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HARLEYSVILLE GROUP REPORTS THIRD QUARTER 2005 RESULTS

Third quarter highlights:

- Record high operating earnings of \$0.54 per share
- Combined ratio improves by 4.1 points
- Strong cash flow drives net investment income growth
- Minimal impact from Hurricanes Katrina and Rita

HARLEYSVILLE, PA—October 27, 2005—Harleysville Group Inc. (NASDAQ: HGIC) today reported record diluted operating income of \$0.54 per share for the third quarter of 2005, compared to \$0.29 per share in the third quarter of 2004. For the nine-month periods, the company reported diluted operating income of \$1.41 per share in 2005 and \$0.89 per share in 2004. 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 solid third quarter results reflect continued improvement in our overall performance,” commented Michael L. Browne, Harleysville Group’s president and chief executive officer. “Our operating earnings increased 86 percent to an all-time high, our statutory combined ratio improved by 4.1 points, our strong year-to-date cash flow from operations continued to drive growth in net investment income, and we maintained a solid capital base and a strong balance sheet. I also want to note that Hurricanes Katrina and Rita had minimal impact on our financial results, in part due to our ongoing effort to effectively manage our catastrophe and windstorm exposures, which is a key component of our disciplined underwriting approach.”

The company reported diluted net income of \$0.54 per share in the third quarter of 2005, compared to \$0.29 per share in the third quarter of 2004. There were essentially no realized investment gains in the third quarter of either year. For the nine-month periods, diluted net income was \$1.41 per share in 2005 and \$1.17 per share in 2004. For the nine months, the company reported no realized investment gains in 2005, compared to \$0.28 per share in 2004. Harleysville Group’s third quarter 2005 results also reflect claims costs of \$2.4 million pretax, or \$0.05 per share after tax, from all weather-related catastrophes, compared to \$6.1 million pretax, or \$0.13 per share after tax, in the third quarter of 2004.

Harleysville Group’s overall statutory combined ratio* was 102.5 percent in the third quarter of 2005, compared to 106.6 percent in the third quarter of 2004. For the nine months, the statutory combined ratio was 102.8 percent in 2005, versus 106.4 percent in 2004.

Third quarter net written premiums were \$206.6 million in 2005, compared to \$209.9 million in 2004. Net written premiums through nine months were \$640.6 million in 2005 and \$639.0 million in 2004.

Third quarter pretax investment income increased 7 percent to \$23.1 million, while nine-month pretax investment income was up 4 percent to \$67.4 million. After-tax investment income grew 6 percent in the third quarter to \$17.5 million, and increased 3 percent to \$51.5 million during the nine-month period. Operating cash flow for the nine months was \$115.9 million, compared to \$70.2 million in the first nine months of 2004.

Commercial lines Net written premiums in commercial lines were virtually unchanged in the third quarter of 2005 at \$167.4 million. For the nine months, net written premiums were up 3 percent to \$528.7 million. The commercial lines statutory combined ratio was 104.7 percent in the third quarter of 2005, versus 108.6 percent in the third quarter of 2004. For the nine months, the statutory combined ratio was 103.9 percent in 2005, compared to 106.7 percent in 2004.

(more)

Harleysville Group third quarter results

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Personal lines Harleysville Group's personal lines statutory combined ratio was 92.8 percent in the third quarter of 2005, versus 99.0 percent during the third quarter of 2004. For the nine months, the statutory combined ratio was 97.9 percent in 2005, compared to 105.3 percent in 2004. Net written premiums decreased 9 percent to \$39.2 million in the third quarter of 2005, and were down 10 percent to \$111.9 million during the nine months.

Outlook "Through the first nine months of 2005, we have made steady progress toward our goal of achieving underwriting profitability—that is, producing an overall combined ratio under 100 percent—in 2006," Browne said. "As I've noted previously, we will not compromise underwriting quality to meet a near-term growth goal. Instead, we will maintain our discipline as we focus on our goal of achieving an underwriting profit. We will continue to work closely with our agency force and rely heavily on them in order to reach this important objective."

Webcast The company will host a live Webcast today, October 27, 2005, at 8 a.m. (ET) to discuss its third 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 56 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 and reflects that commitment to its agency force by being a Trusted Choice[®] member company—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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* "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.

Harleysville Group Inc. and Subsidiaries

FINANCIAL HIGHLIGHTS	Quarter ended September 30		Nine months ended September 30	
(in thousands, except per share data)	2005	2004	2005	2004
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income*	\$0.54	\$0.29	\$1.41	\$0.89
Realized gains, net of tax				0.28
Net income	\$0.54	\$0.29	\$1.41	\$1.17
Cash dividends per common share	\$0.175	\$0.17	\$0.515	\$0.51

FINANCIAL CONDITION	September 30, 2005	December 31, 2004
Assets	\$2,837,649	\$2,718,063
Shareholders' equity	\$603,685	\$587,924
Per common share	\$19.79	\$19.47

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended September 30		Nine months ended September 30	
(in thousands, except per share data)	2005	2004	2005	2004
REVENUES:				
Premiums earned	\$212,327	\$212,641	\$628,872	\$627,241
Investment income, net of investment expense	23,064	21,499	67,403	64,578
Realized investment gains (losses)	(1)	104	67	12,651
Other income	3,811	4,024	12,252	12,259
Total revenues	239,201	238,268	708,594	716,729
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	139,078	153,944	430,943	453,765
Amortization of deferred policy acquisition costs	53,163	52,150	156,124	153,536
Other underwriting expenses	22,851	18,154	57,984	57,518
Interest expense	1,660	1,587	4,945	4,730
Other expenses	1,036	2,764	4,306	5,449
Total expenses	217,788	228,599	654,302	674,998
Income before income taxes	21,413	9,669	54,292	41,731
Income taxes	4,972	789	11,342	6,630
Net income	\$16,441	\$8,880	\$42,950	\$35,101
Weighted average number of shares outstanding:				
Basic	30,428,342	30,062,573	30,329,666	29,994,621
Diluted	30,588,573	30,153,074	30,486,164	30,090,932
Per common share:				
Basic earnings	\$0.54	\$0.30	\$1.42	\$1.17
Diluted earnings	\$0.54	\$0.29	\$1.41	\$1.17

RECONCILIATION TO OPERATING INCOME :				
Net income	\$16,441	\$8,880	\$42,950	\$35,101
Less realized investment gains (losses), net of taxes	(1)	68	43	8,223
Operating income	\$16,442	\$8,812	\$42,907	\$26,878

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.

Harleville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

September 30, 2005* December 31, 2004

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$486,083 and \$519,400)

\$478,490

\$501,322

Available for sale, at fair value (amortized cost \$1,293,284 and \$1,156,640)

1,312,866

1,201,524

Equity securities, at fair value (cost \$138,513 and \$110,495)

177,085

150,249

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

64,945

113,822

Total investments

2,033,386

1,966,917

Cash

3,671

328

Premiums in course of collection

143,476

141,601

Reinsurance receivable

229,448

193,209

Accrued investment income

22,376

23,236

Deferred policy acquisition costs

106,603

100,755

Prepaid reinsurance premiums

34,884

32,675

Property and equipment, net

17,981

20,891

Deferred income taxes

63,130

53,137

Securities lending collateral

121,393

139,486

Due from affiliate

15,885

Other assets

45,416

45,828

Total assets

\$2,837,649

\$2,718,063

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$1,448,538

\$1,317,735

Unearned premiums

455,645

441,697

Accounts payable and accrued expenses

89,328

99,098

Securities lending obligation

121,393

139,486

Debt

119,060

119,625

Due to affiliate

12,498

Total liabilities

2,233,964

2,130,139

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 31,909,360 and 31,589,474 shares;

outstanding 30,511,451 and 30,191,565 shares

31,909

31,589

Additional paid-in capital

167,704

161,689

Accumulated other comprehensive income

24,837

42,051

Retained earnings

404,582

377,282

Deferred compensation

(860)

(200)

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

(24,487)

(24,487)

Total shareholders' equity

603,685

587,924

Total liabilities and shareholders' equity

\$2,837,649

\$2,718,063

*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	
	2005	2004	2005	2004
Net premiums written*	\$206,594	\$209,914	\$640,610	\$639,035
Statutory surplus*			\$549,049	\$498,093
Pretax investment income	\$23,064	\$21,499	\$67,403	\$64,578
Related federal income taxes	5,553	4,926	15,940	14,615
After-tax investment income	\$17,511	\$16,573	\$51,463	\$49,963

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Revenues:				
Premiums earned:				
Commercial lines	\$173,948	\$169,680	\$512,119	\$495,791
Personal lines	38,379	42,961	116,753	131,450
Total premiums earned	212,327	212,641	628,872	627,241
Net investment income	23,064	21,499	67,403	64,578
Realized investment gains (losses)	(1)	104	67	12,651
Other	3,811	4,024	12,252	12,259
Total revenues	\$239,201	\$238,268	\$708,594	\$716,729

Income before income taxes:

Underwriting gain (loss):				
Commercial lines	(\$5,742)	(\$13,517)	(\$25,740)	(\$39,523)
Personal lines	2,497	344	4,028	(4,506)
SAP underwriting loss	(3,245)	(13,173)	(21,712)	(44,029)
GAAP adjustments	480	1,566	5,533	6,451
GAAP underwriting loss	(2,765)	(11,607)	(16,179)	(37,578)
Net investment income	23,064	21,499	67,403	64,578
Realized investment gains (losses)	(1)	104	67	12,651
Other	1,115	(327)	3,001	2,080
Income before income taxes	\$21,413	\$9,669	\$54,292	\$41,731

Income taxes on net investment income	\$5,553	\$4,926	\$15,940	\$14,615
Income tax benefit on remaining loss	(581)	(4,137)	(4,598)	(7,985)
Total income taxes	\$4,972	\$789	\$11,342	\$6,630

Effective tax rate on:

Net investment income	24.1%	22.9%	23.6%	22.6%
Net income	23.2%	8.2%	20.9%	15.9%

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 September 30		Nine months ended September 30	
	2005	2004	2005	2004
Net premiums written:				
Commercial:				
Automobile	\$54,109	\$55,119	\$171,873	\$174,247
Workers' compensation	24,622	23,817	74,534	74,729
Commercial multi-peril	73,285	70,557	230,816	215,560
Other commercial	15,375	17,181	51,465	50,343
Total commercial	\$167,391	\$166,674	\$528,688	\$514,879
Personal:				
Automobile	\$20,544	\$23,993	\$60,670	\$70,653
Homeowners	16,473	16,910	44,603	46,392
Other personal	2,186	2,337	6,649	7,111
Total personal	\$39,203	\$43,240	\$111,922	\$124,156
Total personal and commercial	\$206,594	\$209,914	\$640,610	\$639,035

Combined ratios:

Commercial:				
Automobile	104.5%	103.8%	100.8%	103.8%
Workers' compensation	118.6%	131.2%	122.6%	125.4%
Commercial multi-peril	101.0%	105.8%	102.0%	105.4%
Other commercial	102.5%	103.4%	95.9%	93.5%
Total commercial	104.7%	108.6%	103.9%	106.7%
Personal:				
Automobile	98.1%	113.0%	102.8%	114.0%
Homeowners	88.8%	78.3%	94.5%	91.2%
Other personal	67.5%	88.0%	73.1%	103.8%
Total personal	92.8%	99.0%	97.9%	105.3%
Total personal and commercial	102.5%	106.6%	102.8%	106.4%

Losses paid	\$108,074	\$128,077	\$338,407	\$404,792
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Net catastrophe losses incurred	\$2,414	\$6,091	\$4,038	\$9,977
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These financial figures are unaudited.

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