

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to the Insurance Company
: Mutual-to-Stock Conversion Act, Article
Application of Philanthropic Mutual Fire : VIII-A of the Insurance Company Law of
Insurance Company (“Philanthropic”), : 1921, Act of May 17, 1921, P.L. 682, as
Mutual Management Company, LLC : amended, added 1995, Dec. 21, P.L. 714,
 (“MMC”), Hanover Fire and Casualty : 40 P.S. §§911-A et seq., as amended;
Insurance Company (“Hanover”) and : Sections 1401, 1402, and 1403 of the
Hanover Fire Holdings, Inc. (“Holdings”) : Insurance Holding Companies Act, Article
Requesting Approval of a Three-Step : XIV of the Insurance Company Law of
Integrated Transaction Allowing for the : 1921, Act of May 17, 1921, P.L. 682, as
Conversion of Philanthropic from a : amended, 40 P.S. §§991.1401-1403;
Mutual to a Stock Insurance Company, the : Sections 1921 through 1929 of the
Acquisition of the Converted : Pennsylvania Business Corporation Law of
Philanthropic by MMC and the : 1988, 15 P.S. §§1921-1929; Sections 205
Subsequent Immediate Merger of Hanover : and 207 of the GAA Amendments Act of
with and into Philanthropic : 1990, Act of December 19, 1990, P.L. 834,
: No. 198, as amended, 15 P.S. §§21205 and
: 21207.
:
: Order No. ID-RC-08-19

DECISION AND ORDER

AND NOW, on this 4th day of December, 2008, Joel Ario, 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, the Insurance Holding Companies Act, the Business Corporation Law 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 the Parties

1. Philanthropic Mutual Fire Insurance Company (“Philanthropic”) is a domestic mutual property insurance company organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Lancaster, Pennsylvania.

2. Mutual Management Company, LLC (“MMC”) is a limited liability company organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Lancaster, Pennsylvania. MMC controls Philanthropic through a management agreement.
3. Mark J. Keyser (“Mr. Keyser”) is an individual with his principal place of business located in Plymouth Meeting, Pennsylvania. Mr. Keyser controls 10.7% of the membership units of MMC.
4. Jeffrey Russell (“Mr. Russell”) is an individual with his principal place of business located in Plymouth Meeting, Pennsylvania. Mr. Russell controls 15.4% of the membership units of MMC.
5. Aegis Security Insurance Company (“ASIC”) is a stock fire insurance company organized under the laws of the commonwealth of Pennsylvania with its principal place of business located in Harrisburg, Pennsylvania. ASIC controls 24.6% of the membership units of MMC.
6. Aegis Security, Inc. (“Aegis Security”) is an insurance holding company organized under the laws of the commonwealth of Pennsylvania with its principal place of business located in Harrisburg, Pennsylvania. Aegis Security holds 100% of the issued and outstanding voting stock of ASIC.
7. Martin G. Lane, Jr. (“Mr. Lane”) is an individual with his principal place of business located in Harrisburg, Pennsylvania. Mr. Lane controls greater than 45% of the issued and outstanding voting stock of Aegis Security.
8. John J. Nissley (“Mr. Nissley”) is an individual with his principal place of business located in Wormleysburg, Pennsylvania. Mr. Nissley controls great than 17% of the issued and outstanding voting stock of Aegis Security.
9. Columbian Mutual Life Insurance Company (“CML”) is a mutual life insurance company organized under the laws of the state of New York with its principal place of business located in Binghamton, New York. CML controls 11.4% of the membership units of MMC.
10. Mr. Keyser, Mr. Russell, Mr. Lane, Mr. Nissley and CML are the ultimate controlling persons of Philanthropic.
11. Hanover Fire and Casualty Insurance Company (“Hanover”) is a domestic stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Conshohocken, Pennsylvania.
12. Hanover Fire Holdings, Inc. (“Holdings”) is a insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Conshohocken, Pennsylvania. Holdings directly holds 100% of the issued

and outstanding capital stock of Hanover.

13. Ross D. Miller (“Mr. Miller”) is an individual with his principal place of business located in Conshohocken, Pennsylvania. Mr. Miller holds 100% of the issued and outstanding capital stock of Holdings.
14. Mr. Miller is the sole ultimate controlling person of Hanover.

The Filings

15. On May 12, 2008, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an application (which together with all material received subsequently is hereinafter collectively referenced as “Application”) from Philanthropic requesting approval to convert from the mutual to stock form (“the Conversion”) and immediately thereafter merge with Hanover, with Philanthropic the surviving entity (“the Merger”).
16. The Insurance Company Mutual-To-Stock Conversion Act, 40 P.S. §§911-A et seq., as amended (the “Conversion Act”), provides that all plans of conversion of domestic mutual insurers must be filed with the Commissioner for approval or disapproval.
17. Section 917-A of the Conversion Act provides that a domestic mutual insurer may adopt an alternative plan of conversion if the Commissioner finds that the plan does not prejudice the interests of the policyholders, is fair and equitable, and is not inconsistent with the purpose and intent of the Conversion Act.
18. As specified in the Application, Philanthropic proposes to convert from the mutual-to-stock form pursuant to Section 917-A of the Conversion Act.
19. The Insurance Holding Companies Act, Article XIV of the Insurance Corporation 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 mergers or other acquisitions of control of domestic insurers must be filed with the Commissioner for approval or disapproval.
20. The GAA Amendments Act of 1990, P.L. 834, No. 198, as amended, 15 P.S. §§21205 and §§21207 (“GAA Amendments Act”), provides that all plans of merger of domestic insurers must be filed with the Department for approval or disapproval.
21. As specified in the Application, MMC proposes to acquire 100% of the issued and outstanding capital stock of Philanthropic upon the conversion of Philanthropic to a stock insurance company.
22. As specified in the Application, Hanover desires to merge with and into Philanthropic upon the conversion of Philanthropic to a stock insurance company.

23. The Application was filed with the Department pursuant to Section 1402 of the Insurance Holding Companies Act, Section 205 of the GAA Amendments Act and Section 803-A of the Conversion Act.

Department Procedures

24. On June 7, 2008, the Department published notice in the *Pennsylvania Bulletin* that the request for approval for a mutual-to-stock conversion was submitted by Philanthropic, and that the converted company intended to merge with Hanover. This notice invited interested persons to submit comments to the Department regarding the mutual-to-stock conversion for a 60 day period (“the Comment Period”).
25. The Department received no comments regarding the proposed mutual-to-stock conversion or merger during the Comment Period.

Description of the Proposed Mutual-to-Stock Conversion

26. As specified in the Application, on April 4, 2008, by an affirmative vote of at least two-thirds of its members, the Board of Directors of Philanthropic adopted a resolution approving a plan of conversion (“Plan of Conversion”).
27. At the time the Board of Directors of Philanthropic adopted the Plan of Conversion, Philanthropic had approximately 5,450 policyholders (“Eligible Members”).
28. As specified in the Application, the Plan of Conversion was amended and restated on October 13, 2008, by a unanimous affirmative vote by the Board of Directors of Philanthropic.
29. As specified in the Application, Philanthropic proposes to provide, in lieu of any stock subscription rights, a specified amount of insurance coverage for one year at no charge to all Eligible Members.
 - a) Dwelling and contents only policies, contents coverage of up to \$4,000 per policyholder, and
 - b) Tenant only policies, \$5,000 of fire coverage per policy.
30. As specified in the Application, Philanthropic shall send notice of a policyholders’ meeting to vote upon the Conversion to the Eligible Members upon receiving an approving determination by the Commissioner in the instant proceeding.
31. As specified in the Application, upon receiving the affirmative vote of at least two-thirds of the votes cast by the Eligible Members, Philanthropic may convert to the stock form by completing the required filings with the Pennsylvania Department of State.

32. As provided in the Application, a significant number of producers of Philanthropic hold a limited producer license (“Limited Producers”) that only permits them to represent a Pennsylvania domestic mutual insurance company.
33. As provided in the Application, after the Conversion, the Limited Producers’ restricted licenses will not permit them to do business with the Converted Philanthropic unless the Commissioner exercises discretion to permit such producers to continue to represent Philanthropic.
34. As provided in the Application, the Department recognizes that these Limited Producers service a significant amount of Philanthropic’s policyholders.
35. Based on the information contained in the Application, the Commissioner finds that the contemplated conversion of Philanthropic would not prejudice the interests of the Eligible Members of Philanthropic.
36. Based on the information contained in the Application, the Commissioner finds that the contemplated conversion of Philanthropic is not inconsistent with the purpose and intent of the Conversion Act.

Description of the Proposed Acquisition

37. Philanthropic issued a convertible surplus note to MMC on December 15, 2006 for a principal amount of \$1,640,000 (“Surplus Note”).
38. The 2007 Annual Statement of Philanthropic reports \$2,923,749 in surplus as regards policyholders.
39. As specified in the Application, at the time of the Conversion, the existing surplus of Philanthropic would be recorded as “unassigned funds.”
40. As specified in the Application, at the time of the Conversion MMC would exchange the Surplus Note (marked cancelled) for 850,000 shares of one dollar par value Philanthropic common stock (the “Acquisition”).
41. As specified in the Application, after the Conversion and Acquisition Philanthropic would have \$850,000 of capital and \$790,000 of contributed surplus.
42. As specified in the Application, upon completion of the Conversion and Acquisition Philanthropic would have the statutory minimum amounts of capital and contributed surplus required of a stock fire insurance company authorized to write the existing lines of authority currently held by Philanthropic.
43. Based on the information contained in the Application, the Commissioner finds that the acquisition of Philanthropic, after the Conversion, by MMC is an exempt acquisition under Section 1402(g) of the Insurance Holding Companies Act.

Description of the Proposed Merger

44. Philanthropic, MMC, Hanover and Holdings executed a Plan of Merger dated as of April 15, 2008, ("Merger Agreement") which provides for Hanover to merge with and into Philanthropic, with Philanthropic being the surviving corporation.
45. As described in the Application, upon the effective date of the Merger each share of Philanthropic common stock issued and outstanding immediately prior to the effective date of the Merger would continue to represent one issued share of common stock of Philanthropic.
46. As described in the Application, upon the effective date of the Merger the common stock of Hanover issued and outstanding immediately prior to the effective date of the Merger would be exchanged for not less than 65% of the total issued and outstanding capital stock of Philanthropic, considering numerous adjustments as described in the Merger Agreement.
47. As described in the Application, the Board of Directors of the converted Philanthropic will adopt a resolution to merge with Hanover.
48. As described in the Application, the Board of Directors of Hanover will adopt a resolution to merge with and into Philanthropic.
49. As described in the Application, the Articles of Incorporation and By-Laws of Philanthropic in effect at the effective date of the Merger, would be amended as provided in the Application, to include that Philanthropic will change its name to Hanover Fire and Casualty Insurance Company immediately after the Merger.
50. As described in the Application and as a matter of law, Philanthropic would be responsible and liable for all the liabilities and obligations of Hanover after the Merger.
51. As described in the Application, upon completion of the Merger, Mr. Miller, Mr. Keyser, Mr. Russell, Mr. Lane, Mr. Nissley and CML would be the ultimate controlling persons of Philanthropic.
52. Based on the information contained in the Application, the Commissioner finds that the merger of Philanthropic, after the Conversion, with Hanover is in accordance with applicable law and is not injurious to policyholders and creditors of Philanthropic or Hanover.
53. 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 the Plan of Conversion.
2. Section 913-A(e) of the Conversion Act states that the Commissioner may order a hearing on whether the terms of the Plan of Conversion comply with the Conversion Act after giving written notice to the mutual company and other interested persons, all of whom have the right to appear at the hearing.
3. The parties to the filing did not request a hearing, and, after review of the circumstances and documents relating to the Application, the Commissioner did not elect to conduct a hearing as a proper exercise of his statutory discretion.
4. As specified in the Application, all policies of Philanthropic in force at the time of Conversion would continue in force, and the Conversion would not change, reduce or impair in any way the insurance obligations of Philanthropic under any insurance policy issued or contract entered into by Philanthropic.
5. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the Conversion would not prejudice the interests of the Eligible Members.
6. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the provisions of the Application are fair and equitable.
7. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the Application is not inconsistent with the purpose and intent of the Conversion Act.
8. In accordance with Section 917-A(1) of the Conversion Act, the Commissioner concludes that the Application anticipates the merger of Hanover with and into Philanthropic.
9. As allowed by Section 918-A of the Conversion Act, the Conversion would become effective when the Eligible Members have approved the Plan of Conversion and adopted amended articles of incorporation and such amended articles of incorporation have been filed in the office of the Secretary of the Commonwealth.
10. The Insurance Holding Companies Act grants the Commissioner jurisdiction to review and approve the Acquisition.
11. Under Section 1402(g) of the Insurance Holding Companies Act, the Department shall exempt an acquisition from the requirements of Section 1402 if the acquisition does not have the effect of changing or influencing the control of a domestic insurer.
12. Pursuant to Section 1402(g) of the Insurance Holding Companies Act, the Commissioner concludes that the Acquisition would not change the ultimate controlling persons of

Philanthropic, and, therefore, is exempt from the filing requirements of the Insurance Holding Companies Act.

13. The Insurance Holding Companies Act and the GAA Amendments Act of 1990 grant the Commissioner jurisdiction to review and approve the Merger.
14. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has jurisdiction to review and approve the merger of Hanover with and into Philanthropic.
15. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for merger *unless* it 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 merger will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the surviving 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 and fail to confer benefit on policyholders of the insurer and are 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.
16. 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 merger of Hanover with and into Philanthropic.
17. The Commissioner concludes that the Merger would be effective upon proper filing of Articles of Merger with the Department of State pursuant to Sections 1927 and 1928 of the 1988 BCL.

18. The Commissioner concludes that the Merger would be in accordance with applicable law and would not be injurious to the policyholders and creditors of Hanover.
19. The Commissioner concludes that, if the Merger is consummated, all the property, franchises and liabilities of Hanover would be conveyed to Philanthropic, as a matter of law, pursuant to Section 1929 of the 1988 BCL.
20. The Commissioner concludes that the Application satisfies the requirements of the Conversion Act, the Insurance Holding Companies Act, the GAA Amendments Act and the Business Corporation Law.
21. 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
Application of Philanthropic Mutual Fire Insurance Company (“Philanthropic”), Mutual Management Company, LLC (“MMC”), Hanover Fire and Casualty Insurance Company (“Hanover”) and Hanover Fire Holdings, Inc. (“Holdings”) Requesting Approval of a Three-Step Integrated Transaction Allowing for the Conversion of Philanthropic to a Stock Insurance Company, the Acquisition of the Converted Philanthropic by MMC and the Subsequent Immediate Merger of Hanover with and into Philanthropic	:	Mutual-to-Stock Conversion Act, Article VIII-A of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, <u>as amended</u> , added 1995, Dec. 21, P.L. 714, 40 P.S. §§911-A <u>et seq.</u> , <u>as amended</u> ; Sections 1401, 1402, and 1403 of the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, <u>as amended</u> , 40 P.S. §§991.1401-1403; Sections 1921 through 1929 of the Pennsylvania Business Corporation Law of 1988, 15 P.S. §§1921-1929; Sections 205 and 207 of the GAA Amendments Act of 1990, Act of December 19, 1990, P.L. 834, No. 198, <u>as amended</u> , 15 P.S. §§21205 and 21207.
	:	Order No. ID-RC-08-19

ORDER

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

The Application of Philanthropic Mutual Insurance Company (“Philanthropic”), Mutual Management Company, LLC (“MMC”), Hanover Fire and Casualty Insurance Company (“Hanover”) and Hanover Fire Holdings, Inc. (“Holdings”) requesting approval of a three-step integrated transaction allowing for the conversion of Philanthropic to a stock insurance company, the acquisition of the converted Philanthropic by MMC and the subsequent immediate merger of Hanover with and into Philanthropic, as specified in the Application, is hereby granted, subject to this Order and the following conditions:

1. Philanthropic shall submit for the Commissioner’s approval any changes to the Plan of Conversion.

2. Philanthropic shall, within sixty (60) days of the date of this Order, send a notice to its Eligible Members, in a form acceptable to the Insurance Department, advising them of the policyholder meeting to vote on the plan of conversion in the form contained in the Application.
3. Philanthropic shall effectuate the Conversion as contemplated in the Application no later than 120 days following the date of this Order.
4. Philanthropic shall provide a copy of all final executed documents relative to the Conversion to the Commissioner within five (5) days of the effective date of the Conversion.
5. Philanthropic shall, within sixty (60) days of the effective date of conversion, send a notice to its producers, in a form acceptable to the Insurance Department, giving notice of the conversion.
6. The Department hereby approves the redemption of the Surplus Note, and payment of all accrued and unpaid interest on the Surplus Note through the date of the Merger.
7. Upon the effectuation of the conversion of Philanthropic from the mutual to stock form, Hanover and Philanthropic shall immediately and without interruption, effectuate the merger of Hanover with and into Philanthropic, redeem a portion of the Philanthropic shares held by MMC as stated in the Application, and record the issuance of the shares of stock of the merged entity to MMC and Holdings.
8. Philanthropic shall provide a copy of all final executed documents relative to the Merger to the Commissioner within five (5) days of the effective date of the merger.
9. The request of Philanthropic to redeem certain Philanthropic stock held by MMC after the conversion and contemporaneously with the merger, as described in the Application, is hereby approved.
10. For the three (3) years following the effective date of the conversion and merger, the entity resulting from the merger of Hanover and Philanthropic shall not declare or pay any dividends or make any other distributions to its shareholders without the prior approval of the Commissioner. And, if approved, such dividends or other distributions may originate only from the earnings of the company.
11. For the three (3) years following the effective date of conversion and merger, the entity resulting from the merger of Hanover and Philanthropic shall not declare any dividends, return of capital or any other types of distributions to Philanthropic's Eligible Members, without the prior approval of the Commissioner.
12. The request from Philanthropic to change its name subsequent to its conversion from the mutual to stock form to "Philanthropic Fire Insurance Company" is hereby

approved.

13. The request from Philanthropic to change its name subsequent to the merger with Hanover to “Hanover Fire and Casualty Insurance Company” is hereby approved.
14. The request of Philanthropic seeking to grant Limited Producers permission to continue to represent Philanthropic after the Conversion, provided that such business is limited to servicing their existing Philanthropic policyholders as of the date of the Conversion in accordance with past practice, is hereby approved.

This Order is effective immediately.

Joel Ario
Insurance Commissioner
Commonwealth of Pennsylvania