



**For Release:** Immediately

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## **HARLEYSVILLE GROUP REPORTS THIRD QUARTER 2004 RESULTS**

HARLEYSVILLE, PA—OCTOBER 28, 2004—Harleysville Group Inc. (Nasdaq: HGIC) today reported diluted net income of \$0.29 per share in the third quarter of 2004, compared to a diluted net loss of \$1.16 per share in the third quarter of 2003. There were no realized investment gains in the third quarter of 2004, versus a realized loss of \$0.01 per share in 2003. Harleysville Group's 2004 results reflect a charge of \$0.13 per share from third quarter weather-related catastrophes, while Hurricane Isabel reduced earnings by \$0.20 per share in the third quarter of 2003. The company's 2003 third quarter earnings were reduced by \$1.19 per share after tax due to loss reserve adjustments.

Diluted net income per share for the nine months ended September 30, 2004, was \$1.17, compared to a diluted net loss of \$0.93 in the first nine months of 2003. For the nine months, the company reported \$0.28 per share in realized gains in 2004, compared to a realized loss of \$0.02 per share in 2003. In 2003, the company's nine-month earnings were reduced by \$1.62 per share after tax due to loss reserve adjustments.

The company reported diluted operating income of \$0.29 per share for the third quarter of 2004, compared to a \$1.15 diluted operating loss per share in the third quarter of 2003. For the nine-month periods, the company reported diluted operating income of \$0.89 per share in 2004 and a diluted operating loss of \$0.91 in 2003. 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 third quarter results show that we continue to improve," commented Michael L. Browne, Harleysville Group's chief executive officer. "During the quarter, we again generated growth in our commercial lines business and continued to maintain solid retention levels—both of which affirm the strength of our agency base and our solid relationships with our agents. At the same time, we continue to maintain a solid capital base and a strong balance sheet, a modest debt-to-capital ratio of 17 percent, a high-quality investment portfolio and a premium-to-surplus ratio of 1.7:1—all of which are key components of our strong financial position.

"While hurricanes did impact us this quarter, the effect was relatively minimal compared to what has been reported by some of our competitors in the industry because we've worked hard over the past decade to manage our windstorm exposures to acceptable levels," Browne continued. "We sympathize with our policyholders who suffered losses from these storms, and I'm proud that our claims professionals—working in tandem with our independent agency partners—have rallied to their assistance and are delivering the prompt and fair claims service our customers have come to expect from Harleysville."

The company's third quarter results reflect claims costs of \$6.1 million pretax, or \$0.13 per share after tax, from all weather-related catastrophes—including the four hurricanes that hit the southeastern United States during the third quarter, but driven predominantly by claims associated with Hurricanes Ivan and Jeanne in several Mid-Atlantic states—compared to \$10.5 million pretax, or \$0.23 per share after tax, in the third quarter of 2003. In the first nine months of 2004, Harleysville Group's property catastrophe losses were \$10.0 million pretax, or \$0.22 per share after tax. That compares to property catastrophe losses of \$17.7 million pretax, or \$0.38 per share after tax, for the first nine months of 2003.

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Harleysville Group's overall statutory combined ratio\* was 106.6 percent in the third quarter of 2004, compared to 137.2 percent in the third quarter of 2003. For the nine months, the statutory combined ratio was 106.4 percent in 2004, versus 119.4 percent in 2003. The 2003 combined ratios reflect the previously mentioned loss reserve adjustments.

Third quarter net written premiums were \$209.9 million in 2004, compared to \$208.1 million in 2003. Net written premiums through nine months were \$639.0 million in 2004 and \$645.9 million in 2003.

Third quarter pretax investment income declined 1 percent to \$21.5 million, while nine-month pretax investment income was essentially unchanged at \$64.6 million. After-tax investment income was down 1 percent in the third quarter to \$16.6 million, but was virtually unchanged at \$50.0 million during the nine-month period. Operating cash flow for the nine months was \$70.2 million.

**Commercial lines** Net written premiums in commercial lines increased 5 percent in the third quarter of 2004 to \$166.7 million. For the nine months, net written premiums were up 2 percent to \$514.9 million. The commercial lines statutory combined ratio was 108.6 percent in the third quarter of 2004, versus 140.1 percent in the third quarter of 2003. For the nine months, the statutory combined ratio was 106.7 percent in 2004, compared to 119.0 percent in 2003. The combined ratios in both 2003 periods were impacted by the previously mentioned loss reserve adjustments.

**Personal lines** Harleysville Group's personal lines statutory combined ratio was 99.0 percent in the third quarter of 2004, versus 127.3 percent during the third quarter of 2003. For the nine months, the statutory combined ratio was 105.3 percent in 2004, compared to 120.7 percent in 2003. In 2003, weather-related losses and abnormally high large loss activity in the homeowners line also contributed to the higher statutory combined ratio. Net written premiums decreased 12 percent to \$43.2 million in the third quarter of 2004, and were down 13 percent to \$124.2 million through nine months.

**Webcast** The company will host a live Webcast today, Thursday, October 28, 2004, at 9:00 a.m. (ET) to discuss its third quarter results. The Webcast will be available from the Investors section of the company's Web site ([www.harleysvillegroup.com](http://www.harleysvillegroup.com)) until October 28, 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** 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 57 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 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 at [www.harleysvillegroup.com](http://www.harleysvillegroup.com).

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\* "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.

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## Harleysville Group Inc. and Subsidiaries

<b>FINANCIAL HIGHLIGHTS</b>	Quarter ended September 30		Nine months ended September 30	
(in thousands, except per share data)	2004	2003	2004	2003
<b>OPERATING RESULTS</b>				
Diluted earnings per common share:				
Operating income (loss) *	\$0.29	(\$1.15)	\$0.89	(\$0.91)
Realized gains (losses), net of tax		(0.01)	0.28	(0.02)
Net income (loss)	\$0.29	(\$1.16)	\$1.17	(\$0.93)
Cash dividends per common share	\$0.17	\$0.17	\$0.51	\$0.50

<b>FINANCIAL CONDITION</b>	September 30, 2004	December 31, 2003
Assets	\$2,638,728	\$2,680,389
Shareholders' equity	\$583,619	\$572,747
Per common share	\$19.38	\$19.16

<b>CONSOLIDATED STATEMENTS OF INCOME (LOSS)</b>	Quarter ended September 30		Nine months ended September 30	
(in thousands, except per share data)	2004	2003	2004	2003
<b>REVENUES:</b>				
Premiums earned	\$212,641	\$209,177	\$627,241	\$611,761
Investment income, net of investment expense	21,499	21,638	64,578	64,734
Realized investment gains (losses)	104	(531)	12,651	(897)
Other income	4,024	3,838	12,259	12,431
Total revenues	238,268	234,122	716,729	688,029
<b>LOSSES AND EXPENSES:</b>				
Losses and loss settlement expenses	153,944	217,456	453,765	528,641
Amortization of deferred policy acquisition costs	52,150	51,838	153,536	150,053
Other underwriting expenses	18,154	18,214	57,518	54,892
Interest expense	1,587	2,609	4,730	5,396
Other expenses	2,764	1,596	5,449	3,983
Total expenses	228,599	291,713	674,998	742,965
Income (loss) before income taxes	9,669	(57,591)	41,731	(54,936)
Income taxes (benefit)	789	(22,937)	6,630	(27,110)
Net income (loss)	\$8,880	(\$34,654)	\$35,101	(\$27,826)
Weighted average number of shares outstanding:				
Basic	30,062,573	29,986,285	29,994,621	30,016,861
Diluted	30,153,074	29,986,285	30,090,932	30,016,861
Per common share:				
Basic earnings (loss)	\$0.30	(\$1.16)	\$1.17	(\$0.93)
Diluted earnings (loss)	\$0.29	(\$1.16)	\$1.17	(\$0.93)

<b>RECONCILIATION TO OPERATING INCOME (LOSS) :</b>				
Net income (loss)	\$8,880	(\$34,654)	\$35,101	(\$27,826)
Less realized investment gains (losses), net of taxes	68	(345)	8,223	(583)
Operating income (loss)	\$8,812	(\$34,309)	\$26,878	(\$27,243)

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)

September 30, 2004\*    December 31, 2003

#### ASSETS

Investments:

    Fixed maturities:

        Held to maturity, at amortized cost (fair value \$532,494  
            and \$467,485)

\$510,841

\$439,613

        Available for sale, at fair value (amortized cost \$1,118,146  
            and \$1,183,158)

1,167,413

1,246,019

    Equity securities, at fair value (cost \$110,033 and \$97,189)

141,497

137,590

    Short-term investments, at cost, which approximates fair value

94,212

31,411

        Total investments

1,913,963

1,854,633

Cash

1,037

13,430

Premiums in course of collection

143,166

140,674

Reinsurance receivable

176,052

164,841

Accrued investment income

21,442

23,086

Deferred policy acquisition costs

103,376

99,033

Prepaid reinsurance premiums

32,442

30,899

Property and equipment, net

21,291

23,824

Deferred income taxes

52,424

43,020

Securities lending collateral

120,888

221,454

Due from affiliate

6,833

Other assets

45,814

65,495

        Total assets

\$2,638,728

\$2,680,389

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

    Unpaid losses and loss settlement expenses

\$1,280,820

\$1,219,977

    Unearned premiums

451,219

437,883

    Accounts payable and accrued expenses

82,557

91,999

    Securities lending obligation

120,888

221,454

    Debt

119,625

120,145

    Due to affiliate

16,184

        Total liabilities

2,055,109

2,107,642

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 31,510,885 and 31,298,532 shares;

        outstanding 30,112,976 and 29,900,623 shares

31,511

31,299

Additional paid-in capital

160,358

156,997

Accumulated other comprehensive income

45,805

60,450

Retained earnings

370,632

350,844

Deferred compensation

(200)

(2,356)

Treasury stock, at cost, 1,397,909 shares

(24,487)

(24,487)

        Total shareholders' equity

583,619

572,747

Total liabilities and shareholders' equity

\$2,638,728

\$2,680,389

\* These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Net premiums written*	\$209,914	\$208,096	\$639,035	\$645,943
Statutory surplus *			\$498,093	\$501,331
Pretax investment income	\$21,499	\$21,638	\$64,578	\$64,734
Related federal income taxes	4,926	4,939	14,615	14,912
After-tax investment income	\$16,573	\$16,699	\$49,963	\$49,822

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Revenues:				
Premiums earned:				
Commercial lines	\$169,680	\$161,412	\$495,791	\$464,279
Personal lines	42,961	47,765	131,450	147,482
Total premiums earned	212,641	209,177	627,241	611,761
Net investment income	21,499	21,638	64,578	64,734
Realized investment gains (losses)	104	(531)	12,651	(897)
Other	4,024	3,838	12,259	12,431
Total revenues	\$238,268	\$234,122	\$716,729	\$688,029

#### Income (loss) before income taxes :

Underwriting gain (loss):				
Commercial lines	(\$13,517)	(\$63,953)	(\$39,523)	(\$100,726)
Personal lines	344	(13,439)	(4,506)	(29,181)
SAP underwriting loss	(13,173)	(77,392)	(44,029)	(129,907)
GAAP adjustments	1,566	(939)	6,451	8,082
GAAP underwriting loss	(11,607)	(78,331)	(37,578)	(121,825)
Net investment income	21,499	21,638	64,578	64,734
Realized investment gains (losses)	104	(531)	12,651	(897)
Other	(327)	(367)	2,080	3,052
Income (loss) before income taxes	\$9,669	(\$57,591)	\$41,731	(\$54,936)
Income taxes on net investment income	\$4,926	\$4,939	\$14,615	\$14,912
Income tax on remaining loss	(4,137)	(27,876)	(7,985)	(42,022)
Total income taxes (benefit)	\$789	(\$22,937)	\$6,630	(\$27,110)

#### Effective tax rate on:

Net investment income	22.9%	22.8%	22.6%	23.0%
Net income	8.2%	39.8%	15.9%	49.3%

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 September 30		Nine months ended September 30	
	2004	2003	2004	2003
<b>Net premiums written:</b>				
Commercial:				
Automobile	\$55,119	\$56,614	\$174,247	\$170,898
Workers' compensation	23,817	25,068	74,729	85,379
Commercial multi-peril	70,557	60,286	215,560	194,042
Other commercial	17,181	17,113	50,343	52,192
<b>Total commercial</b>	<b>\$166,674</b>	<b>\$159,081</b>	<b>\$514,879</b>	<b>\$502,511</b>
Personal:				
Automobile	\$23,993	\$28,133	\$70,653	\$86,728
Homeowners	16,910	18,578	46,392	50,045
Other personal	2,337	2,304	7,111	6,659
<b>Total personal</b>	<b>\$43,240</b>	<b>\$49,015</b>	<b>\$124,156</b>	<b>\$143,432</b>
<b>Total personal and commercial</b>	<b>\$209,914</b>	<b>\$208,096</b>	<b>\$639,035</b>	<b>\$645,943</b>

### Combined ratios:

Commercial:				
Automobile	103.8%	131.2%	103.8%	107.8%
Workers' compensation	131.2%	203.1%	125.4%	172.4%
Commercial multi-peril	105.8%	134.6%	105.4%	113.3%
Other commercial	103.4%	84.7%	93.5%	82.4%
<b>Total commercial</b>	<b>108.6%</b>	<b>140.1%</b>	<b>106.7%</b>	<b>119.0%</b>
Personal:				
Automobile	113.0%	129.2%	114.0%	120.7%
Homeowners	78.3%	129.8%	91.2%	122.2%
Other personal	88.0%	85.5%	103.8%	107.2%
<b>Total personal</b>	<b>99.0%</b>	<b>127.3%</b>	<b>105.3%</b>	<b>120.7%</b>
<b>Total personal and commercial</b>	<b>106.6%</b>	<b>137.2%</b>	<b>106.4%</b>	<b>119.4%</b>

<b>Losses paid</b>	\$128,077	\$123,677	\$404,792	\$378,048
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<b>Net catastrophe losses incurred</b>	\$6,091	\$10,469	\$9,977	\$17,704
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These financial figures are unaudited.

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