

0015

BOENNING & SCATTERGOOD
ESTABLISHED 1914

RECEIVED
Corporate & Financial Regulation

November 21, 2011

NOV 22 2011

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

Pennsylvania
Insurance Department

Dear Mr. Johnson:

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

The Agreement is hereby modified as follows:

3. Fees and Expenses

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

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

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

15

0015

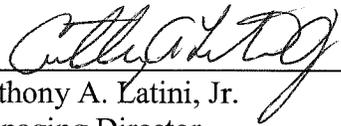
BOENNING & SCATTERGOOD

Stephen J. Johnson, CPA
November 21, 2011
Page 2 of 2

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

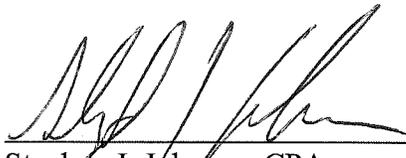
Please indicate your acceptance of the foregoing by executing and returning the enclosed copy of this letter.

Boenning & Scattergood, Inc.

By: 
Anthony A. Latini, Jr.
Managing Director

Accepted by:

PENNSYLVANIA INSURANCE DEPARTMENT

By: 
Stephen J. Johnson, CPA
Deputy Insurance Commissioner

11/22/11
Date

15

0015

BOENNING & SCATTERGOOD
ESTABLISHED 1914

RECEIVED
Corporate & Financial Regulation

November 18, 2011

NOV 22 2011

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

Pennsylvania
Insurance Department

Dear Mr. Johnson:

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

1. Services of Boenning

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

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

0015

BOENNING & SCATTERGOOD

Stephen J. Johnson, CPA

November 18, 2011

Page 2 of 6

(f) Understand the alternatives to the Transaction considered by the Company in determining to proceed with the Transaction.

(g) Review and analyze the financial terms and conditions of the Transaction.

(h) Review analysis and opinions prepared by the Company's financial and legal advisors and conduct interviews with such advisors to understand the analysis as well as the extent and limits of the analysis and opinions.

(i) Review the financial performance of the Company in relation to its peers and review its financial performance, projections and other criteria considered germane by Boenning to the assignment.

(j) Perform a financial analysis of the Company to formulate a valuation range. The analysis will assess the potential value of the Company based upon standard and widely accepted valuation methodologies as well as others Boenning deems to be relevant.

(k) Compare the values derived by Boenning's financial analysis relative to values potentially available from other alternatives to the Policyholders, including a subscription rights demutualization.

(l) Examine the rights of Policyholders under the Transaction and how such rights are proposed to be modified by the Transaction.

(m) Examine and provide commentary on the measures taken by the Company to preserve independence and manage potential conflicts of interest among Company directors.

(n) Examine and provide commentary on the differences, similarities and potential differences, between the responsibilities and potential conflicts of interest of Harleysville Mutual directors and those of the stock holding company.

(o) Attend and participate in such meetings of the Department and its legal and other advisors as requested and appropriate.

(p) Review and render advice within a written report to the Department summarizing the analysis completed by Boenning, including a review the reasonableness of the methodologies and assumptions utilized by the Company, as well as, the reasonableness of the Company's conclusion that the Transaction is fair to Policyholders given the factors considered, methods used, and assumptions made ("*Report*").

(q) Participate in and provide testimony regarding the specific findings in Boenning's Report, if requested by the Department, at any hearings held for public comment on the Transaction.

15

0015

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

2. Content and Distribution of Report

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

3. Fees and Expenses

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

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

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

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

15

0015

Stephen J. Johnson, CPA
November 18, 2011
Page 4 of 6

4. **Term of Engagement**

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

5. **Other Services**

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

6. **Information Provided to Boenning**

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

7. **Confidentiality**

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

15

0015

BOENNING & SCATTERGOOD

Stephen J. Johnson, CPA
November 18, 2011
Page 5 of 6

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

8. Miscellaneous

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

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

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

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

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

15

0015

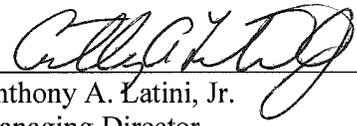
BOENNING & SCATTERGOOD

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

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

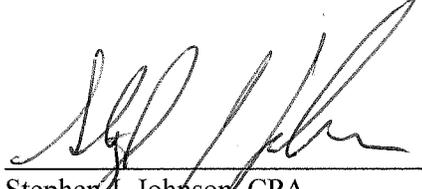
Please indicate your acceptance of the foregoing by executing and returning the enclosed copy of this letter.

Boenning & Scattergood, Inc.

By: 
Anthony A. Latini, Jr.
Managing Director

Accepted by:

PENNSYLVANIA INSURANCE DEPARTMENT

By: 
Stephen J. Johnson, CPA
Deputy Insurance Commissioner

11/18/11
Date

15