



Harleysville Group Inc.  
355 Maple Avenue  
Harleysville, PA 19438-2297  
www.harleysvillegroup.com  
Tel 800.523.6344

## News Release

**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 STRONG FOURTH QUARTER AND 2002 RESULTS; CREDITS CONTINUING SUCCESS IN EXECUTION OF SMALL BUSINESS STRATEGY**

#### **Highlights:**

- Fourth quarter net income per share increases 14 percent
- Statutory combined ratio\* for 2002 improves to 101.9 percent
- Commercial lines net written premiums grow 14 percent in quarter, 16 percent in 2002
- Commercial lines combined ratio improves to 98.7 percent in quarter, 99.5 percent for year

HARLEYSVILLE, PA—FEBRUARY 18, 2003—Harleysville Group Inc. (Nasdaq: HGIC) today reported strong fourth quarter and full-year 2002 results, citing continuing improvements in its underwriting profitability and solid growth in its small commercial business.

Diluted net income per share for the fourth quarter of 2002 was \$0.57, versus \$0.50 in the fourth quarter of 2001, a gain of 14 percent. On a per share basis, the company had \$0.04 of realized investment gains in the fourth quarter of 2002, compared to \$0.10 in the fourth quarter of 2001. For the 12 months, diluted net income per share was \$1.53 in 2002, compared to \$1.46 in 2001. Realized investment losses amounted to \$0.39 per share and \$0.07 per share in 2002 and 2001, respectively.

“Harleysville Group’s outstanding performance for the quarter and the full year clearly reflect the traction of our small commercial business strategy. Our statutory combined ratio of 101.9 percent for the year will outdistance A.M. Best’s 2002 industry estimate by nearly four points,” commented Walter R. Bateman, Harleysville Group’s chairman and chief executive officer. “In commercial lines, premiums rose 16 percent for the year and we generated sub-100 percent combined ratios for both the quarter and the year—excellent results produced by our disciplined underwriting execution and a high-quality, closely aligned agency force.”

Diluted operating earnings per share, which exclude the impact of net realized after-tax investment gains and losses that are included in net income, increased 33 percent in the fourth quarter to a record \$0.53 in 2002, compared to \$0.40 for the same period in 2001. 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 rose 25 percent to \$1.92 in 2002, compared to \$1.53 in 2001. Operating earnings for 2001 were reduced by \$0.08 per share for losses resulting from the acts of terrorism on September 11, 2001. Excluding Reliance and the events of September 11, operating earnings would have increased 15 percent in both the quarter and the full year.

Harleysville Group’s overall statutory combined ratio was 102.1 percent in the fourth quarter of 2002, an improvement over the 104.8 percent combined ratio reported in the fourth quarter of 2001. The guaranty fund assessments related to Reliance added 1.4 points in the fourth quarter of 2001. For the year, the statutory combined ratio was 101.9 percent, compared to 104.2 percent in 2001. The impact of Reliance and the events of September 11 added 0.9 points to 2001’s combined ratio. “Our triangular business discipline—emphasizing underwriting, pricing adequacy and agency management—has delivered steady improvement in our year-end combined ratio from the 107.8 percent we reported in 1999 before we initiated this three-pronged approach to our business,” Bateman explained.

Fourth quarter net written premiums rose 9 percent to \$191.1 million in 2002, while net written premiums for the year increased by 7 percent to \$797.9 million. Excluding those markets where Harleysville has intentionally reduced personal lines volume, net written premiums grew by 10 percent in both the fourth quarter of 2002 and the full year.

(more)

Fourth quarter pretax investment income declined 1 percent to \$21.5 million in 2002, while 12-month pretax investment income increased 1 percent to \$86.3 million. After-tax investment income essentially was unchanged for both the fourth quarter and the year at \$16.4 million and \$65.6 million, respectively.

**Commercial lines** Net written premiums rose 14 percent in the fourth quarter to \$140.8 million and grew 16 percent for the year, finishing at \$596.1 million. The increase in written premiums primarily reflects the result of higher pricing. The commercial lines combined ratio was 98.7 percent in the fourth quarter of 2002, a three point improvement compared to the 101.7 percent reported in the fourth quarter of 2001. For the year, the combined ratio was 99.5 percent in 2002, versus 100.0 percent in 2001.

“We have now achieved 11 consecutive quarters of double-digit premium increases and are driving an underwriting profit in commercial lines,” Bateman noted.

**Personal lines** The company’s personal lines combined ratio was 112.2 percent in the fourth quarter of 2002, versus 112.0 percent during the fourth quarter of 2001. For the year, the combined ratio improved five points to 108.1 percent in 2002 from 113.1 percent in 2001. For the quarter, net written premiums declined by 4 percent to \$50.3 million in 2002 and were down by 13 percent to \$201.8 million for the year, the result of the company’s focus on profitable segments.

**Outlook** “Overall, we have a strong balance sheet, a clear strategy and our fundamentals are solid,” Bateman concluded. “Looking ahead, we believe operating earnings per share estimates in the \$2.15 to \$2.25 range are reasonable for 2003.”

**Webcast** The company will host a live Webcast today, Tuesday, February 18, 2003, at 9:00 a.m. (ET) to discuss its four quarter and year-end 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 March 4, 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.

#####

\* “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 December 31		Twelve months ended December 31	
(in thousands, except per share data)	2002	2001	2002	2001
<b>OPERATING RESULTS</b>				
Diluted earnings per common share:				
Operating income	\$0.53	\$0.40	\$1.92	\$1.53
Realized gains (losses), net of tax	0.04	0.10	(0.39)	(0.07)
Net income	\$0.57	\$0.50	\$1.53	\$1.46
Cash dividends per common share	\$0.165	\$0.15	\$0.63	\$0.58

<b>FINANCIAL CONDITION</b>	December 31, 2002	December 31, 2001
Assets	\$2,311,524	\$2,045,290
Shareholders' equity	\$632,112	\$590,298
Per common share	\$21.13	\$20.05

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	Quarter ended December 31		Twelve months ended December 31	
(in thousands, except per share data)	2002	2001	2002	2001
<b>REVENUES:</b>				
Premiums earned	\$197,899	\$188,439	\$764,636	\$729,889
Investment income, net of investment expense	21,518	21,662	86,265	85,518
Realized investment gains (losses)	2,000	4,461	(18,448)	(3,071)
Other income	3,673	3,606	15,283	15,415
Total revenues	225,090	218,168	847,736	827,751
<b>LOSSES AND EXPENSES:</b>				
Losses and loss settlement expenses	131,828	131,886	521,617	519,822
Amortization of deferred policy acquisition costs	47,977	45,787	185,547	180,283
Other underwriting expenses	19,810	18,354	74,105	64,267
Interest expense	1,420	1,506	5,698	6,207
Other expenses	1,017	1,190	4,287	5,372
Total expenses	202,052	198,723	791,254	775,951
Income before income taxes	23,038	19,445	56,482	51,800
Income taxes	5,635	4,503	10,227	8,307
Net income	\$17,403	\$14,942	\$46,255	\$43,493
Weighted average number of shares outstanding:				
Basic	29,853,704	29,391,635	29,699,201	29,267,587
Diluted	30,448,821	29,931,695	30,295,949	29,818,529
Per common share:				
Basic earnings	\$0.58	\$0.51	\$1.56	\$1.49
Diluted earnings	\$0.57	\$0.50	\$1.53	\$1.46

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

December 31, 2002\*    December 31, 2001

#### ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$416,942 and \$459,588)

\$385,162

\$439,499

Available for sale, at fair value (amortized cost \$1,051,880 and \$956,047)

1,124,869

984,264

Equity securities, at fair value (cost \$96,849 and \$110,803)

107,177

150,686

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

89,692

36,695

Total investments

1,706,900

1,611,144

Cash

2,944

1,839

Premiums in course of collection

138,905

122,508

Reinsurance receivable

75,488

81,640

Accrued investment income

21,552

21,862

Deferred policy acquisition costs

94,896

86,076

Prepaid reinsurance premiums

19,421

20,096

Property and equipment, net

27,556

28,873

Deferred income taxes

25,784

29,435

Securities lending collateral

139,215

Due from affiliate

10,709

Other assets

48,154

41,817

Total assets

\$2,311,524

\$2,045,290

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$928,335

\$879,056

Unearned premiums

406,277

373,737

Accounts payable and accrued expenses

109,965

96,440

Securities lending obligation

139,215

Debt

95,620

96,055

Due to affiliate

9,704

Total liabilities

1,679,412

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 30,917,575 and 30,444,678 shares; outstanding 29,917,575 and 29,444,678 shares

30,918

30,445

Additional paid-in capital

149,091

140,065

Accumulated other comprehensive income

49,086

44,265

Retained earnings

418,582

391,088

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

(15,565)

(15,565)

Total shareholders' equity

632,112

590,298

Total liabilities and shareholders' equity

\$2,311,524

\$2,045,290

\* 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	
	2002	2001	2002	2001
Net premiums written	\$191,122	\$175,877	\$797,850	\$747,587
Statutory surplus			\$509,344	\$538,878
Pretax investment income	\$21,518	\$21,662	\$86,265	\$85,518
Related federal income taxes	5,093	5,201	20,699	19,929
After-tax investment income	\$16,425	\$16,461	\$65,566	\$65,589

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended December 31		Twelve months ended December 31	
	2002	2001	2002	2001
Revenues:				
Premiums earned:				
Commercial lines	\$146,780	\$130,951	\$553,194	\$493,362
Personal lines	51,119	57,488	211,442	236,527
Total premiums earned	197,899	188,439	764,636	729,889
Net investment income	21,518	21,662	86,265	85,518
Realized investment gains (losses)	2,000	4,461	(18,448)	(3,071)
Other	3,673	3,606	15,283	15,415
Total revenues	\$225,090	\$218,168	\$847,736	\$827,751

#### Income before income taxes :

Underwriting gain ( loss):				
Commercial lines	\$4,139	\$334	(\$11,473)	(\$7,128)
Personal lines	(5,962)	(5,094)	(13,963)	(29,372)
SAP underwriting loss	(1,823)	(4,760)	(25,436)	(36,500)
GAAP adjustments	107	(2,828)	8,803	2,017
GAAP underwriting loss	(1,716)	(7,588)	(16,633)	(34,483)
Net investment income	21,518	21,662	86,265	85,518
Realized investment gains (losses)	2,000	4,461	(18,448)	(3,071)
Other	1,236	910	5,298	3,836
Income before income taxes	\$23,038	\$19,445	\$56,482	\$51,800
Income taxes on net investment income	\$5,093	\$5,201	\$20,699	\$19,929
Income tax on remaining gain (loss)	542	(698)	(10,472)	(11,622)
Total income taxes	\$5,635	\$4,503	\$10,227	\$8,307

#### Effective tax rate on:

Net investment income	23.7%	24.0%	24.0%	23.3%
Net income	24.5%	23.2%	18.1%	16.0%

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	
	2002	2001	2002	2001
<b>Net premiums written:</b>				
Commercial:				
Automobile	\$47,719	\$42,138	\$199,511	\$171,106
Workers' compensation	23,746	24,699	114,565	117,583
Commercial multi-peril	55,416	45,799	224,709	183,216
Other commercial	13,918	10,945	57,272	43,955
<b>Total commercial</b>	<b>\$140,799</b>	<b>\$123,581</b>	<b>\$596,057</b>	<b>\$515,860</b>
Personal:				
Automobile	\$31,787	\$33,619	\$125,593	\$151,270
Homeowners	16,634	16,587	67,831	70,679
Other personal	1,902	2,090	8,369	9,778
<b>Total personal</b>	<b>\$50,323</b>	<b>\$52,296</b>	<b>\$201,793</b>	<b>\$231,727</b>
<b>Total personal and commercial</b>	<b>\$191,122</b>	<b>\$175,877</b>	<b>\$797,850</b>	<b>\$747,587</b>
<b>Combined ratios:</b>				
Commercial:				
Automobile	88.7%	102.3%	91.6%	96.6%
Workers' compensation	132.5%	116.6%	127.4%	105.7%
Commercial multi-peril	91.9%	95.1%	93.7%	100.2%
Other commercial	87.8%	82.9%	86.3%	95.5%
<b>Total commercial</b>	<b>98.7%</b>	<b>101.7%</b>	<b>99.5%</b>	<b>100.0%</b>
Personal:				
Automobile	122.0%	117.2%	115.8%	112.8%
Homeowners	98.9%	108.0%	97.6%	117.8%
Other personal	74.3%	67.9%	74.1%	85.2%
<b>Total personal</b>	<b>112.2%</b>	<b>112.0%</b>	<b>108.1%</b>	<b>113.1%</b>
<b>Total personal and commercial</b>	<b>102.1%</b>	<b>104.8%</b>	<b>101.9%</b>	<b>104.2%</b>
<b>Losses paid</b>	<b>\$114,732</b>	<b>\$124,771</b>	<b>\$465,296</b>	<b>\$511,546</b>
<b>Net catastrophe losses incurred</b>	<b>\$580</b>	<b>\$1,560</b>	<b>\$4,447</b>	<b>\$10,064</b>

These financial figures are unaudited.