



Harleysville Group Inc.
355 Maple Avenue
Harleysville, PA 19438-2297
www.harleysvillegroup.com
Tel 800.523.6344

News Release

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Contact: Mark Cummins (Investors) 215.256.5025 mcummins@harleysvillegroup.com
Randy Buckwalter (Media) 215.256.5288 rbuckwalter@harleysvillegroup.com

HARLEYSVILLE GROUP REPORTS THIRD QUARTER RESULTS

HARLEYSVILLE, PA—OCTOBER 24, 2003—Harleysville Group Inc. (Nasdaq: HGIC) today reported a diluted net loss of \$1.16 per share in the third quarter of 2003, reflecting the previously announced loss reserve increases in several business lines and the cost of claims resulting from Hurricane Isabel. The net loss includes net realized after-tax investment losses of \$0.01 per share. The company had diluted net income of \$0.50 per share in the third quarter of 2002. For the nine months, the company reported a diluted net loss per share of \$0.93, compared to diluted net income per share of \$0.95 in 2002. The 2003 result includes realized investment losses of \$0.02 per share, compared to \$0.44 per share of realized losses in 2002.

The company reported a diluted operating loss of \$1.15 per share for the third quarter ended September 30, 2003, compared to diluted operating income of \$0.50 per share in the same period of 2002. For the nine months ended September 30, 2003, the diluted operating loss was \$0.91 per share, compared to diluted operating income of \$1.39 per share in the same period of 2002. Operating income is a non-GAAP financial measure defined by the company as net income excluding after-tax realized gains and losses on investments.

“As I stated in our preliminary earnings announcement last week, our third quarter results are not acceptable,” commented Michael L. Browne, Harleysville Group’s chairman of the board. “We have moved quickly to bolster our reserves to assure the continued strength and integrity of our balance sheet, and we are taking the steps necessary to improve operating results.”

The company’s third quarter and nine-month results were reduced by the previously announced addition of \$55 million pretax, or \$1.19 per share after tax, to the company’s loss and loss adjustment reserves for prior accident years, specifically in its workers compensation (\$17 million), commercial automobile liability (\$19 million), commercial multi-peril liability (\$14 million) and personal automobile liability (\$5 million) lines of business. Harleysville Group’s end-of-the-quarter reserve analysis showed higher-than-expected development in the casualty lines of business in accident years prior to 2003, which caused the company to make the reserve adjustment. Of the reserve development, 87 percent relates to the 1998 to 2002 accident years. Harleysville Group’s nine-month earnings were reduced by an additional \$20 million pretax, or \$0.43 per share after tax, due to a first quarter workers compensation reserve adjustment. In light of the higher-than-expected development in prior accident years, the company raised its loss estimates for the 2003 accident year, which also impacted the company’s third quarter and nine-month results.

The third quarter results also reflect claims costs of \$9.4 million pretax, or \$0.20 per share after tax, from Hurricane Isabel in September. In the first nine months of 2003, Harleysville Group’s property catastrophe losses were \$17.7 million pretax, or \$0.38 per share after tax. That compares to property catastrophe losses of \$3.9 million pretax, or \$0.08 per share after tax, for the first nine months of 2002.

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Harleysville Group's overall statutory combined ratio* was 137.2 percent in the third quarter of 2003, compared to 101.7 percent in the third quarter of 2002. For the nine months, the statutory combined ratio was 119.4 percent in 2003, versus 101.9 percent in 2002. Reserve development added 26.4 points and 12.5 points to the 2003 third quarter and nine-month statutory combined ratios, respectively. In addition, property catastrophe losses added 5.0 points and 2.9 points to the 2003 third quarter and nine-month statutory combined ratios, respectively. In 2002, catastrophe losses amounted to 0.3 points and 0.7 points for the third quarter and nine months, respectively.

Third quarter net written premiums rose 2 percent to \$208.1 million in 2003, while net written premiums through nine months increased by 6 percent to \$645.9 million in 2003.

Pretax investment income was virtually unchanged in the third quarter and through nine months at \$21.6 million and \$64.7 million, respectively. After-tax investment income rose 1 percent in both the third quarter and the year to date at \$16.7 million and \$49.8 million, respectively. Operating cash flow for the nine months was \$113.3 million, or \$39.0 million higher than the prior year's nine months.

Commercial lines Net written premiums climbed 5 percent to \$159.1 million in the third quarter of 2003 and 10 percent to \$502.5 million during the first nine months of this year. The increase in written premiums is primarily due to higher pricing. The commercial lines statutory combined ratio was 140.1 percent in the third quarter of 2003, versus 100.0 percent in the third quarter of 2002. For the nine months, the statutory combined ratio was 119.0 percent in 2003, compared to 99.9 percent in 2002. In 2003, the third quarter reserve development added 31.2 points to the quarter's commercial lines statutory combined ratio, while reserve development added 15.1 points to the nine-month commercial lines statutory combined ratio.

Personal lines Harleysville Group's personal lines statutory combined ratio was 127.3 percent in the third quarter of 2003, versus 106.4 percent during the third quarter of 2002. For the nine months, the statutory combined ratio was 120.7 percent in 2003, compared to 106.7 percent in 2002. In 2003, reserve development added 9.7 points to the third quarter personal lines statutory combined ratio and 4.7 points to the nine-month personal lines statutory combined ratio. The higher catastrophe losses also contributed to the higher statutory combined ratio. Net written premiums declined 9 percent to \$49.0 million in the third quarter of 2003 and were down 5 percent to \$143.4 million during the first nine months of this year.

Outlook "Our strong balance sheet, productive partnerships with our agents and focused strategy position us as one of the country's premier regional insurance companies and enable us to succeed in the marketplace," stated M. Lee Patkus, Harleysville Group's president and chief operating officer. "We see plenty of opportunity in front of us. We're confident that with better and more consistent execution we can produce the superior results our shareholders expect."

Webcast The company will host a live Webcast today, Friday, October 24, 2003, at 9:00 a.m. (ET) to discuss its third 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 October 24, 2004.

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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, “Good people to know,” is a 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 September 30		Nine months ended September 30	
(in thousands, except per share data)	2003	2002	2003	2002
OPERATING RESULTS				
Diluted earnings (loss) per common share:				
Operating income (loss)*	(\$1.15)	\$0.50	(\$0.91)	\$1.39
Realized gains (losses), net of tax	(0.01)	0.00	(0.02)	(0.44)
Net income (loss)	(\$1.16)	\$0.50	(\$0.93)	\$0.95
Cash dividends per common share	\$0.17	\$0.165	\$0.50	\$0.465

FINANCIAL CONDITION	September 30, 2003	December 31, 2002
Assets	\$2,721,515	\$2,311,524
Shareholders' equity	\$598,490	\$632,112
Per common share	\$19.96	\$21.13

CONSOLIDATED STATEMENTS OF INCOME (LOSS)	Quarter ended September 30		Nine months ended September 30	
(in thousands, except per share data)	2003	2002	2003	2002
REVENUES:				
Premiums earned	\$209,177	\$196,524	\$611,761	\$566,737
Investment income, net of investment expense	21,638	21,739	64,734	64,747
Realized investment gains (losses)	(531)	57	(897)	(20,448)
Other income	3,838	3,967	12,431	11,610
Total revenues	234,122	222,287	688,029	622,646
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	217,456	134,708	528,641	389,789
Amortization of deferred policy acquisition costs	51,838	47,375	150,053	137,570
Other underwriting expenses	18,214	17,878	54,892	54,295
Interest expense	2,609	1,423	5,396	4,278
Other expenses	1,596	1,178	3,983	3,270
Total expenses	291,713	202,562	742,965	589,202
Income (loss) before income taxes	(57,591)	19,725	(54,936)	33,444
Income taxes (benefit)	(22,937)	4,509	(27,110)	4,592
Net income (loss)	(\$34,654)	\$15,216	(\$27,826)	\$28,852
Weighted average number of shares outstanding:				
Basic	29,986,285	29,790,105	30,016,861	29,647,135
Diluted	29,986,285	30,384,932	30,016,861	30,257,720
Per common share:				
Basic earnings (loss)	(\$1.16)	\$0.51	(\$0.93)	\$0.97
Diluted earnings (loss)	(\$1.16)	\$0.50	(\$0.93)	\$0.95

RECONCILIATION TO OPERATING INCOME (LOSS) :				
Net income (loss)	(\$34,654)	\$15,216	(\$27,826)	\$28,852
Less realized investment gains (losses), net of taxes	(345)	21	(583)	(13,307)
Operating income (loss)	(\$34,309)	\$15,195	(\$27,243)	\$42,159

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)

September 30, 2003* December 31, 2002

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$411,851 and \$416,942)

\$380,586

\$385,162

Available for sale, at fair value (amortized cost \$1,188,730 and \$1,051,880)

1,261,745

1,124,869

Equity securities, at fair value (cost \$96,348 and \$96,849)

122,472

107,177

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

154,097

89,692

Total investments

1,918,900

1,706,900

Cash

4,528

2,944

Premiums in course of collection

140,335

138,905

Reinsurance receivable

152,277

75,488

Accrued investment income

21,419

21,552

Deferred policy acquisition costs

102,934

94,896

Prepaid reinsurance premiums

21,010

19,421

Property and equipment, net

24,642

27,556

Deferred income taxes

39,072

25,784

Securities lending collateral

230,348

139,215

Due from affiliate

7,909

10,709

Other assets

58,141

48,154

Total assets

\$2,721,515

\$2,311,524

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$1,154,348

\$928,335

Unearned premiums

442,049

406,277

Accounts payable and accrued expenses

101,135

109,965

Securities lending obligation

230,348

139,215

Debt

195,145

95,620

Total liabilities

2,123,025

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 31,318,312 and 30,917,575 shares; outstanding 29,985,039 and 29,917,575 shares

31,318

30,918

Additional paid-in capital

157,487

149,091

Accumulated other comprehensive income

59,370

49,086

Retained earnings

375,733

418,582

Deferred compensation

(2,356)

Treasury stock, at cost, 1,333,273 and 1,000,000 shares

(23,062)

(15,565)

Total shareholders' equity

598,490

632,112

Total liabilities and shareholders' equity

\$2,721,515

\$2,311,524

* 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	
	2003	2002	2003	2002
Net premiums written*	\$208,096	\$204,646	\$645,943	\$606,728
Statutory surplus *			\$501,331	\$519,039
Pretax investment income	\$21,638	\$21,739	\$64,734	\$64,747
Related federal income taxes	4,939	5,239	14,912	15,606
After-tax investment income	\$16,699	\$16,500	\$49,822	\$49,141

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Revenues:				
Premiums earned:				
Commercial lines	\$161,412	\$143,725	\$464,279	\$406,414
Personal lines	47,765	52,799	147,482	160,323
Total premiums earned	209,177	196,524	611,761	566,737
Net investment income	21,638	21,739	64,734	64,747
Realized investment gains (losses)	(531)	57	(897)	(20,448)
Other	3,838	3,967	12,431	11,610
Total revenues	\$234,122	\$222,287	\$688,029	\$622,646

Income (loss) before income taxes :

Underwriting loss:				
Commercial lines	(\$63,953)	(\$2,459)	(\$100,726)	(\$15,612)
Personal lines	(13,439)	(3,628)	(29,181)	(8,001)
SAP underwriting loss	(77,392)	(6,087)	(129,907)	(23,613)
GAAP adjustments	(939)	2,650	8,082	8,696
GAAP underwriting loss	(78,331)	(3,437)	(121,825)	(14,917)
Net investment income	21,638	21,739	64,734	64,747
Realized investment gains (losses)	(531)	57	(897)	(20,448)
Other	(367)	1,366	3,052	4,062
Income (loss) before income taxes	(\$57,591)	\$19,725	(\$54,936)	\$33,444

Income taxes on net investment income	\$4,939	\$5,239	\$14,912	\$15,606
Income tax on remaining loss	(27,876)	(730)	(42,022)	(11,014)
Total income taxes (benefit)	(\$22,937)	\$4,509	(\$27,110)	\$4,592

Effective tax rate on:

Net investment income	22.8%	24.1%	23.0%	24.1%
Net income	39.8%	22.9%	49.3%	13.7%

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 September 30		Nine months ended September 30	
	2003	2002	2003	2002
Net premiums written:				
Commercial:				
Automobile	\$56,614	\$52,683	\$170,898	\$151,792
Workers' compensation	25,068	28,290	85,379	90,819
Commercial multi-peril	60,286	55,485	194,042	169,293
Other commercial	17,113	14,553	52,192	43,354
Total commercial	\$159,081	\$151,011	\$502,511	\$455,258
Personal:				
Automobile	\$28,133	\$32,494	\$86,728	\$93,806
Homeowners	18,578	19,082	50,045	51,197
Other personal	2,304	2,059	6,659	6,467
Total personal	\$49,015	\$53,635	\$143,432	\$151,470
Total personal and commercial	\$208,096	\$204,646	\$645,943	\$606,728
Combined ratios:				
Commercial:				
Automobile	131.2%	93.2%	107.8%	92.8%
Workers' compensation	203.1%	130.9%	172.4%	126.1%
Commercial multi-peril	134.6%	91.6%	113.3%	94.4%
Other commercial	84.7%	89.7%	82.4%	85.8%
Total commercial	140.1%	100.0%	119.0%	99.9%
Personal:				
Automobile	129.2%	111.4%	120.7%	113.8%
Homeowners	129.8%	100.0%	122.2%	97.2%
Other personal	85.5%	79.2%	107.2%	74.0%
Total personal	127.3%	106.4%	120.7%	106.7%
Total personal and commercial	137.2%	101.7%	119.4%	101.9%
Losses paid	\$123,677	\$111,955	\$378,048	\$350,564
Net catastrophe losses incurred	\$10,469	\$494	\$17,704	\$3,867

These financial figures are unaudited.

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