



Harleysville Group Inc.
355 Maple Avenue
Harleysville, PA 19438-2297
www.harleysvillegroup.com
Tel 800.523.6344

News Release

For Release: Immediately

Contact: Mark Cummins (Investors) 215.256.5025 mcummins@harleysvillegroup.com
Randy Buckwalter (Media) 215.256.5288 rbuckwalter@harleysvillegroup.com

HARLEYSVILLE GROUP REPORTS FIRST QUARTER 2006 RESULTS

First quarter highlights:

- Operating earnings rise to \$0.62 per share
- Statutory combined ratio improves by 5 points to 99.2 percent
- Strong cash flow drives net investment income growth

HARLEYSVILLE, PA—April 26, 2006—Harleysville Group Inc. (NASDAQ: HGIC) today reported diluted operating income of \$0.62 per share for the first quarter of 2006, compared to \$0.39 per share in the first quarter of 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 tax.

“We have had an excellent start in 2006 as our statutory combined ratio improved by 5 points to 99.2 percent and our operating ROE was 12.0 percent. In addition, our operating earnings were \$0.62 per share, a significant improvement from the \$0.39 a share we reported in the first quarter a year ago,” commented Michael L. Browne, Harleysville Group’s president and chief executive officer. “We continue to maintain our solid capital base and a strong balance sheet, a modest debt-to-capital ratio of 16 percent, a high-quality investment portfolio and a premium-to-surplus ratio of 1.4:1—all of which give us a sound financial position to write our agents’ best business.”

The company reported diluted net income of \$0.70 per share in the first quarter of 2006, compared to \$0.39 per share in the first quarter of 2005. There were \$0.05 of realized investment gains in the first quarter of 2006, compared to no realized investment gains in the first quarter of 2005. The first quarter 2006 results also include an after-tax benefit of \$0.03 per share for the cumulative effect of a change in accounting principle resulting from the adoption of Statement of Financial Accounting Standards No. 123R, “Share-Based Payment.” This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements.

Harleysville Group’s overall statutory combined ratio* was 99.2 percent in the first quarter of 2006, compared to 104.2 percent in the first quarter of 2005.

First quarter net written premiums were \$208.9 million in 2006, compared to \$210.4 million in the same period in 2005.

First quarter pretax investment income increased 11 percent to \$24.1 million, while after-tax investment income grew 8 percent in the first quarter to \$18.1 million. Operating cash flow for the first quarter was \$53.1 million, compared to \$29.6 million in the first quarter of 2005.

Commercial lines Net written premiums in commercial lines were \$176.7 million in the first quarter of 2006, virtually unchanged from the same period in 2005. The commercial lines statutory combined ratio was 101.2 percent in the first quarter of 2006, versus 104.3 percent in the first quarter of 2005.

(more)

Harleysville Group first quarter results

Page two

Personal lines Harleysville Group's personal lines statutory combined ratio was 89.6 percent in the first quarter of 2006, versus 103.7 percent during the first quarter of 2005. Net written premiums decreased 5 percent to \$32.2 million in the first quarter of 2006.

Outlook "It's clear that the strategic course we set two years ago to position our company as a leader within the industry is yielding the results we want, not just because of the numbers we're reporting today, but because of the continuing positive trends we're seeing in our underlying operations," Browne said. "We are on track for achieving our 2006 goals of underwriting profitability—that is, producing an overall combined ratio under 100 percent—and a return on equity of at least 12 percent, due in large part to the continued dedication and hard work of our employees and the loyalty and support of our agency partners."

Webcast The company will host a live Webcast today, April 26, 2006, at 8 a.m. (ET) to discuss its first quarter results. The Webcast and a replay will be available from the Investors section of the company's Web site (www.harleysvillegroup.com).

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.

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 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.

#####

* "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.

#06-07

04/26/06p

Harleysville Group Inc. and Subsidiaries

FINANCIAL HIGHLIGHTS	Quarter ended March 31	
(in thousands, except per share data)	2006	2005
OPERATING RESULTS		
Diluted earnings per common share:		
Operating income*	\$0.62	\$0.39
Realized gains, net of income taxes	0.05	
Cumulative effect of accounting change, net of income taxes	0.03	
Net income	\$0.70	\$0.39
Cash dividend per common share	\$0.175	\$0.17

FINANCIAL CONDITION	March 31, 2006	December 31, 2005
Assets	\$2,874,375	\$2,905,266
Shareholders' equity	\$626,721	\$614,383
Per common share	\$20.36	\$20.07

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended March 31	
(in thousands, except per share data)	2006	2005
REVENUES:		
Premiums earned	\$208,345	\$206,680
Investment income, net of investment expense	24,095	21,761
Realized investment gains	2,210	
Other income	4,887	4,283
Total revenues	239,537	232,724
LOSSES AND EXPENSES:		
Losses and loss settlement expenses	135,989	147,868
Amortization of deferred policy acquisition costs	52,604	50,918
Other underwriting expenses	19,991	16,355
Interest expense	1,710	1,620
Other expenses	1,015	1,507
Total expenses	211,309	218,268
Income before income taxes and cumulative effect of accounting change	28,228	14,456
Income taxes	7,520	2,474
Income before cumulative effect of accounting change	20,708	11,982
Cumulative effect of accounting change, net of income taxes	942	
Net income	\$21,650	\$11,982
Weighted average number of shares outstanding:		
Basic	30,641,110	30,253,967
Diluted	31,065,785	30,399,346
Per common share:		
Basic earnings before cumulative effect of accounting change	\$0.68	\$0.40
Basic cumulative effect of accounting change	\$0.03	
Basic earnings	\$0.71	\$0.40
Diluted earnings before cumulative effect of accounting change	\$0.67	\$0.39
Diluted cumulative effect of accounting change	\$0.03	
Diluted earnings	\$0.70	\$0.39

RECONCILIATION TO OPERATING INCOME:		
Net income	\$21,650	\$11,982
Less cumulative effect of accounting change, net of income taxes	942	
Less realized investment gains, net of income taxes	1,437	
Operating income	\$19,271	\$11,982

These financial figures are unaudited.

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

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

March 31, 2006* December 31, 2005

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$411,685 and \$437,887)	\$413,250	\$433,649
--	-----------	-----------

Available for sale, at fair value (amortized cost \$1,448,237 and \$1,374,559)	1,441,705	1,386,440
--	-----------	-----------

Equity securities, at fair value (cost \$143,372 and \$139,371)	188,792	179,980
---	---------	---------

Short-term investments, at cost, which approximates fair value	74,247	64,319
--	--------	--------

Total investments	2,117,994	2,064,388
-------------------	-----------	-----------

Cash	324	466
------	-----	-----

Premiums in course of collection	140,586	141,882
----------------------------------	---------	---------

Reinsurance receivable	185,347	249,020
------------------------	---------	---------

Accrued investment income	23,117	24,016
---------------------------	--------	--------

Deferred policy acquisition costs	103,839	104,173
-----------------------------------	---------	---------

Prepaid reinsurance premiums	32,848	34,256
------------------------------	--------	--------

Property and equipment, net	17,693	18,038
-----------------------------	--------	--------

Deferred income taxes	66,861	63,357
-----------------------	--------	--------

Securities lending collateral	140,536	150,938
-------------------------------	---------	---------

Due from affiliate		1,022
--------------------	--	-------

Other assets	45,230	53,710
--------------	--------	--------

Total assets	\$2,874,375	\$2,905,266
--------------	-------------	-------------

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses	\$1,449,162	\$1,480,802
--	-------------	-------------

Unearned premiums	439,919	440,755
-------------------	---------	---------

Accounts payable and accrued expenses	92,270	99,888
---------------------------------------	--------	--------

Securities lending obligation	140,536	150,938
-------------------------------	---------	---------

Debt	118,500	118,500
------	---------	---------

Due to affiliate	7,267	
------------------	-------	--

Total liabilities	2,247,654	2,290,883
-------------------	-----------	-----------

Shareholders' equity:

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

Common stock, \$1 par value, authorized 80,000,000 shares; issued 32,183,057 and 32,008,142 shares; outstanding 30,785,148 and 30,610,233 shares	32,183	32,008
--	--------	--------

Additional paid-in capital	173,605	169,881
----------------------------	---------	---------

Accumulated other comprehensive income	11,447	20,288
--	--------	--------

Retained earnings	433,973	417,705
-------------------	---------	---------

Deferred compensation		(1,012)
-----------------------	--	---------

Treasury stock, at cost, 1,397,909 shares	(24,487)	(24,487)
---	----------	----------

Total shareholders' equity	626,721	614,383
----------------------------	---------	---------

Total liabilities and shareholders' equity	\$2,874,375	\$2,905,266
--	-------------	-------------

*These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended March 31	
	2006	2005
Net premiums written*	\$208,916	\$210,414
Statutory surplus*	\$597,449	\$518,097
Pretax investment income	\$24,095	\$21,761
Related federal income taxes	6,033	5,033
After-tax investment income	\$18,062	\$16,728

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended March 31	
	2006	2005
Revenues:		
Premiums earned:		
Commercial lines	\$172,087	\$167,313
Personal lines	36,258	39,367
Total premiums earned	208,345	206,680
Net investment income	24,095	21,761
Realized investment gains	2,210	
Other	4,887	4,283
Total revenues	\$239,537	\$232,724

Income before income taxes and cumulative effect of accounting change:

Underwriting gain (loss):		
Commercial lines	(\$3,600)	(\$10,238)
Personal lines	5,119	417
SAP underwriting (gain) loss	1,519	(9,821)
GAAP adjustments	(1,758)	1,360
GAAP underwriting loss	(239)	(8,461)
Net investment income	24,095	21,761
Realized investment gains	2,210	
Other	2,162	1,156
Income before income taxes and cumulative effect of accounting change	\$28,228	\$14,456
Income taxes on net investment income	\$6,033	\$5,033
Income taxes (benefit) on remaining gain (loss) before cumulative effect of accounting change	1,487	(2,559)
Total income taxes on income before cumulative effect of accounting change	\$7,520	\$2,474

Effective tax rate on:

Net investment income	25.0%	23.1%
Income before cumulative effect of accounting change	26.6%	17.1%

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 March 31	
	2006	2005
Net premiums written:		
Commercial:		
Automobile	\$53,977	\$57,289
Workers' compensation	26,274	26,519
Commercial multi-peril	77,837	75,080
Other commercial	18,656	17,775
Total commercial	\$176,744	\$176,663
Personal:		
Automobile	\$17,748	\$19,733
Homeowners	12,534	12,092
Other personal	1,890	1,926
Total personal	\$32,172	\$33,751
Total personal and commercial	\$208,916	\$210,414

Combined ratios:

Commercial:		
Automobile	101.1%	100.1%
Workers' compensation	117.3%	125.7%
Commercial multi-peril	99.9%	105.2%
Other commercial	86.5%	84.9%
Total commercial	101.2%	104.3%
Personal:		
Automobile	100.7%	106.1%
Homeowners	78.8%	102.9%
Other personal	68.1%	87.8%
Total personal	89.6%	103.7%
Total personal and commercial	99.2%	104.2%

Losses paid	\$105,850	\$111,402
--------------------	------------------	------------------

Net catastrophe losses incurred	\$2,827	\$997
--	----------------	--------------

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.