THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. **SUPERIOR COURT**

Docket No. 217-2003-EQ-00106

In the Matter of the Liquidation of
The Home Insurance Company

AFFIDAVIT OF PETER A. BENGELSDORF, SPECIAL DEPUTY LIQUIDATOR, IN SUPPORT OF APPROVAL OF 2017 COMPENSATION PLANS

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

1. I was appointed Special Deputy Liquidator of The Home Insurance Company ("Home"), by the Commissioner of Insurance for the State of New Hampshire, as Liquidator ("Liquidator") of the Companies. I submit this affidavit in support of the Liquidator's Motion for Approval of 2017 Compensation Plans ("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. The Motion requests approval of compensation plans for the key employees of Home in 2017 (the "2017 Employee Compensation Plan"). The Motion reflects the advice of Ernst & Young LLP ("E & Y"), experienced insurance industry compensation consultants, concerning the appropriate compensation structure for employees of Home.

3. Maximizing the prompt collection of assets advantages Home's creditors and is one of the principal statutory goals of the liquidation. The success of liquidation staff in that regard is illustrated by the increase in Home's liquid assets from the day the Order of Rehabilitation was entered, approximately $12.7 million as of March 2003, to an estimated $0.919 billion as of September 30, 2016. (The September 30, 2016 figure is net of the $441.6

million of interim distributions to Home's policy-level creditors, $247 million of early access distributions to guaranty associations, and $71 million of Class I distributions to guaranty associations for their administration expenses.) Most of this increase is attributable to a combination of reinsurance recoveries and other financial settlements negotiated by Home's experienced staff.

4. Prior to liquidation, Risk Enterprise Management ("REM") effectively managed Home. 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 critical REM employees as liquidation staff. This permitted the Liquidator to benefit from the continued involvement of experienced employees having prior involvement with the Home runoff. The Liquidator initially hired 98 employees (93 from REM and 5 others) to handle the liquidation of Home. The liquidation is presently staffed by 41 (full and part time) employees and 5 consultants located in New York City, 1 part time employee in Florida, and 4 employees located in Manchester, New Hampshire.

5. As set forth in the Liquidator's Motion for Approval of Compensation Plans dated April 5, 2004, the Liquidator engaged nationally recognized compensation consultants (E & Y) to assist in the design of the compensation plans. The consultants had experience in the design of such plans for large insurers, like Home, in liquidation. They recommended that total direct compensation (base salary and incentive bonuses) range between the 50^{th} and 75^{th} percentile among comparable companies. The Liquidator has continued to consult with E & Y each year, as reflected in the annual compensation motions, regarding the continuing suitability of employee compensation.

6. To retain and compensate the necessary staff for Home, the Liquidator accordingly developed and requested approval for base compensation as well as three integrated incentive plans for 2004: a Retention Incentive 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. 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.

7. In 2006, after consulting with E & Y, the Liquidator proposed to eliminate the Retention Incentive Plan and continue the Annual Plan and Collection Incentive Plan on essentially the same terms as in 2005. The Court approved this proposal (and the 2006 compensation plans) by order dated February 8, 2006.

8. A version of the Annual Plan has been approved each year of the liquidation though, over time, the number of employees eligible to participate has been reduced from 78 (in 2004) to 7 (in 2016). This plan is designed to provide additional cash compensation based on the overall performance of Home's liquidation and the individual employee during the annual plan cycle. With each reduction in the number of participants, a portion of the amounts otherwise payable as incentive payments was used to increase base salaries with the remainder applied toward the annual 401(k) safe harbor contribution. These changes (which were not intended to decrease total expenses) were based on the conclusion that, in the prevailing circumstances, the nature of these positions was such that the affected employees had less ability to directly affect operating results. Compensation based solely on annual salary was therefore deemed most appropriate for those employees.

9. The Collection Incentive Plan was 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 were based on the accomplishment of annual corporate targets but also varied, at the discretion of the Liquidator, based on achievement of individual performance goals. The objective of the Collection Incentive Plan, through deferred compensation, was to retain senior and experienced executives as long as deemed necessary by the Liquidator. However, in 2015 the Liquidator concluded that the need for an incentive program focusing on the collection of assets and determination of claims had diminished and the Collection Incentive Plan was discontinued.

10. As described in the Liquidator's previous reports, pursuant to Internal Revenue Service rules Home adopted a safe harbor 401(k) plan effective January 1, 2005, so that all employees who wished to do so were able to contribute the maximum amount. Employers with such plans must make an annual contribution to employees' 401(k) accounts. For 2017, as in prior years, Home contributed an amount equal to 4% of the employee's earnings up to the individual employee earnings cap set by the IRS.

11. The Liquidator seeks to continue to provide compensation consistent with best practices respecting compensation in insurance company liquidations. Accordingly, the Liquidator proposes to continue the Annual Plan in 2017 at a total anticipated cost of $912,950.[1] Seven employees will be eligible for the Annual Plan in 2017, the same number as in 2016. The Liquidator proposes to continue the 401(k) safe harbor plan with a contribution rate equal to the 4% rate used in prior years and approved by the Court most recently on January 6, 2016

12. Based upon their experience, E & Y notes that insurance companies in liquidation typically target base salaries at median (50th percentile) market level and total cash compensation

[1] This $912,950 figure may be compared with payments for prior years:

Annual Plan Payments (millions)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Payment	$2.61	$2.28	$2.28	$2.23	$2.29	$1.86	$1.73	$1.58	$1.17	$1.17	$1.31	$0.93	$0.91 (est.)

(base salary plus bonuses) at or above median market levels of "healthy" companies in their industry segment. To evaluate the 2017 Employee Compensation Plan, E & Y has compared the proposed total cash compensation for liquidation staff in comparison with the competitive market in each region (New York and Manchester) where the relevant individual is based. As a result of this study, E & Y concludes that the proposed 2017 Employee Compensation Plan is appropriate and consistent with general market practices for insurance companies in liquidation and that overall levels of pay represent market competitive compensation levels.

13. The Liquidator believes that without the adoption of these plans the liquidation effort would be harmed because key employees would seek better, more long-term career opportunities elsewhere.

Signed under the penalties of perjury this 21 day of October, 2016.

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

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached and not the truthfulness, accuracy or validity of that document.

STATE OF CALIFORNIA
COUNTY OF VENTURA

On October 21, 2016 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.

CLAUDIA A. KING
Commission # 2021894
Notary Public - California
Ventura County
My Comm. Expires May 23, 2017

Signature
Signature of Notary Public