



**Harleysville Group Inc.**

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## **HARLEYSVILLE GROUP REPORTS FOURTH QUARTER AND YEAR-END RESULTS**

HARLEYSVILLE, PA—MARCH 2, 2001—Harleysville Group Inc. (NASDAQ:HGIC), a holding company that includes nine regional property and casualty insurance companies, today reported its results for both the fourth quarter and the year 2000.

Fourth quarter diluted operating earnings were \$0.50 per share in 2000, compared with \$0.26 per share in 1999. For the year, Harleysville Group's diluted operating earnings were \$1.45 per share in 2000 and \$1.09 per share in 1999. Fourth quarter diluted net income per share was \$0.60 in 2000, compared with \$0.44 in 1999. Through 12 months, diluted net income was \$1.67 per share in 2000, versus \$1.35 per share in 1999.

"Our highest priority for the year was to increase earnings, and we were able to make substantial progress in that regard. Operating earnings per share were up 33 percent from the year before," commented Walter R. Bateman, Harleysville Group's chairman, president and chief executive officer.

"While the progress we made last year is gratifying, our profit improvement initiatives remain in high gear in 2001," Bateman continued. "Last year we re-underwrote our book of business, dropping problematic accounts. We re-priced our underwriting portfolio so it's more profitable. And we created new franchise relationships with our best-performing agencies. In addition, we completed the consolidation of our claims offices we announced in 1999, as well as the streamlining of our field office operations."

After-tax diluted realized investment gains included in net income amounted to \$0.10 per share in the fourth quarter of 2000 and \$0.18 per share in the fourth quarter of 1999. For the year, diluted realized gains per share were \$0.22 in 2000 and \$0.36 in 1999. The realized gains were attributable to sales from the company's equity portfolio.

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 fourth quarter of 2000 was 102.6 percent, compared with 109.5 percent in the fourth quarter of 1999. For the year, the statutory combined ratio was 106.1 percent, compared with 107.8 percent in 1999. The improvement in both the quarter and the year was attributable to gains made in the company's commercial lines business.

Total revenues—which include realized investment gains—declined 5 percent in the fourth quarter to \$206.1 million in 2000, compared with \$216.3 million in 1999. For the corresponding 12-month periods, total revenues decreased 3 percent to \$802.6 million in 2000 from \$824.8 million in 1999.

Fourth quarter pretax investment income increased 1 percent to \$21.9 million in 2000 from \$21.6 million in 1999. For the year, pretax investment income rose 1 percent to \$86.8 million in 2000, compared with \$85.9 million in 1999. After-tax investment income was virtually unchanged in both the quarter at \$17.0 million, and the year at \$67.8 million.

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Earned premiums declined by 5 percent to \$174.5 million in the fourth quarter of 2000, compared with \$182.8 million in 1999. For the year, earned premiums were down 3 percent to \$688.3 million from \$707.2 million in 1999.

Net written premiums for the fourth quarter were up 9 percent to \$172.3 million from \$157.9 million in 1999. Net written premium comparisons for the fourth quarter were impacted by two factors: personal auto policies that were renewed for 12-month terms rather than six-month terms; and the prior year's fourth quarter effect of exiting from an arrangement with a managing general agent. Excluding these items, Harleysville Group's fourth quarter growth would have been 1.8 percent. Through 12 months, net written premiums declined by 3 percent to \$701.5 million in 2000, compared with \$724.3 million in 1999. The lack of growth in premium volume for the year is due in part to the company's efforts to re-underwrite and raise prices in underperforming classes of commercial lines business. "The change in premium volume, while negative for the year, broke into positive territory during the fourth quarter—a trend we expect to continue," Bateman explained.

Shareholders' equity was \$566.6 million (\$19.54 per share) at December 31, 2000, compared with \$526.9 million (\$18.29 per share) at December 31, 1999.

"In the upcoming year, we will pursue the same course of action that proved to be so successful in 2000, while we grow our business and return earnings and return on shareholders' equity to their historically high levels," Bateman concluded. "We expect the upward strengthening of commercial lines prices to support these objectives."

The company will host a live Webcast on Friday, March 2, 2001, at 10:00 a.m. (ET) to discuss the fourth quarter and full-year 2000 results. The Webcast will be available from the Financial section of the company's Web site ([www.harleysvillegroup.com/financial](http://www.harleysvillegroup.com/financial)). An archive of the presentation will be available until March 16, 2001, on the company's Web site.

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](http://www.harleysvillegroup.com)).

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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 December 31 |         | Twelve months ended December 31 |        |
|--|---------------------------|---------|---------------------------------|--------|
| (in thousands, except per share data)              | 2000                      | 1999    | 2000                            | 1999   |
| <b>OPERATING RESULTS</b>                           |                           |         |                                 |        |
| Diluted earnings per common share:                 |                           |         |                                 |        |
| Operating income                                   | \$0.50                    | \$0.26  | \$1.45                          | \$1.09 |
| Realized gains, net of tax                         | 0.10                      | 0.18    | 0.22                            | 0.36   |
| Cumulative effect of accounting change, net of tax |                           |         |                                 | (0.10) |
| Net income   | \$0.60                    | \$0.44  | \$1.67                          | \$1.35 |
| Cash dividends per common share                    | \$0.14                    | \$0.135 | \$0.55                          | \$0.52 |

| <b>FINANCIAL CONDITION</b> | December 31, 2000 | December 31, 1999 |
|----------------------------|-------------------|-------------------|
| Assets                     | \$2,021,862       | \$2,020,056       |
| Shareholders' equity       | 566,581           | 526,894           |
| Per common share           | \$19.54           | \$18.29           |

| <b>CONSOLIDATED STATEMENTS OF INCOME</b>                              | Quarter ended December 31 |            | Twelve months ended December 31 |            |
|---|---------------------------|------------|---------------------------------|------------|
| (in thousands, except per share data)                                 | 2000                      | 1999       | 2000                            | 1999       |
| <b>REVENUES:</b>  |                           |            |                                 |            |
| Premiums earned   | \$174,458                 | \$182,771  | \$688,330                       | \$707,200  |
| Investment income, net of investment expense                          | 21,917                    | 21,620     | 86,791                          | 85,894     |
| Realized investment gains   | 4,554                     | 7,939      | 9,780                           | 16,222     |
| Other income  | 5,137                     | 3,987      | 17,670                          | 15,440     |
| Total revenues  | 206,066                   | 216,317    | 802,571                         | 824,756    |
| <b>LOSSES AND EXPENSES:</b>   |                           |            |                                 |            |
| Losses and loss settlement expenses                                   | 118,392                   | 135,676    | 492,801                         | 523,002    |
| Amortization of deferred policy acquisition costs                     | 44,304                    | 47,139     | 177,217                         | 182,337    |
| Other underwriting expenses   | 16,201                    | 15,408     | 60,916                          | 60,226     |
| Interest expense  | 1,666                     | 1,649      | 6,612                           | 6,390      |
| Other expenses  | 2,431                     | 1,346      | 7,320                           | 5,049      |
| Total expenses  | 182,994                   | 201,218    | 744,866                         | 777,004    |
| Income before income taxes and cumulative effect of accounting change | 23,072                    | 15,099     | 57,705                          | 47,752     |
| Income taxes  | 5,366                     | 2,251      | 9,013                           | 4,935      |
| Income before cumulative effect of accounting change                  | 17,706                    | 12,848     | 48,692                          | 42,817     |
| Cumulative effect of accounting change, net of income tax             |                           |            |                                 | (2,904)    |
| Net income  | \$17,706                  | \$12,848   | \$48,692                        | \$39,913   |
| Weighted average number of shares outstanding :                       |                           |            |                                 |            |
| Basic   | 28,904,337                | 29,023,741 | 28,838,824                      | 29,238,372 |
| Diluted   | 29,428,041                | 29,165,340 | 29,136,406                      | 29,565,378 |
| Basic earnings per common share :                                     |                           |            |                                 |            |
| Income before cumulative effect of accounting change                  | \$0.61                    | \$0.44     | \$1.69                          | \$1.47     |
| Cumulative effect of accounting change, net of income tax             |                           |            |                                 | (0.10)     |
| Net income  | \$0.61                    | \$0.44     | \$1.69                          | \$1.37     |
| Diluted earnings per common share:                                    |                           |            |                                 |            |
| Income before cumulative effect of accounting change                  | \$0.60                    | \$0.44     | \$1.67                          | \$1.45     |
| Cumulative effect of accounting change, net of income tax             |                           |            |                                 | (0.10)     |
| Net income  | \$0.60                    | \$0.44     | \$1.67                          | \$1.35     |

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

December 31, 2000 \*    December 31, 1999

#### ASSETS

##### Investments:

##### Fixed maturities:

|  |             |             |
|--|-------------|-------------|
| Held to maturity, at amortized cost (fair value \$578,662 and \$597,367)   | \$562,603   | \$597,232   |
| Available for sale, at fair value (amortized cost \$800,954 and \$761,830) | 818,891     | 749,370     |
| Equity securities, at fair value (cost \$125,517 and \$106,225)            | 193,750     | 198,197     |
| Short-term investments, at cost, which approximates fair value             | 23,881      | 59,223      |
| Total investments  | 1,599,125   | 1,604,022   |
| Cash   | 28,395      | 20,273      |
| Premiums in course of collection   | 101,511     | 91,931      |
| Reinsurance receivable   | 76,841      | 81,884      |
| Accrued investment income  | 23,316      | 22,478      |
| Deferred policy acquisition costs  | 84,759      | 83,541      |
| Prepaid reinsurance premiums   | 18,154      | 28,907      |
| Property and equipment, net  | 27,621      | 27,368      |
| Deferred income taxes  | 19,545      | 20,478      |
| Other assets   | 42,595      | 39,174      |
| Total assets   | \$2,021,862 | \$2,020,056 |

#### LIABILITIES AND SHAREHOLDERS' EQUITY

##### Liabilities:

|  |             |             |
|--|-------------|-------------|
| Unpaid losses and loss settlement expenses   | \$864,843   | \$901,352   |
| Unearned premiums  | 354,098     | 351,710     |
| Accounts payable and accrued expenses  | 120,210     | 113,369     |
| Debt   | 96,450      | 96,810      |
| Due to affiliate   | 19,680      | 29,921      |
| Total liabilities  | 1,455,281   | 1,493,162   |
| Preferred stock, \$1 par value; authorized 1,000,000 shares; none issued   |             |             |
| Common stock, \$1 par value, authorized 80,000,000 shares; issued 30,001,852 and 29,498,651 shares; outstanding 29,001,852 and 28,812,086 shares | 30,002      | 29,499      |
| Additional paid-in capital   | 131,537     | 124,798     |
| Accumulated other comprehensive income   | 56,010      | 51,682      |
| Retained earnings  | 364,597     | 331,769     |
| Treasury stock, at cost, 1,000,000 and 686,565 shares  | (15,565)    | (10,854)    |
| Total shareholders' equity   | 566,581     | 526,894     |
| Total liabilities and shareholders' equity   | \$2,021,862 | \$2,020,056 |

\* These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

| (dollars in thousands)       | Quarter ended December 31 |           | Twelve months ended December 31 |           |
|------------------------------|---------------------------|-----------|---------------------------------|-----------|
|                              | 2000                      | 1999      | 2000                            | 1999      |
| Net premiums written         | \$172,251                 | \$157,855 | \$701,472                       | \$724,339 |
| Statutory surplus            |                           |           | 515,679                         | 502,863   |
| Pretax investment income     | \$21,917                  | \$21,620  | \$86,791                        | \$85,894  |
| Related federal income taxes | 4,898                     | 4,622     | 19,014                          | 18,251    |
| After-tax investment income  | \$17,019                  | \$16,998  | \$67,777                        | \$67,643  |

### SEGMENT INFORMATION

| (dollars in thousands)    | Quarter ended December 31 |           | Twelve months ended December 31 |           |
|---------------------------|---------------------------|-----------|---------------------------------|-----------|
|                           | 2000                      | 1999      | 2000                            | 1999      |
| Revenues:                 |                           |           |                                 |           |
| Premiums earned:          |                           |           |                                 |           |
| Commercial lines          | \$112,541                 | \$112,077 | \$437,873                       | \$438,111 |
| Personal lines            | 61,917                    | 70,694    | 250,457                         | 269,089   |
| Total premiums earned     | 174,458                   | 182,771   | 688,330                         | 707,200   |
| Net investment income     | 21,917                    | 21,620    | 86,791                          | 85,894    |
| Realized investment gains | 4,554                     | 7,939     | 9,780                           | 16,222    |
| Other                     | 5,137                     | 3,987     | 17,670                          | 15,440    |
| Total revenues            | \$206,066                 | \$216,317 | \$802,571                       | \$824,756 |

Income before income taxes and cumulative effect of accounting change:

|  |          |           |            |            |
|--|----------|-----------|------------|------------|
| Underwriting gain (loss):  |          |           |            |            |
| Commercial lines   | \$569    | (\$7,656) | (\$22,925) | (\$44,052) |
| Personal lines   | (4,352)  | (994)     | (23,281)   | (17,098)   |
| SAP underwriting loss  | (3,783)  | (8,650)   | (46,206)   | (61,150)   |
| GAAP adjustments   | (656)    | (6,802)   | 3,602      | 2,785      |
| GAAP underwriting loss   | (4,439)  | (15,452)  | (42,604)   | (58,365)   |
| Net investment income  | 21,917   | 21,620    | 86,791     | 85,894     |
| Realized investment gains  | 4,554    | 7,939     | 9,780      | 16,222     |
| Other  | 1,040    | 992       | 3,738      | 4,001      |
| Income before income taxes and<br>cumulative effect of accounting change | \$23,072 | \$15,099  | \$57,705   | \$47,752   |
| Income taxes on net investment income                                    | \$4,898  | \$4,622   | \$19,014   | \$18,251   |
| Income taxes on remaining income (loss)                                  | 468      | (2,371)   | (10,001)   | (13,316)   |
| Total income taxes   | \$5,366  | \$2,251   | \$9,013    | \$4,935    |

Effective tax rate on:

|                       |       |       |       |       |
|-----------------------|-------|-------|-------|-------|
| Net investment income | 22.3% | 21.4% | 21.9% | 21.2% |
| Net income            | 23.3% | 14.9% | 15.6% | 10.3% |

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### STATUTORY DATA BY LINE OF BUSINESS

| (dollars in thousands)                 | Quarter ended December 31 |                  | Twelve months ended December 31 |                  |
|--|---------------------------|------------------|---------------------------------|------------------|
|  | 2000                      | 1999             | 2000                            | 1999             |
| <b>Net premiums written:</b>           |                           |                  |                                 |                  |
| Commercial:                            |                           |                  |                                 |                  |
| Automobile                             | \$34,391                  | \$31,069         | \$142,589                       | \$144,095        |
| Workers' compensation                  | 25,610                    | 24,175           | 108,473                         | 114,235          |
| Commercial multi-peril                 | 39,552                    | 35,636           | 159,679                         | 155,667          |
| Other commercial                       | 9,226                     | 7,478            | 35,978                          | 34,549           |
| <b>Total commercial</b>                | <b>\$108,779</b>          | <b>\$98,358</b>  | <b>\$446,719</b>                | <b>\$448,546</b> |
| Personal:                              |                           |                  |                                 |                  |
| Automobile                             | \$42,869                  | \$37,776         | \$168,116                       | \$185,477        |
| Homeowners                             | 18,100                    | 19,102           | 75,551                          | 78,755           |
| Other personal                         | 2,503                     | 2,619            | 11,086                          | 11,561           |
| <b>Total personal</b>                  | <b>\$63,472</b>           | <b>\$59,497</b>  | <b>\$254,753</b>                | <b>\$275,793</b> |
| <b>Total personal and commercial</b>   | <b>\$172,251</b>          | <b>\$157,855</b> | <b>\$701,472</b>                | <b>\$724,339</b> |
| <b>Combined ratios:</b>                |                           |                  |                                 |                  |
| Commercial:                            |                           |                  |                                 |                  |
| Automobile                             | 99.0%                     | 122.6%           | 106.9%                          | 116.4%           |
| Workers' compensation                  | 98.4%                     | 89.4%            | 102.2%                          | 88.2%            |
| Commercial multi-peril                 | 107.1%                    | 113.9%           | 105.8%                          | 118.0%           |
| Other commercial                       | 83.1%                     | 124.3%           | 95.2%                           | 110.9%           |
| <b>Total commercial</b>                | <b>100.7%</b>             | <b>111.3%</b>    | <b>104.5%</b>                   | <b>109.2%</b>    |
| Personal:                              |                           |                  |                                 |                  |
| Automobile                             | 107.9%                    | 111.4%           | 106.0%                          | 99.4%            |
| Homeowners                             | 107.6%                    | 93.0%            | 117.4%                          | 121.4%           |
| Other personal                         | 77.7%                     | 108.9%           | 91.2%                           | 96.3%            |
| <b>Total personal</b>                  | <b>106.2%</b>             | <b>106.6%</b>    | <b>108.7%</b>                   | <b>105.6%</b>    |
| <b>Total personal and commercial</b>   | <b>102.6%</b>             | <b>109.5%</b>    | <b>106.1%</b>                   | <b>107.8%</b>    |
| <b>Losses paid</b>                     | <b>\$144,611</b>          | <b>\$142,144</b> | <b>\$524,131</b>                | <b>\$512,607</b> |
| <b>Net catastrophe losses incurred</b> | <b>\$3,235</b>            | <b>\$3,686</b>   | <b>\$11,081</b>                 | <b>\$23,144</b>  |

These financial figures are unaudited.