

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 ROGER A. SEVIGNY, LIQUIDATOR,
IN SUPPORT OF APPROVAL OF 2013 COMPENSATION PLAN FOR
THE SPECIAL DEPUTY LIQUIDATOR**

I, Roger A. Sevigny, hereby depose and say:

1. I am the Insurance Commissioner of the State of New Hampshire and Liquidator (“Liquidator”) of The Home Insurance Company (“Home”). I submit this affidavit in support of the Liquidator’s Motion for Approval of 2013 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 integrated compensation plans for the employees of Home in 2013 (the “2013 Employee Compensation Plans”) and a compensation and incentive/retention plan in 2013 (the “Special Deputy Plan”) for Peter A. Bengelsdorf, the Special Deputy Liquidator of Home (the “Special Deputy Liquidator”) (collectively, the “Plans”). The Motion reflects the recommendations of Ernst & Young LLP (E & Y), experienced insurance industry compensation consultants, concerning the appropriate compensation structure for employees of Home.

3. The Special Deputy Liquidator was recruited from private industry and appointed to manage the operations of the liquidation.¹ The Special Deputy Liquidator is a consultant to the Liquidator, not an employee of Home. The terms of his engagement are described in a June 11, 2003 Consulting Agreement which was approved by the Court on June 30, 2003 (the “Consulting Agreement”). The Consulting Agreement remains in effect until terminated. The Special Deputy Liquidator does not participate in the incentive compensation plans for employees of Home, nor does he receive any health and welfare, retirement or severance benefits from Home. As an independent contractor, he pays the full Social Security tax (employer and employee share) on his compensation. Pursuant to the Consulting Agreement, the Special Deputy Liquidator was paid base compensation at an hourly rate of \$250 from 2003 through 2011 and \$285 beginning in 2012 when his total base compensation was capped at \$600,000. The Special Deputy Liquidator was eligible to receive an annual incentive award of \$400,000 during 2004 and 2005; \$300,000 during 2006, 2007 and 2008; \$200,000 during 2009 and 2010; and \$175,000 in 2011 and 2012 as well as an annual “Stay Bonus” of \$400,000 during each such year. The reductions in potential annual incentive bonus amounts were at the Special Deputy Liquidator’s request.

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 operating under the management of a well-qualified and competent Special Deputy Liquidator will materially contribute to the efficient collection of assets and adjudication of claims. This is illustrated by the increase in Home’s liquid invested assets from the day the Order of

¹ The Special Deputy Liquidator also served as Special Deputy Commissioner during Home’s rehabilitation.

Rehabilitation was entered, approximately \$12.7 million as of March 2003, to an estimated \$1.4 billion as of September 30, 2012. (These figures include USI Re, \$222 million of Class II early access distributions to guaranty associations to date and \$48 million in Class I distributions to guaranty associations.) Most of this increase is attributable to a combination of reinsurance recoveries and other financial settlements negotiated by the Special Deputy Liquidator and Home's experienced staff. Maximizing the prompt collection of assets advantages Home's creditors and is one of the principal statutory goals of the liquidation. This objective can be facilitated through an alignment of creditor interests with the interests of Home's employees.

5. As Liquidator, I seek 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. To this end, I have engaged E & Y to review, among other things, the scope and duties of the Special Deputy Liquidator position and, based on its experience in working with other companies in liquidation and distressed situations as well as "healthy" companies, identified comparable positions against which to evaluate market competitiveness of the Special Deputy Plan. The overall compensation framework includes compensation and incentive/retention components designed to align incentives to the Special Deputy Liquidator with liquidation goals.

6. The proposed 2013 Special Deputy Plan is described in a letter from E & Y dated October 19, 2012 and attached as Exhibit D to the Motion. The 2013 Special Deputy Plan has four primary objectives. First, it recognizes the Special Deputy Liquidator's role as top executive of the Home liquidation operation. Although an independent contractor, the Special Deputy Liquidator works at least the hours of a full time employee and, because he is responsible

for Home's day-to-day operations he has more responsibility than any other employee of Home. He provides similar services, at no cost to Home, respecting certain other pending New Hampshire insurer receiverships. Second, the Plan acknowledges the Special Deputy Liquidator's significant accomplishments to date as evidenced by the large increase in Home's cash and liquid invested assets and the resolution of numerous business issues as described in the Liquidator's quarterly reports. Third, the Special Deputy Plan aligns the Special Deputy Liquidator's incentives with those of Home's creditors and the Liquidator's goals for Home. Specifically, the Special Deputy Liquidator must marshal assets of Home; hire and maintain Home's staff; prepare and file timely and accurate reports for the Liquidator (and ultimately with the Court); and operate Home in a cost-effective manner. Fourth, the Special Deputy Plan is intended to provide the Special Deputy Liquidator with compensation consistent with competitive market positioning in relation to Home's current executive team.

7. The Special Deputy Plan consists of three components: base compensation, an annual incentive bonus structure, and a "Stay Bonus":

a. *Base Compensation.* From 2003 through 2011, the Special Deputy Liquidator's base compensation was calculated by applying a \$250 per hour rate to the number of hours worked and billed. The 2012 Special Deputy Plan proposed an adjustment to the structure of the Special Deputy Liquidator's base compensation such that his hourly rate increased to \$285 and his total base compensation was capped at \$600,000. This adjustment was approved by the court in an order dated January 25, 2012. In 2013, I propose to increase the Special Deputy Liquidator's hourly rate to \$325 but to continue the structure of the 2012 Special Deputy Plan whereby base compensation is still capped at \$600,000 and contingent on the Special Deputy Liquidator working 2,100 hours between January 1, 2013 and

December 31, 2013. The Special Deputy Liquidator would be paid twelve monthly installments of \$50,000. If he works fewer than 2,100 hours, an amount equal to the shortfall in hours multiplied by the \$325 hourly rate would be deducted from the “Stay Bonus” otherwise payable to him. If the Special Deputy Liquidator works more than 2,100 hours then no additional base compensation would be payable and there would be no adjustment to his “Stay Bonus”. The increase in the Special Deputy Liquidator’s hourly rate is intended to better reflect the market rate but will not increase the Special Deputy Liquidator’s compensation or Home’s expenses.

b. *Annual Incentive.* The Special Deputy Plan provides an annual incentive bonus structure (“AI”). As with the AI component of the Special Deputy Liquidator’s compensation plans from 2004 through 2012, I will set annual goals for the Special Deputy Liquidator (e.g., success in marshaling assets, organization performance within budget, implementation of an effective claim determination operation, obtaining an appropriate independent auditor opinion, timely and accurate reporting to the Liquidator and the Court throughout the performance year). After the end of the year, I will evaluate the Special Deputy Liquidator’s performance with respect to each of those goals and determine the AI bonus based upon those accomplishments. The 2013 AI provides the Special Deputy Liquidator with an opportunity to earn an AI bonus of \$150,000 (\$25,000 less than the AI bonus available in 2012 and 2011 and down further from the AI bonus of \$200,000 in 2010 and 2009, \$300,000 in 2008, 2007, and 2006, and \$400,000 in 2005 – each of these reductions being made at the Special Deputy Liquidator’s request).

c. *“Stay Bonus”.* Pursuant to his compensation plans from 2004 through 2012, the Special Deputy Liquidator has received a “Stay Bonus” of \$400,000. The “Stay Bonus” provides a cash incentive to this senior and experienced insurance industry executive and

encourages him to remain with Home. As proposed in the 2013 Special Deputy Plan, a “Stay Bonus” covering a twelve month period from January 1, 2013 through December 31, 2013 of \$400,000 (adjustable as discussed above in subparagraph a) is payable on December 20, 2013.²

8. Prior to 2008, the term of the Consulting Agreement had been continuous until terminated but the term of the AI and “Stay Bonus” was annual. The AI and “Stay Bonus” had been negotiated and agreed upon each year but were not always submitted and approved before January 1 of the applicable year. This left a gap between the end of the performance year and the effective date of the next year’s plan, creating substantial risk to Mr. Bengelsdorf and his estate in the event of his death or disability during the interim. In order to avoid such unintended consequences from a gap in entitlement to the AI and “Stay Bonus,” starting in 2008 the Special Deputy Plan provided for the AI and “Stay Bonus” to remain in effect but be subject to annual review by the Liquidator and approval by the Court. If the Special Deputy Plan were to be terminated by the Liquidator or not approved for continuation by the Court, Mr. Bengelsdorf would receive a pro rata benefit.

9. E & Y reviewed the scope and duties of the Special Deputy Liquidator position and, based on its experience in working with other companies in liquidation and distressed situations as well as “healthy” companies, identified comparable positions against which to evaluate market competitiveness of the 2013 Special Deputy Plan. E & Y advises that a competitive compensation level is one that approximates 85%-115% of the targeted market level

² In the event of death or disability both the AI bonus and the Stay Bonus are paid in full. In the event the Special Deputy Liquidator is terminated without cause or the Special Deputy Plan is terminated or not renewed, such bonuses will be pro-rated.

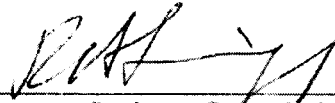
(typically a range between the 50th and 75th percentile). As stated in its advisory letter (Motion, Exhibit D), E & Y found that the Special Deputy Liquidator's proposed 2013 total direct compensation (or TDC, defined as base salary plus annual incentive and "Stay Bonus") after adjustment for the absence of benefits is significantly below the market median (50th percentile) and is significantly less than competitive. The Special Deputy Liquidator's TDC is less competitive than the total direct compensation for Home's other top executives, which is between the 50th and 75th percentiles. See, Motion, Exhibit C. E & Y further advises that the proposed Special Deputy Plan provides variable or performance-based compensation while also encouraging a continuation of the existing working relationship.

10. The 2013 Special Deputy Plan compensation, in E & Y's opinion, represents total direct compensation significantly below the competitive range of median market levels. Nevertheless, these terms are acceptable to the Special Deputy Liquidator.

11. 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 while the services and experience of the Special Deputy Liquidator might be lost.

12. For the reasons described above, as well as the advice provided by E & Y, I have concluded that the Plans are fair and reasonable and in the best interests of the liquidation and of the policyholders and other creditors of Home.

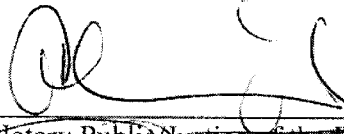
Signed under the penalties of perjury this 20th day of November, 2012.



Roger A. Sevigny, Commissioner of Insurance of
the State of New Hampshire, solely as
Liquidator of The Home Insurance Company

STATE OF NEW HAMPSHIRE
COUNTY OF MERRIMACK

Subscribed and sworn to, before me, this 20th day of November, 2012.



~~Notary Public/Justice of the Peace~~

Chiara Dolcino
My Commission Expires 10/6/15