

BEFORE THE DEPUTY INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402,
	:	and 1403 of the Insurance
Application of Argonaut Insurance	:	Holding Companies Act, Article
Company Requesting Exemption from	:	XIV of the Insurance Company
the Requirements of 40 P.S. §991.1402	:	Law of 1921, Act of May 17, 1921,
for the Restructuring of its Holding	:	P.L. 682, <u>as amended</u> , 40 P.S.
Company System, which includes	:	§§991.1401, 991.1402, and
Rockwood Casualty Insurance	:	991.1403
Company and Somerset Casualty	:	
Insurance Company	:	
	:	Order No. ID-RC-01-42

DECISION AND ORDER

AND NOW, on this 17<sup>th</sup> day of December, 2001, Stephen J. Johnson, Deputy Insurance Commissioner of the Commonwealth of Pennsylvania ("Deputy Commissioner"), hereby makes the following Decision and Order:

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

FINDINGS OF FACT

Identity of the Parties

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

Rockwood, Pennsylvania.

2. Rockwood Casualty Insurance Company ("Rockwood" and together with Somerset the "Domestic Insurers") is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business 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 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 Front Royal.
5. 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.
6. Argonaut Group is a publicly traded corporation listed on the NASDAQ stock exchange.
7. The only entity holding 10% or greater of the issued and outstanding voting stock of Argonaut Group has properly filed a disclaimer of control.
8. Argonaut Group is the sole ultimate controlling person of Argonaut Insurance.

#### Filing of the Application

9. On December 6, 2001, the Insurance Department of the Commonwealth of Pennsylvania ("Department") received an initial request (which together with all material received subsequently is collectively referenced as "Application") from Argonaut Insurance for approval to effectuate a plan

of reorganization of the holding company system that includes the Domestic Insurers.

10. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. ("Insurance Holding Companies Act"), provides that all transactions affecting the control of a domestic insurer must be filed with the Department for approval or disapproval.
11. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
12. Section 1402(g) of the Insurance Holding Companies Act provides for the exemption from the requirements of Section 1402(b) if the transaction:
  - a. does not have the effect of changing or influencing the control of a domestic insurer, or
  - b. is otherwise not comprehended within the purposes of the section.

#### The Transaction

13. As described in the Application, Argonaut Insurance proposes to create a new insurance holding company eventually also to be known as Front Royal, Inc. ("New Front Royal"). New Front Royal will be organized pursuant to the laws of the state of Delaware and be a wholly owned direct subsidiary of Argonaut Insurance.
14. As described in the Application, Front Royal would merge with and into New Front Royal ("the Merger").
15. As described in the Application, the effect of the Merger would be the redomestication of Front Royal from North Carolina to Delaware.
16. As described in the Application, New Front Royal would directly hold 100% of the issued and outstanding voting stock of Rockwood.
17. As described in the Application, Argonaut Group would continue to be the sole ultimate controlling person of the Domestic Insurers.
18. The Deputy Commissioner finds that the transactions described in the Application would not have the effect of changing or influencing the

control of a domestic insurer.

19. 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 Department has jurisdiction to review and approve the acquisition of controlling securities of a domestic insurer if, after consummation thereof, the acquiring person would be in control of the domestic insurer.
2. The Deputy Commissioner has jurisdiction over the parties and subject matter of this proceeding.
3. The Application was properly filed pursuant to and in accordance with Section 1402(g) of the Insurance Holding Companies Act.
4. The instant transactions are not being contemplated to change or influence the ultimate control of the Domestic Insurers, and, therefore, are exempt from the requirements of Section 1402(b) of the Insurance Holding Companies Act.
5. 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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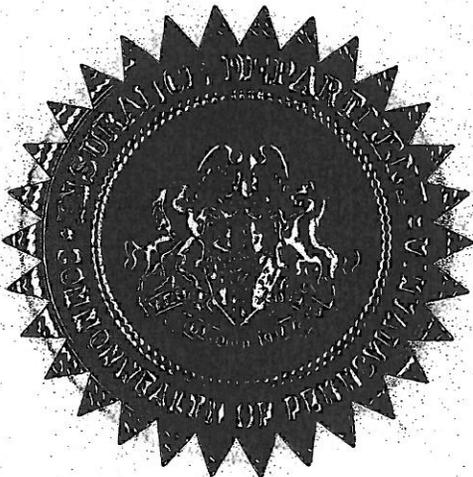
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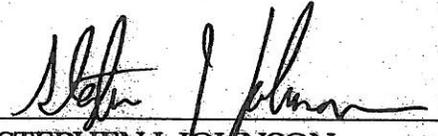
ORDER

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

An approving determination for the application of Argonaut Insurance Company requesting exemption from the requirements of 40 P.S. §991.1402 for the restructuring of its holding company system, which includes Rockwood Casualty Insurance Company and Somerset Casualty Company, as set forth in the Application, is hereby granted.

This Order is effective immediately and valid for one year, provided there are no material changes to the representations provided in the application.



  
STEPHEN J. JOHNSON  
Deputy Insurance Commissioner