



For Release: Immediately

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HARLEYSVILLE GROUP REPORTS SECOND QUARTER 2006 RESULTS

Second quarter highlights:

- Operating earnings rise 33 percent to \$0.64 per share
- Statutory combined ratio improves by 3.1 points to 98.8 percent
- Strong cash flow drives net investment income growth

HARLEYSVILLE, PA—July 27, 2006—Harleysville Group Inc. (NASDAQ: HGIC) today reported diluted operating income of \$0.64 per share for the second quarter of 2006, compared to \$0.48 per share in the second quarter of 2005. For the six-month periods, the company reported diluted operating income of \$1.26 per share in 2006 and \$0.87 per share in 2005. Operating income is a non-GAAP financial measure defined by the company as net income excluding after-tax realized gains and losses on investments, and the cumulative effect of an accounting change, net of income tax.

“We’re pleased with the progress we’ve made through the first six months of the year as we continue to successfully execute our strategic plan,” commented Michael L. Browne, Harleysville Group’s president and chief executive officer. “Our statutory combined ratio for the quarter improved by more than 3 points to 98.8 percent, while our operating ROE was 12.4 percent¹. In addition, our second quarter operating earnings were \$0.64 per share, significantly better than the \$0.48 a share we reported in the second quarter of 2005. We continue to maintain a solid capital base and strong balance sheet, a modest debt-to-capital ratio of 15 percent¹, a high-quality investment portfolio, and a premium-to-surplus ratio of 1.4:1—all the ingredients necessary to write our agents’ best business.”

The company reported diluted net income of \$1.43 per share in the second quarter of 2006, compared to \$0.48 per share in the second quarter of 2005. There were \$0.79 of realized investment gains in the second quarter of 2006, compared to no realized investment gains in the second quarter of 2005. The majority of the realized gains in the second quarter of this year are the result of the company reducing its risk exposure from the possibility of adverse events in the equity markets by reducing its holding of equity investments by approximately \$120 million as part of its efforts to manage enterprise-wide risk. For the six-month periods, diluted net income was \$2.13 per share in 2006 and \$0.87 per share in 2005. For the six months, the company reported \$0.84 of realized investment gains in 2006, compared to none in 2005. The first six months of 2006 also includes an after-tax benefit of \$0.03 per share for the cumulative effect of a change in accounting principle resulting from the adoption of Statement of Financial Accounting Standards No. 123R, “Share-Based Payment.” This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements.

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Harleysville Group's overall statutory combined ratio² was 98.8 percent in the second quarter of 2006, compared to 101.9 percent in the second quarter of 2005. For the six months, the statutory combined ratio was 99.0 percent in 2006, versus 103.1 percent in 2005.

Second quarter net written premiums were \$218.9 million in 2006, compared to \$223.6 million in the same period in 2005. Net written premiums through six months were \$427.8 million in 2006 and \$434.0 million in 2005.

Second quarter pretax investment income increased 10 percent to \$24.8 million, while after-tax investment income grew 7 percent in the second quarter to \$18.4 million. For the six months, pretax investment income was up 10 percent to \$48.9 million, while after-tax investment income rose 7 percent to \$36.5 million. Operating cash flow through six months was \$77.4 million, compared to \$71.5 million in the second quarter of 2005.

Commercial lines Net written premiums in commercial lines were \$181.2 million in the second quarter of 2006, down 2 percent from the same period in 2005. For the six months, net written premiums decreased 1 percent to \$357.9 million. The commercial lines statutory combined ratio was 100.6 percent in the second quarter of 2006, versus 103.0 percent in the second quarter of 2005. For the six months, the statutory combined ratio was 100.9 percent in 2006, compared to 103.7 percent in 2005.

Personal lines Harleysville Group's personal lines statutory combined ratio was 90.5 percent in the second quarter of 2006, versus 97.2 percent during the second quarter of 2005. For the six months, the statutory combined ratio was 90.0 percent in 2006, compared to 100.4 percent in 2005. Net written premiums decreased 3 percent to \$37.7 million in the second quarter of 2006, and were down 4 percent to \$69.9 million through six months.

Outlook "During the second half of the year, our focus will continue to be on the basics of our business so that we can generate additional improvement in our operations and remain on a steady course toward achieving our goals for 2006," Browne said. "We will not compromise underwriting quality to chase a near-term growth target. Instead, we will maintain our discipline—despite the current soft market—as we focus on our goals of achieving a long-term underwriting profit and an operating ROE of at least 12 percent. And, we will continue to work closely with our agency force and rely heavily on them for their assistance in order to reach these important objectives."

Webcast The company will host a live Webcast today, July 27, 2006, at 8 a.m. (ET) to discuss its second quarter results. The Webcast and a replay will be available from the Investors section of the company's Web site (www.harleysvillegroup.com).

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

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Corporate profile Harleysville Insurance is a leading regional provider of insurance products and services for small and mid-sized businesses, as well as for individuals, and ranks among the top 60 U.S. property/casualty insurance groups based on net written premiums. Harleysville Mutual Insurance Company owns 55 percent of Harleysville Group Inc. (NASDAQ: HGIC), a publicly traded holding company for nine regional property/casualty insurance companies collectively rated A- (Excellent) by A.M. Best Company. Harleysville Group is a member of the NASDAQ Global Select Market, which represents the top third of all NASDAQ-listed companies and has the highest initial listing standards of any exchange in the world based on financial and liquidity requirements. Harleysville Group has paid a dividend every quarter since the company went public in 1986, and was one of 3 percent of public companies recently recognized with a 2006 Mergent Dividend Achiever Award for its long-term history of dividend increases. Harleysville Insurance—which distributes its products exclusively through independent insurance agencies and reflects that commitment to its agency force by being a Trusted Choice[®] company partner—currently operates in 32 eastern and midwestern states. Further information can be found on the company’s Web site at www.harleysvillegroup.com.

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¹ Excludes the effects of SFAS No. 115.

² “Statutory combined ratio” is a non-GAAP measure of underwriting profitability and is based on numbers determined under statutory accounting practices as filed with state insurance regulators. It is the sum of the ratio of losses to premiums earned plus the ratio of underwriting expenses to premiums written. A ratio of less than 100 percent indicates underwriting profitability.

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

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Harleysville Group Inc. and Subsidiaries

FINANCIAL HIGHLIGHTS	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2006	2005	2006	2005
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income*	\$0.64	\$0.48	\$1.26	\$0.87
Realized gains, net of income taxes	0.79		0.84	
Cumulative effect of accounting change, net of income taxes			0.03	
Net income	\$1.43	\$0.48	\$2.13	\$0.87
Cash dividends per common share	\$0.175	\$0.17	\$0.35	\$0.34
FINANCIAL CONDITION				
	June 30, 2006		December 31, 2005	
Assets	\$2,902,123		\$2,905,266	
Shareholders' equity	\$634,262		\$614,383	
Per common share	\$20.44		\$20.07	

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2006	2005	2006	2005
REVENUES:				
Premiums earned	\$209,320	\$209,865	\$417,665	\$416,545
Investment income, net of investment expense	24,847	22,578	48,942	44,339
Realized investment gains	38,072	68	40,282	68
Other income	4,299	4,158	9,186	8,441
Total revenues	276,538	236,669	516,075	469,393
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	135,049	143,997	271,038	291,865
Amortization of deferred policy acquisition costs	53,467	52,043	106,071	102,961
Other underwriting expenses	19,564	18,778	39,555	35,133
Interest expense	1,731	1,665	3,441	3,285
Other expenses	1,340	1,763	2,355	3,270
Total expenses	211,151	218,246	422,460	436,514
Income before income taxes and cumulative effect of accounting change	65,387	18,423	93,615	32,879
Income taxes	20,657	3,896	28,177	6,370
Income before cumulative effect of accounting change	44,730	14,527	65,438	26,509
Cumulative effect of accounting change, net of income taxes			942	
Net income	\$44,730	\$14,527	\$66,380	\$26,509
Weighted average number of shares outstanding:				
Basic	30,830,502	30,304,744	30,736,332	30,279,497
Diluted	31,298,063	30,393,821	31,216,098	30,410,199
Per common share:				
Basic earnings before cumulative effect of accounting change	\$1.45	\$0.48	\$2.13	\$0.88
Basic cumulative effect of accounting change			\$0.03	
Basic earnings	\$1.45	\$0.48	\$2.16	\$0.88
Diluted earnings before cumulative effect of accounting change	\$1.43	\$0.48	\$2.10	\$0.87
Diluted cumulative effect of accounting change			\$0.03	
Diluted earnings	\$1.43	\$0.48	\$2.13	\$0.87
RECONCILIATION TO OPERATING INCOME :				
Net income	\$44,730	\$14,527	\$66,380	\$26,509
Less cumulative effect of accounting change, net of income taxes			942	
Less realized investment gains, net of income taxes	24,747	44	26,184	44
Operating income	\$19,983	\$14,483	\$39,254	\$26,465

These financial figures are unaudited.

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

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

June 30, 2006* December 31, 2005

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$405,188 and \$437,887)	\$410,249	\$433,649
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Available for sale, at fair value (amortized cost \$1,523,503 and \$1,374,559)	1,503,218	1,386,440
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Equity securities, at fair value (cost \$62,122 and \$139,371)	63,561	179,980
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Short-term investments, at cost, which approximates fair value	143,476	64,319
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Total investments	2,120,504	2,064,388
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Cash	3,026	466
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Premiums in course of collection	150,997	141,882
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Reinsurance receivable	173,097	249,020
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Accrued investment income	23,912	24,016
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Deferred policy acquisition costs	105,546	104,173
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Prepaid reinsurance premiums	33,687	34,256
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Property and equipment, net	17,349	18,038
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Deferred income taxes	80,342	63,357
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Securities lending collateral	140,306	150,938
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Due from affiliate	6,265	1,022
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Other assets	47,092	53,710
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Total assets	\$2,902,123	\$2,905,266
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LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses	\$1,458,095	\$1,480,802
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Unearned premiums	450,347	440,755
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Accounts payable and accrued expenses	100,613	99,888
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Securities lending obligation	140,306	150,938
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Debt	118,500	118,500
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Total liabilities	2,267,861	2,290,883
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Shareholders' equity:

Preferred stock, \$1 par value; authorized 1,000,000 shares; none issued		
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Common stock, \$1 par value, authorized 80,000,000 shares; issued 32,427,087 and 32,008,142 shares; outstanding 31,029,178 and 30,610,233 shares	32,427	32,008
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Additional paid-in capital	179,131	169,881
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Accumulated other comprehensive income (loss)	(26,080)	20,288
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Retained earnings	473,271	417,705
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Deferred compensation		(1,012)
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Treasury stock, at cost, 1,397,909 shares	(24,487)	(24,487)
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Total shareholders' equity	634,262	614,383
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Total liabilities and shareholders' equity	\$2,902,123	\$2,905,266
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*These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Net premiums written*	\$218,910	\$223,602	\$427,826	\$434,016
Statutory surplus*			\$602,681	\$529,621
Pretax investment income	\$24,847	\$22,578	\$48,942	\$44,339
Related federal income taxes	6,429	5,354	12,462	10,387
After-tax investment income	\$18,418	\$17,224	\$36,480	\$33,952

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Revenues:				
Premiums earned:				
Commercial lines	\$172,725	\$170,858	\$344,812	\$338,171
Personal lines	36,595	39,007	72,853	78,374
Total premiums earned	209,320	209,865	417,665	416,545
Net investment income	24,847	22,578	48,942	44,339
Realized investment gains	38,072	68	40,282	68
Other	4,299	4,158	9,186	8,441
Total revenues	\$276,538	\$236,669	\$516,075	\$469,393

Income before income taxes and cumulative effect of accounting change:

Underwriting gain (loss):				
Commercial lines	(\$3,936)	(\$9,760)	(\$7,536)	(\$19,998)
Personal lines	3,140	1,114	8,259	1,531
SAP underwriting gain (loss)	(796)	(8,646)	723	(18,467)
GAAP adjustments	2,036	3,693	278	5,053
GAAP underwriting gain (loss)	1,240	(4,953)	1,001	(13,414)
Net investment income	24,847	22,578	48,942	44,339
Realized investment gains	38,072	68	40,282	68
Other	1,228	730	3,390	1,886
Income before income taxes and cumulative effect of accounting change	\$65,387	\$18,423	\$93,615	\$32,879
Income taxes on net investment income	\$6,429	\$5,354	\$12,462	\$10,387
Income taxes (benefit) on remaining gain (loss) before cumulative effect of accounting change	14,228	(1,458)	15,715	(4,017)
Total income taxes on income before cumulative effect of accounting change	\$20,657	\$3,896	\$28,177	\$6,370

Effective tax rate on:

Net investment income	25.9%	23.7%	25.5%	23.4%
Income before cumulative effect of accounting change	31.6%	21.1%	30.1%	19.4%

These financial figures are unaudited.

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

Harleysville Group Inc. and Subsidiaries

STATUTORY DATA BY LINE OF BUSINESS*

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Net premiums written:				
Commercial:				
Automobile	\$55,115	\$60,475	\$109,092	\$117,764
Workers' compensation	22,836	23,393	49,110	49,912
Commercial multi-peril	85,380	82,451	163,217	157,531
Other commercial	17,858	18,315	36,514	36,090
Total commercial	\$181,189	\$184,634	\$357,933	\$361,297
Personal:				
Automobile	\$18,407	\$20,393	\$36,155	\$40,126
Homeowners	16,895	16,038	29,429	28,130
Other personal	2,419	2,537	4,309	4,463
Total personal	\$37,721	\$38,968	\$69,893	\$72,719
Total personal and commercial	\$218,910	\$223,602	\$427,826	\$434,016
Combined ratios:				
Commercial:				
Automobile	97.2%	97.9%	99.2%	99.0%
Workers' compensation	118.8%	124.2%	118.0%	124.8%
Commercial multi-peril	101.2%	100.4%	100.6%	102.7%
Other commercial	82.6%	100.9%	84.6%	92.9%
Total commercial	100.6%	103.0%	100.9%	103.7%
Personal:				
Automobile	99.5%	104.1%	100.1%	105.1%
Homeowners	82.1%	92.3%	80.1%	97.4%
Other personal	70.2%	63.7%	69.2%	75.8%
Total personal	90.5%	97.2%	90.0%	100.4%
Total personal and commercial	98.8%	101.9%	99.0%	103.1%
Losses paid	\$112,298	\$118,931	\$218,148	\$230,333
Net catastrophe losses incurred	\$4,228	\$627	\$7,055	\$1,624

These financial figures are unaudited.

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