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 MOTION FOR APPROVAL OF INTERIM DISTRIBUTION TO CLAIMANTS WITH ALLOWED CLASS II CLAIMS

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

1. I was appointed Special Deputy Liquidator of The Home Insurance Company ("Home"), by the Insurance Commissioner 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 Interim Distribution to Claimants with Allowed Class II Claims. The facts and information set forth 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. My principal goals in this liquidation have been to determine claims and collect assets for the ultimate purpose of distributing assets to the creditors of Home. While there are substantially more claims to determine and assets to collect, I believe that it is presently reasonable to make an interim distribution of fifteen (15) percent on Class II claims that have been allowed by the Court. Such a distribution would permit creditors with allowed policy related priority claims to receive a percentage of their claims while reasonably reserving assets to provide for future, equivalent distributions to claimants whose claims have not yet been addressed. The Liquidator accordingly moves for approval of the proposed interim distribution pursuant to RSA 402-C:46, I, subject, however, to receipt of a waiver of priority claims from the United States.

3. Home is a New Hampshire domiciled insurance company incorporated in 1973, although its predecessor corporations were established as long ago as 1853. Home and its subsidiaries (most of which were merged into Home in 1995) wrote insurance and reinsurance in all states and some territories of the United States, as well as in Canada, the United Kingdom, Bermuda and Hong Kong. Home and its subsidiaries generally stopped writing personal lines business in the early 1990's, and they stopped writing all business, including commercial lines (subject to certain personal lines mandatory renewal requirements), in 1995.

4. By Order of Liquidation entered June 13, 2003, the Court declared Home insolvent and appointed the Insurance Commissioner as Liquidator to liquidate the company pursuant to the Insurers Rehabilitation and Liquidation Act, RSA 402-C ("Act").

5. The Liquidator is charged with (a) marshaling and liquidating the assets of Home; (b) investigating and evaluating claims to determine the liabilities of Home and make recommendations for allowance to the Court; and (c) with Court approval, distributing assets to the policyholders, insureds, third party claimants and other creditors of the Home estate (collectively, "claimants"), all in accordance with the provisions of the Act.

6. As described in the Liquidator's reports, liquidation staff under my supervision have been investigating, negotiating and determining claims and filing reports of claims and recommendations with the Court. As of December 31, 2011, the Liquidator has presented and the Court has approved claim recommendations, including settlements, for a total of 12,679 Class II claims with a total allowed amount of approximately $1.294 billion. (The total Court-approved claim determinations for all Classes is 14,491 claims – 12,537 final and 1,954 partial – with a total allowed amount of approximately $1.52 billion.)

7. Liquidation staff under my supervision have also been collecting assets, in particular reinsurance. As a result of these efforts, the Liquidator has approximately $1.115

billion in unrestricted liquid assets under his control as of December 31, 2011. With Court approval, the Liquidator has also made seven Class II early access distributions to insurance guaranty funds totaling $215 million as of December 31, 2011.[1] As described in the motions for approval of the early access distributions, the distributions are subject to "claw back" agreements required by RSA 402-C:29, III, under which the guaranty associations will return early access distributions if necessary to pay claims of claimants with claims in the same or a higher priority class. Certain states withdrew deposits that with interest now total approximately $52 million which is being set off against claims of guaranty associations in those states.

8. I believe that sufficient assets have been collected and sufficient claims determined to warrant consideration of an initial interim distribution. Because any distribution must reserve assets for presently unresolved claims, the Liquidator has engaged the international actuarial consulting firm Milliman, Inc. ("Milliman") to estimate Home's unpaid direct liabilities (liabilities with respect to policies of insurance issued by Home).

9. The Liquidator seeks approval to make an interim distribution of 15% on allowed and subsequently allowed Class II claims based on the presently available assets, the projected Class I expenses of liquidation, and the unpaid Class II liabilities as estimated by Milliman. Each of these elements is addressed below.

10. I believe it is reasonable and prudent to base an interim distribution on the assets that are presently available. As of December 31, 2011, those assets consist of $1.115 billion of unrestricted liquid assets held by the Liquidator, the $215 million in early access distributions previously paid to guaranty associations by the Liquidator subject to statutory claw back, and the $52 million in deposits withdrawn by states. The total of $1.382 billion is available to the

[1] This total is the amount distributed after application of the deductions and cap provided for in the orders approving the early access distributions. The total does not include the recently approved eighth early access distribution, which involves payment of approximately $15 million, as the motion for approval of that distribution was pending before the Court as of December 31, 2011.

Liquidator for potential distribution to claimants or to be applied by the Liquidator against the claims of claimants.

11. While the Liquidator will collect reinsurance in the future, I believe it is not reasonable or prudent to base a present distribution on potential collections because of the significant uncertainties over future recoveries. Those uncertainties include, but are not limited to: (a) the timing of any collection, which depends on the timing of the determination of the underlying loss and the billing and payment of reinsurance or on the willingness of reinsurers to agree to a voluntary commutation of reinsurance; (b) the present value discount involved in any commutation; (c) the offsets available to reinsurers; (d) potential defenses to reinsurance coverage for particular claims or types of claims; (e) potential changes in the law; and (f) the possibility that reinsurers may themselves become insolvent or subject to restrictions on payments. The Liquidator will consider the potential for further interim distributions in the future, and assets subsequently collected will be considered at that time.

12. I similarly believe it would not be reasonable or prudent to base a present distribution on future investment returns. Future income on investments is subject to significant uncertainties, including, but not limited to, continuance of the present low interest rate environment for investment grade securities, ongoing indicators of recession, inflationary pressures, large new issuances of government debt, the European sovereign debt crisis, and the amount and timing of distributions and liquidation expenses.

13. Any potential distribution must reflect a reserve for the Liquidator's projected Class I administration costs and the Class I claims of guaranty associations. The priority statute requires that adequate funds be retained to pay all Class I costs before any distribution may be made to succeeding priority classes. RSA 402-C:44. The Liquidator's expenses are designated as Class I administration costs in RSA 402-C:44, I, while the guaranty associations' claim

overhead expenses are accorded the same priority by RSA 404-B:11, II. I conservatively estimate that the Class I costs, including both the expenses of the Home liquidation and the guaranty associations' Class I claim overhead expenses, will total approximately $324 million over the remaining life of the Home estate.

14. In order to assure equal treatment for all Class II claimants, including those with unresolved claims, any potential distribution must provide for all Class II obligations of Home even though they have not yet been determined. The evaluation of Home's potential Class II liabilities is a complex and challenging task requiring significant expertise, and the Liquidator accordingly engaged the internationally-known Milliman actuarial consulting firm to estimate the unpaid direct obligations of Home, that is, the total unpaid obligations of Home with respect to its insurance policies.

15. Milliman has now provided the Liquidator with its February 1, 2012 Analysis of Unpaid Loss and ALAE as of June 13, 2003 and December 31, 2010 (the "Milliman Report"). The Milliman Report estimates Home's unpaid loss and allocated loss adjustment expense ("ALAE") and maps those projected liabilities to the applicable priority classes. A copy of the Executive Summary ("Executive Summary") of the Milliman Report is attached as Exhibit A to this Affidavit.[2]

16. As set forth in the Executive Summary, Milliman has provided the Liquidator with its "actuarial Central Estimate" of Home's unpaid Class II liabilities. The actuarial Central Estimate is an estimate of the expected value over a range of reasonably possible outcomes and is most properly viewed as the average of a wide range of possible outcomes. See Executive

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[2] "ALAE" as used in the Milliman Report includes both expenses to defend an insured pursuant to defense obligations in a Home insurance policy, which are Class II, and expenses to evaluate and defend against claims for coverage by a policyholder or insured, which are Class I. The estimated unpaid Class I ALAE (see Executive Summary, Table 2, Page 1) is included in the estimated liquidation expenses discussed in paragraph 13 above.

Summary at 5 and 8. Milliman's actuarial Central Estimate of Class II unpaid loss and ALAE is $4.112 billion. See Executive Summary, Table 2, Page 2.

17. In addition to the actuarial Central Estimate, Milliman has provided a confidence level table that provides estimates of the unpaid Class II loss and ALAE at higher confidence levels. Executive Summary, Table 1. This reflects the possibility that Home's Class II liabilities may exceed the actuarial Central Estimate, which is a point in a range of reasonably possible outcomes. The estimate at each higher confidence level is intended to encompass approximately that percentage of the possible outcomes, although there is a range of remaining possible outcomes above each estimate. The results at the higher confidence levels broadly illustrate the potential variability of outcomes, but are not precise, and the range of potential variability is greater above the Central Estimate than below it. See Executive Summary at 6 and 8.

18. As noted above, the priority statute requires that all claimants in a priority class receive equal treatment, RSA 402-C:44, while the distribution statute requires that any distribution protect the interests of claimants with unresolved claims. RSA 402-C:46, I. To comply with these requirements, I have determined to use the Milliman estimate of Home's Class II liabilities at the 95% confidence level for purposes of the proposed interim distribution. That confidence level encompasses a reasonable and prudent percentage of potential outcomes, although there is still the possibility of an outcome that exceeds it, perhaps significantly. At the 95% confidence level, Milliman estimates Home's unpaid Class II liabilities to be $6.584 billion. Executive Summary, Table 1. Because of the application of a 95% confidence level, this estimate is higher than Milliman's actuarial Central Estimate noted in paragraph 16 above.

19. As of December 31, 2011, the Court had allowed Class II claims, including settlements, totaling approximately $1.294 billion. Of that total, approximately $276 million are

claims of the guaranty associations and $1.018 billion are claims of policyholders, insureds, and third party claimants.

20. Based on the foregoing, and after careful review and consideration of the circumstances, the Liquidator seeks approval to make an interim distribution of 15%. The available assets ($1.382 billion) less the projected Class I expenses ($324 million) all divided by the estimated Class II liabilities at the 95% confidence level ($6.584 billion) produces an initial distribution percentage of 16.07%, which has been rounded to 15%. The determination of the interim distribution percentage is set forth on Exhibit 1 to the motion.

21. I believe the proposed interim distribution percentage is consistent with the mandate of RSA 402-C:46, I, to protect claimants with undetermined claims. As discussed above, I am using a 95% confidence level to address the risk that the ultimate Class II liabilities may exceed current estimates. There is also the possibility, with respect to a Home policy with aggregate limits, that the individual claims allowed respecting that policy could over time exceed those limits. In such a case, claim allowances related to that policy would then need to be reduced, as required by RSA 402-C:40, IV, on a pro rata basis to adjust the total of such allowances to the aggregate policy limits. This presents a potential risk, for such policies, that the allowed amounts on which a distribution is based might later be reduced. This further supports taking a conservative approach. However, liquidation staff are tracking claims against policies, and there are a relatively small number of policies that I presently believe might be affected. Further, the allowances involving policies with aggregate limits to date are almost all settlement agreements with policyholders that include indemnities against third party claims. At the proposed interim distribution percentage, these agreements present little credit risk (as to the indemnities) because the Liquidator may set off against future distribution amounts to such a policyholder any unsatisfied indemnity obligation. The Liquidator will further address this

aggregate limits issue, if warranted, in any future application to increase the interim distribution percentage.

22. The 15% interim distribution percentage results in a distribution of approximately $194.1 million. However, an actual cash distribution will only be made to the holders of the $1.018 billion of allowed non-guaranty association Class II claims, who will receive approximately $152.7 million.[3] The guaranty associations have already received early access distributions at a percentage in excess of the 15% interim distribution, so they will not receive any additional distribution. Instead, the interim distribution amount as to such guaranty associations will no longer be deemed an early access distribution subject to claw back.

23. Since the interim distribution percentage reflects the Milliman estimate of all Class II liabilities, the Liquidator also seeks approval to make a 15% interim distribution on Class II claims that are allowed after December 31, 2011. The Liquidator will make these interim distributions on later allowed claims after the end of each year with respect to claims allowed during that year.

24. In accordance with RSA 402-C:44, the first $50 of the allowed amount on each claim will be deducted from the claim (except for guaranty association claims), and the distribution will be calculated by applying the interim distribution percentage to the remaining amount.

25. The Liquidator proposes that checks not be issued for a *de minimis* amount of less than $10 per claimant. Claimants who have received more than one claim allowance will receive only one check for the multiple allowances and thus will not be affected by this *de minimis* threshold, if the distribution on the multiple allowances equals or exceeds $10. A check will be issued to the claimant if its distribution amount is increased beyond the *de minimis* threshold in

[3] The holders of the claims are the claimants or, where applicable, their assignees.

the future because it receives additional allowances or because the distribution percentage is increased. In any event, this *de minimis* distribution threshold will not apply to the final distribution. All claimants will receive the ultimate distribution percentage, even if the distribution amount is less than $10.00.

26. The interim distribution will be subject to receipt of a waiver of federal priority claims from the United States. The United States Department of Justice ("DOJ") has asserted in other insurer liquidations that the claim filing deadline does not apply to claims by the Federal Government in light of the federal priority act, 31 U.S.C. § 3713, so that it can at any time file claims entitled to payment by the Receiver on pain of potential personal liability. See 31 U.S.C. § 3713(b).[4]

27. In light of this potential exposure of the Liquidator to the United States for making distributions that reduce the claim-paying ability of the estate, the proposed interim distribution will be subject to receipt of a waiver of claims by the United States in a form acceptable to the Liquidator. While the Liquidator obtained limited waivers of alleged federal priority claims from DOJ as a precondition to the first six early access distributions, the Liquidator sought approval to make the seventh and eighth early access distributions without such a waiver in light of the statutory claw back agreements with guaranty associations discussed above. The interim distribution proposed here, however, will not be subject to such a claw back agreement. Further, even if there were a basis for attempting to retrieve distributed amounts from private claimants, such an effort would be impractical. The interim distribution will be paid to hundreds of private claimants. In the circumstances, I believe it would not be reasonable and prudent to make an interim distribution without a waiver of federal priority claims. The

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[4] The Liquidator and the United States are litigating priority issues concerning the Longshore and Harbor Workers Compensation Act. Hilda Solis, U.S. Dept. of Labor v. The Home Ins. Co., et al., No. 1:10-cv-572 (D. N.H.).

Liquidator will seek such a waiver from DOJ promptly after approval of the interim distribution by the Court but does not know when the DOJ will respond.

Signed under the penalties of perjury this 9th day of February, 2012.

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

STATE OF CALIFORNIA
COUNTY OF VENTURA

On February 9, 2012 before me, CLAUDIA A. KING - NOTARY Public, personally appeared Peter A. Bengelsdorf, Special Deputy Liquidator of The Home Insurance Company, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Claudia A. King
Signature of Notary Public

CLAUDIA A. KING
Commission # 1850605
Notary Public - California
Ventura County
My Comm. Expires May 23, 2013

The Home Insurance Company, in Liquidation
Analysis of Unpaid Loss and ALAE
As of June 13, 2003 and December 31, 2010

Executive Summary

February 1, 2012

Prepared for: Liquidator of The Home Insurance Company

Prepared by: Milliman, Inc.
(610) 687-5644

Project Team: Michael P. Blivess, FCAS
Jason Russ, FCAS
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EXECUTIVE SUMMARY TABLE OF CONTENTS

I. INTRODUCTION

Background

This is a summary of Milliman's report dated January 13, 2012 ("Full Report"). The Liquidator of The Home Insurance Company (Home) engaged Milliman, Inc. (Milliman) for the purpose of estimating the direct unpaid loss and allocated loss adjustment expense (ALAE) of Home as of June 13, 2003 and December 31, 2010 and to map the direct unpaid as of June 13, 2003 amounts , which include amounts "paid" (allowed) since the start of Liquidation, into Priority Classes I, II and V. This Executive Summary presents the results of our Full Report and will be used by the Liquidator in the performance of his official duties. It reflects all direct liabilities associated with Home policies (excluding unallocated loss adjustment expense), regardless of the creditor class into which such liabilities fall.

We have provided actuarial Central Estimates as well as estimates at higher confidence levels. Both the Central Estimates and the higher confidence levels are discussed in more detail below.

In performing our analysis for the Full Report, we required a substantial amount of data, information and assistance from liquidation staff and we wish to express our appreciation for their support.

We will be available to answer questions regarding the Full Report as authorized to do so by the Liquidator.

Michael Blivess and Sean McAllister prepared Parts 1 and 2 of this report. Jason Russ, Jason Kurtz and William Carbone prepared Part 3 of this report. Each is a Consultant at Milliman and each is a Member of the American Academy of Actuaries and a Fellow or Associate of the Casualty Actuarial Society and meets the qualification standards to provide the estimates in their respective Parts of this report.

Scope of Study

The purpose of the Full Report is to present an independent actuarial evaluation of Home's direct unpaid loss and allocated loss adjustment expense as of December 31, 2010 (unpaid claim liability) and then roll it back to June 13, 2003. Our estimates are on an ultimate cost basis, not at present discounted value. The results presented in this report replace those provided in our report dated February 11, 2005, which is no longer valid.

The Full Report provides an independent (subject to certain exclusions discussed below) actuarial evaluation of the Core Lines and asbestos and environmental (A&E) as of December 31, 2010, which is then rolled back to June 13, 2003. For purposes of this analysis, the project was broken down into two major components: Core Lines and A&E.

Analysis of unpaid unallocated loss adjustment expense (ULAE) was outside the scope of this report.

For the Core Lines, the scope of our work consisted of an independent analysis for the following lines of business:

1. Workers' Compensation, excluding Occupational Disease
2. General Liability, non-High Deductible claims only (three groupings: excluding high deductible and product liability, product liability excluding surplus lines business, and surplus lines product liability)
3. Excess Lines, non-D&O claims only

For the remaining lines of business, we either reviewed the liquidation staff's actuarial work papers for the reasonability of their estimates (e.g., Other Lines) or, for a few miscellaneous lines, used the unpaid estimates provided by liquidation staff without review (Reserves Not Reviewed by Milliman). For the former, on a gross of reinsurance basis, the unpaid claim liability as of December 31, 2010, represents approximately 13% of the total Core Lines actuarial Central Estimate unpaid as of December 31, 2010, and the latter, approximately, 1%.

<u>Definition of Paid and Unpaid Loss and Allocated Loss Adjustment Expense</u>

Due to the liquidation of Home, the traditional definitions of paid and unpaid loss and allocated loss adjustment expense (ALAE) do not apply. The amounts shown as paid in the supporting exhibits of the Full Report are the amounts identified as paid in Home's Actuarial Database. These amounts have not necessarily been paid to policyholders, claimants or vendors of ALAE services in the traditional sense. The Liquidator may only pay administrative costs in full, and other claims allowed by the Court will receive a percentage distribution depending on the priorities of the distribution and available assets. The paid losses and ALAE amounts in the supporting exhibits consist of:

1. amounts paid pre-liquidation, plus
2. amounts paid by the Guaranty Associations (GA) for which we are advised each GA has filed a proof of claim ("POC") in the Home liquidation, plus
3. amounts spent on coverage counsel, coverage litigation and other experts post-rehabilitation, plus
4. amounts for work engaged but not paid pre-rehabilitation which have either been paid during rehabilitation or determined (allowed) post-liquidation for coverage counsel, coverage litigation, other experts and policyholder defense pre-rehabilitation, plus
5. amounts of loss and ALAE for which a POC has been agreed to by the Liquidator and approved by the Court, plus
6. certain Workers' Compensation indemnity payments covering eight weeks of benefits, made directly by the Liquidator to claimants, approximately at the time Home entered liquidation as an advance on early access distributions to GAs because the GAs were not immediately in position to make payments.

The paid loss data referenced above is net of recoveries and reversals. The Summary exhibits add all amounts recorded as paid post-liquidation to the estimated unpaid amounts as of December 31, 2010, in order to present the unpaid amounts as of June 13, 2003, the commencement of Liquidation. The SUMMARY BY CLASS exhibits reflect the mapping of the June 13, 2003 unpaid to the Priority Classes.

Actuarial Central Estimates

Our estimates are presented as actuarial Central Estimates. The phrase "actuarial Central Estimate" as used here should be interpreted as an estimate of the expected value over a range of reasonably possible outcomes. The selected range of reasonably possible outcomes may not include all conceivable outcomes. For example, it would not include certain conceivable extreme events where the losses from such events are not reliably estimable. Our description of an actuarial Central Estimate is intended to clarify the concept rather than assign a precise statistical measure (such as a mean, median, mode or percentile) as commonly used actuarial methods typically do not result in these measures.

Estimates at Higher Confidence Levels

In addition to the Central Estimates shown in the various summary exhibits, there is a confidence level table immediately following this text (Table 1) that provides estimates of the Priority Class II unpaid loss and ALAE at higher confidence levels for all lines of business combined. The unpaid estimate at each higher confidence level is intended to encompass approximately that percentage of the possible outcomes. Note that even the highest confidence level shown does not encompass all possible outcomes. Developing such confidence level estimates is a very uncertain process, as discussed in greater detail in the section, Estimates at Higher Confidence Levels in the Full Report. Given this uncertainty, these estimates should not be considered to be precise measurements of future outcomes, but rather results from specific models and assumptions.

The confidence level factors are based on the December 31, 2010 unpaid estimates. The confidence level factors were developed at the line of business level with the total of all lines reduced to reflect correlations between lines. The June 13, 2003 unpaid at the various confidence levels was estimated by adding the "payments" between June 13, 2003 and December 31, 2010 to the respective unpaid amounts at December 31, 2010.

It should be noted:

1. The 99.9% does not represent the worst possible outcome. Actual results may be above the 99.9% confidence level.
2. Results at the higher confidence levels are shown for the Liquidator to consider in support of his recommendation for an interim distribution of assets. They broadly illustrate the potential impact of random variation on the actual losses that will ultimately be paid, but are not precise measurements. It is impossible to estimate confidence levels such as these with precision, and the potential error in the estimation of the confidence level increases as the confidence level approaches 100% (e.g., the potential error surrounding the 99.9% confidence level estimate is greater than the potential error surrounding the 75% confidence level estimate).
3. The confidence levels were based solely on the methodology described in the Full Report without regard to other items that could affect the estimation of such confidence levels, for example:
   - No provision is made for model risk (i.e., the risk that the model used is inappropriate), which could widen the range of outcomes.
   - No consideration is made for the possibility that future emergence could be unlike any past emergence and therefore would not be represented in the parameters used in the models.
   - We have not investigated the available policy limits to determine whether

sufficient unexhausted limits are available to cover the higher confidence levels shown.

Given the various shortcomings, the confidence levels shown should not be viewed as an exact prediction of the probability of any particular outcome.

Automated Deductible Business

We developed separate estimates of the outstanding deductible amounts on large ("automated") deductible business, which is the high deductible business with deductible amounts captured in Home's computer system. The "automated" deductible business generally has collateralized deductibles of $100,000 or more. We estimated outstanding losses gross of all deductibles and then separately estimated outstanding deductible amounts on "large deductible" business. We reduced our reserve estimates to reflect these estimated outstanding deductible amounts.

Our understanding is that Home obtained security in the form of letters of credit from its large deductible policyholders in order to offset the associated credit risk. However, because Home is now in liquidation, the scope and impact of the large deductible credit risk has changed. In the case of claims that are paid directly by a GA, the Liquidator will directly bill the insured or draw down the letter of credit in order to recover the deductible and pay the collected amounts within the deductible to the GA. For claims or parts of claims not paid by a GA, the insured is responsible for paying the claim and then filing a proof of claim with the Liquidator. In that case, the allowance to the insured is reduced by the amount of the deductible, and there is no credit risk. However, in cases where the GA does not pay the claim and the insured is unable to pay the claim, then Home's estate could be found liable and still exposed to credit risk for the deductible. Therefore, of the credit risk that formerly belonged to Home, some will disappear and some will remain with Home's estate.

II. Limitations

Uncertainty

Any estimate of future claim activity is necessarily subject to a substantial amount of uncertainty due to the unpredictability of changes in inflation, the legal system, and claims handling, among other variables. The estimates developed in the Full Report represent our estimates of the future claim activity based upon claim experience through June 30, 2009 for the Core Lines business and environmental, and claims and policy information evaluated as of June 30, 2007 for the asbestos analysis. Our actuarial Central Estimate is most properly viewed as the average of a wide range of possible outcomes. We consider the range of potential variability to be greater above our Central Estimate than below.

The uncertainty in our estimates is greater than it would otherwise be due to the liquidation of Home and the resulting involvement of state GAs and insureds, including their agents, in the claim handling process. Because Home is in liquidation, its historical loss experience as well as the experience since Home entered liquidation is less predictive of future claim activity, both with respect to the timing of claim reporting and payment, and with respect to the size of the payments that will ultimately be made. We have judgmentally adjusted for these changes based on discussions with liquidation staff regarding changes in the claim handling process. For General Liability and Excess, we have relied upon the development through June 30, 2003 as the basis of the analysis. However, the liquidation of Home and the changes in the claim process adds an additional level of uncertainty to our estimates.

The uncertainty in our estimates is also increased because the underlying loss development triangles compiled from Home's Actuarial Database for the independently reviewed Core Lines are missing loss payments that were made prior to January 1, 1980. Liquidation staff and Milliman used various techniques to estimate the missing payments (see the discussion of "Buildback" in Section IV of the Full Report), but the missing historical development data adds to the uncertainty of our estimates.

The estimates of A&E loss exposures are subject to a very high degree of uncertainty. This uncertainty stems from several factors, including a relative lack of historical data, inapplicability of standard actuarial projection techniques, and uncertainty with regard to claim costs, coverage interpretation and the judicial, statutory and regulatory provisions under which the claims may be ultimately resolved. This uncertainty is discussed further in the A&E section (Part 3) of the Full Report.

Variability

The impact of key variables in the Full Report (such as development patterns and trend factors) was considered. The overall results are potentially sensitive to any of these, and reasonable alternative selections could change the results in either direction. Our intent is to be neither overly optimistic nor conservative in making our selections

Data

The primary data and other information used in our analysis were provided to us by liquidation staff. We also relied on data from certain external sources such as the Reinsurance Association of America, A.M. Best Company, and the United States Environmental Protection Agency, among other sources. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may be materially distorted.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency, and have not found material defects in the data. However, due to the liquidation, there are no financial statements to which the claim data provided can be reconciled. Also, the claim data does at times vary from previously provided data beyond the missing payments discussed in Section IV of the Full Report under "Buildback." If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or relationships that are materially inconsistent. Such a review is beyond the scope of our assignment.

Use of Milliman's Name

Milliman does not permit the use of Milliman's name, trademarks or service marks, or any reference to Milliman directly or indirectly in any media release, public announcement or public disclosure (other than reports to the courts by the Liquidator), including in any promotional or marketing materials, customer lists, referral lists, websites or business presentations without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.

Report Distribution

All work described in this report is subject to the Limitations described in our Consulting Services Agreement dated October 1, 2003 as amended on May 16, 2011, which states that Milliman's work is prepared solely to be relied upon by the Liquidator of Home, except as otherwise agreed. Other than with respect to the Court supervising the liquidation, no portion of Milliman's work may be provided to any other party without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work, and may include a legend on its reports so stating. Milliman's work may not be filed with the SEC or other securities regulatory bodies.

Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Third Party Release Agreement, subject to the following exceptions:

(a) The Liquidator of Home may provide a copy of Milliman's work, in its entirety, to governmental entities, as required by law.

(b) We agree that this report may be submitted to the Merrimack County Superior Court, the High Court of Justice Chancery Division Companies Court or other such tribunals as may be necessary in connection with the liquidation of Home.

In the event Milliman consents to release its work product, it must be provided in its entirety. We recommend that any such party have its own actuary or other qualified professional review the work product to ensure that the party understands the assumptions and uncertainties inherent in our estimates. No third party recipient of Milliman's work product should rely upon Milliman's work product.

III. SUMMARY OF RESULTS

The attached three SUMMARY BY CLASS exhibits summarize the results of Milliman's analysis. We developed independent estimates or reviewed Home's reserves for reserve components that account for about 99% of Home's total indicated unpaid loss and ALAE as of December 31, 2010. The losses are shown in $1,000's. The details underlying the estimates in the summary exhibits are provided in the Full Report.

Please refer to the Summary of Results section of the Full Report for a detailed discussion of a comparison of the estimates in this report to the previous estimate found in Milliman's February 11, 2005 report, "Analysis of Loss and ALAE Reserves of The Home Insurance Company (in Liquidation) as of December 31, 2003."

THE HOME INSURANCE COMPANY (IN LIQUIDATION)

Confidence Level Table
(Dollars in Thousands)

Confidence Level	Estimated Total Gross Unpaid Losses [1] (Priority Class II) Loading	Loss & ALAE
Central Est.	1.000	$4,112,196 [2]
75%	1.141	4,692,016
90%	1.401	5,761,187
95%	1.601	6,583,626
99%	2.099	8,631,499
99.9%	2.931	12,052,846

1 Loss & ALAE estimates at higher confidence levels equal the Central Estimate Total times a confidence level loading factor.

2 Central Estimate Class II Subtotal from Table 2 SUMMARY BY CLASS Page 2.

THE HOME INSURANCE COMPANY (IN LIQUIDATION)

Estimated Loss and ALAE Unpaid as of 12/31/10
Based on Claim Experience Through 6/30/09, Brought Forward to 12/31/10
Gross of Reinsurance
(Dollars in Thousands)

CLASS I

	Central Estimate of Unpaid at	
Coverage	Liquidation	12/31/10
Workers' Compensation		
Milliman-Analyzed Non-High Deductible	$4,185	
Milliman-Analyzed High Deductible	506	
Occupational Disease	148	
Subtotal – Workers' Compensation	**$4,839**	
General Liability		
Milliman-Analyzed Excluding High Deductible	$1,710	
High Deductible Business	17	
CMP Liability	155	
Subtotal – General Liability	**$1,882**	
Excess Lines		
Milliman-Analyzed Excluding D&O	$17,769	
D&O	0	
Subtotal – Excess Lines	**$17,769**	
Other Lines		
Auto Liability	$273	
Professional Liability	1,366	
Risk Management	319	
Small Lines	164	
Subtotal – Other Lines	**$2,122**	
HICL Reserves Not Reviewed by Milliman		
Cut-Through and Omnibus	$0	
DES	24	
Special accounts[1]	537	
Subtotal – Not Reviewed by Milliman	**$561**	
Milliman-Analyzed A&E (Direct)		
Asbestos	$11,196	
Environmental	13,127	
Subtotal	**$24,323**	
a. CLASS I Subtotal — Central Estimate of Unpaid at Time of Liquidation	**$51,496**	
b. CLASS I Loss and ALAE Paid From Liquidation Through 12/31/10		**$17,121**
c. CLASS I Subtotal — Central Estimate of Unpaid as of 12/31/10 (c. = a. – b.)		**$34,375**

[1] Including Breast Implants, HIV and Agent Orange, plus Other Mass Tort accounts excluded from reserve test data.

THE HOME INSURANCE COMPANY (IN LIQUIDATION)

Estimated Loss and ALAE Unpaid as of 12/31/10 [2]
Based on Claim Experience Through 6/30/09, Brought Forward to 12/31/10
Gross of Reinsurance
(Dollars in Thousands)

CLASS II

Coverage	Central Estimate of Unpaid at Liquidation	Central Estimate of Unpaid at 12/31/10
Workers' Compensation		
Milliman-Analyzed Non-High Deductible	$906,323	
Milliman-Analyzed High Deductible	33,002	
Occupational Disease	11,292	
Subtotal – Workers' Compensation	**$950,617**	
General Liability		
Milliman-Analyzed Excluding High Deductible	$105,345	
High Deductible Business	6,961	
CMP Liability	18,492	
Subtotal – General Liability	**$130,798**	
Excess Lines		
Milliman-Analyzed Excluding D&O	$143,198	
D&O	7,548	
Subtotal – Excess Lines	**$150,746**	
Other Lines		
Auto Liability	$33,635	
Professional Liability	32,471	
Risk Management	68,379	
Small Lines	5,864	
Subtotal – Other Lines	**$140,349**	
HICL Reserves Not Reviewed by Milliman		
Cut-Through and Omnibus	$0	
DES	28,858	
Special accounts[1]	102,486	
Subtotal – Not Reviewed by Milliman	**$131,344**	
Milliman-Analyzed A&E (Direct)		
Asbestos	$2,037,900	
Environmental	570,442	
Subtotal	**$2,608,342**	
a. CLASS II Subtotal — Central Estimate of Unpaid at Time of Liquidation	**$4,112,196**	
b. CLASS II Loss and ALAE Paid From Liquidation Through 12/31/10		**$0**
c. CLASS II Subtotal — Central Estimate of Unpaid as of 12/31/10 (c. = a. – b.)		**$4,112,196**

1 Including Breast Implants, HIV and Agent Orange, plus Other Mass Tort accounts excluded from reserve test data.
2 "Unpaid" as used here includes amounts for which the estate is still liable but that have been allowed by the Court or paid by Guaranty Associations.

THE HOME INSURANCE COMPANY (IN LIQUIDATION)

Estimated Loss and ALAE Unpaid as of 12/31/10 [2]
Based on Claim Experience Through 6/30/09, Brought Forward to 12/31/10
Gross of Reinsurance
(Dollars in Thousands)

CLASS V

	Central Estimate of Unpaid at	
Coverage	Liquidation	12/31/10
Workers' Compensation		
Milliman-Analyzed Non-High Deductible	$442	
Milliman-Analyzed High Deductible	34	
Occupational Disease	54	
Subtotal – Workers' Compensation	**$530**	
General Liability		
Milliman-Analyzed Excluding High Deductible	$471	
High Deductible Business	3	
CMP Liability	27	
Subtotal – General Liability	**$501**	
Excess Lines		
Milliman-Analyzed Excluding D&O	$186	
D&O	0	
Subtotal – Excess Lines	**$186**	
Other Lines		
Auto Liability	$13,912	
Professional Liability	643	
Risk Management	38	
Small Lines	96	
Subtotal – Other Lines	**$14,689**	
HICL Reserves Not Reviewed by Milliman		
Cut-Through and Omnibus	$0	
DES	14	
Special accounts[1]	77	
Subtotal – Not Reviewed by Milliman	**$91**	
Milliman-Analyzed A&E (Direct)		
Asbestos	$371,450	
Environmental	2,188	
Subtotal	**$373,638**	
a. CLASS V Subtotal — Central Estimate of Unpaid at Time of Liquidation	**$389,635**	
b. CLASS V Loss and ALAE Paid From Liquidation Through 12/31/10		**$0**
c. CLASS V Subtotal — Central Estimate of Unpaid as of 12/31/10 (c. = a. – b.)		**$389,635**

[1] Including Breast Implants, HIV and Agent Orange, plus Other Mass Tort accounts excluded from reserve test data.
[2] "Unpaid" as used here includes amounts for which the estate is still liable but that have been allowed by the Court or paid by Guaranty Associations.