THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. **SUPERIOR COURT**

Docket No. 03-E-0106

In the Matter of the Liquidation of
The Home Insurance Company

AFFIDAVIT OF PETER A. BENGELSDORF, SPECIAL DEPUTY LIQUIDATOR, IN SUPPORT OF APPROVAL OF 2010 EMPLOYEE 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 2010 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 concerns the approval of two integrated compensation plans for the employees of Home in 2010 (the "2010 Employee Compensation Plans") and a compensation and incentive/retention plan for myself. The 2010 Employee Compensation Plans consist of an Annual Incentive Plan ("Annual Plan") and a Collection Incentive Plan ("Collection Plan"). Those plans are intended to reward performance and reinforce retention of essential employees in order to facilitate the successful, efficient, and prompt completion of the liquidation process. The Motion reflects the recommendation of Ernst & Young LLP ("E&Y"), experienced insurance industry compensation consultants, concerning the appropriate compensation structure

for employees of Home. My overall goal is to maximize the amount of assets available to promptly pay the claims of Home's creditors.

3. 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 Home. The liquidation is presently staffed by 75 employees 63 of whom are located at Home's former headquarters in New York City and 12 in Manchester, New Hampshire. I was also appointed the Special Deputy Liquidator to manage the operations of the liquidation.

4. Home operated internationally and specialized in affording complex forms of insurance to large enterprises. Due to the sophisticated nature of 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 Home's liquid invested assets from the day the Order of Rehabilitation was entered, approximately $12.7 million as of March 2003, to an estimated $ 1.3 billion as of December 31, 2009. (This figure includes USI Re, $189 million of early access distributions to guaranty associations to date, $17 million in Class I distributions to Guaranty Funds, $3.2 million of workers compensation advance payments to Guaranty Funds and $49.5 million of assets withdrawn from special deposits held by the states to pay Home claims.) Most of this increase is

attributable to a combination of reinsurance recoveries and other financial settlements negotiated by 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 Home's employees.

5. 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 experience in the design of compensation plans for large insurers, like Home, in liquidation. They concluded that Home's base salaries were approximately at the 50^{th} percentile among comparable companies and recommended that total direct compensation (base salary and incentive bonuses) range between the 50^{th} and 75^{th} percentile.

6. The Liquidator accordingly developed and requested approval for three integrated compensation 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. 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 50^{th} and 75^{th} 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, the similar 2005 compensation plans by order dated March 4, 2005.

7. After consulting with E&Y in 2006, the Liquidator proposed to eliminate the Retention Plan and continue the Annual Plan and Collection Incentive Plan on essentially the same terms as in 2005. The Court approved the 2006 Compensation Plans, including the elimination of the Retention Incentive Plan, by order dated February 8, 2006. During 2004 and 2005 the Retention Incentive Plan applied to Home's 15 non-exempt (Federal Wage and Hour Law) employees. Beginning in 2006 those employees had individual performance goals and were included in the Annual Plan.

8. Seventy-five full time employees as of January 1, 2010, would be eligible to participate in the Annual Plan. 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. The Liquidator will determine the annual goals, performance measures and payouts. The 2010 goals will include: operation within budget, accomplishment of enumerated claim determination processing objectives and reaching asset marshalling targets. Annual cash payments will be made after the close of the performance year (no later than March 15, 2011). 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 2010 cost for the Annual Plan is approximately $1.73 million (compared with $1.86 million estimated to be paid for 2009, $2.29 million paid for 2008, $2.23 paid for 2007, $2.28 million paid for 2006, $2.28 million paid for 2005 and $2.61 million paid for 2004).

9. At the discretion of the Liquidator, the seven senior executives of 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 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 involuntary termination of employment other than for cause, or at the dates established by the Liquidator (e.g., an interim 40% payout at July 1, 2012 and 60% payout at July 1, 2014). 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 2010 cost for the Collection Plan is approximately $ 895,145 (compared with $1.06 million estimated to be paid for 2009, $1.32 million paid for 2008, $1.31 million paid for 2007, $1.45 million paid for 2006, $1.51 million paid for 2005, and $1.48 million paid for 2004).

10. Employee base salaries are estimated by E&Y to be approximately at market median -- the 50^{th} percentile. Because 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. Home has no retirement plan or company-matched 401(k) plan (as discussed below, a safe harbor 401(k) plan was in effect in 2005-2009). To address these issues, the Liquidator proposes to continue to provide incentive

compensation to all of Home's employees. Total 2010 cash compensation (base salary and incentive compensation payments) is estimated by E&Y to be at or slightly below 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.) Given the comprehensive study completed by E&Y in 2007, the fact that no significant changes have been proposed in compensation, and the high variability of survey data due to the impact of the current economic environment, a comprehensive study was not completed for 2009. E&Y advised that it believed that current compensation levels in place for Home's employees, as a whole, remain consistent with market practices and its experience in working with companies in liquidation. The proposed 2010 incentive plans are expected to maintain the same relativities to the market median as the 2007, 2008, and 2009 incentive plans. The 2010 Employee Compensation Plans are annually renewable and therefore subject to prospective modification or termination by the Liquidator.

11. 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 in order to retain experienced employees.

12. The total incentive compensation budget (assuming performance goals are met) for 2010 has been reduced to reflect a safe harbor payment to permit full participation by employees in Home's 401(k) plan. As described in the Liquidator's reports, Home adopted a

non-contributory 401(k) plan effective October 1, 2004. Further, effective January 1, 2005, 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 $225,000). The cost for 2010 is estimated to be approximately $275,000, which has been applied to reduce the budget for the Annual and Collection Plans to the amounts set forth above.

13. The Liquidator's consultant, E&Y, advises that the 2010 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 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 October 21, 2009 is attached as Exhibit D to the Motion.

14. I believe 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.

15. For the reasons described above, I believe that the Plans are fair and reasonable and in the best interests of the liquidation and of the policyholders and other creditors of Home.

Signed under the penalties of perjury this 10TH day of December, 2009.

Peter A Bengelsdorf

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

STATE OF NEW YORK
COUNTY OF NEW YORK

Subscribed and sworn to, before me, this 10th day of December, 2009

Notary Public/Justice of the Peace

NELLY M. GOMEZ-Ramirez
Notary Public, State of New York
No.01GO5006271
Qualified in Bronx County
Certificate Filed in N.Y. County
Commission Expires December 7, 2010