

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**

**AFFIDAVIT OF PETER A. BENGELSDORF,
SPECIAL DEPUTY LIQUIDATOR,
IN SUPPORT OF APPROVAL OF REVISED INVESTMENT GUIDELINES**

I, Peter A. Bengelsdorf, hereby depose and say:

1. I was appointed as Special Deputy Liquidator of The Home Insurance Company (“Home”) by the Commissioner of Insurance for the State of New Hampshire, as Liquidator (“Liquidator”) of Home. I submit this affidavit in support of the Liquidator’s Motion for Approval of Revised Investment Guidelines (“Motion”). A copy of the revised statement of investment policy (the “Revised Investment Guidelines”) is attached as Exhibit A to the Motion. The facts and information set forth below are either within my own knowledge gained through my involvement with this matter, in which case I confirm that they are true, or are based on information provided to me by others, in which case they are true to the best of my knowledge, information and belief.

2. Home’s investment portfolio has been managed pursuant to the same investment guidelines since the beginning of the liquidation proceeding in June 2003. These investment guidelines were summarized in the statement of investment policy attached as Exhibit A to the Liquidator’s Third Report, dated September 12, 2003 (the “Investment Guidelines”). The Liquidator entered into an Asset Management Agreement with Conning Asset Management Company (“Conning”), dated June 2, 2004 (the “Agreement”), which was approved by the Court on July 6, 2004. Since then, Conning

has managed the longer-term portion of Home's portfolio pursuant to the Agreement, subject to the Investment Guidelines which are Schedule 1 to the Agreement. As described in the Liquidator's Motion for Approval of Asset Management Agreement, dated June 10, 2004, the Liquidator and Conning anticipated the need to revise the Investment Guidelines, subject to the approval of the Court, to permit more latitude in investments consistent with the goals of the liquidation. The present motion seeks approval of these Revised Investment Guidelines.

3. As anticipated, the original Investment Guidelines require revision in light of Conning's experience in managing the Home portfolio over the last six months. Conning has advised the Liquidator that the Investment Guidelines are too restrictive given the size of Home's investment portfolio. In particular, Conning is having difficulty investing such a sizable portfolio in light of the caps on the dollar amount that can be invested in any one issuer. As a result, Conning is having difficulty finding enough quality investments to invest the portfolio's excess cash positions. If approved, the Revised Investment Guidelines will replace the Investment Guidelines as Schedule 1 to the Agreement.

4. The proposed Revised Investment Guidelines were drafted in consultation with Conning. They are designed to allow Conning to make larger investments in individual issuers, while maintaining the conservative nature of the investment policy. The Investment Guidelines limit the dollar amount of an investment in any single issuer and, in the case of corporate notes and bonds rated "Baa" and prime bankers acceptances, the total investments in an asset class. By contrast, the Revised Investment Guidelines would limit investments based on the percentage of the portfolio, not particular dollar amounts. More specifically, the Revised Investment Guidelines restrict the percentage of

the total portfolio that can be comprised of any one issuer in any single asset class¹ and the percentage of the portfolio that can be comprised of investments in any one asset class.² The Revised Investment Guidelines also add clarifying language to (a) reiterate that Conning may only invest in bonds and fixed income securities; (b) exclude from mortgage backed securities any derivatives such as inverse floating rates and interest rate only tranches; (c) exclude from asset backed securities any franchise loan and equipment trust certificates transactions; (d) provide Conning with ninety (90) days to sell investments if investments must be sold to bring the portfolio into compliance with the Revised Investment Guidelines; (e) state explicitly that no more than five percent (5%) of the total portfolio may be invested in Baa (Moody's) or Triple B (S&P) securities; and (f) specify that asset allocation is based on the lower of the S&P or Moody's ratings. The Revised Investment Guidelines also remove reference to prime bankers acceptances as an investment option.

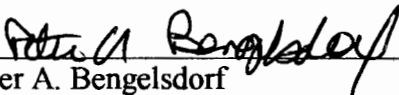
5. The Revised Investment Guidelines address the issues revealed by Conning's experience in operating under the Investment Guidelines and are consistent with a prudent and conservative investment policy.

6. I believe the Revised Investment Guidelines are fair and reasonable and in the best interests of the liquidation and of the policyholders and other creditors of Home. The Revised Investment Guidelines are also in furtherance of the Agreement with Conning approved by the Court on July 6, 2004.

¹ No limits apply to US Government and US Government Agency Obligations.

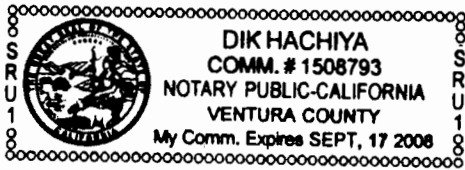
² This limitation does not apply to US Government and US Government Agency Obligations, commercial paper and certificates of deposit.

Signed under the penalties of perjury this 26TH day of January, 2005.


Peter A. Bengelsdorf
Special Deputy Liquidator of The Home Insurance
Company

STATE OF CALIFORNIA
COUNTY OF VENTURA

Subscribed and sworn to, before me, this 26 day of January, 2005




Notary Public/Justice of the Peace