

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 2001.

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____
Commission file number 0-14697

HARLEYSVILLE GROUP INC.

(Exact name of registrant as specified in its charter)

<u>Delaware</u>	<u>51-0241172</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

<u>355 Maple Avenue, Harleysville, PA</u>	<u>19438-2297</u>
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (215) 256-5000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$1 par value
(Title of class)

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 X. No _____.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

On March 8, 2002, the aggregate market value (based on the closing sales price on that date) of the voting stock held by non-affiliates of the Registrant was \$340,728,467.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 29,564,841 shares of Common Stock outstanding on March 8, 2002.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the Registrant's annual report to stockholders for the fiscal year ended December 31, 2001 are incorporated by reference in Parts I, II and IV of this report.
2. Portions of the Registrant's proxy statement relating to the annual meeting of stockholders to be held April 24, 2002 are incorporated by reference in Parts I and III of this report.

HARLEYSVILLE GROUP INC.
ANNUAL REPORT ON FORM 10-K

DECEMBER 31, 2001

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PART I

Item 1. Business.

(a) General Development of Business.

Harleysville Group Inc. (the "Company") is an insurance holding company headquartered in Pennsylvania which engages, through its subsidiaries, in the property and casualty insurance business on a regional basis. As used herein, "Harleysville Group" refers to Harleysville Group Inc. and its subsidiaries. Harleysville Mutual Insurance Company (the "Mutual Company") owns approximately 56% of the issued and outstanding common stock of the Company.

Harleysville Group and the Mutual Company operate together as a network of regional insurance companies that underwrite a broad line of personal and commercial coverages. These insurance coverages are marketed primarily in the eastern and midwestern United States through approximately 14,500 independent insurance agents associated with approximately 1,900 insurance agencies. Regional offices are maintained in Georgia, Indiana, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Pennsylvania, Tennessee, and Virginia. The Company's property and casualty insurance subsidiaries are: Harleysville-Atlantic Insurance Company ("Atlantic"), Harleysville Insurance Company ("HIC," formerly Minnesota Fire and Casualty Company), Harleysville Insurance Company of New Jersey ("HNJ"), Harleysville Insurance Company of New York ("HIC New York," formerly New York Casualty Insurance Company), Harleysville Insurance Company of Ohio ("HIC Ohio," formerly Great Oaks Insurance Company), Harleysville Lake States Insurance Company ("Lake States," formerly Lake States Insurance Company), Harleysville Preferred Insurance Company ("Preferred," formerly Huron Insurance Company), Harleysville Worcester Insurance Company ("Worcester," formerly Worcester Insurance Company) and Mid-America Insurance Company.

The Company has followed a regional strategy. Management believes that the Company's regional organization permits each regional operation to benefit from economies of scale provided by centralized support while encouraging local marketing autonomy and managerial entrepreneurship. Services which directly involve the insured or the agent (i.e., underwriting, claims and marketing) generally are performed regionally in accordance with Company-wide standards to promote high quality service, while actuarial, investment, legal, data processing and similar services are performed centrally. The Company's network of regional insurance companies has expanded significantly in the last eighteen years. In 1983, the Company acquired Worcester, a property and casualty

insurer which has conducted business in New England since 1823. In 1984, HNJ was formed by the Company and began underwriting property and casualty insurance in New Jersey. In 1987, the Company acquired Atlantic, a property and casualty insurer which has conducted business in the southeastern United States since 1905. In 1991, the Company acquired Mid-America (formerly named Connecticut Union Insurance Company), which conducted business in Connecticut, and HIC New York, which conducts business in upstate New York. In 1993, the Company acquired Lake States, which primarily conducts business in Michigan. In 1994, the Company formed HIC Ohio which began underwriting property and casualty insurance in Ohio. In 1997, the Company acquired HIC, which primarily conducts business in Minnesota and neighboring states.

The Company's property and casualty subsidiaries participate in an intercompany pooling arrangement whereby these subsidiaries cede to the Mutual Company all of their net premiums written and assume from the Mutual Company a portion of the pooled business, which includes all of the Mutual Company's property and casualty insurance business except for new and renewal Pennsylvania personal automobile insurance insured after January 1, 1991 by a subsidiary of the Mutual Company, Harleysville Pennland Insurance Company ("Pennland") and new and renewal New Jersey personal automobile insurance insured after January 1, 1992 by another subsidiary of the Mutual Company, Harleysville-Garden State Insurance Company ("Garden State"). Beginning January 1, 1996, Harleysville Group's participation in the pooling arrangement increased from 60% to 65% and Pennland became a participant in the pooling arrangement. Beginning January 1, 1997, Harleysville Group's participation in the pooling arrangement increased from 65% to 70% and Lake States became a participant in the pooling arrangement. Beginning January 1, 1998, Harleysville Group's participation in the pooling arrangement increased from 70% to 72% and HIC became a participant in the pooling arrangement. See "Business - Narrative Description of Business - Pooling Arrangement."

The Company is a Delaware corporation formed in 1979 as a wholly-owned subsidiary of the Mutual Company. In May 1986, the Company completed an initial public offering of its common stock, reducing the percentage of outstanding shares owned by the Mutual Company to approximately 70%. In April 1992, the Mutual Company completed a secondary public offering of a portion of the Company's common stock then owned by it, further reducing the percentage of outstanding shares owned by the Mutual Company. At December 31, 2001, the Mutual Company owned approximately 56% of the Company's outstanding shares.

(b) Financial Information About Segments.

Harleysville Group has three segments which consist of the personal lines of insurance, the commercial lines of insurance and the investment function. Financial information about these segments is set forth in Note 15 of the Notes to Consolidated Financial Statements.

(c) Narrative Description of Business.

Property and Casualty Underwriting

Harleysville Group and the Mutual Company together underwrite a broad line of personal and commercial property and casualty coverages, including automobile, homeowners, commercial multi-peril and workers compensation. The Mutual Company and the Company's insurance subsidiaries participate in an intercompany pooling arrangement under which such subsidiaries and the Mutual Company combine their property and casualty business. Garden State has not participated in the pooling arrangement. On January 1, 1996, Pennland began participation in the pooling arrangement and Harleysville Group's participation increased to 65%. Beginning January 1, 1997, Harleysville Group's participation in the pooling arrangement increased from 65% to 70% and Lake States became a participant in the pooling arrangement. Beginning January 1, 1998, Harleysville Group's participation in the pooling arrangement increased from 70% to 72% and HIC became a participant in the pooling arrangement.

Harleysville Group and the Mutual Company have a pooled rating of "A" (excellent) by A.M. Best Company, Inc. ("Best's") based upon 2000 statutory results and operating performance. Best's ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors. Management believes that the Best's rating is an important factor in marketing Harleysville Group's products to its agents and customers.

The following table sets forth ratios for the Company's property and casualty subsidiaries, prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with statutory accounting practices ("SAP") prescribed or permitted by state insurance authorities. The statutory combined ratio is a standard measure of underwriting profitability. This ratio is the sum of (i) the ratio of incurred losses and loss settlement expenses to net earned premium ("loss ratio"); (ii) the ratio of expenses incurred for commissions,

premium taxes, administrative and other underwriting expenses to net written premium ("expense ratio"); and (iii) the ratio of dividends to policyholders to net earned premium ("dividend ratio"). The GAAP combined ratio is calculated in the same manner except that it is based on GAAP amounts and the denominator for each component is net earned premium. When the combined ratio is under 100%, underwriting results are generally considered profitable. Conversely, when the combined ratio is over 100%, underwriting results are generally considered unprofitable. The combined ratio does not reflect investment income, federal income taxes or other non-operating income or expense. Harleysville Group's operating income is a function of both underwriting results and investment income.

HARLEYSVILLE GROUP BUSINESS ONLY

	<u>Year Ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
GAAP combined ratio	104.7%	106.2%	108.3%
Statutory operating ratios:			
Loss ratio	71.2%	71.7%	73.9%
Expense and dividend ratios	33.0%	34.4%	33.9%
Statutory combined ratio	104.2%	106.1%	107.8%

The following table sets forth the net written premiums and combined ratios by line of insurance, prepared in accordance with statutory accounting practices prescribed or permitted by state insurance authorities, for Harleysville Group for the periods indicated:

HARLEYSVILLE GROUP BUSINESS ONLY

	<u>Year Ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(dollars in thousands)		
<u>Net Premiums Written</u>			
Commercial:			
Automobile	\$171,106	\$142,589	\$144,095
Workers compensation	117,583	108,473	114,235
Commercial multi-peril	183,216	159,679	155,667
Other commercial	<u>43,955</u>	<u>35,978</u>	<u>34,549</u>
Total commercial	<u>515,860</u>	<u>446,719</u>	<u>448,546</u>
Personal:			
Automobile	151,270	168,116	185,477
Homeowners	70,679	75,551	78,755
Other personal	<u>9,778</u>	<u>11,086</u>	<u>11,561</u>
Total personal	<u>231,727</u>	<u>254,753</u>	<u>275,793</u>
Total Harleysville Group Business	<u>\$747,587</u>	<u>\$701,472</u>	<u>\$724,339</u>

Combined Ratios

Commercial:			
Automobile	96.6%	106.9%	116.4%
Workers compensation	105.7%	102.2%	88.2%
Commercial multi-peril	100.2%	105.8%	118.0%
Other commercial	95.5%	95.2%	110.9%
Total commercial	100.0%	104.5%	109.2%
Personal:			
Automobile	112.8%	106.0%	99.4%
Homeowners	117.8%	117.4%	121.4%
Other personal	85.2%	91.2%	96.3%
Total personal	113.1%	108.7%	105.6%
Total Harleysville Group Business	104.2%	106.1%	107.8%

Pooling Arrangement

The Company's property and casualty subsidiaries participate in an intercompany pooling arrangement with the Mutual Company. The underwriting pool is intended to produce a more uniform and stable underwriting result from year to year for all companies in the pool than they would experience individually and to reduce the risk of loss of any of the pool participants by spreading the risk among all the participants. Each company participating in the pool has at its disposal the capacity of the entire pool, rather than being limited to policy exposures of a size commensurate with its own capital and surplus. The additional capacity exists because such policy exposures are spread among all the pool participants which each have their own capital and surplus. Regulation is applied to the individual companies rather than to the pool.

Pursuant to the terms of the pooling agreement with the Mutual Company, each of the Company's subsidiary participants cedes premiums, losses and expenses on all of its business to the Mutual Company which, in turn, retrocedes to such subsidiaries a specified portion of premiums, losses and expenses of the Mutual Company and such subsidiaries. Under the terms of the intercompany pooling agreement which became effective January 1, 1986, Preferred and HNJ ceded to the Mutual Company all of their insurance business written on or after January 1, 1986. All of the Mutual Company's property and casualty insurance business written or in force on or after January 1, 1986, was also included in the pooled business. The pooling agreement provides, however, that Harleysville Group is not liable for any losses occurring prior to January 1, 1986. The pooling agreement does not legally discharge Harleysville Group from its primary liability for the full amount of the policies ceded. However, it makes the Mutual Company liable to Harleysville Group to the extent of the business ceded.

The following table sets forth a chronology of the changes that have occurred in the pooling agreement since it became effective on January 1, 1986.

Chronology of Changes in Pooling Agreement

<u>Date</u>	<u>Harleysville Group Percentage</u>	<u>Mutual Company Percentage</u>	<u>Event</u>
January 1, 1986	30%	70%	Current pooling agreement began with Preferred and HNJ as participants with the Mutual Company.
July 1, 1987	35%	65%	Atlantic acquired and included in the pool.
January 1, 1989	50%	50%	Worcester included in the pool.
January 1, 1991	60%	40%	HIC New York and Mid-America acquired and included in the pool and the Mutual Company formed Pennland (not a pool participant) to write Pennsylvania personal automobile business.
January 1, 1996	65%	35%	Pennland included in the pool.
January 1, 1997	70%	30%	Lake States included in the pool.
January 1, 1998	72%	28%	HIC included in the pool.

Effective as of January 1, 1992, Garden State began insuring new and renewal New Jersey personal automobile insurance policies that had been included in the pooling arrangement. Garden State is not a participant in the pooling arrangement.

When pool participation percentages increased as described above, cash and investments equal to the net increase in liabilities assumed less a ceding commission related to the net increase in the liability for unearned premiums, was transferred from the Mutual Company to Harleysville Group. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

All premiums, losses, loss settlement expenses and other underwriting expenses are prorated among the parties to the pooling arrangement on the basis of their participation in the pool. The method of establishing reserves is set forth under "Business - Reserves." The pooling agreement may be amended or terminated by agreement of the parties. Termination may occur only at the end of a calendar year. The Company and the Mutual Company maintain a coordinating committee which reviews and evaluates the pooling arrangements between the Company and the Mutual Company. See "Business-Relationship with the Mutual Company." In evaluating pool participation changes, the coordinating committee considers current and proposed acquisitions, the relative capital positions and revenue

contributions of the pool participants, and growth prospects and ability to access capital markets to support that growth. Harleysville Group does not intend to terminate its participation in the pooling agreement.

The following table sets forth the net premiums written and combined ratios by line of insurance for the total pooled business after elimination of management fees, prepared in accordance with statutory accounting practices prescribed or permitted by state insurance authorities, for the periods indicated.

TOTAL POOLED BUSINESS

Year Ended December 31,

	<u>2001</u>	<u>2000</u>	<u>1999</u>
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(dollars in thousands)

Net Premiums Written

Commercial:

Automobile	\$ 238,262	\$198,579	\$ 200,678
Workers compensation	163,310	150,657	158,660
Commercial multi-peril	259,082	225,960	220,410
Other	<u>62,324</u>	<u>51,154</u>	<u>49,177</u>
Total commercial	<u>722,978</u>	<u>626,350</u>	<u>628,925</u>

Personal:

Automobile	210,834	234,347	258,463
Homeowners	100,685	107,632	112,203
Other	<u>13,588</u>	<u>15,406</u>	<u>16,066</u>
Total personal	<u>325,107</u>	<u>357,385</u>	<u>386,732</u>

Total pooled business	<u>\$1,048,085</u>	<u>\$983,735</u>	<u>\$1,015,657</u>
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Combined Ratios⁽¹⁾

Commercial:

Automobile	96.7%	107.3%	116.4%
Workers compensation	105.5%	102.8%	88.5%
Commercial multi-peril	99.1%	104.6%	117.7%
Other	94.4%	93.3%	108.6%
Total commercial	99.5%	104.2%	109.1%

Personal:

Automobile	113.2%	106.2%	99.3%
Homeowners	121.9%	117.4%	120.6%
Other	85.3%	91.2%	96.2%
Total personal	114.7%	108.9%	105.4%

Total pooled business	104.4%	105.9%	107.7%
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⁽¹⁾ See the definition of combined ratio in "Business-Property and Casualty Underwriting".

The combined ratio for the total pooled business differs from Harleysville Group's combined ratio primarily because of the effect of the aggregate catastrophe reinsurance agreement with the Mutual Company. See Note 2(a) of the Notes to Consolidated Financial Statements and Business-Reinsurance.

Reserves. Loss reserves are estimates at a given point in time of what the insurer expects to pay to claimants for claims occurring on or before such point in time, including claims which have not yet been reported to the insurer. These are estimates, and it can be expected that the ultimate liability will exceed or be less than such estimates. During the loss settlement period, additional facts regarding individual claims may become known, and consequently it often becomes necessary to refine and adjust the estimates of liability.

Harleysville Group maintains reserves for the eventual payment of losses and loss settlement expenses with respect to both reported and unreported claims. Loss settlement expense reserves are intended to cover the ultimate costs of settling all claims, including investigation and litigation costs relating to such claims. The amount of loss reserves for reported claims is based primarily upon a case-by-case evaluation of the type of risk involved and knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss. The amounts of loss reserves for unreported claims and loss settlement expense reserves are determined on the basis of 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 by Harleysville Group and the Mutual Company using new information on reported claims and a variety of statistical techniques. With the exception of reserves relating to some workers compensation long-term disability cases, loss reserves are not discounted.

The following table sets forth a reconciliation of beginning and ending net reserves for unpaid losses and loss settlement expenses for the years indicated for the total pooled business on a statutory basis.

	TOTAL POOLED BUSINESS		
	Year Ended December 31,		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(in thousands)		
Reserves for losses and loss settlement expenses, beginning of the year	<u>\$1,136,848</u>	<u>\$1,181,066</u>	<u>\$1,172,664</u>
Incurred losses and loss settlement expenses:			
Provision for insured events of the current year	756,289	759,471	816,931
Decrease in provision for insured events of prior years	<u>(22,444)</u>	<u>(65,319)</u>	<u>(82,024)</u>
Total incurred losses and loss settlement expenses	<u>733,845</u>	<u>694,152</u>	<u>734,907</u>
Payments:			
Losses and loss settlement expenses attributable to insured events of the current year	327,615	346,846	367,979
Losses and loss settlement expenses attributable to insured events of prior years	<u>395,561</u>	<u>391,524</u>	<u>358,526</u>
Total payments	<u>723,176</u>	<u>738,370</u>	<u>726,505</u>
Reserves for losses and loss settlement expenses, end of the year	<u>\$1,147,517</u>	<u>\$1,136,848</u>	<u>\$1,181,066</u>

The following table sets forth the development of net reserves for unpaid losses and loss settlement expenses from 1991 through 2001 for the pooled business of the Mutual Company and Harleysville Group. "Reserve for losses and loss settlement expenses" sets forth the estimated liability for unpaid losses and loss settlement expenses recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and loss settlement expenses for claims arising in the current and all prior years that are unpaid at the balance sheet date, including losses incurred but not reported.

The "Reserves reestimated" portion of the table shows the reestimated amount of the previously recorded liability based on experience of each succeeding year. The estimate is increased or decreased as payments are made and more information becomes known about the severity of remaining unpaid claims. For example, the 1991 liability has developed a redundancy after ten years, in that reestimated losses and loss settlement expenses are expected to be lower than the initial estimated liability established in 1991 of \$743.0 million by \$14.3 million, or 1.9%.

The "Cumulative amount of reserves paid" portion of the table shows the cumulative losses and loss settlement expense payments made in succeeding years for losses incurred prior to the balance sheet date. For example, the 1991 column indicates that as of December 31, 2001, payments of \$664.1 million of the currently reestimated ultimate liability for losses and loss settlement expenses had been made.

The "Redundancy" portion of the table shows the cumulative redundancy at December 31, 2001 of the reserve estimate shown on the top line of the corresponding column. A redundancy in reserves means that reserves established in prior years exceeded actual losses and loss settlement expenses or were reevaluated at less than the original reserved amount.

The following table includes all 2001 pool participants as if they had participated in the pooling arrangement in all years indicated except for acquired pool participant companies, which are included from their date of acquisition. Under the terms of the pooling arrangement, Harleysville Group is not responsible for losses on the pooled business occurring prior to January 1, 1986.

TOTAL POOLED BUSINESS
Year Ended December 31,
(dollars in thousands)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Reserve for losses and loss settlement expenses	\$742,989	\$784,514	\$825,028	\$855,305	\$900,336	\$1,033,376	\$1,124,910	\$1,172,664	\$1,181,066	\$1,136,848	\$1,147,517
Reserves reestimated:											
One year later	739,030	781,746	819,494	837,255	856,493	995,656	1,068,687	1,090,640	1,115,747	1,114,404	
Two years later	738,557	778,064	802,213	817,330	820,894	961,228	1,005,208	1,042,183	1,097,544		
Three years later	737,408	774,420	800,129	800,365	799,191	918,006	972,318	1,027,968			
Four years later	736,458	776,687	792,901	790,234	768,704	894,015	961,721				
Five years later	742,878	770,420	786,731	768,815	748,667	887,697					
Six years later	741,032	767,777	771,015	753,928	743,859						
Seven years later	741,941	756,912	759,080	750,226							
Eight years later	733,082	749,287	755,744								
Nine years later	730,214	746,889									
Ten years later	728,677										
Cumulative amount of reserves paid:											
One year later	236,833	244,210	255,078	246,935	273,744	328,691	338,377	358,526	391,524	395,561	
Two years later	383,358	402,394	403,601	406,944	448,497	523,307	540,522	562,908	609,016		
Three years later	485,045	503,309	511,281	525,840	566,804	656,234	674,740	695,315			
Four years later	550,456	572,656	587,900	599,336	643,451	741,013	756,502				
Five years later	594,452	616,940	629,908	645,271	690,301	790,902					
Six years later	619,780	639,186	657,570	677,668	720,664						
Seven years later	633,771	656,913	677,123	698,652							
Eight years later	645,576	671,091	691,518								
Nine years later	655,869	682,514									
Ten years later	664,067										
Redundancy	14,312	37,625	69,284	105,079	156,477	145,679	163,189	144,696	83,522	22,444	
Redundancy expressed as a percent of year end reserves	1.9%	4.8%	8.4%	12.3%	17.4%	14.1%	14.5%	12.3%	7.1%	2.0%	
Cumulative redundancy excluding pre-1986 reserve development ⁽¹⁾	40,306	60,743	91,375	125,509	173,366	157,823	170,422	149,442	86,736	23,271	

⁽¹⁾ Excludes years not included in pooling arrangement with Harleysville Group.

Harleysville Group's reserves primarily are derived from those established for the total pooled business. The terms of the pooling agreement provide that Harleysville Group is responsible only for pooled losses incurred on or after the effective date, January 1, 1986. The GAAP loss reserve experience of Harleysville Group, as reflected in its financial statements, is shown in the following table which sets forth a reconciliation of beginning and ending net reserves for unpaid losses and loss settlement expenses for the years indicated for the business of Harleysville Group only.

HARLEYSVILLE GROUP BUSINESS ONLY

	<u>Year Ended December 31,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(in thousands)		
Reserves for losses and loss settlement expenses, beginning of the year	<u>\$792,584</u>	<u>\$823,914</u>	<u>\$813,519</u>
Incurred losses and loss settlement expenses:			
Provision for insured events of the current year	537,172	541,738	582,534
Decrease in provision for insured events of prior years	<u>(17,350)</u>	<u>(48,937)</u>	<u>(59,532)</u>
Total incurred losses and loss settlement expenses	<u>519,822</u>	<u>492,801</u>	<u>523,002</u>
Payments:			
Losses and loss settlement expenses attributable to insured events of the current year	229,435	244,978	259,635
Losses and loss settlement expenses attributable to insured events of prior years	<u>282,110</u>	<u>279,153</u>	<u>252,972</u>
Total payments	<u>511,545</u>	<u>524,131</u>	<u>512,607</u>
Reserves for losses and loss settlement expenses, end of the year	<u>\$800,861</u>	<u>\$792,584</u>	<u>\$823,914</u>

See page 17 for reconciliation of net reserves to gross reserves.

Harleysville Group recognized a decrease in the provision for insured events of prior years (favorable development) of \$17.4, \$48.9 and \$59.5 million in 2001, 2000 and 1999, respectively. The favorable development for 2001 primarily relates to lower-than-expected loss adjusting expenses and, for 2000 and 1999, lower-than-expected claim severity in the workers compensation and automobile lines of business. The 2001 and 2000 favorable development includes \$14.8 million and \$20.2 million of reductions in loss adjustment expenses. In both years, such reductions are related to benefits from initiatives to reduce costs of adjusting claims and to the favorable development on losses.

The following table sets forth the development of net reserves for unpaid losses and loss settlement expenses for Harleysville Group. The effect of changes to the pooling agreement participation is reflected in this table. For example, the January 1, 1996 increase in Harleysville Group's pooling participation from 60% to 65% is reflected in the first line of the 1996 column. Amounts of assets equal to increases in net liabilities was transferred to Harleysville Group from the Mutual Company in conjunction with each respective pooling change. The amount of the assets transferred has been netted against and has reduced the cumulative amounts paid for years prior to the pooling changes. For example, the 1995 column of the "Cumulative amount of reserves paid" portion of the table reflects the assets transferred in conjunction with the 1996 increase in the pooling percentage from 60% to 65% as a decrease netted in the "one year later" line. The cumulative amounts paid are reflected in this manner to maintain comparability. This is because when Harleysville Group pays claims subsequent to the date of a pool participation increase, the amounts paid are greater, however, the prior year's reserve amounts are reflective of a lower pool participation percentage. By reflecting pooling participation increases in this manner, loss development is not obscured. Loss development reflects Harleysville Group's share of the total pooled business loss development since January 1, 1986 when Harleysville Group began participation, plus loss development of any subsidiary not participating in the pooling agreement.

Loss development information for the total pooled business is presented on pages 12 to 14 to provide greater analysis of underlying claims development.

HARLEYSVILLE GROUP BUSINESS

Year Ended December 31,

1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001

(dollars in thousands)

Reserve for losses and loss settlement expenses	\$406,619	\$437,883	\$499,272	\$535,452	\$576,653	\$718,700	\$793,563	\$813,519	\$823,914	\$792,584	\$800,861
Reserves re-estimated:											
One year later	405,749	438,135	496,057	524,565	541,654	688,972	750,956	753,987	774,977	775,234	
Two years later	404,849	435,005	483,635	507,090	513,555	662,393	704,157	717,324	761,234		
Three years later	403,240	430,728	477,164	491,919	496,138	630,170	678,757	706,491			
Four years later	400,579	429,125	468,804	482,834	473,084	611,179	670,534				
Five years later	401,675	421,408	462,571	466,309	456,940	606,037					
Six years later	397,275	417,715	450,152	453,934	452,885						
Seven years later	396,139	408,789	439,842	450,675							
Eight years later	388,657	401,582	436,846								
Nine years later	384,874	399,261									
Ten years later	383,173										

Cumulative amount of reserves paid:

One year later	135,067	144,465	161,557	164,849	105,774	200,907	228,622	252,972	279,153	282,110	
Two years later	219,233	234,991	254,840	219,225	204,030	330,158	371,624	397,685	433,901		
Three years later	276,451	292,381	290,667	283,816	281,546	423,337	465,897	491,274			
Four years later	312,539	314,848	329,830	330,705	334,204	482,016	523,050				
Five years later	328,682	335,411	355,338	361,250	365,574	516,221					
Six years later	338,515	347,731	372,727	382,214	385,720						
Seven years later	345,511	357,966	384,443	395,607							
Eight years later	351,482	365,812	393,092								
Nine years later	356,531	372,321									
Ten years later	360,718										

Redundancy	23,446	38,622	62,426	84,777	123,768	112,663	123,029	107,028	62,680	17,350	
Redundancy expressed as a percent of year end reserves	5.8%	8.8%	12.5%	15.8%	21.5%	15.7%	15.5%	13.2%	7.6%	2.2%	

Gross reserve	\$486,608	\$453,548	\$560,811	\$603,088	\$645,941	\$796,820	\$868,393	\$893,420	\$901,352	\$864,843	\$879,056
Ceded reserve	48,725	54,287	61,539	67,636	69,288	78,120	74,830	79,901	77,438	72,259	78,195
Net reserve	<u>\$437,883</u>	<u>\$399,261</u>	<u>\$499,272</u>	<u>\$535,452</u>	<u>\$576,653</u>	<u>\$718,700</u>	<u>\$793,563</u>	<u>\$813,519</u>	<u>\$823,914</u>	<u>\$792,584</u>	<u>\$800,861</u>
Gross re-estimated											
Ceded re-estimated											
Net re-estimated											

Note: The amount of cash and investments received equal to the increase in liabilities for unpaid losses and loss settlement expenses was \$55,350,000, \$93,966,000, \$28,318,000, and \$12,392,000 for the changes in pool participation in 1991, 1996, 1997, and 1998, respectively.

Reinsurance. Harleysville Group follows the customary industry practice of reinsuring a portion of its exposures and paying to the reinsurers a portion of the premiums received on all policies. Insurance is ceded principally to reduce the net liability on individual risks and to protect against catastrophic losses. Reinsurance does not legally discharge an insurer from its primary liability for the full amount of the policies, although it does make the assuming reinsurer liable to the insurer to the extent of the reinsurance ceded. Therefore, a ceding company is subject to credit risk with respect to its reinsurers.

The reinsurance described below is maintained for the Company's subsidiaries and the Mutual Company and its wholly-owned subsidiaries. Reinsurance premiums and recoveries are allocated to participants in the pooling agreement according to pooling percentages.

Reinsurance for property and auto physical damage losses is currently maintained under a per risk excess of loss treaty affording recovery to \$4,250,000 (\$9,250,000 effective October 1, 2001), above a retention of \$750,000. Harleysville Group's 2001 pooling share of such recovery would be \$3,060,000 (\$6,660,000 effective October 1, 2001) above a retention of \$540,000. Effective January 1, 2002, the coverage on this treaty was changed to provide for recovery of \$8,500,000 in excess a retention of \$1,500,000. Harleysville Group's 2002 pooling share of a recovery would be \$6,120,000 above a retention of \$1,080,000. In addition, the Company's subsidiaries and the Mutual Company and its wholly-owned subsidiaries are reinsured under a catastrophe reinsurance treaty effective for one year from July 1, 2001 which provides coverage ranging from 85.5% to 95% of up to \$137 million in excess of a retention of \$30 million for any given catastrophe. Harleysville Group's 2001 pooling share of this coverage would range from 85.5% to 95% of up to \$99 million in excess of a retention of \$21.6 million for any given catastrophe. Pursuant to the terms of the treaty, the maximum recovery would be \$124 million for any catastrophe involving an insured loss equal to or greater than \$167 million. Harleysville Group's pooling share of this maximum recovery would be \$89 million for any catastrophe involving an insured loss of \$120 million or greater. The treaty includes reinstatement provisions providing for coverage for a second catastrophe and requiring payment of an additional premium in the event of a first catastrophe occurring. Harleysville Group has not purchased funded catastrophe covers.

Casualty reinsurance (including liability and workers compensation) is currently maintained under an excess of loss treaty affording recovery to \$18,750,000 above a retention of \$1,250,000 for each loss occurrence. Harleysville Group's 2001

pooling share of such recovery would be \$13,500,000 above a retention of \$900,000. Effective January 1, 2002, the retention on this program was increased to \$2,000,000. In addition, a new layer of coverage was obtained affording recovery to 90% of \$20,000,000 in excess of \$20,000,000. Harleysville Group's 2002 pooling share of a recovery would be up to \$25,920,000 above a retention of \$1,440,000. In addition, there is reinsurance to protect Harleysville Group from large workers compensation losses in 2001. For umbrella liability coverages, reinsurance protection up to \$14,000,000 is provided over a retention of \$1,000,000. Harleysville Group's 2001 pooling share would provide for recovery of \$10,080,000 over a retention of \$720,000.

Harleysville Group has a reinsurance agreement with the Mutual Company whereby the Mutual Company 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 or hurricanes.

The terms and charges for reinsurance coverage are typically negotiated annually. The reinsurance market is subject to conditions which are similar to those in the direct property and casualty insurance market, and there can be no assurance that reinsurance will remain available to Harleysville Group to the same extent and at the same cost currently maintained.

Harleysville Group considers numerous factors in choosing reinsurers, the most important of which are the financial stability and credit worthiness of the reinsurer. Harleysville Group has not experienced any material collectibility problems for its reinsurance recoverables.

Competition. The property and casualty insurance industry is highly competitive on the basis of both price and service. There are numerous companies competing for this business in the geographic areas where Harleysville Group operates, many of which are substantially larger and have considerably greater financial resources than Harleysville Group. In addition, because the insurance products of Harleysville Group and the Mutual Company are marketed exclusively through independent insurance agencies, most of which represent more than one company, Harleysville Group faces competition within each agency.

Investments

An important element of the financial results of Harleysville Group is the return on invested assets. An investment objective of Harleysville Group is to maintain a widely diversified fixed maturities portfolio structured to maximize after-tax investment income while minimizing credit risk through investments in high quality instruments. An objective also is to provide adequate funds to pay claims without forced sales of investments. Harleysville Group has invested in equity securities with the objective of capital appreciation. At December 31, 2001, approximately 100% of the fixed maturity investment portfolio was rated at investment grade. The investment portfolio did not contain any real estate or mortgage loans.

Harleysville Group has adopted and follows an investment philosophy which precludes the purchase of non-investment grade fixed income securities. However, due to uncertainties in the economic environment, it is possible that the quality of investments held in Harleysville Group's portfolio may change.

The following table shows the composition of Harleysville Group's fixed maturity investment portfolio at amortized cost, excluding short-term investments, by rating as of December 31, 2001:

<u>Rating</u> ⁽¹⁾	<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Percent</u>
	(dollars in thousands)	
U.S. Treasury and U.S. agency bonds ⁽²⁾	\$ 234,276	16.8%
Aaa	430,499	30.9
Aa	426,913	30.6
A	260,186	18.6
Baa	<u>43,672</u>	<u>3.1</u>
Total	<u>\$1,395,546</u>	<u>100.0%</u>

⁽¹⁾ Ratings assigned by Moody's Investors Services, Inc.

⁽²⁾ Includes GNMA pass-through obligations and collateralized mortgage obligations.

Harleysville Group invests in both taxable and tax-exempt securities as part of its strategy to maximize after-tax income. Such strategy considers, among other factors, the impact of the alternative minimum tax. Tax-exempt bonds made up approximately 40%, 45% and 46% of the total investment portfolio at December 31, 2001, 2000 and 1999, respectively.

The following table shows the composition of Harleysville Group's investment portfolio at carrying value, excluding short-term investments, by type of security as of December 31, 2001:

	<u>December 31, 2001</u>	
	<u>Amount</u>	<u>Percent</u>
	(dollars in thousands)	
Fixed maturities:		
U.S. Treasury obligations	\$ 39,816	2.5%
U.S. agency obligations	33,237	2.1
Mortgage-backed securities	168,169	10.7
Obligations of states and political subdivisions	623,405	39.6
Corporate securities	<u>559,136</u>	<u>35.5</u>
Total fixed maturities	<u>1,423,763</u>	<u>90.4</u>
Equity securities	<u>150,686</u>	<u>9.6</u>
Total	<u>\$1,574,449</u>	<u>100.0%</u>

Investment results of Harleysville Group's fixed maturity investment portfolio for each of the three years ended December 31, 2001 are shown in the following table:

	Year Ended December 31,		
	2001	2000	1999
	(dollars in thousands)		
Invested assets ⁽¹⁾	\$1,379,551	\$1,361,310	\$1,356,853
Investment income ⁽²⁾	\$ 83,191	\$ 83,958	\$ 83,457
Average yield	6.0%	6.2%	6.2%

(1) Average of the aggregate invested amounts at amortized cost at the beginning and end of the period.

(2) Investment income does not include investment expenses, realized investment gains or losses or provision for income taxes.

The following table indicates the composition of Harleysville Group's fixed maturity investment portfolio at carrying value, excluding short-term investments, by time to maturity as of December 31, 2001:

	December 31, 2001	
	Amount	Percent
	(dollars in thousands)	
<u>Due in</u> ⁽¹⁾		
1 year or less	\$ 76,572	5.4%
Over 1 year through 5 years	410,824	28.8
Over 5 years through 10 years	664,271	46.7
Over 10 years	<u>103,927</u>	<u>7.3</u>
	1,255,594	88.2
Mortgage-backed securities	<u>168,169</u>	<u>11.8</u>
Total	<u>\$1,423,763</u>	<u>100.0%</u>

(1) Based on stated maturity dates with no prepayment assumptions. Actual maturities may differ because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The average expected life of Harleysville Group's investment portfolio as of December 31, 2001 was approximately 5.3 years.

Regulation

Insurance companies are subject to supervision and regulation in the states in which they transact business. Such supervision and regulation relate to numerous aspects of an insurance company's business and financial condition. The primary purpose of such supervision and regulation is the protection of policyholders. The extent of such regulation varies, but generally derives from state statutes which delegate regulatory, supervisory and administrative authority to state insurance departments. Accordingly, the authority of the state insurance departments includes the establishment of standards of solvency which must be met and maintained by insurers, the licensing to do business of insurers and agents, the nature of and limitations on investments, premium rates for property and casualty insurance, the provisions which insurers must make for current losses and future liabilities, the deposit of securities for the benefit of policyholders and the approval of policy forms. Such insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies.

All of the states in which Harleysville Group and the Mutual Company do business have guaranty fund laws under which insurers doing business in such states can be assessed up to 2% of annual premiums written by the insurer in that state in order to fund policyholder liabilities of insolvent insurance companies. Under these laws in general, an insurer is subject to assessment, depending upon its market share of a given line of business, to assist in the payment of policyholder and third party claims against insolvent insurers.

State laws also require Harleysville Group to participate in involuntary insurance programs for automobile insurance, as well as other property and casualty lines, in states in which Harleysville Group operates. These programs include joint underwriting associations, assigned risk plans, fair access to insurance requirements ("FAIR") plans, reinsurance facilities and wind storm plans. These state laws generally require all companies that write lines covered by these programs to provide coverage (either directly or through reinsurance) for insureds who cannot obtain insurance in the voluntary market. The legislation creating these programs usually allocates a pro rata portion of risks attributable to such insureds to each company on the basis

of direct written premiums or the number of automobiles insured. Generally, state law requires participation in such programs as a condition to doing business. The loss ratio on insurance written under involuntary programs generally has been greater than the loss ratio on insurance in the voluntary market.

State insurance holding company acts regulate insurance holding company systems. Each insurance company in the holding company system is required to register with the insurance supervisory agency of its state of domicile and furnish certain information concerning transactions between companies within the holding company system that may materially affect the operations, management or financial condition of the insurer within the system, including the payment of dividends from the insurance subsidiaries to the Company.

Insurance holding company acts require that all transactions within the holding company system affecting the Mutual Company and the Company's insurance subsidiaries must be fair and equitable. Further, approval of the applicable insurance commissioner is required prior to the consummation of transactions affecting the control of an insurer.

The property and casualty insurance industry has been subject to significant public scrutiny and comment primarily due to concerns regarding solvency issues, rising insurance costs, and the industry's methods of operations. Accordingly, regulations and legislation may be proposed to bring the insurance industry under federal control; to strengthen state oversight, particularly in the field of solvency and investments; to further restrict an insurer's ability to underwrite and price risks; and to impose new taxes and assessments. It is not possible to predict whether, in what form or in what jurisdictions any of these proposals might be adopted or the effect, if any, on Harleysville Group.

The Company's insurance subsidiaries generally are restricted by the insurance laws of their respective states of domicile as to the amount of dividends they may pay to the Company without the prior approval of the respective state regulatory authorities. Generally, the maximum dividend that may be paid by an insurance subsidiary during any year without prior regulatory approval is limited to a stated percentage of that subsidiary's statutory surplus as of a certain date, or adjusted net income of the subsidiary, for the preceding year. Applying the current regulatory restrictions as of December 31, 2001, \$54.0 million would be available for distribution to Harleysville Group Inc. without prior approval during 2002. The Company's insurance subsidiaries paid dividends of \$10.0 million (another \$12.0 million is receivable from the subsidiaries) in 2001, \$20.0 million in 2000 and \$15.0 million in 1999 to Harleysville Group Inc.

The National Association of Insurance Commissioners (NAIC) has adopted 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.

The NAIC has adopted the Codification of Statutory Accounting Principles which were effective January 1, 2001. The codified principles are intended to provide a basis of accounting recognized and adhered to in the absence of, conflict with, or silence of, state statutes and regulations. The impact of the codified principles on the January 1, 2001 statutory capital and surplus of the Company's insurance subsidiaries ranged from a decrease of \$0.4 million to an increase of \$6.4 million and was an increase of \$21.0 million on a consolidated basis.

Harleysville Group is required to file financial statements for its subsidiaries, prepared by using statutory accounting practices, with state regulatory authorities. SAP differs from GAAP primarily in the recognition of revenue and expense. The adjustments necessary to reconcile net income and shareholders' equity determined by using SAP to net income and shareholders' equity determined in accordance with GAAP are as follows:

	Net Income			Shareholders' Equity	
	Year Ended December 31,			December 31,	
	2001	2000	1999	2001	2000
	(in thousands)				
SAP amounts	\$41,095	\$48,412	\$38,710	\$538,878	\$515,679
Adjustments:					
Deferred policy acquisition costs	1,317	1,218	4,557	86,076	84,759
Deferred income taxes	3,626	1,608	2,652	6,093	21,593
Unrealized investment gains				26,857	23,635
Other, net	(2,443)	(2,109)	(6,255)	3,526	(3,911)
Holding company ⁽¹⁾	<u>(102)</u>	<u>(437)</u>	<u>249</u>	<u>(71,132)</u>	<u>(75,174)</u>
GAAP amounts	<u>\$43,493</u>	<u>\$48,692</u>	<u>\$39,913</u>	<u>\$590,298</u>	<u>\$566,581</u>

⁽¹⁾ Represents the GAAP income and equity amounts for Harleysville Group Inc., excluding the earnings of and investment in subsidiaries.

Relationship with the Mutual Company

Harleysville Group's operations are interrelated with the operations of the Mutual Company due to the pooling arrangement and other factors. The Mutual Company owns approximately 56% of the issued and outstanding common stock of Harleysville Group Inc. Harleysville Group employees provide a variety of services to the Mutual Company and its wholly-owned subsidiaries. The cost of facilities and employees required to conduct the business of both companies is charged on a cost-allocated basis. Harleysville Group also manages the operations of the Mutual Company and its wholly-owned subsidiaries pursuant to a management agreement which commenced January 1, 1993 under which Harleysville Group receives

a management fee. Harleysville Group also manages the operations of Berkshire Mutual Insurance Company, a small property and casualty insurance company, pursuant to a management services agreement. Harleysville Group received \$7.3 million, \$7.4 million, and \$7.3 million for the years ended December 31, 2001, 2000 and 1999, respectively, for all such management services.

All of the Company's officers are officers of the Mutual Company, and six of the Company's eight directors are directors of the Mutual Company. A coordinating committee exists to review and evaluate the pooling agreement and is responsible for matters involving actual or potential conflicts of interest between the two companies. The decisions of the coordinating committee are binding on the two companies. No intercompany transaction can be authorized by the coordinating committee unless at least two of three of the Company's committee members conclude that such transaction is fair and equitable to Harleysville Group. The coordinating committee consists of six non-employee directors, three from Harleysville Group Inc. and three from the Mutual Company all of whom are not members of both Boards and one, a non-voting Chairman, who is a member of both Boards. For information concerning the members of the coordinating committee, see "Board and Committee Meetings" section on pages 9 to 11 of the Company's proxy statement relating to the annual meeting of the shareholders to be held April 24, 2002 which is incorporated by reference in this Form 10-K Report.

The Mutual Company leases the home office from Harleysville Group with which it shares most of the facility. Rental income under the lease was \$3.5 million for 2001, \$3.4 million for 2000 and \$2.8 million for 1999. Harleysville Group believes that the lease terms are no less favorable to it than if the property were leased to a non-affiliate.

In connection with the acquisition of Mid-America and HIC New York, the Company borrowed approximately \$18.5 million from the Mutual Company. See Note 8 of the Notes to Consolidated Financial Statements. For additional information with respect to transactions with the Mutual Company, see Note 2 of the Notes to Consolidated Financial Statements.

Employees

All employees are paid by Harleysville Group Inc. and, accordingly, are considered to be employees of Harleysville Group Inc. As of December 31, 2001, there were 2,450 employees. They provide a variety of services to the Mutual Company and its wholly-owned subsidiaries. See "Business-Relationship with the Mutual Company" and Note 2(c) of the Notes to Consolidated Financial Statements.

Item 2. Properties.

The buildings which house the headquarters of Harleysville Group and the Mutual Company are leased by the Mutual Company from a subsidiary of Harleysville Group. See "Business-Relationship with the Mutual Company." The Mutual Company charges Harleysville Group for an appropriate portion of the rent under an intercompany allocation agreement. The buildings containing the headquarters of Harleysville Group and the Mutual Company have approximately 220,000 square feet of office space. Harleysville Group also rents office facilities in certain of the states in which it does business.

Item 3. Legal Proceedings.

On December 31, 2001, Mutual received a written request for arbitration from GE Reinsurance Corporation (GE Re) of a reinsurance agreement between Mutual and GE Re relating to certain automobile insurance policies written in California through a managing general agent beginning in 1999. The notice indicates that GE Re intends to seek rescission of the agreement and reimbursement for its losses. Harleysville Group's share of underwriting losses, assumed under the pooling agreement, that have been ceded to GE Re was \$33,220,000 from inception through December 31, 2001. GE Re's claims are apparently based on alleged non-disclosures by Mutual at the time the agreement was entered into in 1999. GE Re terminated payments under the agreement in January 2002.

On January 8, 2002, Mutual gave written notice of its election pursuant to the agreement to have GE Re's claims heard in the U.S. District Court in Philadelphia and, on January 11, 2002, Mutual filed an action for breach of contract against GE Re in the U.S. District Court in Philadelphia. GE Re filed motions to compel arbitration and to dismiss Mutual's complaint and such motions were denied by the court.

Since 2000, only renewal business as required by law has been written by Mutual through the managing general agent. Harleysville Group's pooling share of the written premium ceded by Mutual under the agreement was \$13,897,000, \$22,389,000 and \$24,502,000 in 2001, 2000 and 1999, respectively, and is likely to decline further in 2002.

Both Mutual and the Company believe GE Re's claims to be wholly without merit and are litigating the matter vigorously. While the Company does not expect this matter to materially affect its financial condition or results of operations, there can be no assurance of any particular outcome.

Harleysville Group is a party to numerous other lawsuits arising in the ordinary course of its insurance business. Harleysville Group believes that the resolution of these lawsuits will not have a material adverse effect on its financial condition.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted during the fourth quarter of 2001 to a vote of holders of the Company's Common Stock.

Executive Officers of the Company

All of the persons listed below are executive officers of Harleysville Group Inc. or its affiliates. There are no family relationships between any of the Company's executive officers and directors, and there are no arrangements or understandings between any of these officers and any other person pursuant to which the officer was selected as an officer.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Walter R. Bateman, II	54	Chairman of the Board, President, Chief Executive Officer and Director
Mark R. Cummins	45	Executive Vice President, Chief Investment Officer and Treasurer
M. Lee Patkus	50	Executive Vice President
Douglas A. Gaudet	48	Executive Vice President
Roger A. Brown	53	Senior Vice President, Secretary and General Counsel
Bruce J. Magee	47	Senior Vice President and Chief Financial Officer
E. Wayne Ratz	56	Senior Vice President and Chief Information Officer
Catherine B. Strauss	54	Senior Vice President
Robert G. Whitlock, Jr.	45	Senior Vice President and Chief Actuary
Roger J. Beekley	59	Vice President and Controller

Walter R. Bateman, II has been Chairman of the Board since August 1998 and has been Chief Executive Officer since January 1, 1994. He has been President and Director of Harleysville Group Inc. and the Mutual Company since 1992.

Mark R. Cummins is Executive Vice President, Chief Investment Officer and Treasurer of Harleysville Group Inc. and the Mutual Company, and has been in charge of the investment and treasury function since 1992.

M. Lee Patkus has been Executive Vice President in charge of the field and subsidiary operations of Harleysville Group Inc. and the Mutual Company since November 1999. From 1994 to 1999 he worked for St. Paul Insurance Companies and its predecessor, USF&G, and was in charge of various regional operations. Most recently he was Regional President of the Southeast Commercial Region.

Douglas A. Gaudet has been Executive Vice President in charge of claims and underwriting since November 2000. From May 1999 to November 2000 he was Managing Director/Chief Underwriting Officer for Crum and Forster. From 1991 to 1999 he was employed by Zurich Group, most recently as President, Service and Technology for Zurich Commercial.

Roger A. Brown has been Senior Vice President, Secretary and General Counsel of Harleysville Group Inc. and the Mutual Company since 1995. He was Assistant General Counsel from 1986 until assuming his present position.

Bruce J. Magee has been Senior Vice President and Chief Financial Officer of Harleysville Group Inc. and the Mutual Company since January 1, 1994. From 1986 to 1993 he was Vice President and Controller of Harleysville Group Inc.

E. Wayne Ratz has been Senior Vice President and Chief Information Officer of Harleysville Group Inc. and the Mutual Company since February 1997.

Catherine B. Strauss has been Senior Vice President since April 1998 and has been in charge of human resources since 1996.

Robert G. Whitlock, Jr. has been Senior Vice President and Chief Actuary of Harleysville Group Inc. and the Mutual Company since February 1995. He was Vice President and Actuary before assuming his present position and was in charge of various actuarial functions since 1991.

Roger J. Beekley has been Vice President and Controller of Harleysville Group Inc. since January 1, 1994 and is Vice President and Controller of the Mutual Company, a position he has held since 1982.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

The "Market for Common Stock and Related Security Holder Matters" section from the Company's annual report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13)(E) to this Form 10-K Report, is incorporated herein by reference.

Item 6. Selected Financial Data.

The "Selected Consolidated Financial Data" section from the Company's annual report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13)(A) to this Form 10-K Report, is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The "Management's Discussion and Analysis of Results of Operations and Financial Condition" section from the Company's annual report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13)(B) to this Form 10-K Report, is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The "Quantitative and Qualitative Disclosures About Market Risk" section from the Company's annual report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13)(C) to this Form 10-K Report, is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements from the Company's annual report to stockholders for the year ended December 31, 2001, which is included as Exhibit (13)(D) to this Form 10-K Report, are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The "Election of Directors" section, which provides information regarding the Company's directors, on pages 7 and 8 and the "Section 16 Reporting Compliance" section on page 28 of the Company's proxy statement relating to the annual meeting of stockholders to be held April 24, 2002, are incorporated herein by reference.

The information concerning executive officers called for by Item 10 of Form 10-K is set forth in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation.

The information set forth on pages 21 to 26 and the "Compensation of Directors" section on pages 11 and 12 of the Company's proxy statement relating to the annual meeting of stockholders to be held April 24, 2002, are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The "Ownership of Common Stock" section on pages 13 and 14 of the Company's proxy statement relating to the annual meeting of stockholders to be held April 24, 2002, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The "Transactions with Harleysville Mutual" section on pages 27 and 28 of the Company's proxy statement relating to the annual meeting of stockholders to be held April 24, 2002, is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

- (a) (1) The following consolidated financial statements are filed as a part of this report:

	<u>Page</u>
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2001 and 2000	24*
Consolidated Statements of Income for Each of the Years in the Three-year Period Ended December 31, 2001	25*
Consolidated Statements of Shareholders' Equity for Each of the Years in the Three- year Period Ended December 31, 2001	26*
Consolidated Statements of Cash Flows for Each of the Years in the Three-year Period Ended December 31, 2001	27*
Notes to Consolidated Financial Statements	28*
Independent Auditors' Report	39*

- (2) The following consolidated financial statement schedules for the years 2001, 2000 and 1999 are submitted herewith:

Financial Statement Schedules		
Schedule I.	Summary of Investments - Other Than Investments in Related Parties	43
Schedule II.	Condensed Financial Information of Parent Company	44
Schedule III.	Supplementary Insurance Information	47
Schedule IV.	Reinsurance	48
Schedule VI.	Supplemental Insurance Information Concerning Property and Casualty Subsidiaries	49
Independent Auditors' Consent and Report on Schedules (filed as Exhibit 23)		

All other schedules are omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

*Refers to the respective page of Harleysville Group Inc.'s 2001 Annual Report to Stockholders. The Consolidated Financial Statements and Independent Auditors' Report, which are included as Exhibit (13)(D), are incorporated herein by reference. With the exception of the portions of such Annual Report specifically incorporated by reference in this Item and Items 5, 6, 7 and 8, such Annual Report shall not be deemed filed as part of this Form 10-K or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934.

(3) Exhibits

Exhibit No.	Description of Exhibits
(3) (A)	Amended and restated Certificate of Incorporation of Registrant - incorporated herein by reference to Exhibit (4)(A) to the Registrant's Form S-8 Registration Statement No. 333-03127 filed May 3, 1996.
(3) (B)	Amended and Restated By-laws of Registrant - incorporated herein by reference to Exhibit 4(B) to the Post-Effective Amendment No. 12 of Registrant's Form S-3 Registration Statement No. 33-90810 filed October 10, 1995.
(4)	Indenture between the Registrant and CoreStates Bank, N.A., dated as of November 15, 1993 - incorporated herein by reference to Exhibit (4) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
* (10) (A)	Standard Deferred Compensation Plan for Directors of Harleysville Mutual Insurance Company and Harleysville Group Inc. Amended and Restated November 17, 1999 - incorporated herein by reference to Exhibit 10(A) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
* (10) (B)	Harleysville Insurance Companies Director Deferred Compensation Plan Approved by the Board of Directors November 25, 1987 - incorporated herein by reference to Exhibit 10(B) to the Registrant's Form S-3 Registration Statement No. 33-28948 filed May 25, 1989.
* (10) (C)	Harleysville Group Inc. Non-qualified Deferred Compensation Plan Amended and Restated November 17, 1999 - incorporated herein by reference to Exhibit 10(C) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
* (10) (D)	Pension Plan of Harleysville Group Inc. and Associated Employers dated December 1, 1994 and amendment dated February 6, 1995 - incorporated herein by reference to Exhibit 10(D) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.

Exhibit No.	Description of Exhibits
* (10) (E)	Harleysville Mutual Insurance Company/ Harleysville Group Inc. Senior Management Incentive Compensation Plan As Amended and Restated November 17, 1999 - incorporated herein by reference to Exhibit 10(E) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
(10) (F)	Proportional Reinsurance Agreement effective as of January 1, 1986 among Harleysville Mutual Insurance Company, Huron Insurance Company and Harleysville Insurance Company of New Jersey -incorporated herein by reference to Exhibit 10(N) to the Registrant's Form S-1 Registration Statement No. 33-4885 declared effective May 23, 1986.
* (10) (G)	Equity Incentive Plan of Registrant, as amended - incorporated herein by reference to Exhibit (4)(C) to the Registrant's Form S-8 Registration Statement No. 333-25817 filed April 25, 1997.
(10) (H)	Tax Allocation Agreement dated December 24, 1986 among Harleysville Insurance Company of New Jersey, Huron Insurance Company, Worcester Insurance Company, McAlear Associates, Inc. and the Registrant - incorporated herein by reference to Exhibit 10(Q) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1986.
(10) (I)	Amended and Restated Financial Tax Sharing Agreement dated March 20, 1995 among Huron Insurance Company, Harleysville Insurance Company of New Jersey, Worcester Insurance Company, Harleysville-Atlantic Insurance Company, New York Casualty Insurance Company, Connecticut Union Insurance Company, Great Oaks Insurance Company, Lakes States Insurance Company and the Registrant - incorporated herein by reference to Exhibit (10)(L) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.

**Exhibit
No.**

Description of Exhibits

- (10) (J) Amendment, effective July 1, 1987, to the Proportional Reinsurance Agreement effective January 1, 1986 among Harleysville Mutual Insurance Company, Huron Insurance Company, Harleysville Insurance Company of New Jersey and Atlantic Insurance Company of Savannah - incorporated herein by reference to the Registrant's Form 8-K Report dated July 1, 1987.
- (10) (K) Amendment, effective January 1, 1989, to the Proportional Reinsurance Agreement effective January 1, 1986 among Harleysville Mutual Insurance Company, Huron Insurance Company, Harleysville Insurance Company of New Jersey, Atlantic Insurance Company of Savannah and Worcester Insurance Company - incorporated herein by reference to Exhibit 10(U) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1988.
- (10) (L) Amendment, effective January 1, 1991, to the Proportional Reinsurance Agreement effective January 1, 1986 among Harleysville Mutual Insurance Company, Huron Insurance Company, Harleysville Insurance Company of New Jersey, Atlantic Insurance Company of Savannah, Worcester Insurance Company, Phoenix General Insurance Company and New York Casualty Insurance Company - incorporated herein by reference to Exhibit (10)(O) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990.
- (10) (M) Amendments, effective January 1, 1995 and 1993, respectively, to the Proportional Reinsurance Agreement effective January 1, 1986 among Harleysville Mutual Insurance Company, Huron Insurance Company, Harleysville Insurance Company of New Jersey, Harleysville-Atlantic Insurance Company, Worcester Insurance Company, Connecticut Union Insurance Company, New York Casualty Insurance Company and Great Oaks Insurance Company - incorporated herein by reference to Exhibit (10)(P) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994.

Exhibit No.	Description of Exhibits
(10) (N)	Amendment, effective January 1, 1996 to the Proportional Reinsurance Agreement effective January 1, 1986 among Harleysville Mutual Insurance Company, Huron Insurance Company, Harleysville Insurance Company of New Jersey, Harleysville-Atlantic Insurance Company, Worcester Insurance Company, Connecticut Union Insurance Company, New York Casualty Insurance Company, Great Oaks Insurance Company and Pennland Insurance Company - incorporated herein by reference to Exhibit (10)(O) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.
(10) (O)	Amendment, effective January 1, 1997 to the Proportional Reinsurance Agreement effective January 1, 1986 among Harleysville Mutual Insurance Company, Huron Insurance Company, Harleysville Insurance Company of New Jersey, Harleysville-Atlantic Insurance Company, Worcester Insurance Company, Mid-America Insurance Company, New York Casualty Insurance Company, Great Oaks Insurance Company, Pennland Insurance Company and Lake States Insurance Company - incorporated herein by reference to Exhibit (10)(P) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.
(10) (P)	Amendment, effective January 1, 1998 to the Proportional Reinsurance Agreement effective January 1, 1986 among Harleysville Mutual Insurance Company, Huron Insurance Company, Harleysville Insurance Company of New Jersey, Harleysville-Atlantic Insurance Company, Worcester Insurance Company, Mid-America Insurance Company, New York Casualty Insurance Company, Great Oaks Insurance Company, Pennland Insurance Company, Lake States Insurance Company and Minnesota Fire and Casualty Company - incorporated herein by reference to Exhibit (10)(Q) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.

Exhibit No.	Description of Exhibits
* (10) (Q)	Long-Term Incentive Plan for senior officers of Harleysville Mutual Insurance Company and Registrant - incorporated herein by reference to Exhibit 10(V) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1988.
(10) (R)	Lease and amendment effective January 1, 2000 between Harleysville, Ltd. and Harleysville Mutual Insurance Company - incorporated herein by reference to Exhibit 10(R) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
* (10) (S)	1995 Directors' Stock Option Program of Registrant - incorporated herein by reference to Exhibit (10)(S) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
* (10) (T)	Harleysville Group Inc. Year 2000 Directors' Stock Option Program of Registrant - incorporated herein by reference to Exhibit (4)(C) to the Registrant's Form S-8 Registration Statement No. 333-85941, filed August 26, 1999.
(10) (U)	Loan Agreement dated as of March 19, 1998 by and between Harleysville Group Inc. and Harleysville Mutual Insurance Company - incorporated herein by reference to Exhibit (10)(V) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.
(10) (V)	Form of Management Agreements dated January 1, 1994 between Harleysville Group Inc. and Harleysville Mutual Insurance Company, Harleysville-Garden State Insurance Company, Mainland Insurance Company, Pennland Insurance Company, Berkshire Mutual Insurance Company and Harleysville Life Insurance Company - incorporated herein by reference to Exhibit (10)(U) to the Registrant's Annual Statement on Form 10-K for the year ended December 31, 1993.

Exhibit No.	Description of Exhibits
(10) (W)	Form of Salary Allocation Agreements dated January 1, 1993 between Harleysville Group Inc. and Harleysville Mutual Insurance Company, Harleysville-Garden State Insurance Company, Mainland Insurance Company, Pennland Insurance Company, Berkshire Mutual Insurance Company and Harleysville Life Insurance Company - incorporated herein by reference to Exhibit (10)(U) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.
(10) (X)	Equipment and Supplies Allocation Agreement dated January 1, 1993 between Harleysville Mutual Insurance Company and Harleysville Group Inc. - incorporated herein by reference to Exhibit (10)(V) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.
* (10) (Y)	Form of Change of Control Employment Agreements dated July 1, 1999 - incorporated herein by reference to Exhibit 10(Z) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
* (10) (Z)	1992 Incentive Stock Option Plan for Employees Amended and Restated August 26, 1992 - incorporated herein by reference to Exhibit (10)(W) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992.
* (10) (AA)	Harleysville Group Inc. Supplemental Retirement Plan Amended and Restated November 17, 1999 - incorporated herein by reference to Exhibit 10(AB) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.
* (10) (AB)	1996 Directors' Stock Purchase Plan of Registrant - incorporated herein by reference to Exhibit (4)(C) to the Registrant's Form S-8 Registration Statement No. 333-03127 filed May 3, 1996.

Exhibit No.	Description of Exhibits
* (10) (AC)	Directors Equity Award Program of Registrant - incorporated herein by reference to Exhibit (4) (C) to the Registrant's Form S-8 Registration Statement No. 333-09701 filed August 7, 1996.
* (10) (AD)	Excess Stock Purchase Plan of Registrant - incorporated herein by reference to Exhibit 4.3 to the Registrant's Form S-8 Registration Statement No. 333-37212 filed May 17, 2000.
* (10) (AE)	Long Term Incentive Plan of Registrant - incorporated herein by reference to Exhibit 4.3 to the Registrant's Form S-8 Registration Statement No. 333-37386 filed May 19, 2000.
(13) (A)	Selected Consolidated Financial Data from the Company's 2001 annual report to stockholders.
(13) (B)	Management's Discussion and Analysis of Results of Operations and Financial Condition from the Company's 2001 annual report to stockholders.
(13) (C)	Quantitative and Qualitative Disclosures About Market Risk from the Company's 2001 annual report to stockholders.
(13) (D)	Consolidated financial statements from the Company's 2001 annual report to stockholders.
(13) (E)	Market for Common Stock and Related Security Holder Matters from the Company's 2001 annual report to stockholders.

Exhibit No.	Description of Exhibits
(21)	Subsidiaries of Registrant.
(23)	Independent Auditors' Consent and Report on Schedules.
(99)	Form 11-K Annual Report for the Harleysville Group Inc. Employee Stock Purchase Plan for the year ended December 31, 2001.

* A management contract, compensatory plan or arrangement required to be separately identified by reason of the provision of Item 14(a)(3).

(b) Reports on Form 8-K

A Form 8-K dated January 8, 2002 was filed disclosing a dispute involving a reinsurance agreement with GE Reinsurance Corporation.

HARLEYSVILLE GROUP

**SCHEDULE I - SUMMARY OF INVESTMENTS -
OTHER THAN INVESTMENTS IN RELATED PARTIES**

December 31, 2001
(in thousands)

<u>Type of Investment</u>	<u>Cost</u>	<u>Value</u>	<u>Amount at Which Shown in the Balance Sheet</u>
Fixed maturities:			
United States government and government agencies and authorities	\$ 69,953	\$ 73,325	\$ 73,053
States, municipalities and political subdivisions	611,659	634,539	623,405
Mortgage-backed securities	164,443	168,169	168,169
All other corporate bonds	<u>549,491</u>	<u>567,819</u>	<u>559,136</u>
Total fixed maturities	<u>1,395,546</u>	<u>1,443,852</u>	<u>1,423,763</u>
Equity securities:			
Common stocks:			
Banks, trust and insurance companies	18,657	24,418	24,418
Industrial, miscellaneous and all other	<u>92,146</u>	<u>126,268</u>	<u>126,268</u>
Total equities	<u>110,803</u>	<u>150,686</u>	<u>150,686</u>
Short-term investments	<u>36,695</u>		<u>36,695</u>
Total investments	<u>\$1,543,044</u>		<u>\$1,611,144</u>

HARLEYSVILLE GROUP INC.

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

CONDENSED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2001	2000
ASSETS		
Short-term investments	\$ 6,377	\$ 6,343
Fixed maturities:		
Available for sale, at fair value (cost \$52 and \$10)	53	10
Investments in common stock of subsidiaries (equity method)	661,430	641,755
Accrued investment income	16	35
Due from affiliate	3,636	7,454
Dividends receivable from subsidiaries	12,000	10,000
Other assets	14,521	11,031
Total assets	\$698,033	\$676,628
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt	\$ 93,500	\$ 93,500
Accounts payable and accrued expenses	12,564	12,480
Federal income taxes payable	1,671	4,067
Total liabilities	107,735	110,047
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 2001, 30,444,678 and 2000, 30,001,852 shares; outstanding 2001, 29,444,678 and 2000, 29,001,852 shares	30,445	30,002
Additional paid-in capital	140,065	131,537
Accumulated other comprehensive income	44,265	56,010
Retained earnings	391,088	364,597
Treasury stock, at cost, 1,000,000 shares	(15,565)	(15,565)
Total shareholders' equity	590,298	566,581
Total liabilities and shareholders' equity	\$698,033	\$676,628

HARLEYSVILLE GROUP INC.

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

CONDENSED STATEMENTS OF INCOME
(in thousands)

	Year Ended December 31,		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Revenues	\$ 7,782	\$ 7,631	\$ 7,565
Expenses:			
Interest	6,102	6,468	6,274
Expenses other than interest	<u>1,828</u>	<u>1,823</u>	<u>1,688</u>
	(148)	(660)	(397)
Income tax benefit	<u>(46)</u>	<u>(223)</u>	<u>(646)</u>
Income (loss) before equity in income of subsidiaries	(102)	(437)	249
Equity in income of subsidiaries	<u>43,595</u>	<u>49,129</u>	<u>39,664</u>
Net income	<u>\$43,493</u>	<u>\$48,692</u>	<u>\$39,913</u>

HARLEYSVILLE GROUP INC.

SCHEDULE II - CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 43,493	\$ 48,692	\$ 39,913
Adjustments to reconcile net income to net cash used by operating activities:			
Equity in undistributed earnings of subsidiaries	(43,595)	(49,129)	(39,664)
(Increase) decrease in accrued investment income	19	(16)	20
Increase (decrease) in accrued income taxes	(2,396)	3,209	(2,143)
Other, net	<u>1,723</u>	<u>(3,984)</u>	<u>3,805</u>
Net cash provided (used) by operating activities	<u>(756)</u>	<u>(1,228)</u>	<u>1,931</u>
Cash flows from investing activities:			
Purchases of fixed maturity investments	(52)		
Maturities of fixed maturity investments	10		
Net sales (purchases) or maturities of short-term investments	<u>(34)</u>	<u>(4,646)</u>	<u>3,665</u>
Net cash provided (used) by investing activities	<u>(76)</u>	<u>(4,646)</u>	<u>3,665</u>
Cash flows from financing activities:			
Issuance of common stock	7,807	6,419	5,425
Dividends from subsidiaries	10,027	20,030	15,015
Dividends paid	(17,002)	(15,864)	(15,182)
Purchase of treasury stock	<u> </u>	<u>(4,711)</u>	<u>(10,854)</u>
Net cash provided (used) by financing activities	<u>832</u>	<u>5,874</u>	<u>(5,596)</u>
Change in cash	-	-	-
Cash at beginning of year	<u> </u>	<u> </u>	<u> </u>
Cash at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HARLEYSVILLE GROUP

SCHEDULE III - SUPPLEMENTARY INSURANCE INFORMATION

Years Ended December 31, 2001, 2000 and 1999
(in thousands)

	Deferred Policy Acquisition Costs	Liability for Unpaid Losses and Loss Settlement Expenses	Unearned Premiums	Earned Premiums	Net Investment Income	Losses and Loss Settlement Expenses	Amortization of Deferred Policy Acquisition Costs	Other Underwriting Expenses	Premiums Written
Year ended December 31, 2001									
Commercial lines		\$651,088	\$238,050	\$493,362		\$330,943			\$515,860
Personal lines		149,773	115,591	236,527		188,879			231,727
GAAP adjustments ⁽¹⁾		78,195	20,096						
Total	<u>\$86,076</u>	<u>\$879,056</u>	<u>\$373,737</u>	<u>\$729,889</u>		<u>\$519,822</u>	<u>\$180,283</u>	<u>\$64,267</u>	<u>\$747,587</u>
Net investment income					<u>\$85,518</u>				
Year ended December 31, 2000									
Commercial lines		\$635,184	\$215,553	\$437,873		\$302,590			\$446,719
Personal lines		157,400	120,392	250,457		191,084			254,753
GAAP adjustments ⁽¹⁾		72,259	18,153			(873)			
Total	<u>\$84,759</u>	<u>\$864,843</u>	<u>\$354,098</u>	<u>\$688,330</u>		<u>\$492,801</u>	<u>\$177,217</u>	<u>\$60,916</u>	<u>\$701,472</u>
Net investment income					<u>\$86,791</u>				
Year ended December 31, 1999									
Commercial lines		\$665,391	\$206,707	\$438,111		\$323,372			\$448,546
Personal lines		158,523	116,096	269,089		199,630			275,793
GAAP adjustments ⁽¹⁾		77,438	28,907						
Total	<u>\$83,541</u>	<u>\$901,352</u>	<u>\$351,710</u>	<u>\$707,200</u>		<u>\$523,002</u>	<u>\$182,337</u>	<u>\$60,226</u>	<u>\$724,339</u>
Net investment income					<u>\$85,894</u>				

⁽¹⁾ GAAP adjustments are not determined separately for commercial and personal lines. See Note 15 of the Notes to Consolidated Financial Statements.

HARLEYSVILLE GROUP

SCHEDULE IV - REINSURANCE

Years Ended December 31, 2001, 2000 and 1999
(in thousands)

	<u>Gross Amount</u>	<u>Ceded to Other Companies</u>	<u>Assumed From Other Companies</u>	<u>Net Amount</u>	<u>Percentage of Amount Assumed to Net</u>
Year ended December 31, 2001 Property and casualty premiums	<u>\$658,166</u>	<u>\$694,643</u>	<u>\$766,366</u>	<u>\$729,889</u>	<u>105.0%</u>
Year ended December 31, 2000 Property and casualty premiums	<u>\$647,300</u>	<u>\$679,770</u>	<u>\$720,800</u>	<u>\$688,330</u>	<u>104.7%</u>
Year ended December 31, 1999 Property and casualty premiums	<u>\$638,604</u>	<u>\$670,669</u>	<u>\$739,265</u>	<u>\$707,200</u>	<u>104.5%</u>

Note: The amounts ceded and assumed include the amounts ceded and assumed under the terms of the pooling arrangement.

HARLEYSVILLE GROUP

**SCHEDULE VI - SUPPLEMENTAL INSURANCE INFORMATION CONCERNING
PROPERTY AND CASUALTY SUBSIDIARIES**

Years Ended December 31, 2001, 2000 and 1999
(in thousands)

	<u>Liability for Unpaid Losses and Loss Settlement Expenses</u>	<u>Discount, If Any, Deducted from Reserves ⁽¹⁾</u>	<u>Losses and Loss Settlement Expenses (Benefits) Incurred Related to</u>		<u>Paid Losses and Loss Settlement Expenses</u>
			<u>Current Year</u>	<u>Prior Years</u>	
Year ended:					
December 31, 2001	<u>\$879,056</u>	<u>\$8,007</u>	<u>\$537,172</u>	<u>\$ (17,350)</u>	<u>\$511,545</u>
December 31, 2000	<u>\$864,843</u>	<u>\$7,774</u>	<u>\$541,738</u>	<u>\$ (48,937)</u>	<u>\$524,131</u>
December 31, 1999	<u>\$901,352</u>	<u>\$8,992</u>	<u>\$582,534</u>	<u>\$ (59,532)</u>	<u>\$512,607</u>

Notes: (1) The amount of discount relates to certain long-term disability workers' compensation cases. A discount rate of 3.5% (5% on New Jersey cases) was used.

(2) Information required by remaining columns is contained in Schedule III.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 22, 2002

By: /s/ WALTER R. BATEMAN
Walter R. Bateman
Chairman of the Board,
President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ WALTER R. BATEMAN</u> Walter R. Bateman	Chairman of the Board, President, Chief Executive Officer and a Director	March 22, 2002
<u>/s/ BRUCE J. MAGEE</u> Bruce J. Magee	Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	March 22, 2002

SIGNATURES
(Continued)

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ LOWELL R. BECK</u> Lowell R. Beck	Director	March 22, 2002
<u>/s/ MICHAEL L. BROWNE</u> Michael L. Browne	Director	March 22, 2002
<u>/s/ ROBERT D. BUZZELL</u> Robert D. Buzzell	Director	March 22, 2002
<u>/s/ MIRIAN M. GRADDICK-WEIR</u> Mirian M. Graddick-Weir	Director	March 22, 2002
<u>/s/ JOSEPH E. MCMENAMIN</u> Joseph E. McMEnamin	Director	March 22, 2002
<u>/s/ FRANK E. REED</u> Frank E. Reed	Director	March 22, 2002
<u>/s/ JERRY S. ROSENBLOOM</u> Jerry S. Rosenbloom	Director	March 22, 2002