

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-SIXTH 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-sixth report on the liquidations of the Companies, as of September 10, 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 37 new proofs of claim for Home between the last Liquidator's report and August 27, 2007. The proofs of claim submitted now total 19,836 (19,600 for Home and 236 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 557 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005. As of August 27, 2007, the notices of determination issued since the beginning of the process have addressed 4,975 proofs of claim (4,931 for Home and 44 for USI Re). One hundred and thirty eight claimants have filed requests for review and 65 of these have been sent notices of redetermination. Additionally, 44 requests for review have been filed by guaranty associations concerning the priority of certain claim expenses and unallocated expenses. There now are four unresolved disputed claim proceedings pending before the Referee, plus one (2005-HICIL-4) that has been stayed. (The Mine Safety Appliances aspect of 2005-HICIL-14 – a proceeding involving a number of separate claims – has also 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. 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 4,230 claims (4,190 for Home and 40 for USI Re) involving a total allowed amount of \$374.7 million.

3. Financial reports. Copies of the unaudited June 30, 2007 financial statements for Home and USI Re are attached as Exhibits A and B to this report. The June 30, 2007 Home statements reflect \$775,973,142 in assets under the Liquidator's direct control at June 30, 2007, and \$41,860,739 in reinsurance collections, net investment income, and other receipts and \$15,040,551 in operating disbursements from January 1 through June 30, 2007. The June 30, 2007 USI Re statements reflect \$5,418,927 in assets under the Liquidator's direct control at June

30, 2007, and \$213,023 in reinsurance collections and net investment income and \$122,318 in operating disbursements from January 1 through June 30, 2007.

4. 2007 Budget. A comparison of the actual and budgeted general and administrative expenses, on an incurred basis, through June 30, 2007 is attached as Exhibit C. As of June 30, 2007, actual expenses were below budget by approximately \$1.1 million or 9.4%, 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 June 30, 2007 is attached as Exhibit D. The book value of Home's bonds and short-term investments managed by Conning Asset Management (Conning) at June 30, 2007, was approximately \$655.0 million compared to the market value of approximately \$641.2 million, an unrealized loss of \$13.8 million (including an approximately \$7.2 million increase in the second quarter). The unrealized loss was reduced as of September 6, 2007 to \$7.9 million, as interest rates decreased again. Home maintains significant amounts of highly liquid investments to avoid actually realizing losses resulting from market fluctuations. Short-term holdings in the Conning portfolio were \$63.5 million after funding of the third early access payment, which was made in April, 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. The Liquidator also continues to maintain, outside of Conning's control, investments in US Treasury bills and notes.

As of June 30, 2007, such investments respecting Home and USI Re had a book value of approximately \$ 43.9 million and \$ 4.4 million, respectively. These assets, along with sweep bank accounts, will be used to fund operating requirements.

6. Subprime securities. Home owns five securities backed by subprime mortgage collateral. The subprime mortgage market is currently in turmoil. (Subprime securities are backed by thousands of loans that serve as collateral. The securities are sliced into tranches with varying levels of risk and return. The riskier tranches have higher potential returns but absorb the first defaults that occur in the pool of mortgages. In the current market, tranches that were traditionally considered well-insulated from losses are being impacted by collateral defaults.) Home's direct exposure to the subprime sector through ownership of its five securities was just over \$9 million at June 30, 2007, after subprime holdings were reduced by \$13 million (including \$2.5 million of principal repayments) during the second quarter at a net gain of \$30,000. The sales of \$10.5 million were the result of ongoing credit surveillance, which indicated a slight deterioration of collateral performance of the securities which were AA rated. The current holdings backed by subprime collateral are all AAA rated by S&P and have retained their ratings during the downturn in the subprime market. These securities have excellent credit support, which has increased in spite of the subprime difficulties, because tranches senior to the ones owned by Home have already paid down; thus a greater share of the remaining collateral will be used to repay the principal in the Home's tranche. Conning utilizes "stress test" models for these securities that indicate principal repayments even with collateral defaults far in excess of current losses. Home's positions will be significantly reduced by year end, as three of the five holdings have effective maturities prior to December 31, 2007. The Liquidator will continue to closely monitor the securities.

7. Early Access Distributions to Guaranty Funds. As described in the Liquidator's Twenty-Fifth Report, the Liquidator has made three early access distributions to guaranty funds in early 2005, 2006 and 2007 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 \$131.9 million, of which \$39.3 million was paid in April 2007. The Liquidator is contemplating a fourth early access distribution. The effect of the early access distributions made through April 2007 was to reimburse most guaranty funds for 100% of their loss payments for Home-related policies through September 2006.

8. Sale of USI Re. As described in the Liquidator's Twenty-Fifth report, the Liquidator has entered into a stock purchase agreement with respect to the sale of the stock of USI Re, subject to regulatory and Court approval. Regulatory review of the transaction is ongoing.

9. Significant Litigation.

(a) Utica – The parties engaged in mediation before attorney William Mulvey on August 10, 2007. As a result, the parties achieved a settlement in principle, which they are in the process of memorializing. The settlement will be submitted to the Court for approval, and a motion for approval will be filed after the agreement is finalized.

(b) Wausau – The parties continue their settlement discussions as part of a potential commutation of their business arrangements. As part of their commutation negotiations, the parties previously reconciled their contractual arrangements and provided initial pricing of their

exposures. In August 2007, Wausau personnel conducted a claims audit of Home's files in order to facilitate the commutation discussions, which remain ongoing.

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, a reinsurance commutation agreement with Munich American Re. A motion for approval of the commutation will be filed shortly. The Liquidator, on behalf of USI Re, entered into reinsurance commutation agreements with CUMIS Insurance Society, Inc. This commutation is described in the confidential appendix submitted with this report.

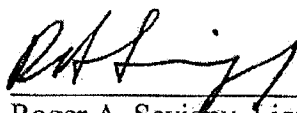
11. Asset dispositions (including compromises) and assumptions of obligations. In accordance with paragraph 5 of the Order Establishing Procedures for Review of Certain Agreements to Assume Obligations or Dispose of Assets entered April 29, 2004, and paragraph 5 of the Liquidator's Eleventh Report, the 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.

12. Ancillary Proceedings in the United States. As previously reported, ancillary receiverships for Home are pending in Idaho, Oregon, New York, Massachusetts, and New Mexico. There are no pending ancillary proceedings for USI Re.

13. California subpoenas. As previously reported, 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. The Liquidator has completed the document review process pursuant to which approximately 88,000 pages of documents have been produced and now is in the process of preparing a privilege log.

Respectfully submitted,



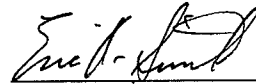
Roger A. Sevigny, Liquidator

September 14, 2007

CERTIFICATE OF SERVICE

I hereby certify that on September 14, 2007, a copy of the Liquidator's Twenty-Sixth Report, without the confidential appendix, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: September 14, 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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Exhibits:

A – 6/30/07 Financial Statement – Home

B – 6/30/07 Financial Statement – USI Re

C – Comparison of actual and budgeted general and administrative expenses through 6/30/07

D – Companies' holdings of bonds and short- term investments as of 6/30/07

Confidential Appendix

THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

June 30, 2007 and December 31, 2006
(Unaudited)

The Home Insurance Company In Liquidation

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

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$628,594,368	\$608,099,834
Short-term investments	10,642,117	42,812,345
Cash and cash equivalents	<u>129,567,907</u>	<u>144,429,307</u>
Total unrestricted bonds, short-term investments and cash at cost	768,804,392	795,341,486
Common stocks, marketable, at market value (Note 2)	1,810	10,359
Interest income due and accrued	<u>6,817,514</u>	<u>6,400,611</u>
Total unrestricted liquid assets	775,623,716	801,752,456
Unrestricted illiquid assets: (Note 1)		
Surplus notes, at fair value	146,800	146,800
Common stocks, at fair value	1,957,741	1,935,076
Limited partnership interests, at fair value	<u>1,903,995</u>	<u>2,294,513</u>
Total unrestricted illiquid assets	4,008,536	4,376,389
Restricted liquid assets:		
Cash and cash equivalents (Note 5)	<u>316,533</u>	<u>542,606</u>
Total restricted liquid assets	316,533	542,606
Receivable from US International Reinsurance Company (Note 4)	32,050	34,682
Total assets, excluding certain amounts	779,980,835	806,706,133
Liabilities		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	3,622,550	6,241,428
Notices of Determination approved for Class I creditors (Note 8)	377,402	5,252,213
Claims checks payable (Note 1)	<u>7,741</u>	<u>11,125</u>
Total liabilities	4,007,693	11,504,766
Net assets, excluding certain amounts	<u>\$775,973,142</u>	<u>\$795,201,367</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, 2007</u> To <u>June 30, 2007</u>	<u>January 1, 2006</u> To <u>December 31, 2006</u>
Cash and marketable securities received:		
Net investment income	\$ 19,815,867	\$ 36,578,417
Reinsurance collections - unrestricted	16,105,986	42,983,597
Repatriation of funds - Canadian branch (Note 1)	-	6,999,990
Salvage, subrogation and other claim recoveries	3,876,711	6,062,086
Remittance of funds held by reinsurers	-	4,607,379
Agents' balances	1,525,233	4,800,526
Miscellaneous income	328,169	255,960
Receivable collected from USI Re	78,153	412,965
Proceeds from sale of common stock	-	112,747
Deposits with outside claim adjusters	-	276,897
All other	130,620	2,003,187
Total cash receipts	<u>41,860,739</u>	<u>105,093,751</u>
 Cash operating disbursements:		
Human resources costs (Note 3)	8,833,527	13,629,000
Consultant and outside service fees	1,537,977	3,274,997
General office and rent expense	1,394,806	2,769,434
Legal and audit fees	777,562	1,631,758
Computers and equipment cost	327,834	991,293
Investment expenses	310,442	597,340
Losses and loss expenses paid (Note 1)	308,486	1,011,573
Administration costs	119,069	596,323
Temporary services	-	35,620
Computer equipment - Disaster Recovery	-	10,700
All other	1,430,848	816,914
Total cash operating disbursements	<u>15,040,551</u>	<u>25,364,952</u>
Excess of receipts over operating disbursements	<u>26,820,189</u>	<u>79,728,799</u>
 Distributions to state guaranty associations (Note 8)	39,276,228	57,334,437
Class I Distributions	14,307,128	-
(Deficiency) excess receipts over disbursements	<u>(26,763,167)</u>	<u>22,394,362</u>
 Beginning cash and marketable securities, at cost	795,884,092	773,489,730
Ending cash and marketable securities, at cost	<u>\$ 769,120,925</u>	<u>\$ 795,884,092</u>

See accompanying notes.

The Home Insurance Company in Liquidation

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

	<u>January 1, 2007 To June 30, 2007</u>	<u>January 1, 2006 To December 31, 2006</u>
Net Assets, beginning of period	\$795,201,367	\$778,120,117
(Deficiency) excess of unrestricted and restricted receipts over operating disbursements	(26,763,167)	22,394,362
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(8,549)	(146,211)
Fair value of common stocks, including stock sale, illiquid (Note 1)	22,665	36,124
Fair value of limited partnership interests, illiquid	(390,518)	(384,585)
Interest income due and accrued	416,903	869,324
Due from USI Reinsurance	(2,632)	(94,160)
Incurred but unpaid administrative and investment expenses (Note 3)	2,618,878	(501,480)
Notices of Determination approved for Class I creditors (Note 8)	4,874,811	(5,252,213)
Claims checks payable	3,384	(11,125)
Reserve related to real estate tax refund	-	171,214
Net Assets, end of period	<u>\$775,973,142</u>	<u>\$795,201,367</u>

See accompanying notes.

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

Notes to Financial Statements

June 30, 2007

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 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, the Canadian Provisional Liquidator of Home's Canadian branch repatriated approximately \$7 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:

	June 30, 2007			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Bonds:				
U.S. Treasury notes	\$ 58,868,862	\$ 25,393	\$ (1,320,252)	\$ 57,574,003
Government agencies	154,470,960	55,140	(1,853,528)	152,672,572
Corporate	236,278,851	61,630	(10,280,758)	226,059,723
Mortgage Backed	105,061,453	-	(4,150,314)	100,911,139
Asset Backed	<u>73,914,242</u>	<u>170,522</u>	<u>(442,652)</u>	<u>73,642,112</u>
Total Marketable Bonds	<u>\$ 628,594,368</u>	<u>\$ 312,685</u>	<u>\$(18,047,504)</u>	<u>\$ 610,859,549</u>
Common Stock	<u>1,628,052</u>	<u>-</u>	<u>(1,626,242)</u>	<u>1,810</u>
Total Common Stock	<u>\$ 1,628,052</u>	<u>\$ -</u>	<u>\$(1,626,242)</u>	<u>\$ 1,810</u>

The book value of unrestricted marketable bonds is \$591,579,872. Based on such book value, gross unrealized gains are \$121,504 and gross unrealized losses are \$13,903,719.

	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>-</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.

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>
June 30, 2007		
One year or less	\$ 74,937,425	\$ 73,781,511
Over one year through five years	248,948,988	242,070,240
Over five years through twenty years	125,732,260	120,454,547
Mortgage Backed	105,061,453	100,911,139
Asset Backed	<u>73,914,242</u>	<u>73,642,112</u>
Total	<u>\$ 628,594,368</u>	<u>\$ 610,859,549</u>

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>

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 June 30, 2007, are as follows:

Human resources costs	\$1,947,427
Consultant and outside service fees	748,159
General office and rent expense	291,997
Legal and auditing fees	200,455
Computer and equipment costs	40,576
Other administration costs	<u>241,970</u>
Total accrued administrative expenses	<u>\$3,470,584</u>
Accrued investment expenses	<u>151,966</u>
Total accrued expenses	<u>\$3,622,550</u>

The amount of accrued expenses at December 31, 2006 was \$6,241,428 and net assets for 2007 increased by \$2,618,878 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, 2007. The costs of these plans are primarily payable in 2008, but are based on 2007 service and are being accrued over the service period in 2007. Accrued administrative expense includes \$1,947,270 of incentive plan costs.

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

At June 30, 2007 and December 31, 2006, Home had amounts receivable of \$32,050 and \$34,682, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$78,153 for such expenses in 2007.

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 \$316,533 at the end of June 30, 2007.

6) Securities on Deposit

Investments on deposit at the original cost with various states were \$1,864,060, \$1,955,732 and \$73,947,287 at June 30, 2007, December 31, 2006, 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 June 30, 2007 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 March 12, 2007, the Court approved a third early access distribution to insurance guaranty associations based on guaranty association payments through September 30, 2006. The Liquidator paid \$39,276,228 in April 2007 relating to this early access distribution. Early access payments to date are \$131.9 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	\$131,932,454
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>\$184,601,244</u>

8) Allowed Claims

As of June 30, 2007, the Liquidator has allowed, and the Court has approved, \$14,684,530 of Class I claims, \$305,430,065 of Class II claims, \$48,308,677 of Class V claims and \$42,124 of Class VIII claims. The Class I claims, which were primarily paid in April 2007, include \$14,658,343 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)

**June 30, 2007 and December 31, 2006
(Unaudited)**

US International Reinsurance Company In Liquidation

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

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Assets		
Unrestricted liquid bonds, short-term investments and cash at cost:		
Bonds, at cost (Note 4)	\$ 442,082	\$ -
Short-term investments	3,489,652	3,880,904
Cash and cash equivalents	<u>1,045,657</u>	<u>1,015,837</u>
Total unrestricted liquid bonds, short-term investments and cash at cost	4,977,391	4,896,741
Restricted liquid assets:		
Bonds, at cost (Note 4)	339,109	-
Short-term investments	<u>128,487</u>	<u>457,541</u>
Total restricted liquid bonds and short-term investments at cost	467,596	457,541
Interest income due and accrued	<u>6,187</u>	<u>-</u>
Total restricted liquid assets	473,783	457,541
Total assets, excluding certain amounts	5,451,174	5,354,282
Liabilities		
Incurred but unpaid administrative expenses (Note 6)	197	2,998
Payable to The Home Insurance Company in Liquidation (Note 3 & 6)	32,050	34,682
Net assets, excluding certain amounts	<u>\$ 5,418,927</u>	<u>\$ 5,316,602</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, 2007 To June 30, 2007	January 1, 2006 To December 31, 2006
Cash and marketable securities received:		
Reinsurance collections	\$ 52,622	\$ 586,455
Net investment income	125,124	139,051
Sale of investment (Note 2)	-	1,865,495
All other	35,277	16,314
Total cash and marketable securities received	<u>213,023</u>	<u>2,607,315</u>
Cash operating disbursements:		
Consultant and outside service fees	-	47,020
Net payments to Home Insurance Company (Note 3)	78,153	412,965
All other	44,165	-
Total cash operating disbursements	<u>122,318</u>	<u>459,985</u>
Excess of receipts over operating disbursements	90,705	2,147,330
Beginning cash and marketable securities, at cost	5,354,282	3,206,952
Ending cash and marketable securities, at cost	<u>\$ 5,444,987</u>	<u>\$ 5,354,282</u>

See accompanying notes.

US International Reinsurance Company in Liquidation

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

	January 1, 2007 To June 30, 2007	January 1, 2006 To December 31, 2006
Net Assets, beginning of period	\$5,316,602	\$3,087,915
Excess of receipts over operating disbursements	90,705	2,147,330
Other changes in net assets:		
Interest income due and accrued	6,187	(13,535)
Incurred but unpaid administrative expenses	2,801	732
Payable to The Home Insurance Company in Liquidation	2,632	94,160
Net Assets, end of period	<u>\$5,418,927</u>	<u>\$5,316,602</u>

See accompanying notes.

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

Notes to Financial Statements

June 30, 2007

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 June 30, 2007 and December 31, 2006, the Liquidator accrued liabilities of \$32,050 and \$34,682, respectively, to Home for USI Re’s allocated share of various administrative expenses incurred. In 2007, the amount paid to Home was \$78,153 for such expenses.

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

Notes to Financial Statements (continued)

4) Marketable Securities

The carrying values and estimated fair values of marketable bonds at June 30, 2007, by major category, are summarized as follows:

	<u>June 30, 2007</u>			<u>Fair Value</u>
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
Unrestricted Marketable Bonds				
Debt Securities:				
U.S. Treasury notes	<u>\$ 442,082</u>	<u>\$ -</u>	<u>\$ (497)</u>	<u>\$ 441,585</u>
Total	<u>\$ 442,082</u>	<u>\$ -</u>	<u>\$ (497)</u>	<u>\$ 441,585</u>
Restricted Marketable Bonds				
Debt Securities:				
U.S. Treasury notes	<u>\$ 339,109</u>	<u>\$ 1,423</u>	<u>\$ -</u>	<u>\$ 340,532</u>
Total	<u>\$ 339,109</u>	<u>\$ 1,423</u>	<u>\$ -</u>	<u>\$ 340,532</u>

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

	<u>Unrestricted</u>		<u>Restricted</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Marketable Bonds				
June 30, 2007				
One year or less	<u>\$ 442,082</u>	<u>\$ 441,585</u>	<u>\$ 339,109</u>	<u>\$ 340,532</u>
Total	<u>\$ 442,082</u>	<u>\$ 441,585</u>	<u>\$ 339,109</u>	<u>\$ 340,532</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 \$472,048, \$464,337, and \$4,964,360 at June 30, 2007, December 31, 2006, 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 June 30, 2007, the Statement of Restricted and Unrestricted Net Assets reflects restricted short-term investments for Oregon of \$128,487 and restricted bonds for New Mexico of \$339,109. These funds are held for the policyholders and creditors, as such amounts have not been settled and agreed to with the states.

6) Incurred But Unpaid Administrative Expenses

USI Re incurred administrative expenses relating to outside service fees of \$32,247, in the normal course of liquidation, that were unpaid as of June 30, 2007.

7) Allowed Claims

As of June 30, 2007, the Liquidator has allowed, and the Court has approved, \$3 of Class I, \$35 of Class II, \$2,962,615 of Class V claims and \$38 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.

8) Sale of Capital Stock

On May 16, 2007, the Liquidator entered into a Letter of Intent to sell 100% of the issued and outstanding capital stock of the Company to an unrelated third party. The proposed transaction is subject to a number of conditions, including approvals by the New Hampshire Department of Insurance and the Liquidation Court, the transfer of all assets and liabilities of the Company to a liquidating trust (Liquidating Trust) to be established simultaneously with the sale, and entering a reasonably suitable injunction barring claims against the Company and channeling such claims to the Liquidating Trust. Proceeds from the sale of the stock of the Company will be paid to The Liquidating Trust.

The Home Insurance Company in Liquidation
 US International Reinsurance Company in Liquidation
 G&A Expenses (Actual vs Budget)
 June 30, 2007

General & Administrative Expense	YTD			Full Year Budget
	Actual 2007	Budget 2007	Variance 2007	
Salary and Benefits	6,849,660	6,732,213	117,447	13,504,952
Travel	24,200	100,654	(76,454)	201,532
Rent	1,119,379	1,185,175	(65,795)	2,382,292
Equipment	314,351	466,050	(151,700)	932,100
Printing and Stationery	37,031	45,123	(8,092)	86,700
Postage	23,517	28,596	(5,079)	57,192
Telephone	160,266	217,650	(57,384)	435,400
Disaster Recovery	9,400	5,400	4,000	10,700
Outside Services, including Special Deputy	1,287,205	1,501,057	(213,852)	2,998,461
Licensing Fees	1,366	-	1,366	-
Legal and Auditing	413,702	1,003,950	(590,248)	1,908,973
Bank Fees	77,471	75,996	1,475	152,000
Corporate Insurance	103,672	145,800	(42,128)	146,600
Miscellaneous Expenses	3,236	1,800	1,436	3,600
Total US Expenses Incurred	10,424,456	11,509,464	(1,085,008)	22,820,502
UK Liquidation expenses paid by the US liquidator	840	-	840	-
Total US and UK Expenses Incurred	10,425,296	11,509,464	(1,084,168)	22,820,502

The Home Insurance Company in Liquidation
 Portfolio Summary Report- Bonds and Short Term Investments
 Securities Held as of June 30, 2007
 (000's)

Conning Managed:		Book Value	Market Value	Unrealized Gain (Loss)	Eff Mat (Years)	Book Yield	Average Credit Quality	Earned Income 6/30/07
% of Av								
Fixed Income								
10%	Short Term	63,466	63,466	-	0.03	5.29	Aaa	2,071
4%	Government	25,568	24,512	(1,056)	4.54	4.05	Aaa	516
24%	Agency	154,570	152,673	(1,897)	2.45	4.76	Aaa	3,293
36%	Corporate	232,665	226,060	(6,606)	3.56	4.67	A1	5,303
12%	Mortgage Backed	80,441	77,647	(2,794)	4.27	5.21	Aaa	2,158
4%	Commercial Mortgage Backed	24,311	23,264	(1,047)	3.76	4.46	Aaa	623
11%	Asset Backed	74,024	73,642	(382)	2.69	5.15	Aaa	2,173
100%	Total	655,046	641,264	(13,782)	2.99	4.84	Aa1	16,136
Other investments- Home Insurance								
100%	US Treasury Bills and Notes	43,855	43,824	(31)	0.25	4.85	Aaa	1,050
Total Home Insurance								
		698,901	685,088	(13,813)	2.82	4.84	Aa1	17,186
Other investments- USI Re								
	100% US Treasury Bills and Notes	4,438	4,437	(1)	0.28	4.85	Aaa	104
Grand total (1)								
		703,339	689,525	(13,814)	2.80	4.84	Aa1	17,290 (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 June 30, 2007, would be \$35.5 million.