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HARLEYSVILLE GROUP REPORTS THIRD QUARTER RESULTS

HARLEYSVILLE, PA.—OCTOBER 26, 2001—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 2001.

Third quarter diluted operating earnings per share declined 10 percent to \$0.35 in 2001, compared with \$0.39 in 2000. Third quarter 2001 operating earnings were reduced by \$0.08 per share for estimated losses resulting from the acts of terrorism on September 11, 2001, which have been designated by the insurance industry as catastrophe 48. For the nine months, Harleysville Group's diluted operating earnings per share increased 18 percent to \$1.12 in 2001 from \$0.95 in 2000. Third quarter diluted net income was \$0.26 per share in 2001 compared with \$0.45 per share in 2000. Through nine months, diluted net income was \$0.96 per share in 2001, versus \$1.07 per share in 2000.

Net income includes an after-tax diluted realized investment loss of \$0.09 per share in the third quarter of 2001, compared with a gain of \$0.06 per share in the third quarter of 2000. For nine months, diluted realized losses were \$0.16 per share in 2001, versus a gain of \$0.12 per share 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.

"We remain in excellent financial condition after the tragic events of September 11," commented Walter R. Bateman, Harleysville Group's chairman, president and chief executive officer. "Overall, our commercial lines results continue to improve as we build margins in our commercial lines risk portfolio. We continue to generate double-digit rate increases in these lines, which now account for nearly 70 percent of our business. However, the profitability of personal lines and workers compensation is a challenge for most of the industry and Harleysville. As such, we are continuing to address our results on a market-by-market basis through a series of aggressive underwriting and distribution actions."

Harleysville Group's statutory combined ratio was 104.6 percent in both the third quarter of 2001 and 2000. For the nine months, the statutory combined ratio was 104.1 percent, compared with 107.3 percent in 2000. The improvement in the nine-month combined ratio was driven by better commercial lines results, which were partially offset by a decline in personal lines profitability. In 2001, pretax losses of \$3.6 million resulting from the September 11 events added 1.9 points to the third quarter combined ratio and 0.7 points to the nine-month combined ratio.

Total revenues—which include realized investment gains and losses—increased 3 percent in the third quarter to \$205.8 million in 2001, compared with \$200.2 million in 2000. For the corresponding nine-month periods, total revenues increased 2 percent to \$609.6 million in 2001 from \$596.5 million in 2000.

(more)

Third quarter pretax investment income declined 1 percent to \$21.4 million in 2001 from \$21.6 million in 2000. For the nine months, pretax investment income was down 2 percent to \$63.9 million in 2001 from \$64.9 million. After-tax investment income for the third quarter declined 4 percent to \$16.3 million in 2001 from \$16.9 million in 2000. For the nine months, after-tax investment income was down 3 percent to \$49.1 million in 2001 from \$50.8 million in 2000.

Earned premiums climbed 7 percent to \$184.8 million in the third quarter of 2001, compared with \$171.9 million in 2000. For the nine months, earned premiums were up 5 percent to \$541.5 million from \$513.9 million in 2000. Net written premiums for the third quarter were up 7 percent to \$192.7 million from \$179.3 million in 2000. Through nine months, net written premiums increased by 8 percent to \$571.7 million in 2001, compared with \$529.2 million in 2000. Commercial lines premiums were up 16 percent in the quarter, while personal lines premiums declined by 6 percent.

Shareholders' equity was \$586.1 million (\$19.93 per share) at September 30, 2001, compared with \$566.6 million (\$19.54 per share) at December 31, 2000.

"Our expertise in writing commercial lines, coupled with our financial stability and strong franchise relationships with our agents, will allow us to grow profitably in the market segment where we see the greatest opportunity—small commercial," Bateman said. "Based on our underwriting, pricing and distribution actions of the last few years, we are well positioned to meet the challenges that lie ahead in 2002 and beyond."

The company will host a live Webcast today, Friday, October 26, 2001, at 9:00 a.m. (ET) to discuss its third 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 November 9, 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 September 30		Nine months ended September 30	
(in thousands, except per share data)	2001	2000	2001	2000
OPERATING RESULTS				
Diluted earnings per common share:				
Operating income	\$0.35	\$0.39	\$1.12	\$0.95
Realized gains (losses), net of tax	(0.09)	0.06	(0.16)	0.12
Net income	\$0.26	\$0.45	\$0.96	\$1.07
Cash dividends per common share	\$0.15	\$0.14	\$0.43	\$0.41

FINANCIAL CONDITION	September 30, 2001	December 31, 2000
Assets	\$2,033,940	\$2,021,862
Shareholders' equity	\$586,107	\$566,581
Per common share	\$19.93	\$19.54

CONSOLIDATED STATEMENTS OF INCOME	Quarter ended September 30		Nine months ended September 30	
(in thousands, except per share data)	2001	2000	2001	2000
REVENUES:				
Premiums earned	\$184,804	\$171,938	\$541,450	\$513,872
Investment income, net of investment expense	21,388	21,590	63,856	64,874
Realized investment gains (losses)	(4,154)	2,587	(7,532)	5,226
Other income	3,783	4,037	11,809	12,533
Total revenues	205,821	200,152	609,583	596,505
LOSSES AND EXPENSES:				
Losses and loss settlement expenses	134,275	121,890	387,936	374,409
Amortization of deferred policy acquisition costs	44,839	44,369	134,496	132,913
Other underwriting expenses	15,561	14,787	45,913	44,715
Interest expense	1,515	1,668	4,701	4,946
Other expenses	1,206	1,702	4,182	4,889
Total expenses	197,396	184,416	577,228	561,872
Income before income taxes	8,425	15,736	32,355	34,633
Income taxes	570	2,696	3,804	3,647
Net income	\$7,855	\$13,040	\$28,551	\$30,986
Weighted average number of shares outstanding:				
Basic	29,358,669	28,787,008	29,234,911	28,816,820
Diluted	29,968,983	29,039,320	29,830,896	29,027,787
Per common share:				
Basic earnings	\$0.27	\$0.45	\$0.98	\$1.08
Diluted earnings	\$0.26	\$0.45	\$0.96	\$1.07

These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

September 30, 2001* December 31, 2000

ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$472,727 and \$578,662)

\$446,127

\$562,603

Available for sale, at fair value (amortized cost \$909,076 and \$800,954)

957,257

818,891

Equity securities, at fair value (cost \$115,778 and \$125,517)

146,696

193,750

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

44,274

23,881

Total investments

1,594,354

1,599,125

Cash

12,275

28,395

Premiums in course of collection

124,027

101,511

Reinsurance receivable

76,479

76,841

Accrued investment income

21,015

23,316

Deferred policy acquisition costs

89,061

84,759

Prepaid reinsurance premiums

18,009

18,154

Property and equipment, net

28,384

27,621

Deferred income taxes

27,750

19,545

Due from affiliate

5,634

Other assets

36,952

42,595

Total assets

\$2,033,940

\$2,021,862

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$867,747

\$864,843

Unearned premiums

384,213

354,098

Accounts payable and accrued expenses

99,818

120,210

Debt

96,055

96,450

Due to affiliate

19,680

19,680

Total liabilities

1,447,833

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 30,404,004 and 30,001,852 shares; outstanding 29,404,004 and 29,001,852 shares

30,404

30,002

Additional paid-in capital

139,293

131,537

Accumulated other comprehensive income

51,414

56,010

Retained earnings

380,561

364,597

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

(15,565)

(15,565)

Total shareholders' equity

586,107

566,581

Total liabilities and shareholders' equity

\$2,033,940

\$2,021,862

* These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

SUPPLEMENTARY FINANCIAL ANALYSTS' DATA

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Net premiums written	\$192,671	\$179,342	\$571,710	\$529,221
Statutory surplus			\$546,858	\$534,408
Pretax investment income	\$21,388	\$21,590	\$63,856	\$64,874
Related federal income taxes	5,108	4,706	14,728	14,116
After-tax investment income	\$16,280	\$16,884	\$49,128	\$50,758

SEGMENT INFORMATION

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Revenues:				
Premiums earned:				
Commercial lines	\$126,031	\$109,256	\$362,411	\$325,332
Personal lines	58,773	62,682	179,039	188,540
Total premiums earned	184,804	171,938	541,450	513,872
Net investment income	21,388	21,590	63,856	64,874
Realized investment gains (losses)	(4,154)	2,587	(7,532)	5,226
Other	3,783	4,037	11,809	12,533
Total revenues	\$205,821	\$200,152	\$609,583	\$596,505

Income before income taxes :

Underwriting gain (loss):				
Commercial lines	(\$4,984)	(\$5,948)	(\$7,462)	(\$23,493)
Personal lines	(5,925)	(4,367)	(24,278)	(18,930)
SAP underwriting loss	(10,909)	(10,315)	(31,740)	(42,423)
GAAP adjustments	1,038	1,207	4,845	4,258
GAAP underwriting loss	(9,871)	(9,108)	(26,895)	(38,165)
Net investment income	21,388	21,590	63,856	64,874
Realized investment gains (losses)	(4,154)	2,587	(7,532)	5,226
Other	1,062	667	2,926	2,698
Income before income taxes	\$8,425	\$15,736	\$32,355	\$34,633
Income taxes on net investment income	\$5,108	\$4,706	\$14,728	\$14,116
Income taxes on remaining loss	(4,538)	(2,010)	(10,924)	(10,469)
Total income taxes	\$570	\$2,696	\$3,804	\$3,647

Effective tax rate on:

Net investment income	23.9%	21.8%	23.1%	21.8%
Net income	6.8%	17.1%	11.8%	10.5%

These financial figures are unaudited.

Harleysville Group Inc. and Subsidiaries

STATUTORY DATA BY LINE OF BUSINESS

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Net premiums written:				
Commercial:				
Automobile	\$43,493	\$36,311	\$128,968	\$108,197
Workers' compensation	29,117	26,599	92,884	82,863
Commercial multi-peril	45,695	39,610	137,417	120,127
Other commercial	11,521	9,580	33,010	26,752
Total commercial	\$129,826	\$112,100	\$392,279	\$337,939
Personal:				
Automobile	\$40,430	\$43,776	\$117,651	\$125,247
Homeowners	19,878	20,685	54,092	57,451
Other personal	2,537	2,781	7,688	8,584
Total personal	\$62,845	\$67,242	\$179,431	\$191,282
Total personal and commercial	\$192,671	\$179,342	\$571,710	\$529,221
Combined ratios:				
Commercial:				
Automobile	96.4%	108.4%	94.5%	109.6%
Workers' compensation	108.1%	103.6%	102.1%	103.5%
Commercial multi-peril	105.4%	102.3%	102.0%	105.4%
Other commercial	103.0%	99.8%	100.3%	99.5%
Total commercial	103.0%	104.6%	99.5%	105.9%
Personal:				
Automobile	107.0%	99.1%	111.5%	105.3%
Homeowners	111.6%	117.6%	121.0%	120.7%
Other personal	95.9%	98.1%	90.7%	95.5%
Total personal	108.0%	104.7%	113.5%	109.6%
Total personal and commercial	104.6%	104.6%	104.1%	107.3%
Losses paid	\$120,308	\$123,380	\$386,775	\$379,520
Net catastrophe losses incurred	\$3,754	\$1,905	\$8,504	\$7,847

These financial figures are unaudited.