



NEWS

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Summary: **Penn-America Group, Inc. (NYSE:PNG) reports record levels of operating income and net income for 2002. For the fourth quarter, operating income increased 41.7 percent to \$2.9 million or \$0.24 per share (basic and diluted).**

Three-Month Results

HATBORO, PA (January 22, 2003) -- Penn-America Group, Inc. (NYSE:PNG) today reported operating income increased 41.7 percent to \$2.9 million or \$0.24 per share (basic and diluted) for the fourth quarter of 2002, compared with operating income of \$2.1 million or \$0.18 per share (basic and diluted) for the fourth quarter of 2001. Operating income is calculated by subtracting net realized investment gain (loss), after taxes, from net income. Net income for the fourth quarter of 2002 was \$3.9 million or \$0.32 per share (basic and diluted) and included a net realized investment gain, after taxes, of \$1.0 million. Net income for the fourth quarter of 2001 was \$1.4 million or \$0.12 per share (basic and diluted) and included a net realized investment loss, after taxes, of \$0.7 million.

Gross written premiums increased 42.3 percent to \$39.1 million in the fourth quarter of 2002, compared with \$27.4 million for the same period of 2001. Net written premiums increased 37.0 percent to \$33.1 million in the current quarter, compared with \$24.1 million for the same period of 2001. The GAAP combined ratio for the fourth quarter of 2002 was 95.7 compared with 98.9 for the fourth quarter of 2001.

Jon Saltzman, president and CEO noted, "The excellent operating results in the fourth quarter capped the fifth consecutive quarter of underwriting profitability for the company. With an infusion of \$38 million in new capital during the quarter combined with strong pricing and continuing opportunities in the current hard insurance markets, our financial condition and prospects for the future are solid and exciting."

2002 Results

For the year ended December 31, 2002, the company reported operating income of \$9.6 million or \$0.82 per basic share and \$0.81 per diluted share compared with operating income of \$5.7 million or \$0.50 per share (basic and diluted) for the year ended December 31, 2001. Net income for the year ended December 31, 2002 was \$10.5 million or \$0.90 per basic share and \$0.88 per diluted share and included a net realized investment gain, after taxes, of \$0.8 million. Net income for the year ended December 31, 2001 was \$4.9 million or \$0.43 per share (basic and diluted) and included a net realized investment loss, after taxes, of \$0.8 million.

Gross written premiums increased 60.0 percent to \$157.4 million for the year ended December 31, 2002, compared with \$98.4 million for the year ended December 31, 2001. Net written premiums increased 54.6 percent to \$134.7 million for the year ended December 31, 2002, compared with \$87.1 million for the year ended December 31, 2001. The GAAP combined ratio for the year ended December 31, 2002, was 97.7 compared with 103.1 in 2001.

Additional Capital

In the fourth quarter of 2002, the company raised \$38 million of additional capital through two separate transactions. The company executed the private placement sale of a \$15 million thirty-year trust-preferred security through a wholly owned trust subsidiary, which resulted in net proceeds of \$14.5 million. In addition, the company raised \$23.5 million from the issuance of 2,990,000 shares of the Company's common stock.

The company contributed virtually all of the net proceeds to its insurance subsidiaries in order to support the business growth of its insurance operations. Combined statutory policyholders' surplus of the company's insurance subsidiaries stood at \$110.3 million at December 31, 2002, up from \$64.7 million at December 31, 2001.

Teleconference for Interested Parties

Saltzman and Joe Morris, senior vice president, CFO and treasurer will conduct a teleconference for interested parties today at 11:00 a.m. Eastern Time. To participate, telephone (800) 230-1092 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, January 29, 2003. To hear the recording, telephone (800) 475-6701 at any time during that period and use access code 668423. 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.

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 market.

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/A.

Note: Tables follow.

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

	Three Months Ended		Year Ended	
	<u>12/31/02</u>	<u>12/31/01</u> (Restated) ²	<u>12/31/02</u>	<u>12/31/01</u> (Restated) ²
Revenues:				
Premiums earned	\$ 34,133	\$ 22,740	\$ 115,055	\$ 88,934
Net investment income	2,961	2,823	11,757	11,339
Net realized investment gain (loss)	1,446	(986)	1,273	(1,178)
Total revenues	<u>38,540</u>	<u>24,577</u>	<u>128,085</u>	<u>99,095</u>
Losses and expenses:				
Losses and loss adjustment expenses	21,659	14,181	75,108	60,921
Amortization of deferred policy acquisition costs	8,733	5,527	29,010	22,715
Other underwriting expenses	2,272	2,784	8,304	8,030
Corporate expenses	156	56	618	548
Interest expense	108	40	213	160
Total losses and expenses	<u>32,928</u>	<u>22,588</u>	<u>113,253</u>	<u>92,374</u>
Income before income tax	5,612	1,989	14,832	6,721
Income tax expense	<u>1,713</u>	<u>561</u>	<u>4,368</u>	<u>1,781</u>
Net income	<u>\$ 3,899</u>	<u>\$ 1,428</u>	<u>\$ 10,464</u>	<u>\$ 4,940</u>
Operating income	\$ 2,945	\$ 2,079	\$ 9,624	\$ 5,717
Net realized investment gain (loss), after taxes	954	(651)	840	(777)
Net income	<u>\$ 3,899</u>	<u>\$ 1,428</u>	<u>\$ 10,464</u>	<u>\$ 4,940</u>
Basic income per share¹				
Operating income	\$ 0.24	\$ 0.18	\$ 0.82	\$ 0.50
Net realized investment gain (loss), after taxes	0.08	(0.06)	0.08	(0.07)
Net income	<u>\$ 0.32</u>	<u>\$ 0.12</u>	<u>\$ 0.90</u>	<u>\$ 0.43</u>
Diluted income per share¹				
Operating income	\$ 0.24	\$ 0.18	\$ 0.81	\$ 0.50
Net realized investment gain (loss), after taxes	0.08	(0.06)	0.07	(0.07)
Net income	<u>\$ 0.32</u>	<u>\$ 0.12</u>	<u>\$ 0.88</u>	<u>\$ 0.43</u>
Cash dividend per share ¹	\$ 0.03875	\$ 0.035	\$ 0.15458	\$ 0.14
Weighted average shares outstanding¹:				
Basic	12,056,340	11,466,719	11,689,405	11,420,213
Diluted	12,226,167	11,555,298	11,879,087	11,501,703

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

² Reflects an increase in net realized investment loss of \$623,000 and the related income tax benefit of \$212,000 for the three and twelve months ended December 31, 2001. For more details see the company's 2001 10-K/A.

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

INSURANCE PERFORMANCE DATA

	<u>Three Months Ended</u>		<u>Year Ended</u>	
	<u>12/31/02</u>	<u>12/31/01</u>	<u>12/31/02</u>	<u>12/31/01</u>
Gross written premiums	\$ 39,063	\$ 27,447	\$ 157,433	\$ 98,412
Net written premiums	33,086	24,144	134,662	87,123
GAAP ratios:				
Loss ratio	63.5	62.4	65.3	68.5
Expense ratio	<u>32.2</u>	<u>36.5</u>	<u>32.4</u>	<u>34.6</u>
Combined ratio	95.7	98.9	97.7	103.1
Statutory ratios:				
Loss ratio	63.5	62.4	65.3	68.5
Expense ratio	<u>33.1</u>	<u>34.2</u>	<u>30.8</u>	<u>33.6</u>
Combined ratio	96.6	96.6	96.1	102.1

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

SELECTED BALANCE SHEET DATA

	<u>December 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
Investments and cash:		
Fixed maturities:		
Available for sale	\$ 246,583	\$ 135,253
Held to maturity	1,963	15,084
Equity securities	18,625	25,149
Short-term investments and cash	9,796	13,129
	<u>\$ 276,967</u>	<u>\$ 188,615</u>
Reinsurance recoverable	\$ 27,843	\$ 25,804
Total assets	347,239	248,115
Unpaid losses and loss adjustment expenses	137,747	119,598
Unearned premiums	65,365	41,034
Total liabilities	230,644	167,724
Total stockholders' equity	116,595	80,391
Total shares outstanding ¹	14,572,098	11,478,351
Book value per share ¹	\$ 8.00	\$ 7.00
Statutory policyholders' surplus	\$ 110,299	\$ 64,733

¹ 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 ratios)

SUPPLEMENTARY DATA BY LINE OF BUSINESS

	<u>Year Ended December 31, 2002</u>		
	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
Core commercial lines			
Specialty property	\$ 13,464	\$ 11,768	46.9
CMP – property	51,741	44,127	64.5
CMP – liability	34,738	30,808	74.3
Other & product liability	34,688	28,312	64.0
Total core commercial	<u>134,631</u>	<u>115,015</u>	<u>65.2</u>
Exited lines			
Commercial auto liability	25	28	*
Commercial auto P.D.	6	12	*
Personal lines	--	--	--
Total exited lines	<u>31</u>	<u>40</u>	<u>*</u>
TOTAL	<u>\$ 134,662</u>	<u>\$ 115,055</u>	<u>65.3</u>

	<u>Year Ended December 31, 2001</u>		
	Net Written <u>Premiums</u>	Net Earned <u>Premiums</u>	Loss and LAE <u>Ratio</u>
Core commercial lines			
Specialty property	\$ 8,634	\$ 6,803	65.2
CMP – property	31,580	29,409	74.1
CMP – liability	24,787	24,676	65.8
Other & product liability	21,262	23,373	60.9
Total core commercial	<u>86,263</u>	<u>84,261</u>	<u>67.3</u>
Exited lines			
Commercial auto liability	604	3,299	129.1
Commercial auto P.D.	254	1,352	106.7
Personal lines	2	22	*
Total exited lines	<u>860</u>	<u>4,673</u>	<u>90.0</u>
TOTAL	<u>\$ 87,123</u>	<u>\$ 88,934</u>	<u>68.5</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 December 31, 2002

	<u>Net Written Premiums</u>	<u>Net Earned Premiums</u>	<u>Loss and LAE Ratio</u>
Core commercial lines			
Specialty property	\$ 3,644	\$ 3,596	34.6
CMP – property	13,272	13,369	59.1
CMP – liability	8,732	8,871	66.8
Other & product liability	7,440	8,283	79.2
Total core commercial	<u>33,088</u>	<u>34,119</u>	<u>63.4</u>
Exited lines			
Commercial auto liability	(1)	10	*
Commercial auto P.D.	(1)	4	*
Personal lines	--	--	--
Total exited lines	<u>(2)</u>	<u>14</u>	<u>*</u>
TOTAL	<u>\$ 33,086</u>	<u>\$ 34,133</u>	<u>63.5</u>

Three Months Ended December 31, 2001

	<u>Net Written Premiums</u>	<u>Net Earned Premiums</u>	<u>Loss and LAE Ratio</u>
Core commercial lines			
Specialty property	\$ 2,436	\$ 2,071	67.0
CMP – property	8,347	7,679	62.3
CMP – liability	7,109	6,726	63.2
Other & product liability	6,250	6,012	55.7
Total core commercial	<u>24,142</u>	<u>22,488</u>	<u>61.2</u>
Exited lines			
Commercial auto liability	(3)	186	129.1
Commercial auto P.D.	5	66	256.1
Personal lines	--	--	--
Total exited lines	<u>2</u>	<u>252</u>	<u>162.3</u>
TOTAL	<u>\$ 24,144</u>	<u>\$ 22,740</u>	<u>62.4</u>

*Not meaningful

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