



Harleysville Group Inc.

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HARLEYSVILLE GROUP REPORTS SECOND QUARTER RESULTS

HARLEYSVILLE, PA—JULY 27, 2000—Harleysville Group Inc. (NASDAQ:HGIC), a holding company that includes nine regional property and casualty insurance companies, today reported its results for the second quarter of 2000.

Second quarter diluted operating earnings were \$0.34 per share in 2000, compared with \$0.50 per share in 1999. For the six months, Harleysville Group's diluted operating earnings were \$0.56 per share in 2000 and \$0.89 per share in 1999. Second quarter diluted net income per share was \$0.37 in 2000, compared with \$0.52 in 1999. Through six months, diluted net income was \$0.62 per share in 2000, versus \$0.92 per share in 1999.

"While our second quarter earnings are down from last year, they are on track with the improvement plan we initiated last fall to enhance our commercial lines profitability," commented Walter R. Bateman, Harleysville Group's chairman, president and chief executive officer. "We credit our progress to an elevated emphasis on pricing and underwriting, as well as the support of our agents in implementing price increases in an improved commercial lines pricing environment. We've also taken steps to increase our franchise value with our agency force by focusing our energies on our top performers, while initiating more aggressive restrictive action on non-contributing agencies."

After-tax diluted realized investment gains amounted to \$0.03 per share in the second quarter of 2000 and \$0.02 per share in the second quarter of 1999. For the first six months, diluted realized gains per share were \$0.06 in 2000 and \$0.13 in 1999. The realized gains were attributable to sales from the company's equity portfolio.

Six-month results for the current year were also impacted by the previously announced one-time, after tax-charge to earnings of approximately \$0.7 million (\$0.03 per diluted share) in the first quarter of 2000. That charge is related to the streamlining of certain support services and office functions in the company's field operations, which reduced the number of non-claims positions by about 120. The company expects that effort, which was completed during the second quarter, to generate annualized after-tax savings of approximately \$2.7 million (\$0.09 per diluted share).

Harleysville Group's six-month operating earnings also were reduced by \$0.04 per share due to a mandated one-time refund of personal auto insurance premiums to North Carolina policyholders. The refund was required by the March 2000 settlement between the state's rate bureau and insurance commissioner regarding private passenger automobile insurance rate filing cases dating back to 1994.

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 second quarter of 2000 was 105.9 percent, compared with 101.3 percent in the second quarter of 1999. For the six months, the statutory combined ratio was 108.6 percent, compared with 102.9 percent in 1999, primarily reflecting deterioration in personal lines. In 2000, the North Carolina premium refund has added 0.6 points to the six-month combined ratio, while the field office restructuring has added 0.3 points.

(more)

Total revenues—which include realized investment gains—declined 1 percent in the second quarter to \$198.9 million in 2000, compared with \$201.3 million in 1999. For the corresponding six-month periods, total revenues decreased 1 percent to \$396.4 million in 2000 from \$401.0 million in 1999.

Second quarter pretax investment income increased 1 percent to \$21.5 million. For the first six months, pretax investment income rose 1 percent to \$43.3 million in 2000. After-tax investment income in the second quarter was unchanged at \$16.8 million. For the first six months, after-tax investment income rose less than 1 percent to \$33.9 million in 2000.

Earned premiums declined by 2 percent to \$171.7 million in the second quarter of 2000, compared with \$175.1 million in 1999. For the first six months, earned premiums were down 1 percent to \$341.9 million from \$344.9 million in 1999. Net written premiums were down 5 percent to \$186.9 million from \$195.8 million in 1999. Through six months, net written premiums declined by 7 percent to \$349.9 million in 2000, compared with \$375.9 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, as well as the refund of the North Carolina personal auto insurance premiums.

Shareholders' equity was \$542.4 million (\$18.90 per share) at June 30, 2000, compared with \$526.9 million (\$18.29 per share) at December 31, 1999.

"During the second quarter, we also completed both the streamlining of our field operations and the reorganization of our claims operation, and we are beginning to reap the benefits of greater efficiency and better claims service," Bateman concluded.

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 June 30		Six Months ended June 30	
(in thousands, except per share data)	2000	1999	2000	1999
OPERATING RESULTS				
Premiums earned	\$171,693	\$175,009	\$341,934	\$344,926
Investment income, net of investment expense	21,514	21,231	43,284	42,757
Net income	10,705	15,511	17,946	27,372
Per common share:				
Basic earnings	\$0.37	\$0.53	\$0.62	\$0.94
Diluted earnings	\$0.37	\$0.52	\$0.62	\$0.92
Cash dividends	\$0.135	\$0.125	\$0.270	\$0.250
FINANCIAL CONDITION				
		June 30, 2000		December 31, 1999
Assets		\$2,016,291		\$2,020,056
Shareholders' equity		542,395		526,894
Per common share		\$18.90		\$18.29

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended June 30		Six Months ended June 30	
(in thousands, except per share data)	2000	1999	2000	1999
REVENUES:				
Premiums earned	\$171,693	\$175,099	\$341,934	\$344,926
Investment income, net of investment expense	21,514	21,231	43,284	42,757
Realized investment gains	1,365	1,210	2,639	6,020
Other income	4,362	3,770	8,496	7,283
Total revenues	198,934	201,310	396,353	400,986
LOSSES AND EXPENSES				
Losses and loss settlement expenses	125,028	119,799	252,519	239,645
Amortization of deferred policy acquisition costs	44,557	45,264	88,544	88,815
Other underwriting expenses	14,088	14,116	29,928	29,474
Interest expense	1,618	1,556	3,278	3,117
Other expenses	1,521	1,193	3,187	2,342
Total expenses	186,812	181,928	377,456	363,393
Income before income taxes and cumulative effect of accounting change	12,122	19,382	18,897	37,593
Income taxes	1,417	3,871	951	7,317
Income before cumulative effect of accounting change	10,705	15,511	17,946	30,276
Cumulative effect of accounting change, net of income tax				(2,904)
Net income	\$10,705	\$15,511	\$17,946	\$27,372
Weighted average number of shares outstanding :				
Basic	28,763,225	29,298,709	28,831,896	29,267,939
Diluted	28,937,489	29,603,851	29,003,436	29,639,994
Basic earnings per common share :				
Income before cumulative effect of accounting change	\$0.37	\$0.53	\$0.62	\$1.04
Cumulative effect of accounting change, net of income tax				(0.10)
Net income	\$0.37	\$0.53	\$0.62	\$0.94
Diluted earnings per common share:				
Income before cumulative effect of accounting change	\$0.37	\$0.52	\$0.62	\$1.02
Cumulative effect of accounting change, net of income tax				(0.10)
Net income	\$0.37	\$0.52	\$0.62	\$0.92
Cash dividends	\$0.135	\$0.125	\$0.270	\$0.25

These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data) June 30, 2000 * December 31, 1999

ASSETS

Investments:		
Fixed maturities:		
Held to maturity at amortized cost	\$571,983	\$597,232
Available for sale at fair value	762,838	749,370
Equity securities at fair value	214,393	198,197
Short-term investments, at cost, which approximates fair value	38,780	59,223
Total investments	1,587,994	1,604,022
Cash	26,035	20,273
Premiums in course of collection	98,296	91,931
Reinsurance receivable	87,979	81,884
Accrued investment income	22,332	22,478
Deferred policy acquisition costs	85,300	83,541
Prepaid reinsurance premiums	24,451	28,907
Property and equipment, net	27,877	27,368
Deferred income taxes	18,158	20,478
Other assets	37,869	39,174
Total assets	\$2,016,291	\$2,020,056

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Unpaid losses and loss settlement expenses	\$900,459	\$901,352
Unearned premiums	355,199	351,710
Accounts payable and accrued expenses	108,464	113,369
Debt	96,450	96,810
Due to affiliate	13,324	29,921
Total liabilities	1,473,896	1,493,162
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 29,700,426 and 29,498,651 shares; outstanding 28,700,426 and 28,812,086 shares	29,700	29,499
Additional paid-in capital	127,070	124,798
Accumulated other comprehensive income	59,247	51,682
Retained earnings	341,943	331,769
Treasury stock, at cost, 1,000,000 and 686,565 shares	(15,565)	(10,854)
Total shareholders' equity	542,395	526,894
Total liabilities and shareholders' equity	\$2,016,291	\$2,020,056

SUPPLEMENTARY FINANCIAL ANALYSTS' DATA*

(in thousands, except per share data)	Quarter ended June 30		Six Months ended June 30	
	2000	1999	2000	1999
Pretax investment income	\$21,514	\$21,231	\$43,284	\$42,757
Related federal income taxes	4,666	4,469	9,410	9,043
After-tax investment income	\$16,848	\$16,762	\$33,874	\$33,714
Net premiums written	\$186,913	\$195,832	\$349,879	\$375,918
Basic earnings per common share:				
Operating income	\$0.34	\$0.50	\$0.56	\$0.90
Realized gains, net of tax	0.03	0.03	0.06	0.14
Cumulative effect of accounting change, net of tax				(0.10)
Net income	\$0.37	\$0.53	\$0.62	\$0.94
Diluted earnings per common share:				
Operating income	\$0.34	\$0.50	\$0.56	\$0.89
Realized gains, net of tax	0.03	0.02	0.06	0.13
Cumulative effect of accounting change, net of tax				(0.10)
Net income	\$0.37	\$0.52	\$0.62	\$0.92

* These financial figures are unaudited.