



Harleysville Group Inc.

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HARLEYSVILLE GROUP REPORTS FIRST QUARTER RESULTS

HARLEYSVILLE, PA—APRIL 26, 2000—Harleysville Group Inc. (NASDAQ:HGIC), a holding company that includes nine regional property and casualty insurance companies, today reported its results for the first quarter of 2000.

First quarter diluted operating earnings were \$0.22 per share in 2000, compared with \$0.39 per share in 1999. First quarter diluted net income per share was \$0.25 in 2000, compared with \$0.40 in 1999. After-tax diluted realized investment gains amounted to \$0.03 per share in the first quarter of 2000 and \$0.11 per share in the first quarter of 1999. The realized gains were attributable to sales from the company's equity portfolio.

"Our earnings are on track with the improvement plan we initiated last year to raise prices and reunderwrite our commercial lines portfolio," commented Walter R. Bateman, Harleysville Group's chairman, president and chief executive officer.

First quarter 2000 results were also impacted by the previously announced one-time, after tax-charge to earnings of approximately \$0.7 million (\$0.03 per diluted share) in the first quarter of 2000. That charge is related to the streamlining of certain support services and office functions in the company's field operations, which reduced the number of non-claims positions by about 120. The company expects that effort, which it plans to complete by the end of the second quarter, to generate annualized after-tax savings of approximately \$2.7 million (\$0.09 per diluted share).

Harleysville Group's operating earnings were reduced by \$0.04 per share due to a mandated one-time refund of personal auto insurance premiums to North Carolina policyholders. The refund was required by the March 2000 settlement between the state's rate bureau and insurance commissioner regarding private passenger automobile insurance rate filing cases dating back to 1994.

During the first quarter of 1999 the company adopted AICPA Statement of Position 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments," which reduced its net income by \$0.10 per share for that period. The adoption of that statement resulted in a one-time, after-tax charge that did not impact operating earnings.

Harleysville Group's statutory combined ratio for the first quarter of 2000 was 111.6 percent, compared with 104.5 percent in the first quarter of 1999, primarily reflecting deterioration in personal lines results. In 2000, the North Carolina premium refund added 1.2 points to the combined ratio, while the field office restructuring added 0.7 points.

Total revenues—which include realized investment gains—declined 1 percent in the first quarter to \$197.4 million in 2000, compared with \$199.7 million in 1999. First quarter pretax investment income increased 1 percent to \$21.8 million, while after-tax investment income in the first quarter was unchanged at \$17.0 million.

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Earned premiums were virtually unchanged at \$170.2 million in the first quarter of 2000 and \$169.8 million in 1999. Net written premiums were down 10 percent to \$163.0 million from \$180.1 million in 1999. The lack of growth in premium volume is due in part to the company's efforts to reunderwrite and raise prices in underperforming classes of commercial lines business, as well as the refund of the North Carolina personal auto insurance premiums.

"While business volume has declined, it demonstrates our underwriting resolve," Bateman said. "We believe the improvement we've begun to see in the commercial lines pricing environment, coupled with our own efforts to increase prices and reunderwrite underperforming lines of business, will keep us on track toward improving our profitability as the year progresses.

"In addition, we expect combined annualized savings of \$0.17 per share from our claims and field operations expense initiatives once they are completed in the second quarter," Bateman concluded.

Shareholders' equity was \$542.0 million (\$18.76 per share) at March 31, 2000, compared with \$526.9 million (\$18.29 per share) at December 31, 1999.

Harleysville Group Inc. is a holding company that includes nine regional property and casualty insurance companies whose marketing territory encompasses 32 states primarily in the eastern half of the United States. The companies include: Great Oaks Insurance Company; Harleysville-Atlantic Insurance Company; Harleysville Insurance Company of New Jersey; Huron Insurance Company; Lake States Insurance Company; Mid-America Insurance Company; Minnesota Fire and Casualty Company; New York Casualty Insurance Company; and Worcester Insurance Company. Additionally, the company operates two limited partnerships: Harleysville Asset Management L.P. and Insurance Management Resources L.P.

Further information about Harleysville Group can be found on the company's Internet Web site (www.harleysvillegroup.com).

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This is a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995. Certain statements contained herein are forward-looking statements that involve risks and uncertainties. Future actual results may materially differ from those in these statements because of many factors. For instance, insurance industry price competition has made it more difficult to charge adequate prices, state regulatory actions can impede the company's ability to charge adequate rates, and neither the quantity nor severity of natural catastrophes can be anticipated to the degree necessary to assure adequate but competitive pricing of risks. Accordingly, Harleysville Group's premium growth and underwriting results have been and will continue to be potentially materially affected by these factors.

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Harleysville Group Inc. and Subsidiaries

FINANCIAL HIGHLIGHTS	Quarter ended March 31	
(in thousands, except per share data)	2000	1999
OPERATING RESULTS		
Premiums earned	\$170,241	\$169,827
Investment income, net of investment expense	21,770	21,526
Net income	7,241	11,861
Per common share:		
Basic earnings	\$0.25	\$0.41
Diluted earnings	\$0.25	\$0.40
Cash dividend	\$0.135	\$0.125
FINANCIAL CONDITION	March 31, 2000	December 31, 1999
Assets	\$2,021,816	\$2,020,056
Shareholders' equity	542,019	526,894
Per common share	\$18.76	\$18.29

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended March 31	
(in thousands, except per share data)	2000	1999
REVENUES:		
Premiums earned	\$170,241	\$169,827
Investment income, net of investment expense	21,770	21,526
Realized investment gains	1,274	4,810
Other income	4,134	3,513
Total revenues	197,419	199,676
LOSSES AND EXPENSES		
Losses and loss settlement expenses	127,491	119,846
Amortization of deferred policy acquisition costs	43,987	43,551
Other underwriting expenses	15,840	15,358
Interest expense	1,660	1,561
Other expenses	1,666	1,149
Total expenses	190,644	181,465
Income before income taxes and cumulative effect of accounting change	6,775	18,211
Income taxes (benefit)	(466)	3,446
Income before cumulative effect of accounting change	7,241	14,765
Cumulative effect of accounting change, net of income tax		(2,904)
Net income	\$7,241	\$11,861
Weighted average number of shares outstanding :		
Basic	28,900,561	29,236,828
Diluted	29,011,425	29,636,296
Basic earnings per common share :		
Income before cumulative effect of accounting change	\$0.25	\$0.51
Cumulative effect of accounting change, net of income tax		(0.10)
Net income	\$0.25	\$0.41
Diluted earnings per common share:		
Income before cumulative effect of accounting change	\$0.25	\$0.50
Cumulative effect of accounting change, net of income tax		(0.10)
Net income	\$0.25	\$0.40
Cash dividend	\$0.135	\$0.125

These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

March 31, 2000 * December 31, 1999

ASSETS

Investments:

Fixed maturities:

Held to maturity at amortized cost	\$591,046	\$597,232
Available for sale at fair value	770,547	749,370
Equity securities at fair value	219,255	198,197
Short-term investments, at cost, which approximates fair value	26,102	59,223

Total investments	1,606,950	1,604,022
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Cash	19,480	20,273
Premiums in course of collection	90,542	91,931
Reinsurance receivable	86,305	81,884
Accrued investment income	21,021	22,478
Deferred policy acquisition costs	82,731	83,541
Prepaid reinsurance premiums	32,192	28,907
Property and equipment, net	27,918	27,368
Deferred income taxes	16,032	20,478
Other assets	38,645	39,174

Total assets	\$2,021,816	\$2,020,056
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LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses	\$910,631	\$901,352
Unearned premiums	347,720	351,710
Accounts payable and accrued expenses	94,455	113,369
Debt	96,810	96,810
Due to affiliate	30,181	29,921

Total liabilities	1,479,797	1,493,162
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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 29,660,590 and 29,498,651 shares; outstanding 28,894,050 and 28,812,086 shares	29,661	29,499

Additional paid-in capital	126,597	124,798
Accumulated other comprehensive income	62,527	51,682
Retained earnings	335,110	331,769
Treasury stock, at cost, 766,540 and 686,565 shares	(11,876)	(10,854)

Total shareholders' equity	542,019	526,894
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Total liabilities and shareholders' equity	\$2,021,816	\$2,020,056
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SUPPLEMENTARY FINANCIAL ANALYSTS' DATA*

Quarter ended March 31

(in thousands, except per share data)

	2000	1999
Pretax investment income	\$21,770	\$21,526
Related federal income taxes	4,744	4,574
After-tax investment income	\$17,026	\$16,952
Net premiums written	\$162,966	\$180,086

Basic earnings per common share:

Operating income	\$0.22	\$0.40
Realized gains, net of tax	0.03	0.11
Cumulative effect of accounting change, net of tax		(0.10)
Net income	\$0.25	\$0.41

Diluted earnings per common share:

Operating income	\$0.22	\$0.39
Realized gains, net of tax	0.03	0.11
Cumulative effect of accounting change, net of tax		(0.10)
Net income	\$0.25	\$0.40

* These financial figures are unaudited.