

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

215.256.5000  
[www.harleysvillegroup.com](http://www.harleysvillegroup.com)



Dear Member of Harleysville Mutual Insurance Company:

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

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

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

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

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

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

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

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

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

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

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

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

215.256.5000  
www.harleysvillegroup.com



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

**NOTICE OF SPECIAL MEETING OF MEMBERS**

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

To the Members of Harleysville Mutual Insurance Company:

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

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

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

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

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

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

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

By Order of the Board of Directors,

Robert A. Kauffman  
Corporate Secretary

Harleysville, Pennsylvania

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

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

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

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

**Ways to Vote:**

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

**Who is Eligible to Vote?**

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

**What is the Vote Required?**

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

**Revoking Your Proxy:**

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

**Receipt of Proxy Statement**

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





**HARLEYSVILLE MUTUAL INSURANCE COMPANY**

**355 Maple Avenue**

**Harleysville, PA 19438**

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**PROXY STATEMENT**

**for**

**SPECIAL MEETING OF MEMBERS**

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

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**INTRODUCTION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **THE MERGER**

### **Reasons for the Merger**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Background of the Merger**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Equity Ownership**

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

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

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

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

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

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

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

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

\* Indicates ownership of less than 1.0%.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Indemnification and Insurance**

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

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

### **Advisory Group Compensation**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Valuation Approach

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

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

### Comparable Transactions Analysis

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

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

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

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

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

Source: SNL Financial

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

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

**Impact of Merger on Harleysville Mutual**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

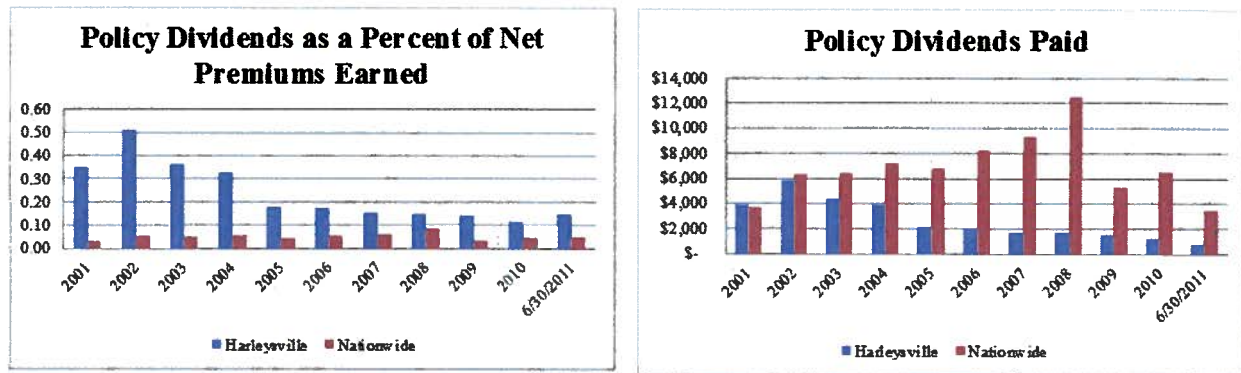
**Impact of Merger on Harleysville Mutual Constituents: Policyholders as Members**

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

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

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

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



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

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

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

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

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

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

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

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

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

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

*Impact of Merger on Harleystown Mutual Constituents: Community*

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

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

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

*Impact of Merger on Harleysville Mutual Constituents: Agents*

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

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

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

*Summary of Impacts on Constituencies*

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

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

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

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

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

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

### **COMPARISON OF MEMBER RIGHTS**

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

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

**Harleysville Mutual Member Rights**

**Nationwide Mutual Member Rights**

**Corporate Governance**

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

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

**Voting Rights**

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

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

**Quorum**

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

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

**Required Vote for Actions of Members**

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

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

**Harleysville Mutual Member Rights**

**Nationwide Mutual Member Rights**

**Notice of Meetings**

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

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

**Calling Special Meetings of Members**

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

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

**Number and Term of Directors**

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

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

**Harleysville Mutual Member Rights**

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

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

**Nationwide Mutual Member Rights**

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

**Nominations for the Election of Directors**

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

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

**Amendments to Governing Documents**

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

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

**Indemnification of Directors and Officers**

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

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

**Harleysville Mutual Member Rights**

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

**Nationwide Mutual Member Rights**

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

**REGULATORY APPROVALS**

**Pennsylvania Approvals**

The Merger must be approved by the Commissioner of Insurance of the Commonwealth of Pennsylvania (the "PA Insurance Commissioner") under the Pennsylvania Insurance Law (as defined in the Merger Agreement). Nationwide Mutual submitted a Form A application to the PA Insurance Commissioner on November 10, 2011 ("Form A"). The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1921, P.L. 682, as amended, 40 P.S. Sections 991.1401, et seq. provides that all changes in control of domestic insurers must be filed with the Department for approval. Pursuant to Section 1402(f)(1) of the Insurance Holding Companies Act, the application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present: (a) the insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which it is presently licensed; (b) the change in control will substantially lessen competition in insurance in Pennsylvania or tend to create a monopoly therein; (c) the financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders; (d) any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurer and not in the public interest; (e) the competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of the policyholders and the general public to permit the acquisition of control; (f) the acquisition is likely to be hazardous or prejudicial to the insurance buying public; or, (g) the acquisition of control is not in compliance with the laws of Pennsylvania.

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

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

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

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

### **Ohio Approvals**

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

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

### **Other Insurance Regulatory Approvals**

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

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

## **HSR Act**

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

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

### **General**

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

## **Limitations**

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

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

## **THE MERGER AGREEMENT**

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

### **The Mergers**

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

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

### **Closing of the Mergers**

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

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

#### **Outstanding Shares**

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

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

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

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

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

### **Outstanding Equity Awards**

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

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

### **Representations and Warranties**

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

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

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

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

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

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

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

**Covenants of Harleysville Mutual and Harleysville Group**

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

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

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

### **Covenants of Nationwide Mutual**

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

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

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

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

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

### **Member and Stockholder Approval**

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

### **Voting Agreement**

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

## **Conditions to Closing**

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

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

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

## **Termination**

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

**Specific Performance**

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

**Amendments**

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

## **Annex A**

### **The Merger Agreement**

**AGREEMENT AND PLAN OF MERGER**

**by and among**

**NATIONWIDE MUTUAL INSURANCE COMPANY,  
HARLEYSVILLE MUTUAL INSURANCE COMPANY,  
NATIONALS SUB, INC.,**

**and**

**HARLEYSVILLE GROUP INC.**

**Dated as of September 28, 2011**

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## AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this “Agreement”), dated as of September 28, 2011, by and among NATIONWIDE MUTUAL INSURANCE COMPANY, an Ohio mutual insurance company (“Nationwide Mutual”), HARLEYSVILLE MUTUAL INSURANCE COMPANY, a Pennsylvania mutual insurance company (“Harleysville Mutual”), NATIONALS SUB, INC., a Delaware corporation (“Merger Sub”), and HARLEYSVILLE GROUP INC., a Delaware corporation (“HGI”). Nationwide Mutual, Harleysville Mutual, Merger Sub, and HGI are herein sometimes referred to collectively as the “Parties” and each individually as a “Party”.

### RECITALS

A. Merger Sub is a wholly-owned subsidiary of Nationwide Mutual, and Harleysville Mutual owns approximately 54% of the issued and outstanding shares of the common stock of HGI.

B. The Board of Directors of Nationwide Mutual deems it advisable and in the best interests of its policyholders to effect the merger of Harleysville Mutual with and into Nationwide Mutual upon the terms and subject to the conditions set forth herein (the “Parent Merger”).

C. The Board of Directors of Harleysville Mutual deems it advisable and in the best interests of Harleysville Mutual to effect the Parent Merger, after consideration of the impact of the merger on Harleysville Mutual’s constituents, including agents, creditors, employees, policyholders and the communities in which Harleysville Mutual facilities are located.

D. The respective Boards of Directors of Merger Sub and HGI deem it advisable and in the best interests of the stockholders of their respective companies to effect the merger of Merger Sub with and into HGI upon the terms and subject to the conditions set forth herein (the “Subsidiary Merger”, and together with the Parent Merger, the “Mergers”).

E. The respective Boards of Directors of each of the Parties have approved this Agreement and the Transactions.

F. Simultaneously with the execution and delivery of this Agreement and as a condition and inducement to Nationwide Mutual and Merger Sub’s willingness to enter into this Agreement, Nationwide Mutual is entering into a voting agreement with Harleysville Mutual (the “Voting Agreement”), pursuant to which Harleysville Mutual has agreed, among other things, to vote in favor of the Subsidiary Merger in accordance with the terms and conditions thereof.

G. The Parties desire to make certain representations, warranties, covenants and agreements in connection with the Mergers.

H. The Parties intend that the Parent Merger qualify, for federal income tax purposes, as a reorganization under Section 368(a) of the Code (as defined in Article I hereof).

## **AGREEMENT**

NOW, THEREFORE, in consideration of the representations, warranties, covenants, and agreements set forth herein, the Parties hereto, intending to be legally bound hereby, agree as follows:

### **ARTICLE I**

#### **DEFINITIONS**

When used in this Agreement, the following words or phrases have the following meanings:

“Adverse Recommendation Change” shall have the meaning set forth in Section 7.2(d).

“Affiliate” of any Person means any Person directly or indirectly controlling, controlled by, or under common control with, any such Person and any officer, director, or controlling Person of such Person. The term “control” means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, membership interests, by contract, the power to appoint directors or trustees or otherwise, and the terms “controlled” and “controlling” have meanings correlative thereto.

“Agreement” means this Agreement and Plan of Merger, including all Exhibits and Schedules.

“Alternative Transaction” means any of the following transactions: (a) any merger, consolidation, share exchange, business combination, affiliation, reorganization, demutualization, conversion recapitalization, liquidation, dissolution or other similar transaction involving Harleysville Mutual, HGI or any of their respective Subsidiaries; (b) any direct or indirect acquisition or purchase, by any Person or group of Persons, in a single transaction or a series of related transactions, including by means of the acquisition of capital stock of any Subsidiary of Harleysville Mutual, HGI or any Subsidiary of HGI, of Assets that constitute 20% or more of the fair market value of the Assets of Harleysville Mutual and HGI and their Subsidiaries, taken as a whole; (c) any direct or indirect acquisition or purchase, in a single transaction or a series of related transactions, of 20% or more of any class of equity securities of HGI; or (d) any other transaction having a similar effect to those described in clauses (a) through (c), above, in each case, other than the Mergers and the Transactions.

“Alternative Transaction Proposal” means any offer, inquiry, proposal or indication of interest (other than an offer, inquiry, proposal or indication of interest by Nationwide Mutual or an Affiliate of Nationwide Mutual), relating to an Alternative Transaction.

“Annual Statements” means, with respect to any Person, the annual statements of such Person filed with or submitted to the insurance Governmental Entity in the jurisdiction in which such Person is domiciled on forms prescribed or permitted by such Governmental Entity.

**“Antitrust Division”** means the Antitrust Division of the United States Department of Justice.

**“ASPP”** shall have the meaning set forth in Section 3.2(d).

**“ASPP Current Offering Period”** shall have the meaning set forth in Section 3.2(d).

**“ASPP Termination Time”** shall have the meaning set forth in Section 3.2(d).

**“Assets”** means, as to a Person, all rights, titles, franchises and interests in and to every species of property, real, personal and mixed, and choses in action thereunto belonging, including Environmental Permits, Investment Assets, Intellectual Property, Contracts, Licenses, privileges and all other assets whatsoever, tangible or intangible, of such Person.

**“Benefit Plans”** shall have the meaning set forth in Section 5.18(a).

**“Business”** means, as to a Person, the business, operations, activities and affairs of such Person.

**“Business Day”** means any day other than Saturday, Sunday or any other day in which commercial banks in New York, New York, are required to or permitted to be closed.

**“Cashed Shares”** shall have the meaning set forth in Section 3.3(c).

**“CERCLIS”** means the Comprehensive Environmental Response, Compensation, and Liability Information System.

**“Certificates”** shall have the meaning set forth in Section 3.3(b).

**“Closing”** shall have the meaning set forth in Section 2.4.

**“Closing Agreement”** means a written and legally binding agreement with a taxing authority relating to Taxes.

**“Closing Date”** shall have the meaning set forth in Section 2.4.

**“COBRA”** means the requirements of Part 6 of Subtitle B of Title I of ERISA, Section 4980B of the Code, and of any similar state Law.

**“Code”** means the Internal Revenue Code of 1986, as amended, or any successor Law, and the rules and regulations issued by the Internal Revenue Service pursuant to the Code or any successor Law.

**“Company Stock Award”** shall have the meaning set forth in Section 3.2(b).

**“Computer Software”** means any and all computer software or programs consisting of sets of statements or instructions to be used, directly or indirectly, in a computer, including the following: (a) all source code, object code and natural language code therefor and all component modules thereof, (b) all versions thereof, (c) all screen displays and designs thereof, (d) all

databases and compilations, including any and all data and compilations of data, and (e) all user, technical, training, and other documentation relating to any of the foregoing.

“Computer Systems” means any and all computer hardware, networks, and platforms.

“Confidential Information” means all information about a Party furnished by a Party or its Representatives to any of the other Parties or their respective Representatives, whether furnished before or after the date of this Agreement, regardless of the manner in which it is furnished, together with all analyses, compilations, studies or other documents prepared by any of the other Parties or their Representatives that reflect or are generated from such information. Confidential Information does not include, however, information about a Party which: (a) is or becomes generally available to the public other than as a result of a disclosure by any of the other Parties or their Representatives; (b) became or becomes available to any of the other Parties or their Representatives from a source (other than the Party or its Representatives) that is not bound by a confidentiality agreement or otherwise prohibited from delivering or submitting the information to the other Parties as a result of a contractual, legal, or fiduciary obligation; (c) was within the other Party’s possession prior to its being furnished to the other Party by the Party or its Representatives, provided that the source of such information was not known by the other Party to be bound by a confidentiality agreement or otherwise prohibited from delivering or submitting the information to the other Party as a result of a contractual, legal, or fiduciary obligation; or (d) was independently developed without the use of any Confidential Information of such other Party by Representatives of the Party who have had no access to such information.

“Confidentiality Agreement” shall have the meaning set forth in Section 7.2(b)(i).

“Consent or Filing” shall have the meaning set forth in Section 4.4(b).

“Continuing Employee” shall have the meaning set forth in Section 7.10.

“Contract” means any contract, agreement, commitment, indenture, note, bond, mortgage, license, lease, or assignment, in each case whether oral or written and whether express or implied.

“Core Governmental Approvals” means (a) the approval of the Parent Merger by the Pennsylvania Commissioner and the Ohio Superintendent under the Pennsylvania Insurance Law and the Ohio Insurance Law, respectively, and such other applications, registrations, declarations, filings, authorizations, Orders, consents and approvals as may be required under the Laws of other jurisdictions, including the jurisdictions set forth in Section 1.1(a) of the Nationwide Mutual Disclosure Schedule and Section 1.1(a) of the HGI Disclosure Schedule; (b) the approval of the Meeting Notices, as contemplated by Section 8.1(b); (c) the filings required under the HSR Act and the expiration or earlier termination of any waiting period applicable to the Mergers under the HSR Act; and (d) the filing of appropriate documents with and such consents as may be required under the Investment Company Act and the Investment Advisers Act.

“Delaware Certificate of Merger” means a certificate of merger in such form as required by, and executed and acknowledged in accordance with, the DGCL.

“Derivative Transaction” means any transaction that is a Contract, agreement, swap, warrant, note, or option, that is based, in whole or in part, on the value of, any interest in, or any

quantitative measure or the occurrence of any event relating to, one or more commodities, securities, currencies, interest, or other rates, indices, or other assets.

“DGCL” means the Delaware General Corporation Law, as amended from time to time.

“Dissenting Shares” shall have the meaning set forth in Section 3.4(a).

“DTC” shall have the meaning set forth in Section 3.3(b).

“DTC Payment” shall have the meaning set forth in Section 3.3(b).

“Effective Time” shall have the meaning set forth in Section 2.5(c).

“Effective Time of the Parent Merger” shall have the meaning set forth in Section 2.5(a).

“Effective Time of the Subsidiary Merger” shall have the meaning set forth in Section 2.5(b).

“Environmental Claim” means any Proceeding or Order arising: (a) pursuant to, or in connection with, an actual or alleged violation of any Environmental Law; (b) in connection with any Hazardous Substances or actual or alleged activity associated with any Hazardous Substances; (c) from any abatement, removal, remedial, corrective or other response action in connection with any Hazardous Substances, Environmental Law or other Order of any Governmental Entity; or (d) from any actual or alleged damage, injury, threat or harm to health, safety, natural resources or the environment. Environmental Claim shall not include claims for coverage made in the Ordinary Course of Business by or against an insured pursuant to any Insurance Contract.

“Environmental Law” means any applicable Law pertaining to: (a) the regulation and protection of human health and safety and the outdoor environment; (b) the protection or use of the environment and natural resources, including surface water and ground water; (c) the management, manufacture, possession, presence, use, generation, transportation, treatment, storage, disposal, release, threatened release, abatement, removal, remediation, or handling of, or exposure to, any Hazardous Substances; or (d) pollution (including any release of Hazardous Substances into air, land, surface water, and ground water); and includes the following federal statutes (and their implementing regulations and the analogous state statutes and regulations): (i) the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act; (ii) the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, as amended by the Hazardous and Solid Waste Amendments of 1984; and (iii) the Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977.

“Environmental Permit” means any permit, license, variance, certificate, consent, letter, clearance, closure, exemption, authorization, decision, action, or approval required to be obtained from any Governmental Entity with jurisdiction over and pursuant to any Environmental Law.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and any successor Act and the rules and regulations thereunder or under any successor Law.

“ERISA Controlled Group” means the group of companies that are required to be considered as one employer for ERISA purposes pursuant to the rules contained in Sections 414(b), 414(c), 414(m) of the Code and the first sentence of Section 414(o) of the Code.

“ESPP” shall have the meaning set forth in Section 3.2(c).

“ESPP Current Offering Period” shall have the meaning set forth in Section 3.2(c).

“ESPP Termination Time” shall have the meaning set forth in Section 3.2(c).

“Exchange Act” means the Securities Exchange Act of 1934, as amended, or any successor Law, and the rules and regulations of the SEC promulgated thereunder or under any successor Law.

“Exchange Agent” shall have the meaning set forth in Section 3.3(a).

“Exchange Fund” shall have the meaning set forth in Section 3.3(a).

“Expenses” shall have the meaning set forth in Section 10.3(b).

“Financial Statements” means balance sheets, statements of income, and statements of cash flows, including all notes, schedules, exhibits, and other attachments thereto, whether consolidated, combined or separate, or audited or unaudited, or prepared in accordance with SAP or GAAP, as the case may be.

“FTC” means the United States Federal Trade Commission or any successor agency.

“GAAP” means United States generally accepted accounting principles as in effect from time to time applied consistently throughout the periods involved.

“Governing Documents” means the Articles of Incorporation, as amended, and the Amended and Restated Bylaws of Harleysville Mutual.

“Governmental Approvals” means the Core Governmental Approvals and the Consents or Filings identified or described in Section 4.4(b) of the Harleysville Mutual Disclosure Schedule and Section 5.4(b) of the HGI Disclosure Schedule.

“Governmental Entity” means any government or political subdivision or regulatory authority (including of the United States of America), whether federal, state, or local, or any agency or instrumentality of any such government or political subdivision or regulatory authority, or any federal, state, or local court or arbitrator.

“Harleysville Actuarial Analysis” means each and every actuarial report, and all attachments, supplements, addenda and modifications thereto prepared for or on behalf of Harleysville Mutual, any Harleysville Mutual Subsidiary, HGI, or any Subsidiary of HGI, by any

Harleysville Actuary, or delivered by the Harleysville Actuaries to Harleysville Mutual, any Harleysville Mutual Subsidiary, HGI, or any Subsidiary of HGI, since December 31, 2008, in which a Harleysville Actuary has (a) either expressed an opinion on the adequacy of the reserves of Harleysville Mutual, any Harleysville Mutual Subsidiary, HGI, or any Subsidiary of HGI, or (b) expressed an opinion as to the adequacy of such premiums or made a recommendation as to the premiums that should be charged by Harleysville Mutual, any Harleysville Mutual Subsidiary, HGI, or any Subsidiary of HGI.

“Harleysville Actuary” or “Harleysville Actuaries” means each actuary, independent or otherwise, that has reviewed, on behalf of Harleysville Mutual, any Harleysville Mutual Subsidiary, HGI, or any Subsidiary of HGI, the reserves for Losses and loss adjustment expenses of Harleysville Mutual, any Harleysville Mutual Subsidiary, HGI, or any Subsidiary of HGI, and/or its respective premium rates for Insurance Contracts in each of the years commencing after December 31, 2008.

“Harleysville Decrease In Statutory Net Unrealized Losses” means the negative amount in the account titled “change in net unrealized capital gains (losses) less capital gains tax” calculated for the period August 31, 2011 through the last day of the month ending immediately prior to the Closing Date, consistent with Line 24, on page 4, titled “STATEMENT OF INCOME”, of the Harleysville Mutual Insurance Company and Subsidiaries Combined Annual Statement for the year ended December 31, 2010, prepared as of the last day of the month ending immediately prior to the Closing Date and reflected in a certificate signed by the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer of Harleysville Mutual dated as of the Closing Date. For the avoidance of doubt, Harleysville Decrease In Statutory Net Unrealized Gains (Losses) may represent only a number less than or equal to zero.

“Harleysville Consolidated Surplus” means the statutory surplus of Harleysville Mutual and its property and casualty subsidiaries, the calculation of which shall conform to and be consistent with Line 37, “Surplus as regards policyholders”, from the schedule on page 3, titled “LIABILITIES, SURPLUS AND OTHER FUNDS”, of the Harleysville Mutual Insurance Company and Subsidiaries Combined Annual Statement for the year ended December 31, 2010, prepared as of the last day of the month ending immediately prior to the Closing Date and reflected in a certificate signed by the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer of Harleysville Mutual dated as of the Closing Date.

“Harleysville East” means the following: Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont and Virginia.

“Harleysville Material Adverse Change” means a financial strength ratings downgrade by A.M. Best Company of the Harleysville property/casualty pooling members to B+ or lower.

“Harleysville Mutual” shall have the meaning set forth in the introduction to this Agreement.

“Harleysville Mutual Disclosure Schedule” means the disclosure schedule delivered by Harleysville Mutual to Nationwide Mutual, dated the date of this Agreement.

“Harleysville Mutual Policyholder Information Statement” shall have the meaning set forth in Section 8.1(c).

“Harleysville Mutual Real Property” means any real property in which Harleysville Mutual or any of its Affiliates holds a Lien, owns an interest, or actively manages.

“Harleysville Mutual Reinsurance Treaties” means all reinsurance, coinsurance or similar treaties or agreements that could reasonably be expected to create a receivable or payable in excess of \$1,000,000 per year, including retrocessional agreements, to which Harleysville Mutual or any Harleysville Mutual Subsidiary is a party.

“Harleysville Mutual Subsidiary” or “Harleysville Mutual Subsidiaries” means the Subsidiaries of Harleysville Mutual and shall include any Affiliate or Subsidiary of Harleysville Mutual as to which Harleysville Mutual or a Harleysville Mutual Subsidiary has guaranteed any obligations or owns any interest; provided that HGI (nor any of its Subsidiaries) shall not be included within the definition of Harleysville Mutual Subsidiary.

“Harleysville Parties” or “Harleysville Party” means Harleysville Mutual and HGI.

“Harleysville Parties’ Specific Representations” shall have the meaning set forth in Section 9.3(a).

“Harleysville SAP Statements” shall have the meaning set forth in Section 4.5(a)(iv).

“Hazardous Substances” means chemicals, products, compounds, by-products, pollutants, contaminants, hazardous or solid wastes, or toxic or hazardous substances regulated under any Environmental Law, including asbestos or asbestos-containing materials, polychlorinated biphenyls, pesticides and oils, petroleum and petroleum products.

“HGI” shall have the meaning set forth in the introduction to this Agreement.

“HGI Disclosure Schedule” means the disclosure schedule delivered by HGI to Nationwide Mutual, dated the date of this Agreement.

“HGI Financial Statements” shall have the meaning set forth in Section 5.5(a).

“HGI Interim Financial Statements” shall have the meaning set forth in Section 5.5(a).

“HGI Real Property” means any real property in which HGI or any of its Subsidiaries or Affiliates holds a Lien, owns an interest, or actively manages.

“HGI Reinsurance Treaties” means all reinsurance, coinsurance or similar treaties or agreements that could reasonably be expected to create a receivable or payable in excess of \$1,000,000 per year, including retrocessional agreements, to which HGI or any HGI Subsidiary is a party.

**“HGI’s SEC Documents”** means all reports, schedules, proxy statements, forms, and other documents required to be filed by HGI with the SEC under the Securities Act of 1933, as amended, or the Exchange Act, or any successor statute, and the rules and regulations promulgated thereunder, including pursuant to Section 13(a) or 15(d) thereof, from January 1, 2009 to the date of this Agreement (including the exhibits thereto and documents incorporated by reference therein).

**“HGI Stock Plans”** shall have the meaning set forth in Section 3.2(a).

**“HSR Act”** means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or any successor Law, and the rules and regulations promulgated thereunder or under any successor Law.

**“Indemnitees”** shall have the meaning set forth in Section 7.7(a).

**“Information Statements”** shall have the meaning set forth in Section 8.1(d).

**“Insurance Contract”** means any Contract of insurance, including property and casualty insurance contracts, reinsurance contracts, variable annuity and fixed annuity Contracts or products, life insurance Contracts, funding agreements and any other Contract, agreement or product regulated by the insurance Laws of any jurisdiction.

**“Insurance License”** means any License granted by a Governmental Entity to transact an insurance or reinsurance business, issue fixed or variable annuity Contracts or products, or issue life Insurance Contracts or property and casualty Insurance Contracts.

**“Intellectual Property”** means (a) trademarks, service marks, brand names, trade dress, assumed names, trade names, and other indications of origin, together with the goodwill associated with the foregoing, along with all applications, registrations, renewals and extensions thereof; (b) inventions, discoveries, and ideas, whether patentable or not in any jurisdiction; (c) patents, applications for patents (including divisions, continuations, continuations in part, and renewal applications), and any renewals, extensions or reissues thereof, in any jurisdiction; (d) nonpublic information, trade secrets, and Confidential Information and rights in any jurisdiction to limit the use or disclosure thereof by any Person; (e) copyrights, whether or not registered or published, all registrations and recordings thereof and all applications in connection therewith, and any renewals or extensions thereof; and (f) Computer Software.

**“Investment Advisers Act”** means the Investment Advisers Act of 1940, as amended, or any successor Law, and the rules and regulations of the SEC promulgated thereunder or under any successor Law.

**“Investment Assets”** means bonds, notes, debentures, mortgage loans, collateral loans, and all other instruments of indebtedness, stocks, partnership, or joint venture interests, and all other equity interests (including equity interests in Subsidiaries or other Affiliates), real estate and leasehold and other interests therein, certificates issued by or interests in trusts, cash on hand and on deposit, personal property, and interests therein, and all other assets acquired for investment purposes.

**“Investment Company Act”** means the Investment Company Act of 1940, as amended, or any successor Law, and the rules and regulations of the SEC promulgated thereunder, or under any successor Law.

**“IRCA”** means the Immigration Reform and Control Act of 1986, as amended.

**“IRS”** means the United States Internal Revenue Service or any successor agency, and, to the extent relevant, the United States Department of the Treasury.

**“Knowledge”** means all matters with respect to which any such Person or its Affiliates have received written notice, or (a) as to the Harleysville Parties and their Subsidiaries, the actual knowledge of the officers of the Harleysville Parties and their Subsidiaries listed in Section 1.1(b) of the Harleysville Mutual Disclosure Schedule and Section 1.1(b) of the HGI Disclosure Schedule, and, with respect to each, the knowledge such Person would have following reasonable inquiry regarding such fact or other matter; and (b) as to the Nationwide Parties and their Subsidiaries, the actual knowledge of the officers of the Nationwide Parties and their Subsidiaries listed in Section 1.1(b) of the Nationwide Mutual Disclosure Schedule, and, with respect to each, the knowledge such Person would have following reasonable inquiry regarding such fact or other matter.

**“Law”** means any applicable Order, constitution, Code, law, ordinance, principle of common law, rule, regulation, statute, treaty, judgment, or any binding judicial or administrative interpretation thereof, enacted, promulgated, issued, enforced, or entered by any Governmental Entity.

**“Liability”** means a liability, obligation, claim, or cause of action (of any kind or nature whatsoever, whether absolute, accrued, contingent, or other, and whether known or unknown), including any liability, obligation, claim, or cause of action arising pursuant to or as a result of an Insurance Contract or pursuant to any Environmental Claim.

**“License”** means a license, certificate of authority, franchise, permit, or other authorization to transact an activity or business, whether granted by a Governmental Entity or by any other Person.

**“Lien”** means a lien, mortgage, hypothecation, deed of trust, deed to secure debt, option, pledge, security interest, charge, claim, levy, or other encumbrance of any kind.

**“Losses”** means all losses, claims, damages, costs, expenses, Liabilities and judgments, including court costs and attorneys’ fees.

**“Material Adverse Effect”** means any event, occurrence, fact, condition, change, circumstance, development, or effect of any character that (a) is or would reasonably be expected to be, individually or in the aggregate, materially adverse to the Business, Assets, Liabilities, results of operations or condition (financial or otherwise) of such Person or (b) would prevent or materially impair or delay the ability of such Person to consummate the Transactions or otherwise prevent the Person from performing its obligations under the Transaction Documents, except to the extent that such event, occurrence, fact, condition, change, circumstance, development, or effect results from: (1) general economic or political conditions or changes

therein; (2) changes in, or events affecting, the industries in which such Person operates; (3) the outbreak or escalation of hostilities involving the United States, the declaration by the United States of war, or the occurrence of acts of terrorism, except in the event, and only to the extent, of any damage or destruction to or loss of such Person's, or its Subsidiaries', physical properties; (4) any change in GAAP, or in the interpretation thereof, as imposed upon such Person, its Subsidiaries, or its respective Businesses or any change in Law, or in the interpretation thereof; (5) any event, occurrence, fact, condition, change, development, or effect resulting from compliance by such Person, or its Subsidiaries with the terms of this Agreement and the Transaction Documents; or (6) earthquakes, hurricanes or other natural disasters; provided, that in the cases of clauses (1) through (3) and (6), any such event, occurrence, fact, condition, change, circumstance, development, or effect which disproportionately adversely affects (i) such Person or its Subsidiaries relative to other participants in the industries in which such Person or its Subsidiaries operate shall not be excluded from the determination of whether there has been a Material Adverse Effect or (ii) the ability of such Person or its Subsidiaries to timely consummate the Transactions, and provided, further, that the exceptions in clauses (1) through (5) shall apply only to the extent such event, occurrence, fact condition, change, circumstance, development, or effect does not relate only to (or have the effect of relating only to) the Harleystown Parties or their respective Subsidiaries. The Person claiming the exceptions in clauses (1) through (6) shall bear the burden of proof that any such event, occurrence, fact, condition, change, circumstance, development, or effect was caused by any of clauses (1) through (6). Notwithstanding the foregoing, any Proceeding(s) by a third party other than a Governmental Entity related to the Transactions shall not constitute a Material Adverse Effect.

"Maximum Premium" shall have the meaning set forth in Section 7.7(b).

"Meeting Notices" shall have the meaning set forth in Section 8.1(b).

"Member" means, as to Nationwide Mutual, each policyholder of Nationwide Mutual entitled to vote upon this Agreement as provided in Section 3941.07 of the Ohio Insurance Law, and, as to Harleystown Mutual, each policyholder of Harleystown Mutual who, as a member of Harleystown Mutual under its Governing Documents, is entitled to vote upon the Parent Merger as provided under Pennsylvania Insurance Law and the Pennsylvania BCL.

"Merger Consideration" shall have the meaning set forth in Section 3.1(b).

"Merger Sub" shall have the meaning set forth in the introduction of this Agreement.

"Mergers" shall have the meaning set forth in the Recitals to this Agreement.

"NAIC" means the National Association of Insurance Commissioners.

"Nationwide Benefit Plan" shall have the meaning set forth in Section 6.1(n)(i).

"Nationwide Mutual" shall have the meaning set forth in the introduction to this Agreement.

"Nationwide Mutual Policyholder Information Statement" shall have the meaning set forth in Section 8.1(d).

“Nationwide Mutual SAP Statements” shall have the meaning set forth in Section 6.1(d)(iv).

“Nationwide Mutual Subsidiaries” means the Subsidiaries of Nationwide Mutual.

“Nationwide Parties” or “Nationwide Party” means Nationwide Mutual and Merger Sub.

“Nationwide Parties’ Specific Representations” shall have the meaning set forth in Section 9.2(a).

“Nationwide Surplus” means the statutory surplus of Nationwide Mutual and its property and casualty affiliates, the calculation of which shall conform to and be consistent with Line 37, “Surplus as regards policyholders”, from the schedule on page 3, titled “LIABILITIES, SURPLUS AND OTHER FUNDS”, of the Nationwide Mutual Combined Annual Statement for the year ended December 31, 2010, prepared as of the last day of the month ending immediately prior to the Closing Date and reflected in a certificate signed by the Chief Executive Officer and Chief Financial Officer of Nationwide Mutual dated as of the Closing Date.

“Notices” shall have the meaning set forth in Section 11.1.

“NPL” means the National Priority List.

“Ohio Insurance Law” means Title 39 of the Ohio Revised Code, as amended, and the rules and regulations promulgated thereunder.

“Ohio Superintendent” means the Superintendent of Insurance of the State of Ohio.

“Option” shall have the meaning set forth in Section 3.2(a).

“Option Cancellation Consideration” shall have the meaning set forth in Section 3.2(a).

“Order” means an order, including an order to show cause, writ, ruling, decision, award, verdict, judgment, directive, injunction, or decree of any Governmental Entity.

“Ordinary Course of Business” means the ordinary and usual course of day-to-day operations of the Business of each of the Parties and their Subsidiaries through the Effective Time consistent with past custom and practice (including with respect to quantity and frequency).

“Outside Date” shall have the meaning set forth in Section 10.1(b).

“Parent Merger” shall have the meaning set forth in the Recitals to this Agreement.

“Parties” or “Party” shall have the meanings set forth in the introduction to this Agreement.

“Pennsylvania Articles of Merger” means the articles of merger in such form as required by, and executed and acknowledged in accordance with the relevant provisions of the Pennsylvania BCL.

**“Pennsylvania Attorney General”** means the Attorney General of the Commonwealth of Pennsylvania.

**“Pennsylvania BCL”** means the Pennsylvania Business Corporation Law of 1988, as amended, 15 Pa.C.S.A sec. 501 et seq.

**“Pennsylvania Commissioner”** means the Commissioner of Insurance of the Commonwealth of Pennsylvania.

**“Pennsylvania Insurance Law”** means all Laws and notices of the Commonwealth of Pennsylvania or any Governmental Entity thereof that are applicable to the business of insurance or the regulation of insurance holding companies, including Title 40 of Pennsylvania Consolidated Statutes, the Pennsylvania BCL, and the GAA Amendments.

**“Pennsylvania Secretary of the Commonwealth”** means the Secretary of State of the Commonwealth of Pennsylvania.

**“Permitted Liens”** means, as to a Party hereto: (a) those Liens set forth in the Nationwide Mutual Disclosure Schedule, the Harleysville Mutual Disclosure Schedule or the HGI Disclosure Schedule, as applicable, or otherwise approved in writing by the other Parties, (b) any Lien that is set forth in the public records or in title reports or title insurance binders that have been made available to the other Parties relating to any interest in the real property set forth in the Nationwide Mutual Disclosure Schedule, the Harleysville Mutual Disclosure Schedule, or the HGI Disclosure Schedule, as applicable, (c) Liens for water and sewer charges and current Taxes not yet due and payable or being contested in good faith, (d) Liens arising from securities lending activities undertaken in the Ordinary Course of Business of a Person, (e) mortgages or security interests shown in any of the Parties’ SAP Statements or the HGI Financial Statements or HGI Interim Financial Statements, as the case may be, as securing specified Liabilities, (f) mortgages or security interests incurred in connection with the purchase of Assets in the Ordinary Course of Business after the date of any of the Parties’ SAP Statements or the HGI Financial Statements or HGI Interim Financial Statements, as the case may be (such mortgages and security interests being limited to the Assets so acquired), (g) minor imperfections of title, if any, none of which is substantial in amount or materially detracts from the value or impairs the use of the real property subject thereto, (h) zoning Laws and other land use restrictions that do not materially impair the present or anticipated use of the real property subject thereto, and (i) other Liens (including mechanic’s, courier’s, worker’s, repairer’s, materialman’s, warehouseman’s, and other similar Liens) arising or incurred in the Ordinary Course of Business as would not, individually or in the aggregate, materially adversely affect the value of, or materially adversely interfere with the use of, the real property subject thereto.

**“Person”** means an individual, corporation, partnership, association, joint stock company, limited liability company, Governmental Entity, trust, joint venture, labor union, estate, unincorporated organization, or other entity.

**“Pooling Agreement”** means that certain Proportional Reinsurance Agreement, effective as of January 1, 1986, as amended, by and among HGI’s property and casualty Subsidiaries, Harleysville Mutual, and the other parties thereto.

“Proceeding” or “Proceedings” means any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by either private arbitration, mediation or litigation, or by or before, or otherwise involving, any Governmental Entity, other than any of the foregoing which relate to claims made in the Ordinary Course of Business pursuant to any Insurance Contract.

“Producer” means any insurance agent, third-party administrator, marketer, underwriter, wholesaler, broker, producer, reinsurance intermediary or distributor of insurance or any insurance product.

“Proxy Statement” shall have the meaning set forth in Section 8.2(a)(ii).

“Quarterly Statements” means, with respect to any Person, the quarterly statements of such Person filed with or submitted to the insurance Governmental Entity in the jurisdiction in which such Person is domiciled on forms prescribed or permitted by such Governmental Entity.

“Rating Agencies” shall have the meaning set forth in Section 4.21.

“Representative” means, with respect to any Person, such Person’s officers, directors, employees, agents, and representatives (including any investment banker, financial advisor, accountant, legal counsel, agent, representative, or expert retained by or acting on behalf of such Person or its Subsidiaries).

“Risk-Based Capital” means the minimum amount of capital required to support insurance business operations and to underwrite coverage.

“Risk-Based Capital Reports” shall have the meaning set forth in Section 4.25.

“SAP” means statutory accounting practices prescribed by the NAIC and prescribed or permitted by the applicable insurance Governmental Entity applied on a consistent basis.

“SAP Statements” means Annual Statements and Quarterly Statements.

“Sarbanes-Oxley Act” shall have the meaning set forth in Section 5.24(a).

“SEC” means the United States Securities and Exchange Commission or any successor agency.

“Securities Act” shall have the meaning set forth in Section 5.24(a).

“Spread” shall have the meaning set forth in Section 3.2(a).

“Stock-Based Consideration” shall have the meaning set forth in Section 3.2(b).

“Structured Products” means (a) notes or other instruments secured by collateral consisting primarily of debt securities and/or other types of debt obligations, including loans and credit default swaps, (b) securities whose benefits are derived from a discreet pool of assets,

either fixed or revolving, that are acquired with the intention to convert into cash within a finite period of time under a recognized securitization program sponsored by any of the Harleysville Parties or their Affiliates, or (c) any other similar market-linked investment.

“Subsidiary” means, with respect to any Person, an Affiliate of such Person, more than 50% of any class of voting stock (or of any other form of voting equity interest in the case of a Person that is not a corporation) of which is beneficially owned by the Person directly or indirectly through one or more other Persons.

“Subsidiary Merger” shall have the meaning set forth in the Recitals to this Agreement.

“Superior Proposal” means a bona fide, unsolicited written Alternative Transaction Proposal made by a third party (other than an Affiliate of the Harleysville Parties) and received by the Board of Directors of HGI and that such Board of Directors determines in good faith, after consultation with its outside legal counsel and independent financial adviser, and taking into account all legal, financial, regulatory, timing, and other aspects of the proposal and the Person making the proposal, that: (a) is reasonably likely to be consummated on the terms proposed, (b) if the per-share consideration is to be paid in cash, to the extent financing is required, such financing is then fully committed, (c) the per-share consideration offered is either payable solely in cash denominated in U.S. Dollars and/or marketable securities traded on a national securities exchange or NASDAQ and is greater than the Merger Consideration, and (d) is otherwise on terms that in the reasonable opinion of the Board of Directors of HGI will result in a more favorable transaction to the public stockholders of HGI than the Transactions; provided, however, that for purposes of this definition of “Superior Proposal”, the term Alternative Transaction Proposal shall have the meaning assigned to such term herein, except that all references to 20% in the definition of “Alternative Transaction” when it is used in the definition of Alternative Transaction Proposal shall be deemed to be a reference to 100%.

“Surviving Company” shall have the meaning set forth in Section 2.1(a).

“Surviving Subsidiary” shall have the meaning set forth in Section 2.1(b).

“Tax” means any federal, state, county, local, or foreign taxes, charges, fees, levies, or other assessments, including all net income, gross income, premiums, sales and use, ad valorem, transfer, gains, profits, windfall profits, excise, franchise, real and personal property, gross receipts, capital stock, production, business and occupation, employment, disability, payroll, license, estimated, stamp, custom duties, severance or withholding taxes, other taxes, or similar charges of any kind whatsoever imposed by any Governmental Entity and includes any interest and penalties (civil or criminal) on or additions to any such taxes.

“Tax Return” means a report, return, statement or other information required under any applicable Law to be filed or provided to any taxing authority with respect to Taxes including, where permitted or required, combined or consolidated returns for any group of entities that includes, Nationwide Mutual or any Nationwide Mutual Subsidiary on the one hand, or Harleysville Mutual or any Harleysville Mutual Subsidiary on the other hand, and any unitary or similar return, information return, claim for refund, amended return or declaration of estimated Tax.

**“Tax Ruling”** means a written ruling of a taxing authority relating to Taxes.

**“Termination Fee”** shall have the meaning set forth in Section 10.3(a).

**“Transactions”** means the transactions contemplated by this Agreement, including the Mergers as set forth in the Recitals to this Agreement.

**“Transaction Documents”** means this Agreement and the Voting Agreement.

**“Treasury Regulation”** means the regulations promulgated by the United States Department of the Treasury pursuant to the Code.

**“Voting Agreement”** shall have the meaning set forth in the Recitals to this Agreement.

## **ARTICLE II**

### **THE MERGERS**

Section 2.1 **The Mergers.** Upon the terms of this Agreement and subject to the satisfaction of the conditions set forth herein:

(a) At the Effective Time of the Parent Merger, Harleysville Mutual shall be merged with and into Nationwide Mutual, in accordance with the applicable provisions of the Laws of the State of Ohio and the Commonwealth of Pennsylvania, and the separate corporate existence of Harleysville Mutual shall thereupon cease. Nationwide Mutual, which will be the surviving company (hereinafter sometimes referred to as the **“Surviving Company”**), shall continue its corporate existence under the Laws of the State of Ohio under the name “Nationwide Mutual Insurance Company.” Throughout this Agreement, the term “Nationwide Mutual” refers to Nationwide Mutual prior to the Parent Merger or to Nationwide Mutual as the surviving corporation in the Parent Merger, as the context requires.

(b) At the Effective Time of the Subsidiary Merger, Merger Sub shall be merged with and into HGI, in accordance with the applicable provisions of the Laws of the State of Delaware, and the separate corporate existence of Merger Sub shall thereupon cease. HGI, which shall be the surviving corporation (hereinafter sometimes referred to as the **“Surviving Subsidiary”**), shall continue its corporate existence under the Laws of the State of Delaware under the name “Harleysville Group Inc.” Throughout this Agreement, the term “HGI” refers to HGI prior to the Subsidiary Merger or to HGI as the surviving corporation in the Subsidiary Merger, as the context requires.

Section 2.2 **Effect of the Parent Merger.**

(a) **Governing Documents.** At the Effective Time of the Parent Merger, (i) the Articles of Incorporation of Nationwide Mutual, as in effect immediately prior to the Parent Merger will be the Articles of Incorporation of the Surviving Company in the Parent Merger, until thereafter amended as provided by Law and such Articles of Incorporation, and (ii) the Code of Regulations of Nationwide Mutual, as in effect immediately prior to the Parent Merger,

will be the Code of Regulations of the Surviving Company in the Parent Merger, until thereafter amended as provided by Law, the Articles of Incorporation, and the Code of Regulations.

(b) Board of Directors and Officers.

(i) The directors of Nationwide Mutual immediately prior to the Effective Time of the Parent Merger shall be the directors of the Surviving Company at and immediately following the Effective Time of the Parent Merger, each of such directors to hold office, subject to the applicable provisions of the Articles of Incorporation and Code of Regulations of the Surviving Company, until his or her successor is duly elected and qualified, or his or her earlier death, resignation, or removal in accordance with the Articles of Incorporation and Code of Regulations of the Surviving Company.

(ii) The officers of Nationwide Mutual immediately prior to the Effective Time of the Parent Merger shall be the officers of the Surviving Company at and immediately following the Effective Time, each of such officers to hold their respective offices, subject to the applicable provisions of the Articles of Incorporation and Code of Regulations of the Surviving Company, until his or her successor is duly elected and qualified, or his or her earlier death, resignation, or removal in accordance with the Articles of Incorporation and Code of Regulations of the Surviving Company.

(c) Members. At the Effective Time of the Parent Merger, the policyholders of Harleysville Mutual will become policyholders of Nationwide Mutual and, as such, will become members of Nationwide Mutual and will have the same voting, liquidation and distribution rights with respect to Nationwide Mutual as the other policyholders of Nationwide Mutual.

(d) Law. Subject to the foregoing, the Parent Merger shall have the effects provided for in Section 3941.42 of the Ohio Insurance Law and Section 1929 of the Pennsylvania BCL.

Section 2.3 Effect of the Subsidiary Merger.

(a) Governing Documents. At the Effective Time of the Subsidiary Merger, (i) the Certificate of Incorporation of Merger Sub, as in effect immediately prior to the Subsidiary Merger, will be the Certificate of Incorporation of the Surviving Subsidiary until thereafter amended as provided by Law and such Certificate of Incorporation, and (ii) the Bylaws of Merger Sub, as in effect immediately prior to the Subsidiary Merger, shall be the Bylaws of the Surviving Subsidiary until thereafter amended as provided by Law, the Certificate of Incorporation of the Surviving Subsidiary, and such Bylaws.

(b) Board of Directors and Officers.

(i) The directors of Merger Sub immediately prior to the Effective Time of the Subsidiary Merger shall be the directors of the Surviving Subsidiary immediately following the Effective Time of the Subsidiary Merger, each of such directors to hold office, subject to the applicable provisions of the Certificate of Incorporation and Bylaws of the Surviving Subsidiary, until his or her successor is duly elected and qualified, or his or her earlier death, resignation, or removal in accordance with the Certificate of Incorporation and Bylaws of the Surviving Subsidiary.

(ii) The officers of HGI immediately prior to the Effective Time of the Subsidiary Merger shall be the officers of the Surviving Subsidiary at and immediately following the Effective Time of the Subsidiary Merger, each of such officers to hold the respective office set forth opposite his name, subject to the applicable provisions of the Certificate of Incorporation and Bylaws of the Surviving Subsidiary, until his or her successor is duly elected and qualified, or his or her earlier death, resignation, or removal in accordance with the Certificate of Incorporation and Bylaws of the Surviving Subsidiary.

(c) Law. Subject to the foregoing, the Subsidiary Merger shall have the effect provided for in Section 259 of the DGCL.

Section 2.4 Closing. Unless this Agreement shall have been terminated and the Transactions shall have been abandoned pursuant to Section 10.1, and subject to the satisfaction or waiver of the conditions set forth in Article IX, the "Closing Date" shall be the first (1<sup>st</sup>) day of the month following the month in which the last of such conditions set forth in Article IX shall have been fulfilled or waived in accordance with this Agreement. Notwithstanding Section 11.13, the closing of the Mergers (the "Closing") will take place at 10:00 a.m., New York City time, on the Business Day immediately preceding the Closing Date, at the offices of Jones Day, 325 John H. McConnell Boulevard, Columbus, Ohio 43215, unless another date, time or place is agreed to in writing by the Parties hereto.

Section 2.5 Effective Times. As soon as is practicable following the execution of this Agreement, the Parties shall cause this Agreement to be filed with the Ohio Superintendent in accordance with Section 3941.38(A) of the Ohio Insurance Law and the regulations promulgated thereunder and with the Pennsylvania Commissioner in accordance with Section 40 P.S. 991.1402 with respect to the Pennsylvania Insurance Law and the regulations promulgated thereunder.

(a) Parent Merger. Subject to the conditions set forth in Article IX of this Agreement, immediately following the Closing, Nationwide Mutual and Harleysville Mutual shall cause written notice designating the effective time of the Parent Merger as 12:01 a.m. on the Closing Date (the "Effective Time of the Parent Merger") to be delivered to the Ohio Superintendent pursuant to Section 3941.41 of the Ohio Revised Code and the Pennsylvania Articles of Merger to be filed with the Pennsylvania Secretary of the Commonwealth, and the Parent Merger shall become effective at the Effective Time; provided, however, the Effective Time of the Parent Merger shall not be more than one (1) year from the date of approval of the Parent Merger by the Ohio Superintendent. Upon the terms and subject to the conditions of this Agreement, Nationwide Mutual and Harleysville Mutual will use all reasonable efforts to assure that the filings contemplated hereby are made, and the Effective Time of the Parent Merger occurs on the Closing Date, as soon as is practicable in accordance with the terms of this Agreement.

(b) Subsidiary Merger. Subject to the conditions set forth in Article IX of this Agreement, immediately following the Closing, Merger Sub and HGI shall cause the Delaware Certificate of Merger to be filed with the Delaware Secretary of State, designating the effective time of the Subsidiary Merger as 12:02 a.m. on the Closing Date (the "Effective Time of the

Subsidiary Merger”), and the Subsidiary Merger shall occur immediately after the Parent Merger.

(c) Construction. The term “Effective Time” when used without qualification with respect to the Parent Merger and the Subsidiary Merger (or in relation to any of the respective Parties thereto) shall mean the Effective Time of the Parent Merger and the Effective Time of Subsidiary Merger, respectively.

### ARTICLE III

#### TREATMENT OF SHARES

Section 3.1 Effect on Capital Stock. At the Effective Time of the Subsidiary Merger, by virtue of the Subsidiary Merger and without any action on the part of any stockholder of Merger Sub or stockholders of HGI:

(a) Stock Owned by the Surviving Company. Each share of common stock of HGI owned by the Surviving Company issued and outstanding immediately prior to the Effective Time of the Subsidiary Merger shall remain outstanding and owned by the Surviving Company.

(b) Stock Not Owned by the Surviving Company. Each issued and outstanding share of common stock of HGI, excluding any restricted stock held by any officer, director or employee of HGI pursuant to a HGI Stock Plan, which restricted stock will be handled in accordance with Section 3.2(b) hereof, that is not owned by the Surviving Company immediately prior to the Effective Time of the Subsidiary Merger shall be converted into the right to receive \$60.00 in cash (the “Merger Consideration”). All such shares of HGI, when converted shall no longer be considered outstanding and shall automatically be cancelled and retired and shall cease to exist, and each Certificate previously evidencing such shares shall thereafter represent only the right to receive the Merger Consideration. The holders of Certificates previously evidencing shares of HGI outstanding immediately prior to the Effective Time of the Subsidiary Merger shall cease to have any rights with respect to HGI except as otherwise provided herein and, upon the surrender of such Certificates, shall have only the right to receive for their shares of HGI the Merger Consideration, without any interest thereon. Each share of common stock of HGI held in the treasury of HGI immediately prior to the Effective Time of the Subsidiary Merger shall automatically be cancelled and retired and shall cease to exist and no consideration shall be paid in exchange for such shares.

(c) Stock of Merger Sub. Each share of capital stock of Merger Sub issued and outstanding immediately prior to the Effective Time of the Subsidiary Merger shall automatically be cancelled and retired and shall cease to exist.

#### Section 3.2 HGI Stock Options and Related Matters.

(a) As of and subject to the occurrence of the Effective Time of the Subsidiary Merger, each outstanding option, warrant, or similar right (including any related stock appreciation right) (an “Option”) issued, awarded, or granted pursuant to any plan, agreement, or arrangement of HGI or any Subsidiary of HGI and entitling the holder thereof to purchase one or more shares of HGI or to acquire or purchase any restricted stock, restricted stock unit,

performance stock unit, deferred stock unit or other right, contingent or accrued, to acquire or receive shares or benefits measured by the value of such shares under any stock incentive plans or stock award plan of HGI, including those identified on Section 3.2(a) of the HGI Disclosure Schedule (the “HGI Stock Plans”) shall, as of the Effective Time of the Subsidiary Merger, become fully vested regardless of the vesting schedule contained in any Option agreement or any of the HGI Stock Plans. At the Effective Time of the Subsidiary Merger, after giving effect to any such vesting, each Option shall be cancelled, and each holder of a cancelled Option shall be entitled to receive, in consideration for the cancellation of such Option, an amount in cash equal to the result obtained when the number of shares of HGI with respect to which such cancelled Option has not been exercised as of the cancellation of such Option is multiplied by the excess of the Merger Consideration over the exercise price per share of such cancelled Option (such result obtained, the “Spread”). The total consideration to be paid for the cancellation of all Options is hereinafter referred to as the “Option Cancellation Consideration”. The amount of Option Cancellation Consideration to be delivered to the holder of any such Options shall be subject to reduction to satisfy applicable withholding Tax obligations. With respect to each such Option, HGI shall, in cooperation with Nationwide Mutual and its Representatives, take, or cause to be taken, prior to the Effective Time of the Subsidiary Merger, all such action so that each such Option shall be automatically cancelled as of the Effective Time of the Subsidiary Merger and the holders of each such Option shall be entitled to receive from the Surviving Subsidiary, at the Effective Time of the Subsidiary Merger or as soon as practicable thereafter, only an amount in cash equal to the Spread, if any, in exchange for the cancellation of such Option, subject in each case to applicable withholding Tax obligations.

(b) (i) Each restricted stock, restricted stock unit award, each performance stock unit award, each deferred stock unit award, and each other right, contingent or accrued, to acquire or receive shares or benefits measured by the value of such shares, and each award of any kind consisting of shares that may be held, awarded, outstanding, payable or reserved for issuance under any HGI Stock Plan, other than Options (each, a “Company Stock Award”), that is outstanding immediately prior to the Effective Time of the Subsidiary Merger (for the avoidance of doubt, excluding any rights under the ESPP) shall, to the extent then unvested, immediately vest and become nonforfeitable, and (ii) each Company Stock Award that is outstanding immediately prior to the Effective Time of the Subsidiary Merger shall be cancelled and converted into the right to receive an amount in cash, without interest, equal to the product of (A) the aggregate number of shares in respect of such Company Stock Award multiplied by (B) the Merger Consideration, less any Taxes required to be withheld in accordance with Section 3.3(i) (the “Stock-Based Consideration”). The Stock-Based Consideration will be paid as promptly as reasonably practicable after the Effective Time of the Subsidiary Merger (and no later than fifteen (15) Business Days after the Effective Time of the Subsidiary Merger), except, in each case, as otherwise required under the applicable HGI Stock Plans or any payment election made by an individual award holder in respect of the applicable Company Stock Award. The Parties intend that all payments of Stock-Based Consideration will comply with or be exempt from the provisions of Section 409A of the Code.

(c) Following the date of this Agreement, no new offering period will be commenced under the HGI Amended and Restated Employee Stock Purchase Plan (the “ESPP”). The offering period under the ESPP that is in effect as of the date of this Agreement (the “ESPP Current Offering Period”) will terminate as set forth in the ESPP or, if earlier, immediately prior

to the Effective Time of the Subsidiary Merger (such earlier time, the “ESPP Termination Time”). Any funds accumulated under the ESPP during the ESPP Current Offering Period will be used, as of the ESPP Termination Time, to acquire shares of common stock of HGI in accordance with the terms of the ESPP. As of the Effective Time, the ESPP will be terminated.

(d) Following the date of this Agreement, no new offering period will be commenced under the HGI Agency Stock Purchase Plan (the “ASPP”). The offering period under the ASPP that is in effect as of the date of this Agreement (the “ASPP Current Offering Period”) will terminate as set forth in the ASPP or, if earlier, immediately prior to the Effective Time (such earlier time, the “ASPP Termination Time”). Any funds accumulated under the ASPP during the ASPP Current Offering Period will be used, as of the ASPP Termination Time, to acquire shares of common stock of HGI in accordance with the terms of the ASPP. As of the Effective Time, the ASPP will be terminated.

### Section 3.3 Payment for Shares of HGI.

(a) Prior to the Effective Time of the Subsidiary Merger, Merger Sub shall appoint a firm of national reputation to act as exchange agent (the “Exchange Agent”). At or prior to the Effective Time of the Subsidiary Merger, Nationwide Mutual shall deposit, or Nationwide Mutual shall otherwise take all steps necessary to cause to be deposited, with the Exchange Agent in an account (the “Exchange Fund”) the aggregate consideration to which stockholders of HGI other than the Surviving Company, holders of Options, and holders of Company Stock Awards shall be entitled at the Effective Time of the Subsidiary Merger pursuant to Section 3.1(b).

(b) Promptly after the Effective Time of the Subsidiary Merger, Merger Sub shall cause the Exchange Agent to mail to each record holder (other than the Surviving Company) of certificates (the “Certificates”) that immediately prior to the Effective Time of the Subsidiary Merger represented shares of HGI, a form of letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent. Prior to the Effective Time, Merger Sub and HGI shall cooperate to establish procedures with the Exchange Agent and the Depository Trust Company (“DTC”) to ensure that (i) if the Closing occurs at or prior to 11:30 a.m. (New York time) on the Closing Date, the Exchange Agent will transmit to DTC or its nominees on the Closing Date an amount in cash in immediately available funds equal to the number of shares of HGI held of record by DTC or such nominee immediately prior to the Effective Time multiplied by the Merger Consideration (such amount, the “DTC Payment”), and (ii) if the Closing occurs after 11:30 a.m. (New York time) on the Closing Date, the Exchange Agent will transmit to DTC or its nominees on the first (1<sup>st</sup>) Business Day after the Closing Date an amount in cash in immediately available funds equal to the DTC Payment.

(c) In effecting the payment of the Merger Consideration with respect to shares of HGI represented by Certificates entitled to payment of the Merger Consideration pursuant to Section 3.1(b) (the “Cashed Shares”), upon the surrender of each such Certificate, the Exchange Agent shall pay the record holder of such Certificate the Merger Consideration multiplied by the number of Cashed Shares, in consideration therefor. Upon such payment such Certificate shall forthwith be cancelled.

(d) From and after the Effective Time of the Subsidiary Merger until surrendered in accordance with Section 3.3(c), each Certificate representing shares of HGI (other than shares owned by the Surviving Company) shall represent solely the right to receive the Merger Consideration relating thereto. No interest or dividends shall be paid or accrued on the Merger Consideration. If the Merger Consideration (or any portion thereof) is to be delivered to any Person other than the Person in whose name the Certificate formerly representing shares of HGI surrendered therefor is registered, it shall be a condition to the right to receive such Merger Consideration that the Certificate so surrendered be properly endorsed or otherwise be in proper form for transfer and that the Person surrendering such shares of HGI shall pay to the Exchange Agent any transfer or other Taxes required by reason of the payment of the Merger Consideration to a Person other than the record holder of the Certificate surrendered, or shall establish to the satisfaction of the Exchange Agent that such Tax has been paid or is not applicable.

(e) Promptly following the date that is one hundred eighty (180) days after the Effective Time of the Subsidiary Merger, the Exchange Agent shall deliver to the Surviving Subsidiary all cash, Certificates and other documents in its possession relating to the Transactions, and the Exchange Agent's duties shall terminate. Thereafter, each holder of a Certificate formerly representing shares of HGI may surrender such Certificate to the Surviving Subsidiary and (subject to applicable abandoned property, escheat, and similar Laws) receive in consideration therefor the Merger Consideration relating thereto without any interest or dividends thereon.

(f) After the Effective Time of the Subsidiary Merger, there shall be no transfers on the stock transfer books of the Surviving Subsidiary of any shares of HGI that were outstanding immediately prior to the Effective Time of the Subsidiary Merger other than shares owned by the Surviving Company immediately prior to the Effective Time of the Subsidiary Merger. If, after the Effective Time of the Subsidiary Merger, Certificates formerly representing shares of HGI are presented to the Surviving Subsidiary or the Exchange Agent, they shall be surrendered and cancelled in return for the payment of the Merger Consideration relating thereto, as provided in this Article III.

(g) None of HGI, Merger Sub, or the Exchange Agent shall be liable to any Person in respect of any cash from the Exchange Fund delivered to a public official in good faith pursuant to any applicable abandoned property, escheat, or similar Law.

(h) If any Certificate shall have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen, or destroyed and, if required by the Surviving Subsidiary, the provision of reasonable and customary indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent shall issue in exchange for such lost, stolen, or destroyed Certificate the Merger Consideration payable to such Person pursuant to this Agreement.

(i) The Surviving Subsidiary shall be entitled to deduct and withhold from the Merger Consideration otherwise payable pursuant to this Agreement to any holder of Options, Company Stock Awards or shares of HGI such amounts as the Surviving Subsidiary is required to deduct and withhold with respect to the making of such payment under the Code, or any

provision of state, local, or foreign Tax Law. To the extent that amounts are so withheld by the Surviving Subsidiary, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of HGI with respect to which such deduction and withholding was made by the Surviving Subsidiary.

#### Section 3.4 Dissenting Shares.

(a) Notwithstanding any provision of this Agreement to the contrary, shares of common stock of HGI that are outstanding immediately prior to the Effective Time of the Subsidiary Merger and that are held by stockholders of HGI who shall have neither voted in favor of the Subsidiary Merger nor consented thereto in writing and who shall have demanded properly in writing appraisal for such common stock of HGI in accordance with Section 262 of the DGCL (collectively, the “Dissenting Shares”) shall not be converted into, or represent the right to receive, the Merger Consideration. Such stockholders of HGI shall be entitled to receive payment of the appraised value of such shares of common stock of HGI held by them in accordance with the provisions of such Section 262 of the DGCL, except that all Dissenting Shares held by stockholders of HGI who shall have failed to perfect or who effectively shall have withdrawn or lost their rights to appraisal of such shares of common stock of HGI under such Section 262 of the DGCL shall thereupon be deemed to have been converted into, and to have become exchangeable for, as of the Effective Time of the Subsidiary Merger, the right to receive the Merger Consideration, without any interest thereon, upon surrender, in the manner provided in Section 3.3, of the Certificate or Certificates (or Book-Entry Shares, as applicable) that formerly evidenced such shares of common stock of HGI.

(b) HGI shall give Merger Sub (i) prompt notice of any demands for appraisal received by HGI, withdrawals of such demands, and any other instruments served pursuant to the DGCL and received by HGI and (ii) the opportunity to direct all negotiations and Proceedings with respect to demands for appraisal under the DGCL. HGI shall not, except with the prior written consent of Merger Sub, make any payment with respect to any demands for appraisal or offer to settle or settle any such demands.

### ARTICLE IV

#### REPRESENTATIONS AND WARRANTIES OF HARLEYSVILLE MUTUAL

As an inducement to the Nationwide Parties to enter into this Agreement, Harleysville Mutual hereby represents and warrants to the Nationwide Parties that, except as set forth in the items set forth in the Harleysville Mutual Disclosure Schedule (it being acknowledged and agreed by the Nationwide Parties that any matter set forth in any section or subsection of the Harleysville Mutual Disclosure Schedule will be deemed to be disclosed for all purposes of this Agreement and all other sections and subsections of the Harleysville Mutual Disclosure Schedule to which it is readily apparent that the matters so disclosed are applicable, but will expressly not be deemed to constitute an admission by Harleysville Mutual or any Harleysville Mutual Subsidiary, or otherwise to imply, that any such matter rises to the level of a Material Adverse Effect or is otherwise material for purposes of this Agreement or the Harleysville Mutual Disclosure Schedule):

#### Section 4.1 Organization and Qualification.

(a) Harleysville Mutual is a mutual insurance company duly organized, validly existing, and in good standing under the Laws of the Commonwealth of Pennsylvania, and has all requisite corporate power and authority to conduct its Business as it is currently being conducted. Each of the Harleysville Mutual Subsidiaries is duly organized, validly existing, and in good standing under the Laws of the jurisdiction of its incorporation or formation, and has all requisite power and authority to conduct its Business as it is currently being conducted, except as would not have individually or in the aggregate, a Material Adverse Effect. Each of Harleysville Mutual and the Harleysville Mutual Subsidiaries is duly qualified to do Business, and is in good standing, in the respective jurisdictions where the character of its Assets, owned, operated or leased, or the nature of its Business, makes such qualification necessary, except where the failure to be so qualified or in good standing would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. Each of the Harleysville Mutual Subsidiaries is listed in Section 4.1(a) of the Harleysville Mutual Disclosure Schedule.

(b) Harleysville Mutual and each Harleysville Mutual Subsidiary (i) possesses an Insurance License in each jurisdiction in which it is required to possess an Insurance License, and (ii) is duly authorized in its jurisdiction of incorporation and each other applicable jurisdiction to write each line of business reported as being specified in the Harleysville SAP Statements. All such Insurance Licenses, including authorizations to transact reinsurance, are in full force and effect without amendment, limitation, or restriction, other than as described in Section 4.1(b) of the Harleysville Mutual Disclosure Schedule, and Harleysville Mutual has no Knowledge of any event, inquiry or Proceeding which is reasonably likely to lead to the revocation, amendment, failure to renew, limitation, suspension, or restriction of any such Insurance License.

(c) Copies of the Articles of Incorporation and Bylaws of Harleysville Mutual have been made available to Nationwide Mutual, and copies of the Articles of Incorporation and Bylaws (and other comparable organizational documents, if any) of each of the Harleysville Mutual Subsidiaries have been made available to Nationwide Mutual, and such copies are true and complete as of the date of this Agreement.

(d) Harleysville Mutual and each of the Harleysville Mutual Subsidiaries does not directly or indirectly beneficially own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity that directly or indirectly conducts any activity which is material to Harleysville Mutual or each of the Harleysville Mutual Subsidiaries, other than (i) the Harleysville Mutual Subsidiaries, HGI, and the Subsidiaries of HGI, (ii) as disclosed in Section 4.1(d) of the Harleysville Mutual Disclosure Schedule, and (iii) investments in publicly-traded securities constituting less than five percent (5%) of the outstanding equity of the issuing entity.

(e) The minute books of Harleysville Mutual and of each of the Harleysville Mutual Subsidiaries have been made available to Nationwide Mutual. Such minute books contain a complete summary of all meetings of directors and meetings of members and reflect all of the material actions taken by each of their respective boards of directors (including each committee

thereof) and shareholders (in the case of each Harleysville Mutual Subsidiary) or members since January 1, 2007.

(f) Neither Harleysville Mutual nor any of the Harleysville Mutual Subsidiaries are “commercially domiciled” in any jurisdiction, or otherwise treated as domiciled in a jurisdiction, other than their respective states of domicile.

**Section 4.2 Capitalization of Harleysville Mutual Subsidiaries.** All of the outstanding shares of capital stock (or of any other form of equity interest in the case of a Harleysville Mutual Subsidiary that is not a corporation) of each of the Harleysville Mutual Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and were not issued in violation of any preemptive or subscription rights and, except as set forth in Section 4.2 of the Harleysville Mutual Disclosure Schedule, are owned by either Harleysville Mutual or another of the Harleysville Mutual Subsidiaries, free and clear of all Liens. Except as set forth in Section 4.2 of the Harleysville Mutual Disclosure Schedule, there are no outstanding subscriptions, options, warrants, calls, rights, convertible securities, obligations to make capital contributions or advances, or voting trust arrangements, shareholders’ agreements, or other agreements, commitments or undertakings of any character to which Harleysville Mutual or any Harleysville Mutual Subsidiary is a party or by which any of them is bound relating to the issued or unissued capital stock (or of any other form of equity interest in the case of a Harleysville Mutual Subsidiary that is not a corporation) of any of the Harleysville Mutual Subsidiaries or securities convertible into, exchangeable for or evidencing the right to subscribe for any shares of such capital stock (or of any other form of equity interest in the case of a Harleysville Mutual Subsidiary that is not a corporation), which obligates Harleysville Mutual or any such Harleysville Mutual Subsidiary to issue, transfer, deliver or sell, or cause to be issued, transferred, delivered or sold, any such capital stock (or any such other form of equity interest in the case of a Harleysville Mutual Subsidiary that is not a corporation) or other securities or obligating Harleysville Mutual or any of the Harleysville Mutual Subsidiaries to issue, grant, extend, or enter into any such subscription, option, warrant, call, right, security, contribution, advance, arrangement, agreement, commitment, or undertaking. The name and percentage (if less than 100%) of outstanding capital stock (or of any other form of equity interest in the case of a Harleysville Mutual Subsidiary that is not a corporation) owned, directly or indirectly, by Harleysville Mutual are set forth in Section 4.2 of the Harleysville Mutual Disclosure Schedule with respect to each Harleysville Mutual Subsidiary.

**Section 4.3 Authority Relative to this Agreement.**

(a) Harleysville Mutual has all requisite corporate power and authority to execute and deliver this Agreement and, subject to approval of this Agreement by the Members of Harleysville Mutual, to consummate the Transactions and carry out its obligations under the Transaction Documents to which it is or will be a party. The execution and delivery of this Agreement by Harleysville Mutual and the consummation by Harleysville Mutual of the Transactions have been duly approved and authorized by the Board of Directors of Harleysville Mutual. Except for the approval and adoption of this Agreement by the Members of Harleysville Mutual, no other corporate proceedings on the part of Harleysville Mutual are necessary to authorize this Agreement and the Transactions. The requisite affirmative vote of the Members of Harleysville Mutual at the meeting called pursuant to Section 8.1(a) is the only vote of the

Members of Harleysville Mutual necessary to approve and adopt this Agreement and the Transactions.

(b) This Agreement has been duly and validly executed and delivered by Harleysville Mutual and (assuming this Agreement is a valid and binding obligation of Nationwide Mutual) constitutes a valid and binding agreement of Harleysville Mutual enforceable against Harleysville Mutual in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and (ii) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any Proceeding therefor may be brought.

(c) The Board of Directors of Harleysville Mutual has received the written opinion of Harleysville Mutual's financial advisor, Griffin Financial Group LLC, to the effect that the Parent Merger is fair to Harleysville Mutual from a financial point of view, after consideration of the impact of the merger on Harleysville Mutual's constituents, including agents, creditors, employees, policyholders and the communities in which Harleysville Mutual facilities are located.

(d) The Board of Directors of Harleysville Mutual has also received the advice of Credit Suisse Securities (USA) LLC.

#### Section 4.4 No Violation; Governmental Filings.

(a) The execution, delivery, and performance of this Agreement by Harleysville Mutual and the consummation by Harleysville Mutual of the Transactions will not (i) constitute a breach or violation of or default under the Articles of Incorporation or the Bylaws (or similar organizational documents) of Harleysville Mutual or of any of the Harleysville Mutual Subsidiaries; (ii) except as set forth in Section 4.4(a)(ii) of the Harleysville Mutual Disclosure Schedule, violate, conflict with, or result in a breach of any provisions of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination or cancellation of, or accelerate the performance required by, or result in a right of termination, cancellation or acceleration under, or result in the creation of any Lien (other than Permitted Liens) upon any of the Assets of Harleysville Mutual or any of the Harleysville Mutual Subsidiaries under, any of the terms, conditions or provisions of any Contract to which Harleysville Mutual or any Harleysville Mutual Subsidiary is a party or to which it or any of its Assets may be subject; or (iii) except as set forth in Section 4.4(a)(iii) of the Harleysville Mutual Disclosure Schedule, constitute a breach or violation of or default under any Environmental Permit, Law, Order or License to which Harleysville Mutual or any of the Harleysville Mutual Subsidiaries is subject, except, in the case of clauses (ii) and (iii) of this Section 4.4(a), to the extent such violation, conflict, breach, default, violation, Lien or requirement would not, individually or in the aggregate, have a Material Adverse Effect on Harleysville Mutual or any of the Harleysville Mutual Subsidiaries, taken as a whole, or prevent or render impracticable the consummation by Harleysville Mutual of the Transactions.

(b) No consent, approval, License, notice, Order or authorization of, or registration, application, declaration or filing with (each a "Consent or Filing") any Person is required with

respect to Harleysville Mutual or any Harleysville Mutual Subsidiary in connection with the execution and delivery of this Agreement by Harleysville Mutual and the consummation by Harleysville Mutual of the Transactions except for: (i) the Core Governmental Approvals; (ii) the Governmental Approvals set forth in Section 4.4(b) of the Harleysville Mutual Disclosure Schedule; (iii) such other applications, registrations, declarations, filings, authorizations; Orders, consents, and approvals as may be required under the Laws of other jurisdictions; (iv) the approval of this Agreement by the Members of Harleysville Mutual, as contemplated by Section 8.1(a); (v) the filings pursuant to Section 2.5(a); (vi) any Consent or Filing that is disclosed in Section 4.4(b) of the Harleysville Mutual Disclosure Schedule or that would not otherwise be required to be disclosed pursuant to Section 4.4(a); and (vii) such other Consents or Filings, the failure of which to make or obtain would not, individually or in the aggregate, be reasonably likely to prevent or be a material impediment to the consummation of the Transactions or be reasonably likely to have a Material Adverse Effect on Harleysville Mutual or any of the Harleysville Mutual Subsidiaries taken as a whole or prevent or render impracticable the consummation by Harleysville Mutual of the Transactions.

**Section 4.5    SAP Statements.**

(a)    Harleysville Mutual has previously made available to Nationwide Mutual true and complete copies of the following:

(i)    the Annual Statements (including any combined annual statements) for Harleysville Mutual, the Harleysville Mutual Subsidiaries and the insurance company Subsidiaries of HGI as of and for the years ended December 31, 2008, 2009, and 2010;

(ii)   the Quarterly Statements for Harleysville Mutual, the Harleysville Mutual Subsidiaries and the insurance company Subsidiaries of HGI as of and for the calendar quarters ended March 31, 2011, and June 30, 2011;

(iii)   any supplemental or separate SAP Statements for Harleysville Mutual, the Harleysville Mutual Subsidiaries and the insurance company Subsidiaries of HGI for any of the periods ended December 31, 2008, 2009, and 2010 or March 30, 2011, or June 30, 2011 that are filed with any insurance Governmental Entity and that differ from the Annual Statements or the Quarterly Statements described in Section 4.5(a)(i) or (ii) hereto; and

(iv)   the audited SAP balance sheets of Harleysville Mutual, the Harleysville Mutual Subsidiaries and the insurance company Subsidiaries of HGI as of December 31, 2008, 2009, and 2010 and the related audited summary of operations and statements of change in capital and surplus and cash flows of Harleysville Mutual for each such years, together with the notes related thereto and the reports thereon of KPMG LLP (collectively, with the items described in Sections 4.5(a)(i), (ii), and (iii), the "Harleysville SAP Statements").

(b)    Since December 31, 2007, Harleysville Mutual and the Harleysville Mutual Subsidiaries have filed all SAP Statements required to be filed with or submitted to Governmental Entities.

(c) Each Harleysville Mutual SAP Statement complied (and, as to SAP Statements filed after the date of this Agreement, will comply) in all material respects with all applicable Laws when so filed, and all material deficiencies with respect to any such Harleysville Mutual SAP Statement, of which Harleysville Mutual has Knowledge, have been cured or corrected. Each Harleysville Mutual SAP Statement (and the notes related thereto) referred to in Sections 4.5(a), (b), and (d) was prepared (and, as to SAP Statements filed after the date of this Agreement, will be prepared) in accordance with all applicable Laws and SAP and presents (and, as to SAP Statements filed after the date of this Agreement, will present) fairly, in all material respects, the statutory financial position of Harleysville Mutual and each Harleysville Mutual Subsidiary as of the respective dates thereof and the related summaries of operations, changes in capital and surplus and cash flows of Harleysville Mutual and each Harleysville Mutual Subsidiary for the respective periods covered thereby. To the Knowledge of Harleysville Mutual, each Harleysville Mutual SAP Statement (including the notes related thereto) referred to in Section 4.5(c) was prepared (or, in the case of similar SAP Statements filed after the date of this Agreement, will be prepared) in accordance with the statutory accounting practices required by the insurance Governmental Entity in the jurisdiction in which such statement was (or will be) filed.

**Section 4.6 Reserves.** The aggregate actuarial reserves and other actuarial amounts held in respect of Liabilities with respect to Insurance Contracts of Harleysville Mutual and each Harleysville Mutual Subsidiary as established or reflected in their December 31, 2010 Annual Statements, March 31, 2011 Quarterly Statements, or June 30, 2011 Quarterly Statements: (a) (i) were determined in accordance with generally accepted actuarial standards consistently applied, (ii) were fairly stated, in all material respects, in accordance with sound actuarial principles, and (iii) were based on actuarial assumptions that are in accordance with or are more conservative than those specified in the related Insurance Contracts; and (b) complied with, in all material respects, the requirements of the Pennsylvania Insurance Law and all other applicable Laws. Harleysville Mutual and each Harleysville Mutual Subsidiary own Assets that qualify as admitted assets under applicable insurance Laws in an amount at least equal to the sum of their statutory reserves and other similar amounts. Harleysville Mutual has made available to Nationwide Mutual a true and complete copy of each Harleysville Actuarial Analysis.

**Section 4.7 Absence of Certain Changes or Events.** Except as set forth in Section 4.7 of the Harleysville Mutual Disclosure Schedule or as disclosed in the Harleysville SAP Statements, since December 31, 2010, each of Harleysville Mutual and the Harleysville Mutual Subsidiaries has conducted its Business only in the Ordinary Course of Business consistent with past practice and there has not occurred: (a) a Material Adverse Effect, or any event or events which, individually or in the aggregate, are reasonably likely to have a Material Adverse Effect on Harleysville Mutual or any Harleysville Mutual Subsidiary, taken as a whole; (b) except as required by SAP or applicable Law, any material change by Harleysville Mutual or any Harleysville Mutual Subsidiary in its accounting principles, practices or methods; (c) any material addition or, to the Knowledge of Harleysville Mutual, any development involving a prospective material addition to the consolidated reserves of Harleysville Mutual or any Harleysville Mutual Subsidiary for future policy benefits or other policy claims and benefits other than as a result of activities and events in the Ordinary Course of Business; or (d) except as required by SAP or applicable Law, any change in the accounting, actuarial, investment, reserving, underwriting, or claims administration policies, practices, procedures, methods,

assumptions, or principles of Harleysville Mutual or any Harleysville Mutual Subsidiary, as applicable, that has or would reasonably be expected to have an effect or impact, in any material respect, on the Business, Assets, Liabilities, results of operations or condition (financial or otherwise) of Harleysville Mutual or any Harleysville Mutual Subsidiary, taken as a whole.

Section 4.8 No Undisclosed Liabilities. Except as disclosed in the Harleysville SAP Statements or as set forth in Section 4.8 of the Harleysville Mutual Disclosure Schedule, neither Harleysville Mutual nor any of the Harleysville Mutual Subsidiaries has any Liabilities required by SAP to be set forth on a balance sheet of Harleysville Mutual or any Harleysville Mutual Subsidiaries, other than (i) Liabilities arising since the date of the applicable Financial Statement in the Ordinary Course of Business consistent with past practice, (ii) arising under or incurred in connection with this Agreement or the Transactions, or (iii) that, individually or in the aggregate, are not material.

Section 4.9 Litigation. Except (a) as set forth in Section 4.9 of the Harleysville Mutual Disclosure Schedule or as disclosed in the Harleysville SAP Statements, and (b) for any Proceeding which is not reasonably likely to give rise to a Liability in excess of \$250,000, there are no Proceedings pending or, to the Knowledge of Harleysville Mutual or any of the Harleysville Mutual Subsidiaries, threatened against Harleysville Mutual or any Harleysville Mutual Subsidiary before any Governmental Entity or arbitrator, and no such Proceedings described in clauses (a) or (b) above would give any Person the right to enjoin or rescind the Transactions or otherwise prevent Harleysville Mutual or any of the Harleysville Mutual Subsidiaries from complying with the terms of this Agreement.

Section 4.10 Compliance with Law.

(a) Except as set forth in Section 4.10(a) of the Harleysville Mutual Disclosure Schedule, since January 1, 2007, neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has been in violation (or, with notice or lapse of time or both, would be in violation) of any term or provision of any Law (including any applicable data security or privacy Laws) applicable to it or any of its Assets, which violation, individually or in the aggregate, could result in any material Liability to Harleysville Mutual or any Harleysville Mutual Subsidiary. Harleysville Mutual has made available to Nationwide Mutual all reports (including draft reports) of examinations of the affairs of Harleysville Mutual and any Harleysville Mutual Subsidiary (including market conduct examinations) issued by insurance Governmental Entities for any period ending on a date on or after January 1, 2007. Except as set forth in Section 4.10(a) of the Harleysville Mutual Disclosure Schedule, all material deficiencies or violations in such reports for any prior period have been resolved. Except as set forth in Section 4.10(a) of the Harleysville Mutual Disclosure Schedule, Harleysville Mutual has not received any written notice in the past five (5) years from any Governmental Entity regarding any actual or alleged material violation of, or failure to comply with, or material Liability under any applicable Law (including any applicable data security or privacy Laws). Except as set forth in Section 4.10(a) of the Harleysville Mutual Disclosure Schedule, all outstanding Insurance Contracts issued or assumed by Harleysville Mutual and each Harleysville Mutual Subsidiary are, to the extent required by applicable Law, on forms and at rates approved by the insurance Governmental Entities of the jurisdictions where issued or have been filed with and not objected to by such Governmental Entities within the periods provided for objection, except where the failure to file

would not, individually or in the aggregate, reasonably be expected to result in any material Liability to Harleysville Mutual or any Harleysville Mutual Subsidiary.

(b) Except as set forth in Section 4.10(b) of the Harleysville Mutual Disclosure Schedule, neither Harleysville Mutual nor any Harleysville Mutual Subsidiary is a party to any Contract with or other undertaking of, or is subject to any Order by, or is a recipient of any supervisory letter or other written communication of any kind from, any Governmental Entity which: (i) is, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on Harleysville Mutual or any of the Harleysville Mutual Subsidiaries, taken as a whole, or (ii) has been received since January 1, 2007 and relates to its reserve adequacy or its marketing, sales, trade, or underwriting practices or policies and which is reasonably likely to be materially adverse to Harleysville Mutual or any Harleysville Mutual Subsidiary, nor has Harleysville Mutual or any of the Harleysville Mutual Subsidiaries been notified in writing by any Governmental Entity that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such Order, Contract, undertaking, letter, or other written communication.

(c) Harleysville Mutual and the Harleysville Mutual Subsidiaries have implemented procedures and programs which are designed to provide reasonable assurance that Harleysville Mutual, the Harleysville Mutual Subsidiaries, and their employees and Producers are in compliance in all material respects with all applicable Laws, including advertising, licensing, data security, privacy and sales Laws.

Section 4.11 Assets. Except as set forth in Section 4.11 of the Harleysville Mutual Disclosure Schedule and except for Assets disposed of since December 31, 2010 in the Ordinary Course of Business consistent with past practice: (a) Harleysville Mutual and each of the Harleysville Mutual Subsidiaries own all Assets that are disclosed or otherwise reflected in their December 31, 2010 Annual Statements and all Assets acquired thereafter, and all such Assets are owned by such Persons, free and clear of all Liens other than Permitted Liens; and (b) (i) Harleysville Mutual and each Harleysville Mutual Subsidiary own good and indefeasible, marketable fee simple title to, or have a valid leasehold interest in, all real property used in the conduct of their Business or of a type which would be required to be specifically disclosed by Harleysville Mutual or any Harleysville Mutual Subsidiary in Schedule A of its Annual Statement, free and clear of all Liens other than Permitted Liens; and (ii) in the aggregate, all real property, other than unimproved land, is, in all material respects, suitable for its current uses; (iii) Harleysville Mutual and each Harleysville Mutual Subsidiary own, or have a valid leasehold interest in or a valid right under Contract to use, all personal property that is presently used in and is material to the conduct of their Business, free and clear of all Liens other than Permitted Liens; and (iv) Harleysville Mutual and each Harleysville Mutual Subsidiary own, free and clear of all Liens other than Permitted Liens, or are licensed or otherwise possess legally enforceable rights to use, all Intellectual Property that is material to the conduct of their Business; and neither Harleysville Mutual nor any Harleysville Mutual Subsidiary is in conflict with or violation or infringement of, nor has Harleysville Mutual or any Harleysville Mutual Subsidiary received any written notice of any such conflict with or violation or infringement of, any asserted rights of any other Person with respect to any Intellectual Property.

Section 4.12 Environmental Matters.

(a) Except as set forth in Section 4.12(a) of the Harleysville Mutual Disclosure Schedule, each of Harleysville Mutual and the Harleysville Mutual Subsidiaries and all Harleysville Mutual Real Property (including all owners or operators thereof) are in compliance in all material respects with all applicable Environmental Laws, which compliance includes the possession of all material Environmental Permits required under Environmental Laws and compliance with the terms and conditions thereof. Except as set forth in Section 4.12(a) of the Harleysville Mutual Disclosure Schedule, neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has received any written communication, whether from a Governmental Entity, citizens' group, employee, or otherwise, that remains pending and alleges that Harleysville Mutual or any Harleysville Mutual Subsidiary or any Harleysville Mutual Real Property (including any owner or operator thereof) is not in such compliance. Neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has been notified in a writing that remains pending by any Governmental Entity that any such Environmental Permit will be modified, suspended or revoked or cannot be renewed or transferred in the Ordinary Course of Business consistent with past practice or in connection with the Parent Merger.

(b) Except as set forth in Section 4.12(b) of the Harleysville Mutual Disclosure Schedule, there is no Environmental Claim pending or, to the Knowledge of Harleysville Mutual or the Harleysville Mutual Subsidiaries, threatened against Harleysville Mutual, any Harleysville Mutual Subsidiary, any Harleysville Mutual Real Property (including any owner or operator thereof), or any Person whose Liability for any Environmental Claims Harleysville Mutual or any Harleysville Mutual Subsidiary has retained or assumed either contractually or by operation of Law.

(c) There have been no releases, spills, leaks or discharges of Hazardous Substances at, from, or to any Harleysville Mutual Real Property or, to the Knowledge of Harleysville Mutual or any of the Harleysville Mutual Subsidiaries, at any other property, in each case, which is reasonably likely to require Harleysville Mutual or any Harleysville Mutual Subsidiary to undertake investigation, abatement, removal, remedial, corrective, or other response action pursuant to applicable Environmental Laws. None of the Harleysville Mutual Real Property (i) is listed or proposed for listing on any list maintained by any Governmental Entity of sites that may require investigation, abatement, removal, remedial, corrective, or other response action pursuant to applicable Environmental Laws, including the CERCLIS or the NPL, or (ii) is the subject of any abatement, removal, remedial, corrective, or other response action pursuant to applicable Environmental Laws or, to the Knowledge of Harleysville Mutual or any Harleysville Mutual Subsidiary, is subject to any investigation with respect thereto.

(d) Except as set forth in Section 4.12(d) of the Harleysville Mutual Disclosure Schedule, to the Knowledge of Harleysville Mutual or any Harleysville Mutual Subsidiary, no Hazardous Substances were manufactured, generated, stored, treated, transported from, or otherwise managed at any Harleysville Mutual Real Property, except in all material respects in compliance with all applicable Environmental Laws and except as has not created any material Liability with respect to any Harleysville Mutual Real Property, nor were Hazardous Substances from any Harleysville Mutual Real Property disposed of by Harleysville Mutual or any Harleysville Mutual Subsidiary at any other property in a manner that, to the Knowledge of

Harleysville Mutual or any Harleysville Mutual Subsidiary, could result in a material Liability under applicable Environmental Law.

Section 4.13 Contracts. Harleysville Mutual has made available to Nationwide Mutual true and complete copies of the following Contracts, which are currently in force, to which Harleysville Mutual or any Harleysville Mutual Subsidiary is a party or by which any Assets of Harleysville Mutual or any Harleysville Mutual Subsidiary are or may be bound, as such Contracts may have been amended to the date of this Agreement:

(a) all Contracts with any Person, including any Governmental Entity, containing any provision or covenant: (i) limiting the ability of Harleysville Mutual or any Harleysville Mutual Subsidiary to engage in any line of business, to compete with any Person, to do business with any Person or in any location or to employ any Person, or (ii) limiting the ability of any Person to compete with or obtain products or services from Harleysville Mutual or any Harleysville Mutual Subsidiary;

(b) all Contracts relating to the borrowing of money in excess of \$1,000,000 by Harleysville Mutual or any Harleysville Mutual Subsidiary or the direct or indirect guarantee by Harleysville Mutual or any Harleysville Mutual Subsidiary of any obligation of any Person for borrowed money or other financial obligation of any Person in excess of \$1,000,000, or any other Liability of Harleysville Mutual or any Harleysville Mutual Subsidiary in respect of indebtedness for borrowed money or other financial obligation of any Person in excess of \$1,000,000, including any Contract relating to or containing provisions with respect to: (i) the maintenance of compensating balances that are not terminable by Harleysville Mutual or any Harleysville Mutual Subsidiary without penalty upon not more than ninety (90) days' notice, (ii) any lines of credit or similar facilities, (iii) the payment for property, products, or services of any other Person even if such property, products or services are not conveyed, delivered or rendered, or (iv) any obligation to satisfy any financial obligation or covenants, including take-or-pay, keep-well, make-whole or maintenance of working capital, capital, or earnings levels or financial ratios or to satisfy similar requirements;

(c) all Contracts (other than Insurance Contracts and other Contracts entered into in the Ordinary Course of Business) with any Person containing any provision or covenant relating to the indemnification or holding harmless by Harleysville Mutual or any Harleysville Mutual Subsidiary of any Person which could under any circumstance result in a Liability to Harleysville Mutual or any of the Harleysville Mutual Subsidiaries of \$250,000 or more;

(d) all leases or subleases of real property used in the conduct of the Business of Harleysville Mutual or any Harleysville Mutual Subsidiary and all other leases, subleases or rental or use Contracts providing for annual rental payments to be paid by or on behalf of Harleysville Mutual or any Harleysville Mutual Subsidiary, involving, in the case of each of the foregoing, annual payments in excess of \$100,000;

(e) all Contracts relating to the future disposition (including restrictions on transfer or rights of first refusal) or future acquisition of any interest in any business enterprise, and all Contracts relating to the future disposition of a material portion of the Assets of Harleysville Mutual or any Harleysville Mutual Subsidiary other than in each case any Investment Asset or

interest in any business enterprise or Assets to be acquired or disposed of in the Ordinary Course of Business or involving consideration of less than \$250,000;

(f) all Insurance Contracts (including (i) any Contract pursuant to which Harleysville Mutual or any of the Harleysville Mutual Subsidiaries receives or has received surplus relief, and (ii) with respect to each such Contract, the ceding and assuming Person, the business reinsured, and the amount of the Liability reinsured), other than insurance policies with policyholders of Harleysville Mutual or any Harleysville Mutual Subsidiary issued in the Ordinary Course of Business;

(g) all other Contracts (other than (i) Insurance Contracts, (ii) Contracts relating to Investment Assets entered into in the Ordinary Course of Business, (iii) Contracts solely between Harleysville Mutual or any Harleysville Mutual Subsidiary, on the one hand, and any Harleysville Mutual Subsidiary, on the other hand, and (v) other Contracts which are expressly excluded under any other subsection of this Section 4.13) that involve or are reasonably likely to involve the payment pursuant to the terms of such Contracts by or to Harleysville Mutual or any Harleysville Mutual Subsidiary of \$250,000 or more other than Contracts with Producers;

(h) all Contracts or arrangements (including those relating to allocations of expenses, personnel, services or facilities) between or among Harleysville Mutual and any Subsidiary or Affiliate of Harleysville Mutual or HGI;

(i) all outstanding proxies (other than routine proxies in connection with annual meetings), powers of attorney or similar delegations of authority of Harleysville Mutual or any Harleysville Mutual Subsidiary to an unrelated Person, other than those entered into in the Ordinary Course of Business consistent with past practice in connection with Investment Assets; and

(j) all Contracts the terms of which provide or contemplate that the Parent Merger will give rise to any form of severance, compensation, or other Liability for Harleysville Mutual, any Harleysville Mutual Subsidiary, or the Surviving Company.

Each of the Contracts made available pursuant to this Section 4.13 is in full force and effect, constitutes a legal, valid and binding obligation of each of Harleysville Mutual and the Harleysville Mutual Subsidiaries to the extent that it is a party thereto, and is enforceable in accordance with its terms. Except as set forth in Section 4.13 of the Harleysville Mutual Disclosure Schedule, neither Harleysville Mutual nor any Harleysville Mutual Subsidiary is in violation, breach, or default, or has failed to perform any obligation, under any such Contract or, with or without notice or lapse of time or both, would be in violation, breach or default, or would fail to perform any obligation, under any such Contract, except for violations, breaches or defaults which would not, individually or in the aggregate, reasonably be expected to result in any obligation or Liability of Harleysville Mutual or any Harleysville Mutual Subsidiary in excess of \$250,000.

Section 4.14 Insurance Issued by Harleysville Mutual and Harleysville Mutual Subsidiaries. Except as set forth in Section 4.14 of the Harleysville Mutual Disclosure Schedule:

(a) All material Contracts to which Harleysville Mutual or any Harleysville Mutual Subsidiary is a party with respect to reinsurance applicable to insurance in force on the date of this Agreement, and all material Contracts under which Harleysville Mutual or any Harleysville Mutual Subsidiary has any obligation to cede insurance, are valid, binding and in full force and effect in accordance with their terms. Harleysville Mutual and each of the Harleysville Mutual Subsidiary are not in material default of any such material Contract;

(b) Each Insurance Contract or certificate form, as well as any related application form, written advertising material, and rates or rules currently marketed by Harleysville Mutual, or any Harleysville Mutual Subsidiary the use or issuance of which requires filing or approval, has been appropriately filed, and if required by applicable Law, approved or not objected to by the insurance Governmental Entities of any state in which such Insurance Contracts, and forms, applications, advertising materials, rates or rules, are required to be filed. All such Insurance Contracts and certificates, forms, applications, advertising materials, and rates or rules are in material compliance with all applicable Laws;

(c) Since January 1, 2007, all claims and benefits claimed by any Person under any Insurance Contract of Harleysville Mutual or any Harleysville Mutual Subsidiary have been paid (or provision for payment thereof has been made) in accordance with the terms of the Insurance Contracts under which they arose, and such payments were not delinquent and were paid without fines or penalties, except for any such claims or claim for benefits of less than \$2,000,000 for which Harleysville Mutual or such Harleysville Mutual Subsidiary reasonably believes there is a reasonable basis to contest payment and is taking (or is preparing to take) such action or as set forth in Section 4.9 of the Harleysville Mutual Disclosure Schedule;

(d) Except as set forth in the SAP Statements referred to in Section 4.5 and except as provided by applicable Law, no provision in any Insurance Contract in force gives policyholders the right to receive dividends or distributions on their Insurance Contracts (other than accruals of interest on cash values or as claim benefits) or otherwise share in the benefits, revenue or profits of Harleysville Mutual or any Harleysville Mutual Subsidiary, nor have Harleysville Mutual or any Harleysville Mutual Subsidiary marketed any of their respective products in such a manner as could reasonably be expected to create an expectation on the part of a policyholder to receive any such dividends or distributions. Except as incurred in the Ordinary Course of Business consistent with past practice, neither Harleysville Mutual nor any Harleysville Mutual Subsidiary is liable to pay commissions upon the renewal of any Insurance Contract nor is it a party to any agreement providing for the collection of insurance premiums payable to Harleysville Mutual or any Harleysville Mutual Subsidiary by any other Person;

(e) Harleysville Mutual has made available to Nationwide Mutual a copy of all written investment policies and procedures for Harleysville Mutual and any Harleysville Mutual Subsidiary. Harleysville Mutual and each Harleysville Mutual Subsidiary have at all times complied with such investment policies and procedures in all material respects;

(f) No Harleysville Mutual Subsidiary is engaged in any activity that would require registration by Harleysville Mutual or any Harleysville Mutual Subsidiary as an investment company, broker-dealer, investment advisor or fund administrator under any applicable state or federal Law, including the Exchange Act, the Investment Company Act, and the Investment

Advisers Act. Neither Harleystown Mutual nor any Harleystown Mutual Subsidiary maintains or manages any open-end management investment company or portfolio;

(g) Neither Harleystown Mutual nor any Harleystown Mutual Subsidiary is engaged in the business of serving as a custodian or transfer agent;

(h) Since January 1, 2008, Harleystown Mutual and each Harleystown Mutual Subsidiary has duly and validly filed or caused to be filed all reports, statements, documents, registrations, filings, or submissions that were required by applicable insurance Laws to be filed; all such filings complied with all applicable Laws when filed, and no material deficiencies have been asserted with respect to any such filings which have not been satisfied in all material respects, except to the extent that the failure to make any such filing or submission would not, individually or in the aggregate, result in any Liability to Harleystown Mutual or any Harleystown Mutual Subsidiary in excess of \$250,000;

(i) Harleystown Mutual has made available to Nationwide Mutual correct and complete copies of all of the Harleystown Mutual Reinsurance Treaties and all such Harleystown Mutual Reinsurance Treaties are in full force and effect, and the consummation of the Transactions will not result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or result in the loss of any benefit) under, any of the terms, conditions or provisions of any of the Harleystown Mutual Reinsurance Treaties. Harleystown Mutual has reasonably concluded that all reinsurance, coinsurance or similar recoverable amounts reflected in the Harleystown SAP Statements are collectible, and Harleystown Mutual has no Knowledge of any material adverse change in the financial condition of its reinsurers that might raise concern regarding their ability to honor their reinsurance, coinsurance or similar commitments. No party to any of the Harleystown Mutual Reinsurance Treaties has given notice to Harleystown Mutual or any Harleystown Mutual Subsidiary that such party intends to terminate, cancel or alter the pricing of any of the Harleystown Mutual Reinsurance Treaties as a result of or following consummation of the Transactions. With respect to each Harleystown Mutual Reinsurance Treaty, there is no material default or claim of any material default thereunder by Harleystown Mutual or any Harleystown Mutual Subsidiary that is a party thereto or, to the Knowledge of Harleystown Mutual, by any other party thereto, and no event has occurred that, with the passage of time or the giving of notice or both would constitute a material default thereunder by Harleystown Mutual or any Harleystown Mutual Subsidiary that is a party thereto or, to the Knowledge of Harleystown Mutual, by any other party thereto, or would permit material modification, acceleration or termination thereof. No Harleystown Mutual Reinsurance Treaty contains any provision providing that the other party thereto may terminate or alter the pricing of the same by reason of the Transactions, or contains any other provision which would be altered or otherwise become applicable by reason of the Transactions. Since December 31, 2010, no Harleystown Mutual Reinsurance Treaty has been cancelled. Since December 31, 2010, there have been no disputes under any Harleystown Mutual Reinsurance Treaty other than disputes in the Ordinary Course of Business for which adequate loss reserves have been established. Any adjustment to any Tax that results in a Tax Liability to Harleystown Mutual caused by an agreed or otherwise determined adjustment to the allocations made in reinsurance treaties or agreements involving Harleystown Mutual or any Subsidiary of Harleystown Mutual shall not constitute a breach of any representation or warranty made in this Agreement with respect to Tax matters;

(j) (i) To Harleysville Mutual's Knowledge, each Producer, at the time such Producer wrote, sold or produced business for Harleysville Mutual or such Harleysville Mutual Subsidiary, was duly licensed under applicable Law for the type of business written, sold or produced by such Producer in the particular jurisdiction in which such Producer wrote, sold or produced such business for Harleysville Mutual or such Harleysville Mutual Subsidiary, and was duly appointed, if applicable, by Harleysville Mutual or such Harleysville Mutual Subsidiary as its Producer; (ii) to Harleysville Mutual's Knowledge, no such Producer violated (or with notice or lapse of time or both would have violated) any term or provision of any Law or Order applicable to any aspect (including the marketing, writing, sale or production) of the Business of Harleysville Mutual or such Harleysville Mutual Subsidiary; and (iii) there are no material disputes between Harleysville Mutual or a Harleysville Mutual Subsidiary on the one hand and any such Producer on the other; and

(k) Except as set forth in Section 4.14(k) of the Harleysville Mutual Disclosure Schedule, there are no claims or assessments against Harleysville Mutual or any Harleysville Mutual Subsidiary by any insurance guaranty association, joint underwriting association, residual market facility or assigned risk pool. To the Knowledge of Harleysville Mutual, no such claim or assessment is pending.

Section 4.15 Cancellations. Except as set forth in Section 4.15 of the Harleysville Mutual Disclosure Schedule, between December 31, 2010 and the date of this Agreement, no Person or group of Persons acting in concert writing, selling or producing insurance business, which in the aggregate accounted for 2% or more of the gross premium income of Harleysville Mutual or any Harleysville Mutual Subsidiary, taken as a whole, for the year ended December 31, 2010, has terminated or substantially reduced, or, to the Knowledge of Harleysville Mutual, threatened in writing to terminate or substantially reduce, its relationship with Harleysville Mutual or any Harleysville Mutual Subsidiary.

Section 4.16 Operations Insurance. Harleysville Mutual has made available to Nationwide Mutual copies of all liability, property, workers compensation, directors and officers liability, and other similar Insurance Contracts that insure the Business or properties of Harleysville Mutual or any Harleysville Mutual Subsidiary or affect or relate to the ownership, use, or operations of any Assets of Harleysville Mutual or any Harleysville Mutual Subsidiary and that have been issued to Harleysville Mutual or any Harleysville Mutual Subsidiary. All such Insurance Contracts are in full force and effect and are with financially sound and reputable insurers, and all premiums due and payable thereon have been paid in full on a timely basis. All notices of reportable incidents with respect to such insurance occurring during the last five (5) years have been given in writing to appropriate carriers on a basis sufficiently timely to preserve the right of recovery of such insurance, and a copy of all such notices has been made available to Nationwide Mutual. Except as set forth in Section 4.16 of the Harleysville Mutual Disclosure Schedule, no party to any Insurance Contract has stated an intent or, to the Knowledge of Harleysville Mutual or any Harleysville Mutual Subsidiary, threatened to terminate or materially increase the premium in respect of any such Insurance Contract.

Section 4.17 Taxes and Tax Returns. Except as set forth in Section 4.17 of the Harleysville Mutual Disclosure Schedule with respect to Harleysville Mutual and any Person that is a Harleysville Mutual Subsidiary on or after the date hereof:

(a) All income Tax Returns and all other material Tax Returns required under applicable Law to be filed with or provided to any Person by Harleysville Mutual or any Harleysville Mutual Subsidiary have been (and, as to Tax Returns not filed as of the date of this Agreement, will be) timely filed (within any applicable extension periods) and such Tax Returns were true, complete and correct in all material respects;

(b) Harleysville Mutual and each Harleysville Mutual Subsidiary have within the time and in the manner prescribed by Law paid all Taxes due and payable except for those Taxes that are being contested in good faith and for which adequate reserves have been taken. To the Knowledge of Harleysville Mutual, no claim has ever been made by an authority in a jurisdiction where Harleysville Mutual or any Harleysville Mutual Subsidiary does not file Tax Returns that Harleysville Mutual or any Harleysville Mutual Subsidiary may be subject to taxation by that jurisdiction;

(c) Harleysville Mutual and each Harleysville Mutual Subsidiary have established (and until the Effective Time will maintain) on their books and records: (i) reserves adequate to pay all Taxes not yet due and payable and all deficiencies asserted, proposed or, to the Knowledge of Harleysville Mutual or any Harleysville Mutual Subsidiary, threatened against Harleysville Mutual or any Harleysville Mutual Subsidiary, and (ii) reserves for deferred Taxes, in each case, in accordance with SAP or GAAP, as the case may be;

(d) Neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has requested any extension of time within which to file any Tax Return, which Tax Return has not since been filed;

(e) Neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has executed any waivers, extensions, or comparable consents regarding the application of the statute of limitations with respect to any Taxes or Tax Returns, which waivers, extensions, or comparable consents remain in effect;

(f) To the Knowledge of Harleysville Mutual, no outstanding deficiencies, assessments, or written proposals for the assessment of any Taxes, that are separately or collectively material in amount, have been proposed, asserted or assessed in writing against Harleysville Mutual or any of the Harleysville Mutual Subsidiaries by any taxing authority;

(g) No Proceedings are presently pending with regard to any Taxes or Tax Returns of Harleysville Mutual or any Harleysville Mutual Subsidiary, and Harleysville Mutual has no Knowledge of any threatened Proceeding with respect to any such Taxes or Tax Returns.

(h) No power of attorney currently in force has been granted by Harleysville Mutual or any Harleysville Mutual Subsidiary with respect to any matter relating to Taxes;

(i) Neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has received a Tax Ruling or entered into a Closing Agreement with any taxing authority that would have a continuing adverse effect after the Effective Time of the Parent Merger;

(j) Harleysville Mutual and the Harleysville Mutual Subsidiaries have made available to Nationwide Mutual complete and accurate copies of: (i) all federal and state income

Tax Returns, and any amendments thereto, filed by or on behalf of Harleysville Mutual and each Harleysville Mutual Subsidiary for all taxable years since 2007, and (ii) all audit reports received from any taxing authority relating to any Tax Return filed by Harleysville Mutual or any Harleysville Mutual Subsidiary;

(k) Neither Harleysville Mutual nor any Harleysville Mutual Subsidiary is a party to any Tax allocation or sharing agreement with any Person. Neither Harleysville Mutual or any Harleysville Mutual Subsidiary has any Liability for Taxes of any Person other than Harleysville Mutual or a Harleysville Mutual Subsidiary under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign Law), as a transferee or successor, by Contract or otherwise;

(l) Neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has taken any action or has any Knowledge of any fact or circumstance relating to Harleysville Mutual or any Harleysville Mutual Subsidiary that is reasonably likely to adversely affect the status of the Parent Merger as a reorganization under Section 368 of the Code; and

(m) Neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has entered into a records retention agreement with any taxing authority.

Section 4.18 Benefit Plans. Except with respect to any indirect Liability arising from Harleysville Mutual being in the same ERISA Controlled Group as HGI, neither Harleysville Mutual nor any of the Harleysville Mutual Subsidiaries, directly or indirectly, sponsors, maintains, contributes or is required to contribute to, or has any obligation or Liability with respect to, any Benefit Plan.

Section 4.19 Labor and Employment Matters. Neither Harleysville Mutual nor any of the Harleysville Mutual Subsidiaries (a) has any employees or has entered into or otherwise has any Liability under any employment, consulting, or similar Contract with any individual, (b) has paid or is obligated to pay compensation to any Person since January 1, 2007, or (c) is a party to or bound by any union Contract, collective bargaining agreement, employment Contract, independent contractor agreement, consulting agreement or other similar type of Contract. There is no Proceeding before any Governmental Entity alleging unfair labor practices, civil rights violations, employment discrimination, or any similar claim or charge against Harleysville Mutual or any of the Harleysville Mutual Subsidiaries, and there are no existing facts which would lead to any such claim or charge.

Section 4.20 Intellectual Property.

(a) Section 4.20(a) of the Harleysville Mutual Disclosure Schedule sets forth a list of all Intellectual Property owned by Harleysville Mutual and any Harleysville Mutual Subsidiary other than unregistered copyrights and trade secrets. Such Intellectual Property is subsisting and is valid and enforceable. Except as set forth in Section 4.20(a) of the Harleysville Mutual Disclosure Schedule, (i) Harleysville Mutual and any Harleysville Mutual Subsidiary owns, free and clear of all Liens, (except for Permitted Liens), or has a license or other right to use all Intellectual Property to the extent necessary for the conduct of its Business as currently conducted; (ii) there is no claim or Proceeding pending against Harleysville Mutual nor any

Harleysville Mutual Subsidiary, to the Knowledge of Harleysville Mutual or any Harleysville Mutual Subsidiary, threatened against Harleysville Mutual or any Harleysville Mutual Subsidiary that has been made in the past three (3) years alleging that Harleysville Mutual or any Harleysville Mutual Subsidiary is infringing any Intellectual Property rights of any third party; and (iii) neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has made any claim against any third party that remains pending alleging the infringement of any Intellectual Property right of Harleysville Mutual or such Harleysville Mutual Subsidiary. Each of Harleysville Mutual and the Harleysville Mutual Subsidiaries has taken commercially reasonable efforts to maintain the secrecy of the material trade secrets owned by Harleysville Mutual and any Harleysville Mutual Subsidiary. The Computer Systems and Computer Software owned or used by Harleysville Mutual or any Harleysville Mutual Subsidiary in the conduct of its Business are sufficient in all material respects for the immediate needs of the Business of Harleysville Mutual and each Harleysville Mutual Subsidiary, other than upgrades in the Ordinary Course of Business. In the last twelve (12) months, there has been no crash, failure, breakdown, or continued substandard performance affecting any such Computer Systems or Computer Software that has adversely affected the Business, results of operation or condition (financial or otherwise) of Harleysville Mutual or any Harleysville Mutual Subsidiary.

(b) Except as set forth in Section 4.20(b) of the Harleysville Mutual Disclosure Schedule, in the past three (3) years, Computer Software owned by Harleysville Mutual or any Harleysville Mutual Subsidiary has not been disclosed, delivered, or made available to any Person that is not an employee or consultant of Harleysville Mutual or any Harleysville Mutual Subsidiary, and neither Harleysville Mutual nor any Harleysville Mutual Subsidiary has agreed to provide such Computer Software to any such Person (including as part of the escrow arrangement). Except as set forth in Section 4.20(b) of the Harleysville Mutual Disclosure Schedule, the Computer Software owned by Harleysville Mutual or any Harleysville Mutual Subsidiary operates in all material respects in accordance with its documentation and specifications and has no material problems or defects.

Section 4.21 Rating Agencies. Except as disclosed in Section 4.21 of the Harleysville Mutual Disclosure Schedule, since December 31, 2010, none of A.M. Best Company, Standard & Poor's or Moody's Investors Services, Inc. (collectively, the "Rating Agencies") has, other than as a result of the announcement of the Parent Merger or the Transactions (a) imposed conditions (financial or otherwise) on retaining any currently held rating assigned to Harleysville Mutual or any Harleysville Mutual Subsidiary, or (b) indicated to Harleysville Mutual or any Harleysville Mutual Subsidiary that it is considering the downgrade of any rating assigned to Harleysville Mutual or such Harleysville Mutual Subsidiary.

Section 4.22 Investment Company. None of the Harleysville Mutual Subsidiaries maintains any separate accounts. Neither Harleysville Mutual nor any of its Subsidiaries conducts activities of or is otherwise deemed under applicable Law to control an "investment adviser" as such term is defined in Section 2(a)(20) of the Investment Company Act, whether or not registered under the Investment Advisers Act. Neither Harleysville Mutual nor any of its Subsidiaries is an "investment company" as defined under the Investment Company Act, and neither Harleysville Mutual nor any of its Subsidiaries sponsors any Person that is such an investment company.

Section 4.23 Brokers or Finders. No broker, investment banker, financial advisor or other Person other than Harleysville Mutual's financial advisors, (i) Credit Suisse Securities (USA) LLC (whose fees and expenses shall be paid 50% by Harleysville Mutual and 50% by HGI in accordance with the Harleysville Parties' agreement with such firm) and (ii) Griffin Financial Group LLC (whose fees and expenses shall be paid by Harleysville Mutual in accordance with Harleysville Mutual's agreement with such firm), is entitled to any broker's, finder's, financial advisor's, or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Harleysville Mutual, any of the Harleysville Mutual Subsidiaries, or HGI, as applicable. Harleysville Mutual has furnished to Nationwide Mutual complete and correct copies of all existing agreements between (i) Harleysville Mutual and Credit Suisse Securities (USA) LLC, and (ii) Harleysville Mutual and Griffin Financial Group LLC, pursuant to which either of the foregoing firms would be entitled to any payment relating to the Transactions.

Section 4.24 Absence of Indemnifiable Claims. As of the date of this Agreement, there are no pending claims that would entitle any director or officer of Harleysville Mutual or the Harleysville Mutual Subsidiaries to indemnification by Harleysville Mutual or the Harleysville Mutual Subsidiaries under applicable Law, the Harleysville Mutual Articles of Incorporation or Bylaws, the certificate of incorporation or bylaws or other organizational or governance documents of any of the Harleysville Mutual Subsidiaries, any insurance policy maintained by Harleysville Mutual or the Harleysville Mutual Subsidiaries, or any indemnity agreements of Harleysville Mutual or similar agreements to which Harleysville Mutual or any of the Harleysville Mutual Subsidiaries is a party or by which any of their Assets is or may be bound.

Section 4.25 Risk-Based Capital. Harleysville Mutual has made available to Nationwide Mutual the written results submitted by Harleysville Mutual or any of its Subsidiaries to any insurance Governmental Entities since January 1, 2008 relating to Risk-Based Capital calculations (the "Risk-Based Capital Reports"). The Risk-Based Capital Reports are true, accurate and complete in all material respects. None of Harleysville Mutual or any of its Subsidiaries has suffered a decrease in its Risk-Based Capital to "Company Action Level."

Section 4.26 Derivatives; Structured Products. Neither Harleysville Mutual nor any Harleysville Mutual Subsidiaries, nor any of their respective Affiliates, (i) is engaged in any Derivative Transactions; (ii) has any Liability, contingent or otherwise, in connection with any Derivative Transaction; (iii) has issued, sponsored, organized, or otherwise originated any Structured Products; or (iv) has any Liability, whether accrued, absolute, contingent, or otherwise, in connection with any Structured Products.

Section 4.27 No Other Representations or Warranties. Except for the representations and warranties contained in this Agreement, none of Harleysville Mutual, the Harleysville Mutual Subsidiaries or any other Person on behalf of Harleysville Mutual or the Harleysville Mutual Subsidiaries makes any other express or implied representation or warranty with respect to Harleysville Mutual, any of the Harleysville Mutual Subsidiaries or any information provided to Nationwide Mutual with respect to Harleysville Mutual or any of the Harleysville Mutual Subsidiaries.

## ARTICLE V

### REPRESENTATIONS AND WARRANTIES OF HGI

As an inducement to the Nationwide Parties to enter into this Agreement, HGI hereby represents and warrants to the Nationwide Parties that, except as set forth in the HGI Disclosure Schedule (it being acknowledged and agreed by the Nationwide Parties that any matter set forth in any section or subsection of the HGI Disclosure Schedule will be deemed to be disclosed for all purposes of this Agreement and all other sections and subsections of the HGI Disclosure Schedule to which it is readily apparent that the matters so disclosed are applicable, but will expressly not be deemed to constitute an admission by HGI or any Subsidiary of HGI, or otherwise to imply, that any such matter rises to the level of a Material Adverse Effect or is otherwise material for purposes of this Agreement or the HGI Disclosure Schedule):

#### Section 5.1 Organization and Qualification.

(a) HGI is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware and has all requisite corporate power and authority to conduct its Business as it is currently being conducted. Each of the Subsidiaries of HGI is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or formation and has all requisite power and authority to conduct its Business as it is currently being conducted, except as would not have, individually or in the aggregate, a Material Adverse Effect. Each of HGI and its Subsidiaries is duly qualified to do Business, and is in good standing, in the respective jurisdictions where the character of its Assets owned, operated or leased, or the nature of its Business, makes such qualification necessary, except where the failure to be so qualified or in good standing would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. Each Subsidiary of HGI is listed in Section 5.1(a) of the HGI Disclosure Schedule.

(b) Each Subsidiary of HGI (i) possesses an Insurance License in each jurisdiction in which it is required to possess an Insurance License, and (ii) is duly authorized in its jurisdiction of incorporation and each other applicable jurisdiction to write each line of business reported as being specified in the HGI Financial Statements or HGI Interim Financial Statements. All such Insurance Licenses, including authorizations to transact reinsurance, are in full force and effect without amendment, limitation, or restriction, other than as described in Section 5.1(b) of the HGI Disclosure Schedule, and HGI has no Knowledge of any event, inquiry or Proceeding which is reasonably likely to lead to the revocation, amendment, failure to renew, limitation, suspension, or restriction of any such Insurance License.

(c) Copies of the Certificate of Incorporation and Bylaws of HGI have been made available to Nationwide Mutual, and copies of the certificate of incorporation and bylaws (and other comparable organizational documents, if any) of each of the Subsidiaries of HGI have been made available to Nationwide Mutual, and such copies are true and complete as of the date of this Agreement.

(d) HGI and each of its Subsidiaries do not, directly or indirectly, beneficially own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable

for any equity or similar interest in, any corporation, partnership, joint venture or other business association, or entity that, directly or indirectly, conducts any activity which is material to HGI or each of its Subsidiaries, other than (i) as disclosed in Section 5.1(d) of the HGI Disclosure Schedule, and (ii) investments in publicly-traded securities constituting less than five percent (5%) of the outstanding equity of the issuing entity.

(e) The minute books of HGI and of each of the Subsidiaries of HGI have been made available to Nationwide Mutual. Such minute books contain a complete summary of all meetings of directors and meetings of shareholders and reflect all of the material actions taken by each of their respective boards of directors (including each committee thereof) and shareholders since January 1, 2007. No Subsidiary of HGI is a limited liability company.

(f) None of the insurance company Subsidiaries of HGI are “commercially domiciled” in any jurisdiction, or otherwise treated as domiciled in a jurisdiction, other than their respective states of domicile.

## Section 5.2 Capitalization of HGI and its Subsidiaries.

(a) The authorized capital stock of HGI consists of (i) 80,000,000 shares of common stock with a par value of \$1.00 per share and (ii) 1,000,000 shares of Series Preferred Stock with a par value of \$1.00 per share. As of the close of business on September 26, 2011, (i) 35,114,111 shares of common stock of HGI were issued; (ii) 27,171,123 shares of common stock of HGI were outstanding, of which Harleysville Mutual is the record and beneficial holder of 14,526,445 of such shares; (iii) Options to purchase a total of 1,946,422 shares of common stock of HGI (of which Options to purchase a total of 1,262,936 shares of common stock were currently exercisable) were outstanding; (iv) 7,942,993 shares of common stock of HGI were held by HGI in its treasury; and (v) none of the shares of Series Preferred Stock of HGI were issued and outstanding. All of the issued and outstanding shares of the capital stock of HGI have been duly authorized and validly issued, are fully paid and nonassessable, and were not issued in violation of any preemptive or subscription rights. Except as set forth in Section 5.2(a) of the HGI Disclosure Schedule, there are no outstanding subscriptions, options, warrants, calls, rights, convertible securities, obligations to make capital contributions or advances, or voting trust arrangements, shareholders’ agreements, or other agreements, commitments or undertakings of any character to which HGI is a party or by which it is bound relating to the issued or unissued capital stock of HGI or securities convertible into, exchangeable for or evidencing the right to subscribe for any shares of such capital stock, which obligates HGI to issue, transfer, deliver or sell, or cause to be issued, transferred, delivered or sold, any such capital stock or other securities or obligating HGI to issue, grant, extend, or enter into any such subscription, option, warrant, call, right, security, contribution, advance, arrangement, agreement, commitment, or undertaking.

(b) All of the outstanding shares of capital stock (or of any other form of equity interest in the case of a Subsidiary of HGI that is not a corporation) of each of the Subsidiaries of HGI have been validly issued and are fully paid. Section 5.2(b) of the HGI Disclosure Schedule sets forth a true and complete statement of the capitalization of each of the Subsidiaries of HGI, and all of the outstanding shares of capital stock of each of the Subsidiaries of HGI are beneficially owned by either HGI or another of the Subsidiaries of HGI, free and clear of all Liens. Except as set forth in Section 5.2(b) of the HGI Disclosure Schedule, there are no

outstanding subscriptions, options, warrants, calls, rights, convertible securities, obligations to make capital contributions or advances, or voting trust arrangements, shareholders' agreements, or other agreements, commitments or undertakings of any character to which HGI or any Subsidiary of HGI is a party or by which any of them is bound relating to the issued or unissued capital stock (or of any other form of equity interest in the case of a Subsidiary of HGI that is not a corporation) of any of the Subsidiaries of HGI or securities convertible into, exchangeable for or evidencing the right to subscribe for any shares of such capital stock (or of any other form of equity interest in the case of a Subsidiary of HGI that is not a corporation), which obligates HGI or any such Subsidiary of HGI to issue, transfer, deliver or sell, or cause to be issued, transferred, delivered or sold, any such capital stock (or any such other form of equity interest in the case of a Subsidiary of HGI that is not a corporation) or other securities or obligating HGI or any of the Subsidiaries of HGI to issue, grant, extend, or enter into any such subscription, option, warrant, call, right, security, contribution, advance, arrangement, agreement, commitment, or undertaking. The name and percentage (if less than 100%) of outstanding capital stock (or of any other form of equity interest in the case of a Subsidiary of HGI that is not a corporation) owned, directly or indirectly, by HGI are set forth in Section 5.2(b) of the HGI Disclosure Schedule with respect to each Subsidiary of HGI.

### Section 5.3 Authority Relative to this Agreement.

(a) HGI has all requisite corporate power and authority to execute and deliver this Agreement and, subject to approval of this Agreement by the stockholders of HGI, to consummate the Transactions and carry out its obligations under the Transaction Documents to which it is or will be a party. The execution and delivery of this Agreement by HGI and the consummation by HGI of the Transactions have been duly approved and authorized by the Board of Directors of HGI. Except for the approval and adoption of this Agreement by the stockholders of HGI, no other corporate proceedings on the part of HGI are necessary to authorize this Agreement and the Transactions.

(b) This Agreement has been duly and validly executed and delivered by HGI and (assuming this Agreement is a valid and binding obligation of the Nationwide Parties) constitutes a valid and binding agreement of HGI enforceable against HGI in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and (ii) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any Proceeding therefor may be brought.

(c) The Board of Directors of HGI has received the written opinion of HGI's financial advisor, Keefe, Bruyette & Woods, Inc., to the effect that the Merger Consideration is fair, from a financial point of view, to holders of the shares of common stock of HGI receiving the Merger Consideration.

(d) The Board of Directors of HGI has also received the advice of Credit Suisse Securities (USA) LLC.

#### Section 5.4 No Violation; Governmental Filings.

(a) The execution, delivery, and performance of this Agreement by HGI and the consummation by HGI of the Transactions will not (i) constitute a breach or violation of or default under the Certificate of Incorporation or the Bylaws (or similar organizational documents) of HGI or of any of the Subsidiaries of HGI, (ii) except as set forth in Section 5.4(a)(ii) of the HGI Disclosure Schedule, violate, conflict with, or result in a breach of any provisions of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination or cancellation of, or accelerate the performance required by, or result in a right of termination, cancellation or acceleration under, or result in the creation of any Lien (other than Permitted Liens) upon any of the Assets of HGI or of any of the Subsidiaries of HGI under, any of the terms, conditions, or provisions of any Contract to which HGI or any Subsidiary of HGI is a party or to which it or any of its Assets may be subject, or (iii) except as set forth in Section 5.4(a)(iii) of the HGI Disclosure Schedule, constitute a breach or violation of or default under any Environmental Permit, Law, Order or License to which HGI or any of the Subsidiaries of HGI is subject, except, in the case of clauses (ii) and (iii) of this Section 5.4(a), to the extent such violation, conflict, breach, default, Lien or requirement would not, individually or in the aggregate, have a Material Adverse Effect on the Harleysville Parties, taken as a whole, or prevent or render impracticable the consummation by HGI of the Transactions.

(b) No Consent of or Filing with any Person is required with respect to HGI or any Subsidiary of HGI in connection with the execution and delivery of this Agreement by HGI and the consummation of the Transactions except for (i) the Core Governmental Approvals; (ii) the Governmental Approvals set forth in Section 5.4(b) of the HGI Disclosure Schedule; (iii) the approval of this Agreement by the stockholders of HGI, as contemplated by Section 8.2(a); (iv) the filings pursuant to Section 2.5(b); (v) any Consent or Filing that is disclosed in Section 5.4(b) of the HGI Disclosure Schedule or that would not otherwise be required to be disclosed pursuant to Section 5.4(a); (v) such Consents and Filings as may be required by any applicable state securities or blue sky Laws; and (vi) other such Consents or Filings, the failure of which to make or obtain would not, individually or in the aggregate, be reasonably likely to prevent or be a material impediment to the consummation of the Transactions or be reasonably likely to have a Material Adverse Effect on HGI and the Subsidiaries of HGI taken as a whole, or prevent or render impracticable the consummation of the Transactions by HGI.

#### Section 5.5 HGI Financial Statements.

(a) HGI has made available to the Nationwide Parties true and complete copies of (i) the audited consolidated balance sheets of HGI and each of its Subsidiaries as of December 31, 2008, 2009, and 2010, and the related audited consolidated statements of income, stockholders' equity, and cash flows for the fiscal years then ended, together with the notes thereto, and the other financial information included therewith (collectively, the "HGI Financial Statements"), and (ii) the unaudited consolidated balance sheet of HGI and each of its Subsidiaries as of March 31, 2011, and June 30, 2011, and the related unaudited consolidated statements of income, stockholders' equity, and cash flows for the three (3) month period then ended (the "HGI Interim Financial Statements").

(b) The HGI Financial Statements present fairly, in all material respects, the financial position, results of operations, stockholders' equity, and cash flows of HGI and each of its Subsidiaries at the dates and for the time periods indicated and have been prepared and reviewed by the management of HGI in accordance with GAAP. The HGI Interim Financial Statements present fairly, in all material respects, the financial position, results of operations, stockholders' equity, and cash flows of HGI and each of its Subsidiaries at the date and for the period indicated and have been prepared and reviewed by the management of HGI in accordance with GAAP, consistent with the HGI Financial Statements, except for the absence of footnote disclosure and the customary year-end adjustments set forth in Section 5.5(b) of the HGI Disclosure Schedule. The HGI Financial Statements and the HGI Interim Financial Statements were derived from the books and records of HGI and each of its Subsidiaries.

**Section 5.6 Reserves.** The aggregate actuarial reserves and other actuarial amounts held in respect of Liabilities with respect to Insurance Contracts of each of the Insurance Subsidiaries of HGI as established or reflected in its HGI Financial Statements or HGI Interim Financial Statements: (a)(i) were determined in accordance with generally accepted actuarial standards consistently applied, (ii) were fairly stated, in all material respects, in accordance with sound actuarial principles, and (iii) were based on actuarial assumptions that are in accordance with or are more conservative than those specified in the related Insurance Contracts; and (b) complied with, in all material respects, the requirements of the domiciliary state of each such Subsidiary and all other applicable Laws. Each Subsidiary of HGI owns Assets that qualify as admitted assets under applicable insurance Laws in an amount at least equal to the sum of its statutory reserves and other similar amounts. HGI has made available to Nationwide Mutual a true and complete copy of each Harleysville Actuarial Analysis.

**Section 5.7 Absence of Certain Changes or Events.** Except as set forth in Section 5.7 of the HGI Disclosure Schedule or as disclosed in the HGI Financial Statements or HGI Interim Financial Statements, since December 31, 2010, HGI and each of its Subsidiaries has conducted its Business only in the Ordinary Course of Business, consistent with past practice, and there has not occurred: (a) a Material Adverse Effect, or any event or events which, individually or in the aggregate, are reasonably likely to have a Material Adverse Effect on the Harleysville Parties taken as a whole; (b) except as required by applicable Law, any material change by HGI or any of its Subsidiaries in its accounting principles, practices, or methods; (c) any material addition or, to the Knowledge of HGI, any development involving a prospective material addition to the consolidated reserves of the Subsidiaries of HGI for future policy benefits or other policy claims and benefits other than as a result of activities and events in the Ordinary Course of Business; or (d) except as required by GAAP, SAP, or applicable Law, any change in the accounting, actuarial, investment, reserving, underwriting, or claims administration policies, practices, procedures, methods, assumptions, or principles of HGI or any of its Subsidiaries, as applicable, that has or would reasonably be expected to have an effect or impact, in any material respect, on the Business, Assets, Liabilities, results of operations or condition (financial or otherwise) of the Harleysville Parties taken as a whole. Except as set forth in Section 5.7 or Section 7.1(f) of the HGI Disclosure Schedule, since December 31, 2010, there has not been any increase in the compensation payable or that could become payable by HGI or any of the Subsidiaries of HGI to officers or key employees or any amendment of any of the compensation and benefit plans other than: (x) previously announced or communicated to affected employees prior to December 31,

2010, (y) made in the Ordinary Course of Business consistent with past practice or (z) as required by the terms of agreements or plans in effect as of December 31, 2010.

**Section 5.8    No Undisclosed Liabilities.** Except as disclosed in the HGI Financial Statements, HGI Interim Financial Statements, or as set forth in Section 5.8 of the HGI Disclosure Schedule, neither HGI nor any of the Subsidiaries of HGI has any Liabilities required by GAAP to be set forth on a balance sheet of HGI, other than (a) Liabilities arising since the date of the applicable HGI Financial Statement or HGI Interim Financial Statement in the Ordinary Course of Business consistent with past practice, (b) arising under or incurred in connection with this Agreement or the Transactions, or (c) that, individually or in the aggregate, are not material.

**Section 5.9    Litigation.** Except (a) as set forth in Section 5.9 of the HGI Disclosure Schedule or as disclosed in the HGI Financial Statements or HGI Interim Financial Statements, and (b) for any Proceeding which is not reasonably likely to give rise to a Liability in excess of \$250,000, there are no Proceedings pending or, to the Knowledge of HGI, threatened against HGI or any Subsidiary of HGI before any Governmental Entity or arbitrator, and no such Proceedings described in clauses (a) or (b) above would give any Person the right to enjoin or rescind the Transactions or otherwise prevent HGI or any of its Subsidiaries from complying with the terms of this Agreement.

**Section 5.10    Compliance with Law.**

(a) Except as set forth in Section 5.10(a) of the HGI Disclosure Schedule, since January 1, 2007, neither HGI nor any Subsidiary of HGI has been in violation (or, with notice or lapse of time or both, would be in violation) of any term or provision of any Law (including any applicable data security or privacy Laws) applicable to it or any of its Assets, which violation, individually or in the aggregate, could result in any material Liability to HGI or its Subsidiaries. HGI has made available to Nationwide Mutual all reports (including draft reports) of examinations of the affairs of HGI (including market conduct examinations) and each Subsidiary of HGI issued by insurance Governmental Entities for any period ending on a date on or after January 1, 2007. Except as set forth in Section 5.10(a) or Section 5.18(l) of the HGI Disclosure Schedule, all material deficiencies or violations in such reports have been resolved. Except as set forth in Section 5.10(a) or Section 5.18(l) of the HGI Disclosure Schedule, HGI has not received any written notice in the past five (5) years from any Governmental Entity regarding any actual or alleged material violation of, or failure to comply with, or material Liability under any applicable Law (including any applicable data security or privacy laws). Except as set forth in Section 5.10(a) of the HGI Disclosure Schedule, all outstanding Insurance Contracts issued or assumed by each Subsidiary of HGI are, to the extent required by applicable Law, on forms and at rates approved by the insurance Governmental Entities of the jurisdictions where issued or have been filed with and not objected to by such Governmental Entities within the periods provided for objection, except where the failure to file would not, individually or in the aggregate, reasonably be expected to result in any material Liability to HGI or any Subsidiary of HGI.

(b) Except as set forth in Section 5.10(b) of the HGI Disclosure Schedule, neither HGI nor any Subsidiary of HGI is a party to any Contract with or other undertaking to, or is

subject to any Order by, or is a recipient of any supervisory letter or other written communication of any kind from, any Governmental Entity which: (i) is, individually or in the aggregate, reasonably likely to have a Material Adverse Effect on the Harleysville Parties taken as a whole, or (ii) has been received since January 1, 2007, and relates to its reserve adequacy or its marketing, sales, trade, or underwriting practices or policies and which is reasonably likely to be materially adverse to HGI or any of the Subsidiaries of HGI, nor has HGI or any of the Subsidiaries of HGI been notified in writing by any Governmental Entity that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such Order, Contract, undertaking, letter, or other written communication.

(c) HGI and each of the Subsidiaries of HGI has implemented procedures and programs which are designed to provide reasonable assurance that HGI and each of the Subsidiaries of HGI and their employees and Producers are in compliance in all material respects with all applicable Laws, including advertising, licensing, data security, privacy and sales Laws.

Section 5.11 Assets. Except as set forth in Section 5.11 of the HGI Disclosure Schedule and except for Assets disposed of since December 31, 2010 in the Ordinary Course of Business consistent with past practice: (a) HGI and each of the Subsidiaries of HGI own all Assets that are disclosed or otherwise reflected in its most recent HGI Financial Statement and all Assets acquired thereafter, and all such Assets are owned by such Persons, free and clear of all Liens other than Permitted Liens; and (b) (i) HGI and each Subsidiary of HGI own good and indefeasible, marketable fee simple title to, or has a valid leasehold interest in, all real property used in the conduct of its Business or of a type which would be required to be specifically disclosed by any Subsidiary of HGI in Schedule A of its Annual Statement, free and clear of all Liens other than Permitted Liens; (ii) in the aggregate, all real property, other than unimproved land, is, in all material respects, suitable for its current uses; (iii) HGI and each Subsidiary of HGI own, or have a valid leasehold interest in or a valid right under Contract to use, all personal property that is presently used in and is material to the conduct of their Business, free and clear of all Liens other than Permitted Liens; (iv) HGI and each Subsidiary of HGI own, free and clear of all Liens other than Permitted Liens, or are licensed or otherwise possess legally enforceable rights to use, all Intellectual Property that is material to the conduct of their Business; and (v) neither HGI nor any Subsidiary of HGI is in conflict with or violation or infringement of, nor has HGI or any Subsidiary of HGI received any written notice of any such conflict with or violation or infringement of, any asserted rights of any other Person with respect to any Intellectual Property.

#### Section 5.12 Environmental Matters.

(a) Except as set forth in Section 5.12(a) of the HGI Disclosure Schedule, each of HGI and the Subsidiaries of HGI and all HGI Real Property (including all owners or operators thereof) are in compliance in all material respects with all applicable Environmental Laws, which compliance includes the possession of all material Environmental Permits required under Environmental Laws and compliance in all material respects with the terms and conditions thereof. Except as set forth in Section 5.12(a) of the HGI Disclosure Schedule, neither HGI nor any Subsidiary of HGI has received any written communication, whether from a Governmental Entity, citizens' group, employee, or otherwise, that remains pending and alleges that HGI or any Subsidiary of HGI or any HGI Real Property (including any owner or operator thereof) is not in

such compliance. Neither HGI nor any Subsidiary of HGI has been notified in a writing that remains pending by any Governmental Entity that any such Environmental Permit will be modified, suspended or revoked or cannot be renewed or transferred in the Ordinary Course of Business consistent with past practice or in connection with the Subsidiary Merger.

(b) Except as set forth in Section 5.12(b) of the HGI Disclosure Schedule, there is no Environmental Claim pending or, to the Knowledge of HGI or its Subsidiaries, threatened against HGI, any Subsidiary of HGI, any HGI Real Property (including any owner or operator thereof), or any Person whose Liability for any Environmental Claims HGI or any Subsidiary of HGI has retained or assumed either contractually or by operation of Law.

(c) There have been no releases, spills, leaks, or discharges of Hazardous Substances at, from, or to any HGI Real Property or, to the Knowledge of HGI or its Subsidiaries, at any other property, in each case, which is reasonably likely to require HGI or any Subsidiary of HGI to undertake investigation, abatement, removal, remedial, corrective, or other response action pursuant to applicable Environmental Laws. None of the HGI Real Property (i) is listed or proposed for listing on any list maintained by any Governmental Entity of sites that may require investigation (to the Knowledge of HGI) or any Subsidiary of HGI, abatement, removal, remedial, corrective, or other response action pursuant to applicable Environmental Laws, including the CERCLIS or the NPL, or (ii) is the subject of any abatement, removal, remedial, corrective, or other response action pursuant to applicable Environmental Laws or, to the Knowledge of HGI, is subject to any investigation with respect thereto.

(d) Except as set forth in Section 5.12(d) of the HGI Disclosure Schedule, to the Knowledge of HGI or any Subsidiary of HGI, no Hazardous Substances were manufactured, generated, stored, treated, transported from, or otherwise managed at any HGI Real Property, except in all material respects in compliance with all applicable Environmental Laws and except as has not created any material Liability with respect to any HGI Real Property, nor were Hazardous Substances from any HGI Real Property disposed of by HGI or any Subsidiary of HGI at any other property in a manner which, to the Knowledge of HGI or any Subsidiary of HGI, could result in a material Liability under applicable Environmental Laws.

Section 5.13 Contracts. HGI has made available to Nationwide Mutual true and complete copies of the following Contracts, which are currently in force, to which HGI or any Subsidiary of HGI is a party or by which any Assets of HGI or any Subsidiary of HGI are or may be bound, as such Contracts may have been amended to the date of this Agreement:

(a) all employment, consultation, retirement, termination, sign-on, buy-out, or other Contracts with any present or former officer, director, trustee, employee, agent, Producer, broker, or independent contractor of HGI or any Subsidiary of HGI (including loans or advances to any such Person or any Affiliate of such Person) providing for annual compensation of \$100,000 or more, or for compensation over the term of the Contract, and any renewal thereof, of \$500,000 or more (including base salary, bonus and incentive payments, and other payments or fees, whether or not any portion thereof is deferred);

(b) all Contracts with any Person including any Governmental Entity, containing any provision or covenant: (i) limiting the ability of HGI or any Subsidiary of HGI to engage in any

line of business, to compete with any Person, to do business with any Person or in any location or to employ any Person, or (ii) limiting the ability of any Person to compete with or obtain products or services from HGI or any Subsidiary of HGI;

(c) all Contracts relating to the borrowing of money in excess of \$1,000,000 by HGI or any Subsidiary of HGI or the direct or indirect guarantee by HGI or any Subsidiary of HGI of any obligation of any Person for borrowed money or other financial obligation of any Person in excess of \$1,000,000, or any other Liability of HGI or any Subsidiary of HGI in respect of indebtedness for borrowed money or other financial obligation of any Person in excess of \$1,000,000, including any Contract relating to or containing provisions with respect to: (i) the maintenance of compensating balances that are not terminable by HGI or any Subsidiary of HGI without penalty upon not more than ninety (90) days' notice, (ii) any lines of credit or similar facilities, (iii) the payment for property, products, or services of any other Person even if such property, products, or services are not conveyed, delivered or rendered, or (iv) any obligation to satisfy any financial obligation or covenants, including take-or-pay, keep-well, make-whole or maintenance of working capital, capital, or earnings levels or financial ratios or to satisfy similar requirements;

(d) all Contracts (other than Insurance Contracts and other Contracts entered into in the Ordinary Course of Business) with any Person containing any provision or covenant relating to the indemnification or holding harmless by HGI or any Subsidiary of HGI of any Person could under any circumstance result in a Liability to HGI or any of the Subsidiaries of HGI of \$250,000 or more;

(e) all leases or subleases of real property used in the conduct of the Business of HGI or any Subsidiary of HGI and all other leases, subleases or rental or use Contracts providing for annual rental payments to be paid by or on behalf of HGI or any Subsidiary of HGI, involving, in the case of each of the foregoing, annual payments in excess of \$100,000;

(f) all Contracts relating to the future disposition (including restrictions on transfer or rights of first refusal) or future acquisition of any interest in any business enterprise, and all Contracts relating to the future disposition of a material portion of the Assets of HGI or any Subsidiary of HGI other than in each case any Investment Asset or interest in any business enterprise or Assets to be acquired or disposed of in the Ordinary Course of Business or involving consideration of less than \$1,000,000;

(g) all Insurance Contracts (including (i) any Contract pursuant to which any Subsidiary of HGI receives or has received surplus relief, and (ii) with respect to each such Contract, the ceding and assuming Person, the business reinsured, and the amount of the Liability reinsured), other than insurance policies with policyholders of the Subsidiaries of HGI issued in the Ordinary Course of Business;

(h) all other Contracts (other than (i) Insurance Contracts, (ii) Contracts relating to Investment Assets entered into in the Ordinary Course of Business, (iii) employment Contracts that are not otherwise required to be set forth in Section 5.13(h) of the HGI Disclosure Schedule, (iv) Contracts solely between HGI or any Subsidiary of HGI, on the one hand, and any Subsidiary of HGI, on the other hand, and (v) other Contracts which are expressly excluded

under any other subsection of this Section 5.13 that involve or are reasonably likely to involve the payment pursuant to the terms of such Contracts by or to HGI or any Subsidiary of HGI of \$250,000 or more, other than Contracts with Producers;

(i) (i) all Contracts or arrangements (including those relating to allocations of expenses, personnel, services or facilities) between or among HGI and any Subsidiary or Affiliate of HGI, Harleysville Mutual, or Harleysville Mutual Subsidiary, and (ii) all Contracts or arrangements between or among HGI, or any Subsidiary of HGI, on the one hand and any employee or agent, on the other, involving the lending or borrowing of money;

(j) all outstanding proxies (other than routine proxies in connection with annual meetings), powers of attorney, or similar delegations of authority of HGI or any Subsidiary of HGI to an unrelated Person, other than those entered into in the Ordinary Course of Business consistent with past practice in connection with Investment Assets; and

(k) all Contracts the terms of which provide or contemplate that the Subsidiary Merger will give rise to any form of severance, compensation, or other Liability for HGI, any Subsidiary of HGI, or the Surviving Subsidiary.

Each of the Contracts made available pursuant to this Section 5.13 is in full force and effect, constitutes a legal, valid and binding obligation of HGI and each of the Subsidiaries of HGI to the extent that it is a party thereto, and is enforceable in accordance with its terms. Except as set forth in Section 5.13 of the HGI Disclosure Schedule, neither HGI nor any Subsidiary of HGI is in violation, breach or default, or has failed to perform any obligation, under any such Contract or, with or without notice or lapse of time or both, would be in violation, breach or default, or would fail to perform any obligation, under any such Contract except for violations, breaches or defaults which would not, individually or in the aggregate, reasonably be expected to result in any obligation or Liability of HGI or any Subsidiary of HGI in excess of \$250,000.

Section 5.14 Insurance Issued by the Insurance Subsidiaries of HGI. Except as set forth in Section 5.14 of the HGI Disclosure Schedule:

(a) All material Contracts to which any of the Insurance Subsidiaries of HGI is a party with respect to reinsurance applicable to insurance in force on the date of this Agreement, and all material Contracts under which any of the Subsidiaries of HGI has any obligation to cede insurance, are valid, binding and in full force and effect in accordance with their terms. None of the Subsidiaries of HGI is in material default of any such material Contract;

(b) Each Insurance Contract or certificate form, as well as any related application form, written advertising material, and rates or rules currently marketed by any of the Subsidiaries of HGI, the use or issuance of which requires filing or approval, has been appropriately filed, and if required by applicable Law, approved or not objected to by the insurance Governmental Entities of any state in which such Insurance Contracts, and forms, applications, advertising materials, rates or rules, are required to be filed. All such Insurance Contracts and certificates, forms, applications, advertising materials, and rates or rules are in material compliance with all applicable Laws;

(c) Since January 1, 2007, all claims and benefits claimed by any Person under any Insurance Contract of any Insurance Subsidiary of HGI have been paid (or provision for payment thereof has been made) in accordance with the terms of the Insurance Contracts under which they arose, and such payments were paid without fines or penalties, except for any such claims or claim for benefits of less than \$2,000,000 for which such Subsidiary of HGI reasonably believes there is a reasonable basis to contest payment and is taking (or is preparing to take) such action or as set forth in Section 5.9 of the HGI Disclosure Schedule;

(d) Except as set forth in the HGI Financial Statements or HGI Interim Financial Statements referred to in Section 5.5 and except as provided by applicable Law, no provision in any Insurance Contract in force gives policyholders the right to receive dividends or distributions on their Insurance Contracts (other than accruals of interest on cash values or as claim benefits) or otherwise share in the benefits, revenue, or profits of any Subsidiary of HGI, nor have HGI or any Subsidiary of HGI marketed any of their respective products in such a manner as could reasonably be expected to create an expectation on the part of a policyholder to receive any such dividends or distributions. Except as incurred in the Ordinary Course of Business consistent with past practice, none of the Subsidiaries of HGI is liable to pay commissions upon the renewal of any Insurance Contract nor are any of them party to any agreement providing for the collection of insurance premiums payable to any Subsidiary of HGI by any other Person;

(e) HGI has made available to Nationwide Mutual a copy of all written investment policies and procedures for any Subsidiary of HGI. HGI and each Subsidiary of HGI have at all times complied with such investment policies and procedures in all material respects except with respect to Insurance Management Resources, L.P. and Harleysville, Ltd. which have no such policies or procedures;

(f) No Subsidiary of HGI is engaged in any activity that would require registration by any Subsidiary of HGI as an investment company, broker-dealer, investment advisor, or fund administrator under any applicable state or federal Law, including the Exchange Act, the Investment Company Act and the Investment Advisers Act. No Subsidiary of HGI maintains or manages any open-end management investment company or portfolio;

(g) No Subsidiary of HGI is engaged in the business of serving as a custodian or transfer agent;

(h) Since January 1, 2008, each Subsidiary of HGI has duly and validly filed or caused to be filed all reports, statements, documents, registrations, filings, or submissions that were required by applicable insurance Laws to be filed; all such filings complied with all applicable Laws when filed, and no material deficiencies have been asserted with respect to any such filings which have not been satisfied in all material respects, except to the extent that the failure to make any such filing or submission would not, individually or in the aggregate, result in any Liability to HGI or any Subsidiary of HGI in excess of \$250,000;

(i) HGI has made available to Nationwide Mutual correct and complete copies of all of the HGI Reinsurance Treaties and all such HGI Reinsurance Treaties are in full force and effect, and the consummation of the Transactions will not result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any right of

termination, cancellation or result in the loss of any benefit) under, any of the terms, conditions or provisions of any of the HGI Reinsurance Treaties. HGI has reasonably concluded that all reinsurance, coinsurance or similar recoverable amounts reflected in the HGI Statements are collectible, and HGI has no Knowledge of any material adverse change in the financial condition of its reinsurers that might raise concern regarding their ability to honor their reinsurance, coinsurance or similar commitments. No party to any of the HGI Reinsurance Treaties has given notice to HGI or any Subsidiary of HGI that such party intends to terminate, cancel or alter the pricing of any of the HGI Reinsurance Treaties as a result of or following consummation of the Transactions. With respect to each HGI Reinsurance Treaty, there is no material default or claim of any material default thereunder by HGI or any Subsidiary of HGI that is a party thereto or, to the Knowledge of HGI, by any other party thereto, and no event has occurred that, with the passage of time or the giving of notice or both would constitute a material default thereunder by HGI or any Subsidiary of HGI that is a party thereto or, to the Knowledge of HGI, by any other party thereto, or would permit material modification, acceleration or termination thereof. No HGI Reinsurance Treaty contains any provision providing that the other party thereto may terminate or alter the pricing of the same by reason of the Transactions, or contains any other provision which would be altered or otherwise become applicable by reason of the Transactions. Since December 31, 2010, no HGI Reinsurance Treaty has been cancelled. Since December 31, 2010, there have been no disputes under any HGI Reinsurance Treaty other than disputes in the Ordinary Course of Business for which adequate loss reserves have been established. Any adjustment to any Tax that results in a Tax Liability to HGI caused by an agreed or otherwise determined adjustment to the allocations made in reinsurance treaties or agreements involving HGI or any Subsidiary of HGI shall not constitute a breach of any representation or warranty made in this Agreement with respect to Tax matters;

(j) (i) To HGI's Knowledge, each Producer, at the time such Producer wrote, sold or produced business for any Subsidiary of HGI, was duly licensed under applicable Law for the type of business written, sold or produced by such Producer in the particular jurisdiction in which such Producer wrote, sold or produced such business for such Subsidiary of HGI, and was duly appointed, if applicable, by such Subsidiary of HGI; (ii) to HGI's Knowledge, no such Producer violated (or with notice or lapse of time or both would have violated) any term or provision of any Law or Order applicable to any aspect (including the marketing, writing, sale or production) of the Business of such Subsidiary of HGI; and (iii) there are no material disputes between a Subsidiary of HGI on the one hand and any such Producer on the other; and

(k) There are no claims or assessments against HGI or any of its Subsidiaries by any insurance guaranty association, joint underwriting association, residual market facility or assigned risk pool. To the Knowledge of HGI, no such claim or assessment is pending.

Section 5.15 Cancellations. Except as set forth in Section 5.15 of the HGI Disclosure Schedule, between December 31, 2010, and the date of this Agreement, no Person or group of Persons acting in concert writing, selling, or producing insurance business, which in the aggregate accounted for 2% or more of the gross premium income of any Subsidiary of HGI, taken as a whole, for the year ended December 31, 2010, has terminated or substantially reduced, or, to the Knowledge of HGI, threatened in writing to terminate or substantially reduce, its relationship with such Subsidiary of HGI.

**Section 5.16 Operations Insurance.** HGI has made available to Nationwide Mutual copies of all liability, property, workers compensation, directors and officers liability, and other similar Insurance Contracts that insure the Business or properties of HGI and any Subsidiary of HGI or affect or relate to the ownership, use, or operations of any Assets of HGI and any Subsidiary of HGI and that have been issued to HGI and any Subsidiary of HGI. All such Insurance Contracts are in full force and effect and are with financially sound and reputable insurers, and all premiums due and payable thereon have been paid in full on a timely basis. All notices of reportable incidents with respect to such insurance occurring during the last five years have been given in writing to appropriate carriers on a basis sufficiently timely to preserve the right of recovery of such insurance, and a copy of all such notices has been made available to Nationwide Mutual. Except as set forth in Section 5.16 of the HGI Disclosure Schedule, no party to any Insurance Contract has stated an intent or, to the Knowledge of HGI or any of its Subsidiaries, threatened to terminate or materially increase the premium in respect of any such Insurance Contract.

**Section 5.17 Taxes and Tax Returns.** Except as set forth in Section 5.17 of the HGI Disclosure Schedule with respect to HGI and any Person that is a Subsidiary of HGI on or after the date hereof:

(a) All income Tax Returns and all other material Tax Returns required under applicable Law to be filed with or provided to any Person by HGI or any Subsidiary of HGI have been (and, as to Tax Returns not filed as of the date of this Agreement, will be) timely filed (within any applicable extension periods) and such Tax Returns were true, complete, and correct in all material respects;

(b) HGI and each Subsidiary of HGI have within the time and in the manner prescribed by Law paid all Taxes due and payable except for those Taxes that are being contested in good faith and for which adequate reserves have been taken. To the Knowledge of HGI, no claim has ever been made by an authority in a jurisdiction where HGI or any Subsidiary of HGI does not file Tax Returns that HGI or any Subsidiary of HGI may be subject to taxation by that jurisdiction;

(c) HGI and each Subsidiary of HGI have established (and until the Effective Time will maintain) on their books and records: (i) reserves adequate to pay all Taxes not yet due and payable and all deficiencies asserted, proposed or, to the Knowledge of HGI, threatened against HGI or any Subsidiary of HGI, and (ii) reserves for deferred Taxes, in each case, in accordance with SAP or GAAP, as the case may be;

(d) Neither HGI nor any Subsidiary of HGI has requested any extension of time within which to file any Tax Return, which Tax Return has not since been filed;

(e) Neither HGI nor any Subsidiary of HGI has executed any waivers, extensions, or comparable consents regarding the application of the statute of limitations with respect to any Taxes or Tax Returns, which waivers, extensions or comparable consents remain in effect;

(f) To the Knowledge of HGI, no outstanding deficiencies, assessments, or written proposals for the assessment of any Taxes that are individually or collectively material in amount

have been proposed, asserted, or assessed in writing against HGI or any of the Subsidiaries of HGI by any taxing authority;

(g) No Proceedings are presently pending with regard to any Taxes or Tax Returns of HGI or any Subsidiary of HGI. HGI has no Knowledge of any threatened Proceeding with respect to any such Taxes or Tax Returns.

(h) No power of attorney currently in force has been granted by HGI or any Subsidiary of HGI with respect to any matter relating to Taxes;

(i) Neither HGI nor any Subsidiary of HGI has received a Tax Ruling or entered into a Closing Agreement with any taxing authority that would have a continuing adverse effect after the Effective Time of the Subsidiary Merger;

(j) HGI and the Subsidiaries of HGI have made available to Nationwide Mutual complete and accurate copies of: (i) all federal and state income Tax Returns, and any amendments thereto, filed by or on behalf of HGI and each Subsidiary of HGI for all taxable years since 2007, and (ii) all audit reports received from any taxing authority relating to any Tax Return filed by HGI or any Subsidiary of HGI;

(k) Neither HGI nor any Subsidiary of HGI is a party to any Tax allocation or sharing agreement with any Person. Neither HGI nor any Subsidiary of HGI has any Liability for Taxes of any Person other than HGI or a Subsidiary of HGI under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign Law), as a transferee or successor, by Contract or otherwise; and

(l) Neither HGI nor any Subsidiary of HGI has entered into a records retention agreement with any taxing authority.

#### Section 5.18 Benefit Plans.

(a) Section 5.18(a) of the HGI Disclosure Schedule sets forth a list of any pension, retirement, profit-sharing, deferred compensation, bonus, employment agreement, severance agreement, change-in-control agreement or other incentive plan, any other employee program, arrangement, agreement or understanding, any medical, vision, dental or other health plan, any life insurance plan, severance plan, HGI Stock Plan or any other employee benefit plan (the "Benefit Plans"), to which HGI or any Subsidiary of HGI sponsors, maintains, contributes or is required to contribute to, or under which present or former Persons who perform or who have performed services for HGI or any Subsidiary of HGI are eligible to participate or derive a benefit. In addition to the Benefit Plans, Section 5.18(a) of the HGI Disclosure Schedule indicates the type of plan maintained. HGI and the Subsidiaries of HGI have made available the following documents in effect as of the date of this Agreement: true, correct, and complete copies of any Benefit Plan and, in the case of any unwritten Benefit Plan or statutory Benefit Plan, descriptions thereof, all agreements, including insurance Contracts, all amendments thereto and, with respect to any such plans or plan amendments, and if applicable, the most recent determination letter issued by the IRS with respect to each Benefit Plan subject to Section 401(a) of the Code, and, to the extent applicable, the most recent financial statements, annual reports,

summary plan descriptions, and summaries of material modifications with respect to the Benefit Plans.

(b) Except as set forth in Section 5.18(b) of the HGI Disclosure Schedule, as of the date of this Agreement, the Benefit Plans each comply in all material respects with all applicable state and federal Laws, including COBRA and ERISA, and have been operated in material compliance with such requirements.

(c) Except as set forth in Section 5.18(c) of the HGI Disclosure Schedule, there is no Proceeding pending or, to the Knowledge of HGI, threatened against or affecting any Benefit Plan other than routine claims for benefits.

(d) Except as set forth in Section 5.18(d) of the HGI Disclosure Schedule, all required reports, notices, disclosures, and descriptions (including Form 5500 Annual Reports, PBGC-1s, and Summary Plan Descriptions) have been filed or distributed.

(e) Except as set forth in Section 5.18(e) of the HGI Disclosure Schedule, all contributions (including salary reduction contributions) have been paid when due to each Benefit Plan on a timely basis in material compliance with governmental requirements, or if not paid, accrued on the financial statements or records of HGI.

(f) Except as set forth in Section 5.18(f) of the HGI Disclosure Schedule, each Benefit Plan that is a pension plan (as defined in Section 3(2) of ERISA) and is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS to the effect that such Benefit Plan is qualified and exempt from federal income taxes under Sections 401(a) and 501(a) of the Code, or has requested such a letter, and no such letter has been revoked nor, to the Knowledge of HGI, has revocation been threatened, and no Benefit Plan has been amended since the date of its most recent determination letter or application therefor, which is reasonably likely to adversely affect qualification of such Benefit Plan.

(g) With respect to each Benefit Plan that is funded wholly or partially through an insurance policy, all premiums required to have been paid to date under each insurance policy have been paid. Except as set forth in Section 5.18(g) of the HGI Disclosure Schedule, there is no Liability of HGI or any Subsidiary of HGI under any such insurance policy or ancillary agreement with respect to such insurance policy in the nature of a retroactive rate adjustment, loss sharing arrangement, or other actual or contingent Liability.

(h) Except as set forth on Section 5.18(h) of the HGI Disclosure Schedule, neither the execution and delivery of this Agreement, the consummation of the Transactions or the obtaining of the approval of the stockholders of HGI will (either alone or in conjunction with any other event) (i) result in any material payment becoming due to any director or officer of HGI or any Subsidiaries of HGI under any Benefit Plan; (ii) accelerate the time of payment or vesting or materially increase the amount of any benefits otherwise payable to any director or officer of HGI or any Subsidiaries of HGI under any Benefit Plan; (iii) require the funding of any benefit under any Benefit Plan or trust related thereto; or (iv) limit or restrict the right of HGI or any Subsidiaries of HGI to merge, amend or terminate any of the Benefit Plans. Section 5.18(h)(i) of the HGI Disclosure Schedule contains a report that sets forth HGI's good faith estimate, as of the

date of such report, of (x) the amount to be paid (subject to the exceptions described in such report and based upon the assumptions described in such report) to the current officers of HGI under all Benefit Plans (or the amount by which any of their benefits may be accelerated or increased) as a result of (i) the execution of this Agreement, (ii) the consummation of the Transactions, (iii) the obtaining of the approval of the stockholders of HGI or (iv) the termination or constructive termination of the employment of such officers following one of the events set forth in clauses (i), (ii) or (iii) above and (y) the ramifications of such payments under Sections 280G and 4999 of the Code. Except as set forth in Section 5.18(h) of the HGI Disclosure Schedule, no Benefit Plan provides for any gross-up or additional payment by reason of the Tax required by Section 409A or 4999 of the Code being imposed on such individual.

(i) Except as set forth in Section 5.18(i) of the HGI Disclosure Schedule, no Benefit Plan provides benefits, including death or medical benefits (whether or not insured) with respect to current or former Persons providing services for HGI or any Subsidiary of HGI beyond their retirement or other termination of service other than (i) coverage mandated by applicable Law, (ii) death benefits under any Benefit Plan, (iii) retirement benefits under any Benefit Plan, or (iv) deferred compensation benefits reflected on the books of HGI or any Subsidiary of HGI.

(j) Except as set forth in Section 5.18(j) of the HGI Disclosure Schedule, none of HGI, any Subsidiary of HGI, or any member of the ERISA Controlled Group contributes to or has ever had an obligation to contribute to a multiemployer plan within the meaning of Section 3(37) of ERISA with respect to Persons who perform services for HGI or any Subsidiary of HGI.

(k) Except as set forth in Section 5.18(k) of the HGI Disclosure Schedule, with respect to any Benefit Plan subject to Section 406 of ERISA or Section 4975 of the Code, to the Knowledge of HGI, there has been no non-exempt prohibited transaction within the meaning of the Code or ERISA, and, no act, omission, or transaction has occurred that would result in the imposition of (i) breach of fiduciary duty Liability damages under Section 409 of ERISA, (ii) a civil penalty assessed pursuant to subsections (c), (i), or (1) of Section 502 of ERISA, or (iii) a Tax imposed pursuant to Chapter 43 of Subtitle D of the Code.

(l) Except as set forth in Section 5.18(l) of the HGI Disclosure Schedule, with respect to any Benefit Plan subject to the jurisdiction of the IRS, the United States Department of Labor, or the Pension Benefit Guaranty Corporation, there is no audit, investigation, inquiry or similar Proceeding pending (other than routine qualification determination filings) with respect to any of the Benefit Plans before the IRS, the United States Department of Labor, or the Pension Benefit Guaranty Corporation.

(m) Except as set forth on Section 5.18(m) of the HGI Disclosure Schedule with respect to each Benefit Plan that is subject to Title IV or Section 302 of ERISA or Section 412 or 4971 of the Code, no such Benefit Plan is currently, or is reasonably expected to be, in "at risk status" within the meaning of Section 430(i) of the Code or Section 303(i) of ERISA.

(n) Since the last valuation date of any Benefit Plan that is a pension plan, no circumstance exists that would increase the amount of any accrued benefits due under the Benefit Plan.

(o) Each Benefit Plan's applicable trust is exempt from federal income tax and no event has occurred which is reasonably likely to give rise to disqualification or loss of tax-exempt status with respect to any of the Benefits Plans or applicable trusts.

(p) No amount or asset of any Benefit Plan or trust is or may be subject to unrelated business income tax.

(q) There are no stock incentive plans or stock award plans other than the HGI Stock Plans.

#### Section 5.19 Labor and Employment Matters.

(a) Except as specified in Section 5.19(a) of the HGI Disclosure Schedule, (i) neither HGI nor any Subsidiary of HGI is a party to or bound by any union Contract, collective bargaining agreement, employment Contract, independent contractor agreement, consulting agreement or other similar Contract; (ii) neither HGI nor any Subsidiary of HGI has agreed to recognize any union or other collective bargaining representative; (iii) no union or collective bargaining representative has been certified as representing the employees of HGI or any Subsidiary of HGI; and (iv) to HGI's Knowledge, no labor union or collective bargaining representative has made any attempt or threatened to organize any employees of HGI or any Subsidiary of HGI. Neither HGI nor any Subsidiary of HGI has experienced any labor strike, dispute, slowdown or stoppage, or any other material labor difficulty during the past five (5) years, and, to HGI's Knowledge, there are no facts or circumstances that might lead to any such labor dispute. HGI and the Subsidiaries of HGI have provided Nationwide Mutual true and complete copies of all agreements listed in Section 5.19(a) of the HGI Disclosure Schedule.

(b) HGI and the Subsidiaries of HGI have provided Nationwide Mutual with a complete list of all employees, and independent contractors of HGI and each of the Subsidiaries of HGI, their respective positions, locations, exempt or non-exempt status, applicable independent contractor agreements, information on the basis for concluding that any such Person qualifies as an independent contractor rather than an employee of such Party, and salary grades and the rates of all regular and additional compensation and commissions payable to each such Person in any and all capacities and any regular or special compensation or commissions that will be payable to each such Person in any and all capacities as of the Closing Date other than the then-current accrual of regular payroll compensation.

(c) Except as set forth in Section 5.19(b) of the HGI Disclosure Schedule, the employees of HGI and the Subsidiaries of HGI are "at will" under applicable Law, and neither HGI nor any Subsidiary of HGI employs or engages any employee or independent contractor who, subject to compliance with applicable Law, cannot be dismissed immediately, whether currently or immediately after the Effective Time, without notice and without further liability to such Party. With respect to the employees of HGI and the Subsidiaries of HGI, during the last year, there has been no mass layoff, plant closing, or shutdown that triggers application of the Worker Adjustment and Retraining Notification Act of 1988, as amended, or any similar Law.

(d) As of the date of this Agreement, HGI and each Subsidiary of HGI have completed and retained to the extent required by IRCA the employment verification paperwork,

in compliance with both the employment verification provisions (including the paperwork and documentation requirements) and the anti-discrimination provisions of IRCA, relating to all current employees. Further, to HGI's Knowledge, at all times prior to the date of this Agreement, HGI and each of the Subsidiaries of HGI was or came to be in compliance with such requirements as to all present and former employees.

(e) Neither HGI nor any Subsidiary of HGI is liable for any payment to any trust or other fund or to any Governmental Entity, with respect to unemployment compensation benefits, social security, or other benefits or obligations for employees (other than routine payments to be made in the Ordinary Course of Business consistently with past practice). Except as set forth in Section 5.19(e) of the HGI Disclosure Schedule, there are no pending claims against HGI or any Subsidiary of HGI under any workers' compensation plan or policy or for long-term disability.

(f) To HGI's Knowledge, no employee of HGI or any Subsidiary of HGI is in violation of any term of any employment agreement, nondisclosure agreement, common Law nondisclosure obligation, fiduciary duty, noncompetition agreement, or restrictive covenant to a former employer.

(g) Except as set forth in Section 5.19(g) of the HGI Disclosure Schedule, neither HGI nor any Subsidiary of HGI is a party to, or otherwise bound by, any consent decree with, or citation by, any Governmental Entity relating to employees or employment practices. Neither HGI nor any Subsidiary of HGI, including the officers thereof, has received within the past five (5) years any written notice of intent by any Governmental Entity responsible for the enforcement of labor or employment Laws to conduct an investigation relating to HGI or any of the Subsidiaries of HGI, and no such investigation is in progress. No director, officer or employee of HGI or of any Subsidiary of HGI has been convicted of any criminal felony involving dishonesty, a breach of trust or an offense described in 18 U.S.C. § 1033.

(h) Except as set forth in Section 5.19(h) of the HGI Disclosure Schedule, the execution and delivery of this Agreement, the consummation of the Transactions, and any termination of employment or service in connection therewith at or prior to the Closing Date will not (i) result in any payment (including severance, unemployment compensation, golden parachute, bonus, or otherwise) becoming due to any Person, (ii) increase any benefits otherwise payable by HGI or any Subsidiary of HGI, (iii) result in the acceleration of the time of payment or vesting of any such benefits, (iv) increase the amount of compensation due to any Person, or (v) result in the forgiveness in whole or in part of any outstanding loans made by HGI or any Subsidiary of HGI to any Person.

(i) To HGI's Knowledge, no current director, officer, employee, manager, or independent contractor of HGI or any Subsidiary of HGI is a party to or is otherwise bound by, any agreement or arrangement, including any confidentiality, noncompetition, or proprietary rights agreement, between such director, officer, employee, manager, or independent contractor, and any other Person that in any way adversely affects (i) the performance of his or her duties as a director, officer, employee, manager, or independent contractor of HGI or any Subsidiary of HGI, or (ii) the ability of HGI or any Subsidiary of HGI to conduct its Business as it is currently conducted and proposed to be conducted.

(j) To HGI's Knowledge, there are no facts which would reasonably give rise to a claim which if asserted would be required to be disclosed by Section 5.9 of this Agreement, that HGI or any Subsidiary of HGI is not in compliance with all applicable Laws applicable to its respective employment and employment practices, including all applicable Laws regarding terms and conditions of employment, health and safety, wages and hours, employee and independent contractor classifications, immigration, employment discrimination, disability rights or benefits, equal opportunity, plant closures and layoffs, affirmative action, workers' compensation, labor relations, employee leave issues, and unemployment insurance. Neither HGI nor any Subsidiary of HGI is delinquent in any material payments to any employee for any services or any material amounts required to be reimbursed or otherwise paid.

#### Section 5.20 Intellectual Property.

(a) Section 5.20(a) of the HGI Disclosure Schedule sets forth a list of all Intellectual Property owned by HGI and each Subsidiary of HGI other than unregistered copyrights and trade secrets. Such Intellectual Property is subsisting and is valid and enforceable. Except as set forth in Section 5.20(a) of the HGI Disclosure Schedule, (i) HGI or a Subsidiary of HGI owns, free and clear of all Liens, (except for Permitted Liens), or has a license or other right to use all Intellectual Property to the extent necessary for the conduct of its Business as currently conducted; (ii) there is no claim or Proceeding pending against HGI or any Subsidiary of HGI, to the Knowledge of HGI or any Subsidiary of HGI, threatened against HGI or any Subsidiary of HGI that has been made in the past three (3) years alleging that HGI or any Subsidiary of HGI is infringing any Intellectual Property rights of any third party; and (iii) neither HGI nor any Subsidiary of HGI has made any claim against any third party that remains pending alleging the infringement of any Intellectual Property right of HGI or any Subsidiary of HGI. Each of HGI and the Subsidiaries of HGI has taken commercially reasonable efforts to maintain the secrecy of the material trade secrets owned by HGI and the Subsidiaries of HGI. The Computer Systems and Computer Software owned or used by HGI or any Subsidiary of HGI in the conduct of its Business are sufficient in all material respects for the immediate needs of the Business of HGI and the Subsidiaries of HGI, other than upgrades in the Ordinary Course of Business. In the last twelve (12) months, there has been no crash, failure, breakdown, or continued substandard performance affecting any such Computer Systems or Computer Software that has adversely affected the Business, results of operation or condition (financial or otherwise) of HGI or any Subsidiary of HGI.

(b) Except as set forth in Section 5.20(b) of the HGI Disclosure Schedule, in the past three (3) years, Computer Software owned by HGI or any Subsidiary of HGI has not been disclosed, delivered, or made available to any Person that is not an employee or consultant of HGI or any Subsidiary of HGI, and neither HGI nor any Subsidiary of HGI has agreed to provide such Computer Software to any such Person (including as part of the escrow arrangement). Except as set forth in Section 5.20(b) of the HGI Disclosure Schedule, the Computer Software owned by HGI or any Subsidiary of HGI operates in all material respects in accordance with its documentation and specifications and has no material problems or defects.

Section 5.21 Rating Agencies. Except as disclosed in Section 5.21 of the HGI Disclosure Schedule, since December 31, 2010, none of the Rating Agencies has, other than as a result of the announcement of the Subsidiary Merger or the Transactions (a) imposed conditions

(financial or otherwise) on retaining any currently held rating assigned to HGI or any Subsidiary of HGI, or (b) indicated to HGI or any Subsidiary of HGI that it is considering the downgrade of any rating assigned to HGI or any Subsidiary of HGI.

Section 5.22 Investment Company. None of the Subsidiaries of HGI maintains any separate accounts. Neither HGI nor any of the Subsidiaries of HGI conducts activities of or is otherwise deemed under applicable Law to control an “investment adviser” as such term is defined in Section 2(a)(20) of the Investment Company Act, whether or not registered under the Investment Advisers Act. Neither HGI nor any of the Subsidiaries of HGI is an “investment company” as defined under the Investment Company Act, and neither HGI nor any Subsidiaries of HGI sponsors any Person that is such an investment company.

Section 5.23 Brokers or Finders. No broker, investment banker, financial advisor or other Person other than HGI’s financial advisors, (i) Credit Suisse Securities (USA) LLC (whose fees and expenses shall be paid 50% by HGI and 50% by Harleysville Mutual in accordance with the Harleysville Parties’ agreement with such firm) and (ii) Keefe, Bruyette & Woods, Inc. (whose fees and expenses shall be paid by HGI in accordance with HGI’s agreement with such firm), is entitled to any broker’s, finder’s, financial advisor’s, or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of HGI and Harleysville Mutual as applicable. HGI has furnished to Nationwide Mutual complete and correct copies of all existing agreements between (i) HGI and Credit Suisse Securities (USA) LLC, and (ii) HGI and Keefe, Bruyette & Woods, Inc., pursuant to which such firms would be entitled to any payment relating to the Transactions.

Section 5.24 HGI’s SEC Documents and Listing.

(a) (i) HGI has made available to Nationwide Mutual and has timely filed or furnished (subject to all applicable extensions), as applicable, all reports, schedules, forms, statements and other documents required to be filed or furnished by HGI with the SEC since December 31, 2008, all of which have complied as of their respective filing dates in all material respects with all applicable requirements of the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder (the “Securities Act”), the Exchange Act and the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated thereunder (the “Sarbanes-Oxley Act”) and (ii) HGI will file prior to the Effective Time all reports, schedules, forms, statements and other documents required to be filed or furnished by it with the SEC prior to such time. No executive officer of HGI has failed in any respect to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act with respect to any SEC Documents filed since December 31, 2008. None of HGI’s SEC Documents, including any financial statements or schedules included or incorporated by reference therein, at the time filed, contained (or will contain when filed) any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of the date of this Agreement, there are no outstanding or unresolved comments in comment letters received from the SEC staff with respect to HGI’s SEC Documents. None of the Subsidiaries of HGI is required to file periodic reports with the SEC pursuant to the Exchange Act.

(b) HGI and its Subsidiaries have implemented and maintained a system of internal accounting controls sufficient to provide reasonable assurances regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. HGI (i) has implemented and maintained disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) designed to ensure that material information relating to HGI and its Subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer of HGI by others within those entities, and (ii) has disclosed, based on its most recent evaluation prior to the date of this Agreement, to HGI's outside auditors and the audit committee of the board of directors of HGI (i) any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect HGI's ability to record, process, summarize and report financial information and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in HGI's internal controls over financial reporting. To the Knowledge of HGI, as of the date of this Agreement, HGI's Chief Executive Officer and Chief Financial Officer will be able to give the certifications and attestations required pursuant to the rules and regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, without qualification, when due.

(c) Since December 31, 2008, to the Knowledge of HGI, (i) none of HGI, any of its Subsidiaries or any director, officer, or auditor of HGI or any of its Subsidiaries has received, or otherwise had or obtained knowledge of, any complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or internal auditing practices, procedures, methodologies or methods of HGI or any of its Subsidiaries or their respective internal accounting controls, including any complaint, allegation, assertion or claim that HGI or any of its Subsidiaries has engaged in questionable accounting or internal auditing practices and (ii) no attorney representing HGI or any of its Subsidiaries, whether or not employed by HGI or any of its Subsidiaries, has reported evidence of a material violation of securities Laws, breach of fiduciary duty or similar violation by HGI or any of its officers, directors, employees or agents to the board of directors of HGI or any committee thereof or to any director or officer of HGI.

(d) As of the date of this Agreement, there are no transactions, agreements, arrangements or understandings involving HGI or its Subsidiaries that would be required to be disclosed under Item 404 of Regulation S-K under the Securities Act that have not been filed with or furnished to the SEC.

(e) Neither HGI nor any of its Subsidiaries is a party to, or has any Contract to become a party to, any joint venture, off-balance sheet partnership or any similar Contract or arrangement (including any Contract relating to any transaction or relationship between or among HGI or any of its Subsidiaries, on the one hand, and any unconsolidated Affiliate, including any structured finance, special purpose or limited purpose entity or Person, on the other hand, or any "off-balance sheet arrangements" (as defined in Item 303(a) of Regulation S-K of the SEC)), where the result, purpose or effect of such Contract is to avoid disclosure of any material transaction involving, or material Liabilities of, HGI's or any of its Subsidiaries' audited financial statements or other SEC Documents.

(f) Since December 31, 2008, HGI has complied in all material respects with the applicable listing and corporate governance rules and regulations of NASDAQ.

Section 5.25 Absence of Indemnifiable Claims. As of the date of this Agreement, there are no pending claims that would entitle any director or officer of HGI or its Subsidiaries to indemnification by HGI or its Subsidiaries under applicable Law, HGI's Certificate of Incorporation or Bylaws, or the certificate of incorporation or bylaws or other organizational or governance documents of any of the Subsidiaries of HGI or the Harleysville Mutual Subsidiaries, any insurance policy maintained by Harleysville Mutual, HGI or any of their Subsidiaries or any indemnity agreements of Harleysville Mutual or similar agreements to which Harleysville Mutual, HGI or any of their Subsidiaries is a party or by which any of its Assets is or may be bound.

Section 5.26 State Anti-takeover. HGI has taken all action necessary so that the restrictions on "business combinations" otherwise applicable under Section 203 of the DGCL do not apply to this Agreement, the Mergers, the Voting Agreement and the other Transactions, and, accordingly, no such restrictions nor other anti-takeover or similar statute or regulation applies or purports to apply to the Transactions. No other "business combination," "control share acquisition," "fair price," "moratorium" or other anti-takeover Laws enacted under any federal or state Laws apply to this Agreement or the Transactions.

Section 5.27 Risk-Based Capital. HGI has made available to Nationwide Mutual true and complete copies of all Risk-Based Capital Reports. The Risk-Based Capital Reports are true, accurate and complete in all material respects. None of HGI or any of its Subsidiaries has suffered a decrease in its Risk-Based Capital to "Company Action Level."

Section 5.28 Derivatives; Structured Products. Neither HGI nor any Subsidiary of HGI, nor any of their respective Affiliates, (i) is engaged in any Derivative Transactions; (ii) has any Liability, contingent or otherwise, in connection with any Derivative Transaction; (iii) has issued, sponsored, organized, or otherwise originated any Structured Products; or (iv) has any Liability, whether accrued, absolute, contingent, or otherwise, in connection with any Structured Products.

Section 5.29 No Other Representations or Warranties. Except for the representations and warranties contained in this Agreement, none of HGI, the Subsidiaries of HGI or any other Person on behalf of HGI or the Subsidiaries of HGI makes any other express or implied representation or warranty with respect to HGI, any of the Subsidiaries of HGI or any information provided to Parent or Merger Sub with respect to HGI or any of the Subsidiaries of HGI.

## **ARTICLE VI**

### **REPRESENTATIONS AND WARRANTIES OF NATIONWIDE MUTUAL AND MERGER SUB**

As an inducement to the Harleysville Parties to enter into this Agreement, Nationwide Mutual hereby represents and warrants to the Harleysville Parties that, except as set forth in the items set forth in the Nationwide Mutual Disclosure Schedule (it being acknowledged and agreed by the Harleysville Parties that any matter set forth in any section or subsection of the Nationwide Mutual Disclosure Schedule will be deemed to be disclosed for all purposes of this Agreement and all other sections and subsections of the Nationwide Mutual Disclosure Schedule

to which it is readily apparent that the matters so disclosed are applicable, but will expressly not be deemed to constitute an admission by Nationwide Mutual, or otherwise to imply, that any such matter rises to the level of a Material Adverse Effect or is otherwise material for purposes of this Agreement or the Nationwide Mutual Disclosure Schedule):

Section 6.1 Representations and Warranties of Nationwide Mutual.

(a) Organization and Qualification. Nationwide Mutual is a mutual insurance company duly organized, validly existing, and in good standing under the Laws of the State of Ohio and has the requisite corporate power and authority to conduct its Business as it is currently being conducted. Nationwide Mutual is duly qualified to do business, and is in good standing, in the jurisdictions where the character of its Assets owned or leased or the nature of its Business makes such qualification necessary, except where the failure to be so qualified or in good standing would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. Nationwide Mutual possesses an Insurance License in Ohio and in each other jurisdiction in which Nationwide Mutual is required to possess an Insurance License. All such Insurance Licenses, including authorizations to transact reinsurance, are in full force and effect without amendment, limitation or restriction, and Nationwide Mutual does not have Knowledge of any event, inquiry or Proceeding which is reasonably likely to lead to the revocation, amendment, failure to renew, limitation, suspension or restriction of any such Insurance License.

(b) Authority Relative to this Agreement.

(i) Nationwide Mutual has all requisite power and authority to execute and deliver this Agreement and, subject to approval of this Agreement by the Members of Nationwide Mutual, to consummate the Transactions and carry out its obligations under the Transaction Documents to which it is or will be a party. The execution and delivery of this Agreement and the consummation by Nationwide Mutual of the Transactions have been duly approved and authorized by the Board of Directors of Nationwide Mutual. Except for the approval and adoption of this Agreement by the Members of Nationwide Mutual, no other corporate proceedings on the part of Nationwide Mutual are necessary to authorize this Agreement and the Transactions. The affirmative vote of at least two-thirds of the Members of Nationwide Mutual voting, in person or by properly executed proxy, at the meeting called pursuant to Section 8.1 is the only vote of Members of Nationwide Mutual necessary to approve and adopt this Agreement and the Transactions.

(ii) This Agreement has been duly and validly executed and delivered by Nationwide Mutual and (assuming this Agreement is a valid and binding obligation of the Harleysville Parties) constitutes a valid and binding agreement of Nationwide Mutual enforceable against Nationwide Mutual in accordance with its terms, except that: (A) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium, or other similar Laws now or hereafter in effect relating to creditors' rights generally, and (B) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any Proceeding therefor may be brought.

(iii) The Board of Directors of Nationwide Mutual has received the opinion of Nationwide Mutual's financial advisor, Bank of America Merrill Lynch, to the effect that the Parent Merger is fair to the policyholders of Nationwide Mutual, taken as a group, from a financial point of view.

(c) No Violation; Government Filings.

(i) The execution, delivery and performance of this Agreement by Nationwide Mutual and the consummation by Nationwide Mutual of the Transactions will not: (A) constitute a breach or violation of or default under the Articles of Incorporation or the Code of Regulations (or similar organizational documents) of Nationwide Mutual, (B) violate, conflict with, or result in a breach of any provisions of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination or cancellation of, or accelerate the performance required by, or result in a right of termination, cancellation or acceleration under, or result in the creation of any Lien upon any of the Assets of Nationwide Mutual under, any of the terms, conditions, or provisions of any Contract to which Nationwide Mutual is a party or to which it or any of its Assets may be subject, or (C) constitute a breach or violation of or default under any Environmental Permit, Law, Order or License to which Nationwide Mutual is subject other than, in the case of clauses (B) and (C), for any such breaches, violations, conflicts, terminations, defaults, accelerations, or Liens that are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect.

(ii) No Consent or Filing of or with any Person is required with respect to Nationwide Mutual in connection with the execution and delivery of this Agreement by Nationwide Mutual and the consummation by Nationwide Mutual of the Transactions except for: (A) the approval of the Meeting Notice by the Ohio Superintendent as contemplated by Section 8.1(b), (B) the approval of this Agreement by the Board of Directors of Nationwide Mutual as contemplated by Section 8.1(a), (C) the approval and adoption of this Agreement by the Members of Nationwide Mutual as contemplated by Section 8.1, (D) the filing of this Agreement with and the approval of such by the Ohio Superintendent under the Ohio Insurance Law and the Pennsylvania Commissioner and the Pennsylvania Attorney General under the Pennsylvania Insurance Law and such other applications, registrations, declarations, filings, authorizations, Orders, consents, and approvals as may be required under the Laws of other jurisdictions, (E) the filings required under the HSR Act and the expiration or earlier termination of any waiting period applicable to the Parent Merger under such Act, (F) the filings pursuant to Section 2.5(a), (G) the filing of appropriate documents with and such consents as may be required under the Investment Company Act and the Investment Advisers Act, (H) such Consents and Filings as may be required by any applicable state securities or blue sky Laws, and (I) such other such Consents or Filings, the failure of which to make or obtain would not, individually or in the aggregate, be reasonably likely to prevent or be a material impediment to the consummation of the Transactions or be reasonably likely to have a Material Adverse Effect.

(d) SAP Statements. Each Nationwide Mutual SAP Statement complied (and, as to SAP Statements filed after the date of this Agreement, will comply) in all material respects with all applicable Laws when so filed, and all material deficiencies with respect to any such Nationwide Mutual SAP Statement, of which Nationwide Mutual has Knowledge, have been cured or corrected. Each Nationwide Mutual SAP Statement (and the notes related thereto) referred to in Sections 6.1(d)(i), (d)(ii), and (d)(iv) was prepared (and, as to SAP Statements filed after the date of this Agreement, will be prepared) in accordance with SAP and presents (and, as to SAP Statements filed after the date of this Agreement, will present) fairly, in all material respects, the financial position of Nationwide Mutual as of the respective dates thereof and the related summaries of operations and changes in capital and surplus and cash flow of Nationwide Mutual for the respective periods covered thereby. To the Knowledge of Nationwide Mutual, each Nationwide Mutual SAP Statement (including the notes related thereto) referred to in Section 6.1(d)(iii) was prepared (or, in the case of similar SAP Statements filed after the date of this Agreement, will be prepared) in accordance with the statutory accounting practices required by the insurance Governmental Entity in the jurisdiction in which such statement was (or will be) filed. Nationwide Mutual has previously made available to the Harleysville Parties true and complete copies of the Nationwide Mutual SAP Statements. For purposes of this Agreement, the “Nationwide Mutual SAP Statements” include the following:

(i) the Annual Statements for Nationwide Mutual as of and for the years ended December 31, 2008, 2009, and 2010;

(ii) the Quarterly Statements for Nationwide Mutual as of and for the calendar quarters ended March 31, 2011, and June 30, 2011;

(iii) any supplemental or separate statutory annual statements or quarterly statements for Nationwide Mutual for any of the periods ended December 31, 2008, 2009, and 2010, or March 31, 2011, or June 30, 2011, that are filed with any insurance Governmental Entity and that differ from the Annual Statements or the Quarterly Statements described in Section 6.1(d)(i) or (d)(ii) hereto; and

(iv) the audited SAP balance sheets of Nationwide Mutual as of December 31, 2008, 2009, and 2010, and the related audited summary of operations and statements of change in capital and surplus and cash flow of Nationwide Mutual for each such year, together with the notes related thereto and the reports thereon of KPMG, LLP.

(e) Absence of Certain Changes or Events. Except as disclosed in the Nationwide Mutual SAP Statements, since December 31, 2010, Nationwide Mutual has conducted its Business only in the Ordinary Course of Business, consistent with past practice, and there has not occurred: (i) a Material Adverse Effect, or any event or events which, individually or, in the aggregate, are reasonably likely to have a Material Adverse Effect; (ii) except as required by SAP, GAAP, or applicable Law, any material change by Nationwide Mutual in its accounting principles, practices, or methods; or (iii) except as required by SAP, GAAP, or applicable Law, any material change in the accounting, actuarial, investment, reserving, underwriting, or claims administration policies, practices, procedures, methods, assumptions, or principles of Nationwide Mutual.

(f) No Undisclosed Liabilities. Except as disclosed in the Nationwide Mutual SAP Statements, Nationwide Mutual does not have any Liabilities required by SAP or GAAP to be set forth on a balance sheet of Nationwide Mutual, other than Liabilities arising since the date of the applicable Financial Statement in the Ordinary Course of Business consistent with past practice that, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect.

(g) Litigation. Except as disclosed in the Nationwide Mutual SAP Statements, there are no Proceedings pending or, to the Knowledge of Nationwide Mutual, threatened against Nationwide Mutual before any Governmental Entity or arbitrator which, individually or in the aggregate, are reasonably likely to have a Material Adverse Effect.

(h) Compliance with Law.

(i) Nationwide Mutual is not in violation (or, with notice or lapse of time or both, would be in violation) of any term or provision of any Law applicable to it or any of its Assets, the violation of which is, individually or in the aggregate with all other such violations, reasonably likely to have a Material Adverse Effect. Nationwide Mutual has made available to Harleysville Mutual a list of all reports (including draft reports) of examinations of the affairs of Nationwide Mutual (including market conduct examinations) issued by insurance Governmental Entities for any period ending on a date on or after January 1, 2007, and all material deficiencies or violations in such reports for any prior period have been resolved. All outstanding Insurance Contracts issued or assumed by Nationwide Mutual are, to the extent required by Law, on forms and at rates approved by the insurance Governmental Entities of the jurisdictions where issued or have been filed with and not objected to by such authorities within the periods provided for objection.

(ii) Nationwide Mutual is not a party to any Contract with or other undertaking to, or is subject to any Order by, or is a recipient of any supervisory letter or other written communication of any kind from, any Governmental Entity which: (A) is reasonably likely to have a Material Adverse Effect, or (B) has been received since January 1, 2007 and relates to its reserve adequacy or its marketing, sales, trade, or underwriting practices or policies which is materially adverse to Nationwide Mutual, nor has Nationwide Mutual been notified by any Governmental Entity that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such Order, Contract, undertaking, letter or other written communication.

(iii) Nationwide Mutual has implemented procedures and programs which are designed to provide reasonable assurance that Nationwide Mutual and its agents and employees are in compliance in all material respects with all applicable Laws, including advertising, licensing and sales Laws.

(i) Producer Licenses. Substantially all of the Producers, at the time such Producers wrote, sold or produced business for Nationwide Mutual, were duly licensed as Producers (for the type of business written, sold or produced by such Producers) in the particular jurisdiction in which such Producers wrote, sold or produced such business for Nationwide Mutual, except as would not have, individually or in the aggregate, a Material Adverse Effect.

(j) Capitalization of Nationwide Mutual Subsidiaries. All of the outstanding shares of capital stock (or of any other form of equity interest in the case of a Nationwide Mutual Subsidiary that is not a corporation) of each of the Nationwide Mutual Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and were not issued in violation of any preemptive or subscription rights and, except as set forth in Section 6.1(j) of the Nationwide Mutual Disclosure Schedule, are owned by either Nationwide Mutual or another of the Nationwide Mutual Subsidiaries, free and clear of all Liens. There are no outstanding subscriptions, options, warrants, calls, rights, convertible securities, or rights to acquire any equity interest in any of the Nationwide Mutual Subsidiaries.

(k) Reserves. The aggregate actuarial reserves and other actuarial amounts held in respect of Liabilities with respect to Insurance Contracts of Nationwide Mutual and each Nationwide Mutual Subsidiary as established or reflected in their December 31, 2010 Annual Statements, March 31, 2011 Quarterly Statements, or June 30, 2011 Quarterly Statements: (a) (i) were determined in accordance with generally accepted actuarial standards consistently applied, (ii) were fairly stated, in all material respects, in accordance with sound actuarial principles, and (iii) were based on actuarial assumptions that are in accordance with or are more conservative than those specified in the related Insurance Contracts; and (b) complied with, in all material respects, the requirements of the Ohio Insurance Law and all other applicable Laws. Nationwide Mutual and each Nationwide Mutual Subsidiary own Assets that qualify as admitted assets under applicable insurance Laws in an amount at least equal to the sum of their statutory reserves and other similar amounts. Nationwide Mutual has made available to the Harleysville Parties a true and complete copy of each Nationwide Mutual Actuarial Analysis.

(l) Taxes and Tax Returns. Except as set forth in Section 6.1(l) of the Nationwide Mutual Disclosure Schedule:

(i) All income Tax Returns and all other material Tax Returns required under applicable Law to be filed with or provided to any Person by Nationwide Mutual or any Nationwide Mutual Subsidiary have been (and, as to Tax Returns not filed as of the date of this Agreement, will be) timely filed (within any applicable extension periods) and such Tax Returns were true, complete and correct in all material respects;

(ii) Nationwide Mutual and each Nationwide Mutual Subsidiary have within the time and in the manner prescribed by Law paid all Taxes due and payable except for those contested in good faith and for which adequate reserves have been taken. To the Knowledge of Nationwide Mutual, no claim has ever been made by an authority in a jurisdiction where Nationwide Mutual or any Nationwide Mutual Subsidiary does not file Tax Returns that Nationwide Mutual or any Nationwide Mutual Subsidiary may be subject to taxation by that jurisdiction;

(iii) Nationwide Mutual and each Nationwide Mutual Subsidiary have established (and until the Effective Time will maintain) on their books and records: (i) reserves adequate to pay all Taxes not yet due and payable and all deficiencies asserted, proposed or threatened, in writing, against Nationwide Mutual or any Nationwide Mutual Subsidiary, and (ii) reserves for deferred Taxes, in each case, in accordance with SAP or GAAP, as the case may be;

(iv) Neither Nationwide Mutual nor any Nationwide Mutual Subsidiary has executed any waivers, extensions, or comparable consents regarding the application of the statute of limitations with respect to any Taxes or Tax Returns;

(v) To the Knowledge of Nationwide Mutual, no outstanding deficiencies, assessments, or written proposals for the assessment of any Taxes that are individually or collectively material have been proposed, asserted or assessed in writing against Nationwide Mutual or any of the Nationwide Mutual Subsidiaries by any taxing authority, except for Taxes that are being contested in good faith and for which adequate reserves have been taken;

(vi) No Proceedings are presently pending with regard to any Taxes or Tax Returns of Nationwide Mutual or any Nationwide Mutual Subsidiary, except for Taxes that are being contested in good faith and for which adequate reserves have been taken. Nationwide Mutual has no Knowledge of any Proceeding threatened in writing with respect to any such Taxes or Tax Returns.

(vii) Neither Nationwide Mutual nor any Nationwide Mutual Subsidiary has received a Tax Ruling or entered into a Closing Agreement with any taxing authority that would have a continuing adverse effect after the Effective Time of the Parent Merger;

(viii) Nationwide Mutual and the Nationwide Mutual Subsidiaries have made available to the Harleysville Parties complete and accurate copies of: (i) all federal and state income Tax Returns, and any amendments thereto, filed by or on behalf of Nationwide Mutual and each Nationwide Mutual Subsidiary for all taxable years since 2007, and (ii) all audit reports received from any taxing authority relating to any Tax Return filed by Nationwide Mutual or any Nationwide Mutual Subsidiary;

(ix) Neither Nationwide Mutual nor any Nationwide Mutual Subsidiary is a party to any Tax allocation or sharing agreement with any Person. Neither Nationwide Mutual or any Nationwide Mutual Subsidiary has any liability for Taxes of any Person other than Nationwide Mutual or a Nationwide Mutual Subsidiary under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign Law), as a transferee or successor, by Contract or otherwise; and

(x) Neither Nationwide Mutual nor any Nationwide Mutual Subsidiary has taken any action or has any Knowledge of any fact or circumstance relating to Nationwide Mutual or any Nationwide Mutual Subsidiary that is reasonably likely to adversely affect the status of the Parent Merger as a reorganization under Section 368 of the Code.

(m) Rating Agencies. Except as disclosed in Section 6.1(m) of the Nationwide Mutual Disclosure Schedule, since December 31, 2010, none of the Rating Agencies has, other than as a result of the announcement of the Parent Merger or the Transactions (i) imposed conditions (financial or otherwise) on retaining any currently held rating assigned to Nationwide Mutual or any Nationwide Mutual Subsidiary, or (ii) indicated to Nationwide Mutual or any

Nationwide Mutual Subsidiary that it is considering the downgrade of any rating assigned to Nationwide Mutual or such Nationwide Mutual Subsidiary.

(n) Benefit Plans.

(i) Except as would not result in a Material Adverse Effect, each benefit plan (within the meaning of Section 3(3) of ERISA) maintained by Nationwide Mutual ("Nationwide Benefit Plan") is in compliance with state and federal laws, including COBRA and ERISA.

(ii) Each Nationwide Benefit Plan that is a pension plan (as defined in Section 3(2) of ERISA) and is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS to the effect that such benefit plan is qualified and exempt from federal income taxes under Sections 401(a) and 501(a) of the Code, or has requested such a letter, and no such letter has been revoked nor, to the Knowledge of Nationwide Mutual, has revocation been threatened, and no such benefit plan has been amended since the date of its most recent determination letter or application therefor, which is reasonably likely to materially adversely affect qualification of such benefit plan.

(o) Brokers or Finders. No broker, investment banker, financial advisor or other Person other than Nationwide Mutual's financial advisor, Bank of America Merrill Lynch, whose fees and expenses shall be paid by Nationwide Mutual in accordance with Nationwide Mutual's agreement with such firm, is entitled to any broker's, finder's, financial advisor's, or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Nationwide Mutual or any of the Nationwide Mutual Subsidiaries. Nationwide Mutual has furnished to the Harleysville Parties a complete and correct copy of all existing agreements between Nationwide Mutual and Bank of America Merrill Lynch pursuant to which such firm would be entitled to any payment relating to the Transactions.

(p) Insurance Issued by Nationwide Mutual Insurers. Since January 1, 2009, all claims and benefits asserted by any Person under any Nationwide Mutual Insurance Contract have been or are in the process of being adjusted and or litigated in a timely and appropriate manner in good faith in compliance with all Laws, except as would not reasonably be expected to have a Material Adverse Effect. All claims asserted by any Person under any Nationwide Mutual Insurance Contract are being, and since January 1, 2009 have been, adjusted, paid, denied, or contested in good faith based upon a reasonable evaluation of the facts, the Insurance Contract, and applicable Laws, except as would not reasonably be expected to have a Material Adverse Effect.

(q) Articles of Incorporation and Code of Regulations. Copies of the Articles of Incorporation and Code of Regulations of Nationwide Mutual have heretofore been made available to the Harleysville Parties, and such copies are accurate and complete as of the date hereof. Nationwide Mutual is not in violation of any of the provisions of its Articles of Incorporation or its Code of Regulations, except as would not reasonably be expected to have a Material Adverse Effect.

(r) Available Funds. Nationwide Mutual and its Subsidiaries, taken as a whole, have, and at the Effective Time will have, sufficient funds to permit Merger Sub to consummate the Subsidiary Merger, to pay the aggregate Merger Consideration and the other amounts required to be paid by Nationwide Mutual and Merger Sub under this Agreement, and to perform the other obligations of Nationwide Mutual and Merger Sub hereunder.

Section 6.2 Representations and Warranties of Merger Sub. Merger Sub and Nationwide Mutual, jointly and severally, hereby represent and warrant to the Harleysville Parties as follows:

(a) Organization. Merger Sub is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware, and no articles of dissolution have been filed in the office of the Delaware Secretary of State. Merger Sub has all requisite corporate power and authority and all necessary governmental approvals to own, lease, and operate its Assets and to carry on its Business as now being and proposed to be conducted.

(b) Authorization; Validity of Agreement; Necessary Action. Merger Sub has all requisite corporate power and authority to execute and deliver this Agreement and to consummate the Transactions. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the Transactions have been duly approved and authorized by the Board of Directors of Merger Sub and by Nationwide Mutual the sole stockholder of Merger Sub, and no other corporate action on the part of Merger Sub is necessary to authorize this Agreement and the Transactions. This Agreement has been duly executed and delivered by Merger Sub and (assuming this Agreement is a valid and binding obligation of the Harleysville Parties) is a valid and binding obligation of Merger Sub enforceable against Merger Sub in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium, or other similar Laws relating to creditors' rights generally and to general principles of equity.

(c) Ownership. Merger Sub is a wholly-owned Subsidiary of Nationwide Mutual.

(d) Consents and Approvals; No Violations. Except for filings, permits, authorizations, consents, and approvals as may be required under, and other applicable requirements of, applicable Insurance Laws, the Exchange Act, the HSR Act, and state securities or state blue sky Laws, none of the execution, delivery, or performance of this Agreement by Merger Sub, the consummation by Merger Sub of the Transactions, or compliance by Merger Sub with any of the provisions hereof will: (i) conflict with or result in any breach of any provision of the articles of incorporation or bylaws of Merger Sub, (ii) require any Consent or Filing with any Governmental Entity, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, any of the terms, conditions or provisions of any Contract or other instrument or obligation to which Merger Sub is a party or by which it or any of its Assets may be bound, or (iv) violate any Order or other Law applicable to Merger Sub or any of its Assets.

(e) Formation of Merger Sub; No Prior Activities. Merger Sub was formed solely for the purpose of engaging in the Transactions and consummating the Subsidiary Merger. As of the date of this Agreement and as of the Effective Time, except for: (i) obligations or Liabilities

incurred in connection with its incorporation and the Transactions, and (ii) this Agreement and any other agreements or arrangements contemplated by this Agreement or in furtherance of the Transactions, Merger Sub has not incurred, directly or indirectly, through any Subsidiary or Affiliate, any obligations or Liabilities or engaged in any business activities of any type or kind whatsoever or entered into any agreements or arrangements with any Person. Copies of the Certificate of Incorporation and Bylaws of Merger Sub have been made available to HGI, and such copies are true and complete as of the date of this Agreement.

(f) Legal Proceedings. Except insofar as do not, and as would not reasonably be expected to, individually or in the aggregate, prevent or materially delay consummation of the Subsidiary Merger, or otherwise prevent Merger Sub from performing its obligations under this Agreement, there are no Proceedings pending or, to the Knowledge of Nationwide Mutual, threatened, against Merger Sub.

(g) Brokers or Finders. No broker, investment banker, financial advisor or other Person other than Merger Sub's financial advisor, Bank of America Merrill Lynch, whose fees and expenses shall be paid by Merger Sub in accordance with Merger Sub's agreement with such firm, is entitled to any broker's, finder's, financial advisor's, or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Merger Sub. Merger Sub has furnished to Nationwide Mutual a complete and correct copy of all existing agreements between Merger Sub and Bank of America Merrill Lynch pursuant to which such firm would be entitled to any payment relating to the Transactions.

Section 6.3 No Other Representations or Warranties. Each of the Nationwide Parties acknowledges that, except for the representations and warranties contained in Articles IV and V, neither HGI nor Harleysville Mutual, respectively, makes additional representations or warranties, and each of HGI and Harleysville Mutual hereby disclaims any other representations or warranties, whether made by HGI or Harleysville Mutual or any of their respective officers, directors, employees, agents or Representatives, with respect to the execution and delivery of this Agreement or any document entered into pursuant to the terms and conditions of this Agreement, or the Transactions, notwithstanding the delivery or disclosure to Nationwide Mutual, Merger Sub or their Representatives of any documentation or other information with respect to any one or more of the foregoing.

## **ARTICLE VII**

### **COVENANTS**

Section 7.1 Harleysville Parties Conduct of Business Pending the Mergers. Each of the Harleysville Parties covenants and agrees as to itself and its Subsidiaries that, from the date of this Agreement through the earlier of the Effective Time or the termination of this Agreement pursuant to Section 10.1, unless Nationwide Mutual shall otherwise consent in writing (which consent shall not be unreasonably withheld, conditioned or delayed), or as otherwise expressly permitted or contemplated by this Agreement:

(a) Except as set forth in Section 7.1(a) of the Harleysville Mutual Disclosure Schedule or in Section 7.1(a) of the HGI Disclosure Schedule, each of the Harleysville Parties shall, and shall cause each of its Subsidiaries to, use reasonable efforts to conduct its Business only in the Ordinary Course of Business and in substantially the same manner as heretofore conducted since December 31, 2010, and each Harleysville Party and its Subsidiaries shall use reasonable efforts to preserve (i) its present business organization, (ii) the services of executive officers, key employees, and consultants, and (iii) its regular services to, and maintain its relationships with, policyholders, insurers, Producers, sales and distribution organizations, underwriters, investment customers, suppliers and all others having business dealings with it;

(b) Except as set forth in Section 7.1(b) of the Harleysville Mutual Disclosure Schedule or in Section 7.1(b) of the HGI Disclosure Schedule or as required by Law or any existing Insurance Contract, each of the Harleysville Parties shall not, and shall not permit any of its Subsidiaries to (i) declare or pay any dividend to policyholders or (ii) make or propose to make any change in its dividend practices or policies or in its underwriting, pricing, claims, risk retention, investment, reinsurance practices, or policies in any material respect; and each of the Harleysville Parties agrees that it will notify Nationwide Mutual and provide Nationwide Mutual with information in reasonable detail regarding any material transactions (excluding investment transactions in the Ordinary Course of Business consistent with past practice, but including transactions involving the securitization of Assets of the Harleysville Parties or their Subsidiaries, and transactions involving derivative securities), whether involving a purchase or sale, that it or any Subsidiary is considering;

(c) Neither of the Harleysville Parties nor any of their Subsidiaries shall make any material change in accounting methods or practices, including any change with respect to establishment of reserves for unearned premiums, losses (including incurred but not reported losses), and loss adjustment expenses, or any change in depreciation or amortization policies or rates adopted by it, except as required by Law, GAAP, or SAP;

(d) Except as set forth in Section 7.1(d) of the Harleysville Mutual Disclosure Schedule or in Section 7.1(d) of the HGI Disclosure Schedule, each of the Harleysville Parties shall not, and shall not permit any Subsidiary to, (i) amend its articles of incorporation or bylaws (unless contemplated hereby), (ii) incur any individual Liability or series of related Liabilities in excess of \$1,000,000 other than in the Ordinary Course of Business consistent with past practice, (iii) incur any indebtedness for money borrowed for all of the Harleysville Parties and their Subsidiaries, in excess of \$5,000,000 in the aggregate for any such indebtedness having a maturity of ninety (90) days or less, or \$10,000,000 in the aggregate for any such indebtedness having a maturity of more than ninety (90) days, (iv) agree to any merger, consolidation, affiliation, demutualization, acquisition, redomestication, sale of all or a substantial portion of its Assets, bulk or assumption reinsurance arrangement, or other similar reorganization, arrangement, or business combination, (v) enter into any material partnership, joint venture, or profit sharing Contract, (vi) enter into any Contract limiting the ability of any of the Harleysville Parties or their Subsidiaries to engage in any Business, to compete with any Person, to do business with any Person or in any location or to employ any Person, or limiting the ability of any Person to compete with such Party or any of its Subsidiaries, (vii) enter into any Contract relating to the direct or indirect guarantee of any obligation of any Person in respect of indebtedness for borrowed money or other financial obligation of any Person other than in the

Ordinary Course of Business consistent with past practice, (viii) enter into any Contract that could materially and adversely affect the consummation of the Transactions, (ix) violate any of its covenants under the Transaction Documents, or (x) modify any Contract with respect to the subject of any of the foregoing clauses;

(e) Neither of the Harleysville Parties shall, nor shall they permit any of their Subsidiaries to, issue, sell, agree, or commit to issue, any shares of or interests in, or rights of any kind to acquire any shares of or interests in, or to receive any payment based on the value of, the capital stock of or other equity interests in or any securities convertible into shares of any capital stock of or other equity interests, unless such issuance is pursuant to: (i) an equity incentive plan already in effect as of the date of this Agreement, and (ii) an award already made as of the date of this Agreement;

(f) Except (x) as set forth in Section 7.1(f) of the Harleysville Mutual Disclosure Schedule or in Section 7.1(f) of the HGI Disclosure Schedule, (y) with respect to employees who are not officers or directors, provided that such change is made in the Ordinary Course of Business consistent with past practice and would not result in an aggregate increase in cost to HGI or any Subsidiary of HGI of more than \$2,000,000 per year, or (z) as required by the terms of agreements or plans already in effect and set forth in Section 5.18(a) of the HGI Disclosure Schedule or applicable Law, neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to (i) adopt or implement, or commit to adopt or implement, or materially amend, any HGI Benefit Plan (other than amendments to broad-based HGI Benefit Plans that apply to all participants in such plan), collective bargaining, compensation, employment, consulting, pension, profit sharing, bonus, incentive, group insurance, termination, retirement, or other employee benefit Contract, plan, or policy, (ii) enter into or materially amend any severance Contract, (iii) increase in any manner the compensation of, or enter into any Contract relating to the borrowing of money by, its directors, officers, or other employees who have an annual base salary of \$100,000 or more, (iv) increase by more than 1% the aggregate number of its employees (excluding employees who are officers) plus open positions from that as of September 30, 2011, (v) pay or agree to pay any pension, retirement allowance, or other employee benefit, (vi) voluntarily recognize, or involuntarily become subject to, any labor organization or any other Person as a collective bargaining representative of one or more bargaining units, or (vii) other than obligations that arise by operation of Law or under the bylaws of a Party as they exist on the date of this Agreement, or as contemplated by this Agreement, enter into, adopt or increase any indemnification or hold harmless arrangements with any directors, officers, or other employees or agents of such Party or any of its Subsidiaries or any other Person;

(g) Other than as contemplated by the Harleysville budget for 2011 and 2012, neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, make any capital expenditures or expenditures or commitments for expenditures for the purchase or lease of any products or services or group of products or services (other than with respect to Investment Assets) which, in one or a series of related transactions, exceed \$250,000, or which, in the aggregate for either Harleysville Party and its Subsidiaries taken as a whole exceed \$250,000, except for expenditures relating to this Agreement and the consummation of the Transactions, and expenditures required to be made pursuant to existing Contracts to which either of the Harleysville Parties or any Subsidiary is a party;

(h) Other than in the Ordinary Course of Business consistent with past practice or in connection with the redemption of outstanding guaranteed investment Contracts in the exercise of reasonable judgment of either of the Harleysville Parties, neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, waive any rights with a value in excess of \$250,000 or any other rights which are material to any Contract or make any payment, direct or indirect, of any Liability in excess of \$250,000 before the same comes due in accordance with its terms, in each case, including any provision of any Insurance Contract to permit a cash-out thereof;

(i) Except as set forth in Section 7.1(i) of the Harleysville Mutual Disclosure Schedule or in Section 7.1(i) of the HGI Disclosure Schedule, neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, (i) sell, lease, mortgage, encumber, or otherwise grant any interest in or dispose of any of its Assets other than the sale of Investment Assets in the Ordinary Course of Business consistent with existing investment strategies which, individually or in the aggregate, are material to the financial condition of either of the Harleysville Parties or its Subsidiaries, taken as a whole, and, in addition, in the case of Liens, for Permitted Liens and Liens not individually in excess of \$250,000 and not aggregating in excess of \$1,000,000, (ii) increase the percentage of Investment Assets consisting of equity interests; or (iii) restructure, amend, modify, or otherwise affect any Investment Asset or any Contract relating thereto which is material to the financial condition of either of the Harleysville Parties or its Subsidiaries, taken as a whole, and, in either case described in clauses (i) and (ii), only in accordance with the statement of investment policy that has been made available to Nationwide Mutual; and the Harleysville Parties shall furnish to Nationwide Mutual a monthly report, in detail reasonably acceptable to Nationwide Mutual, of all such transactions or other changes (other than changes in market values or changes made in the Ordinary Course of Business, such as interest payments, maturities, etc.) affecting Investment Assets of the Harleysville Parties or any Subsidiary which took place since the last such report;

(j) Neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, other than pursuant to the operation of separate accounts involved in real estate in the Ordinary Course of Business, consistent with existing strategies, make any equity real estate investments (other than through restructuring or foreclosure or pursuant to commitments existing at the date of this Agreement or to protect the value of existing investments in the exercise of reasonable business judgment), and none of the Harleysville Parties or their Subsidiaries shall take any action, other than in the exercise of reasonable business judgment and following discussion with Nationwide Mutual, which results, individually or in the aggregate, in (i) the realization of any gross capital loss or losses in an amount of \$10,000,000 or more, or (ii) an adverse impact on the surplus of either of the Harleysville Parties or a Subsidiary in an amount of \$10,000,000 or more;

(k) Other than in the Ordinary Course of Business consistent with past practice, neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, enter into any material Contract or amend or waive any material provision of any material Contract which would involve the payment by either of the Harleysville Parties or any Subsidiary of \$250,000 or more;

(l) Other than in the Ordinary Course of Business consistent with past practice, neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, settle or

compromise any claim in any Proceeding which could result in an expenditure for the Harleysville Parties and their Subsidiaries in excess of \$500,000;

(m) Neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, purchase or otherwise acquire, except pursuant to a Contract in effect on the date of this Agreement, (i) any controlling equity interest in any Person (other than Investment Assets, subject to the restriction provided in Section 7.1(i)(ii)), (ii) any non-publicly traded securities in excess of \$250,000 per transaction or \$1,000,000 per issuer or credit, (iii) any investments in fixed income securities rated in NAIC Class 4, 5, or 6, non-publicly traded equity securities or Assets required to be shown on Schedule BA of a Person's Annual Statement in excess of \$50,000 per transaction or \$100,000 per issuer or credit, (iv) any real property or mortgage investments except in the Ordinary Course of Business with respect to managing the existing portfolio of real property and mortgage investments, including foreclosing purchase money mortgages, extensions, and refinancing, or (v) any shares or debt securities of HGI or any other interest in HGI convertible into or exchangeable or exercisable for any equity or similar interest in HGI, directly or indirectly;

(n) Neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, (i) assume any Liability or obligation with respect to, enter into any new, or materially amend any existing assumed reinsurance Contracts or arrangements provided, however, that the Harleysville Parties shall be permitted to amend any such assumed reinsurance Contract if such amendment reduces the obligations or Liability of such Harleysville Party or Harleysville Parties thereunder, or (ii) assume any Liability or obligation with respect to, enter into any new, or materially amend or terminate any existing ceded reinsurance Contracts other than, with respect to clause (ii), in the Ordinary Course of Business;

(o) The Harleysville Parties shall, and shall cause each Subsidiary to, maintain uninterrupted its existing insurance coverage of all types in effect or procure substantially similar substitute insurance policies with financially, sound and reputable insurance companies in at least such amounts and against such risks as are currently covered by such policies if such coverage is available;

(p) The Harleysville Parties each shall deliver to Nationwide Mutual as promptly as practicable after preparation thereof, unaudited or audited, as the case may be, (i) SAP Statements filed by or on behalf of the Harleysville Parties after the date of this Agreement and copies of material correspondence relating to any such SAP Statement; (ii) GAAP Financial Statements prepared by or on behalf of the Harleysville Parties after the date of this Agreement; and (iii) any financial statements, reports, plans or budgets prepared for or used by the management of the Harleysville Parties in the conduct, management or operation of the business of the Harleysville Parties and any of their Subsidiaries;

(q) Neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, take any actions that would be reasonably likely to adversely affect the status of the Parent Merger as a reorganization under Section 368 of the Code;

(r) None of the Harleysville Parties or their Subsidiaries shall (i) make or rescind any material express or deemed election relating to Taxes, (ii) make a request for a Tax Ruling or

enter into a Closing Agreement, settlement or compromise with respect to any material Tax matter, or (iii) with respect to any material Tax matter, change any of its methods of reporting income or deductions for federal or state income Tax purposes from those employed in the preparation of its federal or state income Tax Return for the Taxable year ending December 31, 2010, except as may be required by Law;

(s) Except as set forth in Section 7.1(s) of the HGI Disclosure Schedule, none of HGI, any Subsidiary of HGI nor any Harleysville Mutual Subsidiary shall declare, set aside, or pay any dividends or distributions (whether in cash, stock, or property) in respect of its capital stock or redeem, purchase, or otherwise acquire any such capital stock;

(t) Neither of the Harleysville Parties shall, nor shall any Subsidiary settle any pending or threatened Proceeding in an amount exceeding \$250,000, other than settlement of any pending or threatened Proceeding with respect to claims arising under Insurance Contracts underwritten, ceded, or assumed by any Harleysville Mutual Subsidiary or any Subsidiary of HGI;

(u) Other than with respect to Nationwide Mutual, Merger Sub, the Mergers and the Voting Agreement, HGI shall not waive application of Section 203 (Business Combinations with Interested Stockholders) of the DGCL with respect to any Person or Transaction;

(v) Other than in the Ordinary Course of Business consistent with past practice, the Harleysville Parties shall not, with respect to any Insurance Contract, reduce rates, fail to implement actuarially based rate increases, extend existing policy terms, accelerate renewals, or take any other action similar to the foregoing;

(w) Neither of the Harleysville Parties shall, nor shall they permit any Subsidiary to, enter into any new, or materially amend or terminate any existing, Contract with respect to the lease of real property; and

(x) Neither of the Harleysville Parties shall, nor shall any Subsidiary agree, in writing or otherwise, to take any of the actions prohibited by the foregoing clauses (a) through (w)

## **Section 7.2 No Solicitation by the Harleysville Parties.**

### **(a) Alternative Transaction.**

(i) The Harleysville Parties shall not, and shall cause their Subsidiaries not to, and shall not authorize or permit the directors, officers, employees, and Representatives of the Harleysville Parties or any of their Subsidiaries to, directly or indirectly, (A) solicit, initiate, or knowingly facilitate, induce, or encourage any inquiries or the making of any proposal or offer that constitutes an Alternative Transaction Proposal, or (B) subject to Section 7.2(b), enter into, continue, or otherwise participate in any discussions or negotiations regarding, or furnish to any Person any information with respect to, or cooperate in any way that would lead to, any Alternative Transaction Proposal. Without limiting the foregoing, any violation of the restrictions set forth in this Section 7.2(a) by either of the Harleysville Parties or any of their Subsidiaries or their respective directors, officers, employees, or Representatives shall be deemed to be a

breach of this Section 7.2(a) by Harleysville Mutual and HGI and shall be cause for termination of this Agreement by the Nationwide Parties.

(ii) The Harleysville Parties will, and will cause each of their Subsidiaries and each of the directors, officers, employees, and Representatives of the Harleysville Parties and their Subsidiaries to, immediately cease and cause to be terminated any and all existing activities, discussions, or negotiations with any Person conducted heretofore with respect to any Alternative Transaction Proposal and will not authorize or permit any of their Representatives to engage in any activities, discussions, or negotiations with any Person with respect to any Alternative Transaction Proposal. The Harleysville Parties will, and will cause each of their Subsidiaries to, enforce, and, except where the Harleysville Party determines, after consultation with its outside legal counsel and its financial advisors, that failure to take such action would reasonably be likely to constitute a breach of its fiduciary duties under applicable Law, will not waive any provisions of, any confidentiality or standstill agreement (or any similar agreement) to which either of the Harleysville Parties or any of their Subsidiaries is a party relating to any such Alternative Transaction Proposal. Harleysville Mutual or HGI, as applicable, will promptly request each Person that has heretofore executed a confidentiality agreement in connection with its consideration of any Alternative Transaction Proposal to return or destroy all Confidential Information furnished prior to the execution of this Agreement to or for the benefit of such Person by or on behalf of such Harleysville Party or any of its Subsidiaries. The Harleysville Parties agree that they will take the necessary steps to promptly inform their directors, officers, employees, and Representatives of the obligations undertaken in this Section 7.2.

(b) Superior Proposal. Notwithstanding anything to the contrary contained in Section 7.2(a) or elsewhere in this Agreement, in the event that HGI receives after the date of this Agreement and prior to obtaining the approval of the stockholders contemplated by Section 8.2 an unsolicited, bona fide written Alternative Transaction Proposal which the Board of Directors of HGI reasonably determines (after consultation with its outside legal counsel and its financial advisor) to be a Superior Proposal, HGI may then take the following actions:

(i) Furnish any information with respect to HGI, Harleysville Mutual and their Subsidiaries to the Person or group (and their respective Representatives) making such Alternative Transaction Proposal; provided, that (A) prior to furnishing any such information, it receives from such Person or group an executed confidentiality agreement containing confidentiality terms at least as restrictive as the terms contained in the Confidentiality Agreement, dated as of March 21, 2011, among the Parties (the "Confidentiality Agreement"), and (B) contemporaneously with furnishing any such information to such Person or group, it furnishes such information to Nationwide Mutual; and

(ii) Engage in discussions or negotiations with such Person or group (and their Representatives) with respect to such Alternative Transaction Proposal.

Nothing contained herein shall prevent HGI from disclosing to the stockholders of HGI a position contemplated by Rule 14d-9 and Rule 14e-2(a) promulgated under the Exchange Act

with regard to an Alternative Transaction Proposal if HGI determines, after consultation with its outside legal counsel, that failure to disclose such position would be reasonably likely to be inconsistent with applicable Law.

(c) Notification. In addition to the obligations of the Harleysville Parties set forth in Sections 7.2(a), (b), and (d), as promptly as practicable (and in any event within one (1) Business Day) after receipt of any Alternative Transaction Proposal, any request for nonpublic information, or any inquiry relating in any way to, or that would reasonably be expected to lead to, any Alternative Transaction Proposal, HGI and Harleysville Mutual shall provide Nationwide Mutual with written notice of the material terms and conditions of such Alternative Transaction Proposal, request, or inquiry, and the identity of the Person or group making any such Alternative Transaction Proposal, request, or inquiry, and a copy of all written materials provided to it in connection with such Alternative Transaction Proposal, request, or inquiry. In addition, HGI and Harleysville Mutual shall provide Nationwide Mutual as promptly as practicable (and in any event within one (1) Business Day) with all information as is reasonably necessary to keep Nationwide Mutual fully informed of all material written communications regarding, and the status and changes to the economic or other material terms of, any such Alternative Transaction Proposal, request, or inquiry, and shall provide, as promptly as reasonably practicable, to Nationwide Mutual a copy of all material written materials (including material written materials provided by email or otherwise in electronic format) provided by or to HGI, its, or any of its Representatives or to Harleysville Mutual in connection with such Alternative Transaction Proposal, request, or inquiry. Each of HGI and Harleysville Mutual shall provide Nationwide Mutual with three (3) days' prior notice (or such lesser prior notice as is provided to the members of its Board of Directors) of any meeting of its Board of Directors at which its Board of Directors is reasonably expected to consider any Alternative Transaction Proposal.

(d) Changes of Recommendation; Termination. Neither of the Boards of Directors of HGI or Harleysville Mutual nor any committee thereof shall, directly, or indirectly, (i) (A) withdraw or qualify (or amend or modify in a manner adverse to Nationwide Mutual) or publicly propose to withdraw or qualify (or amend or modify in a manner adverse to Nationwide Mutual), the approval, recommendation, or declaration of advisability by such Board of Directors or any committee thereof of this Agreement, the Mergers, or the other Transactions, or (B) recommend, adopt, or approve, or propose publicly to recommend, adopt, or approve, any Alternative Transaction Proposal, or (ii) approve or recommend, or publicly propose to approve or recommend, or allow HGI or Harleysville Mutual, any of their Subsidiaries, or any of their Affiliates to execute or enter into, any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, option agreement, joint venture agreement, partnership agreement, or other similar agreement, arrangement or understanding (A) constituting, or relating to, any Alternative Transaction Proposal, or (B) requiring it (or that would require it) to abandon, terminate, or fail to consummate any of the Mergers or any other Transaction (any of the foregoing actions being referred to herein as an "Adverse Recommendation Change"). Notwithstanding anything to the contrary set forth in this Section 7.2(d) or in any other provision of this Agreement, the Board of Directors of HGI may, solely in response to a Superior Proposal, terminate this Agreement pursuant to Section 10.1(h) and concurrently enter into a definitive agreement with respect to such Superior Proposal and make

an Adverse Recommendation Change to its stockholders, if, and only if, all of the following conditions in clauses (i) through (vi) are met:

(i) such Superior Proposal has been made and has not been withdrawn and continues to be a Superior Proposal;

(ii) the approval of this Agreement and the Transactions by the stockholders of HGI has not been obtained;

(iii) HGI has (A) provided to Nationwide Mutual five (5) Business Days' prior written notice that states (1) HGI has received a Superior Proposal, (2) the material terms and conditions of the Superior Proposal (including the per share value of the consideration offered therein and the identity of the Person or group of Persons making the Superior Proposal) and copies of the relevant proposed transaction agreements with the Person or group of Persons making such Superior Proposal and other material documents, including the definitive agreement with respect to such Superior Proposal (it being understood and agreed that any amendment to the financial terms or any other material term of such Superior Proposal shall require a new notice and a new five (5) Business Day period), and (3) it intends to terminate this Agreement, and the manner in which it intends to do so, and (B) prior to terminating this Agreement, to the extent requested by Nationwide Mutual, engaged in good faith negotiations with Nationwide Mutual to amend this Agreement in such a manner that the Alternative Transaction Proposal ceases to constitute a Superior Proposal;

(iv) the Board of Directors of HGI has determined in good faith after consultation with its outside legal counsel and its financial advisers, that, in light of such Superior Proposal and taking into account any revised terms offered by Nationwide Mutual, the failure to terminate this Agreement and accept the Superior Proposal would reasonably be likely to constitute a breach of its fiduciary duties under applicable Law;

(v) HGI and Harleysville Mutual shall have complied with Section 7.2(a) and shall not have breached any of the other provisions set forth in this Section 7.2 in any material respect; and

(vi) HGI pays all fees and expenses as required pursuant to Section 10.3.

**Section 7.3 Reasonable Efforts.** Upon the terms and subject to the conditions herein provided, each of the Parties hereto agrees to use all reasonable best efforts to promptly take, or cause to be taken, all action to do, or cause to be done, and to assist and cooperate with each of the other Parties hereto in doing or causing to be done, all things necessary, proper, or advisable to consummate and make effective, in the most expeditious manner practicable, the Transactions, including (i) the actions set forth in Article VIII, (ii) the obtaining of all Governmental Approvals, and all other necessary actions or nonactions, waivers, consents, and approvals from all appropriate Governmental Entities and other Persons and the making of all necessary registrations and filings, (iii) the resolution of all organizational and human resources issues relating to the Transactions, (iv) the obtaining or making of all Consents or Filings, Environmental Permits, or Licenses necessary or desirable to ensure that the Business of the

Surviving Company and the Surviving Subsidiary may be conducted without disruption consistent with the past practice of each of the Parties, (v) the defending of any Proceedings challenging this Agreement or the consummation of the Transactions, the defense of which shall, at the request of any of the Parties, be conducted jointly by the Nationwide Parties and the Harleysville Parties on a basis that is reasonably satisfactory to each Party, (vi) the delisting of the shares of common stock of HGI from NASDAQ and terminating its registration under the Exchange Act; provided that such delisting and termination shall not be effective until after the Effective Time of the Subsidiary Merger, (vii) subject to applicable Law, the developing of a joint plan with respect to the retention of the Harleysville Parties', and their respective Subsidiaries', customers, policyholders, Producers and employees, (viii) the amendment, modification, or termination of any reinsurance, pooling, cost or Tax allocation, services, management or other Contracts between the Harleysville Parties and/or their respective Subsidiaries and Affiliates effective as of the Effective Time, (ix) the response to inquiries of, and presentations to, rating agencies, and (x) developing integration plans; and each of the Parties hereto further agrees to refrain from taking any action that would be reasonably likely to cause the Core Governmental Approvals or the Transactions to be substantially conditioned or delayed. Nothing set forth in this Section 7.3 shall limit or affect actions permitted to be taken pursuant to Section 7.2.

#### Section 7.4 Access and Information.

(a) Subject to the terms of Section 7.4(b), each of the Harleysville Parties shall, and shall cause each of its Subsidiaries to, (i) afford to Nationwide Mutual and its Representatives reasonable access during normal business hours for the period commencing on the date of this Agreement and continuing until immediately prior to the Effective Time to all of its and its Subsidiaries' offices, Assets, books and records, Tax Returns, Contracts, Intellectual Property, and Representatives, and (ii) during such period, each of the Harleysville Parties shall, and shall cause each of its Subsidiaries to, furnish promptly to Nationwide Mutual all such data and other information concerning its Business, Assets and personnel or those of any of its Affiliates as Nationwide Mutual may reasonably request.

(b) Unless otherwise agreed in writing by the Parties, each of the Parties agrees (i) except as required by Law, to keep all Confidential Information confidential and not to disclose or reveal any Confidential Information to any Person other than those Persons employed by it or on its behalf who are actively and directly participating in the planning, negotiation, and implementation of the Transactions or who otherwise need to know the Confidential Information and to cause those persons to observe the terms of this Section 7.4(b), and (ii) not to use the Confidential Information for any purpose other than in connection with the planning, negotiation, and implementation of the Transactions. In the event of the termination of this Agreement for any reason, each of the Parties agrees to return, and cause its Representatives to return, to each of the other Parties all copies of written Confidential Information relating to another Party and to destroy all memoranda, notes, and other writings prepared based upon or including Confidential Information supplied by another Party, and none of the Parties shall use Confidential Information supplied by any of the other Parties for any purpose.

(c) No investigation or examination pursuant to Section 7.4(a) shall affect any representation or warranty given by any of the Harleysville Parties in this Agreement or any condition to the obligations of any of the Nationwide Parties.

**Section 7.5    Notice of Proceedings.** Each of the Parties shall promptly notify the others of, and provide to the others all information relating to, any Proceedings or investigations commenced or, to the best of its Knowledge, threatened that relate to the execution of this Agreement or the consummation of the Transactions.

**Section 7.6    Notification of Certain Other Matters.** Each of the Parties shall provide prompt written notice to the others of any of the following events should any such events occur subsequent to the date of this Agreement:

(a) the receipt or delivery of any written notice from any Person alleging that the consent of such Person is or may be required in connection with the execution of this Agreement or the consummation of the Transactions;

(b) the breach, in any material respect, of any of its covenants, representations or warranties contained in this Agreement, which such written notice shall include a detailed description of such breach, the date that the breach first occurred, and the date that such breach was discovered by such Party; and

(c) the receipt by such Party of any written notice from or to any Governmental Entity in connection with this Agreement or the Transactions.

In furtherance of the foregoing, to the fullest extent permitted under applicable Law, each Party shall make available to the others with copies (or, to the extent written materials are not involved, oral notice) of proposed notices, applications, or any other communications to any Governmental Entity or rating agency in connection with this Agreement or the Transactions, including in respect of the Governmental Approvals, in each case at least three (3) Business Days prior to dispatch of written materials (or, to the extent written materials are not involved, prior to initiation) and none of the Parties will dispatch (or, to the extent written materials are not involved, initiate) such notice, application, or communication without the prior consent of the other Parties, which consent shall not be unreasonably withheld or delayed.

**Section 7.7    Indemnification.**

(a) Each of the Nationwide Parties agrees that all rights to indemnification now existing in favor of any of the current or former employees, directors, agents, or officers of the Harleysville Parties or any of the Harleysville Mutual Subsidiaries or the Subsidiaries of HGI (the "Indemnitees"), with respect to any Losses (including Losses arising out of any litigation or threatened litigation) based on, arising, in whole or in part, out of, or otherwise in respect of, any action which is taken, or matter existing or, occurring on or prior to the Effective Time, as provided in the Harleysville Parties' certificate of incorporation or bylaws or any indemnification agreements by and between any of the Indemnitees and the Harleysville Parties or otherwise existing to the fullest extent under Law on the date of this Agreement shall survive the Mergers.

(b) Nationwide Mutual shall purchase “tail” directors’ and officers’ liability insurance coverage for a period of six (6) years after the Effective Time, covering those persons who are currently covered by the Harleysville Parties’ directors’ and officers’ liability insurance, policy on terms (including the amounts of coverage and the amounts of deductibles, if any) that are comparable to the terms now applicable to directors and officers of Nationwide Mutual, or, if more favorable to the Harleysville Parties’ directors and officers, the terms now applicable to them under the Harleysville Parties’ current policies; provided, however, that in no event shall Nationwide Mutual be required to expend in excess of the greater of 300% of the annual premium currently paid by the Harleysville Parties for such coverage, as set forth in Section 7.7(b) of the Harleysville Mutual Disclosure Schedule, and the annual premium paid by Nationwide Mutual for its current directors’ and officers’ liability insurance coverage (the “Maximum Premium”); and provided further, that if the premium for such coverage exceeds the Maximum Premium, Nationwide Mutual shall purchase a policy with the greatest coverage available for the Maximum Premium.

(c) In the event that Nationwide Mutual or any of its successors or assigns (i) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfers or conveys all or substantially all of its Assets to any Person, then, and in each such case, proper provision shall be made so that the successors and assigns of Nationwide Mutual assume the obligations set forth in this Section 7.7.

(d) The provisions of this Section 7.7 shall survive the consummation of the Mergers at the Effective Time and are intended to be for the benefit of, and shall be enforceable by, each Indemnatee, his or her heirs and his or her representatives and are in addition to, and not in substitution for, any other rights to indemnification or contribution that any such Person may have under the articles of incorporation or bylaws of each of the Surviving Company or the Surviving Subsidiary or any of its Subsidiaries, under any Contract, under applicable Law or otherwise.

**Section 7.8 HSR Act.** The Parties shall take all actions necessary to file as soon as practicable (but in no event more than thirty (30) days) after the date of this Agreement, all notifications, filings, and other documents required under the HSR Act, and to respond as soon as practicable to any inquiries received from the FTC, the Antitrust Division, and any other Governmental Entity for additional information or documentation, and to respond as soon as practicable to all inquiries and requests received from any State Attorney General or other Governmental Entity in connection therewith.

**Section 7.9 Tax Treatment.** The Parties intend the Parent Merger to qualify as a reorganization under Section 368(a) of the Code; each Party and its Affiliates shall use its reasonable best efforts to cause the Parent Merger to so qualify. Each of the Parties agrees that neither it nor any of its Affiliates shall take any action, including any transfer or other disposition of Assets or any interest in the Harleysville Parties after the Closing, that would cause the Parent Merger not to qualify as a reorganization under Section 368(a) of the Code. The Nationwide Parties shall report the Parent Merger for income Tax purposes as a reorganization within the meaning of Section 368(a) of the Code and any comparable state or local Tax statute. The Parties intend that the Subsidiary Merger qualify as a sale to Nationwide Mutual of the issued

and outstanding shares of common stock of HGI that are not owned by Harleysville Mutual. Each of the Parties agrees that neither it nor any of its Affiliates shall take any action that would cause the Subsidiary Merger to be treated other than as a sale to Nationwide Mutual of the issued and outstanding shares of common stock of HGI that are not owned by Harleysville Mutual.

**Section 7.10 Post Closing Commitments.** During the two-year period following the Closing Date, Nationwide Mutual agrees, to the extent permitted by applicable Law, that (i) it will not, and will cause its Subsidiaries and Affiliates not to, make major operational changes in Harleysville East to the core business functions of the property and casualty business of the Harleysville Parties set forth in Section 7.10(i) of the Nationwide Mutual Disclosure Schedule; (ii) in Harleysville East it will continue to utilize the Harleysville brand with respect to the lines of property and casualty insurance and insurance products, either independently or in conjunction with one or more brands of Nationwide Mutual or one of its Affiliates, as more particularly described in Section 7.10(ii) of the Nationwide Mutual Disclosure Schedule, (iii) it will substantially maintain or exceed the overall number of employees, as of the date hereof, at HGI's headquarters located in Harleysville, Pennsylvania and will not cause a reduction in force to occur at the Worcester, Massachusetts, location; (iv) it will substantially maintain or improve the philanthropic and charitable contributions and activities described in Section 7.10(iv) of the Harleysville Mutual Disclosure Schedule consistent with the historical practices of Harleysville Mutual and HGI since September 30, 2010; and (v) it will (a) migrate each employee of HGI (a "Continuing Employee") to the Benefit Plans of Nationwide Mutual or its Affiliates no later than January 1, 2013, or at such earlier time as determined by Nationwide Mutual or one of its Affiliates in its sole discretion; (b) give each Continuing Employee credit under the Benefit Plans of the Nationwide Parties or its Affiliates towards applicable deductibles, co-payments and annual out-of-pocket limits for expenses incurred under the Benefit Plans of HGI or any Subsidiary of HGI during the plan year in which the Closing Date occurs; (c) cause any pre-existing conditions or limitations, evidence of insurability, exclusions and waiting periods with respect to participation and coverage requirements under any of the Benefit Plans of the Nationwide Parties or its Affiliates to be waived with respect to Continuing Employees and their eligible dependents to the same extent such limitations are waived under any comparable plan of HGI; and (d) give each Continuing Employee service credit based upon such Continuing Employee's service credit with HGI, Subsidiaries of HGI, Harleysville Mutual, and Harleysville Mutual Subsidiaries for purposes of eligibility to participate and vesting credit under each applicable Benefit Plan of the Nationwide Parties or its Affiliates (but, for avoidance of doubt, excluding benefit accrual under any defined benefit pension plan, cash-balance plan, or retiree medical) and entitlement to benefits under each severance or vacation plan of the Nationwide Parties or its Affiliates, in each case, as if such service had been performed with the Nationwide Parties or its Affiliates. Without limiting the generality of Section 11.7, this Section 7.10 shall be binding upon and inure solely to the benefit of each of the Parties to this Agreement, and nothing in it, expressed or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever and, specifically but without limiting the generality of the foregoing, nothing in it will create any third party beneficiary rights in any current or former employee, director or individual independent contractor of the Harleysville Parties or any of their Subsidiaries in respect of continued employment (or resumed employment) or service or any other matter.

**Section 7.11 Payment of 2011 Incentive Compensation.** Unless previously paid by any of the Harleysville Parties or their Affiliates, not later than sixty (60) days after the Closing Date, Nationwide Mutual will make, or cause to be made, incentive compensation payments, to each employee eligible therefor and who is an employee on the date such payment is made, in an amount equal to the difference between (i) the 2011 target incentive compensation for such employee as set forth in HGI's Senior Executive Compensation Plan and any other HGI incentive compensation plan set forth in Section 5.18 of the HGI Disclosure Schedule, which target compensation does not exceed, in the aggregate, \$11,750,000, and (ii) the amount of incentive compensation previously paid to such employee with respect to 2011 by any of the Harleysville Parties or their Affiliates pursuant to any such plan. Notwithstanding the foregoing, if an eligible employee is an employee of HGI on the Closing Date but is terminated without cause by Nationwide Mutual or any of its Affiliates (including, for this purpose, HGI) after the Closing Date but before this Section 7.11 payment date, such eligible employee shall receive the payment contemplated by this Section 7.11 on the earlier of the payment date or such termination date.

**Section 7.12 Retention of Executive Officers.** Between the date hereof and the Closing, Nationwide Mutual will offer retention bonus arrangements to the executive officers of HGI listed in, and on principal terms consistent with, Section 7.12 of the Nationwide Mutual Disclosure Schedule.

**Section 7.13 Agreement to Defend; Stockholder and Policyholder Litigation.** In the event any claim or Proceeding by any Governmental Entity or other Person is commenced that questions the validity or legality of the Transactions or seeks damages in connection therewith, the Parties agree to cooperate and use their reasonable best efforts to defend against and respond thereto. The Harleysville Parties shall give Nationwide Mutual reasonable opportunity to participate in the defense or settlement of any policyholder or stockholder litigation against either of the Harleysville Parties or their Subsidiaries and their respective directors relating to any Transaction; provided, that no such settlement shall be agreed to without Nationwide Mutual's written consent, which shall not be unreasonably withheld, conditioned or delayed.

## **ARTICLE VIII**

### **MEMBER AND STOCKHOLDER APPROVAL**

#### **Section 8.1 Member Approvals.**

(a) Each of Nationwide Mutual and Harleysville Mutual shall take all actions necessary in accordance with applicable Law and its Articles of Incorporation and Bylaws or Code of Regulations, as the case may be, to convene a meeting of its Members as soon as practicable to consider and vote upon this Agreement and the Transactions, taken as a whole. Nationwide Mutual and Harleysville Mutual shall jointly determine a mutually satisfactory means of satisfying the notice, meeting, and other Member approval requirements of applicable Law. Each of the Boards of Directors of Nationwide Mutual and Harleysville Mutual shall recommend that the Members of its respective company vote in favor of this Agreement and the Transactions and each of Nationwide Mutual and Harleysville Mutual shall use its reasonable best efforts to solicit proxies or ballots, as the case may be, from its Members in favor of this

Agreement and the Transactions and shall take all other actions reasonably necessary or advisable to secure the votes of its Members which are required in order to approve this Agreement and the Transactions. The Board of Directors of Harleysville Mutual shall not withdraw, modify, or change its recommendation that its Members vote in favor of this Agreement and the Transactions. The Board of Directors of Nationwide Mutual shall not withdraw, modify, or change its recommendation that its Members vote in favor of this Agreement and the Transactions.

(b) As soon as practicable after the date of this Agreement, Nationwide Mutual and Harleysville Mutual shall each prepare, and each of Nationwide Mutual and Harleysville Mutual shall use its reasonable best efforts to have the Ohio Superintendent and the Pennsylvania Commissioner approve, their respective notices of meetings (the “Meeting Notices”) setting forth the time, place and purpose of the Members’ meetings called for the purpose of approving the Parent Merger, which Meeting Notices shall include a copy of this Agreement and a summary thereof, if required. Promptly after receipt of approval by the Ohio Superintendent and the Pennsylvania Commissioner of the applicable Meeting Notice, (i) Nationwide Mutual shall comply with the provisions of Section 3941.37 of the Ohio Insurance Law, (ii) Harleysville Mutual shall comply with the provisions of Sections 1923 and 1924 of the Pennsylvania BCL, and (iii) both Parties shall promptly comply with all other applicable Laws with respect to the publication or mailing to their respective Members of the applicable Meeting Notice.

(c) As soon as practicable after the date of this Agreement, Harleysville Mutual shall prepare a proxy or information statement (together with all amendments, schedules, and exhibits thereto, the “Harleysville Mutual Policyholder Information Statement”) relating to the solicitation of its Members’ approval of the Parent Merger. Harleysville Mutual shall give the Nationwide Parties and their Representatives the opportunity to review and comment upon the Harleysville Mutual Policyholder Information Statement prior to its being mailed or otherwise made available to the Members of Harleysville Mutual. Harleysville Mutual, after consultation with the Nationwide Parties and their Representatives, shall use its reasonable best efforts to respond promptly to any comments made by any Governmental Entity with respect to the Harleysville Mutual Policyholder Information Statement and to cause the Harleysville Mutual Policyholder Information Statement to be mailed or otherwise made available to its Members as required by Law or any Governmental Entity.

(d) As soon as practicable after the date of this Agreement, Nationwide Mutual shall prepare a proxy or information statement (together with all amendments, schedules, and exhibits thereto, the “Nationwide Mutual Policyholder Information Statement”) relating to the solicitation of its Members’ approval of the Parent Merger. Nationwide Mutual shall give Harleysville Mutual and its Representatives the opportunity to review and comment upon the Nationwide Mutual Policyholder Information Statement prior to its being mailed or otherwise made available to the Members of Nationwide Mutual. Nationwide Mutual, after consultation with Harleysville Mutual and its Representatives, shall use its reasonable best efforts to respond promptly to any comments made by any Governmental Entity with respect to the Nationwide Mutual Policyholder Information Statement and to cause the Nationwide Mutual Policyholder Information Statement to be mailed or otherwise made available to its Members as required by Law or any Governmental Entity. The Harleysville Mutual Policyholder Information Statement

and the Nationwide Mutual Policyholder Information Statement are collectively referred to herein as the “Information Statements”.

(e) Each of Nationwide Mutual and Harleysville Mutual shall furnish all information concerning it as is required to be included in the Meeting Notices and the Information Statements. Each of Harleysville Mutual and Nationwide Mutual agrees that the written information provided by it specifically for inclusion in any Meeting Notice or the Information Statements will not, at the time such Meeting Notice and/or the Information Statements are published, mailed, or otherwise made available to the Members of each of Harleysville Mutual and Nationwide Mutual and on the date of the meeting relating thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

#### Section 8.2 Stockholder Meeting and Approval.

(a) HGI, acting through its Board of Directors, shall, in accordance with applicable Law:

(i) Duly call, give notice of, convene, and hold a special meeting of its stockholders as soon as practicable following the execution of this Agreement for the purpose of considering and taking action upon this Agreement and the Transactions;

(ii) Together with the Nationwide Parties and their Representatives, prepare and file with the SEC a preliminary proxy statement relating to this Agreement and the Transactions, and use its reasonable best efforts to (A) obtain and furnish the information required to be included by the SEC in a definitive proxy statement (such proxy statement together with, as the context dictates, any ancillary documents to be sent to such stockholders of HGI, each as supplemented or amended, being referred to herein as the “Proxy Statement”) and, after consultation with the Nationwide Parties and their Representatives, respond promptly to any comments made by the SEC with respect to the preliminary proxy statement and cause the Proxy Statement to be mailed and otherwise made available to its stockholders; (B) obtain the necessary approval of this Agreement and the Transactions by its stockholders; and (C) include in the Proxy Statement the recommendation of the Board of Directors of HGI that the stockholders of HGI vote in favor of the approval of this Agreement and the Transactions and the written opinion of Keefe, Bruyette & Woods, Inc. that, as of the date of this Agreement, the Merger Consideration is fair, from a financial point of view, to the stockholders of HGI (other than Harleysville Mutual).

(b) The Nationwide Parties shall furnish all information about themselves, their Business, operations, and their owners and all financial information to HGI as may be reasonably necessary in connection with the preparation of the Proxy Statement. HGI shall give the Nationwide Parties and their Representatives the opportunity to review and comment upon, prior to their being filed with, or sent to the SEC, (i) the Proxy Statement, (ii) all amendments and supplements to the Proxy Statement, and (iii) all responses to requests for additional information and replies to comments. Each of HGI, on the one hand, and the Nationwide Parties, on the other

hand, agree to correct promptly any information provided by it for use in the Proxy Statement if and to the extent that such information shall have become false or misleading in any material respect, and HGI further agrees to take all necessary steps to cause the Proxy Statement as so corrected to be filed with the SEC and to be disseminated to the stockholders of HGI, in each case, to the extent required by applicable Laws. HGI shall notify the Nationwide Parties of the receipt of any comments of the SEC with respect to the preliminary Proxy Statement.

(c) None of the information supplied by HGI specifically for inclusion or incorporation by reference in (i) the Proxy Statement, or (ii) other filings under the Exchange Act, the HSR Act, or other applicable federal, state, or local Laws, will, at the respective times filed with the SEC or other Governmental Entity and, in addition, in the case of the Proxy Statement, as of the date it or any amendment or supplement thereto is mailed to stockholders of HGI and at the time of any meeting of stockholders of HGI to be held in connection with the Subsidiary Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement, insofar as it relates to HGI or other information supplied by HGI for inclusion therein, will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder. HGI makes no representation, warranty, or covenant with respect to information concerning the Nationwide Parties or their Affiliates included in the Proxy Statement or information supplied by the Nationwide Parties or their Affiliates for inclusion in the Proxy Statement.

(d) None of the information supplied by the Nationwide Parties or their Affiliates specifically for inclusion or incorporation by reference in (i) the Proxy Statement, or (ii) other filings under the Exchange Act, the HSR Act, or other applicable federal, state, or local Laws, will, at the respective times filed with the SEC or other Governmental Entity and, in addition, in the case of the Proxy Statement, as of the date it or any amendment or supplement thereto is mailed to stockholders of HGI and at the time of any meeting of stockholders of HGI to be held in connection with the Subsidiary Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement, insofar as it relates to the Nationwide Parties or their Affiliates or other information supplied by the Nationwide Parties or their Affiliates for inclusion therein, will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder. The Nationwide Parties make no representations, warranties, or covenants with respect to information concerning HGI included in the Proxy Statement or information supplied by HGI for inclusion in the Proxy Statement.

## **ARTICLE IX**

### **CONDITIONS**

Section 9.1 Conditions to Each Party's Obligation to Effect the Mergers. The respective obligations of each Party to effect the Mergers shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) this Agreement and the Parent Merger shall have been approved and adopted by the requisite votes of the respective Members of Nationwide Mutual and Harleysville Mutual at a special meeting of the Members of Nationwide Mutual and Harleysville Mutual, respectively, called for such purpose;

(b) this Agreement and the Subsidiary Merger shall have been approved and adopted by the requisite vote of the stockholders of HGI at a special meeting of the stockholders of HGI called for such purpose;

(c) the waiting period applicable to the consummation of the Mergers under the HSR Act shall have expired or been earlier terminated and, other than the filings provided for in clauses (i) and (ii) of Section 2.5(a) and in Section 2.5(b), all Governmental Approvals and other Consents or Filings which are required to be obtained prior to the Effective Time (other than those Governmental Approvals for which the failure to obtain would not be reasonably likely to have a Material Adverse Effect on the Surviving Company and its Subsidiaries taken as a whole) shall have been obtained and not rescinded or adversely modified or limited or, if merely required to be filed, such filings shall have been made and accepted, and all waiting periods prescribed by applicable Law shall have expired or been terminated in accordance with applicable Law; provided that no such Governmental Approval or other Consent or Filing shall contain any conditions or limitations that impose or seek to impose any limitation on the ability of the Surviving Company and its Subsidiaries or the Surviving Subsidiary and its Subsidiaries, in each case taken as a whole, to conduct its Business or own its Assets after the Effective Time in substantially the same manner as the Parties and their respective Subsidiaries presently conduct their Business or own their Assets and which conditions and limitations would have a Material Adverse Effect on the Surviving Company and its Subsidiaries or the Surviving Subsidiary and its Subsidiaries, in each case taken as a whole;

(d) no Order entered or Law promulgated or enacted by any Governmental Entity shall be in effect which would prevent the consummation of the Mergers, and no Proceeding brought by a Governmental Entity shall have been commenced and be pending which seeks to restrain, enjoin, prevent, or materially delay or restructure the Mergers; and

(e) Nationwide Surplus is greater than \$11,100,000,000.

Section 9.2 Conditions to Obligation of Harleysville Parties to Effect the Mergers. The obligations of the Harleysville Parties to effect the Mergers shall be subject to the fulfillment at or prior to the Closing Date of the following conditions, any one or more of which may be waived by each of the Harleysville Parties, but only to the extent permitted by Law and subject to Section 11.3:

(a) The representations and warranties of the applicable Nationwide Parties contained in the first sentence of Section 6.1(a), and Sections 6.1(b)(i) and (ii), 6.1(e)(i), and 6.2(a) and (b) (collectively, the “Nationwide Parties’ Specific Representations”) shall be true and correct in all respects on the date of this Agreement and on and as of the Closing Date as though made on the Closing Date. The representations and warranties of each of the Nationwide Parties contained in this Agreement, except the Nationwide Parties’ Specific Representations, that are qualified by materiality or reference to “Material Adverse Effect” shall be true and correct in all respects on

the date of this Agreement and on and as of the Closing Date as though made on the Closing Date, and those, except the Nationwide Parties' Specific Representations, that are not so qualified shall be true and correct in all material respects, on the date of this Agreement and on and as of the Closing Date as though made on the Closing Date (other than those representations and warranties that expressly address matters only as of a particular date or only with respect to a specific period of time which need only be true and correct as of such date or with respect to such period);

(b) Each of the Nationwide Parties shall have performed and complied in all material respects with all obligations, covenants and agreements required to be performed and complied with by it under this Agreement at or prior to the Closing Date;

(c) The Harleystown Parties shall have received a certificate of an executive officer of each of the Nationwide Parties as to the satisfaction of the conditions set forth in Sections 9.2(a) and (b); and

(d) Notwithstanding any disclosure thereof pursuant to the provisions of this Agreement, between the date of this Agreement and the Effective Time, no Material Adverse Effect has occurred with respect to Nationwide Mutual, Merger Sub, and their Subsidiaries, taken as a whole, and no material adverse change has occurred with respect to Nationwide Mutual.

Section 9.3 Conditions to Obligation of Nationwide Parties to Effect the Mergers. The obligations of the Nationwide Parties to effect the Mergers shall be subject to the fulfillment at or prior to the Closing Date of the following conditions, any one or more of which may be waived by each of the Nationwide Parties, but only to the extent permitted by Law and subject to Section 11.3:

(a) The representations and warranties of the applicable Harleystown Parties contained in Sections 4.1, 4.2, 4.3, 5.1, 5.2, 5.3, and 5.26 (collectively, the "Harleystown Parties' Specific Representations") shall be true and correct in all respects on the date of this Agreement and on and as of the Closing Date as though made on the Closing Date other than de minimis inaccuracies contained in Section 4.2 or Section 5.2. The representations and warranties of each of the Harleystown Parties contained in this Agreement, except for the Harleystown Parties' Specific Representations, that are qualified by materiality or reference to "Material Adverse Effect" shall be true and correct in all respects on the date of this Agreement and on and as of the Closing Date as though made on the Closing Date, and those, except for the Harleystown Parties' Specific Representations, that are not so qualified shall be true and correct in all material respects on the date of this Agreement and on and as of the Closing Date as though made on the Closing Date (other than those representations and warranties that expressly address matters only as of a particular date or only with respect to a specific period of time which need only be true and correct as of such date or with respect to such period);

(b) Each of the Harleystown Parties shall have performed and complied in all material respects with all obligations, covenants, and agreements required to be performed and complied with by them under this Agreement at or prior to the Closing Date;

(c) The Nationwide Parties shall have received a certificate of an executive officer of each of the Harleysville Parties as to the satisfaction of the conditions set forth in Sections 9.3(a) and (b);

(d) Notwithstanding any disclosure thereof pursuant to the provisions of this Agreement, between the date of this Agreement and the Effective Time, no Material Adverse Effect has occurred with respect to Harleysville Mutual, HGI, or their Subsidiaries, taken as a whole, and no Harleysville Material Adverse Change has occurred;

(e) Michael Browne shall have entered into a retention bonus agreement with Nationwide Mutual on terms no less favorable than those set forth in Section 7.12 of the Nationwide Mutual Disclosure Schedule;

(f) Harleysville Consolidated Surplus is greater than \$900,000,000; and

(g) Harleysville Consolidated Surplus less Harleysville Decrease In Statutory Net Unrealized Losses is greater than \$1,000,000,000. For the avoidance of doubt, the resulting calculation must be equal to or greater than Harleysville Consolidated Surplus.

Section 9.4 Frustration of Closing Conditions. Harleysville Mutual, HGI, Nationwide Mutual, and Merger Sub may not rely on the failure of any condition set forth in Sections 9.1, 9.2, and 9.3, as the case may be, to be satisfied if such failure was caused by such Party's failure to use its reasonable best efforts to consummate the Mergers and the other Transactions.

## ARTICLE X

### TERMINATION

Section 10.1 Termination. This Agreement may be terminated and the Mergers abandoned at any time prior to the Effective Time:

(a) by the mutual written agreement of the Parties hereto duly authorized by action taken by or on behalf of their respective Boards of Directors; or

(b) by any of the Harleysville Parties or the Nationwide Parties if the Mergers shall not have occurred on or before the date that is one year following the date hereof (the "Outside Date"); provided that the Outside Date may be extended for a period not to exceed one hundred eighty (180) days by any of the Nationwide Parties by written notice to the Harleysville Parties if the Mergers shall not have been consummated as a result of the condition set forth in Section 9.1(c) failing to have been satisfied, but (i) the extending Party reasonably believes that the relevant approvals will be obtained during such extension period and (ii) each of the other conditions to the consummation of the Mergers set forth in Article IX has been satisfied or waived or remains reasonably capable of satisfaction; provided, further, that the Outside Date shall, without any action on the part of any of the Parties, be extended day-by-day for each day during which any Party shall at any time after the date of this Agreement be subject to a non-final or appealable Order that has the effect of making either of the Mergers or the acquisition of shares of common stock of HGI by Merger Sub or any Affiliate thereof illegal or otherwise preventing or prohibiting the consummation of the Transactions; provided, further, that the right

to terminate this Agreement pursuant to this clause (b) shall not be available to the Party seeking to terminate this Agreement if such Party's breach of this Agreement has been the cause of the failure of the Effective Time to occur; or

(c) by any of the Harleysville Parties or the Nationwide Parties if the number of votes in favor of this Agreement cast by the Members of Nationwide Mutual required for the consummation of the Parent Merger shall not have been obtained at the meeting of its Members or at any adjournment thereof duly held for such purpose; or

(d) by any of the Harleysville Parties or the Nationwide Parties if the number of votes in favor of this Agreement cast by the Members of Harleysville Mutual required for the consummation of the Parent Merger shall not have been obtained at the meeting of its Members or at any adjournment thereof duly held for such purpose; or

(e) by any of the Harleysville Parties or the Nationwide Parties if the number of votes in favor of this Agreement cast by the stockholders of HGI required for the consummation of the Subsidiary Merger shall not have been obtained at the meeting of the stockholders of HGI or at any adjournment thereof duly held for such purpose; or

(f) by either Harleysville Party if either Nationwide Party (i) breaches or fails in any material respect to perform or comply with any of its material covenants and agreements contained herein, or (ii) breaches its representations and warranties in any material respect and such breach would have, or is reasonably likely to have, a Material Adverse Effect, in each case such that the conditions set forth in Section 9.1 or Section 9.2 would not be satisfied; provided, however, that if any such breach is curable by the Outside Date (as may be extended hereunder) by the Nationwide Parties through the exercise of their reasonable best efforts and for so long as the Nationwide Parties shall be so using their reasonable best efforts to cure such breach, the Harleysville Parties may not terminate this Agreement pursuant to this Section 10.1(f); or

(g) by either Nationwide Party if either Harleysville Party (i) breaches or fails in any material respect to perform or comply with any of its material covenants and agreements contained herein, or (ii) breaches its representations and warranties in any material respect and such breach would have, or is reasonably likely to have, a Material Adverse Effect on the Harleysville Parties and their Subsidiaries taken as a whole, in each case such that the conditions set forth in Section 9.1 or Section 9.3 would not be satisfied; provided, however, that if any such breach is curable by the Outside Date (as may be extended hereunder) by the Harleysville Parties through the exercise of their reasonable best efforts and for so long as the Harleysville Parties shall be so using their reasonable best efforts to cure such breach, the Nationwide Parties may not terminate this Agreement pursuant to this Section 10.1(g); or

(h) by the Board of Directors of HGI if all of the conditions set forth in Section 7.2(d)(i) through (vi) have been met;

(i) by either Nationwide Party upon the occurrence of (i) a Harleysville Material Adverse Change or (ii) a Material Adverse Effect with respect to the Harleysville Parties taken as a whole; or

(j) by either Nationwide Party upon a knowing and intentional breach, in any material respect, of Section 7.2(a)(i) by either of the Harleysville Parties.

#### Section 10.2 Effect of Termination.

In the event of the termination of this Agreement by any Party as provided in Section 10.1, written notice thereof shall forthwith be given to the other Parties specifying the provision hereof pursuant to which such termination is made, this Agreement shall thereafter become void and, subject to Section 10.3, there shall be no Liability on the part of any Party hereto against any other Party hereto, or on the part of their directors, officers, employees, policyholders, stockholders, or agents (or those of any of their Subsidiaries or Affiliates), except that (a) any such termination shall be without prejudice to the rights of any Party hereto (or any of its Subsidiaries or Affiliates) arising out of the willful and material breach by any other Party of any covenant or agreement contained in this Agreement, (b) the obligations pursuant to this Section 10.2, Section 10.3, Section 7.6(b), and Article XI, and (c) the Confidentiality Agreement shall survive termination.

#### Section 10.3 Payments.

(a) Termination Fee and Expense Reimbursement. In the event that:

(i) the Board of Directors of HGI terminates this Agreement pursuant to Section 10.1(h);

(ii) (A) this Agreement is terminated pursuant to Section 10.1(b), (d), (e), or (g), as applicable, (B) prior to such termination, an Alternative Transaction Proposal has been publicly announced, and (C) within twelve (12) months of such termination, HGI enters into a definitive agreement with any third party to consummate, or consummates, an Alternative Transaction; or

(iii) this Agreement is terminated pursuant to Section 10.1(j),

then HGI shall pay Nationwide Mutual a one-time fee equal to \$29,588,535 (the "Termination Fee") and shall reimburse Nationwide Mutual for its Expenses in accordance with Section 10.3(c). Any Termination Fee and Expenses due under this Section 10.3(a) shall be paid by wire transfer of same-day funds to an account provided in writing by Nationwide Mutual to HGI (A) in the case of termination pursuant to clause (i) above, on the date of termination of this Agreement, or (B) in the case of termination pursuant to clause (ii) above, within two (2) Business Days of the date of the first to occur of (x) the execution of a definitive agreement relating to an Alternative Transaction Proposal, and (y) the consummation of a transaction relating to an Alternative Transaction.

(b) Interest and Costs; Other Remedies. Each of the Parties acknowledges that the agreements contained in this Section 10.3 are an integral part of the Transactions and that, without these agreements, none of the Parties would have entered into this Agreement. Accordingly, in the event that HGI shall fail to pay the Termination Fee and Expenses when due, and in order to obtain such payment, Nationwide Mutual commences a suit which results in a judgment against HGI for such fee, then HGI shall pay to Nationwide Mutual its costs and

expenses (including reasonable attorneys' fees and expenses of enforcement) in connection with such suit, together with interest on the amounts owed at the prime lending rate prevailing at such time, as published in the Wall Street Journal, plus 2% per annum from the date such amounts were required to be paid until the date actually received by Nationwide Mutual.

(c) Expenses. Except as otherwise specifically provided herein, each Party shall bear its own Expenses in connection with this Agreement and the Transactions, except that the Nationwide Parties and the Harleysville Parties each shall bear and pay one-half of the filing fee paid to the FTC pursuant to the HSR Act or to any foreign antitrust or competition Law. Furthermore, in the event that (A) the Harleysville Parties terminate this Agreement pursuant to Section 10.1(f), then the Nationwide Parties shall reimburse the Harleysville Parties for all of their Expenses, (B) the Nationwide Parties terminate this Agreement pursuant to Section 10.1(g), then the Harleysville Parties shall reimburse the Nationwide Parties for all of their Expenses, or (C) this Agreement is terminated pursuant to Section 10.1(h), then HGI, in addition to any Termination Fee that HGI may be required to make to Nationwide Mutual pursuant to Section 10.3(a) in respect of such termination, shall reimburse the Nationwide Parties for all of the Nationwide Parties' Expenses.

For the purposes of this Section 10.3, "Expenses" includes all reasonable out-of-pocket expenses (including all reasonable fees and expenses of counsel, accountants, financial advisors, experts and consultants to a Party hereto and its Affiliates) incurred by a Party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution, performance, approval by any Person, and enforcement of this Agreement and the Transactions, including the preparation, printing, filing and mailing of the respective Information Statements, the Proxy Statement, and the solicitation of Member and stockholder approvals and all other matters related to the Transactions.

## ARTICLE XI

### MISCELLANEOUS

Section 11.1 Notices. All notices, consents, requests, approvals, authorizations and other communications (collectively, "Notices") required or permitted to be given hereunder by one Party to another shall only be effective if in writing. All Notices shall be sent (a) by registered or certified mail (with return receipt requested), postage prepaid, or (b) by Federal Express, United States Post Office Express Mail, Airborne, UPS, or similar overnight courier which delivers, if requested, only upon signed receipt of the addressee (with such signed receipt being requested), or (c) by facsimile transmission, and addressed or transmitted as follows or at such other address or facsimile number, and to the attention of such other Person, as the Parties shall give notice as herein provided:

If to a Nationwide Party, to:

Nationwide Mutual Insurance Company  
One Nationwide Plaza 1-34-04  
Columbus, Ohio 43215

Attention: Stephen S. Rasmussen  
Facsimile No.: (614) 249-6848

with a copy to:

Nationwide Mutual Insurance Company  
One Nationwide Plaza 1-37-08  
Columbus, Ohio 43215  
Attention: Patricia R. Hatler  
Facsimile No.: (614) 677-5128

with a copy to:

Jones Day  
325 John H. McConnell Blvd., Suite 600  
Columbus, Ohio 43215  
Attention: Randall M. Walters, Esq.  
Facsimile No.: (614) 461-4198

If to Harleysville Mutual, to:

Harleysville Mutual Insurance Company  
355 Maple Avenue  
Harleysville, Pennsylvania 19438  
Attention: Michael L. Browne  
Facsimile No.: (215) 256-5008

with a copy to:

Ballard Spahr LLP  
1735 Market Street, 51<sup>st</sup> Floor  
Philadelphia, Pennsylvania 19103  
Attention: Justin P. Klein, Esq.  
Facsimile No.: (215) 864-8999

If to HGI, to:

Harleysville Group Inc.  
355 Maple Avenue  
Harleysville, Pennsylvania 19438  
Attention: Michael L. Browne  
Facsimile No.: (215) 256-5008

with a copy to:

Fox Rothschild LLP  
2000 Market Street, 20<sup>th</sup> Floor  
Philadelphia, Pennsylvania 19103  
Attention: Peter J. Tucci, Esq.  
Facsimile No.: (215) 345-7507

A Notice shall be effective upon receipt and shall be deemed to be received, if sent by registered or certified mail, United States Post Office Express Mail, Federal Express, Airborne, UPS, or similar overnight courier, on the date of receipt by the recipient as shown on the return receipt card, or if sent by facsimile, upon receipt by the sender of an acknowledgment or transmission report generated by the machine from which the facsimile was sent indicating that the facsimile was sent in its entirety to the recipient's facsimile number; provided that if a Notice is received by facsimile on a day which is not a Business Day, or after 5:00 p.m. on any Business Day at the addressee's location, such Notice shall be deemed to be received by the recipient at 9:00 a.m. on the first (1<sup>st</sup>) Business Day thereafter. Rejection or other refusal to accept or the inability to deliver because of a changed address of which no Notice was given shall be deemed to be receipt of the Notice as of the date of such rejection, refusal or inability to deliver.

Section 11.2 Amendments. Subject to applicable Law, this Agreement may be amended by the Parties hereto at any time before or after the approval of this Agreement by the Members of Nationwide Mutual or of Harleysville Mutual and the stockholders of Merger Sub or of HGI, but after such approval, no amendment or modification shall be made which materially adversely affects the rights of such Members or stockholders without the further approval of such Members and stockholders. This Agreement may not be amended, modified, or supplemented except by written agreement of the Parties hereto.

Section 11.3 Extension; Waiver. At any time prior to the Effective Time, the Parties may (a) extend the time for the performance of any of the obligations or other acts of the other Parties, (b) waive any inaccuracies in the representations and warranties of the other Parties contained in this Agreement or in any document delivered pursuant to this Agreement, or (c) except as provided by Article IX, waive compliance by the other Parties with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a Party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such Party. Nothing contained in this Agreement shall cause the failure of any of the Parties to insist upon strict compliance with any covenant, obligation, condition, or agreement contained herein to operate as a waiver of, or estoppel with respect to, any such covenant, obligation, condition, or agreement by the Party entitled to the benefit thereof.

Section 11.4 Publicity. So long as this Agreement is in effect, each of the Parties hereto (a) shall not, and shall cause its Affiliates not to, issue or cause the publication of any press release or other announcement to any Person with respect to this Agreement or the Transactions without the consent of the other Parties, which consent shall not be unreasonably withheld or delayed; provided, however, that nothing contained in this Agreement shall (i) limit the right of each of the Parties hereto and their Affiliates to make a filing or communication required by

applicable Law, provided that such Party shall allow the other Parties a reasonable opportunity to comment on such filing or communication in advance thereof; (ii) prohibit any of the Parties hereto (or its Affiliates) from initiating communications with, and making presentations to, any rating agency or Governmental Entity relating to the Transactions if such Party gives prior written notice thereof to the other Parties hereto, or (iii) prohibit any Party or any of their respective Affiliates from communicating to any third party information in any way relating to the Mergers that has been made known to the general public, other than in violation of this Agreement, prior to the time of such communication, (b) shall cooperate fully with the other Parties hereto with respect to issuing or publishing any press release, or other announcement or other written communication to any non-affiliated Person and preparing written and oral communications to the employees and agents of each Party hereto with the purpose of effectuating the Mergers in the best interests of the respective Members and stockholders of the Parties, and (c) shall promptly notify the other Parties of any communications received from and responses provided to non-affiliated Persons, in either case, with respect to this Agreement or the Transactions.

Section 11.5 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 11.6 Non-Assignability. Neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned by any Party hereto by operation of Law or otherwise without the prior written consent of the other Parties hereto.

Section 11.7 Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of the Parties hereto, and nothing in this Agreement, expressed or implied, is intended to confer upon any other Person (including any policyholder, shareholder, or Representative of any Party or their Subsidiaries) any rights or remedies of any nature under or by reason of this Agreement, except as otherwise expressly provided in this Agreement.

Section 11.8 Duplicates; Counterparts. This Agreement shall be executed in duplicate and may be executed in counterparts, each of which shall be deemed to constitute an original and constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopier or electronic mail via the portable document format (PDF) shall be as effective as delivery of a manually executed counterpart of this Agreement. In proving this Agreement, it shall not be necessary to produce or account for more than one such counterpart signed by the Party against whom enforcement is sought.

Section 11.9 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the Laws of the State of Delaware without regard to the conflict or choice of Laws rules thereof or of any other jurisdiction.

Section 11.10 Entire Agreement. This Agreement, including the Voting Agreement and schedules hereto and thereto, constitutes the entire agreement between the Parties hereto and supersedes all prior agreements and understandings, oral or written (except for the Confidentiality Agreement), between the Parties hereto with respect to the subject matter hereof and thereof.

Section 11.11 Severability. If any provisions hereof shall be held invalid or unenforceable by any court of competent jurisdiction or as a result of future legislative action, such holding or action shall be strictly construed and shall not affect the validity or effect of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction or other authority declares that any term or provision hereof is invalid, void or unenforceable, the Parties agree that the court making such determination shall have the power to reduce the scope, duration, area, or applicability of the term or provision, to delete specific words or phrases, or to replace any invalid, void, or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision; provided, however, that the Parties shall use reasonable efforts, including the amendment of this Agreement, to ensure that this Agreement shall reflect as closely as practicable the intent of the Parties hereto.

Section 11.12 Specific Performance. Each of the Parties hereto acknowledges and agrees that the other Parties hereto would be irreparably damaged in the event any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the Parties hereto agrees that each shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions thereof in any action instituted in any forum specified in Section 11.14, in addition to any other remedy to which any Party may be entitled, at Law, in equity, or pursuant to this Agreement.

Section 11.13 Counting. If the due date for any action to be taken under this Agreement (including the delivery of notices) is not a Business Day, then such action shall be considered timely taken if performed on or prior to the next Business Day following such due date.

Section 11.14 Venue. Each Party irrevocably agrees that any Proceeding arising out of or relating to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by another Party or its successors or assigns may be brought and determined exclusively in the Court of Chancery of the State of Delaware (or, if such court lacks subject matter jurisdiction, in any appropriate Delaware state or federal court), and each of the Parties hereby irrevocably submits to the exclusive jurisdiction of the aforesaid courts for itself and with respect to its property, generally and unconditionally, with regard to any such Proceeding arising out of or relating to this Agreement and the Transactions (and agrees not to commence any Proceeding relating thereto except in such courts). Each Party further agrees to accept service of process in any manner permitted by such courts. Each Party hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, in any Proceeding arising out of or relating to this Agreement or the Transactions, (a) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure lawfully to serve process, (b) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (c) to the fullest extent permitted by Law, that (i) the Proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such Proceeding is improper, or (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

Section 11.15 Joint Preparation. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event any ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by all Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

Section 11.16 Interpretation.

(a) When a reference is made in this Agreement to a section or article, such reference shall be to a section or article of this Agreement unless otherwise clearly indicated to the contrary.

(b) Whenever the words “include,” “includes,” or “including” are used in this Agreement they shall be deemed to be followed by the words “without limitation.”


(c) The words “hereof,” “herein,” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, exhibit, and schedule references are to the articles, sections, paragraphs, exhibits, and schedules of this Agreement unless otherwise specified.

(d) The plural of any defined term shall have a meaning correlative to such defined term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning.

*[Remainder of page intentionally left blank. Signature page follows.]*

IN WITNESS WHEREOF, Nationwide Mutual, Harleysville Mutual, Merger Sub, and HGI have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

NATIONWIDE MUTUAL INSURANCE  
COMPANY

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

HARLEYSVILLE MUTUAL INSURANCE  
COMPANY

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

NATIONALS SUB, INC.

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

HARLEYSVILLE GROUP INC.


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

IN WITNESS WHEREOF, Nationwide Mutual, Harleysville Mutual, Merger Sub, and HGI have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

NATIONWIDE MUTUAL INSURANCE  
COMPANY

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


HARLEYSVILLE MUTUAL INSURANCE  
COMPANY

By:  \_\_\_\_\_  
Name: Michael L. Browne  
Title: President and CEO

NATIONALS SUB, INC.

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

HARLEYSVILLE GROUP INC.

By:  \_\_\_\_\_  
Name: Michael L. Browne  
Title: President and CEO

IN WITNESS WHEREOF, Nationwide Mutual, Harleysville Mutual, Merger Sub, and HGI have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

NATIONWIDE MUTUAL INSURANCE  
COMPANY

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

HARLEYSVILLE MUTUAL INSURANCE  
COMPANY

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

NATIONALS SUB, INC.

By: David LaPaul  
Name: DAVID LAPAUL  
Title: TREASURER

HARLEYSVILLE GROUP INC.

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

**Opinion of Griffin Financial Group LLC**



607 Washington Street

Reading, PA 19601

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September 28, 2011

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

Members of the Board of Directors:

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

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



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Nationwide consolidated with publicly available information concerning certain other companies we deemed relevant; and (xi) performed such other studies and analyses and reviewed such other information as we deemed appropriate for the purposes of this opinion.

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

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

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

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



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opining on the fairness of the amount or nature of compensation or investment gain which inures to the benefit of directors or officers or employees in connection with the Merger or the Overall Transaction relative to the compensation or investment gain payable to any other constituent of Harleysville Mutual or any affiliate.

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

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

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

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



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made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise, or reaffirm this opinion.

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

Very truly yours,

GRIFFIN FINANCIAL GROUP, LLC

*Griffin Financial Group, LLC*