

BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to the Insurance Company
: Mutual-to-Stock Conversion Act,
Application of Provident Mutual Life : Article VIII-A of the Insurance
Insurance Company, Nationwide Mutual : Company Law of 1921, Act of May 17,
Insurance Company, Nationwide : 1921, P.L. 682, amended, added 1995,
Corporation, Nationwide Financial : Dec. 21, P.L. 714, as amended, 40 P.S.
Services, Inc. and Eagle Acquisition : §§911-A et seq.; Sections 1401, 1402,
Corporation, Requesting Approval of a : and 1403 of the Insurance Holding
Two-Step Integrated Transaction : Companies Act, Article XIV of the
Allowing for the Conversion of : Insurance Company Law of 1921, Act of
Provident Mutual Life Insurance : May 17, 1921, P.L. 682, as amended, 40
Company to a Stock Insurance Company : P.S. §§991.1401-1403; Sections 1921
and the Immediate Acquisition of : through 1929 of the Pennsylvania
Control by Nationwide Mutual Insurance : Business Corporation Law of 1988, 15
Company : P.S. §§1921-1929; 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; and Chapter 25 of Title 31 of
: the Pennsylvania Code; 31 Pa. Code
: §§25.1-.23.
:
: Order No. ID-RC-02-15

DECISION AND ORDER

AND NOW, on this 31st day of July, 2002,
Randolph L. Rohrbaugh, Deputy Insurance Commissioner and Delegatee of the
Insurance Commissioner ("Deputy Commissioner Rohrbaugh") of the Commonwealth of
Pennsylvania hereby makes the following Decision and Order:

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

FINDINGS OF FACT

Identity of Involved Companies

Identity of Provident Mutual Life Insurance Company and Certain Subsidiaries

1. Provident Mutual Life Insurance Company ("Provident Mutual") is a domestic mutual life insurance company organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Berwyn, Pennsylvania.
2. Provident Mutual, as of December 31, 2001, is licensed to conduct the business of insurance in all fifty (50) states, the District of Columbia, and Puerto Rico.
3. In 1993, Provident Mutual acquired by merger Continental American Life Insurance Company ("CALIC").
4. In 1994, Provident Mutual acquired by merger Covenant Life Insurance Company ("Covenant").
5. Provident Mutual has the following material subsidiaries: Providentmutual Life and Annuity Company of America ("PLACA"); the Market Street Fund; Market Street Investment Management Company; 1717 Capital Management Company; and Provident Mutual Holding Company.
6. Under Provident Mutual's Plan of Conversion (defined in Finding of Fact No. 30), "Eligible Members" include all members of Provident Mutual who owned life insurance policies or annuity contracts that were In Force on December 14, 2001, the date on which the Plan of Conversion was adopted. Eligible Members include owners of Policies that were In Force on December 14, 2001 that were originally issued by Covenant or CALIC.
7. Under Provident Mutual's Plan of Conversion, the term "Policy" includes any life, health or accident insurance policy or annuity contract that has been issued or assumed by Provident Mutual.
8. Under Provident Mutual's Plan of Conversion, a Policy is deemed to be "In Force" as of any date if, as shown on Provident Mutual's records, such Policy has been issued or Provident Mutual's administrative office has received in respect of such Policy a complete application, together with all required underwriting information and payment of the full initial premium, and such Policy is subsequently issued.
9. As of December 14, 2001, Provident Mutual had 416,171 In Force Policies and 314,991 Eligible Members.

Identity of Nationwide Mutual Insurance Company and Certain Subsidiaries

10. Nationwide Mutual Insurance Company ("Nationwide Mutual") is a foreign mutual casualty insurance company organized under the laws of the State of Ohio with its primary place of business in Columbus, Ohio.
11. Nationwide Corporation ("NC") is a stock corporation organized under the laws of the State of Ohio with its primary place of business in Columbus, Ohio. Nationwide Mutual holds 95.2% of the outstanding voting securities of NC.
12. Nationwide Financial Services, Inc. ("NFS") is a stock holding company organized under the laws of the State of Delaware with its primary place of business in Columbus, Ohio. NC holds 79.8% of the outstanding voting securities of NFS and 97.5% of the outstanding votes eligible to be cast by NFS stockholders.
14. Eagle Acquisition Corporation ("Eagle") is a newly-formed business corporation organized under the laws of the Commonwealth of Pennsylvania with its primary place of business in Philadelphia, Pennsylvania. Eagle is a wholly-owned subsidiary of NFS.
15. NFS has the other subsidiaries set forth on Exhibit 21 to its Annual Report on Form 10-K for the year ended December 31, 2001, as filed with the Securities and Exchange Commission ("SEC").
16. Nationwide Mutual, NC, NFS and Eagle are collectively hereinafter referenced as "Nationwide."
17. Provident Mutual and Nationwide are collectively hereinafter referenced as the "Applicants."

Identity of Consultants

Applicants' Consultants

18. Provident Mutual retained Morgan Stanley & Co. Inc. ("Morgan Stanley") in May of 2000 as its financial advisor in connection with Provident Mutual's review of its business profile, competitive position and strategic opportunities (the "Comprehensive Review Project"), which commenced in the Spring of 2000. Additionally, in December 2000, Provident Mutual engaged Morgan Stanley as its financial advisor in connection with possible strategic transactions or relationships with third parties, and Morgan Stanley assisted Provident Mutual in its pursuit of a sponsored demutualization, and reviewed the proposed transaction for fairness from a financial point of view.
19. Provident Mutual retained Milliman USA, Inc. ("Milliman") to advise Provident Mutual on various actuarial matters related to its Plan of Conversion, including

matters related to the Closed Block (as defined in Finding of Fact No. 255) and the allocation of consideration among Eligible Members. .

20. Provident Mutual retained Towers Perrin as its advisor on matters relating to executive compensation.
21. Provident Mutual retained PricewaterhouseCoopers ("PwC") to perform certain actuarial analyses, including certain financial projections with respect to Provident Mutual and PLACA.
22. Provident Mutual retained Pepper Hamilton LLP, Debevoise & Plimpton, and Drinker Biddle & Reath LLP as legal counsel.

Nationwide's Consultants

23. Nationwide retained Salomon Smith Barney Inc. ("Salomon Smith Barney") as its financial advisor to review the merger for its financial fairness to Nationwide and its stockholders.
24. Nationwide retained LeBoeuf, Lamb, Greene & MacRae LLP ("LeBoeuf") and Blank Rome Comisky & McCauley LLP ("Blank Rome") as legal counsel.

Consultants to the Pennsylvania Insurance Department

25. On November 1, 2001, the Pennsylvania Insurance Department ("Department") retained Tillinghast-Towers Perrin ("Tillinghast") as an actuarial advisor to evaluate certain aspects of the proposed conversion and merger of Provident Mutual.
26. Tillinghast was engaged to review Provident Mutual's Plan of Conversion and certain actuarial analyses prepared by Milliman & PwC and to provide opinions concerning:
 - (a) the method of allocating the proposed consideration among Eligible Members;
 - (b) the classes of policies included and excluded from the Closed Block, which has been established in connection with the reorganization to protect the reasonable dividend expectations of certain policyowners;
 - (c) the funding level of the Closed Block; and
 - (d) certain actuarial analyses prepared by PwC.
27. On October 17, 2001, the Department retained Stevens & Lee, P.C. ("Stevens & Lee") to act as its legal advisor in connection with matters relating to the Department's examination of the proposed conversion of Provident Mutual and its proposed merger with Eagle.

28. On December 13, 2001, Stevens & Lee retained The Blackstone Group L.P. ("Blackstone") to serve as a financial consultant to determine whether the aggregate consideration to be received by the Eligible Members, as a group, in exchange for their aggregate membership interests pursuant to the Merger Agreement (as defined in Finding of Fact No. 31) is fair from a financial perspective.
29. On June 25, 2002, Stevens & Lee retained Ernst & Young to assist in the review of NFS' Registration Statement No. 333-90200 on Form S-4 (including any amendments or supplements thereto, the "Registration Statement") filed on June 11, 2002 with the SEC, which includes the Joint Proxy Statement/Prospectus (described in Findings of Fact Nos. 250 through 254) to be delivered to Eligible Members, as well as certain of the previous reports filed by NFS with the SEC pursuant to the Securities Exchange Act of 1934.

The Filing

Date of Receipt

30. On December 14, 2001, the Department received an application (which together with all material received subsequently by the Department from Provident Mutual or its representatives in connection therewith is hereinafter collectively referenced as the "Conversion Application") from Provident Mutual requesting approval of a Plan of Conversion that was adopted by Provident Mutual on that date (as subsequently amended and restated, the "Plan of Conversion").
31. On December 14, 2001, the Department received an application (which together with all material received subsequently by the Department from Nationwide or its representatives in connection therewith is hereinafter collectively referenced as the "Merger Application") from Nationwide requesting approval of an Agreement and Plan of Merger dated August 7, 2001 (as subsequently amended and restated, the "Merger Agreement").
32. The Conversion Application and Merger Application are collectively hereinafter referenced as the "Sponsored Demutualization Application."
33. The proposed conversion and merger contemplated under the Sponsored Demutualization Application is hereinafter referenced as the "Sponsored Demutualization."

Applicable Laws

34. The Insurance Company Mutual-to-Stock Conversion Act, Sections 801-A to 819-A, 40 P.S. §§911-A to 929-A, as amended (the "Conversion Act"), provides that all plans of conversion of domestic mutual insurers must be filed with the Insurance Commissioner of the Commonwealth of Pennsylvania (the "Commissioner") or her delegatee for approval or disapproval.

35. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, Sections 1401, 1402, and 1403, 40 P.S. §§991.1401 et seq. (the "Insurance Holding Companies Act"), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
36. The Business Corporation Law of 1988 (the "BCL"), Act of December 21, 1988, P.L. 1444, as amended, Sections 1921 through 1929, 15 Pa. C.S. §§1921 through 1929 ("1988 BCL"), and the GAA Amendments Act of 1990, P.L. 834, No. 198, as amended, Sections 205 and 207, 15 P.S. §§21205 and 21207 ("GAA Amendments Act"), provide that all plans of merger of domestic insurers must be filed with the Department for approval or disapproval.

Recusal

37. M. Diane Koken, the Commissioner ("Commissioner Koken"), was employed by Provident Mutual as General Counsel, Vice President and Secretary prior to her appointment as Acting Insurance Commissioner in August of 1997.
38. When Provident Mutual alerted the Department that a filing was going to be submitted, Commissioner Koken delegated all responsibilities regarding the filing to Deputy Insurance Commissioner Timothy L. Knapp ("Deputy Commissioner Knapp").
39. It later became necessary to re-delegate said responsibilities to Deputy Commissioner Rohrbaugh after Commissioner Koken received notice of Deputy Commissioner Knapp's anticipated departure from the Department.
40. The delegation of responsibility removed any possible conflict of interest or appearance thereof which may have arisen if Commissioner Koken had not recused herself from review of the Sponsored Demutualization Application and delegated the sole authority to direct the review and render a decision over the Sponsored Demutualization Application to Deputy Commissioners Knapp and Rohrbaugh.
41. As Commissioner Koken delegated the sole responsibility for directing the review of the Sponsored Demutualization Application, she was not involved in, nor did she play any role in, the review of said Application, or this Decision and Order.
42. The review conducted by the Department staff and Deputy Commissioner Rohrbaugh of the Sponsored Demutualization Application was independent of any interested parties.

Department's Pre-Application Procedures

43. Insurance companies domiciled in the Commonwealth of Pennsylvania which are considering a restructuring or other material transaction customarily initiate

conversations with Deputy Commissioner Stephen J. Johnson (“Deputy Commissioner Johnson”), Office of Regulation of Companies, and his staff before submitting a formal filing.

44. The Department encourages companies to initiate preliminary discussions so that the Department can be prepared to allocate personnel and resources to the filing and retain outside consultants where warranted.
45. By conducting preliminary discussions with companies contemplating a restructuring or other material transaction, the Department can also provide initial comments from a regulatory perspective to maximize resource utilization and the effective administration of the Department’s regulatory functions.
46. Representatives of Provident Mutual initiated conversations with the Department in the Summer of 2001 to alert the Department to the fact that Provident Mutual was considering a reorganization.

Procedural Background – Notices and Comments

47. Provident Mutual advised the Department that it had, on December 28, 2001, sent to Eligible Members notice by first class mail advising them of the filing of the Conversion Application with the Department
48. On December 29, 2001, the Department published notice of receipt of the Sponsored Demutualization Application in the *Pennsylvania Bulletin* inviting written comments on the Application from all interested persons within thirty (30) days from the date of such notice either by mail or via e-mail (the "Public Comment Period").
49. On January 19, 2002, the Department published notice in the *Pennsylvania Bulletin* extending the Public Comment Period indefinitely until further notice by the Department.
50. In February 2002, Provident Mutual mailed an "Overview and Q & A" to Eligible Members providing an overview of the Sponsored Demutualization and answers to frequently asked questions.
51. On May 23, 2002, at the conclusion of the public informational hearing (described in Findings of Fact Nos. 79 through 131), Deputy Commissioner Rohrbaugh advised that the Public Comment Period would remain open for at least 30 days after the date of the hearing.
52. On July 6, 2002, the Department published notice in the *Pennsylvania Bulletin* providing notification that the Public Comment Period would end on July 19, 2002.

53. In response to the published notices and to Deputy Commissioner Rohrbaugh's announcement, the Department received numerous comments, documents and other inquiries by mail or e-mail from, or on behalf of, a variety of interested persons.
54. All comments, documents and other inquiries received by the Department from interested persons regarding the Sponsored Demutualization were forwarded to Provident Mutual for response, as required by the Department.
55. As of July 19, 2002, approximately 523 pages of comments, documents and other inquiries had been received by the Department from over 362 policyholders and/or their representatives.
56. In addition, approximately 75 pages of comments, documents and other inquiries were received from approximately 12 persons other than policyholders and/or their representatives.
57. Of the approximately 440 comments, documents and other inquiries received from approximately 374 interested persons, including both policyholders and non-policyholders, approximately 12 were limited to requests for a copy of the Plan of Conversion or other materials filed with the Department.
58. Over 87 comments were limited to inquiries regarding whether the Plan of Conversion would affect policies and policy coverages.
59. Over 29 comments expressed support for the proposed Plan of Conversion.
60. Over 160 comments expressed opposition to the proposed Plan of Conversion.
61. The Department reviewed and considered, in its analysis of the Sponsored Demutualization Application, all comments from interested persons as well as Provident Mutual's responses to those comments and the issues raised in those comments.
62. Provident Mutual advised the Department that, in addition to the comments received by the Department, it received comments and other inquiries, either directly or indirectly, from interested persons.
63. Provident Mutual advised the Department that Provident Mutual had received directly over 700 written comments or inquiries as of July 22, 2002.
64. As described in the Sponsored Demutualization Application, Provident Mutual retained an independent telephone answering service, Mellon Investor Services, LLC ("Mellon Investor Services"), to receive and respond to calls made to a toll-free telephone number provided by Provident Mutual for use by interested persons.

65. Provident Mutual has advised the Department that policyholder calls regarding the Sponsored Demutualization received by Provident Mutual were referred to Mellon Investor Services for response.
66. Provident Mutual has advised the Department that Mellon Investor Services had received over 7,300 telephone calls from interested persons regarding the Sponsored Demutualization as of July 19, 2002.
67. Provident Mutual retained TransUnion Corporation and Mellon Investor Services to assist Provident Mutual in finding current addresses for missing policyholders. As of July 22, 2002, addresses for a total of approximately 5,100, or 2% of all Eligible Members, were missing.
68. Provident Mutual has given the Department assurances that the search for current policyholder addresses that are missing from Provident Mutual's records will continue.
69. Provident Mutual has advised the Department that the total number of comments, documents or other inquiries received, directly or indirectly, by Provident Mutual was over 8,000 as of July 22, 2002.

Rescission Notice

70. Section 919-A of the Conversion Act requires that written notice regarding the Plan of Conversion be sent to all members whose policies were issued after the Plan of Conversion was adopted by Provident Mutual's Board of Directors on December 14, 2001.
71. As provided in the Conversion Act, members receiving notice must be advised that each such member is entitled to rescind his or her policy and receive a full refund for any amounts paid for the policy.
72. As provided in the Conversion Act, any member entitled to rescission must respond to Provident Mutual within ten (10) days of receipt of such notice in order to rescind his or her policy and receive a full refund.
73. The Department reviewed and commented on Provident Mutual's proposed rescission notice.
74. Provident Mutual represented that it has provided and continues to provide the required notice.

Public File

75. A public file has been maintained by the Department at its Harrisburg office and has been available to any interested person for inspection and copying. The contents of the public file have also been available upon request by any interested person for copying by the Department at the Commonwealth of Pennsylvania's

- copying rate of \$0.25 per page and for shipping or mailing to any interested person.
76. The public file is comprised of all documents filed with the Department by the Applicants except those for which confidential treatment was requested and it was subsequently determined by the Department that such treatment was appropriate. The public file contains all comments and documents received by the Department from interested persons, responses to those comments received by the Department from Provident Mutual, all final reports other than confidential (as aforesaid) reports of the Applicants' outside consultants, all final reports of the Department's outside consultants, correspondence between the Department and the Applicants, and the transcript of the public informational hearing, and corrections made to that transcript.
 77. All materials in the public file have been indexed in a composite document to aid, inter alia, interested persons who desire to obtain copies of such public documents. The index itself also is a public document, and copies of it have also been available upon request to interested persons.
 78. As of July 26, 2002, the public file consisted of 1,816 documents amounting to 24,249 pages.

The Public Informational Hearing

Hearing Procedures

79. Section 913-A(e) of the Conversion Act provides that the Commissioner may order a hearing on whether the terms of a plan of conversion comply with the Conversion Act.
80. Because the Conversion Act does not require the Commissioner to hold a hearing, the holding of a hearing is solely at the Commissioner's discretion.
81. If the Commissioner decides to conduct a hearing, the Conversion Act does not require that the hearing be an adjudicatory hearing.
82. On April 13, 2002, the Department published notice that a public informational hearing regarding the Sponsored Demutualization would be held on May 23, 2002, in King of Prussia, Pennsylvania.
83. The notice invited all interested persons to attend and, if they chose, to speak at the hearing. Interested persons also were invited to submit written comments in lieu of making an oral presentation.
84. A hearing of this nature is similar to a town meeting or a legislative hearing. It is not a formal proceeding and does not contemplate or accept formal actions, such as petitions or motions. Unless the Department specifically requires, participants

- do not have to comply with the procedures and evidentiary rules otherwise required in an adjudicatory hearing.
85. Provident Mutual advised the Department that it sent notice of the hearing to Eligible Members on April 12, 2002, by first class mail.
 86. On May 23, 2002, the Department held a hearing with regard to the Sponsored Demutualization as provided for in Section 913-A(e) of the Conversion Act .
 87. Approximately 108 persons attended all or part of the hearing, including representatives of Provident Mutual, Nationwide, the Department, policyholders of Provident Mutual and other interested persons.
 88. Deputy Commissioner Rohrbaugh presided over the hearing and received oral comments as well as written materials.
 89. At the hearing, Deputy Commissioner Rohrbaugh, together with Deputy Commissioner Johnson and Insurance Department Chief Counsel David F. Simon (“Chief Counsel Simon”).
 90. In particular, Deputy Commissioner Rohrbaugh explained that, for purposes of the Department’s review and approval or disapproval of the Sponsored Demutualization Application, he is the Delegatee of the Commissioner as described more fully in Findings of Fact Nos.37 through 42 of this Decision and Order.
 91. At the hearing, Deputy Commissioner Johnson described the structure of the proposed Sponsored Demutualization and explained the Department’s review processes, including the advisability of meeting with companies such as Provident Mutual before a formal filing of a Sponsored Demutualization Application is submitted to the Department.
 92. Deputy Commissioner Johnson and his staff are responsible for the review and approval or disapproval of proposals for conversion and acquisition of control submitted by or with respect to any Pennsylvania domestic insurance company.
 93. Chief Counsel Simon described the hearing procedures and posed questions to the Nationwide and Provident Mutual presenters on behalf of the Department, the consultants to the Department (including Stevens & Lee), and certain policyholders.
 94. Of those policyholders and other interested persons in attendance, two (2) individuals gave oral comments and two (2) provided written comments.
 95. At the hearing, Chief Counsel Simon described the public file including its contents and accessibility.

96. The purpose of the hearing was to receive comments about the Sponsored Demutualization from the Applicants and all other interested persons in order to aid the Department in ultimately reaching a decision on the Sponsored Demutualization Application after review of all relevant comments, materials, and documents, including the hearing transcript.
97. All comments at the hearing were stenographically recorded by Sargent's Court Reporting Services, Inc., and a transcript of such recording has been made available to any interested person by purchase from the stenographer. Additionally, at the request of the Department the transcript of the hearing and the overhead projector exhibits presented at the hearing by the Applicants were made available for review on Provident Mutual's web site.
98. At the request of the Department, interested persons unable to attend the hearing were able to listen to a live broadcast of the hearing on May 23, 2002, or to a rebroadcast at the conclusion of the hearing, by accessing Provident Mutual's web site.

Provident Mutual's Presenters

99. At the hearing, the President and Chief Executive Officer of Provident Mutual, Robert W. Kloss, having been duly sworn, testified regarding the history of Provident Mutual, its current structure and products, and highlights of its financial condition.
100. Mr. Kloss further testified that:
 - (a) The economies of scale and size created from consolidations in the financial services industry have put pressures on product pricing and margins.
 - (b) Traditional life insurance sales have grown slowly in recent years.
 - (c) Provident does not believe it has sufficient size, scale, or access to capital to maintain its position in such a highly competitive marketplace.
101. Mr. Kloss testified as to the Comprehensive Review Project that began in April 2000 and culminated in December 2000 with the decision to seek a sponsored demutualization, and that Provident Mutual engaged Morgan Stanley, PwC, Debevoise & Plimpton, Pepper Hamilton LLP, Drinker Biddle & Reath LLP and Milliman to assist with this process.
102. A representative of Morgan Stanley, Frank Medici, having been duly sworn, spoke at the hearing regarding:
 - (a) the advice Morgan Stanley provided to Provident Mutual in the course of Provident Mutual's Comprehensive Review Project;

- (b) the assistance Morgan Stanley provided to Provident Mutual during the process of selecting a sponsor; and
 - (c) the analyses performed in connection with Morgan Stanley's opinion, dated August 7, 2001, as to the fairness, from a financial point of view, of the aggregate consideration to be received by the Eligible Members as a group, in exchange for their membership interests pursuant to the Merger Agreement.
103. A representative of Milliman, Daniel McCarthy, having been duly sworn, testified regarding the advice of Milliman with respect to the fairness of the methodologies and principles for allocating consideration among Eligible Members, and whether Provident Mutual's Closed Block accomplishes its intended objective.
104. A representative of Towers Perrin, Richard Furniss, having been duly sworn, testified regarding the advice of Towers Perrin with respect to Provident Mutual's executive and director compensation levels, as well as its current change in control agreements with its executive officers ("Change in Control Agreements"), in terms of aggregate reasonableness, competitiveness and consistency with industry and market practices.
105. Mr. Furniss testified that the Provident Mutual executive compensation structure consists of cash salaries; comprehensive medical, vision, dental, life, accidental death, and disability insurance; a 401(k) savings plan; a retirement pension plan; an excess defined benefit plan; split dollar life insurance; a supplemental savings plan; a supplemental employee retirement plan (available only to the president and each executive vice president); and both short-term and long-term incentive compensation plans.
106. Mr. Furniss testified that Towers Perrin reviewed the compensation levels paid by Provident Mutual to its senior executive officers in the aggregate and concluded that they were conservative as compared to the median compensation levels of stock and mutual companies in Provident Mutual's asset size range.
107. Mr. Furniss testified that Provident Mutual's 2001 total compensation levels, when compared with the competitive median or market rate, both in the aggregate and with respect to most individual executives, were competitive, meaning that the compensation falls within plus or minus 15% of the market median, both including and excluding one-time payments under Provident Mutual's short-term incentive compensation plan.
108. Mr. Furniss testified that the purpose of change in control Agreements "is to provide financial protection for senior executives in the event of a change in control of a company.... The financial protection afforded senior executives...is designed to make it more likely that the executive will view a potential merger or sale opportunity from the perspective of the company and its constituents,

- including policyholders in the case of Provident Mutual, rather than from his or her own viewpoint.”
109. Mr. Furniss, in his testimony, identified the following components of the Change in Control Agreements (with some variations for individual executives):
- (a) severance payments based on an amount equal to the base compensation for a period of 30 months’ following termination; plus 2.5 times the average of the prior three years’ aggregate performance bonus amounts received; and plus a pro rata portion of any performance or incentive bonus earned but not paid (except that the severance payment for Linda Springer is based on 21 months’ base compensation and the multiplier for her performance bonuses is 1.75 instead of 2.5);
 - (b) immediate vesting of any benefits under the Supplemental Employee Retirement Plan with continuation of pension coverage for two (2) years following termination;
 - (c) immediate vesting of benefits under the Excess Defined Benefit Plan with a continuation of benefits for two (2) years following termination;
 - (d) two (2) years of continued life, medical and dental insurance, split-dollar life insurance, 401(k) company matches, and six (6) months of outplacement services;
 - (e) a non-compete obligation for all executives except for Linda Springer; and
 - (f) a consulting agreement with compensation thereunder payable at a rate based on past compensation and performance bonuses (Mr. Kloss, as an additional benefit, is entitled to a gross-up payment to reimburse him for any tax penalties incurred as a result of triggering Internal Revenue Code 280G, also known as the golden parachute section.)
110. Mr. Furniss testified regarding the Change in Control Agreements, which were amended in August 2000 upon recommendation of the Compensation Committee of the Board of Directors.
111. Mr. Furniss testified that the additional value of benefits to be provided under the Change in Control Agreements would be \$24.6 million, or approximately 1.6% of the transaction price, which was assumed to be \$1.527 billion.
112. Mr. Furniss testified that 3% of the transaction price is the benchmark for measuring reasonableness of the aggregate value of change in control benefits.
113. Mr. Furniss, in response to questions regarding the reasonableness of the aggregate consulting fees to be received by Mr. Kloss and the other executive officers of Provident Mutual, testified that they are competitive.

114. Mr. Furniss advised the Compensation Committee of the Board of Directors on the Change in Control Agreements and concluded that they are generally reasonable and competitive with respect to the insurance industry and broader market practice.
115. Additionally, Mr. Furniss testified regarding compensation of Provident Mutual's directors. Mr. Furniss explained that directors are eligible, after retirement, to serve on an advisory committee for a period of up to ten years. The advisory committee members receive compensation in the amount of \$27,000 annually.
116. As a result of the Sponsored Demutualization, no current directors of Provident Mutual are expected to be retained nor will the advisory committee be retained. Mr. Furniss testified that because those directors will not have the opportunity to serve on the advisory committee and receive such compensation, a lump sum accelerated payment for service on the committee will be paid to each director in the aggregate amount of such future compensation. For each director, these payments will be equal to \$27,000 times the number of years that he or she would have been expected to serve on the advisory committee (the "Director Payouts").
117. Mr. Furniss testified that Towers Perrin reviewed the cash compensation arrangements for the directors and concluded that it is reasonable in comparison to companies similar to Provident Mutual that are in Towers Perrin's database, three of which are mutual companies.
118. A representative of PwC, Jill Hemphill, having been duly sworn, spoke at the hearing regarding each Provident Mutual executive's non-compete obligation and the advice of PwC with respect to the impact of Section 280G of the Internal Revenue Code on each such executive's benefits under his or her respective Change in Control Agreement.
119. In her testimony, Ms. Hemphill explained that Sections 280G and 4999 of the Internal Revenue Code impose tax consequences if distributions are made in excess of an amount determined under Section 280G in connection with a change in control and that payments of less than this amount may be made without triggering tax consequences.
120. Ms. Hemphill also testified that there are ways in which companies can minimize the effects of 280G and that Provident Mutual has chosen the method which allocates a portion of the value of the Change in Control Agreement to a covenant not to compete. According to Ms. Hemphill, this method is permitted by the IRS under the proposition that non-compete arrangements are not considered part of a parachute payment because they are essentially payments for giving up the right to perform future services as an employee.
121. Ms. Hemphill further testified that, due to the values ascribed to the Provident Mutual executives' non-compete agreements, none of the executives will incur any excise tax penalties.

122. In response to the Department's questions, Ms. Hemphill agreed to provide the Department with a comparison of the total value of the Change in Control Agreements before and after they were amended in September 2000.

Nationwide's Presenters

123. At the hearing, the President and Chief Operating Officer of NFS, Joseph Gasper, having been duly sworn, testified regarding NFS' financial condition, the reasons for the Sponsored Demutualization, and the anticipated benefits of the merger to the insurance buying public.
124. At the hearing, the Senior Vice President - Finance of NFS, Mark Thresher, having been duly sworn, testified regarding the bidding process, an overview of the Sponsored Demutualization with an emphasis on the merger component, and the statutory standards that must be satisfied under the Insurance Holding Companies Act.
125. At the hearing, the Vice President and in-house Controller of Nationwide Mutual, David Jacoby, having been duly sworn, spoke regarding NFS' integration plan and its commission-free stock purchase and sale program.

Department's Presenters

126. As a representative of the Department's consulting actuarial firm, Tillinghast, W. Michael Pressley spoke regarding the work performed in evaluating the actuarial aspects of the Sponsored Demutualization.
127. With respect to the allocation of consideration among Eligible Members, Mr. Pressley opined that the method for allocating consideration among Eligible Members is based upon actuarially sound methods and assumptions and produces an allocation of consideration that is fair and equitable.
128. With respect to the maintenance of policyholders' reasonable dividend expectations, Mr. Pressley opined that:
- (a) the definition of classes of policies and contracts to be included in the Closed Block is appropriate;
 - (b) the assets allocated to the Closed Block as of September 30, 2001, are in an amount which, together with anticipated revenue from the Closed Block business, is reasonably expected to be sufficient to support such business, including, but not limited to, provisions for payment of claims, certain expenses and taxes, and to provide for continuation of the dividend scales payable during 2001, provided that the experience underlying such scales continues; and

- (c) the Plan of Conversion provides an appropriate mechanism for adjusting dividend scales if experience changes.
- 129. With respect to a limited review of certain actuarial analyses prepared for Provident Mutual by PwC, with certain exceptions, Mr. Pressley opined that:
 - (a) the methodology used to determine each component of economic value is consistent with generally accepted actuarial practice;
 - (b) the assumptions underlying the value of in-force business are reasonable;
 - (c) the assumptions underlying the value of future business are reasonable; and
 - (d) the assumed level of required capital underlying the calculations is reasonable.
- 130. A representative of Blackstone, Martin Alderson Smith, spoke regarding Blackstone's review to date, as well as its ongoing review, to determine whether the aggregate consideration to be received by the Eligible Members, as a group, in exchange for their aggregate membership interests pursuant to the Merger Agreement is fair from a financial point of view. Because it had not completed its review process, Blackstone did not offer any opinion at the hearing.
- 131. Blackstone, at the time of the public informational hearing and subsequent thereto through the date of this Order, has among other things:
 - (a) reviewed Provident Mutual's Plan of Conversion under the Conversion Act, as such Plan of Conversion was adopted on December 14, 2001, and amended and restated on May 21, 2002 and July 11, 2002, including the exhibits listed below, and discussed such documents with Provident Mutual and its advisors:
 - (i) the Merger Agreement dated as of August 7, 2001 and amended and restated as of July 8, 2002;
 - (ii) Form of Amended and Restated Articles of Incorporation of Provident Mutual;
 - (iii) Form of Amended and Restated Bylaws of Provident Mutual;
 - (iv) Actuarial Contribution Principles and Methodologies;
 - (v) Closed Block Memorandum; and
 - (vi) Actuarial Contribution Memorandum;

- (b) reviewed Provident Mutual's audited historical financial statements for the years ended December 31, 1999-2001 in addition to unaudited financial statements for the six (6) months ended June 30, 2002;
- (c) reviewed NFS' audited historical financial statements for the years ended December 31, 1999-2001 in addition to unaudited financial statements for the three (3) months ended March 31, 2002, and certain financial disclosures as of the six (6) months ended June 30, 2002;
- (d) reviewed Provident Mutual's historical statutory financial statements filed with the Department for the years ended December 31, 1999-2001;
- (e) reviewed certain other relevant publicly available information concerning the business, financial condition, and operations of Provident Mutual and Nationwide;
- (f) reviewed certain relevant internal information concerning the business, financial condition and operations of Provident Mutual and Nationwide;
- (g) reviewed Provident Mutual's financial projections for 2002 in addition to updated 2002 projections, prepared by, and furnished by Provident Mutual;
- (h) reviewed Nationwide's financial projections for 2002, prepared by, and furnished by, Nationwide;
- (i) held discussions with members of management of Provident Mutual and Nationwide and their respective advisors concerning their business, operating environment, financial condition, prospects, and strategic objectives;
- (j) reviewed presentations and reports prepared by Provident Mutual for rating agencies since 2000;
- (k) reviewed certain actuarial analyses (the "Actuarial Analyses") prepared by actuarial consultants retained by Provident Mutual, which utilized information, data assumptions, and methodologies provided by Provident Mutual;
- (l) reviewed the reports of Tillinghast (the "Tillinghast Report") addressing the work conducted by Tillinghast in reviewing the Actuarial Analyses, the opinions and conclusions Tillinghast formed as a result of their work, and certain important reliances and limitations with respect to Tillinghast's reviews, opinions, and conclusions;

- (m) reviewed a redacted summary (the “Bid Summary”) prepared by Morgan Stanley of all bid proposals received from potential acquirers as part of the sale process;
- (n) reviewed Nationwide’s Post-Merger Integration Plan for Provident;
- (o) reviewed the opinions of Morgan Stanley, Provident Mutual’s financial advisor, to the Board of Directors of Provident Mutual dated August 7, 2001, as to whether the aggregate consideration to be received by the Eligible Members, as a group, in exchange for their aggregate membership interests pursuant to the Merger Agreement is fair from a financial point of view to such Eligible Members, as a group;
- (p) reviewed the opinion of Salomon Smith Barney, Nationwide’s financial advisor, to the Board of Directors of NFS dated August 7, 2001, as to the fairness, from a financial point of view, to Nationwide of the consideration to be paid by Nationwide in connection with the acquisition by Nationwide of Provident Mutual;
- (q) reviewed the financial terms of recently completed insurance company demutualizations and sponsored demutualizations;
- (r) reviewed the financial terms of recently completed insurance industry mergers and acquisitions;
- (s) analyzed the operating and trading statistics of selected publicly traded comparable life insurance companies;
- (t) considered the pro forma financial effect of the merger on Nationwide; and
- (u) reviewed the opinion of Morgan Stanley to the Board of Directors of Provident Mutual dated July 25, 2002, as to whether the aggregate consideration to be received by the Eligible Members, as a group, in exchange for their aggregate membership interests pursuant to the Merger Agreement is fair from a financial point of view to such Eligible Members, as a group.

Relevant Historical Facts

Business Environment for Mutual Life Insurance Companies

- 132. Provident Mutual has asserted that the role of life insurance in the financial resources and savings of a family has changed in recent times.
- 133. Provident Mutual has asserted that because the life insurance industry can no longer rely substantially on the marketability of the death benefit and cash value

- characteristics of its products, the industry is forced to turn to investments and other types of financial products for continued viability and growth.
134. Provident Mutual has asserted that the consolidation in the life insurance industry has resulted in fewer but larger, more efficient participants.
 135. Provident Mutual has asserted that the ongoing deregulation of the financial services industry will likely give rise to additional competitors, reflecting the convergence of insurers, banks, and securities firms and their products.
 136. Provident Mutual has asserted that in order to continue to survive in the marketplace, life insurers must be able to achieve profitable growth.
 137. Provident Mutual has asserted that in the current competitive environment, stock life insurers have a competitive advantage over mutual insurers because stock life insurers have the ability to raise capital through the issuance of stock, use stock to make acquisitions and offer stock-based compensation.
 138. Provident Mutual has asserted that mutual insurers, on the other hand, have structural constraints that limit their ability to raise capital to maintain solvency and fund growth.
 139. Provident Mutual has asserted that the vehicles available to a mutual insurer that wants to remain a mutual and create statutory capital to fund growth are limited to:
 - (a) earnings;
 - (b) surplus notes;
 - (c) capital notes;
 - (d) mergers with other mutuals; and
 - (e) creation of downstream stock subsidiaries, which could offer stock to the public.
 140. Provident Mutual has asserted that the avenues available to a mutual insurer that wants to acquire statutory capital to fund growth call for restructuring, in some fashion, to a stock insurer by:
 - (a) simultaneous conversion and merger with a partner (a "sponsored demutualization");
 - (b) conversion to a stock company through a subscription rights offering;

- (c) conversion to a stock company through a distribution of surplus (in the form of cash, stock, policy credits, etc.) to policyholders followed contemporaneously by an initial public offering; and
- (d) partial conversion to a stock company utilizing a mutual holding company structure, and the subsequent issuance of stock by a downstream company.

The Board of Directors' Evaluation of Provident Mutual's Options

- 141. In 1995 a special committee of the Board of Directors, the Strategic Advisory Committee, was created to analyze Provident Mutual's options. That committee investigated Provident Mutual's options and recommended that Provident Mutual reorganize to a mutual holding company structure.
- 142. The Board of Directors approved a plan to create a mutual holding company in 1998; however, that transaction was not successfully completed because Stephen E. Levin, Judge of the Philadelphia County Court of Common Pleas, issued a permanent injunction in September of 1999 which prohibited Provident Mutual from effectuating the plan until certain additional disclosures had been made to members.
- 143. As a result of the Court's Order, Provident Mutual abandoned its plan to form a mutual holding company.
- 144. In the Spring of 2000, Provident Mutual launched the Comprehensive Review Project to assess the company's business profile, survey the changing competitive and regulatory environment, and evaluate Provident Mutual's current competitive position and strategic opportunities.
- 145. To assist in the project, Provident Mutual retained:
 - (a) Morgan Stanley, as its financial advisor on industry trends, Provident Mutual's competitive position within the industry, strategic opportunities and potential options;
 - (b) PwC as its actuarial advisor; and,
 - (c) Debevoise & Plimpton, Pepper Hamilton and Drinker Biddle & Reath as legal counsel.
- 146. Provident Mutual's consultants identified the five key requirements in order to remain competitive in the changing life insurance industry:
 - (a) increased size and capital similar to that of competitors;
 - (b) capital and structural flexibility and the ability to use this capital as acquisition currency;

- (c) competitive and efficient business operation;
 - (d) ability to attract and create incentives for key professionals; and
 - (e) profitability.
147. Having assessed the environment for mutual life insurance companies, the Board of Directors examined strategic possibilities and considered the following strengths and weaknesses of Provident Mutual:
- (a) strengths
 - (i) market position in the variable life insurance market;
 - (ii) strong distribution network;
 - (iii) excellent capitalization;
 - (iv) conservative investment position;
 - (v) strong operating results; and
 - (vi) high quality investment portfolio.
 - (b) weaknesses
 - (i) increasing loss of market share in variable life segment due to increasing competition;
 - (ii) modest market position in group pension and annuity operations;
 - (iii) limited financial flexibility as a mutual insurer to raise and deploy capital;
 - (iv) above average operating costs;
 - (v) lack of a nationally recognized brand name; and
 - (vi) non-diversification of revenue sources.
148. The Provident Mutual Board of Directors concluded as follows:
- (a) The maintenance of the status quo would not provide enhanced access to capital and was an unattractive option for long-term strength and success.
 - (b) Demutualization coupled with an initial public offering would not raise sufficient capital to allow Provident Mutual to make meaningful acquisitions (nor were there meaningful acquisition targets available) and grow to a size and scale to compete effectively. Additionally, the Board

was uncertain how Provident Mutual might be perceived as a public company given its size and growth prospects.

- (c) Conversion to a mutual holding company would not raise sufficient capital to allow Provident Mutual to make meaningful acquisitions and grow to a size and scale to compete effectively.
 - (d) Merger with another mutual company would not improve the combined companies' capital and surplus and did not offer significant promise for future growth.
 - (e) A joint venture would not offer Provident Mutual the opportunity to raise additional capital.
 - (f) The creation of a downstream stock subsidiary company in concert with an initial public offering would not raise sufficient capital to allow Provident Mutual to make meaningful acquisitions and grow in size and scale sufficient to allow Provident Mutual to maintain a competitive market position.
 - (g) Affiliation with a much larger stock company was the alternative most likely to offer Provident the access to capital and the economies of scale and size needed to compete effectively in the industry and to increase its ratings.
149. The Provident Mutual Board of Directors concluded that a sponsored demutualization with a stock company:
- (a) Would combine both companies' resources; and
 - (b) Could allow the combined companies to offer a wider array of products and distribution channels with strong brand recognition and competitively priced products.

150. When the possibility of a sponsored demutualization transaction became apparent, Provident Mutual retained Morgan Stanley as its financial advisor in connection with the Sponsored Demutualization and Milliman as its actuarial advisor on matters relating to its conversion from a mutual to a stock insurance company.

Board of Director's Review of Presentations and Potential Sponsors

151. In connection with Morgan Stanley's engagement to assist with possible sale transactions, Morgan Stanley developed a list of 14 potential sponsors. Provident Mutual selected 11 potential sponsors from this list based on its belief regarding their potential for achieving a combination that would meet Provident Mutual's objectives. On Provident Mutual's behalf, Morgan Stanley contacted each of the

- 11 potential sponsors to solicit indications of interest in a transaction with Provident Mutual.
152. Preliminary discussions with the 11 potential sponsors narrowed this list and in the Spring of 2001, Provident conducted meetings with the senior management of the companies it considered to be the six most promising potential sponsors.
 153. Robert Kloss attended all six meetings; however, only five of the six meetings were attended by Morgan Stanley.
 154. Provident senior management then made presentations to what it believed to be four of the most promising potential sponsors. These presentations emphasized Provident Mutual's interest in proposals that would provide fair value to members, support future growth through additional capital, and maintain Provident Mutual's significant presence in Pennsylvania and Delaware.
 155. In May 2001, Morgan Stanley distributed guidelines for non-binding sponsor proposal letters.
 156. In June 2001, Provident Mutual's Board of Directors received four non-binding sponsor proposals.
 157. On June 21, 2001, after consultation with its legal and financial advisors, the Board of Directors narrowed the field to the two (2) potential sponsors it considered to have made the best proposals.
 158. Morgan Stanley contacted these two potential sponsors to notify them of the Board's decision and to schedule due diligence.
 159. On August 2, 2001, after the receipt of final proposals, Provident Mutual's Board of Directors met to evaluate the two competing proposals.
 160. On August 2, 2001, Provident Mutual's advisors presented to the Provident Mutual Board of Directors a comparison of the two proposals, including an overview of the amount and calculation of the forms of consideration and a summary of the material contractual provisions and closing conditions in the two proposals.
 161. Morgan Stanley discussed the valuation of Provident Mutual under each proposal and analyzed the business profile and stock performance of each remaining bidder.
 162. The Board of Directors reviewed the consideration offered, Provident Mutual's strategic fit with the two potential sponsors, and the integration philosophy of each bidder and determined that Nationwide's proposal was superior in terms of valuation and other relevant factors.
 163. Provident Mutual performed due diligence on Nationwide on August 7, 2001.

164. The management of Provident Mutual and Nationwide negotiated a definitive merger agreement, which the Provident Mutual Board of Directors discussed at a meeting on August 7, 2001. Additional discussions at the meeting included the following:
- (a) Management of Provident Mutual reported to the Board of Directors the results of their due diligence review of Nationwide's business operations, finances, and legal matters, and Debevoise & Plimpton reviewed with the Provident Mutual Board of Directors its fiduciary duties and responsibilities and the terms of the Merger Agreement.
 - (b) Morgan Stanley discussed with the Provident Mutual Board of Directors the financial aspects of the transaction and rendered its oral opinion, subject to and based upon the considerations set forth in its written opinion, that the aggregate consideration to be received by the Eligible Members, as a group, in exchange for their membership interests pursuant to the Merger Agreement, was fair from a financial point of view to the Eligible Members as a group.
 - (c) The Provident Mutual Board of Directors concluded that pursuing a sponsored demutualization with Nationwide was in the best interests of Provident Mutual and that it was fair and equitable, consistent with the purpose and intent of the Conversion Act, and would not prejudice the interests of members.
165. The Provident Mutual Board of Directors concluded that pursuing a sponsored demutualization with Nationwide was in the best interests of Provident Mutual because:
- (a) this affiliation would help assure the continuity of Provident Mutual's life insurance and other business, would enhance the competitiveness of Provident Mutual and would generate greater efficiencies and significant opportunities for improved financial performance;
 - (b) the Board had considered Provident Mutual's position as an independent company, and the constraints on Provident Mutual's ability to pursue its strategic objectives due to its present size and status as a mutual life insurance company, and believed that Provident Mutual's ability to pursue its objectives would be enhanced by this affiliation;
 - (c) as compared to the current mutual life insurance company structure, this affiliation would provide Provident Mutual with greater flexibility to obtain capital through Nationwide, would significantly enhance Provident Mutual's financial strength, and would provide Provident Mutual with greater resources to back its obligations to policyholders;

- (d) this affiliation would provide Provident Mutual with increased flexibility to fund the growth of existing product lines, expand into new product lines, and take advantage of investment and acquisition opportunities;
- (e) this affiliation would benefit both the short-term and long-term interests of Provident Mutual, its policyholders, its employees, the communities in which the company does business, and its other constituencies;
- (f) this affiliation would allow Provident Mutual to become affiliated with Nationwide, a larger enterprise with significant financial strength as well as strong business, operations, financial condition, operating results and prospects; and
- (g) this affiliation would establish a fit, matching the compatible visions of the future of Provident Mutual and Nationwide.

Board Adoption and Execution of Merger Agreement

- 166. The Boards of Directors of NFS, Nationwide Mutual and NC approved and adopted the Merger Agreement by resolution dated July 25, 2001.
- 167. The Board of Directors of Provident Mutual approved and adopted the Merger Agreement by resolution dated August 7, 2001.
- 168. On August 7, 2001, NFS, Eagle and Provident Mutual executed the Merger Agreement under which Nationwide Mutual and NFS will, if the Sponsored Demutualization is consummated, acquire 100% control of Provident Mutual through the merger of Eagle with and into Provident Mutual after Provident Mutual's conversion to a stock company. The Merger Agreement required Provident Mutual to prepare and adopt the Plan of Conversion implementing the terms of the conversion term sheet attached to the Merger Agreement.
- 169. On July 8, 2002, the Applicants executed the Amended and Restated Merger Agreement, effective as of August 7, 2001.

Board Adoption of the Plan of Conversion

- 170. On December 14, 2001, the Board of Directors of Provident Mutual unanimously adopted the Plan of Conversion.
- 171. On May 21, 2002, the Board of Directors of Provident Mutual amended and restated the Plan of Conversion.
- 172. On July 11, 2002, the Board of Directors of Provident Mutual further amended and restated the Plan of Conversion.

Sponsored Demutualization

173. As described in the Sponsored Demutualization Application, the Sponsored Demutualization contemplates a two-step integrated transaction, as described below in Findings of Fact Nos. 174 through 181.

Step One

174. Provident Mutual will convert to a stock insurance company ("Provident Stock"), and in the conversion will allocate its shares of common stock ("Provident Stock Shares") to persons eligible under the Plan of Conversion to receive consideration in exchange for their membership interests in Provident Mutual.
175. Certain Eligible Members for whom the receipt of Provident Stock Shares could cause adverse tax consequences will exchange their membership interests for an increase in the value of their policies ("Policy Credits") or cash in lieu of receiving Provident Stock Shares. The amount of cash or Policy Credits each such Eligible Member receives will equal the dollar amount of Provident Stock Shares that otherwise would be allocable to them. Policy Credits will take the form of an increase in the cash value, account value, dividend accumulations, face amount, extended term period or benefit payment of a Policy, as appropriate, depending on the type of Policy held.
176. A single global certificate issued to and registered in the name of Mellon Investor Services LLC, the conversion agent appointed by Nationwide (the "Conversion Agent"), will evidence the Provident Stock Shares issued to Eligible Members in the conversion.

Step Two

177. Pursuant to the terms of the Merger Agreement, immediately following step one, Eagle will merge with and into Provident Stock, with Provident Stock being the surviving entity.
178. As a result of the merger, each issued Provident Stock Share will be converted into the right to receive Policy Credits, one share of Class A Common Stock of NFS (the "NFS Class A Common Stock") or cash.
179. At no time does the Plan of Conversion or Merger Agreement contemplate that Provident Stock Shares be issued directly to Eligible Members or be publicly traded.
180. Following the Sponsored Demutualization, all of the issued and outstanding shares of Provident Stock will be held by NFS.
181. Following the Sponsored Demutualization, the name of Provident Stock will be changed to Nationwide Life Insurance Company of America.

Federal Income Tax Consequences

182. Provident has represented to the Department that each Eligible Member of Provident Mutual receiving NFS Class A Common Stock or Policy Credits as consideration in the Sponsored Demutualization will not recognize any income, gain, or loss for federal income tax purposes on receipt of the NFS Class A Common Stock or Policy Credits.
183. Provident has represented to the Department that if an Eligible Member of Provident Mutual elects to accept NFS Class A Common Stock, the basis of such Eligible Member in the NFS Class A Common Stock for purposes of federal income taxes will be zero. As such, if the Eligible Member were to later sell the NFS Class A Common Stock, the Eligible Member will be taxed on the full amount of any proceeds therefrom.
184. Provident has represented to the Department that Eligible Members of Provident Mutual receiving cash will be taxed in the year it is received as either short term or long term capital gains, depending on the date on which the Eligible Member's policy was purchased.
185. Nationwide has represented to the Department that the NFS shareholders will not recognize any gain or loss for federal income tax purposes as a result of the merger.
186. The Department requested that Nationwide and Provident Mutual or their legal consultants provide opinions regarding the federal income tax consequences of the Sponsored Demutualization to Provident Mutual policyholders, NFS shareholders, Provident Mutual, and NFS.
187. Nationwide and Provident Mutual have represented that copies of the tax opinions addressed to Nationwide and Provident from their respective counsel will be provided to the Department before the effective date of the Sponsored Demutualization.

Department's Approval

188. Provident Mutual is seeking approval of an alternative plan, contemplating a Sponsored Demutualization under Section 917-A of the Conversion Act, which contains standards which govern the Commissioner's approval.
189. Section 1402 of the Insurance Holding Companies Act provides that the Department must approve the acquisition of control of a domestic insurance company unless it finds any of the following:
 - (a) after the change of control, the domestic insurer would not 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;

- (b) the effect of the acquisition of control would be to substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
- (c) the financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer or prejudice the interest of its policyholders;
- (d) the plans or proposals which the acquiring party has 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 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 policyholders of the insurer and of the 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 this Commonwealth, including the Conversion Act.

Protection of Policyholder Interests

Funding, Financial Condition, and Accounting Considerations

- 190. The 2001 Annual Statement of Provident Mutual, as filed with the Department and prepared in accordance with statutory accounting principles, reports total surplus of \$527.0 million. Total surplus consists of unassigned funds of \$522.2 million and Aggregate Write-in Special Funds of \$4.8 million.
- 191. As of and for the year ended December 31, 2001, Provident Mutual's total assets were \$6,703.9 million, total liabilities were \$6,176.9 million, and net income was \$44.0 million.
- 192. As of and for the three (3) months ended March 31, 2002, Provident Mutual's total assets were \$6,743.8 million, total liabilities were \$6,198.8 million, total surplus was \$544.9 million and net income was \$14.6 million.
- 193. As of June 30, 2002, Provident Mutual's total surplus was \$530.4 million.
- 194. Provident Mutual anticipates the following surplus adjustments prior to the completion of the proposed conversion:
 - (a) Plus: projected third quarter statutory income: \$14.5 million

- (b) Less: surplus distribution to policyholders: \$(112.2 million)
 - (c) Less: third quarter transaction expenses: \$(16.0 million)
 - (d) Less: change in control expenses: \$(24.0 million)
195. Provident Mutual projects a total surplus of \$392.1 million as of September 30, 2002.
196. As of and for the year ended December 31, 2001, NFS' total assets were \$91,960.9 million, total liabilities were \$88,217.6 million, net worth was \$3,743.3 million, and its net income was \$412.8 million.
197. At and for the three (3) months ended March 31, 2002, NFS' total assets were \$93,245.4 million, total liabilities were \$89,479.7 million, net worth was \$3,765.7 million, and its net income was \$105.9 million.

Licensing Requirements

198. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the requirements for continued licensure of the domestic insurer being acquired.
199. The lines of insurance for which an insurance company may be incorporated and become licensed are set out in Section 202 of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. §382 (the "Insurance Company Law").
200. The minimum paid in capital stock and gross paid in and contributed surplus of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law.
201. Provident Mutual is currently incorporated and licensed to write the lines of insurance as defined in Section 202 (a)(1) and (2) of the Insurance Company Law.
202. In accordance with Section 206 of the Insurance Company Law, Provident Stock would be required to maintain a minimum paid in capital stock of \$1,100,000 and a minimum paid in and contributed surplus of \$550,000 to write the lines of insurance for which Provident Mutual is presently licensed.
203. Provident Stock has represented that it would be initially capitalized with \$10,000,000 of capital paid in and an estimated \$377,572,000 of gross paid in and contributed surplus.
204. On the effective date of the Sponsored Demutualization, Provident Stock would have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which it would be licensed in Pennsylvania.

205. Provident Mutual has represented to the Department that on the effective date of the Sponsored Demutualization, Provident Stock would have the capitalization to satisfy the minimum capital requirements of all states in which Provident Mutual is currently licensed.
206. A risk based capital (“RBC”) level at or below Company Action Level RBC, as defined in Article V-A of the Insurance Department Act of 1921, Act of May 17, 1921, P.L. 789, 40 P.S. §221.1-A, requires corrective action by the insurance company or the Department.
207. Provident Stock projects that it will have a RBC level of 363% at the time of conversion.
208. The projected Provident Stock RBC level on the effective date of the Sponsored Demutualization would not require corrective action.

Executive Compensation and Change in Control Agreements

209. As described in the Sponsored Demutualization Application, Towers Perrin was retained in 2000 to advise the Compensation Committee of the Provident Mutual Board of Directors on the reasonableness of the then-proposed Change in Control Agreements in light of competitive practice.
210. As described in the Sponsored Demutualization Application, the Change in Control Agreements between Provident Mutual and its executive officers (with one exception) amended prior agreements with such executives that had been in place for several years.
211. As described in the Sponsored Demutualization Application, in August 2000, Provident Mutual’s Change in Control Agreements were approved by the Compensation Committee of the Board of Directors, and authorized by the full Board of Directors of Provident Mutual.
212. Pursuant to the Plan of Conversion and as required by Section 921-A of the Conversion Act, no officer, director, agent or employee shall be entitled to receive any additional compensation, other than his or her regular salary and compensation, for assisting or promoting the Sponsored Demutualization. This does not prohibit the payment of reasonable fees and compensation to attorneys at law, accountants and actuaries for services performed in the independent practice of their professions, even if the attorney, accountant or actuary is also a director or officer of Provident Mutual.
213. Certain commenters have raised concerns that the Sponsored Demutualization will serve to enrich Provident Mutual’s senior management through special compensation plans or unreasonably excessive compensation.

214. To address these concerns and as part of its review of the Sponsored Demutualization Application, the Department posed extensive questions before, during and after the hearing regarding the claimed basis for the fairness of the: 1) the Change in Control Agreements; 2) the executive compensation levels in the aggregate and for Robert Kloss in particular; 3) the compensation for current directors; and 4) the Director Payouts.
215. Provident Mutual also retained Standard & Poor's Corporate Value Consulting to perform a valuation analysis in order to provide an estimate of the fair market value of the covenants not to compete that are contained in the Change in Control Agreements, assuming an effective date during the third quarter of 2002.
216. Provident Mutual retained Towers Perrin to provide opinions to the Department on the reasonableness of various elements of compensation and compensation-related agreements in place at Provident Mutual, both in the aggregate and on an individual basis.
217. The Department also requested that Provident Mutual or its consultants provide expert opinions to the Department opining that:
 - (a) The Change in Control Agreements and the Director Payouts did not cause the Board of Directors to lack the legal authority under Section 1728 of the BCL to select a sponsored demutualization transaction and to vote to approve the transactions with Nationwide reflected in the Plan of Conversion.
 - (b) The Change in Control Agreements and the Director Payouts each comply with Section 921-A of the Conversion Act.
 - (c) The Director Payouts do not result in the directors entitled thereto being deemed other than "disinterested directors" under Section 1715 of the BCL with respect to their decisions to pursue a sponsored demutualization and to enter into the transactions with Nationwide reflected in the Plan of Conversion.
218. On June 17, 2002, Pepper Hamilton provided the Department with an opinion letter in response to the Department's request discussed in Finding of Fact No.217 regarding the Change in Control Agreements which are discussed in the Findings of Fact below.
219. In response to the Department's questions raised, inter alia, at the hearing regarding certain executive compensation issues, Towers Perrin provided to the Department a written opinion letter on June 17, 2002.
220. In Towers Perrin's June 17, 2002 letter, it opined that overall the Change in Control Agreements "are reasonable in design, participation, and total cost in light of competitive practices in insurance and general industry."

221. With respect to the Change in Control Agreements on an individual basis, Towers Perrin opined in its June 17, 2002 letter that the multiple generally used by companies for determining the severance pay element of such agreements is 3.0 times the 3-year average base salary plus aggregate performance bonuses. Therefore, according to Towers Perrin, the use of a multiple of 2.5 by Provident Mutual for calculating the severance is “conservative.”
222. With respect to the “walkaway” clause that is contained in Mr. Kloss’ Change in Control Agreement, Towers Perrin opined in its June 17, 2002 letter that this type of provision is found in about half of the CEO agreements analyzed in a 2001 study, and opined that the lack of this provision in the positions below the CEO level is “consistent with competitive practice.”
223. With respect to the gross-up provision in Mr. Kloss’ agreement to cover possible tax penalties under Section 280G of the Internal Revenue Code, Towers Perrin explained in its June 17, 2002 letter that gross-ups are being provided to a growing number of executives at the CEO level and below and opined that, since none of the other Change in Control Agreements contain gross-up provisions, the Provident Mutual agreements are “more conservative than typical practice.” However, Towers Perrin noted that none of the Provident Mutual senior executives below the CEO level would be subject to the tax penalty with respect to the Sponsored Demutualization because of the value assigned to their covenants not to compete.
224. With respect to the reasonableness of payments to Mr. Kloss and the other executives for any consulting services rendered by them (if such services were requested by Nationwide pursuant to the Change in Agreements), Towers Perrin explained in its June 17, 2002 letter that these payments are not severance benefits and opined that even if these payments were part of the basic severance benefit, the total severance “would still be reasonable given the otherwise conservative multiples employed in the Change in Control Agreements, the performance of services if requested and the existence of the non-compete provisions.”
225. With respect to the differences between the pre-August 2000 change in control agreements and the Change in Control Agreements, Towers Perrin opined in its June 17, 2002 letter that the current agreements are “consistent with industry and broader market practice.”
226. With respect to the level of direct compensation provided to certain Provident Mutual executives, Towers Perrin opined in its June 17, 2002 letter that compensation is considered by compensation professionals to be within market ranges if the compensation is plus or minus 15% of the market median and opined that Provident Mutual’s executive compensation levels are “reasonable in light of competitive practice in the insurance industry.”

227. With respect to Mr. Kloss' direct compensation, Towers Perrin opined in its June 17, 2002 letter that Mr. Kloss' compensation for the years 1999, 2000, and 2001 (including a one-time incentive paid in 2001 for outstanding performance) was 8% above market median in the aggregate and opined that Mr. Kloss' compensation was "in the market range" for those three years.
228. With respect to the analysis of the Change in Control Agreements, Towers Perrin explained in its June 17, 2002 letter that one measure of reasonableness used by Towers Perrin and other compensation professionals is a comparison of the total incremental cost of the agreements to an assumed transaction price of \$1.527 billion, using 3% as a guideline acceptable level. Towers Perrin advised that if the total cost is above 3%, there could be a concern that the terms are excessive and this could have a negative impact on the value received by the policyholders.
229. At the further request of the Department, Towers Perrin provided an opinion letter dated July 8, 2002 in which Towers Perrin opined that:
- (a) the multiples of direct compensation and other benefit terms provided by Provident Mutual under the Change in Control Agreements are "consistent with, or less generous than, those provided by a peer group of insurance companies;" and
 - (b) the payment cap on individual awards incorporated in all but one of the Change in Control Agreements is "more conservative than common practice."
230. Based upon the expert information and documentation received by the Department after extensive inquiry, there is no factual support in the record before the Department for finding that the Change in Control Agreements are unfair.

Compensation of the Present and Former Directors

231. As described in the Sponsored Demutualization Application, Provident Mutual asserts that its non-employee directors will lose the opportunity to receive advisory committee fees because of the anticipated replacement of current directors and dissolution of the advisory committee.
232. Pepper Hamilton has delivered to the Department the opinion letter described in Finding of Fact No. 217 regarding the Director Payouts which are discussed in the Findings of Fact below.
233. As described in the Sponsored Demutualization Application, Towers Perrin opined that the advisory committee fees can properly be viewed as having been earned during active board service and therefore are a form of deferred compensation. Towers Perrin also opined that the Director Payout is equivalent to the aggregate amount that would have been received by each director for future

service on the advisory committee, without any discount for the present value of such amount.

234. In response to the Department's request of Provident Mutual for further information, Provident Mutual provided an opinion letter from Towers Perrin dated June 17, 2002 in which Towers Perrin opined that the compensation provided to members of Provident Mutual's Board of Directors (including retainers, meeting fees, and future advisory committee service fees) is "reasonable in light of competitive practice."
235. Towers Perrin further opined that the Director Payouts are "reasonable" because the lump-sum payments represent payments that would have been received for service on the advisory committee but for the merger transaction.
236. With respect to Provident Mutual's method of determining the amount of the Director Payouts, which method included a determination that the aggregate amount of such future fees should not be discounted to present value because of Provident Mutual's consistent practice of periodically increasing (for inflation or otherwise) the advisory committee service fees, Towers Perrin further opined that the method is "an appropriate method."
237. At the further request of the Department of Provident Mutual, Towers Perrin provided an opinion letter dated July 8, 2002 in which it opined that because the advisory committee program was intended to provide post-retirement benefits to retired directors in recognition for past services and to enable Provident Mutual to provide competitive total compensation to directors, no reduction in the amount of the Director Payouts is necessary to make the payments to directors reasonable.
238. Based upon the expert information and documentation received by the Department after extensive inquiry, there is no factual support in the record before the Department for finding that the directors' compensation arrangements are unfair.

Policy Contract Rights

239. Certain policyholders have expressed concern that the restructuring will change their policy and annuity contract benefits.
240. Section 914-A of the Conversion Act provides that any restructuring effectuated pursuant to the terms of the Conversion Act must not cause any change in the terms of the policies.
241. As described in the Sponsored Demutualization Application, the proposed transactions:
 - (a) will not adversely effect any policy or contract of Provident Mutual, each of which will remain in force in accordance with their terms;

- (b) will not change premiums; and
 - (c) will not reduce policy benefits or values.
242. As described in the Sponsored Demutualization Application, policy dividends will continue to be paid as declared. In addition, as discussed in Findings of Fact Nos. 255 through 286, a Closed Block of participating policies has been established to protect the policy dividend treatment of dividend paying policies after the effective date of the Sponsored Demutualization.

Registration of Securities with SEC

243. On June 11, 2002, NFS filed a Registration Statement with the SEC.
244. On June 14, 2002, the SEC advised NFS that it would not review the Registration Statement.

Dividend and Other Distributions by NFS

245. NFS, as an insurance holding company, relies on dividends and other payments from its operating subsidiaries to pay cash dividends to NFS shareholders and to meet debt service requirements as well as operating expenses; Provident Stock will be an operating subsidiary of NFS after the completion of the Sponsored Demutualization.
246. Nationwide Mutual may rely in part on payments from NFS to meet its operating expenses and debt service payments.
247. NFS, as sole shareholder of Provident Stock, may cause Provident Stock to pay dividends or make distributions of property to NFS.
248. Nationwide Mutual, as controlling shareholder of NC, and NC, as controlling shareholder of NFS, may, directly or indirectly, cause NFS to pay dividends or make distributions of property to NC and Nationwide Mutual.
249. Provident Mutual will remain a Pennsylvania domestic insurance company after the effective date of the Sponsored Demutualization and will be subject to restrictions on payments of extraordinary dividends or other distributions that would have a material adverse effect on Provident Mutual's surplus and net income.

Joint Proxy Statement/Prospectus

250. Certain commenters have raised concerns that Provident Mutual's public disclosure to date, including the "Overview and Q&A" brochure sent to Eligible Members, has not fully disclosed to policyholders the terms and conditions of the Sponsored Demutualization to enable policyholders to make an informed decision regarding the Sponsored Demutualization.

251. Under the Conversion Act, policyholders vote on the restructuring proposal contemplated by the Plan of Conversion following the Department's approval of the Sponsored Demutualization Application.
252. Before a policyholder vote on the Plan of Conversion may occur, Section 913-A of the Conversion Act requires that a policyholder information statement must be sent to the policyholders eligible to vote on the Plan of Conversion.
253. Provident Mutual and Nationwide submitted the Registration Statement containing the Joint Proxy Statement/Prospectus which will serve jointly as a policyholder information statement in connection with the vote of the Eligible Members on the Plan of Conversion and as a proxy statement for NFS shareholders in connection with the vote of NFS shareholders on the issuance of additional shares of NFS Class A Common Stock in the merger.
254. The Department and its advisors reviewed and commented on the Joint Proxy Statement/Prospectus. The Department has not approved or disapproved of the Joint Proxy Statement/Prospectus, nor has it determined whether the Joint Proxy Statement/Prospectus is adequate or accurate, or complies with federal or state securities laws.

Closed Block

255. In preliminary discussions with the Department during the summer of 2001, Provident Mutual advised that, as part of its proposed restructuring under the Conversion Act, a Closed Block of participating life policies would be created (the "Closed Block").
256. Section 915-A of the Conversion Act requires that, unless waived by the Department, a plan of conversion submitted by a mutual life insurance company must contain provisions for the operation of the company's participating life policies as a closed block of business for dividend purposes.
257. Section 915-A further requires that sufficient assets be allocated for purposes of the closed block so that the assets and the revenue stream expected from the closed block business will be sufficient to support the anticipated claims, expenses, taxes, and dividends (consistent with current dividend scales) relating to the policies included in the closed block, with appropriate adjustments in dividends for changes in experience.
258. The purpose of the closed block is to protect the policy dividend treatment of dividend paying policies after the effectuation of the restructuring, so that post-restructuring dividend scales will not change as a result of the restructuring.
259. This does not mean that the dividend scales of the closed block policies will not change because, as experience changes, dividends may change.

260. As described in the Conversion Application, effective as of September 30, 2001, Provident Mutual created the Closed Block with the assistance of outside actuarial consultants.
261. Provident Mutual retained Milliman to assist Provident Mutual in developing and implementing the actuarial concepts, principles, and methodologies necessary for the creation and operation of the Closed Block.
262. Milliman prepared and provided to Provident Mutual a Closed Block memorandum (the "Closed Block Memorandum"), which described its proposed methodologies and assumptions in connection with the Closed Block.
263. The methodology proposed by Milliman for establishing the Closed Block is as follows:
 - (a) Begin administration of the Closed Block commencing September 30, 2001, by allocating assets based on the preliminary funding estimates as described in the Closed Block Memorandum.
 - (b) Establish the Final Closed Block Funding effective September 30, 2001.
 - (c) Adjust the Closed Block Funding on or near the effective date of the conversion to adjust for certain policies issued and policy face amounts increased between September 30, 2001, and the effective date of the conversion.
 - (d) The tasks relating to the creation of the Closed Block included:
 - (i) Determining which policies were to be included in the Closed Block.
 - (ii) Determining the amount of assets required to support the policies to be included in the Closed Block.
 - (iii) Determining the types of assets of Provident Mutual to be allocated to the Closed Block.
 - (iv) Determining the specific assets to be allocated to the Closed Block.
264. Section 915-A of the Conversion Act requires that the amount of assets allocated for the benefit of the Closed Block be based on the company's last annual statement.
265. The provisional funding calculation developed by Milliman was based on Provident Mutual's December 31, 2000 in-force data.

266. The 2001 dividend scale was selected as the base scale because it was the most recent scale available at the time the Closed Block analysis was begun and the approach used to set the 2001 dividend scale was consistent with the approach used in recent prior years.
267. As stated in the Conversion Application, Milliman, on behalf of Provident Mutual, proposed that the following policies be included in the Closed Block:
- (a) all participating individual life insurance policies that pay dividends or are expected to pay dividends in the future; and
 - (b) all individual-like group certificates for which Provident Mutual had an experience-based dividend scale payable in 2001.
268. As stated in the Conversion Application, the following policies were excluded from the Closed Block:
- (a) individual participating life policies that do not pay and are not expected to pay experience-based dividends;
 - (b) all individual non-participating policies;
 - (c) all "true" group life policies that are not "Look-through" policies described in Findings of Fact Nos. 287 through 289; and
 - (d) annuities, supplementary contracts, and accident and health policies.
269. Pursuant to Section 915-A(f) of the Conversion Act, the Commissioner may waive from inclusion in the Closed Block of participating policies those policies for which there is no expectation of dividends being paid if it is fair and equitable to do so.
270. On May 28, 2002, Provident Mutual filed a request with the Department for a waiver to exclude the following policies from the Closed Block:
- (a) traditional participating life policies that do not currently pay dividends and are not expected to pay dividends in the future. As advised by Provident Mutual, these policies do not have any nonguaranteed elements such as indeterminate premiums, cost of insurance charges, expense charges, or excess interest credits.
 - (b) participating variable universal life, participating flexible premium universal life, and participating fixed premium universal life policies. As advised by Provident Mutual:
 - (i) these policies do not pay dividends but do have some nonguaranteed elements;

- (ii) there is no expectation that dividends will be paid in the future;
and
 - (iii) the nonguaranteed elements are readily identifiable in these contracts.
- 271. The Closed Block is expected to be in existence until the last policyholder dies or surrenders his or her policy, or the Closed Block is terminated with prior written approval from the Department.
- 272. As part of its engagement, as consultant to the Department, Tillinghast reviewed the methodologies, assumptions, findings, and other conclusions of Milliman with respect to the Closed Block.
- 273. The Closed Block is segmented into three parts, each with a different dividend scale, to reflect commitments made by Provident Mutual in 1993 with respect to the merger of CALIC into Provident Mutual and in 1994 with respect to the merger of Covenant into Provident Mutual.
- 274. The three dividend scales are for policies originally issued or assumed by Provident Mutual, policies originally issued or assumed by Covenant, and policies originally issued or assumed by CALIC, and each separate dividend scale is based on the separate experience of each.
- 275. The amount of assets required for funding the Closed Block is based on assumptions relating to such elements of income as insurance cash flows and investment returns and expenses and other payments such as federal income taxes.
- 276. The assets allocated to the Closed Block were selected from Provident Mutual's bond and mortgage portfolios. The following types of assets from these portfolios were excluded from consideration for allocation to the Closed Block:
 - (a) bonds rated "4, 5 or 6" by the National Association of Insurance Commissioner Securities Valuation Office ("SVO");
 - (b) any bond rated "3" by the SVO whose credit quality was such that it was reasonably possible to deteriorate to a rating of "4" or lower;
 - (c) certain bonds rated "2" by the SVO, but with low investment grade ratings from other agencies;
 - (d) collateralized mortgage obligations, mortgage backed securities or asset backed securities which could not be easily modeled;
 - (e) bonds and mortgages scheduled to mature prior to December 31, 2001;

- (f) mortgages written down for Generally Accepted Accounting Principles reporting; and
 - (g) mortgages for which reserves were carried under statutory accounting principles.
277. Included within the Conversion Application is the investment policy for the Closed Block.
278. As described in the Conversion Application, the allocation of assets within the Closed Block must be maintained within certain ranges expressed as percentages of total invested assets in the Closed Block, at all times, as follows:
- (a) Bonds = 50 – 80% ;
 - (b) Mortgages = 10 – 30% ;
 - (c) Stocks = 0 – 5% ;
 - (d) Real Estate = 0 – 3% ; and
 - (e) Other Invested Assets = 0 – 4%.
279. The assets allocated to the Closed Block will remain in the general account of Provident Mutual and are subject to the same liabilities in the same priority as all assets in Provident Mutual's general account so that in the event Provident Mutual is liquidated, assets in the Closed Block will be used to satisfy policyholder and general creditor claims.
280. As stated in the Conversion Application, Provident has agreed to provide the Department annually with an income statement and balance sheet of the Closed Block.
281. On December 14, 2001, Milliman issued a statement of actuarial opinion to the Board of Directors of Provident Mutual opining that:
- (a) The objective of the Closed Block, as set forth in the Closed Block Memorandum (attached as Exhibit E to the Plan of Conversion), is appropriate.
 - (b) The arrangements for the establishment and operation of the Closed Block as set forth in Articles IX of the Plan of Conversion (including the Closed Block Memorandum, an exhibit thereto), make adequate provision for allocating to the Closed Block assets which will be reasonably sufficient to enable the Closed Block to provide for the guaranteed benefits, certain expenses and taxes associated with Closed Block policies, and to provide for the continuation of the dividend scales in effect for the year 2001 if the

experience underlying those scales (including the portfolio interest rate) continues.

- (c) The Plan of Conversion also provides for the appropriate adjustment of the dividend scales if the underlying experience changes from that underlying the dividend scales in effect for 2001 and is in conformity with the provisions of the Conversion Act dealing with closed blocks.
 - (d) The classes of policies included in the Closed Block under the Plan of Conversion are reasonable, are consistent with the guidance provided in Actuarial Standard of Practice 33, and are consistent with the provisions of the Conversion Act.
282. The statement of actuarial opinion identified in Finding of Fact No.281 relates to the actuarial aspects of the proposed reorganization of Provident Mutual pursuant to the Plan of Conversion as presented to the Board of Directors of Provident Mutual for its consideration and approval on December 14, 2001.
283. On May 21, 2002, Milliman issued a statement of actuarial opinion to the Board of Directors of Provident Mutual reaffirming the opinions identified in Finding of Fact No. 281 and supplementing them with the following additional opinions:
- (a) The selection of the assets used to fund the Closed Block as of September 30, 2001, is consistent with the Plan of Conversion and with the actuarial assumptions (as described in the Closed Block Memorandum) that were used for funding the Closed Block.
 - (b) The \$1,661.9 million of assets used to fund the Closed Block is an amount that is adequate to meet the objective of supporting the policies in the Closed Block (including the payment of claims, certain expenses and taxes) and providing for continuation of the dividend scales in effect on the date the Plan of Conversion was adopted if the experience underlying such dividend scales continues. Article IX of the Plan of Conversion also provides for appropriate adjustment of the dividend scales if the underlying experience changes from that underlying the dividend scales in effect for 2001 and is in conformity with the provisions of the Conversion Act dealing with closed blocks.
 - (c) The funding adjustment charges specified for the Closed Block are consistent with the Plan of Conversion and with the actuarial assumptions that were used for the establishment of these charges.
284. The statement of actuarial opinion identified in Finding of Fact No.283 was provided to the Board of Directors of Provident Mutual as it considered amending and restating the Plan of Conversion.

285. On May 20, 2002, Tillinghast provided to the Department a "Report on the Maintenance of Policyholders' Reasonable Dividend Expectations." The conclusions of Tillinghast as set forth in the report were presented by Michael Pressley during the public informational hearing as identified in Finding of Fact No. 128.
286. According to the Tillinghast report and the Milliman opinion, the initial assets allocated to the Closed Block as of September 30, 2001, in respect to Closed Block business in force on September 30, 2001, are in an amount that produces cash flows which, together with anticipated revenues from Closed Block business, are reasonably expected to be sufficient to provide for:
- (a) payment of policy benefits, specified expenses and taxes, and
 - (b) the continuation of dividends throughout the life of the policies included in the Closed Block based upon the dividend scales payable in 2001, if the experience underlying such dividend scales (including the portfolio interest rates) continues.

Look-Through Issue

287. Under the Plan of Conversion, an Eligible Member includes (1) any employer plan or employer policy holding a certificate of insurance issued by Provident Mutual under any of Provident Mutual's group insurance policies or group annuity contracts issued to a company trust created by Provident Mutual for its administrative convenience (a "Company Trust") or (2) any holder of a certificate of insurance issued by Provident Mutual to an insured or annuitant under a group insurance policy or group annuity contract issued to a Company Trust and not involving an employer plan or employer policy (collectively, the "Company Trust Policy Certificate Holders").
288. Provident Mutual has historically "looked through" these group policies issued to Company Trusts and has treated the certificate holders of these group policies as individual policyholders for purposes of the rights of policyholders.
289. The Department reviewed whether the Company Trust Policy Certificate Holders should be considered Eligible Members for receipt of the consideration to be distributed in the Sponsored Demutualization.

Blue Sky Memorandum

290. As part of its review of the Sponsored Demutualization Application, the Department requested that Provident Mutual provide assurance that the vote by Eligible Members on the Plan of Conversion and the proposed issuance to the Conversion Agent of Provident Stock Shares comply with applicable state securities ("Blue Sky") laws.

291. On June 14, 2002, Provident Mutual received a memorandum from its special counsel (the "Blue Sky Memorandum"), Debevoise & Plimpton, with respect to the Blue Sky laws of each of the states of the United States, the District of Columbia and Puerto Rico.
292. In such Blue Sky Memorandum, Debevoise & Plimpton advised that securities may be distributed to the conversion agent in the Sponsored Demutualization without registration thereof under the securities laws or the insurance securities laws of each of the states of the United States, the District of Columbia and Puerto Rico, subject to completion of the notice filing requirements of Minnesota and Utah.
293. Provident Mutual submitted the legal memorandum setting forth the conclusions in Finding of Fact No. 292 to the Department.

PwC Actuarial Analysis

294. Provident Mutual retained PwC in November of 2000 to prepare various actuarial analyses, which utilized information, data assumptions and methodologies provided by Provident Mutual, with respect to Provident Mutual and its life insurance subsidiary, PLACA.
295. On April 30, 2001, PwC delivered a draft report which was intended to provide certain actuarial information and analyses to assist a qualified actuary in developing an estimate of:
 - (a) the adjusted statutory book value of Provident Mutual as of December 31, 2000;
 - (b) the present value of projected after-tax statutory profits of the life insurance and annuity policies of Provident Mutual and PLACA which were in force on December 31, 2000;
 - (c) the present value of projected after-tax statutory profits of new business written subsequent to December 31, 2000; and
 - (d) the present value of the cost of carrying an adequate amount of capital required by regulatory bodies and rating agencies.
296. On June 8, 2001, PwC made certain adjustments to the after-tax present values shown in the draft report.
297. On April 17, 2002, PwC completed a "roll-forward" of the actuarial analysis from the original valuation date of December 31, 2000 to March 31, 2002.
298. As presented in the Sponsored Demutualization Application, the report of PwC is not an actuarial appraisal, nor is it an appraisal of the market value of Provident

Mutual as of December 31, 2000; however, Morgan Stanley has reviewed this report in connection with the preparation of its fairness opinion.

299. Tillinghast's findings with respect to the PwC analysis are set forth in Finding of Fact No. 129.

Policyholder Vote

300. As a condition to the effectiveness of the Sponsored Demutualization, the Plan of Conversion, including the merger and the other transactions contemplated by the Plan of Conversion, must be approved by 2/3 of the Eligible Members voting at the Special Meeting (defined below).
301. Eligible Members will be entitled to cast their votes, either in person or by proxy, at a special meeting of Provident Mutual members (the "Special Meeting").
302. All members of Provident Mutual as of a record date within 90 days prior to the date of the Special Meeting will be entitled to attend the Special Meeting and vote on an amendment to Provident Mutual's articles of incorporation as described in Finding of Fact No.309 (the "Mutual Articles Amendment").
303. For purposes of voting on the Plan of Conversion, Provident Mutual will mail a Joint Proxy Statement/Prospectus and Proxy and Ballot Cards to each Eligible Member. However, with respect to the member vote on the Mutual Articles Amendment, Provident will not mail notice of the Special Meeting (or any other documents) to any members who are not Eligible Members, but instead will publish notice of such meeting in the manner permitted by the BCL.
304. If the Eligible Members approve the Plan of Conversion, the Conversion Agent, as the holder of all issued Provident Stock Shares, will thereby be instructed to vote the shares in favor of the merger.
305. The Department asked that Provident Mutual or its legal consultants provide an opinion regarding the record date for purposes of eligibility to vote on the Plan of Conversion (including the merger) under the Conversion Act and the BCL.
306. In a June 20, 2002 opinion letter, Pepper Hamilton, legal consultants for Provident Mutual opined that:
- (a) Section 1763(a) is not applicable with respect to the approval of the Plan of Conversion to the extent that it is inconsistent with the requirements of the Conversion Act regarding such approval.
 - (b) Upon approval of the Eligible Members of the Plan of Conversion and the written consent of the Conversion Agent as contemplated under the Merger Agreement, the requirement of Section 1924 of the BCL regarding approval by the shareholders of the company will be met, in compliance,

to the extent applicable, with the requirements of Section 1763 of the BCL.

- (c) Members of Provident Mutual who are not Eligible Members are not entitled to Dissenters' Rights under Subchapter D of the BCL with respect to the Merger.

- 307. Provident Mutual has represented that it will not use a proxy solicitor to solicit votes in favor of the Plan of Conversion.

Articles of Incorporation and Bylaws

- 308. Provident Mutual submitted two proposed amendments to its Articles of Incorporation for review and approval by the Department under Section 204 of the GAA Amendments Act, which requires the prior approval of the Department for any amendment of the articles of incorporation or charter of any insurance corporation that may be effected only through action by, or with the approval of the members of, such insurance corporation.
- 309. All members of Provident Mutual as of a record date within 90 days prior to the date of the Special Meeting will be asked at the Special Meeting to consider and vote upon the Mutual Articles Amendment which adds a provision stating that the aggregate consideration received by eligible members under a plan of conversion may be allocated among eligible members using a formula that takes into account the contribution to Provident Mutual's surplus of the various classes of policies and contracts of the eligible members and such other factors as the board of directors of Provident Mutual may deem appropriate.
- 310. The proposal to approve the Mutual Articles Amendment will require a separate vote from the proposal to approve the Plan of Conversion.
- 311. If the Mutual Articles Amendment is approved, the amended and restated articles of incorporation incorporating such amendment would be effective prior to the date on which the conversion and the merger become effective.
- 312. The articles of incorporation and by-laws of Provident Mutual will be further amended and restated on the date on which the merger becomes effective in accordance with the Plan of Conversion in order to restate Provident Mutual's articles of incorporation and bylaws in the form of a stock corporation's articles and bylaws (the "Stock Amendment").
- 313. The Stock Amendment is among the transactions contemplated by the Plan of Conversion and a vote of Eligible Members to approve the Plan of Conversion will also act to approve the Stock Amendment.
- 314. Provident Mutual has filed both proposed articles amendments with the Department for approval.

315. The Stock Amendment will change the name of Provident Mutual to Nationwide Life Insurance Company of America.

Merger Consideration

316. As stated in the Sponsored Demutualization Application, Provident Mutual negotiated a fixed dollar value as the aggregate consideration for its acquisition by Nationwide, rather than a fixed number of NFS shares, subject to the condition described in Findings of Fact Nos. 318 through 324.
317. Companies to be acquired frequently prefer a fixed dollar value to provide a degree of certainty as to the amount of aggregate consideration to be received.
318. As stated in the Sponsored Demutualization Application, the dollar value of aggregate consideration that Provident Mutual's Eligible Members will receive will be fixed if the volume weighted average of the sale prices of the NFS Common Stock as published by Bloomberg Professional Service for the 15 consecutive trading days ending on the fifth trading day immediately preceding the closing date (the "NFS Final Stock Price") is between \$36.86 and \$47.71. This range was based on the volume weighted average (\$43.37) of the sale prices of the NFS Common Stock as published by Bloomberg Professional Service for the 15 consecutive trading days ending on the day immediately preceding August 7, 2001 (the "Initial Price"), which was the date of the Merger Agreement. The range is known as a "collar."
319. As stated in the Sponsored Demutualization Application, the collar provides that, if the NFS Final Stock Price is between 85% and 110% of the Initial Price, then the aggregate consideration will remain at approximately \$1.527 billion. The collar further provides that, if the NFS Final Stock Price is between 110% and 115% of the Initial Price, then the Eligible Members will share partially in the increase and the aggregate consideration will be adjusted upward.
320. As stated in the Sponsored Demutualization Application, if the NFS Final Stock Price is within the collar, the number of NFS shares to be distributed will be adjusted so that the aggregate consideration to be distributed to Eligible Members as a group in exchange for their membership interests would be approximately \$1.527 billion.
321. An adjustment to the purchase price is in place in order to reflect changes in NFS' stock price outside of the designated collar. As stated in the Sponsored Demutualization Application, if the NFS Final Stock Price is above or below the collar, then the aggregate consideration will fluctuate generally in line with the trading price of the NFS shares of stock, resulting in a proportional change in the aggregate consideration.

322. Provident will have the option to terminate the Merger Agreement if the NFS Final Stock Price is below 75% of the Initial Price and declines by more than 15% as compared to a peer group of companies.
323. Assuming that the effective date of the Sponsored Demutualization was July 30, 2002, and the NFS Final Stock Price was approximately \$34.08, the aggregate consideration to be distributed to Eligible Members as a group in exchange for their membership interests would be approximately \$1.412 billion.
324. Because the purchase price is adjusted if the NFS Final Stock Price is below \$36.86, Eligible Members are not guaranteed to receive a minimum value in the Sponsored Demutualization and the aggregate consideration payable by NFS in the merger will be less than \$1.527 billion.
325. Morgan Stanley issued opinions, dated August 7, 2001 and July 25, 2002, that the aggregate consideration to be received by the Eligible Members, as a group, in exchange for their aggregate membership interests pursuant to the Merger Agreement is fair from a financial point of view to such Eligible Members, as a group. Morgan Stanley will issue a similar opinion within five (5) days of the effective date of the Sponsored Demutualization.
326. Blackstone issued an opinion as of July 30, 2002, that the aggregate consideration to be received by the Eligible Members, as a group, in exchange for their aggregate membership interests pursuant to the Merger Agreement is fair from a financial point of view to such Eligible Members, as a group. Blackstone will issue a similar opinion within five (5) days of the effective date of the Sponsored Demutualization.

Allocation of Consideration

327. The amount of consideration Provident Mutual allocates to each Eligible Member will be comprised of two components – a fixed component and a variable component.
 - (a) The fixed component of consideration will be determined by dividing 20% of the total consideration by the total number of Eligible Members. The fixed component will be the same for each Eligible Member regardless of the number or size of the policies owned by that Eligible Member.
 - (b) The variable component is allocated based on each policy's estimated past and future contribution to the surplus of Provident Mutual but no allocation will be less than zero.
328. On December 14, 2001, Milliman issued a statement of actuarial opinion to the Board of Directors of Provident Mutual opining that the principles and methodologies for allocating consideration among Provident Mutual's Eligible Members, as set forth in Article VII of the Plan of Conversion (including the

Actuarial Contribution Principles and Methodologies exhibit to the Plan of Conversion), are fair and equitable.

329. On May 21, 2002, Milliman issued a statement of actuarial opinion to the Board of Directors of Provident Mutual reaffirming the opinion identified in Finding of Fact No. 328 and supplementing it with the additional opinion that the assumptions underlying the allocation of consideration, as described in the Actuarial Contribution Memorandum, are reasonable and appropriate and, when considered together with the methodology described in Article VIII of the Plan on Conversion (including the Actuarial Contribution Principles and Methodologies exhibit to the Plan of Conversion), result in an allocation of consideration among Eligible Members that is fair and equitable.
330. The consideration allocated to Eligible Members initially will be allocated, but not physically delivered, in the form of Provident Stock Shares.
331. Eligible Members will receive mandatory cash, mandatory Policy Credits or issued Provident Stock Shares in exchange for their membership interests based on their allocation of Provident Stock Shares.
332. While Eligible Members will be issued Provident Stock Shares in the conversion, they will not actually receive such shares; all such shares will be exchanged in the merger and Eligible Members will receive consideration in the form of NFS Class A Common Stock, cash, or policy credits.
333. NFS has represented to the Department that NFS expects that the consideration in the form of NFS Class A Common Stock and cash will be distributed to Eligible Members within 21 days after the effective date of the Sponsored Demutualization.
334. NFS has represented to the Department that NFS expects that the consideration in the form of Policy Credits will be distributed to Eligible Members within 45 days after the effective date of the Sponsored Demutualization.
335. Pursuant to the Plan of Conversion, Nationwide will establish a commission-free stock sale and purchase program within 21 days after the effective date of the Sponsored Demutualization.

Pennsylvania Presence

336. Nationwide represented to the Department that there are approximately 1,500 Provident Mutual employees within Pennsylvania and over 500 Nationwide property/casualty agents in Pennsylvania.
337. Nationwide represented to the Department that it intends to maintain and grow the Provident Mutual presence in Pennsylvania, particularly in the greater Delaware Valley.

338. Nationwide represented to the Department that although the Merger Agreement does not contain any provisions for a required number of employees or limitations on reductions in the work force, Nationwide's integration plan contemplates combining certain positions and functions and targets for elimination approximately 60 individual Provident Mutual jobs by the first quarter of 2003.

Management Standard

339. When analyzing an application for an acquisition of control 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 acquired insurer.
340. Biographical affidavits for all directors and executive officers of Nationwide were reviewed by the Department and read into the record at the Hearing including those designated by Nationwide to serve as replacements for the current executive officers after the effective date of the Sponsored Demutualization.
341. In the course of processing the Merger Application, nothing has come to the attention of the Department that would cause it to be unable to conclude that the persons who would control the operations of Provident Stock have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

Competitive Impact Standard

342. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the effect of the acquisition on competition in the Commonwealth of Pennsylvania.
343. The Department requested that Nationwide conduct an analysis of the competitive impact of the acquisition under the standards of Section 1403 of the Insurance Holding Companies Act.
344. Based on its review, Nationwide represented to the Department that the acquisition of Provident Mutual will not substantially lesson competition or tend to create a monopoly in the Commonwealth of Pennsylvania.
345. In addition, Nationwide and Provident Mutual submitted pre-merger notification and report forms to the Federal Trade Commission on December 14, 2001, pursuant to the Hart-Scott-Rodino Act. The required waiting period under the Hart-Scott-Rodino Act was terminated on December 21, 2001.

Plans for the Acquired Insurer Standard

346. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act, the Department reviews the plans or proposals of the acquiring party with respect to the insurer.
347. As provided in the Merger Application, except for the merger, the changes contemplated in Nationwide's post-merger integration plans and the anticipated termination of employment by Mr. Kloss and five other senior executive officers, Nationwide has no future plans or proposals to liquidate Provident Mutual, to sell its assets to, or merge it with, any person or persons or to make any other material change in its business, corporate structure or management.
348. As described in the Merger Application, Provident Stock will operate largely as an autonomous division of the Nationwide group of companies following the merger.
349. As described in the Merger Application, Nationwide developed and implemented a retention program for certain employees and agents of Provident Mutual.
350. As described in the Merger Application, Nationwide has also agreed that until December 31, 2003, it will maintain the same compensation and benefit levels as were in effect immediately prior to the merger for continuing employees of Provident Stock and former Provident Mutual employees who are entitled to receive compensation and benefits.

General

351. 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.
352. These Findings of Fact are as of the date of this Decision and Order, and the Department has no obligation to update or supplement these findings to reflect any changes to the findings set forth herein or additional facts that may occur after the date hereof.

CONCLUSIONS OF LAW

1. The Conversion Act and Insurance Holding Companies Act provide the commissioner jurisdiction to review and approve or disapprove the Sponsored Demutualization of Provident Mutual as described in the Sponsored Demutualization Application.

2. Delegation of the duties and powers of the head of an administrative agency to a deputy is authorized by Section 213 of the Administrative Code of 1929, Act of April 9, 1929, P.L. 177, art. II, §213, as amended, 71 P.S. §73.
3. Commissioner Koken's delegation of power and authority to Deputy Commissioner Rohrbaugh to direct the review of, and to render a final decision on, the Sponsored Demutualization Application was proper under law.
4. No actual or apparent conflict of interest existed in the Department's review of the Sponsored Demutualization Application.
5. Section 913-A(e) of the Conversion Act provides that the commissioner may, but is not required to, conduct a hearing in review of a proposed Plan of Conversion.
6. Deputy Commissioner Rohrbaugh has the discretion under the Conversion Act to choose whether or not to conduct a hearing.
7. Deputy Commissioner Rohrbaugh's decision to conduct a hearing under Section 913-A of the Conversion Act was a proper exercise of his discretionary authority.
8. If a hearing is held, the Conversion Act does not require the hearing to be conducted under the Administrative Agency Law, 2 Pa. C.S. §§501-508, utilizing the General Rules of Administrative Practice and Procedure, 1 Pa. Code, Chapters 31, 33, and 35.
9. A public informational type of hearing, in the nature of a town meeting, is appropriate under the Conversion Act in the Department's review of Provident Mutual's proposed Sponsored Demutualization.
10. The formal elements of an evidentiary, trial type proceeding, such as, inter alia, motions, petitions, cross-examination, and swearing of witnesses are not required in a public informational hearing.
11. The public informational hearing conducted on May 23, 2002, was a proper exercise of Deputy Commissioner Rohrbaugh's discretion under Section 913-A of the Conversion Act.
12. Section 913-A of the Conversion Act requires that a proposed Plan of Conversion, and any amendments thereto, be approved by not less than two-thirds of the board of directors of the mutual company.
13. The unanimous approval by the Board of Directors of Provident Mutual of the Plan of Conversion and all subsequent amendments satisfies the statutory requirement found in Section 913-A(a).
14. Section 913-A of the Conversion Act requires that a mutual insurance company proposing to convert to a stock insurance company must file a proposed Plan of

- Conversion, and any amendments thereto, with the commissioner for approval or disapproval.
15. Provident Mutual's filing of the Plan of Conversion was in accordance with the requirements of the Conversion Act.
 16. Section 915-A of the Conversion Act requires that a mutual life insurance company establish a closed block of participating life policies and allows exclusions of certain policies from the closed block.
 17. The categories of policies included in the Closed Block established by Provident Mutual are appropriate and are consistent with relevant provisions of the Conversion Act.
 18. The Department concludes that it is fair and equitable to exclude from the Provident Mutual Closed Block the following participating policies on which no dividends are currently paid and for which there is no expectation of the payment of dividends:
 - (a) traditional life policies;
 - (b) variable universal life;
 - (c) flexible premium universal life; and
 - (d) fixed premium universal life.
 19. The exclusion from the Provident Mutual Closed Block of the existing dividend paying participating annuities, dividend paying supplementary contracts, and dividend paying disability income policies is reasonable and in accordance with the Conversion Act.
 20. Provident Mutual's agreement to maintain the 2001 dividend scales for existing dividend paying participating annuities, dividend paying supplementary contracts and dividend paying disability income policies which are all excluded from the Closed Block, and Provident Mutual's agreement not to change the dividend scales without prior written approval of the Department is reasonable and preserves the purposes of a closed block.
 21. The selection of the 2001 dividend scale for the Closed Block is reasonable and consistent with the Conversion Act.
 22. The asset mix used for the initial funding of the Closed Block, as described in the investment guidelines for the Closed Block, is appropriate.
 23. The methodology used to determine the initial funding level of the Closed Block as of September 30, 2001 (the "Initial Funding Date"), is consistent with provisions of the Conversion Act.

24. The use of September 30, 2001 as the Initial Funding Date is consistent with provisions of the Conversion Act.
25. The methodology used to determine the final funding level of the Closed Block as of September 30, 2001 is consistent with the provisions of the Conversion Act.
26. Section 917-A of the Conversion Act permits distribution of consideration to eligible members other than subscription rights to purchase stock if the plan of conversion otherwise meets the standards set forth in Section 917-A.
27. The consideration distributed to the Eligible Members in exchange for their membership interests in Provident Mutual will consist of Policy Credits, NFS Class A Common Stock, or cash.
28. The plan for distribution of cash, NFS Class A common stock, or Policy Credits to Eligible Members in exchange for their membership interests is consistent with the provisions of Section 917-A.
29. The allocation of consideration set forth in the Plan of Conversion is fair and equitable from an actuarial perspective and not prejudicial to the interests of the Eligible Members.
30. The Sponsored Demutualization is fair to Eligible Members as a group from a financial point of view and is consistent with the Conversion Act.
31. The provisions of the Plan of Conversion are in compliance with Section 921-A of the Conversion Act.
32. Because there is no factual support in the record before the Department for finding that the compensation arrangements with Provident Mutual's executive officers are unfair, the Department cannot find that such compensation arrangements are unfair.
33. Because there is no factual support in the record before the Department for finding that the compensation arrangements with Provident Mutual's directors are unfair, the Department cannot find that such compensation arrangements are unfair.
34. The Conversion Act establishes a record date for the meeting of members to vote on the Plan of Conversion as the date of approval of the plan of conversion by the board of directors of the converting mutual.
35. Section 1763(a) of the BCL requires that the record date for meetings of members be not more than 90 days prior to the meeting.
36. In accordance with Section 103 of the Pennsylvania Associations Code and the provisions of Pennsylvania law regarding statutory construction, because the Conversion Act is the statute which specifically regulates insurance companies

- and was enacted more recently than the BCL provisions governing record dates, the Conversion Act record date requirements control over the BCL record date requirements with respect to the voting on a plan of conversion, and the Conversion Act supercedes any potentially conflicting provisions of the BCL.
37. Based on the information contained in the Conversion Application, there are no facts that would cause the Department to find that the provisions of the Plan of Conversion that treat Company Trust Policy Certificate Holders as Eligible Members under and as defined in the Plan of Conversion prejudice the interests of the members of Provident Mutual, are not fair and equitable, or are inconsistent with the purpose and intent of the Conversion Act.
 38. The Conversion Application satisfies all other requirements of the Conversion Act.
 39. In accordance with Section 917-A of the Conversion Act, the board of directors of a mutual company may adopt a plan of conversion that does not rely in whole or in part upon issuing nontransferable subscription rights to members to purchase stock if the commissioner finds each of the following:
 - (a) The plan does not prejudice the interests of the members;
 - (b) The plan is fair and equitable; and
 - (c) The plan is not inconsistent with the purpose and intent of the Conversion Act.
 40. In consideration of all the findings of fact set forth above, a review of the Plan of Conversion, all exhibits thereto including the Merger Agreement, opinions and certificates provided to the Department, all other documents deemed appropriate, documents in the public file and the accuracy of all representations and the fulfillment of all commitments made by the Applicants, in accordance with Section 917-A of the Conversion Act, Deputy Commissioner Rohrbaugh finds that:
 - (a) Provident Mutual's Plan of Conversion does not prejudice the interests of the members;
 - (b) Provident Mutual's Plan of Conversion is fair and equitable; and
 - (c) Provident Mutual's Plan of Conversion is not inconsistent with the purpose and intent of the Conversion Act.
 41. The acquisition of control of Provident Mutual is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth of Pennsylvania.

42. The acquisition of control of Provident Mutual will not substantially lessen competition or tend to create a monopoly in the Commonwealth of Pennsylvania because the market shares of Provident Mutual and its Pennsylvania licensed insurance company subsidiaries and the market share of Nationwide Mutual and its Pennsylvania licensed insurance company subsidiaries, as stated in the Merger Application, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act.
43. Under Section 1402 of the Insurance Holding Companies Act, the Commissioner must approve an application for a change in control unless the Department has found that:
 - (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 they are presently licensed;
 - (b) The change in control will substantially lessen competition in insurance in this Commonwealth 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 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 this Commonwealth, including the Conversion Act.
44. Under Section 1402 of the Insurance Holding Companies Act, Deputy Commissioner Rohrbaugh has not found that any of the above conditions are present with respect to the change in control of Provident Mutual.
45. The Department is satisfied that the persons who would control the operations of Provident Stock have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.

46. Section 913-A of the Conversion Act provides that the Department may retain outside consultants, at the mutual company's expense, to assist the Department in its review of a proposed plan of conversion.
47. Section 1402 of the Insurance Holding Companies Act provides that the Department may retain outside consultants to assist the Department in its review of a proposed acquisition of control of a domestic insurer.
48. The Department's retention of Tillinghast as an actuarial advisor and Stevens & Lee as legal consultants was appropriate under Section 913-A of the Conversion Act and Section 1402 of the Insurance Holding Companies Act.
49. 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.
50. In approving this transaction, the Department has relied upon information provided to it by the Applicants, as well as consultants retained by said parties and the Department. Nothing in this determination shall be considered as an endorsement or recommendation of the Sponsored Demutualization or an investment in the stock of NFS or as any opinion regarding the future revenues, earnings or stock price of NFS. The Department has not reviewed the proposed transaction or related documents for compliance with federal law, including but not limited to the federal securities laws, or the laws of any other state.

company ("Provident Stock") and NFS will immediately acquire Provident Stock through the merger of its subsidiary, Eagle Acquisition Corporation, with and into Provident Stock, is hereby granted, subject to this Order and the following conditions:

- (a) Provident Mutual shall provide to the Pennsylvania Insurance Department ("Department") for review and comment a copy of the Joint Proxy Statement/Prospectus, any amendments or supplements thereto, and any other notice materials (collectively the "Notice Materials") to be sent to each member whose policy was in force as of December 14, 2001 ("Eligible Member")
 - (i) advising of the members' meeting to vote upon the Plan of Conversion (the "Special Meeting"); and
 - (ii) including full and fair disclosure of the details (including, but not limited to, potential advantages and disadvantages from the perspective of an Eligible Member) of the proposed Plan of Conversion and Merger Agreement and the transactions contemplated thereby (collectively the "Sponsored Demutualization").
- (b) Provident Mutual and Nationwide shall not distribute the Notice Materials to any Eligible Members until the Department has notified Provident Mutual in writing that it has no further comments on said materials, including any changes or additions to the Notice Materials that are made after the date hereof.
- (c) Provident Mutual shall include a full copy of the Plan of Conversion, including its exhibits, as approved by the Department, with the Notice Materials.
- (d) Provident Mutual shall mail the Notice Materials by United States Post Office Priority Mail or first class mail, or the equivalent thereof, postage prepaid, to the last known address of each Eligible Member, at least forty (40) days before the date of the Special Meeting.
- (e) Prior to mailing the Notice Materials to Eligible Members, the U. S. Securities and Exchange Commission ("SEC") shall have issued an order declaring NFS' Registration Statement No. 333-90200 on Form S-4 effective under the Securities Act of 1933, as amended, and Nationwide shall have advised the Department in writing of the issuance of the order of the SEC. A copy of such order shall be filed with the Department within one (1) business day of the receipt thereof by NFS.
- (f) Within two (2) business days after the first mailing of the Notice Materials to the Eligible Members, Provident Mutual shall file a full copy of the

Notice Materials, exactly as mailed to the Eligible Members, with the Department.

- (g) Prior to the effective date of the Sponsored Demutualization, Provident Mutual shall submit for the Department's prior written approval any
 - (i) changes or additions to the Plan of Conversion or the exhibits thereto that are made subsequent to the date of this Order; and
 - (ii) waiver of any condition precedent to completion of the transactions contemplated by the Plan of Conversion or the waiver of any other rights, duties or obligations of Provident set forth in the Plan of Conversion.
- (h) Prior to the effective date of the Sponsored Demutualization, Nationwide and Provident Mutual shall submit for the Department's prior written approval any
 - (i) changes or additions to the Merger Agreement that are made subsequent to the date of this Order; and
 - (ii) 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.
- (i) Prior to the effective date of the Sponsored Demutualization, Provident Mutual shall submit for Department review and comment the form of any communications to Eligible Members notifying them of the amount and type of consideration they will receive pursuant to the Plan of Conversion.
- (j) A stock purchase and sale program described in the Joint Proxy Statement/Prospectus, free of all costs and commissions, shall be provided for all Eligible Members receiving less than one hundred (100) shares of NFS stock for at least a 90-day period, which will commence no later than twenty-one (21) days after the date on which the Sponsored Demutualization becomes effective. Such program shall be provided by a reputable and financially stable financial institution or NASD licensed broker-dealer, and orders to sell or purchase may be placed by phone, mail or secure internet connection. Prior to effective date of the Sponsored Demutualization, the rules and regulations governing such program shall be submitted to the Department and the Department shall have advised Nationwide that it has no objections to such rules and regulations.
- (k) Prior to the effective date of the Sponsored Demutualization, Nationwide shall file with the Department a copy of the SEC no-action letter concerning the aforesaid commission-free purchase and sale program.

- (l) All Eligible Members receiving one hundred (100) shares or greater of NFS stock in the Sponsored Demutualization shall have the ability to sell their stock no later than twenty-one (21) days after the date on which the Sponsored Demutualization becomes effective, subject to applicable provisions of the federal securities laws and Section 10.1(b) of the Plan of Conversion, as such statutes and provisions may be applicable to directors and officers of Provident Mutual and other persons.
- (m) Within five (5) days after receipt thereof, Provident Mutual shall file with the Department a copy of the document issued by the United States Department of Labor granting an exemption from the prohibited transaction restrictions of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended.
- (n) In accordance with Section 918-A of the Insurance Company Mutual-to-Stock Conversion Act, 40 P.S. §911-A, et seq., as amended (the "Conversion Act"), the Plan of Conversion of Provident Mutual from a mutual to a stock insurance company shall be approved by the affirmative vote of two-thirds (2/3) of the Eligible Members who cast votes in person or by proxy at the Special Meeting, and such vote shall be certified in writing by a firm of Certified Public Accountants licensed in the Commonwealth of Pennsylvania, before the Sponsored Demutualization becomes effective.
- (o) Within two (2) business days after the conclusion of the Special Meeting, Provident Mutual shall provide written notice to the Department of the results of the votes cast at the Special Meeting, including a copy of the aforesaid Certification by a firm of Certified Public Accountants. Pursuant to Section 5.3 of the Plan of Conversion, Provident Mutual shall file with the Department, within thirty (30) days of the Special Meeting, the minutes of the Special Meeting and the amended and restated articles of incorporation and bylaws of Provident Stock
- (p) Provident Mutual shall notify the Department in writing of the effective date of the Sponsored Demutualization at least five (5) days prior to such date.
- (q) All policies of Provident Mutual in force at the time of the Sponsored Demutualization shall continue in force, and the Sponsored Demutualization shall not change premiums or reduce policy benefits, values, guarantees or other policy obligations of Provident Mutual to its policyholders and, in accordance with Section 6.2(c) of the Plan of Conversion, Provident Mutual shall not issue a nonparticipating policy in substitution for a participating policy without the prior written consent of the Department.

- (r) Provident Stock shall file with the Department, within five (5) days after the effective date of the Sponsored Demutualization, a copy of all final documents executed and delivered in connection with the Sponsored Demutualization by or on behalf of Nationwide, Provident Mutual or Provident Stock, including, without limitation, any opinions of counsel and closing documents provided by actuaries, investment bankers, accountants, other consultants, advisors or service providers.
- (s) Provident Stock shall, within thirty (30) days of the effective date of the Sponsored Demutualization, send a notice to its agents, in a form acceptable to the Department, giving notice of the consummation of the Sponsored Demutualization.
- (t) For the three (3) years following the effective date of the Sponsored Demutualization, Provident Stock shall be prohibited from declaring or paying any dividends, returns of capital or any other types of distributions to its shareholder, except upon application to, and receipt of the prior written approval of, the Department.
- (u) Within three (3) months following the date of this Order, Provident Stock shall submit, in a format acceptable to the Department, a plan for reporting the results of the Closed Block on an on-going basis.
- (v) Provident Stock shall file its Closed Block investment policy annually with the Department by March 1 of each year and, pursuant to Section 9.2(c)(i) of the Plan of Conversion, such filing shall be accompanied by a schedule of all transfers between the Closed Block and Provident Stock's general account that individually or in a series of similar transactions are in excess of \$100,000 in value.
- (w) Provident Stock shall provide any contemplated changes to its Closed Block investment policy to the Department for review and prior written approval.
- (x) Provident Stock shall retain an independent actuary to review and analyze the adequacy of the assets and reserves of the Closed Block as of December 31, 2003 and every three (3) years thereafter, and shall provide the results of such review and analysis to the Department within ten (10) days of receipt but no later than July 1 of the following year, except that this requirement for an actuarial review and analysis may be waived by the Department upon application for any year in which the Department has retained the services of an independent actuary for the purpose of conducting a financial examination of Provident Stock.
- (y) Provident Stock shall bear the cost of all outside advisors and consultants retained by the Department to monitor the Closed Block after the effective date of the Sponsored Demutualization.

- (z) In accordance with Section 9.5 of the Plan of Conversion, Provident Stock shall maintain and continue the 2001 dividend scales for dividend paying participating policies excluded from the Closed Block and obtain prior written approval from the Department prior to modifying said dividend scales.
- (aa) Provident Stock shall complete a current mortality table for Covenant Life Insurance Company to include experience through December 31, 2001, and file a copy thereof with the Department on or before December 31, 2003.
- (bb) Prior to the effective date of the Sponsored Demutualization, Provident Mutual shall file with the Department, in a form acceptable to the Department, a copy of the Morgan Stanley fairness opinion which:
 - i) will be dated as of a date no more than five (5) days prior to the effective date of the sponsored Demutualization; and
 - ii) will conclude, without material qualification or exception, that the consideration to be received by the Eligible Members, as a group, in exchange for their aggregate membership interests pursuant to the Merger Agreement, is fair from a financial point of view to such Eligible Members, as a group.

In the event the effective date is postponed or continued for any reason, such a fairness opinion must be updated to a date within five (5) days prior to the new effective date and filed with the Department prior to the new effective date.

- (cc) Within five (5) business days after receipt, Provident Stock shall provide copies to the Department of the final reports issued by PricewaterhouseCoopers and KPMG with respect to the member file extracts and the calculation of the actuarial equity shares.
- (dd) Neither Nationwide, Provident Stock nor any of their related parties or affiliates shall hire or retain Robert Kloss, Mary Lynn Finelli, Mehran Assadi, Alan Hinkle, Joan Tucker or Linda Springer in any capacity during the three (3) year period immediately following the effective date of the Sponsored Demutualization and during or on account of such period neither Nationwide, Provident Stock nor any related party or affiliate thereof shall pay to or confer upon, or commit to pay to or confer upon, directly or indirectly, the above individuals any fees, monies, benefits, consideration or anything of value, except pursuant to the Change in Control Agreements, the Consulting Agreements and the other employee benefit plans described in the Notice Materials.

- (ee) Nationwide shall, prior to the effective date of the Sponsored Demutualization, provide a detailed schedule of the sources of funds by category for the cash consideration and policy credits to be funded by Nationwide in connection with the Sponsored Demutualization for Department review and comment.
- (ff) The composition of the boards of directors and the committees of the board of Provident Stock shall satisfy the requirements of Section 1405 of the Insurance Holding Companies Act, 40 P.S. §991.1405.
- (gg) Provident Mutual shall publish this Decision and Order on its Internet website within five (5) business days after the date of this Decision and Order.
- (hh) For a period of six (6) months after the effective date of the Sponsored Demutualization, Nationwide shall not reduce the number of Provident Mutual employees principally located in Pennsylvania beyond the involuntary reduction of sixty (60) employees identified at the public informational hearing, without application to and the prior written approval of the Department.
- (ii) For a period of three (3) years after the effective date of the Sponsored Demutualization, Nationwide 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 Provident Mutual or its subsidiaries principally located in Pennsylvania as of, or within six months prior to, the effective date of the Sponsored Demutualization. For purposes of this condition, as of any date, the ten percent (10%) threshold shall be determined based upon a rolling twelve 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. The notice requirements in this subparagraph (ii) do not apply to the involuntary reductions described in subparagraph (hh) above. The sixty (60) employee reductions contemplated in subparagraph (hh) above are not to be included in the calculations made under this subparagraph (ii).
- (jj) For a period of three (3) years after the effective date of the Sponsored Demutualization, Nationwide shall not close or cease actively doing business from
 - (i) the corporate office of Provident Stock, located in Berwyn, Pennsylvania, or

- (ii) any other office located in Pennsylvania, in each case without application to and the prior written approval of the Department.

Notwithstanding the foregoing, Provident Stock may close an agency office if all licensed agents in that office have voluntarily terminated their employment with Provident Stock or such closure results from the consolidation of two or more offices and the employees resident in the resulting office, at a minimum, consist of all the employees that were resident in the offices that were consolidated.

- (kk) NFS shall not declare or pay a regular, extraordinary or other cash dividend, return of capital, or other cash distribution to holders of either Class A or Class B common stock for a period of one (1) year from the effective date of the Sponsored Demutualization which cumulatively (over the one year period starting on the effective date of the Sponsored Demutualization) or individually is in excess of 110% of the last four (4) quarterly dividends paid to such shareholders, on a per share basis, prior to the date of this Decision and Order, without application to and the prior written approval of the Department.
- (ll) For a period of three (3) years after the effective date of the Sponsored Demutualization, Provident Stock shall not enter into any management, administrative services, tax sharing or other agreement or other series of agreements with Nationwide or any related party or affiliate of Nationwide that requires the payment of aggregate annual amounts in excess of \$250,000 to Nationwide or any related party or affiliate of Nationwide without application to and the prior written approval of the Department.
- (mm) For a period of three (3) years after the effective date of the Sponsored Demutualization, Nationwide and Provident Stock shall not voluntarily withdraw any certificate of authority to engage in the insurance business in the Commonwealth of Pennsylvania.
- (nn) For a period of three (3) years after the effective date of the Sponsored Demutualization, Provident Stock shall not attempt to or actually redomesticate to another jurisdiction.
- (oo) Nationwide shall provide to the Department notice of the hearing to be held by the Delaware Insurance Department relating to the change of control of Providentmutual Life and Annuity Company of America within two (2) business days of receipt of such notice.
- (pp) Nationwide and Provident Mutual shall use their best efforts to ascertain the mailing addresses of Eligible Members prior to mailing of the Notice Materials.

- (qq) On or before the mailing date of the Notice Materials, NFS shall cause its counsel to deliver to the Department a copy of an executed tax opinion addressed to NFS in form and substance satisfactory to the Department.
- (rr) On or before the mailing date of the Notice Materials, Provident Mutual shall cause its counsel to deliver to the Department a copy of an executed tax opinion addressed to Provident Mutual in the form attached as Annex H to the Joint Proxy Statement/Prospectus.
- (ss) On the effective date of the Sponsored Demutualization, Nationwide and Provident Stock shall each file with the Department:
 - (i) any certificates and other documents requested by the Department in connection with the consummation of the Sponsored Demutualization;
 - (ii) written certifications executed each by the President and Senior Vice President - Finance of NFS and by the President and Chief Financial Officer of Provident Mutual that all conditions in the Decision and Order have been satisfied except for those permitted by the Department to be satisfied after the effective date;
 - (iii) written certifications of undertakings to satisfy any such post-closing conditions in accordance with the terms of this Decision and Order; and
 - (iv) an executed copy of the tax opinions required by the Agreement and Plan of Merger to be delivered to Provident Mutual and Nationwide by their respective counsel and, in accordance with Section 6.5(c) of the Plan of Conversion, a statement that the Department shall be entitled to rely upon such opinions as though they were addressed to the Department.
- (tt) Provident Mutual and Provident Stock 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 Sponsored Demutualization, as determined by the Department, in accordance with the Conversion Act.
- (uu) Provident Stock and Nationwide shall not consummate the Sponsored Demutualization until The Blackstone Group L.P. has issued to the Department an opinion or opinions, acceptable to the Department, and dated within five (5) days of the effective date of the Sponsored Demutualization, that the aggregate consideration to be received pursuant to the Merger Agreement by the Eligible Members as a group, in exchange for their aggregate membership interests, is fair from a financial point of view to the Eligible Members as a group.

- (vv) Neither Nationwide nor Provident Stock may terminate the Closed Block without application to and the prior written approval of the Department.
 - (ww) Nationwide and Provident Stock shall maintain assets in the Closed Block necessary to support the remaining policies in the Closed Block.
 - (xx) On the last business day prior to the effective date of the Sponsored Demutualization, and as a condition precedent to the consummation of the Sponsored Demutualization, Provident Mutual and NFS shall each file with the Department a written certification signed respectively by the President and Chief Financial Officer of Provident Mutual and by the President and Senior Vice President - Finance of NFS. Each certification shall state that, based upon a review of the Notice Materials and after reasonable investigation, to the best of their knowledge as of the date of the Special Meeting and as of said effective date, the Notice Materials did not contain any misstatement of a material fact or any omission of a material fact necessary to make the statements made in the Notice Materials, in light of the circumstances under which they were made, not misleading.
 - (yy) In the event that Nationwide or Provident 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 days in advance of taking any such action.
 - (zz) Nationwide and Provident 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 Sponsored Demutualization that does or could cause (a) the Notice Materials or (b) the Findings of Fact set forth in the Decision, to contain any misstatement of a material fact or 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.
2. The request from Provident Mutual to change its name subsequent to its conversion from the mutual to stock form to "Nationwide Life Insurance Company of America" is hereby approved, subject to any requirements of other regulatory authorities, appropriate notice being given promptly to all relevant policyholders, agents and other interested persons, and the filing of the Articles of Amendment with the Pennsylvania Department of State.
 3. The request from Provident Mutual for waiver from inclusion in the Closed Block of those participating policies for which there is no expectation of dividends being paid is hereby approved.
 4. The request from Provident Mutual for approval of the articles amendment that will be effective prior to the effective date of the Sponsored Demutualization

relating to the allocation of consideration among eligible members under a plan of conversion and the amended and restated articles of incorporation and by-laws of Provident Stock that will be effective on the effective date of the Sponsored Demutualization are hereby approved.

5. Nationwide and Provident 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 Sponsored Demutualization.

This Order is effective immediately. The approval with conditions of the Sponsored Demutualization is valid for six (6) months from the date of this Order, provided no material changes are made to the terms of the Sponsored Demutualization prior to consummation. Such approval may be extended for an additional six (6) months upon application and good cause shown.

Randolph L. Rohrbaugh
Deputy Insurance Commissioner
Commonwealth of Pennsylvania