



**For Release:** Immediately  
**Contact:** Carol Manning (Investors) 215.256.5020 cmanning@harleysvillegroup.com  
Randy Buckwalter (Media) 215.256.5288 rbuckwalter@harleysvillegroup.com

**HARLEYSVILLE GROUP OPERATING EARNINGS INCREASE 13 PERCENT,  
NET INCOME RISES 33 PERCENT**

**First quarter highlights:**

- Operating earnings increase 13 percent
- Net income rises 33 percent
- Combined ratio falls to 103.3 percent
- Commercial lines net written premiums grow 14 percent

HARLEYSVILLE, PA.—APRIL 26, 2002—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 2002.

First quarter diluted operating earnings per share increased 13 percent to \$0.43 in 2002—a new first quarter record—compared with \$0.38 in 2001. Operating earnings exclude after-tax diluted realized investment gains of \$0.01 per share in the first quarter of 2002, versus realized losses of \$0.05 per share in 2001. First quarter diluted net income rose 33 percent to \$0.44 per share in 2002, compared with \$0.33 per share in 2001.

“Our first quarter operating earnings were the best first quarter results in our company’s history and reflect the continuing success of our strategy,” commented Walter R. Bateman, Harleysville Group’s chairman, president and chief executive officer. “Our commercial lines combined ratios are at or below 100 percent in all but one line of business, and we continue to build margins in this segment, which now represents about three-quarters of our risk portfolio. As well, we are particularly encouraged by the 10-point improvement in our personal lines combined ratio over last year.”

Total revenues—which include realized investment gains and losses—increased 4 percent in the first quarter to \$208.2 million in 2002, compared with \$200.3 million in 2001.

Earned premiums were up 3 percent to \$182.5 million in the first quarter of 2002 compared with \$177.3 million in 2001. Net written premiums for the first quarter were up 4 percent to \$190.7 million from \$183.0 million in 2001. Excluding those unprofitable markets where Harleysville has significantly reduced personal lines volume, net written premiums would have grown 8.5 percent.

First quarter pretax investment income increased 1 percent to \$21.5 million in 2002 from \$21.3 million in 2001. After-tax investment income for the first quarter declined 2 percent to \$16.3 million in 2002 from \$16.6 million in 2001. The decline in after-tax investment income is due to the current low interest rate environment.

Harleysville Group’s overall statutory combined ratio was 103.3 percent in the first quarter of 2002, compared with 104.2 percent in the first quarter of 2001. Better personal lines results drove the improvement in the combined ratio.

(more)

**Commercial lines** Net written premiums climbed 14 percent to \$146.5 million in the first quarter of 2002 from \$128.3 million in the first quarter of 2001. The increase in written premiums is primarily due to higher pricing. The commercial lines combined ratio was 103.2 percent in the first quarter of 2002, versus 99.6 percent during the first three months of 2001.

“Our commercial lines results continue to reflect our disciplined underwriting execution. Our agents are receptive to our individual risk pricing actions and closely aligned with our underwriting appetite,” Bateman explained. “One tempering issue in recent quarters, however, has been our workers compensation line, which, along with personal auto, has been stung by the higher loss costs caused by rising medical inflation. To address this line, we are culling poorer-performing classes from our book of business and taking every step possible to adequately price this portion of our risk portfolio.”

**Personal lines** For the quarter, net written premiums declined by 19 percent to \$44.2 million in 2002 from \$54.7 million in 2001. The reduction relates to actions taken to reduce personal lines volume in unprofitable markets. The company’s personal lines combined ratio improved to 103.1 percent in the first quarter of 2002, versus 113.4 percent during the first three months of 2001.

“We attribute the 10-point improvement in our combined ratio specifically to our homeowners performance (89 percent combined ratio) and, more generally, to the successful execution of our underwriting and distribution management strategy, as well as the mild winter weather,” Bateman explained. “Going forward, we will continue to concentrate our resources on the geographic territories that offer the greatest return on our capital, while creating the high-quality products necessary to attract the more profitable accounts.”

Shareholders’ equity was \$591.0 million (\$19.98 per share) at March 31, 2002, compared with \$590.3 million (\$20.05 per share) at December 31, 2001.

**Webcast** The company will host a live Webcast today, Friday, April 26, 2002, at 9:00 a.m. (ET) to discuss its first quarter results. The Webcast will be available from the financial section of the company’s Web site ([www.harleysvillegroup.com](http://www.harleysvillegroup.com)). An archive of the presentation will be available until May 10, 2002, on the company’s Web site.

**Corporate profile** Harleysville Group Inc. (Nasdaq: HGIC), the country’s premier small commercial lines underwriter, is a holding company that includes nine regional property/casualty insurance companies operating in 32 Eastern and Midwestern states. Harleysville Group companies specialize in insuring small businesses, and also offer coverages for individuals and families. The Harleysville organization is represented by more than 1,800 local independent agencies and ranks 45th among U.S. property/casualty insurance groups based on net written premiums.

#####

Certain of the statements contained herein (other than statements of historical facts) are forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty that are, in many instances, beyond the company’s control and have been made based upon management’s expectations and beliefs concerning future developments and their potential effect on Harleysville Group Inc. There can be no assurance that future developments will be in accordance with management’s expectations so that the effect of future developments on Harleysville Group will be those anticipated by management. Actual financial results including premium growth and underwriting results could differ materially from those anticipated by Harleysville Group depending on the outcome of certain factors, which may include changes in property and casualty loss trends and reserves; natural catastrophe losses; competition in insurance product pricing; government regulation and changes therein which may impede the ability to charge adequate rates; performance of the financial markets; fluctuations in interest rates; availability and price of reinsurance; and the status of the labor markets in which the company operates.

## Harleysville Group Inc. and Subsidiaries

<b>FINANCIAL HIGHLIGHTS</b>	Quarter ended March 31	
(in thousands, except per share data)	2002	2001
<b>OPERATING RESULTS</b>		
Diluted earnings per common share:		
Operating income	\$0.43	\$0.38
Realized gains (losses), net of tax	0.01	(0.05)
Net income	\$0.44	\$0.33
Cash dividend per common share	\$0.15	\$0.14

<b>FINANCIAL CONDITION</b>	March 31, 2002	December 31, 2001
Assets	\$2,232,464	\$2,045,290
Shareholders' equity	\$591,011	\$590,298
Per common share	\$19.98	\$20.05

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	Quarter ended March 31	
(in thousands, except per share data)	2002	2001
<b>REVENUES:</b>		
Premiums earned	\$182,505	\$177,274
Investment income, net of investment expense	21,482	21,325
Realized investment gains (losses)	478	(2,353)
Other income	3,745	4,074
Total revenues	208,210	200,320
<b>LOSSES AND EXPENSES:</b>		
Losses and loss settlement expenses	127,272	126,509
Amortization of deferred policy acquisition costs	44,622	45,175
Other underwriting expenses	16,922	14,723
Interest expense	1,421	1,621
Other expenses	1,050	1,495
Total expenses	191,287	189,523
Income before income taxes	16,923	10,797
Income taxes	3,583	1,079
Net income	\$13,340	\$9,718
Weighted average number of shares outstanding:		
Basic	29,510,116	29,137,261
Diluted	30,062,578	29,720,332
Per common share:		
Basic earnings	\$0.45	\$0.33
Diluted earnings	\$0.44	\$0.33

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

March 31, 2002\* December 31, 2001

#### ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$439,023 and \$459,588)

\$422,135

\$439,499

Available for sale, at fair value (amortized cost \$985,461 and \$956,047)

1,004,175

984,264

Equity securities, at fair value (cost \$112,455 and \$110,803)

145,164

150,686

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

45,640

36,695

Total investments

1,617,114

1,611,144

Cash

1,271

1,839

Premiums in course of collection

126,461

122,508

Reinsurance receivable

80,763

81,640

Accrued investment income

20,776

21,862

Deferred policy acquisition costs

88,711

86,076

Prepaid reinsurance premiums

20,744

20,096

Property and equipment, net

29,586

28,873

Deferred income taxes

35,579

29,435

Due from affiliate

1,773

Securities lending collateral

170,800

Other assets

38,886

41,817

Total assets

\$2,232,464

\$2,045,290

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$889,695

\$879,056

Unearned premiums

382,536

373,737

Accounts payable and accrued expenses

102,367

96,440

Securities lending obligation

170,800

Debt

96,055

96,055

Due to affiliate

9,704

Total liabilities

1,641,453

1,454,992

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 30,579,316 and 30,444,678 shares;

outstanding 29,579,316 and 29,444,678 shares

30,579

30,445

Additional paid-in capital

142,579

140,065

Accumulated other comprehensive income

33,425

44,265

Retained earnings

399,993

391,088

Treasury stock, at cost, 1,000,000 shares

(15,565)

(15,565)

Total shareholders' equity

591,011

590,298

Total liabilities and shareholders' equity

\$2,232,464

\$2,045,290

\* These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended March 31	
	2002	2001
Net premiums written	\$190,655	\$183,035
Statutory surplus	\$543,014	\$541,226
Pretax investment income	\$21,482	\$21,325
Related federal income taxes	5,177	4,730
After-tax investment income	\$16,305	\$16,595

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended March 31	
	2002	2001
Revenues:		
Premiums earned:		
Commercial lines	\$128,305	\$116,458
Personal lines	54,200	60,816
Total premiums earned	182,505	177,274
Net investment income	21,482	21,325
Realized investment gains (losses)	478	(2,353)
Other	3,745	4,074
Total revenues	\$208,210	\$200,320

#### Income before income taxes :

Underwriting gain (loss):		
Commercial lines	(\$10,164)	(\$3,195)
Personal lines	1,424	(6,087)
SAP underwriting loss	(8,740)	(9,282)
GAAP adjustments	2,428	149
GAAP underwriting loss	(6,312)	(9,133)
Net investment income	21,482	21,325
Realized investment gains (losses)	478	(2,353)
Other	1,275	958
Income before income taxes	\$16,923	\$10,797

#### Income taxes on net investment income

Income taxes on net investment income	\$5,177	\$4,730
Income taxes on remaining loss	(1,594)	(3,651)
Total income taxes	\$3,583	\$1,079

#### Effective tax rate on:

Net investment income	24.1%	22.2%
Net income	21.2%	10.0%

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### STATUTORY DATA BY LINE OF BUSINESS

	Quarter ended March 31	
(dollars in thousands)	2002	2001
<b>Net premiums written:</b>		
Commercial:		
Automobile	\$47,076	\$41,042
Workers' compensation	31,943	32,390
Commercial multi-peril	54,310	44,469
Other commercial	13,129	10,396
<b>Total commercial</b>	<b>\$146,458</b>	<b>\$128,297</b>
Personal:		
Automobile	\$28,970	\$38,693
Homeowners	13,395	14,028
Other personal	1,832	2,017
<b>Total personal</b>	<b>\$44,197</b>	<b>\$54,738</b>
<b>Total personal and commercial</b>	<b>\$190,655</b>	<b>\$183,035</b>
<b>Combined ratios:</b>		
Commercial:		
Automobile	97.5%	95.9%
Workers' compensation	122.0%	98.6%
Commercial multi-peril	100.1%	105.7%
Other commercial	89.8%	91.6%
<b>Total commercial</b>	<b>103.2%</b>	<b>99.6%</b>
Personal:		
Automobile	113.5%	111.6%
Homeowners	89.3%	122.6%
Other personal	59.7%	88.2%
<b>Total personal</b>	<b>103.1%</b>	<b>113.4%</b>
<b>Total personal and commercial</b>	<b>103.3%</b>	<b>104.2%</b>
<b>Losses paid</b>	<b>\$116,447</b>	<b>\$135,799</b>
<b>Net catastrophe losses incurred</b>	<b>\$807</b>	<b>\$797</b>

These financial figures are unaudited.