

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402, and
: 1403 of the Insurance Holding
Application of Argonaut Group, Inc. in : Companies Act, Article XIV of the
Support of the Request for Approval to : Insurance Company Law of 1921,
Acquire Control of Rockwood Casualty : Act of May 17, 1921, P.L. 682,
Insurance Company and Somerset : as amended, 40 P.S. §§991.1401,
Casualty Insurance Company : 991.1402, and 991.1403
: :
: Order No. ID-RC-01-25

DECISION AND ORDER

AND NOW, on this 15 day of August, 2001, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Law and the Insurance Holding Company Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

1. Somerset Casualty Insurance Company ("Somerset") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Rockwood, Pennsylvania.

2. Rockwood Casualty Insurance Company ("Rockwood" and together with Somerset the "Domestic Insurers") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business located in Rockwood, Pennsylvania. Rockwood directly holds 100% of the issued and outstanding voting stock of Somerset.
3. Front Royal, Inc. ("Front Royal") is an insurance holding company organized under the laws of the state of North Carolina, with its principal place of business to be located in Morrisville, North Carolina. Front Royal directly holds 100% of the issued and outstanding voting stock of Rockwood.
4. Argonaut Acquisition Corp. ("Argonaut Acquisition") is a business corporation organized under the laws of the state of Delaware with its principal place of business located in Menlo Park, California. Argonaut Acquisition was incorporated solely to facilitate the instant transaction.
5. Argonaut Midwest Insurance Company ("Argonaut Midwest") is a stock casualty insurance company organized under the laws of the state of Illinois with its principal place of business located in Menlo Park, California.
6. Argonaut Insurance Company ("Argonaut Insurance") is a foreign stock casualty insurance company organized under the laws of the state of California with its principal place of business located in Menlo Park, California. Argonaut is an admitted insurer in Pennsylvania. Argonaut Insurance directly holds 100% of the issued and outstanding voting stock of Argonaut Acquisition and Argonaut Midwest.
7. Argonaut Group, Inc. ("Argonaut Group") is an insurance holding company organized under the laws of the state of Delaware, with its principal place of business located in San Antonio, Texas. Argonaut Group directly holds 100% of the issued and outstanding voting stock of Argonaut Insurance.
8. Argonaut Group is a publicly traded corporation listed on the NASDAQ stock exchange.
9. The only entity holding 10% or greater of the issued and outstanding voting stock of Argonaut Group has properly filed a disclaimer of control.

10. Argonaut Group is the sole ultimate controlling person of Argonaut Insurance.

Acquisition Filing

11. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. ("Insurance Holding Companies Act"), provides that any transaction involving the control of a domestic insurer must be filed with the Commissioner for approval or disapproval.
12. On June 6, 2001, the Insurance Department of the Commonwealth of Pennsylvania ("Department") received an initial application (which together with all material received subsequently is collectively referenced as "Application") from Argonaut Group for approval to acquire control of the Domestic Insurers.
13. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

14. On June 16, 2001, the Department published notice in the Pennsylvania Bulletin that the Application was submitted by Argonaut Group and such notice invited interested persons to submit comments to the Department regarding the Application for a thirty (30) day period, ending July 16, 2001.
15. The Department received no comments regarding the Application during the thirty (30) day comment period.

Description of the Proposed Acquisition

16. As described in the Application, on May 7, 2001, Argonaut Insurance and Front Royal signed an Agreement and Plan of Merger ("Agreement") whereby Front Royal would merge with Argonaut Acquisition (the "Merger").
17. As described in the Application and pursuant to the Agreement, Front Royal would be the surviving entity of the Merger.
18. As described in the Application and pursuant to the Agreement, after the Merger the shareholders of Front Royal will exchange their stock and

stock equivalents for cash.

19. As described in the Application and pursuant to the Agreement, after the transaction Argonaut Midwest will assign its interest in Front Royal to Argonaut Insurance.
20. As described in the Application, Argonaut Insurance will fund the purchase price, anticipated to be approximately \$167.5 million, from existing corporate resources and no part of the purchase price will be obtained from borrowed funds.

Standards for Review

21. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a change in control of a domestic insurer.
22. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

23. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
24. The classes of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
25. The minimum paid up capital stock and paid in surplus required of a stock insurer for each class of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
26. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Rockwood is required to maintain a minimum paid up capital stock of \$2,000,000 to write the classes of insurance for which it is presently licensed.
27. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Rockwood is required to maintain a minimum paid in surplus of

\$1,000,000 to write the classes of insurance for which it is presently licensed.

28. Upon completion of the transaction, Rockwood will have paid up capital in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Rockwood.
29. Upon completion of the transaction, Rockwood will have paid in surplus in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Rockwood.
30. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Somerset is required to maintain a minimum paid up capital stock of \$2,000,000 to write the classes of insurance for which it is presently licensed.
31. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Somerset is required to maintain a minimum paid in surplus of \$1,000,000 to write the classes of insurance for which it is presently licensed.
32. Upon completion of the transaction, Somerset will have paid up capital in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Somerset.
33. Upon completion of the transaction, Somerset will have paid in surplus in an amount that will satisfy the statutory minimum required of a casualty insurance company licensed to write the classes of authority currently held by Somerset.

Competitive Impact

34. The acquisition of control of the Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
35. The acquisition of control of the Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because

the market share of Argonaut Group, as stated in the Application, does not exceed the market share levels established in Section 1403.

Financial Condition of Argonaut Group

36. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the acquiring persons.

37. Argonaut Group reported December 31, 2000, GAAP account balances of:

Assets:	\$ 1,565,800,000
Liabilities:	\$ 1,064,000,000
Shareholder's Equity:	\$ 501,100,000

38. The financial condition of Argonaut Group would not pose any impediments to the change in control nor jeopardize the financial condition of the Domestic Insurers.

Plans for the Acquired Insurer

39. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals which the acquiring party has for the insurer.

40. As provided in the Application, Argonaut Group has disclosed that it intends to make no significant changes to the business plans of the Domestic Insurers.

Management

41. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.

42. Biographical affidavits for all directors and executive officers of Argonaut Group and Argonaut Insurance were provided as part of the Application and the Department reviewed all affidavits that were submitted.

43. The Department is satisfied that the persons who would control the operations of the Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
44. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the change in control of the Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control;

- f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public; or,
- g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.

3. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the change in control of the Domestic Insurers.

4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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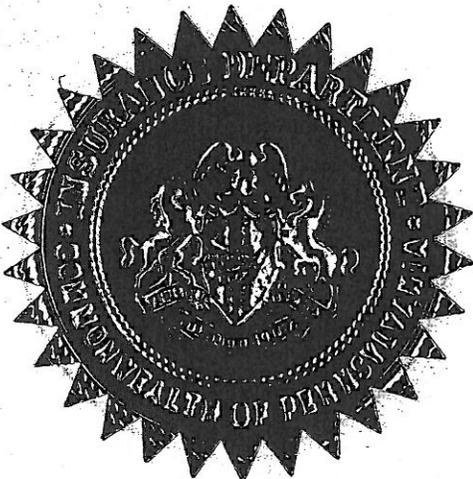
ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania hereby makes the following Order:

The acquisition of control by Argonaut Group, Inc. of all the issued and outstanding shares of voting stock of Rockwood Casualty Insurance Company and Somerset Casualty Insurance Company is hereby approved, subject to this Order and the following condition:

1. Argonaut Group, Inc. shall provide copies of the closing documents to the Insurance Department within five (5) days of consummation of the subject transaction.

This Order is effective immediately and valid for one year, provided no material changes are made to the transaction prior to consummation.




M. DIANE KOKEN
Insurance Commissioner
Commonwealth of Pennsylvania