



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 SECOND QUARTER 2007 RESULTS

Second quarter highlights:

- Operating income rises by 27 percent to \$0.81 per share
- Statutory combined ratio¹ improves by 2.3 points to 96.5 percent
- Pretax investment income grows 12 percent
- Book value increases by 12 percent to \$22.97 per share from one year ago
- Capital management actions include 32 percent dividend increase, completion of 5 percent stock buyback, announcement of additional 5 percent buyback

HARLEYSVILLE, PA—August 1, 2007—Harleysville Group Inc. (NASDAQ: HGIC) today reported diluted operating income of \$0.81 per share for the second quarter of 2007, compared to \$0.64 per share in the second quarter of 2006. In 2007, operating income includes a benefit of \$0.06 per share resulting from the gain on the company's sale of its office building in Traverse City, Mich. For the six-month periods, the company reported diluted operating income of \$1.51 per share in 2007 and \$1.26 per share in 2006. 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 had a very good quarter, as we continued to generate results that track with our key long-term objectives," commented Michael L. Browne, Harleysville Group's president and chief executive officer. "Our operating income increased by 27 percent to \$0.81 per share—marking our 10th consecutive quarter of double-digit percentage earnings growth. Our second quarter statutory combined ratio improved by 2.3 points to 96.5 percent. With that improvement in underwriting profitability, our GAAP operating return on equity also grew to 13.6 percent. At the same time, we continue to maintain our solid capital base and strong balance sheet, a modest debt-to-capital ratio of 14 percent², a high-quality investment portfolio, and a premium-to-surplus ratio of 1.4 to 1—all of which provide the sound financial foundation for us to write our agents' best business. The strength of our capital position and our confidence in the future are further evidenced by the board's approval to increase our quarterly dividend by 32 percent, or \$0.06 per share, to \$1.00 on an annual basis. We also completed a 5 percent share repurchase program in July, and today announced an additional 5 percent stock buyback."

The company reported diluted net income of \$0.82 per share in the second quarter of 2007, compared to \$1.43 per share in the second quarter of 2006. There was \$0.01 per share of realized gains in the second quarter of 2007, compared to \$0.79 per share in the second quarter of 2006. The majority of the realized gains in the second quarter of last year was 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 during last year's volatile catastrophe reinsurance renewal season. For the six-month periods, diluted net income was \$1.54 per share in 2007 and \$2.13 per share in 2006. For the six months, the company reported \$0.03 per share of realized investment gains in 2007, compared to \$0.84 per share in 2006. The first six months of 2006 also included 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.

(more)

Harleysville Group second quarter results

Page two

Second quarter net written premiums were \$219.1 million in 2007, compared to \$218.9 million in the same period in 2006. Net written premiums through six months were \$426.2 million in 2007 and \$427.8 million in 2006.

Harleysville Group's overall statutory combined ratio was 96.5 percent in the second quarter of 2007, compared to 98.8 percent in the second quarter of 2006. For the six months, the statutory combined ratio was 97.2 percent in 2007, versus 99.0 percent in 2006.

Second quarter pretax investment income increased 12 percent to \$27.9 million, while after-tax investment income grew 8 percent in the second quarter to \$20.0 million. For the six months, pretax investment income was up 13 percent to \$55.3 million, while after-tax investment income rose 8 percent to \$39.5 million. Operating cash flow through six months was \$82.9 million, compared to \$77.4 million in the first six months of 2006.

Commercial lines Net written premiums in commercial lines were \$181.0 million in the second quarter of 2007, which is unchanged from the same period in 2006. For the six months, net written premiums declined by 1 percent to \$355.8 million. The commercial lines statutory combined ratio was 97.5 percent in the second quarter of 2007, versus 100.6 percent in the second quarter of 2006. For the six months, the statutory combined ratio was 97.7 percent in 2007, compared to 100.9 percent in 2006.

Personal lines Net written premiums in personal lines increased by 1 percent to \$38.1 million in the second quarter of 2007. For the six months, net written premiums also rose by 1 percent to \$70.3 million. Harleysville Group's personal lines statutory combined ratio was 92.0 percent in the second quarter of 2007, versus 90.5 percent during the second quarter of 2006. For the six months, the statutory combined ratio was 95.1 percent in 2007, compared to 90.0 percent in 2006.

Outlook "As we continue through 2007, and look ahead to 2008, we expect the market to remain challenging. However, we are positioned well for future earnings growth based on our use of predictive modeling, and on the fact that our expense ratio is improving, our pricing is holding steady, and our retention ratios have improved and remain strong," Browne said. "Going forward, our goal is to be creative and opportunistic, while staying keenly focused on the basics of our business, as we seek to consistently produce the kind of quality results we are reporting today—improving earnings, profitable underwriting and operating ROE greater than 12 percent—while always maintaining a healthy balance sheet. And, with agency relationships that are second to none, we're confident that our partnership with our agents positions us to continue to improve our results going forward."

Webcast The company will host a live Webcast tomorrow, August 2, 2007, 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.

(more)

Harleysville Group second quarter results

Page three

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 53 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, and was one of 3 percent of public companies recognized with a 2007 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.

#####

¹ “Statutory combined ratio” is a non-GAAP measure of underwriting profitability and is based on numbers determined under statutory accounting practices as filed with state insurance regulators. It is the sum of the ratio of losses to premiums earned plus the ratio of underwriting expenses to premiums written. A ratio of less than 100 percent indicates underwriting profitability.

² Excludes the effects of SFAS No. 115.

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

#07-35

08/01/07b

Harleysville Group Inc. and Subsidiaries

FINANCIAL HIGHLIGHTS	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2007	2006	2007	2006
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income*	\$0.81	\$0.64	\$1.51	\$1.26
Realized gains, net of income taxes	0.01	0.79	0.03	0.84
Cumulative effect of accounting change, net of income taxes				0.03
Net income	\$0.82	\$1.43	\$1.54	\$2.13
Cash dividends per common share	\$0.19	\$0.175	\$0.38	\$0.35
FINANCIAL CONDITION				
	June 30, 2007		December 31, 2006	
Assets	\$2,989,427		\$2,990,984	
Shareholders' equity	\$715,532		\$712,162	
Per common share	\$22.97		\$22.49	

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2007	2006	2007	2006
REVENUES:				
Premiums earned	\$207,395	\$209,320	\$412,773	\$417,665
Investment income, net of investment expense	27,947	24,847	55,344	48,942
Realized investment gains	678	38,072	1,302	40,282
Other income	6,321	4,299	9,819	9,186
Total revenues	242,341	276,538	479,238	516,075
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	131,411	135,049	262,562	271,038
Amortization of deferred policy acquisition costs	51,953	53,467	103,849	106,071
Other underwriting expenses	18,299	19,564	36,580	39,555
Interest expense	1,789	1,731	3,554	3,441
Other expenses	1,340	1,340	2,613	2,355
Total expenses	204,792	211,151	409,158	422,460
Income before income taxes and cumulative effect of accounting change	37,549	65,387	70,080	93,615
Income taxes	11,114	20,657	20,743	28,177
Income before cumulative effect of accounting change	26,435	44,730	49,337	65,438
Cumulative effect of accounting change, net of income taxes				942
Net income	\$26,435	\$44,730	\$49,337	\$66,380
Weighted average number of shares outstanding:				
Basic	31,658,553	30,830,502	31,644,462	30,736,332
Diluted	32,089,782	31,298,063	32,098,175	31,216,098
Per common share:				
Basic earnings before cumulative effect of accounting change	\$0.84	\$1.45	\$1.56	\$2.13
Basic cumulative effect of accounting change				\$0.03
Basic earnings	\$0.84	\$1.45	\$1.56	\$2.16
Diluted earnings before cumulative effect of accounting change	\$0.82	\$1.43	\$1.54	\$2.10
Diluted cumulative effect of accounting change				\$0.03
Diluted earnings	\$0.82	\$1.43	\$1.54	\$2.13

RECONCILIATION TO OPERATING INCOME :				
Net income	\$26,435	\$44,730	\$49,337	\$66,380
Less cumulative effect of accounting change, net of income taxes				942
Less realized investment gains, net of income taxes	441	24,747	847	26,184
Operating income	\$25,994	\$19,983	\$48,490	\$39,254

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, 2007* December 31, 2006

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$331,618 and \$381,835)	\$335,150	\$382,457
--	-----------	-----------

Available for sale, at fair value (amortized cost \$1,809,574 and \$1,717,651)	1,790,614	1,722,874
--	-----------	-----------

Equity securities, at fair value (cost \$65,246 and \$62,932)	76,976	71,446
---	--------	--------

Short-term investments, at cost, which approximates fair value	67,773	72,237
--	--------	--------

Total investments	2,270,513	2,249,014
-------------------	-----------	-----------

Cash	146	227
------	-----	-----

Premiums in course of collection	152,593	147,445
----------------------------------	---------	---------

Reinsurance receivable	177,797	167,199
------------------------	---------	---------

Accrued investment income	26,361	25,823
---------------------------	--------	--------

Deferred policy acquisition costs	104,395	102,317
-----------------------------------	---------	---------

Prepaid reinsurance premiums	36,110	37,242
------------------------------	--------	--------

Property and equipment, net	13,575	16,690
-----------------------------	--------	--------

Deferred income taxes	61,617	60,643
-----------------------	--------	--------

Securities lending collateral	90,596	124,755
-------------------------------	--------	---------

Due from affiliate		5,716
--------------------	--	-------

Other assets	55,724	53,913
--------------	--------	--------

Total assets	\$2,989,427	\$2,990,984
--------------	-------------	-------------

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses	\$1,527,079	\$1,493,645
--	-------------	-------------

Unearned premiums	456,004	443,738
-------------------	---------	---------

Accounts payable and accrued expenses	79,170	98,184
---------------------------------------	--------	--------

Securities lending obligation	90,596	124,755
-------------------------------	--------	---------

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

Due to affiliate	2,546	
------------------	-------	--

Total liabilities	2,273,895	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 33,423,319 and 33,060,600 shares; outstanding 31,153,287 and 31,662,691 shares	33,423	33,061
--	--------	--------

Additional paid-in capital	205,214	197,607
----------------------------	---------	---------

Accumulated other comprehensive income (loss)	(13,252)	14
---	----------	----

Retained earnings	543,172	505,967
-------------------	---------	---------

Treasury stock, at cost, 2,270,032 and 1,397,909 shares	(53,025)	(24,487)
---	----------	----------

Total shareholders' equity	715,532	712,162
----------------------------	---------	---------

Total liabilities and shareholders' equity	\$2,989,427	\$2,990,984
--	-------------	-------------

*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	
	2007	2006	2007	2006
Net premiums written*	\$219,141	\$218,910	\$426,171	\$427,826
Statutory surplus*			\$618,953	\$602,681
Pretax investment income	\$27,947	\$24,847	\$55,344	\$48,942
Related federal income taxes	7,997	6,429	15,813	12,462
After-tax investment income	\$19,950	\$18,418	\$39,531	\$36,480

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Revenues:				
Premiums earned:				
Commercial lines	\$171,662	\$172,725	\$341,875	\$344,812
Personal lines	35,733	36,595	70,898	72,853
Total premiums earned	207,395	209,320	412,773	417,665
Net investment income	27,947	24,847	55,344	48,942
Realized investment gains	678	38,072	1,302	40,282
Other	6,321	4,299	9,819	9,186
Total revenues	\$242,341	\$276,538	\$479,238	\$516,075

Income before income taxes and cumulative effect of accounting change:

Underwriting gain (loss):				
Commercial lines	\$1,245	(\$3,936)	\$3,337	(\$7,536)
Personal lines	2,109	3,140	3,683	8,259
SAP underwriting gain (loss)	3,354	(796)	7,020	723
GAAP adjustments	2,378	2,036	2,762	278
GAAP underwriting gain	5,732	1,240	9,782	1,001
Net investment income	27,947	24,847	55,344	48,942
Realized investment gains	678	38,072	1,302	40,282
Other	3,192	1,228	3,652	3,390
Income before income taxes and cumulative effect of accounting change	\$37,549	\$65,387	\$70,080	\$93,615

Income taxes on net investment income	\$7,997	\$6,429	\$15,813	\$12,462
Income taxes on remaining gain before cumulative effect of accounting change	3,117	14,228	4,930	15,715
Total income taxes on income before cumulative effect of accounting change	\$11,114	\$20,657	\$20,743	\$28,177

Effective tax rate on:

Net investment income	28.6%	25.9%	28.6%	25.5%
Income before cumulative effect of accounting change	29.6%	31.6%	29.6%	30.1%

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 June 30		Six months ended June 30	
	2007	2006	2007	2006
Net premiums written:				
Commercial:				
Automobile	\$51,469	\$55,115	\$101,590	\$109,092
Workers' compensation	23,637	22,836	50,284	49,110
Commercial multi-peril	86,087	85,380	165,987	163,217
Other commercial	19,830	17,858	37,985	36,514
Total commercial	\$181,023	\$181,189	\$355,846	\$357,933
Personal:				
Automobile	\$17,781	\$18,407	\$34,308	\$36,155
Homeowners	17,889	16,895	31,549	29,429
Other personal	2,448	2,419	4,468	4,309
Total personal	\$38,118	\$37,721	\$70,325	\$69,893
Total personal and commercial	\$219,141	\$218,910	\$426,171	\$427,826
Statutory combined ratios:				
Commercial:				
Automobile	93.2%	97.2%	92.9%	99.2%
Workers' compensation	111.7%	118.8%	112.1%	118.0%
Commercial multi-peril	99.2%	101.2%	99.7%	100.6%
Other commercial	81.0%	82.6%	82.7%	84.6%
Total commercial	97.5%	100.6%	97.7%	100.9%
Personal:				
Automobile	97.4%	99.5%	100.9%	100.1%
Homeowners	90.3%	82.1%	91.1%	80.1%
Other personal	60.8%	70.2%	78.1%	69.2%
Total personal	92.0%	90.5%	95.1%	90.0%
Total personal and commercial statutory combined ratio	96.5%	98.8%	97.2%	99.0%
GAAP combined ratio	97.2%	99.4%	97.6%	99.8%
Losses paid	\$124,334	\$112,298	\$236,021	\$218,148
Net catastrophe losses incurred	\$4,507	\$4,228	\$6,575	\$7,055

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.