

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), and 6058(a) of the Internal Revenue Code (the Code). ► Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089 2010 This Form is Open to Public Inspection
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Part I	Annual Report Identification Information		
For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010			
A This return/report is for:	☐ a multiemployer plan;	☐ a multiple-employer plan; or	
	☒ a single-employer plan;	☐ a DFE (specify) ____	
B This return/report is:	☐ the first return/report;	☐ the final return/report;	
	☐ an amended return/report;	☐ a short plan year return/report (less than 12 months).	
C If the plan is a collectively-bargained plan, check here.	☐		
D Check box if filing under:	☒ Form 5558;	☒ automatic extension;	☐ the DFVC program;
	☐ special extension (enter description)		

Part II	Basic Plan Information —enter all requested information		
1a Name of plan PENSION PLAN OF HARLEYSVILLE GROUP INC AND ASSOCIATED EMPLOYERS	1b Three-digit plan number (PN) ►	001	
	1c Effective date of plan	01/01/1953	
2a Plan sponsor's name and address (employer, if for a single-employer plan) (Address should include room or suite no.) HARLEYSVILLE GROUP INC 355 MAPLE AVENUE HARLEYSVILLE, PA 19438-2297	2b Employer Identification Number (EIN) 51-0241172	2c Sponsor's telephone number 215-256-5076	2d Business code (see instructions) 524150

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	10/13/2011	ARTHUR E CHANDLER
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE

3a Plan administrator's name and address (if same as plan sponsor, enter "Same") HARLEYSVILLE GROUP INC 355 MAPLE AVENUE HARLEYSVILLE, PA 19438-2297	3b Administrator's EIN 51-0241172 3c Administrator's telephone number 215-256-5076
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4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name	4b EIN 4c PN
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5 Total number of participants at the beginning of the plan year	5	4026
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6 Number of participants as of the end of the plan year (welfare plans complete only lines 6a , 6b , 6c , and 6d).		
a Active participants.....	6a	1118
b Retired or separated participants receiving benefits.....	6b	1085
c Other retired or separated participants entitled to future benefits.....	6c	1686
d Subtotal. Add lines 6a , 6b , and 6c	6d	3889
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.....	6e	87
f Total. Add lines 6d and 6e	6f	3976
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item).....	6g	0
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested.....	6h	1

7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)	7	
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8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristic Codes in the instructions:

1A 1G 1I

b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristic Codes in the instructions:

9a Plan funding arrangement (check all that apply)	9b Plan benefit arrangement (check all that apply)
(1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	(1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor

10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)

a Pension Schedules

- (1) ☒ **R** (Retirement Plan Information)
- (2) ☐ **MB** (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary
- (3) ☒ **SB** (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary

b General Schedules

- (1) ☒ **H** (Financial Information)
- (2) ☐ **I** (Financial Information – Small Plan)
- (3) ☐ **A** (Insurance Information)
- (4) ☐ **C** (Service Provider Information)
- (5) ☐ **D** (DFE/Participating Plan Information)
- (6) ☐ **G** (Financial Transaction Schedules)

SCHEDULE SB (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Single-Employer Defined Benefit Plan Actuarial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6059 of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500 or 5500-SF.	OMB No. 1210-0110 2010 This Form is Open to Public Inspection
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For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010

▶ **Round off amounts to nearest dollar.**

▶ **Caution:** A penalty of \$1,000 will be assessed for late filing of this report unless reasonable cause is established.

A Name of plan <u>PENSION PLAN OF HARLEYSVILLE GROUP INC AND ASSOCIATED EMPLOYERS</u>	B Three-digit plan number (PN) ▶ <u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 or 5500-SF <u>HARLEYSVILLE GROUP INC</u>	D Employer Identification Number (EIN) <u>51-0241172</u>
E Type of plan: ☒ Single ☐ Multiple-A ☐ Multiple-B	F Prior year plan size: ☐ 100 or fewer ☐ 101-500 ☒ More than 500

Part I	Basic Information	
1 Enter the valuation date: Month <u>01</u> Day <u>01</u> Year <u>2010</u>		
2 Assets:		
a Market value	2a <u>142915209</u>	
b Actuarial value	2b <u>147925155</u>	
3 Funding target/participant count breakdown		
	(1) Number of participants	(2) Funding Target
a For retired participants and beneficiaries receiving payment	3a <u>1124</u>	<u>79234123</u>
b For terminated vested participants	3b <u>1720</u>	<u>55326559</u>
c For active participants:		
(1) Non-vested benefits	3c(1)	<u>1607637</u>
(2) Vested benefits	3c(2)	<u>48737890</u>
(3) Total active	3c(3) <u>1195</u>	<u>50345527</u>
d Total	3d <u>4039</u>	<u>184906209</u>
4 If the plan is at-risk, check the box and complete items (a) and (b)	☐	
a Funding target disregarding prescribed at-risk assumptions	4a	
b Funding target reflecting at-risk assumptions, but disregarding transition rule for plans that have been at-risk for fewer than five consecutive years and disregarding loading factor	4b	
5 Effective interest rate	5 <u>6.62</u> %	
6 Target normal cost	6 <u>0</u>	

Statement by Enrolled Actuary

To the best of my knowledge, the information supplied in this schedule and accompanying schedules, statements and attachments, if any, is complete and accurate. Each prescribed assumption was applied in accordance with applicable law and regulations. In my opinion, each other assumption is reasonable (taking into account the experience of the plan and reasonable expectations) and such other assumptions, in combination, offer my best estimate of anticipated experience under the plan.

SIGN HERE	
<u>ROBERT S. ELIAS, FSA</u>	Signature of actuary
<u>MERCER</u>	Type or print name of actuary
<u>1717 ARCH STREET, 27TH FLOOR</u> <u>PHILADELPHIA, PA 19103-2754</u>	Firm name
	Address of the firm
	Date <u>11-03160</u>
	Most recent enrollment number <u>215-982-4600</u>
	Telephone number (including area code)

If the actuary has not fully reflected any regulation or ruling promulgated under the statute in completing this schedule, check the box and see instructions ☐

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500 or 5500-SF.

Schedule SB (Form 5500) 2010
v.092308.1

Part II	Beginning of year carryover and prefunding balances		
	(a) Carryover balance	(b) Prefunding balance	
7 Balance at beginning of prior year after applicable adjustments (Item 13 from prior year)	7956128		0
8 Portion used to offset prior year's funding requirement (Item 35 from prior year)	0		0
9 Amount remaining (Item 7 minus item 8).....	7956128		0
10 Interest on item 9 using prior year's actual return of <u>25.17</u> %	2002557		
11 Prior year's excess contributions to be added to prefunding balance:			
a Excess contributions (Item 38 from prior year)			2063621
b Interest on (a) using prior year's effective rate of <u>8.08</u> %			166741
c Total available at beginning of current plan year to add to prefunding balance			2230362
d Portion of (c) to be added to prefunding balance.....			0
12 Reduction in balances due to elections or deemed elections.....	9958685		0
13 Balance at beginning of current year (item 9 + item 10 + item 11d – item 12).....	0		0

Part III	Funding percentages		
14 Funding target attainment percentage.....	14	80.00	%
15 Adjusted funding target attainment percentage.....	15	80.00	%
16 Prior year's funding percentage for purposes of determining whether carryover/prefunding balances may be used to reduce current year's funding requirement.....	16	85.34	%
17 If the current value of the assets of the plan is less than 70 percent of the funding target, enter such percentage.....	17		%

Part IV	Contributions and liquidity shortfalls					
18 Contributions made to the plan for the plan year by employer(s) and employees:						
(a) Date (MM-DD-YYYY)	(b) Amount paid by employer(s)	(c) Amount paid by employees	(a) Date (MM-DD-YYYY)	(b) Amount paid by employer(s)	(c) Amount paid by employees	
03/15/2010	1029000					
06/15/2010	1733000					
09/15/2010	1850000					
12/15/2010	1850000					
			Totals ▶	18(b)	6462000	18(c)
						0

19 Discounted employer contributions – see instructions for small plan with a valuation date after the beginning of the year:		
a Contributions allocated toward unpaid minimum required contribution from prior years.....	19a	0
b Contributions made to avoid restrictions adjusted to valuation date	19b	0
c Contributions allocated toward minimum required contribution for current year adjusted to valuation date.....	19c	6208075
20 Quarterly contributions and liquidity shortfalls:		
a Did the plan have a "funding shortfall" for the prior year?	☒ Yes ☐ No	
b If 20a is "Yes," were required quarterly installments for the current year made in a timely manner?	☒ Yes ☐ No	
c If 20a is "Yes," see instructions and complete the following table as applicable:		
Liquidity shortfall as of end of Quarter of this plan year		
(1) 1st	(2) 2nd	(3) 3rd
0	0	0
		(4) 4th
		0

Part V Assumptions used to determine funding target and target normal cost

21 Discount rate:				
a Segment rates:	1st segment: 4.60 %	2nd segment: 6.65 %	3rd segment: 6.76 %	☐ N/A, full yield curve used
b Applicable month (enter code)	21b			0
22 Weighted average retirement age	22			62
23 Mortality table(s) (see instructions) ☐ Prescribed - combined ☒ Prescribed - separate ☐ Substitute				

Part VI Miscellaneous items

24 Has a change been made in the non-prescribed actuarial assumptions for the current plan year? If "Yes," see instructions regarding required attachment.	☒ Yes ☐ No
25 Has a method change been made for the current plan year? If "Yes," see instructions regarding required attachment.	☐ Yes ☒ No
26 Is the plan required to provide a Schedule of Active Participants? If "Yes," see instructions regarding required attachment.....	☒ Yes ☐ No
27 If the plan is eligible for (and is using) alternative funding rules, enter applicable code and see instructions regarding attachment.....	27

Part VII Reconciliation of unpaid minimum required contributions for prior years

28 Unpaid minimum required contribution for all prior years	28	0
29 Discounted employer contributions allocated toward unpaid minimum required contributions from prior years (item 19a).....	29	0
30 Remaining amount of unpaid minimum required contributions (item 28 minus item 29)	30	0

Part VIII Minimum required contribution for current year

31 Target normal cost, adjusted, if applicable (see instructions).....	31	0
32 Amortization installments:	Outstanding Balance	Installment
a Net shortfall amortization installment	29584806	5868152
b Waiver amortization installment	0	0
33 If a waiver has been approved for this plan year, enter the date of the ruling letter granting the approval (Month _____ Day _____ Year _____) and the waived amount	33	0
34 Total funding requirement before reflecting carryover/prefunding balances (item 31 + item 32a + item 32b – item 33).....	34	5868152
	Carryover balance	Prefunding balance
35 Balances used to offset funding requirement	0	0
36 Additional cash requirement (item 34 minus item 35).....	36	5868152
37 Contributions allocated toward minimum required contribution for current year adjusted to valuation date (Item 19c).....	37	6208075
38 Interest-adjusted excess contributions for current year (see instructions).....	38	339923
39 Unpaid minimum required contribution for current year (excess, if any, of item 36 over item 37).....	39	0
40 Unpaid minimum required contribution for all years	40	0

SCHEDULE H (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	OMB No. 1210-0110
		2010
		This Form is Open to Public Inspection

For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010		
A Name of plan PENSION PLAN OF HARLEYSVILLE GROUP INC AND ASSOCIATED EMPLOYERS	B Three-digit plan number (PN) ►	001
C Plan sponsor's name as shown on line 2a of Form 5500 HARLEYSVILLE GROUP INC	D Employer Identification Number (EIN) 51-0241172	

Part I	Asset and Liability Statement
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1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. **Round off amounts to the nearest dollar.** MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.

Assets		(a) Beginning of Year	(b) End of Year
a Total noninterest-bearing cash	1a		
b Receivables (less allowance for doubtful accounts):			
(1) Employer contributions	1b(1)	937999	0
(2) Participant contributions	1b(2)		
(3) Other.....	1b(3)	286940	274664
c General investments:			
(1) Interest-bearing cash (include money market accounts & certificates of deposit)	1c(1)	7298968	8300594
(2) U.S. Government securities.....	1c(2)	17735799	17519876
(3) Corporate debt instruments (other than employer securities):			
(A) Preferred	1c(3)(A)		
(B) All other.....	1c(3)(B)	13103232	13826640
(4) Corporate stocks (other than employer securities):			
(A) Preferred	1c(4)(A)		
(B) Common	1c(4)(B)		
(5) Partnership/joint venture interests	1c(5)	102628	42555
(6) Real estate (other than employer real property)	1c(6)		
(7) Loans (other than to participants)	1c(7)		
(8) Participant loans	1c(8)		
(9) Value of interest in common/collective trusts.....	1c(9)		
(10) Value of interest in pooled separate accounts.....	1c(10)		
(11) Value of interest in master trust investment accounts	1c(11)		
(12) Value of interest in 103-12 investment entities	1c(12)		
(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)		
(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
(15) Other	1c(15)	104526493	119923273

1d Employer-related investments:

		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	143992059	159887602

Liabilities

g Benefit claims payable	1g		
h Operating payables	1h		
i Acquisition indebtedness	1i		
j Other liabilities	1j	1060152	60527
k Total liabilities (add all amounts in lines 1g through 1j)	1k	1060152	60527

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	142931907	159827075
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income**a Contributions:**

		(a) Amount	(b) Total
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	6462001	
(B) Participants	2a(1)(B)		
(C) Others (including rollovers)	2a(1)(C)		
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		6462001

b Earnings on investments:**(1) Interest:**

(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)	3404	
(B) U.S. Government securities	2b(1)(B)	672491	
(C) Corporate debt instruments	2b(1)(C)	604644	
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)		
(F) Other	2b(1)(F)	23876	
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		1304415

(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)	2233713	
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)		
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		2233713

(3) Rents	2b(3)		
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(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0

		(a) Amount	(b) Total
2b (5) Unrealized appreciation (depreciation) of assets: (A) Real estate.....	2b(5)(A)		
(B) Other	2b(5)(B)	14959885	
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		14959885
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds).....	2b(10)		
c Other income.....	2c		
d Total income. Add all income amounts in column (b) and enter total.....	2d		24960014

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	8064846	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		8064846
f Corrective distributions (see instructions)	2f		
g Certain deemed distributions of participant loans (see instructions).....	2g		
h Interest expense.....	2h		
i Administrative expenses: (1) Professional fees	2i(1)		
(2) Contract administrator fees	2i(2)		
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)		
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		0
j Total expenses. Add all expense amounts in column (b) and enter total.....	2j		8064846

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		16895168
l Transfers of assets:			
(1) To this plan.....	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☒ Unqualified (2) ☐ Qualified (3) ☐ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)? ☐ Yes ☒ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: **KPMG LLP** (2) EIN: **13-5565207**

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

- 4** CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete 4j and 4l. MTIAs also do not complete 4l.

During the plan year:

	Yes	No	Amount
a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.).....		X	
b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.).....		X	
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.).....		X	
e Was this plan covered by a fidelity bond?.....	X		15000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.).....	X		
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.).....		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?.....		X	
l Has the plan failed to provide any benefit when due under the plan?		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.).....		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.		X	

- 5a** Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?
If yes, enter the amount of any plan assets that reverted to the employer this year ☐ Yes ☐ No Amount:

- 5b** If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)

5b(2) EIN(s)	5b(3) PN(s)

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110 2010 This Form is Open to Public Inspection.
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For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010

A Name of plan <u>PENSION PLAN OF HARLEYSVILLE GROUP INC AND ASSOCIATED EMPLOYERS</u>	B Three-digit plan number (PN) ▶ <u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>HARLEYSVILLE GROUP INC</u>	D Employer Identification Number (EIN) <u>51-0241172</u>

Part I	Distributions
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All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....	1
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): _____ Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.	
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....	3 <u>5</u>

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part)
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4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?.....	☐ Yes	☒ No	☐ N/A
If the plan is a defined benefit plan, go to line 8.			
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6 a Enter the minimum required contribution for this plan year	6a		
b Enter the amount contributed by the employer to the plan for this plan year	6b		
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount).....	6c		
If you completed line 6c, skip lines 8 and 9.			
7 Will the minimum funding amount reported on line 6c be met by the funding deadline?	☐ Yes	☐ No	☐ N/A
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?.....	☐ Yes	☐ No	☒ N/A

Part III	Amendments
-----------------	-------------------

9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box(es). If no, check the "No" box.....	☐ Increase	☐ Decrease	☐ Both	☒ No
--	-----------------------------------	-----------------------------------	-------------------------------	--

Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
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10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?.....	☐ Yes	☐ No
11 a Does the ESOP hold any preferred stock?	☐ Yes	☐ No
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)	☐ Yes	☐ No
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?	☐ Yes	☐ No

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Schedule R (Form 5500) 2010
v.092308.1

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month Day Year

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete items 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents)

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify):

- 14** Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

a The current year	14a	
b The plan year immediately preceding the current plan year	14b	
c The second preceding plan year	14c	

- 15** Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

a The corresponding number for the plan year immediately preceding the current plan year	15a	
b The corresponding number for the second preceding plan year	15b	

- 16** Information with respect to any employers who withdrew from the plan during the preceding plan year:

a Enter the number of employers who withdrew during the preceding plan year	16a	
b If item 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	

- 17** If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

- 18** If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐

- 19** If the total number of participants is 1,000 or more, complete items (a) through (c)

- a** Enter the percentage of plan assets held as:

Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%

- b** Provide the average duration of the combined investment-grade and high-yield debt:

☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

- c** What duration measure was used to calculate item 19(b)?

☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____



**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Financial Statements and Supplemental Schedule

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

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Schedule H, Line 4i – Schedule of Assets (Held at End of Year), December 31, 2010	16
Note: All other schedules required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because there is no information to report.	



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Trustees
Harleysville Insurance Companies and Harleysville Group Inc.:

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits of the Pension Plan of Harleysville Group Inc. and Associated Employers (the Plan) as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 2010 and 2009, and the changes in its financial status for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 11, 2011

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Statements of Net Assets Available for Benefits

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets:		
Investments, at fair value:		
U.S. Treasury securities	\$ 9,323,939	9,030,240
Obligations of U.S. government corporations and agencies	2,980,296	3,463,525
Mortgage-backed securities	5,215,641	5,242,034
Corporate bonds	13,826,640	13,103,232
Mutual funds	119,923,273	104,526,493
Other	42,555	102,628
Total investments, at fair value	<u>151,312,344</u>	<u>135,468,152</u>
Cash and cash equivalents	8,300,594	7,298,968
Contributions receivable	—	937,999
Accrued investment income	273,581	286,940
Other assets	1,083	—
Total assets	<u>159,887,602</u>	<u>143,992,059</u>
Liabilities:		
Securities in transit	—	1,008,428
Accounts payable	60,527	51,724
Total liabilities	<u>60,527</u>	<u>1,060,152</u>
Net assets available for benefits	<u>\$ 159,827,075</u>	<u>142,931,907</u>

See accompanying notes to financial statements.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Increase in net assets attributable to:		
Investment income:		
Net appreciation (depreciation) in fair value of investments:		
U.S. Treasury securities	\$ 278,259	(123,456)
Obligations of U.S. government corporations and agencies	7,343	(164,228)
Mortgage-backed securities	41,781	116,367
Corporate bonds	(5,100)	822,208
Mutual funds	14,697,675	24,463,739
Other	(60,073)	(46,839)
Total net appreciation in fair value of investments	14,959,885	25,067,791
Interest, net of investment expense	1,304,415	1,300,047
Dividends	2,233,713	2,169,498
Total investment income	18,498,013	28,537,336
Employer contributions	6,462,001	6,533,747
Total additions	24,960,014	35,071,083
Benefits paid to participants	8,064,846	7,709,995
Total deductions	8,064,846	7,709,995
Net increase	16,895,168	27,361,088
Net assets available for benefits:		
Beginning of year	142,931,907	115,570,819
End of year	\$ <u>159,827,075</u>	<u>142,931,907</u>

See accompanying notes to financial statements.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Statements of Accumulated Plan Benefits

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Actuarial present value of accumulated plan benefits:		
Vested benefits:		
Participants currently receiving payments	\$ 86,994,100	81,399,281
Terminated vested participants	69,544,544	61,693,392
Active participants	<u>59,405,476</u>	<u>53,978,476</u>
	215,944,120	197,071,149
Nonvested benefits	<u>503,107</u>	<u>1,677,975</u>
Total actuarial present value of accumulated plan benefits	<u>\$ 216,447,227</u>	<u>198,749,124</u>

See accompanying notes to financial statements.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Statements of Changes in Accumulated Plan Benefits

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Actuarial present value of accumulated plan benefits at beginning of year	\$ 198,749,124	185,418,174
Increase (decrease) during the year attributable to:		
Benefits accumulated and losses	110,096	802,129
Increase for interest due to the decrease in the discount period	11,683,002	11,256,917
Change in actuarial assumptions	13,969,851	8,981,899
Benefits paid	<u>(8,064,846)</u>	<u>(7,709,995)</u>
Net increase	<u>17,698,103</u>	<u>13,330,950</u>
Actuarial present value of accumulated plan benefits at end of year	<u><u>\$ 216,447,227</u></u>	<u><u>198,749,124</u></u>

See accompanying notes to financial statements.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Notes to Financial Statements

December 31, 2010 and 2009

(1) Description of the Plan

The following brief description of the Pension Plan of Harleysville Group Inc. and Associated Employers (the Plan) is provided for general information purposes only. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined benefit plan covering employees of Harleysville Group Inc. (HGI) and Associated Employers (the Companies). HGI froze the accrued benefits of the Plan as of March 31, 2006. At that time, the accrued benefit of each participant became nonforfeitable to the extent then funded and the net assets of the Plan will be allocated as prescribed by the terms and the provisions of the Plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) and its related regulations. Eligible employees not currently vested in the Plan will become vested if they are employed by the Companies for a total of five qualifying years. In addition, the Plan was amended to allow individuals who were hired in 2005 to enter the Plan on March 31, 2006.

The Plan is subject to the provisions of ERISA.

(b) Pension Benefits

Employees with five or more years of service are entitled to annual pension benefits, beginning at normal retirement age (65). Prior to January 1, 1989, annual pension benefits were equal to 2.25% of final average compensation (described in note 2), less 2.00% of the annual primary Social Security benefit, multiplied by the number of years of service up to a maximum of 25. Effective January 1, 1989, the benefit formula became the greater of: (1) the accrued benefit as of December 31, 1988 based on the former formula; (2) 1.45% of the employees' final average compensation, up to and including a compensation level equal to covered compensation (the average of the Social Security wage bases for the 35-year period ending in the year the employee attains Social Security retirement age) multiplied by the number of years of service up to a maximum of 25, plus 1.95% of the employees' final average compensation exceeding the covered compensation, multiplied by the number of years of service up to a maximum of 25; or (3) the accrued benefit as calculated under a special transition formula for employees who worked for the Companies during the period January 1, 1988 through December 31, 1991 who otherwise had five years of vesting service. Benefit accruals were frozen as of March 31, 2006.

Employees who terminate before rendering five years of eligible service forfeit the right to receive their portion of accumulated plan benefits. Employees receive their benefits as a life annuity payable monthly from their date of retirement.

(c) Administrative Expenses

All administrative expenses related to the Plan are paid by the Companies.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Notes to Financial Statements

December 31, 2010 and 2009

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting and present the net assets available for benefits, accumulated plan benefits, and the changes in those assets and benefits.

(b) *Valuation of Investments*

Investments are reported at fair value. Fair value is the price that would be required to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 3 for discussion of fair value measurements.

(c) *Investment Transactions and Income Recognition*

Net appreciation (depreciation) in fair value of investments is reflected in the statements of changes in net assets available for benefits and includes realized gains and losses on investments bought and sold and the change in appreciation (depreciation) from one period to the next. Purchases and sales of investment securities are reflected on a trade-date basis. Dividend income is recorded as of the ex-dividend date. Income from other investments is recorded as earned on the accrual basis.

(d) *Actuarial Present Value of Accumulated Plan Benefits*

Accumulated plan benefits are those future periodic payments that are attributable under the Plan's provisions to the service employees have rendered.

Accumulated plan benefits include benefits for services rendered through March 31, 2006 expected to be paid to: (a) retired or terminated employees or their beneficiaries; (b) beneficiaries of employees who have died; and (c) present employees or their beneficiaries. Such benefits under the Plan are based on employees' final average compensation (the average compensation during the highest consecutive 5 plan years of the last 10 years immediately preceding retirement or termination or the average compensation for the period of 60 consecutive months immediately preceding such event, whichever is greater). Average annual compensation was frozen as of March 31, 2006.

The actuarial present value of accumulated plan benefits is determined by actuaries from Mercer and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 2010 and 2009 were: (a) the life expectancy of participants (the RP 2000 Mortality Table projected to 2013); (b) retirement age assumptions (5% of participants ages 55 – 59 are assumed to retire, 10% of participants ages 60 – 64 are assumed to retire, and 100% of participants ages 65 and over are assumed to retire); and (c) discount rate (the weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits) of 5.50%, 6.00%, and 6.20%, at December 31, 2010, 2009, and 2008, respectively. Changes in actuarial assumptions (discount rate) resulted in an increase of \$13,969,851 and \$8,981,899 for the years ended December 31, 2010 and 2009, respectively, in the actuarial present value of accumulated plan

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Notes to Financial Statements

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benefits. The foregoing actuarial assumptions are based on the presumption that the Plan will continue.

(e) Pension Protection Act Funding Status

Starting with the 2008 plan year, Section 436 of the Internal Revenue Code (the Code) requires the Plan to meet specified funding thresholds to pay lump sums or other accelerated distributions, provide continued benefit accruals, pay unpredictable contingent event benefits, or implement amendments improving benefits. The Plan could be disqualified if it pays benefits in violation of the Code Section 436 limitations, or if it fails to pay benefits provided under the terms of the Plan when they are not limited by Code Section 436. The Adjusted Funding Target Attainment Percentage (AFTAP) is the funded status measure used to determine which of these limitations, if any, apply to the Plan.

For the plan years beginning January 1, 2010 and 2009, based on certain actuarial assumptions, participant and financial data, and certain plan provisions, the Plan's actuaries certified that the Plan has an AFTAP ratio of 80%. As such, the Plan was not subject to accelerated distribution limitations as defined by the Pension Protection Act of 2006 for 2010 and 2009.

(f) Payment of Benefits

Benefits payable under all circumstances – retirement, death, disability, and termination of employment – are included to the extent they are deemed attributable to employee service rendered to March 31, 2006. Benefits being provided via annuity contracts are excluded from plan assets and are excluded from accumulated plan benefits.

(g) Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, the disclosure of contingent assets and liabilities, and the actuarial present value of the accumulated plan benefits at the date of the financial statements. Actual results could differ from these estimates.

(h) Risks and Uncertainties

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of net assets available for plan benefits.

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the Plan, which could impact the value of investments after the date of these financial statements.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics,

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
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all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

(i) New Accounting Standards

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosures*. ASU 2010-06 applies to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements. ASU 2010-06 provides guidance on additional disclosures on any significant transfers in and out of Level 1 and Level 2 and a description of the transfer. ASU 2010-06 also requires separate disclosures of the activity in the Level 3 category related to any purchases, sales, issuances, and settlements on a gross basis. The effective date of the new disclosures relating to the existing disclosures regarding Level 1 and Level 2 categories is for interim and annual periods beginning after December 15, 2009. The effective date of the disclosures regarding purchases, sales, issuances, and settlements to the Level 3 category is for interim and annual periods beginning after December 15, 2010. The portion of ASU 2010-06 that has been adopted did not have a material impact on the Plan's net assets available for benefits or changes in the net assets available for benefits as it focuses on additional disclosures. The portion of ASU 2010-06 that has not yet been adopted is not expected to have a material impact on the Plan's net assets available for benefits or changes in the net assets available for benefits.

(3) Investments

Fair value accounting guidance defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

Fair value measurements are determined under a three-level hierarchy, which gives the highest priority to quoted prices in active markets and the lowest priority to unobservable inputs, which are based on the Company's own assumptions. The three levels of the hierarchy are as follows:

Level 1 – inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 – inputs to the valuation methodology, other than Level 1 inputs, that are based on observable market data. These include quoted prices for similar assets in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset and liability; and inputs that are derived from or corroborated by observable market data by correlation or other means.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement, reflecting the Plan's own assumptions.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
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Notes to Financial Statements

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Following is a description of the valuation methodologies used for investments measured at fair value. There has been no change in the methodologies used at December 31, 2010 and 2009.

For investments that have quoted market prices in active markets, the Plan uses quoted market price as fair value and includes these investments in Level 1 of the fair value hierarchy. The Plan classifies U.S. Treasury securities and publicly traded mutual funds as Level 1. When quoted market prices in active markets are not available, the Plan uses a pricing service to estimate fair value. The fair value estimates obtained from this pricing service are included in Level 2 of the fair value hierarchy. The Plan classifies its fixed maturity securities other than U.S. Treasury securities as Level 2. Investment in a venture capital fund is classified as Level 3. This investment is accounted for under the equity method of accounting, which approximates fair value. Fair value was estimated by the venture capital fund's management in the absence of readily ascertainable market values.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
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Notes to Financial Statements

December 31, 2010 and 2009

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2010 and 2009. There were no transfers to or from Levels 1 and 2 of the fair value hierarchy in 2010. The Plan's policy is to recognize transfers between levels as of the end of the reporting period.

		Fair value measurement at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2010			
Fixed income securities:				
U.S. Treasury securities	\$ 9,323,939	9,323,939	—	—
Obligations of U.S. government corporations and agencies	2,980,296	—	2,980,296	—
Mortgage-backed securities	5,215,641	—	5,215,641	—
Corporate bonds (c)	13,826,640	—	13,826,640	—
Equity securities:				
Institutional Total Stock Market Fund (a)	96,417,925	96,417,925	—	—
FTSE All World Ex U.S. Fund (b)	23,505,348	23,505,348	—	—
Other investment:				
Venture capital fund (d)	42,555	—	—	42,555
Total asset category	\$ 151,312,344	129,247,212	22,022,577	42,555

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Notes to Financial Statements

December 31, 2010 and 2009

		Fair value measurement at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	December 31, 2009			
Fixed income securities:				
U.S. Treasury securities	\$ 9,030,240	9,030,240	—	—
Obligations of U.S. government corporations and agencies	3,463,525	—	3,463,525	—
Mortgage-backed securities	5,242,034	—	5,242,034	—
Corporate bonds (c)	13,103,232	—	13,103,232	—
Equity securities:				
Institutional Total Stock Market Fund (a)	83,526,551	83,526,551	—	—
FTSE All World Ex U.S. Fund (b)	20,999,942	20,999,942	—	—
Other investment:				
Venture capital fund (d)	102,628	—	—	102,628
Total asset category	\$ 135,468,152	113,556,733	21,808,791	102,628

- (a) This category is comprised entirely of an index-based mutual fund that is designed to track the performance of the MSCI Broad Market Index.
- (b) This category is comprised entirely of an index-based mutual fund that is designed to track the performance of the FTSE All-World ex-U.S. Index.
- (c) This category is comprised of investment grade bonds of U.S. issuers from diverse industries.
- (d) This category is comprised of an equity investment in a company that engages in venture capital investment activities with selected businesses that have significant potential for growth and long-term appreciation.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Notes to Financial Statements

December 31, 2010 and 2009

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the years ended December 31, 2010 and 2009:

	Level 3 assets year ended December 31	
	Venture capital fund	
	2010	2009
Balance at January 1	\$ 102,628	149,467
Unrealized losses relating to instruments still held at the reporting date (included in net appreciation (depreciation) in fair value of investments)	(60,073)	(46,839)
Balance at December 31	<u>\$ 42,555</u>	<u>102,628</u>

Investments at December 31, 2010 and 2009 that represent 5% or more of the Plan's net assets are as follows:

	Number of shares	Fair value
December 31, 2010:		
Vanguard Institutional Total Stock Market Fund	3,378,344	\$ 96,417,925
Vanguard FTSE All World Ex U.S. Fund	250,510	23,505,348
December 31, 2009:		
Vanguard Institutional Total Stock Market Fund	3,366,649	\$ 83,526,551
Vanguard FTSE All World Ex U.S. Fund	245,012	20,999,942

The Plan's investments, including gains and losses on investments bought and sold as well as held during the year, appreciated (depreciated) in fair value during 2010 and 2009 as presented in the following table:

	2010	2009
U.S. Treasury securities	\$ 278,259	(123,456)
Obligations of U.S. government corporations and agencies	7,343	(164,228)
Mortgage-backed securities	41,781	116,367
Corporate bonds	(5,100)	822,208
Mutual funds	14,697,675	24,463,739
Other	(60,073)	(46,839)
Net appreciation in fair value of investments	<u>\$ 14,959,885</u>	<u>25,067,791</u>

The majority of the 2010 and 2009 appreciation in the fair value of investments is due to unrealized gains in the equity portfolio, which consists of mutual funds invested in stocks.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Notes to Financial Statements

December 31, 2010 and 2009

(4) Funding Policy

The Companies' funding policy is to contribute annually an amount equal to at least the minimum required contribution in accordance with minimum funding standards established by ERISA. Contributions are intended to provide for benefits attributed to service rendered through March 31, 2006. For the plan years ended December 31, 2010 and 2009, Company contributions were \$6,462,001 and \$6,533,747, respectively. The Plan's actuarial funding method is the traditional unit credit method.

(5) Tax Status

The Plan has received a favorable determination letter from the Internal Revenue Service on the Plan's status as to compliance with the applicable requirements for the Code, as amended. This letter was dated October 15, 2009. The plan administrator believes that the Plan is currently designed and is being operated in compliance with the applicable requirements of the Code. Therefore, no provision for income taxes is included in the Plan's financial statements.

(6) Plan Termination

The Companies reserve the right to terminate the Plan at any time. In the event of termination, participants' rights to their accrued benefit become fully vested and nonforfeitable. The remaining assets shall be allocated among the participants or their beneficiaries as follows:

- (a) To continue to pay benefits to participants who were or should have been in pay status three years before such termination;
- (b) To pay benefits vested under the Plan and guaranteed under Title IV of ERISA;
- (c) To pay all other nonforfeitable benefits; and
- (d) To pay all other benefits under the Plan.

Benefits under the Plan are insured by the Pension Benefit Guaranty Corporation (PBGC). Generally, the PBGC does not guarantee all types of benefits under covered plans, and the amount of benefit protection is subject to certain limitations. There is a ceiling on the amount of monthly benefit that the PBGC guarantees, which is adjusted periodically. For plans terminating in 2010 and 2009, the ceiling was \$4,500.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide those benefits and may also depend on the level of benefits guaranteed by the PBGC.

(7) Subsequent Events

The Plan evaluated subsequent events through October 11, 2011, which is the date these financial statements were issued.

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Notes to Financial Statements

December 31, 2010 and 2009

On September 28, 2011, Harleysville Group Inc. and Harleysville Mutual Insurance Company entered into a merger agreement with Nationwide Mutual Insurance Company (Nationwide) under which Nationwide will acquire all of the publicly held shares of common stock of Harleysville Group Inc. and Harleysville Mutual Insurance Company will merge into Nationwide. These transactions are not expected to have any impact on the Plan.

Supplemental Schedule

PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

December 31, 2010

Par value	Issuer	Interest rate	Maturity date	Original cost	Fair value
U.S. government and government agency securities:					
\$ 900,000	Federal Farm Credit Bank	6.900%	09/15	\$ 845,775	1,095,246
720,000	Federal Farm Credit Bank	6.270	01/16	639,331	858,190
1,000,000	Federal Home Loan Mortgage CF	5.250	07/11	997,050	1,026,860
1,000,000	U.S. Treasury Notes	4.630	02/12	1,007,812	1,048,940
3,000,000	U.S. Treasury Notes	2.000	11/13	3,002,813	3,088,593
1,000,000	U.S. Treasury Notes	2.380	08/14	998,516	1,035,938
3,000,000	U.S. Treasury Notes	2.380	09/14	3,004,219	3,107,343
1,000,000	U.S. Treasury Notes	3.130	10/16	1,027,656	1,043,125
Total U.S. government and government agency securities				11,523,172	12,304,235
Mortgage-backed securities:					
587	FHLMC Ser 1831 CL 1831 PD CMO	6.250	03/11	579	586
1,000,000	FHLMC REMIC Series 2006-46	5.500	02/35	957,188	1,092,773
425,115	FHLMC REMIC Series 2810	6.000	06/33	426,311	455,277
500,000	FHLMC REMIC Series 2949	5.500	12/30	495,469	522,085
1,000,000	FHLMC REMIC Series 2773	4.500	04/24	885,000	1,062,130
992,817	FHLMC REMIC Series 2840	5.500	03/33	958,185	1,056,337
1,000,000	FHLMC REMIC Series 3104	5.000	01/29	989,609	1,026,453
Total mortgage-backed securities				4,712,341	5,215,641
Corporate bonds:					
1,000,000	Abbott Labs	5.600	05/11	999,350	1,019,688
500,000	Anheuser Busch Cos Inc.	4.700	04/12	499,675	522,160
300,000	Atlantic Richfield Company	8.450	02/12	298,914	317,529
742,801	Burlington Northern Co.	5.630	04/24	742,801	801,297
800,000	Bank New York Medium term Note	4.950	01/11	780,128	800,808
1,000,000	Caterpillar Financial Services	1.900	12/12	998,810	1,016,170
500,000	Centerpoint Energy Transit	5.090	08/15	499,982	544,460
500,000	Chevron Corp.	3.950	03/14	499,080	533,780
500,000	Coca Cola Co.	3.630	03/14	497,725	529,195
424,948	Continental Airlines Pass Thru	6.900	01/18	424,947	451,507
500,000	Cooper US Inc	2.380	01/16	499,085	493,190
500,000	General Electric Capital Corp. medium term note	5.500	09/16	497,500	502,615
500,000	International Business Machines	1.000	08/13	497,955	498,175
1,000,000	JCP&L	5.410	09/14	999,604	1,102,366
500,000	Merck & CO Inc New	2.250	01/16	498,795	493,715
500,000	Pepsico Inc.	3.750	03/14	498,940	529,145
500,000	Pfizer Inc.	5.350	03/15	499,375	562,080
250,000	PG&E Energy FDG 2005-2	5.120	12/14	249,950	266,978
1,000,000	Shell International FIN B	5.630	06/11	999,100	1,024,150
500,000	Sysco Corp	4.200	02/13	499,175	532,000
250,000	Target Corp	5.130	01/13	249,185	270,607
500,000	Wal-Mart Stores Inc.	4.130	02/11	509,975	502,120
500,000	Wal-Mart Stores Inc.	2.880	04/15	496,545	512,905
Total corporate bonds				13,236,596	13,826,640

Supplemental Schedule

**PENSION PLAN OF HARLEYSVILLE GROUP INC.
AND ASSOCIATED EMPLOYERS**

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

December 31, 2010

<u>Number of shares</u>	<u>Issuer</u>	<u>Original cost</u>	<u>Fair value</u>
	Mutual funds:		
3,378,344	Vanguard Institutional Total Stock Market Fund	\$ 64,333,075	96,417,925
250,510	Vanguard FTSE All World Ex U.S. Fund	<u>20,416,412</u>	<u>23,505,348</u>
	Total mutual funds	84,749,487	119,923,273
100	Other investments	<u>613,987</u>	<u>42,555</u>
	Total investments	<u>\$ 114,835,583</u>	<u>151,312,344</u>

See accompanying independent auditors' report.

SCHEDULE SB (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Single-Employer Defined Benefit Plan Actuarial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6059 of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500 or 5500-SF.	OMB No. 1210-0110 2010 This Form is Open to Public Inspection
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For calendar plan year 2010 or fiscal plan year beginning 01/01/2010 and ending 12/31/2010

- Round off amounts to nearest dollar.
- Caution: A penalty of \$1,000 will be assessed for late filing of this report unless reasonable cause is established.

A Name of plan PENSION PLAN OF HARLEYSVILLE GROUP INC.	B Three-digit plan number (PN) ► 001
C Plan sponsor's name as shown on line 2a of Form 5500 or 5500-SF HARLEYSVILLE GROUP INC.	D Employer Identification Number (EIN) 51-0241172
E Type of plan: ☒ Single ☐ Multiple-A ☐ Multiple-B	F Prior year plan size: ☐ 100 or fewer ☐ 101-500 ☒ More than 500

Part I Basic Information			
1 Enter the valuation date: Month <u>1</u> Day <u>1</u> Year <u>2010</u>			
2 Assets:			
a Market value		2a	142,915,209
b Actuarial value		2b	147,925,155
3 Funding target/participant count breakdown	(1) Number of participants		(2) Funding Target
a For retired participants and beneficiaries receiving payment	3a	1,124	79,234,123
b For terminated vested participants	3b	1,720	55,326,559
c For active participants:			
(1) Non-vested benefits	3c(1)		1,607,637
(2) Vested benefits	3c(2)		48,737,890
(3) Total active	3c(3)	1,195	50,345,527
d Total	3d	4,039	184,906,209
4 If the plan is at-risk, check the box and complete items (a) and (b) ☐			
a Funding target disregarding prescribed at-risk assumptions		4a	
b Funding target reflecting at-risk assumptions, but disregarding transition rule for plans that have been at-risk for fewer than five consecutive years and disregarding loading factor		4b	
5 Effective interest rate	5	6.62 %	
6 Target normal cost	6	0	

Statement by Enrolled Actuary

To the best of my knowledge, the information supplied in this schedule and accompanying schedules, statements and attachments, if any, is complete and accurate. Each prescribed assumption was applied in accordance with applicable law and regulations. In my opinion, each other assumption is reasonable (taking into account the experience of the plan and reasonable expectations) and such other assumptions, in combination, offer my best estimate of anticipated experience under the plan.

SIGN HERE	RSE Signature of actuary ROBERT S. ELIAS, FSA Type or print name of actuary MERCER Firm name 1717 ARCH STREET, 27TH FLOOR Address of the firm PHILADELPHIA PA 19103-2754	October 5, 2011 Date 11-03160 Most recent enrollment number (215) 982-4600 Telephone number (including area code)
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Part II Beginning of year carryover and prefunding balances

	(a) Carryover balance	(b) Prefunding balance
7 Balance at beginning of prior year after applicable adjustments (Item 13 from prior year)	7,956,128	0
8 Portion used to offset prior year's funding requirement (Item 35 from prior year)	0	0
9 Amount remaining (Item 7 minus item 8)	7,956,128	0
10 Interest on item 9 using prior year's actual return of <u>25.17</u> %	2,002,557	
11 Prior year's excess contributions to be added to prefunding balance:		
a Excess contributions (Item 38 from prior year)		2,063,621
b Interest on (a) using prior year's effective rate of <u>8.08</u> %		166,741
c Total available at beginning of current plan year to add to prefunding balance		2,230,362
d Portion of (c) to be added to prefunding balance		0
12 Reduction in balances due to elections or deemed elections	9,958,685	0
13 Balance at beginning of current year (item 9 + item 10 + item 11d - item 12)	0	0

Part III Funding percentages

14 Funding target attainment percentage	14	80.00 %
15 Adjusted funding target attainment percentage	15	80.00 %
16 Prior year's funding percentage for purposes of determining whether carryover/prefunding balances may be used to reduce current year's funding requirement	16	85.34 %
17 If the current value of the assets of the plan is less than 70 percent of the funding target, enter such percentage	17	%

Part IV Contributions and liquidity shortfalls**18** Contributions made to the plan for the plan year by employer(s) and employees:

(a) Date (MM-DD-YYYY)	(b) Amount paid by employer(s)	(c) Amount paid by employees	(a) Date (MM-DD-YYYY)	(b) Amount paid by employer(s)	(c) Amount paid by employees
03/15/2010	1,029,000				
06/15/2010	1,733,000				
09/15/2010	1,850,000				
12/15/2010	1,850,000				
Totals ▶			18(b)	6,462,000	18(c) 0

19 Discounted employer contributions - see instructions for small plan with a valuation date after the beginning of the year:

a Contributions allocated toward unpaid minimum required contribution from prior years.	19a	0
b Contributions made to avoid restrictions adjusted to valuation date	19b	0
c Contributions allocated toward minimum required contribution for current year adjusted to valuation date	19c	6,208,075

20 Quarterly contributions and liquidity shortfalls:**a** Did the plan have a "funding shortfall" for the prior year? ☒ Yes ☐ No**b** If 20a is "Yes," were required quarterly installments for the current year made in a timely manner? ☒ Yes ☐ No**c** If 20a is "Yes," see instructions and complete the following table as applicable:

Liquidity shortfall as of end of Quarter of this plan year			
(1) 1st	(2) 2nd	(3) 3rd	(4) 4th
0	0	0	0

Part V Assumptions used to determine funding target and target normal cost

21 Discount rate:				
a Segment rates:	1st segment: 4.60 %	2nd segment: 6.65 %	3rd segment: 6.76 %	☐ N/A, full yield curve used
b Applicable month (enter code)				21b 0
22 Weighted average retirement age				22 62
23 Mortality table(s) (see instructions) ☐ Prescribed - combined ☒ Prescribed - separate ☐ Substitute				

Part VI Miscellaneous items

24 Has a change been made in the non-prescribed actuarial assumptions for the current plan year? If "Yes," see instructions regarding required attachment.	☒ Yes ☐ No
25 Has a method change been made for the current plan year? If "Yes," see instructions regarding required attachment.	☐ Yes ☒ No
26 Is the plan required to provide a Schedule of Active Participants? If "Yes," see instructions regarding required attachment.	☒ Yes ☐ No
27 If the plan is eligible for (and is using) alternative funding rules, enter applicable code and see instructions regarding attachment.	27

Part VII Reconciliation of unpaid minimum required contributions for prior years

28 Unpaid minimum required contribution for all prior years	28	0
29 Discounted employer contributions allocated toward unpaid minimum required contributions from prior years (item 19a).....	29	0
30 Remaining amount of unpaid minimum required contributions (item 28 minus item 29).....	30	0

Part VIII Minimum required contribution for current year

31 Target normal cost, adjusted, if applicable (see instructions).....	31	0
32 Amortization installments:	Outstanding Balance	Installment
a Net shortfall amortization installment	29,584,806	5,868,152
b Waiver amortization installment	0	0
33 If a waiver has been approved for this plan year, enter the date of the ruling letter granting the approval (Month _____ Day _____ Year _____) and the waived amount	33	0
34 Total funding requirement before reflecting carryover/prefunding balances (item 31 + item 32a + item 32b - item 33).....	34	5,868,152
	Carryover balance	Prefunding balance
35 Balances used to offset funding requirement	0	0
36 Additional cash requirement (item 34 minus item 35).....	36	5,868,152
37 Contributions allocated toward minimum required contribution for current year adjusted to valuation date (Item 19c).....	37	6,208,075
38 Interest-adjusted excess contributions for current year (see instructions).....	38	339,923
39 Unpaid minimum required contribution for current year (excess, if any, of item 36 over item 37).....	39	0
40 Unpaid minimum required contribution for all years	40	0

Schedule SB, Line 22 — Description of Weighted Average Retirement Age

Each employee is assumed to retire in accordance with the table of retirement rates. The proportion of employees expected to retire at each potential retirement age is shown below. The average retirement age is 62.

(A)	(B)	(C)	(D)	(E)
Age	Probability of retirement	Number of lives	Number of retirements	(A) x (D)
55	5.00%	10,000	500	27,500
56	5.00%	9,500	475	26,600
57	5.00%	9,025	451	25,721
58	5.00%	8,574	429	24,864
59	5.00%	8,145	407	24,028
60	10.00%	7,738	774	46,427
61	10.00%	6,964	696	42,481
62	10.00%	6,268	627	38,859
63	10.00%	5,641	564	35,537
64	10.00%	5,077	508	32,491
65	100.00%	4,569	4,569	296,991
66	100.00%	0	0	0
67	100.00%	0	0	0
68	100.00%	0	0	0
69	100.00%	0	0	0
70	100.00%	0	0	0
Total			10,000	621,500

Weighted average retirement age: 62.1500

The weighted average retirement age for all participants combined is the average of the average retirement ages, weighted by the respective headcounts, as of the valuation date. It should be noted that while only integral values are shown in the tables above, the full content of each cell, including decimal portions, is used in the calculations.

Schedule SB, Line 32 — Schedule of Amortization Bases

The shortfall amortization charge is the sum of the shortfall base amortization for each plan year covered under PPA. Although a shortfall base can be negative, the combined shortfall amortization charge cannot be negative.

Shortfall bases				
Year established		Outstanding balance	Years remaining	Installment
2008	\$	17,258,239	5	\$ 3,768,874
2009	\$	1,829,621	6	\$ 344,957
2010	\$	10,496,946	7	\$ 1,754,321
Total	\$	29,584,806		\$ 5,868,152

Schedule SB, Line 26 — Schedule of Active Participant Data

Years of benefit service											
Attained age	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Up	Total
< 25											
25 - 29	13	15	2								30 884
30 - 34	8	29 1,523	13								50 1,803
35 - 39	6	35 1,902	39 4,551	9	16						105 4,138
40 - 44	8	53 2,509	48 4,935	7	31 12,829	25 13,428					172 6,906
45 - 49	6	62 2,280	55 6,286	24 10,519	44 14,082	41 14,890	27 18,426				259 9,536
50 - 54	3	66 2,735	51 5,910	21 14,710	31 15,285	24 20,204	31 22,259	8			235 11,023
55 - 59	6	37 3,106	58 6,870	19	25 11,608	28 22,641	17	6	5		201 10,968
60 - 64	5	34 2,615	32 6,900	12	14	5	9	1	2	3	117 8,312
65 - 69		8	4	6	4	1	1				24 7,682
70+		1			1						2
Total	55 427	340 2,442	302 5,774	98 10,631	166 12,815	124 17,757	85 20,144	15	7	3	1,195 8,518

In each cell, the top number shown is the count of active participants and the bottom number is the average annual accrued benefit, payable at normal retirement age, for each age/service combination. Compensation information has not been shown since benefit accruals were frozen as of March 31, 2006.

Schedule SB, Part V — Statement of Actuarial Assumptions/Methods**Actuarial assumptions****Discount rate sponsor elections**

▪ Segment rates or full yield curve	Segment rates
▪ Look-back months	0
▪ First 5 years	4.60%
▪ Next 15 years	6.65%
▪ Over 20 years	6.76%

Mortality sponsor elections

▪ Healthy participants	Section 430(h)(3) prescribed separate static annuitant and nonannuitant mortality tables. These tables are based on the RP-2000 mortality tables projected with mortality improvement to the valuation year plus 7 years for annuitants and 15 years for non-annuitants based on Scale AA.
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Other economic assumptions

▪ Salary increases	Not applicable
▪ Social Security wage base	Not applicable
▪ Expected investment return	8.25% per year for years 2008 through 2010.
▪ Expenses	Employer assumed to pay non-investment related expenses.

Demographic assumptions

Withdrawal Annual termination rates are based on age. Sample rates are as follows:

Age	Termination Rate
25	14.4%
40	9.8
55	2.0

Retirement age

Age	Retirement Rate
55-59	5%
60-64	10%
65 and above	100%

Schedule SB, Part V — Statement of Actuarial Assumptions/Methods

Benefit commencement age for			
▪ Future vested deferred	65		
▪ Current vested deferred	65		
Spouse assumptions	<u>Male participants</u>	<u>Female participants</u>	
▪ Percentage married	75%	75%	
▪ Spouse age difference	3 years younger	3 years older	
Form of payment	<u>Lump sum</u>	<u>Single life</u>	<u>50% J&S</u>
▪ Active retirements	0%	100%	0%
▪ Future vested deferred	0%	100%	0%
▪ Future deaths	0%	0%	100%
▪ Current vested deferred	0%	100%	0%
Unpredictable contingent event assumptions	Not applicable		

Actuarial methods**Asset methods**

The asset valuation method is an annual average of the adjusted market value over the last 24 months preceding the valuation date. The adjusted market value is the market value at each determination date adjusted to the valuation date based on actual cash flows and expected interest at the lesser of the expected rate of return and the third segment rate. This amount is adjusted to be no greater than 110 percent and no less than 90 percent of the fair market value, as defined in IRC Section 430.

A characteristic of this asset method is that, over time, it is slightly more likely to produce an actuarial value of assets that is less than the market value of assets than an actuarial value that is greater than the market value.

Participant methods

Participants or former participants are included or excluded from the valuation as described below:

- **Participants included:** The plan sponsor provides us with data on all employees as of the valuation date, but only those employees who have completed the plan's eligibility requirements are included in the valuation of liabilities.
- **Participants excluded:** No actuarial liability is included for nonvested participants who terminated prior to the valuation date.
- **Insurance contracts:** The plan does not have any insurance contracts.

Schedule SB, Part V — Statement of Actuarial Assumptions/Methods

Minimum funding methods

The funding target for minimum funding calculations is computed using the traditional unit credit method of funding. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

A detailed description of the calculation follows:

- The plan's valuation date is the beginning of the plan year.
- An individual's **funding target** is the present value of future benefits based on credited service and average pay as of the beginning of the plan year, and an individual's **target normal cost** is the present value of the benefit expected to accrue in the plan year. If multiple decrements are used, the funding target and the target normal cost for an individual is the sum of the component funding targets and target normal costs associated with the various anticipated separation dates.
- The plan's **target normal cost** is the sum of the individual target normal costs, and the plan's **funding target** is the sum of the individual funding targets for all participants under the plan.

Maximum deductible contribution method

Calculations of maximum deductible contributions include the excess of the funding target computed using the projected unit credit method over the minimum funding target. The objective of the projected unit credit method is to fund each participant's benefits under the plan as they accrue, taking into consideration expected future compensation increases. Thus, the total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

A detailed description of the calculation follows:

- An individual's **projected funding target** is the present value of benefits based on credited service as of the beginning of the plan year and projected compensation that would be used in the calculation of the benefit on each expected separation date. If multiple decrements are used, the projected funding target for an individual is the sum of the component projected funding targets associated with the various anticipated separation dates.
- The plan's **projected funding target** is the sum of the projected funding targets for all participants under the plan. The excess of the plan's projected funding target over the plan's funding target is included in the "cushion amount."

Schedule SB, Line 24 — Change in Actuarial Assumptions

- Effective January 1, 2010, the discount rate assumption for calculating the funding target liability changed to segment rates with a zero month look-back period. This prescribed assumption change was made in accordance with executed sponsor elections.
- The retirement assumption was updated from 2009 to 2010 to reflect anticipated future experience.

Schedule SB, Part V — Summary of Plan Provisions

Benefits included or excluded

Unless noted below, all benefits provided by the plan, as restated effective January 1, 2008, are included in this valuation.

- **Plan amendments excluded:** None
- **IRC Section 436 benefit restrictions:**
 - *Unpredictable contingent event benefits:* This valuation excludes restricted contingent event benefits that occurred before the valuation date but includes contingent event benefits which are expected to occur on or after the valuation date regardless of anticipated funding-based limitations.
 - *Plan amendments:* See above.
 - *Prohibited payments:* Limitations on prohibited benefits (if any) are reflected for annuity starting dates before the valuation date but are ignored for annuity starting dates on or after the valuation date.
- **Late retirement increases:**
 - *Active participants:* This valuation includes late retirement actuarial increases for current participants over age 65.
 - *Deferred vested participants:* Current deferred vested participants over normal retirement age are valued including the late retirement actuarial increase.
- **Unpredictable contingent event benefits:** The plan does not have any unpredictable contingent event benefits.
- **IRC Section 415(b) benefit limitations:** The limitations of Internal Revenue Code Section 415(b) have been incorporated into our calculations.
- **IRC Section 416 rules for top-heavy plans:** We did not test whether this plan is top-heavy (when the present value of benefits for key employees equals or exceeds 60 percent of the present value for all participants). However, we expect that the plan is not top-heavy due to the large number of rank-and-file participants; therefore, the funding target and target normal cost do not reflect any liability for top-heavy benefit accruals.

Schedule SB, Part V — Summary of Plan Provisions**Summary of major plan provisions**

Effective date and plan year	Original plan: January 1, 1953 Restated plan: January 1, 2008 Plan year: Calendar year
Significant events that occurred during the year	None

Definitions

Participation	All employees who work at least 1,000 hours in a 12-month period are eligible on the first day of January or July following the completion of one year of service and the attainment of age 21. The plan has been amended to allow individuals hired during 2005 to enter the plan on March 31, 2006. Employees hired on or after January 1, 2006 are not eligible for the pension plan.
Employee contributions	None
Vesting computation period	The period of 12-consecutive months commencing on an Employee's Employment Commencement Date or Reemployment Commencement Date, whichever is applicable, and the period of 12-consecutive months commencing on each anniversary of such date.
Vesting service	A year of Vesting Service shall be credited for each Vesting Computation period in which the participant completes at least 1,000 hours of service.
Benefit service	A year of Benefit Service shall be credited for each plan year in which the participant completes 1,000 or more hours of service. Benefit Service is frozen as of March 31, 2006. For New York Casualty and Connecticut Union employees, Benefit Service is calculated from the later of Date of Employment and March 8, 1982. For Lake States employees, Benefit Service is calculated from the later of Date of Employment and January 1, 1986. For Boyertown employees, Benefit Service is calculated from the later of Date of Employment and October 6, 1997.
Covered compensation	Average of taxable wage bases in effect during the 35-year period ending with the year of attainment of Social Security normal retirement age. The Covered Compensation Level is based upon the Social Security law in effect in the year of determination, but no later than 2006.

Schedule SB, Part V — Summary of Plan Provisions

▪ Break in service	12-month employment period during which less than 501 hours are worked (unless on a qualified Leave of Absence). If the participant is not vested and the number of consecutive one-year Breaks in Service equals or exceeds the greater of total number of years of Vesting Service or Benefit Service earned before break, or five years, such prior service is lost.
▪ Compensation	Base salary inclusive of amounts deferred under a salary reduction agreement. Effective January 1, 2002, compensation may not exceed \$200,000 (prospectively and retrospectively) per annum (actual dollar limit is indexed). Compensation is not considered beyond March 31, 2006.
▪ Average annual compensation	Average of Annual Compensation earned for the 5 highest consecutive plan years within the period of 10 years immediately preceding a participant's retirement date or termination date. Average Annual Compensation is frozen as of March 31, 2006.
▪ Accrued benefit	The Normal Retirement Benefit calculated using Average Annual Compensation and Benefit Service as of the date of determination. The plan has been amended to stop benefit accruals as of March 31, 2006.
Normal retirement	
▪ Eligibility	Later of age 65 or the fifth anniversary of the date of employment.
▪ Benefit	The greater of: ▪ <i>Grandfathered Benefit:</i> Accrued Benefit as of December 31, 1988 determined under the old benefit formula; ▪ <i>New Formula:</i> 1.45% of Average Annual Compensation up to Covered Compensation Level plus 1.95% of Average Annual Compensation in excess of Covered Compensation, times Credited service up to 25; <i>or</i>

Schedule SB, Part V — Summary of Plan Provisions

-
- Benefit (*cont.*)
 - *Transition Formula:* Accrued benefit as of December 31, 1988 indexed to reflect the increase in Annual Average Compensation at the date of determination versus the Annual Average Compensation at December 31, 1988, plus 1.7% of Annual Average Compensation times Credited service after January 1, 1989, with a maximum of nine years. This formula was frozen as of December 31, 1997.
 - Benefits for employees who are not Super Highly Compensated can be no less than what was accrued under the old benefit formula as of December 31, 1991.
 - Benefit accruals have been frozen as of March 31, 2006.

Worcester employees who are not Highly Compensated and with 10 or more years of service as of December 31, 1983, shall receive the greater of (1) the normal retirement benefit determined under the Harleysville Plan; or (2) the normal retirement benefit determined under the Worcester formula, which is 70% of Final Average Compensation less 50% of the Primary Insurance Amount, with the difference reduced by 1/35 for each year of Credited service less than 35 years at Normal Retirement Date. However, an employee who was a participant in the Worcester Plan before January 1, 1974, shall be entitled to the larger of the Worcester benefit described above or a minimum benefit calculated under the pre-1974 plan.

Atlantic Mutual employees who are not Highly Compensated and with 10 or more years of service as of December 31, 1987 shall receive the greater of (1) the normal retirement benefit determined under the Harleysville Plan; or (2) the normal retirement benefit determined under the Atlantic Mutual Plan formula; which is 80% of Final Average compensation less 50% of the Primary Insurance Amount with the difference reduced by 1/40 for each year of Credited service less than 40 years at Normal Retirement Date.

Phoenix Mutual employees shall receive the greater of (1) the benefit under the Phoenix Mutual plan formula as of December 31, 1990 increased by Cost of Living Adjustment each year, or (2) the benefit determined under the Harleysville Plan using all years of service with Harleysville and Phoenix Mutual.

Lake States current participants will receive a benefit which will be the sum of (1) benefit earned as of December 31, 1994, under the Lake States formula, plus (2) benefit earned commencing January 1, 1995 under the Harleysville formula. There will be a maximum of 25 years of service taken into account in determining the benefit, and the highest five years of compensation will be used to determine the benefit under the Lake States and Harleysville formulas. The Lake States formula is 1.45% times final average compensation times years of service up to a maximum of 9, while the Harleysville formula is 1.45% of final average compensation up to covered compensation plus 1.95% of final average compensation over covered compensation times years of service up to a maximum of 25 years.

Schedule SB, Part V — Summary of Plan Provisions

Benefit (cont.)

Former Minnesota Fire and Casualty employees shall receive the greater of (1) the benefit under the MF&C Company Employee Pension Plan as of December 31, 1998 or (2) the MF&C formula for service through December 31, 1998 (1.2% of final average compensation up to covered compensation plus 1.65% of final average compensation over covered compensation; times years of service up to a maximum of 25 years) plus the Harleysville formula for service beginning January 1, 1999, both benefits based on the same final average compensation using the Harleysville base salary definition. MF&C employees with 10 or more years of service as of December 31, 1998 will be eligible for a total service benefit under the MF&C formula as long as they are non-highly compensated employees.

Former Berkshire Mutual Insurance employees are entitled to the pension benefit determined under the provisions of the Berkshire Mutual Pension Plan at the time of its merger into the Harleysville Plan.

Early retirement

- **Eligibility** Age 55 and five Years of Vesting Service.
- **Benefit** For participants who become eligible on or after January 1, 1989, the product of benefit determined under the new formula times new early retirement factors as specified below.
For others, the greater of:
 - Benefit as calculated above; or
 - Benefit determined under the transition formula times old early retirement factors as specified below:

Age	Old Early-Retirement Factors	New Early-Retirement Factors
55	0.640	0.480
56	0.676	0.520
57	0.712	0.560
58	0.748	0.600
59	0.784	0.640
60	0.820	0.680
61	0.856	0.720
62	0.892	0.760
63	0.928	0.840
64	0.964	0.920
65	1.000	1.000

Schedule SB, Part V — Summary of Plan Provisions

▪ Benefit (<i>cont.</i>)	Benefits calculated under the Minnesota Fire and Casualty Company Employee Pension Plan as of December 31, 1998 or under the MF&C grandfathered benefit provisions use the early retirement factors specified in the former Minnesota Fire and Casualty Plan.
Late retirement	
▪ Eligibility	Retirement after normal retirement age.
▪ Benefit	The monthly benefit equals the greater of: ▪ Normal Retirement Benefit computed as of Normal Retirement Date actuarially increased for each month the payment commencement date is deferred beyond the Normal Retirement Date; <i>or</i> ▪ Benefit computed using Credited service and Average Annual Compensation as of the Late Retirement Date, but Primary Social Security Benefit as of Normal Retirement Date. The plan has been amended to stop benefit accruals as of March 31, 2006.
Deferred vested	
▪ Eligibility	100% vested after the completion of 5 years of vesting service.
▪ Benefit	Accrued Benefit as of the date of termination, multiplied by the vesting percentage.
Disability	
▪ Eligibility	Eligible for disability benefits under the Company's Salary Continuation program.
▪ Benefit	Normal Retirement Benefit assuming that the participant continued working until his Normal Retirement Date at the annual salary rate last in effect at the date of the total disability. The plan has been amended to stop benefit accruals as of March 31, 2006.
Pre-retirement death	
▪ Eligibility prior to early retirement	Member married to spouse at least one year at date of death and vested in accrued benefit.
▪ Benefit prior to early retirement	50% of Accrued Benefit at the time of death reduced for early retirement and 50% Joint and Survivor option. This is payable at the time the Participant would have been eligible for early retirement.

Schedule SB, Part V — Summary of Plan Provisions

▪ Eligibility after early but before normal retirement	Member married to spouse at least one year at date of death, not yet receiving a benefit, and eligible for Early Retirement.
▪ Benefit after early but before normal retirement	Annuity payable to member's spouse under 50% Joint and Survivor option as if member elected early retirement immediately before death.
▪ Eligibility after normal retirement	Member married to present spouse at least one year at date of death, not yet receiving retirement benefits, and eligible for deferred retirement.
▪ Benefit after normal retirement	Annuity payable to member's spouse under 50% Joint and Survivor option as if member had retired immediately before death.
Postretirement death benefits	Upon death of a former employee who had completed at least 10 years of service and was retired directly from employment with the company after June 30, 1964, there shall be paid to his or her named beneficiary the sum of \$5,000.
Form of benefits	
▪ Automatic form for unmarried participants	Life annuity payable monthly.
▪ Automatic form for married participants	50% Joint and Survivor Annuity payable monthly (actuarially reduced).
▪ Optional forms	▪ Lump-sum payment (only if less than \$5,000) ▪ 50% Joint and Survivor ▪ 75% Joint and Survivor ▪ 100% Joint and Survivor ▪ 10 Years Certain and Life
▪ Actuarial equivalence	1971 Group Annuity Mortality table for males with an age set-back of three years for both sexes and an assumed interest of 8%.
Miscellaneous	
▪ Maximum compensation	Compensation for any 12-month period used to determine accrued benefits may not exceed the limits in IRC Section 401(a)(17) for the calendar year in which the 12-month period begins. This limit is indexed annually. For 2010, the limit is \$245,000.
▪ Maximum benefits	Annual benefits may not exceed the limits in IRC Section 415. This limit is indexed annually. For 2010, the limit is \$195,000.

Schedule SB, Part V — Summary of Plan Provisions

▪ Significant events	There were no significant events since the last valuation of the plan that would impact plan costs.
▪ Changes in plan provisions	There were no changes in plan provisions since the last valuation of the plan.

Schedule SB, Part V — Statement of Actuarial Assumptions/Methods**Actuarial assumptions****Discount rate sponsor elections**

▪ Segment rates or full yield curve	Segment rates
▪ Look-back months	0
▪ First 5 years	4.60%
▪ Next 15 years	6.65%
▪ Over 20 years	6.76%

Mortality sponsor elections

▪ Healthy participants	Section 430(h)(3) prescribed separate static annuitant and nonannuitant mortality tables. These tables are based on the RP-2000 mortality tables projected with mortality improvement to the valuation year plus 7 years for annuitants and 15 years for non-annuitants based on Scale AA.
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Other economic assumptions

▪ Salary increases	Not applicable
▪ Social Security wage base	Not applicable
▪ Expected investment return	8.25% per year for years 2008 through 2010.
▪ Expenses	Employer assumed to pay non-investment related expenses.

Demographic assumptions

Withdrawal Annual termination rates are based on age. Sample rates are as follows:

Age	Termination Rate
25	14.4%
40	9.8
55	2.0

Retirement age

Age	Retirement Rate
55-59	5%
60-64	10%
65 and above	100%

Schedule SB, Part V — Statement of Actuarial Assumptions/Methods

Benefit commencement age for			
▪ Future vested deferred	65		
▪ Current vested deferred	65		
Spouse assumptions	<u>Male participants</u>	<u>Female participants</u>	
▪ Percentage married	75%	75%	
▪ Spouse age difference	3 years younger	3 years older	
Form of payment	<u>Lump sum</u>	<u>Single life</u>	<u>50% J&S</u>
▪ Active retirements	0%	100%	0%
▪ Future vested deferred	0%	100%	0%
▪ Future deaths	0%	0%	100%
▪ Current vested deferred	0%	100%	0%
Unpredictable contingent event assumptions	Not applicable		

Actuarial methods**Asset methods**

The asset valuation method is an annual average of the adjusted market value over the last 24 months preceding the valuation date. The adjusted market value is the market value at each determination date adjusted to the valuation date based on actual cash flows and expected interest at the lesser of the expected rate of return and the third segment rate. This amount is adjusted to be no greater than 110 percent and no less than 90 percent of the fair market value, as defined in IRC Section 430.

A characteristic of this asset method is that, over time, it is slightly more likely to produce an actuarial value of assets that is less than the market value of assets than an actuarial value that is greater than the market value.

Participant methods

Participants or former participants are included or excluded from the valuation as described below:

- **Participants included:** The plan sponsor provides us with data on all employees as of the valuation date, but only those employees who have completed the plan's eligibility requirements are included in the valuation of liabilities.
- **Participants excluded:** No actuarial liability is included for nonvested participants who terminated prior to the valuation date.
- **Insurance contracts:** The plan does not have any insurance contracts.

Schedule SB, Part V — Statement of Actuarial Assumptions/Methods

Minimum funding methods

The funding target for minimum funding calculations is computed using the traditional unit credit method of funding. The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, the total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

A detailed description of the calculation follows:

- The plan's valuation date is the beginning of the plan year.
- An individual's **funding target** is the present value of future benefits based on credited service and average pay as of the beginning of the plan year, and an individual's **target normal cost** is the present value of the benefit expected to accrue in the plan year. If multiple decrements are used, the funding target and the target normal cost for an individual is the sum of the component funding targets and target normal costs associated with the various anticipated separation dates.
- The plan's **target normal cost** is the sum of the individual target normal costs, and the plan's **funding target** is the sum of the individual funding targets for all participants under the plan.

Maximum deductible contribution method

Calculations of maximum deductible contributions include the excess of the funding target computed using the projected unit credit method over the minimum funding target. The objective of the projected unit credit method is to fund each participant's benefits under the plan as they accrue, taking into consideration expected future compensation increases. Thus, the total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service.

A detailed description of the calculation follows:

- An individual's **projected funding target** is the present value of benefits based on credited service as of the beginning of the plan year and projected compensation that would be used in the calculation of the benefit on each expected separation date. If multiple decrements are used, the projected funding target for an individual is the sum of the component projected funding targets associated with the various anticipated separation dates.
- The plan's **projected funding target** is the sum of the projected funding targets for all participants under the plan. The excess of the plan's projected funding target over the plan's funding target is included in the "cushion amount."

Schedule SB, Line 24 — Change in Actuarial Assumptions

- Effective January 1, 2010, the discount rate assumption for calculating the funding target liability changed to segment rates with a zero month look-back period. This prescribed assumption change was made in accordance with executed sponsor elections.
- The retirement assumption was updated from 2009 to 2010 to reflect anticipated future experience.

Schedule SB, Line 26 — Schedule of Active Participant Data

Years of benefit service											
Attained age	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Up	Total
< 25											
25 - 29	13	15	2								30 884
30 - 34	8	29 1,523	13								50 1,803
35 - 39	6	35 1,902	39 4,551	9	16						105 4,138
40 - 44	8	53 2,509	48 4,935	7	31 12,829	25 13,428					172 6,906
45 - 49	6	62 2,280	55 6,286	24 10,519	44 14,082	41 14,890	27 18,426				259 9,536
50 - 54	3	66 2,735	51 5,910	21 14,710	31 15,285	24 20,204	31 22,259	8			235 11,023
55 - 59	6	37 3,106	58 6,870	19	25 11,608	28 22,641	17	6	5		201 10,968
60 - 64	5	34 2,615	32 6,900	12	14	5	9	1	2	3	117 8,312
65 - 69		8	4	6	4	1	1				24 7,682
70+		1			1						2
Total	55 427	340 2,442	302 5,774	98 10,631	166 12,815	124 17,757	85 20,144	15	7	3	1,195 8,518

In each cell, the top number shown is the count of active participants and the bottom number is the average annual accrued benefit, payable at normal retirement age, for each age/service combination. Compensation information has not been shown since benefit accruals were frozen as of March 31, 2006.

Schedule SB, Line 32 — Schedule of Amortization Bases

The shortfall amortization charge is the sum of the shortfall base amortization for each plan year covered under PPA. Although a shortfall base can be negative, the combined shortfall amortization charge cannot be negative.

Shortfall bases				
Year established		Outstanding balance	Years remaining	Installment
2008	\$	17,258,239	5	\$ 3,768,874
2009	\$	1,829,621	6	\$ 344,957
2010	\$	10,496,946	7	\$ 1,754,321
Total	\$	29,584,806		\$ 5,868,152

Schedule SB, Part V — Summary of Plan Provisions

Benefits included or excluded

Unless noted below, all benefits provided by the plan, as restated effective January 1, 2008, are included in this valuation.

- **Plan amendments excluded:** None
- **IRC Section 436 benefit restrictions:**
 - *Unpredictable contingent event benefits:* This valuation excludes restricted contingent event benefits that occurred before the valuation date but includes contingent event benefits which are expected to occur on or after the valuation date regardless of anticipated funding-based limitations.
 - *Plan amendments:* See above.
 - *Prohibited payments:* Limitations on prohibited benefits (if any) are reflected for annuity starting dates before the valuation date but are ignored for annuity starting dates on or after the valuation date.
- **Late retirement increases:**
 - *Active participants:* This valuation includes late retirement actuarial increases for current participants over age 65.
 - *Deferred vested participants:* Current deferred vested participants over normal retirement age are valued including the late retirement actuarial increase.
- **Unpredictable contingent event benefits:** The plan does not have any unpredictable contingent event benefits.
- **IRC Section 415(b) benefit limitations:** The limitations of Internal Revenue Code Section 415(b) have been incorporated into our calculations.
- **IRC Section 416 rules for top-heavy plans:** We did not test whether this plan is top-heavy (when the present value of benefits for key employees equals or exceeds 60 percent of the present value for all participants). However, we expect that the plan is not top-heavy due to the large number of rank-and-file participants; therefore, the funding target and target normal cost do not reflect any liability for top-heavy benefit accruals.

Schedule SB, Part V — Summary of Plan Provisions**Summary of major plan provisions**

Effective date and plan year	Original plan: January 1, 1953 Restated plan: January 1, 2008 Plan year: Calendar year
Significant events that occurred during the year	None
Definitions	
▪ Participation	All employees who work at least 1,000 hours in a 12-month period are eligible on the first day of January or July following the completion of one year of service and the attainment of age 21. The plan has been amended to allow individuals hired during 2005 to enter the plan on March 31, 2006. Employees hired on or after January 1, 2006 are not eligible for the pension plan.
▪ Employee contributions	None
▪ Vesting computation period	The period of 12-consecutive months commencing on an Employee's Employment Commencement Date or Reemployment Commencement Date, whichever is applicable, and the period of 12-consecutive months commencing on each anniversary of such date.
▪ Vesting service	A year of Vesting Service shall be credited for each Vesting Computation period in which the participant completes at least 1,000 hours of service.
▪ Benefit service	A year of Benefit Service shall be credited for each plan year in which the participant completes 1,000 or more hours of service. Benefit Service is frozen as of March 31, 2006. For New York Casualty and Connecticut Union employees, Benefit Service is calculated from the later of Date of Employment and March 8, 1982. For Lake States employees, Benefit Service is calculated from the later of Date of Employment and January 1, 1986. For Boyertown employees, Benefit Service is calculated from the later of Date of Employment and October 6, 1997.
▪ Covered compensation	Average of taxable wage bases in effect during the 35-year period ending with the year of attainment of Social Security normal retirement age. The Covered Compensation Level is based upon the Social Security law in effect in the year of determination, but no later than 2006.

Schedule SB, Part V — Summary of Plan Provisions

▪ Break in service	12-month employment period during which less than 501 hours are worked (unless on a qualified Leave of Absence). If the participant is not vested and the number of consecutive one-year Breaks in Service equals or exceeds the greater of total number of years of Vesting Service or Benefit Service earned before break, or five years, such prior service is lost.
▪ Compensation	Base salary inclusive of amounts deferred under a salary reduction agreement. Effective January 1, 2002, compensation may not exceed \$200,000 (prospectively and retrospectively) per annum (actual dollar limit is indexed). Compensation is not considered beyond March 31, 2006.
▪ Average annual compensation	Average of Annual Compensation earned for the 5 highest consecutive plan years within the period of 10 years immediately preceding a participant's retirement date or termination date. Average Annual Compensation is frozen as of March 31, 2006.
▪ Accrued benefit	The Normal Retirement Benefit calculated using Average Annual Compensation and Benefit Service as of the date of determination. The plan has been amended to stop benefit accruals as of March 31, 2006.
Normal retirement	
▪ Eligibility	Later of age 65 or the fifth anniversary of the date of employment.
▪ Benefit	The greater of: ▪ <i>Grandfathered Benefit:</i> Accrued Benefit as of December 31, 1988 determined under the old benefit formula; ▪ <i>New Formula:</i> 1.45% of Average Annual Compensation up to Covered Compensation Level plus 1.95% of Average Annual Compensation in excess of Covered Compensation, times Credited service up to 25; <i>or</i>

Schedule SB, Part V — Summary of Plan Provisions

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- Benefit (*cont.*)
 - *Transition Formula:* Accrued benefit as of December 31, 1988 indexed to reflect the increase in Annual Average Compensation at the date of determination versus the Annual Average Compensation at December 31, 1988, plus 1.7% of Annual Average Compensation times Credited service after January 1, 1989, with a maximum of nine years. This formula was frozen as of December 31, 1997.
 - Benefits for employees who are not Super Highly Compensated can be no less than what was accrued under the old benefit formula as of December 31, 1991.
 - Benefit accruals have been frozen as of March 31, 2006.

Worcester employees who are not Highly Compensated and with 10 or more years of service as of December 31, 1983, shall receive the greater of (1) the normal retirement benefit determined under the Harleysville Plan; or (2) the normal retirement benefit determined under the Worcester formula, which is 70% of Final Average Compensation less 50% of the Primary Insurance Amount, with the difference reduced by 1/35 for each year of Credited service less than 35 years at Normal Retirement Date. However, an employee who was a participant in the Worcester Plan before January 1, 1974, shall be entitled to the larger of the Worcester benefit described above or a minimum benefit calculated under the pre-1974 plan.

Atlantic Mutual employees who are not Highly Compensated and with 10 or more years of service as of December 31, 1987 shall receive the greater of (1) the normal retirement benefit determined under the Harleysville Plan; or (2) the normal retirement benefit determined under the Atlantic Mutual Plan formula; which is 80% of Final Average compensation less 50% of the Primary Insurance Amount with the difference reduced by 1/40 for each year of Credited service less than 40 years at Normal Retirement Date.

Phoenix Mutual employees shall receive the greater of (1) the benefit under the Phoenix Mutual plan formula as of December 31, 1990 increased by Cost of Living Adjustment each year, or (2) the benefit determined under the Harleysville Plan using all years of service with Harleysville and Phoenix Mutual.

Lake States current participants will receive a benefit which will be the sum of (1) benefit earned as of December 31, 1994, under the Lake States formula, plus (2) benefit earned commencing January 1, 1995 under the Harleysville formula. There will be a maximum of 25 years of service taken into account in determining the benefit, and the highest five years of compensation will be used to determine the benefit under the Lake States and Harleysville formulas. The Lake States formula is 1.45% times final average compensation times years of service up to a maximum of 9, while the Harleysville formula is 1.45% of final average compensation up to covered compensation plus 1.95% of final average compensation over covered compensation times years of service up to a maximum of 25 years.

Schedule SB, Part V — Summary of Plan Provisions

Benefit (cont.)

Former Minnesota Fire and Casualty employees shall receive the greater of (1) the benefit under the MF&C Company Employee Pension Plan as of December 31, 1998 or (2) the MF&C formula for service through December 31, 1998 (1.2% of final average compensation up to covered compensation plus 1.65% of final average compensation over covered compensation; times years of service up to a maximum of 25 years) plus the Harleysville formula for service beginning January 1, 1999, both benefits based on the same final average compensation using the Harleysville base salary definition. MF&C employees with 10 or more years of service as of December 31, 1998 will be eligible for a total service benefit under the MF&C formula as long as they are non-highly compensated employees.

Former Berkshire Mutual Insurance employees are entitled to the pension benefit determined under the provisions of the Berkshire Mutual Pension Plan at the time of its merger into the Harleysville Plan.

Early retirement

- **Eligibility** Age 55 and five Years of Vesting Service.
- **Benefit** For participants who become eligible on or after January 1, 1989, the product of benefit determined under the new formula times new early retirement factors as specified below.
For others, the greater of:
 - Benefit as calculated above; or
 - Benefit determined under the transition formula times old early retirement factors as specified below:

Age	Old Early-Retirement Factors	New Early-Retirement Factors
55	0.640	0.480
56	0.676	0.520
57	0.712	0.560
58	0.748	0.600
59	0.784	0.640
60	0.820	0.680
61	0.856	0.720
62	0.892	0.760
63	0.928	0.840
64	0.964	0.920
65	1.000	1.000

Schedule SB, Part V — Summary of Plan Provisions

▪ Benefit (<i>cont.</i>)	Benefits calculated under the Minnesota Fire and Casualty Company Employee Pension Plan as of December 31, 1998 or under the MF&C grandfathered benefit provisions use the early retirement factors specified in the former Minnesota Fire and Casualty Plan.
Late retirement	
▪ Eligibility	Retirement after normal retirement age.
▪ Benefit	The monthly benefit equals the greater of: ▪ Normal Retirement Benefit computed as of Normal Retirement Date actuarially increased for each month the payment commencement date is deferred beyond the Normal Retirement Date; <i>or</i> ▪ Benefit computed using Credited service and Average Annual Compensation as of the Late Retirement Date, but Primary Social Security Benefit as of Normal Retirement Date. The plan has been amended to stop benefit accruals as of March 31, 2006.
Deferred vested	
▪ Eligibility	100% vested after the completion of 5 years of vesting service.
▪ Benefit	Accrued Benefit as of the date of termination, multiplied by the vesting percentage.
Disability	
▪ Eligibility	Eligible for disability benefits under the Company's Salary Continuation program.
▪ Benefit	Normal Retirement Benefit assuming that the participant continued working until his Normal Retirement Date at the annual salary rate last in effect at the date of the total disability. The plan has been amended to stop benefit accruals as of March 31, 2006.
Pre-retirement death	
▪ Eligibility prior to early retirement	Member married to spouse at least one year at date of death and vested in accrued benefit.
▪ Benefit prior to early retirement	50% of Accrued Benefit at the time of death reduced for early retirement and 50% Joint and Survivor option. This is payable at the time the Participant would have been eligible for early retirement.

Schedule SB, Part V — Summary of Plan Provisions

▪ Eligibility after early but before normal retirement	Member married to spouse at least one year at date of death, not yet receiving a benefit, and eligible for Early Retirement.
▪ Benefit after early but before normal retirement	Annuity payable to member's spouse under 50% Joint and Survivor option as if member elected early retirement immediately before death.
▪ Eligibility after normal retirement	Member married to present spouse at least one year at date of death, not yet receiving retirement benefits, and eligible for deferred retirement.
▪ Benefit after normal retirement	Annuity payable to member's spouse under 50% Joint and Survivor option as if member had retired immediately before death.
Postretirement death benefits	Upon death of a former employee who had completed at least 10 years of service and was retired directly from employment with the company after June 30, 1964, there shall be paid to his or her named beneficiary the sum of \$5,000.
Form of benefits	
▪ Automatic form for unmarried participants	Life annuity payable monthly.
▪ Automatic form for married participants	50% Joint and Survivor Annuity payable monthly (actuarially reduced).
▪ Optional forms	▪ Lump-sum payment (only if less than \$5,000) ▪ 50% Joint and Survivor ▪ 75% Joint and Survivor ▪ 100% Joint and Survivor ▪ 10 Years Certain and Life
▪ Actuarial equivalence	1971 Group Annuity Mortality table for males with an age set-back of three years for both sexes and an assumed interest of 8%.
Miscellaneous	
▪ Maximum compensation	Compensation for any 12-month period used to determine accrued benefits may not exceed the limits in IRC Section 401(a)(17) for the calendar year in which the 12-month period begins. This limit is indexed annually. For 2010, the limit is \$245,000.
▪ Maximum benefits	Annual benefits may not exceed the limits in IRC Section 415. This limit is indexed annually. For 2010, the limit is \$195,000.

Schedule SB, Part V — Summary of Plan Provisions

▪ Significant events	There were no significant events since the last valuation of the plan that would impact plan costs.
▪ Changes in plan provisions	There were no changes in plan provisions since the last valuation of the plan.

Attachment to 2010 Form 5500
Schedule H, line 4i - Schedule of Assets (Held at End of Year)

Plan Name Pension Plan of Harleysville Group Inc and Associated Employees **Line** 51-0241172
Plan Sponsor's Name Harleysville Group Inc **PN:** 001

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value.	(d) Cost	(e) Current value
*	Federal Farm Credit Bank	Par 900,000 Int Rate 6.90% Maturity 09/15	845,775	1,095,246
*	Federal Farm Credit Bank	Par 720,000 Int Rate 6.27% Maturity 01/16	639,331	858,190
*	Federal Home Loan Mortgage CP	Par 1,000,000 Int Rate 5.25% Maturity 07/11	997,050	1,026,860
*	US Treasury Notes	Par 1,000,000 Int Rate 4.63% Maturity 02/12	1,007,812	1,048,940
*	US Treasury Notes	Par 3,000,000 Int Rate 2.00% Maturity 11/13	3,002,813	3,088,593
*	US Treasury Notes	Par 1,000,000 Int Rate 2.38% Maturity 08/14	998,516	1,035,938
*	US Treasury Notes	Par 3,000,000 Int Rate 2.38% Maturity 09/14	3,004,219	3,107,343

Attachment to 2010 Form 5500
Schedule H, line 4i - Schedule of Assets (Held at End of Year)

Plan Name Pension Plan of Harleysville Group Inc and Associated Employees **Line** 51-0241172
Plan Sponsor's Name Harleysville Group Inc **PN:** 001

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value.	(d) Cost	(e) Current value
*	US Treasury Notes	Par 1,000,000 Int Rate 3.13% Maturity 10/16	1,027,656	1,043,125
*	FHLMC Ser 1831 CL 1831 PD CMO	Par 587 Int Rate 6.25% Maturity 03/11	579	586
*	FHLMC REMIC Series 2006-46	Par 1,000,000 Int Rate 5.50% Maturity 02/35	957,188	1,092,773
*	FHLMC REMIC Series 2810	Par 425,115 Int Rate 6.00% Maturity 06/33	426,311	455,277
*	FHLMC REMIC Series 2949	Par 500,000 Int Rate 5.50% Maturity 12/30	495,469	522,085
*	FHLMC REMIC Series 2773	Par 1,000,000 Int Rate 4.50% Maturity 04/24	885,000	1,062,130
*	FHLMC REMIC Series 2840	Par 992,817 Int Rate 5.50% Maturity 03/33	958,185	1,056,337

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*	FHLMC REMIC Series 3104	Par 1,000,000 Int Rate 5.00% Maturity 01/29	989,609	1,026,453
*	Abbott Labs	Par 1,000,000 Int Rate 5.60% Maturity 05/11	999,350	1,019,688
*	Anheuser Busch Cos.Inc	Par 500,00 Int Rate 4.70% Maturity 04/12	499,675	522,160
*	Atlantic Richfield Company	Par 300,000 Int Rate 8.45% Maturity 02/12	298,914	317,529
*	Burlington Northern Co	Par 742,801 Int Rate 5.63% Maturity 04/24	742,801	801,297
*	Bank New York Medium term Note	Par 800,000 Int Rate 4.95% Maturity 01/11	780,128	800,808
*	Caterpillar Financial Services	Par 1,000,000 Int Rate 1.90% Maturity 12/12	998,810	1,016,170

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Schedule H, line 4i - Schedule of Assets (Held at End of Year)

Plan Name Pension Plan of Harleysville Group Inc and Associated Employees **Line** 51-0241172
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*	Centerpoint Energy Transit	Par 500,000 Int Rate 5.09% Maturity 08/15	499,982	544,460
*	Chevron Corp.	Par 500,000 Int Rate 3.95% Maturity 03/14	499,080	533,780
*	Coca Cola Co.	Par 500,000 Int Rate 3.63% Maturity 03/14	497,725	529,195
*	Continental Airlines Pass Thru	Par 424.948 Int Rate 6.90% Maturity 01/18	424,947	451,507
*	Cooper US Inc	Par 500,000 Int Rate 2.38% Maturity 01/16	499,085	493,190
*	General Electric Capital Corp. medi	Par 500,000 Int Rate 5.50% Maturity 9/16	497,500	502,615
*	International Business Machines	Par 500,000 Int Rate 1.00% Maturity 08/13	497,955	498,175

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Schedule H, line 4i - Schedule of Assets (Held at End of Year)

Plan Name Pension Plan of Harleystville Group Inc and Associated Employees **Line** 51-0241172
Plan Sponsor's Name Harleystville Group Inc **PN:** 001

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value.	(d) Cost	(e) Current value
*	JCP&L	Par 1,000,000 Int Rate 5.41% Maturity 9/14	999,604	1,102,366
*	Marck & Co Inc New	Par 500,000 Int Rate 2.25% Maturity 01/16	498,795	493,715
*	Pepsico Inc	Par 500,000 Int Rate 3.75% Maturity 03/14	498,940	529,145
*	Pfizer Inc	Par 500,000 Int Rate 5.35% Maturity 03/15	499,375	562,080
*	PG&E Energy FDG 2005-2	Par 250,000 Int Rate 5.12% Maturity 12/14	249,950	266,978
*	Shell International FIN B	Par 1,000,000 Int Rate 5.63 Maturity 06/11	999,100	1,024,150
*	Sysco Corp	Par 500,000 Int Rate 4.20% Maturity 02/13	499,175	532,000

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(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value.	(d) Cost	(e) Current value
*	Target Corp	Par 250,000 Int Rate 5.13% Maturity 01/13	249,185	270,607
*	Wal-Mart Stores Inc	Par 500,000 Int Rate 4.13% Maturity 02/11	509,975	502,120
*	Wal-Mart Stores Inc	Par 500,000 Int Rate 2.88% Maturity 04/15	496,545	512,905
*	Vanguard Institutional Total Stock	Shares 3,378,344	64,333,075	96,417,925
*	Vanguard FTSE All World Ex US Fund	Shsres 250,510	20,416,412	23,505,348
*	Other investments	Shares 100	613,987	42,555