



**For Release:** Immediately

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## **HARLEYSVILLE GROUP REPORTS FIRST QUARTER 2005 RESULTS**

HARLEYSVILLE, PA—APRIL 28, 2005—Harleysville Group Inc. (Nasdaq: HGIC) today reported diluted operating income of \$0.39 per share for the first quarter of 2005, compared to \$0.28 per share in the first quarter of 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.

The company reported diluted net income of \$0.39 per share in the first quarter of 2005, compared to \$0.55 per share in the first quarter of 2004. First quarter 2005 net income included no realized investment gains, compared to \$0.27 per share of realized gains in the first quarter of 2004.

“Our first quarter results continued to demonstrate the consistent progress we delivered throughout 2004, reflecting the sharpened focus on improving our operations,” commented Michael L. Browne, Harleysville Group’s president and chief executive officer. “We again successfully grew our commercial lines business, and retention levels remained solid. Personal lines, too, has shown loss ratio improvement from a year ago. As we’ve noted before, these are positive indicators of the strength of our agency base and our solid relationships with our agents. Underlying all of these results is our continuing sound financial position, which is highlighted by a solid capital base and a strong balance sheet.”

Harleysville Group’s overall statutory combined ratio\* was 104.2 percent in the first quarter of 2005, compared to 107.2 percent in the first quarter of 2004.

First quarter net written premiums were \$210.4 million in 2005, compared to \$206.0 million in 2004.

First quarter pretax investment income increased 1 percent to \$21.8 million, while after-tax investment income was virtually unchanged at \$16.7 million. Operating cash flow for the first quarter was \$29.6 million.

**Commercial lines** Net written premiums in commercial lines increased 5 percent in the first quarter of 2005 to \$176.7 million. The commercial lines statutory combined ratio was 104.3 percent in the first quarter of 2005, versus 104.7 percent in the first quarter of 2004.

**Personal lines** Harleysville Group’s personal lines statutory combined ratio was 103.7 percent in the first quarter of 2005, versus 116.2 percent during the first quarter of 2004. Net written premiums decreased 11 percent to \$33.8 million in the first quarter of 2005.

**Outlook** “We remain on course to achieve our goal of underwriting profitability—that is, producing an overall combined ratio under 100 percent in 2006,” Browne said. “Despite signs of an increasingly competitive market, we will stay focused in 2005 on satisfying our customers, retaining our best existing business, obtaining profitable new business and improving our overall loss ratio. We will maintain our discipline and will not compromise underwriting quality to chase a near-term growth target.”

(more)

## Harleysville Group first quarter results

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**Webcast** The company will host a live Webcast today, April 28, 2005, at 9:00 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](http://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 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, 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 March 31	
(in thousands, except per share data)	2005	2004
<b>OPERATING RESULTS</b>		
Diluted earnings per common share:		
Operating income*	\$0.39	\$0.28
Realized gains, net of tax		0.27
Net income	\$0.39	\$0.55
Cash dividend per common share	\$0.17	\$0.17

<b>FINANCIAL CONDITION</b>	March 31, 2005	December 31, 2004
Assets	\$2,705,101	\$2,718,063
Shareholders' equity	\$580,887	\$587,924
Per common share	\$19.17	\$19.47

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	Quarter ended March 31	
(in thousands, except per share data)	2005	2004
<b>REVENUES:</b>		
Premiums earned	\$206,680	\$206,948
Investment income, net of investment expense	21,761	21,642
Realized investment gains		12,488
Other income	4,283	4,564
Total revenues	232,724	245,642
<b>LOSSES AND EXPENSES:</b>		
Losses and loss settlement expenses	147,868	151,110
Amortization of deferred policy acquisition costs	50,918	50,688
Other underwriting expenses	16,355	19,638
Interest expense	1,620	1,577
Other expenses	1,507	1,419
Total expenses	218,268	224,432
Income before income taxes	14,456	21,210
Income taxes	2,474	4,717
Net income	\$11,982	\$16,493
Weighted average number of shares outstanding:		
Basic	30,253,967	29,960,760
Diluted	30,399,346	30,048,135
Per common share:		
Basic earnings	\$0.40	\$0.55
Diluted earnings	\$0.39	\$0.55

<b>RECONCILIATION TO OPERATING INCOME :</b>		
Net income	\$11,982	\$16,493
Less realized investment gains, net of taxes		8,117
Operating income	\$11,982	\$8,376

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)

March 31, 2005\*    December 31, 2004

#### ASSETS

##### Investments:

##### Fixed maturities:

Held to maturity, at amortized cost (fair value \$502,155 and \$519,400)

\$493,177

\$501,322

Available for sale, at fair value (amortized cost \$1,217,402 and \$1,156,640)

1,241,391

1,201,524

Equity securities, at fair value (cost \$112,034 and \$110,495)

148,975

150,249

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

75,347

113,822

Total investments

1,958,890

1,966,917

Cash

2,893

328

Premiums in course of collection

139,335

141,601

Reinsurance receivable

182,872

193,209

Accrued investment income

21,990

23,236

Deferred policy acquisition costs

102,271

100,755

Prepaid reinsurance premiums

32,331

32,675

Property and equipment, net

18,488

20,891

Deferred income taxes

62,065

53,137

Securities lending collateral

139,226

139,486

Other assets

44,740

45,828

Total assets

\$2,705,101

\$2,718,063

#### LIABILITIES AND SHAREHOLDERS' EQUITY

##### Liabilities:

Unpaid losses and loss settlement expenses

\$1,343,517

\$1,317,735

Unearned premiums

445,088

441,697

Accounts payable and accrued expenses

76,481

99,098

Securities lending obligation

139,226

139,486

Debt

119,625

119,625

Due to affiliate

277

12,498

Total liabilities

2,124,214

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 31,704,753 and 31,589,474 shares;

outstanding 30,306,844 and 30,191,565 shares

31,705

31,589

Additional paid-in capital

163,608

161,689

Accumulated other comprehensive income

26,641

42,051

Retained earnings

384,113

377,282

Deferred compensation

(693)

(200)

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

(24,487)

(24,487)

Total shareholders' equity

580,887

587,924

Total liabilities and shareholders' equity

\$2,705,101

\$2,718,063

\*These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended March 31	
	2005	2004
Net premiums written*	\$210,414	\$206,026
Statutory surplus*	\$518,097	\$488,264
Pretax investment income	\$21,761	\$21,642
Related federal income taxes	5,033	4,864
After-tax investment income	\$16,728	\$16,778

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended March 31	
	2005	2004
Revenues:		
Premiums earned:		
Commercial lines	\$167,313	\$162,320
Personal lines	39,367	44,628
Total premiums earned	206,680	206,948
Net investment income	21,761	21,642
Realized investment gains		12,488
Other	4,283	4,564
Total revenues	\$232,724	\$245,642
Income before income taxes:		
Underwriting gain (loss):		
Commercial lines	(\$10,238)	(\$9,648)
Personal lines	417	(4,860)
SAP underwriting loss	(9,821)	(14,508)
GAAP adjustments	1,360	20
GAAP underwriting loss	(8,461)	(14,488)
Net investment income	21,761	21,642
Realized investment gains		12,488
Other	1,156	1,568
Income before income taxes	\$14,456	\$21,210
Income taxes on net investment income	\$5,033	\$4,864
Income tax benefit on remaining loss	(2,559)	(147)
Total income taxes	\$2,474	\$4,717
Effective tax rate on:		
Net investment income	23.1%	22.5%
Net income	17.1%	22.2%

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.

## Harleystville Group Inc. and Subsidiaries

### STATUTORY DATA BY LINE OF BUSINESS\*

(dollars in thousands)	Quarter ended March 31	
	2005	2004
<b>Net premiums written:</b>		
Commercial:		
Automobile	\$57,289	\$56,761
Workers' compensation	26,519	26,740
Commercial multi-peril	75,080	68,198
Other commercial	17,775	16,481
Total commercial	\$176,663	\$168,180
Personal:		
Automobile	\$19,733	\$23,201
Homeowners	12,092	12,968
Other personal	1,926	1,677
Total personal	\$33,751	\$37,846
Total personal and commercial	\$210,414	\$206,026
 <b>Combined ratios:</b>		
Commercial:		
Automobile	100.1%	103.1%
Workers' compensation	125.7%	122.9%
Commercial multi-peril	105.2%	105.1%
Other commercial	84.9%	81.7%
Total commercial	104.3%	104.7%
Personal:		
Automobile	106.1%	118.3%
Homeowners	102.9%	109.3%
Other personal	87.8%	147.6%
Total personal	103.7%	116.2%
Total personal and commercial	104.2%	107.2%
<b>Losses paid</b>	\$111,402	\$134,060
<b>Net catastrophe losses incurred</b>	\$997	\$2,625

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.