



For Release: Immediately

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HARLEYSVILLE GROUP REPORTS FOURTH QUARTER AND YEAR-END 2004 RESULTS

HARLEYSVILLE, PA—FEBRUARY 17, 2005—Harleysville Group Inc. (Nasdaq: HGIC) today reported diluted net income of \$0.39 per share in the fourth quarter of 2004, compared to a diluted net loss of \$0.66 per share in the fourth quarter of 2003. There were essentially no realized investment gains in the fourth quarter of either year. The company's 2003 fourth quarter earnings were reduced by \$0.92 per share after tax due to loss reserve adjustments.

Diluted net income per share for the 12 months ended December 31, 2004, was \$1.55, compared to a diluted net loss per share of \$1.59 in 2003. For the 12 months, the company reported \$0.27 per share in realized investment gains in 2004, compared to a realized loss of \$0.02 per share in 2003. In 2003, the company's 12-month earnings were reduced by \$2.58 per share after tax due to loss reserve adjustments.

The company reported diluted operating income of \$0.39 per share for the fourth quarter of 2004, compared to a \$0.66 diluted operating loss per share in the fourth quarter of 2003. For the 12-month periods, the company reported diluted operating income of \$1.28 per share in 2004 and a diluted operating loss of \$1.57 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 fourth quarter results continued to demonstrate the improvement we had been seeing through the first nine months of 2004," commented Michael L. Browne, Harleysville Group's president and chief executive officer. "We are still growing and retaining our commercial lines business—two positive indicators of the strength of our agency base and the value they see in the Harleysville franchise. And working in tandem with our agency partners we have been able to improve the profitability of our personal lines portfolio.

"Looking back at 2004, we accomplished what we set out to do," Browne continued. "Our reserves stabilized and we had no unusual development. We completed an extensive outside underwriting review and also conducted a comprehensive assessment of our strategic course—both of which identified our strengths and opportunities for increased efficiency and effectiveness. We've implemented a data-driven Six Sigma methodology to make sure we successfully execute on our strategies. We continued to build on our already solid relationships with our agents by expanding our strong field presence, which includes our commercial lines territory manager model. And, we finished the year with a solid capital base and a strong balance sheet."

Harleysville Group's overall statutory combined ratio* was 104.4 percent in the fourth quarter of 2004, compared to 134.6 percent in the fourth quarter of 2003. For the 12 months, the statutory combined ratio was 105.9 percent in 2004, versus 123.2 percent in 2003. The 2003 combined ratios reflect the previously mentioned loss reserve adjustments.

Fourth quarter net written premiums were \$200.7 million in 2004, compared to \$197.6 million in 2003. Net written premiums through 12 months were \$839.7 million in 2004 and \$843.5 million in 2003.

Fourth quarter pretax investment income increased 3 percent to \$22.6 million, while 12-month pretax investment income was up 1 percent to \$87.2 million. After-tax investment income grew 3 percent in the fourth quarter to \$17.4 million, and increased 1 percent to \$67.4 million during the 12-month period. Operating cash flow for the 12 months was \$115.7 million.

(more)

Harleysville Group fourth quarter results

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Commercial lines Net written premiums in commercial lines increased 5 percent in the fourth quarter of 2004 to \$163.5 million. For the 12 months, net written premiums were up 3 percent to \$678.4 million. The commercial lines statutory combined ratio was 106.6 percent in the fourth quarter of 2004, versus 137.1 percent in the fourth quarter of 2003. For the 12 months, the statutory combined ratio was 106.7 percent in 2004, compared to 123.6 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 94.8 percent in the fourth quarter of 2004, versus 125.9 percent during the fourth quarter of 2003. For the 12 months, the statutory combined ratio was 102.8 percent in 2004, compared to 121.8 percent in 2003. Net written premiums decreased 13 percent to \$37.1 million in the fourth quarter of 2004, and were down 13 percent to \$161.3 million through 12 months.

Outlook "While we're pleased with the progress we have made in 2004, we still have a way to go to restore our company to its past high levels of performance. By successfully executing our strategy and focusing on the four cornerstones of claims, underwriting, productivity and service, we believe we will be able to generate sustainable growth and meet our stated financial goals—a combined ratio under 100 percent in 2006; a commercial lines underwriting profit in 2006 and a personal lines underwriting profit in 2007; and an expense ratio under 30 percent in three to five years," Browne concluded.

Webcast The company will host a live Webcast today, Thursday, February 17, 2005, at 9:00 a.m. (ET) to discuss its fourth 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 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.

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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 December 31		Twelve months ended December 31	
(in thousands, except per share data)	2004	2003	2004	2003
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income (loss)*	\$0.39	(\$0.66)	\$1.28	(\$1.57)
Realized gains (losses), net of tax			0.27	(0.02)
Net income (loss)	\$0.39	(\$0.66)	\$1.55	(\$1.59)
Cash dividends per common share	\$0.17	\$0.17	\$0.68	\$0.67

FINANCIAL CONDITION	December 31, 2004	December 31, 2003
Assets	\$2,718,063	\$2,680,389
Shareholders' equity	\$587,924	\$572,747
Per common share	\$19.47	\$19.16

CONSOLIDATED STATEMENTS OF INCOME (LOSS)	Quarter ended December 31		Twelve months ended December 31	
(in thousands, except per share data)	2004	2003	2004	2003
REVENUES:				
Premiums earned	\$210,424	\$211,646	\$837,665	\$823,407
Investment income, net of investment expense	22,593	21,863	87,171	86,597
Realized investment gains (losses)	16	(23)	12,667	(920)
Other income	3,630	3,450	15,889	15,881
Total revenues	236,663	236,936	953,392	924,965
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	151,895	199,234	605,660	727,875
Amortization of deferred policy acquisition costs	52,069	52,094	205,605	202,147
Other underwriting expenses	15,911	16,261	73,429	71,153
Interest expense	1,614	2,229	6,344	7,625
Other expenses	1,268	1,632	6,717	5,615
Total expenses	222,757	271,450	897,755	1,014,415
Income (loss) before income taxes	13,906	(34,514)	55,637	(89,450)
Income taxes (benefit)	2,129	(14,711)	8,759	(41,821)
Net income (loss)	\$11,777	(\$19,803)	\$46,878	(\$47,629)
Weighted average number of shares outstanding:				
Basic	30,130,299	29,894,028	30,028,723	29,985,900
Diluted	30,321,688	30,035,755	30,154,253	30,206,518
Per common share:				
Basic earnings (loss)	\$0.39	(\$0.66)	\$1.56	(\$1.59)
Diluted earnings (loss)	\$0.39	(\$0.66)	\$1.55	(\$1.59)

RECONCILIATION TO OPERATING INCOME (LOSS) :				
Net income (loss)	\$11,777	(\$19,803)	\$46,878	(\$47,629)
Less realized investment gains (losses), net of taxes	11	(15)	8,234	(598)
Operating income (loss)	\$11,766	(\$19,788)	\$38,644	(\$47,031)

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, 2004* December 31, 2003

ASSETS

Investments:

 Fixed maturities:

 Held to maturity, at amortized cost (fair value \$519,400
 and \$467,485)

\$501,322

\$439,613

 Available for sale, at fair value (amortized cost \$1,156,640
 and \$1,183,158)

1,201,524

1,246,019

 Equity securities, at fair value (cost \$110,495 and \$97,189)

150,249

137,590

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

113,822

31,411

 Total investments

1,966,917

1,854,633

Cash

328

13,430

Premiums in course of collection

141,601

140,674

Reinsurance receivable

193,209

164,841

Accrued investment income

23,236

23,086

Deferred policy acquisition costs

100,755

99,033

Prepaid reinsurance premiums

32,675

30,899

Property and equipment, net

20,891

23,824

Deferred income taxes

53,137

43,020

Securities lending collateral

139,486

221,454

Other assets

45,828

65,495

 Total assets

\$2,718,063

\$2,680,389

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

 Unpaid losses and loss settlement expenses

\$1,317,735

\$1,219,977

 Unearned premiums

441,697

437,883

 Accounts payable and accrued expenses

99,098

91,999

 Securities lending obligation

139,486

221,454

 Debt

119,625

120,145

 Due to affiliate

12,498

16,184

 Total liabilities

2,130,139

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 31,589,474 and 31,298,532 shares;
 outstanding 30,191,565 and 29,900,623 shares

31,589

31,299

Additional paid-in capital

161,689

156,997

Accumulated other comprehensive income

42,051

60,450

Retained earnings

377,282

350,844

Deferred compensation

(200)

(2,356)

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

(24,487)

(24,487)

 Total shareholders' equity

587,924

572,747

Total liabilities and shareholders' equity

\$2,718,063

\$2,680,389

*These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended December 31		Twelve months ended December 31	
	2004	2003	2004	2003
Net premiums written*	\$200,668	\$197,592	\$839,703	\$843,535
Statutory surplus*			\$509,301	\$475,665
Pretax investment income	\$22,593	\$21,863	\$87,171	\$86,597
Related federal income taxes	5,150	4,906	19,765	19,818
After-tax investment income	\$17,443	\$16,957	\$67,406	\$66,779

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended December 31		Twelve months ended December 31	
	2004	2003	2004	2003
Revenues:				
Premiums earned:				
Commercial lines	\$168,614	\$164,656	\$664,405	\$628,935
Personal lines	41,810	46,990	173,260	194,472
Total premiums earned	210,424	211,646	837,665	823,407
Net investment income	22,593	21,863	87,171	86,597
Realized investment gains (losses)	16	(23)	12,667	(920)
Other	3,630	3,450	15,889	15,881
Total revenues	\$236,663	\$236,936	\$953,392	\$924,965

Income (loss) before income taxes :

Underwriting gain (loss):				
Commercial lines	(\$9,539)	(\$57,566)	(\$49,062)	(\$158,292)
Personal lines	3,529	(10,261)	(977)	(39,442)
SAP underwriting loss	(6,010)	(67,827)	(50,039)	(197,734)
GAAP adjustments	(3,441)	11,884	3,010	19,966
GAAP underwriting loss	(9,451)	(55,943)	(47,029)	(177,768)
Net investment income	22,593	21,863	87,171	86,597
Realized investment gains (losses)	16	(23)	12,667	(920)
Other	748	(411)	2,828	2,641
Income (loss) before income taxes	\$13,906	(\$34,514)	\$55,637	(\$89,450)

Income taxes on net investment income	\$5,150	\$4,906	\$19,765	\$19,818
Income tax on remaining loss	(3,021)	(19,617)	(11,006)	(61,639)
Total income taxes (benefit)	\$2,129	(\$14,711)	\$8,759	(\$41,821)

Effective tax rate on:

Net investment income	22.8%	22.4%	22.7%	22.9%
Net income	15.3%	42.6%	15.7%	46.8%

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 December 31		Twelve months ended December 31	
	2004	2003	2004	2003
Net premiums written:				
Commercial:				
Automobile	\$52,858	\$50,920	\$227,105	\$221,818
Workers' compensation	21,814	22,036	96,543	107,415
Commercial multi-peril	72,264	64,812	287,824	258,854
Other commercial	16,603	17,258	66,946	69,450
Total commercial	\$163,539	\$155,026	\$678,418	\$657,537
Personal:				
Automobile	\$20,294	\$25,559	\$90,947	\$112,287
Homeowners	14,716	15,695	61,108	65,740
Other personal	2,119	1,312	9,230	7,971
Total personal	\$37,129	\$42,566	\$161,285	\$185,998
Total personal and commercial	\$200,668	\$197,592	\$839,703	\$843,535
Combined ratios:				
Commercial:				
Automobile	105.9%	124.7%	104.4%	112.1%
Workers' compensation	113.9%	197.3%	122.6%	178.2%
Commercial multi-peril	105.5%	132.1%	105.5%	118.3%
Other commercial	102.0%	102.2%	95.5%	87.9%
Total commercial	106.6%	137.1%	106.7%	123.6%
Personal:				
Automobile	113.3%	137.2%	113.9%	124.6%
Homeowners	76.0%	91.8%	87.5%	114.6%
Other personal	44.2%	292.7%	87.7%	137.0%
Total personal	94.8%	125.9%	102.8%	121.8%
Total personal and commercial	104.4%	134.6%	105.9%	123.2%
Losses paid	\$131,919	\$144,349	\$536,711	\$522,397
Net catastrophe losses incurred	(\$725)	\$1,979	\$9,252	\$19,683

These financial figures are unaudited.

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