



**For Release:** Immediately

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## **HARLEYSVILLE GROUP REPORTS SECOND QUARTER 2004 RESULTS**

HARLEYSVILLE, PA—JULY 29, 2004—Harleysville Group Inc. (Nasdaq: HGIC) today reported diluted net income of \$0.32 per share in the second quarter of 2004, compared to \$0.33 per share in the second quarter of 2003. For the six months ended June 30, 2004 and 2003, diluted net income per share was \$0.87 and \$0.23, respectively. There were no realized investment gains or losses in the second quarter of either year. For the six months, the company reported \$0.27 per share in realized gains in 2004, compared to a realized loss of \$0.01 per share in 2003. There was no significant net reserve development in the first six months of 2004. In 2003, the company's six-month earnings were reduced by \$0.43 per share after tax due to a first quarter workers compensation reserve adjustment.

The company reported diluted operating income of \$0.32 per share for the second quarter of 2004, compared to \$0.33 per share in the second quarter of 2003. For the six-month periods, diluted operating income per share was \$0.60 in 2004 and \$0.24 in 2003. Operating income is a non-GAAP financial measure defined by the company as net income excluding after-tax realized gains and losses on investments.

"We've made progress and again improved our results this quarter over the prior quarter, and we're confident we're on a course that will lead us to sustainable long-term growth and profitability," commented Michael L. Browne, Harleysville Group's chief executive officer. "We continue to focus on improving our four cornerstone areas—underwriting, claims handling, service to agents and policyholders, and productivity—as we strive to return our company to its past high levels of financial performance."

Harleysville Group's overall statutory combined ratio\* was 105.4 percent in the second quarter of 2004, compared to 105.2 percent in the second quarter of 2003. For the six months, the statutory combined ratio was 106.3 percent in 2004, versus 110.2 percent in 2003. In 2003, the workers compensation reserve adjustment added 4.9 points to the six-month combined ratio.

Second quarter net written premiums were \$223.1 million in 2004, compared to \$222.6 million in 2003. Net written premiums through six months were \$429.1 million in 2004 and \$437.8 million in 2003.

Second quarter pretax investment income declined 1 percent to \$21.4 million, while six-month pretax investment income was unchanged at \$43.1 million. After-tax investment income was unchanged in the second quarter at \$16.6 million, but rose 1 percent to \$33.4 million during the six-month period. Operating cash flow for the six months was \$23.9 million.

**Commercial lines** Net written premiums in commercial lines increased 4 percent in the second quarter of 2004 to \$180.0 million. For the six months, net written premiums were up 1 percent to \$348.2 million. The commercial lines statutory combined ratio was 106.7 percent in the second quarter of 2004, versus 101.7 percent in the second quarter of 2003. For the six months, the statutory combined ratio was 105.7 percent in 2004, compared to 107.8 percent in 2003. In 2003, the workers compensation reserve adjustment added 6.6 points to the six-month commercial lines statutory combined ratio.

(more)

## Harleysville Group second quarter results

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**Personal lines** Harleysville Group's personal lines statutory combined ratio was 100.6 percent in the second quarter of 2004, versus 115.8 percent during the second quarter of 2003. For the six months, the statutory combined ratio was 108.4 percent in 2004, compared to 117.5 percent in 2003. In 2003, weather-related losses and abnormally high large loss activity in the homeowners line also contributed to the higher statutory combined ratio. Net written premiums decreased 13 percent to \$43.1 million in the second quarter of 2004, and were down 14 percent to \$80.9 million through six months.

**Outlook** "Harleysville Group has a good capital base and a strong balance sheet, a great franchise, employees who are focused on making us succeed, and strong relationships with a solid and loyal network of independent agents," said Browne. "Looking forward, we have turned our attention to fine-tuning our commercial and personal lines business strategies to deliver the consistent growth and profitability that we seek."

**Webcast** The company will host a live Webcast today, Thursday, July 29, 2004, at 9:00 a.m. (ET) to discuss its second quarter results. The Webcast will be available from the Investors section of the company's Web site ([www.harleysvillegroup.com](http://www.harleysvillegroup.com)) until July 29, 2005.

**GAAP and non-GAAP financial measures** The company uses a non-GAAP financial measure called "operating income" that management believes is useful to investors because it illustrates the performance of normal, ongoing operations, which is important in understanding and evaluating the company's financial condition and results of operations. While this measure is utilized by investors to evaluate performance, it is not a substitute for the U.S. GAAP financial measure of net income. Therefore, a reconciliation of this non-GAAP financial measure to the U.S. GAAP financial measure of net income is provided following the Consolidated Statements of Income contained in this release. Management also uses operating income for goal setting, determining employee and senior management compensation, and evaluating performance.

**Corporate profile** Harleysville Insurance is a 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 net written premiums. Harleysville Mutual Insurance Company owns 57 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](http://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

<b>FINANCIAL HIGHLIGHTS</b>	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2004	2003	2004	2003
<b>OPERATING RESULTS</b>				
Diluted earnings per common share:				
Operating income *	\$0.32	\$0.33	\$0.60	\$0.24
Realized gains (losses), net of tax			0.27	(0.01)
Net income	\$0.32	\$0.33	\$0.87	\$0.23
Cash dividends per common share	\$0.17	\$0.165	\$0.34	\$0.33

<b>FINANCIAL CONDITION</b>	June 30, 2004	December 31, 2003
Assets	\$2,627,105	\$2,680,389
Shareholders' equity	\$569,553	\$572,747
Per common share	\$19.00	\$19.16

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2004	2003	2004	2003
<b>REVENUES:</b>				
Premiums earned	\$207,652	\$203,755	\$414,600	\$402,584
Investment income, net of investment expense	21,437	21,649	43,079	43,096
Realized investment gains (losses)	59	67	12,547	(366)
Other income	3,671	4,073	8,235	8,593
Total revenues	232,819	229,544	478,461	453,907
<b>LOSSES AND EXPENSES:</b>				
Losses and loss settlement expenses	148,711	147,426	299,821	311,185
Amortization of deferred policy acquisition costs	50,698	49,898	101,386	98,215
Other underwriting expenses	19,726	18,121	39,364	36,678
Interest expense	1,566	1,393	3,143	2,787
Other expenses	1,266	1,176	2,685	2,387
Total expenses	221,967	218,014	446,399	451,252
Income before income taxes	10,852	11,530	32,062	2,655
Income taxes (benefit)	1,124	1,462	5,841	(4,173)
Net income	\$9,728	\$10,068	\$26,221	\$6,828
Weighted average number of shares outstanding:				
Basic	29,959,781	30,076,989	29,960,271	30,032,397
Diluted	30,027,955	30,348,033	30,045,317	30,306,311
Per common share:				
Basic earnings	\$0.32	\$0.33	\$0.88	\$0.23
Diluted earnings	\$0.32	\$0.33	\$0.87	\$0.23

<b>RECONCILIATION TO OPERATING INCOME :</b>				
Net income	\$9,728	\$10,068	\$26,221	\$6,828
Less realized investment gains (losses), net of taxes	38	44	8,155	(238)
Operating income	\$9,690	\$10,024	\$18,066	\$7,066

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, 2004\*    December 31, 2003

#### ASSETS

Investments:

    Fixed maturities:

        Held to maturity, at amortized cost (fair value \$510,782  
            and \$467,485)

\$496,844

\$439,613

        Available for sale, at fair value (amortized cost \$1,134,152  
            and \$1,183,158)

1,165,219

1,246,019

    Equity securities, at fair value (cost \$109,196 and \$97,189)

146,418

137,590

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

47,980

31,411

        Total investments

1,856,461

1,854,633

Cash

1,050

13,430

Premiums in course of collection

151,012

140,674

Reinsurance receivable

174,880

164,841

Accrued investment income

23,042

23,086

Deferred policy acquisition costs

103,924

99,033

Prepaid reinsurance premiums

29,007

30,899

Property and equipment, net

22,497

23,824

Deferred income taxes

55,292

43,020

Securities lending collateral

145,505

221,454

Other assets

64,435

65,495

        Total assets

\$2,627,105

\$2,680,389

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

    Unpaid losses and loss settlement expenses

\$1,253,283

\$1,219,977

    Unearned premiums

450,511

437,883

    Accounts payable and accrued expenses

83,275

91,999

    Securities lending obligation

145,505

221,454

    Debt

119,625

120,145

    Due to affiliate

5,353

16,184

        Total liabilities

2,057,552

2,107,642

Shareholders' equity:

    Preferred stock, \$1 par value; authorized 1,000,000 shares;  
        none issued

    Common stock, \$1 par value, authorized 80,000,000 shares;  
        issued 31,381,457 and 31,298,532 shares;

        outstanding 29,983,548 and 29,900,623 shares

31,381

31,299

Additional paid-in capital

158,271

156,997

Accumulated other comprehensive income

37,718

60,450

Retained earnings

366,870

350,844

Deferred compensation

(200)

(2,356)

Treasury stock, at cost, 1,397,909

(24,487)

(24,487)

        Total shareholders' equity

569,553

572,747

Total liabilities and shareholders' equity

\$2,627,105

\$2,680,389

\* 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	
	2004	2003	2004	2003
Net premiums written*	\$223,095	\$222,564	\$429,121	\$437,847
Statutory surplus *			\$496,170	\$512,070
Pretax investment income	\$21,437	\$21,649	\$43,079	\$43,096
Related federal income taxes	4,825	5,000	9,689	9,973
After-tax investment income	\$16,612	\$16,649	\$33,390	\$33,123

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Revenues:				
Premiums earned:				
Commercial lines	\$163,791	\$154,118	\$326,111	\$302,867
Personal lines	43,861	49,637	88,489	99,717
Total premiums earned	207,652	203,755	414,600	402,584
Net investment income	21,437	21,649	43,079	43,096
Realized investment gains (losses)	59	67	12,547	(366)
Other	3,671	4,073	8,235	8,593
Total revenues	\$232,819	\$229,544	\$478,461	\$453,907

#### Income before income taxes :

Underwriting gain (loss):				
Commercial lines	(\$16,358)	(\$8,767)	(\$26,006)	(\$36,773)
Personal lines	10	(7,848)	(4,850)	(15,742)
SAP underwriting loss	(16,348)	(16,615)	(30,856)	(52,515)
GAAP adjustments	4,865	4,925	4,885	9,021
GAAP underwriting loss	(11,483)	(11,690)	(25,971)	(43,494)
Net investment income	21,437	21,649	43,079	43,096
Realized investment gains (losses)	59	67	12,547	(366)
Other	839	1,504	2,407	3,419
Income before income taxes	\$10,852	\$11,530	\$32,062	\$2,655

Income taxes on net investment income	\$4,825	\$5,000	\$9,689	\$9,973
Income tax on remaining loss	(3,701)	(3,538)	(3,848)	(14,146)
Total income taxes (benefit)	\$1,124	\$1,462	\$5,841	(\$4,173)

#### Effective tax rate on:

Net investment income	22.5%	23.1%	22.5%	23.1%
Net income	10.4%	12.7%	18.2%	N/M

These financial figures are unaudited.

\* Statutory data is prepared in accordance with statutory accounting rules as defined by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and therefore is not reconciled to GAAP.

## Harleysville Group Inc. and Subsidiaries

### STATUTORY DATA BY LINE OF BUSINESS\*

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2004	2003	2004	2003
<b>Net premiums written:</b>				
Commercial:				
Automobile	\$62,367	\$59,041	\$119,128	\$114,284
Workers' compensation	24,172	27,538	50,912	60,311
Commercial multi-peril	76,805	68,944	145,003	133,756
Other commercial	16,681	17,370	33,162	35,079
<b>Total commercial</b>	<b>\$180,025</b>	<b>\$172,893</b>	<b>\$348,205</b>	<b>\$343,430</b>
Personal:				
Automobile	\$23,459	\$28,998	\$46,660	\$58,595
Homeowners	16,514	17,995	29,482	31,467
Other personal	3,097	2,678	4,774	4,355
<b>Total personal</b>	<b>\$43,070</b>	<b>\$49,671</b>	<b>\$80,916</b>	<b>\$94,417</b>
<b>Total personal and commercial</b>	<b>\$223,095</b>	<b>\$222,564</b>	<b>\$429,121</b>	<b>\$437,847</b>

### Combined ratios:

Commercial:				
Automobile	104.7%	94.4%	103.9%	95.1%
Workers' compensation	122.2%	120.9%	122.5%	157.1%
Commercial multi-peril	105.5%	105.1%	105.3%	102.0%
Other commercial	95.4%	78.4%	88.5%	81.0%
<b>Total commercial</b>	<b>106.7%</b>	<b>101.7%</b>	<b>105.7%</b>	<b>107.8%</b>
Personal:				
Automobile	110.9%	116.1%	114.6%	116.8%
Homeowners	86.0%	113.9%	97.6%	118.7%
Other personal	83.6%	123.8%	112.3%	118.8%
<b>Total personal</b>	<b>100.6%</b>	<b>115.8%</b>	<b>108.4%</b>	<b>117.5%</b>
<b>Total personal and commercial</b>	<b>105.4%</b>	<b>105.2%</b>	<b>106.3%</b>	<b>110.2%</b>

<b>Losses paid</b>	<b>\$142,655</b>	<b>\$125,734</b>	<b>\$276,715</b>	<b>\$254,371</b>
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<b>Net catastrophe losses incurred</b>	<b>\$1,262</b>	<b>\$3,586</b>	<b>\$3,887</b>	<b>\$7,235</b>
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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.