<u>51,024</u>
Total accrued administrative expenses	<u>\$6,086,803</u>
Accrued investment expenses	<u>154,625</u>
Total accrued expenses	<u>\$6,241,428</u>

The amount of accrued expenses at December 31, 2005 was \$5,739,948 and net assets for 2006 increased by \$501,480 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 \$3,903,720 of incentive plan costs.

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

At December 31, 2006 and December 31, 2005, Home had amounts receivable of \$34,682 and \$128,842, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$412,965 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 December 31, 2006, restricted funds applied to reinsurance recoveries total \$542,606.

The Liquidator received \$30.2 million of proceeds from commutations in 2005 which were restricted pending certain future contingencies. At December 31, 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 resulted 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 might 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 \$1,955,732, \$2,103,374 and \$73,947,287 at December 31, 2006, December 31, 2005, 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 December 31, 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 \$57,334,437 relating to this early access distribution. The Liquidator may periodically make additional early access distributions in the future, subject to Court approval.

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.

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

Notes to Financial Statements (continued)

Early Access Distributions paid in cash	\$92,656,226
Assets withdrawn from special deposits held by states to pay Home claims (market value, see note 7)	49,557,548
Other deemed Early Access advances paid in cash	<u>3,221,557</u>
Total	<u>\$145,435,331</u>

9) Allowed Claims

As of December 31, 2006, the Liquidator has allowed, and the Court has approved, \$5,295,697 dollars of Class I claims, \$165,079,172 dollars of Class II claims, \$38,045,352 of Class V claims and \$42,124 of Class VIII claims. The Class I claims are expected to be paid in 2007, net of offset amounts of \$43,484, and include \$5,226,026 payable for Guaranty Associations administrative costs, and \$26,187 for other creditors. 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)

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

US International Reinsurance Company In Liquidation

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

	December 31, 2006	December 31, 2005
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 4)	\$ -	\$1,865,237
Short-term investments	3,880,904	420,970
Cash and cash equivalents	1,015,837	461,795
Total unrestricted bonds, short-term investments and cash at cost	4,896,741	2,748,002
Interest income due and accrued	-	13,535
Total unrestricted liquid assets	4,896,741	2,761,537
Restricted liquid assets:		
Bonds, at cost (Note 4)	-	128,950
Short-term investments	457,541	-
Cash and cash equivalents (Note 5)	-	330,000
Total restricted liquid assets	457,541	458,950
Total assets, excluding certain amounts	5,354,282	3,220,487
Liabilities		
Incurred but unpaid administrative expenses (Note 6)	2,998	3,730
Payable to The Home Insurance Company in Liquidation (Note 3 & 6)	34,682	128,842
Net assets, excluding certain amounts	\$5,316,602	\$3,087,915

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>December 31, 2006</u>	January 1, 2005 To <u>December 31, 2005</u>
Cash and marketable securities received:		
Reinsurance collections	\$ 586,455	\$ 410,697
Net investment income	139,051	187,813
Return of special deposits	-	580,000
Sale of investment (Note 2)	1,865,495	-
All other	<u>16,314</u>	<u>7,018</u>
Total cash and marketable securities received	<u>2,607,315</u>	<u>1,185,528</u>
Cash operating disbursements:		
Consultant and outside service fees	47,020	31,498
Net payments to Home Insurance Company (Note 3)	412,965	1,601,336
All other	-	98,701
Total cash operating disbursements	<u>459,985</u>	<u>1,731,535</u>
Excess (deficiency) of receipts over operating disbursements	2,147,330	(546,007)
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>\$ 5,354,282</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>December 31, 2006</u>	January 1, 2005 To <u>December 31, 2005</u>
Net Assets, beginning of period	\$3,087,915	\$2,555,914
Excess (deficiency) of receipts over operating disbursements	2,147,330	(546,007)
Other changes in net assets:		
Interest income due and accrued	(13,535)	(32,087)
Incurred but unpaid administrative expenses	732	8,052
Payable to The Home Insurance Company in Liquidation	<u>94,160</u>	<u>1,102,043</u>
Net Assets, end of period	<u><u>\$5,316,602</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

December 31, 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) Sale of Investment

In the fourth quarter of 2006, USI Re received \$1,865,495 for the sale of an investment that was previously considered illiquid and had not been reflected on the balance sheet.

3) Net Liabilities to Home Insurance Company

At December 31, 2006 and December 31, 2005 the Liquidator accrued liabilities of \$34,682 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 \$412,965 for such expenses.

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

Notes to Financial Statements (continued)

4) Marketable Securities

For the period ending December 31, 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)

5) Securities on Deposit

Investments on deposit with various states were \$464,337, \$460,232, and \$4,964,360 at December 31, 2006, December 31, 2005, 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.

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 were 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.

6) Incurred But Unpaid Administrative Expenses

USI Re incurred administrative expenses relating to outside service fees of \$37,680, in the normal course of liquidation, that were unpaid as of December 31, 2006.

7) Allowed Claims

As of December 31, 2006, the Liquidator has allowed, and the Court has approved, \$3 dollars of Class I, \$26 dollars of Class II, \$1,777,136 dollars of Class V claims and \$28 dollars of Class VIII. 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
 Budget 2007
 Actual and Budget 2006

General & Administrative Expense	Actual	Budget	Budget
	2006	2006	2007
Salary and Benefits	14,034,861	14,495,920	13,504,952
Travel	94,079	222,749	201,532
Rent	2,398,448	2,177,382	2,382,292
Equipment	771,936	1,180,343	932,100
Printing and Stationery	68,326	134,355	86,700
Postage	58,331	78,832	57,192
Telephone	312,608	704,600	435,400
Disaster Recovery	-	-	10,700
Outside Services, including Special Deputy	3,499,016	3,960,045	2,998,461
Licensing Fees	5,515	1,600	0
Legal and Auditing	1,633,375	2,038,000	1,908,973
Bank Fees	140,570	156,000	152,000
Corporate Insurance	140,432	122,392	146,600
Miscellaneous Expenses	9,855	30,000	3,600
Total US Expenses Incurred	23,167,352	25,302,218	22,820,502
UK Liquidation expenses paid by the US liquidator	304,895	250,000	-
Total US and UK Expenses Incurred	23,472,247	25,552,218	22,820,502

The Home Insurance Company in Liquidation
 Portfolio Summary Report- Bonds and Short Term Investments
 Securities Held as of December 31, 2006
 (000's)

Conning Managed:		Book Value	Market Value	Unrealized Gain (Loss)	Eff Mat (Years)	Book Yield	Average Credit Quality	Earned Income 12/31/06
% of Av	Fixed Income							
11%	Short Term	78,118	78,118	-	0.03	5.30	Aaa	3,266
4%	Government	25,618	24,761	(858)	5.76	4.05	Aaa	1,443
21%	Agency	145,283	143,794	(1,489)	3.29	4.74	Aaa	5,901
34%	Corporate	230,051	225,482	(4,569)	4.15	4.54	A1	9,574
13%	Mortgage Backed	86,310	84,747	(1,563)	6.08	5.25	Aaa	4,404
4%	Commercial Mortgage Backed	28,356	27,547	(809)	4.48	4.56	Aaa	1,286
13%	Asset Backed	88,410	88,639	229	3.65	5.16	Aaa	3,695
100%	Total	682,145	673,086	(9,059)	3.75	4.82	Aa1	29,569
Other investments- Home Insurance								
100%	US Treasury Bills	42,942	42,943	1	0.25	4.86	Aaa	2,909
Total Home Insurance		725,087	716,029	(9,058)	3.54	4.82	Aa1	32,478
Other investments- USI Re								
	100% US Treasury Bills and Notes	4,352	4,352	-	0.28	4.86	Aaa	132
Grand total (1)		729,439	720,381	(9,058)	3.52	4.82	Aa1	32,610 (2)

(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 December 31, 2006, would be \$ 36.3 million.