

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF DELAWARE**

IN THE MATTER OF:

**The proposed acquisition of PRAETORIAN
SPECIALITY INSURANCE COMPANY, a Delaware
property and casualty insurance company, by TORUS
US HOLDINGS, INC., TORUS FINANCE LIMITED,
TORUS INSURANCE (BERMUDA) LIMITED, FR XI
OFFSHORE AIV, L.P., FR XI OFFSHORE GP, L.P.,
FR XI OFFSHORE GP LIMITED, FR XII-A
PARALLEL VEHICLE, L.P., FIRST RESERVE
FUND XII, L.P., FIRST RESERVE GP XII, L.P., and
FIRST RESERVE GP XII LIMITED**

Docket No. 1042-2008

FINAL ORDER AND DECISION

This is the final order and decision on an application made to the Delaware Department of Insurance pursuant to 29 *Del. C.* Chap. 101 and 18 *Del. C.* §5003.

On October 23, 2008, Torus US Holdings, Inc., Torus Financial Limited, Torus Insurance (Bermuda) Limited, Torus Insurance Holdings Limited, FR XI Offshore AIV, L.P., FR XI Offshore GP, L.P., FR XI Offshore GP Limited, FR XII Parallel Vehicle, L.P., First Reserve Fund XII, L.P., First Reserve GP XII, L.P., and First Reserve GP XII Limited (the "Applicants") filed a Form A Statement (as amended, the "Form A") by letter to the Delaware Department of Insurance (the "Department") for the Department's review and approval. The Form A sets forth the Applicants' proposal to acquire Praetorian Specialty Insurance Company ("PSIC"), a Delaware-domiciled insurance company, pursuant to a Stock Purchase Agreement dated September 29, 2008 (the "Stock Purchase Agreement"). Pursuant to the terms of the Stock Purchase Agreement, Torus US Holdings, Inc. ("Torus US") will acquire all of the issued and outstanding capital

stock of PSIC from Praetorian Insurance Company (“PIC”), an Illinois domestic stock insurance company and direct parent of PSIC.

On December 12, 2008, Fred I. Iobst, Esquire was appointed to act as the hearing officer for this matter pursuant to 29 *Del. C.* §§ 325 and 10125. Subsequent to notice in accordance with law, and in accordance with 29 *Del. Chapter* 101 and 18 *Del. C.* §5003, a hearing was held on December 31, 2008. The appearances of counsel, parties, and members of the public are set forth in the Proposed Order and Recommendations of the Hearing Officer and are incorporated herein by reference, as are the defined terms set forth therein.

Upon submission of the proposed report and recommendations of the Hearing Officer, comments were received from Tatiana Connolly, Esquire on behalf of the Applicants within the 20 day comment period. Counsel for the Applicants along with counsel for the Department waived the balance of the comment period to allow for the expeditious consideration of the application.

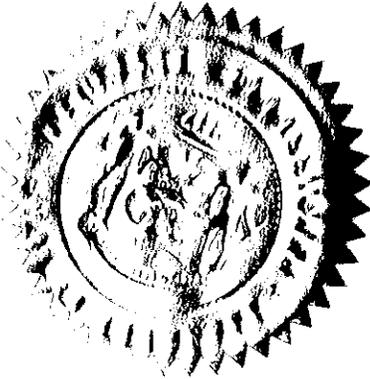
Findings of Fact and Conclusion of Law

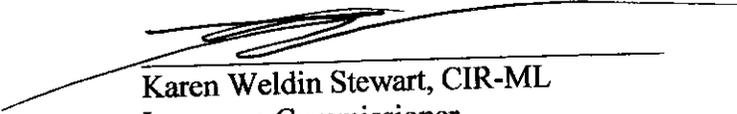
The findings of fact and conclusions of law contained in the Proposed Order and Recommendations dated February 3, 2009, appear well reasoned and amply supported by the summary of evidence contained therein and the Exhibits. The summary of evidence, findings of fact, and conclusions of law contained in the Hearing Officer’s Proposed Order and Recommendations (attached hereto), are incorporated by reference and adopted herein in their entirety.

Decision

For the reasons set forth above, the proposed acquisition by Applicants of control of PSIC is hereby approved.

SO ORDERED, this 5th day of February, 2009.




Karen Weldin Stewart, CIR-ML
Insurance Commissioner

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF DELAWARE**

In the matter of:)	
)	
The Proposed Acquisition of PRAETORIAN SPECIALTY INSURANCE COMPANY, a Delaware property and casualty insurance company, by TORUS US HOLDINGS, INC., TORUS FINANCE LIMITED, TORUS INSURANCE (BERMUDA) LIMITED, FR XI OFFSHORE AIV, L.P., FR XI OFFSHORE GP, L.P., FR XI OFFSHORE GP LIMITED, FR XII-A PARALLEL VEHICLE, L.P., FIRST RESERVE FUND XII, L.P., FIRST RESERVE GP XII, L.P., and FIRST RESERVE GP XII LIMITED)	Docket No. 1042-2008

PROPOSED ORDER AND RECOMMENDATIONS

Torus US Holdings, Inc., Torus Finance Limited, Torus Insurance (Bermuda) Limited,

Torus Insurance Holdings Limited, FR XI Offshore AIV, L.P., FR XI Offshore GP, L.P., FR XI Offshore GP Limited, FR XII Parallel Vehicle, L.P., First Reserve Fund XII, L.P., First Reserve GP XII, L.P., and First Reserve GP XII Limited (the "Applicants") filed a Form A Statement (as amended, the "Form A") for review and approval by the Insurance Department of the State of Delaware ("Department"). The Form A was originally filed by letter dated October 23, 2008. The Form A set forth Applicants' proposal to acquire Praetorian Specialty Insurance Company ("PSIC"), a Delaware-domiciled insurance company, pursuant to a Stock Purchase Agreement dated September 29, 2008 (the "Stock Purchase Agreement"). Pursuant to the terms of the Stock Purchase Agreement, Torus US Holdings, Inc. ("Torus US") will acquire all of the issued and outstanding capital stock of PSIC from Praetorian Insurance Company ("PIC"), an Illinois domestic stock insurance company and direct parent of PSIC.

On December 12, 2008, I was appointed Hearing Officer in the above-captioned matter pursuant to ~~18 Del. C. § 325 and 29 Del. C. § 10125~~. In accordance with Chapter 101 of Title 29 of the Delaware Code Annotated and 18 Del. C. § 5003, a public Hearing was held on December 31, 2008. The following is my proposed order and recommendations issued pursuant to 29 Del. C. § 10126.

By agreement, Applicants and PSIC participated by telephone in the Hearing. Those participants appearing on behalf of the Applicants included Ian Campbell, Chief Financial Officer of Torus Insurance (UK) Limited, an affiliate of the Applicants, Elizabeth Sandza, Esquire, and Donald B. Henderson, Jr., Esquire, Dewey & LeBoeuf LLP (Washington, D.C. and New York, New York, respectively).

Appearing for PSIC and PIC was Ayana Z. Gordon, Esquire, Vice President and Assistant Corporate Secretary of PSIC.

Appearing for the Department were Alfred Franz, Assistant Chief Examiner, and Nicole L. Brittingham, Financial Analyst. Also present was Julie M. Donoghue, Esquire, Deputy Attorney General and Counsel to the Department.

Notice of the Hearing was published in The News Journal and The Delaware State News, newspapers of general circulation in Delaware, on December 13, 2008 and December 12 and 13, 2008, respectively.

I. Summary of Evidence

The evidence in this matter consists of the sworn testimony of Ian Campbell on behalf of the Applicants, the sworn testimony of Ayana Z. Gordon on behalf of PSIC and PIC, the sworn

testimony of Nicole L. Brittingham on behalf of the Department and the exhibits admitted into evidence at the Hearing. This evidence may be summarized as follows:

(1) Ms. Gordon testified that PSIC is a Delaware domestic insurer licensed to write property and casualty insurance business in Delaware. She further testified that PSIC has authority to write surplus lines insurance in most states.

(2) Mr. Campbell testified that Torus Insurance Holdings Limited will acquire all of the issued and outstanding capital stock of PSIC, from PIC, an Illinois domestic stock insurance company. He further testified that Torus Insurance Holdings Limited will use cash and/or cash equivalents at market value to fund the acquisition. Mr. Campbell testified that the aggregate purchase price will be approximately \$62 million.

(3) Mr. Campbell testified that the purpose for the proposed acquisition is that the Applicants seek to acquire a US insurer authorized to write business on an excess and surplus lines basis in order to underwrite risks related to the energy industry.

(4) Mr. Campbell testified that Torus Insurance Holdings Limited is purchasing PSIC as a "clean shell". He further testified that after closing, PSIC will underwrite a diversified book of business, including excess casualty and general liability. He further testified that the Applicants' extensive background in the energy industry will facilitate PSIC's ability to write energy risks.

(5) Ms. Gordon testified that all policies issued by PSIC prior to the acquisition will be reinsured pursuant to a 100% quota share reinsurance agreement with PIC. She further testified that PIC reported surplus as regards policyholders of \$461,022,235.00 as of December

31, 2007 and is rated A- by A. M. Best, Inc. She further testified that in accordance with the reinsurance agreement, assets equal to the liabilities reinsured will be transferred by PSIC to PIC, providing further financial resources to PIC. Ms. Gordon testified that the reinsurance protection described would benefit PSIC and its policyholders and will be in the public interest.

(6) Mr. Campbell also testified that all business previously written by PSIC will be ceded on a 100% quota share basis to PIC and administered directly by PIC. He testified that in his opinion, the interests of policyholders will therefore be protected.

(7) Mr. Campbell testified that the directors of PSIC, as well as the management team of PSIC, will change upon the closing of the transaction. Nicole Brittingham testified that biographical affidavits of those persons who would control the operations of PSIC have been reviewed and meet statutory requirements.

(8) Mr. Campbell testified that upon closing, PSIC will enter into certain affiliate agreements including: a) a quota share reinsurance agreement with Torus Insurance (UK) Limited covering all business underwritten by PSIC; b) an excess of loss reinsurance agreement with Torus Insurance (UK) Limited on PSIC's aggregate book of business; c) an insurance services agreement with an affiliated service company; and d) a cost sharing agreement with an affiliated service company.

(9) Mr. Campbell testified that there are no plans or proposals by the Applicants to declare an extraordinary dividend, liquidate, sell the assets, merge or consolidate PSIC with any other person (other than sales of assets in the ordinary course of its business) or make any other material change in PSIC's business operations, corporate structure or management (other than as identified in the Form A Statement and the testimony).

(10) Both Mr. Campbell and Ms. Brittingham testified that the proposed acquisition would not represent a concentration of business that would substantially lessen the competition in insurance or would be likely to create a monopoly in Delaware.

(11) Mr. Campbell testified that as of November 30, 2008, the Torus group of companies had total capital and surplus of \$688.1 million and that the financial condition of the Applicants would not jeopardize the financial stability of PSIC or prejudice the interests of its policyholders. Ms. Brittingham agreed that Torus US had sufficient financial stability as to not jeopardize the financial stability of PSIC or prejudice the interests of its policyholders.

(12) Both Mr. Campbell and Ms. Brittingham testified that after the acquisition, PSIC will be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed.

(13) Both Mr. Campbell and Ms. Brittingham testified that the acquisition is not likely to be hazardous or prejudicial to the insurance-buying public.

(14) Mr. Campbell testified that other than the Delaware Insurance Department, no other approvals of this proposed acquisition are required.

(15) No written objections or comments in person regarding the proposed transaction were received from the public by the Department, and no objection or comment in person by members of the public regarding the proposed transaction was presented at the public Hearing.

II. Findings of Fact and Conclusions of Law

18 Del. C. § 5003 requires that any person proposing to acquire control of a domestic insurer in Delaware must first apply to the Insurance Commissioner for approval of the proposed

transaction. In conjunction with the statutory requirement, Delaware Insurance Regulation No. 13 requires that a form entitled "Statement Regarding the Acquisition of Control or Merger with a Domestic Insurer," otherwise known as "Form A," be submitted to the Department for review.

Pursuant to 18 Del. C. § 5003 (d) the Insurance Commissioner shall approve any merger or acquisition of control unless, after a public Hearing, the Insurance Commissioner finds:

- (1) the financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
- (2) after the change of control the domestic insurer will not be able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed;
- (3) 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;
- (4) the proposal of the acquiring party to liquidate the 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, is unfair and unreasonable to policyholders of the insurer and not in the public interest;
- (5) 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 of the insurer and of the public to permit the merger or other acquisition of control;
- (6) the acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

I have considered the statutory requirements for the approval of an acquisition of control in accordance with the provisions of 18 Del. C. § 5003 and 29 Del. C. § 10128. The following findings are made:

(1) The financial condition of Applicants (and of PIC) is adequate to sustain the operations of PSIC;

(2) Subsequent to the proposed change of control, PSIC will remain able to satisfy the requirements for the issuance of a license to write the lines of insurance for which it is presently licensed;

(3) The effect of the acquisition of control would not substantially lessen competition in Delaware or tend to create a monopoly in the business of insurance in Delaware;

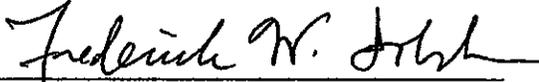
(4) The proposed transaction discloses that the Applicants have had no plans to liquidate PSIC, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management (other than as presented in the evidence in this matter) that would be unfair and unreasonable to policyholders of the insurer and not in the public interest;

(5) The competence, experience and integrity of those persons who would control the operations of PSIC are not such so as to negatively impact the interest of policyholders or the public;

(6) There was no evidence introduced at the Hearing that the proposed transaction or acquisition of control is likely to be hazardous or prejudicial to the insurance-buying public.

Accordingly, I recommend that the proposed transaction be approved by the Insurance Commissioner.

Dated: 2/3/09


Frederick W. Lobst, Esquire
Hearing Officer