

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-14697

Harleysville Group Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0241172

(I.R.S. Employer
Identification No.)

355 Maple Avenue, Harleysville, Pennsylvania 19438-2297
(Address of principal executive offices, including zip code)

(215) 256-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes . No .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes . No .

At November 3, 2003, 29,920,403 shares of common stock of Harleysville Group Inc. were outstanding.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**INDEX**

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Item 1. Financial Statements**HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	<u>September 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
	(Unaudited)	
<u>Assets</u>		
Investments:		
Fixed maturities:		
Held to maturity, at amortized cost (fair value \$407,310 and \$411,235)	\$ 376,695	\$ 379,940
Available for sale, at fair value (amortized cost \$980,643 and \$932,889)	1,041,616	995,032
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
Fixed maturity securities on loan		
Held to maturity, at amortized cost (fair value \$4,541 and \$5,707)	3,891	5,222
Available for sale, at fair value (amortized cost \$208,087 and \$118,991)	220,129	129,837
Total investments	<u>1,918,900</u>	<u>1,706,900</u>
Cash	4,528	2,944
Receivables:		
Premiums	140,335	138,905
Reinsurance (affiliate \$1,717 and \$55)	152,277	75,488
Accrued investment income	21,419	21,552
Total receivables	<u>314,031</u>	<u>235,945</u>
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	<u>\$2,721,515</u>	<u>\$2,311,524</u>
<u>Liabilities and Shareholders' Equity</u>		
Liabilities:		
Unpaid losses and loss settlement expenses (affiliate \$190,534 and \$166,188)	\$1,154,348	\$ 928,335
Unearned premiums (affiliate \$61,890 and \$54,035)	442,049	406,277
Accounts payable and accrued expenses	101,135	109,965
Securities lending obligation	230,348	139,215
Debt (affiliate \$18,500 and \$18,500)	195,145	95,620
Total liabilities	<u>2,123,025</u>	<u>1,679,412</u>
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	<u>598,490</u>	<u>632,112</u>
Total liabilities and shareholders' equity	<u>\$2,721,515</u>	<u>\$2,311,524</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

For the three months ended September 30, 2003 and 2002
(dollars in thousands, except per share data)

	<u>2003</u>	<u>2002</u>
Revenues:		
Premiums earned from affiliate (ceded to affiliate, \$182,808 and \$173,232)	\$209,177	\$196,524
Investment income, net of investment expenses	21,638	21,739
Realized investment gains (losses), net	(531)	57
Other income (affiliate \$1,844 and \$1,720)	<u>3,838</u>	<u>3,967</u>
Total revenues	<u>234,122</u>	<u>222,287</u>
Losses and expenses:		
Losses and loss settlement expenses from affiliate (ceded to affiliate, \$188,437 and \$115,296)	217,456	134,708
Amortization of deferred policy acquisition costs	51,838	47,375
Other underwriting expenses	18,214	17,878
Interest expense (affiliate \$77 and \$123)	2,609	1,423
Other expenses	<u>1,596</u>	<u>1,178</u>
Total expenses	<u>291,713</u>	<u>202,562</u>
Income (loss) before income taxes	(57,591)	19,725
Income taxes (benefit)	<u>(22,937)</u>	<u>4,509</u>
Net income (loss)	<u>\$ (34,654)</u>	<u>\$ 15,216</u>
Per common share:		
Basic earnings (loss)	<u>\$ (1.16)</u>	<u>\$.51</u>
Diluted earnings (loss)	<u>\$ (1.16)</u>	<u>\$.50</u>
Cash dividend	<u>\$.17</u>	<u>\$.165</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

For the nine months ended September 30, 2003 and 2002
(dollars in thousands, except per share data)

	<u>2003</u>	<u>2002</u>
Revenues:		
Premiums earned from affiliate (ceded to affiliate, \$531,489 and \$499,349)	\$611,761	\$566,737
Investment income, net of investment expenses	64,734	64,747
Realized investment losses, net	(897)	(20,448)
Other income (affiliate \$5,675 and \$5,229)	<u>12,431</u>	<u>11,610</u>
Total revenues	<u>688,029</u>	<u>622,646</u>
Losses and expenses:		
Losses and loss settlement expenses from affiliate (ceded to affiliate, \$456,627 and \$338,963)	528,641	389,789
Amortization of deferred policy acquisition costs	150,053	137,570
Other underwriting expenses	54,892	54,295
Interest expense (affiliate \$263 and \$364)	5,396	4,278
Other expenses	<u>3,983</u>	<u>3,270</u>
Total expenses	<u>742,965</u>	<u>589,202</u>
Income (loss) before income taxes	(54,936)	33,444
Income taxes (benefit)	<u>(27,110)</u>	<u>4,592</u>
Net income (loss)	<u>\$ (27,826)</u>	<u>\$ 28,852</u>
Per common share:		
Basic earnings (loss)	<u>\$ (.93)</u>	<u>\$.97</u>
Diluted earnings (loss)	<u>\$ (.93)</u>	<u>\$.95</u>
Cash dividend	<u>\$.50</u>	<u>\$.465</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

For the nine months ended September 30, 2003
(dollars in thousands)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Deferred Compensation</u>	<u>Treasury Stock</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>						
Balance, December 31, 2002	30,917,575	\$30,918	\$149,091	\$49,086	\$418,582	\$	\$(15,565)	<u>\$632,112</u>
Net loss					(27,826)			(27,826)
Other compre- hensive income, net of tax: Unrealized investment gains, net of reclassification adjustment				10,284				<u>10,284</u>
Comprehensive loss								(17,542)
Issuance of common stock	400,737	400	7,814					8,214
Tax benefit from stock options exercised			582					582
Deferred compensation						(2,356)		(2,356)
Cash dividend paid					(15,023)			(15,023)
Purchase of treasury stock, 333,273 shares							(7,497)	<u>(7,497)</u>
Balance at September 30, 2003	<u>31,318,312</u>	<u>\$31,318</u>	<u>\$157,487</u>	<u>\$59,370</u>	<u>\$375,733</u>	<u>\$(2,356)</u>	<u>\$(23,062)</u>	<u>\$598,490</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the nine months ended September 30, 2003 and 2002
(in thousands)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Net income (loss)	\$ (27,826)	\$ 28,852
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Change in receivables, unearned premiums, prepaid reinsurance and due to affiliate	(41,104)	2,160
Increase in unpaid losses and loss settlement expenses	226,013	37,114
Deferred income taxes	(18,745)	(1,656)
Increase in deferred policy acquisition costs	(8,038)	(8,671)
Amortization and depreciation	3,383	2,238
Realized investment losses, net	897	20,448
Other, net	(21,269)	(6,148)
Net cash provided by operating activities	<u>113,311</u>	<u>74,337</u>
Cash flows from investing activities:		
Fixed maturity investments:		
Purchases	(329,352)	(143,125)
Sales or maturities	197,253	113,945
Equity securities:		
Purchases	(14,674)	(28,470)
Sales	13,616	28,074
Net purchases of short-term investments	(64,405)	(35,357)
Sale (purchase) of property and equipment	616	(1,778)
Net cash used by investing activities	<u>(196,946)</u>	<u>(66,711)</u>
Cash flows from financing activities:		
Issuance of common stock	8,214	7,460
Issuance of debt	100,000	
Repayment of debt obligation	(475)	(435)
Dividend paid (to affiliate, \$8,375 and \$7,723)	(15,023)	(13,825)
Purchase of treasury stock	(7,497)	
Net cash provided (used) by financing activities	<u>85,219</u>	<u>(6,800)</u>
Increase in cash	1,584	826
Cash at beginning of period	<u>2,944</u>	<u>1,839</u>
Cash at end of period	<u>\$ 4,528</u>	<u>\$ 2,665</u>

See accompanying notes to consolidated financial statements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

Notes to Consolidated Financial Statements

1 - Basis of Presentation

The financial information for the interim periods included herein is unaudited; however, such information reflects all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary to a fair presentation of the financial position, results of operations, and cash flows for the interim periods. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

These financial statements should be read in conjunction with the financial statements and notes for the year ended December 31, 2002 included in the Company's 2002 Annual Report filed with the Securities and Exchange Commission on Form 10-K.

The affiliate transaction disclosures on the face of the financial statements are in regards to transactions with Harleysville Mutual Insurance Company (Mutual). Mutual owns approximately 56% of the outstanding common stock of Harleysville Group Inc. As used herein, "Harleysville Group" refers to Harleysville Group Inc. and its subsidiaries.

Policy Acquisition Costs

Policy acquisition costs, such as commissions, premium taxes and certain other underwriting and agency expenses that vary with, and are directly related to, the production of business, are deferred and amortized over the effective period of the related insurance policies in proportion to the premiums earned. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value. The estimation of net realizable value takes into account the premium to be earned, related investment income over the claims paying period, losses and loss settlement expenses, and certain other costs expected to be incurred as the premium is earned. Future changes in estimates, the most significant of which is expected losses and loss settlement expenses, may require adjustments to deferred policy acquisition costs. If the estimation of net realizable value indicates that the acquisition costs are unrecoverable, further analyses are completed to determine if a reserve is required to provide for losses that may exceed the related unearned premiums.

Stock-Based Compensation

Stock-based compensation plans are accounted for under the provisions of Accounting Principles Board (APB) Opinion No. 25,

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

Notes to Consolidated Financial Statements
(Continued)

"Accounting for Stock Issued to Employees," and related interpretations. Accordingly, no compensation expense is recognized for fixed stock option grants and an employee stock purchase plan. Compensation expense would be recorded on the date of a stock option grant only if the current market price of the underlying stock exceeded the exercise price. The following table illustrates the effect on net income and earnings per share as if the provisions of statement of Financial Accounting Standards (SFAS) No. 123 (as amended by SFAS No. 148), "Accounting for Stock-Based Compensation," had been applied for the three and nine months ended September 30, 2003 and 2002:

	<u>For the three months ended September 30, 2003</u>	<u>2002</u>	<u>For the nine months ended September 30, 2003</u>	<u>2002</u>
	(in thousands, except per share data)			
Net income (loss), as reported	\$(34,654)	\$15,216	\$(27,826)	\$28,852
Plus:				
Stock-based employee compensation expense (benefit) included in reported net income (loss), net of related tax effects	155	363	(301)	2,060
Less:				
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(855)</u>	<u>(1,150)</u>	<u>(1,940)</u>	<u>(3,992)</u>
Pro forma net income (loss)	<u>\$(35,354)</u>	<u>\$14,429</u>	<u>\$(30,067)</u>	<u>\$26,920</u>
Basic earnings (loss) per share:				
As reported	\$ (1.16)	\$.51	\$ (.93)	\$.97
Pro forma	\$ (1.18)	\$.48	\$ (1.00)	\$.91
Diluted earnings (loss) per share:				
As reported	\$ (1.16)	\$.50	\$ (.93)	\$.95
Pro forma	\$ (1.18)	\$.47	\$ (1.00)	\$.89

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

Notes to Consolidated Financial Statements
(Continued)

2 - Earnings Per Share

The computation of basic and diluted earnings (loss) per share is as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2003	2002	2003	2002
	(in thousands, except per share data)			
Numerator for basic and diluted earnings (loss) per share:				
Net income (loss)	<u>\$ (34,654)</u>	<u>\$ 15,216</u>	<u>\$ (27,826)</u>	<u>\$ 28,852</u>
Denominator for basic earnings per share -- weighted average shares outstanding	29,986	29,790	30,017	29,647
Effect of stock incentive plans	<u> </u>	<u> 595</u>	<u> </u>	<u> 611</u>
Denominator for diluted earnings (loss) per share	<u>29,986</u>	<u>30,385</u>	<u>30,017</u>	<u>30,258</u>
Basic earnings (loss) per share	<u>\$ (1.16)</u>	<u>\$.51</u>	<u>\$ (.93)</u>	<u>\$.97</u>
Diluted earnings (loss) per share	<u>\$ (1.16)</u>	<u>\$.50</u>	<u>\$ (.93)</u>	<u>\$.95</u>

The following options to purchase shares of common stock were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price:

	For the three months ended September 30,		For the nine months ended September 30,	
	2003	2002	2003	2002
	(in thousands)			
Number of options	<u>1,510</u>	<u>898</u>	<u>1,111</u>	<u>898</u>

An additional 803,223 and 1,203,004 options to purchase shares of common stock were not included in the computation of

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

Notes to Consolidated Financial Statements
(Continued)

diluted earnings per share for the three and nine months ended September 30, 2003, respectively, because their inclusion would have had an antidilutive effect.

3 - Reinsurance

Premiums earned are net of amounts ceded of \$17,129,000 and \$51,589,000 for the three and nine months ended September 30, 2003, respectively, and \$17,139,000 and \$50,601,000 for the three and nine months ended September 30, 2002, respectively. Losses and loss settlement expenses are net of amounts ceded of \$57,228,000 and \$94,734,000 for the three and nine months ended September 30, 2003, respectively, and \$10,008,000 and \$26,054,000 for the three and nine months ended September 30, 2002, respectively. Such amounts do not include the reinsurance transactions with Harleysville Mutual Insurance Company (Mutual) under the pooling arrangement, but do include the reinsurance described in the following paragraph. Of the losses and loss settlement expenses ceded for the three months ended September 30, 2003, \$53.7 million is for losses ceded to involuntary reinsurance mechanisms and reflect increased estimates of losses on lifetime medical cases. Of this \$53.7 million, \$48.7 million is ceded to the Michigan Catastrophic Claims Association (MCCA) which covers no-fault first party medical losses in excess of a retention ranging from \$250,000 to \$325,000. Since these ceded losses are above the retention, the increased estimates had no net impact on results of operations.

Harleysville Group has a reinsurance agreement with Mutual whereby Mutual reinsures accumulated catastrophe losses in a quarter up to \$14,400,000 in excess of \$3,600,000 in return for a reinsurance premium. The agreement excludes catastrophe losses resulting from earthquakes, terrorism or hurricanes, and supplements the existing external catastrophe reinsurance program. Harleysville Group ceded to Mutual premiums earned of \$2,108,000 and \$1,996,000 and losses incurred of \$(140,000) and \$213,000 for the three months ended September 30, 2003 and 2002, respectively. Harleysville Group ceded to Mutual premiums earned of \$6,348,000 and \$5,859,000 and losses incurred of \$4,634,000 and \$279,000 for the nine months ended September 30, 2003 and 2002, respectively.

Pursuant to the terms of a reinsurance pooling agreement with Mutual, each of the insurance subsidiaries of Harleysville Group Inc. cedes premiums, losses and expenses on all of their respective business to Mutual which, in turn, retrocedes to such subsidiaries a specified portion of premiums, losses and expenses of Mutual and such subsidiaries. Because this agreement does not relieve Harleysville Group Inc.'s insurance subsidiaries of primary liability as originating insurers, there is a concentration of credit risk arising from business ceded to

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

Notes to Consolidated Financial Statements
(Continued)

Mutual. However, the reinsurance pooling agreement provides for the right of offset. Mutual has an A. M. Best rating of "A" (Excellent).

4 - Cash Flows

Net cash tax payments of \$1,096,000 and \$8,750,000 were made in the first nine months of 2003 and 2002, respectively. Cash interest payments of \$2,817,000 and \$2,927,000 were made in the first nine months of 2003 and 2002, respectively.

5 - Segment Information

The performance of the personal lines and commercial lines is evaluated based upon underwriting results as determined under statutory accounting practices (SAP).

Financial data by segment is as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2003	2002	2003	2002
	(in thousands)			
Revenues:				
Premiums earned:				
Commercial lines	\$161,412	\$143,725	\$ 464,279	\$406,414
Personal lines	<u>47,765</u>	<u>52,799</u>	<u>147,482</u>	<u>160,323</u>
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	<u>3,838</u>	<u>3,967</u>	<u>12,431</u>	<u>11,610</u>
Total revenues	<u>\$234,122</u>	<u>\$222,287</u>	<u>\$ 688,029</u>	<u>\$622,646</u>
Income (loss) before income taxes:				
Underwriting loss:				
Commercial lines	\$ (63,953)	\$ (2,459)	\$ (100,726)	\$ (15,612)
Personal lines	<u>(13,439)</u>	<u>(3,628)</u>	<u>(29,181)</u>	<u>(8,001)</u>
SAP underwriting loss	(77,392)	(6,087)	(129,907)	(23,613)
GAAP adjustments	<u>(939)</u>	<u>2,650</u>	<u>8,082</u>	<u>8,696</u>
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	<u>(367)</u>	<u>1,366</u>	<u>3,052</u>	<u>4,062</u>
Income (loss) before income taxes	<u>\$ (57,591)</u>	<u>\$ 19,725</u>	<u>\$ (54,936)</u>	<u>\$ 33,444</u>

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
(Unaudited)

Notes to Consolidated Financial Statements
(Continued)

6 - Comprehensive Income (Loss)

Comprehensive income (loss) consisted of the following (all amounts are net of taxes):

	<u>For the three months ended September 30, 2003</u>	<u>2002</u>	<u>For the nine months ended September 30, 2003</u>	<u>2002</u>
	(in thousands)			
Net income (loss)	\$(34,654)	\$15,216	\$(27,826)	\$28,852
Other comprehensive income (loss):				
Unrealized investment holding gains (losses) arising during period	(7,510)	7,298	9,412	(5,038)
Less:				
Reclassification adjustment for (gains) losses included in net income (loss)	<u>442</u>	<u>(28)</u>	<u>872</u>	<u>13,466</u>
Net unrealized investment gains (losses)	<u>(7,068)</u>	<u>7,270</u>	<u>10,284</u>	<u>8,428</u>
Comprehensive income (loss)	<u><u>\$(41,722)</u></u>	<u><u>\$22,486</u></u>	<u><u>\$(17,542)</u></u>	<u><u>\$37,280</u></u>

7 - Shareholders' Equity

Various states have adopted the National Association of Insurance Commissioners (NAIC) risk-based capital (RBC) standards that require insurance companies to calculate and report statutory capital and surplus needs based on a formula measuring underwriting, investment and other business risks inherent in an individual company's operations. These RBC standards have not affected the operations of Harleysville Group since each of the Company's insurance subsidiaries has statutory capital and surplus in excess of RBC requirements.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES
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Notes to Consolidated Financial Statements
(Continued)

These RBC standards require the calculation of a ratio of total adjusted capital to Authorized Control Level. Insurers with a ratio below 200% are subject to different levels of regulatory intervention and action. Based upon their 2002 statutory financial statements, the ratio of total adjusted capital to the Authorized Control Level for the Company's nine insurance subsidiaries at December 31, 2002 ranged from 642% to 812%.

8 - Debt

In July 2003, the Company issued \$100 million of 5.75% notes payable due July 2013. A portion of the proceeds of the sale of the notes will be used to repay \$75 million of notes payable due in November 2003.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Item 2. Management's Discussion and Analysis of Results
of Operations and Financial Condition**

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 which 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. 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; competition in insurance product pricing; government regulation and changes therein which may impede the ability to charge adequate rates; performance of the financial markets; fluctuations in interest rates; availability and price of reinsurance; and the status of labor markets in which the Company operates.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which require Harleysville Group to make estimates and assumptions (see Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 2002 included in the Company's 2002 Annual Report filed with the Securities and Exchange Commission on Form 10-K). Harleysville Group believes that of its significant accounting policies, the following may involve a higher degree of judgment and estimation.

Liabilities for Losses and Loss Settlement Expenses. The liability for losses and loss settlement expenses represents estimates of the ultimate unpaid cost of all losses incurred, including losses for claims which have not yet been reported to Harleysville Group. The amount of loss reserves for reported claims is based primarily upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Results
of Operations and Financial Condition**

(Continued)

type of loss. The amounts of loss reserves for unreported claims and loss settlement expense reserves are determined utilizing historical information by line of insurance as adjusted to current conditions. Inflation is implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results. Reserves are closely monitored and are recomputed periodically using the most recent information on reported claims and a variety of statistical techniques. It is expected that such estimates will be more or less than the amounts ultimately paid when the claims are settled. Changes in these estimates are reflected in current operations.

Investments. Generally, unrealized investment gains or losses on investments carried at fair value, net of applicable income taxes, are reflected directly in shareholders' equity as a component of comprehensive income and, accordingly, have no effect on net income. However, if the fair value of an investment declines below its cost and that decline is deemed other than temporary, the amount of the decline below cost is charged to earnings. Harleysville Group monitors its investment portfolio and quarterly reviews investments that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. Such evaluations consider, among other things, the magnitude and reasons for a decline and the prospects for the fair value to recover in the near term. Future adverse investment market conditions, or poor operating results of underlying investments, could result in an impairment charge in the future.

Harleysville Group evaluates its investment portfolio quarterly to determine if a decline in fair value below cost is other than temporary. Harleysville Group has written down to fair value, without exception, any equity security that has declined below cost by more than 20% and maintained such decline for six months, or by 50% or more, in the quarter in which either such decline occurred. In some cases, securities that have declined by a lesser amount or for a shorter period of time are written down if the evaluation indicates the decline is other-than-temporary. For example, one equity security had declined for a short period of time but was written down in the fourth quarter of 2002 when the sale of the company at a value less than our cost was announced. Fair value of equity securities is based on the closing market value as reported by a national stock exchange or Nasdaq. The fair value of fixed maturities is based upon data supplied by an independent pricing service. It can be difficult to determine the fair value of non-traded securities but Harleysville Group does not own a material amount of non-traded securities.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Results
of Operations and Financial Condition**

(Continued)

Policy Acquisition Costs. Policy acquisition costs, such as commissions, premium taxes and certain other underwriting and agency expenses that vary with and are directly related to the production of business, are deferred and amortized over the effective period of the related insurance policies and in proportion to the premiums earned. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value. The estimation of net realizable value takes into account the premium to be earned, related investment income over the claim paying period, losses and loss settlement expenses, and certain other costs expected to be incurred as the premium is earned. Future changes in estimates, the most significant of which is expected losses and loss settlement expenses, may require adjustments to deferred policy acquisition costs. If the estimation of net realizable value indicates that the acquisition costs are unrecoverable, further analyses are completed to determine if a reserve is required to provide for losses that may exceed the related unearned premiums.

Contingencies. Besides claims related to its insurance products, Harleysville Group is subject to proceedings, lawsuits and claims in the normal course of business. Harleysville Group assesses the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. There can be no assurance that actual outcomes will not differ from those assessments.

The application of certain of these critical accounting policies to the periods ended September 30, 2003 and 2002 is discussed in greater detail below.

Results of Operations

Premiums earned increased \$12.7 million and \$45.0 million during the three and nine months ended September 30, 2003, respectively. The increases are primarily due to increases in premiums earned for commercial lines of \$17.7 million and \$57.9 million partially offset by decreases of \$5.0 million and \$12.9 million in personal lines premiums earned for the three and nine months ended September 30, 2003, respectively. The increases in premiums earned for commercial lines were 12.3% and 14.2% for the three and nine months ended September 30, 2003, respectively, primarily due to higher rates. The decline in premiums earned for

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

**Management's Discussion and Analysis of Results
of Operations and Financial Condition**

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personal lines was 9.5% and 8.0% for the three and nine months ended September 30, 2003, respectively, primarily due to fewer policy counts partially offset by higher rates. The reduction in personal lines volume was driven primarily by a planned reduction of business in certain less profitable states and the implementation of other more stringent underwriting processes.

Investment income decreased \$0.1 million for the three months ended September 30, 2003 and was essentially unchanged for the nine months ended September 30, 2003 resulting from a lower yield on the fixed maturity investment portfolio partially offset by an increase in invested assets.

Realized investment gains (losses) worsened by \$0.6 million for the three months ended September 30, 2003 due to greater losses on the sale of equity investments, partially offset by greater gains on the sale of fixed maturity investments. Realized investment losses improved \$19.6 million for the nine months ended September 30, 2003, primarily resulting from lesser losses recognized on investments that were trading below cost on an other-than-temporary basis.

There were no impairment charges in 2003 and \$4.5 million and \$28.2 million of impairment charges in the three and nine months ended September 30, 2002, respectively. Harleysville Group had gross realized losses of \$3.0 million in the nine months ended September 30, 2003, which were from the sales of securities which had not declined by more than 20% below their cost for more than six months at the time of their sale.

Harleysville Group holds securities with unrealized losses at September 30, 2003 as follows:

	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Length of Unrealized Loss</u>		
			<u>Less Than 6 Months</u>	<u>6 to 12 Months</u>	<u>Over 12 Months</u>
			(in thousands)		
Equity securities	<u>\$43,911</u>	<u>\$4,370</u>	<u>\$1,025</u>	<u>\$ -</u>	<u>\$3,345</u>
Fixed maturities:					
Obligations of state and political subdivisions	\$35,593	\$ 678	\$ 678		
Corporate bonds	46,537	3,988	245	-	\$3,743
Total bonds	<u>\$82,130</u>	<u>\$4,666</u>	<u>\$ 923</u>	<u>\$ -</u>	<u>\$3,743</u>

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

**Management's Discussion and Analysis of Results
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Substantially all of the fixed maturity securities are classified as available for sale and are carried at fair value on the balance sheet.

There are 20 positions that comprise the unrealized loss in equity investments at September 30, 2003. While eight of these positions have been below cost for more than six months, they have had volatile price movements and have not been significantly below cost for significant continuous amounts of time. Harleysville Group has been monitoring these securities and it is possible that some may be written down in the future.

There are \$22.3 million in fixed maturity securities, at amortized cost, that at September 30, 2003, had been below amortized cost for over 12 months. These are comprised of airline enhanced equipment trust certificates (EETC) as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Maturity Dates</u>
		(in thousands)	
American Airlines	\$14,472	\$12,356	2011
United Airlines	7,007	5,394	2010-2012
Other airlines	<u>811</u>	<u>797</u>	2015
	<u>\$22,290</u>	<u>\$18,547</u>	

After the events of September 11, 2001, air travel and the value of these airlines' EETC securities declined. The EETCs are all "A tranche" holdings, which means they are in a senior credit position to the underlying airplane collateral value as compared to B and C tranche holders. At the time of issuance, the collateral was appraised at approximately twice the value of the A tranche EETCs. Recent estimates indicate that in a distressed sale scenario, the value of the collateral would be approximately the same as the EETCs' cost. During the fourth quarter of 2002, United Airlines declared bankruptcy. During the third quarter of 2003, the United Airlines EETCs were downgraded to non-investment grade by one rating agency but continued to carry an investment grade rating by the other rating agency. In the first quarter of 2003, the debt ratings of American Airlines were downgraded to

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Results
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non-investment grade. In the second quarter of 2003, one of the rating agencies upgraded this debt to investment grade. Harleysville Group is participating in certain EETC creditor committees and is monitoring developments. It is possible that these EETCs may be written down in the income statement in the future, depending upon developments involving both the issuers and world events which impact the level of air travel.

Income (loss) before income taxes decreased \$77.3 million for the three months ended September 30, 2003 compared to the same prior year period. The decrease was primarily due to a greater underwriting loss. Income (loss) before income taxes decreased \$88.4 million for the nine months ended September 30, 2003 compared to the same prior year period. The decrease was primarily due to a greater underwriting loss, partially offset by lesser realized investment losses. The greater three and nine months underwriting loss was primarily due to higher catastrophe losses, greater loss severity and an increase in the provision for insured events in prior years. The provision for insured events in prior years consists of \$55.1 million and \$76.8 million of adverse development for the three and nine months ended September 30, 2003 compared to \$3.3 million and \$(5.3) million of adverse (favorable) development for the three and nine months ended September 30, 2002.

An insurance company's statutory combined ratio is a standard measure of underwriting profitability. This ratio is the sum of (1) the ratio of incurred losses and loss settlement expenses to net earned premium; (2) the ratio of expenses incurred for commissions, premium taxes, administrative and other underwriting expenses to net written premium; and (3) the ratio of dividends to policyholders to net earned premium. The combined ratio does not reflect investment income, federal income taxes or other non-operating income or expense. A ratio of less than 100 percent generally indicates underwriting profitability. Harleysville Group's statutory combined ratio increased to 137.2% and 119.4% for the three and nine months ended September 30, 2003, respectively, from 101.7% and 101.9% for the three and nine months ended September 30, 2002, respectively. Such increase was due to a higher underwriting loss in both commercial lines and personal lines, primarily resulting from the adverse loss development and catastrophe losses.

The statutory combined ratios by line of business for the three and nine months ended September 30, 2003, as compared to the three and nine months ended September 30, 2002, were as follows:

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

**Management's Discussion and Analysis of Results
of Operations and Financial Condition**
(Continued)

	For the three months ended September 30,		For the nine months ended September 30,	
	2003	2002	2003	2002
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%

The following table presents the liability for unpaid losses and loss settlement expenses by major line of business:

	September 30, 2003	December 31, 2002
	(in thousands)	
Commercial:		
Automobile	\$ 214,410	\$181,537
Workers compensation	277,516	230,705
Commercial multi-peril	296,643	243,312
Other commercial	54,148	47,109
Total commercial	<u>842,717</u>	<u>702,663</u>
Personal:		
Automobile	116,416	115,025
Homeowners	46,346	37,768
Other personal	2,296	1,726
Total personal	<u>165,058</u>	<u>154,519</u>
Total personal and commercial	<u>1,007,775</u>	<u>857,182</u>
Plus reinsurance recoverables	<u>146,573</u>	<u>71,153</u>
Total liability	<u>\$1,154,348</u>	<u>\$928,335</u>

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Results
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(Continued)

The commercial lines statutory combined ratio increased to 140.1% and 119.0% for the three and nine months ended September 30, 2003 from 100.0% and 99.9% for the three and nine months ended September 30, 2002. The increases are primarily due to the adverse development in the provision for insured events in prior years, greater loss severity and greater catastrophe losses, particularly in commercial multi-peril insurance.

The \$55.1 million of third quarter adverse development in the provision for insured events in prior years was primarily in the following lines: commercial automobile (\$19.1 million), workers compensation (\$17.1 million), commercial multi-peril (\$13.5 million) and personal automobile (\$4.5 million). The remaining \$21.7 million of adverse development in the nine months ended September 30, 2003 was primarily from \$19.9 million of workers compensation adverse development in the first quarter of 2003. Of the nine month adverse development, \$67.2 million was attributable to the 1998 to 2002 accident years and the balance was attributable to other accident years. The 2003 adverse development represented 9.0% of the December 31, 2002 net liability for unpaid losses and loss settlement expenses.

The adverse development in workers compensation for the nine months ended September 30, 2003 was \$37.0 million. Harleysville Group had publicly noted adverse loss trends in its workers compensation line for several quarters and the trends were again worse than expected in the third quarter of 2003. These trends are consistent with the experience of other companies writing this coverage, many of which have, during the past twelve months, made substantial additions to their reserves for insured events in prior years in this line of insurance. The change in loss development patterns in 2003 was influenced by a number of factors. The reorganization of Harleysville Group's claims operations resulted in more proactive claims management which, in turn, provided more contemporaneous loss estimates. In addition, weak economic conditions have hampered the ability to return injured workers to employment thus extending the estimated length of disabilities and medical loss cost trends have increased.

The following table presents workers compensation claim count information for the total pooled business in which Harleysville Group participates and payment amounts which are Harleysville Group's pooling share of the total pooled amounts:

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

**Management's Discussion and Analysis of Results
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	<u>For the nine months ended September 30, 2003</u>	<u>For the year ended December 31, 2002</u>
	(dollars in thousands)	
Number of claims pending, beginning of period	8,900	10,819
Number of claims reported	9,990	16,053
Number of claims settled or dismissed	<u>(10,285)</u>	<u>(17,972)</u>
Number of claims pending, end of period	<u>8,605</u>	<u>8,900</u>
Losses paid	\$ 60,529	\$80,578
Loss settlement expenses paid	\$ 11,659	\$12,494

Workers compensation losses primarily consist of indemnity and medical costs for injured workers. The reduction in claim counts reflects the impact of a reduction in workers compensation exposure as policy counts have declined.

The adverse development in commercial and personal automobile primarily was due to higher loss severity trends that became evident in the third quarter when case reserve increases were recognized. The case reserve increases for commercial automobile primarily related to adverse legal judgements. Harleysville Group had previously publicly noted an increase in litigation on bodily injury cases and a slowing of the rate of settlement. The combination of all of these factors resulted in the increased estimate of ultimate losses.

The adverse development in commercial multi-peril primarily was due to higher loss severity trends that became evident in the third quarter when case reserve increases were recognized. Like commercial auto, the trend of increased litigation and a slowing rate of settlement resulted in the increased estimate of ultimate losses. While Harleysville Group had only incurred \$1.5 million of construction defect liability losses over the past 10 years, it increased its provision for insured events prior years by an additional \$1.4 million for estimated losses on construction defect liability claims because of increased case activity in the third quarter of 2003.

Harleysville Group records the actuarial best estimate of the ultimate unpaid losses and loss settlement expenses incurred and does not determine an estimated possible range of loss. Actuarial

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Results
of Operations and Financial Condition**
(Continued)

loss reserving techniques and assumptions, which rely on historical information as adjusted to reflect current conditions, have been consistently applied during the periods presented. Changes in the estimate of the liability for unpaid losses and loss settlement expenses reflect actual payments and evaluations of new information and data since the last reporting date. These changes correlate with actuarial trends.

Because of the nature of insurance claims, there are uncertainties inherent in the estimates of ultimate losses. The aforementioned reorganization of the claims operation has resulted in new people and processes involved in settling claims. As a result, more recent statistical data reflects different patterns than in the past and give rise to uncertainty as to the pattern of future loss settlements. Litigation on bodily injury liability cases has increased during the past two years while the rate of settlement has slowed. These changed patterns give rise to greater uncertainty as to the pattern of future loss settlements on bodily injury liability claims. There are uncertainties regarding future loss cost trends particularly related to medical treatments and automobile repair. Court decisions, regulatory changes and economic conditions can affect the ultimate cost of claims that occurred in the past. Accordingly, the ultimate liability for unpaid losses and loss settlement expenses will likely differ from the amount recorded at September 30, 2003. For every 1% change in the estimate, the effect on pre-tax income would be \$10.1 million.

The property and casualty industry has had substantial aggregate loss experience from claims related to asbestos-related illnesses, environmental remediation, product liability, mold, and other uncertain exposures. Harleysville Group has not incurred significant losses from such claims.

The personal lines statutory combined ratio increased to 127.3% and 120.7% for the three and nine months ended September 30, 2003 from 106.4% and 106.7% for the three and nine months ended September 30, 2002. The increases primarily were due to higher catastrophe losses which affected the homeowners line and higher loss severity which affected each of the personal lines.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Results
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(Continued)

Net catastrophe losses increased \$10.0 million and \$13.8 million and losses ceded under the aggregate catastrophe reinsurance agreement with Mutual decreased \$0.4 million and increased \$4.4 million for the three and nine months ended September 30, 2003, respectively. The increase in the nine month period was due to a greater number and more severe catastrophes in the 2003 period, including \$9.4 million of losses from Hurricane Isabel.

The income tax expense for the three and nine months ended September 30, 2003 includes the tax benefit of \$2.6 million and \$7.7 million associated with tax-exempt income compared to \$2.4 million and \$7.6 million in the same prior year periods.

Liquidity and Capital Resources

Operating activities provided \$113.3 million and \$74.3 million of net cash for the nine months ended September 30, 2003 and 2002, respectively. The change primarily is from improved underwriting cash flow, a change in the amount of realized losses and a change in the amount of accounts payable and accrued expenses.

Investing activities used \$196.9 million and \$66.7 million of net cash for the nine months ended September 30, 2003 and 2002, respectively. The increase is primarily due to an increase in net purchases of fixed maturity investments and an increase in net purchases of short-term investments due to the increase in cash provided by operations and by the increase in cash provided by financing activities.

Financing activities provided \$85.2 million of net cash for the nine months ended September 30, 2003, compared to the use of \$6.8 million of net cash in the same prior year period. The change is primarily due to the issuance of debt, partially offset by an increase in dividends paid and by the purchase of treasury stock in the 2003 period.

Harleysville Group participates in a securities lending program whereby certain fixed maturity securities from the investment portfolio are loaned to other institutions for a short period of time in return for a fee. At September 30, 2003, Harleysville Group held cash collateral of \$230.3 million related to securities on loan with a market value of \$224.7 million.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Results
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(Continued)

Harleysville Group's policy is to require initial collateral of 102% of the market value of loaned securities plus accrued interest, which is required to be maintained daily by the borrower at no less than 100% of such market value plus accrued interest over the life of the loan. Acceptable collateral includes cash and money market instruments, government securities, A-rated corporate obligations, AAA-rated asset-backed securities or GIC's and Funding Agreements from issuers rated A or better. The securities on loan to others have been segregated from the other invested assets on the balance sheet. In addition, the assets and liabilities have been grossed up to reflect the collateral held under the securities lending program and the obligation to return this collateral upon the return of the loaned securities.

Harleysville Group Inc. maintained \$94.6 million of cash and marketable securities and \$11.6 million of dividends receivable from its subsidiaries at September 30, 2003 which is available for general corporate purposes including dividends, debt service, capital contributions to subsidiaries, acquisitions and the repurchase of stock. The Company's \$75.0 million of notes payable are due November 2003 and the Company will repay this indebtedness from the proceeds of \$100.0 million of notes payable due July 2013 which were issued in July 2003. The Company has adopted a stock purchase plan under which the Company and Mutual may each purchase up to 500,000 shares of Harleysville Group Inc. common stock up to a total of 1.0 million shares. As of September 30, 2003, the Company had repurchased 333,273 shares leaving 166,727 shares authorized to be repurchased. The Company has no other material commitments for capital expenditures as of September 30, 2003.

Risk Factors

The business, results of operations and financial condition, and therefore the value of the Harleysville Group's securities, are subject to a number of risks. Some of those risks are set forth in Exhibit 13(B) to the Company's annual report on Form 10-K for fiscal year 2002, filed with the Securities and Exchange Commission on March 26, 2003.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Harleysville Group's market risk generally represents the risk of gain or loss that may result from the potential change in the fair value of Harleysville Group's investment portfolio as a result of fluctuations in prices and interest rates. Harleysville Group attempts to manage its interest rate risk by maintaining an appropriate relationship between the average duration of the investment portfolio and the approximate duration of its liabilities.

Harleysville Group has maintained approximately the same duration of its investment portfolio to its liabilities from December 31, 2002 to September 30, 2003. In addition, the Company has not significantly changed its investment mix or market risk during this period.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures. The Company's chief operating officer (principal executive officer) and its chief financial officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) have concluded that the Company's disclosure controls and procedures are adequate and effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-15(e) as of September 30, 2003.
- (b) Change in internal control over financial reporting. There was no change in the Company's internal control over financial reporting that occurred during the third quarter of 2003 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 2. Changes in Securities - None

Item 3. Defaults Upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

ITEM 6. a. Exhibits

31.1 Certification of M. Lee Patkus pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Bruce J. Magee pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of M. Lee Patkus pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Bruce J. Magee pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b. Reports on Form 8-K

A Form 8-K dated July 10, 2003 was filed disclosing certain events associated with the Company's debt offering.

A Form 8-K dated July 25, 2003 was filed reporting financial results for the second quarter of 2003.

A Form 8-K dated September 30, 2003 was filed reporting the retirement of the Chairman of the Board and Chief Executive Officer.

HARLEYSVILLE GROUP INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

(Continued)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARLEYSVILLE GROUP INC.

Date: November 12, 2003

/s/ BRUCE J. MAGEE
Bruce J. Magee
Senior Vice President and
Chief Financial Officer
(principal financial officer and
principal accounting officer)

HARLEYSVILLE GROUP INC AND SUBSIDIARIES
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003
FORM 10-Q

EXHIBITS INDEX

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
31.1	Certification of M. Lee Patkus pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Bruce J. Magee pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of M. Lee Patkus pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Bruce J. Magee pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.1

HARLEYSVILLE GROUP INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ENACTED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, M. Lee Patkus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Harleysville Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ M. LEE PATKUS
M. Lee Patkus
President and Chief Operating Officer
(principal executive officer)

Exhibit 31.2

HARLEYSVILLE GROUP INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTIONS 1350
AS ENACTED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce J. Magee, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Harleysville Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2003

/s/ BRUCE J. MAGEE
Bruce J. Magee
Senior Vice President and
Chief Financial Officer

Exhibit 32.1

HARLEYSVILLE GROUP INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Harleysville Group Inc. (the "Company") on Form 10-Q for the period ended September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Lee Patkus, President and Chief Operating Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2003

/s/ M. LEE PATKUS
M. Lee Patkus
President and
Chief Operating Officer
(principal executive officer)

A signed original of this written statement required by Section 906 has been provided to Harleysville Group Inc. and will be retained by Harleysville Group Inc. and furnished to the Securities and Exchange Commission or its Staff upon request.

Exhibit 32.2

HARLEYSVILLE GROUP INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Harleysville Group Inc. (the "Company") on Form 10-Q for the period ended September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bruce J. Magee, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2003

/s/ BRUCE J. MAGEE
Bruce J. Magee
Senior Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Harleysville Group Inc. and will be retained by Harleysville Group Inc. and furnished to the Securities and Exchange Commission or its Staff upon request.