



## NEWS

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**Summary:**       **Penn-America Group, Inc. (NYSE:PNG) reports 39.3 percent increase in operating income to \$2.1 million or \$0.18 per share (basic and diluted) and 82.9 percent increase in gross written premiums for the third quarter of 2002.**

### ***Three-Month Results***

HATBORO PA (October 23, 2002) -- Penn-America Group, Inc. (NYSE:PNG) today reported that operating income increased 39.3 percent to \$2.1 million or \$0.18 per share (basic and diluted) for the third quarter of 2002, compared with operating income of \$1.5 million or \$0.13 per share (basic and diluted) for the third quarter of 2001. Net income for the third quarter of 2002 was \$2.9 million or \$0.25 per share (basic and diluted) and included a net realized investment gain of \$0.7 million. Net income for the third quarter of 2001 was \$1.6 million or \$0.14 per basic share and \$0.13 per diluted share and included a net realized investment gain of \$26,000.

Gross written premiums increased 82.9 percent to \$43.1 million in the third quarter of 2002, compared with \$23.6 million for the same period of 2001. Net written premiums increased 73.3 percent to \$36.5 million in the current quarter, compared with \$21.1 million for the same period of 2001. The GAAP combined ratio for the third quarter of 2002 was 99.4 compared with 102.8 for the third quarter of 2001.

Jon Saltzman, president and CEO noted, "The current hard insurance market, which is characterized by strong price increases, shows no signs of abating. Our third quarter 2002 operating results were solid and benefited from the continued flight by standard insurance companies from the small excess and surplus lines markets we target. We believe that higher pricing levels are sustainable through 2003."

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

For the nine months ended September 30, 2002, the company reported operating income of \$6.7 million or \$0.58 per basic share and \$0.57 per diluted share compared with operating income of \$3.6 million or \$0.32 per share (basic and diluted) for the nine months ended September 30, 2001. Net income for the first nine months of 2002 was \$6.6 million or \$0.57 per basic share and \$0.56 per diluted share and included a net realized investment loss of \$0.1 million. Net income for the first nine months of 2001 was \$3.5 million or \$0.31 per share (basic and diluted) and included a net realized investment loss of \$0.1 million.

Gross written premiums increased 66.8 percent to \$118.4 million for the nine months ended September 30, 2002, compared with \$71.0 million for the same period of 2001. Net written premiums increased 61.3 percent to \$101.6 million for the nine months ended September 30, 2002, compared with \$63.0 million for the same period of 2001. The GAAP combined ratio for the nine months ended September 30, 2002, was 98.6 compared with 104.5 in the same period of 2001.

### ***Other Than Temporary Decline in Market Value of Investments And Securities and Exchange Commission Review***

In conjunction with the company's registration statement filing relating to the issuance of additional shares of common stock, the company has engaged in extensive discussions with the Securities and Exchange Commission (SEC) concerning the timing of recording other than temporary (OTT) declines in the market value of certain investment grade preferred stock securities and common stock exchange-traded funds. While the company believes that it continuously has applied a disciplined OTT policy that is consistent with existing guidance provided by generally accepted accounting principles, the company has agreed to amend its policy in accordance with the SEC's position. As a result, the company will record OTT write-downs on these securities in prior periods.

An OTT write-down is a non-cash item and has no affect on stockholders' equity or book value per share since amounts have been recorded previously as net unrealized investment losses in Accumulated Other Income (Loss) in the Consolidated Balance Sheets and Statements of Stockholders' Equity.

The affect of the restatement on diluted net income (loss) per share will be a reduction of approximately \$0.05, \$0.08 and \$0.04 for the years ended December 31, 1999, 2000 and 2001, respectively. There is no affect on net income per diluted share for the six months ended June 30, 2002. In addition, there is no affect on operating income (loss) per share for any current or prior period. The company will file an amended 2001 10-K, reflecting a restatement for the years ended December 31, 2001, 2000 and 1999, which is subject to further comment by the SEC.

### **Teleconference for Interested Parties**

Jon Saltzman and Joe Morris, senior vice president, CFO and treasurer will conduct a teleconference for interested parties today at 11:00 a.m. Eastern Daylight Savings Time. To participate, telephone (800) 553-5260 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 2:15 p.m. today through 11:59 p.m. Eastern Standard Time, Wednesday, October 30, 2002. To hear the recording, telephone (800) 475-6701 at any time during that period and use access code 653876. This conference call also will be broadcast live at [www.penn-america.com](http://www.penn-america.com), supplied by CCBN. To listen to the Web Cast, your computer must have Windows Media Player installed. If you do not have Windows Media Player, go to [www.penn-america.com](http://www.penn-america.com) prior to the call, where Windows Media 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 is to market and underwrite general liability, commercial property and multi-peril insurance for small entrepreneurial businesses in small towns and rural areas through a small network of wholesale general agents.

*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, results of the company's business, and the other matters referred to above include, but are not limited to: (1) risks inherent in establishing loss and loss adjustment expense reserves; (2) uncertainties relating to the financial ratings of the company's insurance subsidiaries; (3) uncertainties relating to government and regulatory policies; (4) uncertainties arising from the cyclical nature of the company's business; (5) changes in the company's relationships with, and the capacity of, its general agents; and (6) the risk that the company's reinsurers may not be able to fulfill their obligations to the company. For additional disclosure regarding potential risk factors, refer to documents filed by the company with the Securities and Exchange Commission, including the company's 2001 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>9/30/02</u>	<u>9/30/01</u>	<u>9/30/02</u>	<u>9/30/01</u>
Gross written premiums	\$ 43,118	\$ 23,573	\$ 118,370	\$ 70,965
Net written premiums	36,504	21,063	101,576	62,979
Revenues:				
Premiums earned	30,705	20,946	80,922	66,194
Net investment income	3,038	2,851	8,796	8,516
Net realized investment gain (loss)	1,172	40	(173)	(192)
Total revenues	<u>34,915</u>	<u>23,837</u>	<u>89,545</u>	<u>74,518</u>
Losses and expenses:				
Losses and loss adjustment expenses	20,799	14,553	53,449	46,740
Amortization of deferred policy acquisition costs	7,527	4,957	20,277	17,188
Other underwriting expenses	2,209	2,028	6,032	5,246
Corporate expenses	118	141	462	492
Interest expense	35	40	105	120
Total losses and expenses	<u>30,688</u>	<u>21,719</u>	<u>80,325</u>	<u>69,786</u>
Income before income tax	4,227	2,118	9,220	4,732
Income tax expense	<u>1,330</u>	<u>567</u>	<u>2,655</u>	<u>1,220</u>
Net income	<u>\$ 2,897</u>	<u>\$ 1,551</u>	<u>\$ 6,565</u>	<u>\$ 3,512</u>
<b>Basic income per share<sup>1</sup>:</b>				
Operating income	\$ 0.18	\$ 0.13	\$ 0.58	\$ 0.32
Net realized investment gain (loss)	<u>0.07</u>	<u>0.01</u>	<u>(0.01)</u>	<u>(0.01)</u>
Net income	\$ 0.25	\$ 0.14	\$ 0.57	\$ 0.31
<b>Diluted income per share<sup>1</sup>:</b>				
Operating income	\$ 0.18	\$ 0.13	\$ 0.57	\$ 0.32
Net realized investment gain (loss)	<u>0.07</u>	<u>0.00</u>	<u>(0.01)</u>	<u>(0.01)</u>
Net income	\$ 0.25	\$ 0.13	\$ 0.56	\$ 0.31
Cash dividend per share <sup>1</sup>	\$ 0.03875	\$ 0.035	\$ 0.11583	\$ 0.105
Weighted average shares outstanding <sup>1</sup> :				
Basic	11,585,043	11,437,697	11,565,749	11,404,539
Diluted	11,775,916	11,532,284	11,765,175	11,489,607
<b>GAAP ratios</b>				
Loss ratio	67.7	69.5	66.1	70.6
Expense ratio	<u>31.7</u>	<u>33.3</u>	<u>32.5</u>	<u>33.9</u>
Combined ratio	99.4	102.8	98.6	104.5
<b>Statutory ratios</b>				
Loss ratio	67.7	69.5	66.1	70.6
Expense ratio	<u>29.6</u>	<u>31.0</u>	<u>30.1</u>	<u>33.3</u>
Combined ratio	97.3	100.5	96.2	103.9

<sup>1</sup> Adjusted to reflect a three-for-two stock split effected on May 9, 2002.

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

<u>SELECTED BALANCE SHEET DATA</u>	<u>September 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Investments and cash:		
Fixed maturities:		
Available for sale	\$ 176,108	\$ 135,253
Held to maturity	1,965	15,084
Equity securities	23,378	25,149
Short-term investments and cash	27,649	13,129
	<u>\$ 229,100</u>	<u>\$ 188,615</u>
Reinsurance recoverable	\$ 27,031	\$ 25,804
Total assets	298,878	248,115
Unpaid losses and loss adjustment expenses	131,759	119,598
Unearned premiums	66,223	41,034
Total liabilities	208,812	167,724
Total stockholders' equity	90,066	80,391
Total shares outstanding <sup>1</sup>	11,585,223	11,478,351
Book value per share <sup>1</sup>	\$ 7.77	\$ 7.00
Statutory policyholders' surplus	\$ 69,228	\$ 64,733

<sup>1</sup> Adjusted to reflect a three-for-two stock split effected on May 9, 2002.

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

SUPPLEMENTARY DATA BY LINE OF BUSINESS

**Nine Months Ended September 30, 2002**

	<u>Net Written Premiums</u>	<u>Net Earned Premiums</u>	<u>Loss and LAE Ratio</u>
<b>Core commercial lines</b>			
Specialty property	\$ 9,820	\$ 8,172	52.3
CMP – property	38,469	30,758	66.9
CMP – liability	26,006	21,937	77.3
Other & product liability	<u>27,248</u>	<u>20,029</u>	<u>57.8</u>
Total core commercial	101,543	80,896	66.0
<b>Exited lines</b>			
Commercial auto liability	26	18	*
Commercial auto P.D.	7	8	*
Personal lines	<u>-</u>	<u>-</u>	<u>*</u>
Total exited lines	33	26	*
<b>TOTAL</b>	<u>\$ 101,576</u>	<u>\$ 80,922</u>	<u>66.1</u>

**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	<u>15,012</u>	<u>17,361</u>	<u>62.7</u>
Total core commercial	62,121	61,773	69.5
<b>Exited lines</b>			
Commercial auto liability	607	3,113	129.1
Commercial auto P.D.	249	1,286	99.0
Personal lines	<u>2</u>	<u>22</u>	<u>*</u>
Total exited lines	858	4,421	85.9
<b>TOTAL</b>	<u>\$ 62,979</u>	<u>\$ 66,194</u>	<u>70.6</u>

\*Not meaningful

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

SUPPLEMENTARY DATA BY LINE OF BUSINESS

**Three Months Ended September 30, 2002**

	<u>Net Written Premiums</u>	<u>Net Earned Premiums</u>	<u>Loss and LAE Ratio</u>
<b>Core commercial lines</b>			
Specialty property	\$ 3,598	\$ 3,093	62.2
CMP – property	14,127	11,717	80.0
CMP – liability	9,173	8,098	61.7
Other & product liability	9,606	7,784	57.7
Total core commercial	<u>36,504</u>	<u>30,692</u>	<u>67.7</u>
<b>Exited lines</b>			
Commercial auto liability	-	10	*
Commercial auto P.D.	-	3	*
Personal lines	-	-	*
Total exited lines	<u>-</u>	<u>13</u>	<u>*</u>
<b>TOTAL</b>	<u>\$ 36,504</u>	<u>\$ 30,705</u>	<u>67.7</u>

**Three 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	\$ 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	5,094	5,301	63.7
Total core commercial	<u>21,060</u>	<u>20,134</u>	<u>67.4</u>
<b>Exited lines</b>			
Commercial auto liability	(21)	554	129.1
Commercial auto P.D.	24	258	105.9
Personal lines	-	-	*
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

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