



**For Release:** Immediately

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## **HARLEYSVILLE GROUP REPORTS FIRST QUARTER 2007 RESULTS**

First quarter highlights:

- Operating earnings rise by 13 percent to \$0.70 per share
- Statutory combined ratio<sup>1</sup> improves by 1.3 points to 97.9 percent
- Pretax investment income grows 14 percent
- Book value climbs by 13 percent to \$23.06 per share from one year ago

HARLEYSVILLE, PA—April 24, 2007—Harleysville Group Inc. (NASDAQ: HGIC) today reported diluted operating income of \$0.70 per share for the first quarter of 2007, compared to \$0.62 per share in the first quarter of 2006. Operating income is a non-GAAP financial measure defined by the company as net income excluding after-tax realized gains and losses on investments, and the cumulative effect of an accounting change, net of income tax.

“We’re pleased to report that we’ve begun 2007 with another solid quarter as we continue to see ongoing, steady improvement in our operating performance,” commented Michael L. Browne, Harleysville Group’s president and chief executive officer. “Our statutory combined ratio for the first quarter was 97.9 percent, or 1.3 points better than the first three months of last year. At the same time, we produced strong operating earnings of \$0.70 per share for the first quarter, a 13 percent increase over the \$0.62 a share we reported in the first quarter of 2006. And, we continue to maintain our solid capital base and a strong balance sheet, a modest debt-to-capital ratio of 14 percent<sup>2</sup>, a high-quality investment portfolio, and a premium-to-surplus ratio of 1.2 to 1—which, together, provide the sound financial position for us to write our agents’ best business.”

The company reported diluted net income of \$0.71 per share in the first quarter of 2007, compared to \$0.70 per share in the first quarter of 2006. There was \$0.01 per share of realized investment gains in the first quarter of 2007, compared to \$0.05 per share in the first quarter of 2006. The first quarter of 2006 also included an after-tax benefit of \$0.03 per share for the cumulative effect of a change in accounting principle resulting from the adoption of Statement of Financial Accounting Standards No. 123R, “Share-Based Payment.” This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements.

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First quarter net written premiums were \$207.0 million in 2007, compared to \$208.9 million in the same period in 2006.

Harleysville Group's overall statutory combined ratio was 97.9 percent in the first quarter of 2007, compared to 99.2 percent in the first quarter of 2006.

First quarter pretax investment income increased 14 percent to \$27.4 million, while after-tax investment income grew 8 percent in the first quarter to \$19.6 million. Operating cash flow for the first quarter was \$59.4 million, compared to \$53.1 million in the first quarter of 2006.

**Commercial lines** Net written premiums in commercial lines were \$174.8 million in the first quarter of 2007, down 1 percent from the same period in 2006. The commercial lines statutory combined ratio was 97.9 percent in the first quarter of 2007, versus 101.2 percent in the first quarter of 2006.

**Personal lines** Net written premiums were unchanged at \$32.2 million in the first quarter of 2007. Harleysville Group's personal lines statutory combined ratio was 98.5 percent in the first quarter of 2007, versus 89.6 percent during the first quarter of 2006.

**Outlook** "As we progress through 2007 and beyond, we will not compromise underwriting quality to chase a near-term growth target," Browne said. "Instead, we will remain focused on the basics of our business as we seek to consistently produce the kind of quality results we are reporting today—improving earnings, profitable underwriting and an operating return on equity of greater than 12 percent—while always maintaining a healthy balance sheet. Based on our solid first quarter results, coupled with the ongoing support of our employees and agents, we are confident the foundation we've established will enable us to generate additional ongoing, steady improvement in our operating performance."

**Webcast** The company will host a live Webcast tomorrow, April 25, 2007, at 8 a.m. (ET) to discuss its first quarter results. The Webcast and a replay will be available from the Investors section of the company's Web site ([www.harleysvillegroup.com](http://www.harleysvillegroup.com)).

**GAAP and non-GAAP financial measures** The company uses a non-GAAP financial measure called "operating income" that management believes is useful to investors because it illustrates the performance of normal, ongoing operations, which is important in understanding and evaluating the company's financial condition and results of operations. While this measure is utilized by investors to evaluate performance, it is not a substitute for the U.S. GAAP financial measure of net income. Therefore, a reconciliation of this non-GAAP financial measure to the U.S. GAAP financial measure of net income is provided following the Consolidated Statements of Income contained in this release. Management also uses operating income for, among other things, goal setting, determining employee and senior management compensation, and evaluating performance.

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**Corporate profile** Harleysville Insurance is a leading regional provider of insurance products and services for small and mid-sized businesses, as well as for individuals, and ranks among the top 60 U.S. property/casualty insurance groups based on net written premiums. Harleysville Mutual Insurance Company owns 53 percent of Harleysville Group Inc. (NASDAQ: HGIC), a publicly traded holding company for nine regional property/casualty insurance companies collectively rated A- (Excellent) by A.M. Best Company. Harleysville Group is a member of the NASDAQ Global Select Market, which represents the top third of all NASDAQ-listed companies and has the highest initial listing standards of any exchange in the world based on financial and liquidity requirements. Harleysville Group has paid a dividend every quarter since the company went public in 1986, and was one of 3 percent of public companies recognized with a 2006 Mergent Dividend Achiever Award for its long-term history of dividend increases. Harleysville Insurance—which distributes its products exclusively through independent insurance agencies and reflects that commitment to its agency force by being a Trusted Choice<sup>®</sup> company partner—currently operates in 32 eastern and midwestern states. Further information can be found on the company’s Web site at [www.harleysvillegroup.com](http://www.harleysvillegroup.com).

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<sup>1</sup> “Statutory combined ratio” is a non-GAAP measure of underwriting profitability and is based on numbers determined under statutory accounting practices as filed with state insurance regulators. It is the sum of the ratio of losses to premiums earned plus the ratio of underwriting expenses to premiums written. A ratio of less than 100 percent indicates underwriting profitability.

<sup>2</sup> Excludes the effects of SFAS No. 115.

Certain of the statements contained herein (other than statements of historical facts) are forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty that are, in many instances, beyond the company’s control and have been made based upon management’s expectations and beliefs concerning future developments and their potential effect on Harleysville Group Inc. There can be no assurance that future developments will be in accordance with management’s expectations so that the effect of future developments on Harleysville Group will be those anticipated by management. Actual financial results including operating return on equity, premium growth and underwriting results could differ materially from those anticipated by Harleysville Group depending on the outcome of certain factors, which may include changes in property and casualty loss trends and reserves; catastrophe losses; the insurance product pricing environment; changes in applicable law; government regulation and changes therein that may impede the ability to charge adequate rates; changes in accounting principles; performance of the financial markets; fluctuations in interest rates; availability and price of reinsurance; and the status of the labor markets in which the company operates.

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## Harleysville Group Inc. and Subsidiaries

<b>FINANCIAL HIGHLIGHTS</b>	Quarter ended March 31	
(in thousands, except per share data)	2007	2006
<b>OPERATING RESULTS</b>		
Diluted earnings per common share:		
Operating income*	\$0.70	\$0.62
Realized gains, net of income taxes	0.01	\$0.05
Cumulative effect of accounting change, net of income taxes		\$0.03
Net income	\$0.71	\$0.70
Cash dividends per common share	\$0.19	\$0.175

<b>FINANCIAL CONDITION</b>	March 31, 2007	December 31, 2006
Assets	\$3,026,920	\$2,990,984
Shareholders' equity	\$736,181	\$712,162
Per common share	\$23.06	\$22.49

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	Quarter ended March 31	
(in thousands, except per share data)	2007	2006
<b>REVENUES:</b>		
Premiums earned	\$205,378	\$208,345
Investment income, net of investment expense	27,397	24,095
Realized investment gains	624	2,210
Other income	3,498	4,887
Total revenues	236,897	239,537
<b>LOSSES AND EXPENSES:</b>		
Losses and loss settlement expenses	131,151	135,989
Amortization of deferred policy acquisition costs	51,896	52,604
Other underwriting expenses	18,281	19,991
Interest expense	1,765	1,710
Other expenses	1,273	1,015
Total expenses	204,366	211,309
Income before income taxes and cumulative effect of accounting change	32,531	28,228
Income taxes	9,629	7,520
Income before cumulative effect of accounting change	22,902	20,708
Cumulative effect of accounting change, net of income taxes		942
Net income	\$22,902	\$21,650
Weighted average number of shares outstanding:		
Basic	31,630,213	30,641,110
Diluted	32,116,305	31,065,785
Per common share:		
Basic earnings before cumulative effect of accounting change	\$0.72	\$0.68
Basic cumulative effect of accounting change		\$0.03
Basic earnings	\$0.72	\$0.71
Diluted earnings before cumulative effect of accounting change	\$0.71	\$0.67
Diluted cumulative effect of accounting change		\$0.03
Diluted earnings	\$0.71	\$0.70

<b>RECONCILIATION TO OPERATING INCOME :</b>		
Net income	\$22,902	\$21,650
Less cumulative effect of accounting change, net of income taxes		942
Less realized investment gains, net of income taxes	406	1,437
Operating income	\$22,496	\$19,271

These financial figures are unaudited.

\*Operating income is a non-GAAP financial measure defined by the company as net income excluding after-tax realized gains and losses on investments and the cumulative effect of accounting change, net of income taxes.

## Harleysville Group Inc. and Subsidiaries

### CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

March 31, 2007\*    December 31, 2006

#### ASSETS

Investments:

    Fixed maturities:

        Held to maturity, at amortized cost (fair value \$357,015  
            and \$381,835)

\$356,857

\$382,457

        Available for sale, at fair value (amortized cost \$1,759,820  
            and \$1,717,651)

1,770,471

1,722,874

    Equity securities, at fair value (cost \$63,928 and \$62,932)

72,212

71,446

    Short-term investments, at cost, which approximates fair value

105,593

72,237

        Total investments

2,305,133

2,249,014

Cash

141

227

Premiums in course of collection

142,971

147,445

Reinsurance receivable

171,017

167,199

Accrued investment income

25,333

25,823

Deferred policy acquisition costs

102,436

102,317

Prepaid reinsurance premiums

35,537

37,242

Property and equipment, net

16,598

16,690

Deferred income taxes

56,348

60,643

Securities lending collateral

123,866

124,755

Due from affiliate

5,716

Other assets

47,540

53,913

        Total assets

\$3,026,920

\$2,990,984

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

    Unpaid losses and loss settlement expenses

\$1,515,848

\$1,493,645

    Unearned premiums

443,684

443,738

    Accounts payable and accrued expenses

73,938

98,184

    Securities lending obligation

123,866

124,755

    Debt

118,500

118,500

    Due to affiliate

14,903

        Total liabilities

2,290,739

2,278,822

Shareholders' equity:

    Preferred stock, \$1 par value; authorized 1,000,000 shares;  
        none issued

    Common stock, \$1 par value, authorized 80,000,000 shares;  
        issued 33,316,280 and 33,060,600 shares;

        outstanding 31,918,371 and 31,662,691 shares

33,316

33,061

Additional paid-in capital

200,975

197,607

Accumulated other comprehensive income

3,574

14

Retained earnings

522,803

505,967

Treasury stock, at cost, 1,397,909 shares

(24,487)

(24,487)

        Total shareholders' equity

736,181

712,162

Total liabilities and shareholders' equity

\$3,026,920

\$2,990,984

\*These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended March 31	
	2007	2006
Net premiums written*	\$207,030	\$208,916
Statutory surplus*	\$712,129	\$597,449
Pretax investment income	\$27,397	\$24,095
Related federal income taxes	7,816	6,033
After-tax investment income	\$19,581	\$18,062

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended March 31	
	2007	2006
Revenues:		
Premiums earned:		
Commercial lines	\$170,213	\$172,087
Personal lines	35,165	36,258
Total premiums earned	205,378	208,345
Net investment income	27,397	24,095
Realized investment gains	624	2,210
Other	3,498	4,887
Total revenues	\$236,897	\$239,537

Income before income taxes and cumulative effect of accounting change:

Underwriting gain (loss):		
Commercial lines	\$2,092	(\$3,600)
Personal lines	1,574	5,119
SAP underwriting gain	3,666	1,519
GAAP adjustments	384	(1,758)
GAAP underwriting gain (loss)	4,050	(239)
Net investment income	27,397	24,095
Realized investment gains	624	2,210
Other	460	2,162
Income before income taxes and cumulative effect of accounting change	\$32,531	\$28,228

Income taxes on net investment income	\$7,816	\$6,033
Income taxes on remaining gain before cumulative effect of accounting change	1,813	1,487
Total income taxes on income before cumulative effect of accounting change	\$9,629	\$7,520

Effective tax rate on:

Net investment income	28.5%	25.0%
Income before cumulative effect of accounting change	29.6%	26.6%

These financial figures are unaudited.

\*Statutory data is a non-GAAP measure. Because it is prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual, a reconciliation to GAAP is not required.

## Harleysville Group Inc. and Subsidiaries

### STATUTORY DATA BY LINE OF BUSINESS\*

	Quarter ended March 31	
(dollars in thousands)	2007	2006
<b>Net premiums written:</b>		
Commercial:		
Automobile	\$50,121	\$53,977
Workers' compensation	26,647	26,274
Commercial multi-peril	79,900	77,837
Other commercial	18,155	18,656
<b>Total commercial</b>	<b>\$174,823</b>	<b>\$176,744</b>
Personal:		
Automobile	\$16,527	\$17,748
Homeowners	13,660	12,534
Other personal	2,020	1,890
<b>Total personal</b>	<b>\$32,207</b>	<b>\$32,172</b>
<b>Total personal and commercial</b>	<b>\$207,030</b>	<b>\$208,916</b>
<b>Statutory combined ratios:</b>		
Commercial:		
Automobile	92.6%	101.1%
Workers' compensation	112.6%	117.3%
Commercial multi-peril	100.2%	99.9%
Other commercial	84.3%	86.5%
<b>Total commercial</b>	<b>97.9%</b>	<b>101.2%</b>
Personal:		
Automobile	104.5%	100.7%
Homeowners	92.6%	78.8%
Other personal	95.7%	68.1%
<b>Total personal</b>	<b>98.5%</b>	<b>89.6%</b>
<b>Total personal and commercial statutory combined ratio</b>	<b>97.9%</b>	<b>99.2%</b>
<b>GAAP combined ratio</b>	<b>98.0%</b>	<b>100.1%</b>
<b>Losses paid</b>	<b>\$111,687</b>	<b>\$105,850</b>
<b>Net catastrophe losses incurred</b>	<b>\$2,068</b>	<b>\$2,827</b>

These financial figures are unaudited.

\*Statutory data is a non-GAAP measure. Because it is prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual, a reconciliation to GAAP is not required.