

BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to the Insurance Company
: Mutual-to-Stock Conversion Act,
Applications of Mercer Mutual Insurance : Article VIII-A of the Insurance
Company and Mercer Insurance Group, : Company Law of 1921, Act of May 17,
Inc. Requesting Approval of a Two-Step : 1921, P.L. 682, as amended, added
Integrated Transaction Allowing for the : 1995, Dec. 21, P.L. 714, as amended, 40
Conversion of Mercer Mutual Insurance : P.S. §§911-A et seq. and Section 1402
Company to a Stock Insurance Company : of the Insurance Holding Companies
and the Immediate Restructuring of the : Act, Article XIV of the Insurance
Holding Company System, which : Company Law of 1921, Act of May 17,
includes Mercer Mutual Insurance : 1921, P.L. 682, as amended, 40 P.S.
Company : §991.1402.
:
:
: Order No. ID-RC-03-22

DECISION AND ORDER

AND NOW, on this ___8th___ day of July, 2003, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Company Mutual-to-Stock Conversion Act and 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 Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Applicants

1. Mercer Mutual Insurance Company (before and after conversion “Mercer”) is a domestic mutual casualty insurance company organized under the laws of the Commonwealth of Pennsylvania.
2. Mercer redomesticated from New Jersey to Pennsylvania in 1997 with the approval of the Pennsylvania and New Jersey insurance regulators as well as the Mercer policyholders.

3. Mercer is currently an admitted insurance carrier in New Jersey and Pennsylvania, having its primary place of business in Pennington, New Jersey.
4. Mercer Insurance Group, Inc. (“Holding Company”) is a Pennsylvania business corporation organized on November 12, 1997, at the direction of the Board of Directors of Mercer for the purpose of becoming the parent holding company of Mercer following a proposed conversion that was to have occurred pursuant to a plan of conversion adopted October 17, 1997 (“Prior Plan”).
5. The Prior Plan was terminated in 1999 after Mercer failed to secure the votes required by the Insurance Company Mutual-To-Stock Conversion Act, 40 P.S. §§911-A et seq., as amended (the “Conversion Act”).
6. The Holding Company has no assets or liabilities and no stock has been issued.
7. The Boards of Directors of Mercer and Holding Company are identical.

Adoption and Filing of the Plan of Conversion

8. Since 1996, the management and Board of Directors of Mercer have considered various capital formation alternatives in support of Mercer’s business objectives. The conversion from the mutual to stock form was included in the alternatives considered.
9. The Board of Directors of Mercer considered all methods of conversion from the mutual to stock form that are allowed in the Conversion Act.
10. The Board of Directors of Mercer concluded that conversion from the mutual to stock form utilizing the subscription rights model set forth in the Conversion Act is the most appropriate course for the company and is in the best interests of Mercer, its policyholders, and the communities that it serves.
11. On December 13, 2002, the Board of Directors of Mercer unanimously adopted a plan of conversion (including any and all amendments, the “Plan”) under which Mercer intends to convert from the mutual to stock form utilizing the subscription rights model.
12. The Conversion Act provides that all plans of conversion of domestic mutual insurers must be filed with the Commissioner for approval or disapproval.
13. On January 13, 2003, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter collectively referenced as “Conversion Application”) from Mercer requesting approval to convert from the mutual to stock form.
14. On January 13, 2003, Mercer sent to each policyholder of record as of December 13, 2002 (“Eligible Member”), notice advising of the filing of the

Conversion Application with the Department.

15. As described in the Conversion Application, Mercer had approximately 37,022 policies in force on December 13, 2002.

The Plan of Conversion

16. As described in the Plan, the Board of Directors of Mercer believes that conversion to the stock form and reorganization of the holding company structure are appropriate transactions in order to diversify risk and to compete more effectively in the insurance marketplace.
17. As described in the Plan, the Board of Directors of Mercer believes that conversion to the stock form will attract new capital to be used to:
 - a) diversify risk by funding product growth and geographic expansion; and
 - b) increase statutory surplus.
18. As described in the Plan, the Board of Directors of Mercer believes that reorganization of the holding company structure will enhance the achievement of diversification of risk by providing operational flexibility and by enabling expansion through acquisitions and product growth.
19. As described in the Conversion Application, Mercer seeks to achieve a balance in its mix of products between the commercial and personal lines of business and to reduce its geographical concentration in New Jersey by expanding into other areas and states through acquisitions and by increased agency representation.
20. The Department reviewed the rationale for conversion to the stock form and the reorganization of the holding company structure.
21. As described in the Conversion Application, each policyholder of a mutual insurance company, such as Mercer, has certain interests in the insurance company in addition to the contractual right to insurance coverage provided by the policy.
22. As described in the Conversion Application, such interests of policyholders of a mutual company are:
 - a) the right to vote with respect to the election of directors and certain other fundamental corporate transactions,
 - b) the right to receive dividends as declared by the Board of Directors, and
 - c) in the event of a solvent dissolution, the possible right to receive a pro rata distribution of any surplus remaining after the satisfaction of all claims and other liabilities.

23. As described in the Conversion Application, the interests of policyholders described above have no tangible market value separate from the insurance policy and a policyholder who terminates his policy automatically forfeits the interests.
24. As described in the Conversion Application, Mercer has never declared a policyholder dividend and currently does not anticipate doing so in the future.
25. As described in the Conversion Application, each policy of insurance issued by Mercer and in force on the effective date of conversion shall remain in force as a policy issued by the converted company, in accordance with the terms of such policy, except that, as of the effective date:
 - a) all voting rights, if any, of the holder of such policy shall be extinguished;
 - b) in the case of a participating policy, Mercer shall have the right on the renewal date of such policy to issue a nonparticipating policy as a substitute for the participating policy; and
 - c) all rights, if any, of the holder of such policy to share in the surplus of Mercer shall be extinguished.
26. On March 19, 2003, April 15, 2003, and June 18, 2003, the Board of Directors of Mercer adopted amendments to the Plan.
27. As specified in the Conversion Application and in accordance with the Conversion Act, if the Commissioner issues an approval order, Mercer shall send notice to all Eligible Members of a members' meeting to vote upon the Plan.
28. As described in the Conversion Application, Mercer will continue its existence as an independent mutual insurance company should the Plan not be approved by the Commissioner or the requisite number of Eligible Members.
29. As specified in the Conversion Application, upon conversion Mercer will change its name to "Mercer Insurance Company".

The Restructuring

30. As described in the Plan, Mercer will convert from the mutual to stock form with the newly issued stock of Mercer to be acquired by Holding Company, a stock corporation.
31. On January 13, 2003, the Department received a request (which together with all materials received subsequently is collectively referenced as "Acquisition Application") from Holding Company for approval to acquire 100% of the authorized capital stock of Mercer upon consummation of the Plan.
32. At the Department's request, on June 9, 2003, the Department received an amendment to the Acquisition Application referenced above (which together with

all materials received subsequently and related thereto is collectively referenced as “Restructuring Application”) from Holding Company for approval to effectuate a plan of restructuring of the holding company system that includes Mercer.

33. 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 resulting in the change of control of a domestic insurer must be filed with the Department for approval or disapproval.
34. The Restructuring Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
35. No person will control 10% or more of the voting securities of Holding Company.
36. Currently and subsequent to the conversion, the Boards of Directors of both Mercer and Holding Company are and will be comprised of the same individuals.
37. 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.
38. The Commissioner finds that the transaction described in the Restructuring Application does not have the effect of changing or influencing the control of a domestic insurer.
39. At the time of conversion, the surplus of Mercer will be recorded as “unassigned funds” and will not be used to create the capital of Mercer.
40. As specified in the Conversion Application, upon receiving the proceeds from the exercise of the subscription rights, Holding Company will contribute at least \$3.2 million to the capital of Mercer in exchange for all the authorized stock of Mercer. Of the \$3.2 million contributed by Holding Company, Mercer will record \$2.1 million as Capital Stock and \$1,000,000 as Paid-in and Contributed Surplus.

Subscription and Community Offerings

41. As stated in the Conversion Application, Eligible Members will be offered, through subscription rights, the right to purchase 100% of the capital stock of the Holding Company organized for this purpose.

42. The subscription rights offered to Eligible Members are exclusive of any subscription rights offered to the tax-qualified employee stock benefit plan.
43. As described in the Plan, Holding Company will issue, without charge, nontransferable subscription rights (“Subscription Rights”) to purchase shares of its authorized common stock to the following parties in the following priority (“Subscription Offering”):
 - a) Eligible Members,
 - b) tax-qualified employee stock benefit plan, and
 - c) directors, officers and employees of Mercer.
44. As described in the Plan, Subscription Rights received by any persons or entities in any of the foregoing categories described above will be subordinated to the Subscription Rights of those in a prior category, except that the tax-qualified employee stock benefit plan shall have the right to purchase in the aggregate up to ten percent (10%) of the maximum number of shares of Holding Company common stock offered in the conversion as specified below.
45. As described in the Plan, the tax-qualified employee benefit plan will be allocated Subscription Rights to purchase an amount equal to up to 10% of the total number of shares subscribed by all other persons in the offering if one hundred percent (100%) of the shares are subscribed by all other persons in the offering.
46. As described in the Plan, the minimum number of shares that may be purchased by any one person is 25 shares and the maximum number is the lesser of 100,000 shares or 3.5% of the total number of shares, with an anticipated offering price of \$10 per share.
47. Both the anticipated purchase price of \$10.00 per share of capital stock of Holding Company and the minimum required subscription in the amount of \$250.00 are less than the \$500 maximum, minimum subscription amount required by statute.
48. As of March 31, 2003, Mercer had total net admitted assets of \$77,718,156 million which implies an allowable limit of 34.38% on conversion stock purchases by the directors and officers as provided for in Section 916-A(b) of the Conversion Act.
49. As described in the Plan, employees of Mercer, as well as directors and officers, will be included in this phase of the offering of Subscription Rights.
50. As described in the Plan, directors, officers, and employees of Mercer may not purchase in the aggregate more than 33.0% of the stock of Mercer at the time of conversion.
51. As described in the Plan, each director, officer, or employee of Mercer will receive Subscription Rights to purchase up to the lesser of 100,000 shares or 3.5% of the

total number of shares. Directors, officers, and employees may exercise their Subscription Rights only to the extent that there are shares of conversion stock unsold after satisfying the subscriptions of all Eligible Members. A director, officer, or employee who is also an Eligible Member will be deemed to purchase conversion stock first in his or her capacity as an Eligible Member.

52. As described in the Plan, in the event of an oversubscription among the directors, officers, or employees, shares of conversion stock shall be allocated to officers and other employees on the basis of a point system under which one point will be assigned for each year of service to Mercer, one point for each then current annual salary increment of \$5,000, and one point for each office held in Mercer.
53. As described in the Plan, shares of Holding Company stock remaining unsold in the Subscription Offering, if any, will be offered for sale to the general public through community and syndicated community offerings (“Community Offering”) (the Subscription Offering and Community Offering are collectively hereinafter referenced as “Conversion Offering.”).
54. Section 921-A(b) of the Conversion Act provides that for a period of two (2) years after the effective date of the conversion, no converted stock company shall implement any non-tax-qualified stock benefit plan unless the plan is approved by a majority of votes eligible to be cast at a meeting of shareholders held not less than six (6) months after the effective date of the conversion.
55. As described in the Plan, Holding Company intends to adopt a stock compensation plan (“Stock Compensation Plan”) in accordance with the requirements of the Conversion Act, subject to the approval by the shareholders of Holding Company at a meeting held no earlier than six (6) months after the effective date of the conversion.

Pro forma market valuation

56. Section 913-A(b)(1) of the Conversion Act requires that an independent evaluation of the pro forma market value of the mutual company (“Appraisal”) be filed with the Commissioner.
57. As described in the Conversion Application, Mercer retained Griffin Financial Group, LLC (“Griffin”) to prepare an Appraisal of the pro forma market value of the Mercer as a subsidiary of Holding Company.
58. As described in the Conversion Application, Griffin is experienced in the field of corporate appraisals and is independent of Mercer and Holding Company,
59. The Conversion Application includes the independent evaluation of the pro forma market value of Mercer prepared by Griffin entitled “Pro Forma Appraisal Report”, dated January 2, 2003.

60. As described in the Conversion Application, on January 2, 2003, Griffin estimated the pro forma mid-point market value of Mercer after conversion to be \$49.0 million and estimated a range of between \$41.7 million to \$56.4 million.
61. As described in the Conversion Application, on March 31, 2003, Griffin issued a pro forma appraisal update report reflecting Mercer's December 31, 2002, audited results ("March Update").
62. As described in the March Update, Griffin's estimated pro forma market value range of Mercer after conversion was unchanged from that reported in the Pro Forma Appraisal Report.
63. As described in the Conversion Application, on May 30, 2003, Griffin issued a pro forma appraisal update report reflecting Mercer's March 31, 2003, unaudited results ("May Update").
64. As described in the May Update, Griffin's estimated pro forma market value range of Mercer after conversion was unchanged from that reported in the Pro Forma Appraisal Report.
65. As described in the Plan, Mercer requested that Griffin update its appraisal of the estimated pro forma market value ("Final Update") for Mercer after the conclusion of the Conversion Offering.
66. As described in the Plan, Griffin will issue an opinion letter that the final offering price is consistent with its estimated pro forma market value, commonly called a bring down opinion ("Bring Down Opinion"), at the conclusion of the Conversion Offering.
67. As described in the Plan, the total number of shares of Holding Company common stock to be offered will be determined by dividing the uniform anticipated purchase price of \$10.00 per share into the maximum valuation amount of the pro forma market value of Mercer after conversion, plus the number of shares required to enable the tax-qualified employee stock benefit plan to purchase in the aggregate ten percent of the total share of conversion stock issued in the offering.
68. Section 913-A(d) of the Conversion Act provides that the Commissioner may retain, at the mutual company's expense, any expert not otherwise a part of the Commissioner's staff to assist in reviewing the plan of conversion and the independent evaluation of the pro forma market value.
69. On January 7, 2003, the Department engaged Feldman Financial Advisors, Inc. ("Feldman") to assist in the review of the Plan and review of the independent evaluation of the pro forma market value as estimated by Griffin ("Engagement Letter").
70. In the Engagement Letter, the Department requested Feldman's opinion as to whether the allocation of subscription rights was fair and equitable under Section

914-A(a)(3)(ii) and (b) of the Conversion Act.

71. The Department also requested Feldman's opinion regarding the reasonableness of the methodologies and assumptions utilized by Mercer (or its advisors) in deriving the estimate of the pro forma market value of Mercer in light of Section 914-A(d) of the Conversion Act.
72. Feldman is a valuation and advisory firm with experience in mutual to stock conversions, business valuations, and corporate transactions.
73. On May 5, 2003, Feldman issued its report to the Department with regard to the Engagement Letter.
74. In its May 5, 2003 report, Feldman issued its opinion that the allocation of subscription rights was fair and equitable under Section 914-A(a)(3)(ii) and (b) of the Conversion Act.
75. Feldman also opined that the methodologies and assumptions utilized by Griffin in its Pro Forma Appraisal Report, March Update and May Update in deriving the estimate of the pro forma market value of Mercer were reasonable in light of Section 914-A(d) of the Conversion Act.
76. The Department requested that Feldman review subsequent updates as proposed by Griffin including the Final Update and the Department requested that Feldman provide an update to the Feldman May 5, 2003 report.
77. The Department requested that Feldman review the Bring Down Opinion and report on any findings to the Department.

Public File

78. A public file has been maintained by the Department at its Harrisburg office and has been available to any interested person for inspection and copying. The contents of the public file have also been available upon request by any interested person for copying by the Department at the Commonwealth of Pennsylvania's copying rate of \$0.25 per page and for shipping or mailing to any interested person.
79. The public file is comprised of all documents filed with the Department by Mercer and Holding Company except those for which the Department determined that confidential treatment was appropriate. The public file contains all comments and documents received by the Department from interested persons, responses to those comments received by the Department from Mercer, all final reports other than confidential reports of Mercer's outside consultants, all final reports of the Department's outside consultants, correspondence between the Department and Mercer, and the transcript of the public informational hearing.
80. All materials in the public file have been indexed in a composite document to aid, inter alia, interested persons who desire to obtain copies of such public documents.

The index itself also is a public document, and copies of it have also been available upon request to interested persons.

81. As of June 18, 2003, the public file consisted of 308 documents amounting to 3,424 pages.

Notice, Comments and Hearing

82. On February 1, 2003, the Department published notice in the Pennsylvania Bulletin that the Conversion and Acquisition Applications were submitted by Mercer and Holding Company, and such notice invited interested persons to submit comments to the Department regarding the Applications for an indefinite period of time (“Comment Period”).
83. Section 913-A(e) provides that the Commissioner may order a hearing on whether the terms of the plan of conversion comply with the Conversion Act.
84. Since the Conversion Act does not require that the Commissioner hold a hearing, the conduct of a hearing is solely at the Commissioner’s discretion.
85. If the Commissioner decides to conduct a hearing, the Conversion Act does not require that the hearing be an evidentiary, trial-type hearing.
86. On April 5, 2003, the Department published notice in the Pennsylvania Bulletin that a public informational hearing would be held on May 15, 2003, with regard to the Conversion Application. The notice advised that the hearing would provide an opportunity for policyholders and interested persons to present oral comments relevant to the Plan. In the alternative, the notice also stated that written comments could be mailed to the Department or sent via the Internet.
87. On April 15, 2003, Mercer sent a notice by first class mail to all Eligible Members advising that the hearing was scheduled to be held on May 15, 2003.
88. A public informational hearing is in the nature of a town meeting or a legislative hearing. It is not a formal proceeding and does not therefore, contemplate or accept formal action such as petitions or motions.
89. On May 15, 2003, in an exercise of discretion, the Department held a hearing with regard to the Conversion Application as provided for in Section 913-A(e) of the Conversion Act.
90. During the hearing, the Department described its review process, Mercer outlined the sequence of events leading up to the development of the Plan, Griffin explained the pro forma market valuation, and Feldman reviewed its findings with regard to its work performed.

91. Of those policyholders and other interested persons in attendance, one (1) individual gave oral comments.
92. As a spokesman for the First Blessing Church of Florence, N.J., a Mercer policyholder, Reverend Philip Loria stated that the proposed subscription rights conversion is unethical to New Jersey policyholders. In support of his statement, Rev. Loria stated that policyholders of a mutual company are owners of the company and, therefore, entitled to a distribution of the converting company's surplus, which is not occurring in this stock conversion. He also declared that, in New Jersey, the policyholders would have been remunerated, whereas, under Pennsylvania law, in the proposed plan the policyholders are merely given the opportunity "to buy something that technically [they] already own."
93. In response, Deputy Commissioner Johnson noted that Pennsylvania law provides several methods for a mutual to stock conversion, including a subscription rights offering as proposed by Mercer.
94. Rev. Loria also asked for a policyholder list, so he could communicate with other policyholders regarding his comments.
95. Deputy Commissioner Johnson, in response, explained that there was a court-crafted method for communication with policyholders which was set forth in a Chester County Court of Common Pleas case the last time Mercer attempted a stock conversion. He advised Rev. Loria to communicate with Mercer regarding the methodology.
96. At the conclusion of the hearing, the Department announced that the Comment Period with regard to the Plan would end on the close of business on June 13, 2003.
97. On May 24, 2003, the Department published notice in the Pennsylvania Bulletin that the Comment Period with regard to the Plan would end on June 13, 2003.
98. The Department received a total of 12 written comments during the Comment Period.

Compliance with Statutory Standards

99. Section 913-A establishes standards that a proposed plan of conversion must satisfy in order for approval to be granted.
100. Section 913-A(c) of the Conversion Act provides that the Commissioner shall approve the plan of conversion of a domestic mutual insurer if the Commissioner finds that the plan complies with the Conversion Act, the plan will not prejudice the interests of the members, and the plan's method of allocating subscription rights is fair and equitable.
101. Based on the information received and analyses conducted, the Commissioner finds that the Conversion Application complies with the Conversion Act, will not

prejudice the interests of the members of Mercer, and provides for a fair and equitable method of allocating subscription rights.

102. 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. The Conversion Act provides the Commissioner jurisdiction to review and approve or disapprove the Mercer Plan as described in the Conversion Application.
2. Section 913-A of the Conversion Act provides that a mutual company proposing to convert to the stock corporate form must file the required documents, including a plan of conversion, with the Insurance Commissioner for approval or disapproval.
3. Mercer filed the required documents, consistent with Section 913-A of the Conversion Act.
4. Section 913-A of the Conversion Act requires, inter alia, that a plan of conversion will not prejudice the interests of the members.
5. The Conversion Application's provision for the diversification of risk by the conversion and reorganization of the holding company structure is not inconsistent with the Conversion Act.
6. Sections 913-A and 917-A of the Conversion Act provide several methods by which a mutual insurance company may convert to a stock corporate form, including a distribution of subscription rights to those eligible members.
7. The choice of the method of conversion is to be made by the mutual insurance company.
8. Mercer's selection of the distribution of subscription rights method for conversion to the stock corporate form is consistent with Section 913-A of the Conversion Act.
9. The distribution of consideration in the form of Subscription Rights to Eligible Members in exchange for their membership interests in Mercer is consistent with the Conversion Act.
10. A plan of conversion which includes the issuance of stock subscription rights must contain all information and documentation required by Sections 913-A and 914-A of the Conversion Act.
11. The Conversion Application filed by Mercer satisfies the requirements of Sections 913-A and 914-A of the Conversion Act with respect to the issuance of stock subscription rights.

12. Section 913-A of the Conversion Act provides that the Commissioner may conduct a hearing in review of a proposed plan of conversion but does not require that the Commissioner conduct a hearing.
13. The Commissioner has the discretion to choose whether or not to conduct a hearing.
14. The hearing conducted on May 15, 2003, was a proper exercise of the Commissioner's discretion under Section 913-A of the Conversion Act.
15. If a hearing is held, the Conversion Act does not require the hearing to be conducted under the Administrative Agency Law, 2 Pa. C.S. §§501-555, utilizing the General Rules of Administrative Practice and Procedure, 1 Pa. Code, Chapters 31, 33, and 35.
16. A public informational type of hearing is appropriate under the Conversion Act in the Commissioner's review of a proposed plan of conversion.
17. A public informational hearing is an informal proceeding in the nature of a town meeting.
18. The formal elements of an evidentiary, trial-type proceeding, such as, inter alia, motions, petitions, cross-examination, and swearing of witnesses are not appropriate in a public informational hearing.
19. Section 913-A of the Conversion Act requires that a proposed plan of conversion, and any amendments thereto, must be approved by not less than a two-thirds majority of the board of directors of the mutual company before filing with the Commissioner.
20. The unanimous approval by the Board of Directors of Mercer of the Plan, as well as all subsequent amendments, satisfies the statutory requirement found in Section 913-A(a) of the Conversion Act.
21. The Commissioner does not have jurisdiction or authority to review a plan of conversion, and any amendments thereto, that has not been approved by the board of directors of the mutual company as required by Section 913-A of the Conversion Act.
22. Section 914-A(a)(3)(i) of the Conversion Act provides that each eligible member is to receive, without payment, nontransferable subscription rights to purchase the capital stock of the converted stock insurance company, or the capital stock of a corporation organized for the purpose of purchasing and holding all the stock of the converted stock insurance company. In the aggregate, all eligible members shall have the right, prior to the right of any other party, to purchase one hundred percent (100%) of the capital stock offered, exclusive of any capital stock purchased by the company's tax-qualified employee stock benefit plan.

23. The Conversion Application's provision for offering subscription rights for 100% of the Holding Company's capital stock is consistent with the Conversion Act.
24. Section 916-A(a) of the Conversion Act provides that a plan of conversion may include a provision for the allocation to directors and officers of the mutual company, without payment, nontransferable subscription rights to purchase capital stock of the holding company as part of the offering. These subscription rights shall be allocated among the directors and officers by a fair and equitable formula and shall be subordinate to the subscription rights of Eligible Members.
25. The Conversion Application's provision for the allocation to directors and officers of nontransferable subscription rights to purchase capital stock of the Holding Company is consistent with the Conversion Act.
26. Section 916-A(b) of the Conversion Act limits the aggregate total number of shares that may be purchased by directors and officers in their capacity as directors and officers or as Eligible Members to 35% of the total number of shares to be issued if the total assets of the mutual company are less than \$50 million or 25% of the total number of shares to be issued if the total assets of the mutual company are more than \$50 million. For mutual companies with total assets of or between \$50 million and \$500 million, the percentage of the total number of shares that may be purchased shall be interpolated.
27. The Conversion Application's provision with respect to the aggregate limitation on the purchase of Holding Company stock by officers and directors of Mercer is consistent with the Conversion Act.
28. Section 916-A(c) of the Conversion Act provides for a plan of conversion to allocate to a tax-qualified employee benefit plan nontransferable subscription rights to purchase up to 10% of the conversion stock and the plan may exercise its subscription rights regardless of the total number of shares purchased by other persons.
29. The Conversion Application's provision for the issuance of 10% of the capital stock for the tax-qualified employee benefit plan is consistent with the Conversion Act.
30. Section 914-A(e) of the Conversion Act requires that the Plan must set a purchase price per share of the capital stock and must set the minimum subscription amount per eligible member at an amount not in excess of \$500.00.
31. Both the anticipated purchase price of \$10.00 per share of capital stock of Holding Company and the minimum required subscription in the amount of \$250.00 satisfy the statutory requirement of Section 914-A(e).
32. Section 914-A(g) of the Conversion Act requires that, no director, officer or person acting in concert with a director or officer shall acquire any capital stock of the

converted stock company or the stock of any other participating corporation for three (3) years after the effective date of the conversion except through a broker-dealer or upon the prior approval of the Commissioner.

33. The provisions of the Plan prohibiting directors, officers or persons acting in concert with the directors or officers from acquiring any capital stock of Holding Company, Mercer or their legal successors (collectively “Affiliates”) for a three (3) year period after the effective date of the conversion except through a broker-dealer or upon the prior approval of the Commissioner are consistent with Section 914-A(g) of the Conversion Act.
34. Section 914-A(h) of the Conversion Act prohibits director or officer from selling their stock of an Affiliate purchased in the conversion within one year of the effective date of conversion.
35. The provisions in the Plan which prohibit officers and directors from selling their personal holdings of Affiliate stock within one year of the effective date of conversion are consistent with Section 914-A(h) of the Conversion Act.
36. Section 914-A(j) of the Conversion Act requires that the Plan state that neither the converted stock company nor any other corporation participating in the conversion may repurchase any of its capital stock for three (3) years without the prior approval of the Commissioner
37. The provisions of the Plan which prohibit Holding Company from repurchasing any of its stock within a three (3) year period after the effective date of the conversion, are in accordance with Section 914-A(j).
38. Section 916-A(a) of the Conversion Act requires that subscription rights allocated among the officers and directors must be by a fair and equitable formula and must be subordinate to the subscription rights of the eligible members.
39. The Plan’s provisions for the allocation of subscription rights to directors, officers and employees of Mercer is consistent with Section 916-A(a) of the Conversion Act in that the allocation is by a fair and equitable formula and is subordinate to the subscription rights of eligible members.
40. Section 921-A(b) of the Conversion Act prohibits the converted stock company from implementing any non-tax-qualified stock benefit plan for two (2) years after the conversion unless the plan is approved by a majority of votes eligible to be cast at a meeting of shareholders held not less than six (6) months after the effective date of the conversion.
41. The proposed Stock Compensation Plan provided for in the Plan is in accordance with Section 921-A(b) of the Conversion Act.

42. In accordance with Section 913-A(c) of the Conversion Act, the Commissioner must approve a plan of conversion if the Commissioner finds each of the following:
 - a) The plan complies with the requirements of the Conversion Act;
 - b) The plan will not prejudice the interests of the members of Mercer; and
 - c) The plan's proposed method of allocating subscription rights is fair and equitable.
43. In accordance with Section 913-A(c) of the Conversion Act, the Commissioner finds that:
 - a) Mercer's Plan complies with the requirements of the Conversion Act;
 - b) Mercer's Plan will not prejudice the interests of the members of Mercer; and
 - c) Mercer's proposed method of allocating subscription rights is fair and equitable.
44. 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.
45. Mercer and Holding Company have common boards of directors.
46. As such, the acquisition of the capital stock of Mercer by Holding Company does not change or influence the ultimate control of Mercer.
47. Accordingly, the acquisition of the capital stock of Mercer is exempt from the requirements of Section 1402(b) of the Insurance Holding Companies Act.
48. The Restructuring Application was properly filed pursuant to and in accordance with Section 1402(g) of the Insurance Holding Companies Act.
49. The instant transaction is not being contemplated to change or influence the ultimate control of Mercer, and, therefore, is exempt from the requirements of Section 1402(b) of the Insurance Holding Companies Act.
50. 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.

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to the Insurance Company
	:	Mutual-to-Stock Conversion Act,
Applications of Mercer Mutual Insurance	:	Article VIII-A of the Insurance
Company and Mercer Insurance Group,	:	Company Law of 1921, Act of May 17,
Inc. Requesting Approval of a Two-Step	:	1921, P.L. 682, <u>as amended</u> , added
Integrated Transaction Allowing for the	:	1995, Dec. 21, P.L. 714, <u>as amended</u> , 40
Conversion of Mercer Mutual Insurance	:	P.S. §§911-A <u>et seq.</u> , and Section 1402
Company to a Stock Insurance Company	:	of the Insurance Holding Companies
and the Immediate Restructuring of the	:	Act, Article XIV of the Insurance
Holding Company System, which	:	Company Law of 1921, Act of May 17,
includes Mercer Mutual Insurance	:	1921, P.L. 682, <u>as amended</u> , 40 P.S.
Company	:	§991.1402.
	:	:
	:	Order No. ID-RC-03-22

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

1. The applications of Mercer Mutual Insurance Company (both before and after conversion “Mercer”) and Mercer Insurance Group, Inc. (“Holding Company”) requesting approval of a two-step integrated transaction allowing for the conversion of Mercer to a stock insurance company and the immediate restructuring of the holding company system, which includes Mercer, is hereby approved, subject to this Order and the following conditions:
 - a) Mercer shall, within one hundred twenty (120) days of this Order, send to each member whose policy was in force as of December 13, 2002 (“Eligible Member”) the notice of the members’ meeting to vote on the Plan of Conversion (“Special Meeting”); the notice shall be in the form contained in the Conversion Application and shall include the Proxy Statement/Prospectus, any amendments or supplements thereto, and any other notice materials (“Notice Materials”).
 - b) Mercer shall provide to the Commissioner for review and comment the Notice Materials Mercer proposes to send to each Eligible Member advising of the Special Meeting.

- c) Mercer shall include a full copy of the Plan of Conversion, as approved by the Commissioner, the full Decision and Order of the Department, and the notice of the Special Meeting sent to each Eligible Member, with the Notice Materials.
- d) Mercer shall not distribute the Notice Materials to any Eligible Members until the Department has notified Mercer in writing that it has no further comments on said materials, including any changes or additions to the Notice Materials that are made after the date hereof.
- e) Mercer shall submit for the Commissioner's approval any changes to the Plan of Conversion, including, but not limited to, changes in the subscription purchase limitations as set forth in the Plan of Conversion.
- f) Mercer shall use its best efforts to ascertain the current mailing addresses of all Eligible Members prior to mailing of the Notice Materials.
- g) Mercer shall mail the Notice Materials by United States Post Office Priority Mail or first class mail, or the equivalent thereof, postage prepaid, to the last known address of each Eligible Member, at least thirty (30) days before the date of the Special Meeting.
- h) Prior to mailing the Notice Materials to Eligible Members, the U. S. Securities and Exchange Commission ("SEC") shall have issued an order declaring Mercer Insurance Group, Inc.'s ("Holding Company")' Registration Statement No. 333-104897 on Form S-1 effective under the Securities Act of 1933, as amended, and Holding Company shall have advised the Department in writing of the issuance of the order of the SEC. A copy of such order shall be filed with the Department within one (1) business day of the receipt thereof by Holding Company.
- i) Within two (2) business days after the first mailing of the Notice Materials to the Eligible Members, Mercer shall file a full copy of the Notice Materials, exactly as mailed to the Eligible Members, with the Department.
- j) Prior to the effective date of the conversion, Mercer shall submit for the Department's prior written approval any:
 - i) changes or additions to the Plan of Conversion or the exhibits thereto that are made subsequent to the date of this Order; and
 - ii) waiver of any condition precedent to completion of the transactions contemplated by the Plan of Conversion or the waiver of any other rights, duties or obligations of Mercer set forth in the Plan of Conversion.
- k) In order to effectuate the stock conversion, the Plan of Conversion of Mercer must be approved by the affirmative vote of two-thirds (2/3) of the Eligible

Members who cast votes in person or by proxy at the Special Meeting, as required by Section 918-A of the Insurance Company Mutual-to-Stock Conversion Act, 40 P.S. §911-A, et seq., as amended (the "Conversion Act").

- l) Within two (2) business days after the conclusion of the Special Meeting, Mercer shall provide written notice to the Department of the results of the votes cast at the Special Meeting.
- m) Within thirty (30) days of the Special Meeting, Mercer shall file with the Department the minutes of the Special Meeting and the amended and restated articles of incorporation and bylaws which were adopted by the Eligible Members of Mercer.
- n) In order to effectuate the stock conversion, the Eligible Members must have approved the plan and adopted the amended articles of incorporation, and Mercer must have filed the amended articles of incorporation as adopted with the Secretary of the Commonwealth, as required by Section 918-A of the Conversion Act.
- o) Following approval by the Eligible Members in accordance with the Conversion Act, Mercer shall effectuate the conversion as contemplated in the Conversion Application no later than 180 days following the date of this Order.
- p) No policy of Mercer in force at the time of conversion shall be terminated by reason of the conversion. Additionally, the conversion shall not change, reduce or impair in any way the insurance obligations of Mercer under any insurance policy issued or contract entered into by Mercer.
- q) The composition of the board of directors and the committees of the board of Mercer shall satisfy the requirements of Section 1405 of the Insurance Holding Companies Act, 40 P.S. §991.1405.
- r) Mercer shall publish this Decision and Order on its Internet website within five (5) business days after the date of this Decision and Order.
- s) Mercer shall follow the procedures for the subscription and community and syndicated community stock offerings ("Conversion Offering") as specified in the Plan of Conversion.
- t) Mercer shall further consult with the Insurance Department before proceeding should the Conversion Offering not be fully subscribed.
- u) Mercer shall, within thirty (30) days of the conclusion of the Conversion Offering, provide a report to the Insurance Department; such report shall indicate the number of shares and percentage of total shares purchased by the directors, officers and employees of Mercer.

- v) No director, officer or person acting in concert with a director or officer shall acquire any capital stock of Holding Company, Mercer or their legal successors (collectively “Affiliates”) for a three (3) year period after the effective date of the conversion except through a broker-dealer or upon the prior approval of the Commissioner consistent with Section 914-A(g) of the Conversion Act.
- w) No director or officer shall sell their personal holdings of Affiliate stock purchased in the conversion within one (1) year of the effective date of conversion.
- x) Within five (5) business days after the Conversion Offering, Mercer shall provide to the Department for review and comment a copy of the Griffin Financial Group, LLC (“Griffin”) update of the appraisal of the estimated pro forma market value for Mercer after the conclusion of the Conversion Offering (“Final Update”).
- y) Within five (5) business days after the effective date of the conversion, Mercer shall file for Department, a copy of the Griffin opinion letter that the final offering price is consistent with its estimated pro forma market value at the conclusion of the conversion offering (“Bring Down Opinion”) which:
 - i) will be dated as of the effective date of the conversion; and,
 - ii) will conclude that nothing of a material nature has occurred from the date of the Final Update to the date of the Bring Down Opinion to cause the actual purchase price on an aggregate basis to be inconsistent with the total pro forma market value of Mercer at the time of the sale.
- z) On the effective date of the conversion, Mercer and/or Holding Company shall file with the Department:
 - i) any certificates and other documents requested by the Department in connection with the consummation of the stock conversion;
 - ii) written certifications executed each by the President and Treasurer of both Mercer and Holding Company that all conditions in the Decision and Order have been satisfied except for those permitted by the Department to be satisfied after the effective date; and
 - iii) written certifications of undertakings to satisfy any such post-closing conditions in accordance with the terms of this Decision and Order.
- aa) Mercer shall pay, within twenty-five (25) days of receipt, any existing or future invoices for fees and expenses of the advisors and consultants to the Department, in their capacity as advisors and consultants in connection with the stock conversion, as required by the Department, in accordance with the

Conversion Act.

- bb) On the last day prior to the effective date of the conversion, the President and Chief Executive Officer of Mercer shall certify that, to the best of his knowledge, the Notice Materials, as of the Special Meeting date and the effective date of the conversion, did not contain any misstatement of a material fact or any omission of a material fact necessary to make the statements made in the Notice Materials, in light of the circumstances under which they were made, not misleading.
- cc) Mercer and Holding Company shall notify the Department immediately if any event occurs subsequent to the issuance of this Order and prior to the effective date of the conversion that does or could cause: (a) the Notice Materials; or (b) the Findings of Fact set forth in the Decision (including the pro forma appraisal update report prepared by Griffin dated May 30, 2003), to contain any misstatement of a material fact or any omission of a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.
- dd) Mercer shall, within five (5) days of the effective date of the conversion, provide to the Insurance Department a copy of all final executed documents relative to the conversion of Mercer.
- ee) Mercer shall, within sixty (60) days of the effective date of conversion, send a notice to its agents, in a form acceptable to the Insurance Department, giving notice of the conversion.
- ff) For a period of one (1) year after the effective date of the conversion, Holding Company shall not deregister from SEC registration, without prior notice to and consultation with the Department.
- gg) For the three (3) years following the effective date of conversion, Mercer shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to Holding Company, without the prior approval of the Commissioner, unless said distribution has been approved by the Department as a transaction between affiliates filed under 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”).
- hh) For the three (3) years following the effective date of conversion, Holding Company shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to its shareholders, without the prior approval of the Commissioner.
- ii) For a period of three (3) years after the effective date of the conversion, Mercer and Holding Company shall not voluntarily withdraw any certificate of authority to engage in the insurance business in the Commonwealth of

Pennsylvania.

- jj) For a period of three (3) years after the effective date of the conversion, Mercer shall not attempt to or actually redomesticate to another jurisdiction.
 - kk) The proposed Stock Compensation Plan, should it be approved by the shareholders, are not to be considered as “other types of distributions” as referenced in Conditions gg) or hh) above.
2. Mercer and Holding Company shall notify the Department within two (2) business days after the receipt of any written notice of any legal or administrative proceeding challenging or in any way relating to the stock conversion.
 3. The request from Mercer to change its name subsequent to its conversion from the mutual to stock form to "Mercer Insurance Company" is hereby approved, subject to any requirements of other regulatory authorities, appropriate notice being given promptly to all relevant policyholders, agents and other interested persons, and the filing of the Articles of Amendment with the Pennsylvania Department of State.
 4. This Order does not relieve Mercer of the conditions under the Department’s Order No. ID-RC-97-36 issued October 14, 1997, approving the redomestication of Mercer from New Jersey to Pennsylvania, and particularly, Condition #7 with regard to Mercer’s efforts to expand its product marketing and premium writings throughout Pennsylvania.

In approving this transaction, the Department has relied upon information provided to it by Mercer and Holding Company, as well as consultants retained by said parties and the Department. Nothing in this determination shall be considered as an endorsement or recommendation of the stock conversion or an investment in the stock of Holding Company or as any opinion regarding the future revenues, earnings or stock prices of Holding Company. The Department has not reviewed the proposed transaction or related documents for compliance with federal law, including but not limited to the federal securities laws, or the laws of any other state.

This Order is effective immediately.

M. Diane Koken
Insurance Commissioner
Commonwealth of Pennsylvania