



For Release: Immediately

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HARLEYSVILLE GROUP REPORTS THIRD QUARTER 2006 RESULTS

Third quarter highlights:

- Operating earnings rise 28 percent to \$0.69 per share
- Statutory combined ratio improves by 4 points to 98.5 percent
- Strong cash flow drives 14 percent net investment income growth
- Annual dividend increases by 9 percent

HARLEYSVILLE, PA—October 26, 2006—Harleysville Group Inc. (NASDAQ: HGIC) today reported diluted operating income of \$0.69 per share for the third quarter of 2006, compared to \$0.54 per share in the third quarter of 2005. For the nine-month periods, the company reported diluted operating income of \$1.94 per share in 2006 and \$1.41 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 that our third quarter results continue to reflect the 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 quarter was 98.5 percent—which is 4 points better than a year ago—and we produced an operating return on equity of 12.8 percent. In addition, our operating earnings for the third quarter were \$0.69 per share, which is much improved from the \$0.54 a share we reported in the third quarter of 2005, and we increased our annual dividend by 9 percent. We continue to maintain our solid capital base and a strong balance sheet, a modest debt-to-capital ratio of 15 percent¹, a high-quality investment portfolio, and a premium-to-surplus ratio of 1.3 to 1—all of which provide the sound financial position necessary for us to write our agents’ best business.”

The company reported diluted net income of \$0.69 per share in the third quarter of 2006, compared to \$0.54 per share in the third quarter of 2005. There were essentially no realized investment gains in the third quarter of either year. For the nine-month periods, diluted net income was \$2.81 per share in 2006 and \$1.41 per share in 2005. For the nine months, the company reported \$0.84 per share of realized investment gains in 2006, compared to none in 2005. The majority of the realized gains in the nine months of 2006 are the result of actions taken by the company in the second quarter of this year to reduce its holding of equity investments by approximately \$120 million as part of its efforts to manage enterprise-wide risk. The first nine months of 2006 also includes 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 ratio² was 98.5 percent in the third quarter of 2006, compared to 102.5 percent in the third quarter of 2005. For the nine months, the statutory combined ratio was 98.8 percent in 2006, versus 102.8 percent in 2005.

Third quarter net written premiums were \$207.3 million in 2006, compared to \$206.6 million in the same period in 2005. Net written premiums through nine months were \$635.2 million in 2006 and \$640.6 million in 2005.

Third quarter pretax investment income increased 14 percent to \$26.4 million, while after-tax investment income grew 9 percent in the third quarter to \$19.2 million. For the nine months, pretax investment income was up 12 percent to \$75.3 million, while after-tax investment income rose 8 percent to \$55.6 million. Operating cash flow through nine months was \$114.0 million in 2006, compared to \$115.9 million in 2005.

Commercial lines Net written premiums in commercial lines were \$168.5 million in the third quarter of 2006, up 1 percent from the same period in 2005. For the nine months, net written premiums were essentially unchanged at \$526.4 million. The commercial lines statutory combined ratio was 99.5 percent in the third quarter of 2006, versus 104.7 percent in the third quarter of 2005. For the nine months, the statutory combined ratio was 100.4 percent in 2006, compared to 103.9 percent in 2005.

Personal lines Harleysville Group's personal lines statutory combined ratio was 93.6 percent in the third quarter of 2006, versus 92.8 percent during the third quarter of 2005. For the nine months, the statutory combined ratio was 91.2 percent in 2006, compared to 97.9 percent in 2005. Net written premiums decreased 1 percent to \$38.8 million in the third quarter of 2006, and were down 3 percent to \$108.7 million through nine months.

Outlook "Through the balance of 2006, and longer term, we will remain focused 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. "At the same time, we will not compromise underwriting quality to chase a near-term growth goal. That's especially important in light of current market conditions. Instead, we will remain focused on maintaining our discipline as we seek a sustained overall underwriting profit and long-term improvement in our performance. And, we will continue to work closely with our agency force and rely heavily on them for their assistance in order to position us for further success in 2007 and beyond."

Webcast The company will host a live Webcast today, October 26, 2006, at 8 a.m. (ET) to discuss its third 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 Excludes the effects of SFAS No. 115.

² “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.

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 September 30		Nine months ended September 30	
(in thousands, except per share data)	2006	2005	2006	2005
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income*	\$0.69	\$0.54	\$1.94	\$1.41
Realized gains, net of income taxes			0.84	
Cumulative effect of accounting change, net of income taxes			0.03	
Net income	\$0.69	\$0.54	\$2.81	\$1.41
Cash dividends per common share	\$0.19	\$0.175	\$0.54	\$0.515
FINANCIAL CONDITION				
	September 30, 2006		December 31, 2005	
Assets	\$2,945,630		\$2,905,266	
Shareholders' equity	\$683,161		\$614,383	
Per common share	\$21.73		\$20.07	

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended September 30		Nine months ended September 30	
(in thousands, except per share data)	2006	2005	2006	2005
REVENUES:				
Premiums earned	\$210,409	\$212,327	\$628,074	\$628,872
Investment income, net of investment expense	26,388	23,064	75,330	67,403
Realized investment gains (losses)	138	(1)	40,420	67
Other income	4,188	3,811	13,374	12,252
Total revenues	241,123	239,201	757,198	708,594
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	133,324	139,078	404,362	430,943
Amortization of deferred policy acquisition costs	53,735	53,163	159,806	156,124
Other underwriting expenses	20,431	22,851	59,986	57,984
Interest expense	1,749	1,660	5,190	4,945
Other expenses	1,407	1,036	3,762	4,306
Total expenses	210,646	217,788	633,106	654,302
Income before income taxes and cumulative effect of accounting change	30,477	21,413	124,092	54,292
Income taxes	8,685	4,972	36,862	11,342
Income before cumulative effect of accounting change	21,792	16,441	87,230	42,950
Cumulative effect of accounting change, net of income taxes			942	
Net income	\$21,792	\$16,441	\$88,172	\$42,950
Weighted average number of shares outstanding:				
Basic	31,116,039	30,428,342	30,864,293	30,329,666
Diluted	31,714,104	30,588,573	31,323,368	30,486,164
Per common share:				
Basic earnings before cumulative effect of accounting change	\$0.70	\$0.54	\$2.83	\$1.42
Basic cumulative effect of accounting change			\$0.03	
Basic earnings	\$0.70	\$0.54	\$2.86	\$1.42
Diluted earnings before cumulative effect of accounting change	\$0.69	\$0.54	\$2.78	\$1.41
Diluted cumulative effect of accounting change			\$0.03	
Diluted earnings	\$0.69	\$0.54	\$2.81	\$1.41

RECONCILIATION TO OPERATING INCOME :				
Net income	\$21,792	\$16,441	\$88,172	\$42,950
Less cumulative effect of accounting change, net of income taxes			942	
Less realized investment gains (losses), net of income taxes	90	(1)	26,274	43
Operating income	\$21,702	\$16,442	\$60,956	\$42,907

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)

September 30, 2006* December 31, 2005

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$392,782 and \$437,887)	\$392,091	\$433,649
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Available for sale, at fair value (amortized cost \$1,611,510 and \$1,374,559)	1,620,439	1,386,440
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Equity securities, at fair value (cost \$62,293 and \$139,371)	66,780	179,980
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Short-term investments, at cost, which approximates fair value	108,741	64,319
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Total investments	2,188,051	2,064,388
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Cash	142	466
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Premiums in course of collection	144,095	141,882
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Reinsurance receivable	167,194	249,020
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Accrued investment income	23,763	24,016
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Deferred policy acquisition costs	104,505	104,173
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Prepaid reinsurance premiums	37,345	34,256
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Property and equipment, net	17,040	18,038
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Deferred income taxes	67,526	63,357
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Securities lending collateral	132,209	150,938
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Due from affiliate	13,562	1,022
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Other assets	50,198	53,710
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Total assets	\$2,945,630	\$2,905,266
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LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses	\$1,473,017	\$1,480,802
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Unearned premiums	450,920	440,755
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Accounts payable and accrued expenses	87,823	99,888
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Securities lending obligation	132,209	150,938
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Debt	118,500	118,500
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Total liabilities	2,262,469	2,290,883
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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 32,830,625 and 32,008,142 shares;
outstanding 31,432,716 and 30,610,233 shares

	32,831	32,008
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Additional paid-in capital	190,837	169,881
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Accumulated other comprehensive income (loss)	(5,110)	20,288
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Retained earnings	489,090	417,705
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Deferred compensation		(1,012)
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Treasury stock, at cost, 1,397,909 shares	(24,487)	(24,487)
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Total shareholders' equity	683,161	614,383
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Total liabilities and shareholders' equity	\$2,945,630	\$2,905,266
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*These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Net premiums written*	\$207,324	\$206,594	\$635,150	\$640,610
Statutory surplus*			\$631,541	\$549,049
Pretax investment income	\$26,388	\$23,064	\$75,330	\$67,403
Related federal income taxes	7,219	5,553	19,681	15,940
After-tax investment income	\$19,169	\$17,511	\$55,649	\$51,463

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Revenues:				
Premiums earned:				
Commercial lines	\$173,941	\$173,948	\$518,753	\$512,119
Personal lines	36,468	38,379	109,321	116,753
Total premiums earned	210,409	212,327	628,074	628,872
Net investment income	26,388	23,064	75,330	67,403
Realized investment gains (losses)	138	(1)	40,420	67
Other	4,188	3,811	13,374	12,252
Total revenues	\$241,123	\$239,201	\$757,198	\$708,594

Income before income taxes and cumulative effect of accounting change:

Underwriting gain (loss):				
Commercial lines	\$2,793	(\$5,742)	(\$4,743)	(\$25,740)
Personal lines	1,540	2,497	9,799	4,028
SAP underwriting gain (loss)	4,333	(3,245)	5,056	(21,712)
GAAP adjustments	(1,414)	480	(1,136)	5,533
GAAP underwriting gain (loss)	2,919	(2,765)	3,920	(16,179)
Net investment income	26,388	23,064	75,330	67,403
Realized investment gains (losses)	138	(1)	40,420	67
Other	1,032	1,115	4,422	3,001
Income before income taxes and cumulative effect of accounting change	\$30,477	\$21,413	\$124,092	\$54,292
Income taxes on net investment income	\$7,219	\$5,553	\$19,681	\$15,940
Income taxes (benefit) on remaining gain (loss) before cumulative effect of accounting change	1,466	(581)	17,181	(4,598)
Total income taxes on income before cumulative effect of accounting change	\$8,685	\$4,972	\$36,862	\$11,342

Effective tax rate on:

Net investment income	27.4%	24.1%	26.1%	23.6%
Income before cumulative effect of accounting change	28.5%	23.2%	29.7%	20.9%

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*

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Net premiums written:				
Commercial:				
Automobile	\$48,736	\$54,109	\$157,828	\$171,873
Workers' compensation	24,910	24,622	74,020	74,534
Commercial multi-peril	77,357	73,285	240,574	230,816
Other commercial	17,480	15,375	53,994	51,465
Total commercial	\$168,483	\$167,391	\$526,416	\$528,688
Personal:				
Automobile	\$18,698	\$20,544	\$54,853	\$60,670
Homeowners	17,941	16,473	47,370	44,603
Other personal	2,202	2,186	6,511	6,649
Total personal	\$38,841	\$39,203	\$108,734	\$111,922
Total personal and commercial	\$207,324	\$206,594	\$635,150	\$640,610
Combined ratios:				
Commercial:				
Automobile	100.2%	104.5%	99.5%	100.8%
Workers' compensation	116.1%	118.6%	117.3%	122.6%
Commercial multi-peril	98.3%	101.0%	99.8%	102.0%
Other commercial	80.8%	102.5%	83.3%	95.9%
Total commercial	99.5%	104.7%	100.4%	103.9%
Personal:				
Automobile	99.5%	98.1%	99.9%	102.8%
Homeowners	90.3%	88.8%	83.5%	94.5%
Other personal	65.4%	67.5%	68.0%	73.1%
Total personal	93.6%	92.8%	91.2%	97.9%
Total personal and commercial	98.5%	102.5%	98.8%	102.8%
Losses paid	\$113,732	\$108,074	\$331,880	\$338,407
Net catastrophe losses incurred	\$4,019	\$2,414	\$11,074	\$4,038

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.