



Harleysville Group Inc.

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HARLEYSVILLE GROUP REPORTS THIRD QUARTER RESULTS

HARLEYSVILLE, PA—OCTOBER 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 third quarter of 2000.

Third quarter diluted operating earnings were \$0.39 per share in 2000, compared with a \$0.06 per share operating loss in 1999. The third quarter of last year included catastrophe losses of \$0.27 per share from Hurricane Floyd and a \$0.06 per share charge relating to the consolidation of the company's claims operation. For the nine months, Harleysville Group's diluted operating earnings were \$0.95 per share in 2000 and \$0.83 per share in 1999. Third quarter diluted net income per share was \$0.45 in 2000, compared with a net loss of \$0.01 in 1999. Through nine months, diluted net income was \$1.07 per share in 2000, versus \$0.91 per share in 1999.

"We are very pleased that our earnings are on track as we execute our triangular improvement plan, a three-point initiative we began last year that focuses on pricing, reunderwriting and agency management," commented Walter R. Bateman, Harleysville Group's chairman, president and chief executive officer. "As well, we have improved our commercial lines profitability and we are attaining commercial lines price increases in the low double-digit range while fine-tuning an already quality book of business."

After-tax diluted realized investment gains included in net income amounted to \$0.06 per share in the third quarter of 2000 and \$0.05 per share in the third quarter of 1999. For the nine months, diluted realized gains per share were \$0.12 in 2000 and \$0.18 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 third quarter of 2000 was 104.6 percent, compared with 116.0 percent in the third quarter of 1999. For the nine months, the statutory combined ratio was 107.3 percent, compared with 107.4 percent in 1999.

Total revenues—which include realized investment gains—declined 4 percent in the third quarter to \$200.2 million in 2000, compared with \$207.5 million in 1999. For the corresponding nine-month periods, total revenues decreased 2 percent to \$596.5 million in 2000 from \$608.4 million in 1999.

Third quarter pretax investment income was unchanged at \$21.6 million. For the first nine months, pretax investment income rose almost 1 percent to \$64.9 million in 2000. After-tax investment income was virtually unchanged in both the quarter at \$16.9 million, and the year to date at \$50.8 million.

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Earned premiums declined by 4 percent to \$171.9 million in the third quarter of 2000, compared with \$179.5 million in 1999. For the first nine months, earned premiums were down 2 percent to \$513.9 million from \$524.4 million in 1999. Net written premiums for the third quarter were down 6 percent to \$179.3 million from \$190.6 million in 1999. Through nine months, net written premiums declined by 7 percent to \$529.2 million in 2000, compared with \$566.5 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.

"We are strategically positioning the company for long-term success through an intensified focus on small commercial lines, one of the largest, fastest-growing markets controlled by our independent agents," Bateman said. "In the near term, we are optimistic our premium growth will turn positive in the fourth quarter of this year and the continued price hardening we see in the commercial lines will enable us to further reduce our combined ratio."

Shareholders' equity was \$558.5 million (\$19.36 per share) at September 30, 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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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

FINANCIAL HIGHLIGHTS	Quarter ended September 30		Nine Months ended September 30	
(in thousands, except per share data)	2000	1999	2000	1999
OPERATING RESULTS				
Premiums earned	\$171,938	\$179,503	\$513,872	\$524,429
Investment income, net of investment expense	21,590	21,517	64,874	64,274
Net income (loss)	13,040	(307)	30,986	27,065
Per common share:				
Basic earnings (loss)	\$0.45	(\$0.01)	\$1.08	\$0.92
Diluted earnings (loss)	\$0.45	(\$0.01)	\$1.07	\$0.91
Cash dividends	\$0.14	\$0.135	\$0.41	\$0.385
FINANCIAL CONDITION				
		September 30, 2000		December 31, 1999
Assets		\$2,023,389		\$2,020,056
Shareholders' equity		558,457		526,894
Per common share		\$19.36		\$18.29

CONSOLIDATED STATEMENTS OF INCOME (LOSS)	Quarter ended September 30		Nine Months ended September 30	
(in thousands, except per share data)	2000	1999	2000	1999
REVENUES:				
Premiums earned	\$171,938	\$179,503	\$513,872	\$524,429
Investment income, net of investment expense	21,590	21,517	64,874	64,274
Realized investment gains	2,587	2,263	5,226	8,283
Other income	4,037	4,170	12,533	11,453
Total revenues	200,152	207,453	596,505	608,439
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	121,890	147,681	374,409	387,326
Amortization of deferred policy acquisition costs	44,369	46,383	132,913	135,198
Other underwriting expenses	14,787	15,344	44,715	44,818
Interest expense	1,668	1,624	4,946	4,741
Other expenses	1,702	1,361	4,889	3,703
Total expenses	184,416	212,393	561,872	575,786
Income (loss) before income taxes and cumulative effect of accounting change	15,736	(4,940)	34,633	32,653
Income taxes (benefit)	2,696	(4,633)	3,647	2,684
Income (loss) before cumulative effect of accounting change	13,040	(307)	30,986	29,969
Cumulative effect of accounting change, net of income tax				(2,904)
Net income (loss)	\$13,040	(\$307)	\$30,986	\$27,065
Weighted average number of shares outstanding :				
Basic	28,787,008	29,394,828	28,816,820	29,310,699
Diluted	29,039,320	29,394,828	29,027,787	29,666,741
Basic earnings per common share :				
Income (loss) before cumulative effect of accounting change	\$0.45	(\$0.01)	\$1.08	\$1.02
Cumulative effect of accounting change, net of income tax				(0.10)
Net income (loss)	\$0.45	(\$0.01)	\$1.08	\$0.92
Diluted earnings per common share:				
Income (loss) before cumulative effect of accounting change	\$0.45	(\$0.01)	\$1.07	\$1.01
Cumulative effect of accounting change, net of income tax				(0.10)
Net income (loss)	\$0.45	(\$0.01)	\$1.07	\$0.91
Cash dividends	\$0.14	\$0.135	\$0.41	\$0.385

These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

September 30, 2000 * December 31, 1999

ASSETS

Investments:

 Fixed maturities:

Held to maturity at amortized cost	\$566,548	\$597,232
Available for sale at fair value	799,710	749,370
Equity securities at fair value	216,230	198,197
Short-term investments, at cost, which approximates fair value	21,371	59,223

Total investments	1,603,859	1,604,022
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Cash	31,098	20,273
Premiums in course of collection	96,087	91,931
Reinsurance receivable	86,503	81,884
Accrued investment income	21,086	22,478
Deferred policy acquisition costs	85,958	83,541
Prepaid reinsurance premiums	18,728	28,907
Property and equipment, net	27,928	27,368
Deferred income taxes	15,956	20,478
Due from affiliate	1,184	
Other assets	35,002	39,174

Total assets	\$2,023,389	\$2,020,056
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LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses	\$898,554	\$901,352
Unearned premiums	356,879	351,710
Accounts payable and accrued expenses	113,049	113,369
Debt	96,450	96,810
Due to affiliate		29,921

Total liabilities	1,464,932	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 29,845,112 and 29,498,651 shares; outstanding 28,845,112 and 28,812,086 shares	29,845	29,499

Additional paid-in capital	128,951	124,798
Accumulated other comprehensive income	64,276	51,682
Retained earnings	350,951	331,769
Treasury stock, at cost, 1,000,000 and 686,565 shares	(15,566)	(10,854)

Total shareholders' equity	558,457	526,894
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Total liabilities and shareholders' equity	\$2,023,389	\$2,020,056
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SUPPLEMENTARY FINANCIAL ANALYSTS' DATA*

(in thousands, except per share data)	Quarter ended September 30		Nine Months ended September 30	
	2000	1999	2000	1999
Pretax investment income	\$21,590	\$21,517	\$64,874	\$64,274
Related federal income taxes	4,706	4,586	14,116	13,629
After-tax investment income	\$16,884	\$16,931	\$50,758	\$50,645
Net premiums written	\$179,342	\$190,566	\$529,221	\$566,484
Basic earnings per common share:				
Operating income (loss)	\$0.39	(\$0.06)	\$0.96	\$0.84
Realized gains, net of tax	0.06	0.05	0.12	0.18
Cumulative effect of accounting change, net of tax				(0.10)
Net income (loss)	\$0.45	(\$0.01)	\$1.08	\$0.92
Diluted earnings per common share:				
Operating income (loss)	\$0.39	(\$0.06)	\$0.95	\$0.83
Realized gains, net of tax	0.06	0.05	0.12	0.18
Cumulative effect of accounting change, net of tax				(0.10)
Net income (loss)	\$0.45	(\$0.01)	\$1.07	\$0.91

* These financial figures are unaudited.