



## NEWS

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**Summary: Penn-America Group, Inc. (NYSE:PNG) reports the fourth consecutive quarter of improved operating results with operating income of \$1.5 million or \$0.20 per share (basic and diluted) for the third quarter of 2001.**

### *Three-Month Results*

HATBORO PA (October 24, 2001) -- Penn-America Group, Inc. (NYSE:PNG) today reported operating income of \$1.5 million or \$0.20 per share (basic and diluted) for the third quarter of 2001, compared with an operating loss of \$4.3 million or \$0.57 per share (basic and diluted) for the third quarter of 2000. Operating results in the third quarter of last year included a strengthening of prior year loss reserves of \$7.6 million pretax or \$4.9 million after-tax (\$0.65 per basic and diluted share). Net income for the third quarter of 2001 was \$1.5 million or \$0.20 per share (basic and diluted) and included a net realized investment gain of \$40,000. Net loss for the third quarter of 2000 was \$5.1 million or \$0.67 per share (basic and diluted) and included a net realized investment loss of \$0.8 million or \$0.10 per share (basic and diluted).

The company previously announced that, based on an analysis of its risk exposure, the September 11 tragedies in New York, Washington and Pennsylvania will result in no property or casualty losses to Penn-America Insurance Company or Penn-Star Insurance Company, its two insurance subsidiaries.

Operating income improved in the third quarter due to a significant improvement in underwriting results; the statutory combined ratio for the third quarter of 2001 was 100.5 compared with 139.5 in the third quarter of 2000.

Jon Saltzman, president and CEO noted, "Our third quarter 2001 operating results represent the fourth consecutive quarter of quarter-over-quarter earnings growth. Penn-America is well positioned to take

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advantage of an increasingly hard insurance market and we remain on-track toward our goal of achieving the 12 to 15 percent return on equity that we and our shareholders expect.”

#### **Core Commercial Lines**

Gross written premiums for core commercial lines (excluding the company's exited commercial automobile business) decreased 4.9 percent to \$23.6 million in the third quarter of 2001 compared with \$24.9 million for the same period of 2000. Net written premiums decreased 5.0 percent to \$21.1 million in the current quarter compared with \$22.2 million in the same period of 2000. The decline in core commercial written premiums was due to the company's withdrawal from writing residential contractor classes of business. Excluding these exited classes, written premiums grew 10% in the current quarter compared with the third quarter of 2000.

#### **Exited Non-Standard Personal and Commercial Automobile Lines**

In January 1999 the company announced that it was running-off its non-standard personal automobile business and, in October 2000, announced that it also would exit the commercial automobile line. As a result, gross written premiums in the non-standard personal automobile lines decreased to zero in the third quarter of 2001 compared with \$0.3 million for the same quarter in 2000. Similarly, gross written premiums for the commercial automobile business were less than \$1,000 compared with \$3.4 million in the same quarter of 2000.

#### ***Nine-Month Results***

For the nine months ended September 30, 2001, the company reported operating income of \$3.6 million or \$0.48 per share (basic and diluted) compared with an operating loss of \$3.4 million or \$0.44 per share (basic and diluted) for the nine months ended September 30, 2000. Operating results in the first nine months of last year included a strengthening of prior year loss reserves of \$9.4 million pretax or \$6.2 million after-tax (\$0.80 per basic and diluted share). Net income for the first nine months of 2001 was \$3.5 million or \$0.46 per share (basic and diluted) and included a net realized investment loss of \$0.1 million or \$0.02 per share (basic and diluted). Net loss for the first nine months of 2000 was \$4.2 million or \$0.54 per share (basic and diluted) and included a net realized investment loss of \$0.8 million or \$0.10 per share (basic and diluted). The statutory combined ratio for the nine months ended September 30, 2001 was 103.9 compared with 118.6 in the same period of 2000.

#### **Core Commercial Lines**

Gross written premiums for core commercial lines (excluding the company's exited commercial automobile business) decreased 2.4 percent to \$69.9 million for the nine months ended September 30, 2001

compared with \$71.6 million for the same period of 2000. Net written premiums decreased 2.8 percent to \$62.1 million for the nine months ended September 30, 2001 compared with \$63.9 million in the same period of 2000.

#### **Exited Non-Standard Personal and Commercial Automobile Lines**

Gross written premiums for the non-standard personal automobile lines decreased to \$2,000 for the nine months ended September 30, 2001 compared with \$2.8 million for the same period in 2000. Gross written premium for the commercial automobile business decreased to \$1.1 million for the nine months ended September 30, 2001 compared with \$8.7 million in the same period of 2000.

#### **Teleconference for Interested Parties**

Jon Saltzman and Joe Morris, senior vice president and CFO will conduct a teleconference for interested parties today at 11:00 a.m. Eastern Daylight Time. To participate, telephone (800) 450-0819 a few minutes before 11:00 a.m. and request the Penn-America conference call. A digital recording of the teleconference will be available from 1:45 p.m. today through 11:59 p.m. Eastern Standard Time, Wednesday, October 31. To hear the recording, telephone (800) 475-6701 at any time during that period and use access code 605059. This conference call also will be broadcast live at [www.penn-america.com](http://www.penn-america.com). It is being supplied by CCBN/Street Events. To listen to the web cast, your computer must have Real Player installed. If you do not have Real Player, go to [www.penn-america.com](http://www.penn-america.com) prior to the call, where Real Player can be downloaded for free. An online replay also will be available approximately one hour after the call.

Penn-America Group, Inc. (NYSE:PNG) is a specialty commercial property and casualty insurance holding company. The company's "thinking small" strategy – underwriting small entrepreneurial businesses in small "Main Street" towns through a small network of wholesale general agents – has delivered substantial long-term growth in the original "E"-business: serving entrepreneurs.

*Certain information included in this news release and other statements or materials published or to be published by the company are not historical facts but are forward-looking statements including but not limited to, such matters as anticipated financial performance, business prospects, technological developments, new and existing products, expectations for market segment and growth and similar matters. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the company provides the following cautionary remarks regarding important factors which, among others, could cause the company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the company's forward-looking statements. The risks and uncertainties that may affect the operations, performance, development, results of the company's business and the other matters referred to above include, but are not limited to: (1) changes in the business environment in which the company operates, including inflation and interest rates; (2) changes in taxes, governmental laws and regulations; (3) competitive product and pricing activity; and (4) difficulties of managing growth profitably. For additional disclosure regarding potential risk factors, please refer to the Company's 2000 10-K.*

Note: Tables follow.

PENN-AMERICA GROUP, INC. AND SUBSIDIARIES (NYSE: PNG)  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(In thousands, except per share data and ratios)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<u>9/30/01</u>	<u>9/30/00</u>	<u>9/30/01</u>	<u>9/30/00</u>
Gross written premiums	\$23,573	\$ 28,531	\$70,965	\$83,112
Net written premiums	21,063	25,269	62,979	73,680
Revenues:				
Premiums earned	20,946	23,366	66,194	67,392
Net investment income	2,851	2,753	8,516	7,613
Net realized investment gain (loss)	40	(1,148)	(192)	(1,177)
Total revenues	<u>23,837</u>	<u>24,971</u>	<u>74,518</u>	<u>73,828</u>
Losses and expenses:				
Losses and loss adjustment expenses	14,553	24,546	46,740	56,445
Amortization of deferred policy acquisition costs	4,957	6,608	17,188	19,320
Other underwriting expenses	2,028	1,520	5,246	4,437
Corporate expenses	141	170	492	625
Interest expense	40	36	120	109
Total losses and expenses	<u>21,719</u>	<u>32,880</u>	<u>69,786</u>	<u>80,936</u>
Income (loss) before income tax	2,118	(7,909)	4,732	(7,108)
Income tax expense (benefit)	<u>567</u>	<u>(2,831)</u>	<u>1,220</u>	<u>(2,951)</u>
Net income (loss)	<u>\$ 1,551</u>	<u>\$ (5,078)</u>	<u>\$ 3,512</u>	<u>\$ (4,157)</u>
<b>Basic and diluted net income per share</b>				
Operating income (loss)	\$0.20	\$(0.57)	\$ 0.48	\$(0.44)
Net realized investment loss	<u>0.00</u>	<u>(0.10)</u>	<u>(0.02)</u>	<u>(0.10)</u>
Net income (loss)	\$0.20	\$(0.67)	\$ 0.46	\$(0.54)
Cash dividend per share	\$0.0525	\$0.0525	\$0.1575	\$0.1575
Diluted weighted average shares outstanding	7,688,189	7,558,213	7,659,738	7,713,566
<b>GAAP ratios</b>				
Loss ratio	69.5	105.1	70.6	83.8
Expense ratio	<u>33.3</u>	<u>34.8</u>	<u>33.9</u>	<u>35.3</u>
Combined ratio	102.8	139.9	104.5	119.1
<b>Statutory ratios</b>				
Loss ratio	69.5	105.1	70.6	83.8
Expense ratio	<u>31.0</u>	<u>34.4</u>	<u>33.3</u>	<u>34.8</u>
Combined ratio	100.5	139.5	103.9	118.6

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES (NYSE: PNG)  
 SELECTED CONSOLIDATED FINANCIAL DATA  
 (In thousands, except per share data)

<u>SELECTED BALANCE SHEET DATA</u>	<u>September 30, 2001</u>	<u>December 31, 2000</u>
Investments and cash:		
Fixed maturities:		
Available for sale	\$136,522	\$125,477
Held to maturity	15,320	17,282
Equity securities	24,674	24,491
Short-term investments and cash	7,813	11,425
	<u>\$184,329</u>	<u>\$178,675</u>
Reinsurance recoverable	24,842	24,447
Total assets	242,322	239,486
Unpaid losses and loss adjustment expenses	117,829	115,314
Unearned premiums	39,257	43,239
Total liabilities	163,036	165,435
Total stockholders' equity	79,286	74,051
Total shares outstanding	7,628,734	7,576,025
Book value per share	\$ 10.39	\$ 9.77
Statutory policyholders' surplus	\$ 61,865	\$ 55,531

PENN-AMERICA GROUP, INC. AND SUBSIDIARIES (NYSE: PNG)  
 SELECTED CONSOLIDATED FINANCIAL DATA  
 (In thousands, except ratios)

SUPPLEMENTARY STATUTORY DATA BY LINE OF BUSINESS

**Nine Months Ended September 30, 2001**

	<u>Net Written Premiums</u>	<u>Net Earned Premiums</u>	<u>Loss and LAE Ratio</u>
<b>Core commercial lines</b>			
Specialty property	\$ 6,198	\$ 4,732	64.4
CMP - property	23,233	21,730	78.3
CMP - liability	17,678	17,950	66.8
Other & product liability	15,012	17,361	62.7
Total core commercial	<u>62,121</u>	<u>61,773</u>	<u>69.5</u>
<b>Exited lines</b>			
Commercial auto liability	607	3,113	129.1
Commercial auto P.D.	249	1,286	99.0
Personal lines	2	22	*
Total exited lines	<u>858</u>	<u>4,421</u>	<u>85.9</u>
<b>TOTAL</b>	<u>\$62,979</u>	<u>\$66,194</u>	<u>70.6</u>

\*Not meaningful

**Nine Months Ended September 30, 2000**

	<u>Net Written Premiums</u>	<u>Net Earned Premiums</u>	<u>Loss and LAE Ratio</u>
<b>Core commercial lines</b>			
Specialty property	\$ 3,947	\$ 3,813	75.8
CMP - property	21,086	19,259	88.2
CMP - liability	18,662	16,823	74.3
Other & product liability	20,215	18,763	79.1
Total core commercial	<u>63,910</u>	<u>58,658</u>	<u>80.5</u>
<b>Exited lines</b>			
Commercial auto liability	5,009	3,465	168.4
Commercial auto P.D.	2,014	1,493	67.7
Personal lines	2,747	3,776	63.5
Total exited lines	<u>9,770</u>	<u>8,734</u>	<u>105.8</u>
<b>TOTAL</b>	<u>\$73,680</u>	<u>\$67,392</u>	<u>83.8</u>

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES (NYSE: PNG)  
 SELECTED CONSOLIDATED FINANCIAL DATA  
 (In thousands, except ratios)

SUPPLEMENTARY STATUTORY DATA BY LINE OF BUSINESS

**Quarter Ended September 30, 2001**

	<u>Net Written Premiums</u>	<u>Net Earned Premiums</u>	<u>Loss and LAE Ratio</u>
<b>Core commercial lines</b>			
Specialty property	\$ 2,230	\$ 1,734	77.3
CMP - property	8,046	7,302	69.2
CMP - liability	5,690	5,797	65.5
Other & product liability	<u>5,094</u>	<u>5,301</u>	<u>63.7</u>
Total core commercial	21,060	20,134	67.4
<b>Exited lines</b>			
Commercial auto liability	(21)	554	129.1
Commercial auto P.D.	24	258	105.9
Personal lines	<u>0</u>	<u>0</u>	<u>*</u>
Total exited lines	<u>3</u>	<u>812</u>	<u>121.6</u>
<b>TOTAL</b>	<u>\$21,063</u>	<u>\$20,946</u>	<u>69.5</u>

\*Not meaningful

**Quarter Ended September 30, 2000**

	<u>Net Written Premiums</u>	<u>Net Earned Premiums</u>	<u>Loss and LAE Ratio</u>
<b>Core commercial lines</b>			
Specialty property	\$ 1,297	\$ 1,285	68.5
CMP - property	7,594	6,805	86.0
CMP - liability	6,386	6,023	103.9
Other & product liability	<u>6,900</u>	<u>6,621</u>	<u>106.1</u>
Total core commercial	22,177	20,734	96.5
<b>Exited lines</b>			
Commercial auto liability	1,937	1,422	276.5
Commercial auto P.D.	838	593	71.5
Personal lines	<u>317</u>	<u>617</u>	<u>30.3</u>
Total exited lines	<u>3,092</u>	<u>2,632</u>	<u>172.5</u>
<b>TOTAL</b>	<u>\$25,269</u>	<u>\$23,366</u>	<u>105.1</u>