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HARLEYSVILLE GROUP REPORTS SECOND QUARTER EARNINGS

HARLEYSVILLE, PA—JULY 25, 2003—Harleysville Group Inc. (Nasdaq: HGIC) today reported diluted operating income of \$0.33 per share for the second quarter ended June 30, 2003, compared to \$0.46 per share in the same period of 2002. For the six months ended June 30, 2003 and 2002, diluted operating income per share was \$0.23 and \$0.89, respectively. Operating income is a non-GAAP financial measure defined by the company as net income excluding after-tax realized gains and losses on investments.

“Unusual large loss activity and the poor performance of our personal lines business were the primary drivers of our unsatisfactory results in the quarter,” commented Walter R. Bateman, Harleysville Group’s chairman and chief executive officer. “These factors detract from the underlying strength of our commercial lines risk portfolio, which now represents about 78 percent of our business and continues to show strong growth and pricing.”

Diluted net income per share for the second quarter of 2003 was \$0.33, versus diluted net income of \$0.01 in the second quarter of 2002. Last year’s second quarter reflected realized investment losses of \$0.45 per share, due to the write down of securities in the company’s investment portfolio. On a per share basis, the company had no realized investment gains or losses in the second quarter of 2003. Diluted net income per share for the first six months was \$0.23 in 2003, compared to \$0.45 in 2002.

The company’s six-month earnings were reduced by \$20 million pretax, or \$0.43 per share after tax, due to the previously reported first quarter workers compensation reserve adjustment, and property catastrophe losses of \$7.2 million pretax, or \$0.16 per share after tax. In the first six months of 2002, Harleysville Group’s property catastrophe losses were \$3.4 million pretax, or \$0.07 per share after tax.

Harleysville Group’s overall statutory combined ratio* was 105.2 percent in the second quarter of 2003, compared to 100.6 percent in the second quarter of 2002. For the six months, the statutory combined ratio was 110.2 percent in 2003, versus 101.9 percent in 2002. The workers compensation reserve adjustment added 4.9 points to the 2003 six-month statutory combined ratio.

Second quarter net written premiums rose 5 percent to \$222.6 million in 2003, while net written premiums through six months increased by 9 percent to \$437.8 million in 2003.

Second quarter pretax investment income grew by 1 percent to \$21.6 million in 2003, while six-month pretax investment income of \$43.1 million showed no change from the previous year. After-tax investment income rose 2 percent to \$16.6 million in the second quarter of 2003, while after-tax investment income for the first six months was up 1 percent to \$33.1 million. Operating cash flow for the second quarter was \$59.2 million, \$12.4 million higher than the prior year’s second quarter.

Commercial lines Net written premiums climbed 10 percent to \$172.9 million in the second quarter of 2003 and 13 percent to \$343.4 million during the first six months of this year. The increase in written premiums is primarily due to higher pricing. The commercial lines statutory combined ratio was 101.7 percent in the second quarter of 2003, versus 96.6 percent in the second quarter of 2002. For the six months, the statutory combined ratio was 107.8 percent in 2003, compared to 99.8 percent in 2002. In 2003, the second quarter statutory combined ratio was impacted by large losses, while the first quarter workers compensation reserve adjustment added 6.6 points to the six-month commercial lines statutory combined ratio and 36.0 points to the six-month workers compensation statutory combined ratio.

Harleysville Group made progress in improving its workers compensation results by realizing double-digit price increases and by reducing its exposure, especially in severity-prone classes. The line now accounts for 18 percent of the company’s commercial lines premium volume, compared to 21 percent in the first half of 2002.

(more)

Harleysville Group second quarter earnings

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Personal lines Harleysville Group's personal lines statutory combined ratio was 115.8 percent in the second quarter of 2003, versus 110.7 percent during the second quarter of 2002. For the six months, the statutory combined ratio was 117.5 percent in 2003, compared to 106.9 percent in 2002. The increases were driven by weather-related losses and abnormally high large loss activity in its homeowners line. For the quarter, net written premiums declined 7 percent to \$49.7 million in the second quarter of 2003 and 3 percent to \$94.4 million during the first six months of this year.

As part of its ongoing efforts to address this segment of its operations, during the second quarter the company named a new senior vice president of personal lines, initiated other organizational leadership and structural changes, and obtained double-digit price increases.

Outlook "We have yet to see the expected impact of the actions taken to improve personal lines and workers compensation, but we are not deterred from continuing with our improvement plans for these two lines," Bateman concluded. "Our balance sheet is strong and our overall commercial risk portfolio is of very high quality, but personal lines and workers compensation continue to be a drag on our 2003 results. Therefore, our revised guidance is that we can achieve diluted operating earnings per share in the \$1.05 to \$1.15 range for the year."

Webcast The company will host a live Webcast today, Friday, July 25, 2003, at 9:00 a.m. (ET) to discuss its second quarter results. The Webcast will be available from the Investors section of the company's Web site (www.harleysvillegroup.com). The presentation will be archived on the Web site until July 25, 2004.

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 our 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, we have provided a reconciliation of this non-GAAP financial measure to the U.S. GAAP financial measure of net income 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. The company does not provide guidance on diluted net income because it is not practicable to project realized investment gains or losses.

Corporate profile Harleysville Insurance, "Good people to know," is the 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 total net written premium. Harleysville Group Inc. (Nasdaq: HGIC) is 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 through independent insurance agents, operates in 32 Eastern and Midwestern states. Further information can be found on the company's Web site.

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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 June 30		Six months ended June 30	
(in thousands, except per share data)	2003	2002	2003	2002
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income*	\$0.33	\$0.46	\$0.24	\$0.89
Realized gains (losses), net of tax		(0.45)	(0.01)	(0.44)
Net income	\$0.33	\$0.01	\$0.23	\$0.45
Cash dividends per common share	\$0.165	\$0.15	\$0.33	\$0.30

FINANCIAL CONDITION	June 30, 2003	December 31, 2002
Assets	\$2,456,242	\$2,311,524
Shareholders' equity	\$648,938	\$632,112
Per common share	\$21.55	\$21.13

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2003	2002	2003	2002
REVENUES:				
Premiums earned	\$203,755	\$187,708	\$402,584	\$370,213
Investment income, net of investment expense	21,649	21,526	43,096	43,008
Realized investment gains (losses)	67	(20,983)	(366)	(20,505)
Other income	4,073	3,898	8,593	7,643
Total revenues	229,544	192,149	453,907	400,359
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	147,426	127,809	311,185	255,081
Amortization of deferred policy acquisition costs	49,898	45,573	98,215	90,195
Other underwriting expenses	18,121	19,495	36,678	36,417
Interest expense	1,393	1,434	2,787	2,855
Other expenses	1,176	1,042	2,387	2,092
Total expenses	218,014	195,353	451,252	386,640
Income (loss) before income taxes	11,530	(3,204)	2,655	13,719
Income taxes (benefit)	1,462	(3,500)	(4,173)	83
Net income	\$10,068	\$296	\$6,828	\$13,636
Weighted average number of shares outstanding:				
Basic	30,076,989	29,638,118	30,032,397	29,573,844
Diluted	30,348,033	30,294,463	30,306,311	30,191,027
Per common share:				
Basic earnings	\$0.33	\$0.01	\$0.23	\$0.46
Diluted earnings	\$0.33	\$0.01	\$0.23	\$0.45

RECONCILIATION TO OPERATING INCOME :				
Net income	\$10,068	\$296	\$6,828	\$13,636
Less realized investment gains (losses), net of taxes	44	(13,639)	(238)	(13,328)
Operating income	\$10,024	\$13,935	\$7,066	\$26,964

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)

June 30, 2003* December 31, 2002

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$364,522 and \$416,942)

\$331,740

\$385,162

Available for sale, at fair value (amortized cost \$1,193,728 and \$1,051,880)

1,281,757

1,124,869

Equity securities, at fair value (cost \$97,795 and \$96,849)

119,779

107,177

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

63,140

89,692

Total investments

1,796,416

1,706,900

Cash

1,462

2,944

Premiums in course of collection

153,249

138,905

Reinsurance receivable

99,644

75,488

Accrued investment income

21,844

21,552

Deferred policy acquisition costs

104,305

94,896

Prepaid reinsurance premiums

20,540

19,421

Property and equipment, net

25,499

27,556

Deferred income taxes

21,439

25,784

Securities lending collateral

154,609

139,215

Due from affiliate

12,854

10,709

Other assets

44,381

48,154

Total assets

\$2,456,242

\$2,311,524

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$1,008,969

\$928,335

Unearned premiums

442,659

406,277

Accounts payable and accrued expenses

105,922

109,965

Securities lending obligation

154,609

139,215

Debt

95,145

95,620

Total liabilities

1,807,304

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 31,194,664 and 30,917,575 shares; outstanding 30,114,185 and 29,917,575 shares

31,195

30,918

Additional paid-in capital

155,633

149,091

Accumulated other comprehensive income

66,438

49,086

Retained earnings

415,470

418,582

Deferred compensation

(2,356)

Treasury stock, at cost, 1,080,479 and 1,000,000 shares

(17,442)

(15,565)

Total shareholders' equity

648,938

632,112

Total liabilities and shareholders' equity

\$2,456,242

\$2,311,524

* These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2003	2002	2003	2002
Net premiums written*	\$222,564	\$211,427	\$437,847	\$402,082
Statutory surplus *			\$512,070	\$527,922
Pretax investment income	\$21,649	\$21,526	\$43,096	\$43,008
Related federal income taxes	5,000	5,190	9,973	10,367
After-tax investment income	\$16,649	\$16,336	\$33,123	\$32,641

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2003	2002	2003	2002
Revenues:				
Premiums earned:				
Commercial lines	\$154,118	\$134,384	\$302,867	\$262,689
Personal lines	49,637	53,324	99,717	107,524
Total premiums earned	203,755	187,708	402,584	370,213
Net investment income	21,649	21,526	43,096	43,008
Realized investment gains (losses)	67	(20,983)	(366)	(20,505)
Other	4,073	3,898	8,593	7,643
Total revenues	\$229,544	\$192,149	\$453,907	\$400,359

Income before income taxes :

Underwriting loss:				
Commercial lines	(\$8,767)	(\$2,989)	(\$36,773)	(\$13,153)
Personal lines	(7,848)	(5,797)	(15,742)	(4,373)
SAP underwriting loss	(16,615)	(8,786)	(52,515)	(17,526)
GAAP adjustments	4,925	3,617	9,021	6,046
GAAP underwriting loss	(11,690)	(5,169)	(43,494)	(11,480)
Net investment income	21,649	21,526	43,096	43,008
Realized investment gains (losses)	67	(20,983)	(366)	(20,505)
Other	1,504	1,422	3,419	2,696
Income (loss) before income taxes	\$11,530	(\$3,204)	\$2,655	\$13,719

Income taxes on net investment income	\$5,000	\$5,190	\$9,973	\$10,367
Income tax on remaining loss	(3,538)	(8,690)	(14,146)	(10,284)
Total income taxes (benefit)	\$1,462	(\$3,500)	(\$4,173)	\$83

Effective tax rate on:

Net investment income	23.1%	24.1%	23.1%	24.1%
Net income	12.7%	109.2%	N/M	0.6%

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 June 30		Six months ended June 30	
	2003	2002	2003	2002
Net premiums written:				
Commercial:				
Automobile	\$59,041	\$52,033	\$114,284	\$99,109
Workers' compensation	27,538	30,586	60,311	62,529
Commercial multi-peril	68,944	59,499	133,756	113,809
Other commercial	17,370	15,672	35,079	28,801
Total commercial	\$172,893	\$157,790	\$343,430	\$304,248
Personal:				
Automobile	\$28,998	\$32,342	\$58,595	\$61,312
Homeowners	17,995	18,719	31,467	32,114
Other personal	2,678	2,576	4,355	4,408
Total personal	\$49,671	\$53,637	\$94,417	\$97,834
Total personal and commercial	\$222,564	\$211,427	\$437,847	\$402,082
Combined ratios:				
Commercial:				
Automobile	94.4%	87.8%	95.1%	92.5%
Workers' compensation	120.9%	125.4%	157.1%	123.7%
Commercial multi-peril	105.1%	92.0%	102.0%	95.9%
Other commercial	78.4%	78.1%	81.0%	83.6%
Total commercial	101.7%	96.6%	107.8%	99.8%
Personal:				
Automobile	116.1%	116.5%	116.8%	115.0%
Homeowners	113.9%	102.8%	118.7%	95.8%
Other personal	123.8%	81.9%	118.8%	71.6%
Total personal	115.8%	110.7%	117.5%	106.9%
Total personal and commercial	105.2%	100.6%	110.2%	101.9%
Losses paid	\$125,734	\$122,162	\$254,371	\$238,609
Net catastrophe losses incurred	\$3,586	\$2,566	\$7,235	\$3,373

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.