

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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In the Matter of:

PROPOSED ACQUISITION OF CONTROL OF:
HOMESITE INSURANCE COMPANY, a Connecticut
domiciled insurance company

Docket No. EX 07-147

by

ALLEGHANY INSURANCE HOLDINGS LLC,
a Delaware limited liability company
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ORDER

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having read the record of the above captioned matter, do hereby adopt the findings and recommendations of Kathy Belfi, Hearing Officer, which are contained in the attached Proposed Final Decision dated May 27, 2008 and issue the following orders,

TO WIT:

1. The Form A Application of the Applicant in which they seek approval to acquire control of Domestic Insurer be approved.
2. The Applicant and Domestic Insurer shall comply with their commitments as set forth in the Proposed Final Decision.
3. The Applicant shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.

4. For a period of two (2) years, the Applicant shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, any change to the business of the Domestic Insurer; changes in offices of the Domestic Insurer; charitable contributions made to Connecticut entities; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant or the Domestic Insurer.

5. The Applicant should provide the Department with the names and titles of those individuals who will be responsible for filing an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies and transactions subject to prior notice pursuant to section 38a – 138 – 13 of the Regulations of Connecticut Agencies.

6. Within seven (7) days of consummation of the Proposed Acquisition, the Domestic Insurer shall file a request for a waiver of the requirements of section 38a-136(i) of the Connecticut General Statutes.

7. Within fifteen (15) days following the end of the month in which the Proposed Acquisition is consummated, the Domestic Insurer shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.

8. If the Proposed Acquisition is not consummated within three (3) months of the date of this Order and the Applicant intends to consummate the Proposed Acquisition, the Applicant shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicants' inability to consummate the Proposed Acquisition; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicant and the Domestic Insurer.

9. The Domestic Insurer shall meet with the appropriate Insurance Department staff prior to making any material change to its business plan.

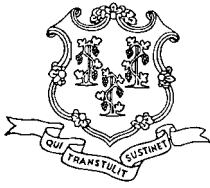
10. The Domestic Insurer shall, at all times, maintain their books, records and assets in Boston, Massachusetts unless otherwise approved by the Commissioner pursuant to Connecticut Law and consistent with the terms of the Form A Application.

11. The Applicant shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 27th day of May, 2008



Thomas R. Sullivan
Commissioner



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PROPOSED FINAL DECISION

I. INTRODUCTION

On December 7, 2006, Alleghany Insurance Holding LLC, a Delaware limited liability company ("AIH" or "Applicant") filed a request with the Connecticut Insurance Department (the "Department") pursuant to section 38a-133 of the Connecticut General Statutes for an exemption from change in control ("Exemption") of Homesite Insurance Company ("Homesite" or "Domestic Insurer"), a Connecticut domiciled insurance company that is a wholly-owned subsidiary of Homesite Group Incorporated ("HGI"), upon the consummation of the proposed transaction ("Proposed Transaction") pursuant to the terms of the Stock Purchase Agreement dated as of December 5, 2006, between the Applicant and HGI (the "Acquisition Agreement"). The Applicant requested the Exemption based on its claim that in spite of obtaining 32.9% of the issued and outstanding shares of stock through the Proposed Transaction, the Applicant would neither become a party to the Shareholders Agreement in force at the time between Homesite Group Incorporated, The Plymouth Rock Company Incorporated, James M.

Stone, Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., Morgan Stanley Capital Investors, L.P. and HDC Investors, L.P. nor would it assume a place on the board of directors of HGI. Absent these rights, the Applicant claimed the Proposed Transaction was not made or entered into for the purpose of, and did not have the effect of, changing or influencing the control of the Domestic Insurer.

The Department requested additional materials on December 12, 2006. The Applicant filed the additional requested material with the Department on December 19, 2006; on December 28, 2006, the Department issued the Exemption. On December 29, 2006, the Applicant and HGI closed on the Proposed Transaction.

On November 7, 2007, the Applicant filed an Application on Form A ("Application") with the Department pursuant to sections 38a-129 to 38a-140 of the Connecticut General Statutes requesting approval by the Insurance Commissioner of the State of Connecticut ("Commissioner") for the proposed acquisition of control ("Proposed Acquisition") of Homesite. Supplemental information was subsequently requested by the Department and provided by the Applicant. The Application, which reflected no change in control by lacking a new Shareholders Agreement to which the Applicant would be included as a party, or any commitment by the parties to the current Shareholders Agreement that the Applicant would be granted board representation, was rejected by the Department as not being ripe.

On February 6, 2008, the Applicant submitted a letter dated January 22, 2008 executed by Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P. and HDC Investors, L.P., evidencing a commitment to the Applicant obtaining board representation ("Commitment Letter"). MSCP and HDC gave full support to the appointment of Weston M. Hicks, President and CEO of the Applicant and James P. Slattery, Senior Vice President of the Applicant, to the board of directors of Homesite. On February 6, 2008, the Applicant filed an amended Application with the Department

containing the proposed Shareholders Agreement and the Commitment Letter. By letter dated March 10, 2008, supplemental information was requested by the Department and provided by the Applicant on March 25, 2008.

On April 1, 2008, the Applicant notified the Department of a change to the proposed new directors. James P. Slattery announced his decision to retire from the Applicant by July 1, 2008; the Applicant replaced him with Christopher K. Dalrymple, Vice President and Associate General Counsel of Alleghany Corporation, the Applicant's parent company.

An amended Application was requested by the Department on April 2, 2008, and filed with the Department on April 9, 2008.

On April 22, 2008, the Commissioner issued a notice of hearing, in which he ordered that a public hearing concerning the Application for approval of the Proposed Acquisition be held on May 20, 2008, to consider the Commissioner granting approval of the Proposed Acquisition. A copy of the notice for this public hearing was published in *Hartford Courant* once a week for two consecutive weeks and it was filed with the Office of the Secretary of State. In addition, this notice was posted on the Insurance Department's internet website. This notice indicated that the entire official record of this proceeding was available for public inspection at the Insurance Department, and that the Department was accepting written statements concerning the proposed acquisition of control of the Insurer. In accordance with section 38a-8-48 of the Regulations of the Connecticut State Agencies, the following were designated as parties to this proceeding: the Applicant and the Domestic Insurer.

The following individuals participated in and/or testified at the public hearing on behalf of the Applicant and the Domestic Insurer:

James P. Slattery and Christopher K. Dalrymple represented the Applicant by appearing telephonically.

Susan Anderson represented the Domestic Insurer.

Aileen Meehan, Esq. of Dewey & LeBoeuf LLP represented the Applicants.

The following Department staff participated in the public hearing:

Beth Cook, Esq., Counsel, and Joan Nakano, Supervising Insurance Examiner, Financial Analysis & Compliance.

Pursuant to the published hearing notice, the public was given an opportunity to speak at the hearing or to submit written comments no later than the close of business on May 16, 2008 by an Order dated April 22, 2008. No public officials or members of the public signed up to speak, spoke at the hearing, or submitted written testimony.

II. FINDINGS OF FACT

After reviewing the exhibits entered into the record of this proceeding, and based on the written and oral testimony of the witnesses, the undersigned makes the following findings of fact:

1. The Applicant is a Delaware limited liability company and a direct, wholly-owned subsidiary of Alleghany Corporation, a publicly traded corporation listed on the New York Stock Exchange.

2. The principle business address of the Applicant is 7 Times Square Tower, 17th Floor, New York, New York 10036.

3. The Applicant is engaged through its direct subsidiaries RSUI Group, Inc., AIHL Re LLC, Capital Transamerica Corporation, Darwin Group Inc. and Employers Direct Corporation in the property and casualty insurance and reinsurance business and in the business of writing workers' compensation insurance on the direct basis in the state of California.

4. The Domestic Insurer is an indirect, wholly-owned subsidiary of HGI providing homeowners insurance.

5. The principal business address of the Domestic Insurer is 99 Bedford Street, Boston, Massachusetts 02111.

6. In 1997, in connection with the formation of HGI, the founding shareholders entered into a Shareholders Agreement subsequently replaced by an Amended and Restated Shareholders Agreement dated February 27, 2004.

7. On December 2006, the shareholder parties to the Shareholders Agreement represented approximately 88% of the issued and outstanding shares of common stock of HGI.

8. The Shareholders Agreement governed, among other things, the composition of the Board of Directors, provisions regarding board composition and was scheduled to expire on October 21, 2007. The expiration date has been postponed twice. It has been extended first to December 14, 2007 and then to June 2, 2008.

9. According to the Acquisition Agreement dated December 5, 2006, on December 29, 2006, the Applicant purchased 85,714 shares of common stock of HGI ("Shares") representing approximately 32.9% of the issued and outstanding shares of common stock of HGI for consideration of \$119,999,600.

10. The Applicant utilized cash on hand, together with a cash capital contribution that was made to the Applicant by Alleghany Corporation, to fund the payment of the purchase price for the Shares.

11. No loans were a source of any of the consideration to purchase the Shares.

12. Since December 29, 2006, neither the Applicant, any of its affiliates, any of the directors or officers of the Applicant has purchased any additional voting securities of HGI; joined the Shareholders Agreement; or become represented on the board of directors of HGI.

13. Other than with respect to the Acquisition Agreement, neither the Applicant, nor any of its affiliates nor any director or executive officer of the Applicant owns beneficially for its own account any of the voting securities of either Homesite or HGI.

14. Neither the Applicant, any of its affiliates, any of the directors or executive officers of the Applicant, or, to best knowledge of the Applicant, any person based upon interviews or at the suggestion of any of such persons, has made any recommendations to acquire any voting security of Homesite or HGI during the twelve calendar months preceding the filing of the last amended application;

15. In January 2008, Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, L.P., HDC Investors, L.P and the Applicant agreed to enter into a new shareholders agreement that would address the composition of the HGI board;

16. The new shareholders agreement will represent about 79.2% of the issued and outstanding shares of common stock of HGI and will give to the Applicant the opportunity to appoint two members to the Board of Directors of HGI;

17. The following are the current members of the board of directors of the Applicant:

- Weston M. Hicks, Chair;
- Roger B. Gorham;
- James P. Slattery.

18. The following are the current executive officers of the Applicant:

- Weston M. Hicks, Chief Executive Officer;
- Roger B. Gorham, President;
- James P. Slattery, Senior VP;
- Robert M. Hart, General Counsel;
- Christopher K. Dalrymple, Secretary;
- Peter R. Sismondo, Treasurer.

19. The following are the current member of the Board of Directors of HGI:

- James M. Stone;
- Fabian Fondriest;
- James Bailey;
- Sandra Urie;
- Harold Beldoff;
- Howard Hoffen;
- Mitch Merin;
- Kerry Emanuel;
- Eric Fry

20. On April 2, 2008, Morgan Stanley Capital Partners III, L.P., MSCP III 892 Investors, LP. and HDC Investors, L.P, signed a letter confirming their full support to the appointment of Weston M. Hicks and Christopher K. Dalrymple to HGI board, which was submitted to the Department on April 9, 2008;

21. The Applicant will appoint two new directors to the HGI board of Directors:

- Weston M. Hicks
- Christopher K. Dalrymple

22. Weston M. Hicks and Christopher K. Dalrymple will fill the vacancies expected to be created by the anticipated resignation of James M. Stone and Harold Beledoff ;

23. The biographical affidavits of the new members of the boards of directors and officers of HGI, which include each individual's educational background, professional credentials, and employment history, are included in the record and the files of the Insurance Department;

24. The Applicant plans for HGI to continue to implement its current business plan that has been filed with the Insurance Department.

25. The Applicant has no plan or proposal to cause HGI to declare an extraordinary dividend or make other distributions, to liquidate HGI, to sell its assets, to merge or cause it to consolidate with any person or persons, to make any other material change in HGI's business operations, corporate structure or management, or to cause HGI to enter into material contracts, agreements, arrangements, understanding or transactions of any kind with any party.

26. There are no contracts, arrangements, understandings or agreements with broker-dealers as to the solicitation of any voting security of HGI in which the

Applicant, any affiliates of the Applicant, or any person listed as a director or executive officer of the Applicant is involved.

27. The change of control will not substantially lessen competition of insurance in the State of Connecticut or tend to create a monopoly therein.

III. **DISCUSSION**

Section 38a-132(b) of the Connecticut General Statutes specifically requires the approval of the proposed acquisition of control of the Domestic Insurer unless it is determined that:

- (A) After the change of control, the Domestic Insurer would not be able to satisfy the requirements for the issuance of a license to write the lines of business for which it is presently licensed;
- (B) The effect of the merger or other acquisition of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly in Connecticut;
- (C) The financial condition of the acquiring party is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interests of its policyholders;
- (D) The plans or proposals which the acquiring party has to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest;
- (E) The competence, experience and integrity of those persons who would control the operations of the Domestic Insurer are such that it would not be in the

interest of the policyholders of the Domestic Insurer and of the public to permit the merger or other acquisition of control; or

(F) The acquisition of control of the Domestic Insurer is likely to be hazardous or prejudicial to those buying insurance.

A. The ability of the Domestic Insurer to satisfy the requirements for the issuance of a license to write the line or lines of business for which it is presently licensed following the proposed acquisition of control.

The Domestic Insurer is a domestic insurance company currently licensed pursuant to section 38a-41 of the Connecticut General Statutes. Section 38a-72 of the Connecticut General Statutes requires that a domestic stock property-casualty multiline insurance company must have a minimum of \$2,000,000 in capital and \$2,000,000 in paid-in surplus in the aggregate. The Domestic Insurer currently satisfies the requirements for the issuance of a license to write the lines of business for which it is licensed.

As noted in the findings of fact, following the appointment of the two directors to the HGI's board, the Applicant have no plans or proposals to liquidate the Domestic Insurer, to sell its assets, merge, or consolidate the Domestic Insurer with any other person or entity. There are no plans for the Domestic Insurer to enter into any material contract, agreement, arrangement or transaction of any kind with any person or entity.

The Applicant also submitted evidence that the information contained in the biographical affidavits for the directors and officers of Applicant proposed for HGI attest to the competence, experience and integrity of the individuals who will be responsible for the governance and operation of the Domestic Insurer, and should insure the safe and expert operation of the Domestic Insurer following the change of control.

Accordingly, it is the conclusion of the Insurance Department that the evidence contained in the record supports a finding that the Applicant will be able to satisfy the

requirements for the issuance of the necessary license of an insurer for which it is presently licensed following the proposed acquisition of control of the Domestic Insurer.

B. Whether the effect of the proposed change of control would be to substantially lessen competition of insurance in this state or tend to create a monopoly herein.

The Applicant does not currently transact direct insurance business in Connecticut in the homeowners' insurance line. Therefore, it is hereby concluded that the effect of the acquisition of control by the Applicant will not substantially lessen competition of insurance or tend to create a monopoly in Connecticut.

C. Whether the financial condition of the Applicant is such as might jeopardize the financial stability of the Domestic Insurer or prejudice the interests of their policyholders.

Based on the written testimony and the evidence contained in the record, there is no evidence that would indicate the financial condition of the Applicant might jeopardize the financial condition of the Domestic Insurer, or prejudice the interest of the policyholders.

D. Whether the plans or proposals which the Applicant has to liquidate the Domestic Insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurer and not in the public interest.

The record reveals that the Applicant has no current plans or proposals to liquidate the Domestic Insurer, to sell its assets, or consolidate or merge it with any other entity.

Accordingly, the record supports the conclusion that there are no plans or proposals for the Domestic Insurer that are unfair and unreasonable to policyholders of the Domestic Insurer or not in the public interest.

E. Whether the competence, experience and integrity of those persons who would control the operation of the Domestic Insurer are such that it would not be in the interest of the policyholders of the Domestic Insurer and of the public to permit the proposed change of control or other acquisition of control.

The record includes the biographical affidavits of those individuals who will serve as members of the board and as officers of the Applicant and HGI following the change of control. The biographical affidavits disclose each individual's educational background, professional credentials and their employment history. In addition, the Applicant has represented, and the biographical affidavits confirm, that during the last ten years none of the proposed directors or officers of the Applicant and HGI have been convicted in a criminal proceeding (excluding minor traffic violations) or have been convicted or otherwise penalized for violating any federal or state law regulating the business of insurance securities or banking, (or in the case of an alien person, such equivalent provision as applicable). During the last ten years, none of the proposed directors or officers of the Applicant have been the subject of any proceeding under the Federal Bankruptcy Code, (or in the case of an alien person, such equivalent provision as applicable) or have been affiliated with a business or organization which has been subject to such proceeding.

Furthermore, no proposed director or officer of the Applicant or HGI has had a revocation, suspension or disciplinary sanction imposed against him or her by an insurance regulator. None of the filed biographical affidavits contain any information that reflects negatively on the integrity of these individuals. The competence, experience, and integrity of those persons who would control the operations of the HGI after the

change of control is such that it would be in the interest of policyholders of the Domestic Insurer, and in the public interest to permit the proposed change of control.

F. Whether the acquisition is likely to be hazardous or prejudicial to those buying insurance.

Based on the financial strength of the Applicant, the affirmation that the current plans of the Applicant for the Domestic Insurer will provide a strong and stable financial environment for the Domestic Insurer, and assuming compliance with all of Connecticut's insurance statutes and regulations, it is reasonable to conclude that the proposed acquisition of control of the Domestic Insurer is not likely to be hazardous to those buying insurance.

IV. RECOMMENDATION

Accordingly, based on the foregoing findings of fact and discussion, the written testimony and exhibits submitted, the record of the May 20, 2008 public hearing, and the recommendation of the Insurance Department staff, the undersigned concludes that the Applicant has satisfied the statutory criteria as provided in section 38a-132(b) of the Connecticut General Statutes. Accordingly, the undersigned concludes that pursuant to the relevant section 38a-132(b) of the Connecticut General Statutes that after the proposed acquisition of control (a) the Domestic Insurer will be able to meet the requirements for licensing in this state; (b) the effect of the acquisition of control will not be to substantially lessen competition in this state or tend to create a monopoly therein; (c) the financial condition of the Applicant is not such as might jeopardize the financial stability of the Domestic Insurer, or prejudice the interest of its policyholders; (d) the plans or proposals for the Domestic Insurer are not unfair and unreasonable to their policyholders, and are in the public interest; (e) the competence, experience and integrity of the management of the Applicants is such that it would be in the interest of policyholders of the Domestic Insurer, and of the public to permit the proposed

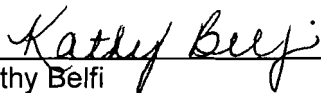
acquisition of control; and (f) the acquisition of control of the Domestic Insurer is not likely to be hazardous or prejudicial to those buying insurance.

Accordingly, the undersigned recommends the following order be issued by the Commissioner of Insurance:

1. The Form A Application of the Applicant in which they seek approval to acquire control of Domestic Insurer be approved.
2. The Applicant and Domestic Insurer shall comply with their commitments as set forth in the Proposed Final Decision.
3. The Applicant shall provide the Insurance Department with written confirmation of the consummation of the acquisition of control by the end of the month the acquisition of control takes place.
4. For a period of two (2) years, the Applicant shall file semiannually with the Insurance Department, commencing six months from consummation of the transaction, a report under oath of its business operations in Connecticut, including but not limited to, any change to the business of the Domestic Insurer; changes in offices of the Domestic Insurer; charitable contributions made to Connecticut entities; and, notice of any statutory compliance or regulatory actions taken by other state regulatory authorities against the Applicant or the Domestic Insurer.
5. The Applicant should provide the Department with the names and titles of those individuals who will be responsible for filing an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies and transactions subject to prior notice pursuant to section 38a – 138 – 13 of the Regulations of Connecticut Agencies.
6. Within seven (7) days of consummation of the Proposed Acquisition, the Domestic Insurer shall file a request for a waiver of the requirements of section 38a-136(i) of the Connecticut General Statutes.

7. Within fifteen (15) days following the end of the month in which the Proposed Acquisition is consummated, the Domestic Insurer shall file an amended Insurance Holding Company System Annual Registration Statement pursuant to section 38a-138-10 of the Regulations of Connecticut State Agencies.
8. If the Proposed Acquisition is not consummated within three (3) months of the date of this Order and the Applicant intends to consummate the Proposed Acquisition, the Applicant shall submit to the Commissioner a statement, which shall include (1) the reason for the Applicants' inability to consummate the Proposed Acquisition; (2) any material changes in the information contained in the Form A Application; and (3) the current financial statements of the Applicant and the Domestic Insurer.
9. The Domestic Insurer shall meet with the appropriate Insurance Department staff prior to making any material change to its business plan.
10. The Domestic Insurer shall, at all times, maintain their books, records and assets in Boston, Massachusetts unless otherwise approved by the Commissioner pursuant to Connecticut Law and consistent with the terms of the Form A Application.
11. The Applicant shall pay expenses incurred by the Insurance Commissioner in connection with the Insurance Department's review of the captioned transaction pursuant to sections 38a-132(a)(3) and 38a-132(c) of the Connecticut General Statutes.

Dated at Hartford, Connecticut, this 27th day of May, 2008



Kathy Belfi
Hearing Officer