

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report February 17, 2004
(Date of Earliest Event Reported)

HARLEYSVILLE GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	0-14697 (Commission File Number)	51-0241172 (IRS Employer Identification No.)
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355 Maple Avenue, Harleysville, Pennsylvania (Address of principal executive offices)	19438 (Zip Code)
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(215) 256-5000
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report.)

Item 12. Results of Operations and Financial Condition

On February 17, 2004, Harleysville Group Inc. issued a press release reporting its fourth quarter and full year 2003 results (furnished hereunder as Exhibit 99.1).

The information provided in this Form 8-K, Item 12, Results of Operations and Financial Condition, is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act"), or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

In addition to disclosing results that are determined in accordance with U. S. generally accepted accounting principles (GAAP), the company also discloses non-GAAP information on operating earnings. Management believes information on operating earnings is useful to investors. Management has historically employed operating earnings as a valuable measurement of the

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underlying profitability of the Company's insurance operations since it excludes the impact of the Company's investment results.

SIGNATURES

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 hereunto duly authorized.

HARLEYSVILLE GROUP INC.
Registrant

/s/Roger A. Brown

February 17, 2004

Roger A. Brown
Senior Vice President, Secretary
& General Counsel

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EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated February 17, 2004 of Harleysville Group Inc. (furnished pursuant to Item 12 hereof).

Harleysville Group Reports Fourth Quarter and Year-End 2003 Results

HARLEYSVILLE, Pa., Feb. 17 /PRNewswire-FirstCall/ -- Harleysville Group Inc. (Nasdaq: HGIC) today reported a diluted net loss of \$0.66 per share in the fourth quarter of 2003, reflecting the previously announced loss reserve increases in several business lines for prior accident years. The company had diluted net income of \$0.57 per share in the fourth quarter of 2002. There were essentially no realized investment gains or losses in the fourth quarter of 2003, compared to \$0.04 per share of realized gains in the fourth quarter of 2002. For the 12 months, the company reported a diluted net loss per share of \$1.59, compared to diluted net income per share of \$1.53 in 2002. For the full year, 2003 results included realized investment losses of \$0.02 per share, compared to \$0.39 per share of realized losses in 2002.

The company reported a diluted operating loss of \$0.66 per share for the fourth quarter ended December 31, 2003, compared to diluted operating income of \$0.53 per share in the same period of 2002. For the 12 months ended December 31, 2003, the diluted operating loss was \$1.57 per share, compared to diluted operating income of \$1.92 per share in the same period of 2002. Operating income is a non-GAAP financial measure defined by the company as net income excluding after-tax realized gains and losses on investments.

"Our 2003 results were totally unacceptable," commented Michael L. Browne, Harleysville Group's chief executive officer. "We will return Harleysville not only to profitability, but also to superior levels of profitability. To do this, we have strengthened our management in key areas, including claims, and conducted thorough claims and actuarial reviews, using internal and external resources, in order to address the issues that led to our additions to loss reserves in 2003. With these changes in place, we can now focus on growing our business and our profits."

The company's fourth quarter and 12-month results were reduced by the previously announced addition of \$42 million pretax, or \$0.92 per share after tax, to the company's loss and loss adjustment reserves for prior accident years, primarily in its workers compensation (\$11.8 million), commercial automobile (\$9.5 million), commercial multi-peril (\$19.3 million) and personal automobile (\$3.8 million) lines of business. Harleysville Group's end-of-the-quarter reserve analysis showed higher-than-expected development in the casualty lines of business in accident years prior to 2003, which caused the company to make the reserve adjustment. Of the reserve development, about two-thirds relates to the 1999 to 2001 accident years. Harleysville Group's 12-month earnings were reduced by \$119 million pretax, or \$2.58 per share after tax, due to reserve development. In light of the higher-than-expected development in prior accident years, the company raised its loss estimates for the 2003 accident year, which also impacted the company's fourth quarter and 12-month results.

The full-year results also reflect claims costs of \$8.8 million pretax, or \$0.19 per share after tax, from Hurricane Isabel in September. In 2003, Harleysville Group's property catastrophe losses were \$19.7 million pretax, or \$0.43 per share after tax. That compares to property catastrophe losses of \$4.4 million pretax, or \$0.10 per share after tax, for 2002.

Harleysville Group's overall statutory combined ratio* was 134.6 percent in the fourth quarter of 2003, compared to 102.1 percent in the fourth quarter of 2002. For the 12 months, the statutory combined ratio was 123.2 percent in 2003, versus 101.9 percent in 2002. Reserve development added 20.0 points and 14.5 points to the 2003 fourth quarter and 12-month statutory combined ratios, respectively. In addition, property catastrophe losses added 2.4 points and 0.6 points to the 2003 and 2002 statutory combined ratios, respectively. A \$13 million cash contribution to the pension plan added 6.5 points and 1.6 points to the 2003 fourth quarter and 12-month combined ratios, respectively, but did not affect GAAP pension expense.

Fourth quarter net written premiums rose 3 percent to \$197.6 million in 2003, while net written premiums through 12 months increased by 6 percent to \$843.5 million in 2003.

Pretax investment income increased 2 percent in the fourth quarter to \$21.9 million, but was virtually unchanged for the year at \$86.6 million. After-tax investment income rose 3 percent in the fourth quarter to \$17.0 million and 2 percent for the year to \$66.8 million. Operating cash flow for the 12 months was \$134.6 million, or \$21.4 million higher than the prior year's 12 months.

Commercial lines Net written premiums climbed 10 percent in both the fourth quarter and the year to \$155.0 million and \$657.5 million, respectively. The increase in written premiums is primarily due to higher pricing. The commercial lines statutory combined ratio was 137.1 percent in the fourth quarter of 2003, versus 98.7 percent in the fourth quarter of 2002. For the 12 months, the statutory combined ratio was 123.6 percent in 2003, compared to 99.5 percent in 2002. In 2003, the fourth quarter reserve development added 23.3 points to the quarter's commercial lines statutory combined ratio, while reserve development added 17.2 points to the 12-month commercial lines statutory combined ratio.

Personal lines Harleysville Group's personal lines statutory combined ratio was 125.9 percent in the fourth quarter of 2003, versus 112.2 percent during the fourth quarter of 2002. For the 12 months, the statutory combined ratio was 121.8 percent in 2003, compared to 108.1 percent in 2002. In 2003, reserve development added 8.2 points to the fourth quarter personal lines statutory combined ratio and 5.5 points to the 12-month personal lines statutory combined ratio. The higher catastrophe losses also contributed to the higher statutory combined ratio. Net written premiums declined 15 percent to \$42.6 million in the fourth quarter of 2003 and were down 8 percent to \$186.0 million during the year.

Outlook "We are committed to improved profitability in commercial lines and personal lines," Browne explained. "In commercial lines, we will continue with our strategy aimed at the core business controlled by our independent agency partners. In personal lines, the business plan we've put in place in the last two quarters is realistic and achievable, and it has been welcomed enthusiastically by our agents.

"Our financial condition is solid. We have a strong balance sheet, characterized by significantly strengthened reserves, a modest 17 percent debt-to-capital ratio, a high-quality investment portfolio and a premium-to-surplus ratio of 1.8 to 1. Additionally, operating cash flow is at a historical high," Browne continued. "Our relationships with our agents are strong. As we move past the issues of 2003, we know we will improve our results in 2004 and beyond. We are going to focus intensely on four cornerstones -- underwriting, claims handling, service to agents and policyholders, and productivity. Bottom line, our future success will be driven by consistent execution of the fundamentals."

Webcast The company will host a live Webcast today, Tuesday, February 17, 2004, at 9:00 a.m. (ET) to discuss its fourth quarter results. The Webcast will be available from the Investors section of the company's Web site (www.harleysvillegroup.com) and will be archived on the Web site until February 17, 2005.

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 goal setting, determining employee and senior management compensation, and evaluating performance.

Corporate profile Recognized as "Good people to know" in the markets it serves, Harleysville Insurance is a premier provider of insurance products and services for small businesses and individuals, and ranks among the top 60 U.S. property/casualty insurance groups based on net written premiums. Harleysville Group Inc. (Nasdaq: HGIC) is a publicly traded holding company for nine regional property/casualty insurance companies. Harleysville Insurance, which distributes its products exclusively through independent insurance agencies, currently operates in 32 Eastern and Midwestern states. Further information can be found on the company's Web site (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 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.

FINANCIAL HIGHLIGHTS (in thousands, except per share data)	Quarter ended December 31		Twelve months ended December 31	
	2003	2002	2003	2002
OPERATING RESULTS				
Diluted earnings (loss) per common share:				
Operating income (loss)*	(\$0.66)	\$0.53	(\$1.57)	\$1.92
Realized gains (losses), net of tax		0.04	(0.02)	(0.39)
Net income (loss)	(\$0.66)	\$0.57	(\$1.59)	\$1.53
Cash dividends per common share	\$0.17	\$0.165	\$0.67	\$0.63
FINANCIAL CONDITION				
	December 31, 2003		December 31, 2002	
Assets	\$2,680,389		\$2,311,524	
Shareholders' equity	\$572,747		\$632,112	
Per common share	\$19.16		\$21.13	

CONSOLIDATED STATEMENTS OF INCOME (LOSS) (in thousands, except per share data)	Quarter ended December 31		Twelve months ended December 31	
	2003	2002	2003	2002
REVENUES:				
Premiums earned	\$211,646	\$197,899	\$823,407	\$764,636
Investment income, net of investment expense	21,863	21,518	86,597	86,265
Realized investment gains (losses)	(23)	2,000	(920)	(18,448)
Other income	3,450	3,673	15,881	15,283
Total revenues	236,936	225,090	924,965	847,736
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	199,234	131,828	727,875	521,617
Amortization of deferred policy acquisition costs	52,094	47,977	202,147	185,547
Other underwriting expenses	16,261	19,810	71,153	74,105
Interest expense	2,229	1,420	7,625	5,698
Other expenses	1,632	1,017	5,615	4,287
Total expenses	271,450	202,052	1,014,415	791,254
Income (loss) before income taxes	(34,514)	23,038	(89,450)	56,482
Income taxes (benefit)	(14,711)	5,635	(41,821)	10,227
Net income (loss)	(\$19,803)	\$17,403	(\$47,629)	\$46,255
Weighted average number of shares outstanding:				
Basic	29,894,028	29,853,704	29,985,900	29,699,201
Diluted	30,035,755	30,448,821	30,206,518	30,295,949
Per common share:				
Basic earnings (loss)	(\$0.66)	\$0.58	(\$1.59)	\$1.56
Diluted earnings (loss)	(\$0.66)	\$0.57	(\$1.59)	\$1.53

RECONCILIATION TO OPERATING INCOME (LOSS):				
Net income (loss)	(\$19,803)	\$17,403	(\$47,629)	\$46,255
Less realized investment gains (losses), net of taxes	(15)	1,300	(598)	(12,007)
Operating income (loss)	(\$19,788)	\$16,103	(\$47,031)	\$58,262

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.

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS (in thousands, except share data)	December 31, 2003*	December 31, 2002
ASSETS		
Investments:		
Fixed maturities:		
Held to maturity, at		

amortized cost (fair value \$467,485 and \$416,942)	\$439,613	\$385,162
Available for sale, at fair value (amortized cost \$1,183,158 and \$1,051,880)	1,246,019	1,124,869
Equity securities, at fair value (cost \$97,189 and \$96,849)	137,590	107,177
Short-term investments, at cost, which approximates fair value	31,411	89,692
Total investments	1,854,633	1,706,900
Cash	13,430	2,944
Premiums in course of collection	140,674	138,905
Reinsurance receivable	164,841	75,488
Accrued investment income	23,086	21,552
Deferred policy acquisition costs	99,033	94,896
Prepaid reinsurance premiums	30,899	19,421
Property and equipment, net	23,824	27,556
Deferred income taxes	43,020	25,784
Securities lending collateral	221,454	139,215
Due from affiliate		10,709
Other assets	65,495	48,154
Total assets	\$2,680,389	\$2,311,524
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss settlement expenses	\$1,219,977	\$928,335
Unearned premiums	437,883	406,277
Accounts payable and accrued expenses	91,999	109,965
Securities lending obligation	221,454	139,215
Debt	120,145	95,620
Due to affiliate	16,184	
Total liabilities	2,107,642	1,679,412
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 31,298,532 and 30,917,575 shares; outstanding 29,900,623 and 29,917,575 shares	31,299	30,918
Additional paid-in capital	156,997	149,091
Accumulated other comprehensive income	60,450	49,086
Retained earnings	350,844	418,582
Deferred compensation	(2,356)	
Treasury stock, at cost, 1,397,909 and 1,000,000 shares	(24,487)	(15,565)
Total shareholders' equity	572,747	632,112
Total liabilities and shareholders' equity	\$2,680,389	\$2,311,524

* These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries
SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended		Twelve months ended	
	December 31		December 31	
	2003	2002	2003	2002
Net premiums written*	\$197,592	\$191,122	\$843,535	\$797,850
Statutory surplus *			\$475,665	\$509,344
Pretax investment income	\$21,863	\$21,518	\$86,597	\$86,265
Related federal income taxes	4,906	5,093	19,818	20,699
After-tax investment income	\$16,957	\$16,425	\$66,779	\$65,566

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended		Twelve months ended	
	December 31		December 31	
	2003	2002	2003	2002
Revenues:				
Premiums earned:				
Commercial lines	\$164,656	\$146,780	\$628,935	\$553,194
Personal lines	46,990	51,119	194,472	211,442
Total premiums earned	211,646	197,899	823,407	764,636
Net investment income	21,863	21,518	86,597	86,265
Realized investment gains				
(losses)	(23)	2,000	(920)	(18,448)
Other	3,450	3,673	15,881	15,283
Total revenues	\$236,936	\$225,090	\$924,965	\$847,736

Income (loss) before income taxes:				
Underwriting loss:				
Commercial lines	(\$57,566)	\$4,139	(\$158,292)	(\$11,473)
Personal lines	(10,261)	(5,962)	(39,442)	(13,963)
SAP underwriting loss	(67,827)	(1,823)	(197,734)	(25,436)
GAAP adjustments	11,884	107	19,966	8,803
GAAP underwriting loss	(55,943)	(1,716)	(177,768)	(16,633)
Net investment income	21,863	21,518	86,597	86,265
Realized investment gains				
(losses)	(23)	2,000	(920)	(18,448)
Other	(411)	1,236	2,641	5,298
Income (loss) before income taxes	(\$34,514)	\$23,038	(\$89,450)	\$56,482
Income taxes on net investment income	\$4,906	\$5,093	\$19,818	\$20,699
Income tax on remaining income (loss)	(19,617)	542	(61,639)	(10,472)
Total income taxes (benefit)	(\$14,711)	\$5,635	(\$41,821)	\$10,227
Effective tax rate on:				
Net investment income	22.4%	23.7%	22.9%	24.0%
Net income	42.6%	24.5%	46.8%	18.1%

These financial figures are unaudited.

* Statutory data is prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and therefore is not reconciled to GAAP.

Harleysville Group Inc. and Subsidiaries
STATUTORY DATA BY LINE OF BUSINESS*

(dollars in thousands)	Quarter ended		Twelve months ended	
	December 31		December 31	
	2003	2002	2003	2002
Net premiums written:				
Commercial:				
Automobile	\$50,920	\$47,719	\$221,818	\$199,511
Workers' compensation	22,036	23,746	107,415	114,565
Commercial multi-peril	64,812	55,416	258,854	224,709
Other commercial	17,258	13,918	69,450	57,272
Total commercial	\$155,026	\$140,799	\$657,537	\$596,057
Personal:				
Automobile	\$25,559	\$31,787	\$112,287	\$125,593
Homeowners	15,695	16,634	65,740	67,831
Other personal	1,312	1,902	7,971	8,369
Total personal	\$42,566	\$50,323	\$185,998	\$201,793
Total personal and commercial	\$197,592	\$191,122	\$843,535	\$797,850
Combined ratios:				
Commercial:				
Automobile	124.7%	88.7%	112.1%	91.6%

Workers' compensation	197.3%	132.5%	178.2%	127.4%
Commercial multi-peril	132.1%	91.9%	118.3%	93.7%
Other commercial	102.2%	87.8%	87.9%	86.3%
Total commercial	137.1%	98.7%	123.6%	99.5%
Personal:				
Automobile	137.2%	122.0%	124.6%	115.8%
Homeowners	91.8%	98.9%	114.6%	97.6%
Other personal	292.7%	74.3%	137.0%	74.1%
Total personal	125.9%	112.2%	121.8%	108.1%
Total personal and commercial	134.6%	102.1%	123.2%	101.9%
Losses paid	\$144,349	\$114,732	\$522,397	\$465,296
Net catastrophe losses incurred	\$1,979	\$580	\$19,683	\$4,447

These financial figures are unaudited.

* Statutory data is prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and therefore is not reconciled to GAAP.

SOURCE Harleysville Group Inc.

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02/17/2004

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(HGIC)

CO: Harleysville Group Inc.
ST: Pennsylvania
IN: INS
SU: ERN ERP MAV CCA