

BEFORE THE DEPUTY INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402 and
: 1403 of the Insurance Holding
Application of Mercer Insurance Group, : Companies Act, Article XIV of the
Inc. Requesting Exemption from the : Insurance Company Law of 1921, Act of
Requirements of 40 P.S. §991.1402 for : May 17, 1921, P.L. 682, as amended, 40
the Restructuring of its Holding : P.S. §§991.1401, 991.1402 and
Company System, which includes : 991.1403
Mercer Insurance Company and Franklin :
Insurance Company : Order No. ID-RC-09-39

DECISION AND ORDER

AND NOW, on this 24th day of November 2009, Stephen J. Johnson, Deputy Insurance Commissioner of the Commonwealth of Pennsylvania (“Deputy Commissioner”), hereby makes the following Decision and Order:

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

FINDINGS OF FACT

Identity of Entities

1. Franklin Insurance Company (“Franklin”) is a domestic stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania with its principal place of business in Lock Haven, Pennsylvania.
2. Franklin Holding Company, Inc. (“FHC”) is an insurance holding company organized pursuant to the laws of the State of Delaware with its principal place of business in Lock Haven, Pennsylvania. Franklin is a wholly-owned subsidiary of FHC.
3. Mercer Insurance Company (“Mercer”) is a domestic stock casualty insurance company organized pursuant to the laws of the Commonwealth of Pennsylvania

with its principal place of business in Pennington, New Jersey.
Mercer currently owns 49% of the outstanding capital stock of FHC.

4. Mercer Insurance Group, Inc. (“MIG”) is a publicly-traded (NASDAQ) holding company organized pursuant to the laws of Commonwealth of Pennsylvania with its principal place of business in Pennington, New Jersey. MIG currently owns 51% of the outstanding capital stock of FHC and 100% of the outstanding capital stock of Mercer.
5. No person, directly or indirectly, controls 10% or more of the voting securities of MIG.
6. MIG is the sole ultimate controlling person of Mercer and Franklin.

Filing of the Application

7. 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. (cited as “Insurance Holding Companies Act”), provides that all transactions resulting in an entity holding control of domestic insurers must be filed with the Department for approval or disapproval.
8. On November 17, 2009, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received a request (which together with all material received subsequently is hereinafter referenced as “Request”) from MIG for approval to restructure its holding company system.
9. The Request was filed pursuant to Section 1402 of the Insurance Holding Companies Act.
10. 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.
11. As described in the Request, the restructuring will be accomplished by and through the following steps:
 - a) MIG will first contribute its 51% interest in FHC to Mercer resulting in Mercer holding 100% of the outstanding capital stock of FHC.
 - b) FHC will merge with and into Mercer with Mercer being the survivor. As a result of the merger, Franklin will become a directly wholly-owned

subsidiary of Mercer.

12. As described in the Request, MIG will remain the sole ultimate controlling person of Mercer and Franklin after consummation of the proposed restructuring.
13. The Deputy Commissioner finds that the transactions described in the Request do not have the effect of changing or influencing the control of a domestic insurer.
14. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the acquisition of voting securities of a domestic insurer if, after consummation thereof, the acquiring person would be in control of the domestic insurer.
2. The Request was properly filed pursuant to and in accordance with Section 1402(g) of the Insurance Holding Companies Act.
3. The restructuring of the holding company system as presented in the Request is not being contemplated to change or influence the control of Mercer or Franklin, and, therefore, is exempt from the requirements of Section 1402(b) of the Insurance Holding Companies Act.
4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

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ORDER

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

An approving determination for the application of Mercer Insurance Group, Inc. requesting exemption from the requirements of 40 P.S. §991.1402 for the restructuring of its holding company system, which includes Mercer Insurance Company and Franklin Insurance Company, as set forth in the Request, is hereby granted.

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

Stephen J. Johnson
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation