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Contact: Carol Manning (Investors) 215.256.5020
Randy Buckwalter (Media) 215.256.5288

HARLEYSVILLE GROUP REPORTS SECOND QUARTER RESULTS

HARLEYSVILLE, PA.—JULY 27, 2001—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 2001.

Second quarter diluted operating earnings rose 15 percent to \$0.39 per share in 2001, compared with \$0.34 per share in 2000. The results reflect net losses of \$0.09 per share in 2001 and \$0.08 per share in 2000 from weather-related catastrophes. For the six months, Harleysville Group's diluted operating earnings increased 38 percent to \$0.77 per share in 2001 from \$0.56 per share in 2000. Second quarter diluted net income was \$0.37 in both 2001 and 2000. Through six months, diluted net income was \$0.70 per share in 2001, versus \$0.62 per share in 2000.

"Our strong earnings growth reflects the success of our strategy to build greater margins into our commercial lines risk portfolio through sound underwriting fundamentals and the judicious allocation of our business franchise to the most profitable agencies," commented Walter R. Bateman, Harleysville Group's chairman, president and chief executive officer. "As well, we continue to generate double-digit rate increases in commercial lines, which now comprises 69 percent of our written premium. Personal lines profitability remains a challenge for the industry and for Harleysville, and we are aggressively addressing our results on a market-by-market basis through a series of underwriting and distribution actions."

Net income includes an after-tax diluted realized investment loss of \$0.02 per share in the second quarter of 2001, compared with a gain of \$0.03 per share in the second quarter of 2000. For the first six months, diluted realized losses per share were \$0.07 in 2001, versus a gain of \$0.06 in 2000. The realized losses in 2001 were primarily attributable to the write down of equity securities in the company's equity portfolio, as required by accounting rules.

Six-month 2000 results were impacted by the previously announced one-time, after-tax charge to earnings of approximately \$0.7 million (\$0.03 per diluted share) related to the streamlining of certain functions in the company's field operations. Operating earnings in the first six months of 2000 were also reduced by \$0.04 per share due to a mandated one-time refund of personal auto insurance premiums to North Carolina policyholders.

Harleysville Group's statutory combined ratio for the second quarter of 2001 was 103.5 percent, compared with 105.9 percent in the second quarter of 2000, primarily reflecting improved commercial lines results, which were partially offset by a higher combined ratio in personal lines. Weather-related catastrophe losses added 2.2 points to the combined ratio in the second quarter of 2001, compared with 2.1 points in the second quarter of 2000. In both periods, catastrophe losses were mitigated by the company's aggregate catastrophe reinsurance program. For the six months, the statutory combined ratio was 103.8 percent, compared with 108.6 percent in 2000. For the first half of 2000, the North Carolina premium refund added 0.6 points to the combined ratio, while the field office restructuring added 0.3 points.

(more)

Total revenues—which include realized investment gains and losses—increased 2 percent in the second quarter to \$203.4 million in 2001, compared with \$198.9 million in 2000. For the corresponding six-month periods, total revenues increased 2 percent to \$403.8 million in 2001 from \$396.4 million in 2000.

Second quarter pretax investment income declined 2 percent to \$21.1 million in 2001 from \$21.5 million in 2000. For the six months, pretax investment income was down 2 percent to \$42.5 million in 2001. After-tax investment income for the second quarter declined 4 percent to \$16.3 million in 2001 from \$16.8 million in 2000. For the first six months, after-tax investment income was down 3 percent to \$32.8 million in 2001.

Earned premiums climbed 4 percent to \$179.4 million in the second quarter of 2001, compared with \$171.7 million in 2000. For the first six months, earned premiums were up 4 percent to \$356.6 million from \$341.9 million in 2000. Net written premiums for the second quarter were up 5 percent to \$196.0 million from \$186.9 million in 2000. Through six months, net written premiums increased by 8 percent to \$379.0 million in 2001, compared with \$349.9 million in 2000. Commercial lines premiums were up 16 percent in the quarter, while personal lines premiums declined by 6 percent.

Shareholders' equity was \$580.0 million (\$19.81 per share) at June 30, 2001, compared with \$566.6 million (\$19.54 per share) at December 31, 2000.

“Two years ago, we took decisive strategic actions to enhance our underwriting performance—initiatives that are bearing fruit today,” Bateman said. “Our combined ratio of 103.8 percent for the first half of 2001 is a splendid improvement and positions us well to outpace the industry going forward.”

The company will host a live Webcast today, Friday, July 27, 2001, 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). An archive of the presentation will be available until August 10, 2001, on the company's Web site.

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: Harleysville-Atlantic Insurance Company; Harleysville Insurance Company; Harleysville Insurance Company of New Jersey; Harleysville Insurance Company of New York; Harleysville Insurance Company of Ohio; Harleysville Lake States Insurance Company; Harleysville Preferred Insurance Company; Harleysville Worcester Insurance Company; and Mid-America Insurance Company. Additionally, the company operates two limited partnerships: Harleysville Asset Management L.P. and Insurance Management Resources L.P.

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 corporate 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 June 30		Six months ended June 30	
(in thousands, except per share data)	2001	2000	2001	2000
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income	\$0.39	\$0.34	\$0.77	\$0.56
Realized gains (losses), net of tax	(0.02)	0.03	(0.07)	0.06
Net income	\$0.37	\$0.37	\$0.70	\$0.62
Cash dividend per common share	\$0.14	\$0.135	\$0.28	\$0.27

FINANCIAL CONDITION	June 30, 2001	December 31, 2000
Assets	\$2,017,740	\$2,021,862
Shareholders' equity	\$579,971	\$566,581
Per common share	\$19.81	\$19.54

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended June 30		Six months ended June 30	
(in thousands, except per share data)	2001	2000	2001	2000
REVENUES:				
Premiums earned	\$179,372	\$171,693	\$356,646	\$341,934
Investment income, net of investment expense	21,143	21,514	42,468	43,284
Realized investment gains (losses)	(1,025)	1,365	(3,378)	2,639
Other income	3,952	4,362	8,026	8,496
Total revenues	203,442	198,934	403,762	396,353
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	127,152	125,028	253,661	252,519
Amortization of deferred policy acquisition costs	44,482	44,557	89,657	88,544
Other underwriting expenses	15,629	14,088	30,352	29,928
Interest expense	1,565	1,618	3,186	3,278
Other expenses	1,481	1,521	2,976	3,187
Total expenses	190,309	186,812	379,832	377,456
Income before income taxes	13,133	12,122	23,930	18,897
Income taxes	2,155	1,417	3,234	951
Net income	\$10,978	\$10,705	\$20,696	\$17,946
Weighted average number of shares outstanding:				
Basic	29,206,379	28,763,225	29,172,013	28,831,896
Diluted	29,798,640	28,937,489	29,766,218	29,003,436
Per common share:				
Basic earnings	\$0.38	\$0.37	\$0.71	\$0.62
Diluted earnings	\$0.37	\$0.37	\$0.70	\$0.62

These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

June 30, 2001* December 31, 2000

ASSETS

Investments:

 Fixed maturities:

 Held to maturity, at amortized cost (fair value \$472,272
 and \$578,662)

\$454,009

\$562,603

 Available for sale, at fair value (amortized cost \$905,134
 and \$800,954)

930,358

818,891

 Equity securities, at fair value (cost \$118,071 and \$125,517)

172,560

193,750

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

25,559

23,881

 Total investments

1,582,486

1,599,125

Cash

16,092

28,395

Premiums in course of collection

118,082

101,511

Reinsurance receivable

82,901

76,841

Accrued investment income

22,007

23,316

Deferred policy acquisition costs

87,793

84,759

Prepaid reinsurance premiums

17,945

18,154

Property and equipment, net

28,007

27,621

Deferred income taxes

25,186

19,545

Other assets

37,241

42,595

 Total assets

\$2,017,740

\$2,021,862

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

 Unpaid losses and loss settlement expenses

\$859,022

\$864,843

 Unearned premiums

376,281

354,098

 Accounts payable and accrued expenses

97,556

120,210

 Debt

96,055

96,450

 Due to affiliate

8,855

19,680

 Total liabilities

1,437,769

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 30,272,286 and 30,001,852 shares;

 outstanding 29,272,286 and 29,001,852 shares

30,272

30,002

Additional paid-in capital

136,334

131,537

Accumulated other comprehensive income

51,814

56,010

Retained earnings

377,116

364,597

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

(15,565)

(15,565)

 Total shareholders' equity

579,971

566,581

Total liabilities and shareholders' equity

\$2,017,740

\$2,021,862

* 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	
	2001	2000	2001	2000
Net premiums written	\$196,004	\$186,913	\$379,039	\$349,879
Statutory surplus			\$563,291	\$524,150
Pretax investment income	\$21,143	\$21,514	\$42,468	\$43,284
Related federal income taxes	4,890	4,666	9,620	9,410
After-tax investment income	\$16,253	\$16,848	\$32,848	\$33,874

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Revenues:				
Premiums earned:				
Commercial lines	\$119,923	\$108,053	\$236,381	\$216,076
Personal lines	59,449	63,640	120,265	125,858
Total premiums earned	179,372	171,693	356,646	341,934
Net investment income	21,143	21,514	42,468	43,284
Realized investment gains (losses)	(1,025)	1,365	(3,378)	2,639
Other	3,952	4,362	8,026	8,496
Total revenues	\$203,442	\$198,934	\$403,762	\$396,353

Income before income taxes :

Underwriting gain (loss):				
Commercial lines	\$718	(\$9,647)	(\$2,478)	(\$17,545)
Personal lines	(12,267)	(5,342)	(18,353)	(14,563)
SAP underwriting loss	(11,549)	(14,989)	(20,831)	(32,108)
GAAP adjustments	3,658	3,009	3,807	3,051
GAAP underwriting loss	(7,891)	(11,980)	(17,024)	(29,057)
Net investment income	21,143	21,514	42,468	43,284
Realized investment gains (losses)	(1,025)	1,365	(3,378)	2,639
Other	906	1,223	1,864	2,031
Income before income taxes	\$13,133	\$12,122	\$23,930	\$18,897
Income taxes on net investment income	\$4,890	\$4,666	\$9,620	\$9,410
Income taxes on remaining loss	(2,735)	(3,249)	(6,386)	(8,459)
Total income taxes	\$2,155	\$1,417	\$3,234	\$951

Effective tax rate on:

Net investment income	23.1%	21.7%	22.7%	21.7%
Net income	16.4%	11.7%	13.5%	5.0%

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	
	2001	2000	2001	2000
Net premiums written:				
Commercial:				
Automobile	\$44,434	\$38,255	\$85,476	\$71,887
Workers' compensation	31,377	29,824	63,767	56,263
Commercial multi-peril	47,253	43,361	91,722	80,517
Other commercial	11,093	9,076	21,489	17,172
Total commercial	\$134,157	\$120,516	\$262,454	\$225,839
Personal:				
Automobile	\$38,528	\$41,800	\$77,221	\$81,471
Homeowners	20,186	21,160	34,214	36,767
Other personal	3,133	3,437	5,150	5,802
Total personal	\$61,847	\$66,397	\$116,585	\$124,040
Total personal and commercial	\$196,004	\$186,913	\$379,039	\$349,879
Combined ratios:				
Commercial:				
Automobile	91.0%	110.2%	93.4%	110.3%
Workers' compensation	99.6%	104.1%	99.1%	103.5%
Commercial multi-peril	94.9%	103.3%	100.2%	106.9%
Other commercial	105.8%	96.9%	98.8%	99.4%
Total commercial	95.7%	105.2%	97.6%	106.6%
Personal:				
Automobile	116.0%	103.8%	113.8%	108.5%
Homeowners	130.4%	121.7%	125.9%	122.3%
Other personal	89.3%	50.4%	88.2%	94.3%
Total personal	119.3%	107.0%	116.3%	112.0%
Total personal and commercial	103.5%	105.9%	103.8%	108.6%
Losses paid	\$130,668	\$133,950	\$266,467	\$256,140
Net catastrophe losses incurred	\$3,953	\$3,537	\$4,750	\$5,942

These financial figures are unaudited.