



**For Release:** Immediately

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

## **HARLEYSVILLE GROUP REPORTS SECOND QUARTER OPERATING EARNINGS INCREASE AND IMPROVED UNDERWRITING PROFITABILITY**

### **Second quarter highlights:**

- Operating earnings increase 18 percent
- Combined ratio improves to 100.6 percent
- Commercial lines net written premiums rise 18 percent
- Net income impacted by securities write down

HARLEYSVILLE, PA—JULY 26, 2002—Harleysville Group Inc. (Nasdaq: HGIC) today reported an 18 percent increase in its second quarter 2002 diluted operating earnings per share, continued growth in its small commercial business and improved profitability in most business lines.

“We had outstanding operating results due to our progress in implementing our small commercial business strategy,” commented Walter R. Bateman, Harleysville Group’s chairman, president and chief executive officer. “Our improved quarterly combined ratio reflects our commitment to disciplined underwriting. Commercial lines pricing remains strong, and we see no marketplace indications that the environment is changing. Retention of our commercial lines business is solid, due in large part to the franchise relationships we have nurtured with our best agency partners. Additionally, our personal lines combined ratio has shown marked improvement this year, particularly in homeowners insurance, which clearly illustrates the success of our efforts to upgrade our overall risk portfolio.”

Second quarter diluted operating earnings per share were \$0.46 in 2002, up from \$0.39 for the same period in 2001. For the first six months, Harleysville Group’s diluted operating earnings per share increased 16 percent to \$0.89 in 2002, compared to \$0.77 reported in 2001. Operating earnings exclude after-tax realized investment losses.

Diluted net income per share for the second quarter of 2002 was \$0.01, versus \$0.37 in the second quarter of 2001. Second quarter 2002 diluted net income reflects realized investment losses of \$0.45 per share primarily resulting from the write down of securities in the company’s investment portfolio as required by accounting rules and as previously announced. For the six-month period, diluted net income per share was \$0.45 in 2002, compared to \$0.70 in 2001. Realized investment losses amounted to \$0.44 per share and \$0.07 per share during the first six months of 2002 and 2001, respectively.

Harleysville Group’s overall statutory combined ratio was 100.6 percent in the second quarter of 2002, an improvement over the 103.5 percent combined ratio reported in the second quarter of 2001. For the six months, the statutory combined ratio was 101.9 percent, compared to 103.8 percent in 2001.

Second quarter net written premiums rose 8 percent to \$211.4 million in 2002, while net written premiums through six months increased by 6 percent to \$402.1 million. Excluding those unprofitable markets where Harleysville has reduced personal lines volume, net written premiums grew 11 percent in the second quarter of 2002 and 10 percent during the first six months.

(more)

Second quarter pretax investment income increased 2 percent to \$21.5 million in 2002, while six-month pretax investment income was up 1 percent to \$43.0 million. After-tax investment income for the second quarter was \$16.3 million in both 2002 and 2001, but for six months declined by 1 percent to \$32.6 million.

**Commercial lines** Net written premiums climbed 18 percent to \$157.8 million in the second quarter of 2002 and 16 percent to \$304.2 million during the first six months of this year. The increase in written premiums is primarily due to higher pricing. The commercial lines combined ratio was 96.6 percent in the second quarter of 2002, versus 95.7 percent in the second quarter of 2001. For the six months, the combined ratio was 99.8 percent in 2002, compared to 97.6 percent in 2001.

“All of our commercial lines but one—workers compensation—reported combined ratios below 100 percent in the second quarter,” Bateman said. “We continue to address the higher loss costs caused by rising medical inflation that seriously affect the workers compensation line by aligning our underwriting capacity with the best-performing classes so we can retain our most profitable accounts.”

**Personal lines** The company’s personal lines combined ratio improved to 110.7 percent in the second quarter of 2002, versus 119.3 percent during the second quarter of 2001. For the first six months, the combined ratio was 106.9 percent in 2002, compared to 116.3 percent in 2001. For the quarter, net written premiums declined by 13 percent to \$53.6 million in 2002 and were down by 16 percent to \$97.8 million for the year, the result of the company’s focus on profitable segments.

“We are intentionally reducing business in the least profitable markets, while simultaneously reunderwriting and repricing the balance of our personal lines risk portfolio,” Bateman concluded.

**Webcast** The company will host a live Webcast today, Friday, July 26, 2002, at 9:00 a.m. (ET) to discuss its second 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 August 9, 2002, on the company’s Web site.

**Corporate profile** Harleysville Group Inc., a premier provider of insurance products and services for small businesses and individuals, is a holding company for nine regional property/casualty insurance companies operating in 32 Eastern and Midwestern states. The Harleysville organization is represented by some 1,900 local independent agencies and ranks among the top 50 U.S. property/casualty insurance groups based on net written premiums. Further information about Harleysville Group can be found on the company’s Web site.

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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; 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 June 30		Six months ended June 30	
(in thousands, except per share data)	2002	2001	2002	2001
<b>OPERATING RESULTS</b>				
Diluted earnings per common share:				
Operating income	\$0.46	\$0.39	\$0.89	\$0.77
Realized losses, net of tax	(0.45)	(0.02)	(0.44)	(0.07)
Net income	\$0.01	\$0.37	\$0.45	\$0.70
Cash dividends per common share	\$0.15	\$0.14	\$0.30	\$0.28

<b>FINANCIAL CONDITION</b>	June 30, 2002	December 31, 2001
Assets	\$2,265,371	\$2,045,290
Shareholders' equity	\$602,448	\$590,298
Per common share	\$20.24	\$20.05

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2002	2001	2002	2001
<b>REVENUES:</b>				
Premiums earned	\$187,708	\$179,372	\$370,213	\$356,646
Investment income, net of investment expense	21,526	21,143	43,008	42,468
Realized investment losses	(20,983)	(1,025)	(20,505)	(3,378)
Other income	3,898	3,952	7,643	8,026
Total revenues	192,149	203,442	400,359	403,762
<b>LOSSES AND EXPENSES:</b>				
Losses and loss settlement expenses	127,809	127,152	255,081	253,661
Amortization of deferred policy acquisition costs	45,573	44,482	90,195	89,657
Other underwriting expenses	19,495	15,629	36,417	30,352
Interest expense	1,434	1,565	2,855	3,186
Other expenses	1,042	1,481	2,092	2,976
Total expenses	195,353	190,309	386,640	379,832
Income (loss) before income taxes	(3,204)	13,133	13,719	23,930
Income taxes (benefit)	(3,500)	2,155	83	3,234
Net income	\$296	\$10,978	\$13,636	\$20,696
Weighted average number of shares outstanding:				
Basic	29,638,118	29,206,379	29,573,844	29,172,013
Diluted	30,294,463	29,798,640	30,191,027	29,766,218
Per common share:				
Basic earnings	\$0.01	\$0.38	\$0.46	\$0.71
Diluted earnings	\$0.01	\$0.37	\$0.45	\$0.70

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

June 30, 2002\*    December 31, 2001

#### ASSETS

Investments:

    Fixed maturities:

        Held to maturity, at amortized cost (fair value \$441,845  
            and \$459,588)

\$416,387

\$439,499

        Available for sale, at fair value (amortized cost \$1,009,067  
            and \$956,047)

1,055,093

984,264

    Equity securities, at fair value (cost \$96,002 and \$110,803)

119,858

150,686

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

41,787

36,695

        Total investments

1,633,125

1,611,144

Cash

2,403

1,839

Premiums in course of collection

142,132

122,508

Reinsurance receivable

79,008

81,640

Accrued investment income

21,371

21,862

Deferred policy acquisition costs

92,677

86,076

Prepaid reinsurance premiums

20,623

20,096

Property and equipment, net

28,702

28,873

Deferred income taxes

36,868

29,435

Securities lending collateral

169,320

Other assets

39,142

41,817

        Total assets

\$2,265,371

\$2,045,290

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

    Unpaid losses and loss settlement expenses

\$893,251

\$879,056

    Unearned premiums

406,134

373,737

    Accounts payable and accrued expenses

94,297

96,440

    Securities lending obligation

169,320

    Debt

95,620

96,055

    Due to affiliate

4,301

9,704

        Total liabilities

1,662,923

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 30,760,552 and 30,444,678 shares;

        outstanding 29,760,552 and 29,444,678 shares

30,761

30,445

Additional paid-in capital

145,999

140,065

Accumulated other comprehensive income

45,423

44,265

Retained earnings

395,830

391,088

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

(15,565)

(15,565)

        Total shareholders' equity

602,448

590,298

Total liabilities and shareholders' equity

\$2,265,371

\$2,045,290

\* These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Net premiums written	\$211,427	\$196,004	\$402,082	\$379,039
Statutory surplus			\$527,922	\$563,291
Pretax investment income	\$21,526	\$21,143	\$43,008	\$42,468
Related federal income taxes	5,190	4,890	10,367	9,620
After-tax investment income	\$16,336	\$16,253	\$32,641	\$32,848

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Revenues:				
Premiums earned:				
Commercial lines	\$134,384	\$119,923	\$262,689	\$236,381
Personal lines	53,324	59,449	107,524	120,265
Total premiums earned	187,708	179,372	370,213	356,646
Net investment income	21,526	21,143	43,008	42,468
Realized investment losses	(20,983)	(1,025)	(20,505)	(3,378)
Other	3,898	3,952	7,643	8,026
Total revenues	\$192,149	\$203,442	\$400,359	\$403,762

#### Income before income taxes :

Underwriting gain (loss):				
Commercial lines	(\$2,989)	\$718	(\$13,153)	(\$2,478)
Personal lines	(5,797)	(12,267)	(4,373)	(18,353)
SAP underwriting loss	(8,786)	(11,549)	(17,526)	(20,831)
GAAP adjustments	3,617	3,658	6,046	3,807
GAAP underwriting loss	(5,169)	(7,891)	(11,480)	(17,024)
Net investment income	21,526	21,143	43,008	42,468
Realized investment losses	(20,983)	(1,025)	(20,505)	(3,378)
Other	1,422	906	2,696	1,864
Income (loss) before income taxes	(\$3,204)	\$13,133	\$13,719	\$23,930

Income taxes on net investment income	\$5,190	\$4,890	\$10,367	\$9,620
Income tax benefit on remaining loss	(8,690)	(2,735)	(10,284)	(6,386)
Total income taxes (benefit)	(\$3,500)	\$2,155	\$83	\$3,234

#### Effective tax rate on:

Net investment income	24.1%	23.1%	24.1%	22.7%
Net income	109.2%	16.4%	0.6%	13.5%

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### STATUTORY DATA BY LINE OF BUSINESS

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2002	2001	2002	2001
<b>Net premiums written:</b>				
Commercial:				
Automobile	\$52,033	\$44,434	\$99,109	\$85,476
Workers' compensation	30,586	31,377	62,529	63,767
Commercial multi-peril	59,499	47,253	113,809	91,722
Other commercial	15,672	11,093	28,801	21,489
<b>Total commercial</b>	<b>\$157,790</b>	<b>\$134,157</b>	<b>\$304,248</b>	<b>\$262,454</b>
Personal:				
Automobile	\$32,342	\$38,528	\$61,312	\$77,221
Homeowners	18,719	20,186	32,114	34,214
Other personal	2,576	3,133	4,408	5,150
<b>Total personal</b>	<b>\$53,637</b>	<b>\$61,847</b>	<b>\$97,834</b>	<b>\$116,585</b>
<b>Total personal and commercial</b>	<b>\$211,427</b>	<b>\$196,004</b>	<b>\$402,082</b>	<b>\$379,039</b>
<b>Combined ratios:</b>				
Commercial:				
Automobile	87.8%	91.0%	92.5%	93.4%
Workers' compensation	125.4%	99.6%	123.7%	99.1%
Commercial multi-peril	92.0%	94.9%	95.9%	100.2%
Other commercial	78.1%	105.8%	83.6%	98.8%
<b>Total commercial</b>	<b>96.6%</b>	<b>95.7%</b>	<b>99.8%</b>	<b>97.6%</b>
Personal:				
Automobile	116.5%	116.0%	115.0%	113.8%
Homeowners	102.8%	130.4%	95.8%	125.9%
Other personal	81.9%	89.3%	71.6%	88.2%
<b>Total personal</b>	<b>110.7%</b>	<b>119.3%</b>	<b>106.9%</b>	<b>116.3%</b>
<b>Total personal and commercial</b>	<b>100.6%</b>	<b>103.5%</b>	<b>101.9%</b>	<b>103.8%</b>
<b>Losses paid</b>	<b>\$122,162</b>	<b>\$130,668</b>	<b>\$238,609</b>	<b>\$266,467</b>
<b>Net catastrophe losses incurred</b>	<b>\$2,566</b>	<b>\$3,953</b>	<b>\$3,373</b>	<b>\$4,750</b>

These financial figures are unaudited.