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October 12, 2011

via Electronic and UPS Next Day Air

Hon. Michael F. Consedine  
Commissioner of Insurance  
Pennsylvania Insurance Department  
1345 Strawberry Square  
Harrisburg, PA 17120

RECEIVED  
Corporate & Financial Regulation

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Pennsylvania  
Insurance Department

RE: Proposed Merger of Harleysville Mutual Insurance Company into Nationwide Mutual Insurance Company

Dear Commissioner Consedine:

Liberty Real Estate Holdings LLC, a Delaware limited liability company and an affiliate of Liberty Mutual Holding Company, Inc. ("Liberty Mutual"), is a policyholder and member of Harleysville Mutual Insurance Company, a Pennsylvania mutual insurance company ("Harleysville Mutual"). Given our affiliate's status as a member of Harleysville Mutual and our status as a mutual company conducting business in the same markets as Harleysville Mutual, we have significant concerns that the proposed merger (the "Proposed Merger") of Harleysville Mutual with and into Nationwide Mutual Insurance Company, an Ohio mutual insurance company ("Nationwide"), which was announced on September 29, 2011, may be disadvantageous to the policyholders and members of Harleysville Mutual. Accordingly, we are submitting this protest, in accordance with Section 35.23 of Title 1 of the Pennsylvania Statutes, with respect to the Proposed Merger, which is subject to your approval pursuant to Section 991.1402 of Title 40 of the Pennsylvania Statutes, to make you aware of these concerns in advance of your consideration of this Proposed Merger.

The Proposed Merger is to occur in accordance with the terms of an Agreement and Plan of Merger, dated September 28, 2011 (the "Merger Agreement"), by and among Nationwide, Harleysville Mutual, Nationals Sub, Inc., a Delaware corporation that is a wholly-owned subsidiary of Nationwide ("Merger Sub"), and Harleysville Group Inc., a publicly traded Delaware corporation that is a majority-owned subsidiary of Harleysville Mutual ("HGI"). Unlike a straight-forward merger of mutual insurance companies, the Merger Agreement contemplates that two related mergers are to take place on the closing date contemplated by the Merger Agreement. First, Harleysville Mutual will merge with and into Nationwide and the policyholders of Harleysville Mutual will become members of Nationwide with ostensibly the

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same voting, liquidation and distribution rights with respect to Nationwide as the other policyholders of Nationwide. Second, Merger Sub will merge with and into HGI (the "Subsidiary Merger") and each share of stock of HGI outstanding, other than the shares of HGI owned by Nationwide as successor in interest to Harleysville Mutual, will be converted into a right to receive \$60.00 in cash.

As you may be aware, shares of HGI were trading at approximately \$25 per share on September 22, 2011, the day prior to the date on which Bloomberg News published a report that Nationwide was in talks to buy HGI. As a result, the merger consideration of \$60 per share being offered by Nationwide to HGI's public shareholders in connection with the Subsidiary Merger represents a premium of nearly \$35 per share, which is considerably higher premium than was offered in any recent insurance industry transaction that we are aware of where the majority shareholder was buying out the minority public shareholders.<sup>1</sup> Despite this very significant premium being offered to the public shareholders of HGI (as well as the officers and directors of Harleysville who own such shares and/or hold stock options in such shares), the Merger Agreement does not provide for any consideration being paid to the members of Harleysville Mutual in connection with the Proposed Merger beyond the fact that they will become members of Nationwide. While we acknowledge that it is not unusual for no such consideration to be paid to members in connection with a traditional merger of two mutual insurance companies, the Proposed Merger differs significantly from such traditional transactions because Harleysville Mutual owns approximately 54% of the shares of HGI, which is currently a publicly traded company and which will become a wholly-owned subsidiary of Nationwide as a result of the Subsidiary Merger.

This highly unusual structure, where the merger of mutual insurance companies also involves a related "going-private" transaction of a publicly traded subsidiary of one of the constituent mutual companies, results in an inherent conflict of interest between the interests of the members of Harleysville Mutual and the public shareholders of HGI.<sup>2</sup> This conflict is intensified by the fact that Harleysville Mutual and the insurance company subsidiaries of HGI are members of the same intercompany reinsurance pool and share a common infrastructure and management. Despite this conflict of interest, it appears that Harleysville Mutual and HGI negotiated the Proposed Merger and the Subsidiary Merger as part of an integrated transaction, where the premium associated with the integrated transaction was received exclusively by HGI's public shareholders. It should be noted that this allocation of consideration differs from other similar transactions, including the merger of ALLIED Mutual Insurance Company with and into Nationwide and the related taking private of ALLIED Group Inc. and ALLIED Life Financial Corp., where cash consideration for the merger was also provided to members of ALLIED

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<sup>1</sup> Based on our review of such precedent transactions involving consideration of greater than \$50 million since 1995, the next largest initial premium offered in connection with such a transaction was an approximately 26% premium to the prior day's share price. The median premium being offered in such precedent transactions was only approximately 15%.

<sup>2</sup> It should be noted that this conflict does not arise in the case of the merger of two mutual insurance companies where it is not accompanied by a "going private" transaction, since the benefits of the merger in such a transaction are retained by the combined company for the benefit of its members and are not being paid out in the form of a merger premium.

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Mutual Insurance Company in the form of the payment of a special dividend immediately prior to the consummation of the mutual merger.

Based on the divergent treatment of the public shareholders of HGI versus the members of Harleysville Mutual, Liberty has concerns that Harleysville Mutual may not have appropriately taken into consideration the interests of its members in connection with entering into the Merger Agreement and that in deciding to allocate the entire merger premium to be paid by Nationwide in connection with the integrated transaction to the public shareholders of HGI, it may be enriching the public shareholders and management of HGI at the direct expense of the members and policyholders of Harleysville Mutual. Such a result would clearly be injurious to the members of Harleysville Mutual and would be a particularly disturbing result coming from a company whose board of directors and senior management includes a number of individuals who have held high ranking positions within Pennsylvania's government, including, among others, a former Commissioner of Insurance and a former Lieutenant Governor.

In this regard, it is worth highlighting some of the stark differences between how the Merger Agreement treats the duties owed by HGI to its shareholders and the duties owed by Harleysville Mutual to its members. For example, Section 7.2(d) of the Merger Agreement prohibits the boards of directors of both HGI and Harleysville from, among other things, withdrawing or qualifying their respective approval, recommendation or declaration of advisability of the Merger Agreement and the mergers contemplated thereby or recommending, adopting or approving any alternative transaction. In recognition of the fact that the fiduciary obligations of the boards of directors may require them to change their recommendation if an offer to enter into an alternative transaction were received by Harleysville that was clearly preferable to that being presented by Nationwide, Section 7.2(d) of the Merger Agreement provides an exception to this restriction for the board of directors of HGI in connection with a "Superior Proposal." In contrast, however, no similar right is provided to the board of directors of Harleysville Mutual. As a result, even if an alternative offer was received by Harleysville Mutual that was clearly preferable to the transaction contemplated by the Merger Agreement, Harleysville Mutual's board of directors would not be permitted under the terms of the Merger Agreement to accept a superior offer for the policyholders of Harleysville Mutual or to change its recommendation to members that they should approve the Proposed Merger. Even more troubling is the fact that even if an alternative transaction was proposed to Harleysville that offered the same merger consideration to the public shareholders of HGI, but also included additional consideration to be paid to the members of Harleysville Mutual, this alternative transaction would not satisfy the definition of "Superior Proposal" in the Merger Agreement, which focuses exclusively on the interests of the public shareholders of HGI and entirely disregards the interests of the members of Harleysville Mutual, and the boards of directors of HGI and Harleysville Mutual would be precluded from pursuing it.

Given the indications that the Proposed Merger may enrich public shareholders at the expense of policyholders, in connection with its review of the transaction the Pennsylvania Insurance Department would obviously need to conduct discovery regarding and carefully scrutinize the deliberative process undertaken by the board of directors and officers of Harleysville Mutual in connection with considering the Proposed Merger to ensure that those officers and directors satisfied their fiduciary obligations to Harleysville Mutual and, indirectly,

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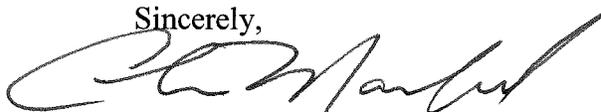
its members and policyholders. Special consideration should be given to whether the respective boards of directors of Harleysville Mutual and HGI used appropriate measures such as special committees to address the numerous conflicts of interest between HGI and Harleysville Mutual, especially given the overlapping members of the respective boards of directors and the conflicting financial interests of the directors and officers.

Further, it is critically important that the Pennsylvania Insurance Department determine whether Harleysville Mutual carefully evaluated and actively sought alternative bids/proposals, and analyzed the impact of such alternative transactions on its members, particularly given the fact that the Merger Agreement effectively precludes Harleysville Mutual from considering any alternative transactions. In this regard and in light of the conflicts of interest and financial complexities resulting from the going private transaction, the Pennsylvania Insurance Department should strongly consider enlisting the assistance of outside experts, including financial and legal advisors to evaluate the options available to Harleysville Mutual and to consider whether the Proposed Merger is fair from the perspective of Harleysville Mutual's members.

We also respectfully request that the Pennsylvania Insurance Department use its discretion under Section 991.1402 of Title 40 of the Pennsylvania Statutes to hold one or more public hearings in connection with its consideration of the Proposed Merger. While we understand that the Pennsylvania Insurance Department typically publishes notice of the merger in the Pennsylvania Bulletin and solicits comments from interested parties in lieu of holding a public hearing, we believe that foregoing a public hearing in connection with the Proposed Merger would not be appropriate given the complexity and uniqueness of the issues involved in connection with this transaction.

Liberty Mutual expressly reserves its rights to submit additional public comments with respect to the Proposed Merger and, if it feels that such action is justified, file a petition to intervene and seek to introduce expert testimony in connection with the Pennsylvania Insurance Department's adjudication of Nationwide's application under Section 991.1402 of Title 40 of the Pennsylvania Statutes. In this regard, we would appreciate receiving notice if and when such an application is filed.

Sincerely,



Christopher C. Mansfield  
Senior Vice President & General Counsel

cc: Stephen Johnson  
Deputy Commissioner, Pennsylvania Insurance Department

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