

**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-SEVENTH 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-seventh report on the liquidations of the Companies, as of December 7, 2007, in accordance with RSA 402-C:25 and the Order Concerning Liquidator's Reports issued January 19, 2005.

1. Proofs of claim. The claim filing deadline in the Home and USI Re liquidations was June 13, 2004. The Liquidator has received a total of 77 new proofs of claim for Home between the last Liquidator's report and November 19, 2007. The proofs of claim submitted now total 19,913 (19,676 for Home and 237 for USI Re). These numbers include as a single proof of claim (a) multiple proofs received from a claimant that appear to assert the same claim, and (b) claims filed on behalf of mass tort claimants against a single insured. It is difficult to summarize the proofs of claim in advance of the claim determination process because (a) those proofs of claim that quantify the claim may be overstated or understated, (b) most proofs of claim do not quantify the amount claimed, and (c) an individual proof of claim may involve many different claims and claimants.

2. Claim determinations and reports. The process of determining proofs of claim continues. Since the last Liquidator's report, the Liquidator has issued partial or final notices of determination addressing 634 proofs of claim for Home pursuant to the Restated and Revised Order Establishing Procedures Regarding Claims entered January 19, 2005. As of November 19, 2007, the notices of determination issued since the beginning of the process have addressed 5,609 proofs of claim (5,564 for Home and 45 for USI Re). One hundred and fifty eight claimants have filed requests for review and 81 of these have been sent notices of redetermination. Additionally, 44 requests for review have been filed by guaranty associations concerning the priority of certain claim expenses and unallocated expenses. There now are five unresolved disputed claim proceedings pending before the Referee, plus one (2005-HICIL-4) that has been stayed. (The Mine Safety Appliances aspect of 2005-HICIL-14 – a proceeding involving a number of separate claims – has also been stayed.) The Liquidator continues to file reports of claims and recommendations when a sufficient number of the claims have passed the 60-day period for objections. There is currently \$52.4 million in notices of determinations that are in the pipeline pending the 60-day period running or submission to the Court, which will be cleared in the next few months. Since the last Liquidator's report, the Liquidator submitted three further reports of claims and recommendations to the Court. The Liquidator has now presented and the Court has approved claims recommendations, including settlements, for a total of 4,644 claims (4,601 for Home and 43 for USI Re) involving a total allowed amount of \$383.7million.

3. Financial reports. Copies of the unaudited September 30, 2007 financial statements for Home and USI Re are attached as Exhibits A and B to this report. The September 30, 2007 Home statements reflect \$801,124,592 in assets under the Liquidator's direct control at September 30, 2007, and \$72,830,320 in reinsurance collections, net investment

income, and other receipts and \$20,150,842 in operating disbursements from January 1 through September 30, 2007. The September 30, 2007 USI Re statements reflect \$5,465,732 in assets under the Liquidator's direct control at September 30, 2007, and \$301,590 in reinsurance collections, net investment income and other receipts and \$166,864 in operating disbursements from January 1 through September 30, 2007.

4. 2007 Budget. A comparison of the actual and budgeted general and administrative expenses, on an incurred basis, through September 30, 2007 is attached as Exhibit C. As of September 30, 2007, actual expenses were below budget by approximately \$1.6 million or 9.3%, with favorable variances in nearly all categories. Below is a comparison of Home's annual budgeted and actual operating expenses (in millions) beginning January 1, 2004:

Year	Budget	Actual
2004	\$33.8	\$26.9
2005	\$26.8	\$26.2
2006	\$25.6	\$23.5
2007	\$22.8	\$21.7 expected
2008	\$21.4	

Additionally, the Liquidator filed a copy of the 2008 Expense Budget on November 12, 2007.

5. Investment update. A summary of the Companies' holdings of bonds and short-term investments as of September 30, 2007 is attached as Exhibit D. The book value of Home's bonds and short-term investments managed by Conning Asset Management (Conning) at September 30, 2007, was approximately \$674 million compared to the market value of approximately \$668 million, an unrealized loss of \$6 million (including an approximately \$7.8 million decrease in the second quarter). As of November 26, 2007, the Conning managed portfolio had an unrealized gain of \$2.5 million due to decreases in interest rates subsequent to September 30, 2007. Short-term holdings in the Conning portfolio at September 30, 2007 were

\$94 million. The level of short-term holdings in the Conning portfolio will fluctuate over time as bonds mature, but the Liquidator intends to lengthen the duration of the portfolio while managing the risks arising from fluctuations in interest rates. The Liquidator also continues to maintain, outside of Conning's control, investments in US Treasury bills and notes. As of September 30, 2007, such investments respecting Home and USI Re had a book value of approximately \$44 million and \$5 million, respectively. These assets, along with sweep bank accounts, will be used to fund operating requirements and the fourth early access distribution.

6. Subprime securities. On November 7, 2007, the Liquidator sold Home's two most significant remaining positions in securities backed by subprime collateral. These positions, with a combined book value of \$6 million, were sold at a loss of \$377,000, or 6.3%. Due to continued difficulties in the subprime mortgage market, the expected period for repayment of principal of these securities was increasing, their average life was becoming more difficult to determine, and the market for them (liquidity) was dramatically decreasing. The Liquidator therefore made the decision to sell and believes that the prices obtained were reasonable in order to mitigate additional risk of loss. Home now has only two small remaining positions in securities backed by subprime collateral with a total book value of approximately \$700,000. These securities – which continue to be rated AAA by Moody's and Standard & Poor's – have been steadily paying down principal and are expected to be paid off by mid 2008. Since the second quarter, when the risks relating to subprime securities came into focus, through the November 7<sup>th</sup> sales, Home's holdings of such securities have been reduced by \$21.6 million, including principal repayments of \$5 million. The total net realized loss was \$347,000 or 1.6% of book value, with \$30,000 of previous gains offsetting the losses incurred on November 7 discussed above.

7. Early Access Distributions to Guaranty Funds. As described in the Liquidator's previous reports, the Liquidator has made three early access distributions to guaranty funds in early 2005, 2006 and 2007 after obtaining approval from the Court and the required "claw back" agreements with the guaranty funds requiring the return of any amounts advanced that exceed the eventual distribution percentage for their creditor class. See RSA 402-C:29, III. Total cash early access payments from the Home liquidation to guaranty funds now total \$131.9 million, of which \$39.3 million was paid in April 2007. The effect of these early access distributions was to reimburse most guaranty funds for 100% of their loss payments for Home-related policies through September 2006. The Court approved the fourth early access distribution addressing payments through September 2007 by order issued November 16, 2007. The distribution is subject to the Liquidator obtaining a waiver of claims under the federal priority statute from the United States. The Liquidator has requested such a waiver from the United States. It is expected that the distribution (after deduction of deposits retained by certain states and other applicable items) will be approximately \$34.3 million.

8. Sale of USI Re. As described in the Liquidator's Twenty-Fifth Report, the Liquidator entered into a stock purchase agreement with respect to the sale of the stock of USI Re. That agreement has since been terminated, and the Liquidator continues to market the company.

9. Significant Litigation.

(a) Utica – The parties reached a settlement which was approved by the Court on November 1, 2007.

(b) Wausau – The parties continue their settlement discussions as part of a potential commutation of their business arrangements. As part of their commutation negotiations, the

parties previously reconciled their contractual arrangements and provided initial pricing of their exposures. In August 2007, Wausau personnel conducted a claims audit of Home's files in order to facilitate the commutation discussions, which remain ongoing.

(c) Century Indemnity Company ("CIC") – On November 14, 2007, CIC filed an appeal with the New Hampshire Supreme Court of the Superior Court's October 18, 2007 Order on Claimant's Motion to Recommit. The appeal presents issues concerning the statutory requirement of mutuality for setoff under RSA 402-C:34. The Supreme Court has not yet issued a scheduling order.

10. Reinsurance commutations and settlements. The Liquidator reports, in accordance with the Court's March 23, 2004 order, that he has not entered any commutations on behalf of Home or USI Re since his last report. The Court approved the reinsurance commutation agreement with Munich American Re on October 15, 2007 and, following court approval, the commutation sum was paid to the Liquidator.

11. Asset dispositions (including compromises) and assumptions of obligations. In accordance with paragraph 5 of the Order Establishing Procedures for Review of Certain Agreements to Assume Obligations or Dispose of Assets entered April 29, 2004, and paragraph 5 of the Liquidator's Eleventh Report, the Liquidator submits a confidential schedule of asset dispositions (including compromises) and obligation assumptions since the last report which is filed under seal as an appendix to this report.

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

13. California subpoenas. As previously reported, on May 1, 2006, the Liquidator filed a Motion for Protective Order with respect to three non-party subpoenas issued in three actions commenced in California by policyholders of Home against Zurich-American Insurance Company and certain affiliates of Zurich. A Stipulation Regarding California Subpoenas and Liquidator's Motion for Protective Order was agreed by the parties and filed with the Court on June 20, 2006 and, thereafter, an Order approving the Motion and staying the proceedings was issued on June 22, 2006. The Court approved an agreed confidentiality order on August 31, 2006. The Liquidator has completed the document review process pursuant to which approximately 88,000 pages of documents have been produced and now is in the process of preparing a privilege log.

14. 2008 Compensation Plans. The Liquidator filed a motion for approval of the 2008 Compensation Plans on November 20, 2007.

15. Information Technology. The Liquidator and Zurich entered into an agreement to extend the Information Technology Services Agreement with Zurich for an additional five years, terminating on December 31, 2013. The agreement was approved by the Court on December 1, 2006. While the extension of the term of the Agreement was the primary substantive change of this agreement, it also included certain changes to cost provisions, as well as changes to the exhibits, none of which were a material alteration. Due to ongoing IT initiatives to reduce services used, Home has been realizing significant reductions in yearly support charges for the past three years. The Liquidator expects similar reductions in support charges for maintaining Home's legacy systems environment in 2008 as well.

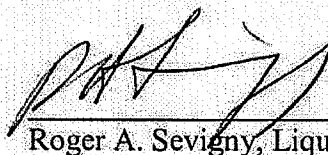
16. Ultimate creditor distributions. The Liquidator reported in his 25th Report that it was clear that the assets available to the Liquidator will not permit a distribution to creditors

below Class II, policy related claims. The distribution percentage to Class II creditors from the Home estate is uncertain and cannot be predicted with any degree of confidence due to several factors. The Liquidator has received several proofs of claim asserting very large claims the resolution of which is critical to the distribution percentage. While the Liquidator is giving priority to investigating and evaluating these claims, the outcomes cannot be predicted.

Also, in the Twenty-Fifth Report, the Liquidator noted that Milliman, Inc. had been engaged to review Home's asbestos exposure. While the Milliman asbestos study continues, a preliminary indication shows that their recommended asbestos reserve increase is within the \$1.5 billion net estimate. A wide range of outcomes surrounding Milliman's estimate is to be expected. Milliman's work will continue into 2008. The Liquidator will report further as that work proceeds.

Losses also continue to develop on workers compensation claims, and ultimate losses have increased over \$100 million.

Respectfully submitted,



Roger A. Sevigny, Liquidator

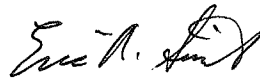
December 18, 2007



**CERTIFICATE OF SERVICE**

I hereby certify that on December 18, 2007, a copy of the Liquidator's Twenty-Seventh Report, without the confidential appendix, was served upon the persons named on the attached Service List, by first class mail, postage prepaid.

Dated: December 18, 2007



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Eric A. Smith

**Exhibits:**

**A – 9/30/07 Financial Statement – Home**

**B – 9/30/07 Financial Statement – USI Re**

**C – Comparison of actual and budgeted general and administrative expenses through 9/30/07**

**D – Companies' holdings of bonds and short- term investments as of 9/30/07**

**Confidential Appendix**

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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**THE HOME INSURANCE COMPANY IN LIQUIDATION**

**Financial Statements (Modified Cash Basis)**

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

## The Home Insurance Company In Liquidation

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

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
<b>Assets</b>		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$617,040,190	\$608,099,834
Short-term investments	10,771,262	42,812,345
Cash and cash equivalents	166,961,629	144,429,307
<b>Total unrestricted bonds, short-term investments and cash at cost</b>	<u>794,773,081</u>	<u>795,341,486</u>
Common stocks, marketable, at market value (Note 2)	1,078	10,359
Interest income due and accrued	6,785,100	6,400,611
<b>Total unrestricted liquid assets</b>	<u>801,559,259</u>	<u>801,752,456</u>
Unrestricted illiquid assets: ( Note 1)		
Surplus notes, at fair value	146,800	146,800
Common stocks, at fair value	1,957,741	1,935,076
Limited partnership interests, at fair value	1,903,995	2,294,513
<b>Total unrestricted illiquid assets</b>	<u>4,008,536</u>	<u>4,376,389</u>
Restricted liquid assets - cash and cash equivalents (Note 5)	316,533	542,606
Receivable from US International Reinsurance Company (Note 4)	32,000	34,682
<b>Total assets, excluding certain amounts</b>	<u>805,916,328</u>	<u>806,706,133</u>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	4,311,328	6,241,428
Notices of Determination approved for Class I creditors (Note 8)	463,690	5,252,213
Claims checks payable (Note 1)	16,718	11,125
<b>Total liabilities</b>	<u>4,791,736</u>	<u>11,504,766</u>
<b>Net assets, excluding certain amounts</b>	<u><u>\$801,124,592</u></u>	<u><u>\$795,201,367</u></u>

See accompanying notes.

## The Home Insurance Company in Liquidation

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

	<u>January 1, 2007</u> To <u>September 30, 2007</u>	<u>January 1, 2006</u> To <u>December 31, 2006</u>
<b>Cash and marketable securities received:</b>		
Reinsurance collections - unrestricted	\$ 34,876,605	\$ 42,983,597
Net investment income	30,333,831	36,578,417
Repatriation of funds - Canadian branch (Note 1)	-	6,999,990
Salvage, subrogation and other claim recoveries	4,516,930	6,062,086
Remittance of funds held by reinsurers	-	4,607,379
Agents' balances	2,440,622	4,800,526
Receivable collected from USI Re	110,203	412,965
Miscellaneous income	64,559	255,960
Proceeds from sale of common stock	-	112,747
Deposits with outside claim adjusters	420	276,897
All other	487,150	2,003,187
<b>Total cash receipts</b>	<u>72,830,320</u>	<u>105,093,751</u>
<b>Cash operating disbursements:</b>		
Human resources costs (Note 3)	11,324,782	13,629,000
Consultant and outside service fees	2,228,337	3,274,997
General office and rent expense	2,207,043	2,769,434
Legal and audit fees	1,067,333	1,631,758
Losses and loss expenses paid (Note 1)	492,700	1,011,573
Investment expenses	462,408	597,340
Computers and equipment cost	419,534	991,293
Administration costs	156,093	596,323
Temporary services	-	35,620
Computer equipment - Disaster Recovery	-	10,700
All other	1,792,612	816,914
<b>Total cash operating disbursements</b>	<u>20,150,842</u>	<u>25,364,952</u>
Excess of receipts over operating disbursements	<u>52,679,477</u>	<u>79,728,799</u>
<b>Distributions to state guaranty associations (Note 8)</b>		
Class I Distributions	39,166,827	57,334,437
(Deficiency) excess receipts over disbursements	<u>14,307,128</u> <u>(794,478)</u>	<u>-</u> <u>22,394,362</u>
Beginning cash and marketable securities, at cost	795,884,092	773,489,730
<b>Ending cash and marketable securities, at cost</b>	<u>\$ 795,089,614</u>	<u>\$ 795,884,092</u>

See accompanying notes.



## The Home Insurance Company in Liquidation

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

	<u>January 1, 2007 To September 30, 2007</u>	<u>January 1, 2006 To December 31, 2006</u>
Net Assets, beginning of period	\$795,201,367	\$778,120,117
(Deficiency) excess of unrestricted and restricted receipts over operating disbursements	(794,478)	22,394,362
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(9,281)	(146,211)
Fair value of common stocks, including stock sale, illiquid (Note 1)	22,665	36,124
Fair value of limited partnership interests, illiquid	(390,518)	(384,585)
Interest income due and accrued	384,489	869,324
Due from USI Reinsurance	(2,682)	(94,160)
Incurred but unpaid administrative and investment expenses (Note 3)	1,930,100	(501,480)
Notices of Determination approved for Class I creditors (Note 8)	4,788,523	(5,252,213)
Claims checks payable	(5,592)	(11,125)
Reserve related to real estate tax refund	-	171,214
Net Assets, end of period	<u>\$801,124,592</u>	<u>\$795,201,367</u>

See accompanying notes.

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

Notes to Financial Statements

September 30, 2007

**1) Basis of Accounting**

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

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

The amount shown for losses and loss expenses paid primarily 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.

This statement does not include any assets of Home's branches outside of the United States. In 2006, the Canadian Provisional Liquidator of Home's Canadian branch repatriated approximately \$7 million in US dollars to the Liquidator.

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

Notes to Financial Statements (continued)

2) **Marketable Securities**

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

	<b>September 30, 2007</b>			
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Marketable Bonds:				
U.S. Treasury notes	\$ 58,868,862	\$ 307,838	\$ (629,884)	\$ 58,546,816
Government agencies	134,470,960	886,390	(166,162)	135,191,188
Corporate	230,074,492	419,522	(8,493,863)	222,000,151
Mortgage Backed	122,299,403	128,853	(2,796,862)	119,631,394
Asset Backed	<u>71,326,473</u>	<u>767,871</u>	<u>(380,495)</u>	<u>71,713,849</u>
Total Marketable Bonds	<u>\$ 617,040,190</u>	<u>\$ 2,510,474</u>	<u>\$(12,467,266)</u>	<u>\$ 607,083,398</u>
Total Common Stock	\$ 1,628,052	\$ -	\$ (1,626,974)	\$ 1,078

The book value of unrestricted marketable bonds is \$579,902,622. Based on such book value, gross unrealized gains are \$1,996,632 and gross unrealized losses are \$8,058,767.

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

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

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

Notes to Financial Statements (continued)

**2) Marketable Securities (continued)**

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

<b>Marketable Bonds</b>	<b>Unrestricted</b>	
	<b>Cost</b>	<b>Fair Value</b>
September 30, 2007		
One year or less	\$ 74,841,066	\$ 74,053,002
Over one year through five years	237,481,508	233,315,862
Over five years through twenty years	111,091,740	108,369,291
Mortgage Backed	122,299,403	119,631,394
Asset Backed	<u>71,326,473</u>	<u>71,713,849</u>
Total	<u>\$ 617,040,190</u>	<u>\$ 607,083,398</u>

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

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

Notes to Financial Statements (continued)

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

Accrued administrative expenses incurred in the normal course of Home's liquidation, but unpaid as of September 30, 2007, are as follows:

Human resources costs	\$2,921,444
Consultant and outside service fees	774,047
General office and rent expense	191,704
Legal and auditing fees	173,880
Computer and equipment costs	27,991
Other administration costs	<u>70,377</u>
 Total accrued administrative expenses	 <u>\$4,159,443</u>
 Accrued investment expenses	 <u>151,885</u>
Total accrued expenses	<u>\$4,311,328</u>

The amount of accrued expenses at December 31, 2006 was \$6,241,428 and net assets for 2007 increased by \$1,929,986 due to the decrease in the accrual.

Substantially all full-time employees of Home are covered by various employee incentive plans, which were approved by Merrimack County Superior Court of the State of New Hampshire (the Court) on January 29, 2007. The costs of these plans are primarily payable in 2008, but are based on 2007 service and are being accrued over the service period in 2007. Accrued administrative expense includes \$2,920,905 of incentive plan costs.

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

At September 30, 2007 and December 31, 2006, Home had amounts receivable of \$32,000 and \$34,682, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re. Home was reimbursed \$110,203 for such expenses in 2007.

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

(Notes to Financial Statements (continued))

**5) Restricted Funds**

The Liquidator has drawn down on letters of credit (LOC) upon receiving notices of cancellation or notices of non-renewal from the issuing bank. Such LOC draw downs relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Liquidator. Restricted funds related to reinsurance recoveries total \$316,533 at the end of September 30, 2007.

**6) Securities on Deposit**

Investments on deposit at the original cost with various states were \$1,864,060, \$1,955,732 and \$73,947,287 at September 30, 2007, December 31, 2006, and June 11, 2003, respectively. As described in Note 1, the Liquidator does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

Various states have withdrawn such deposits at par value of \$48,102,110, and market value as of September 30, 2007 of \$49,516,486, for use by the related state guaranty associations, and these amounts may be offset against future distributions to such guaranty associations.

**7) Early Access Distribution**

On March 12, 2007, the Court approved a third early access distribution to insurance guaranty associations based on guaranty association payments through September 30, 2006. The Liquidator paid \$39,166,827 in September 2007 relating to this early access distribution. Early access payments to date are \$131.9 million. The Liquidator may periodically make additional early access distributions in the future, subject to Court approval.

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

(Notes to Financial Statements (continued))

**7) Early Access Distribution (continued)**

Early access distributions and related advances are not recorded as assets in the accompanying Statement of Net Assets although they represent payments in advance of distributions to other claimants. Early access distributions and related advances will ultimately be credited against amounts payable to Guaranty Associations to ensure pro rata distributions amongst members of the same class of creditor of Home. The following summary represents early access distributions and related advances that are not reflected in the Statement of Net Assets.

Early Access Distributions paid in cash	\$131,823,053
Assets withdrawn from special deposits held by states to pay Home claims (market value, see note 7)	49,516,486
Other deemed Early Access advances paid in cash	<u>3,152,304</u>
Total	<u>\$184,491,843</u>

**8) Allowed Claims**

As of September 30, 2007, the Liquidator has allowed, and the Court has approved, \$14,770,818 of Class I claims, \$309,241,333 of Class II claims, \$50,949,534 of Class V claims and \$5,315 of Class VIII claims. The Class I claims, which were primarily paid in April 2007, include \$14,744,631 for Guaranty Associations administrative costs, and \$26,187 for other creditors. *It is management's judgment that there will not be sufficient assets to make distributions on allowed claims below the Class II priority. Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C: 44.*

**US INTERNATIONAL REINSURANCE COMPANY IN LIQUIDATION**

**Financial Statements (Modified Cash Basis)**

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



## US International Reinsurance Company In Liquidation

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

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
<b>Assets</b>		
Unrestricted liquid bonds, short-term investments and cash at cost:		
Bonds, at cost (Note 4)	\$ 442,082	\$ -
Short-term investments	3,530,746	3,880,904
Cash and cash equivalents	<u>1,048,221</u>	<u>1,015,837</u>
<b>Total unrestricted liquid bonds, short-term investments and cash at cost</b>	<b>5,021,049</b>	<b>4,896,741</b>
Restricted liquid assets:		
Bonds, at cost (Note 4)	339,109	-
Short-term investments	<u>128,850</u>	<u>457,541</u>
<b>Total restricted liquid bonds and short-term investments at cost</b>	<b>467,959</b>	<b>457,541</b>
Interest income due and accrued	<u>8,724</u>	<u>-</u>
<b>Total restricted liquid assets</b>	<b>476,683</b>	<b>457,541</b>
<b>Total assets, excluding certain amounts</b>	<b>5,497,732</b>	<b>5,354,282</b>
<b>Liabilities</b>		
Incurred but unpaid administrative expenses (Note 6)	-	2,998
Payable to The Home Insurance Company in Liquidation (Note 3 & 6)	32,000	34,682
<b>Net assets, excluding certain amounts</b>	<b>\$ <u>5,465,732</u></b>	<b>\$ <u>5,316,602</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)**

	January 1, 2007 To <u>September 30, 2007</u>	January 1, 2006 To <u>December 31, 2006</u>
<b>Cash and marketable securities received:</b>		
Reinsurance collections	\$ 66,259	\$ 586,455
Net investment income	181,369	139,051
Sale of investment (Note 2)	-	1,865,495
All other	<u>53,962</u>	<u>16,314</u>
<b>Total cash and marketable securities received</b>	<b>301,590</b>	<b>2,607,315</b>
<b>Cash operating disbursements:</b>		
Consultant and outside service fees	56,661	47,020
Net payments to Home Insurance Company (Note 3)	<u>110,203</u>	<u>412,965</u>
<b>Total cash operating disbursements</b>	<b>166,864</b>	<b>459,985</b>
Excess of receipts over operating disbursements	134,726	2,147,330
Beginning cash and marketable securities, at cost	<u>5,354,282</u>	<u>3,206,952</u>
<b>Ending cash and marketable securities, at cost</b>	<b>\$ <u>5,489,008</u></b>	<b>\$ <u>5,354,282</u></b>

See accompanying notes.

## US International Reinsurance Company in Liquidation

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

	January 1, 2007 To September 30, 2007	January 1, 2006 To December 31, 2006
Net Assets, beginning of period	\$5,316,602	\$3,087,915
Excess of receipts over operating disbursements	134,726	2,147,330
Other changes in net assets:		
Interest income due and accrued	8,724	(13,535)
Incurred but unpaid administrative expenses	2,998	732
Payable to The Home Insurance Company in Liquidation	2,682	94,160
Net Assets, end of period	<u>\$5,465,732</u>	<u>\$5,316,602</u>

See accompanying notes.

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

Notes to Financial Statements

September 30, 2007

**1) Basis of Accounting**

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

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

**2) Sale of Investment**

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

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

At September 30, 2007 and December 31, 2006, the Liquidator accrued liabilities of \$32,000 and \$34,682, respectively, to Home for USI Re's allocated share of various administrative expenses incurred. In 2007, the amount paid to Home was \$110,203 for such expenses.

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

Notes to Financial Statements (continued)

**4) Marketable Securities**

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

	<u>September 30, 2007</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Unrestricted Marketable Bonds</b>				
Debt Securities:				
Total U.S. Treasury notes	\$ 442,082	\$ 1,920	\$ -	\$ 444,002
 <b>Restricted Marketable Bonds</b>				
Debt Securities:				
Total U.S. Treasury notes	\$ 339,109	\$ 3,924	\$ -	\$ 343,033

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

	<u>Unrestricted</u>		<u>Restricted</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
September 30, 2007				
One year or less	\$ 442,082	\$ 444,002	\$ 339,109	\$ 343,033

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

Notes to Financial Statements (continued)

**5) Securities on Deposit**

Investments on deposit with various states were \$472,048, \$464,337, and \$4,964,360 at September 30, 2007, December 31, 2006, and June 13, 2003, respectively. As described in Note 1, the Liquidator does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

At September 30, 2007, the Statement of Restricted and Unrestricted Net Assets reflects restricted short-term investments for Oregon of \$128,850 and restricted bonds for New Mexico of \$339,109. These funds are held for the policyholders and creditors, as such amounts have not been settled and agreed to with the states.

**6) Incurred But Unpaid Administrative Expenses**

USI Re incurred administrative expenses relating to outside service fees of \$32,000, in the normal course of liquidation, that were unpaid as of September 30, 2007.

**7) Allowed Claims**

As of September 30, 2007, the Liquidator has allowed, and the Court has approved, \$2,636,427 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.

**8) Sale of Capital Stock**

On May 16, 2007, the Liquidator entered into a Letter of Intent to sell 100% of the issued and outstanding capital stock of USI Re to an unrelated third party. The agreement has since been terminated, and the Liquidator continues to market USI Re.

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

General & Administrative Expense	YTD			Full Year Budget
	Actual 9/30/07	Budget 9/30/07	Variance 9/30/07	
Salary and Benefits	10,210,144	10,118,828	91,316	13,504,952
Travel	37,129	150,043	(112,914)	201,532
Rent	1,726,913	1,783,935	(57,022)	2,382,292
Equipment	391,661	700,575	(308,914)	932,100
Printing and Stationery	58,551	66,323	(7,772)	86,700
Postage	35,955	42,894	(6,939)	57,192
Telephone	221,796	328,135	(106,339)	435,400
Disaster Recovery	9,400	8,100	1,300	10,700
Outside Services, including Special Deputy	2,066,189	2,247,867	(181,678)	2,998,461
Licensing Fees	1,359	-	1,359	-
Legal and Auditing	632,144	1,432,600	(800,456)	1,908,973
Bank Fees	110,030	113,996	(3,966)	152,000
Corporate Insurance	105,272	146,200	(40,928)	146,600
Miscellaneous Expenses	(15,409)	2,700	(18,109)	3,600
Total US Expenses Incurred	15,591,133	17,142,196	(1,551,063)	22,820,502
UK Liquidation expenses paid by the US liquidator	(49,160)	-	(49,160)	-
Total US and UK Expenses Incurred	15,541,973	17,142,196	(1,600,223)	22,820,502

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

Conning Managed:		Book Value	Market Value	Unrealized Gain (Loss)	Eff Mat (Years)	Book Yield	Average Credit Quality	Earned Income 9/30/07
<u>% of Av</u>	<u>Fixed Income</u>							
14%	Short Term	93,632	93,632	-	0.03	4.94	Aaa	3,004
4%	Government	25,543	25,304	(239)	5.02	4.05	Aaa	777
20%	Agency	134,589	135,190	601	3.25	4.65	Aaa	5,121
34%	Corporate	226,325	222,000	(4,325)	4.09	4.71	A1	7,994
15%	Mortgage Backed	97,804	96,136	(1,668)	5.69	5.36	Aaa	3,290
4%	Commercial Mortgage Backed	24,174	23,496	(678)	4.15	4.44	Aaa	891
11%	Asset Backed	71,467	71,714	247	2.94	5.19	Aaa	3,106
100%	Total	673,534	667,472	(6,062)	3.49	4.84	Aa1	24,182
<b>Other investments- Home Insurance</b>								
100%	US Treasury Bills and Notes	43,986	44,160	174	0.25	4.85	Aaa	1,586
<b>Total Home Insurance</b>		717,520	711,632	(5,888)	3.30	4.84	Aa1	25,768
<b>Other investments- USI Re</b>								
100%	US Treasury Bills and Notes	4,480	4,493	13	0.28	4.85	Aaa	159
<b>Grand total (1)</b>		722,000	716,125	(5,875)	3.28	4.84 (2)	Aa1	25,927 (3)

(1) Investment balances do not include cash amounts invested in sweep accounts of Citizens Bank and investments in common stocks and limited partnerships.

(2) The market yield is 5.14%.

(3) On an annualized basis, the total estimated income generated by the portfolio, calculated based on holdings as of September 30, 2007, would be \$ 36.1 million.