
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2007**

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-14697

HARLEYSVILLE GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0241172

(I.R.S. Employer
Identification No.)

355 Maple Avenue, Harleysville, PA 19438-2297

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(215) 256-5000**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No .

At May 1, 2007 31,934,171 shares of common stock of Harleysville Group were outstanding.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**INDEX**

	<u>Page Number</u>
Part I	
Financial Information	
Consolidated Balance Sheets - March 31, 2007 and December 31, 2006	3
Consolidated Statements of Income - For the three months ended March 31, 2007 and 2006	4
Consolidated Statement of Shareholders' Equity - For the three months ended March 31, 2007	5
Consolidated Statements of Cash Flows - For the three months ended March 31, 2007 and 2006	6
Notes to Consolidated Financial Statements	7
Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Quantitative and Qualitative Disclosure About Market Risk	22
Controls and Procedures	23
Part II	
Other Information	24

Item 1. Financial Statements

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
	(Unaudited)	
Assets		
Investments:		
Fixed maturities:		
Held to maturity, at amortized cost (fair value \$352,275 and \$377,348)	\$ 352,278	\$ 378,049
Available for sale, at fair value (cost \$1,644,151 and \$1,600,940)	1,654,708	1,606,333
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
Fixed maturity securities on loan:		
Held to maturity, at amortized cost (fair value \$4,740 and \$4,487)	4,579	4,408
Available for sale, at fair value (amortized cost \$115,669 and \$116,711)	<u>115,763</u>	<u>116,541</u>
Total investments	2,305,133	2,249,014
Cash	141	227
Receivables:		
Premiums	142,971	147,445
Reinsurance	171,017	167,199
Accrued investment income	<u>25,333</u>	<u>25,823</u>
Total receivables	339,321	340,467
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	<u>47,540</u>	<u>53,913</u>
Total assets	<u>\$ 3,026,920</u>	<u>\$ 2,990,984</u>
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss settlement expenses (affiliate \$173,663 and \$178,327)	\$ 1,515,848	\$ 1,493,645
Unearned premiums (affiliate \$38,344 and \$33,850)	443,684	443,738
Accounts payable and accrued expenses	73,938	98,184
Securities lending obligation	123,866	124,755
Debt (affiliate \$18,500 and \$18,500)	118,500	118,500
Due to affiliate	<u>14,903</u>	<u>14,903</u>
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	<u>(24,487)</u>	<u>(24,487)</u>
Total shareholders' equity	<u>736,181</u>	<u>712,162</u>
Total liabilities and shareholders' equity	<u>\$ 3,026,920</u>	<u>\$ 2,990,984</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

For the three months ended March 31, 2007 and 2006

(dollars in thousands, except per share data)

	<u>2007</u>	<u>2006</u>
Revenues:		
Premiums earned from affiliate (ceded to affiliate, \$185,241 and \$182,869)	\$ 205,378	\$ 208,345
Investment income, net of investment expense	27,397	24,095
Realized investment gains	624	2,210
Other income (affiliate \$1,652 and \$1,700)	<u>3,498</u>	<u>4,887</u>
Total revenues	<u>236,897</u>	<u>239,537</u>
Losses and expenses:		
Losses and loss settlement expenses (ceded to affiliate, \$118,917 and \$120,222)	131,151	135,989
Amortization of deferred policy acquisition costs	51,896	52,604
Other underwriting expenses	18,281	19,991
Interest expense (affiliate \$264 and \$228)	1,765	1,710
Other expenses	<u>1,273</u>	<u>1,015</u>
Total expenses	<u>204,366</u>	<u>211,309</u>
Income before income taxes and cumulative effect of accounting change	32,531	28,228
Income taxes	<u>9,629</u>	<u>7,520</u>
Income before cumulative effect of accounting change	22,902	20,708
Cumulative effect of accounting change, net of income taxes	<u> </u>	<u>942</u>
Net income	<u>\$ 22,902</u>	<u>\$ 21,650</u>
Per common share:		
Basic income before cumulative effect of accounting change	\$.72	\$.68
Basic cumulative effect of accounting change	<u> </u>	<u>.03</u>
Basic net income	<u>\$.72</u>	<u>\$.71</u>
Diluted income before cumulative effect of accounting change	\$.71	\$.67
Diluted cumulative effect of accounting change	<u> </u>	<u>.03</u>
Diluted net income	<u>\$.71</u>	<u>\$.70</u>
Cash dividend	<u>\$.19</u>	<u>\$.175</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)
For the three months ended March 31, 2007
(dollars in thousands)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at December 31, 2006	33,060,600	\$ 33,061	\$ 197,607	\$ 14	\$ 505,967	\$ (24,487)	\$ 712,162
Net income					22,902		22,902
Other comprehensive income, net of tax:							
Unrealized investment gains, net of reclassification adjustment				3,379			3,379
Defined benefit pension plans:							
Recognized net actuarial loss				181			181
Other comprehensive income							3,560
Comprehensive income							26,462
Issuance of common stock:							
Incentive plans	250,492	250	934				1,184
Dividend reinvestment plan	5,188	5	162				167
Tax benefit from stock compensation			1,262				1,262
Stock compensation			1,010				1,010
Cash dividend paid					(6,066)		(6,066)
Balance at March 31, 2007	<u>33,316,280</u>	<u>\$ 33,316</u>	<u>\$ 200,975</u>	<u>\$ 3,574</u>	<u>\$ 522,803</u>	<u>\$ (24,487)</u>	<u>\$ 736,181</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the three months ended March 31, 2007 and 2006
(in thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income	\$ 22,902	\$ 21,650
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Cumulative effect of accounting change, net of tax		(942)
Change in receivables, unearned premiums and		
prepaid reinsurance balances	2,797	66,440
Change in affiliate balance	20,619	8,289
Increase (decrease) in unpaid losses and loss settlement expenses	22,203	(31,640)
Deferred income taxes	2,378	749
(Increase) decrease in deferred policy acquisition costs	(119)	334
Amortization and depreciation	993	1,103
Gain on sale of investments	(624)	(2,210)
Other, net	(11,767)	(10,655)
Net cash provided by operating activities	<u>59,382</u>	<u>53,118</u>
Cash flows from investing activities:		
Fixed maturity investments:		
Purchases	(98,141)	(126,840)
Sales or maturities	75,975	86,809
Equity securities:		
Purchases	(7,534)	(34,814)
Sales	7,280	33,024
Net purchases of short-term investments	(33,356)	(9,928)
Purchase of property and equipment	(241)	(84)
Net cash used by investing activities	<u>(56,017)</u>	<u>(51,833)</u>
Cash flows from financing activities:		
Issuance of common stock	1,353	3,165
Dividends paid (to affiliate, \$3,230 and \$2,975)	(6,066)	(5,382)
Excess tax benefits from share-based payment arrangements	1,262	790
Net cash used by financing activities	<u>(3,451)</u>	<u>(1,427)</u>
Decrease in cash	(86)	(142)
Cash at beginning of period	227	466
Cash at end of period	<u>\$ 141</u>	<u>\$ 324</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 - Basis of Presentation

The financial information for the interim periods included herein is unaudited; however, such information reflects all adjustments which are, in the opinion of management, necessary to a fair presentation of the financial position, results of operations, and cash flows for the interim periods. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

These financial statements should be read in conjunction with the financial statements and notes for the year ended December 31, 2006 included in the Company's 2006 Annual Report filed with the Securities and Exchange Commission on Form 10-K.

The affiliate transaction disclosures on the face of the financial statements are in regards to transactions with Harleysville Mutual Insurance Company (Mutual). Mutual owns approximately 53% of the outstanding common stock of Harleysville Group Inc. As used herein, "Harleysville Group" refers to Harleysville Group Inc. and its subsidiaries.

2 - Share-Based Payments

Harleysville Group has several share-based compensation plans. Harleysville Group had accounted for the plans under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Effective January 1, 2006, Harleysville Group adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123(R)), which replaces SFAS No. 123 and supercedes APB Opinion No. 25, using the modified prospective application provisions. SFAS No. 123(R) requires that the cost resulting from all share-based payment transactions be recognized in the financial statements.

A cumulative effect of change in accounting benefit of \$942,000, net of tax of \$507,000 was recorded in the first quarter of 2006 related to the accounting for the Long Term Incentive Plan (LTIP). The LTIP has a cash component and a stock component which awards shares based on the total shareholder return of the Company's stock relative to the total shareholder return of a group of insurance company stocks. Under APB Opinion No. 25, this plan had been accounted for using the intrinsic method. Under SFAS No. 123(R), the cash component is accounted for under the liability method and the stock component is accounted for as an equity instrument.

Harleysville Group Inc. has the following share-based compensation plans:

- The Equity Incentive Plan (EIP) provides for awards to key employees in the form of stock options, stock appreciation rights (SARs), restricted stock, restricted stock units or any combination of the above.
- The Employee Stock Purchase Plan provides that a participant may elect to have up to 15% of base pay withheld to purchase shares. The purchase price of the stock is 85% of the lower of the beginning-of-the-subscription period or end-of-the-subscription-period fair market value. There are two subscription periods during each year.
- The Directors' Equity Compensation Plan provides for the grant of equity-based awards to non-employee directors of Harleysville Group Inc. and Mutual. These awards can be in the form of stock options, deferred stock units or restricted stock.
- The Long Term Incentive Plan (LTIP) provides for share and cash awards to key employees based on the total shareholder return of the Company's stock relative to the total shareholder return of a group of insurance company stocks for the three year period January 1, 2005 through December 31, 2007.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Under SFAS No. 123(R), the compensation expense for the various share-based compensation plans that has been charged against income before income taxes and cumulative effect of accounting change was \$1,010,000 and \$957,000 for the three months ended March 31, 2007 and 2006, respectively, with a corresponding income tax benefit of \$330,000 and \$303,000, respectively.

During the first quarter of 2007, 275,520 stock options were granted at a Black Scholes value of \$11.03 per option. These options vest 33 1/3% per year over a three year period. Restricted stock grants of 94,679 shares and restricted stock units grants of 17,440 units were also made during the first quarter of 2007. The weighted average fair value of the restricted stock grants was \$34.72 per share. The weighted average fair value of the grant of the restricted stock units was \$34.76 per unit. These awards vest over a period of three to five years. During the first quarter of 2006, 21,907 shares of restricted stock were granted at a weighted average fair value of \$27.27 per share and a vesting period of four years. There were no grants of stock options or restricted stock units during the first quarter of 2006.

As of March 31, 2007, the Company's total unrecognized compensation cost related to nonvested share-based compensation arrangements and the weighted average period over which the compensation cost is expected to be recognized is as follows:

	<u>Unrecognized Compensation Cost</u> (in thousands)	<u>Weighted Average Period of Recognition</u> (in years)
Equity incentive plan awards	\$ 8,820	3.2
Employee stock purchase plan	\$ 85	0.3
Long term incentive plan	\$ 325	0.8

3 - Earnings Per Share

The computation of basic and diluted earnings per share is as follows:

	<u>For the three months ended March 31,</u>	
	<u>2007</u>	<u>2006</u>
	(in thousands, except per share data)	
Numerator for basic and diluted earnings per share:		
Income before cumulative effect of accounting change	\$ <u>22,902</u>	\$ <u>20,708</u>
Denominator for basic earnings per share--weighted average shares outstanding	31,630,213	30,641,110
Effect of stock incentive plans	<u>486,092</u>	<u>424,675</u>
Denominator for diluted earnings per share	<u>32,116,305</u>	<u>31,065,785</u>
Basic earnings per share:		
Income before cumulative effect of accounting change	\$ <u>.72</u>	\$ <u>.68</u>
Diluted earnings per share:		
Income before cumulative effect of accounting change	\$ <u>.71</u>	\$ <u>.67</u>

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The following options to purchase shares of common stock were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price:

	For the three months ended March 31, 2007
Number of options	(in thousands) 276

4 – Reinsurance

Premiums earned are net of amounts ceded of \$21,618,000 and \$19,740,000 for the three months ended March 31, 2007 and 2006, respectively. Losses and loss settlement expenses are net of amounts ceded of \$9,884,000 and \$7,348,000 for the three months ended March 31, 2007 and 2006, respectively. Such amounts ceded do not include the reinsurance transactions with Mutual under the pooling arrangement (described below) which are reflected on the face of the income statements, but do include reinsurance with unaffiliated reinsurers.

Pursuant to the terms of a reinsurance pooling agreement with Mutual, each of the insurance subsidiaries of Harleysville Group Inc. cedes premiums, losses and expenses on all of their respective business to Mutual which, in turn, retrocedes to such subsidiaries a specified portion of premiums, losses and expenses of Mutual and such subsidiaries. Because this agreement does not relieve Harleysville Group Inc.'s insurance subsidiaries of primary liability as originating insurers, there is a concentration of credit risk arising from business ceded to Mutual. However, the reinsurance pooling agreement provides for the right of offset. Mutual has an A. M. Best rating of "A-" (Excellent).

5 - Cash Flows

There were no cash tax payments in the first quarter of 2007. There were cash tax payments of \$100,000 in the first quarter of 2006. Cash interest payments of \$3,139,000 and \$3,100,000 were made in the first quarter of 2007 and 2006, respectively.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

6 - Segment Information

The performance of the personal lines and commercial lines is evaluated based upon underwriting results as determined under statutory accounting practices (SAP).

Financial data by segment is as follows:

	For the three months ended March 31,	
	2007	2006
	(in thousands)	
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	<u>\$ 236,897</u>	<u>\$ 239,537</u>
Income before income taxes and cumulative effect of accounting change:		
Underwriting income (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	<u>\$ 32,531</u>	<u>\$ 28,228</u>

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

7 - Comprehensive Income

Comprehensive income for the three months ended March 31, 2007 and 2006 consisted of the following:

	For the three months ended March 31,	
	<u>2007</u>	<u>2006</u>
	(in thousands)	
Net income	\$ 22,902	\$ 21,650
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized investment holding gains (losses) arising during period, net of taxes (benefits) of \$2,079 and \$(3,987)	3,861	(7,404)
Less:		
Reclassification adjustment for gains included in net income, net of taxes of \$260 and \$774	<u>(482)</u>	<u>(1,437)</u>
Net unrealized investment gains (losses)	<u>3,379</u>	<u>(8,841)</u>
Defined benefit pension plans:		
Recognized net actuarial loss, net of taxes of \$97	<u>181</u>	<u></u>
Other comprehensive income (loss)	<u>3,560</u>	<u>(8,841)</u>
Comprehensive income	<u>\$ 26,462</u>	<u>\$ 12,809</u>

8 - Pension

Harleysville Group Inc. has a pension plan that covers substantially all full-time employees. The plan was frozen at the then current benefit levels as of March 31, 2006, at which time the accrual of future benefits for eligible employees ceased. A curtailment benefit for the supplemental executive retirement plan of \$146,000 was recognized in the first quarter of 2006. The Company adopted SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" as of December 31, 2006. As a result, the Company's share of the net actuarial loss included in net periodic pension cost for the three months ended March 31, 2007 has been included as an adjustment to other comprehensive income. The net periodic pension cost for the plan including Mutual consists of the following components:

	For the three months ended March 31,	
	<u>2007</u>	<u>2006</u>
	(in thousands)	
Components of net periodic pension cost:		
Service cost	\$	\$ 2,372
Interest cost	2,755	2,600
Expected return on plan assets	(2,973)	(2,906)
Recognized net actuarial loss	428	409
Amortization of prior service cost		5
Net transition amortization		13
Curtailment gain	<u></u>	<u>(222)</u>
Net periodic pension cost:		
Entire plan	<u>\$ 210</u>	<u>\$ 2,271</u>
Harleysville Group portion	<u>\$ 137</u>	<u>\$ 1,494</u>

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Harleysville Group's expected portion of the 2007 contribution to the pension plan is \$2,119,000. Contributions of \$512,000 were made in the quarter ended March 31, 2007.

9 – Shareholders' Equity

Various states have adopted the National Association of Insurance Commissioners (NAIC) risk-based capital (RBC) standards that require insurance companies to calculate and report statutory capital and surplus needs based on a formula measuring underwriting, investment and other business risks inherent in an individual company's operations. These RBC standards have not affected the operations of Harleysville Group since each of the Company's insurance subsidiaries has statutory capital and surplus in excess of RBC requirements.

These RBC standards require the calculation of a ratio of total adjusted capital to Authorized Control Level. Insurers with a ratio below 200% are subject to different levels of regulatory intervention and action. Based upon their 2006 statutory financial statements, the ratio of total adjusted capital to the Authorized Control Level for the Company's nine insurance subsidiaries at December 31, 2006 ranged from 580% to 704%.

10 – Income Taxes

Effective January 1, 2007, Harleysville Group adopted FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." As of January 1, 2007, Harleysville Group had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense. Federal tax years 2003 through 2006 were open for examination as of January 1, 2007 and March 31, 2007.

11 – New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The impact of adopting this statement is currently being evaluated.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities--Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to choose to measure many financial instruments and certain other items at fair value at specified election dates. Upon adoption, an entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Most of the provisions apply only to entities that elect the fair value option. However, the amendment to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," applies to all entities with available for sale and trading securities. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The impact of adopting this statement is currently being evaluated.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 which 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. 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 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; competition in insurance product pricing; government regulation and changes therein which may impede the ability to charge adequate rates; performance of the financial markets; fluctuations in interest rates; availability and price of reinsurance; the A.M. Best rating of Harleysville Group; and the status of labor markets in which the Company operates.

Overview

The Company's net income is primarily determined by three elements:

- net premium income
- investment income
- amounts paid or reserved to settle insured claims

A number of factors may affect the level of premium income, including:

- limitations on rates arising from the competitive market place or regulation
- limitation on available business arising from a need to maintain the quality of underwritten risks
- the Company's ability to maintain its A- ("excellent") rating by A.M. Best
- the ability of the Company to maintain a reputation for efficiency and fairness in claims administration

A number of factors may affect the level of investment income, including:

- general interest rate levels
- specific adverse events affecting the issuers of debt obligations held by the Company
- changes in the prices of equity securities generally and those held by the Company specifically

Loss and loss settlement expenses are affected by a number of factors, including:

- the quality of the risks underwritten by the Company
- the nature and severity of catastrophe losses
- the availability, cost and terms of reinsurance
- underlying settlement costs, including medical and legal costs

The Company seeks to manage each of the foregoing to the extent within its control. Many of the foregoing factors are partially, or entirely, outside of the control of the Company.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

(Continued)

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles, which require Harleysville Group to make estimates and assumptions (see Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 2006 included in the Company's 2006 Annual Report filed with the Securities and Exchange Commission on Form 10-K). Harleysville Group believes that of its significant accounting policies, the following may involve a higher degree of judgment and estimation. The judgments, or the methodology on which the judgments are made, are reviewed quarterly with the Audit Committee.

Liability for Losses and Loss Settlement Expenses. The liability for losses and loss settlement expenses represents estimates of the ultimate unpaid cost of all losses incurred, including losses for claims which have not yet been reported to Harleysville Group. The amount of loss reserves for reported claims is based primarily upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss. The amounts of loss reserves for unreported claims and loss settlement expense reserves are determined utilizing historical information by line of insurance as adjusted to current conditions. Inflation is implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results. Estimates of the liabilities are reviewed and updated on a regular basis using the most recent information on reported claims and a variety of actuarial techniques. It is expected that such estimates will be more or less than the amounts ultimately paid when the claims are settled. Changes in these estimates are reflected in current operations.

Investments. Generally, unrealized investment gains or losses on investments carried at fair value, net of applicable income taxes, are reflected directly in shareholders' equity as a component of comprehensive income and, accordingly, have no effect on net income. However, if the fair value of an investment declines below its cost and that decline is deemed other than temporary, the amount of the decline below cost is charged to earnings. Harleysville Group monitors its investment portfolio and quarterly reviews investments that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. Such evaluations consider, among other things, the magnitude and reasons for a decline and the prospects for the fair value to recover in the near term. Future adverse investment market conditions, or poor operating results of underlying investments, could result in an impairment charge in the future.

Harleysville Group has written down to fair value, any equity security that has declined below cost by more than 20% and maintained such decline for six months, or by 50% or more, in the quarter in which either such decline occurred. In some cases, securities that have declined by a lesser amount or for a shorter period of time are written down if the evaluation indicates the decline is other than temporary. Fair value of equity securities is based on the closing market value as reported by a national stock exchange or Nasdaq. The fair value of mutual fund holdings is based on the closing net asset value reported by the fund. The fair value of fixed maturities is based upon data supplied by an independent pricing service. It can be difficult to determine the fair value of non-traded securities but Harleysville Group does not own a material amount of non-traded securities.

Policy Acquisition Costs. Policy acquisition costs, such as commissions, premium taxes and certain other underwriting and agency expenses that vary with and are primarily related to the production of business, are deferred and amortized over the effective period of the related insurance policies and in proportion to the premiums earned. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value. The estimation of net realizable value takes into account the premium to be earned, related investment income over the claim paying period, losses and loss settlement expenses, and certain other costs expected to be incurred as the premium is earned. Future changes in estimates, the most significant of which is expected losses and loss settlement expenses, may require adjustments to deferred policy acquisition costs. If the estimation of net realizable value indicates that the acquisition costs are unrecoverable, further analyses are completed to determine if a reserve is required to provide for losses that may exceed the related unearned premiums.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

(Continued)

Contingencies. Besides claims related to its insurance products, Harleysville Group is subject to proceedings, lawsuits and claims in the normal course of business. Harleysville Group assesses the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. There can be no assurance that actual outcomes will not differ from those assessments.

The application of certain of these critical accounting policies to the periods ended March 31, 2007 and 2006 is discussed in greater detail below.

Results of Operations

Premiums earned decreased \$3.0 million during the three months ended March 31, 2007 as compared to the three months ended March 31, 2006. The decrease is primarily due to a decrease of \$1.9 million in premiums earned for commercial lines and a decrease of \$1.1 million in personal lines premiums earned. The decrease in premiums earned for commercial lines was 1.1%, primarily due to competitive market conditions resulting in flat direct earned premium growth and a decrease in earned premiums assumed from involuntary pools. The decline in premiums earned for personal lines was 3.0%, primarily due to a reduction in personal automobile business due to the continued implementation of more stringent underwriting processes, partially offset by an increase in homeowners business due to higher average premiums.

Investment income increased \$3.3 million for the three months ended March 31, 2007 primarily due to a higher level of invested assets and a greater percentage of invested assets in fixed maturity securities.

Realized investment gains decreased \$1.6 million for the three months ended March 31, 2007 compared to the same prior year quarter. The decrease resulted from greater gains on the sale of equity securities in the first quarter of 2006.

Harleysville Group holds securities with unrealized losses at March 31, 2007 as follows:

	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Length of Unrealized Loss</u>	
			<u>Less Than 12 Months</u>	<u>Over 12 Months</u>
		(in thousands)		
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 165,517	\$ 1,991	\$ 36	\$ 1,955
Obligations of states and political subdivisions	191,047	3,280	63	3,217
Corporate securities	352,002	5,966	968	4,998
Mortgage-backed securities	<u>140,577</u>	<u>1,624</u>	<u>94</u>	<u>1,530</u>
Total fixed maturities	<u>\$ 849,143</u>	<u>\$ 12,861</u>	<u>\$ 1,161</u>	<u>\$ 11,700</u>
Equity securities	<u>\$ 3,853</u>	<u>\$ 41</u>	<u>\$ 41</u>	<u>\$ 0</u>

There are three positions that comprise the unrealized loss in equity investments at March 31, 2007. They have not been significantly below cost for significant continuous amounts of time. Harleysville Group has been monitoring these securities and it is possible that some may be written down in the income statement in the future.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

(Continued)

Of the total fixed maturity securities with an unrealized loss at March 31, 2007, securities with a fair value of \$684.2 million and an unrealized loss of \$9.5 million are classified as available for sale and are carried at fair value on the balance sheet while securities with a fair value of \$164.9 million and an unrealized loss of \$3.4 million are classified as held to maturity on the balance sheet and are carried at amortized cost.

The fixed maturity investments with continuous unrealized losses for less than twelve months were primarily due to the impact of higher market interest rates rather than a decline in credit quality. There are \$635.5 million in fixed maturity securities, at fair value, that at March 31, 2007, had been below amortized cost for over twelve months. The \$11.7 million of unrealized losses on such securities primarily relates to securities which carry an investment grade debt rating and have declined in fair value roughly in line with market interest rate changes. Harleysville Group currently has the ability and intent to hold these securities until recovery.

In the first quarter of 2007, Harleysville Group had income before income taxes and cumulative effect of accounting change of \$32.5 million, compared to \$28.2 million in the first quarter of 2006. The increase in income before income taxes and cumulative effect of accounting change of \$4.3 million for the three months ended March 31, 2007, as compared to the same period in 2006, was primarily due to improved underwriting results and higher investment income, partially offset by the decreased realized investment gains and decreased other income. The improved underwriting results in 2007 primarily were due to lower loss severity, lower catastrophe losses and lower underwriting expenses. Catastrophe losses were \$2.1 million and \$2.8 million for the three months ended March 31, 2007 and 2006, respectively. The decrease in underwriting expenses, including amortization of deferred policy acquisition costs, was primarily due to a decrease in headcount resulting from on-going expense reduction initiatives.

An insurance company's statutory combined ratio is a standard measure of underwriting profitability. This ratio is the sum of (1) the ratio of incurred losses and loss settlement expenses to net earned premium; (2) the ratio of expenses incurred for commissions, premium taxes, administrative and other underwriting expenses to net written premium; and (3) the ratio of dividends to policyholders to net earned premium. The combined ratio does not reflect investment income, federal income taxes or other non-operating income or expense. A ratio of less than 100 percent generally indicates underwriting profitability. Harleysville Group's statutory combined ratio decreased to 97.9% for the three months ended March 31, 2007 from 99.2% for the three months ended March 31, 2006. Such decrease was due to better underwriting results in commercial lines, partially offset by worse underwriting results in personal lines.

The statutory combined ratios by line of business for the three months ended March 31, 2007, as compared to the three months ended March 31, 2006, were as follows:

	For the three months ended March 31,	
	2007	2006
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%
Total commercial	97.9%	101.2%
Personal:		
Automobile	104.5%	100.7%
Homeowners	92.6%	78.8%
Other personal	95.7%	68.1%
Total personal	98.5%	89.6%
 Total personal and commercial	 97.9%	 99.2%

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

(Continued)

The commercial lines statutory combined ratio decreased to 97.9% for the three months ended March 31, 2007 from 101.2% for the three months ended March 31, 2006. The decrease is primarily due to a decrease in the combined ratios for the commercial auto and workers compensation lines of business. The decrease in the commercial auto combined ratio was primarily due to the recognition of \$4.2 million of favorable development in the first quarter of 2007, while unfavorable development of \$0.4 million was recognized in the first quarter of 2006. The decrease in the workers compensation combined ratio was due to improved underwriting results in the current accident year. The personal lines statutory combined ratio increased to 98.5% for the three months ended March 31, 2007 from 89.6% for the three months ended March 31, 2006. The increase primarily was due to the higher combined ratios in the personal auto and homeowners lines of business due to a higher level of auto physical damage losses and property losses in the first quarter of 2007.

The following table presents the liability for unpaid losses and loss settlement expenses by major line of business:

	<u>March 31,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
	(in thousands)	
Commercial:		
Automobile	\$ 308,077	\$ 308,961
Workers compensation	329,065	327,630
Commercial multi-peril	498,401	481,173
Other commercial	<u>95,876</u>	<u>92,542</u>
Total commercial	<u>1,231,419</u>	<u>1,210,306</u>
Personal:		
Automobile	85,554	87,508
Homeowners	30,143	30,319
Other personal	<u>2,197</u>	<u>1,716</u>
Total personal	<u>117,894</u>	<u>119,543</u>
Total personal and commercial	1,349,313	1,329,849
Plus reinsurance recoverables	<u>166,535</u>	<u>163,796</u>
Total liability	<u>\$ 1,515,848</u>	<u>\$ 1,493,645</u>

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

(Continued)

The following table presents the increase (decrease) in the liability for unpaid losses and loss settlement expenses attributable to insured events of prior years for the three months ended March 31, 2007 by line of business:

	<u>Total</u>	<u>Accident Years</u>		<u>2004 and</u>
		<u>2006</u>	<u>2005</u>	<u>Prior Years</u>
		(in thousands)		
Commercial:				
Automobile	\$ (4,187)	\$ (340)	\$ (798)	\$ (3,049)
Workers compensation	92	(1,004)	(459)	1,555
Commercial multi-peril	(886)	(1,359)	(1,323)	1,796
Other commercial	(273)	(315)	(200)	242
Total commercial	<u>(5,254)</u>	<u>(3,018)</u>	<u>(2,780)</u>	<u>544</u>
Personal:				
Automobile	(1,597)	(295)	(352)	(950)
Homeowners	(1,532)	(509)	(332)	(691)
Other personal	267	238	22	7
Total personal	<u>(2,862)</u>	<u>(566)</u>	<u>(662)</u>	<u>(1,634)</u>
Total net development	<u>\$ (8,116)</u>	<u>\$ (3,584)</u>	<u>\$ (3,442)</u>	<u>\$ (1,090)</u>

There was \$8.1 million of net favorable development in the provision for insured events in prior years for the three months ended March 31, 2007 of which \$5.2 million was in commercial lines and \$2.9 million was in personal lines. The favorable development primarily related to the 2003 through 2006 accident years as a result of lower than expected claim severity broadly experienced across all casualty lines, partially offset by adverse development in accident years prior to 2003.

There was \$4.0 million of net favorable development in the provision for insured events in prior years for the three months ended March 31, 2006 of which \$0.9 million was in commercial lines and \$3.1 million was in personal lines. The favorable development primarily related to the 2003 and 2004 accident years as a result of lower than expected claims severity in personal lines and commercial multi-peril.

The following table presents workers compensation claim count information for the total pooled business in which Harleysville Group participates and payment amounts which are Harleysville Group's pooling share of the total pooled amounts:

	<u>For the three months ended March 31, 2007</u>	<u>For the year ended December 31, 2006</u>
	(dollars in thousands)	
Number of claims pending, beginning of period	5,481	6,020
Number of claims reported	1,945	8,601
Number of claims settled or dismissed	<u>(1,955)</u>	<u>(9,140)</u>
Number of claims pending, end of period	<u>5,471</u>	<u>5,481</u>
Losses paid	\$ 15,623	\$ 55,818
Loss settlement expenses paid	\$ 3,222	\$ 12,610

Workers compensation losses primarily consist of indemnity and medical costs for injured workers.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

(Continued)

Harleysville Group records the actuarial best estimate of the ultimate unpaid losses and loss settlement expenses incurred. Actuarial loss reserving techniques and assumptions, which rely on historical information as adjusted to reflect current conditions, have been consistently applied, after including consideration of recent case reserve activity, during the periods presented. Changes in the estimate of the liability for unpaid losses and loss settlement expenses reflect actual payments and evaluations of new information and data since the last reporting date. These changes correlate with actuarial trends.

The following table presents the liability for unpaid losses and loss settlement expenses by case and incurred but not reported (IBNR) reserves by line of business as of March 31, 2007:

	<u>Case</u>	<u>IBNR</u>	<u>LAE Liability</u> (in thousands)	<u>IBNR (Incl. LAE)</u>	<u>Total Liability</u>
Commercial:					
Automobile	\$ 105,543	\$ 151,888	\$ 50,646	\$ 202,534	\$ 308,077
Workers compensation	146,461	140,897	41,707	182,604	329,065
Commercial multi-peril	124,330	238,832	135,239	374,071	498,401
Other commercial	<u>17,768</u>	<u>54,101</u>	<u>24,007</u>	<u>78,108</u>	<u>95,876</u>
Total commercial	<u>394,102</u>	<u>585,718</u>	<u>251,599</u>	<u>837,317</u>	<u>1,231,419</u>
Personal:					
Automobile	41,591	29,204	14,759	43,963	85,554
Homeowners	10,236	13,730	6,177	19,907	30,143
Other personal	<u>996</u>	<u>900</u>	<u>301</u>	<u>1,201</u>	<u>2,197</u>
Total personal	<u>52,823</u>	<u>43,834</u>	<u>21,237</u>	<u>65,071</u>	<u>117,894</u>
Total net liability	<u>446,925</u>	<u>629,552</u>	<u>272,836</u>	<u>902,388</u>	<u>1,349,313</u>
Reinsurance recoverables	<u>130,140</u>	<u>35,774</u>	<u>621</u>	<u>36,395</u>	<u>166,535</u>
Total gross liability	<u>\$ 577,065</u>	<u>\$ 665,326</u>	<u>\$ 273,457</u>	<u>\$ 938,783</u>	<u>\$ 1,515,848</u>

Reinsurance receivables were \$171.0 million and \$167.2 million at March 31, 2007 and December 31, 2006, respectively. Of these amounts, \$93.4 million and \$93.9 million, respectively, or 55% and 56%, respectively, of the receivables were due from governmental bodies, regulatory agencies or quasi governmental pools and reinsurance facilities where, Harleysville Group believes, there is virtually no credit risk. The remainder of the reinsurance receivables are principally due from reinsurers rated A- or higher by A.M. Best.

Because of the nature of insurance claims, there are uncertainties inherent in the estimates of ultimate losses. Harleysville Group's reorganization of its claims operation in recent years has resulted in new people and processes involved in settling claims. As a result, more recent statistical data reflects different patterns than in the past and gives rise to uncertainty as to the pattern of future loss settlements. There are uncertainties regarding future loss cost trends particularly related to medical treatments and automobile repair. Court decisions, regulatory changes and economic conditions can affect the ultimate cost of claims that occurred in the past. Accordingly, the ultimate liability for unpaid losses and loss settlement expenses will likely differ from the amount recorded at March 31, 2007.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

(Continued)

The property and casualty industry has had substantial aggregate loss experience from claims related to asbestos-related illnesses, environmental remediation, product liability, mold, and other uncertain exposures. Harleysville Group has not experienced significant losses from such claims.

Net catastrophe losses decreased \$0.7 million for the three months ended March 31, 2007 due to less severe catastrophes in the 2007 period than in the comparable period in 2006.

Effective January 1, 2007, the Company's subsidiaries and Mutual and its wholly owned subsidiaries increased the retention on the casualty excess of loss treaty from \$2.0 million to \$3.0 million. Effective January 1, 2007, the treaty affords recovery to \$37.0 million above the \$3.0 million retention. Harleysville Group's pooling share of such recovery would be \$26.6 million above a retention of \$2.2 million. Additionally, effective January 1, 2007, the Company's subsidiaries and Mutual and its wholly owned subsidiaries retained a 25% co-participation of the first \$4.0 million in excess of \$1.0 million on their umbrella treaty. The maximum recovery for an umbrella loss under the new treaty is \$8.0 million. Harleysville Group's pooling share of this recovery would be \$5.8 million.

Harleysville Group froze its defined benefit pension plan at the then current benefit levels as of March 31, 2006. Harleysville Group's portion of pension expense for the plan was \$0.1 million and \$1.5 million for the three months ended March 31, 2007 and 2006, respectively. Harleysville Group enhanced its 401(k) retirement savings plan to provide for a company contribution equal to 5% of salary for all eligible employees, effective April 1, 2006 and recognized expense of \$1.1 million in 2007 due to this enhancement.

Other income decreased \$1.4 million for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 due to a decrease of \$1.4 million in claim handling fees received in connection with the National Flood Insurance Program, related primarily to flood claims from Hurricane Katrina.

The income tax expense for the three month periods ended March 31, 2007 and 2006 includes a tax benefit of \$1.8 million and \$2.4 million, respectively, related to tax-exempt investment income.

Liquidity and Capital Resources

Operating activities provided \$59.4 million and \$53.1 million of net cash for the three months ended March 31, 2007 and 2006, respectively. The change primarily is from an increase in net cash provided by investment income and the change in the affiliate balance.

Investing activities used \$56.0 million and \$51.8 million of net cash for the three months ended March 31, 2007 and 2006, respectively. The change is primarily due to higher net purchases of investments due to the increase in cash provided by operating activities.

Financing activities used \$3.5 million and \$1.4 million of net cash for the three months ended March 31, 2007 and 2006, respectively. The change is primarily due to a decrease in cash received from the issuance of common stock and an increase in dividends paid.

Harleysville Group participates in a securities lending program whereby certain fixed maturity securities from the investment portfolio are loaned to other institutions for a short period of time in return for a fee. At March 31, 2007, Harleysville Group held cash collateral of \$123.9 million related to securities on loan with a market value of \$120.5 million. Harleysville Group's policy is to require initial collateral of 102% of the market value of loaned securities plus accrued interest, which is required to be maintained daily by the borrower at no less than 100% of such market value plus

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

(Continued)

accrued interest over the life of the loan. Acceptable collateral includes cash and money market instruments, government securities, A-rated corporate obligations, AAA-rated asset-backed securities or GIC's and Funding Agreements from issuers rated A or better. The securities on loan to others have been segregated from the other invested assets on the balance sheet. In addition, the assets and liabilities have been grossed up to reflect the collateral held under the securities lending program and the obligation to return this collateral upon the return of the loaned securities.

Harleysville Group Inc. had \$18.3 million of cash and marketable securities at March 31, 2007 which is available for general corporate purposes including dividends, debt service, capital contributions to subsidiaries, acquisitions and the repurchase of stock. The Company has no material commitments for capital expenditures as of March 31, 2007.

On August 18, 2006, Harleysville Group Inc. entered into a credit agreement with HSBC Bank USA, National Association, as Administrative Agent, and participating lenders relating to a five year \$100 million revolving credit facility. At Harleysville Group Inc.'s election, interest will be calculated at the LIBOR Rate plus a Margin (currently 0.750% based on the credit rating of the Company's debt) or the Alternate Base Rate (the greater of the Prime Rate or the Federal Funds Effective Rate plus 1/2 of 1%). In addition, there is a fee of 0.150% per annum on the loan commitment amount, regardless of usage. The agreement requires compliance with certain covenants, which include minimum net worth and leverage and fixed charge coverage ratios. The credit facility is available for general corporate purposes. There have been no borrowings under the credit facility. The Company is in compliance with all applicable covenants.

The timing of future cash payments associated with unpaid losses and loss settlement expenses and contractual obligations pursuant to debt agreements is not expected to be materially different from that disclosed in the Company's Annual Report on Form 10-K for fiscal year 2006.

RISK FACTORS

The business, results of operations and financial condition, and therefore the value of Harleysville Group's securities, are subject to a number of risks. Some of those risks are set forth in the Company's annual report on Form 10-K for fiscal year 2006, filed with the Securities and Exchange Commission on March 9, 2007. There has been no material change from risk factors as previously disclosed in the Company's annual report for fiscal year 2006.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Item 3.****Quantitative and Qualitative Disclosure
about Market Risk**

Harleysville Group's market risk generally represents the risk of gain or loss that may result from the potential change in the fair value of Harleysville Group's investment portfolio as a result of fluctuations in prices and interest rates. Harleysville Group attempts to manage its interest rate risk by maintaining an appropriate relationship between the average duration of the investment portfolio and the approximate duration of its liabilities.

Harleysville Group has maintained approximately the same duration of its investment portfolio to its liabilities from December 31, 2006 to March 31, 2007. In addition, the Company has maintained approximately the same investment mix during this period.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Item 4.****Controls and Procedures**

- (a) Evaluation of disclosure controls and procedures. Our management, under the supervision and with the participation of the chief executive officer and the chief financial officer, has evaluated the effectiveness of our controls and procedures related to our reporting and disclosure obligations as of March 31, 2007, which is the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, the chief executive officer and chief financial officer have concluded that these disclosure controls and procedures are sufficient to provide that (a) material information relating to us, including our consolidated subsidiaries, is made known to these officers by other employees of us and our consolidated subsidiaries, particularly material information related to the period for which this periodic report is being prepared; and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission.

- (b) Change in internal control over financial reporting. There was no change in the Company's internal control over financial reporting that occurred during the first quarter of 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**PART II. OTHER INFORMATION**

ITEM 1A. Risk Factors

For a discussion of risk factors applicable to the Company see page 21 - "Risk Factors."

ITEM 6. a. Exhibits

- 10.1 Harleysville Group Inc. Equity Incentive Plan, Amended and Restated as of April 25, 2007.
- 10.2 Harleysville Group Inc. Directors' Equity Compensation Plan, Amended and Restated as of April 25, 2007.
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Harleysville Group Inc.

Date: May 4, 2007

By: /s/ ARTHUR E. CHANDLER

Arthur E. Chandler
Senior Vice President and
Chief Financial Officer
(principal financial officer)

Exhibit (10.1)

HARLEYSVILLE GROUP INC.
AMENDED AND RESTATED
EQUITY INCENTIVE PLAN

Approved by the Board of Directors: February 21, 2007

Submitted to Stockholders for Approval: April 25, 2007

**HARLEYSVILLE GROUP INC.
AMENDED AND RESTATED
EQUITY INCENTIVE PLAN**

Table of Contents

	<u>Page</u>
I. Introduction	1
A. Purpose of the Plan	1
B. Definitions	1
II. Plan Administration	6
A. Administration	6
B. Eligibility	7
C. Maximum Number of Shares Available	7
D. Maximum Shares Awarded	7
E. Adjustments	7
F. Rights Upon a Change in Control	7
III. Stock Options	8
A. Type of Option	8
B. Price	8
C. Exercise Term and Vesting	8
D. Exercise Procedures	8
E. Payment	8
F. Rights Upon Termination of Employment	9
G. Restrictions Upon Transfer	10
H. Incentive Stock Options	10
IV. Stock Appreciation Rights	11
A. Grant of Rights	11
B. Term	11
C. Limits on Stock Appreciation Rights	11
D. Payment	12

V.	Restricted Stock Awards	12
A.	Price	12
B.	Restriction Period	12
C.	Restriction Upon Transfer	12
D.	Performance Goals	13
E.	Certificates	13
F.	Lapse of Restrictions	13
G.	Termination Prior to Lapse of Restrictions	14
VI.	Restricted Stock Unit Awards	14
A.	Restriction Period	14
B.	Performance Goals	15
C.	Vesting	15
D.	Account	15
E.	Dividend Equivalents	16
F.	Time and Method of Payment	16
G.	Forfeiture	16
H.	Nature of Restricted Stock Units	16
VII.	Miscellaneous Provisions	16
A.	Amendment, Suspension and Termination of Plan	16
B.	Government and Other Regulations	17
C.	Other Compensation Plans and Programs	17
D.	Withholding Taxes	17
E.	Single or Multiple Documents	18
F.	Certifications	18
G.	Construction of Plan	18
H.	Pronouns, Singular and Plural	18
I.	Limitation of Rights	18
J.	Plan Effective Date and Termination	18
K.	Successors	19

**HARLEYSVILLE GROUP INC.
AMENDED AND RESTATED
EQUITY INCENTIVE PLAN**

I. INTRODUCTION

A. PURPOSE OF THE PLAN: Harleystville Group Inc. (the “Company”) has established the Plan to further the growth, development and success of the Company by providing additional incentives to those officers and other employees of the Company, its insurance subsidiaries and its parent company to enable them to participate directly in the growth of the capital stock of the Company. The Company intends that the Plan will facilitate securing, retaining, and motivating eligible employees of high caliber and potential. It is intended that compensation paid hereunder to be fully deductible to the Company to the extent permitted under Section 162(m) of the Code.

B. DEFINITIONS: When used in the Plan, the following terms shall have the meanings set forth below:

1. “Award(s)” means Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock, and Restricted Stock Units made under the Plan.

2. “Change in Control” shall be deemed to have occurred:

(a) if the “beneficial ownership” (as defined in Rule 13d-3 under the Exchange Act) of securities representing more than twenty percent (20%) of the combined voting power of the Employer Voting Securities (as herein defined) is acquired by any individual, entity or group (a “Person”), other than the Parent, the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company or an affiliate thereof, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company (for purposes of this Plan, “Company Voting Securities” shall mean the then outstanding voting securities of the Company entitled to vote generally in the election of directors); provided, however, that the following shall not constitute a Change in Control under this paragraph (a): (i) any acquisition pursuant to a transaction which complies with clauses (i), (ii) and (iii) of paragraph (c) of this Section 1.(B)(2); (ii) any acquisition of the Company Voting Securities from the Parent pursuant to a Business Combination (as herein defined) or otherwise, if (x) the acquiring or resulting entity is organized in the mutual form, and (y) persons who were members of the Incumbent Board (as herein defined) of the Parent immediately prior to such acquisition constitute at least two-thirds of the members of the Board of Directors of the acquiring entity immediately following such acquisition and (iii) any acquisition of voting securities from the Company or the Parent by a person engaged in business as an underwriter of securities who acquires the shares through his participation in good faith in a firm commitment underwriting registered

under the Securities Act; and (iv) any acquisition otherwise within the terms of this paragraph (a) during any period in which Parent owns at least a majority of the combined voting power of Company Voting Securities (the "Parent Control Period"), but if such an acquisition is made during a Parent Control Period by any Person and such Person continues to hold more than 20% of the combined voting power of all Company Voting Securities on the first day following the termination of a Parent Control Period, such acquisition will be deemed to have been first made on such date; or

(b) if, during any period of twenty-four (24) consecutive months, individuals who, as of the beginning of such period, constitute the Board of Directors of the Company or the Parent, as the case may be (the "Applicable Incumbent Board"), cease for any reason to constitute at least a majority of the Board of Directors of the Company or the Parent, as the case may be; provided, however, that (x) any individual becoming a director of the Company or the Parent, as the case may be, during such period whose election, or nomination for election, was approved by a vote of at least a two-thirds of the directors then comprising the Applicable Incumbent Board (other than in connection with the settlement of a threatened proxy contest) shall be considered as though such individual were a member of the Incumbent Board of Directors of the Company or the Parent, as the case may be, and (y) the provisions of this paragraph (b) shall not be applicable to the composition of the Board of Directors of Parent if Parent shall cease to own at least 20% of the combined voting power of all Company Voting Securities; or

(c) upon consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets or stock of another entity (a "Business Combination"), unless, in any such case, immediately following such Business Combination the following three conditions are met: (i) more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of (x) the corporation resulting from such Business Combination (the "Surviving Corporation"), or (y) if applicable, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries (the "New Parent Corporation"), is represented, in either such case, directly or indirectly, by Company Voting Securities outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power is distributed among the holders thereof, in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Company Voting Securities; and (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 50% or more of the combined voting power of the then outstanding voting securities eligible to elect directors of the New Parent Corporation (or, if there is no New Parent Corporation, the Surviving Corporation) except to the extent that such

ownership of the Company existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the New Parent Corporation (or, if there is no New Parent Corporation, the Surviving Corporation) were members of the Board of Directors of the Company at the time of the execution of the initial agreement, or the action of the Board, providing for such Business Combination; or

(d) Parent affiliates with, or acquires by merger, a third party and, as a consequence thereof, persons who were members of the Incumbent Board of Parent immediately prior to such transaction cease to constitute at least two-thirds of the directors of Parent following such transaction provided, however, that this paragraph (d) shall not apply if immediately prior to such affiliation or merger, Parent does not own more than 20% of the combined voting power of Company Voting Securities; or

(e) upon approval by the stockholders of the Company and all necessary regulatory authorities of a complete liquidation or dissolution of the Company; or

(f) any other event shall occur that would be required to be reported by the Company in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act (or any provision successor thereto); or

(g) the Company or Parent has entered into a management agreement or similar arrangement pursuant to which an entity other than the Company or the Parent or the Boards of Directors or the executive officers and management of the Company or the Parent has the power to direct or cause the direction of the management and policies of the Company or the Parent; provided, however, that this paragraph (g) shall not apply to Parent if, immediately prior to entering into any such management agreement or similar arrangement, Parent does not own more than 20 percent of Company Voting Securities.

3. "Company" means Harleysville Group Inc., a Delaware corporation, and any successor in a reorganization or similar transaction.
4. "Board" or "Board of Directors" means the Board of Directors of the Company.
5. "Code" means the Internal Revenue Code of 1986, as amended. Any reference in this Plan to a Code Section shall mean and refer to such Section or any successor thereto as may be in effect from time to time and the regulations promulgated thereunder.
6. "Committee" means the Compensation & Personnel Development Committee of the Board of Directors of Harleysville Group Inc., or any other committee selected by the Board meeting the applicable requirements of the SEC and the NASDAQ corporate governance standards.

7. "Common Stock" means the common stock of the Company, par value of \$1.00 per share.
8. "Date of Grant" means the date designated by the Committee as the date as of which the Committee grants an Award, which shall not be earlier than the date on which the Committee approves the granting of such Award.
9. "Director" means a member of the Board of Directors.
10. "Disability" means the inability of a Participant to perform the services normally rendered due to any physical or mental impairment that can be expected to be of either permanent or indefinite duration, as determined by the Committee on the basis of appropriate medical evidence, and that results in the Participant's cessation of active employment with the Company.
11. "Early Retirement" means cessation of employment with the Company after attaining the age of 55 and completing at least ten years of continuous service with the Company or attaining the age of 62 and completing at least five years of continuous service with the Company.
12. "Effective Date" has the meaning set forth in Section VII.(J) of this Plan.
13. "Exchange Act" means the Securities Exchange Act of 1934, as amended.
14. "Fair Market Value" means, as of any given date, with respect to Awards made hereunder, (i) the closing sale price of a share of Common Stock on such date on the principal securities exchange on which the Company's Common Stock is listed or traded, (ii) if not so reported, the average of the closing (or other designated) bid and asked prices on the immediately preceding business day as reported on the principal securities exchange on which the Company's Common Stock is listed or traded, or (iii) if not so reported, as otherwise determined by the Committee in the good faith exercise of its discretion in accordance with applicable law. A "business day" is any day, other than Saturday or Sunday, on which the relevant market is open for trading.
15. "Incentive Stock Option" or "ISO" means a right to purchase the Company's Common Stock, which is intended to comply with the terms and conditions for an incentive stock option, set forth in Section 422 of the Code.
16. "Non-Qualified Stock Option" means a stock option right to purchase the Company's Common Stock, which is not intended to comply with the terms and conditions for an incentive stock option, as set forth in Section 422 of the Code.

17. "Normal Retirement" means cessation of employment with the Company after attaining the age of 65 and completing at least five years of continuous service with the Company.
18. "Option Document" has the meaning set forth in the first paragraph of Article III.
19. "Parent" means Harleysville Mutual Insurance Company.
20. "Participant" means those eligible officers and other employees of the Company who receive Awards under the Plan.
21. "Performance Goals" means specific targeted amounts of, or changes in, financial or operating goals including: revenues; expenses; net income; operating income; equity; return on equity, assets or capital employed; shareholder return; or premium volume. Other financial or operating goals may also be used as determined by the Committee. Such goals may be applicable to the Company as a whole or one or more of its business units and may be applied in total or on a per share or percentage basis and on an absolute basis or relative to other companies, including industries or indices or any combination thereof, as determined by the Committee.
22. "Performance Period" means the period of time designated by the Committee, for which Performance Goals are measured for Restricted Stock Awards.
23. "Plan" means this amended and restated Equity Incentive Plan.
24. "Record Date" means the date selected by the Company to determine and calculate dividend payments.
25. "Restricted Stock" means an Award of shares of Common Stock subject to forfeiture restrictions described in Article V.
26. "Restricted Stock Unit" means the Awards described in Article VI.
27. "Retirement" means Normal Retirement or Early Retirement.
28. "SEC" means the Securities and Exchange Commission.
29. "Securities Act" means the Securities Act of 1933, as amended.
30. "Stock Appreciation Rights" means the Awards described in Article IV.
31. "Stock Option" means a Non-Qualified Stock Option and an Incentive Stock Option.
32. "Subsidiaries" means the subsidiaries (as defined in Section 424 of the Code) of the Company or the Parent.

33. "Termination of Employment" means a cessation of the Participant's employment with the Company for any reason other than Retirement, death or Disability.

II. PLAN ADMINISTRATION

A. ADMINISTRATION: The Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have full and exclusive authority:

1. to interpret the Plan;
2. to determine the employees to whom Awards should be made under the Plan;
3. to determine the type of Awards to be made and the amount, size and terms of each such Award;
4. to determine the time when the Awards are granted and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration thereof;
5. to prescribe, amend and rescind rules and regulations relating to the Plan; and
6. to make all other determinations deemed necessary or advisable in the implementation and administration of the Plan as permitted by federal and state laws and regulations, including those laws and regulations regarding deductibility from income under the Code and exemption from Section 16 of the Exchange Act, or by rules and regulations of a national securities exchange on which the Common Stock is then listed or traded.

The Committee's determinations under the Plan (including without limitation determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards, and the documents evidencing same) need not be uniform and may be made selectively among persons who receive, or are eligible to receive, Awards under the Plan whether or not such persons are similarly situated.

The determination of the Committee in the administration of the Plan, as described herein, shall be final and conclusive and binding upon all persons including, without limitation, the Company, its stockholders, Participants, and any persons having any interest under the Plan. The Secretary of the Company shall be authorized to take such action of a ministerial nature, including the preparation of Award documents provided to Participants, as shall be necessary to effectuate the intent and purposes hereof at the direction of the Committee.

B. ELIGIBILITY: Persons eligible to receive Awards under the Plan shall be those officers and other employees of the Company, the Subsidiaries and the Parent as determined by the Committee. Directors of the Company or the Parent who

are not otherwise officers or employees of the Company, a Subsidiary or the Parent are not eligible to participate in this Plan.

- C. MAXIMUM NUMBER OF SHARES AVAILABLE: Subject to adjustment as specified in Section II.(E) below, the aggregate number of shares of Common Stock that may be issued under the Plan is 3,000,000 shares, plus the number of shares that were registered on a Form S-8 Registration Statement relating to the predecessors to this Plan prior to 1997, which shares may be either authorized and unissued shares of Common Stock or authorized and issued shares of Common Stock reacquired by the Company. If any Award granted under the Plan shall expire, terminate or be canceled for any reason without having been exercised or vested in full, the number of shares of Common Stock not purchased under such Award shall again be available for the purposes of the Plan. Notwithstanding anything to the contrary in this Section II.(C), (i) should the exercise price of a Stock Option be paid with shares of Common Stock or by reducing the number of shares of Common Stock issuable upon such exercise, or (ii) should shares of Common Stock otherwise issuable under the Plan be paid in cash or withheld by the Company in satisfaction of the withholding taxes incurred in connection with the exercise of a Stock Option or the vesting of an Award, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the Stock Option is exercised or which vest under the Award, and not by the net number of shares of Common Stock issued to the holder of such Stock Option or Award.
- D. MAXIMUM SHARES AWARDED: Subject to adjustment as specified in Section II.(E) below, no one Participant shall receive Awards for more than 200,000 shares of Common Stock during any one calendar year under the Plan.
- E. ADJUSTMENTS: In the event of stock dividends, stock splits, re-capitalizations, mergers, consolidations, combinations, exchanges of shares, spin-offs, liquidations, reclassifications or other similar changes in the capitalization of the Company, such automatic substitution or adjustment shall be made in the maximum aggregate number of shares which may be issued under this Plan, the maximum number of shares with respect to which Awards may be granted to any individual during any year, the number and exercise price of shares subject to outstanding Options and Stock Appreciation Rights, and the number of shares subject to other outstanding Awards, as the Committee determines shall cause an equitable adjustment under this Plan, in proportion to the effect of such change to the Common Stock generally; provided that the number of shares subject to any Award shall be rounded down to the nearest whole number so that the number of shares subject to any Award shall always be a whole number. In the event of a change in the Common Stock as presently constituted, which change is limited to a change of all of the authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of this Plan.
- F. RIGHTS UPON A CHANGE IN CONTROL: In the event of a consummation of a Change in Control, notwithstanding any other restrictive provisions herein, all previously granted Stock Options and Stock Appreciation Rights shall become

exercisable immediately, except that no Incentive Stock Option may be exercised prior to six months following the Date of Grant thereof, and all previously issued shares of Restricted Stock and Restricted Stock Units shall have all forfeiture restrictions lapse immediately regardless of whether the applicable Restriction Period has expired or whether the applicable Performance Goals have been met.

III. STOCK OPTIONS

All Stock Options granted to Participants under the Plan shall be subject to the following terms and conditions, which shall be set forth in an appropriate written document ("Option Document") and which may provide such other terms, conditions and provisions, not inconsistent with this Plan, as the Committee may direct. For the avoidance of doubt, the Committee has the authority to revise any of the terms set forth in this Plan with respect to a Stock Option Award except for those terms required by law.

- A. TYPE OF OPTION: Each Option Document shall identify the option presented thereby as an Incentive Stock Option or a Non-Qualified Stock Option, as the case may be.
- B. PRICE: The exercise price per share shall not be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the Date of Grant and, in no event, less than the par value of the Common Stock.
- C. EXERCISE TERM AND VESTING: The Committee shall establish the vesting schedule for each Stock Option in the Option Document; provided, that, except as provided in Section III.(F) below, or as varied in the Option Document, the standard vesting schedule for each Stock Option Award shall be 33 1/3% exercisable on and after the first anniversary of the Date of Grant, 33 1/3% on and after the second anniversary of the Date of Grant, and the remaining 33 1/3% shall be exercisable on and after the third anniversary of the Date of Grant, in each case until the end of the term of the Stock Option; provided, further, that the number of shares vesting in each year shall be adjusted, as necessary, so that only a whole number of shares shall vest each year. The Committee has the power to accelerate the vesting schedule of any outstanding Stock Option Award, subject to the requirements set forth herein, upon such circumstances and subject to such terms and conditions as the Committee deems appropriate. All Stock Options shall expire as of 5:00 p.m. on the tenth anniversary of the Date of Grant unless the Committee provides otherwise in the Option Document; provided, that the term of an Incentive Stock Option shall not be longer than ten (10) years.
- D. EXERCISE PROCEDURES: A Stock Option, or portion thereof, shall be exercised by delivery of a written notice of exercise to the Secretary of the Company, and payment of the full exercise price for the shares being purchased, as well as payment of all withholding taxes due thereon, if any.
- E. PAYMENT: The exercise price of a vested Stock Option, or portion thereof, may be paid:
 - 1. by check, bank draft, money order, or electronic funds transfer payable to the order of the Company; or

2. through the delivery of shares of the Company's Common Stock owned by the Participant, having an aggregate Fair Market Value as determined as of the date prior to exercise equal to the exercise price; or
3. by such other method as the Committee may approve, including payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or
4. by a combination of 1, 2 and 3 above.

In the event a Participant delivers already-owned shares of the Company's Common Stock, at the Participant's option, the Participant may provide an executed attestation of ownership in lieu of actual delivery of shares.

Subject to the approval of the Committee, as set forth in the Option Document or otherwise in accordance with Rule 16b-3 of the Exchange Act, a Participant may surrender already-owned shares of the Company's Common Stock or forego delivery of shares due as a result of the exercise, in order to pay any withholding tax required to be collected upon exercise of a Non-Qualified Stock Option. Such shares shall be valued at their Fair Market Value pursuant to Section III.(E)(2) above.

If payment is made under Section III.(E)(3) of the Plan, the written exercise notice may instruct the Company to deliver shares due upon the exercise of the Stock Option to a registered broker or dealer designated by the Participant, if any, ("Designated Broker") in lieu of delivery to the Participant. Such instructions must designate the account into which the shares are to be deposited.

F. RIGHTS UPON TERMINATION OF EMPLOYMENT:

1. Unless otherwise provided in the Option Document, in the event of a Participant's Termination of Employment, all unvested Stock Options shall expire and be terminated on the date of termination, and the Participant shall have thirty (30) days to exercise all Stock Options that are vested and exercisable as of the date of termination unless the Committee in the Option Document or otherwise grants an additional period in which to exercise the vested Stock Options. If the Participant does not exercise such vested Stock Options in such 30-day period, the vested Stock Options shall automatically expire and be terminated.
2. Unless otherwise provided in the Option Document, in the event that a Participant ceases employment due to Retirement, death or Disability, prior to the expiration of the term of his or her outstanding Stock Option Awards, all Non-Qualified Stock Options, and all Incentive Stock Options that have been held for at least six months, shall immediately become vested and exercisable, and the Participant or his or her successor shall have the right to exercise such vested Stock Options for a period of the shorter of (i) the remaining term of any Stock Option or (ii) one year after cessation of employment due to death or Disability and two years after cessation of employment due to Retirement, or one year from the Participant's date of death, whichever occurs first, or within such other

period, and subject to such terms and conditions, as may be specified by the Committee; provided, however, a Participant who ceases employment due to Retirement after attaining the age of 62 with at least five years of continuous service may exercise vested Non-Qualified Stock Options, during the five year period after Retirement (or the remaining term of such Non-Qualified Stock Option, if shorter); and provided, further, that ISO tax treatment shall be available only as permitted under the Code.

- G. RESTRICTIONS UPON TRANSFER: Unless otherwise directed by the Committee, each Option Document for Incentive Stock Options shall prohibit any transfer thereof, except by will or by laws of descent and distribution, and for Non-Qualified Stock Options shall provide that no Stock Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and any attempted disposition thereof shall be null and void and of no effect; provided, however, that this Section III.(G) shall not prevent (with Committee approval) transfers to the Participant's spouse, children, grandchildren, parents or a trust established for any of them or the Participant, or by will or the laws of descent and distribution. If such a transfer is made, the employee may not receive any consideration therefore, and the Stock Option will continue to be subject to the same terms and conditions as were applicable to the Stock Option immediately before transfer.
- H. INCENTIVE STOCK OPTIONS: An Incentive Stock Option shall be subject to the following terms and conditions, which shall be set forth in the Option Document and which may provide such other terms, conditions and provisions as the Committee determines necessary or desirable in order to qualify such option as an incentive stock option (within the meaning of Section 422 of the Code):
1. The period or periods of time within which the Incentive Stock Option may be exercised, in whole or in part, which shall be such period or periods of time as may be determined by the Committee; provided that no Incentive Stock Option shall be exercisable prior to six months nor after ten years from the Date of Grant thereof. The Committee shall have the power to permit an acceleration of previously established exercise terms, subject to the requirements set forth herein, upon such circumstances and subject to such terms and conditions as the Committee deems appropriate;
 2. The aggregate Fair Market Value (determined as of the Date of Grant) of the stock with respect to which Incentive Stock Options are exercisable for the first time by such individual during a calendar year (under all plans of the Company) shall not exceed \$100,000;
 3. No Incentive Stock Option shall be granted to any employee if at the time the Stock Option is granted the individual owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or its Parent or Subsidiaries, unless at the time

such Incentive Stock Option is granted the exercise price is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the Date of Grant and such Stock Option by its terms is not exercisable after the expiration of five years from the Date of Grant;

4. No Incentive Stock Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and any attempted disposition thereof shall be null and void and of no effect; provided, however, that this Section III.(H)(4) shall not prevent transfers by will or by the laws of descent and distribution. During the lifetime of the Participant, the Incentive Stock Option is exercisable only by the Participant; and
5. Notwithstanding any authority otherwise granted to the Committee hereunder, no Incentive Stock Options may be granted after the expiration of ten years from the Plan's Effective Date.

IV. STOCK APPRECIATION RIGHTS

Stock Appreciation Rights may be granted in connection, in the discretion of the Committee, with a contemporaneously granted Stock Option and shall be subject to the following terms and conditions that shall be set forth in the Option Document which may provide such other terms, conditions and provisions, not inconsistent with this Plan, as the Committee may direct.

- A. GRANT OF RIGHTS: Stock Appreciation Rights shall entitle the Participant, subject to such terms and conditions determined by the Committee, to receive upon exercise thereof all or a portion of the excess of (i) the Fair Market Value of a specified number of shares of the Common Stock at the time of exercise, as determined by the Committee, over (ii) a specified price, which shall not be less than 100 percent (100%) of the Fair Market Value of the Common Stock on the Date of Grant of the Stock Appreciation Rights.
- B. TERM: The period or periods of time within which the Stock Appreciation Rights may be exercised, in whole or in part, is co-extensive with the contemporaneously granted Stock Option. The Committee shall have the power to permit an acceleration of previously established exercise terms, co-extensive with similar changes to the contemporaneously granted Stock Option, subject to the requirements set forth herein, upon such circumstances and subject to such terms and conditions as the Committee deems appropriate.
- C. LIMITS ON STOCK APPRECIATION RIGHTS:
 1. Stock Appreciation Rights shall be paid only upon exercise of all or a portion of the co-extensive Stock Option and then only in respect to the number of shares then being purchased.

2. Stock Appreciation Rights shall be payable only to the extent the Stock Option may become exercisable and shall expire or terminate with the Stock Option.
 3. No Stock Appreciation Rights nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and any attempted disposition thereof shall be null and void and of no effect; provided, however, that this Section IV.(C)(3) shall not prevent transfers to the Participant's spouse, children, grandchildren, parents or trust established for any of them or the Participant, or by will or the laws of descent and distribution; provided, further, that Stock Appreciation Rights granted in connection with an Incentive Stock Option shall be subject to the same transferability restrictions as Incentive Stock Options as provided in Section III.(H)(4).
- D. **PAYMENT:** Payments upon exercise of Stock Appreciation Rights shall be paid in cash, less any withholding tax required to be withheld, and may be applied to the payment of the contemporaneous Stock Option exercise price.

V. **RESTRICTED STOCK AWARDS**

Restricted Stock Awards shall be subject to the following terms and conditions, which shall be set forth in an appropriate written agreement between the Company and the Participant ("Award Document") and which may provide such other terms, conditions and provisions not inconsistent with this Plan, as the Committee may direct.

- A. **PRICE:** Restricted Stock may be awarded to a Participant free of any purchase price or for such purchase price as is established by the Committee in the Award Document.
- B. **RESTRICTION PERIOD:** Restricted Stock awarded pursuant to this Plan shall be subject to such terms, conditions and restrictions, including without limitation, prohibitions against transfer, substantial risks of forfeiture and attainment of Performance Goals for such period or periods as shall be determined by the Committee and set forth in the Award Document ("Restriction Period"). A Restriction Period will generally be from three to five years; provided, however, that the Committee in its sole discretion may establish other time periods. The Committee shall have the power to permit, in its discretion, an acceleration of the lapse of the applicable Restriction Period with respect to any part or all of the Restricted Stock awarded to a Participant.
- C. **RESTRICTION UPON TRANSFER:** During the Restriction Period applicable to any Restricted Stock Award, no right or interest of the Participant in such Restricted Stock nor any interest or right therein (including the right to vote such shares and receive dividends thereon) or part thereof shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest

or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and any attempted disposition thereof shall be null and void and of no effect. Notwithstanding the foregoing and except as otherwise provided in this Plan, the Participant shall have all the other rights of a stockholder including, but not limited to, the right to receive dividends and the right to vote such shares.

- D. **PERFORMANCE GOALS:** The lapse of restrictions on a Restricted Stock Award may be based upon the attainment of Performance Goals established by the Committee, in writing, in accordance with Section 162(m) of the Code. Such Performance Goals shall be established within the period of time required by Code Section 162(m). In establishing the Performance Goals, the Committee shall take the necessary steps to insure that the Company's ability to achieve the pre-established goals is uncertain at the time the goals are set. The established written Performance Goals shall be based upon an objective formula, whereby any third party having knowledge of the relevant Company performance results could calculate the amount to be paid. Such Performance Goals may vary by Participant and by Award.

The Committee shall have the discretion, by Participant and by Award, to reduce (but not to increase) some or all of the number of shares on which restrictions lapse that would otherwise be payable by reason of the satisfaction of the Performance Goals. In making any such determination, the Committee is authorized to take into account any such factors it determines are appropriate, including but not limited to Company, business unit and individual performance.

- E. **CERTIFICATES:** Each certificate issued in respect of Restricted Stock awarded to a Participant shall be deposited with the Company or its designee and shall bear the following legend:

This certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture provisions and restrictions against transfer) contained in the Harleysville Group Inc. Amended and Restated Equity Incentive Plan and a related Award Document between the Participant and the Company. Release from such terms and conditions shall be obtained only in accordance with the provisions of the Plan and Award Document, a copy of each of which is on file in the office of the Secretary of Harleysville Group Inc.

- F. **LAPSE OF RESTRICTIONS:** The Award Document shall specify the terms and conditions upon which any restrictions upon Restricted Stock awarded under the Plan shall lapse, as determined by the Committee. Upon the lapse of such restrictions, shares of Common Stock free of the restrictive legend shall be issued to the Participant or his or her legal representative.

If established in the Award Document, a Participant may surrender already owned shares of the Company's Common Stock or forego delivery of shares due as a result of the lapse of restrictions of a Restricted Stock Award in order to pay any withholding tax required to be collected upon lapse of restrictions. Such

shares shall be valued at their Fair Market Value as of the trading day immediately prior to the date of the lapse of restrictions.

Unless otherwise provided in the Award Document, in the event of a Participant's cessation of employment due to death or Disability, all restrictions upon Restricted Stock awarded under this Plan shall lapse and shares of Common Stock free of the restrictive legend shall be issued to the Participant or his or her legal representative.

In the event of a Participant's cessation of employment due to Normal Retirement, all restrictions upon Restricted Stock awarded under this Plan shall lapse and shares of Common Stock free of the restrictive legend shall be issued to the Participant or his or her legal representative, unless the Committee provides otherwise in the Award Document.

In the event of a Participant's cessation of employment due to Early Retirement, restrictions upon Restricted Stock awarded under this Plan shall lapse for that proportion of shares, rounded down to the nearest whole number, that represents the number of days from the Date of Grant until the date of Early Retirement divided by the number of days in the Restriction Period, and that number of shares of Common Stock free of the restrictive legend shall be issued to the Participant or his or her legal representative, unless the Committee provides otherwise in the Award Document.

The Committee shall have the power to permit an acceleration of previously established Restriction Periods or other forfeiture requirements, upon such circumstances and subject to such terms and conditions as the Committee deems appropriate.

- G. TERMINATION PRIOR TO LAPSE OF RESTRICTIONS: In the event of a Participant's Termination of Employment prior to the lapse of restrictions as determined pursuant to the provisions of preceding Section V.(E), all Restricted Stock as to which there still remains unexpired restrictions shall be forfeited by such Participant to the Company without payment of any consideration by the Company, and neither the Participant nor any successors, heirs, assigns, or personal representatives of such Participant shall thereafter have any further rights or interest in such shares of Restricted Stock or any certificate representing such shares of Restricted Stock.

VI. RESTRICTED STOCK UNIT AWARDS

Restricted Stock Unit Awards shall be subject to the following terms and conditions, which shall be set forth in an appropriate written agreement between the Company and the Participant ("Award Commitment") and which may provide for such terms, conditions and provisions not inconsistent with this Plan, as the Committee may direct.

- A. RESTRICTION PERIOD: Restricted Stock Units awarded pursuant to this Plan shall be subject to such terms, conditions and restrictions, including without limitation, prohibitions against transfer, substantial risks of forfeiture and attainment of Performance Goals for such period or periods as shall be determined by the Committee and set forth in the Award Commitment

("Restriction Period"). The Committee shall have the power to permit, in its discretion, an acceleration of the lapse of the applicable Restriction Period with respect to any part or all of the Restricted Stock Units awarded to a Participant.

- B. PERFORMANCE GOALS: The lapse of restrictions on a Restricted Stock Units Award may be based upon the attainment of Performance Goals established by the Committee, in writing, in accordance with Section 162(m) of the Code. Such Performance Goals shall be established within the period of time required by Code Section 162(m). In establishing the Performance Goals, the Committee shall take the necessary steps to insure that the Company's ability to achieve the pre-established goals is uncertain at the time the goals are set. The established written Performance Goals shall be based upon an objective formula, whereby any third party having knowledge of the relevant Company performance results could calculate the amount to be paid. Such Performance Goals may vary by Participant and by Award.

The Committee shall have the discretion, by Participant and by Award, to reduce (but not to increase) some or all of the number of shares on which restrictions lapse that would otherwise be payable by reason of the satisfaction of the Performance Goals. In making any such determination, the Committee is authorized to take into account any such factors it determines are appropriate, including but not limited to Company, business unit and individual performance.

- C. VESTING: The amounts credited with respect to each Restricted Stock Unit shall become vested on the lapse of the Restriction Period as set forth in the applicable Award Commitment at the Date of Grant.

Unless otherwise provided in the Award Commitment, in the event of a Participant's cessation of employment due to Normal Retirement, the Participant shall become fully vested in his or her Restricted Stock Units.

Unless otherwise provided in the Award Commitment, in the event of a Participant's cessation of employment due to Early Retirement, the Participant shall vest in that proportion of the Restricted Stock Unit Award, rounded down to the nearest whole number, that represents the number of days from the Date of Grant until the date of Early Retirement divided by the number of days in the vesting period.

Unless otherwise provided in the Award Commitment, in the event of a Participant's cessation of employment due to death or Disability, the Participant shall become fully vested in his or her Restricted Stock Units.

Notwithstanding any of the foregoing, a Participant who is eligible to defer compensation pursuant to the Company's Non-Qualified Deferred Compensation Plan may defer the receipt of shares under any Restricted Stock Unit Award prior to vesting, as long as such deferral is made in accordance with the provisions of such Non-Qualified Deferred Compensation Plan.

- D. ACCOUNT: The Company shall maintain in its records an account for each Participant who has been granted Restricted Stock Units, to which shall be credited such number of Restricted Stock Units as is specified in the Award.

Each Restricted Stock Unit shall, upon vesting, be equal to one share of Common Stock.

- E. DIVIDEND EQUIVALENTS: Unless the Award Commitment provides otherwise, as soon as practicable following each date that occurs between the Date of Grant of a Restricted Stock Unit and the date of forfeiture of the Award on which the Company pays a regular cash dividend on its Common Stock (the "Dividend Distribution Date"), each Participant will be paid an amount in cash equal to the product of the number of Restricted Stock Units credited to his or her Account on the Record Date for such dividend and the per share dividend payable on such Dividend Distribution Date, if any.
- F. TIME AND METHOD OF PAYMENT: Payments shall be made at such time on the date or dates determined for the vesting of any Restricted Stock Unit Award and set forth in the applicable Award Commitment at the Date of Grant. Unless the Award Commitment provides otherwise, any payment which may become due from the Company under the Award Commitment shall be payable in Common Stock.
- G. FORFEITURE: Unless the Award Commitment provides otherwise, in the event of a Participant's Termination of Employment prior to the full vesting of the Restricted Stock Units as determined pursuant to the provisions of Section VI.(C), all Restricted Stock Units that are not vested shall be forfeited by such Participant to the Company without payment of any consideration by the Company, and neither the Participant nor any successors, heirs, assigns, or personal representatives of such Participant shall thereafter have any further rights or interest in such shares or certificates.
- H. NATURE OF RESTRICTED STOCK UNITS. Restricted Stock Units shall be used solely as a device for the measurement and determination of the amount to be paid to Participants who receive such Awards as provided in this Plan. Restricted Stock Units shall not constitute or be treated as property or as a trust fund of any kind. All amounts at any time attributable to the Restricted Stock Units shall be and remain the sole property of the Company, until payment, and each applicable Participant's rights hereunder are limited to the right to receive cash and shares of Common Stock upon the vesting of any such Award as provided in this Plan and the Award Commitment.

VII. MISCELLANEOUS PROVISIONS

- A. AMENDMENT, SUSPENSION AND TERMINATION OF PLAN: The Committee or the Board may, at any time, amend, discontinue or terminate this Plan or any part thereof (including any amendment deemed necessary to ensure that the Company may comply with any regulatory requirement referred to in Section VII.(B) or amend any Award previously granted, prospectively or retroactively (subject to Article II); provided, however, that, (i) unless otherwise required by law, the rights of a Participant with respect to Awards granted prior to such amendment, discontinuance or termination may not be impaired without the consent of such Participant; (ii) except as otherwise provided in Section III.(E) hereof, the Committee shall not reduce the exercise price of Stock Options previously awarded to any Participant, whether through amendment, cancellation

and replacement grant, or any other means, without prior stockholder approval; and (iii) the Company will seek the approval of the Company's stockholders for any amendment if such approval is necessary to comply with the Code, Federal or state securities laws or any other applicable laws or regulations, including the Marketplace Rules of the National Association of Securities Dealers, Inc.

B. GOVERNMENT AND OTHER REGULATIONS: The obligation of the Company to issue Awards under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any government agencies as may be required.

1. If the Common Stock is listed on a national securities exchange or The NASDAQ Stock Market, the issuance of any shares of Common Stock pursuant to an Award shall be conditioned upon such shares being listed on such exchange or The NASDAQ Stock Market. The Company shall have no obligation to issue any shares of Common Stock unless and until such shares are so listed, and the right to exercise any Stock Option or Stock Appreciation Right or vest in any Restricted Stock or Restricted Stock Unit shall be suspended until such listing has been effected.

2. If at any time counsel to the Company shall be of the opinion that any sale or delivery of shares of Common Stock pursuant to an Award is or may in the circumstances be unlawful or result in the imposition of excise taxes under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act or otherwise with respect to shares of Common Stock or Awards, and the right to exercise any Stock Option or Stock Appreciation Right or vest in any Restricted Stock or Restricted Stock Unit shall be suspended until, in the opinion of such counsel, such sale or delivery shall be lawful or shall not result in the imposition of excise taxes.

3. Upon termination of any period of suspension under this Section VII.(B), any Award affected by such suspension which shall not then have expired or terminated shall be reinstated as to all shares available before such suspension and as to shares which would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Stock Option or Stock Appreciation Right.

C. OTHER COMPENSATION PLANS AND PROGRAMS: The Plan shall not be deemed to preclude the implementation by the Company, Parent or any Subsidiary of other compensation plans or programs which may be in effect from time to time. Participation in this Plan shall not affect an employee's eligibility to participate in any other benefit or incentive plan of the Company, Parent or any Subsidiary. Any Awards made pursuant to this Plan shall not be used in determining the benefits provided under any other plan of the Company, Parent or any Subsidiary unless specifically provided.

D. WITHHOLDING TAXES: The Company shall have the right to require a payment from a Participant to cover applicable withholding for any federal, state or local

taxes. The Company reserves the right to offset such tax payment from any other funds which may be due the Participant by the Company.

- E. SINGLE OR MULTIPLE DOCUMENTS: Multiple forms of Awards or combinations thereof may be evidenced by a single document or multiple documents, as determined by the Committee.
- F. CERTIFICATES: Whenever the Plan provides for issuance of a stock certificate(s) to reflect the issuance of shares of Common Stock, the issuance may be affected on a non-certificate basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.
- G. CONSTRUCTION OF PLAN: The interpretation of the Plan and the application of any rules implemented hereunder shall be determined in accordance with the laws of the State of Delaware.
- H. PRONOUNS, SINGULAR AND PLURAL: The masculine may be read as feminine, the singular as plural, and the plural as singular as necessary to give effect to the Plan.
- I. LIMITATION OF RIGHTS:
 - 1. No Right to Continue as an Employee: Neither the Plan, nor the granting of an Award nor any other action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the Participant has a right to continue as an employee of the Company for any period of time, or at any particular rate of compensation.
 - 2. No Stockholder's Rights for Stock Options: A Participant shall have no rights as a stockholder with respect to the shares covered by Stock Options granted hereunder until the date of the issuance of stock in book entry or certificate form and no adjustment will be made for dividends or other rights for which the record date is prior to the date such shares are issued.
 - 3. Rights as a Shareholder: A recipient of a Restricted Stock Unit shall have no rights as a stockholder with respect to the Restricted Stock Units granted hereunder until the date of the issuance of stock in book entry or certificate form to the Participant to the extent described in the terms of the Award Commitment.
- J. PLAN EFFECTIVE DATE AND TERMINATION. This Plan shall be deemed effective on the day the Board approves this Plan, as amended and restated, subject to the approval by the stockholders of the Company (the "Effective Date"). Any Award made between the date of Board approval and the date of stockholder approval shall not be deemed fully approved until the Plan is approved by the stockholders, and if the Plan is not so approved, shall Award(s) shall be null and void. Unless earlier terminated by action of the Board, the Plan will remain in effect until such time as no shares of Common Stock remains available for delivery under the Plan and the Company has no further rights or obligations under the Plan with respect to outstanding Awards under the Plan.

- K. SUCCESSORS. Any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, shall assume the liabilities of the Company under this Plan and perform any duties and responsibilities in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

Exhibit (10.2)

HARLEYSVILLE GROUP INC.
AMENDED AND RESTATED
DIRECTORS' EQUITY COMPENSATION PLAN

Approved by the Board of Directors: February 21, 2007

Approved by Stockholders: April 25, 2007

HARLEYSVILLE GROUP INC.

AMENDED AND RESTATED DIRECTORS' EQUITY COMPENSATION PLAN

1. Purpose. Harleysville Group Inc. (the "Company") has established the Plan to further its long-term financial success by providing a mechanism to make equity-based awards to Non-Employee Directors of the Company and of its Parent, whereby such Non-Employee Directors can share in achieving and sustaining such success. The Plan also provides a means to attract and retain the Non-Employee Directors needed to achieve the Company's and the Parent's long-term growth and profitability objectives.

2. Definitions. When used in this Plan, the following defined terms shall have the following meanings:

"Annual Meeting" means the annual meeting of stockholders for the election of Director, generally held in April of each year.

"Annual Board Meeting" means the meeting of the Board of Directors held in conjunction with the Annual Meeting of each year.

"Award(s)" means Stock Options, Deferred Stock Units and Restricted Stock granted or awarded under this Plan.

"Change in Control" shall be deemed to have occurred:

(a) if the "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act) of securities representing more than twenty percent (20%) of the combined voting power of the Employer Voting Securities (as herein defined) is acquired by any individual, entity or group (a "Person"), other than the Parent, the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company or an affiliate thereof, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company (for purposes of this Plan, "Company Voting Securities" shall mean the then outstanding voting securities of the Company entitled to vote generally in the election of directors); provided, however, that the following shall not constitute a Change in Control under this paragraph (a): (i) any acquisition pursuant to a transaction which complies with clauses (i), (ii) and (iii) of paragraph (c) of this definition; (ii) any acquisition of the Company Voting Securities from the Parent pursuant to a Business Combination (as herein defined) or otherwise, if (x) the acquiring or resulting entity is organized in the mutual form, and (y) persons who were members of the Incumbent Board (as herein defined) of the Parent immediately prior to such acquisition constitute at least two-thirds of the members of the Board of Directors of the acquiring entity immediately following such acquisition and (iii) any acquisition of voting securities from the Company or the Parent by a person engaged in business as an underwriter of securities who acquires the shares through his participation in good faith in a firm commitment underwriting

registered under the Securities Act; and (iv) any acquisition otherwise within the terms of this paragraph (a) during any period in which Parent owns at least a majority of the combined voting power of Company Voting Securities (the “Parent Control Period”), but if such an acquisition is made during a Parent Control Period by any Person and such Person continues to hold more than 20% of the combined voting power of all Company Voting Securities on the first day following the termination of a Parent Control Period, such acquisition will be deemed to have been first made on such date; or

(b) if, during any period of twenty-four (24) consecutive months, individuals who, as of the beginning of such period, constitute the Board of Directors of the Company or the Parent, as the case may be (the “Applicable Incumbent Board”), cease for any reason to constitute at least a majority of the Board of Directors of the Company or the Parent, as the case may be; provided, however, that (x) any individual becoming a director of the Company or the Parent, as the case may be, during such period whose election, or nomination for election, was approved by a vote of at least a two-thirds of the directors then comprising the Applicable Incumbent Board (other than in connection with the settlement of a threatened proxy contest) shall be considered as though such individual were a member of the Incumbent Board of Directors of the Company or the Parent, as the case may be, and (y) the provisions of this paragraph (b) shall not be applicable to the composition of the Board of Directors of Parent if Parent shall cease to own at least 20% of the combined voting power of all Company Voting Securities; or

(c) upon consummation by the Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets or stock of another entity (a “Business Combination”), unless, in any such case, immediately following such Business Combination the following three conditions are met: (i) more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of (x) the corporation resulting from such Business Combination (the “Surviving Corporation”), or (y) if applicable, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries (the “New Parent Corporation”), is represented, in either such case, directly or indirectly, by Company Voting Securities outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power is distributed among the holders thereof, in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Company Voting Securities; and (ii) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 50% or more of the combined voting power of the then outstanding voting securities eligible to elect directors of the New Parent Corporation (or, if there is no New Parent Corporation, the Surviving Corporation) except to the extent that such ownership of the Company existed prior to the Business Combination, and (iii) at least a majority of the members of the board of directors of the New Parent Corporation (or, if there is no New Parent Corporation, the Surviving Corporation) were members of the Board of

Directors of the Company at the time of the execution of the initial agreement, or the action of the Board, providing for such Business Combination; or

(d) Parent affiliates with, or acquires by merger, a third party and, as a consequence thereof, persons who were members of the Incumbent Board of Parent immediately prior to such transaction cease to constitute at least two-thirds of the directors of Parent following such transaction provided, however, that this paragraph (d) shall not apply if immediately prior to such affiliation or merger, Parent does not own more than 20% of the combined voting power of Company Voting Securities; or

(e) upon approval by the stockholders of the Company and all necessary regulatory authorities of a complete liquidation or dissolution of the Company; or

(f) any other event shall occur that would be required to be reported by the Company in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Exchange Act (or any provision successor thereto); or

(g) the Company or Parent has entered into a management agreement or similar arrangement pursuant to which an entity other than the Company or the Parent or the Boards of Directors or the executive officers and management of the Company or the Parent has the power to direct or cause the direction of the management and policies of the Company or the Parent; provided, however, that this paragraph (g) shall not apply to Parent if, immediately prior to entering into any such management agreement or similar arrangement, Parent does not own more than 20 percent of Company Voting Securities.

“Board” means the Board of Directors of the Company.

“Code” means the Internal Revenue Code of 1986, as amended. Any reference in this Plan to a Code Section shall mean and refer to such Section or any successor thereto as may be in effect from time to time and the regulations promulgated thereunder.

“Committee” means the Compensation & Personnel Development Committee of the Board of the Company or any other committee selected by the Board meeting the applicable requirements of the SEC and the NASDAQ corporate governance standards.

“Common Stock” means the common stock of the Company, par value \$1 per share.

“Company” means Harleysville Group Inc., a Delaware corporation, and any successor in a reorganization or similar transaction.

“Date of Grant” means the date designated by the Committee as the date as of which the Committee grants an Award, which shall not be earlier than the date on which the Committee approves the granting of such Award.

“Deferred Stock Unit” means an Award under this Plan of a right to receive one Share per unit, as further described in Section 6.

“Directors’ Standard Deferred Compensation Plan” means the Company’s Directors’ Standard Deferred Compensation Plan, which allows Non-Employee Directors to defer some or all of their director fees and equity awards.

“Dividend Reinvestment and Stock Purchase Plan” means the Harleysville Group Inc. Dividend Reinvestment and Stock Purchase Plan under which eligible Non-Employee Directors may reinvest dividends and dividend equivalents to purchase Shares.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Fair Market Value” means, as of any given date, with respect to Awards made hereunder, (i) the closing sale price of a Share of Common Stock on such date on the principal securities exchange on which the Company’s Common Stock is listed or traded, (ii) if not so reported, the average of the closing (or other designated) bid and asked prices on the immediately preceding business day as reported on the principal securities exchange on which the Company’s Common Stock is listed or traded, or (iii) if not so reported, as otherwise determined by the Committee in the good faith exercise of its discretion in accordance with applicable law. A “business day” is any day, other than Saturday or Sunday, on which the relevant market is open for trading.

“Non-Employee Director” means a member of the Company’s Board of Directors or a member of the Parent’s Board of Directors, who is not an employee of the Company or the Parent or any subsidiary of either the Company or the Parent.

“Parent” means Harleysville Mutual Insurance Company.

“Plan” means this Harleysville Group Inc. Amended and Restated Directors’ Equity Compensation Plan.

“Restricted Stock” means an award of Shares subject to restrictions, as further described in Section 7 of this Plan.

“SEC” means the Securities and Exchange Commission.

“Share” means a share of Common Stock.

“Stock Option(s)” means a stock option right to purchase Shares of the Company’s Common Stock, which is not intended to comply with the terms and conditions for an incentive stock option, as set forth in Section 422 of the Code.

“Termination of Service” means the termination of an individual’s status as a Non-Employee Director for any reason whatever, whether voluntarily or involuntarily, including disability or death of the Non-Employee Director.

3. Plan Administration. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have full and exclusive authority:

- (a) to interpret the Plan;
- (b) to determine the Non-Employee Directors to whom Awards should be made under the Plan;
- (c) to determine the type of Awards to be made and the amount, size and terms of each such Award;
- (d) to determine the time when the Awards are granted and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration thereof;
- (e) to prescribe, amend and rescind rules and regulations relating to the Plan; and
- (f) to make all other determinations deemed necessary or advisable in the implementation and administration of the Plan as permitted by federal and state laws and regulations, including those laws and regulations exemption from Section 16 of the Exchange Act, or by rules and regulations of a national securities exchange on which the Common Stock is then listed or traded.

The Committee's determinations under the Plan (including without limitation determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards, and the documents evidencing same) need not be uniform and may be made selectively among persons who receive, or are eligible to receive, Awards under the Plan whether or not such persons are similarly situated.

The determination of the Committee in the administration of the Plan, as described herein, shall be final and conclusive and binding upon all persons including, without limitation, the Company, its stockholders, the Non-Employee Directors, and any persons having any interest under the Plan. The Secretary of the Company shall be authorized to take such action of a ministerial nature, including the preparation of Award documents provided to Non-Employee Directors, as shall be necessary to effectuate the intent and purposes hereof at the direction of the Committee.

4. Shares Available; Adjustments.

(a) Shares Available. Subject to adjustment as specified in Section 4(b) below, the aggregate number of Shares that may be issued under the Plan is 500,000 Shares, which may be either authorized and unissued shares of Common Stock or authorized and issued shares of Common Stock reacquired by the Company. If any Award granted under the Plan shall expire, terminate or be canceled for any reason without having been exercised or vested in full, the number of Shares not purchased

under such Award shall again be available for the purposes of the Plan. Notwithstanding anything to the contrary in this Section 4(a), (i) should the exercise price of a Stock Option be paid with Shares or by reducing the number of Shares issuable upon such exercise, or (ii) should Shares otherwise issuable under the Plan be paid in cash or withheld by the Company in satisfaction of the withholding taxes incurred in connection with the exercise of a Stock Option or the vesting of an Award, then the number of Shares available for issuance under the Plan shall be reduced by the gross number of Shares for which the Stock Option is exercised or which vest under the Award, and not by the net number of Shares issued to the holder of such Stock Option or Award.

(b) Adjustments. In the event of stock dividends, stock splits, re-capitalizations, mergers, consolidations, combinations, exchanges of shares, spin-offs, liquidations, reclassifications or other similar changes in the capitalization of the Company, such automatic substitution or adjustment shall be made in the maximum aggregate number of Shares which may be issued under this Plan, the maximum number of shares with respect to which Awards may be granted to any individual during any year, the number and exercise price of Shares subject to outstanding Stock Options, and the number of Shares subject to other outstanding Awards, as the Committee determines shall cause an equitable adjustment under this Plan, in proportion to the effect of such change to the Common Stock generally; provided that the number of Shares subject to any Award shall be rounded down to the nearest whole number so that the number of Shares subject to any Award shall always be a whole number. In the event of a change in the Common Stock as presently constituted, which change is limited to a change of all of the authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of this Plan.

(c) Rights Upon a Change in Control. In the event of a consummation of a Change in Control, notwithstanding any other restrictive provisions herein, all previously granted Stock Options shall become exercisable immediately, and all previously issued Deferred Stock Units and Restricted Stock shall have all forfeiture restrictions lapse immediately regardless of whether the applicable deferral period or Restriction Period has expired.

5. Stock Options. All Stock Options granted to Non-Employee Directors under the Plan shall be subject to the following terms and conditions, which shall be set forth in an appropriate written document (“Option Document”) and which may provide such other terms, conditions and provisions, not inconsistent with this Plan, as the Committee may direct. For the avoidance of doubt, the Committee has the authority to revise any of the terms set forth in this Plan with respect to a Stock Option Award except for those terms required by law.

(a) Price. The exercise price per Share for each Stock Option Award shall not be less than one hundred percent (100%) of the Fair Market Value of a Share of

Common Stock on the Date of Grant and, in no event, less than the par value of the Common Stock.

(b) Exercise Term and Vesting. The Committee shall establish the vesting schedule for each Stock Option in the Option Document; provided, that, except as provided in Section 5(e) below, or as varied in the Option Document, the standard vesting schedule for each Stock Option Award shall be 33 1/3% exercisable on and after the first anniversary of the Date of Grant, 33 1/3% on and after the second anniversary of the Date of Grant, and the remaining 33 1/3% shall be exercisable on and after the third anniversary of the Date of Grant, in each case until the end of the term of the Stock Option; provided, further, that the number of Shares vesting in each year shall be adjusted, as necessary, so that only a whole number of Shares shall vest each year. The Committee has the power to accelerate the vesting schedule of any outstanding Stock Option Award, subject to the requirements set forth herein, upon such circumstances and subject to such terms and conditions as the Committee deems appropriate. All Stock Options shall expire as of 5:00 p.m. on the tenth anniversary of the Date of Grant unless the Committee provides otherwise in the Option Document.

(c) Exercise Procedures. A Stock Option, or portion thereof, shall be exercised by delivery of a written notice of exercise to the Secretary of the Company, and payment of the full exercise price for the Shares being purchased, as well as payment of all withholding taxes due thereon, if any.

(d) Payment. The exercise price of a vested Stock Option, or portion thereof, may be paid:

(i) by check, bank draft, money order, or electronic funds transfer payable to the order of the Company; or

(ii) through the delivery of Shares of the Company's Common Stock owned by the Non-Employee Director, having an aggregate Fair Market Value as determined as of the date prior to exercise equal to the exercise price; or

(iii) by such other method as the Committee may approve, including payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board; or

(iv) by a combination of (i), (ii) and (iii) above.

In the event a Non-Employee Director delivers already-owned Shares of the Company's Common Stock, at the Non-Employee Director's option, the Non-Employee Director may provide an executed attestation of ownership in lieu of actual delivery of Shares.

Subject to the approval of the Committee, as set forth in the Option Document or otherwise in accordance with Rule 16b-3 of the Exchange Act, a Non-Employee Director may surrender already-owned Shares of the Company's Common Stock or forego delivery of Shares due as a result of the exercise, in order to pay any withholding

tax required to be collected upon exercise of a Stock Option. Such Shares shall be valued at their Fair Market Value pursuant to Section 5(d)(ii) above.

If payment is made under Section 5(d)(iii) of the Plan, the written exercise notice may instruct the Company to deliver Shares due upon the exercise of the Stock Option to a registered broker or dealer designated by the Non-Employee Director, if any, ("Designated Broker") in lieu of delivery to the Non-Employee Director. Such instructions must designate the account into which the Shares are to be deposited.

(e) Rights upon Termination of Service.

(i) Unless different provisions are made in the Option Document, in the event of a Non-Employee Director's Termination of Service, all unvested Stock Options shall expire and be terminated on the date of termination, and the Non-Employee Director shall have one hundred and eighty (180) days to exercise all Stock Options that are vested and exercisable as of the date of termination unless the Committee in the Option Document or otherwise grants an additional period in which to exercise the vested Stock Options. If the Non-Employee Director does not exercise such vested Stock Options in such 180-day period, the vested Stock Options shall automatically expire and be terminated.

(ii) In the event of a Non-Employee Director's Termination of Service due to death, prior to the expiration of the term of his or her outstanding Stock Option Awards, all Stock Options shall immediately become vested and exercisable, and the Non-Employee Director's estate or personal representative shall have the right to exercise such vested Stock Options for a period of the shorter of (i) the remaining term of any Stock Option or (ii) one year after Termination of Service, subject to such terms and conditions, as may be specified by the Committee.

(f) Restrictions upon Transfer. Unless otherwise directed by the Committee, each Option Document shall provide that no Stock Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Non-Employee Director or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and any attempted disposition thereof shall be null and void and of no effect; provided, however, that this Section 5(f) shall not prevent (with Committee approval) transfers to the Non-Employee Director's spouse, children, grandchildren, parents or a trust established for any of them or the Non-Employee Director, or by will or the laws of descent and distribution. If such a transfer is made, the Non-Employee Director may not receive any consideration therefor, and the Stock Option will continue to be subject to the same terms and conditions as were applicable to the Stock Option immediately before transfer.

6. Deferred Stock Units.

(a) Automatic Awards. Beginning with the Annual Meeting to be held in April 2007, each individual who is serving as Non-Employee Director at the time of an Annual Board Meeting, and will be continuing to serve in such capacity after such Annual Board Meeting, shall automatically receive a number of Deferred Stock Units equal to the result of dividing (i) \$50,000 by (ii) the Fair Market Value of a Share as of the day before the date of the Annual Board Meeting for that year. These automatic Awards will be made in connection with each Annual Meeting until this provision is amended or removed by the Committee or the Board. Each such automatic Deferred Stock Unit Award shall entitle the Non-Employee Director to receive, upon Termination of Service or upon the Non-Employee Director's death, the number of Shares equal to the number of Deferred Stock Units, unless the Non-Employee Director has elected in writing to the Company, prior to the date of Termination of Service, to defer receipt of the Shares in accordance with the Directors' Standard Deferred Compensation Plan. The provisions of this Section 6(a) specifically supersede and replace the provisions of this Plan, prior to its amendment and restatement in calendar year 2007 with respect to Deferred Stock Units to be awarded in 2007, 2008 and 2009.

(b) Other Deferred Stock Awards. The Committee shall have the authority, in its discretion, to make additional Deferred Stock Unit Awards to Non-Employee Directors in accordance with the provisions of this Plan. Such Awards shall have the vesting schedule and other terms as set forth in the Award Commitment for such Award.

(c) Provisions Applicable to all Deferred Stock Unit Awards.

(i) Each award of Deferred Stock Units under the Plan shall be evidenced by a written document (the "Award Commitment") which shall indicate (1) the number of Deferred Stock Units granted to the Non-Employee Director; (2) the Date of Grant; and (3) any other terms and conditions the Committee deems necessary or appropriate. All Deferred Stock Unit Awards shall be subject to the terms of this Plan and the Award Commitment.

(ii) Whenever the Company pays cash dividends with respect to its outstanding Shares, a Non-Employee Director shall receive an amount equal to all or any portion of the dividends that would be paid on Shares equal to the number of his or her Deferred Stock Units ("dividend equivalents"), unless the Non-Employee Director has elected, in writing, prior to such payment, to defer receipt of the dividend equivalents pursuant to the Directors' Standard Deferred Compensation Plan or has elected to use the dividend equivalents to purchase Common Stock pursuant to the Dividend Reinvestment and Stock Purchase Plan.

(iii) The receipt of Shares under any Deferred Stock Unit Awards may be deferred by a Non-Employee Director prior to vesting as long as such deferral is made in accordance with the provisions of the Directors' Standard Deferred Compensation Plan.

(iv) A Deferred Stock Unit shall not be transferable otherwise than by will or the laws of intestate distribution. Except for such transfers, Deferred Stock Units and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of a Deferred Stock Unit, right or privilege contrary to the provisions hereof, or upon the levy of any attachment or similar process upon the rights and privileges conferred hereby, such Deferred Stock Unit and the rights and privileges conferred hereby shall immediately terminate.

(v) A Non-Employee Director granted a Deferred Stock Unit under this Plan shall have only the rights of a general unsecured creditor of the Company until such Non-Employee Director receives Shares equal to the number of his or her Deferred Stock Units pursuant to this Section 6. A Non-Employee Director shall have no voting rights with respect to any Shares issuable pursuant to Deferred Stock Units until the date on which a certificate representing such Shares is issued.

7. Restricted Stock Awards. Restricted Stock Awards shall be subject to the following terms and conditions, which shall be set forth in an appropriate written agreement between the Company and the Non-Employee Director (“Award Document”) and which may provide such other terms, conditions and provisions not inconsistent with this Plan, as the Committee may direct.

(a) Price. Restricted Stock may be awarded to a Non-Employee Director free of any purchase price or for such purchase price as is established by the Committee in the Award Document.

(b) Restriction Period. Restricted Stock awarded pursuant to this Plan shall be subject to such terms, conditions and restrictions, including without limitation, prohibitions against transfer, and substantial risks of forfeiture as shall be determined by the Committee and set forth in the Award Document (“Restriction Period”). A Restriction Period will generally be from three to six years; provided, however, that the Committee in its sole discretion may establish other time periods. The Committee shall have the power to permit, in its discretion, an acceleration of the lapse of the applicable Restriction Period with respect to any part or all of the Restricted Stock awarded to a Non-Employee Director.

(c) Restriction Upon Transfer. During the Restriction Period applicable to any Restricted Stock Award, no right or interest of the Non-Employee Director in such Restricted Stock nor any interest or right therein (including the right to vote such Shares and receive dividends thereon) or part thereof shall be liable for the debts, contracts or engagements of the Non-Employee Director or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and any attempted disposition thereof shall be null and void and of no effect. Notwithstanding the foregoing and except as

otherwise provided in this Plan, the Non-Employee Director shall have all the other rights of a stockholder including, but not limited to, the right to receive dividends and the right to vote such Shares.

(d) Certificates. Each certificate issued in respect of Restricted Stock awarded to a Non-Employee Director shall be deposited with the Company or its designee and shall bear the following legend:

This certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture provisions and restrictions against transfer) contained in the Harleysville Group Inc. Amended and Restated Directors' Equity Compensation Plan and a related Award Document between the Non-Employee Director and the Company. Release from such terms and conditions shall be obtained only in accordance with the provisions of the Plan and Award Document, a copy of each of which is on file in the office of the Secretary of Harleysville Group Inc.

(e) Lapse of Restrictions. The Award Document shall specify the terms and conditions upon which any restrictions upon Restricted Stock awarded under the Plan shall lapse, as determined by the Committee. Upon the lapse of such restrictions, Shares of Common Stock free of the restrictive legend shall be issued to the Non-Employee Director or his or her legal representative.

If established in the Award Document, a Non-Employee Director may surrender already owned Shares of the Company's Common Stock or forego delivery of Shares due as a result of the lapse of restrictions of a Restricted Stock Award in order to pay any withholding tax required to be collected upon lapse of restrictions. Such Shares shall be valued at their Fair Market Value as of the trading day immediately prior to the date of the lapse of restrictions.

In the event of a Non-Employee Director's Termination of Service due to death, all restrictions upon Restricted Stock awarded under this Plan shall lapse and Shares of Common Stock free of the restrictive legend shall be issued to the Non-Employee Director or his or her legal representative.

(f) Termination Prior to Lapse of Restrictions. In the event of a Non-Employee Director's Termination of Service prior to the lapse of restrictions as determined pursuant to the provisions of the Section 7(e) above, all Restricted Stock as to which there still remains unexpired restrictions shall be forfeited by such Non-Employee Director to the Company without payment of any consideration by the Company, and neither the Non-Employee Director nor any successors, heirs, assigns, or personal representatives of such Non-Employee Director shall thereafter have any further rights or interest in such Shares of Restricted Stock or any certificate representing such Shares of Restricted Stock.

The Committee shall have the power to permit an acceleration of previously established Restriction Periods or other forfeiture requirements, upon such

circumstances and subject to such terms and conditions as the Committee deems appropriate.

8. Miscellaneous Provisions.

(a) Amendment, Suspension and Termination of Plan. The Committee or the Board may, at any time, amend, discontinue or terminate this Plan or any part thereof (including any amendment deemed necessary to ensure that the Company may comply with any regulatory requirement referred to in Section 8(b) or amend any Award previously granted, prospectively or retroactively (subject to Section 4); provided, however, that, (i) unless otherwise required by law, the rights of a Non-Employee Director with respect to Awards granted prior to such amendment, discontinuance or termination may not be impaired without the consent of such Non-Employee Director; (ii) except as otherwise provided in Section 4(b) hereof, the Committee shall not reduce the exercise price of Stock Options previously awarded to any Non-Employee Director, whether through amendment, cancellation and replacement grant, or any other means, without prior stockholder approval; and (iii) the Company will seek the approval of the Company's stockholders for any amendment if such approval is necessary to comply with the Code, Federal or state securities laws or any other applicable laws or regulations, including the Marketplace Rules of the National Association of Securities Dealers, Inc.

(b) Government and Other Regulations. The obligation of the Company to issue Awards under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any government agencies as may be required.

(i) If the Common Stock is listed on a national securities exchange or The NASDAQ Stock Market, the issuance of any Shares of Common Stock pursuant to an Award shall be conditioned upon such Shares being listed on such exchange or The NASDAQ Stock Market. The Company shall have no obligation to issue any Shares of Common Stock unless and until such Shares are so listed, and the right to exercise any Stock Option or vest in any Deferred Stock Unit shall be suspended until such listing has been effected.

(ii) If at any time counsel to the Company shall be of the opinion that any sale or delivery of Shares pursuant to an Award is or may in the circumstances be unlawful or result in the imposition of excise taxes under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act of 1933, as amended, or otherwise with respect to Shares or Awards, and the right to exercise any Stock Option or vest in any Deferred Stock Unit shall be suspended until, in the opinion of such counsel, such sale or delivery shall be lawful or shall not result in the imposition of excise taxes.

(iii) Upon termination of any period of suspension under this Section 8(b), any Award affected by such suspension which shall not then have expired or terminated shall be reinstated as to all Shares available before such suspension and as

to Shares which would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Stock Option.

(c) Other Compensation Plans: The Plan shall not be deemed to preclude the implementation by the Company or the Parent of other compensation plan for Non-Employee Directors which may be in effect from time to time. Participation in this Plan shall not affect a Non-Employee Directors' eligibility to participate in any other compensation plan of the Company or the Parent. Any Awards made pursuant to this Plan shall not be used in determining the benefits provided under any other plan of the Company or the Parent, unless specifically provided.

(d) Withholding Taxes. The Company shall have the right to deduct or withhold, or require a holder of an Award to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes required by law to be withheld with respect to any grant, exercise, or payment made under or as a result of the Plan.

(e) Certificates. Whenever the Plan provides for issuance of a stock certificate(s) to reflect the issuance of Shares, the issuance may be affected on a non-certificate basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

(f) Construction of Plan. The interpretation of this Plan and the application of any rules implemented hereunder shall be determined in accordance with the laws of the State of Delaware.

(g) Pronouns, Singular and Plural. The masculine may be read as feminine, the singular as plural, and the plural as singular as necessary to give effect to the Plan.

(h) Limitation of Rights.

(i) No Right to Continue as a Non-Employee Director. Neither the Plan, nor the granting of an Award nor any other action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the Non-Employee Director has a right to continue as a Non-Employee Director of the Company or the Parent for any period of time.

(ii) No Stockholder's Rights. Except with respect to Restricted Stock Awards, a Non-Employee Director shall have no rights as a stockholder with respect to the Shares covered by Awards granted or made hereunder until the date of the issuance of stock in book entry or certificate form and no adjustment will be made for dividends or other rights for which the record date is prior to the date such Shares are issued.

(i) Plan Effective Date and Termination. This Plan shall be deemed effective on the day the Board approves this Plan, as amended and restated, subject to the approval by the stockholders of the Company (the "Effective Date"). Unless earlier terminated by action of the Board, the Plan will remain in effect until such time as no Shares of Common Stock remains available for delivery under the Plan and the

Company has no further rights or obligations under the Plan with respect to outstanding Awards under the Plan.

(j) Successors. Any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, shall assume the liabilities of the Company under this Plan and perform any duties and responsibilities in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

**CERTIFICATION PURSUANT TO THE SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael L. Browne, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harleysville Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2007

/s/ MICHAEL L. BROWNE

Michael L. Browne
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO THE SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Arthur E. Chandler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harleysville Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 4, 2007

/s/ ARTHUR E. CHANDLER

Arthur E. Chandler

Senior Vice President and Chief Financial Officer

HARLEYSVILLE GROUP INC.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Harleysville Group Inc. (the "Company") on Form 10-Q for the period ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael L. Browne, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2007

/s/ MICHAEL L. BROWNE

Michael L. Browne
President and Chief Executive Officer

HARLEYSVILLE GROUP INC.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Harleysville Group Inc. (the "Company") on Form 10-Q for the period ended March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur E. Chandler, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that based on my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 4, 2007

/s/ ARTHUR E. CHANDLER

Arthur E. Chandler

Senior Vice President and Chief Financial Officer