

BEFORE THE DEPUTY 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. : Companies Act, Article XIV of the
Requesting Exemption from the : Insurance Company Law of 1921, Act of
Requirements of 40 P.S. §991.1402 for : May 17, 1921, P.L. 682, as amended, 40
the Restructuring of the Holding : P.S. §§991.1401, 991.1402, and
Company System that includes : 991.1403
Rockwood Casualty Insurance Company :
and Somerset Casualty Insurance :
Company : Order No. ID-RC-07-11

DECISION AND ORDER

AND NOW, on this 4th day of June, 2007, 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 Parties

1. Somerset Casualty Insurance Company (“Somerset”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Rockwood, Pennsylvania.
2. Rockwood Casualty Insurance Company (“Rockwood”) is a stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business located in Rockwood, Pennsylvania. Somerset is a direct wholly-owned subsidiary of Rockwood.
3. Somerset and Rockwood are collectively hereinafter referenced as “PA Domestic Insurers.”

4. Argonaut Group, Inc. (“Argonaut”) is a publicly-traded (NASDAQ) holding company organized under the laws of the State of Delaware with its principal place of business in San Antonio, Texas. The PA Domestic Insurers are indirect wholly-owned subsidiaries of Argonaut.
5. Argonaut is the ultimate controlling person of the PA Domestic Insurers.
6. PXMS Inc. (“Merger Sub”) is a newly-formed corporation organized under the laws of the State of Delaware with its principal place of business in Edison, New Jersey.
7. PXRE Group Ltd. (“PXRE”) is a publicly-traded (NYSE) holding company organized under the laws Bermuda with its principal place of business in Pembroke, Bermuda.

Filing of the Request

8. On March 21, 2007, the Pennsylvania Insurance Department (“Department”) received an initial request (which together with all material received subsequently is collectively referenced as “Request”) from Argonaut for approval to effectuate a restructuring of the holding company system that includes the PA Domestic Insurers.
9. 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 changes in control of a domestic insurer must be filed with the Department for approval or disapproval.
10. The Request was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
11. 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

12. Argonaut, PXRE and Merger Sub executed an Agreement and Plan of Merger dated as of March 14, 2007 (“Merger Agreement”), which provides for Merger Sub to merge with and into Argonaut, with Argonaut being the surviving corporation.
13. As described in the Request, at the effective time of the merger, each share of Argonaut common stock will be exchanged for stock of PXRE.

14. As described in the Request, the holders of PXRE's outstanding convertible voting preferred shares and convertible common shares have agreed to convert such shares into shares of PXRE common stock immediately prior to closing.
15. As described in the Request, upon closing, approximately 73% of the issued and outstanding voting securities of PXRE will be owned by former holders of Argonaut common stock and approximately 27% will be owned by the existing holders of PXRE common stock and convertible voting preferred shares.
16. As described in the Request, PXRE will be renamed Argo Group International Holdings, Ltd. ("Argo Group Ltd.") and it will transfer its listing from the NYSE to NASDAQ and will trade under the existing Argonaut "AGII" symbol.
17. As described in the Request, the current president and chief executive officer of Argonaut will become the president and chief executive officer of Argo Group Ltd.
18. As described in the Request, the board of directors of Argo Group Ltd. will consist of nine (9) directors currently serving on the Argonaut board and four (4) directors currently serving on the PXRE board.
19. As described in the Request, Argo Group Ltd. will be the ultimate controlling person of the PA Domestic Insurers following the transaction.
20. The Deputy Commissioner finds that the transaction described in the Request does not have the effect of changing or influencing the control of a domestic insurer.
21. 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 Request was properly filed pursuant to and in accordance with Section 1402(g) of the Insurance Holding Companies Act.
3. The restructuring of the holding company system proposed in the Request is not being contemplated to change or influence the ultimate control of the PA Domestic Insurers, and, therefore, is exempt from the requirements of Section 1402(b) of the Insurance Holding Companies Act.

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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In Re:	:	Pursuant to Sections 1401, 1402, and
	:	1403 of the Insurance Holding
Application of Argonaut Group, Inc.	:	Companies Act, Article XIV of the
Requesting Exemption from the	:	Insurance Company Law of 1921, Act of
Requirements of 40 P.S. §991.1402 for	:	May 17, 1921, P.L. 682, <u>as amended</u> , 40
the Restructuring of the Holding	:	P.S. §§991.1401, 991.1402, and
Company System that includes	:	991.1403
Rockwood Casualty Insurance Company	:	
and Somerset Casualty Insurance	:	
Company	:	Order No. ID-RC-07-11

ORDER

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

Application of Argonaut Group, Inc. Requesting Exemption from the Requirements of 40 P.S. §991.1402 for the Restructuring of the Holding Company System that includes Rockwood Casualty Insurance Company and Somerset Casualty Insurance Company.

This Order is effective immediately and valid for one year from the date of signature, provided there are no significant changes from the Request.

STEPHEN J. JOHNSON
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation