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HARLEYSVILLE GROUP REPORTS SECOND QUARTER 2005 RESULTS

Second quarter highlights:

- Operating earnings increase 50 percent
- Combined ratio improves by 3.5 points
- Year-to-date cash flow from operations triples to nearly \$72 million

HARLEYSVILLE, PA—July 28, 2005—Harleysville Group Inc. (NASDAQ: HGIC) today reported diluted operating income of \$0.48 per share for the second quarter of 2005, compared to \$0.32 per share in the second quarter of 2004. For the six-month periods, the company reported diluted operating income of \$0.87 per share in 2005 and \$0.60 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.

“We’re pleased with our second quarter results, which reflect the consistent progress we’ve made to improve profitability,” commented Michael L. Browne, Harleysville Group’s president and chief executive officer. “Our operating earnings were up 50 percent compared to a year ago, our statutory combined ratio improved by 3.5 points, our year-to-date cash flow from operations tripled to \$71.5 million and our balance sheet remains strong. Commercial lines has maintained positive growth, while retention levels are at historic highs. Our personal lines improvement in the quarter—highlighted by a combined ratio of 97.2 percent—is encouraging. Our agents continue to demonstrate their commitment to—and confidence in—Harleysville by consistently renewing their quality business with us, which is compelling testimony to the strength of our relationships with our agency partners.”

The company reported diluted net income of \$0.48 per share in the second quarter of 2005, compared to \$0.32 per share in the second quarter of 2004. There were no realized investment gains in the second quarter of either year. For both the six-month periods ended June 30, 2005 and June 30, 2004, diluted net income was \$0.87 per share. For the six months, the company reported no realized investment gains in 2005, compared to \$0.27 per share in 2004.

Harleysville Group’s overall statutory combined ratio* was 101.9 percent in the second quarter of 2005, compared to 105.4 percent in the second quarter of 2004. For the six months, the statutory combined ratio was 103.1 percent in 2005, versus 106.3 percent in 2004.

Second quarter net written premiums were \$223.6 million in 2005, compared to \$223.1 million in 2004. Net written premiums through six months were \$434.0 million in 2005 and \$429.1 million in 2004.

Second quarter pretax investment income increased 5 percent to \$22.6 million, while six-month pretax investment income was up 3 percent to \$44.3 million. After-tax investment income grew 4 percent in the second quarter to \$17.2 million, and increased 2 percent to \$34.0 million during the six-month period. Operating cash flow for the six months was \$71.5 million, compared to \$23.9 million in the first six months of 2004.

Commercial lines Net written premiums in commercial lines increased 3 percent in the second quarter of 2005 to \$184.6 million. For the six months, net written premiums were up 4 percent to \$361.3 million. The commercial lines statutory combined ratio was 103.0 percent in the second quarter of 2005, versus 106.7 percent in the second quarter of 2004. For the six months, the statutory combined ratio was 103.7 percent in 2005, compared to 105.7 percent in 2004.

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Harleysville Group second quarter results

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Personal lines Harleysville Group's personal lines statutory combined ratio was 97.2 percent in the second quarter of 2005, versus 100.6 percent during the second quarter of 2004. For the six months, the statutory combined ratio was 100.4 percent in 2005, compared to 108.4 percent in 2004. Net written premiums decreased 10 percent to \$39.0 million in the second quarter of 2005, and were down 10 percent to \$72.7 million through six months.

Outlook "We have made considerable progress toward our goal of achieving underwriting profitability—that is, producing an overall combined ratio under 100 percent—in 2006," Browne said. "We will not compromise underwriting quality to reach a near-term growth target. Instead, we are maintaining our underwriting discipline as we focus on the longer-term profitability of our book of business. We are confident that the steps we are taking to improve our performance are designed for us to not only stay on pace to achieve our goals for the coming year, but also position us well for longer-term success."

Webcast The company will host a live Webcast today, July 28, 2005, at 8 a.m. (ET) to discuss its second 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, 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 June 30		Six months ended June 30	
(in thousands, except per share data)	2005	2004	2005	2004

OPERATING RESULTS

Diluted earnings per common share:				
Operating income*	\$0.48	\$0.32	\$0.87	\$0.60
Realized gains, net of tax				0.27
Net income	\$0.48	\$0.32	\$0.87	\$0.87
Cash dividends per common share	\$0.17	\$0.17	\$0.34	\$0.34

FINANCIAL CONDITION

	June 30, 2005	December 31, 2004
Assets	\$2,748,958	\$2,718,063
Shareholders' equity	\$600,787	\$587,924
Per common share	\$19.80	\$19.47

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Quarter ended June 30		Six months ended June 30	
	2005	2004	2005	2004
REVENUES:				
Premiums earned	\$209,865	\$207,652	\$416,545	\$414,600
Investment income, net of investment expense	22,578	21,437	44,339	43,079
Realized investment gains	68	59	68	12,547
Other income	4,158	3,671	8,441	8,235
Total revenues	236,669	232,819	469,393	478,461
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	143,997	148,711	291,865	299,821
Amortization of deferred policy acquisition costs	52,043	50,698	102,961	101,386
Other underwriting expenses	18,778	19,726	35,133	39,364
Interest expense	1,665	1,566	3,285	3,143
Other expenses	1,763	1,266	3,270	2,685
Total expenses	218,246	221,967	436,514	446,399
Income before income taxes	18,423	10,852	32,879	32,062
Income taxes	3,896	1,124	6,370	5,841
Net income	\$14,527	\$9,728	\$26,509	\$26,221
Weighted average number of shares outstanding:				
Basic	30,304,744	29,959,781	30,279,497	29,960,271
Diluted	30,393,821	30,027,955	30,410,199	30,045,317
Per common share:				
Basic earnings	\$0.48	\$0.32	\$0.88	\$0.88
Diluted earnings	\$0.48	\$0.32	\$0.87	\$0.87

RECONCILIATION TO OPERATING INCOME :

Net income	\$14,527	\$9,728	\$26,509	\$26,221
Less realized investment gains, net of taxes	44	38	44	8,155
Operating income	\$14,483	\$9,690	\$26,465	\$18,066

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, 2005* December 31, 2004

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$502,725 and \$519,400)

\$488,221

\$501,322

Available for sale, at fair value (amortized cost \$1,281,404 and \$1,156,640)

1,320,752

1,201,524

Equity securities, at fair value (cost \$110,988 and \$110,495)

147,275

150,249

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

53,347

113,822

Total investments

2,009,595

1,966,917

Cash

355

328

Premiums in course of collection

151,642

141,601

Reinsurance receivable

170,356

193,209

Accrued investment income

23,747

23,236

Deferred policy acquisition costs

106,092

100,755

Prepaid reinsurance premiums

32,174

32,675

Property and equipment, net

18,283

20,891

Deferred income taxes

57,067

53,137

Securities lending collateral

130,634

139,486

Due from affiliate

4,351

Other assets

44,662

45,828

Total assets

\$2,748,958

\$2,718,063

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$1,355,763

\$1,317,735

Unearned premiums

458,667

441,697

Accounts payable and accrued expenses

84,047

99,098

Securities lending obligation

130,634

139,486

Debt

119,060

119,625

Due to affiliate

-

12,498

Total liabilities

2,148,171

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 31,739,809 and 31,589,474 shares;

outstanding 30,341,900 and 30,191,565 shares

31,740

31,589

Additional paid-in capital

164,395

161,689

Accumulated other comprehensive income

36,200

42,051

Retained earnings

393,480

377,282

Deferred compensation

(541)

(200)

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

(24,487)

(24,487)

Total shareholders' equity

600,787

587,924

Total liabilities and shareholders' equity

\$2,748,958

\$2,718,063

*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	
	2005	2004	2005	2004
Net premiums written*	\$223,602	\$223,095	\$434,016	\$429,121
Statutory surplus*			\$529,621	\$496,170
Pretax investment income	\$22,578	\$21,437	\$44,339	\$43,079
Related federal income taxes	5,354	4,825	10,387	9,689
After-tax investment income	\$17,224	\$16,612	\$33,952	\$33,390

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Revenues:				
Premiums earned:				
Commercial lines	\$170,858	\$163,791	\$338,171	\$326,111
Personal lines	39,007	43,861	78,374	88,489
Total premiums earned	209,865	207,652	416,545	414,600
Net investment income	22,578	21,437	44,339	43,079
Realized investment gains	68	59	68	12,547
Other	4,158	3,671	8,441	8,235
Total revenues	\$236,669	\$232,819	\$469,393	\$478,461

Income before income taxes:

Underwriting gain (loss):				
Commercial lines	(\$9,760)	(\$16,358)	(\$19,998)	(\$26,006)
Personal lines	1,114	10	1,531	(4,850)
SAP underwriting loss	(8,646)	(16,348)	(18,467)	(30,856)
GAAP adjustments	3,693	4,865	5,053	4,885
GAAP underwriting loss	(4,953)	(11,483)	(13,414)	(25,971)
Net investment income	22,578	21,437	44,339	43,079
Realized investment gains	68	59	68	12,547
Other	730	839	1,886	2,407
Income before income taxes	\$18,423	\$10,852	\$32,879	\$32,062

Income taxes on net investment income	\$5,354	\$4,825	\$10,387	\$9,689
Income tax benefit on remaining loss	(1,458)	(3,701)	(4,017)	(3,848)
Total income taxes	\$3,896	\$1,124	\$6,370	\$5,841

Effective tax rate on:

Net investment income	23.7%	22.5%	23.4%	22.5%
Net income	21.1%	10.4%	19.4%	18.2%

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.

Harleysville Group Inc. and Subsidiaries

STATUTORY DATA BY LINE OF BUSINESS*

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Net premiums written:				
Commercial:				
Automobile	\$60,475	\$62,367	\$117,764	\$119,128
Workers' compensation	23,393	24,172	49,912	50,912
Commercial multi-peril	82,451	76,805	157,531	145,003
Other commercial	18,315	16,681	36,090	33,162
Total commercial	\$184,634	\$180,025	\$361,297	\$348,205
Personal:				
Automobile	\$20,393	\$23,459	\$40,126	\$46,660
Homeowners	16,038	16,514	28,130	29,482
Other personal	2,537	3,097	4,463	4,774
Total personal	\$38,968	\$43,070	\$72,719	\$80,916
Total personal and commercial	\$223,602	\$223,095	\$434,016	\$429,121

Combined ratios:

Commercial:				
Automobile	97.9%	104.7%	99.0%	103.9%
Workers' compensation	124.2%	122.2%	124.8%	122.5%
Commercial multi-peril	100.4%	105.5%	102.7%	105.3%
Other commercial	100.9%	95.4%	92.9%	88.5%
Total commercial	103.0%	106.7%	103.7%	105.7%
Personal:				
Automobile	104.1%	110.9%	105.1%	114.6%
Homeowners	92.3%	86.0%	97.4%	97.6%
Other personal	63.7%	83.6%	75.8%	112.3%
Total personal	97.2%	100.6%	100.4%	108.4%
Total personal and commercial	101.9%	105.4%	103.1%	106.3%

Losses paid	\$118,931	\$142,655	\$230,333	\$276,715
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Net catastrophe losses incurred	\$627	\$1,262	\$1,624	\$3,887
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