

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 FORTY-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 Forty-Sixth Report on the liquidations of the Companies, as of September 4, 2012, in accordance with RSA 402-C:25 and the Order Concerning Liquidator's Reports issued January 19, 2005. This report is divided into two parts, the first concerning the liquidation of Home and the second of USI Re.

A. The Home Insurance Company

1. Proofs of claim. The claim filing deadline in the Home liquidation was June 13, 2004. The Liquidator received 20 new proofs of claim for Home between the last Liquidator's report and September 4, 2012. The proofs of claim submitted total 20,477 with stated amounts totaling \$20.1 billion. (The Liquidator identified 26 proofs of claim which were miscoded as returned and corrected the coding errors, which accounts for the change in proof of claim numbers from the last report.) The proof of claim count includes 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 393 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005. As of September 4, 2012, the Liquidator has issued 16,861 determinations for Home totaling approximately \$1.7 billion. The determinations are comprised of 14,578 final and 2,283 partial determinations. Partial determinations address proofs of claim shown to include a verified paid loss along with a remaining unliquidated exposure.

The Liquidator continues to file reports of claims and recommendations when a sufficient number of claim determinations has passed the 60-day period for objections under RSA 402-C:41, I. Since the last Liquidator's report, the Liquidator has submitted two reports of claims and recommendations to the Court reflecting a total of approximately \$10.5 million dollars in determinations. The Liquidator also submitted for Court approval five settlement agreements with claimants involving recommended allowances totaling approximately \$34.1 million. The Court has now approved 62 settlement agreement totaling approximately \$781 million. The Liquidator has now presented and the Court has approved claim recommendations, including settlements, for a total of 15,768 claims involving a total allowed amount of approximately \$1.6 billion.

3. Requests for review and objections. A notice of determination is sent to a claimant when the Liquidator determines a claim. Each notice of determination includes instructions on how to dispute the determination under New Hampshire statutes and the Claim Procedures Order. Since inception 563 claimants have filed requests for review; and 259 of these have been sent notices of redetermination or have withdrawn the request for review. (The Liquidator has completed a review of the requests for review and notices of redetermination which accounts for the changes in these numbers from the last report.) Included among the requests for review are 199 requests filed by guaranty associations concerning the priority of certain claim expenses and defense costs. Claimants have filed 54 objections with the Court to commence disputed claim proceedings. As of September 4, 2012, there are five disputed claim proceedings pending before the Referee, plus two (2005-HICIL-4, and the unnumbered proceeding regarding the United States Department of Labor) that have been stayed. The disputed claims procedures order provides for review of the Referee's reports by motion to recommit. There are no such motions pending. Two orders on motions to recommit are on appeal.

4. Financial reports. The unaudited June 30, 2012 financial statements for Home are attached as Exhibit A to this report. The June 30, 2012 Home statements reflect \$1,123,730,929 in assets under the Liquidator's direct control at June 30, 2012, and \$32,334,267 in reinsurance collections, net investment income, and other receipts and \$12,832,049 in operating disbursements from January 1 through June 30, 2012.

5. 2012 Budget. A comparison of the actual and budgeted general and administrative expenses of the liquidations (both Home and USI Re), on an incurred basis, through June 30, 2012 is attached as Exhibit B. As of June 30, 2012, actual expenses were above

budget by approximately \$4,000 or .04%, primarily due to small unfavorable variances in salaries and benefits and outside services. There were favorable variances in most other categories. Below is a comparison of the annual budgeted and actual operating expenses (in millions) beginning January 1, 2004:

Year	Budget	Actual
2004	\$33.8	\$26.9
2005	\$26.8	\$26.2
2006	\$25.6	\$23.5
2007	\$22.8	\$21.5
2008	\$21.4	\$20.6
2009	\$20.6	\$20.0
2010	\$19.9	\$20.3
2011	\$18.9	\$18.2
2012	\$18.6	

The Liquidator filed a copy of the 2012 Expense Budget on November 10, 2011 as Exhibit 8 to the Liquidator’s Filing Regarding Status Report.

6. Investment update. A summary of Home’s holdings of bonds and short- term investments as of June 30, 2012 is attached as Exhibit C, and a report listing the individual holdings of Home as of that date is attached as Exhibit D (the groupings on Exhibit C differ from those on Exhibit D). The book value of Home’s bonds and short-term investments managed by Conning Asset Management (“Conning”) at June 30, 2012, was approximately \$1.082 billion compared to their market value of \$1.118 billion. This represented an unrealized gain of approximately \$36 million. Short-term holdings in the Conning-managed portfolio at June 30, 2012 were \$3.2 million at market value. The portfolio is expected to generate approximately \$38 million of cash from net investment income in 2012, despite continuing reductions in yields on reinvested assets which are expected to have an impact on future investment income.

The average credit rating for the Conning-managed portfolio holdings is Aa3 by Moody's and AA- by S&P. The Liquidator continues to maintain, outside of Conning's control, investments in US Treasury bills and notes. As of June 30, 2012, such investments had a market value of approximately \$9.6 million for Home. These assets, along with sweep bank accounts, will be used to fund operating requirements.

On May 10, 2012, the Court approved the Third Revised Investment Guidelines. The Third Revised Investment Guidelines permit investments in BB- (S&P) and Ba3 (Moody's) rated obligations subject to a per issuer limit of 0.25%. The percentage of the total portfolio that may be invested in BBB and BB (S&P) or Baa and Ba (Moody's) rated securities is capped at 10%, which includes a 4% limit for BB and Ba securities.

On August 16, 2012, the Liquidator filed a motion with the Court requesting approval of the Fourth Revised Investment Guidelines. The proposed Fourth Revised Investment Guidelines would establish municipal bonds as an asset class in which up to 25% of Home's portfolio could be invested in order to diversify portfolio credit risk, maintain or improve overall credit ratings, and achieve yields in excess of those available on Treasuries. These Guidelines for municipal bonds would include minimum issuer credit ratings of A3 (Moody's) and A-(S&P), maximum exposure to any state (including all its agencies and political subdivisions) of 1.9% of the total portfolio, and maximum exposure to an individual issuer of .5% of the total portfolio. Additionally, the proposed Fourth Revised Investment Guidelines would permit up to 65% of the portfolio to be allocated to corporate obligations.

As of September 1, 2012, the Conning-managed portfolio had an unrealized gain (market value above book value) of \$38.6 million as an increase in interest rates caused a decrease in the

gain from June 30, 2012. As of September 1, 2012, the Liquidator and Conning believe that all securities in the portfolio will pay full amounts of principal in spite of fluctuating market values.

Market values of the portfolio can fluctuate widely as credit spreads change and as indicators of a recession coincide with the inflationary effects of large new issuances of government debt. Additional pressures on market values may result from the European sovereign debt crisis and fears about its impact on the international banking system. Market value sensitivities analysis performed by Conning indicated that market values could potentially fluctuate \$27 million downwards and \$12 million upwards if interest rates increased or decreased 100 basis points, respectively, based on the portfolio values as of June 30, 2012. Consistent with the investment guidelines, the Liquidator and Conning continue to focus on (a) preservation of capital on investments, (b) maintaining a high quality portfolio, and (c) consistent with objectives (a) and (b), maximizing current income.

7. Early access distributions to guaranty funds. As described in the Liquidator's previous reports, the Liquidator has made early access distributions to guaranty funds in almost all years from 2005 through 2012. The Liquidator makes a distribution only after obtaining approval from the Court and the required "claw back" agreements with the guaranty funds requiring the return of any amounts advanced that are necessary to pay creditors whose claims fall in the same or a higher priority class. See RSA 402-C:29, III. The cash payments from the Home liquidation to guaranty funds for these eight early access distributions totaled \$222 million.

8. Interim Distribution. The Liquidator's principal goals in this liquidation have been to determine claims and collect assets for the ultimate purpose of distributing assets to the creditors of Home. While there are substantially more claims to determine and assets to collect,

the Liquidator believes that it is presently reasonable to make an interim distribution of fifteen (15) percent on Class II claims that have been allowed by the Court. Accordingly, on February 10, 2012, the Liquidator filed a Motion for Approval of Interim Distribution to Claimants With Allowed Class II Claims through December 31, 2011. The Court granted the motion in an Order dated March 13, 2012.

Among other things, the interim distribution is subject to receipt of a waiver of federal priority claims from the United States in a form acceptable to the Liquidator. The Liquidator requested such a waiver from the United States Department of Justice (“DOJ”) on April 12, 2012. The DOJ acknowledged receipt of the request that day. The Liquidator followed up on the request on June 5, 2012. On June 21, 2012, DOJ advised that it had not completed its review of Environmental Protection Agency claims against Home. On July 3, counsel for the Liquidator spoke with counsel at DOJ, who requested certain additional information. The Liquidator provided the information on July 12, 2012.

The request for the waiver of federal priority claims has been made, and the Liquidator has responded to a DOJ request for additional information. The Liquidator believes that there is an open, constructive dialogue with DOJ regarding the request but cannot predict when DOJ will act on the request.

After the Court issued the March 13, 2012 Order, certain Class II claimants with claims that had not been approved by the Court by December 31, 2011 requested that their claims be included in the initial interim distribution. In light of the passage of time since the originally proposed cutoff date and uncertainty over when the waiver would be received and the distribution made, the Liquidator on May 1, 2012 filed a motion to amend the March 13, 2012 Order to provide that the interim distribution shall be made to claimants, or their assignees, with

Class II priority claims under RSA 402-C44 allowed by the Court through the end of the month in which a waiver of federal priority claims in a form acceptable to the Liquidator is received. To provide for interim distributions to claimants with subsequently allowed Class II claims on a more frequent basis than annually, the Liquidator also requested that the March 13, 2012 Order be amended to provide that the interim distribution payments be made following each June 30 and December 31 with respect to claims allowed during the six month period preceding that date. The court amended the March 13, 2012 Order by order issued July 2, 2012.

9. Distributions to Class I Creditors. The Liquidator has recommended in various of his reports of claims and recommendations that the Court approve certain claims by guaranty associations for administrative expenses from inception to December 31, 2008, which are Class I claims under RSA 402-C:44 pursuant to RSA 404-B:11, II, and certain other Class I claims. The Court has approved the claim reports, and the Liquidator accordingly made distributions to these Class I creditors in April 2007 and October 2010 that totaled \$35 million (after deduction of setoffs). A third distribution for approved Class I claims of guaranty associations for the period ending September 2010 will be processed in the next quarter for an amount estimated to total \$12 million (after deduction of setoffs).

10. Significant litigation.

United States Department of Labor Priority. In December 2010, the United States Department of Labor (“DOL”) brought a declaratory judgment action against the Liquidator in the United States District Court for the District of New Hampshire. The action challenged the Liquidator’s assignment of the DOL’s claim for Special Fund assessments under the Longshore and Harbor Workers’ Compensation Act (“LHWCA”) to priority Class III. The Liquidator moved to dismiss the action on abstention grounds. On August 30, 2011, the District Court

denied the motion as to the DOL's federal preemption claim, although it granted dismissal of DOL's alternative state law arguments without prejudice. The District Court also allowed a motion to intervene filed by fifteen insurance guaranty funds. The DOL moved for summary judgment on the merits of its claim to "absolute priority" based on asserted preemption of the New Hampshire priority statute by § 944 of the LHWCA.

By Order dated January 27, 2012, the District Court denied the DOL's motion for summary judgment and directed entry of judgment in favor of the defendants. The Court concluded that Congress did not intend to preempt the state priority law and that, in any event, it is protected from "federal intrusion" by the McCarran-Ferguson Act. Opinion 2012 DNH 120, 2012 WL 254234. Judgment entered on January 31, 2012. On March 30, 2012, the DOL filed a notice of appeal to the United States Court of Appeals for the First Circuit from the Judgment entered on January 31, 2012 and from the Order denying DOL's motion for summary judgment. On April 12, 2012, the Guarantee Funds filed a notice of cross appeal to the United States Court of Appeals for the First Circuit Court from the order denying their motion to dismiss. (The Liquidator did not cross appeal.)

Both of the appeals have been voluntarily dismissed. The Guarantee Funds and the other parties filed a joint motion to voluntarily dismiss the Guarantee Funds' appeal, and the Court of Appeals entered a judgment dismissing the cross appeal and issued its mandate on May 3, 2012. The DOL filed an assented-to motion to voluntarily dismiss its appeal, and the Court of Appeals entered a judgment dismissing the appeal and issued its mandate on June 22, 2012.

The District Court's judgment of January 31, 2012 is accordingly final. DOL's state law arguments remain for determination in the State Court. On July 12, 2012, the Liquidator filed an

assented-to motion for the Court to adjudicate the DOL's remaining state law claims and set a schedule for submissions.

Massachusetts Second Injury and COLA Reimbursement. The Liquidator commenced an administrative proceeding before the Massachusetts Department of Industrial Accidents (the "DIA") seeking second-injury reimbursement from the Workers' Compensation Trust Fund, as well as cost of living adjustment reimbursement for payments to Massachusetts workers' compensation claimants. The parties completed testimony in these matters on August 13, 2010, and submitted their post-hearing briefs. Oral argument was heard on August 30, 2011. In a decision filed on February 6, 2012, Judge Taub, ruling on the COLA reimbursement claim, found in favor of the Trust Fund holding that Home lacked standing to bring the claim and that even if Home had standing it had not, after it went into liquidation, actually paid benefits to the workers' compensation claimants and thus was not entitled to recovery as to post-liquidation amounts. Home filed notice of appeal to the DIA Reviewing Board on February 15, 2012. The Reviewing Board has set a briefing schedule with the Liquidator's initial brief being due on September 21, 2012 and the WCTF's brief 30 days thereafter .

Minnesota Special Funds Reimbursement. The Liquidator commenced an action in the Ramsey County District Court, Minnesota, seeking second-injury reimbursement from the Minnesota Department of Labor and Industry with respect to payments Home made to various Minnesota workers' compensation claimants under policies Home issued prior to September 1995. The District Court issued an order granting summary judgment in favor of Home on certain issues on July 20, 2010. During May, 2011, the Liquidator and the Department of Labor and Industry conducted mediation in an attempt to negotiate a settlement. The Department of Labor and Industry subsequently filed a motion for clarification of the District Court's summary

judgment order, and a hearing was held on September 12, 2011. On October 3, 2011, the District Court issued an order that substantively rejected the Department of Labor and Industry's motion for clarification. The Department of Labor and Industry has appealed and oral argument was heard on June 12, 2012. Pursuant to Minnesota statute, the appellate court must issue a ruling within 90 days and thus we anticipate receiving a decision by September 12, 2012.

11. Reinsurance commutations and settlements. The Liquidator reports, in accordance with the Court's September 23, 2004 order, that since the last report no commutations have been completed.

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.

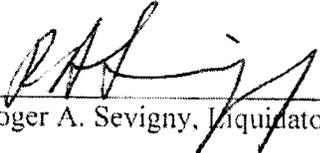
13. Ancillary proceedings in the United States. Ancillary receiverships for Home remain pending in Oregon, New York, and Massachusetts.

B. US International Reinsurance Company

1. Distribution of Assets. The assets of USI Re have all been collected and the claims against USI Re have all been determined. On July 15, 2011, the Liquidator filed a Motion for Approval of Distribution of Assets, Disposal of Records and Termination of Proceeding. The Liquidator withdrew the motion on October 24, 2011 and the Court approved the withdrawal on December 16, 2011. In light of potential claims of the United States and the federal priority statute, 31 U.S.C. § 3713, the Liquidator requested a waiver of federal priority claims from the United States Department of Justice on January 27, 2012. On February 21, 2012, the

Department of Justice requested additional information, which the Liquidator provided on February 29, 2012. The Liquidator followed up on the request with the DOJ on June 5, 2012, and on June 21, 2012. On August 2, 2012, the Liquidator submitted a further statement to the DOJ, which DOJ acknowledged on August 14, 2012. The Liquidator believes that there is an open, constructive dialogue with DOJ regarding the request but cannot predict when DOJ will act on the request. Upon receipt of the waiver, the Liquidator will seek the Court's approval to distribute the assets of the estate to its creditors. The Liquidator will then attend to the few administrative matters which remain, including the disposal of its records, before seeking the Court's approval for the discharge of the Liquidator and the termination of the proceeding.

2. Financial reports and investments. The unaudited June 30, 2012 financial statements for USI Re are attached as Exhibit E to this report. The June 30, 2012 USI Re statements reflect \$6,225,237 in assets under the Liquidator's direct control at June 30, 2012. As shown on Exhibit D, USI Re's investments consist of approximately \$4.4 million of U.S. Treasury notes and bills; the remainder is held in cash. Respectfully submitted,



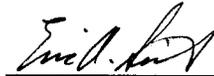
Roger A. Sevigny, Liquidator

September 12, 2012

CERTIFICATE OF SERVICE

I hereby certify that on September 13, 2012, a copy of the Liquidator's Forty 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 13, 2012



Eric A. Smith
NH Bar ID No. 16952

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

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Docket No. 03-E-0106

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Exhibits:

- A-- 6/30/12 Unaudited Financial Statement ----Home
- B – Comparison of actual and budgeted general and administrative expenses through 6/30/12
- C – Holdings of bonds and short- term investments as of 6/30/12 - Home
- D – Individual holdings report as of 6/30/12 – Home
- E – 6/30/12 Unaudited Financial Statement---USI Re

Confidential Appendix

THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

June 30, 2012 and December 31, 2011
(Unaudited)

The Home Insurance Company In Liquidation

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

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$1,089,692,589	\$1,038,781,989
Short-term investments	9,491,321	9,491,807
Cash and cash equivalents	16,240,780	58,816,953
Total unrestricted bonds, short-term investments and cash at cost	1,115,424,690	1,107,090,749
Common stocks, marketable, at market value (Note 2)	217,100	173,378
Interest income due and accrued	7,951,268	8,071,024
Receivable from US International Reinsurance Company (Note 4)	-	128
Total unrestricted liquid assets	1,123,593,058	1,115,335,279
Unrestricted illiquid assets: (Note 1)		
Limited partnership interests	961,085	878,668
Total unrestricted illiquid assets	961,085	878,668
Restricted liquid assets - cash (Note 5)	404,373	404,373
Total assets, excluding certain amounts	1,124,958,516	1,116,618,320
Liabilities		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	1,223,132	3,864,689
Claims checks payable (Note 1)	4,455	6,743
Total liabilities	1,227,587	3,871,432
Net assets, excluding certain amounts	<u>\$1,123,730,929</u>	<u>\$1,112,746,888</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)

	January 1, 2012 To June 30, 2012	January 1, 2011 To December 31, 2011
Cash and marketable securities received:		
Net investment income	\$ 16,032,954	\$ 37,967,576
Reinsurance collections - unrestricted	14,253,463	38,274,359
Salvage, subrogation and other claim recoveries	840,389	765,302
Agents' balances	697,903	2,294,454
Realized capital gains on sale of bonds (Note 1)	322,480	-
Miscellaneous income	176,661	388,563
Receivable collected from USI Re	128	28,491
All other	10,289	139,610
Total cash receipts	32,334,267	79,858,355
Cash operating disbursements:		
Human resources costs (Note 3)	8,641,967	12,008,715
Consultant and outside service fees	1,696,473	3,853,075
General office and rent expense	716,678	1,535,799
Legal and audit fees	627,314	960,343
Investment expenses	440,966	861,287
Realized capital losses on sale of bonds (Note 1)	339,747	2,041,051
Administration costs	125,080	670,086
Losses and loss expenses paid (Note 1)	135,654	563,927
Computers and equipment cost	100,966	200,474
Capital contribution	5,366	21,435
All other	1,838	4,821
Total cash operating disbursements	12,832,049	22,721,013
Excess of receipts over operating disbursements	19,502,218	57,137,342
Distributions to state guaranty associations (Note 7)	10,867,472	7,827,362
Deductible reimbursements (Note 8)	300,805	6,995,620
Excess of receipts over operating disbursements, distributions and deductible reimbursements	8,333,941	42,314,360
Beginning cash and marketable securities, at cost	1,107,495,122	1,065,180,762
Ending cash and marketable securities, at cost	\$ 1,115,829,063	\$ 1,107,495,122

See accompanying notes.

The Home Insurance Company in Liquidation

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

	January 1, 2012 To June 30, 2012	January 1, 2011 To December 31, 2011
Net Assets, beginning of period	\$1,112,746,888	\$1,071,328,574
Excess of unrestricted and restricted receipts over operating disbursements, distributions and deductible reimbursements	8,333,941	42,314,360
Other changes in net assets:		
Fair value of marketable common stocks, liquid	43,722	(44,290)
Limited partnership interests, illiquid	82,417	(509,784)
Interest income due and accrued	(119,756)	(415,852)
Due from USI Reinsurance	(128)	(2,982)
Incurred but unpaid administrative and investment expenses (Note 3)	2,641,557	31,179
Claims checks payable	2,288	45,683
Net Assets, end of period	<u>\$1,123,730,929</u>	<u>\$1,112,746,888</u>

See accompanying notes.

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

Notes to Financial Statements

June 30, 2012

1) Basis of Accounting

These financial statements are prepared using the modified cash basis of accounting which differs from accounting principles generally accepted in the United States. Only those assets that are within the possession of the Liquidator and other known amounts for which ultimate realization is expected to occur, primarily investments and cash, and certain receivables, are recorded. Liabilities that have been acknowledged by the Liquidator are prioritized into creditor classes in accordance with the New Hampshire Statute establishing creditor classes in insurer insolvencies, RSA 402-C: 44. Only incurred but unpaid Class I (Administration Costs) liabilities, which are in a creditor class superior to all other classes, are presented in these financial statements.

These financial statements do not record the amounts of certain assets such as outstanding receivables, reinsurance recoverables, securities on deposit with various states, early access distributions, funds held and claims against others, and certain liabilities, including insurance claims, as such amounts have not been settled and agreed to with third parties.

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

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

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

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

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

Notes to Financial Statements (continued)

2) Marketable Securities

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

	June 30, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Bonds:				
U.S. Treasury notes	\$ 81,144,068	\$ 1,019,885	\$ (177,720)	\$ 81,986,233
Government agencies	73,058,060	1,455,920	(89,280)	74,424,700
Corporate	606,493,452	18,071,220	(3,154,855)	621,409,817
Mortgage Backed	174,049,290	9,060,906	-	183,110,196
Asset Backed	<u>154,947,719</u>	<u>674,658</u>	<u>(1,187,409)</u>	<u>154,434,968</u>
Total Marketable Bonds	<u>\$1,089,692,589</u>	<u>\$ 30,282,589</u>	<u>\$ (4,609,264)</u>	<u>\$1,115,365,914</u>
Total Common Stock	\$ 1,907,248	\$ -	\$ (1,690,148)	\$ 217,100

The amortized cost of unrestricted marketable bonds is \$1,078,866,338. Based on such amortized cost, gross unrealized gains are \$36,554,273 and gross unrealized losses are \$54,697.

	December 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Bonds:				
U.S. Treasury notes	\$ 81,144,068	\$ 2,194,797	\$ (71,671)	\$ 83,267,194
Government agencies	114,183,610	2,074,740	(876,850)	115,381,500
Corporate	561,433,953	18,149,570	(4,592,055)	574,991,468
Mortgage Backed	182,974,893	8,839,684	(4,560)	191,810,017
Asset Backed	<u>99,045,465</u>	<u>349,760</u>	<u>(697,129)</u>	<u>98,698,096</u>
Total Marketable Bonds	<u>\$1,038,781,989</u>	<u>\$ 31,608,551</u>	<u>\$ (6,242,265)</u>	<u>\$1,064,148,275</u>
Total Common Stock	\$ 1,907,248	\$ -	\$ (1,733,870)	\$ 173,378

The amortized cost of unrestricted marketable bonds is \$1,026,494,838. Based on such amortized cost, gross unrealized gains are \$37,954,954 and gross unrealized losses are \$301,517.

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, 2012		
One year or less	\$ 192,310,873	\$ 192,329,510
Over one year through five years	504,660,908	520,554,024
Over five years through twenty years	63,723,799	64,937,216
Mortgage Backed	174,049,290	183,110,196
Asset Backed	<u>154,947,719</u>	<u>154,434,968</u>
Total	<u>\$1,089,692,589</u>	<u>\$1,115,365,914</u>

Marketable Bonds	<u>Unrestricted</u>	
	<u>Cost</u>	<u>Fair Value</u>
December 31, 2011		
One year or less	\$ 212,696,514	\$ 210,222,589
Over one year through five years	538,163,072	556,957,813
Over five years through twenty years	5,902,045	6,459,760
Mortgage Backed	182,974,893	191,810,017
Asset Backed	<u>99,045,465</u>	<u>98,698,096</u>
Total	<u>\$1,038,781,989</u>	<u>\$1,064,148,275</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, 2012, are as follows:

Consultant and outside service fees	\$508,364
Human resources costs	179,759
Legal and auditing fees	122,013
General office and rent expense	103,786
Computer and equipment costs	2,021
Other administration costs	<u>84,866</u>
Total accrued expenses	<u>\$1,000,809</u>
Accrued investment expenses	<u>222,323</u>
Total accrued expenses	<u>\$1,223,132</u>

The amount of accrued expenses at December 31, 2011 was \$3,864,689 and net assets for 2012 increased by \$2,641,557 due to the decrease in the accrual.

Various full-time employees of Home are covered by employee incentive plans, which were approved by Merrimack County Superior Court of the State of New Hampshire (the Court) on January 25, 2012. The costs of these plans are primarily payable in 2013, but are based on 2012 service and are being accrued over the service period in 2012. Accrued administrative expense includes \$179,381 of incentive plan costs.

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

At December 31, 2011, Home had amounts receivable of 128 from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$128 and \$28,491 for such expenses in 2012 and 2011, respectively.

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

Notes to Financial Statements (continued)

5) Restricted Funds

The Liquidator has drawn down on letters of credit (LOC) upon receiving notices of cancellation or notices of non-renewal from the issuing bank. Such LOC draw downs relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Liquidator. Restricted funds related to reinsurance recoveries total \$404,373 at the end of June 30, 2012.

6) Securities on Deposit

Investments on deposit at the original cost with various states were \$1,098,713, \$1,098,923, and \$73,947,287 at June 30, 2012, December 31, 2011 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.

Various states have withdrawn such deposits and related interest for use by the related state guaranty associations. The market value of these withdrawals in the amount of \$55,743,765 may be offset against future distributions to such guaranty associations.

7) Early Access Distribution

On January 25, 2012 the Court approved the eighth early access distribution to insurance guaranty associations based on guaranty association payments through September 30, 2011. The Liquidator paid \$10,867,472 in May 2012 relating to this early access distribution. Early access payments through June 30, 2012 were \$222.5 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	\$ 222,464,338
Assets withdrawn from special deposits held by states to pay Home claims (market value, see note 6)	55,743,765
Other deemed Early Access advances paid in cash	<u>3,152,304</u>
Total	<u>\$ 281,360,407</u>

8) Home Deductible Policies - Reimbursement

On April 6, 2011, the Court approved an agreement between the Liquidator and the Guaranty Associations regarding Home Deductible policies (the Deductible Agreement). The Deductible Agreement provides that the Liquidator will reimburse the signatory Guaranty Associations for deductible amounts collected during liquidation. The Liquidator also charges a fee of 7.5% as reimbursement of the Home’s expenses incurred in the collection process. Forty five Guaranty Associations have signed the Deductible Agreement to date, and, in the second quarter of 2011 the Liquidator paid \$6,995,620, after netting of the fee, to these Guaranty Associations. On March 13, 2012, the Liquidator paid \$300,805 after netting of the fee.

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

Notes to Financial Statements (continued)

9) Allowed Claims

As of June 30, 2012, the Liquidator has allowed, and the Court has approved, \$47,591,686 of Class I claims, \$1,350,452,379 of Class II claims, \$164,230,305 of Class V claims and \$5,315 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.

10) Motion for Interim Distribution

On February 10, 2012, the Liquidator submitted a motion to the Court seeking approval for a 15% interim distribution on allowed Class II claims. The cash distributed based on allowed claims as of 12/31/11 would be approximately \$152.7 million. The interim distribution is subject to approval by the Court and a waiver of federal priority claims from the United States Department of Justice.

The Home Insurance Company in Liquidation
 G&A Expenses (Actual vs Budget)
 June 30, 2012

	Actual 2012	YTD			
		Full Year		Variance	
		Budget	2012	Budget	
General & Administrative Expense					
Salary and Benefits	6,019,086	5,959,757	59,329	11,996,273	
Travel	33,269	86,542	(53,273)	170,234	
Rent	653,626	707,451	(53,825)	1,414,802	
Equipment	101,937	156,721	(54,784)	291,500	
Printing and Stationery	20,370	34,484	(14,114)	69,073	
Postage	11,582	15,900	(4,318)	31,600	
Telephone	87,257	117,450	(30,193)	234,800	
Outside Services, including Special Deputy	1,637,968	1,569,035	68,933	3,147,205	
Licensing Fees	-	500	(500)	1,000	
Legal and Auditing	606,567	530,004	76,563	1,010,008	
Bank Fees	92,524	79,750	12,774	161,500	
Corporate Insurance	-	-	-	101,437	
Miscellaneous Income/Expenses	1,561	4,100	(2,539)	8,700	
Total Expenses Incurred before Expense Recoveries	9,265,748	9,261,694	4,054	18,638,132	
Expense Recoveries	(460)	-	(460)	-	
Total Expenses Incurred after Expense Recoveries	9,265,289	9,261,694	3,594	18,638,132	

The Home Insurance Company in Liquidation
 Portfolio Summary Report- Bonds and Short Term Investments
 Securities Held as of June 30, 2012
 (000's)

Conning Managed:		Book Value	Market Value	Unrealized Gain (Loss)	Eff Mat (Years)	Book Yield	Average Credit Quality	Earned Income 6/30/12
% of BV								
Fixed Income								
0%	Short Term	3,182	3,182	-	0.04	0.01	A1	5
7%	Government	80,167	81,889	1,722	0.80	3.09	Aaa	1,233
7%	Agency	76,408	79,470	3,062	2.28	2.90	Aaa	1,274
55%	Corporate	594,739	616,363	21,624	2.88	3.27	A2	9,485
16%	Mortgage Backed	173,855	183,110	9,255	3.63	3.90	Aaa	3,402
14%	Asset Backed	153,622	154,434	812	2.01	1.23	Aaa	734
100%	Total	1,081,971	1,118,448	36,476	2.68	2.96	Aa3	16,134
Other investments- Home Insurance								
100%	US Treasury Bills and Notes	9,569	9,590	21	0.16	0.07	Aaa	5
Total Home Insurance		1,091,540	1,128,038	36,497	2.66	2.93	Aaa	16,139
Other investments- USI Re								
100%	US Treasury Bills and Notes	4,374	4,374	-	0.23	0.13	Aaa	1
Grand total (1)		1,095,914	1,132,412	36,497	2.65	2.92	Aa3	16,140 (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, 2012, would be \$28.5 million.

**THE HOME INSURANCE COMPANY IN LIQUIDATION
HOLDINGS REPORT
AS OF JUNE 30, 2012**

CUSIP	DESCRIPTION	CPN MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
177366101	CITIZENSSELECT PRIME MMF CITIZENS CASH BALANCE	0.040 07/15/2012	3,181,617.32 49,234.03	3,181,617.32 49,234.03	3,181,617.32 49,234.03
TOTAL CASH & CASH EQUIVALENTS			3,230,851.35	3,230,851.35	3,230,851.35
SHORT TERM (OVER 90 DAYS)					
9127956B2	US TREASURY BILL	08/16/2012	9,493,000.00	9,492,151.12	9,492,430.42
TOTAL SHORT TERM			9,493,000.00	9,492,151.12	9,492,430.42
U S TREASURY					
912810DV7	US TREASURY N/B	9.250 02/15/2016	74,000.00	76,564.75	97,032.50
912828AJ9	US TREASURY N/B	4.375 08/15/2012	5,000,000.00	5,003,973.45	5,025,600.00
912828HK9	US TREASURY N/B	3.375 11/30/2012	30,000,000.00	30,032,815.50	30,396,000.00
912828JD3	US TREASURY N/B	3.375 06/30/2013	25,000,000.00	25,042,973.25	25,772,500.00
912828JK7	US TREASURY N/B	3.125 08/31/2013	5,000,000.00	5,013,822.80	5,165,450.00
912828JM3	US TREASURY N/B	3.125 09/30/2013	15,000,000.00	15,073,613.70	15,529,650.00
TOTAL U S TREASURY			80,074,000.00	80,243,763.45	81,986,232.50
GOVERNMENT AGENCIES					
3133XSAE8	FEDERAL HOME LOAN BANK	3.625 10/18/2013	10,000,000.00	10,113,570.90	10,424,900.00
3134A4UK8	FREDDIE MAC	4.875 11/15/2013	10,000,000.00	10,164,254.00	10,631,100.00
3134A4VG6	FREDDIE MAC	4.750 11/17/2015	20,000,000.00	21,101,821.20	22,820,000.00
3137EABE8	FREDDIE MAC	4.125 12/21/2012	10,000,000.00	10,028,931.50	10,182,900.00
3137EADJ5	FREDDIE MAC	1.000 07/28/2017	10,000,000.00	9,974,876.80	9,994,800.00
31398AUJ9	FANNIE MAE	2.875 12/11/2013	10,000,000.00	10,023,968.20	10,371,000.00
TOTAL GOVERNMENT AGENCIES			70,000,000.00	71,407,422.60	74,424,700.00
TOTAL GOVERNMENT & AGENCIES			150,074,000.00	151,651,186.05	156,410,932.50
CORPORATE					
00206RAY8	AT&T INC	2.400 08/15/2016	8,000,000.00	8,159,757.84	8,311,600.00
002819AA8	ABBOTT LABORATORIES	5.150 11/30/2012	3,850,000.00	3,898,125.62	3,921,687.00
002819AB6	ABBOTT LABORATORIES	5.600 11/30/2017	3,000,000.00	3,593,232.06	3,627,150.00
010392FA1	ALABAMA POWER CO	5.800 11/15/2013	3,000,000.00	3,076,404.09	3,206,610.00
025816AQ2	AMERICAN EXPRESS	4.875 07/15/2013	3,000,000.00	3,002,403.36	3,119,790.00
02581FYA1	AMERICAN EXPR CENTURION	5.950 06/12/2017	3,000,000.00	3,315,429.81	3,489,720.00
02666QF40	AMERICAN HONDA FINANCE	3.500 03/16/2015	2,575,000.00	2,571,838.39	2,712,427.75
031162AJ9	AMGEN INC	4.850 11/18/2014	7,000,000.00	6,883,354.22	7,600,810.00
038222AE5	APPLIED MATERIALS INC	2.650 06/15/2016	3,000,000.00	3,090,560.28	3,140,940.00
03938LAW4	ARCELORMITTAL	4.500 02/25/2017	2,500,000.00	2,428,580.95	2,461,775.00
046353AB4	ASTRAZENECA PLC	5.900 09/15/2017	4,500,000.00	5,386,363.22	5,406,165.00
046353AC2	ASTRAZENECA PLC	5.400 09/15/2012	6,000,000.00	6,037,277.94	6,058,560.00
05531FAG8	BB&T CORPORATION	3.200 03/15/2016	8,000,000.00	7,993,047.60	8,467,600.00
055451AG3	BHP BILLITON FIN USA LTD	5.500 04/01/2014	2,500,000.00	2,496,837.33	2,708,100.00
055451AH1	BHP BILLITON FIN USA LTD	6.500 04/01/2019	2,500,000.00	2,494,082.60	3,182,350.00
05565QBY3	BP CAPITAL MARKETS PLC	1.848 05/05/2017	10,000,000.00	10,000,000.00	10,099,500.00
06406HBE8	BANK OF NEW YORK MELLON	4.950 11/01/2012	4,000,000.00	3,997,609.16	4,060,200.00
071813AY5	BAXTER INTERNATIONAL INC	5.375 06/01/2018	6,600,000.00	7,768,119.02	7,858,686.00
07385TAJ5	BEAR STEARNS CO INC	5.700 11/15/2014	5,000,000.00	5,090,644.05	5,410,450.00
097014AL8	BOEING CAPITAL CORP	4.700 10/27/2019	4,000,000.00	4,599,287.16	4,710,240.00

**THE HOME INSURANCE COMPANY IN LIQUIDATION
HOLDINGS REPORT
AS OF JUNE 30, 2012**

CUSIP	DESCRIPTION	CPN	MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
097023AY1	BOEING CO	3.500	02/15/2015	3,000,000.00	3,037,312.53	3,212,580.00
110122AR9	BRISTOL-MYERS SQUIBB CO	5.450	05/01/2018	3,000,000.00	3,576,783.84	3,607,950.00
126650AV2	CVS CORP	4.875	09/15/2014	3,000,000.00	3,008,505.27	3,245,100.00
134429AU3	CAMPBELL SOUP CO	3.375	08/15/2014	2,500,000.00	2,499,436.93	2,637,950.00
136375BH4	CANADIAN NATL RAILWAYS	4.400	03/15/2013	5,150,000.00	5,176,051.79	5,288,586.50
136375BU5	CANADIAN NATL RAILWAY	1.450	12/15/2016	4,800,000.00	4,767,721.87	4,826,640.00
141781BA1	CARGILL INC	1.900	03/01/2017	5,000,000.00	4,988,671.85	5,021,950.00
14912L2M2	CATERPILLAR FIN SERV CRP	4.750	02/17/2015	4,000,000.00	3,925,353.44	4,375,080.00
14912L5C1	CATERPILLAR FINANCIAL SE	1.750	03/24/2017	3,500,000.00	3,493,985.74	3,541,125.00
14912LZ46	CATERPILLAR FIN SERV CRP	4.600	01/15/2014	1,000,000.00	1,027,104.94	1,055,610.00
151020AD6	CELGENE CORP	2.450	10/15/2015	2,000,000.00	2,011,150.50	2,048,640.00
156700AQ9	CENTURYLINK INC	5.150	06/15/2017	2,500,000.00	2,577,807.50	2,557,800.00
166751AH0	CHEVRON CORP	3.950	03/03/2014	7,000,000.00	7,132,199.79	7,385,070.00
17275RAG7	CISCO SYSTEMS INC	2.900	11/17/2014	3,000,000.00	3,023,930.19	3,154,920.00
191216AL4	COCA-COLA CO/THE	3.625	03/15/2014	3,000,000.00	3,057,397.53	3,152,940.00
191219BV5	COCA-COLA ENTERPRISES	4.250	03/01/2015	3,570,000.00	3,663,673.62	3,879,733.20
2027A0EM7	COMMONWEALTH BANK AUST	3.500	03/19/2015	5,000,000.00	4,988,191.95	5,219,250.00
20825CAT1	CONOCOPHILLIPS	4.600	09/18/2017	2,000,000.00	2,067,606.82	2,189,600.00
225434AG4	CREDIT SUISSE USA INC	5.375	03/02/2016	2,500,000.00	2,684,483.85	2,772,725.00
233851AK0	DAIMLER FINANCE NA LLC	2.950	01/11/2017	7,500,000.00	7,783,841.33	7,782,825.00
24422EQM4	JOHN DEERE CAPITAL CORP	4.950	12/17/2012	6,500,000.00	6,499,325.50	6,634,810.00
24422EQZ5	JOHN DEERE CAPITAL CORP	2.800	09/18/2017	1,000,000.00	1,052,560.91	1,065,800.00
24702RAD3	DELL INC	4.700	04/15/2013	3,500,000.00	3,514,333.27	3,607,380.00
24702RAL5	DELL INC	2.300	09/10/2015	2,425,000.00	2,424,636.71	2,499,981.00
25243YAL3	DIAGEO CAPITAL PLC	5.200	01/30/2013	5,000,000.00	5,025,728.35	5,136,300.00
25243YAM1	DIAGEO CAPITAL PLC	5.750	10/23/2017	2,200,000.00	2,626,173.15	2,644,620.00
254687AW6	WALT DISNEY COMPANY	4.500	12/15/2013	7,000,000.00	7,022,426.50	7,411,250.00
25470XAF2	DISH DBS CORP	4.625	07/15/2017	2,500,000.00	2,496,875.00	2,503,125.00
256882AA9	DPL INC	6.500	10/15/2016	2,000,000.00	2,160,812.48	2,160,000.00
263534CF4	E.I. DU PONT DE NEMOURS	2.750	04/01/2016	7,050,000.00	7,040,530.02	7,490,625.00
26442CAF1	DUKE ENERGY CAROLINAS-	5.750	11/15/2013	4,000,000.00	4,083,444.52	4,269,400.00
26875FAB7	EOG RESOURCES INC	6.125	10/01/2013	6,065,000.00	6,228,614.55	6,454,736.90
278058DF6	EATON CORP	4.900	05/15/2013	7,000,000.00	7,001,356.18	7,247,800.00
291011AU8	EMERSON ELECTRIC	4.750	10/15/2015	8,000,000.00	8,414,401.89	8,922,560.00
341081EN3	FLORIDA POWER & LIGHT	4.850	02/01/2013	2,000,000.00	2,004,504.50	2,049,500.00
35177PAS6	FRANCE TELECOM	4.375	07/08/2014	3,675,000.00	3,775,961.82	3,860,367.00
35671DAV7	FREEMPORT-MCMORAN C & G	1.400	02/13/2015	1,000,000.00	998,749.44	996,590.00
36186CBF9	ALLY FINANCIAL INC	2.200	12/19/2012	5,000,000.00	5,000,427.00	5,045,900.00
368710AG4	GENENTECH INC	4.750	07/15/2015	3,000,000.00	2,947,171.68	3,315,360.00
369550AM0	GENERAL DYNAMICS CORP	5.375	08/15/2015	3,000,000.00	3,002,208.99	3,405,570.00
369550AN8	GENERAL DYNAMICS CORP	5.250	02/01/2014	4,000,000.00	4,155,458.14	4,289,560.00
36962GP65	GENERAL ELEC CAP CORP	4.875	03/04/2015	5,000,000.00	4,937,894.05	5,428,850.00
373334FN6	GEORGIA POWER COMPANY	5.125	11/15/2012	4,000,000.00	4,008,973.12	4,067,320.00
377372AA5	GLAXOSMITHKLINE CAP INC	4.375	04/15/2014	5,000,000.00	4,981,919.25	5,326,250.00
377372AC1	GLAXOSMITHKLINE CAP INC	4.850	05/15/2013	2,169,000.00	2,210,772.01	2,251,703.97
41283DAA1	HARLEY-DAVIDSON FUNDING	5.250	12/15/2012	7,000,000.00	6,999,191.85	7,115,220.00
427866AK4	HERSHEY CO	6.950	08/15/2012	2,000,000.00	2,004,332.86	2,013,900.00
428236AQ6	HEWLETT-PACKARD CO	4.500	03/01/2013	5,000,000.00	5,000,593.23	5,111,150.00
428236AY9	HEWLETT-PACKARD CO	2.950	08/15/2012	2,000,000.00	2,001,762.24	2,003,760.00
438516AS5	HONEYWELL INTERNATIONAL	5.300	03/15/2017	2,205,000.00	2,575,098.89	2,588,758.20
441812KA1	HSBC FINANCE CORP	6.375	11/27/2012	2,000,000.00	2,011,733.20	2,042,320.00
44328MAB0	HSBC BANK PLC	3.500	06/28/2015	5,000,000.00	5,067,017.00	5,228,650.00
44841CAA2	HUTCH WHAMPOA INT 11 LTD	3.500	01/13/2017	5,000,000.00	5,090,325.85	5,184,500.00
459200BA8	IBM CORP	4.750	11/29/2012	3,000,000.00	3,000,832.35	3,055,440.00
46625HHX1	JPMORGAN CHASE & CO	3.450	03/01/2016	2,500,000.00	2,487,994.63	2,591,200.00
532457BE7	ELI LILLY & CO	4.200	03/06/2014	4,000,000.00	3,999,353.16	4,242,560.00
548661CH8	LOWES COMPANIES INC	5.000	10/15/2015	4,000,000.00	4,018,803.99	4,500,240.00
58013MEE0	MCDONALDS CORP	5.350	03/01/2018	6,000,000.00	7,104,495.30	7,204,320.00
585055AP1	MEDTRONIC INC	4.500	03/15/2014	7,000,000.00	7,119,388.08	7,445,270.00
585055AU0	MEDTRONIC INC	2.625	03/15/2016	2,500,000.00	2,491,501.18	2,635,675.00
585515AD1	MELLON FUNDING CORP	5.000	12/01/2014	3,000,000.00	3,024,483.09	3,183,660.00

**THE HOME INSURANCE COMPANY IN LIQUIDATION
HOLDINGS REPORT
AS OF JUNE 30, 2012**

CUSIP	DESCRIPTION	CPN	MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
629491AA9	NYSE EURONEXT	4.800	06/28/2013	7,000,000.00	6,996,456.11	7,277,830.00
6325C0BE0	NATIONAL AUSTRALIA BANK	3.750	03/02/2015	5,000,000.00	5,103,227.35	5,224,800.00
637432DC6	NATIONAL RURAL UTILITIES	4.750	03/01/2014	7,000,000.00	6,948,178.09	7,463,820.00
665772CF4	NORTHERN STATES PWR-MINN	1.950	08/15/2015	1,000,000.00	998,737.87	1,030,460.00
66989HAA6	NOVARTIS CAPITAL CORP	4.125	02/10/2014	2,000,000.00	2,040,870.96	2,111,360.00
66989HAC2	NOVARTIS CAPITAL CORP	2.900	04/24/2015	5,000,000.00	4,978,940.56	5,289,750.00
67021CAA5	NSTAR ELECTRIC CO	4.875	10/15/2012	5,000,000.00	5,004,957.45	5,060,550.00
670346AE5	NUCOR CORP	4.875	10/01/2012	5,475,000.00	5,481,497.18	5,524,275.00
674599CB9	OCCIDENTAL PETROLEUM COR	1.750	02/15/2017	8,000,000.00	8,065,395.20	8,134,960.00
68389XAF2	ORACLE CORP	3.750	07/08/2014	6,983,000.00	7,104,760.73	7,414,760.72
693476BG7	PNC FUNDING CORP	4.250	09/21/2015	4,337,000.00	4,500,162.30	4,713,148.01
704549AE4	PEABODY ENERGY CORP	7.375	11/01/2016	2,250,000.00	2,474,741.66	2,475,000.00
713448BG2	PEPSICO INC	4.650	02/15/2013	7,000,000.00	6,999,787.90	7,179,830.00
717081AR4	PFIZER INC	4.500	02/15/2014	2,200,000.00	2,255,750.73	2,339,700.00
718172AN9	PHILIP MORRIS INTL INC	1.625	03/20/2017	8,000,000.00	7,946,302.79	8,084,960.00
724479AG5	PITNEY BOWES INC	5.000	03/15/2015	2,000,000.00	1,974,498.88	2,060,600.00
72447WUJ3	PITNEY BOWES INC	4.875	08/15/2014	3,000,000.00	2,995,403.01	3,125,670.00
742718BZ1	PROCTER & GAMBLE CO	4.850	12/15/2015	3,000,000.00	2,957,693.40	3,400,560.00
742718DQ9	PROCTER & GAMBLE CO/THE	3.150	09/01/2015	4,000,000.00	4,060,838.04	4,291,800.00
744448BU4	PUBLIC SERV CO OF COLO	7.875	10/01/2012	2,000,000.00	2,015,490.66	2,035,140.00
744448BX8	PUBLIC SERVICE COLORADO	5.500	04/01/2014	2,000,000.00	2,040,965.66	2,165,020.00
748356AA0	QUESTAR CORP	2.750	02/01/2016	2,225,000.00	2,222,367.40	2,311,819.50
767201AJ5	RIO TINTO FIN USA LTD	1.875	11/02/2015	10,000,000.00	9,885,186.70	10,221,300.00
771196AQ5	ROCHE HLDGS INC	5.000	03/01/2014	2,542,000.00	2,635,521.98	2,712,161.48
771196AS1	ROCHE HLDGS INC	6.000	03/01/2019	4,000,000.00	4,864,835.64	4,975,360.00
78442FEM6	SLM CORP	6.000	01/25/2017	2,500,000.00	2,463,241.25	2,582,575.00
822582AF9	SHELL INTERNATIONAL FIN	4.000	03/21/2014	8,000,000.00	7,999,200.64	8,469,920.00
828807BM8	SIMON PROPERTY GROUP LP	5.100	06/15/2015	7,150,000.00	7,678,081.94	7,779,772.00
857477AH6	STATE STREET CORP	2.875	03/07/2016	7,092,000.00	7,056,276.81	7,511,917.32
863667AA9	STRYKER CORP	3.000	01/15/2015	7,000,000.00	7,009,472.85	7,365,820.00
872540AN9	TJX COS INC	4.200	08/15/2015	7,000,000.00	7,460,737.97	7,660,940.00
88165FAC6	TEVA PHARMACEUT FIN BV	2.400	11/10/2016	3,300,000.00	3,417,627.11	3,409,593.00
88166CAA6	TEVA PHARMA FIN II/III	3.000	06/15/2015	8,000,000.00	8,063,641.68	8,419,120.00
883556BA9	THERMO FISHER SCIENTIFIC	2.250	08/15/2016	4,332,000.00	4,433,616.90	4,480,154.40
88579YAD3	3M COMPANY	1.375	09/29/2016	10,000,000.00	9,944,908.86	10,188,000.00
89233P5S1	TOYOTA MOTOR CREDIT CORP	2.050	01/12/2017	7,000,000.00	7,117,123.79	7,154,980.00
893526DH3	TRANS-CANADA PIPELINES	3.400	06/01/2015	875,000.00	874,371.35	932,286.25
89352HAA7	TRANS-CANADA PIPELINES	4.000	06/15/2013	3,750,000.00	3,708,592.20	3,868,387.50
902118BP2	TYCO INTERNATIONAL FINAN	3.750	01/15/2018	4,000,000.00	4,281,911.76	4,459,720.00
904764AJ6	UNILEVER CAPITAL CORP	3.650	02/15/2014	4,000,000.00	4,033,012.60	4,200,840.00
907818CY2	UNION PACIFIC CORP	5.450	01/31/2013	2,000,000.00	2,049,139.86	2,054,540.00
911312AG1	UNITED PARCEL SERVICE	4.500	01/15/2013	7,000,000.00	7,020,572.79	7,154,280.00
91159HGR5	US BANCORP	4.200	05/15/2014	4,600,000.00	4,599,672.16	4,895,734.00
91159HGX2	US BANCORP	2.450	07/27/2015	3,000,000.00	2,980,318.68	3,113,850.00
913017BH1	UNITED TECHNOLOGIES CORP	4.875	05/01/2015	3,000,000.00	3,257,834.22	3,320,520.00
92343VAN4	VERIZON COMMUNICATIONS	5.250	04/15/2013	2,000,000.00	2,034,189.86	2,072,220.00
92343VBD5	VERIZON COMMUNICATIONS	2.000	11/01/2016	6,000,000.00	5,967,135.06	6,139,980.00
92857WAF7	VODAFONE GROUP PLC	5.000	12/16/2013	3,000,000.00	2,994,256.38	3,180,210.00
92857WAX8	VODAFONE GROUP PLC	1.625	03/20/2017	4,500,000.00	4,444,325.81	4,500,765.00
928670AK4	VOLKSWAGEN INTL FIN NV	2.375	03/22/2017	6,000,000.00	5,969,759.78	6,094,980.00
931142BY8	WAL-MART STORES INC	4.500	07/01/2015	3,750,000.00	3,927,250.20	4,156,162.50
931142CJ0	WAL-MART STORES INC	5.800	02/15/2018	3,000,000.00	3,615,181.08	3,696,930.00
931422AD1	WALGREEN CO	4.875	08/01/2013	7,000,000.00	7,241,806.88	7,310,380.00
949746CL3	WELLS FARGO & COMPANY	5.125	09/01/2012	2,000,000.00	1,999,886.56	2,013,920.00
949746QU8	WELLS FARGO & COMPANY	3.676	06/15/2016	5,500,000.00	5,556,908.67	5,854,200.00
TOTAL CORPORATE				586,695,000.00	599,738,955.86	621,409,817.20
MORTGAGE BACKED						
3128L0DF6	FHLMC POOL A68202	6.000	11/01/2037	1,024,880.99	1,045,340.65	1,136,941.48

**THE HOME INSURANCE COMPANY IN LIQUIDATION
HOLDINGS REPORT
AS OF JUNE 30, 2012**

CUSIP	DESCRIPTION	CPN	MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
3128L0EF5	FHLMC POOL A68234	6.000	11/01/2037	2,491,537.80	2,510,407.81	2,763,962.54
3128MJAD2	FHLMC POOL G08003	6.000	07/01/2034	1,553,994.90	1,592,844.77	1,721,484.47
3128MJMC1	FHLMC POOL G08354	5.000	07/01/2039	7,735,726.50	7,827,588.25	8,315,596.56
3128PYU36	FHLMC POOL J18702	3.000	03/01/2027	19,658,708.80	20,495,252.52	20,598,198.49
31292JBR0	FHLMC POOL C01848	6.000	06/01/2034	2,016,229.94	2,087,428.06	2,260,879.28
312944AF8	FHLMC POOL A95406	4.000	12/01/2040	8,755,830.00	8,873,795.72	9,303,507.17
31297ECP9	FHLMC POOL A2-6378	6.000	09/01/2034	1,282,834.50	1,321,139.94	1,421,098.40
31297HX46	FHLMC POOL A2-9699	5.000	01/01/2035	1,059,147.00	1,059,560.73	1,141,686.33
3132GDMF6	FHLMC POOL Q00358	4.500	04/01/2041	12,928,433.99	13,575,671.09	14,067,816.88
3132GFXD4	FHLMC POOL 9402476	4.500	08/01/2041	9,242,226.30	9,719,253.00	10,056,743.70
31335H5U3	FHLMC POOL C90859	5.500	10/01/2024	1,835,375.90	1,883,801.56	2,013,187.12
31371PC57	FNMA POOL 257592	5.000	03/01/2039	4,670,556.80	4,723,830.34	5,056,064.56
31376KEL6	FNMA POOL 357539	5.500	04/01/2034	1,959,584.00	1,959,123.18	2,153,112.52
31396V2P2	FNBR 2007-B2 AB	5.500	12/25/2020	1,644,303.90	1,644,303.90	1,689,223.16
31397G7M6	FHRR R011 AB	5.500	12/15/2020	1,357,715.20	1,360,436.03	1,389,218.81
31407K5D7	FNMA POOL 833444	6.000	09/01/2035	1,278,819.75	1,304,603.31	1,414,847.81
31412RLY1	FNMA POOL 932843	3.500	12/01/2025	14,770,054.60	15,064,170.55	15,622,877.55
31413FGK2	FNMA POOL 944002	6.000	08/01/2037	4,177,935.85	4,152,717.20	4,658,899.83
31415Q4B9	FNMA POOL 986518	5.000	06/01/2038	3,173,318.18	3,204,555.53	3,435,243.86
31416YTY4	FNMA POOL AB3266	4.000	07/01/2041	9,251,393.60	9,485,234.04	9,983,271.35
31416YU89	FNMA POOL AB3306	4.000	07/01/2041	12,049,558.80	12,356,365.63	12,848,444.55
31419LD42	FNMA POOL AE9122	3.500	12/01/2025	7,335,151.70	7,504,912.05	7,758,683.36
31419LYR8	FNMA POOL AE9719	4.500	12/01/2040	18,034,931.60	18,692,673.49	19,697,571.94
36202D5C1	GNMA 2M POOL 3543	5.000	04/20/2034	2,441,847.60	2,438,681.52	2,714,626.40
36202EAK5	GNMA 2M POOL 3610	5.500	09/20/2034	2,065,873.70	2,110,943.50	2,306,031.52
36202EUT4	GNMA 2M POOL 4194	5.500	07/20/2038	5,489,349.00	5,501,356.95	6,096,580.79
36202EUU1	GNMA 2M POOL 4195	6.000	07/20/2038	4,086,182.85	4,166,629.57	4,582,899.24
36202EVN6	GNMA 2M POOL 4221	5.500	08/20/2038	3,610,137.00	3,581,932.80	4,009,490.35
36202EVP1	GNMA 2M POOL 4222	6.000	08/20/2038	2,578,557.10	2,609,983.26	2,892,006.50

TOTAL MORTGAGE BACKED

169,560,197.85 173,854,536.95 183,110,196.52

ASSET BACKED

02005XAC2	ALLYA 2011-4 A3	0.790	09/15/2015	5,400,000.00	5,399,786.81	5,412,889.80
02582JFX3	AMXCA 2011-1 A	0.412	04/17/2017	9,000,000.00	9,000,000.00	9,015,981.30
048312AF9	ACETF 2003-1 A2	4.460	10/20/2016	1,641,277.79	1,610,262.50	1,708,296.91
048312AG7	ACETF 2003-1 A3	5.050	10/20/2020	5,600,000.00	6,545,647.81	6,529,481.28
12616VAC6	CNH 2011-C A3	1.190	12/15/2016	10,000,000.00	9,999,623.00	10,089,471.00
126802CA3	CABMT 2012-1A A1	1.630	02/18/2020	6,600,000.00	6,597,830.98	6,681,068.46
15200WAA3	CNP 2012-1 A1	0.901	04/15/2018	4,915,000.00	4,942,244.09	4,941,603.91
161571DA9	CHAIT 2008-A11 A11	5.400	07/15/2015	9,945,000.00	10,399,668.44	10,453,310.83
17305EBU8	CCCIT 2003-A7 A7	4.150	07/07/2017	3,000,000.00	3,276,935.22	3,296,227.80
17305EEQ4	CCCIT 2009-A4 A4	4.900	06/23/2016	7,000,000.00	7,556,552.71	7,586,387.90
254683AH8	DCENT 2008-A4 A4	5.650	12/15/2015	10,000,000.00	10,445,692.00	10,494,074.00
29366AAA2	ELL 2011-A A1	2.040	09/01/2023	5,642,939.76	5,781,913.18	5,799,986.72
34529PAD7	FORDO 2011-A A4	1.650	05/15/2016	7,500,000.00	7,498,813.35	7,634,559.00
34529WAD2	FORDO 2012-B A4	1.000	09/15/2017	6,500,000.00	6,547,234.72	6,541,451.15
36159JCS8	GEMNT 2012-1 A	1.030	01/15/2018	13,000,000.00	12,999,100.92	13,077,187.50
41283KAC1	HDMOT 2010-1 A3	1.160	02/15/2015	2,661,984.99	2,662,031.71	2,669,080.24
43811AAC0	HAROT 2011-3 A3	0.880	09/21/2015	7,165,000.00	7,164,200.03	7,197,940.37
44890FAB3	HALST 2012-A A2	0.680	01/15/2015	3,200,000.00	3,199,664.70	3,201,961.28
44918AAC0	HART 2011-C A3	0.830	12/15/2015	6,000,000.00	5,999,677.80	6,010,342.80
587728AC0	MBART 2011-1 A3	0.850	03/16/2015	10,000,000.00	9,998,533.40	10,029,829.00
693401AE1	PERF 2005-1 A5	4.470	12/25/2014	2,611,472.40	2,613,789.94	2,649,296.44
69361YAF0	PEGTF 2001-1 A6	6.610	06/15/2015	1,846,681.96	1,882,969.37	1,910,610.95
78446WAB3	SLMA 2012-1 A2	0.895	11/25/2020	5,000,000.00	5,000,000.00	4,999,923.50
92867KAB0	VWALT 2012-A A2	0.660	11/20/2014	6,500,000.00	6,499,486.18	6,504,005.95

TOTAL ASSET BACKED

150,729,356.90 153,621,658.86 154,434,968.09

**THE HOME INSURANCE COMPANY IN LIQUIDATION
HOLDINGS REPORT
AS OF JUNE 30, 2012**

CUSIP	DESCRIPTION	CPN MATURITY	QUANTITY	BOOK VALUE	MARKET VALUE
TOTAL MARKETABLE SECURITIES				<u>1,066,551,554.75</u>	<u>1,124,858,344.73</u>
TOTAL MARKETABLE AND C/E				<u>1,069,782,406.10</u>	<u>1,128,089,196.08</u>
COMMON					
22282E102	COVANTA HOLDING CORPORATION		12,639.00	279,195.51	216,758.85
34958N100	FORTICELL BIOSCIENCE, INC		1,926.00	1,627,706.00	(4.82)
	RIMCO ROYALTY MANAGEMENT, INC		346,302.00	346.30	346.30
TOTAL COMMON			<u>360,867.00</u>	<u>1,907,247.81</u>	<u>217,100.53</u>
TOTAL MARKETABLE , C/E AND COMMON				<u>1,070,143,273.10</u>	<u>1,128,306,296.61</u>
EQUITY SECURITIES					
910585406	UNITED MERCHANTS & MFR		214,166.00	25,800.00	0.00
910858414	UNITED MERCHANTS & MFR - WTS		53,542.00	0.00	0.00
178789103	CITIVEST INTERNATIONAL LTD		12,000.00	451,666.25	0.00
91737@107	US INTERNATIONAL RE INC		2,000.00	35,000,000.00	0.00
COMMON STOCKS			<u>281,708.00</u>	<u>35,477,466.25</u>	<u>0.00</u>
	RIMCO ROYALTY PARTNERS, L.P.		346,302.00	3,199,497.00	961,085.00
LIMITED PARTNERS			<u>346,302.00</u>	<u>3,199,497.00</u>	<u>961,085.00</u>
TOTAL EQUITY SECURITIES			<u>628,010.00</u>	<u>38,676,963.25</u>	<u>961,085.00</u>
TOTAL				<u>1,070,771,283.10</u>	<u>1,129,267,381.61</u>

US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

**June 30, 2012 and December 31, 2011
(Unaudited)**

US International Reinsurance Company In Liquidation

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

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Assets		
Unrestricted liquid bonds, short-term investments and cash at cost:		
Short-term investments	\$ 4,373,260	\$ 4,371,727
Cash	<u>1,852,301</u>	<u>1,852,453</u>
Total unrestricted liquid short-term investments and cash at cost	6,225,561	6,224,180
Total assets, excluding certain amounts	<u>6,225,561</u>	<u>6,224,180</u>
Liabilities		
Incurred but unpaid administrative expenses (Note 5)	324	2,862
Payable to The Home Insurance Company in Liquidation (Note 2 & 5)	-	128
Net assets, excluding certain amounts	<u><u>\$ 6,225,237</u></u>	<u><u>\$ 6,221,190</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)**

	<u>January 1, 2012 To June 30, 2012</u>	<u>January 1, 2011 To December 31, 2011</u>
Cash and marketable securities received:		
Return of special deposits	\$ -	\$ 501,372
Reinsurance collections	5,589	198,352
Net investment income	3,207	5,177
All other	-	75
Total cash and marketable securities received	<u>8,796</u>	<u>704,976</u>
Cash operating disbursements:		
Consultant and outside service fees	7,287	64,457
Net payments to Home Insurance Company (Note 2)	128	28,491
Miscellaneous expense	-	20,758
All other	-	-
Total cash operating disbursements	<u>7,415</u>	<u>113,706</u>
Excess receipts over disbursements	1,381	591,270
Beginning cash and marketable securities, at cost	6,224,180	5,632,910
Ending cash and marketable securities, at cost	<u>\$ 6,225,561</u>	<u>\$ 6,224,180</u>

See accompanying notes.

US International Reinsurance Company in Liquidation

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

	January 1, 2012 To June 30, 2012	January 1, 2011 To December 31, 2011
Net Assets, beginning of period	\$6,221,190	\$5,626,405
Excess receipts over disbursements	1,381	591,270
Other changes in net assets:		
Interest income due and accrued	-	(3,736)
Incurred but unpaid administrative expenses	2,538	4,269
Payable to The Home Insurance Company in Liquidation	128	2,982
Net Assets, end of period	<u>\$6,225,237</u>	<u>\$6,221,190</u>

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

Notes to Financial Statements

June 30, 2012

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, 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 December 31, 2011, the Liquidator accrued liabilities of \$128 to Home for USI Re’s allocated share of various administrative expenses incurred. The amount paid to Home was \$128 and \$28,491 for such expenses in 2012 and 2011, respectively.

3) Marketable Securities

For the period ending June 30, 2012 and December 31, 2011, USI Re investments are comprised of short term and cash equivalent securities. There were no unrestricted or restricted marketable bonds.

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

Notes to Financial Statements (continued)

4) Securities on Deposit

In 2011, all remaining securities on deposit were returned and marketable securities of \$501,372 were received.

5) Incurred But Unpaid Administrative Expenses

USI Re incurred administrative expenses relating to outside service fees of \$324 in the normal course of liquidation that were unpaid as of June 30, 2012.

6) Allowed Claims

As of June 30, 2012, the Liquidator has allowed, and the Court has approved, \$52,721,425 of Class V claims and \$48,572 of Class VIII 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 Liquidator had filed a motion in July 2011 regarding the distribution and closure process. The Liquidator, however, has since withdrawn the motion and, in light of potential claims of the United States and the federal priority statute, has filed a request for a waiver of claims from the United States. Upon receipt of the waiver, the Liquidator will thereafter seek the Court’s approval to distribute the assets of the estate, to its creditors.