

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to the Insurance Company
: Mutual-to-Stock Conversion Act, Article
Application of Lebanon Mutual Insurance : VIII-A of the Insurance Company Law of
Company Requesting Approval of a Plan : 1921, Act of May 17, 1921, P.L. 682, as
of Reorganization to include the : amended, added 1995, Dec. 21, P.L. 714,
Conversion of Lebanon Mutual to a Stock : 40 P.S. §§911-A et seq., as amended;
Insurance Company, an Immediate : Sections 1401, 1402, and 1403 of the
Merger involving the Stock Insurance : Insurance Holding Companies Act, Article
Company followed by the Acquisition of : XIV of the Insurance Company Law of
the Stock of the Stock Insurance Company : 1921, Act of May 17, 1921, P.L. 682, as
by Tuscarora Wayne Mutual Group, Inc. : amended, 40 P.S. §§991.1401-1403.
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: Order No. ID-RC-10-23

DECISION AND ORDER

AND NOW, on this 25th day of August, 2010, 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 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 the Parties

1. Lebanon Mutual Insurance Company (“Lebanon Mutual”) is a mutual property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Cleona, Pennsylvania.
2. Tuscarora Wayne Insurance Company (“TWIC”) is a stock property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Wyalusing, Pennsylvania.
3. TWIC assumed control of Lebanon Mutual on March 26, 2010, by means of electing the entire Board of Directors of TWIC to serve on the Board of Directors of Lebanon

Mutual in exchange for a \$2,100,000 surplus note.

4. Tuscarora Wayne Group, Inc. (“SHC”) is a stock insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Wyalusing, Pennsylvania. SHC directly holds 100% of the issued and outstanding capital stock of TWIC.
5. Tuscarora Wayne Mutual Group, Inc. (“MHC”) is a mutual insurance holding company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Wyalusing, Pennsylvania. MHC directly holds 99.811% of the issued and outstanding capital stock of SHC.
6. MHC is the sole ultimate controlling person of Lebanon Mutual.

Adoption and Filing of the Plan of Reorganization

Adoption

7. On April 22, 2010, the Board of Directors of Lebanon Mutual adopted a Plan of Reorganization (“the Plan”) under which:
 - a. MHC shall form and become the sole shareholder of TW Acquisition Corp. Upon formation, TW Acquisition Corp., shall issue no less than 2.35 million shares of its common stock, having a par value of \$1.00 per share to MHC.
 - b. Lebanon Mutual shall convert into a stock insurance company (“Stock Insurance Company”) upon the filing of Amended Articles of Incorporation with the Department of State of the Commonwealth of Pennsylvania simultaneously changing its name to “Lebanon Valley Insurance Company” (“the Conversion”).
 - c. As set forth in a Plan of Merger, TW Acquisition Corp. shall merge with and into Stock Insurance Company with Stock Insurance Company being the surviving entity (“the Merger”). The membership interests in Lebanon Mutual shall terminate and upon consummation of the Merger the members of Lebanon Mutual will become members of MHC. Upon consummation of the Merger each share of TW Acquisition Corp. common stock shall be converted into a share of common stock of Stock Insurance Company.
 - d. Stock Insurance Company shall pay a cash dividend of no less than \$3.525 million to MHC.
 - e. MHC shall contribute no less than \$3.525 million in cash to Stock Insurance Company in respect of the common stock of Stock Insurance Company and Stock Insurance Company shall have no less than \$2.35 million in capital and no less than \$1.175 million in contributed surplus (“the Acquisition”).

- f. MHC shall contribute to SHC all of the common stock of Stock Insurance Company.

The Filing

8. On June 7, 2010, 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 Lebanon Mutual requesting approval of the Plan.
9. 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.
10. Section 917-A of the Conversion Act provides that a domestic mutual insurer may adopt an alternative plan of conversion that does not rely in whole or in part upon issuing nontransferable subscription rights to members to purchase stock of the converted stock company 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.
11. As specified in the Application, Lebanon Mutual proposes to convert from the mutual-to-stock form pursuant to Section 917-A of the Conversion Act.
12. 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.
13. As specified in the Application, MHC proposes to acquire 100% of the issued and outstanding capital stock of Lebanon Mutual upon its conversion followed by a distribution of the stock to SHC.
14. Section 1402(g) of the Insurance Holding Companies Act provides for exemption from the requirements of Section 1402:
 - a. if the transaction does not have the effect of changing or influencing the control of a domestic insurer, or
 - b. if the transaction is otherwise not comprehended within the purposes of Section 1402.
15. As described in the Application, MHC presently is, and will remain, the sole ultimate controlling person of Lebanon Mutual. Accordingly, the proposed transaction falls

within Section 1402(g)(1) of the Insurance Holding Companies Act.

16. The Application was filed with the Department pursuant to Section 913-A of the Conversion Act and Section 1402(g) of the Insurance Holding Companies Act.

Department Procedures

17. On June 19, 2010, the Department published notice in the *Pennsylvania Bulletin* that the request for approval for a mutual-to-stock conversion was submitted by Lebanon Mutual. This notice invited interested persons to submit comments to the Department regarding the mutual-to-stock conversion for a forty-five (45) day period (“the Comment Period”).
18. The Department received one comment during the Comment Period from a policyholder of Lebanon Mutual expressing opposition to the fact that policyholders were receiving no compensation under the Plan.
19. The comment letter was forwarded to Lebanon Mutual for response.
20. The Department reviewed and considered, in its analysis of the Application, the comment letter as well as Lebanon Mutual’s response to the letter.

The Conversion

21. The management and Board of Directors of Lebanon Mutual believe that it is in the best interest of the insurance company and its members (“policyholders”) to reorganize Lebanon Mutual by partially converting to a stock insurance company within the existing MHC mutual holding company structure.
22. The corporate existence and insurance business of Lebanon Mutual will continue without interruption as the converted Stock Insurance Company.
23. As described in the Plan, Lebanon Mutual’s business purpose for seeking approval of the Plan is to enhance Lebanon Mutual’s strategic and financial flexibility by creating a structure that will potentially enable it to access capital markets that are presently unavailable to it as a mutual company, which may thereby facilitate the growth important to its goal of remaining an effective and competitive insurer in the future.
24. At the time the Board of Directors of Lebanon Mutual adopted the Plan, Lebanon Mutual had 10,762 policyholders (“Eligible Members”).
25. Lebanon Mutual advised the Department that it had, on June 22, 2010, sent to each Eligible Member notice by first class mail advising of the filing of the Application with the Department.

26. Section 919-A of the Conversion Act requires that written notice regarding the Plan be sent to all members whose policies were issued after the Plan was adopted by Lebanon Mutual's Board of Directors on April 22, 2010.
27. As provided in the Conversion Act, members receiving notice must be advised that each such member is entitled to cancel his or her policy and receive a pro rata refund of unearned premiums.
28. The Department reviewed and commented on Lebanon Mutual's proposed notice.
29. Lebanon Mutual represented that it has provided and continues to provide the required notice.
30. As specified in the Application, after the Plan has been approved by the Commissioner, Lebanon Mutual shall hold a meeting of the Eligible Members to vote upon the Plan.
31. As specified in the Application, upon receiving the affirmative vote of at least two-thirds of the votes cast by the Eligible Members, Lebanon Mutual may convert to the stock form by completing the required filings with the Pennsylvania Department of State.
32. As described in the Plan, each policy in force on the Effective Date will continue in force as a policy of Stock Insurance Company with all policy and contract rights under such policies remaining as they existed on the Effective Date, except that the following rights, to the extent such rights existed in the policies, will be extinguished on the Effective Date:
 - a. any voting rights of the policyholders provided under the policies;
 - b. any right to share in the surplus of Lebanon Mutual provided for under the policies; and
 - c. any assessment provisions provided for under the policies.
33. As described in the Application, all persons insured by Lebanon Mutual on the Effective Date, will be members of MHC so long as at least one policy which leads to such membership remains in force. Regardless of the number of such policies or such amount of insurance, each member will be entitled to one vote at each members' meeting.
34. As described in the Plan, no subscription rights to purchase any of the capital stock of Stock Insurance Company, SHC, or any other corporation will be offered to any officer, director, or Eligible Member of Lebanon Mutual. Accordingly, no independent evaluation of the pro forma market value of Lebanon Mutual was included in the Application.

35. As described in the Plan, the Conversion shall not become effective unless, on or prior to the Effective Date, Lebanon Mutual shall have obtained rulings from the Internal Revenue Service or an opinion of independent tax counsel substantially to the effect that the Conversion of Lebanon Mutual from a domestic mutual insurance company into a stock insurance company will constitute a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended.

The Acquisition

36. The 2009 Annual Statement of Lebanon Mutual reports \$9,334,072 in surplus as regards policyholders.
37. The minimum capital stock required for the lines of authority held by Stock Insurance Company is \$2.35 million as set forth in The Insurance Company Law (40 P.S. §386(b) and (c)).
38. The minimum surplus paid in required for the lines of authority held by Stock Insurance Company is \$1.175 million as set forth in The Insurance Company Law (40 P.S. §386(b) and (c)).
39. As specified in the Application, at the time of the Conversion, Lebanon Mutual would issue a dividend of \$3.525 million to MHC.
40. As specified in the Application, MHC would contribute \$3.525 million in respect of the capital stock of Stock Insurance Company acquired.
41. After the acquisition of the stock of Stock Insurance Company, Stock Insurance Company would have a capital account balance of \$2.35 million and a contributed surplus account balance of \$1.175 million.
42. As specified in the Application, upon completion of the Conversion and Acquisition Stock Insurance Company would have the statutory minimum amounts of capital and contributed surplus required of a stock property insurance company authorized to write the existing lines of authority currently held by Lebanon Mutual.
43. As specified in the Application, upon completion of the Acquisition, MHC would contribute to SHC all of the common stock of Stock Insurance Company.
44. The Department reviewed the December 31, 2009, audited financial statement for MHC.
45. As of December 31, 2009, MHC reported assets of \$38,537,185, liabilities of \$0, and members' equity of \$38,537,185.
46. Section 917-A of the Conversion Act provides that the Department may approve a partial conversion and formation of a mutual holding company provided the mutual

holding company is not insolvent or in hazardous financial condition.

47. Based on the information received and analyses conducted, the Commissioner finds that MHC is not insolvent or in hazardous financial condition.
48. Based on the information contained in the Application, the Commissioner finds that the contemplated conversion of Lebanon Mutual would not prejudice the interests of the Eligible Members of Lebanon Mutual.
49. Based on the information contained in the Application, the Commissioner finds that the contemplated conversion of Lebanon Mutual is not inconsistent with the purpose and intent of the Conversion Act.
50. As described in the Application, MHC will remain the ultimate controlling person of Stock Insurance Company following the transaction.
51. The Commissioner finds that the transaction described in the Application does not have the effect of changing or influencing the control of a domestic insurer.
52. 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 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 Lebanon Mutual 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 Lebanon Mutual under any insurance policy issued or contract entered into by Lebanon Mutual.
5. In accordance with Section 917-A of the Conversion Act, the Commissioner concludes that the Conversion would not prejudice the interests of the 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 of the Conversion Act, the Commissioner concludes that, as described in the Application, Mutual Holding Company will not be insolvent or in hazardous financial condition immediately subsequent to the effectuation of the Plan.
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 the Agreement and Plan of Merger among MHC, TW Acquisition Corp., and Lebanon Mutual, 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 Lebanon Mutual, and, therefore, the Acquisition is exempt from the filing requirements of the Insurance Holding Companies Act.
13. The Commissioner concludes that the Application satisfies the requirements of the Conversion Act and the Insurance Holding Companies Act.
14. 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, Joel Ario, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Order:

The Application of Lebanon Mutual Insurance Company requesting approval of a Plan of Reorganization to include the conversion of Lebanon Mutual to a stock insurance company, an immediate merger involving the stock insurance company followed by the acquisition of the stock of the stock insurance company by Tuscarora Wayne Mutual Group, Inc. as specified in the Application, is hereby granted, subject to this Order and the following conditions:

1. Lebanon Mutual shall submit for the Commissioner’s approval any changes to the Plan of Conversion.
2. Lebanon Mutual shall, within sixty (60) days of the date of this Order, send a notice to its Eligible Members, in a form acceptable the Insurance Department, advising them of the policyholder meeting to vote on the plan of reorganization in the form contained in the Application.
3. Lebanon Mutual shall effectuate the conversion as contemplated in the Application no later than 120 days following the date of this Order.
4. Lebanon Mutual 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, including, without limitation, a copy of the Internal Revenue Service ruling or opinion of independent tax counsel substantially to the effect that the Conversion of Lebanon Mutual will constitute a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986.

5. Lebanon Mutual 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 request from Lebanon Mutual to change its name subsequent to its conversion from the mutual to stock form to “Lebanon Valley Insurance Company” is hereby approved.

This Order is effective immediately.

Joel Ario
Insurance Commissioner
Commonwealth of Pennsylvania