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 MOTION FOR APPROVAL OF SECOND 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 of the State of New Hampshire, as Liquidator ("Liquidator") of Home. I submit this affidavit in support of the Liquidator's Motion for Approval of Second 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. The Liquidator's 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 a second interim distribution of ten (10) percent on Class II claims that have been allowed by the Court. This second interim distribution would bring the total interim distribution percentage to twenty-five (25) percent. Such a distribution would permit creditors with allowed policy-related priority claims to receive a percentage payment 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 second interim distribution pursuant to RSA 402-C:46, I, subject, however, to receipt of a waiver of priority claims from the United States as to that distribution.

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 June 30, 2015, the Liquidator has presented and the Court has approved claim recommendations, including settlements, for a total of 16,864 Class II claim determinations – 15,284 final and 1,580 partial – with a total allowed amount of approximately $2.125 billion. (The Court-approved claim determinations for all priority classes

as of June 30, 2015 totaled 20,626 claim determinations with a total allowed amount of approximately $2.4 billion.)

7. Liquidation staff under my supervision have also been collecting assets, in particular reinsurance. As a result of these efforts, the Liquidator had approximately $1.06 billion in unrestricted liquid assets under his control as of June 30, 2015.

8. With Court approval, the Liquidator has also made ten Class II early access distributions to insurance guaranty associations which, together with $3 million in advances on early access paid in 2003, totaled $251 million as of June 30, 2015.[1] As described in the motions for approval of the ten early access distributions, all these 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 $57 million which the Liquidator is setting off against claims of guaranty associations in those states.

9. With Court approval, the Liquidator has also made an initial interim distribution of 15% on allowed Class II claims. The Liquidator moved for approval of that initial interim distribution, subject to receipt of a waiver of federal priority from the United States, on February 13, 2012. The Court approved the initial distribution in an Order Approving Interim Distribution to Claimants with Allowed Class II Claims issued March 13, 2012, as amended July 2, 2012 ("Interim Distribution Order"). Paragraph 8 of the Interim Distribution Order provided that the distribution was subject to receipt of a waiver of federal priority claims from the United States, and the Liquidator promptly requested such a waiver from the United States Department of Justice ("US DOJ"). As described in the Liquidator's reports, the waiver was not

[1] This total is the amount distributed by the Liquidator after application of the deductions and cap provided for in the orders approving the early access distributions.

forthcoming, and the Liquidator consequently commenced litigation against the United States. As reported in the Liquidator's Fifty-Fifth Report, the litigation was resolved and the United States provided a waiver with respect to the initial interim distribution on November 5, 2014. The Liquidator then made the initial distribution on allowed Class II claims as of November 30, 2014. The Interim Distribution Order provides that the Liquidator is to make the initial distribution on subsequently allowed Class II claims after each December 31 and June 30. The Liquidator accordingly made the initial 15% distribution on subsequently allowed Class II claims in January and July 2015. As of June 30, 2015, the Liquidator had made initial distributions totaling $228 million to non-guaranty association claimants with allowed Class II claims (including a payment into escrow on one claim) and deemed $47 million of prior early access distributions to guaranty associations to be an initial distribution to the guaranty associations on allowed Class II claims that was no longer subject to "claw back."

10. I believe that sufficient assets have been collected and sufficient claims determined to warrant consideration of a second interim distribution. Because any distribution must reserve assets for presently unresolved claims, the Liquidator 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).

11. The Liquidator seeks approval to make a second interim distribution of 10% on allowed and subsequently allowed Class II claims. Together with the previously approved initial interim distribution of 15%, this would result in a total proposed interim distribution of 25%. As with the initial interim distribution, the Liquidator bases his request on the assets and amounts that may be credited against claims, the projected Class I expenses of liquidation, and the unpaid Class II liabilities as estimated by Milliman. Each of these elements is addressed below.

12. I believe it is reasonable and prudent to base an interim distribution on assets held by the Liquidator and amounts that may be credited against claims. As of June 30, 2015, these consist of $1.06 billion of unrestricted liquid assets held by the Liquidator, the $228 million previously distributed to non-guaranty association claimants as the initial interim distribution, the $251 million in early access distributions previously paid to guaranty associations, and the $57 million in deposits withdrawn by states. A total of $1.596 billion is thus available to the Liquidator for potential distribution to claimants or, in the case of prior distributions and deposits, to be applied by the Liquidator against the claims of claimants.

13. While the Liquidator will collect reinsurance in the future, I believe it is not reasonable or prudent at this point to base a 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.

14. I similarly believe it would not be reasonable or prudent at this point to base a distribution on future investment returns. Future income on investments is subject to significant uncertainties, including, but not limited to, continuance and magnitude of low interest rate policies by the United States Federal Reserve and other central banks around the world,

continued sluggish economic growth, inflationary pressures from large new issuances of government debt, and the amount and timing of distributions and liquidation expenses.

15. 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 $252 million over the remaining life of the Home estate.

16. 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. Milliman earlier provided such an estimate which the Liquidator relied on in moving for approval of the initial interim distribution.

17. Milliman has now provided the Liquidator with its June 18, 2015 Roll-Forward Analysis of Unpaid Loss and ALAE as of June 13, 2003 and December 31, 2014 (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 hereto.[2]

18. 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 Summary at 4 and 8. Milliman's actuarial Central Estimate of Class II unpaid loss and ALAE is \$4.034 billion. See Executive Summary, Exhibit 1 and Summary by Class Exhibit, Page 2.

19. 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, Exhibit 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 5 and 8.

20. As noted above, the priority statute requires that all claimants in a priority class receive equal treatment, while the distribution statute requires that any distribution protect the interests of claimants with unresolved claims. To comply with these requirements, I have

[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 generally 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, Summary by Class Exhibit, Page 1) is included in the estimated liquidation expenses discussed in paragraph 15 above.

determined to use, as with the initial interim distribution, the Milliman estimate of Home's Class II liabilities at the 95% confidence level for purposes of the proposed second 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 $5.405 billion. Executive Summary, Exhibit 1. Because of the application of a 95% confidence level, this estimate is higher than Milliman's actuarial Central Estimate noted in paragraph 18 above.

21. As of June 30, 2015, the Court had allowed Class II claims, including settlements, totaling approximately $2.125 billion. Of that total, approximately $428 million are claims of the guaranty associations and $1.697 billion are claims of policyholders, insureds, and third party claimants or their assignees.

22. Based on the foregoing, and after careful review and consideration of the circumstances, the Liquidator seeks approval to make a second interim distribution of 10% for a total interim distribution of 25%. The assets ($1.596 billion) less the projected Class I expenses ($252 million) all divided by the estimated Class II liabilities at the 95% confidence level ($5.405 billion) produces a potential distribution percentage of 24.9%, which after subtracting the initial interim distribution of 15% results in a potential second interim distribution of 9.9% which the Liquidator has rounded to 10%. The determination of the second interim distribution percentage is set forth on Exhibit 1 to the motion.

23. I believe the proposed second interim distribution percentage is consistent with the mandate of RSA 402-C:46, I, to protect claimants with undetermined claims. As discussed above, it uses 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, the liquidation staff is tracking claims against policies, and there are a relatively small number of policies that 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.

24. The 10% second interim distribution percentage will result in an additional distribution of approximately $213 million. However, an actual cash distribution will only be made to the holders (the claimants or their assignees) of the $1.697 billion of allowed non-guaranty association Class II claims, who will receive approximately $170 million. The guaranty associations have already received early access distributions at a percentage in excess of the 25% total proposed interim distributions, so they will not receive any additional distributions. Instead, $43 million of the prior early access distributions paid to guaranty associations will be deemed permanent distributions no longer subject to claw back.

25. Since the interim distribution percentage reflects the Milliman estimate of all Class II liabilities, the Liquidator also seeks approval to make a 10% second interim distribution

on Class II claims that are allowed after June 30, 2015. The Liquidator will make the second interim distribution to all claimants with allowed Class II claims as of the last day of the month in which a federal waiver is received. The Liquidator will make the interim distribution after that "record date." The Liquidator will make the interim distribution on subsequently allowed claims after each December 31 and June 30 with respect to claims allowed during the preceding six months.

26. 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 second interim distribution percentage to the remaining amount.

27. In order to avoid sending distribution checks to addresses that are out-of-date, the Liquidator will follow the procedure for confirming the name and address of the payee described in the Liquidator's Report Regarding Process for Interim Distribution dated November 12, 2014. In brief, unless liquidation staff has recently confirmed the name and address in connection with a prior interim distribution, the liquidation staff will request confirmation by email or letter to the claimant or, where applicable, its assignee at the most recent address reflected in the Home liquidation's records. If the claimant or assignee does not respond in writing within 14 days, liquidation staff will follow up by telephone (if the liquidation's records include a telephone number) or conduct an internet search in an effort to identify a current address for a follow up letter. If the claimant or assignee responds in writing and confirms the payee and an address, the Liquidator will issue the check and mail it to the claimant or assignee at that address. If the Liquidator does not receive a written response, the Liquidator will not for the moment issue a check.

28. Like the initial interim distribution, the second interim distribution will be subject to receipt of a waiver of federal priority claims from the United States. The US 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.

29. 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 second interim distribution will be subject to receipt of a waiver of claims by the United States in a form acceptable to the Liquidator. I believe it would not be reasonable and prudent to make an interim distribution without a waiver of federal priority claims.[3]

30. The initial interim distribution was subject to receipt of such a waiver (see Interim Distribution Order ¶ 8), and the Liquidator ultimately obtained a waiver from the US DOJ as part of the resolution of litigation described in the Liquidator's Report Regarding Release Agreement With United States filed November 6, 2014. In accordance with the Release Agreement, the Liquidator has been working with the US DOJ since that time to resolve questions and provide information in advance of another waiver request. The Liquidator will request a waiver from the US DOJ promptly after approval of the second interim distribution by the Court.

[3] The Liquidator has made certain 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.

Signed under the penalties of perjury this 24 day of September, 2015.

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 24th day of September, 2015.

Notary Public/Justice of the Peace

Nelly M. Gomez-Ramirez
Notary Public State of New York
No. 01GO5005271
Qualified in Bronx County
Commission Expires 2/1/2019

Exhibit A

Milliman Client Report

Milliman

The Home Insurance Company (in Liquidation)

Roll-Forward Analysis of Unpaid Loss and ALAE
As of June 13, 2003, and December 31, 2014

Executive Summary

June 18, 2015

Prepared for:
Liquidator of The Home Insurance Company

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William Carbone, FCAS
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I. Introduction

Background

This is a summary of Milliman's report dated June 18, 2015 ("Current Report"). The Liquidator of The Home Insurance Company ("Home") previously 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 amounts as of June 13, 2003, which include amounts "paid" (allowed) since the start of liquidation, into Priority Classes I, II and V. That analysis is presented in Milliman's report dated April 27, 2012 ("Initial Report").

The Liquidator subsequently engaged Milliman to "roll forward" its estimates of unpaid loss and ALAE as of December 31, 2010, to December 31, 2012. That analysis is presented in Milliman's report dated December 9, 2013 ("Prior Report"). The Current Report summarizes the "roll-forward" of the estimates of unpaid loss in the Initial Report from December 31, 2010, to December 31, 2014. This Executive Summary presents the results of our Current 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 priority class into which such liabilities fall. The Current Report is a second update of the Initial Report and should be read in conjunction with the Initial Report.

The Current Report provides 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 analyses for the Initial, Prior and Current Reports, we required a substantial amount of data, information and assistance from liquidation staff. We wish to express our appreciation for their support.

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

Jason Russ, Jason Kurtz and Mark Goldburd prepared the Asbestos section of the Current Report. William Carbone prepared the Environmental section of the Initial Report, which Christopher Tait has rolled forward to December 31, 2014, in the Current Report. The remainder of the Current Report was prepared by Christopher Tait. Each is a Consultant at Milliman and each is a Member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society and meets the qualification standards to provide the estimates in their respective sections of the Current Report.

Scope of Study

The purpose of the Current Report is to present an independent actuarial evaluation of Home's direct unpaid loss and allocated loss adjustment expense as of December 31, 2014 (unpaid claim liability). Our estimates are on an ultimate cost basis, not at present discounted value. Analysis of unpaid unallocated loss adjustment expense (ULAE) is outside the scope of this report.

The Current Report is an update of Milliman's Initial and Prior Reports dated April 27, 2012, and December 9, 2013, respectively.

Priority Classes I, II and V

In addition to providing a "roll forward" of estimated unpaid loss and ALAE to December 31, 2014, this study maps the direct unpaid amounts as of June 13, 2003, which include amounts "paid" (allowed) since the start of liquidation, into Priority Classes I, II and V.

Class I is administration costs. It includes the costs and expenses of administration, including but not limited to the following: the actual and necessary costs of preserving or recovering the assets of the insurer; compensation for all services rendered in the liquidation; any necessary filing fees; the fees and mileage payable to witnesses; and reasonable attorney's fees.

Class II is policy related claims. It includes all claims by policyholders, including claims for unearned premiums in excess of $50, beneficiaries, and insureds arising from and within the coverage of and not in excess of the applicable limits of insurance policies and insurance contracts issued by the company.

Class V is a residual classification. It includes all other claims, including claims of any state or local government, not falling within other Classes. Claims, including those of any non-federal governmental body, for a penalty or forfeiture, are allowed in this class only to the extent of the pecuniary loss sustained from the act, transaction or proceeding out of which the penalty or forfeiture arose with reasonable and actual costs occasioned thereby.

Definition of Paid and Unpaid Loss and Allocated Loss Adjustment Expense

Due to the liquidation of Home, the traditional definitions of paid and unpaid loss and ALAE do not apply. The amounts shown as paid in the supporting exhibits of the Initial Report and in the SUMMARY

BY LINE exhibits of the Prior and Current Reports 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 administration costs in full, and other claims allowed by the Merrimack County Superior Court ("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 of the Initial Report and in the SUMMARY BY LINE exhibits of the Prior and Current Reports consist of:

1. amounts paid pre-liquidation, plus
2. amounts paid by the Guaranty Associations ("GAs") 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 ("allowed") 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. However, in order to present the unpaid amounts as of June 13, 2003, the commencement of liquidation, the attached SUMMARY BY CLASS exhibits add all amounts recorded as paid post-liquidation through December 31, 2014, gross of recoveries and reversals, to the estimated unpaid amounts as of December 31, 2014. The attached SUMMARY BY CLASS exhibits reflect the mapping of the June 13, 2003 unpaid to the Priority Classes.

This analysis does not reflect an agreement between the GAs and Home that will treat 10% of the GAs' Class II ALAE as Class I. This agreement was approved by the Court on July 15, 2013. The amount that will be reclassified is an immaterial portion of the Total Class II, though material to Class I, estimate.

The Liquidator has made cash payments on allowed Class I amounts and made a court-approved initial percentage distribution on allowed Class II amounts. These payments are subsumed in the allowed amounts within item 5 above.

Unpaid Ceded Reinsurance

The exhibit SUMMARY BY CLASS, Page 4 is not included in the Current Report. The Liquidator asked us to include this exhibit which estimates the unpaid ceded reinsurance as of December 31, 2014 for Class I and Class II liabilities. Those are the classes of claims on which the Liquidator expects to make distributions, and which claimants are expected to pursue for purposes beyond setoff. The two classes are combined because reinsurance contracts do not distinguish among priority classes. Our estimate of unpaid ceded loss (including ALAE) is based upon our undiscounted actuarial Central Estimates of Loss and ALAE unpaid as of December 31, 2014 for Class I and Class II and information provided by Liquidation Staff concerning Home's ceded reinsurance programs. Like the actuarial Central Estimates of gross unpaid Loss and ALAE for those classes, our estimate should be interpreted as the expected value over a range of reasonably possible outcomes and is subject to wide variability. Our estimate is set forth in SUMMARY BY CLASS Page 4 of this Executive Summary. The Liquidator and, prior to its liquidation, Home have entered into commutation agreements with certain reinsurers to resolve relationships with those reinsurers. The estimate of unpaid ceded loss on SUMMARY BY CLASS Page 4 has been adjusted to deduct reinsurance that was commuted prior to December 31, 2014 or where the reinsurer was known to be insolvent prior to December 31, 2014. The estimate has not been reduced to reflect reinsurance collected or commuted since December 31, 2014. It also is not adjusted to provide for collectability issues, including offsets available to reinsurers, cessions that may be disputed by reinsurers, or cessions to reinsurers that may become insolvent or commuted. These collectability issues will reduce the amount collected by the Liquidator, in certain instances materially.

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 our range of reasonably possible outcomes. Our 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.

The central estimates for certain coverages have been "rolled forward" from the estimates in our Initial Report after an evaluation of actual vs. expected loss emergence since July 2009. For the Environmental and Workers' Compensation (excluding OD) coverages, we compared the actual loss emergence during the period July 2009 through June 2014 on both an incurred basis and a paid basis with what we would have projected based on the estimates in our Initial Report. This comparison of actual vs. expected loss was used to evaluate whether we could base updated estimates on our initial estimates, whether we needed to revise our initial estimates first, or whether an entire update of the Initial Report was needed. (With respect to Workers' Compensation, the comparison of actual vs. expected emergence was made excluding sports related CT losses for which a separate estimate was made based on loss experience through December 31, 2014.) As discussed in the "Description of Analysis" section below, we concluded that updated estimates could reasonably be based on the estimates from our Initial Report.

As to Asbestos, our central estimate of ultimate loss (without regard to priority class) decreased by $355.4 million relative to our Prior Report. There are many "moving parts" within the analysis, which reflects loss experience through December 31, 2014, with some components of the estimate increasing while others have decreased. The major factor was closures for less than our prior estimate of asbestos exposure.

<u>Estimates at Higher Confidence Levels</u>

In addition to the central estimates shown in the various summary exhibits, there is a confidence level table immediately following this text (Exhibit 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, <u>Estimates at Higher Confidence Levels</u> in the Initial 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, 2014 unpaid estimates. The confidence level factors were developed at the line of business level with the total of all lines reduced to reflect independence among lines.

It should be noted:

1. The 99.9% confidence level 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 Initial 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.
4. Each loading factor in Exhibit 1 is a composite based on factors for the individual lines of business. As noted above, the composite factors are reduced to reflect independence among lines.

    - The loading factors for the Core Lines of business that are independently reviewed by Milliman are based on loss experience through June 30, 2009. The factors are adjusted to apply to the sum of estimated losses unpaid as of December 31, 2014 plus losses paid or "allowed" from liquidation through December 31, 2014.

    - The loading factors for the Core Lines of business that are estimated by liquidation staff were initially provided by liquidation staff to apply to estimated losses unpaid as of 12/31/2010. As an approximation, we have applied those same factors to the estimated losses unpaid as of 12/31/2014 and then added the losses paid or "allowed" from liquidation through December 31, 2014.

    - The loading factors for the A&E Lines of business which are estimated by Milliman were initially produced to apply to estimated losses unpaid as of 12/31/2010. As an approximation, we have applied those same factors to the estimated losses unpaid as of 12/31/2014 and then added the losses paid or "allowed" from liquidation through December 31, 2014.

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

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 economic conditions including inflation, judicial decisions, legislation and claims handling, among other variables. The estimates developed in the Initial Report represent our estimates of the future claim activity based upon claim experience through June 30, 2009 for Home's Core Lines (non-asbestos and environmental exposure) and environmental, and claims and policy information evaluated as of June 30, 2007 for the asbestos analysis. Other than Asbestos, which is based on loss data evaluated as of December 31, 2014, and Sports Injury claims (discussed below in the "Sports Injury CT Claims" section) the estimates in the Current Report are based on the Initial Report and reflect subsequent claim activity through December 31, 2014. 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 process of handling and determining claims. 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 Initial Report), but the missing historical development data adds to the uncertainty of our estimates.

The estimates of asbestos 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 Analysis of Asbestos Unpaid Claims report found in Appendix 2.

As noted in our Initial Report, estimates of the Environmental unpaid liabilities are subject to additional uncertainty due to Home's efforts to improve the adequacy of environmental case reserves that may affect loss development patterns in ways we cannot predict. While as noted in our Initial Report, we performed diagnostic tests to reduce the risk of over or under projection of ultimate loss, the inherent variability with respect to final outcomes is increased by the environmental case reserve strengthening.

Variability

The impact of key variables in the Initial 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 overly 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. In that event, the results of our analysis may not be suitable for the intended purpose.

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 Initial 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, 2014. The losses are shown in $1,000's. The details underlying the estimates in the summary exhibits are provided in the Current Report.

THE HOME INSURANCE COMPANY (IN LIQUIDATION)

Confidence Level Table For All Lines of Business Combined
Class II Estimated Unpaid at Liquidation
(Dollars in Thousands)

Confidence Level	Estimated Total Gross Unpaid Losses [1] (Priority Class II) Loading	Loss & ALAE
Central Est.	1.000	$4,033,699 [2]
75%	1.089	4,392,698
90%	1.232	4,969,517
95%	1.340	5,405,157
99%	1.600	6,453,919
99.9%	2.034	8,204,544

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 SUMMARY BY CLASS Page 2.

THE HOME INSURANCE COMPANY (IN LIQUIDATION)

Estimated Loss and ALAE Unpaid at Liquidation and as of 12/31/14
Based on Claim Experience Through 6/30/09, Brought Forward to 12/31/14
Gross of Reinsurance
(Dollars in Thousands)

CLASS I [1]

	Central Estimate of Unpaid at	
Coverage	Liquidation	12/31/14
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[2]	537	
Subtotal – Not Reviewed by Milliman	**$561**	
Milliman-Analyzed A&E (Direct)		
Asbestos	$10,149	
Environmental	13,127	
Subtotal	**$23,276**	
a. CLASS I Subtotal — Central Estimate of Unpaid at Time of Liquidation	**$50,449**	
b. CLASS I Loss and ALAE Paid From Liquidation Through 12/31/14		**$23,762**
c. CLASS I Subtotal — Central Estimate of Unpaid as of 12/31/14 (c. = a. – b.)		**$26,687**

[1] Does not include Class II Guaranty Fund expenses to be reclassified from Class II to Class I, as approved by Liquidation Court on July 15, 2013. The amount to be reclassified is immaterial to Class II, although it is material relative to Class I.
[2] 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 at Liquidation and as of 12/31/14 [1]
Based on Claim Experience Through 6/30/09, Brought Forward to 12/31/14
Gross of Reinsurance
(Dollars in Thousands)

CLASS II [2]

Coverage	Central Est. of Unpaid at Liquidation and at 12/31/14
Workers' Compensation	
Milliman-Analyzed Non-High Deductible	$906,406
Milliman-Analyzed High Deductible	32,934
Occupational Disease	11,292
Subtotal – Workers' Compensation	**$950,632**
Sports Injury CT Claims Filed After 6/30/09	**$80,041**
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[3]	102,486
Subtotal – Not Reviewed by Milliman	**$131,344**
Milliman-Analyzed A&E (Direct)	
Asbestos	$1,879,347
Environmental	570,442
Subtotal	**$2,449,789**
CLASS II Subtotal	**$4,033,699**

[1] "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 Liquidator has made a court-approved initial percentage distribution on allowed Class II amounts.
[2] Not reduced to reflect Class II Guaranty Fund expenses to be reclassified from Class II to Class I, as approved by Liquidation Court on July 15, 2013. The amount to be reclassified is immaterial to Class II, although it is material relative to Class I.
[3] 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 at Liquidation and as of 12/31/14 [1]
Based on Claim Experience Through 6/30/09, Brought Forward to 12/31/14
Gross of Reinsurance
(Dollars in Thousands)

CLASS V

Coverage	Central Est. of Unpaid at Liquidation and at 12/31/14
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	$39
Professional Liability	643
Risk Management	38
Small Lines	96
Subtotal – Other Lines	**$816**
HICL Reserves Not Reviewed by Milliman	
Cut-Through and Omnibus	$0
DES	14
Special accounts[2]	77
Subtotal – Not Reviewed by Milliman	**$91**
Milliman-Analyzed A&E (Direct)	
Asbestos	$363,850
Environmental	2,188
Subtotal	**$366,038**
CLASS V Subtotal	**$368,162**

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

THE HOME INSURANCE COMPANY (IN LIQUIDATION)

Unpaid Ceded Reinsurance as of 12/31/14
(Dollars in Thousands)

(1)	(2)
Estimated Gross Loss and ALAE Unpaid as of 12/31/14 (Priority Classes I and II)	Estimated Adjusted Ceded Losses[2] Unpaid as of 12/31/14 (Priority Classes I and II)
$2,084,918 [1]	$344,721 [3]

1 Central Estimate Class I from SUMMARY BY CLASS Page 1 plus Central Estimate Class II from SUMMARY BY CLASS Page 2 after deduction of amounts that have been "paid" through December 31, 2014 either by (i) payment by the Liquidator for Class I or (ii) allowance by the Court or payment by Guaranty Associations for Class II. The Liquidator has already collected or is seeking to collect available reinsurance on such amounts. "Unpaid" is, accordingly, used here differently from in the Class II exhibit on SUMMARY BY CLASS Page 2.

2 The estimated part of Column 1 that is ceded to reinsurers after adjustment (deduction) for reinsurance either commuted as of 12/31/14 or with reinsurers known to be insolvent as of 12/31/14.

3 This estimate does not include adjustments (deductions) necessary to account for reinsurance collected or commuted since December 31, 2014 or to provide for collection issues, including offsets available to reinsurers, reinsurance coverage disputes, and subsequent reinsurer insolvencies.