

**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-SECOND 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-second report on the liquidations of the Companies, as of September 15, 2006, in accordance with RSA 402-C:25 and the Order Concerning Liquidator's Reports issued January 19, 2005.

1. Home's background. Home, domiciled in New Hampshire, was declared insolvent on June 11, 2003 and is one of the largest property-casualty insurer insolvencies in United States history. The Company and its predecessors began operations in 1853. Home was once the largest writer of property insurance in the United States. Its operations spanned the globe with business in the UK, Canada, Hong Kong and Bermuda. Just prior to discontinuing writing insurance in 1995, Home wrote approximately \$2 billion of annual premium, 85% of which was on large commercial and complex casualty risks covering many of the Fortune 500 companies. Significant adverse operating results led to the decision to stop writing new and renewal insurance and instead runoff Home's exposures. Home's ultimate failure arose

principally from adverse loss development from asbestos, workers compensation and other mass tort claims. What follows is a timeline of significant events in that process:

- 1853 - Home commences writing business
- 1995 - Restructuring of Home (including the merger of Home's direct insurance subsidiaries into Home) approved by insurance regulators and run-off of business commences
- March 1997 – Home's inadequate capital, based on a Risk Based Capital calculation, results in the New Hampshire Insurance Department issuing an Order of Supervision
- March 2003 – Deterioration in Home's financial condition leads to Petition for Rehabilitation being filed by the Commissioner of Insurance and Order of Rehabilitation being issued for Home
- May 2003 - The Commissioner's determination that Home could not meet its obligations results in filing of Petition for Liquidation of Home
- June 11, 2003 – Home found to be insolvent and Order of Liquidation issued appointing the Commissioner of Insurance Liquidator of Home

2. USI Re's background. USI Re, a wholly owned subsidiary of Home, was declared insolvent on June 13, 2003. USI Re was incorporated under the laws of New Hampshire in 1979 and began business in 1982. USI Re wrote assumed reinsurance, both domestic and international, with the largest proportion being reinsurance of United States risks. In September 1990, USI Re ceased writing new or renewal reinsurance in all markets except through its London-based subsidiary, City International Insurance Company Limited ("City International"), which ceased writing new or renewal business at year end 1991. City International, domiciled in

the United Kingdom where it is subject to regulation by the Financial Services Authority, has continued in solvent run-off since 1991 and is not the subject of receivership proceedings in any jurisdiction.

3. The Companies' estimated assets and liabilities. Since Home and USI Re were ordered liquidated, the Liquidator has created a stand alone liquidation operation, with eighty-two employees operating in New York City (Home's former corporate headquarters) and Manchester, New Hampshire. The liquidation has been engaged in marshalling assets and, now that the claim filing deadline has passed, determining claims. Home's and USI Re's liquid assets currently total approximately \$759 and \$3 million respectively. It is currently estimated that total asset collections will approach \$1.7 billion for Home and \$6 million for USI Re. The current estimate of Home's ultimate undiscounted liabilities approximates \$3.6 billion (excluding foreign insurance pools) comprised primarily of asbestos, pollution, workers compensation and mass tort exposures. The current estimate of USI Re's ultimate undiscounted liabilities is approximately \$73 million.

4. Coordination with guaranty associations. The Liquidator works closely with the state insurance guaranty associations across the nation who administer and pay certain claims as provided in their individual enabling statutes. Through August 2006, the Liquidator had made, with the Court's approval, early access distributions to the guaranty associations totaling approximately \$95.7 million. Those distributions reimbursed 100% of guaranty association Home-related loss and loss adjustment expense payments from inception of the liquidation proceeding to September 30, 2005. As a condition for receiving these advances, the guaranty associations entered into "claw back" agreements with the Liquidator requiring the return of any amounts advanced that exceed the eventual distribution percentage for their creditor class.

5. Proofs of claim. The claim filing deadline in the Home and USI Re liquidations was June 13, 2004. Pursuant to RSA 402-C:37, claimants may file late claims and may potentially be considered in eventual distributions. The Liquidator has received a total of 160 new proofs of claim (158 for Home and 2 for USI Re) between the last Liquidator's report and September 6, 2006. The proofs of claim submitted now total 19,469 (19,249 for Home and 220 for USI Re), with stated amounts totaling \$18.8 billion (\$18.76 billion for Home and \$38.5 million for USI Re). Approximately 15% of the proofs of claim contained a stated amount, with the balance indicating an unstated or unknown amount. 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 assess the proofs of claim in advance of the claim determination process because (a) the proofs of claim that quantify the claim may be overstated or understated, (b) most proofs of claim do not quantify the amount claimed, and (c) an individual proof of claim may involve many different claims and claimants.

6. Claim determinations and reports. The process of determining proofs of claims continues. Since the last Liquidator's report, the Liquidator has issued partial or final notices of determination addressing 696 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005 (the "Claims Procedures Order"). To date the Liquidator has issued 2,797 determinations (2,766 for Home and 30 for USI Re) totaling approximately \$198 million. The determinations are comprised of 2,411 final and 386 partial determinations. Partial determinations represent claimants who have demonstrated a paid loss along with a remaining unliquidated exposure.

7. Guaranty associations claims. The guaranty associations are important creditor participants in the Home insolvency through their absorption of financial obligations for claims covered by their respective enabling statutes. E.g., RSA 404-B. As of December 31, 2005, the guaranty associations reported approximately 3,000 open Home claims. Claims not covered by the guaranty associations or claims over applicable guaranty association caps are referred back to the Liquidator for handling. In certain cases where insureds are excluded from guaranty association protection because of “net worth” exemptions, the insureds have directly assumed claims handling and filed proofs of claim to recover their payments. Notices of determination are sent to the guaranty associations at least once a year respecting their paid claims. From inception to November 30, 2005 determinations have been issued for such paid losses totaling \$96.2 million (net of recoveries from other sources). In the near future, the Liquidator expects to issue determinations to individual guaranty associations for their paid administrative and allocated loss adjustment expenses (“ALAE”), with approximately \$30 million having been reported from inception to December 31, 2005.

8. Notices of determination. A notice of determination is sent to the claimant when the Liquidator determines a claim. Each notice of determination includes instructions on how to dispute the determination under the Claims Procedures Order. Since inception, sixty-two claimants have filed requests for review and forty-five of these have been sent a notice of redetermination. Additionally, claimants have filed twenty-three objections with the Court to commence disputed claim proceedings. The Referee has concluded fifteen disputed claim proceedings. Currently eight unresolved proceedings are pending.

9. Reports of claim recommendations. The Liquidator files reports of claims and recommendations with the Court requesting approval of claim determinations whenever a

sufficient number of claimants have agreed to determinations or not objected within the 60-day objection period. Since the last Liquidator's Report, the Liquidator has submitted two further Reports of Claims and Recommendations. The Court entered orders on those reports on August 23, 2006. The Liquidator has now presented and the Court has approved recommendations concerning 2,111 claims (2,085 for Home and 26 for USI Re) totaling approximating \$167 million (\$165.5 million for Home and \$1.5 million for USI Re).

10. Financial reports. Copies of the unaudited June 30, 2006 financial statements for Home and USI Re are attached as Exhibits A and B to this report.<sup>1</sup> (Audited financial statements are prepared annually by Ernst & Young). The June 30, 2006 Home statements reflect \$758,822,791 in assets under the Liquidator's direct control, \$50,389,225 in collections and other receipts, and \$15,440,161 in operating disbursements of the liquidation during 2006. The June 30, 2006 USI Re statements reflect \$3,354,886 in assets under the Liquidator's direct control, \$540,024 in collections and other receipts, and \$295,979 in operating disbursements of the liquidation during 2006. (Copies of the audited December 31, 2005 financial statements for Home and USI Re were attached as Exhibits C and D to the Liquidator's Twenty-First Report.) The Liquidator currently estimates that Home's and USI Re's ultimate assets collected will total approximately \$1.7 billion and \$6 million respectively, although these numbers may be less depending on the timing of reinsurance commutations, the collectibility of estimated assets, the level of investment income received during the liquidations and the timing and amount of distributions to creditors. The ultimate undiscounted insurance liabilities of Home (excluding foreign insurance pools) are estimated to be approximately \$3.6 billion based on the review by

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<sup>1</sup> The net assets for Home and USI Re as of December 31, 2005 reflected in these reports have been restated based upon additional information subsequent to December 31, 2005. The Home's reserve related to real estate tax refunds as of December 31, 2005 was reduced by \$2,346,375 with a corresponding increase in net assets. Additionally, USI Re received \$330,000 from release of a New Mexico special deposit in 2006 based on an agreement reached in November 2005, so December 31, 2005 net assets have been restated to record the asset.

the actuarial firm of Milliman, Inc., as described in the Executive Summary filed with the Court on February 15, 2005. Based on a later review by Milliman, attached to the Eighteenth Liquidator's Report filed with the Court on September 15, 2005, the ultimate liabilities of USI Re (on a gross undiscounted basis) are approximately \$73 million.

11. 2006 budget/expense comparison. A comparison of the actual and budgeted general and administrative expenses, on an incurred basis, through June 30, 2006 is attached as Exhibit C. As of June 30, 2006, actual expenses were below budget by approximately \$1,098,960 or 9%, with favorable variances in nearly all categories. Below is a comparison of Home's budgeted and actual operating expenses (in millions) beginning January 1, 2004:

Year	Budget	Actual	Staff 12/31/xx	Consultants 12/31/xx
2004	33.8	26.9	91	14
2005	26.8	26.2	88	10
2006	25.6			

As of September 5, 2006, staff count was eighty-two compared to eighty-eight at December 31, 2005 and ninety-nine at June 30, 2003. During this time period consultant headcount was as high as fourteen. During 2005 it decreased to ten and it is currently at nine consultants. It is anticipated that there will be seven consultants by year end. In addition, it is expected that regular employee headcount will continue to decrease due to normal attrition.

12. Investment update. A summary of holdings of bonds and short-term investments as of June 30, 2006 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, 2006, was approximately \$666.6 million compared to the market value of approximately \$645.5 million, an unrealized loss of \$21.1 million, or 3.2% of book value, due to a rise in market interest rates during the quarter. As of September 7, 2006, the unrealized loss was approximately

\$12.4 million, or 1.9%, of book value, due to downward movements in interest rates since June 30. Home maintains significant amounts of highly liquid investments to avoid realizing losses resulting from market fluctuations. The Liquidator generally intends to hold securities to maturity so that losses from market fluctuations will not be realized, but there may be market circumstances or cash flow needs that warrant pre-maturity sales. While Conning has been gradually reducing the amount of Home's short-term holdings to take advantage of rising rates earlier in the year, they are proceeding cautiously so as to contain the amount of unrealized losses and also to evaluate future interest rate movements. The current portfolio yield at market is approximately 5.3%. Additionally, securities with an unrealized loss of \$231,000 mature in 2006 at par value, and will generate \$75 million of cash to reinvest at higher rates. Home and USI Re also continue to respectively maintain approximately \$41.9 million and \$2.8 million (book value) of short-term Treasury investments which are not managed by Conning. Those investments, along with cash invested in sweep accounts at Citizens Bank, will be used to fund operating requirements..

13. Ancillary proceedings in other states. As previously reported, ancillary receiverships for Home are ongoing in Oregon, Idaho, New York, Massachusetts, and New Mexico. There are no pending ancillary proceedings for USI Re.

14. Estimated guaranty association claims. It is currently projected that the combined claims of all guaranty associations in the Home liquidation will total approximately \$700 million for workers compensation and between \$100 and \$500 million for liability lines. The guaranty associations are accordingly the largest policyholder-level creditors of the Home estate. Regular meetings are held with the National Conference of Insurance Guaranty Funds ("NCIGF") Home



Coordinating Committee to coordinate claim and expense handling and reporting matters. The next such meeting with the NCIGF will occur in November 2006.

15. The Canadian Branch estate. The one remaining claim pending in the Canadian Branch estate has been settled by the Provisional Liquidator of Home's Canadian Branch. The Provisional Liquidator presently holds approximately US \$10.8 million at current exchange rates. With the elimination of the last claim, the only remaining issue to be resolved before closure of the Canadian Branch estate is obtaining tax clearance from Revenue Canada (an audit in that regard is currently in progress). While a reserve for potential Canadian tax obligations may be necessary, it is expected that most of the remaining funds will be repatriated before the end of the year.

16. Sale of City International. On April 13, 2006, a letter of intent was signed for the sale of City International. A definitive purchase agreement was signed on July 12, 2006 and the two principal conditions precedent for consummation of the transaction have now been satisfied, namely approval by the UK Financial Services Authority, which was obtained on August 3, 2006, and approval by the Court, which was granted on August 23, 2006. Completion of the sale has been scheduled for September 30, 2006 and, pending completion, the purchaser has deposited the full purchase price in escrow with the Liquidator's counsel. Once the sale of City International is completed, the Liquidator is planning to effect a transfer of USI Re's liabilities to a liquidating trust and, thereafter, to sell the shell of USI Re. In the interim, efforts are focusing on commuting USI Re's ceded program among other activities designed to wind up this relative's small estate as quickly as possible.

17. City Insurance Company UK Branch ("City UK Branch"). The City UK Branch was a branch of City Insurance Company, which was merged into Home in 1995 so that its

business transferred to Home's balance sheet. The only remaining business of City UK Branch is assumed reinsurance emanating from City UK Branch's pool participation in the H.S. Weavers stamp and that business has, for a number of years, been administered in England by Claims Management Group Limited ("CMGL"). Because of the shrinking of the City UK Branch book through years of run-off, and after notice to the Financial Services Authority, the Liquidator gave notice to CMGL that effective September 30, 2006, all administration of the City UK Branch will take place in the United States. It is anticipated that starting in 2007 this move will save the Home estate approximately \$400,000 annually without requiring the addition of any additional staff.

18. AFIA. On September 22, 2005, the Court issued its Order granting the Liquidator's motion for approval of the agreement with AFIA Cedents. On October 20 and 21, 2005, the ACE Companies and Benjamin Moore & Co. filed notices of appeal with the New Hampshire Supreme Court. The ACE Companies and Benjamin Moore filed their briefs on December 27, 2005, and the Liquidator filed his brief on February 10, 2006. The National Association of Insurance Commissioners and the NCIGF filed amicus briefs supporting the Liquidator. The ACE Companies and Benjamin Moore filed reply briefs, and the Reinsurance Association of America filed an amicus brief in support of their position. Oral argument before the Supreme Court was held on June 7, 2006, and a decision is awaited.

19. Other significant litigation.

(a) Gonya -- As previously noted, the New Hampshire Supreme Court accepted the plaintiffs' appeal of the Court's decision in Gonya v. Sevigny. After oral argument on January 19, 2006, the Supreme Court issued a decision on May 18, 2006 affirming the Superior Court order denying plaintiff's petition to declare RSA 402-C:40, I, unconstitutional. The plaintiffs

subsequently filed a voluntary notice of dismissal of their related action in federal court, and that court entered an order of dismissal on May 31, 2006. The Liquidator is currently sending notices to those third-party claimants (totaling approximately 4,500) who filed proofs of claim but did not sign the release included in the proof of claim form requesting that they execute the release as required.

(b) Utica -- Defendant Utica Mutual appealed to the New Hampshire Supreme Court from the Court's decision granting summary judgment in favor of the Liquidator in Sevigny v. Utica Mutual Insurance Company. Oral argument took place on April 6, 2006 and on August 10, 2006 the Supreme Court reversed and remanded the case to the Superior Court for further proceedings. These proceedings remain pending.

(c) Wausau -- The Liquidator revised and re-filed a complaint in the litigation with Employers Insurance of Wausau in light of the decision of the United States Court of Appeals for the First Circuit. Sevigny v. Employers Ins. of Wausau, 411 F.3d 24 (1<sup>st</sup> Cir. 2005). Wausau removed the case to the United States District Court for the District of New Hampshire, and the Liquidator filed a motion to remand the action to this Court. On August 3, 2006, the US District Court denied Wausau's motion to dismiss the complaint as well as the Liquidator's motion to remand to the Superior Court, leaving the matter pending in the US District Court. Following those rulings, the Liquidator and Wausau jointly applied for and received an indefinite stay pending resolution among the parties and the matter is now on the "inactive" docket, subject to the requirement of periodic status reports to the US District Court.

(d) Pennsylvania Retaliatory Taxes -- The Liquidator has appealed to the Pennsylvania Supreme Court from the Commonwealth Court's adverse decision in the retaliatory tax appeal case concerning whether the value of New Jersey second injury fund assessments is required to

be included in City's/Home's New Jersey basis for the computation of Pennsylvania retaliatory tax for the years 1986, 1987 and 1988. The briefs have been filed with the Pennsylvania Supreme Court, and the appeal is awaiting argument.

20. Reinsurance commutations and settlements. In accordance with the Court's March 23, 2004 order, the Liquidator reports that since the last Liquidator's Report, reinsurance commutation agreements were reached with GIO/Gordian (the Liquidator's motion for approval is pending), West Bend Mutual Insurance Company, Paladin Reinsurance Corporation, Mercantile & General Reinsurance Company and Trygg-Hansa Insurance Company Limited. These agreements are discussed in the confidential appendix submitted with this report. Commutation discussions with other reinsurers of Home and USI Re are continuing. As of March 31, 2006 Home had approximately 420 remaining reinsurers (not previously commuted or declared insolvent) compared to 574 at December 31, 2004 and 426 at December 31, 2005. It is expected that Home's remaining reinsurers will drop to approximately 400 by December 31, 2006. Based on a December 2005 internal study, the geographical breakdown of the remaining reinsurers by group is 204 US, 84 UK, 58 Other Europe, 39 Bermuda, 25 ASIA/Pacific and 10 Americas.

21. Payments from Zurich. The Liquidator received \$4,607,379 from Zurich American Insurance Company and affiliates in connection with the January 2006 calculation of amounts due under the Memorandum of Agreement approved by the Court on December 22, 2003 (respecting resolution of certain reinsurance relationships with Zurich). With this payment, the total received from Zurich under the agreement is approximately \$34.1 million.

22. Asset dispositions (including compromises) and assumptions of obligations. Since the last report, the Liquidator reached a settlement of claims against OM Group, Inc., and


filed a motion for approval of the settlement on August 7, 2006. The Court approved the settlement on August 31, 2006, and the settlement amount has been paid. The Liquidator also reached a settlement of claims against Appleton Papers, Inc., and filed a motion for approval on August 31, 2006, which is pending. 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 other asset dispositions (including compromises) and obligation assumptions since the last report which is filed under seal as an appendix to this report.

23. Information technology. The Liquidator and Zurich have concluded negotiations in connection with an extension of the Information Technology Services Agreement with Zurich for an additional five years, terminating on December 31, 2013. The contract, which is subject to Court approval, is in the process of being finalized and a motion is expected to be filed shortly.

24. Document storage. The Liquidator continues to seek ways to reduce the Companies' outside storage costs which presently exceed approximately \$500,000 per year in connection with its storage of over 162,000 boxes of documents housed at Iron Mountain facilities. To reduce these costs, the Liquidator is continuing to dispose of unnecessary records as authorized by the Court and has initiated discussions with Iron Mountain management in connection with the renewal of the existing ten year contract due to expire on November 30, 2006. The Liquidator has received Iron Mountain's initial proposal for a new five-year contract, and further discussions are needed to finalize a satisfactory agreement. With newly proposed rate increases across several categories of services, there is likely to be a significant increase in annual expense if box movement increases or boxes are destroyed over time.

25. California subpoenas. On May 1, 2006, the Liquidator filed a Motion for Protective Order against three non-party subpoenas issued in three actions commenced in California by policyholders of Home against Zurich-American Insurance Company and certain affiliates of Zurich. A Stipulation Regarding California Subpoenas And Liquidator's Motion for Protective Order was agreed by the parties and filed with the Court on June 20, 2006 and, thereafter, an Order approving the Motion and staying the proceedings was issued on June 22, 2006. The Court approved an agreed confidentiality order on August 31, 2006. Document production pursuant to the terms of the Stipulation is proceeding and is expected to be completed on or about November 30, 2006.

Respectfully submitted,



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Roger A. Sevigny, Liquidator

September 18, 2006

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT


In the Matter of the Liquidation of  
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Docket No. 03-E-0106

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**CERTIFICATE OF SERVICE**

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

Dated: September 18, 2006

  
Eric A. Smith

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

In the Matter of the Liquidation of  
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**THE HOME INSURANCE COMPANY IN LIQUIDATION**

**Financial Statements (Modified Cash Basis)**

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

## The Home Insurance Company In Liquidation

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

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
<b>Assets</b>		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$637,942,645	\$553,994,879
Short-term investments	41,805,578	31,014,119
Cash and cash equivalents	40,778,529	157,778,126
<b>Total unrestricted bonds, short-term investments and cash at cost</b>	<b>720,526,752</b>	<b>742,787,124</b>
Common stocks, marketable, at market value (Note 2)	180,652	156,570
Interest income due and accrued	6,320,892	5,531,287
<b>Total unrestricted liquid assets</b>	<b>727,028,296</b>	<b>748,474,981</b>
Unrestricted illiquid assets: ( Note 1)		
Surplus notes, at fair value	146,800	146,800
Common stocks, at fair value	1,917,368	1,898,952
Limited partnership interests, at fair value	2,294,513	2,679,098
<b>Total unrestricted illiquid assets</b>	<b>4,358,681</b>	<b>4,724,850</b>
Restricted liquid assets:		
Cash and cash equivalents (Note 5)	30,702,606	30,702,606
<b>Total restricted liquid assets</b>	<b>30,702,606</b>	<b>30,702,606</b>
Receivable from US International Reinsurance Company (Note 4)	96,111	128,842
<b>Total assets, excluding certain amounts</b>	<b>762,185,694</b>	<b>784,031,279</b>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	3,355,984	5,739,948
Claims checks payable	6,919	-
Reserve related to real estate tax refund (Note 6)	-	171,214
<b>Total liabilities</b>	<b>3,362,903</b>	<b>5,911,162</b>
<b>Net assets, excluding certain amounts</b>	<b>\$758,822,791</b>	<b>\$778,120,117</b>

See accompanying notes.

## The Home Insurance Company in Liquidation

### Statements of Receipts and Disbursements, and Changes in Cash, Bonds, Short-Term Investments and Cash Equivalents (Modified Cash Basis) (Unaudited)

	<u>January 1, 2006 To June 30, 2006</u>	<u>January 1, 2005 To December 31, 2005</u>
<b>Cash and marketable securities received:</b>		
Reinsurance collections - unrestricted	\$ 22,787,689	\$ 31,295,567
Reinsurance collections - restricted	-	30,160,000
Net investment income	17,637,447	28,348,367
Repatriation of funds - Canadian branch (Note 1)	-	22,000,000
Return of special deposits	-	19,862,425
Remittance of funds held by reinsurers	4,607,379	4,344,793
Salvage, subrogation and other claim recoveries	1,990,384	15,405,157
Proceeds from sale of common stock (Note 1)	-	12,671,469
Agents' balances	1,983,085	4,605,499
Proceeds from distribution by subsidiary (Note 1)	-	4,249,800
Proceeds from sale of certificates of deposit	-	4,180,000
Deposits with outside claim adjusters	274,978	-
Receivable collected from USI Re	253,464	1,601,337
Miscellaneous income	530	388,443
All other	854,269	787,257
<b>Total cash receipts</b>	<b><u>50,389,225</u></b>	<b><u>179,900,114</u></b>
<b>Cash operating disbursements:</b>		
Human resources costs (Note 3)	8,743,682	14,307,327
Consultant and outside service fees	2,082,437	3,343,660
General office and rent expense	1,377,414	3,144,184
Legal and audit fees	1,028,050	1,943,942
Losses and loss expenses paid (Note 1)	559,833	966,221
Computers and equipment cost	517,110	895,336
Investment expenses	294,204	669,683
Administration costs	280,202	1,329,698
Temporary services	35,620	304,936
Computer equipment - Disaster Recovery	10,700	236,447
All other (Note 6)	510,909	3,137,029
<b>Total cash operating disbursements</b>	<b><u>15,440,161</u></b>	<b><u>30,278,463</u></b>
Excess of receipts over operating disbursements	<b><u>34,949,064</u></b>	<b><u>149,621,651</u></b>
Distributions to state guaranty associations (Note 8)	<u>57,209,437</u>	<u>35,321,789</u>
Net receipts over disbursements	<b><u>(22,260,373)</u></b>	<b><u>114,299,862</u></b>
Beginning cash and marketable securities, at cost	<u>773,489,730</u>	<u>659,189,868</u>
<b>Ending cash and marketable securities, at cost</b>	<b><u>\$ 751,229,357</u></b>	<b><u>\$ 773,489,730</u></b>

See accompanying notes.

## The Home Insurance Company in Liquidation

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

	<u>January 1, 2006 To June 30, 2006</u>	<u>January 1, 2005 To December 31, 2005</u>
Net Assets, beginning of period	\$778,120,117	\$671,964,599
Excess of unrestricted and restricted receipts over operating disbursements	(22,260,373)	114,299,862
Other changes in net assets:		
Fair value of marketable common stocks, liquid	24,082	(240,178)
Fair value of surplus notes, illiquid	-	17,600
Fair value of common stocks, including stock sale, illiquid (Note 1)	18,416	(12,101,048)
Fair value of limited partnership interests, illiquid	(384,585)	(818,675)
Interest income due and accrued	789,606	1,467,118
Fixed assets	-	(424,106)
Due from USI Reinsurance	(32,731)	(987,071)
Incurred but unpaid administrative and investment expenses (Note 3)	2,383,964	(131,883)
Claims checks payable	(6,919)	-
Reserve related to real estate tax refund (Note 6)	171,214	5,073,899
Net Assets, end of period	<u>\$758,822,791</u>	<u>\$778,120,117</u>

See accompanying notes.

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

Notes to Financial Statements

June 30, 2006

**1) Basis of Accounting**

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

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

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

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

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

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

Notes to Financial Statements (continued)

**2) Marketable Securities**

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

	<u>June 30, 2006</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Unrestricted Marketable Securities</b>				
Debt Securities:				
U.S. Treasury notes	\$ 52,595,800	\$ 113,155	\$ (1,573,242)	\$ 51,135,713
Government agencies	160,198,925	-	(3,531,395)	156,667,530
Corporate	220,511,921	-	(12,570,716)	207,941,205
Mortgage Backed	113,424,568	14,146	(5,460,391)	107,978,323
Asset Backed	<u>91,211,431</u>	<u>49,504</u>	<u>(1,154,784)</u>	<u>90,106,151</u>
Total debt securities	<u>\$ 637,942,645</u>	<u>\$ 176,805</u>	<u>\$ (24,290,528)</u>	<u>\$ 613,828,922</u>
Common Stock	<u>1,628,052</u>	<u>116,766</u>	<u>(1,564,166)</u>	<u>180,652</u>
Total Common Stock	<u>\$ 1,628,052</u>	<u>\$ 116,766</u>	<u>\$ (1,564,166)</u>	<u>\$ 180,652</u>

The book value of unrestricted marketable debt securities is \$634,920,971. Based on such book value, gross unrealized gains are \$63,650 and gross unrealized losses are \$21,155,699.

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

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



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

Notes to Financial Statements (continued)

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

<b>Marketable Debt Securities</b>	<b>Unrestricted</b>	
	<b>Cost</b>	<b>Fair Value</b>
June 30, 2006		
One year or less	\$ 114,938,008	\$ 113,767,468
Over one year through five years	189,920,254	181,721,705
Over five years through twenty years	128,448,384	120,255,275
Mortgage Backed	113,424,568	107,978,323
Asset Backed	<u>91,211,431</u>	<u>90,106,151</u>
Total	<u>\$ 637,942,645</u>	<u>\$ 613,828,922</u>

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

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

Notes to Financial Statements (continued)

**3) Incurred But Unpaid Administrative Expenses and Investment Expenses**

Accrued administrative expenses incurred in the normal course of Home's liquidation, but unpaid as of June 30, 2006, are as follows:

Human resources costs	\$1,855,236
Consultant and outside service fees	585,319
General office and rent expense	263,800
Legal and auditing fees	241,136
Other administration costs	205,333
Computer and equipment costs	54,472
Total accrued administrative expenses	<u>\$3,205,296</u>
Accrued investment expenses	<u>150,688</u>
Total accrued expenses	<u>\$3,355,984</u>

The amount of accrued expenses at December 31, 2005 was \$5,739,948 and net assets for 2006 increased by \$2,383,964 due to the decrease in the accrual.

Substantially all full-time employees of Home are covered by various employee incentive plans, which were approved by Merrimack County Superior Court of the State of New Hampshire (the Court) on February 8, 2006. The costs of these plans are primarily payable in 2007, but are based on 2006 service and are being accrued over the service period in 2006. Accrued administrative expense includes \$1,854,196 of incentive plan costs.

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

At June 30, 2006 and December 31, 2005, Home had amounts receivable of \$96,111 and \$128,842, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$253,464 for such of expenses in 2006.

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

(Notes to Financial Statements (continued))

**5) Restricted Funds**

The Liquidator has drawn down on letters of credit (LOC) upon receiving notices of cancellation or notices of non-renewal from the issuing bank. Such LOC draw downs relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Liquidator. As of June 30, 2006, restricted funds applied to reinsurance recoveries total \$542,606.

The Liquidating Company received proceeds from commutations in 2005 which were restricted pending certain future contingencies. At June 30, 2006, the Liquidating Company had restricted cash equivalent assets relating to such future contingencies in the amount of \$30.2 million.

**6) Real Estate Tax Refund**

In December 2004, the Liquidator collected \$16,455,195 in a tax settlement with New York City concerning the property at 59 Maiden Lane, New York, New York ("59 Maiden Lane"). The tax settlement results in a refund of real estate tax for the years' 1991/92 through 1995/96. In connection with this settlement, \$1,210,082 was paid as a legal contingency fee and a reserve of \$5,245,113 was established for amounts that may be payable to other tenants of 59 Maiden Lane. In 2005, the Liquidator paid \$2,727,524 in refunds, and in January 2006, additional refunds of \$171,214 were paid. The Liquidator believes that such payments fully satisfy amounts payable to other tenants and no additional reserve is required. The statement of Net Assets as of December 31, 2005 has been restated to reflect the revised amount of the reserve.

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

Notes to Financial Statements (continued)

**7) Securities on Deposit**

Investments on deposit at the original cost with various states were \$1,960,923, \$2,103,374 and \$73,947,287 at June 30, 2006, December 31, 2005, and June 11, 2003, respectively. As described in Note 1, the Liquidating Company does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

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

**8) Early Access Distribution**

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

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

**9) Allowed Claims**

As of June 30, 2006, the Liquidator has allowed, and the Court has approved, \$4,532 dollars of Class I claims, \$119,132,561 dollars of Class II claims, \$22,906,511 of Class V claims and \$42,426 of Class VIII claims. It is management's judgment that there will not be sufficient assets to make distributions on allowed claims below the Class II priority. Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C: 44.

**US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION**

**Financial Statements (Modified Cash Basis)**

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

## US International Reinsurance Company In Liquidation

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

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
<b>Assets</b>		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 3)	\$ -	\$1,865,237
Short-term investments	1,928,539	420,970
Cash and cash equivalents	<u>1,071,819</u>	<u>461,795</u>
<b>Total unrestricted bonds, short-term investments and cash at cost</b>	<b>3,000,358</b>	<b>2,748,002</b>
Interest income due and accrued	-	13,535
<b>Total unrestricted liquid assets</b>	<b><u>3,000,358</u></b>	<b><u>2,761,537</u></b>
Restricted liquid assets:		
Bonds, at cost (Note 3 & 4)	-	128,950
Short-term investments	450,639	-
Cash and cash equivalents (Note 4)	<u>-</u>	<u>330,000</u>
<b>Total restricted liquid assets</b>	<b><u>450,639</u></b>	<b><u>458,950</u></b>
<b>Total assets, excluding certain amounts</b>	<b>3,450,997</b>	<b>3,220,487</b>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses (Note 5)	10,799	3,730
Payable to The Home Insurance Company in Liquidation (Note 2 & 5)	96,111	128,842
<b>Net assets, excluding certain amounts</b>	<b><u><u>\$3,354,886</u></u></b>	<b><u><u>\$3,087,915</u></u></b>

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, 2006 To June 30, 2006</u>	<u>January 1, 2005 To December 31, 2005</u>
<b>Cash and marketable securities received:</b>		
Reinsurance collections	\$ 481,130	\$ 410,697
Net investment income	40,991	187,813
Return of special deposits	-	580,000
All other	<u>17,903</u>	<u>7,018</u>
<b>Total cash and marketable securities received</b>	<b>540,024</b>	<b>1,185,528</b>
<b>Cash operating disbursements:</b>		
Consultant and outside service fees	42,515	31,498
Net payments to Home Insurance Company (Note 2)	253,464	1,601,336
All other	<u>-</u>	<u>98,701</u>
<b>Total cash operating disbursements</b>	<b><u>295,979</u></b>	<b><u>1,731,535</u></b>
Excess of receipts over operating disbursements	244,045	(546,007)
Beginning cash and marketable securities, at cost	<u>3,206,952</u>	<u>3,752,959</u>
<b>Ending cash and marketable securities, at cost</b>	<b><u>\$ 3,450,997</u></b>	<b><u>\$ 3,206,952</u></b>

See accompanying notes.

## US International Reinsurance Company in Liquidation

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

	January 1, 2006 To <u>June 30, 2006</u>	January 1, 2005 To <u>December 31, 2005</u>
Net Assets, beginning of period	\$3,087,915	\$2,555,914
Excess receipts over operating disbursements	244,045	(546,007)
Other changes in net assets:		
Interest income due and accrued	(13,535)	(32,087)
Incurred but unpaid administrative expenses	3,730	8,052
Payable to The Home Insurance Company in Liquidation	<u>32,731</u>	<u>1,102,043</u>
Net Assets, end of period	<u><u>\$3,354,886</u></u>	<u><u>\$3,087,915</u></u>

See accompanying notes.



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

Notes to Financial Statements

June 30, 2006

**1) Basis of Accounting**

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

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

**2) Net Liabilities to Home Insurance Company**

At June 30, 2006 and December 31, 2005 the Liquidator accrued liabilities of \$96,111 and \$128,842, respectively, to Home for USI Re's allocated share of various administrative expenses incurred. In 2006, amount paid to Home was \$253,464 for such expenses.

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

Notes to Financial Statements (continued)

**3) Marketable Securities**

For the period ending June 30, 2006, USI Re investments are comprised of short term and cash equivalent securities. There were no unrestricted or restricted marketable securities.

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

	<u>December 31, 2005</u>			<u>Fair Value</u>
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	
<b>Unrestricted Marketable Securities</b>				
Debt Securities:				
U.S. Treasury notes	<u>\$ 1,865,237</u>	<u>\$ 13,900</u>	<u>\$ -</u>	<u>\$ 1,879,137</u>
Total	<u>\$ 1,865,237</u>	<u>\$ 13,900</u>	<u>\$ -</u>	<u>\$ 1,879,137</u>
<b>Restricted Marketable Securities</b>				
Debt Securities:				
Total U.S. Treasury notes	<u>\$ 128,950</u>	<u>\$ 115</u>	<u>\$ -</u>	<u>\$ 129,065</u>

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

Notes to Financial Statements (continued)

**4) Securities on Deposit**

Investments on deposit with various states were \$464,071, \$460,232, and \$4,964,360 at June 30, 2006, December 31, 2005, and June 13, 2003, respectively. As described in Note 1, the Liquidating Company does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

Effective November 15, 2005, the state of New Mexico agreed to release to USI Re a special deposit of \$330,000 in trust for the benefit of New Mexico policyholders and creditors. Related funds were received in January 2006 and are held as restricted assets. The Statement of Net Assets as of December 31, 2005 has been restated to record this asset.

As of December 31, 2004, the state of Oregon's ancillary receivership of USI Re was holding \$125,000 of investments which had been withdrawn from deposits. The security was returned to USI Re in February 2005 and is held as a restricted asset.

**5) Incurred But Unpaid Administrative Expenses**

USI Re incurred administrative expenses relating to outside service fees of \$106,910, in the normal course of liquidation, that were unpaid as of June 30, 2006.

**6) Allowed Claims**

As of June 30, 2006, the Liquidator has allowed, and the Court has approved, \$1,517,330 dollars of Class V claims. Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C: 44.

## EXHIBIT C

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

General & Administrative Expense	YTD			Full Year Budget
	Actual 2006	Budget 2006	Variance 2006	
Salary and Benefits	7,272,161	7,318,445	(46,284)	14,495,920
Travel	42,369	108,264	(65,895)	222,249
Rent	1,194,019	1,108,520	85,499	2,177,382
Equipment	312,350	618,611	(306,261)	1,180,343
Printing and Stationery	32,653	66,628	(33,975)	134,355
Postage	25,272	39,416	(14,144)	78,832
Telephone	149,407	352,300	(202,893)	704,600
Disaster Recovery	-	-	-	-
Outside Services, including Special Deputy	1,755,673	1,998,022	(242,349)	3,960,045
Licensing Fees	4,044	800	3,244	1,600
Legal and Auditing	692,457	978,998	(286,541)	2,038,000
Bank Fees	69,113	78,000	(8,887)	156,000
Corporate Insurance	500	696	(196)	122,392
Miscellaneous Expenses	2,011	15,000	(12,989)	30,000
<b>Total US Expenses Incurred</b>	<b>11,552,029</b>	<b>12,683,700</b>	<b>(1,131,671)</b>	<b>25,301,718</b>
UK Liquidation expenses paid by the US liquidator	157,711	125,000	32,711	250,000
<b>Total US and UK Expenses Incurred</b>	<b>11,709,740</b>	<b>12,808,700</b>	<b>(1,098,960)</b>	<b>25,551,718</b>

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

Conning Managed:		Book Value	Market Value	Unrealized Gain (Loss)	Eff Mat (Years)	Book Yield	Average Credit Quality	Earned Income 6/30/06
% of AV	Fixed Income							
5%	Short Term	31,685	31,685	-	0.03	5.20	Aaa	1,635
8%	Government	52,687	51,136	(1,551)	3.05	3.40	Aaa	785
24%	Agency	160,299	156,668	(3,631)	2.12	3.58	Aaa	2,871
33%	Corporate	217,564	207,941	(9,623)	4.64	4.48	A1	4,484
13%	Mortgage Backed	84,781	81,065	(3,716)	5.82	5.19	Aaa	2,233
4%	Commercial Mortgage Backed	28,384	26,913	(1,471)	4.95	4.58	Aa1	639
14%	Asset Backed	91,206	90,106	(1,100)	4.11	5.13	Aa1	1,384
100%	Total	666,606	645,514	(21,092)	3.76	4.40	Aa1	14,031
<b>Other investments- Home Insurance</b>								
100%	US Treasury Bills	41,915	41,927	12	0.25	4.89	Aaa	1,880
<b>Total Home Insurance</b>		708,521	687,441	(21,080)	3.55	4.43	Aa1	15,911
<b>Other investments- USI Re</b>								
100%	US Treasury Bills and Notes	2,803	2,803	-	0.28	4.89	Aaa	45
<b>Grand total (1)</b>		711,324	690,244	(21,080)	3.54	4.43	Aa1	15,956 (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 income generated by the portfolio, calculated based on holdings as of June 30, 2006, would be \$31.8 million.