

**THE HOME INSURANCE COMPANY IN LIQUIDATION**

**Financial Statements (Modified Cash Basis)**

December 31, 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>December 31, 2004</u>	<u>December 31, 2003</u>
<b>Assets</b>		
Unrestricted bonds, short-term investments and cash at cost:		
Bonds (Note 2)	\$425,845,179	\$174,531,250
Short-term investments	90,609,091	151,422,458
Certificates of deposit	156,556	321,943
Cash and cash equivalents	<u>88,031,228</u>	<u>121,185,400</u>
<b>Total unrestricted bonds, short-term investments and cash at cost</b>	<b>604,642,054</b>	<b>447,461,051</b>
Common stocks, marketable, at market value (Note 2)	396,748	18,710,427
Interest income due and accrued	<u>4,064,169</u>	<u>1,390,004</u>
<b>Total unrestricted liquid assets</b>	<b>609,102,971</b>	<b>467,561,482</b>
Unrestricted illiquid assets: ( Note 1)		
Surplus notes, at fair value	129,200	-
Common stocks, at fair value	14,000,000	17,144,990
Limited partnership interests, at fair value	<u>3,497,773</u>	<u>87,285</u>
<b>Total unrestricted illiquid assets</b>	<b>17,626,973</b>	<b>17,232,275</b>
Restricted liquid assets:		
Bonds, at cost (Note 2)	53,699,125	-
Cash and cash equivalents (Note 5)	<u>848,689</u>	<u>825,673</u>
<b>Total restricted liquid assets</b>	<b>54,547,814</b>	<b>825,673</b>
Fixed assets (net of accumulated depreciation of \$270,708 and \$61,054)	424,106	492,336
Receivable from US International Reinsurance Company (Note 4)	<u>1,115,913</u>	<u>991,083</u>
<b>Total assets, excluding certain amounts</b>	<b>682,817,777</b>	<b>487,102,849</b>
<b>Liabilities</b>		
Incurring but unpaid administrative expenses and loss adjustment expenses (Note 3)	5,354,396	748,612
Reserve related to real estate tax refund (Note 6)	<u>5,245,113</u>	-
<b>Net assets, excluding certain amounts</b>	<b><u>\$672,218,268</u></b>	<b><u>\$486,354,237</u></b>

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)

	<u>January 1, 2004 To December 31, 2004</u>	<u>June 11, 2003 (inception of Receivership) to December 31, 2003</u>
<b>Cash receipts:</b>		
Reinsurance collections - unrestricted	\$99,926,205	\$126,021,113
Reinsurance collections - restricted	53,699,125	-
Proceeds from sale of common stock	20,535,778	-
Real estate tax refund (Note 6)	16,455,195	-
Net investment income	13,303,931	3,314,684
Salvage, subrogation and other claim recoveries	11,893,537	7,049,340
Agents' balances	8,792,572	1,902,779
Proceeds from sale of certificates of deposit	4,696,926	-
Return of special deposits	2,070,071	-
Receivable collected from USI Re	1,968,778	-
Deposits with outside claim adjusters	1,277,774	-
Reimbursement of legal fees	483,160	-
Miscellaneous income	230,105	35,272
Proceeds from sale of bonds	225,000	-
Partial redemption of surplus notes	107,500	-
Sale of Glendale/Briarpark	30,483	-
Funds held - restricted	23,017	825,673
Funds held - unrestricted	-	25,016,815
All other	1,216,656	1,021,314
<b>Total cash receipts</b>	<b><u>236,935,813</u></b>	<b><u>165,186,990</u></b>
<b>Cash operating disbursements:</b>		
Losses and loss expenses paid (Note 1)	2,226,324	14,102,239
Human resources costs	11,816,178	5,973,159
Consultant and outside service fees	3,489,852	7,289,513
General office and rent expense	3,308,640	2,241,936
Legal and audit fees	1,790,892	1,211,546
Computers and equipment cost	1,039,481	1,185,065
Administration costs	745,462	643,570
Temporary services	300,352	391,409
Third party administrator payments	50,002	620,020
Investment expenses	13,642	-
Asset Transfer Agreement cost (Note 4 )	-	7,500,000
All other (Note 6)	1,251,844	72,070
<b>Total cash operating disbursements</b>	<b><u>26,032,668</u></b>	<b><u>41,230,527</u></b>
Excess of receipts over operating disbursements	<b><u>210,903,144</u></b>	<b><u>123,956,463</u></b>
Beginning cash and marketable securities, at cost	448,286,724	324,330,261
<b>Ending cash and marketable securities, at cost</b>	<b><u>\$659,189,868</u></b>	<b><u>\$448,286,724</u></b>

See accompanying notes.

## The Home Insurance Company in Liquidation

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

	<u>January 1, 2004 To December 31, 2004</u>	<u>June 11, 2003 (inception of Receivership) to December 31, 2003</u>
Net Assets, beginning of period	\$486,354,237	\$354,100,535
Excess of unrestricted and restricted receipts over operating disbursements	210,903,144	123,956,463
Other changes in net assets:		
Fair value of marketable common stocks, liquid	(18,313,679)	4,024,275
Fair value of surplus notes, illiquid	129,200	-
Fair value of common stocks, illiquid	(3,144,990)	816,546
Fair value of limited partnership interests, illiquid	3,410,488	42,381
Interest income due and accrued	2,674,165	1,346,254
Fixed assets	(68,230)	492,336
Due from USI Reinsurance	124,830	991,083
Incurred but unpaid administrative expenses	(4,605,784)	584,364
Reserve related to real estate tax refund (Note 6)	(5,245,113)	-
Net Assets, end of period	<u>\$672,218,268</u>	<u>\$486,354,237</u>

See accompanying notes.

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

Notes to Financial Statements

December 31, 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:

	<b>December 31, 2004</b>			
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Unrestricted Marketable Securities</b>				
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	<u>8,133,144</u>	<u>1,138</u>	<u>(45,326)</u>	<u>8,088,956</u>
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>
<b>Restricted Marketable Securities</b>				
Debt Securities:				
U.S. Treasury notes	<u>\$ 53,699,125</u>	<u>\$ -</u>	<u>\$ (269,000)</u>	<u>\$ 53,430,125</u>

	<b>December 31, 2003</b>			
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Unrestricted Marketable Securities</b>				
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 Debt Securities	Unrestricted		Restricted	
	Cost	Fair Value	Cost	Fair Value
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	8,133,144	8,088,956	-	-
	<u>\$ 425,845,179</u>	<u>\$ 425,166,762</u>	<u>\$ 53,699,125</u>	<u>\$ 53,430,125</u>

Marketable Debt 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, but unpaid as of December 31, 2004, are as follows:

Human resources costs	\$3,149,946
Consultant and outside service fees	981,740
Computers and equipment costs	730,989
Legal and auditing fees	195,136
General office and rent expense	67,819
Temporary services	23,280
Other administration costs	<u>205,486</u>
	<u>\$5,354,396</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 were accrued over the service period in 2004. Accrued administrative expense includes \$3,149,093 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, in July and October 2004, Home received \$127,482 and \$66,508, respectively, from USI Re for administrative expenses incurred by Home on behalf of USI Re.



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

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 \$848,689.

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) 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) Securities on Deposit**

Investments on deposit at the original cost with various states were \$36,992,979, \$44,435,212 and \$73,947,287 at December 31, 2004, December 31, 2003 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.

Three states have withdrawn such deposits in the amount of \$34,583,881 for use by the related state guaranty associations, and these amounts may be offset against future distributions to such guaranty associations.

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

Notes to Financial Statements (continued)

**8) 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.

**9) Restatement of Prior Financial Statement**

The December 31, 2003 financial statements have been restated to conform to the December 31, 2004 financial statement presentation.