

letter

to stockholders

In 1997, a *new* SCPIE — restructured as a publicly held company on the New York Stock Exchange — stood up and confidently made its way out into the business world.

When SCPIE's transformation from a reciprocal insurer went into effect at the beginning of the year, we had a clear vision of the direction we wanted the company to take. One year later, we've made substantial progress in turning that vision into reality.

Today, our nationwide expansion is well under way. We have entered into a promising new alliance, have acquired a lucrative book of business and have expanded our product line. Prospects are strong for even greater growth in the years to come.

The numbers in this report tell the story of SCPIE's success. In 1997, total revenues rose 6.0% over the prior year to \$183.7 million, reflecting premiums earned of \$133.9 million. Net investment income climbed to \$42.7 million.



Donald J. Zuk

Mitchell S. Karlan MD

Our loss ratio held steady compared with the prior year — although our expense ratio went up somewhat, mainly due to increased commission fees and our national expansion. Our stockholders' equity increased 25.1% to \$361.1 million, and our total investment portfolio rose 9.4% to \$785.7 million.

It was an outstanding first year for SCPIE's common stock (NYSE:SKP), which commenced trading on January 30. After starting at an IPO price of $18\frac{1}{4}$, the stock finished the year at $28\frac{15}{16}$ — a 58.6% increase that far exceeded the growth we hoped for when we took the company public. Stockholders also benefited from our growth through a cash dividend of \$.05 per share, paid every quarter of 1997. Book value per share increased to \$29.41 in 1997, on more shares outstanding, compared to \$28.86 in 1996.

The strong appreciation of our stock price is a tangible indication of the financial community's confidence in our future. We, too, have great confidence in the long-term growth prospects of SCPIE Holdings Inc., which is one reason we initiated a stock repurchase plan for up to 1 million shares.

As already noted, there were a number of important developments in 1997 that put our nationwide expansion squarely on track:

- We established an alliance with Poe & Brown, Inc., one of the nation's leading independent insurance agency organizations. Through Poe & Brown, we are offering malpractice coverage to solo physicians and medical groups in eight states — primarily in Connecticut, Florida and Georgia.



SCPIE has the

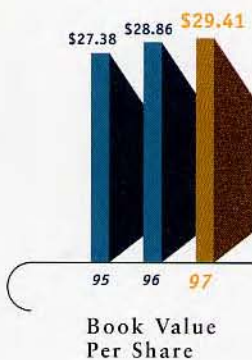
vision

to lead the medical malpractice

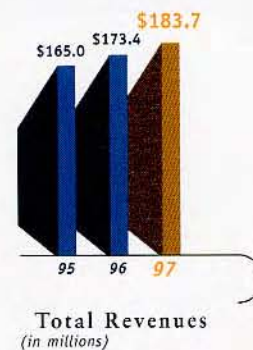
insurance industry into the future

- We purchased Fremont Indemnity Company's medical malpractice book of business; in 1996, it covered thousands of healthcare practitioners in 10 states — the majority in California and Arizona — for a total of approximately \$28 million in premiums written. The practitioners include chiropractors and podiatrists, until now untapped markets for SCPIE.
- We continued to apply for — and to receive — regulatory approvals in an increasing number of states, including a new license in Pennsylvania; license modifications in Colorado, Florida and New Jersey; and rate and policy form approvals in Arizona, Florida, Hawaii, Kentucky, Louisiana, Nevada, New Mexico, Oregon and Washington.
- We began to market our hospital insurance program through major brokerage firms throughout the nation.

We also pursued growth by expanding our product line. In late 1997, we launched a new insurance program called SCPIE Dentist Select, which covers general dentists and practitioners in a wide range of dental subspecialties. Although the program currently is available only in California, we plan to expand it to other states in the future.



In carrying out our strategic plan, we will continue to look at possible acquisitions as a way to enhance the value of our company. One thing we won't do, however, is pursue acquisitions or write policies that do not make sound business sense, simply to boost our top line and artificially inflate our stock price.



Some medical malpractice insurance firms have done just that — but they've learned the hard lesson that cash-flow underwriting ultimately produces unfavorable results. We would rather enjoy prudent, steady and solid growth.

It takes vision to be a leader in the medical malpractice insurance industry. We have that vision at SCPIE Holdings Inc., which is why we've been a trailblazer in the field for more than two decades. And why our future in the new millennium promises to be even more exciting.

In 1997, we hit our stride as a publicly held company. Now we're ready to run the long-distance race ahead.

Mitchell S. Karlan MD
Chairman of the Board

Donald J. Zuk
President and
Chief Executive Officer