

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

LIQUIDATOR'S MOTION FOR
APPROVAL OF 2006 COMPENSATION PLANS

Roger A. Sevigny, Commissioner of Insurance for the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("The Home"), hereby moves that the Court enter an order approving two integrated compensation plans for the employees of The Home in 2006 consisting of an Annual Incentive Plan ("Annual Plan") and a Collection Incentive Plan ("Collection Plan") (collectively, the "Plans").

Summaries of the Plans are attached as Exhibits A and B. The Plans are intended to reward performance and reinforce retention of essential employees. The Plans and their estimated 2006 cost have been reviewed with the National Conference of Insurance Guaranty Fund's Subcommittee on The Home which has advised that it has no objection to this Court's approval of the Plans. In support hereof, the Liquidator respectfully represents as follows:

1. Liquidation Staff for The Home. As described in the Liquidator's reports and the Liquidator's Motion for Approval of Compensation Plans dated April 5, 2004 (concerning the 2004 compensation plans) (the "2004 Compensation Motion"), shortly after the liquidation proceeding began in June 2003, the Liquidator determined that the most efficient way to organize the liquidation process was to hire the most critical Risk

Enterprise Management (“REM”) employees. This permitted the Liquidator to benefit from the continued involvement of experienced employees with prior involvement with The Home runoff. The Liquidator initially hired 98 employees (93 from REM and 5 others) to handle the liquidation of The Home (and of USI Re). The liquidation is presently staffed by 88 employees, 70 of whom are located at The Home’s former headquarters in New York City and 18 in Manchester, New Hampshire. The Liquidator has also appointed the Special Deputy Liquidator to manage the operations of the liquidation. The Special Deputy Liquidator is a consultant to the Liquidator, not an employee of The Home, and is not covered by the proposed Plans. Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, in Support of Approval of 2006 Compensation Plans (“Bengelsdorf Aff.”) ¶ 3.

2. The Retention of Experienced Employees Benefits Creditors. The Home operated internationally and specialized in affording complex forms of insurance to large enterprises. Due to the sophisticated nature of The Home’s insurance products, operations and supporting reinsurance programs, an experienced and stable liquidation staff will materially contribute to the efficient collection of assets. This is illustrated by the increase in The Home’s liquid assets from the day the Order of Rehabilitation was entered, approximately \$12.7 million, to an estimated approximately \$765 million at December 31, 2005. (This figure is net of the first early access distribution to guaranty associations (\$35.3 million) made in 2005 which reimbursed those associations for 100% of their Home-related loss and loss adjustment expense through that point in time.) Most of this increase is attributable to a combination of reinsurance recoveries and other financial settlements negotiated by The Home’s experienced staff. Maximizing the

prompt collection of assets is one of the principal statutory goals of the liquidation. RSA 402-C:25, VI. The Liquidator believes that this objective can be facilitated through an alignment of creditor interests with the interests of The Home's employees. Bengelsdorf Aff. ¶ 4.

3. Performance Based Compensation Plans Are Appropriate for Large Insurer Receiverships. As set forth in the 2004 Compensation Motion, the Liquidator engaged nationally recognized compensation consultants to assist in the design of employee compensation plans for 2004. The consultants had extensive experience in the design of compensation plans for large insurers, like The Home, in liquidation. The consultants concluded that The Home's base salaries were approximately at the 50th percentile among comparable companies and recommended that total direct compensation (base salary and incentive bonuses) range between the 50th and 75th percentile. Bengelsdorf Aff. ¶ 5.

4. The Three 2004 Compensation Programs. The Liquidator accordingly developed and requested approval for three integrated compensation plans for 2004: a Retention Plan for non-exempt full time employees, an Annual Incentive Plan for exempt full time employees including executives, and a Collection Incentive Plan for executives. As set forth in the 2004 Compensation Motion, the Liquidator's consultants advised that the plans represented best practices with respect to compensation in insurance company liquidations, provided competitive annual and long-term earnings opportunities, and balanced performance-based rewards with short term and long-term retention. The individual programs were integrated across employee levels and would provide, if performance goals were met or exceeded, total direct compensation between the 50th and

75th percentile market levels. This was the level of compensation recommended by the Liquidator's consultants in order to retain experienced employees. The Court approved the compensation plans for 2004 by order issued April 21, 2004 and the similar 2005 compensation plans by order dated March 4, 2005. Bengelsdorf Aff. ¶ 6.

5. The Two 2006 Compensation Plans. After consulting with Ernst & Young LLP, ("E&Y") the Liquidator proposes to eliminate the Retention Incentive Plan and continue the Annual Plan and Collection Plan on essentially the same terms as in 2005. During 2004 and 2005 the Retention Plan applied to The Home's 15 non-exempt (Federal Wage and Hour Law) employees. Beginning in 2006, it is proposed that those employees have individual performance goals and be included in the Annual Plan.

a. Annual Plan. Eighty-seven full time employees as of January 1, 2006, would be eligible to participate in the Annual Plan. This plan is designed to provide additional cash compensation based on the overall performance of The Home's liquidation and the individual employee during the annual plan cycle. The Liquidator will determine the annual goals, performance measures and payouts. The 2006 goals will include: operation within budget, accomplishment of enumerated claim determination processing objectives and achieving asset marshalling targets. Annual cash payments will be made after the close of the performance year (no later than March 15, 2007). If an employee voluntarily leaves or is terminated for cause, then no Annual Plan payment would be made. In the event of death, disability or an involuntary termination, the employee will be entitled to a pro rata share of any Annual Plan payment. The estimated 2006 cost for the Annual Plan is approximately \$2.2 million (compared with \$2.3 million paid in 2005 and \$2.6 million paid in 2004). Bengelsdorf Aff. ¶ 8.

b. Collection Plan. At the discretion of the Liquidator, the ten senior executives of The Home would be eligible to participate in the Collection Plan. The Collection Plan is designed to provide focused incentives for the collection of assets, determination of claims and management of the liquidation in an efficient manner. Awards under this plan will be based on the accomplishment of annual corporate targets but may also vary, at the discretion of the Liquidator, based on achievement of individual performance goals. The objective of the Collection Plan, through the use of deferred compensation, is to retain senior and experienced executives as long as deemed necessary by the Liquidator. Therefore, any Collection Plan award will be deferred and funded into a trust account. The employee will actually receive those funds only upon the termination of the liquidation proceeding, involuntary termination of employment other than for cause, or at the discretion of the Liquidator if an interim payout is deemed appropriate (e.g., an interim 40% payout at July 2008 and 60% payout at July 2010). If an employee voluntarily terminates or is terminated for cause, then all Collection Plan amounts are forfeited. In the event of death or disability, the Collection Plan amounts will be distributed. The estimated 2006 cost for the Collection Plan is approximately \$1.5 million as it was for 2005 and 2004). Bengelsdorf Aff. ¶ 9.

6. Market Comparability of The Home's Compensation Plans. During 2004 and 2005, there was no salary increase program. Employee base salaries are estimated by E&Y to be approximately at market median – the 50th percentile. Because The Home is a company in liquidation, its employees have less career potential than they would if they were to leave Home and become employed with a “healthy” insurance company. Further, previously available perquisites and company-sponsored portions of benefits

plans have been restructured or reduced. The Home has no retirement plan or company-matched 401(k) plan (as discussed in paragraph 8, a safe harbor 401(k) plan was in effect in 2005 and will be in effect in 2006). To address these issues, the Liquidator proposes to continue to provide incentive compensation to all The Home's employees. Total 2005 cash compensation (base salary and incentive compensation payments) is estimated by E&Y to be slightly above market median. (This is expected to be at the lower end of the target total cash compensation range recommended by E&Y – between the 50th and 75th percentile market levels.) The proposed 2006 incentive plans are expected to maintain the same relativities to the market median. Each of the two proposed 2006 plans is annually renewable and is therefore subject to prospective modification or termination by the Liquidator. Bengelsdorf Aff. ¶ 10.

7. E&Y's Recommendation Regarding Target Compensation. The Liquidator seeks to continue to provide compensation consistent with best practices with respect to compensation in insurance company liquidations, provide competitive annual and long-term earnings opportunities and balance performance-based rewards with short term and long-term retention. The individual programs are integrated across employee levels and, if performance goals are met or exceeded, will provide total direct compensation between the 50th and 75th percentile market levels. This is the level of compensation recommended by the Liquidator's consultant (E&Y) in order to retain experienced employees. Bengelsdorf Aff. ¶ 11.

8. The Home's Non-Contributory 401(k) Plan Safe Harbor Payment. The total incentive compensation budget (assuming performance goals are met) for 2006 has been reduced to reflect a safe harbor payment to permit full participation by employees in

The Home's 401(k) plan. As described in the Liquidator's reports, The Home adopted a non-contributory 401(k) plan effective October 1, 2004. Further, effective January 1, 2005, The Home adopted the safe harbor provision under Internal Revenue Service rules so that all employees who wish to do so may contribute the maximum amount to the 401(k) plan. The cost of adopting the safe harbor provision is three percent of employees' earnings (up to an individual employee earnings cap of \$220,000). The cost for 2006 is estimated to be approximately \$300,000, which has been applied to reduce the budget for the Annual and Collection Plan(s) to the amounts set forth above. Bengelsdorf Aff. ¶ 12.

9. The Home's Severance Program. The present severance benefit program is in place until June 30, 2007. That program excludes executives eligible for the Collection Plan, which addresses severance issues for them. Under the severance program, eligible employees may receive three or six months of severance benefits. The estimated costs of the severance program have previously been applied against the total 2004 and 2005 incentive compensation budgets to reduce incentive payments under the 2004 and 2005 Annual Plan(s). Bengelsdorf Aff. ¶ 13.

10. The Liquidator's Consultant Advises That The Proposed Plans are Appropriate. The Liquidator's consultant, E&Y, advises that the 2006 compensation plans are appropriate and consistent with general market practices and to insurance companies in liquidation. It further advises that the individual plan designs and mechanics are based upon commonly accepted compensation practices for insurance companies in liquidation, and that the levels of pay provided by the individual plans, as well as the overall total compensation, represent market competitive compensation levels.

A copy of E&Y's advisory letter dated November 17, 2005 is attached as Exhibit C.

Bengelsdorf Aff. ¶ 14.

11. The Plans Are Necessary. The Liquidator believes that without the adoption of these two plans that the liquidation effort would be harmed because key employees would seek better, more long-term career opportunities elsewhere. See Bengelsdorf Aff. ¶ 15.

12. The Liquidator's Authority to Set the Terms of Employment. The Liquidator has authority under RSA 402-C:25, II, and paragraph (r) of the Order of Liquidation issued June 13, 2003, to engage employees and set the terms of their compensation "subject to the control of the court." The Liquidator also has authority pursuant to RSA 402-C: 25, IV, to use the property of The Home and to defray the costs of collecting its assets and liquidating its property and business.

13. The Plans are Fair and Reasonable. For the reasons described above and in the Bengelsdorf Affidavit, the Liquidator submits that the Plans are fair and reasonable and in the best interests of the liquidation and of the policyholders and other creditors of The Home.

WHEREFORE, the Liquidator requests that the Court enter an order in the form submitted herewith approving the Plans and grant such other and further relief as may be just.

Respectfully submitted,

ROGER A. SEVIGNY, COMMISSIONER OF
INSURANCE FOR THE STATE OF NEW
HAMPSHIRE, AS LIQUIDATOR OF THE HOME
INSURANCE COMPANY,

By his attorneys,

KELLY A. AYOTTE
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A handwritten signature in cursive script, appearing to read "J. David Leslie", is written over a horizontal line.

J. David Leslie
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January 11, 2006

Certificate of Service

I hereby certify that a copy of the foregoing Motion for Approval of 2006 Compensation Plans, the Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, and the proposed form of order were sent, this 11th day of January, 2006, by first class mail, postage prepaid to all persons on the attached service list.



J. David Leslie

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

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The Home Insurance Company
Docket No. 03-E-0106

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Annual Incentive Plan

| Component | Plan Design |
|-------------------------|--|
| Administration | Plan to be administered by the Liquidator who retains the authority to interpret the Plan, to establish or revise the Plan rules and policies, and to make any determinations necessary to administer the Plan including individual award determinations, funding, and distributions/payouts. |
| Term | Annual plan, renewable at the discretion of the Liquidator. |
| Effective Date | January 1, 2006 - December 31, 2006 |
| Eligibility | <p>All exempt and non-exempt employees who were employed full time as of January 1, 2006. In the case of a new hire, participation will be prorated for the plan year. All participants will be informed of their participation at the beginning of the plan year in writing.</p> <p>Eligible employees must be employed full time for no less than 90 days to fully participate in the annual plan cycle. Payments will be pro rated in the event of a partial year of service.</p> <p>Eligibility and/or participation in this plan is not intended as a commitment by The Home Insurance Company in Liquidation for continued employment for the duration of the plan year. Participation is not to be construed as a guarantee of employment or any payments under the plan.</p> |
| Payment Currency | <p>All awards under this plan will be paid in cash via regular payroll, subject to all tax reporting and withholding.</p> <p>Employees must be employed full time as of the date checks are issued to receive payment under the plan.</p> |
| General Design | The plan is designed to provide additional annual cash compensation based on the overall performance of The Home Insurance Company in Liquidation and the individual eligible employee during the annual plan cycle. Performance will be assessed in relation to annual goals as determined by the Liquidator. The Liquidator retains sole authority to determine annual goals, performance measures, and payouts. |

Annual Incentive Plan

| Component | Recommended Design |
|-----------------------|--|
| | <p>Eligible positions/employees will have the opportunity to earn an additional annual cash incentive payment under this plan. Individual earnings opportunities will be based on position level as determined by the Liquidator and individual performance against goals.</p> <p>Annually, at the outset of the plan cycle, the Liquidator will set the annual corporate goals for this plan and employees will be assigned individual goals. Achievement of "target" results will trigger the "target" payout.</p> <p>Annual performance goals for participating individuals may also include, at the discretion of the Liquidator, an individual component. Any individual performance goals will be defined at the outset of the plan year in the individual confirmation (of participation) letters. The relative weighting of these individual goals in relation to the total company corporate goals will also be specified. Evaluation of results in relation to these individual goals will be made at year-end and integrated with the calculation of Annual Plan payouts.</p> |
| Payout Frequency | Payouts are annual and will be made no later than 30 days following the release of the corporate results. |
| Payout Decision Rules | <p>If employment is terminated due to:</p> <p>Death - a pro rata share of any Annual Plan payment will be paid to the employee's estate at the next regular year-end payout date.</p> <p>Disability - accrual ceases when the employee enters disability; a pro rata share of any partial year Annual Plan payment will</p> |

Annual Incentive Plan

| Component | Recommended Design |
|-----------|--|
| | <p>be paid to the employee at the next regular year end payout date. Participation can resume if the employee returns to full time employment; a pro rata share of any Annual Plan payment will be made for a partial year of participation upon return to full time employment.</p> <p>Voluntary resignation - no payments will be made to employees who voluntarily resign their employment.</p> <p>Involuntary termination "not for cause" or position elimination - a pro rata payment will be made to employees who are terminated involuntarily at the next regular year end payout date.</p> <p>Involuntary termination "for cause" - no payments will be made to employees who are terminated "for cause".</p> |

Collection Incentive Plan

| Component | Recommended Design |
|------------------|---|
| Administration | Plan to be administered by the Liquidator who retains the authority to interpret the Plan, to establish or revise the Plan rules and policies, and to make any determinations necessary to administer the Plan including individual award determinations, funding, and distributions/payouts. |
| Term | Annual plan, renewable at the discretion of the Liquidator. |
| Effective Date | January 1, 2006 - December 31, 2006 |
| Eligibility | Senior executive employees of The Home Insurance Company in Liquidation will be eligible for participation in this plan at the sole discretion of the Liquidator. Except in the case of a newly hired senior executive, eligibility will be determined on or about the beginning of the plan cycle and all participants will be informed in writing of their participation, potential payouts (including interim payouts) under the plan, performance goals and payout formula(s), and plan administration protocols no later than 30 days after the start of the plan cycle. Eligible employees must be employed full time for no less than 90 days to participate in the annual plan cycle. Payments will be pro rated in the event of a partial year of service. Eligibility and/or participation in this plan is not intended as a commitment by The Home Insurance Company in Liquidation for continued employment for the duration of the plan year. Participation is not to be construed as a guarantee of employment or of any payments under the plan. |
| Payment Currency | All annual awards made under this plan will be funded into individual trust accounts for eligible participants no later than 30 days following the release of unaudited annual financial results. Trust accounts will be held by the Trustee in the name of The Home Insurance Company in Liquidation and will be administered as follows: |

Collection Incentive Plan

| Component | Recommended Design |
|-----------|--|
| | <p>The Trustee shall invest Trust assets so as to preserve principal. Capital appreciation of Trust assets is not an investment objective. The Liquidator, may agree however, to the establishment of a procedure which allows for individual informal and non-binding suggestions with respect to the manner in which their awards may be invested prior to payment. This is not currently in place but if the Liquidator or trustee chooses to implement this option, he will provide appropriate notice to Participants.</p> <p>Funded accounts will be distributed to participants at the close of the liquidation, or at a predetermined date set in the individual's employment offer letter or plan agreement. Funds will be distributed or forfeited according to the Distribution Decision Rules noted below.</p> <p>Participants must take all distributions from Trust accounts at the time of distribution (assets cannot be held in the trusts or rolled over to IRA or other qualified pension plans). Distributions will be made in cash and will be subject to all normal tax withholding and reporting; the Trustee will be directed to file all necessary tax reporting upon distribution.</p> |

Collection Incentive Plan

| | Recommended Design |
|--|---|
| <p>Component General Design</p> | <p>The Plan is designed to serve as a retention incentive for senior executives to remain at The Home Insurance Company in Liquidation through the successful close of the estate and to focus their energies on achieving the Liquidation's goals.</p> <p>Awards under this plan will be based on the accomplishment of annual corporate goals as determined by the Liquidator. For this plan cycle (January 1, 2006 through December 2006), the corporate goals are defined as: net cash collected, expense control, determination activity and records management. Goals may vary in different plan cycles/years. Annual goal(s) will be announced by the Liquidator at the outset of the plan year and communicated in writing to all eligible participants. Final results will be determined based on unaudited annual financial results at the end of the plan cycle and a review by the Liquidator.</p> <p>Target award levels will be defined and communicated at the outset of the plan year for all eligible participants. Target awards will be paid (i.e., funded into participants' trust accounts as described herein) when the annual corporate goals are achieved. Target awards for any participant may vary from plan year to year.</p> <p>Target awards will be defined in terms of a "percentage of base salary" and may vary from the target payout level based on company and individual performance.</p> <p>Annual awards may vary from the target amount based on the sole discretion of the Liquidator in assessing annual performance under the plan.</p> <p>Annual performance goals for participating individuals may also include, at the discretion of the Liquidator, an individual component. Any individual performance goals will be defined at the outset of the plan year in the individual confirmation (of participation) letters. The relative weighting of these individual goals in relation to the total company corporate goals will also be specified. Evaluation of results in relation to these individual goals will be made at year-end and integrated with the calculation of AIP payouts.</p> |
| <p>Payout Frequency</p> | <p>Funding of trust accounts for participants will be annual. Distributions of funds in accounts will be administered by the Trustee according to the decision rules below.</p> |

Collection Incentive Plan

| Component | Recommended Design |
|------------------------------------|---|
| <p>Distribution Decision Rules</p> | <p>Funds in individual's trust accounts will be distributed as follows based on the conditions of the employee's termination from The Home Insurance Company in Liquidation. If employment is terminated due to:</p> <p>Death - all funds in the participant's trust account will be paid to the individual's estate within 30 days of the Trustee receiving written notice of the employee's death. A pro rata share of the deceased employee's partial plan year participation will be given to the estate at as soon as reasonably possible following the conclusion of the Plan Cycle.</p> <p>Disability - accrual of benefits under this plan ceases when the employee enters disability; a pro rata share of any annual CIP award payment will be funded to the individual's trust account at the next regular annual funding date. Employees can re-enter the plan upon return to full time employment; a pro rata share of the annual CIP award will be funded to the employee's trust account in a partial year if an employee returns to full participation.</p> <p>Voluntary resignation - funds in trust accounts will be forfeited with respect to employees who resign their employment with The Home Insurance Company in Liquidation prior to the close of the liquidation or other predetermined final payout date as specified in the plan documents, employment offer letter, or plan agreement. The Trustee will return all funds in such ex-employees' accounts to The Home Insurance Company in Liquidation.</p> <p>Involuntary termination "not for cause" or position elimination - if an employee is terminated "not for cause" or his/her position is eliminated during the course of the Liquidation all funds in the employee's trust account will be distributed to the participant by the Trustee as soon as reasonably possible. In the case of any Plan Cycle which is not yet completed, payment shall be made as soon as reasonably possible following the conclusion of the Plan Cycle.</p> <p>Involuntary termination "for cause" - funds in trust accounts will be forfeited with respect to employees who are terminated "for cause".</p> <p>Close of the estate/liquidation - at the termination of The Home Insurance Company liquidation Proceeding, the Liquidator will direct the Trustee to distribute all remaining funds in participants' accounts according to the procedures described above.</p> |

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November 17, 2005

Mr. Roger Sevigny

In his capacity as Liquidator of the Home Insurance Company in Liquidation
State of New Hampshire Insurance Department
21 South Fruit Street, Suite 14
Concord NH 03301-7317

Dear Commissioner Sevigny:

As a part of our engagement with Home Insurance Company in Liquidation (Home or the Company), Ernst & Young LLP's (E&Y) Human Capital Practice has been asked to review the competitiveness of Home's current compensation levels to typical market levels and provide a letter summarizing our findings. The information included in this letter is based upon our knowledge and extensive experience in advising (1) insurance companies in liquidation, (2) non-insurance companies in liquidation, (3) a broad cross-section of companies during a financial restructuring and (4) the results of the extensive competitive market studies we completed on behalf of Home. Overall, the current compensation levels in place for Home's employees are consistent with market practices and our experience working with companies in liquidation.

In identifying the competitive market, companies in liquidation typically focus on "healthy company" pay levels because they will be competing with healthy companies to retain their liquidation employees. Based upon our experience, companies in liquidation typically target base salaries at median (50th percentile) market levels and total cash compensation (or TCC, defined as base salary plus annual incentives) at or above median market levels of "healthy" companies within their specific and broader industry segments. In addition to TCC, companies typically provide their Senior Management Group with longer-term incentives that are designed to provide additional performance-based incentives that can result in total direct compensation (or TDC, defined as base salary plus annual and long-term incentives) levels between 50th and 75th percentile market levels of "healthy" companies within their specific and/or broader industry segment.

HOME INSURANCE COMPANY IN LIQUIDATION

Background

Upon entering into Liquidation, the resources allocated to Home from the third party services provider were reduced to approximately 93 executives and employees that were considered to be critical to the success of the liquidation and valuable to the Company due to their significant industry and Company experience. During the 2004 fiscal year and the first three quarters of fiscal year 2005, 5 employees voluntarily terminated their employment with Home. Presently, there are 88 incentive eligible executives and employees, and 1 non-incentive eligible employee.

Beginning in the fall of 2003, Ernst & Young performed a market competitiveness study by reviewing executive and employee compensation in healthy insurance companies of similar size

and scope to Home. This study approach and methodology employed the most prevalent techniques for assessing market competitiveness for companies in liquidation. The results of this study showed that, overall, Home's proposed 2004 base salaries approximated the market median (50th percentile). Given this result, in 2004, Home's liquidation employees were provided with additional incentive opportunities so that compensation levels were sufficient to retain individuals and keep them focused on the goals and objectives of the Company's liquidation process.

Three of the commonly used incentive plan designs for insurance companies in liquidation were selected and customized to the specific needs of Home in 2004. These new plans included: (1) the Retention Incentive Plan (RIP), (2) the Annual Incentive Plan (AIP), and (3) the Collection Incentive Plan (CIP – a long-term incentive plan). For the performance-based plans (AIP and CIP), performance measures were selected that were (a) consistent with market practices of similarly situated companies and (b) aligned with the overall objectives of Home's liquidation period.

As is typical among companies in restructuring and liquidation, Home's top executives currently participate in the AIP and the CIP programs. Exempt employees participate in the AIP. Non-exempt employees, because they had the most limited ability to influence overall performance, participated in the RIP only. However, in 2006 Home plans to eliminate the RIP plan and include the 13 non-exempt employees in the AIP. Because the Home has implemented a specific goals and measurements assessment process, they believe all employees have the opportunity to contribute in specific and measurable ways.

2005 Compensation Analysis & Findings

When determining the competitiveness of an incumbent's compensation to market levels, a competitive compensation level is defined as one which falls within an 85% to 115% range of the indicated market consensus level, while actual compensation over 115% of the market consensus level would be considered very competitive.

| INCUMBENT PAY VS MARKET | DEGREE OF COMPETITIVENESS |
|--------------------------------|-------------------------------------|
| 115%+ | Very Competitive |
| 85% - 114.9% | Competitive |
| 75% - 84.9% | Less Than Competitive |
| Less Than 75% | Significantly Less Than Competitive |

Overall, Home's base salary, target TCC and target TDC compensation levels are competitive to the median (50th percentile) of the competitive market.

Top 10 Senior Executives:

Home's target data, which represents base salaries, incentive and retention awards, are compared to a 50/50 blend of proxy analysis results and published survey analysis results for the top 5 senior executives, and are compared to published survey analysis results for the other 5 senior executives.

Competitiveness to Median Market Levels: Overall, target TCC and target TDC are competitive with median market compensation levels.

- Base salaries are 6.3% below the market median, while target TCC is slightly above (5.5%) the market median.
- Target TDC is 9.7% above the market median.

Competitiveness to 75th Percentile Market Levels: Overall, target TCC and target TDC are less than competitive with 75th percentile market compensation levels.

- Base salaries are 24.5% below the 75th percentile, while target TCC is 18.6% below the 75th percentile.
- Target TDC is 25.8% below the 75th percentile.

17 Benchmarked Positions:

Home's target data, which represents base salaries and incentive awards, are compared to published survey analysis results.

Competitiveness to Median Market Levels: Overall, base salaries and target TCC are competitive with median market levels.

- Base salaries approximate the market median (102.7%) and target TCC is slightly above (106.3%) the market median.

Competitiveness to 75th Percentile Market Levels: Overall, base salaries and target TCC are less than competitive with 75th percentile market compensation levels.

- Base salaries are 14.3% below the 75th percentile, while target TCC is 14.8% below the 75th percentile.

2005 Compensation Findings

| 50th Percentile (Median) | | | Home Data vs. Market | 75th Percentile | | |
|--------------------------|--------|--------|--------------------------|-----------------|-------|-------|
| Base | TCC | TDC | | Base | TCC | TDC |
| 93.7% | 105.5% | 109.7% | Top 10 Senior Executives | 75.5% | 81.4% | 74.2% |
| 102.7% | 106.3% | --- | 17 Benchmarked Titles | 85.7% | 85.2% | --- |

**** Please refer to the chart on the previous page which indicates that a competitive compensation level is defined as one which falls within an 85% to 115% range of the indicated market consensus level.**

SUMMARY CONCLUSION

Based upon our experience, the current 2005 compensation levels and the proposed 2006 Compensation Plans (TDC for the Top Ten senior executives and TCC for Other Key Employee Titles) are appropriate and consistent with general market practices and to insurance companies in liquidation. The individual plan designs and mechanics that Home has employed over the last 2½ years are based upon commonly accepted compensation practices for insurance companies in liquidation. The levels of pay provided by the individual incentive plans, as well as the overall total compensation, represent market competitive compensation levels.

We appreciate the opportunity to continue to serve Home Insurance Company in Liquidation. If you have any questions regarding this information please call Martha Cook at 404.817.5734 or Bram Hechtkopf at 404.817.4499.

Sincerely,

Ernst + Young LLP

Copies to: Peter Bengelsdorf – Home Insurance Company in Liquidation
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