

THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

June 30, 2004 and the period from June 11, 2003 (inception of
Liquidation) to December 31, 2003
(Unaudited)

The Home Insurance Company In Liquidation

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

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$177,939,122	\$174,531,250
Short-term investments	345,263,211	151,422,458
Certificates of deposit	156,556	321,943
Cash and cash equivalents	<u>46,639,669</u>	<u>121,185,400</u>
Total unrestricted bonds, short-term investments and cash at cost	569,998,558	447,461,051
Common stocks, marketable, at market value (Note 2)	784,083	18,710,427
Interest income due and accrued	<u>1,668,256</u>	<u>1,390,004</u>
Total unrestricted liquid assets	572,450,897	467,561,482
Unrestricted illiquid assets: (Note 1)		
Surplus notes, at fair value	150,220	-
Common stocks, at fair value	13,604,406	17,144,990
Limited partnership interests, at fair value	<u>3,502,860</u>	<u>87,285</u>
Total unrestricted illiquid assets	17,257,486	17,232,275
Restricted liquid assets:		
Bonds, at cost (Note 2)	53,699,125	-
Cash and cash equivalents (Note 5)	<u>833,689</u>	<u>825,673</u>
Total restricted liquid assets	54,532,814	825,673
Fixed assets (net of accumulated depreciation of \$160,736 and \$61,054)	483,321	492,336
Receivable from US International Reinsurance Company (Note 4)	<u>1,115,913</u>	<u>991,083</u>
Total assets, excluding certain amounts	645,840,431	487,102,849
Liabilities		
Incurred But Unpaid Administrative Expenses and Loss Adjustment Expenses (Note 3)	2,305,215	748,612
Net assets, excluding certain amounts	<u>\$643,535,216</u>	<u>\$486,354,237</u>

The Home Insurance Company in Liquidation

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

	<u>January 1, 2004 To June 30, 2004</u>	<u>June 11, 2003 (Inception of Receivership) to December 31, 2003</u>
Cash receipts:		
Reinsurance collections - unrestricted	\$87,323,963	\$126,021,113
Reinsurance collections - restricted	53,699,125	-
Proceeds from sale of common stock	20,535,778	-
Salvage, subrogation and other claim recoveries	7,887,613	7,049,340
Agents' balances	5,944,539	1,902,779
Net investment income	4,939,298	3,314,684
Proceeds from sale of certificates of deposit	4,380,744	-
Receivable collected from USI Re	1,782,112	-
Return of special deposits	1,650,071	-
Deposits with outside claim adjusters	754,283	-
Reimbursement of legal fees	483,160	-
Proceeds from sale of bonds	225,000	-
Miscellaneous income	192,480	35,272
Funds held - restricted	8,017	825,673
Funds held - unrestricted	-	25,016,815
All other	515,049	1,021,314
Total cash receipts	<u>190,321,232</u>	<u>165,186,990</u>
Cash operating disbursements:		
Losses and loss expenses paid (Note 1)	1,456,407	14,102,239
Human resources costs	6,523,342	5,973,159
Consultant and outside service fees	1,971,714	7,289,513
General office and rent expense	1,656,931	2,241,936
Legal and audit fees	1,067,684	1,211,546
Computers and equipment cost	618,785	1,185,065
Administration costs	316,310	643,570
Uncleared sales	165,949	-
Temporary services	144,361	391,409
Third party administrator payments	104,292	620,020
Asset Transfer Agreement cost (Note 4)	-	7,500,000
All other	50,809	72,070
Total cash operating disbursements	<u>14,076,584</u>	<u>41,230,527</u>
Excess of receipts over operating disbursements	<u>176,244,648</u>	<u>123,956,463</u>
Beginning cash and marketable securities, at cost	<u>448,286,724</u>	<u>324,330,261</u>
Ending cash and marketable securities, at cost	<u>\$624,531,372</u>	<u>\$448,286,724</u>

See accompanying notes.

The Home Insurance Company in Liquidation

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

	January 1, 2004 To June 30, 2004	June 11, 2003 (inception of Receivership) to December 31, 2003
Net Assets, beginning of period	\$486,354,237	\$354,100,535
Excess of unrestricted and restricted receipts over operating disbursements	176,244,648	123,956,463
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(17,926,344)	4,024,275
Fair value of surplus notes, illiquid	150,220	-
Fair value of common stocks, illiquid	(3,540,584)	816,546
Fair value of limited partnership interests, illiquid	3,415,575	42,381
Interest income due and accrued	278,252	1,346,254
Fixed assets	(9,015)	492,336
Due to/from USI Reinsurance	124,830	991,083
Incurred but unpaid administrative expenses	(1,556,603)	584,364
Net Assets, end of period	<u>\$643,535,216</u>	<u>\$486,354,237</u>

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

Notes to Financial Statements

June 30, 2004

1) Basis of Accounting

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

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

The amount shown for losses and loss expenses paid primarily represent (1) prepayments of worker's compensation benefits pursuant to agreements with state guaranty funds to avoid disruption in payment during the transfer of related claims files to the guaranty funds, (2) loss expenses for services rendered during the March 5, 2003 through June 10, 2003 rehabilitation period and accorded administrative expense priority by the rehabilitation order and liquidation order, and (3) checks issued for loss and loss expenses prior to June 11, 2003, which cleared after entry of the Home Liquidation Order.

Unrestricted illiquid assets represent investments in common stock and limited partnership interests which are not liquid since these are not publicly traded. The Home owns illiquid common stock in a corporation which, in 2004, issued a dividend of limited partnership units and cash to the stockholders.

This statement does not include any assets of Home's branches outside of the United States.

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

Notes to Financial Statements (continued)

2) **Marketable Securities**

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

	<u>June 30, 2004</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Unrestricted Marketable Securities				
Debt Securities:				
U.S. Treasury notes	\$ 102,985,997	\$ -	\$ (519,785)	\$ 102,466,212
Government agencies	<u>74,953,125</u>	<u>-</u>	<u>(586,125)</u>	<u>74,367,000</u>
Total	<u>\$ 177,939,122</u>	<u>\$ -</u>	<u>\$ (1,105,910)</u>	<u>\$ 176,833,212</u>
Common Stock	<u>1,627,706</u>	<u>105,360</u>	<u>(948,983)</u>	<u>784,083</u>
Total Common Stock	<u>\$ 1,627,706</u>	<u>\$ 105,360</u>	<u>\$ (948,983)</u>	<u>\$ 784,083</u>
Restricted Marketable Securities				
Debt Securities:				
U.S. Treasury notes	<u>\$ 53,699,125</u>	<u>\$ -</u>	<u>\$ (403,500)</u>	<u>\$ 53,295,625</u>

	<u>December 31, 2003</u>			
	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Unrestricted Marketable Securities				
Debt Securities:				
U.S. Treasury notes	\$ 99,578,125	\$ 953,125	\$ -	\$ 100,531,250
Government agencies	<u>74,953,125</u>	<u>257,625</u>	<u>-</u>	<u>5,210,750</u>
Total	<u>\$ 174,531,250</u>	<u>\$ 1,210,750</u>	<u>\$ -</u>	<u>\$ 175,742,000</u>
Common Stock	<u>1,627,706</u>	<u>18,031,704</u>	<u>(948,983)</u>	<u>18,710,427</u>
Total Common Stock	<u>\$ 1,627,706</u>	<u>\$ 18,031,704</u>	<u>\$ (948,983)</u>	<u>\$ 18,710,427</u>

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

Notes to Financial Statements (continued)

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

Marketable Securities	Unrestricted		Restricted	
	Cost	Fair Value	Cost	Fair Value
June 30, 2004				
One year or less	\$ 1,283,801	\$ 1,227,990	\$ 53,699,125	\$ 53,295,625
Over one year through five years	<u>176,655,321</u>	<u>175,605,222</u>	<u>-</u>	<u>-</u>
	<u>\$ 177,939,122</u>	<u>\$ 176,833,212</u>	<u>\$ 53,699,125</u>	<u>\$ 53,295,625</u>

Marketable Securities	Unrestricted		Restricted	
	Cost	Fair Value	Cost	Fair Value
December 31, 2003				
Over one year through five years	<u>\$ 174,531,250</u>	<u>\$ 175,742,000</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 174,531,250</u>	<u>\$ 175,742,000</u>	<u>\$ -</u>	<u>\$ -</u>

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

Notes to Financial Statements (continued)

3) Incurred But Unpaid Administrative Expenses

Accrued administrative expenses incurred in the normal course of Home's liquidation as of June 30, 2004 are as follows:

Human resources costs	\$ 1,892,870
Legal and auditing fees	154,710
Consultant and outside service fees	144,598
Computers and equipment costs	45,397
Temporary services	24,301
General office and rent expense	19,240
Other administration costs	<u>24,099</u>
	<u>\$ 2,305,215</u>

Substantially all full-time employees of the Home are covered by various employee incentive plans, which were approved by The State of New Hampshire, Merrimack County Superior Court (the Court) on April 5, 2004. The costs of these plans are primarily payable in 2005, but are based on 2004 service and will be accrued over the service period in 2004. Accrued administrative expense includes \$1,892,375 of incentive plan costs.

4) Asset Transfer Agreement

In connection with an Asset Transfer Agreement approved by the Court, the Liquidator paid \$7,500,000 for the right, title and interest in a number of technology assets. Such costs are not reflected as fixed assets on the Balance Sheet. Included in the technology assets was an amount for an assumed reinsurance system; \$2,898,000 of this cost was allocated to Home's subsidiary, US International Reinsurance Company in Liquidation (USI Re). The amount receivable from USI Re is reflected on the balance sheet net of payments received of \$1,782,087.

The Home Insurance Company in Liquidation ("Home")
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(Unaudited)

Notes to Financial Statements (continued)

5) Restricted Funds

The Liquidator has drawn down on letters of credit (LOC) upon receiving notices of cancellation or notices of non-renewal from the issuing bank. Such LOC draw downs relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Liquidator. Since the inception of the liquidation, restricted funds applied to reinsurance recoveries total \$833,689.

The Home received proceeds from commutations which are restricted pending certain future contingencies. Bonds with a par value of \$53.8 million were purchased with such restricted funds.

6) Restatement of Prior Financial Statements

The December 31, 2003 financial statements have been restated to conform to the June 30, 2004 financial statement presentation.