



NEWS

For Release: October 27, 2004

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Summary: **Penn-America Group, Inc. (NYSE:PNG) reports record level gross written premiums of \$65.8 million for the third quarter of 2004 and operating income of \$3.0 million or \$0.20 per share (basic and diluted) for the third quarter of 2004 despite losses from Hurricanes Charley, Frances, Ivan and Jeanne.**

Three Month Results

HATBORO PA (October 27, 2004) -- Penn-America Group, Inc. (NYSE:PNG) today reported operating income of \$3.0 million or \$0.20 per share (basic and diluted) for the third quarter of 2004 compared with operating income of \$4.2 million or \$0.28 per share (basic and diluted) for the third quarter of 2003. The 2004 results include after-tax costs of \$3.4 million or \$0.23 per share (basic and diluted) related to Hurricanes Charley, Frances, Ivan and Jeanne and after-tax charges of \$0.6 million or \$0.04 per share (basic and diluted) for costs incurred to date relating to the company's proposed business combination with United National Group, Ltd. (NASDAQ:UNGL).

Net income for the third quarter of 2004 was \$2.1 million or \$0.14 per share (basic and diluted) and included a net realized investment loss, after taxes, of \$0.9 million or \$0.06 per share (basic and diluted). For 2004, the net realized investment loss, after taxes, included \$0.7 million or \$0.05 per share (basic and diluted) for other-than-temporary impairments on certain of the company's investments in common stocks. Net income for the third quarter of 2003 was \$4.6 million or \$0.31 per share (basic and diluted) and included a net realized investment gain, after taxes, of \$0.4 million or \$0.03 per share (basic and diluted).

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Gross written premiums increased 12.4 percent to a record level \$65.8 million in the third quarter of 2004 compared with \$58.5 million for the same period in 2003. Net written premiums increased 13.6 percent to \$56.2 million in the current quarter compared with \$49.5 million for the same period in 2003. The GAAP combined ratio for the third quarter of 2004 was 95.7 compared with 91.5 for the third quarter of 2003.

Based on claims reported to date, the company expects that after-tax losses from Hurricanes Charley, Frances, Ivan and Jeanne, including additional reinsurance premiums, will be \$3.4 million or \$0.23 per share (basic and diluted). The company's catastrophic loss reinsurance treaty, which includes reinsurance for 100% of \$29.0 million per occurrence in excess of \$1.0 million per occurrence, is expected to provide sufficient aggregate capacity for future catastrophic events.

Commenting on the third quarter operating results, Jon S. Saltzman, president and CEO noted, "We posted excellent operating results in the quarter, given the unprecedented number of major hurricanes that primarily impacted the state of Florida. Prices remain firm in our small commercial niche of the excess and surplus lines marketplace, while gross written premiums continued to grow at a double-digit pace and cash flows from operations of \$26.7 million reached a record level."

On October 15, 2004, the company announced its proposed business combination with United National Group, Ltd. Saltzman noted, "We are excited about our business combination with United National and believe that with a stronger capital base we will be able to achieve higher financial and operational levels over the long-term than we otherwise would be able to achieve on a stand-alone basis. I believe that agents, policyholders, employees and shareholders will clearly benefit from this transaction."

Operating income, a non-GAAP financial measure, is calculated by subtracting net realized investment gain (loss), after taxes, from net income. The company uses operating income, among other measures, to evaluate its performance because the realization of net realized investment gains or losses in a given period is largely discretionary as to timing and could distort the comparability of results.

Nine Month Results

For the nine months ended September 30, 2004, the company reported operating income of \$12.1 million or \$0.82 per basic share and \$0.81 per diluted share compared with operating income of \$11.0 million or \$0.75 per basic share and \$0.74 per diluted share for the nine months ended September 30, 2003. Net income for the first nine months of 2004 was \$11.6 million or \$0.79 per basic share and \$0.78 per diluted share and included a net realized investment loss, after taxes, of \$0.5 million or \$0.03 per share (basic and diluted). Net income for the first nine months of 2003 was \$12.2 million or \$0.83 per basic share and \$0.82 per diluted share and included a net realized investment gain, after taxes, of \$1.2 million or \$0.08 per share (basic and diluted).

Gross written premiums increased 27.0 percent to \$194.8 million for the nine months ended September 30, 2004 compared with \$153.3 million for the same period of 2003. Net written premiums increased 30.4 percent to \$168.7 million for the nine months ended September 30, 2004 compared with \$129.4 million in the same period of 2003. The GAAP combined ratio for the nine months ended September 30, 2004 was 93.4 compared with 93.0 in the same period of 2003.

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 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 2:30 p.m. today through 11:59 p.m. Eastern Time, Wednesday, November 3, 2004. To hear the recording, telephone (800) 475-6701 at any time during that period and use access code 749106. This conference call also will be broadcast live at 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 prior to the call, where it can be downloaded for free. An online replay also will be available approximately one hour after the call.

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Penn-America Group, Inc. (NYSE:PNG) is a specialty commercial property and casualty insurance holding company that markets and underwrites general liability, commercial property and multi-peril insurance for small businesses in small towns and rural areas through a select network of wholesale general agents in the excess and surplus lines marketplace.

Cautionary Statement Regarding Forward-Looking Information:

This news release contains forward-looking information about the company and the proposed transaction with United National Group, Ltd. ("United National") that is intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. These statements can be identified by the use of forward-looking terminology such as "believe," "expect," "may," "will," "should," "project," "plan," "seek," "intend," or "anticipate" or the negative thereof or comparable terminology, and include discussions of strategy, financial projections and estimates and their underlying assumptions, statements regarding plans, objectives, expectations or consequences of the transactions, and statements about the future performance, operations, products and services of the companies.

The company's business and operations, as well as the proposed combined business and operations of the company and United National, are and will be subject to a variety of risks, uncertainties and other factors. Consequently, the actual results and experience may materially differ from those contained in any forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: (1) ineffectiveness of their business strategy due to changes in current or future market conditions, (2) the effects of competitors' pricing policies, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products, (3) greater frequency or severity of claims and loss activity than their underwriting, reserving or investment practices have anticipated, (4) decreased level of demand for their insurance products or increased competition due to an increase in capacity of property and casualty insurers; (5) risks inherent in establishing loss and loss adjustment expense reserves; (6) uncertainties relating to the financial ratings of the insurance subsidiaries; (7) uncertainties arising from the cyclical nature of the business; (8) changes in their relationships with, and the capacity of, the general agents; (9) the risk that reinsurers may not be able to fulfill their obligations and (10) uncertainties relating to governmental and regulatory policies. The foregoing review of important factors should be read in conjunction with the other cautionary statements that are included in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as well as in the materials to be filed with the SEC. See "Additional Information" below. The company does not make any commitment to revise or update any forward-looking statements in order to reflect events or circumstances occurring or existing after the date any forward-looking statement is made.

Additional Information:

United National intends to file a registration statement on Form S-4 in connection with the transaction, and United National and the company intend to mail a joint proxy statement/prospectus to their respective shareholders in connection with their pending business combination. Investors and security holders of United National and the company are urged to read the joint proxy statement/prospectus when it becomes available because it will contain important information about United National, the company and the transaction. Investors and security holders may obtain a free copy of the joint proxy statement/prospectus (when it is available) at the SEC's web site at www.sec.gov. A free copy of the joint proxy statement/prospectus may also be obtained from United National or the company. United National and its executive officers and directors may be deemed to be participants in the solicitation of proxies from the shareholders of United National and the company in favor of the transaction. Information regarding the interests of United National's officers and directors in the transaction will be included in the joint proxy statement/prospectus. The company and its executive officers and directors may be deemed to be participants in the solicitation of proxies from the shareholders of United National and the company in favor of the transaction. Information regarding the interests of the company's officers and directors in the transaction will be included in the joint proxy statement/prospectus. In addition to the registration statement on Form S-4 to be filed by United National in connection with the transaction, and the joint proxy statement/prospectus to be mailed to the shareholders of United National and the company in connection with the transaction, each of United National and the company file annual, quarterly and special reports, proxy and information statements, and other information with the SEC. Investors may read and copy any of these reports, statements and other information at the SEC's public reference rooms located at 450 5th Street, N.W., Washington, D.C., 20549, or any of the SEC's other public reference rooms located in New York and Chicago. Investors should call the SEC at 1-800-SEC-0330 for further information on these public reference rooms. The reports, statements and other information filed by United National and the company with the SEC are also available for free at the SEC's web site at www.sec.gov. A free copy of these reports, statements and other information may also be obtained from United National or the company.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Note: Tables follow.

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

	Three Months Ended		Nine Months Ended	
	09/30/2004	09/30/2003	09/30/2004	09/30/2003
Revenues:				
Premiums earned	\$ 52,380	\$ 40,337	\$ 150,469	\$ 110,997
Net investment income	3,782	3,277	10,813	9,734
Net realized investment gain (loss)	(1,444)	734	(724)	1,879
Total revenues	<u>54,718</u>	<u>44,348</u>	<u>160,558</u>	<u>122,610</u>
Losses and expenses:				
Losses and loss adjustment expenses	35,565	24,594	95,099	68,791
Amortization of deferred policy acquisition costs	12,331	9,901	36,923	27,591
Other underwriting expenses	2,215	2,395	8,565	6,767
Corporate expenses	1,220	214	1,759	633
Interest expense	518	515	1,529	1,228
Total losses and expenses	<u>51,849</u>	<u>37,619</u>	<u>143,875</u>	<u>105,010</u>
Income before income tax	2,869	6,729	16,683	17,600
Income tax expense	781	2,094	5,037	5,392
Net income	<u>\$ 2,088</u>	<u>\$ 4,635</u>	<u>\$ 11,646</u>	<u>\$ 12,208</u>
Operating income	\$ 3,027	\$ 4,170	12,117	\$ 10,987
Net realized investment gain (loss), after taxes	(939)	465	(471)	1,221
Net income	<u>\$ 2,088</u>	<u>\$ 4,635</u>	<u>\$ 11,646</u>	<u>\$ 12,208</u>
Basic income per share:				
Operating income	\$ 0.20	\$ 0.28	\$ 0.82	\$ 0.75
Net realized investment gain (loss), after taxes	(0.06)	0.03	(0.03)	0.08
Net income	<u>\$ 0.14</u>	<u>\$ 0.31</u>	<u>\$ 0.79</u>	<u>\$ 0.83</u>
Diluted income per share:				
Operating income	\$ 0.20	\$ 0.28	\$ 0.81	\$ 0.74
Net realized investment gain (loss), after taxes	(0.06)	0.03	(0.03)	0.08
Net income	<u>\$ 0.14</u>	<u>\$ 0.31</u>	<u>\$ 0.78</u>	<u>\$ 0.82</u>
Cash dividend per share	\$ 0.06	\$ 0.04375	\$ 0.18	\$ 0.13125
Weighted average shares outstanding:				
Basic	14,776,739	14,717,350	14,767,092	14,648,660
Diluted	14,999,122	14,945,900	14,999,502	14,883,774

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PENN-AMERICA GROUP, INC. AND SUBSIDIARIES (NYSE:PNG)

SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except ratios)

INSURANCE PERFORMANCE DATA

	Three Months Ended		Nine Months Ended	
	<u>09/30/2004</u>	<u>09/30/2003</u>	<u>09/30/2004</u>	<u>09/30/2003</u>
Gross written premiums	\$ 65,755	\$ 58,475	\$ 194,774	\$ 153,334
Net written premiums	56,172	49,463	168,691	129,387
GAAP ratios:				
Loss ratio	67.9	61.0	63.2	62.0
Expense ratio	<u>27.8</u>	<u>30.5</u>	<u>30.2</u>	<u>31.0</u>
Combined ratio	95.7	91.5	93.4	93.0
Statutory ratios:				
Loss ratio	67.9	61.0	63.2	62.0
Expense ratio	<u>27.6</u>	<u>29.2</u>	<u>29.2</u>	<u>29.6</u>
Combined ratio	95.5	90.2	92.4	91.6

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

SELECTED BALANCE SHEET DATA

	<u>September 30, 2004</u>	<u>December 31, 2003</u>
Investments and cash:		
Fixed maturities:		
Available for sale	\$ 359,746	\$ 323,230
Held to maturity	275	275
Equity securities	24,150	10,194
Cash and cash equivalents	19,276	11,976
	<u>\$ 403,447</u>	<u>\$ 345,675</u>
Reinsurance recoverable	\$ 49,529	\$ 37,996
Total assets	525,530	443,874
Unpaid losses and loss adjustment expenses	226,477	174,882
Unearned premiums	109,723	92,205
Junior subordinated debentures	30,000	30,000
Total liabilities	385,072	313,064
Total stockholders' equity	140,458	130,810
Total shares outstanding	14,778,504	14,743,698
Book value per share	\$ 9.50	\$ 8.87
Statutory surplus	\$ 131,663	\$ 121,960

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

SUPPLEMENTARY DATA BY LINE OF BUSINESS

Three Months Ended September 30, 2004

	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
Core commercial lines of business:			
Property ¹	\$ 18,849	\$ 18,049	71.9
Casualty ²	37,323	34,331	65.8
Total core commercial	<u>56,172</u>	<u>52,380</u>	<u>67.9</u>
Exited lines ³	---	---	---
Total	<u>\$ 56,172</u>	<u>\$ 52,380</u>	<u>67.9</u>

Three Months Ended September 30, 2003

	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
Core commercial lines of business:			
Property ¹	\$ 19,083	\$ 17,023	52.9
Casualty ²	30,382	23,317	66.9
Total core commercial	<u>49,465</u>	<u>40,340</u>	<u>61.0</u>
Exited lines ³	<u>(2)</u>	<u>(3)</u>	<u>*</u>
Total	<u>\$ 49,463</u>	<u>\$ 40,337</u>	<u>61.0</u>

¹ Property consists of special property and commercial multi-peril property lines of business.

² Casualty consists of other and product liability and commercial multi-peril liability lines of business.

³ Exited lines consist of commercial and personal automobile lines of business previously exited by the Company.

*Not meaningful.

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

SUPPLEMENTARY DATA BY LINE OF BUSINESS

Nine Months Ended September 30, 2004

	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
Core commercial lines of business:			
Property ¹	\$ 59,869	\$ 55,312	56.3
Casualty ²	108,822	95,157	67.2
Total core commercial	<u>168,691</u>	<u>150,469</u>	<u>63.2</u>
Exited lines ³	---	---	---
Total	<u>\$ 168,691</u>	<u>\$ 150,469</u>	<u>63.2</u>

Nine Months Ended September 30, 2003

	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
Core commercial lines of business:			
Property ¹	\$ 53,308	\$ 49,519	54.4
Casualty ²	76,099	61,478	64.9
Total core commercial	<u>129,407</u>	<u>110,997</u>	<u>60.2</u>
Exited lines ³	(20)	---	*
Total	<u>\$ 129,387</u>	<u>\$ 110,997</u>	<u>62.0</u>

¹ Property consists of special property and commercial multi-peril property lines of business.

² Casualty consists of other and product liability and commercial multi-peril liability lines of business.

³ Exited lines consist of commercial and personal automobile lines of business previously exited by the Company.

*Not meaningful.