



**For Release:** Immediately  
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**HARLEYSVILLE GROUP REPORTS INCREASED OPERATING EARNINGS, IMPROVED UNDERWRITING PROFITABILITY AND STRONG COMMERCIAL LINES GROWTH**

**Third quarter highlights:**

- Operating earnings increase to \$0.50 per share
- Combined ratio improves to 101.7 percent
- Commercial lines net written premiums grow 16 percent
- Quarterly dividend increases 10 percent

HARLEYSVILLE, PA—OCTOBER 25, 2002—Harleysville Group Inc. (Nasdaq: HGIC) today reported diluted operating earnings of \$0.50 per share, improved underwriting profitability and continued growth in its small commercial business.

“Our outstanding operating results again this quarter clearly demonstrate our success at implementing our small commercial business strategy,” commented Walter R. Bateman, Harleysville Group’s chairman and chief executive officer. “In commercial lines, we have double-digit growth and a 100 percent combined ratio—splendid results that reflect our disciplined underwriting execution and a high-quality, closely aligned agency force. Our combined ratios in commercial auto and commercial multi-peril are in the low 90s and pricing is solid. In personal lines, our improved results compared to a year ago show our actions to upgrade the quality of our risk portfolio are taking hold.”

Third quarter diluted operating earnings per share increased 43 percent to \$0.50 in 2002, compared to \$0.35 for the same period in 2001. For the first nine months, Harleysville Group’s diluted operating earnings per share rose 24 percent to \$1.39 in 2002, compared to \$1.12 in 2001. Third quarter 2001 operating earnings were reduced by \$0.08 per share for losses resulting from the acts of terrorism on September 11, 2001. Excluding those losses, operating earnings would have increased 16 percent in both the quarter and the year to date. Operating earnings exclude the impact of net realized after-tax investment gains or losses from net income.

Diluted net income per share for the third quarter of 2002 was \$0.50, versus \$0.26 in the third quarter of 2001. On a per share basis, the company had \$0.09 of realized investment losses in the third quarter of 2001, but had none in the third quarter of 2002. For the nine-month period, diluted net income per share was \$0.95 in 2002, compared to \$0.96 in 2001. Realized investment losses amounted to \$0.44 per share and \$0.16 per share during the first nine months of 2002 and 2001, respectively.

Harleysville Group’s overall statutory combined ratio was 101.7 percent in the third quarter of 2002, an improvement over the 104.6 percent combined ratio reported in the third quarter of 2001. For the nine months, the statutory combined ratio was 101.9 percent, compared to 104.1 percent in 2001. The events of September 11 added 1.9 points to 2001’s third quarter combined ratio and 0.7 points to 2001’s nine-month combined ratio. “Our success in lowering our combined ratio is due to the ongoing pursuit of a triangular business discipline that keys on underwriting, pricing and agency management,” Bateman noted.

Third quarter net written premiums rose 6 percent to \$204.6 million in 2002, while net written premiums through nine months also increased by 6 percent to \$606.7 million. Excluding those markets where Harleysville has intentionally reduced personal lines volume, net written premiums grew 9 percent in the third quarter of 2002 and 10 percent during the first nine months.

(more)

Third quarter pretax investment income increased 2 percent to \$21.7 million in 2002, while nine-month pretax investment income was up 1 percent to \$64.7 million. After-tax investment income for the third quarter rose 1 percent to \$16.5 million in 2002, but was unchanged for nine months at \$49.1 million.

On August 21, the company announced a 10 percent increase to its quarterly cash dividend to \$0.165 per share from \$0.15 per share. The company's board of directors has increased the regular annual cash dividend every year since the company went public in 1986. The company has paid a dividend for 65 consecutive quarters.

**Commercial lines** Net written premiums climbed 16 percent in both the third quarter and first nine months of this year, to \$151.0 million and \$455.3 million, respectively. The increase in written premiums is primarily the result of higher pricing. The commercial lines combined ratio was 100.0 percent in the third quarter of 2002, versus 103.0 percent in the third quarter of 2001. For the nine months, the combined ratio was 99.9 percent in 2002, compared to 99.5 percent in 2001.

"Like the rest of the industry, we face a continuing challenge with our workers compensation line, which has struggled with the higher loss costs caused by medical inflation," Bateman stated. "We are addressing that issue by directing our attention to the best-performing classes that make up our most profitable accounts, while reducing our business in the classes that don't meet our risk appetite."

**Personal lines** The company's personal lines combined ratio improved to 106.4 percent in the third quarter of 2002, versus 108.0 percent during the third quarter of 2001. For the first nine months, the combined ratio was 106.7 percent in 2002, compared to 113.5 percent in 2001. For the quarter, net written premiums declined by 15 percent to \$53.6 million in 2002 and were down by 16 percent to \$151.5 million for the year, the result of the company's focus on profitable segments.

"I am pleased with our company's position and prospects," Bateman concluded. "Our balance sheet strength and our recent 10 percent dividend increase underlie the confidence we have in our future."

**Webcast** The company will host a live Webcast today, Friday, October 25, 2002, 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](http://www.harleysvillegroup.com)). An archive of the presentation will be available until November 8, 2002, on the company's Web site.

**Corporate profile** Harleysville Insurance, "Good People to Know," is a 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 that are rated A (Excellent) by A.M. Best Company. Harleysville Insurance operates in 32 Eastern and Midwestern states. Further information can be found on the company's Web site: [www.harleysvillegroup.com](http://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; catastrophe losses; competition in insurance product pricing; changes in existing 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 September 30		Nine months ended September 30	
(in thousands, except per share data)	2002	2001	2002	2001
<b>OPERATING RESULTS</b>				
Diluted earnings per common share:				
Operating income	\$0.50	\$0.35	\$1.39	\$1.12
Realized losses, net of tax	0.00	(0.09)	(0.44)	(0.16)
Net income	\$0.50	\$0.26	\$0.95	\$0.96
Cash dividends per common share	\$0.165	\$0.15	\$0.465	\$0.43

<b>FINANCIAL CONDITION</b>	September 30, 2002	December 31, 2001
Assets	\$2,300,208	\$2,045,290
Shareholders' equity	\$622,548	\$590,298
Per common share	\$20.83	\$20.05

<b>CONSOLIDATED STATEMENTS OF INCOME</b>	Quarter ended September 30		Nine months ended September 30	
(in thousands, except per share data)	2002	2001	2002	2001
<b>REVENUES:</b>				
Premiums earned	\$196,524	\$184,804	\$566,737	\$541,450
Investment income, net of investment expense	21,739	21,388	64,747	63,856
Realized investment gains (losses)	57	(4,154)	(20,448)	(7,532)
Other income	3,967	3,783	11,610	11,809
Total revenues	222,287	205,821	622,646	609,583
<b>LOSSES AND EXPENSES:</b>				
Losses and loss settlement expenses	134,708	134,275	389,789	387,936
Amortization of deferred policy acquisition costs	47,375	44,839	137,570	134,496
Other underwriting expenses	17,878	15,561	54,295	45,913
Interest expense	1,423	1,515	4,278	4,701
Other expenses	1,178	1,206	3,270	4,182
Total expenses	202,562	197,396	589,202	577,228
Income before income taxes	19,725	8,425	33,444	32,355
Income taxes	4,509	570	4,592	3,804
Net income	\$15,216	\$7,855	\$28,852	\$28,551
Weighted average number of shares outstanding:				
Basic	29,790,105	29,358,669	29,647,135	29,234,911
Diluted	30,384,932	29,968,983	30,257,720	29,830,896
Per common share:				
Basic earnings	\$0.51	\$0.27	\$0.97	\$0.98
Diluted earnings	\$0.50	\$0.26	\$0.95	\$0.96

These financial figures are unaudited.

## Harleysville Group Inc. and Subsidiaries

### CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

September 30, 2002\* December 31, 2001

#### ASSETS

Investments:

Fixed maturities:

Held to maturity, at amortized cost (fair value \$441,337 and \$459,588)

\$407,259

\$439,499

Available for sale, at fair value (amortized cost \$1,006,816 and \$956,047)

1,086,379

984,264

Equity securities, at fair value (cost \$90,591 and \$110,803)

92,094

150,686

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

72,052

36,695

Total investments

1,657,784

1,611,144

Cash

2,665

1,839

Premiums in course of collection

141,408

122,508

Reinsurance receivable

78,675

81,640

Accrued investment income

20,603

21,862

Deferred policy acquisition costs

94,747

86,076

Prepaid reinsurance premiums

21,405

20,096

Property and equipment, net

27,767

28,873

Deferred income taxes

26,553

29,435

Securities lending collateral

147,900

Due from affiliate

13,452

Other assets

67,249

41,817

Total assets

\$2,300,208

\$2,045,290

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Unpaid losses and loss settlement expenses

\$916,170

\$879,056

Unearned premiums

415,038

373,737

Accounts payable and accrued expenses

102,932

96,440

Securities lending obligation

147,900

Debt

95,620

96,055

Due to affiliate

9,704

Total liabilities

1,677,660

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 30,882,000 and 30,444,678 shares;

outstanding 29,882,000 and 29,444,678 shares

30,882

30,445

Additional paid-in capital

148,423

140,065

Accumulated other comprehensive income

52,693

44,265

Retained earnings

406,115

391,088

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

(15,565)

(15,565)

Total shareholders' equity

622,548

590,298

Total liabilities and shareholders' equity

\$2,300,208

\$2,045,290

\* 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	
	2002	2001	2002	2001
Net premiums written	\$204,646	\$192,671	\$606,728	\$571,710
Statutory surplus			\$519,039	\$546,858
Pretax investment income	\$21,739	\$21,388	\$64,747	\$63,856
Related federal income taxes	5,239	5,108	15,606	14,728
After-tax investment income	\$16,500	\$16,280	\$49,141	\$49,128

### SEGMENT INFORMATION

(dollars in thousands)	Quarter ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Revenues:				
Premiums earned:				
Commercial lines	\$143,725	\$126,031	\$406,414	\$362,411
Personal lines	52,799	58,773	160,323	179,039
Total premiums earned	196,524	184,804	566,737	541,450
Net investment income	21,739	21,388	64,747	63,856
Realized investment gains (losses)	57	(4,154)	(20,448)	(7,532)
Other	3,967	3,783	11,610	11,809
Total revenues	\$222,287	\$205,821	\$622,646	\$609,583

#### Income before income taxes :

Underwriting loss:				
Commercial lines	(\$2,459)	(\$4,984)	(\$15,612)	(\$7,462)
Personal lines	(3,628)	(5,925)	(8,001)	(24,278)
SAP underwriting loss	(6,087)	(10,909)	(23,613)	(31,740)
GAAP adjustments	2,650	1,038	8,696	4,845
GAAP underwriting loss	(3,437)	(9,871)	(14,917)	(26,895)
Net investment income	21,739	21,388	64,747	63,856
Realized investment gains (losses)	57	(4,154)	(20,448)	(7,532)
Other	1,366	1,062	4,062	2,926
Income before income taxes	\$19,725	\$8,425	\$33,444	\$32,355

Income taxes on net investment income	\$5,239	\$5,108	\$15,606	\$14,728
Income tax benefit on remaining loss	(730)	(4,538)	(11,014)	(10,924)
Total income taxes	\$4,509	\$570	\$4,592	\$3,804

#### Effective tax rate on:

Net investment income	24.1%	23.9%	24.1%	23.1%
Net income	22.9%	6.8%	13.7%	11.8%

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	
	2002	2001	2002	2001
<b>Net premiums written:</b>				
Commercial:				
Automobile	\$52,683	\$43,493	\$151,792	128,968
Workers compensation	28,290	29,117	90,819	92,884
Commercial multi-peril	55,485	45,695	169,293	137,417
Other commercial	14,553	11,521	43,354	33,010
<b>Total commercial</b>	<b>\$151,011</b>	<b>\$129,826</b>	<b>\$455,258</b>	<b>\$392,279</b>
Personal:				
Automobile	\$32,494	\$40,430	\$93,806	\$117,651
Homeowners	19,082	19,878	51,197	54,092
Other personal	2,059	2,537	6,467	7,688
<b>Total personal</b>	<b>\$53,635</b>	<b>\$62,845</b>	<b>\$151,470</b>	<b>\$179,431</b>
<b>Total personal and commercial</b>	<b>\$204,646</b>	<b>\$192,671</b>	<b>\$606,728</b>	<b>\$571,710</b>
<b>Combined ratios:</b>				
Commercial:				
Automobile	93.2%	96.4%	92.8%	94.5%
Workers compensation	130.9%	108.1%	126.1%	102.1%
Commercial multi-peril	91.6%	105.4%	94.4%	102.0%
Other commercial	89.7%	103.0%	85.8%	100.3%
<b>Total commercial</b>	<b>100.0%</b>	<b>103.0%</b>	<b>99.9%</b>	<b>99.5%</b>
Personal:				
Automobile	111.4%	107.0%	113.8%	111.5%
Homeowners	100.0%	111.6%	97.2%	121.0%
Other personal	79.2%	95.9%	74.0%	90.7%
<b>Total personal</b>	<b>106.4%</b>	<b>108.0%</b>	<b>106.7%</b>	<b>113.5%</b>
<b>Total personal and commercial</b>	<b>101.7%</b>	<b>104.6%</b>	<b>101.9%</b>	<b>104.1%</b>
<b>Losses paid</b>	<b>\$111,955</b>	<b>\$120,308</b>	<b>\$350,564</b>	<b>\$386,775</b>
<b>Net catastrophe losses incurred</b>	<b>\$494</b>	<b>\$3,754</b>	<b>\$3,867</b>	<b>\$8,504</b>

These financial figures are unaudited.