



For Release: Immediately

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HARLEYSVILLE GROUP REPORTS RECORD FOURTH QUARTER AND YEAR-END 2006 RESULTS

Fourth quarter and year-end highlights:

- Record high operating earnings of \$0.71 per share in quarter, \$2.65 for year
- Statutory combined ratio¹ improves by 2.7 points to 98.0 percent in quarter and by 3.6 points to 98.6 percent for year
- After-tax investment income grows 12 percent in quarter, 9 percent for year
- Strong cash flow in 2006 of \$166.1 million continues to be driven by lower paid losses

HARLEYSVILLE, PA—February 21, 2007—Harleysville Group Inc. (NASDAQ: HGIC) today reported diluted operating income of \$0.71 per share for the fourth quarter of 2006, compared to \$0.60 per share in the fourth quarter of 2005. For the 12-month periods, the company reported diluted operating income of \$2.65 per share in 2006 and \$2.00 per share in 2005. 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 a strong finish to the year as we delivered another solid quarter featuring 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 fourth quarter was 98.0 percent, or 2.7 points better than the same period a year ago. And, we produced an operating return on equity of 13 percent, compared to 11 percent a year ago. In addition, our operating earnings for the fourth quarter were \$0.71 per share, a significant improvement over the \$0.60 a share we reported in the fourth quarter of 2005. We continue to maintain our solid capital base and a strong balance sheet, a modest debt-to-capital ratio of 14 percent², a high-quality investment portfolio, and a premium-to-surplus ratio of 1.2 to 1—all of which continue to anchor the sound financial foundation necessary for us to write our agents’ best business.”

The company reported diluted net income of \$0.71 per share in the fourth quarter of 2006, compared to \$0.60 per share in the fourth quarter of 2005. There were essentially no realized investment gains in the fourth quarter of either year. For the 12-month periods, diluted net income was \$3.52 per share in 2006 and \$2.01 per share in 2005. For the 12 months, the company reported \$0.84 per share of realized investment gains in 2006, compared to \$0.01 per share in 2005. The majority of the realized gains in 2006 are the result of actions taken by the company in the second quarter of the year to reduce its holding of equity investments by approximately \$120 million as part of its efforts to manage enterprise-wide risk. The 12 months of 2006 also include 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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Harleysville Group's overall statutory combined ratio was 98.0 percent in the fourth quarter of 2006, compared to 100.7 percent in the fourth quarter of 2005. For the 12 months, the statutory combined ratio was 98.6 percent in 2006, versus 102.2 percent in 2005.

Fourth quarter net written premiums were \$203.7 million in 2006, compared to \$198.4 million in the same period in 2005. Net written premiums through 12 months were \$838.8 million in 2006 and \$839.0 million in 2005.

Fourth quarter pretax investment income increased 18 percent to \$27.3 million, while after-tax investment income grew 12 percent in the fourth quarter to \$19.7 million. For the 12 months, pretax investment income was up 13 percent to \$102.6 million, while after-tax investment income rose 9 percent to \$75.3 million. Operating cash flow through 12 months was \$166.1 million in 2006, compared to \$165.1 million in 2005.

Commercial lines Net written premiums in commercial lines were \$169.5 million in the fourth quarter of 2006, up 4 percent from the same period in 2005. For the 12 months, net written premiums rose by 1 percent to \$695.9 million. The commercial lines statutory combined ratio was 100.0 percent in the fourth quarter of 2006, versus 105.4 percent in the fourth quarter of 2005. For the 12 months, the statutory combined ratio was 100.3 percent in 2006, compared to 104.3 percent in 2005.

Personal lines Harleysville Group's personal lines statutory combined ratio was 88.5 percent in the fourth quarter of 2006, versus 78.4 percent during the fourth quarter of 2005. For the 12 months, the statutory combined ratio was 90.6 percent in 2006, compared to 93.1 percent in 2005. Net written premiums decreased 2 percent to \$34.2 million in the fourth quarter of 2006, and were down 3 percent to \$142.9 million through 12 months.

Outlook "Looking ahead, we will maintain our focus on the basics of our business as we seek to consistently produce the quality results we are reporting today—improving earnings, profitable underwriting, operating return on equity over 12 percent, and smart growth for the long term—while always maintaining a healthy balance sheet," Browne said. "Throughout 2007 and beyond, we will continue to build and strengthen our regional field structure, which has allowed us to stay close to our agency partners and retain our best existing business, while competing effectively for their quality new business."

Webcast The company will host a live Webcast tomorrow, February 22, 2007, at 8 a.m. (ET) to discuss its fourth quarter results. The Webcast and a replay will be available from the Investors section of the company's Web site (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 54 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 recently 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[®] 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.

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¹ “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.

² 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

FINANCIAL HIGHLIGHTS	Quarter ended December 31		Twelve months ended December 31	
(in thousands, except per share data)	2006	2005	2006	2005
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income*	\$0.71	\$0.60	\$2.65	\$2.00
Realized gains, net of income taxes			0.84	\$0.01
Cumulative effect of accounting change, net of income taxes			0.03	
Net income	\$0.71	\$0.60	\$3.52	\$2.01
Cash dividends per common share	\$0.19	\$0.175	\$0.73	\$0.69
FINANCIAL CONDITION				
	December 31, 2006		December 31, 2005	
Assets	\$2,990,984		\$2,905,266	
Shareholders' equity	\$712,162		\$614,383	
Per common share	\$22.49		\$20.07	

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended December 31		Twelve months ended December 31	
(in thousands, except per share data)	2006	2005	2006	2005
REVENUES:				
Premiums earned	\$210,747	\$212,695	\$838,821	\$841,567
Investment income, net of investment expense	27,279	23,169	102,609	90,572
Realized investment gains	185	166	40,605	233
Other income	3,762	3,716	17,136	15,968
Total revenues	241,973	239,746	999,171	948,340
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	135,461	136,453	539,823	567,396
Amortization of deferred policy acquisition costs	53,066	54,541	212,872	210,665
Other underwriting expenses	18,222	21,383	78,208	79,367
Interest expense	1,753	1,703	6,943	6,648
Other expenses	1,195	1,037	4,957	5,343
Total expenses	209,697	215,117	842,803	869,419
Income before income taxes and cumulative effect of accounting change	32,276	24,629	156,368	78,921
Income taxes	9,379	6,148	46,241	17,490
Income before cumulative effect of accounting change	22,897	18,481	110,127	61,431
Cumulative effect of accounting change, net of income taxes			942	
Net income	\$22,897	\$18,481	\$111,069	\$61,431
Weighted average number of shares outstanding:				
Basic	31,447,575	30,509,961	31,011,310	30,375,109
Diluted	32,061,486	30,821,299	31,525,654	30,585,913
Per common share:				
Basic earnings before cumulative effect of accounting change	\$0.73	\$0.61	\$3.55	\$2.02
Basic cumulative effect of accounting change			\$0.03	
Basic earnings	\$0.73	\$0.61	\$3.58	\$2.02
Diluted earnings before cumulative effect of accounting change	\$0.71	\$0.60	\$3.49	\$2.01
Diluted cumulative effect of accounting change			\$0.03	
Diluted earnings	\$0.71	\$0.60	\$3.52	\$2.01

RECONCILIATION TO OPERATING INCOME :

Net income	\$22,897	\$18,481	\$111,069	\$61,431
Less cumulative effect of accounting change, net of income taxes			942	
Less realized investment gains, net of income taxes	120	108	26,394	152
Operating income	\$22,777	\$18,373	\$83,733	\$61,279

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)

December 31, 2006* December 31, 2005

ASSETS

Investments:

 Fixed maturities:

 Held to maturity, at amortized cost (fair value \$381,835
 and \$437,887)

\$382,457

\$433,649

 Available for sale, at fair value (amortized cost \$1,717,651
 and \$1,374,559)

1,722,874

1,386,440

 Equity securities, at fair value (cost \$62,932 and \$139,371)

71,446

179,980

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

72,237

64,319

 Total investments

2,249,014

2,064,388

Cash

227

466

Premiums in course of collection

147,445

141,882

Reinsurance receivable

167,199

249,020

Accrued investment income

25,823

24,016

Deferred policy acquisition costs

102,317

104,173

Prepaid reinsurance premiums

37,242

34,256

Property and equipment, net

16,690

18,038

Deferred income taxes

60,643

63,357

Securities lending collateral

124,755

150,938

Due from affiliate

5,716

1,022

Other assets

53,913

53,710

 Total assets

\$2,990,984

\$2,905,266

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

 Unpaid losses and loss settlement expenses

\$1,493,645

\$1,480,802

 Unearned premiums

443,738

440,755

 Accounts payable and accrued expenses

98,184

99,888

 Securities lending obligation

124,755

150,938

 Debt

118,500

118,500

 Total liabilities

2,278,822

2,290,883

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 33,060,600 and 32,008,142 shares;

 outstanding 31,662,691 and 30,610,233 shares

33,061

32,008

Additional paid-in capital

197,607

169,881

Accumulated other comprehensive income

14

20,288

Retained earnings

505,967

417,705

Deferred compensation

(1,012)

(1,012)

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

(24,487)

(24,487)

 Total shareholders' equity

712,162

614,383

Total liabilities and shareholders' equity

\$2,990,984

\$2,905,266

*These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Net premiums written*	\$203,667	\$198,434	\$838,817	\$839,044
Statutory surplus*			\$686,149	\$566,802
Pretax investment income	\$27,279	\$23,169	\$102,609	\$90,572
Related federal income taxes	7,598	5,609	27,279	21,549
After-tax investment income	\$19,681	\$17,560	\$75,330	\$69,023

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended December 31		Twelve months ended December 31	
	2006	2005	2006	2005
Revenues:				
Premiums earned:				
Commercial lines	\$174,476	\$175,016	\$693,229	\$687,135
Personal lines	36,271	37,679	145,592	154,432
Total premiums earned	210,747	212,695	838,821	841,567
Net investment income	27,279	23,169	102,609	90,572
Realized investment gains	185	166	40,605	233
Other	3,762	3,716	17,136	15,968
Total revenues	\$241,973	\$239,746	\$999,171	\$948,340

Income before income taxes and cumulative effect of accounting change:

Underwriting gain (loss):				
Commercial lines	\$1,771	(\$5,326)	(\$2,972)	(\$31,066)
Personal lines	4,812	9,168	14,611	13,196
SAP underwriting gain (loss)	6,583	3,842	11,639	(17,870)
GAAP adjustments	(2,585)	(3,524)	(3,721)	2,009
GAAP underwriting gain (loss)	3,998	318	7,918	(15,861)
Net investment income	27,279	23,169	102,609	90,572
Realized investment gains	185	166	40,605	233
Other	814	976	5,236	3,977
Income before income taxes and cumulative effect of accounting change	\$32,276	\$24,629	\$156,368	\$78,921

Income taxes on net investment income	\$7,598	\$5,609	\$27,279	\$21,549
Income taxes (benefit) on remaining gain (loss) before cumulative effect of accounting change	1,781	539	18,962	(4,059)
Total income taxes on income before cumulative effect of accounting change	\$9,379	\$6,148	\$46,241	\$17,490

Effective tax rate on:

Net investment income	27.9%	24.2%	26.6%	23.8%
Income before cumulative effect of accounting change	29.1%	25.0%	29.6%	22.2%

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 December 31		Twelve months ended December 31	
(dollars in thousands)	2006	2005	2006	2005
Net premiums written:				
Commercial:				
Automobile	\$48,488	\$49,807	\$206,316	\$221,680
Workers' compensation	23,093	21,343	97,113	95,877
Commercial multi-peril	80,696	75,451	321,270	306,267
Other commercial	17,195	17,067	71,189	68,532
Total commercial	\$169,472	\$163,668	\$695,888	\$692,356
Personal:				
Automobile	\$16,417	\$18,117	\$71,270	\$78,787
Homeowners	15,754	14,572	63,124	59,175
Other personal	2,024	2,077	8,535	8,726
Total personal	\$34,195	\$34,766	\$142,929	\$146,688
Total personal and commercial	\$203,667	\$198,434	\$838,817	\$839,044
Combined ratios:				
Commercial:				
Automobile	98.5%	102.2%	99.3%	101.1%
Workers' compensation	116.9%	128.9%	117.2%	124.0%
Commercial multi-peril	96.3%	100.1%	98.9%	101.5%
Other commercial	96.6%	106.0%	86.6%	98.7%
Total commercial	100.0%	105.4%	100.3%	104.3%
Personal:				
Automobile	97.2%	87.6%	99.3%	99.2%
Homeowners	80.0%	66.9%	82.6%	87.6%
Other personal	75.4%	70.0%	69.8%	72.3%
Total personal	88.5%	78.4%	90.6%	93.1%
Total personal and commercial	98.0%	100.7%	98.6%	102.2%
Losses paid	\$115,184	\$123,508	\$447,064	\$461,915
Net catastrophe losses incurred	\$2,825	\$2,464	\$13,899	\$6,502

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.