

THE HOME INSURANCE COMPANY IN LIQUIDATION

Financial Statements (Modified Cash Basis)

**March 31, 2005 and December 31, 2004
(Unaudited)**

The Home Insurance Company In Liquidation

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

	<u>March 31, 2005</u>	<u>December 31, 2004</u>
Assets		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$488,605,549	\$425,845,179
Short-term investments	87,600,622	90,609,091
Certificates of deposit	156,556	156,556
Cash and cash equivalents	<u>37,153,839</u>	<u>88,031,228</u>
Total unrestricted bonds, short-term investments and cash at cost	613,516,566	604,642,054
Common stocks, marketable, at market value (Note 2)	326,093	396,748
Interest income due and accrued	<u>4,720,683</u>	<u>4,064,169</u>
Total unrestricted liquid assets	618,563,342	609,102,971
Unrestricted illiquid assets: (Note 1)		
Surplus notes, at fair value	129,200	129,200
Common stocks, at fair value	9,789,156	14,000,000
Limited partnership interests, at fair value	<u>3,421,973</u>	<u>3,497,773</u>
Total unrestricted illiquid assets	13,340,329	17,626,973
Restricted liquid assets:		
Bonds, at cost (Note 2)	53,699,125	53,699,125
Cash and cash equivalents (Note 5)	<u>846,756</u>	<u>848,689</u>
Total restricted liquid assets	54,545,881	54,547,814
Fixed assets (net of accumulated depreciation of \$330,006 and \$270,708)	393,191	424,106
Receivable from US International Reinsurance Company (Note 4)	<u>1,115,913</u>	<u>1,115,913</u>
Total assets, excluding certain amounts	687,958,656	682,817,777
Liabilities		
Incurred but unpaid administrative expenses and investment expenses (Note 3)	2,442,919	5,608,065
Reserve related to real estate tax refund (Note 6)	5,245,113	5,245,113
Net assets, excluding certain amounts	<u>\$680,270,624</u>	<u>\$671,964,599</u>

See accompanying notes.

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)

	January 1, 2005 To March 31, 2005	January 1, 2004 To December 31, 2004
Cash receipts:		
Return of special deposits	\$ 13,340,849	\$ 2,070,071
Repatriation of funds - Canadian branch (Note 7)	12,000,000	-
Net investment income	6,608,279	13,303,931
Receivable from Zurich	4,344,793	-
Proceeds from distribution by subsidiary (Note 1)	4,249,800	-
Proceeds from sale of certificates of deposit	4,180,000	4,696,926
Salvage, subrogation and other claim recoveries	2,843,844	11,893,537
Reinsurance collections - unrestricted	2,363,719	99,926,205
Reinsurance collections - restricted	-	53,699,125
Proceeds from sale of common stock	-	20,535,778
Real estate tax refund (Note 6)	-	16,455,195
Agents' balances	1,514,908	8,792,572
Receivable collected from USI Re	114,785	1,968,778
Deposits with outside claim adjusters	-	1,277,774
Reimbursement of legal fees	-	483,160
Miscellaneous income	14,784	230,105
Proceeds from sale of bonds	-	225,000
Partial redemption of surplus notes	-	107,500
Sale of subsidiaries	-	30,483
Funds held - restricted	-	23,017
All other	101,385	1,216,656
Total cash receipts	51,677,146	236,935,813
Cash operating disbursements:		
Human resources costs	5,799,323	11,816,178
Losses and loss expenses paid (Note 1)	338,326	2,226,324
Consultant and outside service fees	1,361,110	3,489,852
General office and rent expense	728,956	3,308,640
Legal and audit fees	465,233	1,790,892
Administration costs	398,458	745,462
Computers and equipment cost	151,961	1,039,481
Investment expenses	120,803	13,642
Temporary services	80,809	300,352
Third party administrator payments	-	50,002
All other (Note 6)	3,359	1,251,844
Total cash operating disbursements	9,448,336	26,032,668
Excess of receipts over operating disbursements	42,228,810	210,903,145
Distributions to state guaranty associations (Note 8)	33,356,229	-
Net receipts over disbursements	8,872,580	210,903,145
Beginning cash and marketable securities, at cost	659,189,868	448,286,724
Ending cash and marketable securities, at cost	\$ 668,062,448	\$ 659,189,869

See accompanying notes.

The Home Insurance Company in Liquidation

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

	January 1, 2005 To March 31, 2005	January 1, 2004 To December 31, 2004
Net Assets, beginning of period	\$671,964,599	\$486,354,237
Excess of unrestricted and restricted receipts over operating disbursements	8,872,580	210,903,145
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(70,655)	(18,313,679)
Fair value of surplus notes, illiquid	-	129,200
Fair value of common stocks, illiquid	(4,210,844)	(3,144,990)
Fair value of limited partnership interests, illiquid	(75,800)	3,410,488
Interest income due and accrued	656,514	2,674,165
Fixed assets	(30,915)	(68,230)
Due from USI Reinsurance	-	124,830
Incurred but unpaid administrative and investment expenses	3,165,145	(4,859,454)
Reserve related to real estate tax refund (Note 6)	-	(5,245,113)
Net Assets, end of period	\$680,270,624	\$671,964,599

See accompanying notes.

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

Notes to Financial Statements

March 31, 2005

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) 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 (2) 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. In February 2005, Home consented to the voluntary dissolution of a subsidiary classified as an unrestricted illiquid asset, and received \$4.2 million as part of the first distribution to shareholders.

This statement does not include any assets of Home's branches outside of the United States; see Note 7 regarding repatriation of Canadian branch assets.

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:

	March 31, 2005			Fair Value
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Unrestricted Marketable Securities				
Debt Securities:				
U.S. Treasury notes	\$ 50,918,481	\$ -	\$ (661,359)	\$ 50,257,122
Government agencies	165,191,525	2,715	(2,406,889)	162,787,351
Corporate	148,333,151	66,894	(3,404,060)	144,995,985
Mortgage Backed	109,779,721	30,526	(1,192,799)	108,617,448
Asset Backed	<u>14,382,671</u>	<u>-</u>	<u>(226,407)</u>	<u>14,156,264</u>
Total	<u>\$ 488,605,549</u>	<u>\$ 100,135</u>	<u>\$ (7,891,514)</u>	<u>\$ 480,814,170</u>
Common Stock	<u>1,627,706</u>	<u>115,256</u>	<u>(1,416,869)</u>	<u>326,093</u>
Total Common Stock	<u>\$ 1,627,706</u>	<u>\$ 115,256</u>	<u>\$ (1,416,869)</u>	<u>\$ 326,093</u>
Restricted Marketable Securities				
Debt Securities:				
Total U.S. Treasury notes	<u>\$ 53,699,125</u>	<u>\$ -</u>	<u>\$ (117,688)</u>	<u>\$ 53,581,437</u>

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

Notes to Financial Statements (continued)

December 31, 2004				
Unrestricted		Gross	Gross	Fair
Marketable Securities	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Debt Securities:				
U.S. Treasury notes	\$ 52,431,419	\$ -	\$ (351,483)	\$ 52,079,936
Government agencies	150,245,925	-	(575,829)	149,670,096
Corporate	141,439,770	820,194	(767,393)	141,492,571
Mortgage Backed	73,594,921	321,156	(80,874)	73,835,203
Asset Backed	8,133,144	1,138	(45,326)	8,088,956
Total	<u>\$ 425,845,179</u>	<u>\$ 1,142,488</u>	<u>\$ (1,820,905)</u>	<u>\$ 425,166,762</u>
Common Stock	<u>1,627,706</u>	<u>116,595</u>	<u>(1,347,553)</u>	<u>396,748</u>
Total Common Stock	<u>\$ 1,627,706</u>	<u>\$ 116,595</u>	<u>\$ (1,347,553)</u>	<u>\$ 396,748</u>
Restricted				
Marketable Securities				
Debt Securities:				
Total U.S. Treasury notes	<u>\$ 53,699,125</u>	<u>\$ -</u>	<u>\$ (269,000)</u>	<u>\$ 53,430,125</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 Debt Securities	Unrestricted		Restricted	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
March 31, 2005				
One year or less	\$ 518,286	\$ 487,122	\$ 53,699,125	\$ 53,581,437
Over one year through five years	263,515,461	258,685,505	-	-
Over five years through twenty years	100,409,410	98,867,831	-	-
Mortgage Backed	109,779,721	108,617,448	-	-
Asset Backed	<u>14,382,671</u>	<u>14,156,264</u>	-	-
Total	<u>\$ 488,605,549</u>	<u>\$ 480,814,170</u>	<u>\$ 53,699,125</u>	<u>\$ 53,581,437</u>

Marketable Debt Securities	Unrestricted		Restricted	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
December 31, 2004				
One year or less	\$ 518,286	\$ 491,972	\$ 53,699,125	\$ 53,430,125
Over one year through five years	245,090,598	243,725,101	-	-
Over five years through twenty years	98,508,230	99,025,530	-	-
Mortgage Backed	73,594,921	73,835,203	-	-
Asset Backed	<u>8,133,144</u>	<u>8,088,956</u>	-	-
Total	<u>\$ 425,845,179</u>	<u>\$ 425,166,762</u>	<u>\$ 53,699,125</u>	<u>\$ 53,430,125</u>

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

Notes to Financial Statements (continued)

3) Incurred But Unpaid Administrative Expenses and Investment Expenses

Accrued administrative expenses incurred in the normal course of Home's liquidation, but unpaid as of March 31, 2005, are as follows:

Human resources costs	\$960,416
Computers and equipment costs	652,487
Consultant and outside service fees	298,112
Legal and auditing fees	158,305
General office and rent expense	72,580
Temporary services	22,283
Other administration costs	<u>12,274</u>
Total accrued administrative expenses	<u>\$2,176,457</u>
Accrued investment expenses	<u>266,462</u>
Total accrued expenses	<u>\$2,442,919</u>

Substantially all full-time employees of Home are covered by various employee incentive plans, which were approved by Merrimack County Superior Court of the State of New Hampshire (the Court) on March 4, 2005. The costs of these plans are primarily payable in 2006, but are based on 2005 service and were accrued over the service period in 2005. Accrued administrative expense includes \$960,416 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 since June 11, 2003.

Additionally, in January 2005, October 2004 and July 2004, Home received \$114,972, \$66,508 and \$127,482, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re.

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

(Notes to Financial Statements (continued))

5) Restricted Funds

The Liquidator has drawn down on letters of credit (LOC) upon receiving notices of cancellation or notices of non-renewal from the issuing bank. Such LOC draw downs relate to insurance losses not yet proven and/or settled and are recognized as restricted cash receipts. Restricted funds will be recognized as unrestricted reinsurance recoveries when such balances are proven and/or settled between the beneficial owner and the Liquidator. Since the inception of the liquidation, restricted funds applied to reinsurance recoveries total \$846,756.

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) Real Estate Tax Refund

In December 2004, the Liquidator collected \$16,455,195 in a tax settlement with New York City concerning the property at 59 Maiden Lane, New York, New York ("59 Maiden Lane"). The tax settlement results in a refund of real estate tax for the years' 1991/92 through 1995/96. In connection with this settlement, \$1,210,082 was paid as a legal contingency fee and a reserve of \$5,245,113 was established for amounts that may be payable to other tenants of 59 Maiden Lane.

7) Canadian Branch

On February 8, 2005, the Canadian Provisional Liquidator of Home's Canadian Branch repatriated \$12 million in US dollars to the Liquidator. The Canadian Provisional Liquidator converted a total of approximately \$20 million in US dollars in preparation for potential repatriation to the Liquidator in 2005, and the Liquidator expects to receive additional releases in 2005 from Home's Canadian branch assets.

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Notes to Financial Statements (continued)

8) Securities on Deposit

Investments on deposit at the original cost with various states were \$15,602,636, \$36,992,979 and \$73,947,287 at March 31, 2005, December 31, 2004 and June 11, 2003, respectively. As described in Note 1, the Liquidating Company does not record the amount of these assets, as such amounts have not been settled and agreed to with the states.

Five states have withdrawn such deposits at par value of \$40,759,110, and market value as of March 31, 2005 of \$42,205,948, for use by the related state guaranty associations, and these amounts may be offset against future distributions to such guaranty associations.

9) Early Access Distribution

On October 15, 2004, the Court approved a first early access distribution to insurance guaranty associations based on reported guaranty association payments less recoveries through June 30, 2004, contingent on various matters occurring subsequent to December 31, 2004. The amount approved for distribution through payments or offsets was \$40.9 million.

In February 2005 and April 2005, the Liquidator paid \$33,356,229 and \$181,254, respectively, representing early access distributions to certain state guaranty associations as approved by the Court. The Liquidator may periodically make additional early access distributions in the future, subject to Court approval.

10) Allowed Claims

As of March 31, 2005, the Liquidator has allowed, and the Court has approved, \$9,221,894 dollars of Class II claims and \$6,246,621 of Class V claims. It is management's judgement that there will not be sufficient assets to make distributions on allowed claims below the Class II priority. Distributions on allowed claims will depend on the amount of assets available for distribution and the allowed claims in each successive priority class under New Hampshire RSA 402-C: 44.