

THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

September 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>September 30, 2004</u> | <u>December 31, 2003</u> |
|---|-------------------------------|------------------------------|
| Assets | | |
| Unrestricted bonds, short-term investments and cash at cost: | | |
| Bonds (Note 2) | \$407,186,467 | \$174,531,250 |
| Short-term investments | 60,609,166 | 151,422,458 |
| Certificates of deposit | 156,556 | 321,943 |
| Cash and cash equivalents | <u>107,833,279</u> | <u>121,185,400</u> |
| Total unrestricted bonds, short-term investments and cash at cost | 575,785,468 | 447,461,051 |
| Common stocks, marketable, at market value (Note 2) | 625,942 | 18,710,427 |
| Interest income due and accrued | <u>4,111,141</u> | <u>1,390,004</u> |
| Total unrestricted liquid assets | 580,522,551 | 467,561,482 |
| Unrestricted illiquid assets: (Note 1) | | |
| Surplus notes, at fair value | 150,220 | - |
| Common stocks, at fair value | 13,696,550 | 17,144,990 |
| Limited partnership interests, at fair value | <u>3,500,901</u> | <u>87,285</u> |
| Total unrestricted illiquid assets | 17,347,671 | 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 \$214,508 and \$61,054) | 455,813 | 492,336 |
| Receivable from US International Reinsurance Company (Note 4) | <u>994,667</u> | <u>991,083</u> |
| Total assets, excluding certain amounts | 653,853,516 | 487,102,849 |
| Liabilities | | |
| Incurred But Unpaid Administrative Expenses and Loss Adjustment Expenses (Note 3) | 3,884,705 | 748,612 |
| Net assets, excluding certain amounts | <u>\$649,968,811</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 September 30, 2004</u> | <u>June 11, 2003 (inception of Receivership) to December 31, 2003</u> |
|---|--|---|
| Cash receipts: | | |
| Reinsurance collections - unrestricted | \$92,446,129 | \$126,021,113 |
| Reinsurance collections - restricted | 53,699,125 | - |
| Proceeds from sale of common stock | 20,535,778 | - |
| Salvage, subrogation and other claim recoveries | 9,912,092 | 7,049,340 |
| Net investment income | 7,514,467 | 3,314,684 |
| Agents' balances | 6,970,700 | 1,902,779 |
| Proceeds from sale of certificates of deposit | 4,696,926 | - |
| Receivable collected from USI Re | 1,909,594 | - |
| Return of special deposits | 1,650,071 | - |
| Deposits with outside claim adjusters | 964,062 | - |
| Reimbursement of legal fees | 483,160 | - |
| Proceeds from sale of bonds | 225,000 | - |
| Miscellaneous income | 217,680 | 35,272 |
| Funds held - restricted | 8,017 | 825,673 |
| Funds held - unrestricted | - | 25,016,815 |
| All other | 686,520 | 1,021,314 |
| Total cash receipts | <u>201,919,321</u> | <u>165,186,990</u> |
| Cash operating disbursements: | | |
| Losses and loss expenses paid (Note 1) | 1,904,679 | 14,102,239 |
| Human resources costs | 9,260,431 | 5,973,159 |
| Consultant and outside service fees | 2,756,857 | 7,289,513 |
| General office and rent expense | 2,526,625 | 2,241,936 |
| Legal and audit fees | 1,403,811 | 1,211,546 |
| Computers and equipment cost | 837,861 | 1,185,065 |
| Administration costs | 682,099 | 643,570 |
| Temporary services | 210,325 | 391,409 |
| Third party administrator payments | 103,642 | 620,020 |
| Asset Transfer Agreement cost (Note 4) | - | 7,500,000 |
| All other | 201,432 | 72,070 |
| Total cash operating disbursements | <u>19,887,762</u> | <u>41,230,527</u> |
| Excess of receipts over operating disbursements | <u>182,031,558</u> | <u>123,956,463</u> |
| Beginning cash and marketable securities, at cost | 448,286,724 | 324,330,261 |
| Ending cash and marketable securities, at cost | <u><u>\$630,318,282</u></u> | <u><u>\$448,286,724</u></u> |

See accompanying notes.

The Home Insurance Company in Liquidation

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

| | January 1, 2004 To September 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 | 182,031,558 | 123,956,463 |
| Other changes in net assets: | | |
| Fair value of marketable common stocks, liquid | (18,084,485) | 4,024,275 |
| Fair value of surplus notes, illiquid | 150,220 | - |
| Fair value of common stocks, illiquid | (3,448,440) | 816,546 |
| Fair value of limited partnership interests, illiquid | 3,413,616 | 42,381 |
| Interest income due and accrued | 2,721,137 | 1,346,254 |
| Fixed assets | (36,523) | 492,336 |
| Due from USI Reinsurance | 3,584 | 991,083 |
| Incurred but unpaid administrative expenses | (3,136,093) | 584,364 |
| Net Assets, end of period | <u>\$649,968,811</u> | <u>\$486,354,237</u> |

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

Notes to Financial Statements

September 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>September 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 | \$ 102,220,481 | \$ 46,875 | \$ (53,208) | \$ 102,214,148 |
| Government agencies | 104,858,625 | 16,310 | (126,150) | 104,748,785 |
| Corporate | 138,449,070 | 945,458 | (253,098) | 139,141,430 |
| Mortgage Backed | 55,598,760 | 361,689 | (95,213) | 55,865,236 |
| Asset Backed | <u>6,059,531</u> | <u>-</u> | <u>(19,574)</u> | <u>6,039,957</u> |
| Total | <u>\$ 407,186,467</u> | <u>\$ 1,370,332</u> | <u>\$ (547,243)</u> | <u>\$ 408,009,556</u> |
| | | | | |
| Common Stock | <u>1,627,706</u> | <u>108,958</u> | <u>(1,110,722)</u> | <u>625,942</u> |
| Total Common Stock | <u>\$ 1,627,706</u> | <u>\$ 108,958</u> | <u>\$ (1,110,722)</u> | <u>\$ 625,942</u> |
| | | | | |
| Restricted Marketable Securities | | | | |
| Debt Securities: | | | | |
| U.S. Treasury notes | <u>\$ 53,699,125</u> | <u>\$ -</u> | <u>\$ (285,812)</u> | <u>\$ 53,413,313</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>75,210,750</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 |
| September 30, 2004 | | | | |
| One year or less | \$ 518,285 | \$ 498,186 | \$ 53,699,125 | \$ 53,413,313 |
| Over one year through five years | 273,415,581 | 273,399,856 | - | - |
| Over five years through twenty years | 71,594,310 | 72,206,321 | - | - |
| Mortgage Backed | 55,598,760 | 55,865,236 | - | - |
| Asset Backed | 6,059,531 | 6,039,957 | - | - |
| | <u>\$ 407,186,467</u> | <u>\$ 408,009,556</u> | <u>\$ 53,699,125</u> | <u>\$ 53,413,313</u> |

| Marketable Securities | Unrestricted | | Restricted | |
|----------------------------------|-----------------------|-----------------------|-------------|-------------|
| | Cost | Fair Value | Cost | Fair Value |
| December 31, 2003 | | | | |
| Over one year through five years | \$ 174,531,250 | \$ 175,742,000 | \$ - | \$ - |
| | <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 September 30, 2004 are as follows:

| | |
|-------------------------------------|--------------------|
| Human resources costs | \$3,315,330 |
| Consultant and outside service fees | 315,363 |
| Legal and auditing fees | 156,299 |
| General office and rent expense | 50,511 |
| Temporary services | 28,187 |
| Computers and equipment costs | 6,655 |
| Other administration costs | <u>12,360</u> |
| | <u>\$3,884,705</u> |

Substantially all full-time employees of 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 \$3,315,330 of incentive plan costs.

4) Receivable from US International Reinsurance Company (USI Re)

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 Statement of Net Assets. 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, USI Re. The amount receivable from USI Re related to the Asset Transfer Agreement is reflected on the Statement of Net Assets net of payments received of \$1,782,087.

Additionally, on July 26, 2004, Home received \$127,482 from USI Re for administrative expenses incurred by Home on behalf of USI Re.

The Home Insurance Company in Liquidation ("Home")
(Modified Cash Basis)
(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 September 30, 2004 financial statement presentation.