BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re:	:	Pursuant to Sections 1401, 1402, and
	:	1403 of the Insurance Holding
Application of Nationwide Mutual	:	Companies Act, Article XIV of the
Insurance Company in Support of the	:	Insurance Company Law of 1921,
Request for Approval to Merge with	:	Act of May 17, 1921, P.L. 682,
Harleysville Mutual Insurance Company	:	as amended, 40 P.S. §§991.1401,
	:	991.1402, and 991.1403; Sections
	:	205 and 207 of the GAA
	:	Amendments Act of 1990, Act of
	:	December 19, 1990, P.L. 834, No.
	:	198, as amended, 15 P.S. §§21205
	:	and 21207.
	:	
	:	Order No.: ID-RC-12-05

DECISION AND ORDER

AND NOW, on this 16th day of April, 2012, Michael F. Consedine, Insurance Commissioner of the Commonwealth of Pennsylvania ("Commissioner"), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and the GAA Amendments Act of 1990, and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Parties

Identity of Harleysville Mutual Insurance Company and Certain Subsidiaries

1. Harleysville Group Inc. ("Harleysville Group") is an insurance holding company organized under the laws of the state of Delaware with its principal place of business in Harleysville, Pennsylvania.

2. Harleysville Group directly holds 100% of the issued and outstanding capital stock of the following entities, collectively referred to as "Group Subs".

    a. Harleysville Insurance Company of New York ("Harleysville New York") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harleysville, Pennsylvania.

    b. Harleysville Preferred Insurance Company ("Harleysville Preferred") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harleysville, Pennsylvania.

    c. Harleysville Worcester Insurance Company ("Harleysville Worcester") is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harleysville, Pennsylvania.

    d. Harleysville Insurance Company is a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harleysville, Pennsylvania.

3. Harleysville Mutual Insurance Company ("Harleysville Mutual") is a domestic mutual property insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harleysville, Pennsylvania.

4. Harleysville Mutual directly holds approximately 54% of the issued and outstanding capital stock of Harleysville Group.

5. Harleysville Mutual owns 100% of the issued and outstanding capital stock and is the ultimate controlling person of:

    a. Harleysville Life Insurance Company ("Harleysville Life"), a stock life insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harleysville, Pennsylvania.

b. Harleysville Pennland Insurance Company ("Harleysville Pennland"), a stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Harleysville, Pennsylvania.

6. Harleysville Mutual, Harleysville Group, and their respective subsidiaries are collectively referred to as "Harleysville."

Identity of Nationwide Mutual Insurance Company and Certain Subsidiaries

7. Nationwide Mutual Insurance Company ("Nationwide Mutual" or "Applicant") is an admitted foreign mutual casualty insurance company organized under the laws of the state of Ohio with its principal place of business in Columbus, Ohio.

8. Nationals Sub, Inc. ("Merger Sub") is a business corporation organized under the laws of the state of Delaware with its principal place of business in Columbus, Ohio. Nationwide Mutual directly holds 100% of the issued and outstanding capital stock of Merger Sub.

Identity of Consultants

Consultants

9. Nationwide Mutual retained the following advisors in connection with the proposed mergers:

   a. Merrill Lynch, Pierce, Fenner & Smith Incorporated ("BofAMerrill Lynch") as an independent investment banker advisor in connection with fairness of the mergers, from a financial point of view, to the Nationwide Mutual policyholders taken as a group.

   b. Jones Day as legal counsel.

   c. Saul Ewing LLP as legal counsel.

10. Harleysville Mutual retained the following advisors in connection with the proposed mergers:

   a. Credit Suisse Securities (USA) LLC ("Credit Suisse") as an investment banker advisor.

   b. Ballard Spahr LLP as legal counsel.

   c. Griffin Financial Group, LLC ("Griffin") as an additional financial advisor that rendered a fairness opinion to the Board of Directors of Harleysville Mutual.

d. Stevens & Lee, P.C. ("Stevens & Lee") as an additional legal advisor. Griffin and Stevens & Lee are affiliates.

e. Stradley Ronon as legal counsel.

11. Harleysville Group retained:

a. Credit Suisse as an investment banker advisor.

b. Fox Rothschild LLP as legal advisor for the proposed mergers.

c. Keefe, Bruyette, and Woods ("KBW") to provide an opinion as to the fairness, from a financial point of view, to the holders of Harleysville Group common shares (excluding Harleysville Mutual or its successors) of the merger consideration provided for in the merger of the subsidiaries.

Consultants to the Pennsylvania Insurance Department

12. On November 18, 2011, the Pennsylvania Insurance Department ("Department") retained Boenning & Scattergood, Inc. ("Boenning") as a financial advisor to evaluate certain aspects of the proposed mergers.

Harleysville Mutual's Actions Prior to Application

13. Harleysville has operated for over 90 years. Harleysville's financial performance was beginning to decline in late 2004 and into 2005.

14. In 2005, the Boards of Directors of Harleysville Mutual and Harleysville Group (collectively "Boards") undertook several changes to Harleysville's management and strategic direction.

15. Because of an ongoing soft market and deteriorating economic conditions, it appears that Harleysville's management concluded that continued recovery and growth was not attainable organically.

16. In late 2010, Harleysville asked Credit Suisse to analyze other strategic alternatives outside of an acquisition, and Credit Suisse presented Harleysville with several strategic options.

17. During the first quarter of 2011, Nationwide Mutual approached Harleysville to see if there was interest in a strategic transaction between them.

18. During the subsequent months, numerous communications took place between Nationwide Mutual and Harleysville. As a result, the Boards instructed senior management to investigate a possible transaction with Nationwide Mutual.

19. In June 2011, the Boards met for two days of annual offsite strategic planning meetings ("June Meetings").

20. During the June Meetings, Credit Suisse made a presentation to the Boards regarding possible strategic alternatives for Harleysville.

21. Specifically, the Credit Suisse presentation covered the following alternatives:

    a. Standalone -- maintaining the current structure and pursuing the existing business plan.

    b. Standalone with acquisitions -- making an acquisition with the existing structure.

    c. Demutualization -- modification of the existing structure through a demutualization subscription rights offering and possible subsequent transactions.

    d. Sale or merger transaction -- sale of the enterprise/merger with a partner.

22. During the June Meetings, Ballard Spahr LLP made a presentation to the Boards on their respective fiduciary duties under Delaware and Pennsylvania law. The Boards also reviewed with Ballard Spahr LLP the procedures for responding to and considering acquisition proposals.

23. During the June Meetings, Credit Suisse presented the Boards with a short list of companies, including Nationwide Mutual, capable of doing a transaction with Harleysville.

24. The Boards directed management of Harleysville to continue to explore possible transactions with each of three potential candidates for a transaction.

25. The objectives of such a transaction were determined to be:

    a. Protect and enhance the position of policyholders of Harleysville Mutual;

    b. Provide continued opportunities for Harleysville employees;

    c. Preserve the Harleysville culture and commitment to the community;

    d. Maximize value for the public stockholders of Harleysville Group; and

    e. Continue to grow the Harleysville brand.

26. Based on (among other things) Credit Suisse's June 13, 2011 presentation ("June Presentation"), discussions were initiated with three companies.

27. "Company A" was approached but ultimately elected not to submit a formal proposal, while "Company B" did not appear to be interested in pursuing a transaction on terms that would have been acceptable to the Harleysville's Boards.

28. Nationwide Mutual, the third party involved in discussions regarding a possible business combination, submitted a non-binding proposal on August 9, 2011 for a mutual-to-mutual merger and a cash payment of $60 per share to the public stockholders of Harleysville Group.

29. Harleysville moved forward to due diligence and negotiation of an acceptable transaction with Nationwide Mutual under the terms of an exclusivity agreement dated August 15, 2011, pursuant to which Harleysville agreed that it would not initiate, encourage, solicit or enter into any competing transaction, or take any action to facilitate, enhance, or recommend a competing transaction.

30. On September 28, 2011, Harleysville Mutual, Harleysville Group, Merger Sub and Nationwide Mutual executed an Agreement and Plan of Merger ("Merger Agreement").

31. The Boards approved the Merger Agreement and the transactions contemplated thereby on September 28, 2011.

32. On the same day, Harleysville Mutual's Board of Directors also approved a Voting Agreement whereby Harleysville Mutual agreed to vote its shares of Harleysville Group in favor of the merger of the subsidiaries.

Filing of the Application

The Application

33. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. ("Insurance Holding Companies Act"), provides that all mergers or other acquisitions of control of domestic insurers must be filed with the Department for approval or disapproval.

34. Section 1402(g) of the Insurance Holding Companies Act provides for exemption from the requirements of Section 1402:

    a. If the merger does not have the effect of changing or influencing the control of a domestic insurer, or

    b. If the transaction is otherwise not comprehended within the purposes of Section 1402.

35. The GAA Amendments Act of 1990, P.L. 834, No. 198, as amended, 15 P.S. §§21205, 21207 ("GAA Amendments Act"), provides that all plans of merger of domestic insurers must be filed with the Department for approval or disapproval.

36. On November 10, 2011, the Department received an initial application (which together with all material received subsequently is collectively referenced as "Application") from Nationwide Mutual requesting approval for the "Acquisition and Control of or Merger with" Harleysville Mutual, Harleysville Life, Harleysville Pennland, and the Group Subs (collectively referenced as "Merger").

37. The Application was filed with the Department pursuant to Section 1402 of the Insurance Holding Companies Act and Section 205 of the GAA Amendments Act.

38. As provided in the Application, under the terms of the Merger Agreement, Harleysville Mutual will merge with and into Nationwide Mutual, with Nationwide Mutual continuing as the surviving entity ("Parent Merger"). Immediately after the Parent Merger, the Merger Sub will merge with and into Harleysville Group, with Harleysville Group surviving as a wholly owned subsidiary of Nationwide Mutual ("Subsidiary Merger").

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

40. As a result of the Subsidiary Merger, the Group Subs will become indirect wholly-owned subsidiaries of Nationwide Mutual and will remain Pennsylvania-domiciled insurance companies.

41. The Subsidiary Merger will include conversion of each share of common stock of Harleysville Group not owned by Harleysville Mutual into the right to receive $60 payable in cash.

42. As described in the Application, Nationwide Mutual will acquire all of the assets of Harleysville Mutual and assume all of the debts and other liabilities of Harleysville Mutual.

43. A special meeting of members of Harleysville Mutual will be held on Tuesday, April 24, 2012, to consider and vote upon the proposal to adopt the Merger Agreement ("Special Meeting").

Notice and Filing of Comments

44. On November 26, 2011, the Department published notice in the Pennsylvania Bulletin that the Application had been submitted and such notice invited interested

persons to submit comments to the Department regarding the Application until January 20, 2012 (the "Public Comment Period").

45. During the Public Comment Period, the Department received no comments regarding the Application.

46. Prior to the Public Comment Period, Liberty Mutual Holding Company, Inc. ("Liberty Mutual") submitted a letter expressing the view that the Nationwide Mutual proposal was unfair, from a Harleysville Mutual policyholder's perspective, because it would personally enrich the officers and directors of Harleysville Mutual.

47. Specifically, Liberty Mutual alleged that:

    a. The transaction does not provide for any consideration to be paid to policyholders of Harleysville Mutual while Harleysville Group's shareholders would receive $60 per share.

    b. The transaction differs from traditional mutual-to-mutual mergers because Harleysville Mutual owns 54% of the shares of Harleysville Group and would essentially be a "going private" transaction, which would result in an inherent conflict of interest between the members of Harleysville Mutual and the shareholders of Harleysville Group.

    c. Harleysville Mutual may not have appropriately taken into consideration the interests of its members when deciding "to allocate the entire merger premium" to the public shareholders of Harleysville Group.

48. The Liberty Mutual letter suggested that the Department:

    a. Scrutinize the deliberative process undertaken by the Boards in connection with considering the proposed transactions to ensure that those officers and directors satisfied their fiduciary obligations to Harleysville Mutual and indirectly, its members and policyholders.

    b. Enlist the assistance of outside experts to evaluate the fairness of the transactions.

    c. Determine whether Harleysville Mutual "carefully evaluated and actively sought" alternative bids/proposals and analyzed the impact of the same.

    d. Hold a public hearing in lieu of the submission of public comments.

49. The Department shared the Liberty Mutual comment with Harleysville Mutual and Nationwide Mutual.

50. Both Harleysville Mutual and Nationwide Mutual presented an alternative view of the Liberty Mutual position in letters dated November 17, 2011.

51. Harleysville Mutual's response noted that the premise of Liberty Mutual's letter was factually incorrect and that the Nationwide Mutual transactions are fair and compelling transactions that benefit all stakeholders and satisfy the standards of Section 1402. Specifically:

    a. The Harleysville Mutual policyholders will become policyholders in Nationwide Mutual, an insurance company with $13 billion in surplus, an A+ AM Best rating, and a significantly larger and more diverse portfolio.

    b. The expectations of Harleysville Group's public shareholders are satisfied through Nationwide Mutual's agreement to purchase their stock at $60 per share.

    c. The Parent Merger and the Subsidary Merger are two separate transactions with two different constituencies, which were entered into based upon separate considerations and separate determinations.

    d. There is nothing unusual about the Parent Merger; it is not a "going private" transaction. Rather, Harleysville Mutual policyholders will become Nationwide Mutual policyholders.

    e. The Boards established processes and procedures to ensure that all interests were identified and represented, and any potential conflict of interest was dealt with consistent with the recognized standards of corporate governance.

    f. The difference in consideration received by Harleysville Mutual policyholders and Harleysville Group shareholders is "a direct and appropriate result of the difference in their interests as policyholders and shareholders."

    g. Both the Harleysville Mutual Special Committee and the Harleysville Mutual Board of Directors satisfied their fiduciary duties in approving the Parent Merger by acting in the best interest of Harleysville Mutual and all of its constituencies.

    h. The Harleysville Mutual Board of Directors "was entitled to and did" determine that other considerations (nature of the company acquiring Harleysville Mutual, the AM Best rating of the acquiror, the fit of the independent agent structure, the surplus of and products offered by the combined companies, the preservation of jobs and corporate culture, and the impact of the Merger on the communities where Harleysville is located) "ought to prevail" over the single factor of the cash consideration paid to Harleysville Group shareholders.

52. Nationwide Mutual also noted that the Liberty Mutual letter was inaccurate in several respects. Specifically:

    a. The proposed Merger is not "unusual" but is a traditional merger of two mutual insurance companies, and the policyholders of Harleysville Mutual will benefit by becoming members of Nationwide Mutual; there is no legal requirement that a policyholder dividend be paid in connection with such a merger.

    b. The interests of public stockholders are extinguished at the time of the Merger in exchange for cash consideration.

    c. It is common for mutual insurance companies to have stock subsidiaries and for control of such subsidiaries to change as a result of a mutual merger.

    d. The agreed market premium (for the Harleysville Group shares) is "appropriate and within the range of comparable transactions."

    e. Liberty Mutual's analysis ignores the differences between Delaware and Pennsylvania laws with respect to the evaluation of acquisition proposals i.e., a "fiduciary out" is not required by Pennsylvania law.

Standards for Review

53. Section 205 of the GAA Amendments Act provides that a transaction should be approved if the terms and conditions of the proposed merger are fair and that the proposed merger is in accordance with law and not injurious to the interests of the policyholders and creditors. 15 P.S. §21205.

54. Section 1402(f)(1) of the Insurance Holding Companies Act establishes the standards for approval of an application for a merger or other acquisition of control of a domestic insurer. 40 P.S. §991.1402(f)(1).

55. The application for a merger or other acquisition of control must be approved unless the Department finds any one of certain enumerated conditions to be present.

    Licensing Requirements

56. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the requirements for continued licensure of the surviving insurer.

57. Specifically, the Department reviews whether the acquirer would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed after the acquisition. 40 P.S. §991.1402(f)(1)(i).

58. The class or classes of insurance for which an insurance company may be incorporated and become licensed to write are set forth in Section 202 of the Insurance Company Law (40 P.S. §382).

59. Section 206 of the Insurance Company Law (40 P.S. §386) sets forth the minimum surplus required of an insurance company for each class of insurance for which it is incorporated.

60. Nationwide Mutual is licensed by the Department to transact all property and casualty classes of insurance in Pennsylvania.

61. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), Nationwide Mutual is required to maintain a minimum surplus of $2,350,000 to maintain a license to transact the business of insurance in this Commonwealth for those classes of insurance for which it is licensed.

62. Upon completion of the transactions, Nationwide Mutual will have surplus in an amount sufficient to maintain a license to transact the business of insurance in this Commonwealth for those classes of insurance for which it is presently licensed.

Competitive Impact

63. The Parent Merger (of Harleysville Mutual with and into Nationwide Mutual) is subject to review and analysis under Section 1402(f)(1)(ii) of the Insurance Holding Companies Act to determine whether the effect of the Merger would be to substantially lessen competition in this Commonwealth or tend to create a monopoly therein. 40 P.S. §991.1402(f)(1)(ii) (the "competitive standard").

64. In applying the competitive standard, the informational requirements of Section 1403(c)(2) and the standards of Section 1403(d)(2) of the Insurance Holding Companies Act are applicable. 40 P.S. §§991.1402(f)(1)(ii), 991.1403(c)(2), 991.1403(d)(2).

65. The Applicant complied with the informational requirements of the Insurance Holding Companies Act by filing a pre-acquisition notification in the format required by the National Association of Insurance Commissioners (a "Form E" filing).

66. The Department's analysis of the applicable product and geographic markets, and the information submitted by the Applicant, indicate that the default product markets (annual statement lines of business) and geographic market (Commonwealth of Pennsylvania) under Section 1403(d)(2)(iii)(B) of the Insurance Holding Companies Act are appropriate.

67. For all lines of business, except those identified below, the proposed Merger qualifies for the exemptions set forth in Section 1403(b)(2)(v)(A)-(C) of the Insurance Holding Companies Act.

68. The property and casualty lines of business for which the competitive standard is applicable include:

    a. Line 2.3 Federal Flood
    b. Line 5.1 Commercial Multi-Peril (Non-Liab)
    c. Line 5.2 Commercial Multi-Peril (Liab.)
    d. Line 19.1 Private Passenger Auto No-Fault
    e. Line 19.3 Commercial Auto No-Fault
    f. Line 21.2 Commercial Auto Physical Damage
    g. Line 26 Burglary & Theft.

69. For the lines of business listed in paragraph 68, above, the market is not highly concentrated.

70. For the lines of business listed in paragraph 68, above, with the exception of Line 2.3 Federal Flood, the market share percentages of Nationwide Mutual and its Pennsylvania operating insurance subsidiaries and Harleysville do not establish a prima facie violation of the competitive standard in Section 1403(d)(2)(i) of the Insurance Holding Companies Act.

71. With regard to Line 2.3 Federal Flood, the market share percentages of Nationwide Mutual and its Pennsylvania operating insurance subsidiaries and Harleysville do establish a prima facie violation of the competitive standard of Section 1403(d)(2)(i) of the Insurance Holding Companies Act.

72. However, with respect to Line 2.3 Federal Flood, the Applicant has established the absence of anti-competitive effect of the Merger in the market for flood insurance in the Commonwealth of Pennsylvania based on other substantial evidence, including information concerning the nature of flood insurance.

73. As set forth in the Application, Nationwide Mutual and its Pennsylvania operating insurance subsidiaries and Harleysville write flood insurance business only as Write Your Own ("WYO") companies under the Federal Flood Insurance Program. The federal government establishes the terms and conditions under which flood insurance may be sold and administered. The federal government guarantees and reviews payments from federal funds to pay losses incurred by insurers. The federal government monitors insurers' underwriting, claims and financial practices. Although insurers retain certain expense allowances and receive reimbursements, they undertake no insurance risk.

74. Additionally, there are a significant number of competitors in the Federal Flood insurance market and, because participation is open to all qualified property and casualty insurers, there is ease of entry and exit into the market.

75. With regard to the lines of business listed in paragraph 68, above, there is not a significant trend toward increased concentration when considering the aggregate market share for the largest insurers in the market from the two largest to the eight largest as set forth in Section 1403(d)(2)(ii) of the Act.

76. There is insufficient evidence in the record from which it may be concluded that the Parent Merger will substantially lessen competition or tend to create a monopoly in the relevant insurance markets in the Commonwealth of Pennsylvania.

Financial Condition of Applicant

77. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the financial condition of the surviving insurer to determine whether the financial condition is such that it may jeopardize the financial stability of the insurer or prejudice the interest of its policyholders. 40 P.S. §991.1402(f)(1)(iii).

78. As of December 31, 2011, the Annual Statement of Harleysville Mutual reported (in accordance with Statutory Accounting Procedures):

Assets:	$1,532,050,770
Liabilities:	$ 672,235,766
Surplus as Regards Policyholders:	$ 859,815,004

79. As of December 31, 2011, the Annual Statement of Nationwide Mutual reported (in accordance with Statutory Accounting Procedures):

Assets:	$27,617,831,419
Liabilities:	$17,182,942,679
Surplus as Regards Policyholders:	$10,434,888,740

80. There is insufficient evidence in the record from which it may be concluded that the financial condition of Nationwide Mutual would jeopardize the financial stability of Harleysville, impose any impediments to the Merger, or prejudice the interest of policyholders.

Plans for the Acquired Insurer

81. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals of the surviving insurer after the merger. 40 P.S. §991.1402(f)(1)(iv).

82. In particular, the Department reviewed Nationwide Mutual's plan or proposal to acquire Harleysville Mutual as set forth in the Application to determine whether it is:

a. Unfair or unreasonable or fails to confer a benefit upon policyholders of Harleysville Mutual.

b. Not in the public interest.

83. As provided at page 9 of the Policyholder Information Statement ("PIS"), the Harleysville Mutual Board of Directors considered the requirements for approval of the transaction under the Insurance Holding Companies Act and determined that the transaction was not unfair or unreasonable to policyholders and conferred benefits to the policyholders of Harleysville Mutual.

84. The Department evaluated the reasonableness of the Board's conclusion and also independently evaluated whether the transaction was not unfair or unreasonable and conferred a benefit upon policyholders.

a. The Department evaluated whether the Harleysville Mutual Board of Directors reviewed all strategic alternatives and options and reasonably concluded that the transaction with Nationwide Mutual was in the best interest of all constituencies.

(1) The Credit Suisse June Presentation appeared to provide adequate detail, analysis and a review of likely outcomes commensurate with the intended purpose of educating the Boards about strategic alternatives and establishing a contextual framework for future decision-making.

(2) The Credit Suisse determination that the Nationwide Mutual transaction was consistent with objectives developed by the Boards was reasonable.

(3) Griffin also analyzed seven potential strategic alternatives in respect to the transaction. The Department found such analysis thorough, reasonable and complete from a financial point of view. The rationale for dismissing each of the seven transaction alternatives and the quantitative and qualitative reasoning and conclusions developed by the financial advisors and Boards also appear reasonable.

b. The Department evaluated whether a conflict of interest (arising from potential differences in the fiduciary duties of the directors of Harleysville Mutual as opposed to those of Harleysville Group) may have inappropriately influenced the Boards' decision to pursue the transaction with Nationwide Mutual.

(1) Six members of the Boards sat on both Harleysville Board of Directors and Harleysville Mutual's Board of Directors. There were three members who sat only on Harleysville Mutual's Board of Directors

and two members who sat only on the Harleysville Group Board of Directors.

(2) The Harleysville Mutual Board of Directors and the Harleysville Group Board of Directors approved separate transactions using separate sets of criteria.

(3) Both Boards took measures to ensure independence.

(4) The directors were reported to have a working knowledge of and experience with the issues and duties in their separate roles as Harleysville Mutual Board of Directors and Harleysville Group Board of Directors. It was also reported that when voting as directors of Harleysville Mutual, the directors recognize their duties and report to abide by those duties as appropriate.

(5) Each board engaged its own separate financial and legal advisors and held meetings separately from the full boards.

(6) 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 ("Special Committee"), was formed.

(7) The directors on the Special Committee appeared to understand their roles and special focus necessary to avoid any actual or potential conflict of interest.

(8) The record supports Harleysville Mutual's assertion that it appropriately dealt with any conflicts of interest that could have arisen by virtue of the structure of the transaction.

c. The Department evaluated whether the transaction is unfair or unreasonable and whether a benefit would be conferred upon policyholders after the transaction if they were to become Nationwide Mutual policyholders.

(1) Nationwide Mutual's plan to enable Allied Group, Inc. ("Allied") and Harleysville to continue to provide and expand their current offerings of products facilitates greater growth opportunities in the future.

(2) The transaction will provide increased geographical diversification and ease of doing business with independent agents and policyholders.

(3) Because the Merger will not have any effect on the corporate existence of any of the insurance operating companies of Harleysville, with the exception of Harleysville Mutual, those companies will continue to utilize their currently filed rules, rates, and forms.

(4) Policyholders will enjoy the full backing of Nationwide Mutual's financial strength. While Harleysville has approximately $1.3 billion of surplus, the combined companies will have approximately $13.5 billion of surplus after the Merger is complete. Moreover, Harleysville's current A.M. Best rating is "A," and Nationwide Mutual's current rating is "A+."

(5) The combined organization will retain the mutual insurance company structure with its focus on meeting the insurance needs of its policyholders.

(6) The combined entity will be a stronger competitor in more geographic areas and in more product lines than Harleysville standalone. This should benefit Harleysville and its policyholders by increasing profitability, claims paying ability, and surplus.

(7) The combined entity will offer more products to its policyholders than Harleysville as a standalone entity. This cross selling capability should benefit Harleysville and its policyholders by increasing profitability, claims paying ability, and surplus.

(8) The combined entity will have a broader geographic footprint which will benefit Harleysville and its policyholders by increasing diversity of risk for catastrophic losses and also presents the potential for increased profitability, claims paying ability, and surplus.

(9) Harleysville Mutual has the prospect for stronger capital surplus generation as a pro forma entity with Nationwide Mutual than it would as a standalone company.

(10) The combined entity will have the ability to spread fixed costs over a wider revenue base, resulting in the potential for increased profitability, claims paying ability, and surplus.

(11) Policyholders will continue to have a right to dividends as, if, and when declared by the board.

(12) Merging with Nationwide Mutual preserves or potentially enhances the rights of policyholders to residual surplus in the extremely unlikely event of voluntary liquidation of Nationwide Mutual, notwithstanding the fact that the transaction would be dilutive to Harleysville policyholders on a pro forma basis.

(13) Policyholder rights will be enhanced after the Merger because of different demutualization statutes i.e., upon demutualization,

Nationwide Mutual policyholders would be entitled to shares of a new company stock with equal value to the equitable share of the mutual company.

(14) The nature of the compensation plan utilized by Harleysville and the retention compensation paid by Nationwide Mutual in the transaction were apparently designed to retain the management and employees. Successful retention of the management and employee base may be a significant benefit to the policyholders, because it should serve to mitigate changes to the corporate structure and management.

85. There is insufficient evidence in the record from which it may be concluded that the proposed transaction would be unfair or unreasonable or fail to confer a benefit upon policyholders.

86. Additionally, the Department evaluated the reasonableness Harleysville's conclusion that the transaction was in the public interest because it benefited all relevant constituencies, and also independently evaluated whether the transaction was in the public interest as follows:

a. The Department evaluated the effect that the transaction would have upon Harleysville employees.

(1) During the two-year period after the closing, Nationwide Mutual will substantially maintain or exceed the overall number of associates, as of September 28, 2011, at the Harleysville headquarters and will not cause a reduction in force to occur at Harleysville's Worcester, Massachusetts location.

(2) As employees of Nationwide Mutual, Harleysville's employees will have the opportunity to continue to work and retain the culture in place prior to the transaction.

(3) To further build goodwill with Harleysville's employees and to ensure a smooth transition in the transaction, Nationwide Mutual and Harleysville reported that it agreed to pay the 2011 incentive bonuses to all eligible employees.

(4) Growth of the pro forma entity would allow employees new opportunities only available through employment in a larger company.

b. The Department evaluated the effect that the transaction would have upon Harleysville's independent agents.

(1) But for a limited number of agents who are currently both Allied and Nationwide Mutual agents, Nationwide Mutual does not anticipate that the Merger will affect any of Harleysville's nearly 3,200 independent agents

or Allied's approximately 6,800 independent agents and their relationship with Harleysville or Allied, as applicable.

(2) Both Harleysville and Nationwide Mutual have stated that they believe there is a strategic benefit in creating a national independent agency distribution network that will make the combined organization stronger over the long term by virtue of the complementary geographic marketing territories.

(3) Nationwide Mutual's A+ rating, Nationwide Mutual's more significant product set, commitment to independent agent channel, and no material overlaps with Nationwide Mutual's captive agency force would all benefit independent agents.

(4) Existing Harleysville agents will continue to write Harleysville branded policies and receive the same commissions unless and until changed.

c. The Department evaluated the effect that the transaction would have upon the communities where the Harleysville companies are located.

(1) After closing, Harleysville will continue to conduct business under the Harleysville name at its headquarters for at least two (2) years.

(2) The community could see long-term economic benefits from the job creation associated with growing the pro forma business in the Harleysville, Pennsylvania location.

(3) Nationwide Mutual has committed to substantially maintain or improve philanthropic and charitable contributions and activities described consistent with the historical practices of Harleysville Mutual and Harleysville Group.

87. There is no basis in the record from which it may be concluded that Harleysville's conclusion that the proposed transaction benefited all relevant constituencies was unreasonable.

88. There is no basis in the record from which it may be concluded that the proposed transaction was not in the public interest.

Management

89. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the competence, experience and integrity of the persons who will control the operations of the surviving insurer. 40 P.S. §991.1402(f)(1)(v).

90. Biographical affidavits for all directors and executive officers of Nationwide Mutual were reviewed by the Department.

91. Additionally, the Applicant has represented that it intends to pay retention bonuses to certain executive level Harleysville Group employees, thereby helping to ensure continuity of management and operations.

92. The Department is satisfied that the persons who control the operations of Nationwide Mutual have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Hazardous or Prejudicial to Insurance Buying Public

93. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department evaluates whether the merger, consolidation or other acquisition of control is likely to be hazardous or prejudicial to the insurance buying public. 40 P.S. §991.1402(f)(1)(vi).

94. There is no indication that the projected future business of the Applicant would impose a financial burden upon policyholders.

95. Likewise, as noted above in paragraphs 78 through 81, Nationwide Mutual is a financially strong company, and there is no indication that the transaction would result in the company being in impaired financial condition.

96. Nor is there a threat regarding the ability of policyholders to enforce their insurance contracts.

97. There is insufficient evidence in the record from which it may be concluded that the acquisition will likely be hazardous or prejudicial to the insurance buying public.

Compliance with the Pennsylvania Laws

98. When analyzing an application for a merger involving a domestic insurer under Section 1402 of the Insurance Holding Companies Act, the Department reviews the transaction to determine whether the merger, consolidation or other acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A. 40 P.S. §991.1402(f)(vii).

99. The Department has evaluated the transaction as set forth by the Application as to whether it is in compliance with the laws of Pennsylvania.

CONCLUSIONS OF LAW

1. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

2. Under Section 1402 of the Insurance Holding Companies Act, the Department has jurisdiction to review and approve the Parent Merger.

3. Under Section 1402 of the Insurance Holding Companies Act, the Department must approve an application for a merger unless the Department has found that:

    a. The insurer will not be able to satisfy the requirements for the issuance of a license to write the line or lines of business for which it is presently licensed;

    b. The effect of the merger will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;

    c. The financial condition of the acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders;

    d. Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable and fail to confer benefit on policyholders of the insurers 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 policyholders and of the public to permit the acquisition of control; or

    f. The acquisition is likely to be hazardous or prejudicial to the insurance buying public.

    g. The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.

4. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner has not found that any of the above conditions are present with respect to the Parent Merger.

5. Under Section 1402(g) of the Insurance Holding Companies Act, the Department shall exempt a merger from the requirements of Section 1402 if the merger does not have the effect of changing or influencing the control of a domestic insurer.

6. Pursuant to Section 1402(g) of the Insurance Holding Companies Act, the Commissioner concludes that proposed Subsidiary Merger (i.e., the merger of Merger Sub with and into Harleysville Group) does not change the ultimate controlling person of the parties to the merger and is therefore exempt from the requirements of the Act.

7. Pursuant to Section 205(b) of the GAA Amendments Act (15 P.S. § 21205), the Commissioner concludes that the terms and conditions of the proposed Merger are fair and that the proposed Merger is in accordance with law and not injurious to the interests of the policyholders and creditors.

8. The Application satisfies the requirements of the Insurance Holding Companies Act and the GAA Amendments Act.

9. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: Application of Nationwide Mutual Insurance Company in Support of the Request for Approval to Merge with Harleysville Mutual Insurance Company	: : : : : : : : : : : : : : :	Pursuant to Sections 1401, 1402, and 1403 of the Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §§991.1401, 991.1402, and 991.1403; Sections 205 and 207 of the GAA Amendments Act of 1990, Act of December 19, 1990, P.L. 834, No. 198, as amended, 15 P.S. §§21205 and 21207. Order No.: ID-RC-12-05

ORDER

Upon consideration of the foregoing, the Commissioner hereby approves the Application subject to the following conditions:

1. Nationwide Mutual shall pay, within twenty-five (25) days of receipt, any existing or future invoices for fees and expenses of the advisors and consultants to the Department, in their capacity as advisors and consultants in connection with the Merger, as determined by the Department.

2. In the event that Nationwide Mutual or Harleysville Mutual intends to terminate, or is contemplating termination of, the Merger Agreement pursuant to the terms of the Merger Agreement or otherwise, such party shall notify and consult with the Department as soon as practicable and in no event less than three (3) days in advance of taking any such action.

3. Nationwide Mutual and Harleysville Mutual shall notify the Department immediately if any event occurs subsequent to the issuance of this Order and prior to the effective date of the Merger that does or could cause the Notice Materials or the Findings of Fact set forth in the Decision, to: (a) contain any misstatement of a material fact; or (b) any omission of a material fact

necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

4. Nationwide Mutual and Harleysville Mutual shall notify the Department within two (2) business days after the receipt of any written notice of any legal or administrative proceeding challenging or in any way relating to the Merger.

5. Nationwide Mutual shall publish this Decision and Order on its Internet website within five (5) business days after the date of this Decision and Order.

6. Prior to the effective date of the Merger, Nationwide Mutual and Harleysville Mutual shall submit for the Department's prior written approval any:

    a. Changes or additions to the Merger Agreement that are made subsequent to the date of this Order; and

    b. Waiver of any condition precedent to completion of the transactions contemplated by the Merger Agreement or the waiver of any rights, duties or obligations of either party set forth therein.

7. 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, by telephone, by Internet or by properly executed proxy at the Special Meeting to be held on April 24, 2012.

8. Within two (2) business days after the conclusion of the Special Meeting, written notice shall provided to the Department of the results of the votes cast at the Special Meeting.

9. Applicant shall obtain all necessary approvals from other jurisdictions and shall provide a copy of the same to the Commissioner within five (5) business days of receiving the approval.

10. Nationwide Mutual shall provide to the Department a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.

11. A copy of the Articles of Merger must be filed with the Commissioner not later than ten (10) days after their filing with the Pennsylvania Department of State.

12. Nationwide Mutual shall, within thirty (30) days of the effective date of the Merger, send a notice to the Harleysville Mutual agents, in a form acceptable to the Department, giving notice of the consummation of the Merger.

13. Nationwide Mutual shall mail to each policyholder of Harleysville Mutual an approved endorsement within sixty (60) days of the effective date of the proposed Merger. This endorsement will notify all policyholders of Harleysville Mutual of the Merger and advise them that Nationwide Mutual is responsible for all of the obligations and liabilities of such policyholders' policies.

14. For a period of six (6) months after the effective date of the Merger, Nationwide Mutual shall not take affirmative action to reduce the number of Harleysville Mutual employees principally located in Pennsylvania, without application to and the prior written approval of the Department.

15. For a period of two (2) years after the effective date of the Merger, Nationwide Mutual shall provide written notice to the Department of any planned or proposed reductions in staff that would affect more than ten percent (10%) of the individuals who were former employees of Harleysville Mutual or its subsidiaries principally located in Pennsylvania as of, or within six (6) months prior to, the effective date of the Merger. For purposes of this condition, as of any date, the ten percent (10%) threshold shall be determined based upon a rolling twelve (12) month period. Such notice, which shall specify the reasons for the reduction in force and include information regarding planned or proposed severance pay and relocation opportunity arrangements, shall be filed with the Department at least ninety (90) days prior to any such planned or proposed reductions.

16. For a period of three (3) years after the effective date of the Merger, Nationwide Mutual shall not close or cease actively doing business from:

    a. The corporate office of Harleysville Mutual, located in Harleysville, Pennsylvania; or

    b. Any other office located in Pennsylvania, in each case without application to and the prior written approval of the Department.

17. For a period of three (3) years after the effective date of the Merger, Nationwide Mutual shall not voluntarily withdraw any certificate of authority to engage in the insurance business in the Commonwealth of Pennsylvania.

18. For a period of three (3) years after the effective date of the Merger, Nationwide Mutual shall not attempt to redomesticate any of the

Harleysville subsidiaries to another jurisdiction without the prior approval of the Department.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation. This one (1) year limitation does not apply to any conditions prescribed by the Department in the Order.

MICHAEL F. CONSEDINE
Insurance Commissioner
Commonwealth of Pennsylvania