

*Exhibit I*

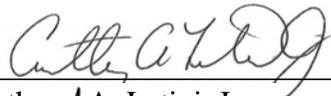
**Certification**

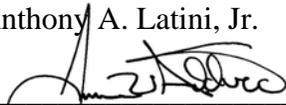
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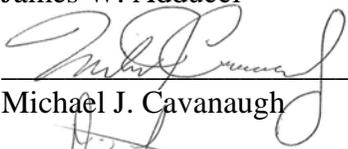
**EXHIBIT I**  
**CERTIFICATION**

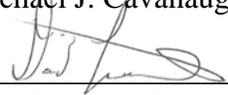
We certify that, to the best of our knowledge and belief:

- the facts and data reported by the reviewer and used in the review process are true and correct;
- the analyses, opinions, and conclusions in the Report are limited only by the assumptions, qualifications, limitations and conditions set forth in the Report and Engagement Letter, and are our personal, impartial and unbiased professional analyses, opinions and conclusions;
- we have no present or prospective interest in the property that is the subject of the Report, and we have no personal interest or bias with respect to the parties involved;
- our engagement in this assignment was not contingent upon developing or reporting predetermined results;
- our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, the Report;
- we have made a personal visit to the headquarters of the Company.

  
\_\_\_\_\_  
Anthony A. Latini, Jr.

  
\_\_\_\_\_  
James W. Adducci

  
\_\_\_\_\_  
Michael J. Cavanaugh

  
\_\_\_\_\_  
David J. Landskroner

April 12, 2012

*Exhibit II*

**Qualifications of Boenning & Scattergood, Inc.  
Professionals**

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### Exhibit II

#### Background and Experience of Boenning's Professional Staff

##### **Chad Hull – Managing Director**

Chad is responsible for providing investment banking services, including M&A advisory, private placement, and public markets services, to the firm's privately held and publicly traded clients. Chad's expertise is in both the private company and public company domains, and he is a recognized expert in capital formation and M&A advisory services in the financial institutions industry.

During his career, he has advised on over 100 investment banking transactions, which, in the aggregate, represents over \$4 billion of transaction value. In addition, he has provided over 60 fairness opinions to corporate boards and/or shareholders, on transactions ranging from buy side and sell side merger and acquisitions to capital restructurings. Prior to joining Boenning in 2001, Chad was a director in Berwind Financial, L.P.'s investment banking practice, which he joined in 1995. Chad received a Bachelor of Arts from Colgate University. He is registered with FINRA and holds Series 7, 63 and 24 licenses.

##### **Anthony A. Latini, Jr. – Managing Director**

Tony has over twenty years experience providing corporate finance and investment banking services to middle market and large corporate clients. Tony focuses on merger and acquisition advisory services and capital raising for banking clients and leads the firm's New Jersey banking effort. His merger & acquisition transaction experience includes approximately \$2 billion in transaction value and he has assisted in raising in excess of \$500 million in debt and junior capital. Tony has significant experience working with financial services modernization, working with insurance companies, banks and agencies as segments of the industry converge.

Prior to joining Boenning & Scattergood, Mr. Latini was Managing Director of Curtis Financial Group's financial services industry group. He has also held positions at Berwind Financial L.P., Evans & Company, Inc. and CoreStates Financial Corp. Tony received his Bachelor of Science degree in Economics with a concentration in Finance

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## **Volume II - Exhibits**

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from the Wharton School of the University of Pennsylvania. He holds the Chartered Financial Analyst designation and the FINRA Series 7, 24, 63, and 79 licenses. He is past Chairman of the Archmere Academy board of trustees and an active board member of the Philadelphia Fire Department Historical Corporation.

### **James Adducci – Director**

James advises both public and private water and industrial companies on mergers & acquisitions, divestitures and going private transactions as well as debt and equity capital financings. Since joining Boenning in 2004, James has worked with many water and industrial companies and was involved in recent transactions such as the recent secondary capital offerings of Pure Technologies and York Water, as well as American Water's four recent equity offerings. Prior to joining Boenning in 2004, James worked in the diversified industrials group at Dresdner Kleinwort in New York where he focused on cross-border M&A transactions. James is an active member with the National Association of Water Companies (NAWC) and other water and industrial related groups. James received his BA in economics from Carleton College. He is registered with FINRA and holds Series 7 and 63 licenses.

### **Michael Cavanaugh - Analyst**

Mike joined Boenning & Scattergood, Inc. in 2011 after working with Emerging Growth Equities, Ltd. As part of the Investment Banking Group, Mike has primarily worked on transactions including merger and acquisition advisory and capital raises. He has experience working in a variety of industries ranging from consumer products to industrials. Mike holds a B.S. in Economics from The Pennsylvania State University and a M.S. in Finance from Villanova University. He is registered with FINRA and holds the Series 79 license.

### **David Landskroner – Analyst**

David is an Analyst at Boenning & Scattergood with a focus on middle market mergers and acquisitions advisory work. Prior to joining Boenning and Scatter good, David was an Analyst at Bank of America in their Global M&A and Strategic Initiatives group. David received a Bachelor of Sciences Degree in Finance and Economics from the Univeristy of Delaware. He is registered with FINRA and holds the Series 79 license.

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*Exhibit III*

**Form A Filing dated November 10, 2011**

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**FORM A**

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR MERGER WITH A  
DOMESTIC INSURER**

HARLEYSVILLE MUTUAL INSURANCE COMPANY

HARLEYSVILLE LIFE INSURANCE COMPANY

HARLEYSVILLE PENNLAND INSURANCE COMPANY

HARLEYSVILLE INSURANCE COMPANY OF NEW YORK

HARLEYSVILLE PREFERRED INSURANCE COMPANY

HARLEYSVILLE WORCESTER INSURANCE COMPANY

HARLEYSVILLE INSURANCE COMPANY

(Names of Domestic Insurers)

BY

NATIONWIDE MUTUAL INSURANCE COMPANY

(Name of Acquiring Person ("Applicant"))

Filed with the Insurance Department of the Commonwealth of Pennsylvania

Dated: November 10, 2011

Name, title, address and telephone number of individual whom notices and correspondence concerning this form should be addressed:

Denise L. Skingle  
Vice President, Associate General Counsel  
Nationwide Mutual Insurance Company  
One Nationwide Plaza, 1-32-201  
Columbus, Ohio 43215  
Phone: (614) 677-0155  
Fax: (614) 677-8034

Robert A. Kauffman  
Senior Vice President, Secretary  
General Counsel & Chief Compliance Officer  
Harleysville Mutual Insurance Company  
355 Maple Avenue  
Harleysville, PA 19438-2297  
Phone: (215) 256-5173  
Fax: (215) 256-5631

With a copy to:

Constance B. Foster  
Saul Ewing LLP  
Penn National Insurance Plaza  
2 North Second Street, 7<sup>th</sup> Floor  
Harrisburg, Pennsylvania 17101-1619  
(717) 238-7560

With a copy to:

Steven B. Davis  
Stradley Ronon Stevens & Young LLP  
2005 Market Street, Suite 2600  
Philadelphia, PA 19103-7018  
(215) 564-8714

## INTRODUCTION

This Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer (the “Statement”) seeks the prior approval of the Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to 40 P.S. § 991.1402(a)(1) for the acquisition of control of Harleysville Mutual Insurance Company (“Harleysville Mutual”), Harleysville Life Insurance Company (“Harleysville Life”), Harleysville Pennland Insurance Company (“Harleysville Pennland”), Harleysville Insurance Company of New York, Harleysville Preferred Insurance Company, Harleysville Worcester Insurance Company and Harleysville Insurance Company, each a Pennsylvania domiciled insurance company (collectively, the “Domestic Insurers”). Harleysville Life and Harleysville Pennland are wholly-owned subsidiaries of Harleysville Mutual. Harleysville Mutual also owns approximately 53.5 percent of Harleysville Group Inc., a publicly-traded holding company (“HGI”). Harleysville Insurance Company of New York, Harleysville Preferred Insurance Company, Harleysville Worcester Insurance Company and Harleysville Insurance Company are wholly-owned subsidiaries of HGI (collectively, the “HGI Domestic Insurers”).<sup>1</sup>

The acquiring party is Nationwide Mutual Insurance Company, an Ohio mutual insurance company (the “Applicant” or “Nationwide Mutual”). Nationals Sub, Inc., a Delaware corporation, is a wholly-owned subsidiary of Applicant (“Merger Sub”). Merger Sub was formed by Applicant for the sole purpose of facilitating the consummation of the Subsidiary Merger (as described in *Item 1* below) and does not conduct any other business.

### ***Item 1. Insurer and Method of Acquisition***

*State the name, NAIC code number and address of the domestic insurer to which this application relates and a brief description of how control is to be acquired.*

#### *A. Domestic Insurers*

The name, NAIC code number and address of the Domestic Insurers to which this application relates are as follows:

Insurer: Harleysville Mutual Insurance Company  
355 Maple Avenue  
Harleysville, PA 19438-2297  
NAIC company code: 14168

Insurer: Harleysville Life Insurance Company  
355 Maple Avenue  
Harleysville, PA 19438-2297  
NAIC company code: 64327

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<sup>1</sup> HGI is also the direct parent company of the following insurance company subsidiaries not domiciled in Pennsylvania: (i) Harleysville Atlantic Insurance Company (Georgia); (ii) Harleysville Insurance Company of Ohio (Ohio); (iii) Harleysville Insurance Company of New Jersey (New Jersey); and (iv) Harleysville Lake States Insurance Company (Michigan). Effective December 31, 2011, both Harleysville Atlantic Insurance Company and Harleysville Insurance Company of Ohio will be merging with and into Harleysville Worcester Insurance Company, with Harleysville Worcester Insurance Company as the surviving entity.

Insurer: Harleysville Pennland Insurance Company  
355 Maple Avenue  
Harleysville, PA 19438-2297  
NAIC company code: 40983

Insurer: Harleysville Insurance Company of New York,  
355 Maple Avenue  
Harleysville, PA 19438-2297  
NAIC company code: 10674

Insurer: Harleysville Preferred Insurance Company  
355 Maple Avenue  
Harleysville, PA 19438-2297  
NAIC company code: 35696

Insurer: Harleysville Worcester Insurance Company  
355 Maple Avenue  
Harleysville, PA 19438-2297  
NAIC company code: 26182

Insurer: Harleysville Insurance Company  
355 Maple Avenue  
Harleysville, PA 19438-2297  
NAIC company code: 23582

#### *B. Method of Acquisition*

The Applicant proposes to acquire control of the Domestic Insurers pursuant to the Agreement and Plan of Merger (the “Merger Agreement”) by and among Harleysville Mutual, HGI, the Applicant and Merger Sub dated as of September 28, 2011, a copy of which is attached to this Statement as **Exhibit 1**. Under the terms of the Merger Agreement, (i) Harleysville Mutual will merge with and into Applicant, with Applicant continuing as the surviving entity (the “Parent Merger”), and (ii) immediately after the Parent Merger, the Merger Sub will merge with and into HGI, with HGI surviving as a wholly-owned subsidiary of Applicant (the “Subsidiary Merger,” and together with the Parent Merger, the “Mergers”).

As a result of the Parent Merger, Harleysville Mutual policyholders will become policyholders of Applicant, and Harleysville Life and Harleysville Pennland will become wholly-owned subsidiaries of Applicant. Harleysville Life and Harleysville Pennland will remain Pennsylvania-domiciled insurance companies.

As a result of the Subsidiary Merger, HGI will become a wholly-owned subsidiary, and the HGI Domestic Insurers will become indirect subsidiaries, of Applicant. The HGI Domestic Insurers will remain Pennsylvania-domiciled insurance companies. The Subsidiary Merger will include conversion of each share of common stock of HGI not owned by Harleysville Mutual into the right to receive \$60.00 payable in cash (collectively, the “Acquired Shares”).

**Item 2. Identity and Background of the Applicant**

- A. *State the name and address of the applicant seeking to acquire control over the insurer.*

Nationwide Mutual Insurance Company  
One Nationwide Plaza  
Columbus, Ohio 43215

- B. *If the applicant is not an individual, state the nature of its business operations for the past five (5) years or for such lesser period as the person and any predecessors thereof shall have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.*

Applicant is a mutual insurance company organized under the laws of the state of Ohio on December 17, 1925, and is qualified to do business as a mutual insurance company engaging in general insurance and reinsurance business, but not life insurance. Applicant is the lead entity and ultimate controlling person of all entities in the Nationwide group of companies (collectively, "Nationwide"). Nationwide is a diversified financial services organization offering a wide range of insurance, annuities and investment products and services. Applicant and its property and casualty insurance subsidiaries primarily underwrite personal automobile, homeowners and commercial insurance products. Nationwide is the eighth-largest property and casualty insurance group and the eighth-largest personal lines insurer in the United States, according to A.M. Best Company, Inc. ("A.M. Best"), based on direct premiums written for the year ended December 31, 2010. As of December 31, 2010, Applicant had \$28.2 billion of assets and statutory surplus of nearly \$10.6 billion. Nationwide, together with its insurance subsidiaries and other subsidiaries and affiliates, intends to continue underwriting and offering insurance products and services using its present method of operation following the approval and consummation of the transaction described in *Item 1*.

- C. *Furnish a chart or listing clearly presenting the identities and the interrelationships among the applicant and all affiliates of the applicant. No affiliate need be identified if its total assets are equal to less than 1/2 of 1% of the total assets of an ultimate controlling person affiliated with the applicant. Indicate in the chart or listing the percentage of voting securities of each person which is owned or controlled by the applicant or by any other person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of control. As to each person specified in the chart or listing indicate the type of organization (e.g. corporation, trust, partnership) and the state or other jurisdiction of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.*

An organizational chart of the Applicant as of September 30, 2011 presenting the identities of, and interrelationships among, the Applicant and all its operational subsidiaries and affiliates is attached to this Statement as **Exhibit 2**. The organizational chart indicates the percentage of voting securities of each such person that is owned or controlled by Applicant or by any other person, as well as the state or other jurisdiction of domicile and type of

organization. Unless otherwise indicated, control of all such persons is maintained by the ownership or control of voting securities. No court proceedings involving a reorganization or liquidation are pending with respect to any such person.

A chart depicting how the Domestic Insurers will be incorporated into Applicant's existing organization post-acquisition is attached to this Statement as **Exhibit 3**.

***Item 3. Identity and Background of Individuals Associated with the Applicant***

*Furnish a biographical affidavit for (1) the applicant if the applicant is an individual or (2) all persons who are directors, executive officers or owners of 10% or more of the voting securities of the applicant if the applicant is not an individual. Biographical affidavits filed with the Department within the immediately preceding 3 years need not be included if there has been no change in the information already on file.*

*Biographical affidavits shall be signed in the original and shall include the following:*

- A. Name and business address.*
- B. Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which employment is carried on.*
- C. Material occupations, positions, offices or employment during the last five (5) years, giving the starting and ending date of each and the name, principal business and address of any business corporation or other organization in which each occupation, position, office or employment was carried on. If any occupation, position, office or employment required licensing by or registration with any Federal, state or municipal governmental agency, indicate that fact, the current status of the licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection therewith.*
- D. Whether or not the person has ever been convicted in a criminal proceeding (excluding minor traffic violations) during the last ten (10) years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.*

*The Department will accept copies of original, signed biographical affidavits filed with the chief insurance regulatory official of another jurisdiction if the following conditions are met:*

- (1) The identity of the chief insurance regulatory official holding the original affidavit and the date of the original filing are provided in this statement.*
- (2) The original affidavit was filed within the immediately preceding three years.*
- (3) There has been no change in the information required in the affidavit.*

A list of all directors and executive officers is attached to this Statement as **Exhibit 4**. Applicant is a mutual insurance company and, therefore, does not have any voting securities.

Signed original biographical questionnaire forms completed by the directors and executive officers of the Applicant are attached in alphabetical order to this Statement as **Exhibit 5**. None of the persons listed has been convicted in the last ten years in a criminal proceeding (excluding minor traffic violations).

***Item 4. Nature, Source and Amount of Consideration***

- A. *Describe the nature, source and amount of funds or other considerations used or to be used in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower, and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.*

As set forth in *Item 1* above, the proposed Parent Merger is a merger of Harleysville Mutual with and into Applicant, with Applicant continuing as the surviving entity. In exchange, Harleysville Mutual policyholders will become policyholders of Applicant and will have the same rights and benefits as Applicant's existing policyholders. As a result, the Harleysville Mutual policyholders will enjoy the full backing of Applicant's financial strength – a stronger and more diversified company from a financial point of view – and will also benefit from Applicant's more complete line of products and its national service support.

With respect to the Subsidiary Merger, Merger Sub will merge with and into Harleysville Mutual's publicly-traded subsidiary, HGI, with HGI surviving as a wholly-owned subsidiary of Applicant. As stated above, the Subsidiary Merger will involve the conversion of the Acquired Shares into the right to receive \$60.00 payable in cash per share. The Mergers are not subject to any financing contingency, and Applicant intends to fund the payment of the consideration for the Acquired Shares through its internal resources. Applicant anticipates that approximately \$840 million will be paid out to the holders of the Acquired Shares.

- B. *Explain the criteria used in determining the nature and amount of the consideration.*

The basis and terms of the Merger Agreement, including the nature and amount of consideration, were determined by arms' length negotiations between unaffiliated parties assisted by independent advisors. Merrill Lynch, Pierce, Fenner & Smith Incorporated provided a written opinion to Applicant's Board of Directors that the Mergers are fair, from a financial point of view, to the Nationwide policyholders taken as a group.

- C. *If the source of the consideration is a loan made in the lender's ordinary course of business and if the applicant wishes the identity of the lender to remain confidential, the applicant must specifically request that the identity be kept confidential.*

Not applicable.

***Item 5. Future Plans of Insurer***

*Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate the insurer, to sell its assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.*

Except as described in this Statement and the exhibits incorporated herein, the Applicant has no present plans: (i) to declare any extraordinary dividend; (ii) to liquidate any of the Domestic Insurers; (iii) to sell the assets of the Domestic Insurers to any other person or persons; (iv) to merge the Domestic Insurers with any person or persons (other than the Parent Merger described in *Item 1*); or (v) to make any other material change in the Domestic Insurers' core property and casualty business operations; however Applicant intends to review the Domestic Insurers' businesses and assess opportunities to increase efficiencies that could benefit policyholders in connection with the integration of the Domestic Insurers. The management team of the Domestic Insurers immediately prior to the effective time of the Mergers will remain the same; however, they will have new reporting relationships as a result of the Mergers (as they will be included within the organizational structure of Applicant).

Applicant and certain of its subsidiaries and affiliates are participants in a pooling agreement. In addition, Harleysville Mutual and certain of its subsidiaries and affiliates are participants in a separate pooling arrangement. The parties anticipate engaging in discussions prior to closing of the Mergers to assess how to structure the pooling arrangements after the closing of the Mergers. Once the parties have made such determinations, Applicant will make all requisite regulatory filings.

The directors of Applicant immediately prior to the effective time of the Parent Merger will be the directors of the surviving company (i.e., Nationwide Mutual) after the effective time of the Parent Merger. The directors of Merger Sub immediately prior to the effective time of the Subsidiary Merger will be the directors of the subsidiary surviving company (i.e., HGI) after the effective time of the Subsidiary Merger. The directors of Harleysville Mutual and HGI immediately prior to the effective time will be invited to participate in an advisory group (the "Group") to Applicant to receive information and updates with respect to the integration of the Domestic Insurers into Applicant's organization. The term of the Group and each Group member's membership will be one year from the effective time of the Mergers with a one-time one year renewal at the mutual discretion of the Group and the directors of Applicant. There will be no immediate change as a result of the Mergers to the boards of directors of Harleysville Life, Harleysville Pennland, Harleysville Insurance Company of New York, Harleysville Preferred Insurance Company, Harleysville Worcester Insurance Company, and Harleysville Insurance Company.

#### ***Item 6. Voting Securities to be Acquired***

*State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire, and the terms of the offer, request, invitation, agreement or acquisition, and a statement as to the method by which the fairness of the proposal was arrived at.*

As described in *Item 1*, the transaction involves the Parent Merger, through which Harleysville Mutual will merge with and into Applicant, with Applicant continuing as the surviving entity, and the Subsidiary Merger, through which the Merger Sub will merge with and

into HGI, with HGI surviving as a wholly-owned subsidiary of Applicant.

The Subsidiary Merger will involve the conversion of the Acquired Shares into the right to receive \$60.00 payable in cash per share. As of September 9, 2011, HGI represented that there were 12,654,352 outstanding shares of HGI common stock not owned by Harleysville Mutual; 1,946,422 stock options<sup>2</sup> issued or to be issued that are convertible into HGI common stock; and an aggregate of 469,869 deferred stock units, restricted stock units and shares of restricted stock of HGI. Nationwide anticipates that approximately \$840 million will be paid out to the holders of the Acquired Shares.

Merrill Lynch, Pierce, Fenner & Smith Incorporated provided a written opinion to Applicant's Board of Directors that the Mergers are fair, from a financial point of view, to the Nationwide policyholders taken as a group.

### ***Item 7. Ownership of Voting Securities***

*State the amount of each class of any voting security of the insurer which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.*

On September 28, 2011, the Applicant entered into a Stockholder Voting Agreement with an irrevocable proxy (the "Voting Agreement") with Harleysville Mutual, a copy of which is attached to this Statement as **Exhibit 6**. Except as provided in the Voting Agreement, neither Applicant, nor any person controlling, controlled by or under common control with Applicant, nor any person listed in *Item 3* holds of record or beneficially owns or has a right to acquire, of record or beneficially, directly or indirectly, any voting securities or securities which may be converted into voting securities of HGI, or the Domestic Insurers.

### ***Item 8. Contracts, Arrangements, or Understandings with Respect to Voting Securities of the Insurer***

*Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including, but not limited to, transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. The description shall identify the person with whom such contracts, arrangements or understandings have been entered into .*

Except as provided in the Merger Agreement and Voting Agreement, there are no contracts, arrangements or understandings with respect to the voting securities of HGI or the Domestic Insurers in which Applicant, any of its affiliates, or any person listed in *Item 3* above are involved.

### ***Item 9. Recent Purchases of Voting Securities***

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<sup>2</sup> The net amount payable to holders of the stock options shall be equal to \$60.00 less the exercise price of each applicable stock option.

*Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the twelve (12) calendar months preceding the filing of this statement. Include in the description the dates of purchase, the name of the purchasers, and the consideration paid or agreed to be paid therefore.*

*State whether any shares so purchased are hypothecated.*

To the best of Applicant's knowledge, there have been no purchases during the 12 calendar months preceding the filing of this Statement of any voting securities of HGI or the Domestic Insurers by Applicant, its affiliates or any director or executive officer. Applicant made inquiries to its directors and executive officers and performed a search of its investment records as it relates to purchases by Applicant and its affiliates. Applicant notes that there may have been direct trades by "blind trusts" or other brokerage accounts for which only an officer's or director's broker had authority.

#### ***Item 10. Recent Recommendations to Purchase***

*Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the twelve (12) calendar months preceding the filing of this statement.*

Except for the Merger Agreement, no recommendations to purchase, directly or indirectly, any voting security of HGI or the Domestic Insurers have been made during the 12 calendar months preceding the filing of this Statement by (i) Applicant, (ii) persons controlling, controlled by or under common control of Applicant, (iii) persons listed in *Item 3*, or (iv) to the knowledge of the Applicant, anyone based upon interviews or at the suggestions of any persons referred to in clauses (i)-(iii) above.

#### ***Item 11. Agreements with Broker-Dealers***

*Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.*

The Applicant has made no agreement, contract or understanding with any broker-dealer as to solicitation for tender, direct or indirect, of the voting securities of HGI or any of the Domestic Insurers.

#### ***Item 12. Financial Statements and Exhibits***

- A. Financial statements and exhibits shall be attached to this statement as an appendix, but list under this item the financial statements and exhibits so attached.*
- B. The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding five (5) fiscal years (or for such lesser period as the applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information*

*covering the period from the end of the person's last fiscal year, if that information is available. Statements may be prepared on either an individual basis, or, unless the Commissioner otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business.*

*The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that the statements present fairly the financial position of the applicant and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles or permitted under law. If the applicant is an insurer which is actively engaged in the business of insurance, the financial statements need not be certified, provided they are based on the Annual Statement of that person filed with the insurance department of the person's domiciliary state and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of that state.*

- C. If the acquiring person is an individual, the Department may require the filing of Federal income tax returns in lieu of audited financial statements. Any returns filed shall be given confidential treatment and shall not be subject to subpoena and shall not be made public by the Department or any other person.*
- D. File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last two fiscal years, and any additional documents or papers required by this chapter.*

The following materials are being submitted with this Statement as exhibits (numbered as set forth below):

1. Agreement and Plan of Merger by and among Applicant, Harleysville Mutual, Merger Sub and HGI dated as of September 28, 2011.
2. Organizational Chart of Applicant and all of its operating subsidiaries and affiliates as of September 30, 2011.
3. Post-Acquisition Organizational Chart of Applicant.
4. List of all Directors and Executive Officers of Applicant.
5. Biographical Affidavits for Directors and Executive Officers of the Applicant.\*
6. Stockholder Voting Agreement dated as of September 28, 2011 between the Applicant and Harleysville Mutual.
7. Applicant's Consolidated financial statements for the year ended 2006.
8. Applicant's Consolidated financial statements for the year ended 2007.
9. Applicant's Consolidated financial statements for the year ended 2008.

10. Applicant's Consolidated financial statements for the year ended 2009.
11. Applicant's Consolidated financial statements for the year ended 2010.
12. Applicant's Quarterly Unaudited Consolidated financial statements for the quarter ended March 31, 2011.
13. Applicant's Quarterly Unaudited Consolidated financial statements for the quarter ended June 30, 2011.
14. Applicant's Quarterly Unaudited Consolidated financial statements for the quarter ended September 30, 2011.
15. Nationwide Financial Services, Inc. 2006 Consolidated Financial Statements.
16. Nationwide Financial Services, Inc. 2007 Consolidated Financial Statements.
17. Nationwide Financial Services, Inc. 2008 Consolidated Financial Statements.
18. Nationwide Financial Services, Inc. 2009 Consolidated Financial Statements.
19. Nationwide Financial Services, Inc. 2010 Consolidated Financial Statements.
20. Nationwide Financial Services, Inc. Condensed Consolidated Financial Statements for the quarter ended March 31, 2011.
21. Nationwide Financial Services, Inc. Condensed Consolidated Financial Statements for the quarter ended June 30, 2011.
22. Nationwide Financial Services, Inc. Condensed Consolidated Financial Statements for the quarter ended September 30, 2011.
23. Applicant's Annual Reports for the year ended 2009.
24. Applicant's Annual Report for the year ended 2010.
25. HGI Annual Report for the year ended 2009.
26. HGI Annual Report for the year ended 2010.
27. Form of Change in Control Agreement amendments and executed copies.\*
28. Form of Senior Leadership Team Retention Agreement and executed copies.\*
29. Form of Retention Agreement and executed copies.\*
30. List of individuals who are eligible for Retention Agreements and Change in Control Agreement amendments.
31. Form E, Pre-Acquisition Notification Statement of the Potential Competitive Impact of a Proposed Merger or Acquisition.

\*Applicant will amend this Statement with these documents at a later date.

## Tender Offer, Agreements for Voting Securities, Proposed Employment Agreements, Annual Reports

Except as provided in the Merger Agreement and the Voting Agreement and as otherwise described herein, there are no tender offers for, requests or invitations for, tenders of, exchange offers for, or agreements to acquire or exchange any voting security of HGI or the Domestic Insurers. In connection with the Mergers, it is currently contemplated that certain senior executives of HGI will enter into individual retention agreements pursuant to which these executives will receive additional compensation if they remain employed during a specified retention period and achieve certain performance goals. For executives who are parties to a change in control severance agreement with HGI, participation in the retention program is conditioned on the applicable executive entering into an arrangement pursuant to which the payments and benefits due under the executive's change in control severance agreement in the case of a termination without cause or a termination by the executive for good reason, each as defined in such agreement, will be paid within twelve (12) months of the consummation of the Mergers. The executive will not be entitled to the change in control payment if he or she resigns prior to the payment date. The retention payments and the change in control payments are subject to earlier payment under certain qualifying termination conditions, including for terminations due to death or disability. Pursuant to the terms of the retention agreement, each of the executives will be subject to a customary non-solicit of customers and employees and protection of confidential information. In addition to the foregoing, HGI is permitted to terminate certain non-qualified plans and pay out any amounts under such plans at the same time as the change in control payment. Applicant will amend this Statement and attach as **Exhibits 27,28** , and **29**, respectively, a Form of Change in Control Agreement amendment, a Form of Senior Leadership Team Retention Agreement, and a Form of Retention Agreement once the parties have completed these agreements. Finally, Applicant has attached to this Statement as **Exhibit 30** a list of individuals who are eligible to enter into these agreements with HGI.

## Effect on Competition

The Applicant has determined that the information requirements in 40 P.S. § 991.1403(c)(2) and the criteria in 40 P.S. § 991.1403(d)(2) apply to certain market segments in which Applicant operates. Accordingly, a Form E, Pre-Acquisition Notification Statement of Potential Competitive Impact, is attached as **Exhibit 31** to this Statement.

For all lines of business, except those identified in the Form E attached to this Statement, the proposed Mergers would qualify for the exemptions set forth in 40 P.S. § 991.1403(b)(2)(v)(A)-(C) because either “in no market would the combined market share of the involved insurers exceed five per centum (5%) of the total market;” “there would be no increase in any market share;” or “in no market would: (I) the combined market share of the involved insurers exceeds twelve per centum (12%) of the total market; and (II) the market share increases by more than two per centum (2%) of the total market.” Therefore, for these lines of business, Applicant believes that the Mergers would not substantially lessen competition or tend to create a monopoly in the relevant insurance markets in the Commonwealth of Pennsylvania. Further, for the lines of business identified in the Form E, Applicant is of the opinion that the analysis included in such Form E demonstrates that its acquisition of control of the Domestic Insurers will not substantially lessen competition or

tend to create a monopoly in the markets that trigger the Section 1403 analysis. Accordingly, Applicant believes that the Mergers will not substantially lessen competition or tend to create a monopoly in the relevant insurance markets in the Commonwealth of Pennsylvania.

**Item 13. Signature and Certification:**

**SIGNATURE**

Pursuant to the requirements of Section 1402 of the act, Nationwide Mutual Insurance Company has caused this application to be duly signed on its behalf in the City of Columbus and State of Ohio on the 10<sup>th</sup> day of November, 2011.

(SEAL)



NATIONWIDE MUTUAL INSURANCE COMPANY

BY David LaPaul

Name: David LaPaul

Title: Senior Vice President, Chief Treasurer

Attest:

Carrie Ann Hall

Name: Carrie Ann Hall

Title: Associate Vice President and Assistant Secretary

**CERTIFICATION**

The undersigned deposes and says that he has duly executed the attached application dated November ~~10th~~, 2011, for and on behalf of Nationwide Mutual Insurance Company; that he is the Senior Vice President, Chief Treasurer of such company and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

NATIONWIDE MUTUAL INSURANCE COMPANY

By David LaPaul

Print Name: David LaPaul, Senior Vice President, Chief Treasurer

*Exhibit V*

**Policyholder Proxy / Information Statement  
dated 12/23/11**

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*Proposed Draft dated 12/23/2011 – Subject to PA Insurance Department Review*

William W. Scranton, III  
Chairman  
355 Maple Avenue  
Harleysville, PA 19438

215.256.5000  
www.harleysvillegroup.com



Dear Member of Harleysville Mutual Insurance Company:

As a policyholder, and therefore a member, of Harleysville Mutual Insurance Company, a Pennsylvania mutual insurance company, you are receiving the accompanying proxy statement in connection with a Special Meeting of the members of Harleysville Mutual. At the Special Meeting, we are seeking the approval of members for Harleysville Mutual's merger with Nationwide Mutual Insurance Company. The proxy statement provides a great deal of information about the proposed merger and other related transactions. We urge you to read the enclosed materials carefully.

On September 28, 2011, Harleysville Mutual, Harleysville Group Inc. and Nationwide Mutual and its subsidiary Nationals Sub, Inc., entered into an Agreement and Plan of Merger. The Merger Agreement provides for the merger of Harleysville Mutual into Nationwide Mutual and for the subsequent merger of Nationals Sub, Inc. into Harleysville Group. After the two mergers receive all necessary approvals, the Harleysville Insurance companies will become part of the Nationwide Mutual companies. One of the required approvals is the approval by the members of Harleysville Mutual of the merger between Harleysville Mutual and Nationwide Mutual. If the Merger Agreement is adopted by the members of Harleysville Mutual at the Special Meeting, and once all other approvals are obtained, then we will consummate the merger transactions. At that time, members of Harleysville Mutual will become members of Nationwide Mutual and will be entitled to the rights and benefits applicable to members of Nationwide Mutual, including the right to vote in future elections of directors of that company and on the approval of certain extraordinary business transactions by that company.

The accompanying Notice of Special Meeting of Members and proxy statement include important information relating to the Special Meeting of the members of Harleysville Mutual, the Merger Agreement and the merger of Harleysville Mutual with Nationwide Mutual. In particular, the proxy statement contains an explanation of why the Board of Directors approved the merger with Nationwide Mutual and a description of the Board of Directors' decision to pursue the merger.

**Harleysville Mutual's Board of Directors has approved and adopted the Merger Agreement and recommends that you vote "FOR" the proposal to adopt the Merger Agreement.**

The Board of Directors considered the prospect of Harleysville remaining independent in light of current difficult economic conditions in the United States. The Board identified that economic conditions, among other factors, have resulted in declines and losses in the insurance

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industry and that the longstanding so-called “soft market” could continue, which could impede Harleysville’s growth. In particular, the Board considered the current volatile state of the economy and general uncertainty surrounding forecasted economic conditions, in the short term and in the long term, both globally and within the insurance industry, and concluded that the merger represent a more favorable option to Harleysville than continuing to operate on a standalone basis.

The Board of Directors believes that the proposed merger provides benefits to all constituencies of Harleysville Mutual. The following chart shows some of those benefits:

Members (claims payout)	<ul style="list-style-type: none"><li>– ‘A+’ rated company</li><li>– Stronger surplus</li><li>– Strong reserve position</li><li>– Stronger liquidity</li><li>– Prospect for stronger surplus generation and capital market access</li><li>– Increased Size and Scale</li></ul>
Policyholders as Members	<ul style="list-style-type: none"><li>– Prospect for stronger surplus generation</li><li>– Comparable governance rights other than demutualization</li><li>– Better rights in connection with demutualization</li><li>– Better rights upon solvent liquidation</li></ul>
Employees & Management	<ul style="list-style-type: none"><li>– Commitment to continued employment</li><li>– Honoring or buying out existing contracts</li><li>– Strong employee benefits packages</li></ul>
Community	<ul style="list-style-type: none"><li>– Commitment to maintain jobs and charitable giving</li><li>– Commitment to maintain operations means preservation of company and continued employee civic involvement</li></ul>
Agents	<ul style="list-style-type: none"><li>– ‘A+’ rated company</li><li>– Stronger product suite</li><li>– Little channel conflict with captive agents</li></ul>

We have engaged the services of MacKenzie Partners, a proxy solicitation firm, to help us reach our members to encourage them to vote. If you have any questions about the Special Meeting, please contact \_\_\_\_\_ of MacKenzie Partners at (800) \_\_\_\_\_.

We look forward to receiving your proxy card and seeing you at the Special Meeting. Your vote is important.

**William W. Scranton III**  
Chairman of the Board

**Robert A. Kauffman**  
Secretary  
355 Maple Avenue  
Harleysville, PA 19438

215.256.5000  
www.harleysvillegroup.com



**HARLEYSVILLE MUTUAL INSURANCE COMPANY**  
**355 Maple Avenue**  
**Harleysville, PA 19438**

**NOTICE OF SPECIAL MEETING OF MEMBERS**

To be held on [\_\_\_\_\_], [2012]

To the Members of Harleysville Mutual Insurance Company:

NOTICE IS HEREBY GIVEN that a special meeting of members (the "Special Meeting") of Harleysville Mutual Insurance Company, a Pennsylvania mutual insurance company ("Harleysville Mutual"), will be held on [\_\_\_\_\_], [2012], at [355 Maple Avenue, Harleysville, Pennsylvania 19438] beginning at [\_\_]:00 [\_\_].m., Eastern Time, for the following purposes:

1. To consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of September 28, 2011 (the "Merger Agreement"), by and among Nationwide Mutual Insurance Company, an Ohio mutual insurance company ("Nationwide Mutual"), Nationals Sub, Inc., a wholly owned subsidiary of Nationwide Mutual, and Harleysville Mutual and Harleysville Group Inc.
2. To transact such other business, if any, as may properly come before the Special Meeting or any adjournments, postponements, rescheduling or continuations thereof.

A copy of the Merger Agreement is attached as Annex A to the proxy statement accompanying this notice, and a copy of Nationwide Mutual's Bylaws that will be in effect immediately following the mergers contemplated by the Merger Agreement will be furnished to members, upon request and without charge.

**Harleysville Mutual's Board of Directors has approved and adopted the Merger Agreement and recommends that you vote "FOR" the proposal to approve and adopt the Merger Agreement.**

All members of Harleysville Mutual are cordially invited to attend the Special Meeting. To ensure your representation at the Special Meeting, however, you are urged to sign, date and

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complete the enclosed proxy card and mail it in the accompanying envelope, whether or not you expect to attend the Special Meeting. No postage is required if mailed in the United States. A Harleysville Mutual member may vote in person, even if such member has returned a proxy card, by revoking his, her or its proxy at or before the meeting.

**We have engaged the services of MacKenzie Partners, a proxy solicitation firm, to help us reach our members to encourage them to vote. If you have any questions about the Special Meeting, please contact \_\_\_\_\_ of MacKenzie Partners at (800) \_\_\_\_\_. You can vote (1) by attending the Special Meeting and voting in person; (2) by completing and returning the enclosed proxy card to our attention; (3) by telephone at ( ) \_\_\_\_-\_\_\_\_; or (4) by Internet. Please see the attached voting instruction sheet for more information.**

By Order of the Board of Directors,

Robert A. Kauffman  
Corporate Secretary

Harleysville, Pennsylvania

**YOUR VOTE IS IMPORTANT.  
TO VOTE, PLEASE SIGN, DATE AND COMPLETE THE ENCLOSED PROXY CARD  
AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE.**

**Harleysville Mutual Insurance Company  
Special Meeting of Members  
Voting Instructions**

**Special Meeting: Date, Time and Place**

The Special Meeting of Members of Harleysville Mutual Insurance Company will be held on \_\_\_\_\_, 2012, at \_\_\_\_\_, [a.m.], at [Harleysville's office, 355 Maple Avenue, Harleysville, Pennsylvania]. Please see the attached map.

**Ways to Vote:**

- **In Person** - Attend the Special Meeting and cast your vote(s).
- **By Mail** - You can vote by mail by filling out the enclosed proxy card(s) and returning it (or them if you have multiple proxy cards) in the envelope provided.
- **By Telephone** - In the United States and Canada you can vote by telephone by calling [proxy voting phone number] (toll-free) and following the instructions.
- **By Internet** - You can vote via the Internet by accessing the Internet at [proxy voting website].com and following the instructions contained on that website.

**Who is Eligible to Vote?**

- Harleysville Mutual Insurance Company policy owners as of the close of business on the Record Date, which is \_\_\_\_\_, 2012, are eligible to vote. If you received a proxy statement, you are entitled to vote.
- Each member gets one (1) vote for each policy of insurance in effect on the record date. The proxy card describes how many votes you have.

**What is the Vote Required?**

- The Merger Agreement will be adopted if the proposal receives a majority of the votes cast at the Special Meeting through voting in person or by proxy (by mail, telephone or Internet).

**Revoking Your Proxy:**

- You can change or revoke your proxy by telephone, mail or the Internet prior to 11:59 p.m., Eastern [Standard] Time on \_\_\_\_\_, 2012, or by attending the Special Meeting and voting in person.

**Receipt of Proxy Statement**

Certain members of Harleysville Mutual who share the same address or who have multiple policies of insurance may receive only one copy of the proxy statement, but this will not impact the number of votes you are entitled to cast. This practice, known as "householding," is designed to reduce printing and postage costs. If you would like additional copies of the proxy statement, please contact \_\_\_\_\_ at (800) \_\_\_\_ - \_\_\_\_\_.





**HARLEYSVILLE MUTUAL INSURANCE COMPANY**

**355 Maple Avenue**

**Harleysville, PA 19438**

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**PROXY STATEMENT**

**for**

**SPECIAL MEETING OF MEMBERS**

**to be held on [\_\_\_\_\_], 2012**

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**INTRODUCTION**

This proxy statement is furnished by and on behalf of the Board of Directors of Harleysville Mutual Insurance Company, a Pennsylvania mutual insurance company (“Harleysville Mutual,”), in connection with its solicitation of proxies from members to be voted at the special meeting of members of Harleysville Mutual (the “Special Meeting”) to be held on [\_\_\_\_\_], 2012, at [ ]:00 [ ]m., Eastern Time, at [355 Maple Avenue, Harleysville, Pennsylvania 19438]. The Board of Directors has called the Special Meeting for the purpose of voting on a proposal to adopt the Agreement and Plan of Merger, dated as of September 28, 2011 (the “Merger Agreement”), by and among Nationwide Mutual Insurance Company, an Ohio mutual insurance company (“Nationwide Mutual”), Nationals Sub, Inc., a Delaware corporation and wholly owned subsidiary of Nationwide Mutual (“Nationals Sub,” and together with Nationwide Mutual and its affiliates and subsidiaries, “Nationwide”), and Harleysville Mutual and Harleysville Group Inc., a Delaware corporation of which Harleysville Mutual is the majority stockholder (“Harleysville Group,” and together with Harleysville Mutual and their respective affiliates and subsidiaries, “Harleysville”). The Merger Agreement provides for the merger of Harleysville Mutual with and into Nationwide Mutual, with Nationwide Mutual continuing as the surviving company (the “Merger”), and, immediately thereafter, the merger of Nationals Sub with and into Harleysville Group, with Harleysville Group continuing as the surviving company and as a wholly owned subsidiary of Nationwide Mutual (the “Group Merger,” and together with the Merger, the “Mergers”).

An owner of a policy or policies of insurance with Harleysville Mutual (referred to in this proxy statement as a “policy owner”) is a member of Harleysville Mutual until termination or non-renewal of such policy or policies. The Board of Directors of Harleysville Mutual has set [\_\_\_\_\_], 2012, as the record date for determination of members entitled to notice of, and to vote at, the Special Meeting and any postponements or adjournments of the Special Meeting. This proxy statement and the accompanying proxy card are being mailed on or about

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[\_\_\_\_\_], 2012 to persons who are Harleysville Mutual members as of the record date. Only members of Harleysville Mutual as of the record date are entitled to notice of, and to vote at, the Special Meeting and any postponements or adjournments of the Special Meeting.

In order to consummate the Merger, the Merger Agreement must be adopted by at least a majority of the votes properly cast by Harleysville Mutual members who are present and voting in person or by properly executed proxy at the Special Meeting. Each Harleysville Mutual member as of the record date is entitled to cast one vote at the Special Meeting for each Harleysville Mutual policy held by such member as of the record date.

In addition to this mailing, Harleysville Mutual has published notice of the Special Meeting in [DESCRIBE PUBLICATIONS AND DATE[S] OF PUBLICATION].

The consummation of the Merger is subject to, among other things, approval by Harleysville Mutual members, Nationwide Mutual members and the Insurance Commissioners of Pennsylvania and Ohio.

Even if the Merger is adopted by the members of Harleysville Mutual at the Special Meeting, we will not consummate the Merger unless the proposed Group Merger is also approved by the stockholders of Harleysville Group, and both Mergers receive all other required approvals. On September 28, 2011, Harleysville Mutual entered into a Stockholder Voting Agreement with Nationwide Mutual (the "Voting Agreement"), pursuant to which, Harleysville Mutual, as the majority stockholder of Harleysville Group, agreed to vote its shares of Harleysville Group common stock in favor of the Merger Agreement and the Group Merger at the meeting of stockholders of Harleysville Group to be called in connection with the Group Merger.

All information contained in this proxy statement relating to Harleysville Mutual and Harleysville Group has been supplied by Harleysville Mutual, and all the information in this proxy statement relating to Nationwide Mutual or Nationals Sub has been supplied by Nationwide Mutual. No information or representation in connection with the solicitation of proxies other than those contained or referred to in this proxy statement should be relied on as having been authorized by Harleysville Mutual or any person representing Harleysville Mutual.

The Merger and other related matters are more fully described in this proxy statement. Harleysville Mutual members are strongly encouraged to read and consider carefully this proxy statement in its entirety.

The date of this proxy statement is [\_\_\_\_\_], 2012

**QUESTIONS & ANSWERS RELATING TO THE SPECIAL MEETING,  
THE MERGERS AND MERGER AGREEMENT**

*The following questions and answers are intended to address briefly some commonly asked questions regarding the Mergers, the Merger Agreement and the Special Meeting. These questions and answers may not address all questions that may be important to you as a member of Harleysville Mutual. For more information, please refer to the sections “The Merger” and “The Merger Agreement” and the more detailed information contained elsewhere in this proxy statement and in the annexes to this proxy statement, which you should read carefully and in their entirety.*

**Who are the parties to the Merger Agreement?**

Harleysville Mutual is a mutual insurance company headquartered in and organized under the laws of the Commonwealth of Pennsylvania. Harleysville Mutual was originally organized in 1917. Together with its subsidiaries, Harleysville Mutual engages in the property and casualty insurance business on a regional basis in the United States. Harleysville Mutual, Harleysville Group and their subsidiaries operate together to pursue a strategy of underwriting a broad array of commercial and personal coverages. These insurance coverages are marketed primarily in the eastern and midwestern United States through approximately 1,300 insurance agencies. Regional offices are maintained in Georgia, Illinois, Indiana, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Pennsylvania, Tennessee, and Virginia. Harleysville Mutual’s headquarters are located at 355 Maple Avenue, Harleysville, Pennsylvania 19438.

Nationwide Mutual is a mutual insurance company organized under the laws of the State of Ohio. Nationwide Mutual is the lead entity of Nationwide, one of the largest and most well-known insurance and diversified financial services groups in the United States, offering a wide range of insurance, annuities and investment products and services. Nationwide Mutual and its property and casualty insurance subsidiaries primarily underwrite personal automobile, homeowners and commercial insurance products. Nationwide Mutual’s principal place of business and principal office is One Nationwide Plaza, Columbus, Ohio 43215.

Harleysville Group is a corporation organized under the laws of the State of Delaware. Harleysville Mutual owns approximately 54% of the voting stock of Harleysville Group. Harleysville Group was originally formed by Harleysville Mutual in 1979 and is an insurance holding company, which, through its subsidiaries, engages in the property and casualty insurance business on a regional basis in the United States. Harleysville Group is a public reporting company with its common stock listed on the NASDAQ Global Select Market. Harleysville Group’s headquarters are located at 355 Maple Avenue, Harleysville, Pennsylvania 19438.

Nationals Sub, Inc. is a Delaware corporation and wholly owned subsidiary of Nationwide Mutual that was formed solely for the purpose of entering into the Merger Agreement and consummating the transactions contemplated by the Merger Agreement. It has not conducted any activities to date other than activities incidental to its formation and in connection with the transactions contemplated by the Merger Agreement.

**What are the anticipated benefits of the Merger to the members and policyholders of Harleysville Mutual?**

If the Merger with Nationwide Mutual is consummated, the Board of Directors of Harleysville Mutual expects that members/policyholders of Harleysville Mutual will realize a number of benefits as a result of becoming members/policyholders of Nationwide Mutual. These benefits include, but are not limited to, becoming a member and a policyholder of a combined company with:

- a stronger financial position and larger surplus;
- a higher A.M. Best Financial Strength Rating and Financial Size Category – Nationwide Mutual has an A+ A.M. Best rating;
- greater diversification of overall risk due to diversification of business lines and geography;
- access to different markets and product offerings, including agribusiness and financial services;
- a larger capital base and better access to capital markets;
- improved capital and stronger reserve position;
- increased size, scale and the opportunity to leverage fixed costs over a larger organization and revenue base;
- opportunity for improved earnings through cost savings and revenue enhancements; and
- a more favorable pooling agreement and its related impact on earnings and surplus.

**When and where will the Special Meeting take place?**

The Special Meeting will be held [at our corporate headquarters at 355 Maple Avenue, Harleysville, Pennsylvania 19438], on [\_\_\_\_\_, \_\_\_\_\_], 2012, at [ ]:00 [ ]m., Eastern Time.

**What matters will be considered at the Special Meeting?**

At the Special Meeting, Harleysville Mutual members will be asked to consider and vote on a proposal to (1) adopt the Merger Agreement, a copy of which is attached to this proxy statement, and (2) transact such other business as may properly come before the Special Meeting or any adjournments, postponements, rescheduling or continuations of the Special Meeting. The Harleysville Mutual Board of Directors does not intend to bring any other matters before the Special Meeting, and Harleysville Mutual does not know of any additional matters to be brought before the Special Meeting by others. If any other matters properly come before the Special Meeting and authorization is given on the accompanying proxy, it is the intention of the persons named in the accompanying proxy to vote such proxy in accordance with their best judgment.

**What will happen to Harleysville as a result of the Mergers?**

If all conditions set forth in the Merger Agreement are met, including receipt of the approval by Harleysville Mutual members at the Special Meeting, Harleysville Mutual will merge with and into Nationwide Mutual, with Nationwide Mutual continuing as the surviving corporation. As a result of the Merger, members/policyholders of Harleysville Mutual will become members/policyholders of Nationwide Mutual. Following the closing of the Merger, Harleysville Mutual policyholders will continue to enjoy all contract rights under their respective Harleysville Mutual insurance contracts which will become Nationwide Mutual insurance contracts upon the effective time of the Merger. The Merger will therefore result in Harleysville Mutual members/policyholders becoming members/policyholders in a mutual insurance company that our Board of Directors believes is stronger, larger and more competitive than Harleysville Mutual. The Merger will not affect any change in existing coverage or services provided to policyholders of Harleysville Mutual.

The Merger Agreement also provides for the merger of Nationals Sub with and into Harleysville Group, with Harleysville Group continuing as the surviving corporation as a wholly owned subsidiary of Nationwide Mutual. The consummation of the Group Merger requires the approval of the stockholders of Harleysville Group at a special meeting of stockholders of Harleysville Group called for such purpose. In connection with the Merger Agreement, Harleysville Mutual entered into the Voting Agreement with Nationwide Mutual, pursuant to which, Harleysville Mutual, as the majority stockholder of Harleysville Group, agreed to vote its shares of Harleysville Group common stock in favor of the Merger Agreement and the Group Merger. Upon Harleysville Mutual voting its shares of Harleysville Group common stock in accordance with the Voting Agreement, the stockholders of Harleysville Group will have approved and adopted the Merger Agreement and the Group Merger.

Under the Merger Agreement, if one of the two Mergers is not consummated for any reason, neither merger transaction will be consummated. So, if either the Merger or the Group Merger does not receive all necessary approvals, then Harleysville Mutual will not merge with Nationwide Mutual, members/policyholders of Harleysville Mutual will not become members/policyholders of Nationwide Mutual and the Group Merger will not be consummated. Instead, under those circumstances Harleysville Mutual would remain as an independent company, and Harleysville Group would remain a public reporting company with its common stock listed on the NASDAQ Global Select Market.

**Who is entitled to vote at the Special Meeting?**

The Board of Directors of Harleysville Mutual has fixed the close of business on [\_\_\_\_], 2012 as the record date for the determination of members entitled to notice of, and to vote at, the Special Meeting. Only owners of Harleysville Mutual policies of insurance as of the record date will be entitled to notice of, and to vote at, the Special Meeting.

**What constitutes a quorum for purposes of the Special Meeting?**

The Articles of Incorporation and Amended and Restated By-laws of Harleysville Mutual require the presence, in person or by duly executed proxy, of 25 members of Harleysville Mutual

at the Special Meeting to constitute a quorum. If a quorum is not present, we expect to adjourn the Special Meeting to solicit additional proxies and intend to vote any proxies we have received at the time of the Special Meeting in favor of an adjournment.

**How many votes will I have at the Special Meeting?**

The voting rights of Harleysville Mutual members with respect to the adoption of the Merger Agreement are governed by the Pennsylvania Business Corporation Law and Harleysville Mutual's Articles of Incorporation and Amended and Restated By-laws. Each Harleysville Mutual member is entitled, in accordance with our Amended and Restated By-laws, to one vote at the Special Meeting for each Harleysville Mutual policy of insurance held by such member as of the record date.

**What vote is required to adopt the Merger Agreement at the Special Meeting?**

The adoption of the Merger Agreement requires the affirmative vote of not less than a majority of the votes cast by members of Harleysville Mutual entitled to vote on the proposal at the Special Meeting. This means that as long as a quorum is achieved, only the votes of those members who vote will be counted to determine if the Merger Agreement is adopted. If you do not vote, your abstention will not have an impact on whether or not the Merger Agreement is adopted.

**Can I cast my votes at the Special Meeting by submitting a proxy?**

Yes. You can participate in the Special Meeting by proxy – by filling out and returning the attached proxy card to Harleysville Mutual. Any properly executed proxy cards received prior to the Special Meeting, and not duly and timely revoked, will be voted at the Special Meeting in accordance with the instructions indicated on such proxies. If no instructions are given on properly executed proxies received by Harleysville Mutual, such proxies will be voted at the Special Meeting “FOR” the adoption of the Merger Agreement. If conflicting instructions are given on a proxy, such proxy will not be counted as a vote cast “FOR” or “AGAINST” such approval and adoption.

You can also submit your proxy by telephone voting or by Internet voting in accordance with the following:

- **By Telephone** - In the United States and Canada you can vote by telephone by calling [proxy voting phone number] (toll-free) and following the instructions.
- **By Internet** - You can vote via the Internet by accessing the Internet at [proxy voting website].com and following the instructions contained on that website.

Harleysville Mutual has engaged the services of MacKenzie Partners, a proxy solicitation firm, to help reach out to members to encourage them to vote. If you have any questions about the Special Meeting, please contact \_\_\_\_\_ of MacKenzie Partners at (800) \_\_\_\_\_.

**Can I change my vote or revoke my proxy after I return my proxy card?**

Yes. Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by: (i) filing with the Corporate Secretary of Harleysville Mutual, at or before the taking of the vote at the Special Meeting, a written notice of revocation bearing a later date than the proxy; (ii) duly executing a later dated proxy by telephone, Internet or mail (delivering it to the Corporate Secretary of Harleysville Mutual prior to the Special Meeting, or any adjournments, postponements, rescheduling or continuations thereof); or (iii) attending the Special Meeting and voting in person (attendance at the Special Meeting will not in and of itself constitute the revocation of a proxy). Any written notice of revocation or subsequent proxy must be sent to and received by Harleysville Mutual at 355 Maple Avenue, Harleysville, Pennsylvania 19438, Attention: Robert A. Kauffman, Corporate Secretary, or hand delivered to the Corporate Secretary of Harleysville Mutual before the Special Meeting. Harleysville Mutual members may obtain a new proxy by submitting a request to the Corporate Secretary at Harleysville Mutual Insurance Company, 355 Maple Avenue, Harleysville, Pennsylvania 19438, telephone (800) 523-6344.

**How can I find out more information about the Special Meeting?**

Harleysville Mutual has retained the services of MacKenzie Partners to assist it in providing information to our members about the Special Meeting and the Merger. You can reach them at (800) \_\_\_\_\_.

**What will the proxy solicitation firm do?**

MacKenzie Partners has established the telephone number set forth above to provide members with a place to call with questions. They have helped Harleysville Mutual mail this proxy statement to members. Representatives of MacKenzie Partners will also be making telephone calls to members to request members to vote in connection with the Special Meetings. MacKenzie Partners will communicate with Harleysville Mutual's directors, officers, employees and independent insurance agents in connection with performing its proxy solicitation services. Harleysville Mutual is paying all costs related to the services of MacKenzie Partners. These costs are expected to be approximately \$\_\_\_\_\_.

**How does Harleysville Mutual's Board of Directors recommend I vote?**

Harleysville Mutual's Board of Directors recommends that you vote "FOR" the proposal to adopt the Merger Agreement.

## **THE MERGER**

### **Reasons for the Merger**

The Harleysville Mutual and Harleysville Group Boards of Directors (collectively referred to in this section as the “Boards”) held joint meetings on September 27, 2011 and September 28, 2011, and separate meetings of each of the Boards on September 27, 2011. These meetings are described in detail below under “*Background of the Merger.*” At those meetings, the Boards considered the terms of the Merger Agreement and the transactions contemplated thereby, including the Mergers. Harleysville Mutual’s Board of Directors deemed it advisable and in the best interests of Harleysville Mutual to effect the Merger with Nationwide Mutual after consideration of the impact of the Merger on Harleysville Mutual and its constituencies, including agents, creditors, employees, policyholders and the communities in which Harleysville’s facilities are located. Harleysville Mutual’s Board of Directors, because of Harleysville Mutual’s ownership of a majority interest in Harleysville Group, also determined that it is in the best interests of Harleysville Mutual to enter into the Voting Agreement. Harleysville Group’s board of directors deemed it advisable and in the best interests of Harleysville Group’s stockholders to effect the Group Merger of Nationals Sub with and into Harleysville Group.

At the joint meeting of the Boards on September 28, 2011, each of the Boards approved the Merger Agreement and the transactions contemplated thereby, including the Mergers. Harleysville Mutual’s Board of Directors also approved the Voting Agreement, pursuant to which Harleysville Mutual agreed to vote its shares of Harleysville Group in favor of the Group Merger.

In evaluating the Mergers, Harleysville Mutual’s Board of Directors and Harleysville Group’s Board of Directors, acting with the advice and assistance of their respective financial and legal advisors, considered a number of factors, including the following:

### **Harleysville Mutual’s and Harleysville Group’s Reasons for the Mergers**

- ***Growth Potential.*** Nationwide Mutual has shown that selling insurance through independent agents can not only work, it also can grow. From 1998 (when Nationwide Mutual acquired Allied Insurance) until 2011, Nationwide Mutual has grown the Allied business from 22 to 33 states and has more than tripled its direct written premium from approximately \$900 million to approximately \$3.4 billion.
- ***Nationwide Mutual’s Intentions for the Operations of Harleysville.*** The Boards considered Nationwide Mutual’s commitments with respect to Harleysville’s business, operations, brand, employees and community including the following:
  - for two years following the closing of the Mergers, not making major operational changes in Harleysville East (as such term is defined in the Merger Agreement) to certain core business functions of Harleysville’s property and casualty business;
  - for two years following the closing of the Mergers, continuing to utilize in Harleysville East the Harleysville brand with respect to certain lines of property and casualty insurance and insurance products;

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- for two years following the closing of the Mergers, substantially maintaining or exceeding the overall number of employees, as of the date of the Merger Agreement, at Harleysville’s headquarters and not causing a reduction in force to occur at the Worcester, Massachusetts location;
  - for two years following the closing of the Mergers, substantially maintaining or improving philanthropic and charitable contribution activities consistent with Harleysville’s past practice since September 30, 2010;
  - taking certain actions with respect to integrating Harleysville’s employees with Nationwide Mutual’s employee benefit plans; and
  - no later than 60 days following the closing date, unless previously paid, paying the unpaid portion of the 2011 target incentive compensation to each eligible employee of Harleysville who is an employee on the date such payment is made, and retaining and paying retention bonuses to certain executive officers of Harleysville.
- ***Harleysville’s Business and Prospects.*** The Boards considered, on a historical and prospective basis, Harleysville’s business, financial condition, results of operations and book value, including trends in the insurance industry, underwriting performance, and return on equity.
  - ***The Impact of Difficult Economic Conditions.*** The Boards considered the prospect of Harleysville remaining independent in light of current difficult economic conditions in the United States. The Boards considered that economic conditions, among other factors, have resulted in declines and losses in the insurance industry and that the longstanding so-called “soft market” may continue, which could impede Harleysville’s growth. In particular, the Boards considered the current volatile state of the economy and general uncertainty surrounding forecasted economic conditions, in the short term and in the long term, both globally and within the insurance industry, and concluded that the Mergers represent a more favorable option to Harleysville than continuing to operate on a standalone basis.
  - ***The Thorough Process Followed in Evaluating Strategic Alternatives and the Low Likelihood that a Third Party Would Propose an Acquisition that Would Result in Greater Value for Harleysville.*** The Boards oversaw a process of reviewing strategic alternatives, with the advice and assistance of Credit Suisse, which is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with, among other matters, mergers and acquisitions, including transactions in the insurance industry, and a management team with considerable experience and expertise in the industry. The Boards, management and Credit Suisse discussed which third parties would most likely be both interested in acquiring Harleysville and qualified to do so from a financial, strategic, and knowledge standpoint. The Boards ultimately concluded that none of those third parties were likely to make an offer on better terms than the Mergers or with lower execution risk.

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- ***The High Likelihood that the Transaction with Nationwide Mutual Will Be Completed.*** The Boards considered Nationwide Mutual's particularly strong financial condition, the extensive amount of due diligence performed by Nationwide Mutual, and the relatively limited conditions to the closing of the Mergers, including that Nationwide Mutual would not require a financing condition, and determined that, in their judgment, there is a high likelihood that the Mergers would be completed.
- ***The Reputation and Business Practices of Nationwide Mutual.*** The Boards recognized that, relative to other potential purchasers for Harleysville, Nationwide Mutual has a corporate culture and business practices highly compatible with those of Harleysville.
- ***The Nationwide Mutual and Harleysville Businesses are Complementary, not Competitive.*** The Boards recognized that Nationwide Mutual's existing insurance business is complementary to and not competitive with Harleysville's operations, and vice versa, and a combination with Nationwide Mutual could potentially grow Harleysville's brands.
- ***The Terms of the Merger Agreement.*** The Boards considered all of the terms and conditions of the Merger Agreement, including among other things, the representations, warranties, covenants and agreements of the parties, the conditions to closing, the form of the consideration for the Mergers and the structure of the termination rights, and the fact that the Merger Agreement was agreed to after an arm's-length negotiation.
- ***The Advice of Financial Advisors.*** The Boards considered the opinions of Griffin and KBW with respect to the fairness of the Mergers, as well as the views of Credit Suisse regarding the Mergers, including the view of Credit Suisse that, subject to customary assumptions, qualifications and other matters described in its presentation to the Boards, the Mergers appeared to Credit Suisse to be consistent with the financial aspects of the objectives of the Boards that had been articulated to Credit Suisse.

***Harleysville Mutual's Reasons for the Mergers***

In addition to the reasons set forth above applicable to the Boards, Harleysville Mutual's Board of Directors also considered the following:

- ***Nationwide Mutual's status as a mutual insurance company.*** From and after the closing of the Merger, the individuals and entities who had been members of Harleysville Mutual as of the effective time of the Merger will continue to hold rights in their capacity as members of Nationwide Mutual that are comparable to or better than the rights that they presently hold in their capacity as members of Harleysville Mutual, including the right to vote in the election of directors, the right to receive dividends when declared and paid, the right to vote on certain important transactions (for example, the Nationwide Mutual policyholders have the right to vote to approve Nationwide Mutual's entering into the Merger), and the right to approve certain

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fundamental changes to the organization of Nationwide Mutual as a mutual insurance company, if any such fundamental changes are proposed;

- *Nationwide Mutual's financial strength and resources to back up its obligations under its policies of insurance.* Nationwide Mutual's A.M. Best rating is A+ and the combined surplus of Nationwide and Harleysville will be approximately \$13 billion;
- *Nationwide Mutual's diverse product and services offerings.* Nationwide Mutual offers a more diverse set of financial products and services than Harleysville Mutual's policyholders currently have. Nationwide Mutual has a significant financial services segment, which involves the offering of long-term savings and retirement products;
- *Similar cultures.* Nationwide and Harleysville have similar cultures and common organizational goals around their independent agent platforms in the personal and commercial lines business;
- *Independent Agency Distribution Network.* Both Harleysville and Nationwide Mutual believe there is a strategic benefit in creating an independent agency distribution network that, upon combination, will have a national footprint and will make the combined organization stronger over the long term; and
- *The Opinion of Griffin.* Harleysville Mutual retained Griffin, an investment banking firm, to advise the Board of Directors of Harleysville Mutual with respect to the Mergers. Griffin delivered an opinion letter dated September 28, 2011, addressed to the Board of Directors of Harleysville Mutual, and made an accompanying presentation to the Board on that date. The opinion stated that the Merger is fair to Harleysville Mutual from a financial point of view. Harleysville Mutual's Board of Directors considered this opinion and this presentation in evaluating the Mergers.

The Boards also considered a variety of risks and other potentially negative factors concerning the Mergers and the Merger Agreement, including the following:

- The risks and costs to Harleysville if the Mergers do not close, including the diversion of management and employee attention and the effect on business and customer relationships;
- The fact that certain of Harleysville's officers and directors may have interests in the Mergers that are different from, or in addition to, the interests of Harleysville's policyholders, stockholders, and other constituencies;
- The amount of time it could take to complete the Mergers, including the fact that the consummation of the Mergers is subject to stockholder, member, governmental and regulatory approvals and the lack of assurance that such approvals will be received prior to September 28, 2012 (as such date may be extended) or at all;
- The fact that the Merger Agreement prohibits Harleysville from soliciting alternative acquisition proposals; and

- The fact that a “break up” termination fee is payable by Harleysville Group to Nationwide Mutual under specified circumstances, including in the event that Harleysville Group’s board of directors decides to terminate the Merger Agreement to accept a Superior Proposal (as defined in the Merger Agreement).

The foregoing discussion of factors considered by the Boards is not intended to be exhaustive, but rather, includes material factors considered by them. In reaching their decisions to approve the Mergers, neither Board quantified or assigned relative weights to the factors considered, and individual directors may have given different weights to different factors. Harleysville Mutual’s Board of Directors considered all of the factors set forth under “Harleysville Mutual’s and Harleysville Group’s Reasons for the Mergers” and “Harleysville Mutual’s Reasons for the Mergers” as a whole.

### **Background of the Merger**

The Harleysville Mutual and Harleysville Group boards of directors (collectively referred to in this section as the “Boards”), and the senior management of both entities, regularly review and consider business alternatives to protect and enhance value for all of the constituencies of Harleysville Mutual and Harleysville Group, including stockholders, policyholders, employees, agents and the communities in which Harleysville Mutual and Harleysville Group and their respective insurance subsidiaries operate. In this Background of the Merger section, we refer to Harleysville Group, Harleysville Mutual and all such subsidiaries collectively as Harleysville. Harleysville considers its strategic options in light of the totality of the circumstances, including current and anticipated business trends, regulatory conditions, short- and long-term value for the stockholders of Harleysville Group, the impact on policyholders and the ratings environment expected to impact Harleysville and the insurance industry. In particular, for the past seven years, the Boards have undertaken an annual strategic review. At these strategic review sessions, numerous strategic options have been considered and discussed. These have included continuing as an independent company either with or without acquiring other businesses, a combination with another mutual insurance company, a demutualization of Harleysville Mutual on a stand-alone basis, a sponsored demutualization of Harleysville Mutual with a third party, and a conversion to a mutual holding company structure. At these meetings, the Boards have considered presentations from various financial advisors and legal counsel in which the advantages and disadvantages of some of these strategic options were outlined for discussion.

During the first quarter of 2011, William W. Scranton, III, Chairman of both Boards, met with Keith W. Eckel, Chairman of the Board of Nationwide Mutual. Mr. Eckel asked Mr. Scranton if Harleysville might be interested in a strategic transaction with Nationwide Mutual. Mr. Scranton advised Mr. Eckel that Mr. Scranton would discuss Nationwide Mutual’s interest with Michael L. Browne, President and Chief Executive Officer of Harleysville Group and Harleysville Mutual, and that Mr. Scranton would get back to Mr. Eckel as to whether Mr. Browne would be willing to talk to Stephen S. Rasmussen, Chief Executive Officer of Nationwide Mutual. Mr. Scranton subsequently discussed Mr. Eckel’s request with Mr. Browne who indicated that he would talk to Mr. Rasmussen by telephone. Following his discussion with Mr. Browne, Mr. Scranton spoke with Mr. Eckel by telephone and informed Mr. Eckel that Mr. Browne would talk to Mr. Rasmussen by telephone. Mr. Browne was subsequently contacted by Mr. Rasmussen and Mr. Rasmussen suggested that they meet to discuss a possible combination

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between Harleysville and Nationwide Mutual. Mr. Browne informed the Boards of the contact from Mr. Rasmussen at a regularly scheduled board meeting on February 17, 2011. While the Boards were of the view that neither Harleysville Mutual nor Harleysville Group was for sale, they authorized Mr. Browne to meet with Mr. Rasmussen. Messrs. Browne and Rasmussen held a brief introductory meeting in Philadelphia, Pennsylvania on March 7, 2011. Mr. Rasmussen stated that a combination of Harleysville and Nationwide Mutual presented a unique opportunity for Harleysville Group and Harleysville Mutual and the constituencies of both companies, in light of Nationwide Mutual's strategic objective of expanding distribution through independent agents on the East Coast which would result in significant growth opportunity for both companies. Mr. Browne indicated that Harleysville was focused on pursuing its own business strategies, including growth by acquisition, but that he would convey Mr. Rasmussen's thoughts to the Boards. Mr. Rasmussen also mentioned that Nationwide Mutual would be willing to consider paying some premium over the market price for the shares of Harleysville Group held by the public stockholders of Harleysville Group.

Following the March 7, 2011 meeting, Mr. Browne informed the Boards about his discussion with Mr. Rasmussen.

On March 9, 2011, Mr. Rasmussen called Mr. Browne. Mr. Rasmussen suggested that they meet again with certain other members of the senior management of their companies to explore further whether a business combination should be considered. A meeting was then scheduled for March 21, 2011.

On March 14, 2011, Mr. Rasmussen sent a letter to Mr. Browne requesting certain information about Harleysville Group and Harleysville Mutual and asking that Mr. Browne and his team be prepared to make a presentation about Harleysville to Mr. Rasmussen and his team at the March 21 meeting.

On March 16, 2011, Mr. Browne contacted Mr. Rasmussen by telephone to indicate that Mr. Browne was not prepared to proceed with a future meeting or furnish information about Harleysville until Mr. Rasmussen provided some indication of interest with respect to preliminary terms of a transaction. Mr. Rasmussen indicated that, after the presentation at the proposed March 21 meeting, he would meet with Nationwide Mutual's board and would be in a position to discuss proposed terms. Prior to and following this conversation, Mr. Browne conferred with Mr. Scranton, and, because no decision had been made to pursue the sale of or combination transaction involving Harleysville, they agreed that, without an indication of proposed terms from Nationwide Mutual, they were not prepared to meet with Nationwide Mutual on March 21. Consequently, that meeting was cancelled. Mr. Rasmussen subsequently stated that he would contact Mr. Browne following the next meeting of Nationwide Mutual's Finance Committee.

On March 21, 2011, Harleysville and Nationwide Mutual executed a mutual confidentiality agreement (which did not include an exclusivity or standstill provision) and Mr. Browne informed the members of the Boards of these interactions with Nationwide Mutual.

On March 30, 2011, pursuant to Mr. Browne's request, Mr. Rasmussen sent Mr. Browne a letter in which Mr. Rasmussen indicated Nationwide Mutual's interest in a merger with

Harleysville Mutual and an acquisition of Harleysville Group in a transaction that would involve the payment of \$55 per share in cash to the public stockholders of Harleysville Group. Mr. Browne forwarded copies of that letter to the members of the Boards.

Following receipt of the March 30 letter and consultation with Mr. Scranton, Mr. Browne called Mr. Rasmussen to advise him that the proposed terms contained in his letter were not acceptable.

On April 4, 2011, representatives of Credit Suisse Securities (USA) LLC (Credit Suisse), the investment banker to Harleysville, and Merrill Lynch, Pierce, Fenner & Smith Incorporated (BofA Merrill Lynch), the investment banker for Nationwide Mutual, spoke by telephone regarding their preliminary views on the valuation of Harleysville Group.

Also, on April 4, 2011, Mr. Browne received a call from a representative of BofA Merrill Lynch to discuss Mr. Rasmussen's March 30 letter to Mr. Browne. After this call, Mr. Browne agreed to a meeting between the Chief Financial Officers and General Counsels of Harleysville and Nationwide Mutual, which meeting was scheduled for April 15, 2011. On April 5 and 6, 2011, representatives of Credit Suisse and BofA Merrill Lynch spoke by telephone regarding the agenda for this meeting to be held on April 15, 2011, as well as their respective preliminary views of the valuation of Harleysville Group.

On April 15, 2011, several members of the senior management teams of Harleysville and Nationwide Mutual, other than the Chief Executive Officers, met in Philadelphia to discuss a possible transaction. Representatives of Credit Suisse, Ballard Spahr LLP (legal counsel to Harleysville), BofA Merrill Lynch, and Jones Day (legal counsel to Nationwide Mutual) attended this meeting.

On April 19 and 20, 2011, Credit Suisse and BofA Merrill Lynch spoke by telephone and discussed various aspects of Nationwide Mutual's indication of interest, including business and cultural fit.

On April 27, 2011, the Boards held a joint meeting at which Mr. Browne described the indication of interest from Nationwide Mutual. The Boards authorized Mr. Browne to continue negotiations with Nationwide Mutual. In addition, Harleysville Mutual's Board suggested that such negotiations focus on Harleysville Mutual and its constituencies, including policyholders, employees, agents, the communities in which Harleysville does business, the potential impact of a transaction on the Harleysville brand and other related issues. The Boards directed Mr. Browne, in conjunction with Credit Suisse, to engage in confidential discussions with other third parties that would be capable of consummating a transaction with Harleysville for the purpose of performing a "market check." In addition, the Boards requested that Credit Suisse prepare an analysis of all relevant strategic alternatives and options available to Harleysville for presentation at the Boards' offsite meetings in June.

On April 29, 2011, Mr. Browne called Mr. Rasmussen to indicate a willingness for members of Harleysville's senior management to meet with their Nationwide Mutual counterparts to discuss broader issues, particularly related to Harleysville Mutual and its constituencies.

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In early May 2011, while attending a meeting, Mr. Browne ran into the Chief Executive Officer of Company A, who was also attending that meeting. They briefly discussed a potential transaction between their companies. They also agreed to discuss this possibility in more detail later in May.

On May 19, 2011, representatives of senior management of Harleysville and Nationwide Mutual met in Philadelphia, Pennsylvania. The participants at that meeting included the Chief Executive Officers, Chief Financial Officers, General Counsels and other senior members of the respective management teams of Harleysville and Nationwide Mutual.

On May 25, 2011, Credit Suisse spoke with BofA Merrill Lynch and the Vice President of Mergers & Acquisitions of Nationwide Mutual. This conversation primarily related to the valuation of Harleysville Group.

On May 31, 2011, Mr. Browne met in Philadelphia, Pennsylvania with the Chief Executive Officer of Company A to discuss a possible transaction between their companies.

On June 6, 2011, Messrs. Scranton and Browne met in Philadelphia, Pennsylvania with the Chairman of the Board and the Chief Executive Officer of Company A to further discuss a possible transaction between their companies.

In early June, in accordance with the April 26, 2011 authorizations of the Boards to determine whether there were other third parties capable of consummating a transaction with Harleysville, Mr. Browne called the Chief Executive Officer of Company B, and they subsequently met on June 10, 2011.

Also in early June, in preparation for the Boards' annual offsite strategic planning meetings in late June, Harleysville's senior management prepared and provided Harleysville Group's board of directors with non-public financial forecasts for Harleysville Group for the years ending December 31, 2011, 2012 and 2013, respectively, in connection with its consideration of strategic alternatives.

Later in June 2011, the Boards met for two days of annual offsite strategic planning meetings. During those meetings, representatives of Credit Suisse made a presentation to the Boards regarding possible strategic alternatives for Harleysville. Specifically, the Credit Suisse presentation covered the following alternatives:

1. Standalone: maintaining the current structure and pursuing the existing business plan;
- 1a. Standalone with acquisitions: making an acquisition within the existing structure;
2. Demutualization: modification of the existing structure through a demutualization subscription rights offering and possible subsequent transactions; and
3. Sale or merger transaction: sale of the enterprise/merger with a partner.

Following this presentation, the Boards engaged in a robust discussion of the various alternatives, evaluating execution considerations and the financial consequences associated with each of them. Credit Suisse also reviewed with the Boards the current economic environment and merger and acquisition activity within the insurance industry and also summarized the indication of interest that had been received from Nationwide Mutual and its financial impact on Harleysville. Credit Suisse also provided background information on Nationwide Mutual, Company A, and Company B. Finally, Credit Suisse presented to the Boards a short list of companies, which included Company A and Company B, capable of doing a transaction with Harleysville similar to the transaction being proposed by Nationwide Mutual. Credit Suisse indicated that it was not aware of any other company, other than Nationwide Mutual, Company A or Company B, that would be reasonably likely to be capable of (from financial or structural viewpoints) and be interested in effecting a transaction with Harleysville similar to the one proposed by Nationwide Mutual.

During those meetings, Ballard Spahr LLP made a presentation to the Boards on their respective fiduciary duties under Delaware and Pennsylvania law. Each of the Boards discussed its obligations and ability to consider the impact of its decisions on various constituencies. The Boards also reviewed with Ballard Spahr LLP the procedures for responding to and considering acquisition proposals.

Following these series of meetings of the Boards, each of the Boards directed management of Harleysville, with the assistance of Credit Suisse, to continue to explore possible transactions with each of Nationwide Mutual, Company A, and Company B. The Boards emphasized to management and to Credit Suisse that, if Harleysville were to enter into a sale or merger transaction, each of the following objectives must be met and satisfied and directed that each of these objectives be conveyed to the three parties (and any other party) considering a potential transaction for Harleysville:

- protect and enhance the position of policyholders of Harleysville Mutual;
- provide continued opportunities for Harleysville employees;
- preserve the Harleysville culture and commitment to the community;
- maximize value for the public stockholders of Harleysville Group; and
- continue to grow the Harleysville brand.

On June 16, 2011, Mr. Browne spoke with Mr. Rasmussen by telephone to provide Mr. Rasmussen with an update on the offsite meetings of the Boards and to schedule a meeting with Mr. Rasmussen. The meeting was subsequently scheduled for July 14, 2011 in Columbus, Ohio.

On June 21, 2011, Harleysville and Company A entered into an agreement that imposed confidentiality and standstill obligations on Company A, but did not impose exclusivity obligations on Harleysville.

On June 23, 2011, Credit Suisse had initial discussions by telephone with the investment banker for Company A.

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On June 29, 2011, Mr. Browne communicated with the members of the Boards, advising them of the status of contacts and meetings with each of Nationwide Mutual, Company A, and Company B.

On June 30, 2011, Mr. Browne, the Chief Financial Officer, Chief Actuary and General Counsel of Harleysville met in Philadelphia with their counterparts at Company A. Also in attendance were representatives of Credit Suisse and the investment banker to Company A. The parties discussed the general terms and structure of a merger or other affiliation transaction and related matters.

On July 5, 2011, Harleysville and Company B entered into two agreements. The first agreement imposed confidentiality and standstill obligations on Company B, but not exclusivity obligations on Harleysville. The second agreement imposed confidentiality obligations, but not exclusivity or standstill obligations, on Harleysville. In addition, on July 5, 2011, Mr. Browne met with the Chairman of the Board, the Chief Executive Officer and another senior executive of Company B. At that meeting, the parties discussed potential synergies between the companies and certain other factors relating to a potential transaction. In addition, the representatives of Company B described their views as to how Harleysville would fit into the Company B structure. They also discussed the potential reduction in the number of states in which Harleysville would write business following the closing of the transaction, as well as the potential reduction in the number of employees at Harleysville's headquarters. Later in July, Company B requested that Harleysville provide certain due diligence documentation, and Harleysville did so.

On July 8, 2011, Mr. Browne met with the Chief Executive Officer of Company A along with some of their respective senior executives, to discuss operational synergies that might result from a potential transaction between the companies. Also on July 8, Credit Suisse spoke with the investment banker for Company A to discuss a proposed structure and structural alternatives.

On July 11, 2011, Mr. Browne and the Chief Executive Officer of Company A met to discuss further issues related to Harleysville employees, agents and the community in connection with a transaction between the two companies.

Also on July 11, 2011, the senior management, investment bankers and outside legal counsel of each of Harleysville and Company A spoke by telephone and discussed the existing structure and other matters related to Harleysville.

On July 12, 2011, Credit Suisse spoke with the investment banker for Company A by telephone and discussed the proposed structure and progress of discussions between Harleysville and Company A. Also on July 12, 2011, a senior executive officer of Company B sent a letter to Mr. Browne requesting additional due diligence information concerning Harleysville.

Also on July 12, 2011, Mr. Browne spoke with the Chief Executive Officer of Company A by telephone. They discussed integration and other issues related to Harleysville employees, agents and the community that would result from a potential merger or affiliation transaction between Harleysville and Company A. Mr. Browne also indicated that the per share price for the Harleysville Group shares held by the public stockholders would have to be at least \$60, which

number was based in part on the terms contained in the letter dated March 30, 2011 from Nationwide Mutual as well as the non-public financial forecasts for Harleysville Group prepared by Harleysville Group for the Boards' annual offsite strategic planning meetings in late June.

On July 14, 2011, Mr. Browne met with Mr. Rasmussen in Columbus, Ohio to discuss issues relating to policyholders, employees, community, agents and the Harleysville brand, as well as the potential merger consideration for the publicly-held Harleysville Group shares. Mr. Rasmussen reaffirmed Nationwide Mutual's strong interest in effecting the proposed transactions with Harleysville, and agreed that after Nationwide Mutual's board meeting scheduled for August 8, Mr. Rasmussen would send to Mr. Browne a revised written indication of interest outlining Nationwide Mutual's proposal.

During the third week in July 2011, representatives of Harleysville and Company A discussed the terms of a possible transaction, including price.

On July 19, 2011, Mr. Browne briefly discussed with the Chief Executive Officer of Company B the various structural alternatives by telephone. Following this conversation, Harleysville received from Company B materials which described a number of proposed structures for a potential transaction. Harleysville believed that each of Company B's proposed transaction structures was complex, would involve significant structural changes to Harleysville, and would take anywhere from nine months to 24 months to consummate.

On July 20, 2011, Mr. Browne spoke with the Chief Executive Officer of Company A by telephone and discussed potential transaction terms.

On July 21, 2011, Credit Suisse and the investment banker for Company A met to discuss a possible transaction between Harleysville and Company A, including price for the publicly held shares of Harleysville Group, and Company A's need for significant cost savings and accretion in the first year following the closing of a transaction between Harleysville and Company A. The financial advisor to Company A indicated that Company A was considering a transaction that would involve a per share payment in the "low to middle \$50's" to Harleysville Group's public stockholders.

On July 26, 2011, Mr. Browne spoke with the Chief Executive Officer of Company A by telephone and further discussed potential transaction terms.

Also on July 26, 2011, Credit Suisse spoke with Mr. Browne and other members of Harleysville's senior management by telephone and discussed the progress of discussions with Company A. The approach to be taken with respect to the three potential bidders and the timing of a potential transaction were also discussed on this call.

A telephone conference call took place on July 26, 2011 among certain Harleysville senior executives with representatives of Company B. Ballard Spahr LLP also participated in that conference call. The purpose of the call was to discuss the structural alternatives proposed by Company B following the telephone call of July 19, 2011 between Mr. Browne and the Chief Executive Officer of Company B. The participants discussed the structural impediments and significant time periods which would be required to consummate a transaction with Company B. At the conclusion of the meeting, the parties agreed that Ballard Spahr LLP would prepare a

memorandum outlining an alternative structure for a transaction that had been presented on the call.

On July 29, 2011, Mr. Browne met with the Chief Executive Officer of Company A. Mr. Browne stressed that any proposal from Company A must contain certain protections for Harleysville Mutual's constituencies, including policyholders, employees, agents, the community and the Harleysville brand, as well as providing a per share price of at least \$60 to Harleysville Group's public stockholders. The following week, Mr. Browne received a call from the Chief Executive Officer of Company A who indicated that any transaction proposed by Company A would not provide all of the constituency protections described by Harleysville.

On August 2, 2011, Harleysville provided Company B with material related to the alternative structure for a transaction with Company B, as discussed on July 26, 2011.

On August 4, 2011, in response to a request from Company B for "pricing guidance," Credit Suisse spoke with representatives of Company B. They discussed Harleysville's expectations for the per share consideration payable to Harleysville Group's public stockholders in a merger transaction with Company B, and Credit Suisse indicated that, in light of alternative proposals that Harleysville expected to receive, this per share price should "start with a six." They also discussed the synergies that Company B could expect to realize from a transaction with Harleysville. The representatives of Company B indicated that the ability to realize substantial synergies would be an important element of any transaction between Company B and Harleysville, and that they expected that an important component of these synergies would be cost reductions, including reductions in the number of employees at Harleysville's headquarters and a reduction in the number of states in which Harleysville writes business. At the end of the call, the representatives of Company B indicated that they understood the pricing guidance they were being given, as well as the synergy potential.

On August 5, 2011, the same representatives of Company B called Credit Suisse. On this call, the representatives of Company B said that Company B would not be prepared to pay anything close to a per share price of \$60 to Harleysville Group's public stockholders, and, instead, contemplated a per share price that would reflect a premium of approximately 50% over the then-current trading price of the Harleysville Group shares (which would imply a per share price of approximately \$45). The representatives of Company B also said that Company B would be prepared to pay some amount to Harleysville Mutual's policyholders. Harleysville believes such offer of a payment to policyholders was based upon Company B's structure and its proposal to effect a demutualization or other conversion of Harleysville Mutual. At the end of the call, Credit Suisse said that they would report Company B's position to the Boards but doubted that Harleysville would be prepared to engage in further discussions with Company B on the basis described by Company B's representatives, in part because of the lack of interest in pursuing a demutualization or other conversion transaction.

Also on August 5, 2011, at their regular meeting, the Boards discussed the status of negotiations with Nationwide Mutual, Company A, and Company B. The Boards were advised of Credit Suisse's conversations with the representatives of Company B. After discussion, the Boards concluded that, based on those conversations, Company B did not appear to be interested in pursuing a transaction on terms that would be acceptable to the Boards.

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The Boards also discussed whether, depending on the ultimate structure of the proposed transaction with Nationwide Mutual, it would be advisable for each of the Boards to have its own separate advisors and for each to form a special committee composed of non-employee directors who served only on the Board of Harleysville Mutual or on the Board of Harleysville Group but not both. Based on such discussion, each Board authorized the formation of a special committee. Harleysville Mutual's Board determined that its special committee would consist of Mr. DeBenedictis and Mr. Lapeyrouse, and Harleysville Group's Board determined that its special committee would consist of Ms. Austell and Ms. Graddick-Weir. Harleysville Group's Board determined that, when it became advisable for it to retain separate counsel, it would seek to engage Fox Rothschild LLP as its legal counsel. Harleysville Mutual's Board determined that, when it became advisable for it to retain separate counsel, it would seek to engage Ballard Spahr LLP as its legal counsel. Finally, because of the prior relationship between Harleysville and Credit Suisse, the Boards also agreed that it might become advisable to retain one or more additional financial advisors to advise Harleysville Mutual and Harleysville Group separately.

Following a Nationwide Mutual board meeting on August 8, 2011, by letter dated August 9, 2011, Mr. Rasmussen wrote to Mr. Browne to reiterate Nationwide Mutual's interest in merging with Harleysville, subject to satisfactory completion of due diligence and entry into an exclusivity agreement. The principal terms of the indication of interest were as follows:

- Harleysville Mutual would merge with and into Nationwide Mutual;
- a newly formed subsidiary of Nationwide Mutual would merge with and into Harleysville Group;
- the public holders of outstanding shares of Harleysville Group would receive \$60 in cash per share;
- Nationwide Mutual would assume all of Harleysville Group's liabilities, including all outstanding debt;
- Nationwide Mutual would not require a financing condition;
- Nationwide Mutual would make no major operational changes at Harleysville for a minimum of two years;
- Nationwide Mutual would use the Harleysville brand for a minimum of two years;
- Nationwide Mutual would maintain or exceed the current employment levels at Harleysville's Pennsylvania headquarters for a minimum of two years and would be prepared to make a similar commitment in Worcester, Massachusetts following due diligence;
- Nationwide Mutual would provide competitive retention bonuses to key employees and honor the existing incentive commitments under Harleysville's current compensation plan for 2011, including payment of no less than the targeted 2011 bonuses within 60 days after closing; and
- Nationwide Mutual would maintain or improve Harleysville's existing charitable activities in the future.

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On August 15, 2011, Harleysville and Nationwide Mutual entered into an exclusivity agreement pursuant to which Harleysville agreed that it would not initiate, encourage, solicit or enter into any competing transaction, engage in any discussions or negotiations with respect to any competing transaction, furnish or exchange any information to or with any person or entity in connection with a competing transaction, or take any action to facilitate, enhance or recommend a competing transaction. The period of exclusivity was the earlier of 30 days from the date of the exclusivity agreement or the date on which the parties entered into a definitive agreement. The 30-day period could be extended for additional periods, up to a total of 90 days, unless Harleysville provided Nationwide Mutual with written notice of termination of the exclusivity agreement at the end of each 30-day period.

On August 17, 2011, the General Counsel of Harleysville received an initial due diligence request from Nationwide Mutual's Chief Financial Officer.

On August 19, 2011, Harleysville and Credit Suisse gave Nationwide Mutual representatives access to an electronic data room containing business, operations and financial data about Harleysville.

Despite Harleysville's belief that Company B was not interested in pursuing a transaction with Harleysville, the Chief Executive Officer of Company B sent a letter to Mr. Browne on August 26, 2011. The letter noted Company B's interest in continuing to discuss a potential transaction with Harleysville. His letter outlined what the Company B Chief Executive Officer described as his initial thoughts. These included a buy out of the public stockholders of Harleysville Group at a significant premium; assumption by Company B of all obligations under any Harleysville change in control or other similar compensation arrangements; conversion of Harleysville Mutual from a mutual company to a stock insurance company and, at the discretion of Harleysville Mutual's Board, either (1) a payment by Company B to Harleysville Mutual members of an amount in cash in return for terminating their member rights or (2) providing Harleysville Mutual's members with a special dividend and member rights in Company B's mutual holding company; establishment of a significant transition and retention compensation program for members of Harleysville's management team; the provision by Company B of a market to provide management of Harleysville with the opportunity to monetize equity received in the conversion; maintenance, during an integration period, of compensation and benefits for Harleysville employees substantially comparable to those currently enjoyed and in the future consistent with employees of Company B; no financing contingency and flexibility as to the timing and sequencing of the affiliation, buyout and conversion; maintenance of a real presence in Pennsylvania and in any other significant Harleysville locations; and establishment of a charitable foundation, "The Harleysville Mutual Foundation," to further support and enhance the surrounding communities.

On August 29, 2011, in accordance with the provisions of the exclusivity agreement with Nationwide Mutual, the Chief Financial Officer of Harleysville sent a letter to Nationwide Mutual notifying Nationwide Mutual of the receipt by Harleysville of the letter from Company B's Chief Executive Officer without revealing the identity of Company B or the specific terms contained in Company B's letter.

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By letter dated August 30, 2011, Mr. Browne responded to Company B's Chief Executive Officer that Harleysville was not in a position at that time to have further discussions with Company B or its advisors. He further indicated that Harleysville believed that discussions between Harleysville and Company B had terminated in early August.

On August 31, 2011, the Boards met and Fox Rothschild LLP was engaged to represent Harleysville Group, and Ballard Spahr LLP was engaged to represent Harleysville Mutual in the proposed transaction with Nationwide Mutual.

By letter dated September 1, 2011, Company B's Chief Executive Officer acknowledged receipt of Mr. Browne's letter of August 30, 2011. Company B's Chief Executive Officer's letter provided further detail as to why the approach outlined in his August 26 letter would have fairly compensated all important Harleysville constituencies, including that Company B would:

- affiliate with Harleysville Mutual and buy out the public stockholders of Harleysville Group for a price of \$42 per share;
- convert Harleysville Mutual to a stock insurance company and provide Harleysville Mutual members with a special dividend of \$250 million (approximately \$1,244 per policy based on the approximately 201,000 policies of Harleysville Mutual as of November 23, 2011), coupled with member rights in Company B's holding company;
- be flexible as to the timing and sequencing of the affiliation, buyout and conversion transactions;
- offer Mr. Browne and Harleysville's senior management a transition and retention compensation program with a value of approximately \$25 million;
- maintain Harleysville operations as a strong brand within Company B's regional companies group;
- maintain a real presence within Pennsylvania and in other significant Harleysville locations; and
- establish "The Harleysville Mutual Foundation" with initial funding of \$5 million to support and enhance the surrounding communities.

The letter went on to state that the aggregate consideration proposed by Company B and payable to Harleysville Group's public stockholders and Harleysville Mutual's members would exceed \$800 million, which would surpass the consideration to be paid to Harleysville Group's public stockholders pursuant to the other proposal, assuming a per share price of \$60, by approximately \$50 million.

On September 2, 2011, in accordance with the provisions of the exclusivity agreement with Nationwide Mutual, Harleysville sent a letter to Nationwide Mutual notifying Nationwide Mutual of Harleysville's receipt of the letter dated September 1, 2011 from Company B without revealing the identity of Company B or the terms contained in Company B's letter.

Because of the prior relationship between Harleysville and Credit Suisse, in addition to continuing to be advised by Credit Suisse, Harleysville Mutual's Board determined to retain the

investment banking firm of Griffin Financial Group, LLC (Griffin), as an additional financial advisor to advise Harleysville Mutual's Board with respect to the proposed merger, including, if requested by Harleysville Mutual's Board, to provide a fairness opinion with respect to the Merger, as well as to assist Harleysville Mutual in performing a due diligence review of Nationwide Mutual. Griffin was retained on September 6, 2011. On September 9, 2011, the law firm of Stevens & Lee, P.C. was engaged to advise Harleysville Mutual's Board (including by providing an opinion to Harleysville Mutual's Board) with respect to its fiduciary duties under Pennsylvania law. Griffin is an affiliate of the law firm of Stevens & Lee, P.C.

On September 8, 2011, the initial period of exclusivity pursuant to the exclusivity agreement entered into by Harleysville and Nationwide Mutual on August 15, 2011 was extended for an additional seven day period until September 21, 2011.

On September 9, 2011, Harleysville received from Nationwide Mutual a draft merger agreement providing for the Mergers, and a draft voting agreement between Harleysville Mutual and Nationwide Mutual that would require Harleysville Mutual to vote its shares of Harleysville Group in favor of the Merger.

On September 13 and 14, 2011, the management teams of both Harleysville and Nationwide Mutual met for the purpose of conducting comprehensive management due diligence on Harleysville. These meetings involved presentations by Harleysville with respect to the following areas: finance, information technology, investments, actuarial, business overview, claims, tax, and legal.

On September 15, 2011, the exclusivity agreement, dated August 15, 2011, between Harleysville and Nationwide Mutual was amended to extend the initial exclusivity period through October 7, 2011.

On September 16, 2011, Mr. Rasmussen called Mr. Browne to confirm that, following the completion of its due diligence, and subject to negotiation of a mutually acceptable merger agreement, Nationwide Mutual would agree to the commitments to community, employees and related matters that had been previously discussed between the parties, and to pay \$60 per share for the shares of Harleysville Group held by the public stockholders.

Also on September 16, 2011, Fox Rothschild LLP and Ballard Spahr LLP provided comments on the draft merger agreement to Jones Day, counsel to Nationwide Mutual and, on September 19, 2011, representatives of Nationwide Mutual, Jones Day, Harleysville, Fox Rothschild LLP, Ballard Spahr LLP, Credit Suisse and Griffin held a conference call to discuss these comments and other proposed changes to the draft merger agreement. On September 22, 2011, following several exchanges of drafts of the merger agreement, the parties held a conference call to discuss the principal outstanding issues.

On September 19, 2011, Harleysville Mutual's Board held a special meeting at which Harleysville Mutual's Board ratified the engagement of both Griffin and Stevens & Lee.

On September 21, 2011, Nationwide Mutual gave Harleysville and its representatives and advisors access to an electronic data room containing information about Nationwide Mutual.

Because of the prior relationship between Harleysville and Credit Suisse, in addition to continuing to be advised by Credit Suisse, Harleysville Group's Board of Directors determined to retain a nationally recognized investment banking firm with substantial experience in the valuation of insurance companies in connection with mergers and acquisitions. Harleysville Group considered several qualified investment banking firms. Harleysville Group selected KBW to provide an opinion to Harleysville Group's Board of Directors as to the fairness of the consideration to be paid to Harleysville Group's public stockholders in the Group Merger due to KBW's expertise. KBW was retained on September 22, 2011. Harleysville Group's instructions permitted KBW to render the opinion in accordance with its customary practice, in such form as KBW shall determine and with such qualifications as KBW believed reasonably appropriate.

By letter dated September 23, 2011, Company B's Chief Executive Officer reiterated Company B's willingness to proceed with a transaction on the terms outlined in his letter dated September 1, 2011. In the September 23rd letter, he again proposed to pay \$42 per share for Harleysville Group's publicly traded shares and a special dividend of \$250 million to Harleysville Mutual's policyholders, coupled with members rights in Company B's mutual holding company. The letter also expressed a willingness to discuss alternative structures and approaches.

On September 26, 2011, the Special Transaction Committee of Harleysville Group's Board met. Representatives of Fox Rothschild LLP and KBW participated in the meeting. In addition, Harleysville's General Counsel participated for a portion of the meeting. The Special Transaction Committee members reviewed and adopted a committee charter which provided for them to review potential transactions and make a recommendation to Harleysville Group's full Board. KBW explained that it had been retained by Harleysville Group's Board in connection with the Group Merger. KBW explained that it had been retained by Harleysville Group's Board of Directors in connection with the Group Merger to provide, if requested, a fairness opinion with respect to the Group Merger. KBW indicated that, based on the analysis and due diligence it had performed to date, it expected, if requested, to be in a position to deliver such opinion. The Special Transaction Committee also discussed with Fox Rothschild LLP its fiduciary duties under Delaware law.

On September 26, 2011, the Special Committee of Harleysville Mutual's Board met. Representatives of Ballard Spahr LLP and Griffin participated in the meeting. Harleysville's General Counsel participated for a portion of the meeting. The Special Committee members reviewed and adopted a committee charter which provided for them to review potential transactions and make a recommendation to Harleysville Mutual's full Board. Griffin explained that it had been retained to advise Harleysville Mutual's Board in connection with the Merger, including, if requested, to provide a fairness opinion with respect to the Merger. Griffin indicated that, if requested, it would issue a fairness opinion with respect to the Merger, and that based on the analysis and due diligence it had performed to date, it expected to be in a position to do so if requested. The Special Committee discussed with Ballard Spahr LLP its fiduciary duties under Pennsylvania law and was advised that Stevens & Lee had been retained to advise Harleysville Mutual's Board with respect to those duties and to deliver to Harleysville Mutual's Board an opinion concerning the fiduciary duties of Harleysville Mutual's Board of Directors under Pennsylvania law. The Special Committee also discussed with Griffin the treatment of policyholders in the Merger. Griffin explained that the membership rights that the Harleysville

Mutual policyholders would have as Nationwide Mutual policyholders would be comparable or better than the membership rights that they then enjoyed as the members of Harleysville Mutual, but that they would hold those rights in a combined company that Griffin believed would be in a significantly stronger position as a result of the Merger. For example, Griffin explained, the policyholders would as a result of the Merger become policyholders of a mutual insurance company with an A.M. Best rating of A+, a significantly greater surplus, enhanced claims paying ability, enhanced lines of business, a broader array of products and services, improved competitive pricing, and a broadened agency force as contrasted with Harleysville on a stand alone basis. The Special Committee also discussed with Griffin the terms generally found in mergers between mutual insurance companies. Griffin advised the Special Committee that in such mergers policyholders typically neither receive a dividend nor any other special payment.

Also on September 26, 2011, Mr. Browne, the Chief Financial Officer, and the General Counsel of Harleysville met with the Pennsylvania Insurance Department (the “Department”), along with Mr. Rasmussen, the Chief Financial Officer, and the General Counsel of Nationwide Mutual. They explained the nature, structure and terms of the potential transactions between Harleysville and Nationwide Mutual.

Subsequent to the September 26, 2011 meeting, Harleysville officials had an additional meeting with representatives of the Department to describe the extent of the “market check” performed by Harleysville and, in particular, Harleysville’s interactions with Company B.

On September 26 and 27, 2011, Jones Day, Ballard Spahr LLP, Fox Rothschild LLP, Harleysville, and Nationwide Mutual discussed various provisions of the draft merger agreement and negotiated the most significant remaining issues.

Also on September 27, Harleysville and Credit Suisse executed an engagement letter with respect to Credit Suisse’s engagement by Harleysville. Under the engagement letter, Harleysville agreed to pay Credit Suisse a fee of \$9,000,000, \$2,000,000 of which would become payable upon the public announcement of the Mergers, and the balance of which would become payable upon the closing of the Mergers. In addition, Harleysville agreed to reimburse Credit Suisse for its out-of-pocket fees and expenses, including attorneys’ fees, and to indemnify Credit Suisse and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement (Harleysville had entered into a separate indemnification agreement with Credit Suisse on June 6, 2011).

On September 27, 2011, the Boards held a joint meeting to receive an update on the status of the draft merger agreement and the draft voting agreement, and on the negotiations with respect to them. Near-final drafts of these agreements had been furnished to each of the directors in advance of the meeting. Mr. Browne described to the Boards the September 26 meetings with the Department and further explained that the Nationwide Mutual board had approved the Merger and the Group Merger that day. Each of the Boards then confirmed the establishment, composition and charters of its respective special committee, and Harleysville Group’s Board confirmed the retention of KBW.

Credit Suisse then made a presentation to the Boards that included a description of the strategic alternatives previously considered by the Boards (including the sale of Harleysville to

financial or strategic buyers, acquisitions of other insurance companies, a demutualization, a restructuring and pooling arrangements). Credit Suisse reviewed all of the potential bidders that had been contacted and the terms proposed or discussed by each such company. Credit Suisse, together with members of Harleysville management, also described the advantages and disadvantages and the risks associated with a transaction with each of the companies, including a transaction with Company B. Credit Suisse noted that Company B had declined to submit a formal proposal in early August when invited to do so, that Company B would be unable to effect a mutual merger because of its structure, that Company B's proposal was subject to the completion of a due diligence review of Harleysville, and that a transaction with Company B could take significantly longer to complete than the transaction with Nationwide Mutual. Credit Suisse also noted that Company B had not proposed specific protections for Harleysville employees and the Harleysville brand similar to those being proposed by Nationwide Mutual, and had discussed limiting the number of states in which Harleysville would write policies. Mr. Browne pointed out that, based on the various discussions that had occurred with Company B, it appeared that a transaction with Company B would involve reductions in employment at Harleysville, reduction in the number of states in which Harleysville would write business, overlapping geographic regions and disruptions in the independent agency force.

Credit Suisse then described the terms of the proposed Nationwide Mutual transaction, including the provisions of the draft merger agreement related to employees, the community, senior officers and charitable giving. Credit Suisse also reviewed certain of its financial analyses, and noted that these analyses reflected that Nationwide Mutual would pay a significant premium to the Harleysville Group public stockholders. Credit Suisse then reviewed the financial implications of the Merger for Harleysville Mutual, noting Nationwide Mutual's strong A.M. Best rating of A+ (compared to an A rating for Company B), diversity of product offerings and significant surplus.

Following the presentation by Credit Suisse, Fox Rothschild LLP and Ballard Spahr LLP presented to the Boards the principal terms of the draft merger agreement and the draft voting agreement, including the representations and warranties to be made by each of the parties, and the importance of the representations made by Nationwide Mutual in the draft merger agreement. They also described the covenants in the draft merger agreement, including Harleysville Mutual's covenants relating to non-solicitation of alternative transactions, as well as Nationwide Mutual's commitments with respect to employees and maintaining a presence in Pennsylvania. They also identified the most significant conditions to closing. Finally, they discussed the procedures for termination of the merger agreement and noted that Harleysville Group's Board would have the right to terminate the Group Merger under certain circumstances in the event of receipt of a superior proposal. In addition, they noted that in certain circumstances, Harleysville Group could be required to pay to Nationwide Mutual a termination fee of \$29,588,535 plus reimbursement of expenses. They noted that this termination fee had been significantly reduced from Nationwide Mutual's original merger agreement proposal.

Following the joint meeting of the Boards, Harleysville Group's Board met separately with representatives of KBW and Fox Rothschild LLP. Representatives of Credit Suisse also attended that meeting.

Also, following the joint meeting of the Boards and the separate meeting of Harleysville Group's Board, Harleysville Mutual's Board met separately with representatives of Griffin, Stevens & Lee and Ballard Spahr LLP. Representatives of Credit Suisse also attended that meeting. Griffin discussed its view of the Merger and its consequences for the various Harleysville Mutual constituencies, and stated that, when requested, it was prepared to provide an opinion to Harleysville Mutual's Board as to the fairness of the Merger.

Griffin reviewed with Harleysville Mutual's Board the impact of the Merger on the Harleysville Mutual constituencies and made the following observations:

- With respect to policyholders as creditors, Griffin noted that Nationwide Mutual was an A+ rated company by A.M. Best, had a higher surplus than Harleysville, redundant reserves, strong liquidity and the prospect for stronger surplus generation and better capital market access than Harleysville would have as a standalone entity.
- With respect to policyholders as members, Griffin noted that Nationwide Mutual had the prospect for stronger surplus generation than Harleysville would have as a standalone entity, that its members have governance rights with respect to Nationwide Mutual that are comparable to the rights that Harleysville Mutual's members hold with respect to Harleysville Mutual, that its members enjoy a right to a distribution of surplus under Ohio law in the event of demutualization, compared to a stock subscription right as provided under Pennsylvania law, and that its members have more favorable rights upon a solvent liquidation of Nationwide Mutual than would the members of Harleysville Mutual upon a solvent liquidation of Harleysville Mutual.
- With respect to management, board and employees, Griffin noted that Nationwide Mutual had made a commitment to provide continued employment and the provision of strong employee benefit packages to Harleysville employees, and to provide all employees and directors with outstanding equity awards with the opportunity to receive cash payments for such equity awards, including those held by members of the Boards and senior management.
- With respect to the community, Griffin noted that Nationwide Mutual had made a commitment to maintain certain employment and charitable giving levels.
- With respect to agents, Griffin noted that Nationwide Mutual was an A+ rated company by A.M. Best, with a more extensive product suite than Harleysville, that should benefit Harleysville's agents.

In addition, Griffin discussed with Harleysville Mutual's Board various alternative transactions, including the advantages and disadvantages of each. In particular, Griffin compared the proposal made by Company B to the Nationwide Mutual proposal.

Following the Griffin presentation, Harleysville Mutual's Board next received a presentation from Stevens & Lee with respect to directors' fiduciary duties under Pennsylvania law. Stevens & Lee noted that, under Pennsylvania law, a director's duty is to the corporation only, and not to any particular constituency of the corporation, including policyholders. Stevens

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& Lee noted that the interests of Harleysville Mutual's various constituencies may be considered but that there was no duty to prioritize the interest of any specific constituency. Stevens & Lee indicated that it was prepared to render an opinion to the foregoing effect when requested.

Following the fiduciary duty presentation, Stevens & Lee also made a presentation with respect to the due diligence performed on Nationwide Mutual. The firm advised Harleysville Mutual's Board that nothing came to its attention to suggest any concern regarding Nationwide Mutual.

On September 28, 2011, the Special Transaction Committee of the Harleysville Group Board met to review the final terms of the draft merger agreement. Also in attendance were representatives of Credit Suisse, Fox Rothschild LLP, and KBW. In addition to the \$60 price per share to be paid to Harleysville Group's public stockholders, the Special Transaction Committee members also discussed certain of the key provisions of the draft merger agreement, including covenants relating to retention of employees and maintenance of the Harleysville presence in Pennsylvania and commitment to the Harleysville community. The Special Transaction Committee also considered the proposed retention packages for executives. Representatives of KBW confirmed that KBW was prepared to provide a fairness opinion on the Group Merger. After further discussion, the Special Transaction Committee determined to make a favorable recommendation to Harleysville Group's full Board with respect to the Group Merger.

Also on September 28, 2011, the Special Committee of Harleysville Mutual's Board met to review the final terms of the draft merger agreement. Also in attendance were representatives of Credit Suisse, Ballard Spahr LLP, Stevens & Lee, and Griffin. The Special Committee members discussed certain of the key provisions of the draft merger agreement, including the covenants relating to retention of employees and maintenance of the Harleysville presence in Pennsylvania and the commitment to the Harleysville community. The Special Committee also considered the proposed retention packages for executives. Representatives of Griffin confirmed that Griffin was prepared to provide a fairness opinion on the Merger and representatives of Stevens & Lee indicated that they were prepared to provide an opinion that Harleysville Mutual's Board would have discharged its fiduciary duties to Harleysville Mutual if it approved the Merger. After further discussion, the Special Committee determined to make a favorable recommendation to Harleysville Mutual's full Board with respect to the Merger.

In addition, on September 28, 2011, the Boards met jointly for the purpose of considering the draft merger agreement and the draft voting agreement with Nationwide Mutual. In addition to members of the Boards and senior management, in attendance were representatives of Credit Suisse, Griffin, KBW, Ballard Spahr LLP, Fox Rothschild LLP, and Stevens & Lee.

Credit Suisse described the dividend restriction covenant in the draft merger agreement, which permits the payment of a dividend for the third quarter, but provided that no further dividends would be payable without the consent of Nationwide Mutual. Fox Rothschild LLP and Ballard Spahr LLP highlighted some of the changes to the draft merger agreement since the last discussion with the Boards, including in respect of Nationwide Mutual's post-closing commitments.

Mr. Browne reminded the Boards of his interest in the Merger and the Group Merger by virtue of his anticipated retention agreement with Nationwide Mutual. The Boards were also aware of the interests of the other directors and executive officers in the Mergers.

The Board of Harleysville Group then commenced its meeting. KBW delivered its opinion to the Board of Harleysville Group that the consideration to be received in the Group Merger was fair, from a financial point of view, to the public stockholders of Harleysville Group.

The Special Transaction Committee of the Harleysville Group Board recommended to the Harleysville Group Board that it approve the Group Merger. Following discussion, the Board of Harleysville Group approved (with Mr. Browne abstaining) the Group Merger, including approving and adopting the merger agreement and approval of the voting agreement, and resolved to recommend to its stockholders that they vote their Harleysville Group shares in favor of the adoption of the merger agreement.

Harleysville Mutual's Board then commenced a meeting. Griffin delivered its fairness opinion, and Stevens & Lee delivered its legal opinion regarding the discharge of fiduciary duties of the Harleysville Mutual Board, both to the Harleysville Mutual Board. Ballard Spahr LLP indicated that it concurred with the Stevens & Lee opinion with respect to fiduciary duties.

The Special Committee of the Harleysville Mutual Board recommended to the Harleysville Mutual Board that it approve the Merger. Following discussion, the Board of Harleysville Mutual approved (with Mr. Browne abstaining) the Merger, including approving and adopting the merger agreement and the voting agreement and resolved to recommend to its policyholders that they approve the Merger.

On the evening of September 28, 2011, the parties executed the Merger Agreement and the Voting Agreement, and issued a joint press release on September 29, 2011.

### **Interests of Directors and Executive Officers in the Merger**

The directors of Harleysville Mutual and Harleysville Group and the executive officers of Harleysville Group may be deemed to have financial interests in the Group Merger that are in addition to, or different from, the interests of policyholders of Harleysville Mutual. The Harleysville Mutual Board of Directors was aware of these interests and considered them, among other matters, in approving the Mergers and the Merger Agreement.

The Harleysville Mutual Board of Directors is currently comprised of nine members. Of these nine directors, six also serve as directors of Harleysville Group. The six directors of Harleysville Mutual who are also members of the Harleysville Group board of directors are: W. Thacher Brown, Michael L. Browne, G. Lawrence Buhl, Jerry S. Rosenbloom, William W. Scranton, III, and William E. Storts.

## **Equity Ownership**

### ***Treatment of Equity Awards under the Merger Agreement***

Harleysville Group has awarded or granted stock options, restricted stock awards, restricted stock unit awards, performance stock awards and deferred stock units to its officers and employees and to members of the Board of Directors of each of Harleysville Mutual and Harleysville Group. The closing of the Group Merger under the terms of the Merger Agreement will have the following impact on such equity-based awards:

- Each outstanding stock option issued by Harleysville Group that is not already vested will become fully vested as of the effective time of the Group Merger, and each vested stock option will be cancelled in exchange for a payment equal to, for each share, \$60.00 minus the exercise price of such stock option (subject to reduction to satisfy applicable withholding tax obligations).
- Each share of or underlying a restricted stock, restricted stock unit, performance stock unit, or deferred stock award that is outstanding immediately prior to the effective time of the Group Merger, to the extent then unvested, will become fully vested and non-forfeitable and converted into the right to receive a cash payment of \$60.00 per share (without interest and less any applicable withholding taxes). Any performance-based unit awards for which the performance period is unmet will vest at the level of corporate performance identified by the Compensation and Personnel Development Committee as “target” (generally payout at 100% of the established number of shares). Performance-based awards can payout at percentages ranging from 0% to 200%.

### ***Already Owned Stock of Harleysville Group***

The directors and officers of Harleysville Mutual and Harleysville Group also own outstanding shares of Harleysville Group Common Stock. At the effective time of the Group Merger, all such shares will be converted into the right to receive a payment of \$60.00 per share in cash.

### ***Equity Ownership and Merger Consideration***

The following table shows, for each director of Harleysville Mutual and/or Harleysville Group, each named executive officer of Harleysville Group, and the other executive officers of Harleysville Group as a group, the aggregate number of shares owned or underlying existing stock option and stock awards, and the aggregate consideration each such person will receive in the Group Merger in cancellation of such equity interests if the Group Merger were to close on March 31, 2012 (assuming no acceleration of equity awards prior to such time):

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Name (1)	Owned Shares (2)	Shares Underlying Stock Options (3)	Shares Underlying Stock Awards (4)	Percent of Outstanding Shares (5)	Aggregate Merger Consideration (6)
Barbara A. Austell (Group only)	0	0	7,436	*	\$446,160.00
W. Thacher Brown (Both Boards)	39,889	7,500	15,792	*	\$3,614,837.50
G. Lawrence Buhl (Both Boards)	3,001	0	10,146	*	\$788,828.88
Nicholas DeBenedictis (Mutual only)	20,061	0	8,646	*	\$1,722,420.00
Ellen M. Dunn (Mutual only)	0	0	7,641	*	\$458,460.00
Miriam M. Graddick-Weir (Group only)	16,631	7,500	10,146	*	\$1,880,600.56
Michael L. Lapeyrouse (Mutual only)	95	5,000	10,146	*	\$806,441.82
Jerry S. Rosenbloom (Both Boards)	27,798	7,500	15,792	*	\$2,889,351.34
William W. Scranton III (Both Boards) (7)	7,083	7,500	10,146	*	\$1,307,699.08
William E. Storts (Both Boards)	19,983	0	10,146	*	\$1,807,740.00
Michael L. Browne (Both Boards) (NEO)	174,977	557,235	49,676	2.88%	\$28,258,906.82
Arthur E. Chandler (NEO)	21,550	80,760	9,960	*	\$3,993,143.05
Thomas E. Clark (NEO)	26,390	66,735	7,205	*	\$3,784,102.44
Kevin M. Toth (NEO)	17,460	65,182	8,600	*	\$3,262,546.99
Mark R. Cummins (NEO)	41,350	113,440	6,005	*	\$6,487,003.83
All other executive officers as a group (5 individuals)	50,123	183,299	29,630	*	\$9,775,886.75
<b>TOTAL</b>	<b>466,389</b>	<b>1,101,651</b>	<b>217,113</b>		<b>\$71,284,129.06</b>

\* Indicates ownership of less than 1.0%.

- (1) Identifies, for each director, the Board or Boards the individual serves on, and identifies the Harleysville Group named executive officers.
- (2) The "Owned Shares" column includes shares of restricted stock and shares underlying restricted stock units that are due to vest on February 19 and 21, 2012. In the case of performance-based restricted stock/restricted stock unit awards due to vest on February 19, 2012, it is assumed that the awards will vest at the target level of performance described above. Owned shares does not include a projection about the number of shares that will be acquired under the Harleysville Group Amended and Restated Employee Stock Purchase Plan at the end of the current subscription period under such plan. No projections are made as to shares or dollars that will be withheld in payment of taxes upon cancellation of equity awards.
- (3) Assumes that no stock options will be exercised between the date of this proxy statement and March 31, 2012. Based upon a calculation of \$60.00 per share minus the applicable exercise price per share. No projections are made as to shares or dollars that will be withheld in payment of taxes upon cancellation of equity awards.
- (4) Assumes no further restricted stock, restricted stock unit, performance stock or deferred stock unit awards will vest prior to March 31, 2012. No projections are made as to shares or dollars that will be withheld in payment of taxes upon cancellation of equity awards.
- (5) Based on outstanding shares assuming that all stock options and stock awards are vested and deemed outstanding as of March 31, 2012. Assumes that no additional equity awards will be made between the date of this proxy statement and March 31, 2012.
- (6) No projections are made as to shares or dollars that will be withheld in payment of taxes upon cancellation of stock option and stock awards.
- (7) Includes 2,500 shares of Harleysville Group Common Stock owned by his spouse.

### **Change-in-Control Agreements**

Harleysville Group has entered into an agreement with each of its executive officers which provides for severance compensation to be paid if both a “change in control” of Harleysville Group or Harleysville Mutual occurs and the executive officer’s employment is subsequently terminated (either by Harleysville Group without “cause” or by the executive officer for “good reason”). The agreements define “cause” as a failure by the executive officer to perform his or her duties or willful conduct that injures Harleysville Group, and define “good reason” as a substantial change in the status of the executive officer’s role with Harleysville Group, including a diminution of responsibilities, reduction in pay, failure to continue comparable incentive plans or other compensation or benefit plans, the failure of Harleysville Group to cause the assumption of the agreements by any successor to Harleysville Group, any involuntary termination of employment which is not effected by a properly crafted notice of termination, or a change of place of employment. In order for termination of employment to trigger the payment obligations, such termination must occur within three (3) years after a change in control for Mr. Browne or within two (2) years after a change in control for the other executive officers.

The Merger and the Group Merger, when consummated, will be a “change in control” under these change in control agreements. The definition of a change in control is set forth in the change in control agreements.

Severance compensation is paid under the change in control agreements only if a change in control actually occurs, and the executive officer has a qualifying termination event as described above (referred to as a “double trigger” event). The severance compensation to be paid: (1) to Mr. Browne, as President and Chief Executive Officer, is 2.99 times, and the compensation to be paid to the other executive officers is two times, the sum of the annual base salary and the average annual incentive target awards over the past three years; plus (2) if applicable, payment of a full “gross up” benefit, entitling the executive officer to receive funds to pay any resulting excise tax payable as a result of the severance compensation if such excise tax is incurred under Section 4999 of the Internal Revenue Code; (3) payment of any legal fees incurred by the executive officer as a result of the termination; and (4) continued eligibility to participate in health and welfare benefit plans comparable to those received prior to the change in control, for up to three years for Mr. Browne and for up to two years for the other executive officers. Such severance payments would be made in a lump sum within thirty (30) days after the date of termination, with the exception of benefits continuation, if applicable.

Any executive officer who does not enter into a retention bonus agreement with Harleysville Group will have his or her change-in-control agreement terminated in exchange for a payment equal to the amount the executive would have been paid under his or her change-in-control agreement as if terminated “without cause.”

### **Termination of the Change-in-Control Agreements; Retention Bonus Agreements**

Prior to the effective time of the Mergers, it is expected that Harleysville Group will have offered to enter into a retention bonus agreement with each of the following executive officers of Harleysville: Allan R. Becker, Michael L. Browne, Arthur E. Chandler, Thomas E. Clark, Mark

R. Cummins, Beth A. Friel, Arnold F. Herenstein, Robert A. Kauffman, Theodore A. Majewski and Kevin M. Toth. As consideration for entering into a retention bonus agreement, each of the executive officers will be asked to agree to the termination of his or her change-in-control agreement. As consideration for such termination of the change-in-control agreement, each executive officer will receive a payment in an amount equal to the payment the executive officer would have received if the executive officer had been terminated by Harleysville Group without cause or the executive officer would have terminated their employment for good reason, in each case, following the change in control (“CIC Payment”). The CIC Payment will be paid to the executive officer within one year following the closing date, provided that if the closing date occurs on or before June 1, 2012, the CIC Payment will be paid to the executive officer no later than December 31, 2012 (as applicable, the “CIC Payment Date”). If the executive officer is terminated other than for cause after the closing date but before payment of the CIC Payment or if the executive officer’s employment with Harleysville Group or any Nationwide Mutual entity terminates prior to the CIC Payment Date due to death or disability, the CIC Payment will be paid to the executive officer in full within 30 days following the executive officer’s date of termination. However, if the executive officer resigns or otherwise voluntarily leaves employment with Harleysville Group or Nationwide Mutual prior to the CIC Payment Date for any reason, the executive officer will not be eligible for, and will not receive, any part of the CIC Payment.

The retention bonus agreements will provide for retention bonuses of either one times or two times the sum of base salary plus the short-term incentive award(s), if any, actually paid to the executive officer attributable to the portion of the performance period(s) that occur(s) during the applicable retention period plus any outstanding short-term incentive award(s) eligible to be paid to the executive officer attributable to the portion of the performance period(s) that occur(s) during the retention period but that have not been paid as of the end of the retention period. The retention period will be 12 months from the closing date in the case of executive officers who will receive one times the payment, and 24 months in the case of executive officers who will receive two times the payment. Subject to the executive officer’s continued employment on the applicable anniversary of the closing date, the retention bonus will be paid as a gross lump sum, minus applicable withholding tax obligations, on or around (but not later than 60 days following) the applicable anniversary of the closing date. However, if the surviving corporation terminates the executive officer’s employment other than for cause, or the executive officer’s employment is terminated due to death or disability, in each case prior to the end of the retention period, the retention bonus will be paid within 60 days following the date of termination, with the bonus portion of the retention bonus being prorated based on the portion of the performance period(s) occurring during the retention period. The payment by Harleysville Group of the retention bonus is subject to the executive officer providing an effective release within 55 days after the date of termination.

From and after the closing date, the executive officers will also be eligible to participate in Nationwide Mutual’s long-term incentive compensation award program (the “Incentive Program”) in which similarly situated employees of Nationwide Mutual participate. In the event that Harleysville Group terminates the executive officer’s employment other than for cause or the executive officer retires prior to the end of a performance period under the Incentive Program, any award under the Incentive Program for that performance period shall be paid to the executive officer at the same time as awards under the Incentive Program are paid to similarly

situated Nationwide Mutual employees whose employment is not terminated, and such awards shall be prorated based on the number of days during the performance period that the executive officer was employed by Harleysville Group, and is subject to organizational performance determined at the end of the applicable performance period.

Under the retention bonus agreement, each of the executive officers will be subject to a non-compete covenant (during employment), a covenant not to solicit customers (for the two years following termination of employment), and a covenant not to solicit employees (during employment and for three years following termination of employment).

Unless otherwise waived, the obligations of Nationwide Mutual and Nationals Sub to complete the Merger are subject to the execution of a retention bonus agreement by Michael L. Browne.

The maximum aggregate compensation amount payable under the retention bonus packages shall not exceed \$25,000,000, exclusive of any gross-up payments that may be required with respect to payments under the change in control agreements. The terms of the retention bonus agreements are subject to further revisions based on the negotiations between Harleysville Group and each executive officer.

#### **Acceleration of Certain Compensation**

In order to preserve economic benefits to Harleysville Group and to Harleysville Mutual, and their respective stockholders and policyholders, of approximately \$14.0 million that would otherwise have been expended or lost in connection with excise taxes, lost tax deductions and tax “gross-up” payments associated with change in control payments made pursuant to the Mergers, on December 20, 2011, the Compensation and Personnel Development Committee of Harleysville Group (the “Committee”) approved, for five executive officers: (1) payment, on an accelerated basis, of 2011 cash bonuses, at a target level of performance (the “2011 Target Bonuses”), which 2011 Target Bonuses are committed to be paid by Nationwide Mutual to executive officers and other employees of Harleysville Group within 60 days after the closing of the Mergers; and (2) the vesting of time-based restricted stock/restricted stock unit awards held by certain executive officers (subject to transfer restrictions described below); and committed to accelerate, at the end of the performance period, certain performance-based restricted stock/restricted stock unit awards held by certain executive officers of Harleysville Group. The executive officers receiving such accelerated compensation include Michael L. Browne and Arthur E. Chandler. In addition, 2011 Target Bonuses and equity-based compensation that would otherwise be due to be paid to three additional executive officers of Harleysville Group were accelerated. Such accelerated compensation will be paid on December 30, 2011.

The 2011 Target Bonuses and the outstanding equity awards represent compensation that, but for the acceleration, would have been paid to the executive officers either on vesting dates arising at various times in 2012 or, if not paid earlier, at the time of or following the closing of the Group Merger. Harleysville Group believes that the acceleration in payment of such compensation is in the best interests of Harleysville Group, Harleysville Mutual and their respective stockholders and policyholders because it: (1) eliminates or reduces tax gross-up payments to certain employees that would otherwise be required under the terms of the existing

change-in-control agreements, and (2) preserves tax deductions that would otherwise be lost, in each case on account of the impact of Sections 280G and 4999 of the Internal Revenue Code. The tax gross-up payments that Harleysville Group avoids, and the tax deductions (after-tax ) that are preserved total approximately \$14.0 million, assuming a price of \$59.00 per share of Harleysville Group's common stock.

In connection with the acceleration of the 2011 Target Bonuses and the accelerated vesting of selected equity awards, Harleysville Group and each impacted executive will enter into a Change in Control Payment Acknowledgement and Agreement (the "Payment Agreement") that imposes significant transfer restrictions on the accelerated compensation. Under each Payment Agreement, each executive agrees to return the 2011 Target Bonus, less the Federal, state and local income and employment taxes paid by the executive with respect to the 2011 Target Bonus, if: (1) the Group Merger is not consummated and a change in control of Harleysville Group does not otherwise occur before the effective date of the termination of the Merger Agreement, or (2) if the executive's employment by Harleysville Group is terminated prior to the 60<sup>th</sup> day following the closing of the Group Merger for any reason other than termination by Harleysville Group without cause. In addition, in the event of a return of the 2011 Target Bonus compensation, the executive agrees to assign to Harleysville Group any and all rights to a refund for taxes paid, and to assist Harleysville Group in its pursuit of such refunds.

With respect to accelerated equity-based compensation, under each Payment Agreement each executive cannot transfer, assign, gift, pledge, hypothecate or otherwise transfer, for value or otherwise, any of the shares of common stock received until the earlier of the original vesting date of such shares or the closing date of the Group Merger.

Harleysville Group believes, after consultation with its internal and external legal and other advisors, that the acceleration preserves for Harleysville Group and Harleysville Mutual the economic benefit of approximately \$14.0 million that would otherwise be lost. The actions represent an acceleration of compensation, not payment of additional compensation to any of the executive officers of Harleysville Group. The actions taken were limited to only those executives for whom a potential excise tax gross-up and lost tax deduction would have been triggered by the closing of the Group Merger, and the affected executives are expected to remain with Harleysville Group after the closing of the Group Merger and have adequate incentive to do so.

### **Change-in Control Compensation**

Assuming that the Mergers are completed and that the five most highly compensated executive officers of Harleysville Group (the "named executive officers") became entitled to receive the CIC Payments and 2011 Target Bonuses described above, and become eligible to receive the full benefits available under their respective stock option and other equity-based award agreements, the named executive officers would receive approximately the amounts set forth in the table below, based on the \$60.00 per share cash consideration. The amounts indicated below are estimates based on certain assumptions that may or may not actually occur, including assumptions described in this proxy statement. As a result, the actual amounts, if any,

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to be received by a named executive officer may differ in material respects from the amounts set forth below.

The amounts set forth below are payable in connection with the consummation of the Mergers or upon a termination of employment, as detailed in the footnotes below.

	<b>Golden Parachute Compensation</b>					<b>Total</b>
	<b>Cash</b>	<b>Equity</b>	<b>Pension and Non-Qualified Deferred Compensation</b>	<b>Perquisites and Benefits</b>	<b>Tax Reimbursement</b>	
	<b>(\$)(1)</b>	<b>(\$)(2)</b>	<b>(\$)(3)</b>	<b>(\$)(4)</b>	<b>(\$)(5)</b>	<b>(\$)(6)</b>
<b>Michael L. Browne</b> President & Chief Executive Officer	4,003,841	5,479,442	1,717,856	144,794	0	11,345,933
<b>Arthur E. Chandler</b> Senior Vice-President & Chief Financial Officer	1,344,500	1,133,274	66,953	66,433	0	2,611,160
<b>Thomas E. Clark</b> Senior Vice President, Field Operations	1,044,167	810,528	28,961	64,950	0	1,948,606
<b>Mark R. Cummins</b> Executive Vice-President, Chief Investment Officer & Treasurer	1,059,024	655,026	462,852	70,542	0	2,247,443
<b>Kevin M. Toth</b> Senior Vice President & Chief Underwriting Officer	1,074,167	925,654	14,335	61,013	0	2,075,169

- (1) The cash column represents the sum of (a) the CIC Payment each named executive officer will receive upon a “double trigger” under the change in control agreements or as a “single trigger” change in control payment under circumstances described above, and (b) the 2011 target bonus under Harleysville Group’s Senior Executive Incentive Plan, which Nationwide Mutual agreed to pay within 60 days of the closing of the Merger, pursuant to the Merger Agreement, unless accelerated earlier as described under the heading “**Acceleration of Certain Compensation**” above.
- (2) The equity column represents the value of (a) stock options, to the extent unvested as of March 31, 2012, that will become vested in full and will be converted into the right to receive a cash payment equal to the excess, if any, of \$60.00 per share (without interest and less any applicable withholding taxes) over their respective exercise prices, multiplied by the number of shares subject to the stock option or stock appreciation right; (b) restricted shares outstanding, to the extent unvested as of March 31, 2012, that will be converted into the right to receive a cash payment of \$60.00 per share (without interest and less any applicable withholding taxes); and (c) restricted stock units and deferred stock units outstanding, to the extent unvested as of March 31, 2012, that will be converted into the right to receive a cash payment equal to the excess, if any, of \$60.00 per share (without interest and less any applicable withholding taxes) over their respective exercise prices. These are “single trigger” changes that apply to all such executive officers who have entered into retention bonus agreements with Harleysville Group and who remain employed by Harleysville Group on the date of the closing of the Group Merger. Equity awards will become payable as a result of the Group Merger and thus are deemed “single-trigger” payments. Any cash payments paid to executive officers who do not enter into retention bonus agreements whose employment is terminated will be deemed “double-trigger” payments. This also does not take into account the equity awards that will be accelerated as described under the heading “**Acceleration of Certain Compensation**” above.
- (3) The pension and non-qualified deferred compensation column represents the sum of (a) the estimated present value as of December 31, 2012 that each named executive officer will receive from Harleysville Group’s Supplemental Retirement Plan (SERP) calculated based on assumptions similar to those used to

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perform the actuarial valuations of the plans for accounting purposes under ASC 715, and (b) the payments that each named executive officer will receive from Harleysville Group's Non-Qualified Excess Contribution and Match Program (Excess Plan). For Mr. Browne, this amount includes the balance in his Corporate Owned Life Insurance (COLI) account (\$151,484). For each named executive officer, the deferred compensation amounts are totals as of November 30, 2011 and are subject to change prior to closing of the Group Merger, due to market value changes based on investment choices. Note that each named executive officer is entitled to this amount regardless of the Group Merger, but that, as a result of the Group Merger, the SERP and the Excess Plan will be terminated and the payments will be accelerated so that the named executive officer receives the distribution within 12 months of the Group Merger. Also note that if the SERP payments were calculated based on the assumptions defined in the plan document for the distribution of the present value of benefits when the value is not more than \$5,000, then the estimated present values as of December 31, 2012 would be as follows: Michael L. Browne (\$200,200), Arthur E. Chandler (\$14,700), Thomas E. Clark (\$4,300), Mark R. Cummins (\$239,900), and Robert A. Kauffman (\$3,700).

- (4) The perquisites and benefits column represents the fringe benefits to be paid if the named executive officer's employment is terminated. This includes the value of the COBRA subsidies that would be paid assuming that the double trigger gets triggered. Under the existing change in control agreements, termination must occur within three years of the change in control for Mr. Browne, and within two years of the change in control for the other executive officers.
- (5) Assumes the acceleration of various equity awards and 2011 Target Bonuses occurs as described above under "**Acceleration of Certain Compensation.**"
- (6) A brief description of the payments described above (including events triggering payments, the form of payment (lump sum or installment) and any material obligations regarding payments (including non-compete, non-solicitation, etc. agreements) are found above under "**Interests of Directors and Executive Officers in the Merger – Change-in-Control Agreements and – Termination of the Change-in-Control Agreements; Retention Bonus Agreements.**"

### **Qualified and Nonqualified Deferred Compensation Plans**

Harleysville sponsors and maintains (1) the Standard Deferred Compensation Plan for Directors of Harleysville Mutual Insurance Company and Harleysville Group Inc. (Amended and Restated as of January 1, 2008) (the "Directors' Plan"), (2) the Harleysville Group Inc. Non-Qualified Deferred Compensation Plan (amended and restated as of January 1, 2008) (the "Deferred Compensation Plan"), and (3) the Harleysville Group Inc. Supplemental Retirement Plan (amended and restated as of January 1, 2008) (the "SERP"). These plans provide directors and/or executive officers with deferral opportunities, including company contributions, to defer compensation earned in any given fiscal year to a later date. These plans are in addition to the qualified pension plan and retirement savings plus plan (401(k) plan) sponsored and maintained by Harleysville Group and to which all employees, including executive officers, are eligible to participate. The deferred payment date under the Deferred Compensation Plan and the SERP generally is the date upon which the executive officer terminates employment, dies or becomes disabled. The deferred payment date under the Directors' Plan generally is within 30 days following a change of control of Harleysville Mutual and Harleysville Group. No further benefits have accrued under the SERP since March 31, 2006. All of these plans will be terminated as of the closing date of the Group Merger. Participants in the plans will be eligible to receive their vested accrued benefits under the plans within one year after the closing date of the Group Merger, provided that if the closing date occurs on or before June 1, 2012, the

distribution from the SERP will be paid to the executive officers no later than December 31, 2012.

### **Indemnification and Insurance**

The Merger Agreement provides that all rights to indemnification currently existing in favor of all current or former directors, officers, employees or agents of Harleysville with respect to any losses, claims, damages, costs, expenses, liabilities and judgments, based on, arising, in whole or in part, out of, or otherwise in respect of, any action which was taken, or matter existing or, occurring on or prior to the effective time of the Mergers will survive the Mergers. These rights are those set forth in the governing charter documents of Harleysville Mutual and Harleysville Group or otherwise existing pursuant to law on the date of the Merger Agreement.

The Merger Agreement also provides that Nationwide Mutual will purchase “tail” directors’ and officers’ liability insurance coverage for a period of six years after the effective time of the Mergers, covering those persons who are currently covered by the directors’ and officers’ liability insurance policies of Harleysville Mutual and Harleysville Group. Such tail insurance coverage will be as comparable as possible (subject to limitations based on an established maximum premium) as current coverage.

### **Advisory Group Compensation**

All directors of Harleysville Mutual (except those members of the Special Litigation Committee described below under the heading “**Litigation Related to the Merger**”) and Harleysville Group immediately prior to the effective time of the Mergers will be invited to become members of an Advisory Group to Nationwide Mutual to be established after the effective time of the Mergers. In addition, three directors of Nationwide Mutual's board of directors, who will be selected by the Chairman of Nationwide Mutual's board of directors, will become members of such Advisory Group. Mr. Scranton will serve as Chairman of the Advisory Group, which will meet three times per year at Harleysville Group’s headquarters. Each member of the Advisory Group will serve for a term of at least two years. The members of the Advisory Group will be reimbursed for their out-of-pocket expenses, and each member will receive annual compensation of \$40,000 for service as a member of the Advisory Group, except for Mr. Scranton who will receive annual compensation of \$80,000 for serving as Chairman of the Advisory Group. The members of the Advisory Group will receive information with respect to the integration of Harleysville Group and Harleysville Mutual into Nationwide Mutual.

### **Litigation Related to the Mergers**

After the announcement of the Mergers, Harleysville Mutual received three letters on behalf of purported policyholders objecting to the Merger. Four lawsuits have been filed against Harleysville Mutual brought by purported policyholders challenging the proposed transaction.

In particular, on November 16, 2011, Harleysville Mutual received a letter from lawyers representing Roger Brown, a purported policyholder/member of Harleysville Mutual. The letter demanded that the Harleysville Mutual Board of Directors take appropriate action to correct alleged breaches of fiduciary duties by the directors of Harleysville Mutual which allegedly caused harm to Harleysville Mutual in connection with the Merger (the “Brown Demand”).

Among the actions sought by the Brown Demand were terminating the Merger Agreement, analyzing other merger or demutualization options that may be available to Harleysville Mutual, forming a committee of three new directors to oversee a potential change of control or other strategic alternative, and taking such other action as may be deemed in the best interest of the policyholders. On December 5, 2011, Mr. Brown filed suit against the directors of Harleysville Mutual, Harleysville Group, Nationwide Mutual and Nationals Sub, Inc. in the Court of Common Pleas of Montgomery County, Pennsylvania. The complaint asserts one derivative claim on behalf of Harleysville Mutual against the directors for breach of fiduciary duty and two putative class claims on behalf of the policyholders/members of Harleysville Mutual. The complaint generally alleges, among other things, that the director defendants breached their fiduciary duties by entering into the Merger Agreement because of conflicts of interest. It asserts that the non-director defendants, including Nationwide Mutual, aided and abetted those breaches of fiduciary duty by the directors. No response has yet been filed to this complaint and Plaintiff's counsel has filed a motion to transfer this case to Philadelphia County.

On November 22, 2011, another purported policyholder/member of Harleysville Mutual, OCL Corporation ("OCL"), filed a complaint in the Court of Common Pleas of Philadelphia County. The next day, OCL's counsel sent a letter to Harleysville Mutual's Board of Directors demanding that Harleysville Mutual take suitable corrective measures or other action with respect to the allegedly wrongful acts described in the OCL complaint (the "OCL Demand"). The complaint filed by OCL asserted one derivative claim on behalf of Harleysville Mutual, alleging that the directors of Harleysville Mutual breached their fiduciary duties in entering into the Merger Agreement. The OCL complaint also asserted putative class action claims on behalf of all policyholders of Harleysville Mutual asserting that the directors breached their fiduciary duties to the policyholders, that the Merger transaction was fundamentally unfair and asking that the Court impose a constructive trust on all of the Group Merger consideration to be paid by Nationwide Mutual to the stockholders of Harleysville Group so that the money could be distributed to the policyholders of Harleysville Mutual. On November 22, 2011, OCL also filed a motion for expedited discovery. On December 7, 2011, Harleysville Mutual filed preliminary objections seeking to dismiss the OCL complaint on a number of grounds, including that OCL lacked standing to sue because it was not a Harleysville Mutual policyholder/member. That same day, Harleysville Mutual also filed an opposition to the motion for expedited discovery and a cross-motion for a stay, based, in part, on the ground that Harleysville Mutual was in the process of establishing a Special Litigation Committee to review the OCL Demand and to issue a report on whether OCL should be permitted to proceed with its litigation. A hearing was held by the Court on the pending motions on December 12, 2011. Thereafter, on December 12, 2011, the Court entered an Order giving the parties until January 17, 2012 to take discovery and brief the standing to sue issue, requiring the Harleysville Mutual Special Litigation Committee to issue its report on or before January 17, 2012 and denying plaintiff's motion to take expedited discovery.

On December 1, 2011, Harleysville Mutual received another letter on behalf of a separate putative policyholder of Harleysville Mutual, Andrew Tignanelli, demanding that Harleysville Mutual take appropriate action to correct alleged breaches of fiduciary duty by the directors of Harleysville Mutual in connection with the Merger (the "Tignanelli Demand"). The Tignanelli Demand mirrored the Brown Demand described above. On December 16, 2011, Mr. Tignanelli filed a complaint in the court of Common Pleas of Philadelphia County, which was similar to the

complaint filed by Mr. Brown on December 5, 2011 described above. In addition to seeking injunctive and other equitable relief as in the Brown case, plaintiff Tignanelli included a count for declaratory relief seeking a declaration that the Harleysville Mutual Special Litigation Committee is unable to fulfill its mandate or otherwise protect the interests of Harleysville Mutual. Plaintiff has now also filed a motion for declaratory relief. No response has yet been filed to this complaint.

On December 6, 2011, without making any demand, another purported policyholder of Harleysville Mutual, 34 Butler Real Estate, LLC (“34 Butler”), filed another complaint in the Court of Common Pleas of Philadelphia County against the directors of Harleysville Mutual, Harleysville Mutual itself, Harleysville Group and Nationwide Mutual. The 34 Butler complaint contains the same allegations that the Harleysville Mutual Board of Directors breached their fiduciary duties in connection with the Merger and asserts several putative class action claims, including a request to enjoin the Merger, a claim for unjust enrichment, breach of duty, aiding and abetting a breach of duty and a request for a constructive trust. No response has yet been filed to this complaint.

As described above, in response to the demands and complaints, the Harleysville Mutual Board of Directors has established a Special Litigation Committee to investigate the claims set forth in the demands and complaints and to determine the most appropriate actions for Harleysville Mutual to take in response to them. The Special Litigation Committee will consist of three newly appointed independent directors.

In addition to these four actions, Harleysville Mutual is a named defendant in two additional legal actions brought against Harleysville. The first action, filed on October 4, 2011, is a putative class action complaint filed in the Court of Chancery of the State of Delaware, captioned *Louisiana Municipal Police Employees Retirement System v. Harleysville Group Inc., et al.*, and is brought against Harleysville Group, Harleysville Mutual, the directors of Harleysville Group, Nationwide Mutual and Nationals Sub as the named defendants. The second action, a putative class action complaint filed in the Court of Chancery of the State of Delaware, captioned *Eric H. Berger v. Harleysville Group Inc., et al.* was filed on October 6, 2011, against Harleysville Group, Harleysville Mutual, Harleysville Group’s directors, Nationwide Mutual and Nationals Sub as the named defendants. These two actions are substantially similar and were each purportedly brought on behalf of a class of stockholders. Each complaint alleges that: (1) Harleysville Group’s directors breached their fiduciary duties of care, loyalty, good faith, candor and independence; (2) Harleysville Group’s directors, through their acts, transactions and courses of conduct, are attempting to unfairly deprive Harleysville Group’s stockholders of the true value of their investment in the company; (3) there exists an imbalance and disparity of knowledge between the Harleysville Group directors and public stockholders which makes it inherently unfair for the directors to benefit from their own interests to the exclusion of maximizing stockholder value; (4) Harleysville Group’s directors failed to disclose to the plaintiffs all material information necessary to cast an informed stockholder vote on the proposed transaction; and (5) Nationwide Mutual and Nationals Sub aided and abetted the claimed breaches of fiduciary duties by the Harleysville Group directors. The plaintiffs in each action seek injunctive and other equitable relief, including a request that the court enjoin Harleysville Group from consummating the Group Merger, as well as damages, fees and costs. To date,

Harleysville Group has not filed an answer to either complaint, as these cases have been stayed by agreement of the parties.

The plaintiffs in both the Louisiana Municipal Police Employees Retirement System and the Berger cases are represented by the same law firm. Consequently, on October 21, 2011, the Court of Chancery of Delaware entered an order agreed to by counsel for the plaintiffs and counsel for Harleysville Group, Harleysville Mutual, Harleysville Group's directors, Nationwide Mutual and Nationals Sub consolidating both cases.

### **Opinion of the Financial Advisor to the Board of Directors of Harleysville Mutual**

Harleysville Mutual engaged Griffin Financial Group LLC ("Griffin") as its financial advisor in connection with the Merger and to (1) provide to the Board of Directors and to the special committee of the Board that was formed for the purpose of considering the Merger, its opinion as to whether the Merger is fair, from a financial point of view, to Harleysville Mutual; and (2) assist it in reviewing the impact of the Merger on the various constituents of Harleysville. Griffin is an investment banking firm that specializes, among other things, in representing financial institutions, including mutual insurance companies. In the ordinary course of its investment banking business, Griffin is regularly engaged in the representation of financial institutions, including mutual insurance companies, in connection with mergers and acquisitions and corporate finance transactions.

On September 28, 2011, Griffin delivered its written opinion to the Board of Directors of Harleysville Mutual and its special committee that, based upon certain analyses and studies it performed, and subject to certain assumptions and caveats outlined in its opinion and in its accompanying presentation, the Merger was fair to Harleysville Mutual from a financial point of view, as of that date.

The full text of Griffin's September 28, 2011 opinion is attached as Annex B to this proxy statement and is incorporated by reference herein. The opinion outlines the process and procedures Griffin followed, the information it reviewed, the analyses and studies it performed, the matters it considered, and the assumptions it made in arriving at its opinion. The description of the opinion set forth below is a summary of the material content of the opinion and is qualified in its entirety by reference to the full text of the opinion. Harleysville Mutual members are urged to read the entire opinion carefully prior to voting, in person or by proxy, at the Special Meeting.

In connection with arriving at its opinion, Griffin, among other things:

- reviewed the financial terms and conditions contained in a near-final draft of the Merger Agreement;
- reviewed legal opinions and related advice of legal counsel pertaining to (i) the duty owed by directors to Harleysville Mutual; (ii) the legal rights of Harleysville Mutual's members and members generally and in connection with the Merger; and (iii) the structure of the Merger;
- reviewed the Articles of Incorporation and Bylaws of each of Harleysville Mutual and Nationwide Mutual;

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- reviewed certain historical financial statements and related underwriting, operating, loss and loss adjustment expense (“LAE”) reserve, liquidity, capital generation and investment performance information of each of Harleysville Mutual and Nationwide Mutual;
- reviewed comparisons of each of Harleysville Mutual’s and Nationwide Mutual’s historical financial condition, operating performance, investment performance, capital generation, liquidity and loss and LAE reserve to the financial condition, operating performance, investment performance, capital generation, liquidity and loss and LAE reserve experience of insurance companies Griffin viewed as the peers of those insurers, respectively;
- modeled and reviewed with the management of Harleysville Mutual the pro forma financial information for Harleysville Mutual and Nationwide Mutual combined and the related assumptions;
- reviewed financial forecasts for Harleysville Mutual for 2012 and 2013, and discussed such forecasts and related assumptions with Harleysville Mutual’s management;
- reviewed the pooling agreement between Harleysville Mutual and Harleysville Group and their respective insurance subsidiaries and a summary of the pooling agreement between Nationwide Mutual and its affiliates and the effects thereof on the profitability and surplus of each of them;
- reviewed actuarial catastrophic loss data prepared for the period ended December 31, 2010 for each of Harleysville Mutual and Nationwide Mutual;
- compared the relevant financial terms of the Merger to the terms of certain historical (i) mergers of property and casualty mutual insurance companies; and (ii) purchases, by mutual insurance companies, of the minority equity interests held by public shareholders of majority owned insurance subsidiaries;
- reviewed and compared A.M. Best Financial Strength and Capital Adequacy ratings, S&P and Moodys’ credit rating information for each of Harleysville Mutual and Nationwide Mutual on a pooled basis, as well as related leverage and operating ratios;
- reviewed Nationwide Mutual’s merger and acquisition history;
- discussed Nationwide Mutual’s post-merger integration and related operating plans for Harleysville Mutual with management of each of Harleysville Mutual and Nationwide Mutual;
- discussed with Harleysville Mutual’s management the regulatory and economic environment in which Harleysville Mutual operates, the background and reasons for the Merger, the structure of the Merger, losses and potential losses, reserve adequacy and excess capital, investment and operating performance, capital adequacy, and the past, current and forecasted operating and financial condition of Harleysville Mutual;

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- performed analyses comparing the existing rights and attributes of Harleysville Mutual's (i) members to pro forma rights and attributes assuming the consummation of the Merger, (ii) management and employees to pro forma rights and attributes assuming the consummation of the Merger, and (iii) agent to pro forma rights and attributes assuming the consummation of the Merger;
- performed comparable transaction analyses; and
- reviewed such other information, performed such other financial studies, analyses and investigations and considered such other financial, economic and market criteria as Griffin considered relevant.

In making its review and performing its analyses, Griffin relied upon the accuracy and completeness of all of the financial, legal, actuarial and other information reviewed by it. Griffin did not make an independent evaluation or appraisal of the assets or the liabilities (contingent or otherwise) of Harleysville Mutual or Nationwide Mutual or any of their subsidiaries, nor was Griffin furnished with any such evaluations or appraisals. Griffin did not evaluate the financial solvency of Harleysville Mutual or Nationwide Mutual or of the pro forma combined company. Griffin is not an expert in the evaluation of reserves for insurance losses and LAE, and it did not make an independent evaluation of and expresses no opinion on the adequacy of the reserves of either Harleysville Mutual, Nationwide Mutual or the combined pro forma company.

With respect to the financial forecasts for 2012 and 2013 for Harleysville Mutual, Griffin assumed that they reflected the best currently available estimates and judgments of management of the future financial performance of Harleysville Mutual. Griffin also assumed that there had been no material change in Harleysville Mutual's assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to it. Griffin also assumed that, with respect to any provisions that would alter Griffin's opinion, the final Merger Agreement executed in connection with the Merger is identical, in all material respects, to the draft Merger Agreement Griffin reviewed prior to delivery of its opinion and that all of the representations and warranties set forth in the Merger Agreement were true and correct, that each party to the Merger Agreement would perform all of the covenants required to be performed by such party under the Agreement and that the conditions precedent to the consummation of the Merger in the Merger Agreement would be met by each party and not waived. With Harleysville Mutual's consent, Griffin relied upon the advice Harleysville Mutual received from its legal, accounting, actuarial, and tax advisors as to relevant legal, accounting, actuarial, and tax matters relating to the Merger.

Griffin is not an actuary and its services did not include any actuarial determinations or evaluations, or any attempt to evaluate, confirm or independently verify any actuarial estimates provided to Griffin or any assumptions on which they were based. Griffin reviewed and relied upon the actuarial reports for the year ended December 31, 2010 of Harleysville in forming its opinion. Griffin also reviewed the actuarial report of KPMG for Nationwide for 2010. Griffin's opinion assumed that such reports were accurate.

Griffin further assumed that all member, government, regulatory and other consents and approvals necessary for the completion of the Merger would be obtained without any adverse

effect on Harleysville Mutual or Nationwide Mutual or on the benefits contemplated by the Merger.

Griffin's opinion is necessarily based on financial, economic, market and other conditions and facts and circumstances that existed on, and the information made available to it as of September 28, 2011. Changes in such conditions and information occurring after September 28, 2011 could materially affect Griffin's opinion. Griffin has not undertaken to update, revise or reaffirm its opinion subsequent to its delivery on September 28, 2011.

Griffin's opinion is directed only to the fairness, from a financial point of view, of the Merger to Harleysville Mutual. It does not address the underlying business decision of Harleysville Mutual to engage in the Merger, the relative merits of the Merger as compared to any other alternative business strategies that might exist for Harleysville Mutual or the effect of any other transaction in which Harleysville Mutual might engage with Nationwide Mutual, a third party or otherwise, although Griffin in its capacity as financial advisor to Harleysville Mutual discussed such matters with the Board of Directors of Harleysville Mutual. In addition, Griffin expressed no opinion on, and its opinion did not address, the fairness of the consideration payable by Nationwide Mutual to stockholders of Harleysville Group in exchange for their equity interests (including directors, officers, and employees of Harleysville) and the amount of any compensation payable to them by reason of the Mergers.

In providing its September 28, 2011 opinion, Griffin performed a variety of financial and other analyses. The following is a summary of the approach and material analyses performed by Griffin that underlie its opinion, but is not a complete description thereof. This summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.**

The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate approach and methodology to follow and relevant analyses to be deployed under the particular circumstances to arrive at the opinion. The process, therefore, is not necessarily susceptible to summary description. Griffin believes that its analyses must be viewed as a whole and that considering one analysis or a portion thereof without considering all studies and analyses, or attempting to ascribe relative weights to some or all such analyses, could create an incomplete or flawed view of the process underlying its opinion.

#### Valuation Approach

Griffin's approach to determining whether the Merger is fair to Harleysville Mutual was dictated by a number of factors including principally its mutual structure. Because of its structure, Harleysville Mutual, absent demutualization, can legally merge only with another mutual entity. Also, because mutual insurance companies like Harleysville Mutual have no shareholders or other equity owners with economic interests similar to shareholders, consideration is not generally exchanged between any of the parties to such merger transactions. As a result, Griffin believed that traditional comparable company and comparable transaction analyses are not as meaningful in the case of mutual to mutual mergers as they are in mergers

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between shareholder-owned, stock companies. Griffin also believed that discounted cash flow or discounted dividend analyses are also not meaningful in analyzing mutual to mutual mergers like the Merger, because of (i) the absence, in a mutual structure, of holders of equity interests who are legally entitled to receive consideration for such equity interests at the date of the terminal event; and (ii) the difficulty of identifying and forecasting a likely terminal event and assigning terminal values. Therefore, Griffin focused on the financial and other economic impacts of the Merger on Harleysville Mutual and on each of its constituents both before and after the consummation of the Merger.

**Comparable Transactions Analysis**

Griffin reviewed the 15 publicly reported mergers between mutual insurance companies completed since 2005. This review indicated that no consideration was exchanged in connection with any such reported merger, so that pricing or valuation comparisons were not possible. This review also indicated that in all, or substantially all of these mergers, members were entitled to the right to vote, and nothing in the public record indicates that any member of a mutual insurance company that was a party to any of these mergers received any dividend or other distribution of value in connection with any of such mergers. The 15 publicly reported mergers are as follows:

Buyer Name/Target Name	Announce Date	Completion Date	Buyer Financials		Target Financials	
			Surplus (\$000)	Direct Premium Written (\$000)	Surplus (\$000)	Direct Premium Written (\$000)
Wolverine Mutual Insurance/Farmers' Mutual Insurance	5/1/2011	6/1/2011	13,430	33,775	908	1,717
Buckeye State Mutual Insurance/Middle Georgia Mutual Insurance	2/3/2011		21,162	62,000	6,392	7,189
Farmers Mutual Hail Insurance of Iowa/Central Iowa Mutual Insurance Assn.	1/19/2011	4/1/2011	335,280	452,046	NA	NA
Nodak Mutual Insurance/Battle Creek Mutual Insurance	11/22/2010	3/14/2011	79,612	107,021	517	7,408
Farmers Union Mutual Insurance/Town and Country Mutual Insurance	11/1/2010	1/1/2011	8,360	2,624	987	2,460
Austin Mutual Insurance/Cooperative Mutual Insurance	10/21/2010	1/1/2011	61,783	207,211	5,088	23,558
Columbian Mutual Life Insurance/Unity Mutual Life Insurance	10/8/2010	7/1/2011	88,761	160,631	16,004	37,429
New London County Mutual Insurance/Hingham Mutual Fire Insurance	6/9/2010	9/10/2010	386,193	585,968	41,321	39,787
Wisconsin Mutual Insurance/Hamburg-Stark Mutual Insurance	9/30/2009	9/30/2009	47,241	58,551	NA	NA
Providence Assn. of Ukrainian Catholics in America/Ukrainian Fraternal Assn.	6/17/2009	10/31/2009	NA	NA	NA	NA
Motorists Insurance Group/Phenix Mutual Fire Insurance	4/27/2009	11/12/2009	527,834	676,376	15,920	24,313
Windsor Mount Joy Mutual Insurance/Farmers' Mutual Fire Insurance of Dug Hill	12/22/2008	4/1/2009	25,216	23,711	NA	NA
Columbian Mutual Life Insurance/Farmers and Traders Life Insurance	1/15/2007	10/1/2007	43,219	76,527	31,830	41,517
Frankenmuth Mutual Insurance/Patriot Mutual Insurance	6/27/2006	7/1/2007	296,482	356,631	NA	NA
Columbian Mutual Life Insurance/Philanthropic Mutual Life Insurance	12/7/2005	2/28/2006	36,596	7,332	5,627	3,947

Source: SNL Financial. Does not include smaller, unreported mutual to mutual merger transactions.

Griffin identified two transactions in which a mutual insurance company owned or would own a majority of the outstanding stock of a publicly traded stock insurer and agreed to buy out the minority public shareholders for cash:

Buyer Name/Target Name	Announce Date	Completion Date	Percent Of Equity Ownership Acquired (%)	Deal Value (\$M)	Deal Value/Book Value (%)	Deal Value/Tangible Book Value (%)	Deal Earnings/Book Value (%)	Deal Premium/1 Day Before (%)	Deal Premium/2 Week Before (%)	Deal Premium/1 Month Before (%)	Deal Premium/3 Month Before (%)
								(%)	(%)	(%)	(%)
Nationwide Mutual Group/Nationwide Financial Services, Inc.	8/6/2008	1/1/2009	33.7	2,470.7	146.7	157.7	20.9	12.49	12.17	9.70	2.01
Alfa Mutual Group/Alfa Corporation	7/17/2007	4/15/2008	46.1	833.2	203.5	207.5	16.5	44.74	35.72	29.79	15.06
Nationwide Mutual Insurance Co./Harleysville Group Inc.	9/27/2011		46.5	811.5	208.3	214.7	33.6	88.21	128.40	108.41	92.49

Source: SNL Financial

Note: Premiums regarding proposed transaction are based off 9/26/2011 closing price of \$31.88.

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In both of these transactions, the members of the mutual company did not and will not receive a special distribution or dividend by reason of the transaction.

**Impact of Merger on Harleysville Mutual**

The following tables highlight Nationwide Mutual and Harleysville Mutual on a standalone basis, as well as on an estimated pro forma basis after giving effect to the impact of the Mergers.<sup>1</sup> The pro forma combined entity will have a larger capital base and is expected to be a higher and more stable earner, given diversification of distribution methods, product lines and geography.

Transaction Highlights			
	Nationwide Mutual	Harleysville Mutual	Pro Forma
<b>Statutory Balance Sheet (at 6/30/2011)</b>			
Total Assets	28,480,907	1,598,901	29,250,445
Loss Reserves	6,780,976	350,822	7,131,798
Loss Adjustment Expense Reserves	1,398,289	78,180	1,476,469
Total Loss and LAE Reserves	8,179,265	429,002	8,608,267
Unearned Premium Reserve	4,667,509	163,022	4,830,531
Total Liabilities	17,802,576	706,276	18,508,851
Surplus Notes	2,200,000	-	2,200,000
<b>Capital and Surplus</b>	<b>10,678,331</b>	<b>892,625</b>	<b>10,741,593</b>
<b>Statutory Income Statement (NMIC @ LTM 6/30/2011, HMIC @ 2011 Forecast)</b>			
Direct Premiums Written	3,541,076	301,938	3,843,014
Net Premiums Written	11,928,546	344,249	12,272,795
Net Premiums Earned	11,953,125	342,205	12,295,330
Net Loss and LAE Incurred	8,814,163	242,612	8,532,595
Net Underwriting Expense Incurred	4,083,672	116,276	4,204,199
Net Underwriting Gain (Loss)	(944,710)	(16,683)	(441,464)
Net Investment Income	382,853	39,000	392,488
<b>Net Income</b>	<b>(418,414)</b>	<b>16,988</b>	<b>128,597</b>

<sup>1</sup> Transaction assumptions include: (i) Harleysville Group acquisition deal value of approximately \$810 million, exclusive of stock options, restricted stock and other stock-based awards, (ii) Nationwide Mutual's financial results for the 12 months ended June 30, 2011, (iii) Harleysville Mutual's financial results based on management forecast for December 31, 2011, (iv) Nationwide Mutual's five year normalized Loss and LAE ratio of 68%, (v) 20% savings on Harleysville Mutual's reinsurance expense, (vi) deductions for advisory fees (financial and legal) and change in control payments, and (vii) tax rate of 35%.

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Pro Forma Highlights			
	Nationwide Mutual	Harleysville Mutual	Pro Forma
<b>Statutory Operating Ratios</b>			
Loss and LAE Ratio*	73.74%	70.90%	69.40%
Expense Ratio	34.23%	33.78%	34.26%
Policyholder Dividend Ratio	0.04%	0.29%	0.05%
Combined Ratio	108.02%	104.96%	103.70%
Return on C&S	-3.92%	1.90%	-0.42%
<b>Statutory Liquidity Ratios</b>			
Current Ratio	65.7%	121.8%	NA
Overall Ratio	160.2%	227.3%	158.03%
<b>Statutory Leverage Ratios</b>			
C&S / Assets	37.49%	55.83%	36.72%
Reserves / C&S	76.60%	48.06%	80.14%
NPW / C&S	111.71%	38.57%	114.25%

\*Pro forma Loss and LAE assumes Nationwide 5 yr normalized ratio @ 67.79%

The tables set forth below, which Griffin compiled based on information that it obtained from SNL Financial, show the pro forma market rank of the surviving company with respect to different product lines in different geographic markets.

Entity	Commercial Auto: State			Commercial Multiple Peril		
	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)
<b>Mid-Atlantic</b>						
Harleysville Mutual Ins. Co.	9	3.21	140,031	7	4.37	288,976
Nationwide Mutual Group	12	2.50	109,009	14	2.15	141,781
<b>Pro Forma</b>	<b>3</b>	<b>5.71</b>	<b>249,040</b>	<b>2</b>	<b>6.52</b>	<b>430,757</b>
<b>Midwest</b>						
Harleysville Mutual Ins. Co.	53	0.41	21,097	35	0.68	48,465
Nationwide Mutual Group	6	4.24	219,892	7	4.18	299,876
<b>Pro Forma</b>	<b>6</b>	<b>4.65</b>	<b>240,989</b>	<b>6</b>	<b>4.86</b>	<b>348,341</b>
<b>Northeast</b>						
Harleysville Mutual Ins. Co.	15	2.05	26,941	13	2.43	49,588
Nationwide Mutual Group	18	1.66	21,762	18	1.49	30,453
<b>Pro Forma</b>	<b>9</b>	<b>3.71</b>	<b>48,703</b>	<b>8</b>	<b>3.92</b>	<b>80,041</b>
<b>Southeast</b>						
Harleysville Mutual Ins. Co.	33	0.76	37,454	26	0.94	58,541
Nationwide Mutual Group	6	4.12	203,826	3	5.81	362,867
<b>Pro Forma</b>	<b>6</b>	<b>4.88</b>	<b>241,280</b>	<b>2</b>	<b>6.75</b>	<b>421,408</b>
<b>Southwest</b>						
Harleysville Mutual Ins. Co.						
Nationwide Mutual Group	7	3.51	119,370	6	5.13	201,432
<b>Pro Forma</b>	<b>7</b>	<b>3.51</b>	<b>119,370</b>	<b>6</b>	<b>5.13</b>	<b>201,432</b>
<b>West</b>						
Nationwide Mutual Group	4	5.96	240,496	7	5.17	338,889
<b>Pro Forma</b>	<b>4</b>	<b>5.96</b>	<b>240,496</b>	<b>7</b>	<b>5.17</b>	<b>338,889</b>

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Entity	Fire and Allied Lines Combined			Homeowners & Farmowners		
	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)
<b>Mid-Atlantic</b>						
Harleysville Mutual Ins. Co.	15	1.58	52,636	29	0.56	59,829
Nationwide Mutual Group	16	1.57	52,150	6	5.46	582,071
<b>Pro Forma</b>	<b>9</b>	<b>3.15</b>	<b>104,786</b>	<b>6</b>	<b>6.02</b>	<b>641,900</b>
<b>Midwest</b>						
Harleysville Mutual Ins. Co.	73	0.09	8,653	77	0.10	17,641
Nationwide Mutual Group	27	0.70	67,392	6	4.14	702,506
<b>Pro Forma</b>	<b>25</b>	<b>0.79</b>	<b>76,045</b>	<b>5</b>	<b>4.24</b>	<b>720,147</b>
<b>Northeast</b>						
Harleysville Mutual Ins. Co.	31	0.89	9,855	34	0.73	28,832
Nationwide Mutual Group	30	0.92	10,137	16	2.24	88,743
<b>Pro Forma</b>	<b>18</b>	<b>1.81</b>	<b>19,992</b>	<b>13</b>	<b>2.97</b>	<b>117,575</b>
<b>Southeast</b>						
Harleysville Mutual Ins. Co.	41	0.47	46,238	98	0.06	10,971
Nationwide Mutual Group	11	2.00	198,411	5	5.05	977,463
<b>Pro Forma</b>	<b>9</b>	<b>2.47</b>	<b>244,649</b>	<b>5</b>	<b>5.11</b>	<b>988,434</b>
<b>Southwest</b>						
Harleysville Mutual Ins. Co.	48	0.38	20,937			
Nationwide Mutual Group	23	1.38	76,520	7	2.55	279,144
<b>Pro Forma</b>	<b>20</b>	<b>1.76</b>	<b>97,457</b>	<b>7</b>	<b>2.55</b>	<b>279,144</b>
<b>West</b>						
Nationwide Mutual Group	13	2.03	132,337	7	3.79	453,499
<b>Pro Forma</b>	<b>13</b>	<b>2.03</b>	<b>132,337</b>	<b>7</b>	<b>3.79</b>	<b>453,499</b>

Entity	Marine Lines Combined			Other & Product Liability Combined		
	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)
<b>Mid-Atlantic</b>						
Harleysville Mutual Ins. Co.	38	0.49	13,592	47	0.37	40,742
Nationwide Mutual Group	27	0.79	22,048	9	2.65	289,052
<b>Pro Forma</b>	<b>18</b>	<b>1.28</b>	<b>35,640</b>	<b>9</b>	<b>3.02</b>	<b>329,794</b>
<b>Midwest</b>						
Harleysville Mutual Ins. Co.	68	0.18	5,431			
Nationwide Mutual Group	13	2.36	70,041	9	2.37	240,934
<b>Pro Forma</b>	<b>11</b>	<b>2.54</b>	<b>75,472</b>	<b>9</b>	<b>2.37</b>	<b>240,934</b>
<b>Northeast</b>						
Harleysville Mutual Ins. Co.	44	0.39	3,367	63	0.23	6,739
Nationwide Mutual Group	36	0.60	5,128	11	2.32	67,310
<b>Pro Forma</b>	<b>22</b>	<b>0.99</b>	<b>8,495</b>	<b>11</b>	<b>2.55</b>	<b>74,049</b>
<b>Southeast</b>						
Harleysville Mutual Ins. Co.	67	0.17	5,709	80	0.18	14,189
Nationwide Mutual Group	20	1.22	40,926	8	3.52	283,703
<b>Pro Forma</b>	<b>19</b>	<b>1.39</b>	<b>46,635</b>	<b>8</b>	<b>3.70</b>	<b>297,892</b>
<b>Southwest</b>						
Nationwide Mutual Group	30	0.80	20,597	9	2.65	168,463
<b>Pro Forma</b>	<b>30</b>	<b>0.80</b>	<b>20,597</b>	<b>9</b>	<b>2.65</b>	<b>168,463</b>

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Entity	Marine Lines Combined			Other & Product Liability Combined		
	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)
<b>West</b>						
Harleysville Mutual Ins. Co.	78	0.06	1,818			
Nationwide Mutual Group	13	1.68	52,111	8	3.42	313,970
<b>Pro Forma</b>	<b>13</b>	<b>1.74</b>	<b>53,929</b>	<b>8</b>	<b>3.42</b>	<b>313,970</b>

Entity	Private Auto: State			Workers' Compensation		
	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)	2010 Rank	Market Share by DPW (%)	Direct Premiums Written (\$000)
<b>Mid-Atlantic</b>						
Harleysville Mutual Ins. Co.	36	0.23	63,274	21	0.78	63,476
Nationwide Mutual Group	6	5.50	1,542,935	31	0.46	37,183
<b>Pro Forma</b>	<b>6</b>	<b>5.73</b>	<b>1,606,209</b>	<b>15</b>	<b>1.24</b>	<b>100,659</b>
<b>Midwest</b>						
Harleysville Mutual Ins. Co.	80	0.07	25,279	72	0.18	15,101
Nationwide Mutual Group	7	4.02	1,370,517	19	1.55	129,760
<b>Pro Forma</b>	<b>6</b>	<b>4.09</b>	<b>1,395,796</b>	<b>17</b>	<b>1.73</b>	<b>144,861</b>
<b>Northeast</b>						
Harleysville Mutual Ins. Co.	32	0.26	21,952	38	0.30	6,335
Nationwide Mutual Group	14	2.54	211,295	55	0.08	1,607
<b>Pro Forma</b>	<b>14</b>	<b>2.80</b>	<b>233,247</b>	<b>35</b>	<b>0.38</b>	<b>7,942</b>
<b>Southeast</b>						
Harleysville Mutual Ins. Co.	83	0.05	17,897	57	0.23	15,289
Nationwide Mutual Group	5	6.78	2,548,189	38	0.50	33,405
<b>Pro Forma</b>	<b>5</b>	<b>6.83</b>	<b>2,566,086</b>	<b>28</b>	<b>0.73</b>	<b>48,694</b>
<b>Southwest</b>						
Nationwide Mutual Group	8	2.44	579,663	59	0.13	5,395
<b>Pro Forma</b>	<b>8</b>	<b>2.44</b>	<b>579,663</b>	<b>59</b>	<b>0.13</b>	<b>5,395</b>
<b>West</b>						
Harleysville Mutual Ins. Co.						
Nationwide Mutual Group	11	2.43	784,630	74	0.04	3,407
<b>Pro Forma</b>	<b>11</b>	<b>2.43</b>	<b>784,630</b>	<b>74</b>	<b>0.04</b>	<b>3,407</b>

Based on the preceding analysis, Griffin concluded that members of Harleysville Mutual will realize the following benefits from the Merger:

- *Financial Stability*
  - (i) A higher A.M. Best Financial Strength Rating and Financial Size Category, which should enhance its claims paying ability and thus, credibility with potential members, agents, and reinsurers, notwithstanding a decline in the A.M. Best's Capital Adequacy Ratio ("BCAR"); and (ii) higher S&P, Moodys' and Fitch debt ratings which should enhance its ability to access the capital markets (see analyses below);
  - Diversification of risk via diversification of business lines and geography; and
  - Significantly larger capital base and stronger reserve position.

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- *Increased Profitability and Building of Surplus*
  - Increased size, scale and the opportunity to leverage fixed costs over a much larger organization and revenue base;
  - Opportunity for improved earnings through cost savings and revenue enhancements; and
  - A more favorable pooling agreement and its related impact on earnings and surplus.

*Impact of Merger on Harleysville Mutual Constituents: Members and Creditors*

Griffin considered the effect of the Merger on members in their capacity as potential claimants or creditors of Harleysville Mutual, as well as the effect of the Merger on other creditors of Harleysville Mutual. With respect to members as claimants, Griffin believed that the claims paying ability of the combined entity will be stronger than Harleysville Mutual on a standalone basis because of the pro forma combined company's increased surplus, profitability and ability to compete in more geographic markets and in more product lines, and a more favorable pooling agreement, as well as potential cost reductions eventually inherent in the Merger. Cross-selling potential and other revenue enhancements should also increase pro forma revenue, profitability, surplus and claims paying ability. Griffin also believed that the broader geographic footprint of the combined entity and its greater size and scale should diversify the risk of catastrophic losses, as well as spread fixed costs over a wider revenue base. Griffin also determined that the pro forma combined mutual should be better positioned to pay trade accounts payable and service debt than Harleysville Mutual on a standalone basis due to many of the reasons set forth above.

Griffin further considered the positive impact of the Merger on members and creditors as evidenced by the stronger standalone credit ratings of Nationwide Mutual. For example, Nationwide Mutual is rated "A+" by S&P with respect to its long-term issuer rating, while Harleysville Mutual is rated two notches lower, or "A-." Griffin concurred with the assessment of Harleysville Mutual's management that Nationwide Mutual's higher ratings should not adversely change as a result of the Merger. Griffin also noted that Nationwide Mutual's S&P rating was recently upgraded to "stable" from "negative."<sup>2</sup>

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<sup>2</sup> Nationwide Mutual's A+ A.M. Best rating carries a "negative" outlook.

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Credit Ratings	Nationwide Mutual Insurance Company			Harleysville Mutual Insurance Company		
	S&P	Moody's	Fitch Ratings	S&P	Moody's	Fitch Ratings
Long-term Issuer	A+		A-	A-		
Subordinated Debt	A-	A3	BBB			
Credit Ratings	Nationwide Financial Services, Inc.			Harleysville Group, Inc.		
	S&P	Moody's	Fitch Ratings	S&P	Moody's	Fitch Ratings
Long-term Issuer	BBB+		BBB+	BBB-		
Senior Unsecured	BBB+	Baa1	BBB	BBB-	Baa2	
Subordinated Debt	BBB	Baa2				
Trust Preferred	BBB-	Baa2	BB+			
Credit Ratings	Nationwide Life Insurance Company			Harleysville Life Insurance Company		
	S&P	Moody's	Fitch Ratings	S&P	Moody's	Fitch Ratings
Long-term Issuer	A+		F1			
Short-term/Commercial Paper	A-1	P-1				

Griffin also reviewed and compared key leverage ratios and the A.M. Best financial strength and capital adequacy ratings of each of Harleysville Mutual and Nationwide Mutual and found Nationwide Mutual's rating to be superior and not likely to change as a result of the Merger.

Entity	A.M. Best			Leverage Ratios			
	Financial Strength	Financial Size	BCAR	C&S/ Assets %	Reserves / C&S %	NPW / C&S %	Liabilities / C&S %
Harleysville Mutual	A	XII	309.6	55.8%	48.1%	38.6%	79.1%
Nationwide Mutual	A+	XV	231.4	37.5%	76.6%	111.7%	166.7%
Pro Forma	A+	XV	222*	36.7%	80.1%	114.3%	172.3%

\*BCAR immediately post transaction, is estimated by Harleysville to be 222. It is estimated to be 235 at 12/21/2012.

Griffin also reviewed the reported loss and LAE reserves of each of Harleysville and Nationwide. An insurance company establishes a liability on its balance sheet for the estimated unpaid losses on policies of insurance issued by it and expenses associated with adjusting those losses (LAE). Reserves include amounts determined on the basis of claim evaluations and an amount based on past experience for losses incurred but not reported. Loss and LAE reserves are determined using a variety of actuarial methods that produce a range of possible liabilities. An insurance company then selects an amount of loss and LAE reserves to record as a liability on its balance sheet within the actuarial range. The methods used to estimate the reserves for unpaid losses and LAE are reviewed periodically and any adjustments resulting therefrom are reflected in current operations. Estimating the ultimate liability for loss and LAE reserves is necessarily a complex and judgmental process inasmuch as the amounts are based on management's informed estimates and judgments using data currently available. If ultimate losses, net of reinsurance, prove to be less than the amounts recorded, a company is said to have favorable loss development. Conversely, if ultimate losses, net of reinsurance, prove to be greater than the amounts recorded, a company is said to have had unfavorable loss development. Griffin reviewed the reported loss and LAE reserves of each of Harleysville and Nationwide with a view to determining the reserving practices and adequacy of loss and LAE reserves. Griffin did not perform any separate actuarial analysis of reserves.

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Actuarial 12/31/2010	Harleysville P&C Group			Nationwide P&C Group		
	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008
High end of range	2,227	2,199	2,175	12,898	13,360	13,231
Low end of range	1,623	1,623	1,626	11,128	11,490	11,492
Carried	2,006	2,004	2,006	11,894	12,314	12,222
Spread of range	604	576	549	1,770	1,870	1,739
Carried above low	383	381	380	766	824	730
Percentage inside range	63.4%	66.2%	69.2%	43.3%	44.1%	42.0%
Range as a percentage of Carried	30.1%	28.7%	27.4%	14.9%	15.2%	14.2%

Although Harleysville Mutual is currently and has historically been reserved at a higher level than Nationwide Mutual when considering the ranges determined by their respective actuaries, Nationwide Mutual appears to be more than adequately reserved. Also, Harleysville Mutual appears to be trending downward relative to the range and has experienced declining favorable development. By contrast, Nationwide Mutual has experienced consistent and meaningful favorable development.

Harleysville Mutual (P&C Group)				
Acc. Year	End of Acc. Year	As of 12/31/2010	(Fav) Unfav Devlp.	(Fav) Unfav Devlp. (%)
2001	673	734	61	9.06%
2002	640	641	1	0.16%
2003	780	696	-84	-10.77%
2004	734	626	-108	-14.71%
2005	721	637	-84	-11.65%
2006	693	621	-72	-10.39%
2007	682	676	-6	-0.88%
2008	729	723	-6	-0.82%
2009	665	662	-3	-0.45%
2010	730	730	0	0.00%
			-301	-4.76%

Nationwide Mutual (P&C Group)				
Acc. Year	End of Acc. Year	As of 12/31/2010	(Fav) Unfav Devlp.	Difference (%)
2001	7,539	7,492	-47	-0.62%
2002	7,423	7,372	-51	-0.69%
2003	7,823	7,518	-305	-3.90%
2004	8,352	8,144	-208	-2.49%
2005	8,586	8,379	-207	-2.41%
2006	8,617	8,472	-145	-1.68%
2007	9,131	8,984	-147	-1.61%
2008	10,343	10,294	-49	-0.47%
2009	9,801	9,520	-281	-2.87%
2010	9,375	9,375	0	0.00%
			-1,440	-1.86%

Based on the foregoing, Griffin concluded that Nationwide Mutual has (and based on recent historical financial information, the pro forma company should have) adequate loss and LAE reserves.

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Griffin reviewed data supplied by Harleysville Mutual and Nationwide Mutual on the effect of a 100 and 250 year catastrophic event gross and net of reinsurance and the net effect on surplus.

Cat Losses Return Period	Harleysville Surplus: \$1,307,039			Nationwide Surplus: \$13,103,389		
	Gross	Net	Net % of Surplus	Gross	Net	Net % of Surplus
100 years	369	144	11%	3,263	2,269	17%
250 years	786	443	34%	4,431	3,058	23%

Griffin noted that the effect on surplus, net of reinsurance, of a 100 year event was slightly more significant to Nationwide Mutual compared to Harleysville Mutual. But in this regard, Griffin also noted that Nationwide Mutual has a materially greater surplus position compared to Harleysville Mutual and Griffin found Nationwide Mutual to be better positioned to withstand a catastrophic 100 year event. By contrast, Griffin also noted that Harleysville Mutual was forecasted to sustain a loss of 34% of surplus compared to a loss of 23% of surplus for Nationwide Mutual in the event of a 250 year catastrophic loss.

Based upon the foregoing, Griffin concluded that Nationwide Mutual and the pro forma combined company will be better positioned to pay member claims in the event of a significant catastrophic loss than Harleysville Mutual on a standalone basis.

Griffin also noted that, pursuant to the Merger, all Harleysville Mutual policies in force will become policies of Nationwide Mutual, and renewal and premium levels will be subject to Nationwide Mutual policies and procedures, and are not guaranteed, similar to the current arrangement at Harleysville Mutual.

Griffin had assumed that Harleysville Mutual will join the Nationwide Group company pool consisting of 28 companies where currently 84% of premiums, losses and LAE are allocated to Nationwide Mutual, and Harleysville Mutual's policyholders will become policyholders of Nationwide Mutual, the dominant pool member. This contrasts with the current sharing of premiums losses and LAE with Harleysville Group on a basis that gives Harleysville Mutual 20% of premiums, losses and LAE.

Accordingly, Griffin forecasted that surplus, which represents the last source for the payment of claims (after loss and LAE reserve are exhausted), would build at a faster rate in Nationwide Mutual compared to Harleysville Mutual and therefore reduce the risk that the claims of policyholders, including those of policyholders who had been Harleysville Mutual members, could not be paid.

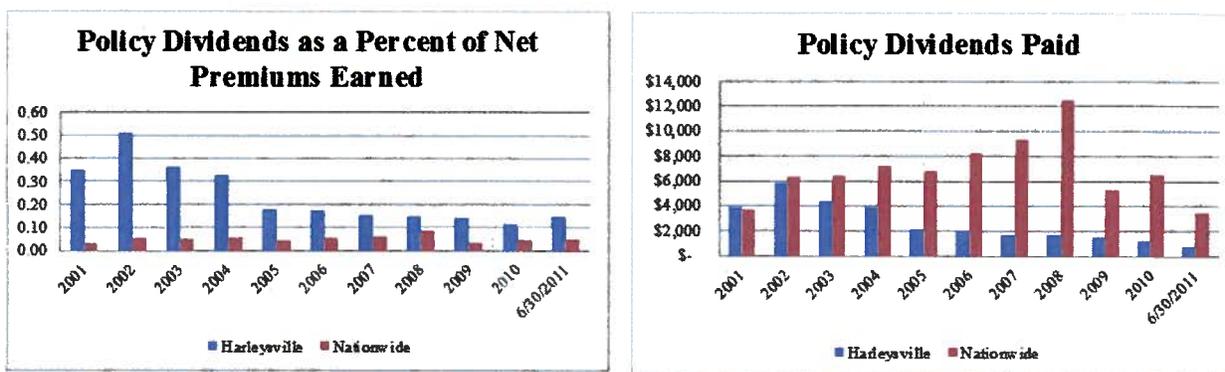
**Impact of Merger on Harleysville Mutual Constituents: Policyholders as Members**

Griffin understood that policyholders in their capacity as members of Harleysville Mutual have certain limited rights, including the right to vote for directors, the right to dividends (if and when declared), the right to vote on fundamental transactions (such as a merger or a

demutualization) and certain other substantive rights in the event of a voluntary liquidation or a demutualization.

Harleysville Mutual members, as a result of the Merger, will become members of Nationwide Mutual and as such will have voting rights as to directors and as to fundamental transactions with respect to Nationwide Mutual that are similar to the rights that they have as members of Harleysville Mutual.

The historical dividend expense of Harleysville Mutual and Nationwide Mutual is set forth below:



Although both companies pay “dividends,” such dividends actually constitute retroactive experience-based return of premium with respect to workers compensation policies. Neither Harleysville Mutual nor Nationwide Mutual typically pays dividends on personal or other commercial lines policies. Harleysville Mutual also has a non-guaranteed dividend program for its Pennsylvania School Bus Transportation Program, but has not paid a dividend recently because policyholders have failed to achieve certain experience thresholds. Because neither pays dividends to all or any class of policyholders based upon earnings or profits or any other metric other than loss experience, Griffin concluded that Harleysville Mutual policyholders’ rights to receive dividends as if and when declared likely will not change materially when they become members of Nationwide Mutual.

Griffin understood that policyholders of a mutual insurance company incorporated in Pennsylvania have no claim on the mutual’s surplus or equity except, perhaps, in connection with a voluntary liquidation. Griffin could find no recent historical precedent for voluntary liquidation of a solvent insurance company in Pennsylvania or elsewhere in the U.S., and therefore concluded that such liquidations are very rare. Griffin also understood that Pennsylvania law is ambiguous as to what rights policyholders enjoy in connection with a voluntary liquidation, with one statute suggesting that the excess of liquidation proceeds over liabilities belongs to policyholders, and another suggesting that it belongs to the Commonwealth of Pennsylvania. Griffin also understood that applicable Ohio law, the state of Nationwide Mutual’s incorporation, provides that such excess of assets less liabilities in the event of a voluntary liquidation belongs to the policyholders. Thus, Griffin concluded that the Merger should preserve and potentially enhance the rights of policyholders to a share of the surplus in the event of a voluntary liquidation of Nationwide Mutual. Because a comparison of the surplus available to a policyholder/member of Harleysville Mutual in a voluntary liquidation of a solvent

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Harleysville Mutual to the surplus available to such policyholder upon a voluntary liquidation of a solvent Nationwide Mutual can be only based upon comprehensive and detailed actuarial analyses, and because Griffin was unable to obtain the data necessary to perform such analyses, Griffin assumed for the purpose of issuing its opinion that such a comparison would be adverse to Harleysville Mutual policyholders. However, because the possibility of a voluntary liquidation of either a solvent Harleysville Mutual or a solvent Nationwide Mutual is remote, Griffin believes that such assumed negative comparison should not be viewed as material.

Based on information Griffin was furnished concerning the demutualization statutes of Pennsylvania and Ohio, Griffin concluded that the Merger will enhance policyholder rights in the event of a demutualization of Nationwide Mutual. As a member of a Pennsylvania mutual, a Harleysville Mutual policyholder receives no cash or equity, but only a first right to purchase stock at a price based upon an independent appraisal. In contrast, as members of an Ohio mutual, policyholders would receive a distribution of stock or other property in the event of a demutualization without any payment.

The following table summarizes the effect of the Merger on Harleysville Mutual policyholders in their capacity as members.

	Harleysville Mutual	Nationwide Mutual
<b>Right to vote for directors</b>	Yes	Yes
<b>Right to dividends as if and when declared</b>	Yes	Yes
<b>Right to vote on fundamental transactions</b>	Yes – members must vote on mergers and demutualizations	Yes – members must vote on mergers and demutualizations
<b>Rights upon voluntary liquidation</b>	Unclear	Entitled to share in surplus distribution
<b>Rights upon demutualization</b>	Subscription rights – members receive the first right to buy stock of the converting mutual or an unaffiliated sponsor, based upon an appraisal value but get no distribution of surplus	Right to distribution of surplus

Based upon the foregoing, Griffin believed that the rights of Harleysville Mutual policyholders/members should be enhanced upon becoming policyholders/members of Nationwide Mutual.

*Impact of Merger on Harleystown Mutual Constituents: Employees, Officers, and Management*

The Merger appeared to Griffin to be materially positive to employees, officers and management. Griffin understood that Nationwide Mutual has agreed to substantially maintain or exceed the overall number of employees, as of the date of the Merger Agreement, at Harleystown Group's headquarters in Harleystown, Pennsylvania and will not cause a reduction in force to occur at the Worcester, Massachusetts location. Outstanding options, warrants and similar rights of Harleystown Group held by employees, directors and officers of Harleystown Mutual become fully vested at the time of the Merger, and in-the-money holdings will be converted to the right to receive cash. Outstanding restricted stock, restricted stock unit awards, performance stock unit awards, and deferred stock unit awards, of Harleystown Group and other such rights held by employees, directors, officers and management of Harleystown Mutual become fully vested at the time of the Merger, and all outstanding shares will be cancelled and converted into the right to receive cash. Payments of approximately \$7.2 million in outstanding contracts are to be made to officers in exchange for a waiver of the right to terminate employment. In connection with the Merger, target bonuses for 2011 under the executive compensation arrangements are to be made, and retention bonuses are to be offered to certain current executive level Harleystown Group employees.

The combined Harleystown Mutual/Nationwide Mutual will have a board of directors consisting of the board of directors of Nationwide Mutual. Certain members of the boards of directors of Harleystown Group, Harleystown Mutual and Nationwide Mutual will form an advisory group to Nationwide Mutual after the Merger. Nationwide Mutual is required to purchase a directors and officers liability insurance policy "tail" for Harleystown Mutual's Board of Directors and Harleystown Group's Board of Directors covering a six year period following the closing of the Mergers.

*Impact of Merger on Harleystown Mutual Constituents: Community*

As noted above, Nationwide Mutual agreed to substantially maintain or exceed the overall number of employees, as of the date of the Merger Agreement, at Harleystown Group's headquarters in Harleystown, Pennsylvania for at least two years following the closing of the Merger, and agreed not to cause a reduction in force to occur at the Worcester, Massachusetts location for a similar period. Nationwide Mutual also agreed to maintain, for at least two years following the closing of the Merger, the historic levels of Harleystown Mutual and Harleystown Group charitable giving since September 30, 2010.

Finally, Harleystown Mutual management believes the anticipated preservation of Harleystown Mutual's operations and business model will lead to the preservation of civic involvement.

Thus, the Merger appeared to Griffin to be materially positive to the communities in which Harleystown Mutual is located.

*Impact of Merger on Harleysville Mutual Constituents: Agents*

Griffin believed that Nationwide Mutual’s captive agency force is not as substantial in the Mid-Atlantic and Northeast as it is elsewhere in the United States. Furthermore, Griffin believed that Nationwide Mutual intends that Harleysville Mutual be its independent agency platform in the Mid-Atlantic and Northeast. Therefore, Griffin concluded that the Merger should not result in any material distribution channel conflict.

Griffin believed that Nationwide Mutual’s superior (A+) A.M. Best rating should provide independent Harleysville Mutual agents with an opportunity for increased commissions based on increased sales. In addition, Griffin believed that Harleysville Mutual agents will have significant opportunities to cross-sell Nationwide Mutual’s products and services through and to their customer bases.

Thus, Griffin concluded that the Merger appeared to be beneficial to Harleysville Mutual’s agents.

*Summary of Impacts on Constituencies*

Members (claims payout)	<ul style="list-style-type: none"> <li>- ‘A+’ rated company</li> <li>- Stronger surplus</li> <li>- Strong reserve position</li> <li>- Stronger liquidity</li> <li>- Prospect for stronger surplus generation and capital market access</li> <li>- Increased Size and Scale</li> </ul>
Policyholders as Members	<ul style="list-style-type: none"> <li>- Prospect for stronger surplus generation</li> <li>- Comparable governance rights other than demutualization</li> <li>- Better rights in connection with demutualization</li> <li>- Better rights upon solvent liquidation</li> </ul>
Employees & Management	<ul style="list-style-type: none"> <li>- Commitment to continued employment</li> <li>- Honoring or buying out existing contracts</li> <li>- Strong employee benefits packages</li> </ul>
Community	<ul style="list-style-type: none"> <li>- Commitment to maintain jobs and charitable giving</li> <li>- Commitment to maintain operations means preservation of company and continued employee civic involvement</li> </ul>
Agents	<ul style="list-style-type: none"> <li>- ‘A+’ rated company</li> <li>- Stronger product suite</li> <li>- Little channel conflict with captive agents</li> </ul>

Griffin was entitled to receive for its opinion, and was paid, a fee of \$2 million from Harleysville Mutual, regardless of the conclusion reached and regardless of whether or not the Merger closes. In addition, Griffin will be entitled to receive from Harleysville Mutual a fee of \$750,000 for financial advisory services, contingent upon the closing of the Merger. Harleysville Mutual has agreed to provide Griffin with customary indemnification for certain

liabilities under certain circumstances arising from the engagement. During the two years preceding September 28, 2011, Griffin did not have a formal investment banking relationship with Harleysville Mutual, Harleysville Group or Nationwide Mutual and has not received fees from any of them. Griffin was selected by Harleysville Mutual to advise it in connection with the Merger because of its qualifications, expertise and reputation in providing investment banking services to mutual insurance companies. Griffin is affiliated with Stevens & Lee, special legal counsel engaged by Harleysville Mutual in connection with the Merger. Stevens & Lee will be paid its customary fees for the time it spends on the engagement.

Griffin's opinion was approved by Griffin's fairness opinion committee, and was utilized by the Special Committee and the Board of Directors of Harleysville Mutual in connection with and for the purposes of its evaluation of the Merger. Griffin's opinion is not intended to constitute a recommendation to any member of Harleysville Mutual as to how that member should vote with respect to the Merger or on any other matter.

### **Recommendation of the Board of Directors of Harleysville Mutual**

On September 28, 2011, the Board of Directors of Harleysville Mutual approved and adopted the Merger Agreement. **The Board of Directors of Harleysville Mutual recommends that you vote "FOR" the adoption of the Merger Agreement.**

### **COMPARISON OF MEMBER RIGHTS**

Upon completion of the Merger, all members of Harleysville Mutual will become members of Nationwide Mutual. Harleysville Mutual is organized under the laws of the Commonwealth of Pennsylvania, and Nationwide Mutual is organized under the laws of the State of Ohio. Accordingly, differences in the rights of members of Harleysville Mutual and Nationwide Mutual arise both from differences between their articles of incorporation and bylaws and also from differences between Pennsylvania and Ohio law. From and after the closing of the Merger, your rights as members of Nationwide Mutual will be governed by Ohio law, including Title 39 of the ORC and the Ohio General Corporation Law, as well as Nationwide Mutual's constituent documents. This section summarizes the material differences between the rights of Harleysville Mutual members in their capacity as such and the rights of Nationwide Mutual members in their capacity as such.

The following summary is not a complete statement of the rights of members of either of the two companies or a complete description of the specific provisions referred to below. This summary is qualified in its entirety by reference to the Pennsylvania Business Corporation Law, referred to as the PBCL, Ohio law, and Harleysville Mutual and Nationwide Mutual's constituent documents, which you are urged to read carefully. There are a number of differences between the PBCL and Ohio law, many (but not all) of which are summarized below.

**Harleysville Mutual Member Rights**

**Nationwide Mutual Member Rights**

**Corporate Governance**

Each policyholder of Harleysville Mutual is a member of Harleysville Mutual as long as the policy remains in effect. Such member's rights are governed by the PBCL, and set forth in Harleysville Mutual's Articles of Incorporation and Amended and Restated By-laws.

The rights of members of Nationwide Mutual are governed by Ohio law, Nationwide Mutual's Articles of Incorporation, as amended, and Nationwide Mutual's Amended and Restated Code of Bylaws.

**Voting Rights**

Each member is entitled to one vote for each Harleysville Mutual policy of insurance issued to such member and in effect on the record date for any meeting of members.

Each member is entitled to one vote on each proposal brought before any meeting of the members.

**Quorum**

The presence, in person or by proxy, of 25 members of Harleysville Mutual at a meeting of members will constitute a quorum.

The presence, in person or by proxy, of 20 members of Nationwide Mutual at a meeting of members will constitute a quorum.

**Required Vote for Actions of Members**

Under the PBCL, whenever any corporate action is to be taken by a vote of the members of Harleysville Mutual, such action shall be authorized upon receiving the affirmative vote of a majority of the votes cast by all members entitled to vote thereon.

Nationwide Mutual's Amended and Restated Code of Bylaws provides that, notwithstanding any provisions of Ohio law requiring a designated proportion of the voting power, any action may be taken by the affirmative vote of a majority of the members present, in person or by proxy, at any meeting of members, except an amendment to the Articles of Incorporation requires the affirmative vote of at least three-fifths of the members present, in person or by proxy. Notwithstanding the foregoing, under Ohio law, the approval by a majority of directors, and by at least two-thirds of the members voting, in person or by proxy, is required for mergers and consolidations.

**Harleysville Mutual Member Rights**

**Nationwide Mutual Member Rights**

**Notice of Meetings**

Pursuant to Harleysville Mutual's Amended and Restated By-laws, written notice of an annual or special meeting of the members of Harleysville Mutual must be given to each member entitled to vote at such meeting not less than 10 days before the date of such meeting. Such notice must state the date, time, place and purpose of the meeting. Notice of an annual meeting of members for the election of directors or of a meeting at which action is to be taken with respect to an amendment to Harleysville Mutual's Articles of Incorporation may be given by publication for at least three successive weeks in the case of an annual meeting, and at least four successive weeks in the case of a meeting to consider an amendment to Harleysville Mutual's Articles of Incorporation.

Pursuant to Nationwide Mutual's Amended and Restated Code of Bylaws, written notice of the annual meeting of the members of Nationwide Mutual is given by printing the time and place thereof on each policy of Nationwide Mutual. Written notice specifying the time and place of a special meeting, called in place of the regular annual meeting where the board of directors has elected to change the time and place thereof, must be given to each member entitled to vote at such meeting by mail not less than 10 nor more than 45 days before the date of such meeting. In the event action is to be taken with respect to amending the Articles of Incorporation, at least 30 days' notice of the meeting and the business to be transacted thereat must be provided in a newspaper published and of general circulation in Franklin County, Ohio. Special meetings, other than special meetings in place of regular annual meetings, require 30 days' notice of the time, place and purpose thereof in a newspaper published and of general circulation in Franklin County, Ohio.

**Calling Special Meetings of Members**

Under Harleysville Mutual's Amended and Restated By-laws, special meetings of the members of Harleysville Mutual may be called by the Chairman of the Board, the President, the Board of Directors or by members entitled to cast at least 20% of the votes that all members are entitled to cast at such meeting.

Under Nationwide Mutual's Amended and Restated Code of Bylaws, special meetings of members may be called by the Chairman of the Board, the Chief Executive Officer, the President, a majority of the members of the Board of Directors or upon the written request of members of Nationwide Mutual holding not less than one-half of 1% of the number of policies in force as of the end of the calendar year preceding such written request.

**Number and Term of Directors**

The Board of Directors of Harleysville Mutual currently consists of W. Thacher Brown, Michael L. Browne, G. Lawrence Buhl, Nicholas DeBenedictis, Ellen M. Dunn, Michael L. Lapeyrouse, Jerry S. Rosenbloom, William W. Scranton, III, and William E. Storts. Harleysville Mutual's Amended and Restated By-laws provide that the Board of Directors shall consist of not less than seven nor more than 16 directors, which

Nationwide Mutual's Amended and Restated Code of Bylaws require its board of directors to consist of 16 directors, each of whom must be a member, policyholder, contractholder or accountholder or customer of or the owner of shares of a fund managed by Nationwide Mutual or one of its subsidiaries or affiliates.

**Harleysville Mutual Member Rights**

number shall be fixed by resolution of the Board of Directors. Directors must be members of Harleysville Mutual.

The Amended and Restated By-laws provide that directors serve for three-year terms and that the Board of Directors shall be divided into three classes with staggered terms.

**Nationwide Mutual Member Rights**

The Amended and Restated Code of Bylaws provide that directors serve for three-year terms and that the board of directors shall be divided into three classes with staggered terms.

**Nominations for the Election of Directors**

Under Harleysville Mutual's Amended and Restated By-laws, the Board of Directors nominates candidates for election at the next annual meeting of members. Members may nominate candidates for election to the Board of Directors by filing with the Secretary of Harleysville Mutual a certificate of nomination signed by not less than 300 members.

Under Nationwide Mutual's Amended and Restated Code of Bylaws, nominations for election to the board of directors may only be made by members. Nominations must be filed with the Secretary of Nationwide Mutual at least 60 days prior to the date of the meeting at which directors are to be elected.

**Amendments to Governing Documents**

Under the PBCL, an amendment to Harleysville Mutual's Articles of Incorporation requires the affirmative vote of a majority of the votes cast by all members entitled to vote on such amendment unless a greater percentage is specified in Harleysville Mutual's Articles of Incorporation. Harleysville Mutual's Articles of Incorporation does not contain any provisions that alter the effect of the PBCL in this regard. Except as otherwise provided in Section 1504 of the PBCL, Harleysville Mutual's Amended and Restated By-laws may be repealed, altered, amended, substituted or added to by a majority vote of the Board of Directors, subject to the power of the members to change such action. Pursuant to Section 1504 of the PBCL, members of Harleysville Mutual may adopt, amend and repeal the Amended and Restated By-laws.

Under Ohio law and Nationwide Mutual's Amended and Restated Code of Bylaws, an amendment to Nationwide Mutual's Articles of Incorporation requires the affirmative vote of at least three-fifths of the members present, in person or by proxy. Nationwide Mutual's Amended and Restated Code of Bylaws may be amended, changed or repealed by the affirmative vote of two-thirds of the board of directors, which shall not become effective unless and until approved by the Superintendent of Insurance of Ohio and a copy is filed in the Superintendent's office.

**Indemnification of Directors and Officers**

Harleysville Mutual's Amended and Restated By-laws contain indemnification provisions under which Harleysville Mutual is required to indemnify, to the fullest extent permitted under Pennsylvania law, each present, former or future director, officer or employee of Harleysville

Nationwide Mutual's Amended and Restated Code of Bylaws contain indemnification provisions under which Nationwide Mutual is required to indemnify any person who was, is or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding

**Harleysville Mutual Member Rights**

Mutual or any person who may serve or has served at its request as a director, officer, employee, member, fiduciary, trustee or agent of another entity, against the reasonable expenses, including attorneys' fees, actually incurred in connection with the defense of any action, suit or proceeding, whether threatened, pending or completed, to which any of them is made a party because of service as a director, officer or employee of Harleysville Mutual or such other entity, and against any amounts paid by such person in settlement of, or in satisfaction of a judgment, penalty, damage, assessment or fine in any such action, suit or proceeding.

**Nationwide Mutual Member Rights**

by reason of the fact that such person is or was a director, officer or employee of Nationwide Mutual or is or was serving at the request of Nationwide Mutual as a director, trustee, officer, member or employee of another entity against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding, to the extent and under the circumstances permitted by Ohio law.

**REGULATORY APPROVALS**

**Pennsylvania Approvals**

The Merger must be approved by the Commissioner of Insurance of the Commonwealth of Pennsylvania (the "PA Insurance Commissioner") under the Pennsylvania Insurance Law (as defined in the Merger Agreement). Nationwide Mutual submitted a Form A application to the PA Insurance Commissioner on November 10, 2011 ("Form A"). 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. Sections 991.1401, et seq. provides that all changes in control of domestic insurers must be filed with the Department for approval. Pursuant to Section 1402(f)(1) of the Insurance Holding Companies Act, the application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present: (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 change in control will substantially lessen competition in insurance in Pennsylvania or tend to create a monopoly therein; (c) the financial condition of the acquiring 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 to policyholders of the insurer and 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 the 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 Pennsylvania.

The process followed by the PA Insurance Commissioner to consider and approve the Mergers is designed to provide a forum for a review of the proposed transaction by the Insurance Department and by third parties, such as policyholders, consumers and the public generally. The

process includes Internet posting of the Form A and other documents submitted by the parties to the transaction and interested third parties, publication of notice in the Pennsylvania Bulletin (accessed at <http://www.pabulletin.com/secure/data/vol41/41-48/2040.html>), an established public comment period and, if the PA Insurance Commissioner so decides, a public hearing. Under this process, interested third parties can submit public comments, and the Insurance Department will require the Form A applicant to respond to those comments. Harleysville is aware that a comment has been filed with the PA Insurance Commissioner objecting to the transaction, and responses from Harleysville and Nationwide have been provided to the Insurance Department. Public comments on the Form A and responses thereto are available on the Pennsylvania Insurance Department's website at [http://www.portal.state.pa.us/portal/server.pt/community/industry\\_activity/9276/harleysville\\_nationwide\\_public\\_comments/1040108](http://www.portal.state.pa.us/portal/server.pt/community/industry_activity/9276/harleysville_nationwide_public_comments/1040108).

On November 18, 2011, the Pennsylvania Insurance Department engaged Boenning & Scattergood, Inc. to serve as financial advisor to the Pennsylvania Insurance Department to review the proposed Merger and specifically issue a report and conclusions as to whether the Merger is fair to the policyholders of Harleysville Mutual.

This proxy statement in preliminary form was filed by Harleysville Mutual with the PA Insurance Commissioner to provide the PA Insurance Commissioner the opportunity to review and provide comments to this proxy statement prior to its mailing to members.

### **Ohio Approvals**

Under Title 39 of the Ohio Revised Code, as amended, and the rules and regulations promulgated thereunder (the "ORC"), the Merger must be approved by the Superintendent of Insurance of the State of Ohio (the "Ohio Superintendent"). Title 39 of the ORC requires the Merger Agreement, a petition for approval, and a certificate of the president or secretary of both companies attesting to compliance with Section 3941.37 of the ORC to be filed with the Ohio Superintendent. Nationwide Mutual and Harleysville Mutual will file the documents with the Ohio Superintendent after the Merger is approved by two-thirds of Nationwide Mutual's members that vote.

Within 60 days of the filing with the Ohio Superintendent, the Ohio Superintendent will approve the Merger or give the parties notice of a hearing. The Ohio Superintendent may disapprove the Merger only if it is determined that (i) Sections 3941.36 and 3941.37 of the ORC had not been complied with; (ii) the Merger is inequitable to the members of Nationwide Mutual in that it will result in a substantial reduction of the equity of such members without reasonably compensating benefits or advantages; (iii) the Merger will reduce service to the members of Nationwide Mutual or the protection of existing insurance policies of Nationwide Mutual; or (iv) as to any line of insurance in any state, the Merger may substantially lessen competition or tend to create a monopoly.

### **Other Insurance Regulatory Approvals**

The parties are also required to obtain approval of the Mergers, the change in control of certain downstream subsidiaries, or both from the Commissioners of Insurance of Michigan,

New Jersey and California. Additionally, certain other states may require that notice be given to, or that approval be obtained from, the insurance departments of such states. Harleysville Mutual and Nationwide Mutual have agreed to use reasonable efforts and to assist and cooperate with each other in providing any required notices or otherwise taking such actions as are necessary to obtain any required governmental approvals in connection with the Mergers.

### **HSR Act**

Business combinations such as the Mergers are frequently reviewed and scrutinized by the U.S. Department of Justice and the U.S. Federal Trade Commission to determine whether they comply with applicable antitrust laws. Under the HSR Act and the rules promulgated thereunder by the Federal Trade Commission (“FTC”), the Merger cannot be consummated until each of Harleysville Mutual and Nationwide Mutual files a notification and report form with the FTC and the Antitrust Division of the Department of Justice and the applicable waiting period has expired or been terminated. This condition to closing has been satisfied: each of Harleysville Mutual and Nationwide Mutual filed such a notification and report form on October 28, 2011, and on November 8, 2011, Harleysville Mutual and Nationwide Mutual received notice that the applicable waiting period under the HSR Act had terminated.

## **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES**

### **General**

From a tax perspective, Harleysville Mutual members will, effective upon the closing of the Merger, exchange their membership interests for membership interests in Nationwide Mutual, the surviving company in the Merger. The following are expected to be the material U.S. federal income tax consequences of the Merger: (i) the Merger will be a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (“the Code”), and Harleysville Mutual and Nationwide Mutual will each be a party to the reorganization within the meaning of Section 368(b) of the Code; (ii) no gain or loss will be recognized by Harleysville Mutual or Nationwide Mutual as a result of the Merger; (iii) no gain or loss will be realized or recognized by a member of Nationwide Mutual as a result of the Merger; (iv) no gain or loss will be recognized by a member of Harleysville Mutual upon the exchange of such membership interest in Harleysville Mutual solely for a membership interest in Nationwide Mutual pursuant to the Merger Agreement; (v) the tax basis of the membership interest in Nationwide Mutual received by a member of Harleysville Mutual in the Merger solely in exchange for a membership interest in Harleysville Mutual will be the same as the tax basis of the membership interest in Harleysville Mutual exchanged therefor; and (vi) the holding period for the membership interest in Nationwide Mutual received by a member of Harleysville Mutual in the Merger solely in exchange for a membership interest in Harleysville Mutual will include the holding period of the membership interest in Harleysville Mutual exchanged therefor, so long as such membership interest was held as a capital asset by its member at the effective time of the Merger. Members of Harleysville Mutual should consult their tax advisors to determine the basis and holding period for the membership interests in Nationwide Mutual that they will receive in the Merger and to determine whether they are subject to additional tax consequences because of special situations that may be applicable to them, including any state, local or non-U.S. tax consequences arising from the place of residence or tax domicile.

## **Limitations**

The foregoing discussion is intended only as a summary of certain United States federal income tax considerations of the Merger. This summary is based upon the Code, applicable treasury regulations thereunder, rulings and pronouncements of the IRS and judicial decisions now in effect, all of which are subject to change at any time by legislative, judicial, or administrative action. Any such change may be applied retroactively in a manner that could adversely affect the members of Harleysville Mutual and could affect the continuing validity of this summary. This summary does not address all of the tax consequences that may be relevant to a particular member of Harleysville Mutual in light of such member's specific circumstances, or to certain types of members subject to special treatment under United States federal income tax laws (for example, foreign persons, dealers in securities, banks and other financial institutions and tax-exempt organization), and does not address any consequences arising under the laws of any state, local or foreign jurisdiction.

**You are urged to consult your own tax advisor as to the specific tax considerations of the Merger to you, including the application and effect of federal, state, local and foreign tax laws.**

## **THE MERGER AGREEMENT**

The Merger Agreement provides for the Merger of Harleysville Mutual into Nationwide Mutual and, immediately following such Merger, the separate merger of Nationals Sub into Harleysville Group. The following is a brief summary of certain provisions of the Merger Agreement. This summary does not purport to contain all material terms of the Merger Agreement and the descriptions of the terms and conditions in the Merger Agreement are qualified in their entirety by reference to the Merger Agreement, a copy of which is attached to this proxy statement as Annex A and the full text of which is incorporated by reference herein. Harleysville Mutual members are urged to read the entire Merger Agreement carefully prior to voting, in person or by proxy, at the Special Meeting. In the following summary, we use some capitalized terms without providing a definition – those definitions are found in the Merger Agreement.

### **The Mergers**

The Merger Agreement provides that at the effective time of the Merger, Harleysville Mutual will be merged with and into Nationwide Mutual. Nationwide Mutual will be the surviving company and will continue its business under the name "Nationwide Mutual Insurance Company" (the "Surviving Company"). The directors and officers of Nationwide Mutual will be the directors and officers of the Surviving Company. The members of Harleysville Mutual will become members of Nationwide Mutual and, as such, each of them will have the same voting, liquidation and distribution rights with respect to Nationwide Mutual as each other member of Nationwide Mutual. See the description below in this proxy statement under the heading "*Comparison of Member Rights*" for a description of the rights of members of Nationwide Mutual.

At the effective time of the Group Merger, Nationals Sub will merge with and into Harleysville Group. Harleysville Group will be the surviving corporation and will continue its corporate existence under the name “Harleysville Group Inc.” as a wholly owned subsidiary of Nationwide Mutual (the “Surviving Subsidiary”). The directors of Nationals Sub will be the directors of the Surviving Subsidiary, and the officers of Harleysville Group will be the officers of the Surviving Subsidiary.

### **Closing of the Mergers**

The closing of the Mergers will take place on the first day of the month following the month in which satisfaction or waiver of the conditions to closing set forth in the Merger Agreement occurs (other than those conditions that by their terms are to be satisfied at closing, but subject to the satisfaction or waiver of those conditions at such time) or any other date that is mutually agreed upon by the parties. On or before the closing date of the Merger, Harleysville Mutual and Nationwide Mutual will file (1) articles of merger with the Secretary of State of the Commonwealth of Pennsylvania and (2) a certificate of merger with the Secretary of State of the State of Ohio. The Merger will become effective at 12:01 a.m. on the closing date. On or before the closing date of the Group Merger, Harleysville Group and Nationals Sub will file a certificate of merger with the Secretary of State of the State of Delaware. The Group Merger will become effective at 12:02 a.m. on the closing date. Subject to the receipt of all necessary approvals, we currently anticipate the closing of the Mergers will occur during the first half of 2012.

### **Treatment of Harleysville Group Common Stock**

#### **Outstanding Shares**

Upon closing of the Group Merger, all shares of common stock of Harleysville Group owned by Nationwide Mutual, as the Surviving Company in the Merger, will remain outstanding and be owned by Nationwide Mutual. All outstanding shares of common stock of Harleysville Group held by stockholders, other than Nationwide Mutual will be converted into the right to receive \$60.00 per share in cash.

#### **Treatment of Shares under Harleysville Group’s Purchase Plans**

No new offering period has been commenced under Harleysville Group’s Amended and Restated Employee Stock Purchase Plan since September 28, 2011 (the date the Merger Agreement was executed) and, so long as the Merger Agreement remains in effect, no such new offering period will commence. Under the Merger Agreement, the current offering period under such plan will end on the earlier of January 14, 2012 (the current expiration date of the offering period) or the trading day occurring immediately prior to the closing date of the Group Merger (the “ESPP Termination Time”). Any amounts credited to a participant’s account at the ESPP Termination Time will be used in accordance with the plan to purchase shares of Harleysville Group common stock for participants at the discounts provided for under the plan. Such shares will then be issued and outstanding and entitled to receive the Group Merger consideration of \$60.00 per share (less any amounts necessary to meet applicable tax withholding obligations).

No new offering period has been commenced under Harleysville Group’s Agency Stock Purchase Plan since September 28, 2011 and, so long as the Merger Agreement remains in effect,

no such new offering period will commence. Under the Merger Agreement, the current offering period under such plan will end on the earlier of January 14, 2012 (the current expiration date of the offering period) or the trading day occurring immediately prior to the closing date of the Group Merger (the “ASPP Termination Time”). Any amounts credited to an insurance agent or agency participant’s account at the ASPP Termination Time will be used in accordance with the plan to purchase shares of Harleysville Group common stock for the insurance agent or agency participants at the discounts provided for under the plan. Such shares will then be issued and outstanding and entitled to receive the Group Merger consideration of \$60.00 per share (less any amounts necessary to meet applicable tax withholding obligations).

### **Outstanding Equity Awards**

All outstanding stock options, warrants and similar rights to purchase shares of Harleysville Group common stock will become vested upon the closing of the Group Merger and will be converted into the right to receive a cash payment equal to \$60.00 per share minus the exercise price, if any, for each such stock option, warrant or similar right.

All restrictions on Harleysville Group restricted stock, restricted stock unit and deferred stock unit awards will lapse upon the Group Merger and the securities underlying all such awards will be converted into the right to receive \$60 per share in cash.

### **Representations and Warranties**

Harleysville Mutual and Harleysville Group each individually made representations and warranties in the Merger Agreement regarding their respective businesses, which are customary for mergers similar to the Merger. Those representations and warranties included representations and warranties related, as applicable, to their: (1) organization; (2) capitalization; (3) compliance with laws; (4) reserves; (5) pending litigation; (6) insurance agents; and (7) material contracts. A full list of the representations and warranties provided by Harleysville Mutual and Harleysville Group can be found in Articles IV and V of the Merger Agreement.

Nationwide Mutual and Nationals Sub also made representations and warranties in the Merger Agreement regarding their respective businesses. These representations and warranties are important to Harleysville Mutual because our members will become members of Nationwide Mutual upon the closing of the Merger, and because Harleysville Mutual relied on them in determining to enter into the Merger Agreement. The representations and warranties made by Nationwide Mutual and Nationals Sub included, but were not limited to, the following:

- Nationwide Mutual and Nationals Sub are duly organized, validly existing and in good standing under the laws of their states of formation;
- Nationwide Mutual and Nationals Sub have the necessary authority to enter into the Merger Agreement;
- The execution of the Merger Agreement by Nationwide Mutual will not result in a breach or violation of any contract or agreement to which Nationwide Mutual is a party;
- No consent is required for Nationwide Mutual to consummate the Mergers;

***Proposed Draft dated 12/23/2011 – Subject to PA Insurance Department Review***

- Nationwide Mutual is in compliance with all applicable laws;
- Nationwide Mutual has filed all necessary annual, quarterly and statutory annual statements as required by law and complied in all material respects with such laws;
- Nationwide Mutual has not suffered any Material Adverse Effect (as defined in the Merger Agreement) since December 31, 2010;
- Nationwide Mutual has no pending litigation except as disclosed to Harleysville Mutual and Harleysville Group;
- Nationwide Mutual and its Producers (as defined in the Merger Agreement) have all necessary licenses for the operation of their respective businesses;
- Nationwide Mutual has fairly and completely disclosed its actuarial reserves and other actuarial amounts to Harleysville Mutual and Harleysville Group;
- Nationwide Mutual has filed all necessary tax returns and has no outstanding tax obligations;
- Nationwide Mutual is not subject to any conditions or downgrades from any Rating Agencies (as defined in the Merger Agreement);
- Nationwide Mutual's benefit and pension plans are in compliance with all applicable laws; and
- All claims and benefits asserted under any Nationwide Mutual Insurance Contract have been adjusted or litigated in a timely and appropriate manner in compliance with all applicable laws.

In addition, Nationwide Mutual represented and warranted that it has sufficient funds available to consummate the Group Merger.

Several of the aforementioned representations and warranties are subject to certain limitations and qualifications as set forth in the Merger Agreement.

**Covenants of Harleysville Mutual and Harleysville Group**

In the Merger Agreement, Harleysville Mutual and Harleysville Group made customary covenants to Nationwide regarding the operation of their respective businesses prior to the consummation of the Mergers. Harleysville Mutual and Harleysville Group agreed to continue to conduct its operations in the Ordinary Course of Business (as defined in the Merger Agreement) and agreed not to take any extraordinary or unusual actions without Nationwide Mutual's consent. Harleysville Mutual and Harleysville Group agreed to maintain their existing insurance coverage, and business operations, until the consummation of the Mergers. They also agreed to deliver certain reports and financial statements to Nationwide on a periodic basis until the Mergers have been completed.

As part of the covenants, Harleysville Mutual and Harleysville Group agreed not to (i) solicit, initiate or knowingly facilitate, induce or encourage any inquiries or make any proposal or offer that constitutes an Alternative Transaction Proposal (as defined in the Merger

Agreement) or (ii) enter into, continue or otherwise participate in any discussions or negotiations regarding an Alternative Transaction Proposal. However, if Harleysville Group receives an Alternative Transaction Proposal and its Board of Directors determines that the Alternative Transaction Proposal is a Superior Proposal (as defined in the Merger Agreement), Harleysville Group may consider and negotiate the Alternative Transaction Proposal under certain conditions. If those conditions are met, Harleysville Group has the right to terminate the Merger Agreement in favor of the Superior Proposal.

### **Covenants of Nationwide Mutual**

Nationwide Mutual agreed that during the two-year period following the consummation of the Mergers:

- Nationwide Mutual will not make major operational changes to certain core business functions of Harleysville's property and casualty business in Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont and Virginia;
- In Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont and Virginia, Nationwide Mutual will continue to utilize the Harleysville brand with respect to certain lines of property and casualty insurance and insurance products, either independently or in conjunction with one or more brands of Nationwide Mutual;
- Nationwide Mutual will substantially maintain or exceed the overall number of employees, as of the date of the Merger Agreement, at Harleysville Group's headquarters in Harleysville, Pennsylvania and will not cause a reduction in force to occur at the Worcester, Massachusetts location;
- Nationwide Mutual will substantially maintain or improve the philanthropic and charitable contributions and activities of Harleysville Mutual consistent with the historical practices of Harleysville Mutual and Harleysville Group since September 30, 2010; and
- Nationwide Mutual will:
  - Migrate each employee of Harleysville Group (a "Continuing Employee") to the benefit plans of Nationwide Mutual no later than January 1, 2013;
  - Give each Continuing Employee credit under certain of Nationwide Mutual's benefit plans towards applicable deductibles, co-payments and annual out-of-pocket limits for expenses incurred under the benefit plans of Harleysville Group during the plan year in which the Closing Date occurs;
  - Cause any pre-existing conditions or limitations, evidence of insurability, exclusions and waiting periods with respect to participation and coverage requirements under certain of Nationwide Mutual's benefit plans to be

waived with respect to Continuing Employees and their eligible dependents to the same extent such limitations are waived under any comparable plan of Harleysville Group; and

- Provide each Continuing Employee service credit based upon such Continuing Employee's service credit with Harleysville for purposes of eligibility to participate and vesting credit under certain of Nationwide Mutual's benefit plans and entitlement to benefits under severance or vacation plans, as if such service had been performed with Nationwide Mutual.

No later than 60 days following the closing date, unless previously paid, Nationwide Mutual will also make incentive compensation payments to each eligible employee who is an employee on the date such payment is made in an amount equal to the difference between (i) the 2011 target incentive compensation for such employee as set forth in Harleysville Group's Senior Executive Compensation Plan and any other Harleysville Group incentive compensation plan, which target compensation does not exceed, in the aggregate, \$11,750,000, and (ii) the amount of incentive compensation previously paid to such employee with respect to 2011 by Harleysville Group pursuant to any such compensation plan. For executive officers, Nationwide Mutual will offer retention bonus arrangements.

### **Member and Stockholder Approval**

Both Harleysville Mutual and Nationwide Mutual are required to obtain approval for the Merger from their members. The companies have each agreed to take all necessary actions to convene meetings of their respective members for the purpose of voting on the Merger and the Merger Agreement – the Special Meeting of the members of Harleysville Mutual is being called in accordance with this obligation on Harleysville Mutual's part. The boards of directors of both companies have agreed to recommend the approval of the Merger Agreement and the Merger by their respective members. To consummate the Merger, the Merger Agreement must be adopted by at least two-thirds of the votes cast by Nationwide Mutual members and by at least a majority of the votes cast by Harleysville Mutual members. Harleysville Group is also required to call a special meeting of stockholders and obtain approval for the Group Merger from its stockholders.

### **Voting Agreement**

Simultaneously with the execution of the Merger Agreement, and as a condition to entering into the Merger Agreement, Harleysville Mutual entered into a voting agreement with Nationwide Mutual (the "Voting Agreement"). In the Voting Agreement, Harleysville Mutual agreed, among other things, to vote its shares of Harleysville Group common stock in favor of the Group Merger. Because Harleysville Mutual holds a majority of the outstanding shares of common stock of Harleysville Group, upon Harleysville Mutual's voting these shares in that manner at the special meeting of stockholders of Harleysville Group, Harleysville Group will have received the requisite number of votes required to approve the Group Merger.

## **Conditions to Closing**

Consummation of the Mergers is subject to, among other things, the satisfaction or waiver of the following conditions:

- approval of the Merger by the members of Nationwide Mutual and Harleysville Mutual;
- approval of the Group Merger by the stockholders of Harleysville Group;
- the expiration or termination of the waiting period applicable to the consummation of the Mergers under the Hart Scott Rodino Act (the “HSR Act”), which condition has been fulfilled since Harleysville Mutual and Nationwide Mutual received notice, on November 8, 2011, that this waiting period had terminated;
- all governmental approvals, consents and filings for the Mergers having been obtained;
- the absence of legal obstacles that would prevent the consummation of the Mergers; and
- Nationwide Mutual having a surplus greater than \$11,100,000,000.

Each of the parties must also provide a certificate prior to the consummation of the Mergers attesting to the correctness of such party’s representations and warranties and the party’s compliance with the Merger Agreement. Further, no Material Adverse Effect or material adverse change may have occurred with respect to any party prior to the effective time of the Mergers. Finally, Nationwide’s obligation to close is contingent upon (1) Michael Browne entering into a retention bonus agreement with Nationwide Mutual; (2) the Harleysville Consolidated Surplus (as defined in the Merger Agreement) being greater than \$900,000,000; and (3) the Harleysville Consolidated Surplus less the Harleysville Decrease in Statutory Net Unrealized Losses (as defined in the Merger Agreement) being greater than \$1,000,000,000.

## **Termination**

The Merger Agreement may be terminated and the Mergers abandoned at any time prior to the Effective Time (as defined in the Merger Agreement) (i) by mutual agreement of the parties; (ii) by any of the parties if the Mergers have not occurred within one year of the Merger Agreement; (iii) if the Mergers are not approved by the requisite members or stockholders; (iv) upon a breach of the Merger Agreement; (v) if a Superior Proposal is received by Harleysville Group; or (vi) by Nationwide, if a Material Adverse Effect or a Harleysville Material Adverse Change (as defined in the Merger Agreement) occurs with respect to Harleysville. If (x) the Merger Agreement terminates due to a Superior Proposal, (y) a knowing and intentional breach of the Merger Agreement by Harleysville, or (z) Harleysville Group enters into an Alternative Transaction Proposal within one year of the termination of the Merger Agreement, Harleysville Group must pay a one-time termination fee of \$29,588,535 to Nationwide Mutual, plus reimburse Nationwide Mutual for certain of its reasonable expenses.

**Specific Performance**

Under the Merger Agreement, Nationwide Mutual, Nationals Sub, Harleysville Mutual and Harleysville Group have agreed that irreparable damage would occur in the event that any of the provisions of the Merger Agreement were not performed in accordance with their specific terms or were otherwise breached, and that they shall each be entitled to an injunction or injunctions to prevent breaches of the Merger Agreement and to enforce specifically the terms thereof, in addition to any other remedy to which they may be entitled at law, in equity or pursuant to the Merger Agreement.

**Amendments**

The Merger Agreement may be amended by the parties at any time prior to the approval of the agreement by the members of Harleysville Mutual, the stockholders of Harleysville Group and the members of Nationwide Mutual. After approval by such members and stockholders, no changes can be made to the Merger Agreement that would materially adversely affect the rights of the members and/or stockholders without member and/or stockholder approval.

*Exhibit VI*

**Fairness Opinion Letter from Keefe, Bruyette  
& Woods dated September 28, 2011**

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# KEEFE, BRUYETTE & WOODS

CONFIDENTIAL

September 28, 2011

The Board of Directors  
Harleysville Group Inc.  
355 Maple Avenue  
Harleysville, PA 19438

Members of the Board:

We understand that Harleysville Group Inc. ("Harleysville Group") proposes to enter into an Agreement and Plan of Merger (the "Agreement") among Harleysville Group, Harleysville Mutual Insurance Company ("Mutual Parent"), Nationwide Mutual Insurance Company ("Nationwide"), and Nationwide Merger Sub, Inc., a wholly owned subsidiary of Nationwide ("Merger Sub"), pursuant to which, among other things, Merger Sub will merge with and into Harleysville Group (the "Subsidiary Merger") and each outstanding share of common stock, par value \$1.00 per share, of Harleysville Group (the "Common Shares"), other than shares i) owned by Mutual Parent or its successors, or ii) held in the treasury of Harleysville Group, or iii) as to which dissenters' rights have been perfected, will be converted into the right to receive \$60.00 in cash (the "Merger Consideration"). You have requested our opinion as investment bankers as to the fairness, from a financial point of view, to the holders of the Common Shares (other than Mutual Parent or its successors) of the Merger Consideration provided for in the Subsidiary Merger. The terms and conditions of the Subsidiary Merger are more fully specified in the Agreement.

As part of our investment banking business, we are continually engaged in the valuation of insurance company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of insurance companies, we have experience in, and knowledge of, the valuation of insurance enterprises. In the ordinary course of our business as a broker-dealer, we may from time to time purchase securities from, and sell securities to, Harleysville Group, Nationwide or their respective affiliates, and as a market maker in securities, we may from time to time have a long or short position in, and buy or sell, debt or equity securities of Harleysville Group, Nationwide or their respective affiliates, for our own account and for the accounts of our customers. We may also in the future provide investment banking services to Harleysville Group, Nationwide or their respective affiliates, for which we may receive compensation.

We have not acted as financial advisor to Harleysville Group, Mutual Parent or Nationwide in connection with the Subsidiary Merger. We have acted exclusively for the Board of Directors of Harleysville Group in rendering this fairness opinion and will receive a fee from Harleysville Group for our services, no part of which is contingent upon the successful completion of the Subsidiary Merger. In addition, Harleysville Group has agreed to reimburse certain of our expenses and indemnify us against certain liabilities arising out of our engagement. Other than with respect to this present engagement, during the past two years we have not had any other material relationships with Harleysville Group or Nationwide for which we have received or intend to receive any compensation. In 2009, we provided advisory and investment banking services to Mutual Parent and received a fee for our services.

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In connection with this opinion, we have reviewed, analyzed and relied upon materials bearing upon the financial and operating condition of Harleysville Group and the Subsidiary Merger, including among other things, the following: (i) the Agreement; (ii) the Annual Reports to Stockholders and Annual Reports on Form 10-K for the three years ended December 31, 2010 of Harleysville Group; (iii) certain interim reports to stockholders and Quarterly Reports on Form 10-Q of Harleysville Group and certain other communications from Harleysville Group to their respective stockholders; and (iv) other financial information concerning the businesses and operations of Harleysville Group furnished to us by Harleysville Group for purposes of our analysis. We have also held discussions with senior management of Harleysville Group regarding the past and current business operations, regulatory relations, financial condition and future prospects of Harleysville Group and such other matters as we have deemed relevant to our inquiry. In addition, we have compared certain financial and stock market information for Harleysville Group with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the insurance industry, and performed such other studies and analyses as we considered appropriate.

In conducting our review and arriving at our opinion, we have relied upon the accuracy and completeness of all of the financial and other information provided to us or publicly available and we have not independently verified the accuracy or completeness of any such information or assumed any responsibility for such verification or accuracy, and have relied upon the assurances of the management of Harleysville Group that they are not aware of any facts or circumstances that would make such information inaccurate or misleading in any material respect. We have relied, with your consent, upon the management of Harleysville Group as to the reasonableness and achievability of the financial and operating forecasts and projections (and the assumptions and bases therefore) provided to us, and we have assumed that such forecasts and projections reflect the best currently available estimates and judgments of such management and that such forecasts and projections will be realized in the amounts and in the time periods currently estimated by such management. We express no opinion as to such forecasts and projections or the assumptions on which they are based. We are not experts in the evaluation of reserves for loss and loss adjustment expenses and did not make an independent evaluation or analysis of the adequacy of the loss reserves of Harleysville Group. Accordingly, we express no opinion as to the adequacy of the reserves for loss and loss adjustment expenses of Harleysville Group. We have assumed, with your consent, that the aggregate reserves for loss and loss adjustment expenses for Harleysville Group are adequate to cover such losses and loss adjustment expenses. In rendering our opinion, we have not made or obtained any evaluations or appraisals of the assets, properties or liabilities (contingent or otherwise) of Harleysville Group or Nationwide. We have relied, with your consent and without independent verification, upon the advice of your legal, tax, accounting and actuarial advisors with respect to all such matters as they pertain to the Subsidiary Merger and the transactions contemplated by the Agreement.

We have assumed that, in all respects material to our analyses, the following: (i) the Subsidiary Merger will be completed substantially in accordance with the terms set forth in the Agreement in the form reviewed by us; (ii) the representations and warranties of each party in the Agreement and in all related documents and instruments referred to in the Agreement are true and correct; (iii) each party to the Agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents; (iv) all conditions to the completion of the Subsidiary Merger will be satisfied without any waivers or material modifications; and (v) in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the Subsidiary Merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed or agreed to by the parties to the Agreement or their respective affiliates.

We have considered such financial and other factors as we have deemed appropriate under the circumstances, including, among others, the following: (i) the historical and current financial position and results of operations of Harleysville Group; (ii) the assets and liabilities of Harleysville Group; and (iii) the nature and terms of certain other merger transactions involving insurance companies. We have also taken into account our assessment of general economic, market and financial conditions and our experience in other transactions, as well as our experience in securities valuation and knowledge of the insurance industry generally. Our opinion is necessarily based upon conditions as they exist and can be evaluated on the date hereof and the information made available to us through the date hereof, and we assume no duty to update or reaffirm this opinion based on circumstances, developments or events occurring after the date hereof. Our opinion does not address the underlying business decision of Harleysville Group to engage in the Subsidiary Merger, or the relative merits of the Subsidiary Merger as compared to any strategic alternatives that may be available to Harleysville Group.

This opinion is provided for the information of the Board of Directors of Harleysville Group in connection with its consideration of the Subsidiary Merger and does not constitute a recommendation as to how any holder of Common Shares should vote with respect to the Subsidiary Merger or any other matter. This opinion may not be disclosed to any other person, or used, quoted or referred to without our prior written consent.

We are not expressing any opinion about the fairness of the amount or nature of the compensation to any of Harleysville Group's officers, directors or employees, or any class of such persons, relative to the Merger Consideration or otherwise.

This opinion has been reviewed and approved by our Fairness Opinion Committee in conformity with our policies and procedures established under the requirements of Rule 2290 of the NASD Rules of the Financial Institutions Regulatory Authority.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Merger Consideration payable to holders of the Common Shares (other than Mutual Parent or its successors) is fair, from a financial point of view.

Very truly yours,

*Keefe, Bruyette & Woods, Inc.*

Keefe, Bruyette & Woods, Inc.

*Exhibit VIII*

**Fairness Opinion Letter from Griffin Financial  
Group LLC dated September 28, 2011**

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607 Washington Street

Reading, PA 19601

Phone: 610-478-2105  
Email: @go2griffin.com  
Fax: 610-478-2227

September 28, 2011

The Board of Directors  
Harleysville Mutual Insurance Company  
355 Maple Avenue  
Harleysville, PA 19438

Members of the Board of Directors:

You have requested our opinion as to whether the proposed merger (the "Merger") of Harleysville Mutual Insurance Company ("Harleysville Mutual") with and into Nationwide Mutual Insurance Company ("Nationwide") is fair, from a financial point of view, to Harleysville Mutual. Under the draft Agreement and Plan of Merger (the "Merger Agreement"), provided to us as of September 27, 2011, among Nationwide, Harleysville Mutual, Nationwide Merger Sub, Inc. ("Nationwide Merger Sub") and Harleysville Group Inc. ("Group"), subject to appropriate member and regulatory approvals and other conditions, the separate existence of Harleysville Mutual will cease and members of Harleysville Mutual will become members of Nationwide. In a related transaction, subject to stockholder and regulatory approval, Harleysville Mutual's publicly traded subsidiary, Group, will merge with Nationwide Merger Sub, a newly created acquisition subsidiary of Nationwide, with Group surviving. The Group shares of capital stock owned by Harleysville Mutual will be cancelled and Group's public stockholders will receive cash consideration for their shares. The Merger, together with this related transaction involving, among other things, Group and Nationwide Merger Sub are together referred to as the "Overall Transaction". Capitalized terms not otherwise defined herein are used as defined in the Merger Agreement. The terms and conditions of the Merger are set forth in more detail in the Merger Agreement.

In arriving at our opinion, we have (i) reviewed a draft of the Merger Agreement as it relates to the Merger; (ii) reviewed certain historical and pro forma financial information for each of Harleysville Mutual and Nationwide and forecasts for Harleysville Mutual for 2012 and 2013 and discussed such information and forecasts with Harleysville's management; (iii) reviewed Articles of Incorporation and bylaws of each of Harleysville Mutual and Nationwide; (iv) reviewed opinions of counsel as to the duty owed by Harleysville Mutual's directors to Harleysville Mutual, as well as to the rights of policyholders and members; (v) reviewed certain actuarial analyses for the period ending December 31, 2010 regarding losses of each of Harleysville Mutual and Nationwide; (vi) reviewed A.M. Best, other rating agency and related information with respect to each of Harleysville Mutual and Nationwide; (vii) discussed Nationwide's post-merger integration and operations plans for Harleysville Mutual with management of each of Harleysville Mutual and Nationwide; (viii) compared the Merger with publicly available information on insurance company mutual to mutual mergers; (ix) compared the Merger with publicly available information on acquisitions by mutual insurance companies of majority owned public companies; (x) compared the financial condition and operating performance of Harleysville Mutual and of Nationwide Mutual and

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Members of the Board of Directors  
Harleysville Mutual Insurance Company  
September 28, 2011  
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Nationwide consolidated with publicly available information concerning certain other companies we deemed relevant; and (xi) performed such other studies and analyses and reviewed such other information as we deemed appropriate for the purposes of this opinion.

In addition, we have had discussions with certain members of the management of each of Harleyville Mutual and Nationwide with respect to the economic and regulatory environments in which each such company operates, the background and reasons for the Merger, the Merger structure, Merger integration, losses and potential losses, liquidity, investment and operating performance, capital adequacy, the past and current business operations and the financial condition and future plans and prospects for each of Harleyville Mutual and Nationwide on a standalone basis and on a pro forma combined basis, as well as the pro forma effects of the Merger on the financial condition and future prospects of the combined companies and related matters.

In providing our opinion, we have relied upon and assumed the accuracy and completeness of all information which was publicly available or which was furnished to us or which we discussed with the management of Harleyville Mutual or Nationwide or otherwise reviewed with each of them, and we have not independently verified (nor have we assumed responsibility or liability for independently verifying) any such information or its accuracy or completeness. We have not conducted or been provided with any valuation or appraisal of assets or liabilities (including any off-balance sheet liabilities) or surplus or projected income or cash flow derived therefrom of either Nationwide or Harleyville Mutual, nor have we evaluated the solvency of Harleyville Mutual or Nationwide under any state or federal laws relating to receivership, bankruptcy, insolvency or similar matters. In relying on financial information and analyses provided to us by Harleyville Mutual or Nationwide or derived therefrom, we have assumed that such financial information and analyses have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments and that management of Harleyville Mutual and Nationwide is not aware of any facts which would make such information or analyses inaccurate, incomplete or misleading. We also have not performed due diligence on Harleyville Mutual's or Nationwide's physical properties and facilities, sales, marketing, distribution or service organizations or products.

We are not actuaries and our services did not include any actuarial determinations or evaluations by us, or any attempt to evaluate any actuarial estimates provided to us or any assumptions on which they were based. We understand that Harleyville Mutual has used its in-house Corporate Actuarial Group as its actuarial consultant and advisor and that such group has generated a report for the year ended December 31, 2010. We have reviewed such report in forming our opinion. We also reviewed the actuarial report of KPMG for Nationwide for 2010. Our opinion is predicated on the assumption that such reports are accurate. We did not independently verify the accuracy of such reports.

You have not requested, and we have not opined on any aspect of the Overall Transaction or the relative merits of the Merger compared to any other transactional opportunity that might be available to Harleyville Mutual or on the effect of any alternative structure which is or could be available to Harleyville Mutual with Nationwide or any other party. Similarly, you have not requested and we are not

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Members of the Board of Directors  
Harleysville Mutual Insurance Company  
September 28, 2011  
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opining on the fairness of the amount or nature of compensation or investment gain which inures to the benefit of directors or officers or employees in connection with the Merger or the Overall Transaction relative to the compensation or investment gain payable to any other constituent of Harleyville Mutual or any affiliate.

In providing our opinion, we have also assumed that the final Merger Agreement will be identical, in all material respects, to the draft Merger Agreement reviewed by us and that the Merger will be completed on the terms and conditions described in the Merger Agreement, without any waiver or modification of any terms or conditions material to our opinion. We express no view as to any analyses, forecasts or estimates, prepared by third parties or the assumptions on which they were based. We have also assumed that the representations and warranties made by Harleyville Mutual and Nationwide in the Merger Agreement and the related agreements and certificates are, and will be true and correct, in all respects material to our analysis, that the covenants and agreements contained therein will be performed in all respects material to our analysis. We are not actuarial, legal, regulatory or tax experts and have relied on the assessments made by relevant advisors to Harleyville Mutual with respect to such issues. We have further assumed that all policyholders, material governmental, regulatory or other consents and approvals necessary for the completion of the Merger will be obtained without any adverse effect on Harleyville Mutual or Nationwide or on the contemplated benefits of the Merger.

We have been retained by Harleyville Mutual as set forth herein. Other firms are serving as financial advisors to it with respect to the Overall Transaction and/or certain aspects thereof. We will receive a fee from Harleyville Mutual for our services, substantially all of which will become payable upon delivery of this opinion, regardless of the conclusion we reached and regardless of whether or not the proposed Merger is completed. Harleyville Mutual has agreed to indemnify us for certain liabilities arising from our engagement. We call to your attention that during the two years preceding the date of this letter, we have had only limited investment banking relationship with Harleyville Mutual and Group. We also call to your attention that we are affiliated with legal counsel engaged by Harleyville Mutual in connection with the Merger who will be paid at its customary rate for the time it spends on the engagement.

On the basis of and subject to the foregoing and as set forth below, it is our opinion that, as of the date hereof, the proposed Merger is fair, from a financial point of view, to Harleyville Mutual.

In providing our opinion, we considered the impact of the Merger on Harleyville Mutual's constituents, including agents, creditors, employees, policyholders and the communities in which Harleyville Mutual's facilities are located. Our opinion, however, is limited to the fairness, from a financial point of view, to Harleyville Mutual, and we express no opinion as to the fairness of the Merger to any particular constituent or as to the underlying decision by Harleyville Mutual to engage in the Merger. We also express no opinion on the merger between Group and the Nationwide Merger Sub or the consideration paid by Nationwide therefore. Our opinion is necessarily based on economic, market and industry and Harleyville Mutual and Nationwide specific conditions as in effect on, and the information

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Members of the Board of Directors  
Harleysville Mutual Insurance Company  
September 28, 2011  
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made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise, or reaffirm this opinion.

This opinion has been approved by our fairness opinion committee. It is provided to the Board of Directors of Harleysville Mutual in connection with and for the purposes of its evaluation of the Merger and may not be relied upon by any other person for any other reason. This opinion does not constitute a recommendation to any member of Harleysville Mutual as to how such member should vote with respect to the Merger or on any other matter. This opinion may not be disclosed, referred to, or communicated (in whole or in part) to any third party for any purpose whatsoever except with our prior written approval. This opinion may, however, be reproduced in a proxy statement mailed to members of Harleysville Mutual, provided that the opinion is reproduced in such document in its entirety, and such document includes a summary of the opinion and related analysis in a form prepared or approved by us, but may not otherwise be disclosed publicly in any manner without our prior written approval.

Very truly yours,

GRIFFIN FINANCIAL GROUP, LLC

*Griffin Financial Group, LLC*

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*Exhibit XV*

**Stockholder Voting Agreement dated  
September 28, 2011**

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**EXECUTION COPY**

This **STOCKHOLDER VOTING AGREEMENT** (this "Agreement"), dated as of September 28, 2011, is by and between Nationwide Mutual Insurance Company, an Ohio mutual insurance company ("Nationwide"), and Harleysville Mutual Insurance Company, a Pennsylvania mutual insurance company (the "Stockholder").

WHEREAS, Nationwide, Nationals Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Nationwide ("Merger Sub"), the Stockholder, and Harleysville Group Inc., a Delaware corporation (the "Company"), propose to enter into an Agreement and Plan of Merger, dated as of the date hereof (as the same may be amended or supplemented, the "Merger Agreement"; capitalized terms used but not defined herein shall have the meanings set forth in the Merger Agreement), providing for (i) the merger of Merger Sub with and into the Company and (ii) the merger of the Stockholder with and into Nationwide;

WHEREAS, as of the close of business on September 26, 2011, the Stockholder owns 14,526,445 shares of issued and outstanding capital stock of the Company (all of such issued and outstanding shares of the Company's capital stock, collectively, the "Shares"), such Shares, together with any other capital stock of the Company, including any New Shares, acquired by the Stockholder after the date hereof and during the term of this Agreement, being collectively referred to herein, with respect to the Shareholder, as the "Subject Shares";

WHEREAS, prior to the execution and delivery of this Agreement, the Board of Directors of the Company has approved this Agreement and the transactions contemplated hereby for purposes of Section 203 of the DGCL;

WHEREAS, as a condition to their willingness to enter into the Merger Agreement, Nationwide and Merger Sub have requested that the Stockholder enter into this Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Representations and Warranties of the Stockholder. The Stockholder hereby represents and warrants to Nationwide as of the date hereof as follows:

(a) Authority; Execution and Delivery; Enforceability. The stockholder is duly organized, validly existing and in good standing under the laws of Pennsylvania and the execution and delivery by the Stockholder of this Agreement and the performance of its obligations hereunder and compliance with the terms hereof have been duly authorized by all necessary action on the part of the Stockholder, its board of directors and members. The Stockholder has all requisite power and authority to execute this Agreement and to consummate the transactions contemplated hereby. The Stockholder has duly executed and delivered this Agreement, and, assuming due authorization, execution and delivery by Nationwide, this Agreement constitutes the valid and binding obligation of the Stockholder, enforceable against the Stockholder in accordance with its terms. Each of the persons executing this Agreement on behalf of the Stockholder has full power and authority to execute and deliver this Agreement on behalf of the Stockholder and to thereby bind the Stockholder. The execution, delivery and performance of this Agreement by the Stockholder does not, and the consummation of the transactions contemplated hereby and compliance with the terms hereof will not, conflict with, or

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result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, amendment, cancelation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or result in the creation of any Lien upon any of the Subject Shares under, (A) any provision of any written contract, permit, license, loan or credit agreement, note, bond, mortgage, indenture, lease or other property agreement, partnership or joint venture agreement or other legally binding agreement, (each, a “Contract”) to which the Stockholder is a party or by which any Subject Shares are bound, (B) any organizational document of the Stockholder, or (C) subject to the filings and other matters referred to in the next sentence, any Order or any Law applicable to the Subject Shares. No consent, approval, order or authorization (collectively, “Consent”) of, or registration, declaration or filing with, any Governmental Entity or other Person is required to be obtained or made by or with respect to the Stockholder in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby other than compliance with and filings under the HSR Act, if applicable.

(b) The Subject Shares. The Stockholder is the record and beneficial owner of the Subject Shares set forth opposite the Stockholder’s name on Schedule A hereto, and has good, marketable and valid title to the Subject Shares free and clear of any Liens. Except as set forth on Schedule A, the Stockholder does not: (i) own beneficially or of record, or have the right to acquire, any Shares or any shares of capital stock or other equity interests or voting securities of the Company, (ii) have any other interest in any Shares or any shares of capital stock or other equity interests or voting securities of the Company or (iii) have any voting rights with respect to any Shares or any shares of capital stock or other equity interests or voting securities of the Company. The Stockholder has the sole right to vote the Subject Shares and has not given any proxies with respect to any of the Subject Shares, and none of the Subject Shares is subject to any voting trust or other agreement, arrangement or restriction with respect to the voting of the Subject Shares, except as contemplated by this Agreement. The Stockholder shall notify Nationwide of any development occurring after the date of this Agreement that causes, or that would reasonably be expected to cause, any breach of any representation or warranty specified in this Section 1.

SECTION 2. Representations and Warranties of Nationwide. Nationwide hereby represents and warrants to the Stockholder as follows: Nationwide has all requisite corporate power and authority to execute this Agreement and to consummate the transactions contemplated hereby. The execution and delivery by Nationwide of this Agreement and consummation of the transactions contemplated hereby have been duly authorized by all necessary action on the part of Nationwide. Nationwide has duly executed and delivered this Agreement, and, assuming due authorization, execution and delivery by the Stockholder, this Agreement constitutes the valid and binding obligation of Nationwide, enforceable against Nationwide in accordance with its terms. The execution and delivery by Nationwide of this Agreement do not, and the consummation of the transactions contemplated hereby and compliance with the terms hereof will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancelation or acceleration of any obligation or to loss of a material benefit under, or to increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or result in the creation of any Lien upon any of the properties or assets of Nationwide under, the

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organizational documents of Nationwide, any provision of any Contract to which Nationwide is a party or by which any properties or assets of Nationwide are bound or, subject to the filings and other matters referred to in the next sentence, any provision of any Order or any Law applicable to Nationwide or the properties or assets of Nationwide. No Consent of, or registration, declaration or filing with, any Governmental Entity or other Person is required to be obtained or made by or with respect to Nationwide in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby, other than as contemplated by the Merger Agreement, except for the filing with the SEC of any Schedules 13D or 13G, or amendments thereto, and any filings under Section 16 of the Exchange Act, and any filings required by insurance regulatory agencies.

SECTION 3. Covenants of the Stockholder. The Stockholder covenants and agrees as follows:

(a) (1) At any meeting of the stockholders of the Company, or at any postponement or adjournment thereof, called to seek the affirmative vote of the holders of a majority of the outstanding Shares to adopt the Merger Agreement (the "Requisite Stockholder Vote") or in any other circumstances upon which a vote, consent or other approval (including by written consent) with respect to the Merger Agreement, the Subsidiary Merger or other Transactions is sought, the Stockholder shall vote (or cause to be voted or provide written consent with respect to) the Subject Shares in favor of granting the Requisite Stockholder Vote.

(2) The Stockholder hereby irrevocably grants to, and appoints, Nationwide and any individual designated in writing by Nationwide, and each of them individually, as the Stockholder's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of the Stockholder, to vote the Subject Shares, or grant a consent or approval in respect of the Subject Shares in a manner consistent with this Section 3. The Stockholder understands and acknowledges that Nationwide is entering into the Merger Agreement in reliance upon the Stockholder's execution and delivery of this Agreement. The Stockholder hereby affirms that the irrevocable proxy set forth in this Section 3(a)(2) is given in connection with the execution of the Merger Agreement and is therefore coupled with an interest. The Stockholder hereby further affirms that the irrevocable proxy may under no circumstances be revoked, as long as this Agreement remains in effect. Such irrevocable proxy is executed and intended to be irrevocable, as long as this Agreement remains in effect. The irrevocable proxy granted hereunder shall automatically terminate upon the termination of this Agreement in accordance with its terms.

(b) At any meeting of stockholders of the Company or at any postponement or adjournment thereof or in any other circumstances upon which the Stockholder's vote, consent or other approval (including by written consent) is sought, the Stockholder shall vote (or cause to be voted) the Subject Shares against and withhold consent with respect to (i) any merger agreement or merger (other than the Merger Agreement and the Mergers), consolidation, combination, sale of substantial assets, reorganization, recapitalization, dissolution, liquidation or winding up of or by the Company, (ii) any Alternative Transaction or Alternative Transaction Proposal, and (iii) any other action, agreement or transaction that would reasonably be expected to result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Company contained in the Merger Agreement or of the Stockholder contained in this Agreement

or that would impede, interfere or be inconsistent with, delay, postpone, discourage or adversely affect the timely consummation of the Subsidiary Merger or any other Transaction. The Stockholder shall not commit or agree to take any action inconsistent with the foregoing.

(c) Except as otherwise provided in this Agreement, the Stockholder shall not (i) sell, transfer, exchange, pledge, assign, hypothecate, encumber, or tender or otherwise create a Lien on or dispose of (including by gift) (collectively, "Transfer"), or enter into any Contract, option or other arrangement (including any profit sharing arrangement) with respect to the Transfer of, any Subject Shares, any economic interest therein, or any rights to acquire any securities or equity interests of the Company to any Person other than pursuant to the Merger Agreement or (ii) grant any proxies or enter into any voting trust or other agreement or arrangement, whether by proxy, voting agreement or otherwise, with respect to any Subject Shares or any rights to acquire any securities or equity interests of the Company and shall not commit or agree to take any of the foregoing actions. As used in this Agreement, the term "Transfer," shall also include any pledge, hypothecation, encumbrance, assignment or other disposition of such security or the record or beneficial ownership thereof, the offer to make a sale, transfer or other disposition, and each agreement, arrangement or understanding whether or not in writing, to effect any of the foregoing.

(d) The Stockholder hereby consents to and approves the actions taken by the Company Board in approving the Subsidiary Merger. The Stockholder hereby waives, and agrees not to exercise or assert, any appraisal or dissenter's rights in connection with the Subsidiary Merger.

(e) The Stockholder hereby agrees that, in the event (i) of any stock dividend, stock split, recapitalization, reclassification, combination or exchange of shares of capital stock of the Company of, or affecting, the Subject Shares, (ii) that the Stockholder purchases or otherwise acquires beneficial ownership of or an interest in any shares of capital stock of the Company after the execution of this Agreement or (iii) that the Stockholder voluntarily acquires the right to vote or share in the voting of any shares of capital stock of the Company other than the Subject Shares (collectively, the "New Shares"), the Stockholder shall deliver promptly to Nationwide written notice of its acquisition of New Shares which notice shall state the number of New Shares so acquired. The Stockholder agrees that any New Shares acquired or purchased by the Stockholder shall be subject to the terms of this Agreement, including the representations and warranties set forth in Section 1, and shall constitute Subject Shares to the same extent as if those New Shares were owned by the Stockholder on the date of this Agreement.

SECTION 4. Termination. This Agreement shall terminate upon the earliest of (i) the Effective Time and (ii) the termination of the Merger Agreement in accordance with its terms. No party hereto shall be relieved from any liability for any breach of this Agreement by reason of any such termination.

SECTION 5. Additional Matters. The Stockholder shall, from time to time, execute and deliver, or cause to be executed and delivered, such additional or further consents, documents and other instruments as Nationwide may reasonably request for the purpose of effectively carrying out the transactions contemplated by this Agreement.

SECTION 6. Cooperation. To the extent reasonably requested by Nationwide, the Stockholder shall use its commercially reasonable efforts to cooperate with Nationwide in making all filings with, and to obtain consents of, all third parties and Governmental Authorities reasonably necessary or desirable for the consummation of the transactions contemplated by this Agreement.

SECTION 7. General Provisions.

(a) Amendments. This Agreement may not be amended except by an instrument in writing signed by each of the parties hereto.

(b) Notice. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be given in accordance with Section 11.1 of the Merger Agreement.

(c) Other Definitional and Interpretative Provisions. The words “hereof,” “herein” and “hereunder” and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. Terms defined in the singular in this Agreement shall also include the plural and vice versa. The captions and headings herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof. References to Articles, Sections, Exhibits and Schedules are to Articles, Sections, Exhibits and Schedules of this Agreement unless otherwise specified. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation,” whether or not they are in fact followed by those words or words of like import. The phrases “the date of this Agreement,” “the date hereof” and phrases of similar import, unless the context otherwise requires, shall be deemed to refer to the date set forth in the Preamble. The word “extent” in the phrase “to the extent” shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply “if”. The word “will” shall be construed to have the same meaning as the word “shall”. The term “or” is not exclusive. The parties hereto have participated jointly in the negotiation and drafting of this Agreement. If any ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

(d) Severability. Any term or provision of this Agreement that is held by a court of competent jurisdiction or other Governmental Entity to be invalid, void or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions of this Agreement or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a Governmental Entity declares that any term or provision of this Agreement is invalid, void or unenforceable, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible and the parties agree that the court asking such determination shall have the power to reduce the scope, duration, area or applicability of the term or provision, to delete specific words or phrases, or to replace any invalid, void or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

(e) Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original but all of which will constitute one instrument.

(f) Entire Agreement; No Third-Party Beneficiaries. This Agreement (including the schedules and annexes to this Agreement) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement. Nothing herein, express or implied, is intended to or shall confer upon any Person other than the parties to this Agreement and their permitted assigns any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

(g) Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the Laws of the State of Delaware without regard to the conflict or choice of Laws rules thereof or of any other jurisdiction.

(h) Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned by any of the parties to this Agreement (whether by operation of Law or otherwise) without the prior written consent of the other parties. Any attempted assignment in violation of this Section 7(h) shall be void. Subject to the foregoing, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

(i) Specific Enforcement. Each of the parties hereto acknowledges and agrees that the other party hereto would be irreparably damaged in the event any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the parties hereto agrees that each shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions thereof in any action instituted in any forum provided in Section 7(j), in addition to any other remedy to which any party may be entitled, at Law, in equity, or pursuant to this Agreement.

(j) Venue. Each of the parties hereto irrevocably agrees that any Proceeding arising out of or relating to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by the other party or its successors or assigns may be brought and determined exclusively in the Court of Chancery for the State of Delaware sitting in Wilmington, Delaware, or, if such court lacks subject matter jurisdiction, in any state or federal court sitting in Wilmington, Delaware, and each of the parties hereto hereby irrevocably submits to the exclusive jurisdiction of the aforesaid courts for itself and with respect to its property, generally and unconditionally, with regard to any such Proceeding arising out of or relating to this Agreement (and agrees not to commence any Proceeding relating thereto except in such courts). Each of the parties hereto further agrees to accept service of process in any manner permitted by such courts. Each of the parties hereto hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, in any Proceeding arising out of or relating to this Agreement, (a) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure lawfully to serve process, (b) that it or its property is exempt or immune from jurisdiction of any

such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) and (c) to the fullest extent permitted by Law, that (i) the Proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such Proceeding is improper or (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

(k) Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES AND, THEREFORE, EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL OR EQUITABLE PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT. EACH PARTY HEREBY CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF SUCH LEGAL, EQUITABLE OR ALTERNATIVE DISPUTE RESOLUTION PROCEEDING SEEK TO ENFORCE THE FOREGOING WAIVER, (B) EACH PARTY HAS CONSIDERED AND UNDERSTANDS THE IMPLICATIONS OF THIS WAIVER, (C) EACH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (D) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 7(k).

(l) Expenses. All fees, costs and expenses (including all legal, accounting, broker, finder or investment banker fees) incurred in connection with this Agreement and the transactions contemplated hereby are to be paid by the party incurring such fees, costs and expenses.

**[Signatures are on the following page(s)]**

0007

IN WITNESS WHEREOF, each party has duly executed this Agreement, all as of the date first written above.

NATIONWIDE MUTUAL INSURANCE  
COMPANY

By:   
Name: STEPHEN S. RASMUSSEN  
Title: CHIEF EXECUTIVE OFFICER

HARLEYSVILLE MUTUAL INSURANCE  
COMPANY

By: \_\_\_\_\_  
Name:  
Title:

01

0007

IN WITNESS WHEREOF, each party has duly executed this Agreement, all as of the date first written above.

NATIONWIDE MUTUAL INSURANCE COMPANY

By: \_\_\_\_\_  
Name:  
Title:

HARLEYSVILLE MUTUAL INSURANCE COMPANY

By:   
Name: Michael L. Browne  
Title: President & CEO

01

*Exhibit XXI*

**Boenning & Scattergood, Inc. Engagement  
Letter**

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# BOENNING & SCATTERGOOD

ESTABLISHED 1914

February 15, 2012

Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Pennsylvania Insurance Department  
1345 Strawberry Square  
Harrisburg, PA 17120

Dear Mr. Johnson:

This letter will serve as the second addendum (“*Addendum II*”) to the engagement agreement dated November 18, 2011 (“*Agreement*”) by which the Insurance Department of the Commonwealth of Pennsylvania (“*Department*”) engages Boenning & Scattergood, Inc. (“*Boenning*”) as financial advisor to the Department to review the proposed merger (“*Transaction*”) of Harleysville Group, Inc. and Harleysville Mutual Insurance Company (collectively, “*Company*”) with Nationwide Mutual Insurance Company (“*Transaction Partner*”) and specifically in connection with issuing a report and conclusions as to the reasonableness of the Company’s conclusion that the transaction is fair to Harleysville Mutual Insurance Company policyholders (“*Policyholders*”).

Unless otherwise stated in Addendum II, all terms as defined in the Agreement remain the same. The Agreement is hereby modified as follows:

**2. Services of Boenning**

In addition to those services agreed to in the Agreement, Boenning will also provide the following services:

- (r) Review the Company’s rationale for executive level and director compensation, including the analysis and opinions of expert compensation consultants utilized by the Company.
- (s) Review the Transaction Partner’s rationale and explanation for retention, severance and other executive level and director compensation for Company employees.
- (t) Include a summary of the Company’s and Transaction Partner’s analysis in the Report, including Boenning’s conclusions as to the reasonableness of the supporting analysis and if the Company followed the recommendations of its consultants in determining compensation. The Department acknowledges that Boenning is not a compensation consultant and its opinion will be limited to the reasonableness of the analysis and not the specific conclusions drawn by the consultants or Company as the case may be.

BOENNING & SCATTERGOOD

Stephen J. Johnson, CPA

February 15, 2012

Page 2 of 2

3. Fees and Expenses

It is Boenning's understanding that the Transaction Partner will be responsible for the payment of Boenning's fees pursuant to Insurance Company Law of 1921, as amended. As financial advisor to the Department, Boenning will receive a fee of \$1,230,000, payable as follows:

- (i) \$50,000 upon execution of this Agreement;
- (ii) \$100,000 on December 31, 2011;
- (iii) \$250,000 upon issuance of Boenning's draft report;
- (iv) \$575,000 upon the earlier of: (a) thirty (30) days after issuance of the draft report noted in (iii) above, or, (b) issuance of Boenning's final Report;
- (v) \$130,000 upon the earlier of (a) the Department's public hearing regarding the Transaction, or, (b) March 31, 2012;
- (vi) \$125,000 upon the earlier of (a) May 31, 2012, or, (b) the completion of Boenning's engagement.

Boenning will also be reimbursed on a timely basis for database costs and reasonable out-of-pocket expenses (e.g., travel, legal review of report, fax, copying, etc.) incurred in providing its services. Boenning shall, in addition, be reimbursed for reasonable attorneys' fees and related legal expenses incurred in connection with the negotiation and performance of this Agreement and the matters contemplated hereby.

All other terms and conditions in the Agreement remain in force.

Please indicate your acceptance of the foregoing by executing and returning the enclosed copy of this letter.

Boenning & Scattergood, Inc.

By:   
 Anthony A. Latini, Jr.  
 Managing Director

Accepted by:

PENNSYLVANIA INSURANCE DEPARTMENT

By:   
 Stephen J. Johnson, CPA  
 Deputy Insurance Commissioner

2/15/12  
 Date

BOENNING & SCATTERGOOD  
ESTABLISHED 1914

November 18, 2011

Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Pennsylvania Insurance Department  
1345 Strawberry Square  
Harrisburg, PA 17120

Dear Mr. Johnson:

This letter will serve as the engagement agreement ("*Agreement*") by the Department of the Commonwealth of Pennsylvania ("*Department*") engages Boenning & Scattergood, Inc. ("*Boenning*") as financial advisor to the Department to review the proposed merger ("*Transaction*") of Harleysville Group, Inc. and Harleysville Mutual Insurance Company (collectively, "*Company*") with Nationwide Mutual Insurance Company ("*Transaction Partner*") and specifically in connection with issuing a report and conclusions as to the reasonableness of the Company's conclusion that the transaction is fair to Harleysville Mutual Insurance Company policyholders ("*Policyholders*").

1. *Services of Boenning*

As financial advisor to the Department, Boenning will provide the following services as directed by the Department:

- (a) Assemble such financial and other information on the Company from Boenning's information request list as Boenning deems necessary or appropriate.
- (b) Review any regulatory filings (including Form A merger filings) submitted by the Company or its Transaction Partner to the Department.
- (c) Conduct due diligence on the Company in order to review historical financial results, financial projections, various corporate information and other information as Boenning deems necessary or appropriate.
- (d) Review the Company's registration statement filed with the Securities and Exchange Commission ("*Registration Statement*") and subsequent updates.
  - (i) Review and comment on the Company's Mutual Policyholder Information Statement.
- (e) Review the process by which the Company determined to pursue the Transaction, including but not limited to interviewing management, board members and advisors, as deemed necessary.

4 Tower Bridge • 200 Barr Harbor Drive • Suite 300 • West Conshohocken • PA 19428-2979

phone (610) 832-1212 • toll free (800) 883-1212 • fax (610) 832-5301

www.boenninginc.com • Member FINRA/ SIPC

Stephen J. Johnson, CPA  
November 18, 2011  
Page 2 of 6

- (f) Understand the alternatives to the Transaction considered by the Company in determining to proceed with the Transaction.
- (g) Review and analyze the financial terms and conditions of the Transaction.
- (h) Review analysis and opinions prepared by the Company's financial and legal advisors and conduct interviews with such advisors to understand the analysis as well as the extent and limits of the analysis and opinions.
- (i) Review the financial performance of the Company in relation to its peers and review its financial performance, projections and other criteria considered germane by Boenning to the assignment.
- (j) Perform a financial analysis of the Company to formulate a valuation range. The analysis will assess the potential value of the Company based upon standard and widely accepted valuation methodologies as well as others Boenning deems to be relevant.
- (k) Compare the values derived by Boenning's financial analysis relative to values potentially available from other alternatives to the Policyholders, including a subscription rights demutualization.
- (l) Examine the rights of Policyholders under the Transaction and how such rights are proposed to be modified by the Transaction.
- (m) Examine and provide commentary on the measures taken by the Company to preserve independence and manage potential conflicts of interest among Company directors.
- (n) Examine and provide commentary on the differences, similarities and potential differences, between the responsibilities and potential conflicts of interest of Harleysville Mutual directors and those of the stock holding company.
- (o) Attend and participate in such meetings of the Department and its legal and other advisors as requested and appropriate.
- (p) Review and render advice within a written report to the Department summarizing the analysis completed by Boenning, including a review the reasonableness of the methodologies and assumptions utilized by the Company, as well as, the reasonableness of the Company's conclusion that the Transaction is fair to Policyholders given the factors considered, methods used, and assumptions made ("*Report*").
- (q) Participate in and provide testimony regarding the specific findings in Boenning's Report, if requested by the Department, at any hearings held for public comment on the Transaction.

Stephen J. Johnson, CPA  
November 18, 2011  
Page 3 of 6

2. **Content and Distribution of Report**

Unless otherwise requested by the Department, Boenning will issue the Report as soon as it is completed. The Report will state in substance, among other things, that it is given in reliance on the accuracy and completeness of information furnished to Boenning. The Report will contain a description of the principal materials that Boenning reviewed and upon which Boenning relied and the principal assumptions upon which Boenning has relied. Boenning understands that its Report will be made available to the public. Any requests for copies of the Report will be made to the Department and the Department will distribute such copies of the Report. All copies of the Report will be distributed only in its entirety. The Department will notify Boenning of the identity of the recipients of all such copies. The Report may be referenced in material provided by the Department in its Decision and Order with respect to the Transaction.

3. **Fees and Expenses**

It is Boenning understands that the Company will be responsible for the payment of Boenning's fees pursuant to Insurance Company Law of 1921, as amended. As financial advisor to the Department, Boenning will receive a fee of \$1,180,000, payable as follows:

- (i) \$50,000 upon execution of this Agreement;
- (ii) \$100,000 on December 31, 2011;
- (iii) \$250,000 upon issuance of Boenning's draft report;
- (iv) \$550,000 upon the earlier of: (a) thirty (30) days after issuance of the draft report noted in (iii) above, or, (b) issuance of Boenning's final Report;
- (v) \$115,000 upon the earlier of (a) the Department's public hearing regarding the Transaction, or, (b) March 31, 2012;
- (vi) \$115,000 upon the earlier of (a) May 31, 2012, or, (b) the completion of Boenning's engagement.

Boenning will also be reimbursed on a timely basis for database costs and reasonable out-of-pocket expenses (e.g., travel, legal review of report, fax, copying, etc.) incurred in providing its services. Boenning shall, in addition, be reimbursed for reasonable attorneys' fees and related legal expenses incurred in connection with the negotiation and performance of this Agreement and the matters contemplated hereby.

The obligation to pay Boenning's fees is in no manner contingent upon conclusions in the Report or the closing of a Transaction. It is Boenning's understanding that the Report may be only one of a number of factors considered by the Department in reaching its decision regarding the Transaction.

4. **Term of Engagement**

This Agreement shall commence upon the date hereof and will terminate upon the earlier to occur of (a) the delivery of the Services listed in "***1. Services of Boenning***" above or (b) the delivery of written notification from either party to the other of such party's intent to terminate this Agreement (the period during which this Agreement is in effect is referred to herein as the "***Term***"). Termination of the Agreement shall not affect Boenning's right (a) to reimbursement of expenses under this Agreement, or (b) to any amounts owed on or prior to the date of such termination. Without limiting the foregoing, notwithstanding the expiration of this Agreement, the provisions of Sections 3 through 8 shall remain operative in accordance with their respective terms.

5. **Other Services**

If Boenning is requested by the Department or the Company to perform any financial advisory or investment banking services which are not within the scope of this Agreement, the fees for such services shall be mutually agreed upon by Boenning and the Department in writing, in advance, and shall be in addition to the fees and expenses described hereinabove. Except as set forth in the immediately preceding sentence, if Boenning is requested to render services directly or indirectly relating to the subject matter of this Agreement (including producing documents, answering interrogatories, giving depositions and giving expert or other testimony (such testimony being in addition to the testimony contemplated under "***Section 1. (g)***" above), whether by subpoena, court process or order, or otherwise), the Department shall pay the standard hourly rates for the persons involved in the time expended in rendering such services, including time for meetings, conferences, preparation and travel, and all related reasonable out-of-pocket costs and expenses (including the reasonable legal fees and expenses of Boenning's legal counsel incurred in connection therewith).

6. **Information Provided to Boenning**

In performing the services described above, the Department agrees to furnish or cause to be furnished to Boenning such information as Boenning reasonably believes appropriate to permit Boenning to provide the services contemplated by this Agreement (all such information so furnished being the "***Information***"). The Department recognizes and confirms that Boenning (a) will use and rely primarily on the Information and on information available from generally recognized public sources in performing the services contemplated hereby without having independently verified any of the same, (b) does not assume responsibility for the accuracy or completeness of the Information and such other information, and (c) will not make any appraisal of any of the assets or liabilities of the Company.

7. **Confidentiality**

All information and materials produced or obtained in the course of Boenning's analysis will be considered confidential and may only be reproduced or distributed with the prior written

consent of the Department. Boenning will be permitted to retain one copy of all information and materials, which is necessary for Boenning's professional work record.

8. Miscellaneous

(a) This Agreement and all controversies arising from or related to performance under this Agreement shall be governed by the internal laws of the Commonwealth of Pennsylvania without regard to its rules concerning conflicts of laws. To the full extent lawful, each of the parties to this Agreement hereby consents irrevocably to personal jurisdiction, service and venue (a) in connection with any claim arising out of this Agreement, in the courts of the Commonwealth of Pennsylvania located in Montgomery County, Pennsylvania and in the federal courts in the Eastern District of Pennsylvania, and (b) solely for the purpose of allowing any person to enforce its reimbursement or contribution rights hereunder, in any court in which any action is brought in respect of which any such right is asserted.

(b) This Agreement may not be amended or otherwise modified except by a writing signed by each of the parties to this Agreement. No party may assign this Agreement without the prior written consent of the other parties. This Agreement embodies the entire agreement and understanding among the parties and supersedes any prior agreements and understandings relating to its subject matter. If any provision of this Agreement shall be determined to be invalid or unenforceable in any respect, such determination shall not affect such provision in any other respect or any other provision of this Agreement, which shall remain in full force and effect. This Agreement is made solely for the benefit of the Department and Boenning and their respective successors and assigns, heirs and personal representatives, and no other person shall have or acquire any rights under or by virtue of this Agreement.

(c) Upon the consummation of any Transaction, Boenning may, at its own expense, place announcements in financial and other newspapers and periodicals (such as a customary "tombstone" advertisement) describing its services in connection therewith. The content of such advertisement may include the use of the Department's logos, trademarks or other identifying marks; however, such advertisement shall not disclose the financial terms of any Transaction without the Department's prior written approval, other than such financial terms disclosed in press releases, public filings, or the media.

(d) This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument. Either party's execution and delivery of this Agreement may be evidenced by either physical delivery or facsimile communication of such executed Agreement or executed counterpart to the other party.

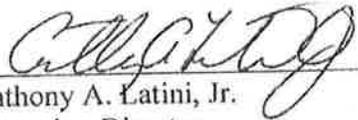
(e) The parties understand that Boenning is being engaged hereunder as an independent contractor to provide the services described above solely to the Board and the Department, and that Boenning is not acting as a fiduciary of the Department, the security holders or creditors of the Department or any other persons in connection with this engagement.

Stephen J. Johnson, CPA  
November 18, 2011  
Page 6 of 6

(f) Boenning understands that this engagement has been offered by the Department conditioned on Boenning's representation that no conflict of interest currently exists between the Company and Boenning. Boenning will immediately notify the Department should a conflict of interest become known during the engagement or arise during the Term of the engagement.

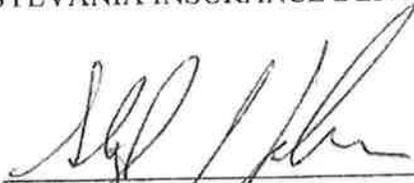
Please indicate your acceptance of the foregoing by executing and returning the enclosed copy of this letter.

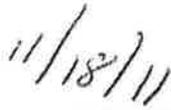
Boenning & Scattergood, Inc.

By:   
Anthony A. Latini, Jr.  
Managing Director

Accepted by:

PENNSYLVANIA INSURANCE DEPARTMENT

By:   
Stephen J. Johnson, CPA  
Deputy Insurance Commissioner

  
Date