



**For Release:** Immediately

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**HARLEYSVILLE GROUP QUARTERLY RESULTS IMPACTED BY WORKERS  
COMPENSATION, WINTER STORM AND PERSONAL LINES LOSSES; STRONG GROWTH  
IN COMMERCIAL BUSINESS CONTINUES**

HARLEYSVILLE, PA—APRIL 25, 2003—Harleysville Group Inc. (Nasdaq: HGIC) today reported a diluted operating loss of \$0.10 per share for the first quarter, reflecting the impact of its previously announced \$20 million pretax workers compensation reserve adjustment and \$3.6 million of winter storm property catastrophe losses, as well as poor personal lines results. At the same time, the company reported ongoing strong premium growth in its core commercial business segment during the first quarter of 2003.

The diluted net loss per share for the first quarter of 2003 was \$0.11, versus diluted net income of \$0.44 in the first quarter of 2002. On a per share basis, the company had \$0.01 of realized investment losses in the first quarter of 2003, compared to a \$0.01 gain in the first quarter of 2002.

The \$0.10 diluted operating loss per share, which excludes the impact of net realized after-tax investment losses that are included in the net loss, compared to diluted operating earnings of \$0.43 for the same period in 2002.

“We are disappointed in our results this quarter, but we have taken the quick action necessary to address workers compensation reserve adequacy,” commented Walter R. Bateman, Harleysville Group’s chairman and chief executive officer. “Our decisive response to the adverse activity we saw late in the quarter underscores our commitment to maintaining reserve adequacy. Overall, our disciplined small commercial strategy continues to deliver double-digit premium growth and our balance sheet remains strong.”

The company’s first quarter earnings were reduced by \$20 million pretax, or \$0.43 per share after tax, due to the workers compensation reserve adjustment, while the property catastrophe losses resulting from the winter storms of \$3.6 million, or \$0.08 per share after tax, were capped by the quarterly aggregate reinsurance agreement with Harleysville Mutual Insurance Company. In the first quarter of 2002, Harleysville Group’s property catastrophe losses were \$0.8 million, or \$0.02 per share after tax.

Harleysville Group’s overall statutory combined ratio\* was 115.4 percent in the first quarter of 2003, compared to 103.3 percent in the first quarter of 2002. The workers compensation reserve adjustment added 10.0 points to the combined ratio. The property catastrophe losses added 1.8 points, in contrast to the first quarter of 2002 when property catastrophe losses contributed 0.4 points to the combined ratio.

First quarter net written premiums rose 13 percent to \$215.3 million in 2003 from \$190.7 million in 2002.

First quarter pretax investment income was unchanged at \$21.4 million in 2003, while after-tax investment income rose 1 percent to \$16.5 million. Operating cash flow for the first quarter was \$37.5 million, \$12.5 million higher than the prior year’s first quarter.

**Commercial lines** Triggered by significantly higher-than-expected loss reporting that emerged near the quarter’s end, the company strengthened its workers compensation reserves and reviewed its workers compensation claims files. That evaluation identified the need for additional strengthening, and the company announced on April 23 that it had increased its total reserve adjustments for the quarter to \$20 million.

(more)

Reserve adjustments in this line accounted for 70.5 points of the 192.2 percent workers compensation combined ratio, and represented 13.4 points of the 114.1 percent commercial lines combined ratio. The commercial lines combined ratio for the first quarter of 2002 was 103.2 percent. The company reported underwriting profitability in its commercial auto and commercial multi-peril business, which generated combined ratios of 96.0 percent and 98.8 percent, respectively. Commercial lines net written premiums rose 16 percent in the first quarter to \$170.5 million—the company’s 12th consecutive quarterly double-digit premium increase—primarily reflecting the result of higher pricing.

**Personal lines** Harleysville Group’s personal lines combined ratio was 119.3 percent in the first quarter of 2003, versus 103.1 percent during the first quarter of 2002. In addition to property catastrophe losses, large loss activity in personal auto and homeowners further impacted the quarter’s results. For the quarter, net written premiums increased by 1 percent to \$44.7 million in 2003.

**Outlook** “We are not wavering from the execution of our strategy,” Bateman stated. “We have a high-quality small commercial risk portfolio—which accounts for more than three-quarters of our business—and a solid balance sheet. With those as our foundation, we believe we can achieve operating earnings per share in the \$1.45 to \$1.55 range for the year.”

**Webcast** The company will host a live Webcast today, Friday, April 25, 2003, 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 9, 2003, on the company’s Web site.

**Corporate profile** Harleysville Insurance, “Good people to know,” is the premier provider of insurance products and services for small businesses and individuals, and ranks among the top 50 U.S. property/casualty insurance groups based on net written premiums. Harleysville Group Inc. (Nasdaq: HGIC) is a publicly traded holding company for nine regional property/casualty insurance companies collectively rated A (Excellent) by A.M. Best Company. Harleysville Insurance, which distributes its products through independent insurance agents, operates in 32 Eastern and Midwestern states. Further information can be found on the company’s Web site.

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\* “Statutory combined ratio” is a measure of underwriting profitability and is based on numbers determined under statutory accounting practices. It is the sum of the ratio of losses to premiums earned plus the ratio of underwriting expenses to premiums written. A ratio of less than 100 percent indicates underwriting profitability.

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

## Harleysville Group Inc. and Subsidiaries

<b>FINANCIAL HIGHLIGHTS</b>	Quarter ended March 31	
(in thousands, except per share data)	2003	2002
<b>OPERATING RESULTS</b>		
Diluted earnings per common share:		
Operating income (loss)	(\$0.10)	\$0.43
Realized gains (losses), net of tax	(0.01)	0.01
Net income (loss)	(\$0.11)	\$0.44
Cash dividend per common share	\$0.165	\$0.15

<b>FINANCIAL CONDITION</b>	March 31, 2003	December 31, 2002
Assets	\$2,367,238	\$2,311,524
Shareholders' equity	\$623,524	\$632,112
Per common share	\$20.69	\$21.13

<b>CONSOLIDATED STATEMENTS OF INCOME (LOSS)</b>	Quarter ended March 31	
(in thousands, except per share data)	2003	2002
<b>REVENUES:</b>		
Premiums earned	\$198,829	\$182,505
Investment income, net of investment expense	21,447	21,482
Realized investment gains (losses)	(433)	478
Other income	4,520	3,745
Total revenues	224,363	208,210
<b>LOSSES AND EXPENSES:</b>		
Losses and loss settlement expenses	163,759	127,272
Amortization of deferred policy acquisition costs	48,317	44,622
Other underwriting expenses	18,557	16,922
Interest expense	1,394	1,421
Other expenses	1,211	1,050
Total expenses	233,238	191,287
Income (loss) before income taxes	(8,875)	16,923
Income taxes (benefit)	(5,635)	3,583
Net income (loss)	(\$3,240)	\$13,340
Weighted average number of shares outstanding:		
Basic	29,987,316	29,510,116
Diluted	29,987,316	30,062,578
Per common share:		
Basic earnings (loss)	(\$0.11)	\$0.45
Diluted earnings (loss)	(\$0.11)	\$0.44

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

March 31, 2003\* December 31, 2002

#### ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$383,827 and \$416,942)

\$352,732

\$385,162

Available for sale, at fair value (amortized cost \$1,122,764 and \$1,051,880)

1,191,933

1,124,869

Equity securities, at fair value (cost \$93,633 and \$96,849)

102,119

107,177

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

101,441

89,692

Total investments

1,748,225

1,706,900

Cash

2,491

2,944

Premiums in course of collection

140,306

138,905

Reinsurance receivable

88,237

75,488

Accrued investment income

20,505

21,552

Deferred policy acquisition costs

99,255

94,896

Prepaid reinsurance premiums

20,037

19,421

Property and equipment, net

26,363

27,556

Deferred income taxes

31,821

25,784

Securities lending collateral

137,702

139,215

Due from affiliate

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10,709

Other assets

52,296

48,154

Total assets

\$2,367,238

\$2,311,524

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$977,761

\$928,335

Unearned premiums

423,347

406,277

Accounts payable and accrued expenses

106,867

109,965

Securities lending obligation

137,702

139,215

Debt

95,620

95,620

Due to affiliate

2,417

Total liabilities

1,743,714

1,679,412

Shareholders' equity:

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

Common stock, \$1 par value, authorized 80,000,000 shares; issued 31,157,811 and 30,917,575 shares;

outstanding 30,139,312 and 29,917,575 shares

31,158

30,918

Additional paid-in capital

154,938

149,091

Accumulated other comprehensive income

45,406

49,086

Retained earnings

410,370

418,582

Deferred compensation

(2,356)

Treasury stock, at cost, 1,018,499 shares

(15,992)

(15,565)

Total shareholders' equity

623,524

632,112

Total liabilities and shareholders' equity

\$2,367,238

\$2,311,524

\* These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended March 31	
	2003	2002
Net premiums written	\$215,283	\$190,655
Statutory surplus	\$493,404	\$543,014
Pretax investment income	\$21,447	\$21,482
Related federal income taxes	4,973	5,177
After-tax investment income	\$16,474	\$16,305

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended March 31	
	2003	2002
Revenues:		
Premiums earned:		
Commercial lines	\$148,749	\$128,305
Personal lines	50,080	54,200
Total premiums earned	198,829	182,505
Net investment income	21,447	21,482
Realized investment gains (losses)	(433)	478
Other	4,520	3,745
Total revenues	\$224,363	\$208,210
Income before income taxes :		
Underwriting gain (loss):		
Commercial lines	(\$28,006)	(\$10,164)
Personal lines	(7,894)	1,424
SAP underwriting loss	(35,900)	(8,740)
GAAP adjustments	4,096	2,428
GAAP underwriting loss	(31,804)	(6,312)
Net investment income	21,447	21,482
Realized investment gains (losses)	(433)	478
Other	1,915	1,275
Income (loss) before income taxes	(\$8,875)	\$16,923
Income taxes on net investment income	\$4,973	\$5,177
Income tax on remaining loss	(10,608)	(1,594)
Total income taxes (benefit)	(\$5,635)	\$3,583
Effective tax rate on:		
Net investment income	23.2%	24.1%
Net income	63.5%	21.2%

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### STATUTORY DATA BY LINE OF BUSINESS

(dollars in thousands)	Quarter ended March 31	
	2003	2002
<b>Net premiums written:</b>		
Commercial:		
Automobile	\$55,243	\$47,076
Workers' compensation	32,773	31,943
Commercial multi-peril	64,812	54,310
Other commercial	17,709	13,129
<b>Total commercial</b>	<b>\$170,537</b>	<b>\$146,458</b>
Personal:		
Automobile	\$29,597	\$28,970
Homeowners	13,472	13,395
Other personal	1,677	1,832
<b>Total personal</b>	<b>\$44,746</b>	<b>\$44,197</b>
<b>Total personal and commercial</b>	<b>\$215,283</b>	<b>\$190,655</b>
<b>Combined ratios:</b>		
Commercial:		
Automobile	96.0%	97.5%
Workers' compensation	192.2%	122.0%
Commercial multi-peril	98.8%	100.1%
Other commercial	83.8%	89.8%
<b>Total commercial</b>	<b>114.1%</b>	<b>103.2%</b>
Personal:		
Automobile	117.5%	113.5%
Homeowners	124.0%	89.3%
Other personal	114.8%	59.7%
<b>Total personal</b>	<b>119.3%</b>	<b>103.1%</b>
<b>Total personal and commercial</b>	<b>115.4%</b>	<b>103.3%</b>
<b>Losses paid</b>	<b>\$128,637</b>	<b>\$116,447</b>
<b>Net catastrophe losses incurred</b>	<b>\$3,649</b>	<b>\$807</b>

These financial figures are unaudited.