



For Release: Immediately

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HARLEYSVILLE GROUP REPORTS FOURTH QUARTER AND YEAR-END RESULTS

HARLEYSVILLE, PA.—FEBRUARY 19, 2002—Harleysville Group Inc. (Nasdaq:HGIC), a holding company that includes nine regional property and casualty insurance companies, today reported its results for the fourth quarter and the year 2001.

Fourth quarter diluted operating earnings per share were \$0.40 in 2001, compared with \$0.50 in 2000. Fourth quarter 2001 operating earnings were reduced by \$0.06 per share because of guaranty fund and other assessments resulting from the liquidation of Reliance Insurance Company. For the year, Harleysville Group's diluted operating earnings per share increased to \$1.53 in 2001 from \$1.45 in 2000.

"Harleysville Group ended 2001 in excellent financial condition and continues to execute on risk selection and pricing fundamentals in the small commercial lines marketplace," commented Walter R. Bateman, Harleysville Group's chairman, president and chief executive officer. "Our commercial lines strategy—to excel in insurance for small business accounts—continues to generate strong growth in both premiums and profit in that segment, as our 2001 commercial lines combined ratio improved to an even 100.0 percent, which is 4.5 points better than 2000 and more than nine points better than 1999. Our personal lines trends, meanwhile, continue to mirror the industry. We are addressing profitability in that segment through a myriad of corrective measures."

Harleysville Group's overall statutory combined ratio was 104.8 percent in the fourth quarter of 2001, compared with 102.6 percent in the fourth quarter of 2000. For the 12 months, the statutory combined ratio was 104.2 percent, compared with 106.1 percent in 2000. The improvement in the full-year combined ratio was driven by better commercial lines results, while personal lines results lagged. The guaranty fund assessments related to Reliance added 1.4 points in the fourth quarter. The impact of both Reliance and the September 11 events on the full year was 0.9 points.

Fourth quarter diluted net income was \$0.50 per share in 2001 compared with \$0.60 per share in 2000. Through 12 months, diluted net income was \$1.46 per share in 2001, versus \$1.67 per share in 2000. Net income includes after-tax diluted realized investment gains of \$0.10 in the fourth quarters of both 2001 and 2000. For the year, diluted realized losses were \$0.07 per share in 2001, versus a gain of \$0.22 per share in 2000. The realized losses in 2001 were primarily attributable to losses on equity securities.

Total revenues—which include realized investment gains and losses—increased 6 percent in the fourth quarter to \$218.2 million in 2001, compared with \$206.1 million in 2000. For the corresponding 12-month periods, total revenues increased 3 percent to \$827.8 million in 2001 from \$802.6 million in 2000.

(more)

Earned premiums climbed 8 percent to \$188.4 million in the fourth quarter of 2001, compared with \$174.5 million in 2000. For the year, earned premiums were up 6 percent to \$729.9 million from \$688.3 million in 2000. Net written premiums for the fourth quarter were up 2 percent to \$175.9 million from \$172.3 million in 2000. Through 12 months, net written premiums increased by 7 percent to \$747.6 million in 2001, compared with \$701.5 million in 2000. Commercial lines premiums were up 14 percent in the quarter, while personal lines premiums declined by 18 percent.

“Last year, we increased commercial lines premium volume by 15 percent—and it now accounts for 69 percent of our business—despite overall growth being stunted by our actions to eliminate unprofitable personal lines business,” Bateman explained. “This year we expect commercial lines will continue to grow profitably, as we direct our agents toward the classes we target in those industry segments where we have underwriting expertise.”

Fourth quarter pretax investment income declined 1 percent to \$21.7 million in 2001 from \$21.9 million in 2000. For the year, pretax investment income was down 1 percent to \$85.5 million in 2001 from \$86.8 million. After-tax investment income for the fourth quarter declined 3 percent to \$16.5 million in 2001 from \$17.0 million in 2000. For the year, after-tax investment income was down 3 percent to \$65.6 million in 2001 from \$67.8 million in 2000.

Shareholders' equity was \$590.3 million (\$20.05 per share) at December 31, 2001, compared with \$566.6 million (\$19.54 per share) at December 31, 2000.

“While the financial results we produced last year compare favorably to the results we expect the industry to post in 2001, our intention is to achieve superior underwriting and financial results in the future,” Bateman concluded.

The company will host a live Webcast today, Tuesday, February 19, 2002, at 9:00 a.m. (ET) to discuss its fourth quarter results. The Webcast will be available from the financial section of the company's Web site (www.harleysvillegroup.com). An archive of the presentation will be available until March 5, 2002, on the company's Web site.

Harleysville Group Inc. (Nasdaq: HGIC), one of the country's premier small commercial lines underwriters, 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 some 1,900 local independent agencies and ranks 45th among U.S. property/casualty insurance groups based on net written premiums.

To obtain investor materials, including the company's latest annual report, Form 10-K and other corporate announcements, contact the investor relations department (215-256-5020 or investorrelations@harleysvillegroup.com) or visit the company's Web site at 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 December 31		Twelve months ended December 31	
(in thousands, except per share data)	2001	2000	2001	2000
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income	\$0.40	\$0.50	\$1.53	\$1.45
Realized gains (losses), net of tax	0.10	0.10	(0.07)	0.22
Net income	\$0.50	\$0.60	\$1.46	\$1.67
Cash dividends per common share	\$0.15	\$0.14	\$0.58	\$0.55

FINANCIAL CONDITION	December 31, 2001	December 31, 2000
Assets	\$2,045,290	\$2,021,862
Shareholders' equity	\$590,298	\$566,581
Per common share	\$20.05	\$19.54

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended December 31		Twelve months ended December 31	
(in thousands, except per share data)	2001	2000	2001	2000
REVENUES:				
Premiums earned	\$188,439	\$174,458	\$729,889	\$688,330
Investment income, net of investment expense	21,662	21,917	85,518	86,791
Realized investment gains (losses)	4,461	4,554	(3,071)	9,780
Other income	3,606	5,137	15,415	17,670
Total revenues	218,168	206,066	827,751	802,571
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	131,886	118,392	519,822	492,801
Amortization of deferred policy acquisition costs	45,787	44,304	180,283	177,217
Other underwriting expenses	18,354	16,201	64,267	60,916
Interest expense	1,506	1,666	6,207	6,612
Other expenses	1,190	2,431	5,372	7,320
Total expenses	198,723	182,994	775,951	744,866
Income before income taxes	19,445	23,072	51,800	57,705
Income taxes	4,503	5,366	8,307	9,013
Net income	\$14,942	\$17,706	\$43,493	\$48,692
Weighted average number of shares outstanding:				
Basic	29,391,635	28,787,008	29,267,587	28,838,824
Diluted	29,931,695	29,039,320	29,818,529	29,136,406
Per common share:				
Basic earnings	\$0.51	\$0.61	\$1.49	\$1.69
Diluted earnings	\$0.50	\$0.60	\$1.46	\$1.67

These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

December 31, 2001* December 31, 2000

ASSETS

Investments:

 Fixed maturities:

 Held to maturity, at amortized cost (fair value \$459,588 and \$578,662) \$439,499 \$562,603

 Available for sale, at fair value (amortized cost \$956,047 and \$800,954) 984,264 818,891

 Equity securities, at fair value (cost \$110,803 and \$125,517) 150,686 193,750

 Short-term investments, at cost, which approximates fair value 36,695 23,881

 Total investments 1,611,144 1,599,125

Cash 1,839 28,395

Premiums in course of collection 122,508 101,511

Reinsurance receivable 81,640 76,841

Accrued investment income 21,862 23,316

Deferred policy acquisition costs 86,076 84,759

Prepaid reinsurance premiums 20,096 18,154

Property and equipment, net 28,873 27,621

Deferred income taxes 29,435 19,545

Other assets 41,817 42,595

 Total assets \$2,045,290 \$2,021,862

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

 Unpaid losses and loss settlement expenses \$879,056 \$864,843

 Unearned premiums 373,737 354,098

 Accounts payable and accrued expenses 96,440 120,210

 Debt 96,055 96,450

 Due to affiliate 9,704 19,680

 Total liabilities 1,454,992 1,455,281

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 30,444,678 and 30,001,852 shares; outstanding 29,444,678 and 29,001,852 shares

30,445

30,002

Additional paid-in capital 140,065 131,537

Accumulated other comprehensive income 44,265 56,010

Retained earnings 391,088 364,597

Treasury stock, at cost, 1,000,000 shares (15,565) (15,565)

 Total shareholders' equity 590,298 566,581

Total liabilities and shareholders' equity \$2,045,290 \$2,021,862

* 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	
	2001	2000	2001	2000
Net premiums written	\$175,877	\$172,251	\$747,587	\$701,472
Statutory surplus			\$538,878	\$515,679
Pretax investment income	\$21,662	\$21,917	\$85,518	\$86,791
Related federal income taxes	5,201	4,898	19,929	19,014
After-tax investment income	\$16,461	\$17,019	\$65,589	\$67,777

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended December 31		Twelve months ended December 31	
	2001	2000	2001	2000
Revenues:				
Premiums earned:				
Commercial lines	\$130,951	\$112,541	\$493,362	\$437,873
Personal lines	57,488	61,917	236,527	250,457
Total premiums earned	188,439	174,458	729,889	688,330
Net investment income	21,662	21,917	85,518	86,791
Realized investment gains (losses)	4,461	4,554	(3,071)	9,780
Other	3,606	5,137	15,415	17,670
Total revenues	\$218,168	\$206,066	\$827,751	\$802,571

Income before income taxes :

Underwriting gain (loss):				
Commercial lines	\$334	\$569	(\$7,128)	(\$22,925)
Personal lines	(5,094)	(4,352)	(29,372)	(23,281)
SAP underwriting loss	(4,760)	(3,783)	(36,500)	(46,206)
GAAP adjustments	(2,828)	(656)	2,017	3,602
GAAP underwriting loss	(7,588)	(4,439)	(34,483)	(42,604)
Net investment income	21,662	21,917	85,518	86,791
Realized investment gains (losses)	4,461	4,554	(3,071)	9,780
Other	910	1,040	3,836	3,738
Income before income taxes	\$19,445	\$23,072	\$51,800	\$57,705
Income taxes on net investment income	\$5,201	\$4,898	\$19,929	\$19,014
Income taxes on remaining gain (loss)	(698)	468	(11,622)	(10,001)
Total income taxes	\$4,503	\$5,366	\$8,307	\$9,013
Effective tax rate on:				
Net investment income	24.0%	22.3%	23.3%	21.9%
Net income	23.2%	23.3%	16.0%	15.6%

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	
	2001	2000	2001	2000
Net premiums written:				
Commercial:				
Automobile	\$42,138	\$34,392	\$171,106	\$142,589
Workers' compensation	24,699	25,610	117,583	108,473
Commercial multi-peril	45,799	39,552	183,216	159,679
Other commercial	10,945	9,226	43,955	35,978
Total commercial	\$123,581	\$108,780	\$515,860	\$446,719
Personal:				
Automobile	\$33,619	\$42,869	\$151,270	\$168,116
Homeowners	16,587	18,100	70,679	75,551
Other personal	2,090	2,502	9,778	11,086
Total personal	\$52,296	\$63,471	\$231,727	\$254,753
Total personal and commercial	\$175,877	\$172,251	\$747,587	\$701,472
Combined ratios:				
Commercial:				
Automobile	102.3%	99.0%	96.6%	106.9%
Workers' compensation	116.6%	98.4%	105.7%	102.2%
Commercial multi-peril	95.1%	107.1%	100.2%	105.8%
Other commercial	82.9%	83.1%	95.5%	95.2%
Total commercial	101.7%	100.7%	100.0%	104.5%
Personal:				
Automobile	117.2%	107.9%	112.8%	106.0%
Homeowners	108.0%	107.6%	117.8%	117.4%
Other personal	67.9%	77.7%	85.2%	91.2%
Total personal	112.0%	106.2%	113.1%	108.7%
Total personal and commercial	104.8%	102.6%	104.2%	106.1%
Losses paid	\$124,771	\$144,611	\$511,546	\$524,131
Net catastrophe losses incurred	\$1,560	\$3,235	\$10,064	\$11,081

These financial figures are unaudited.