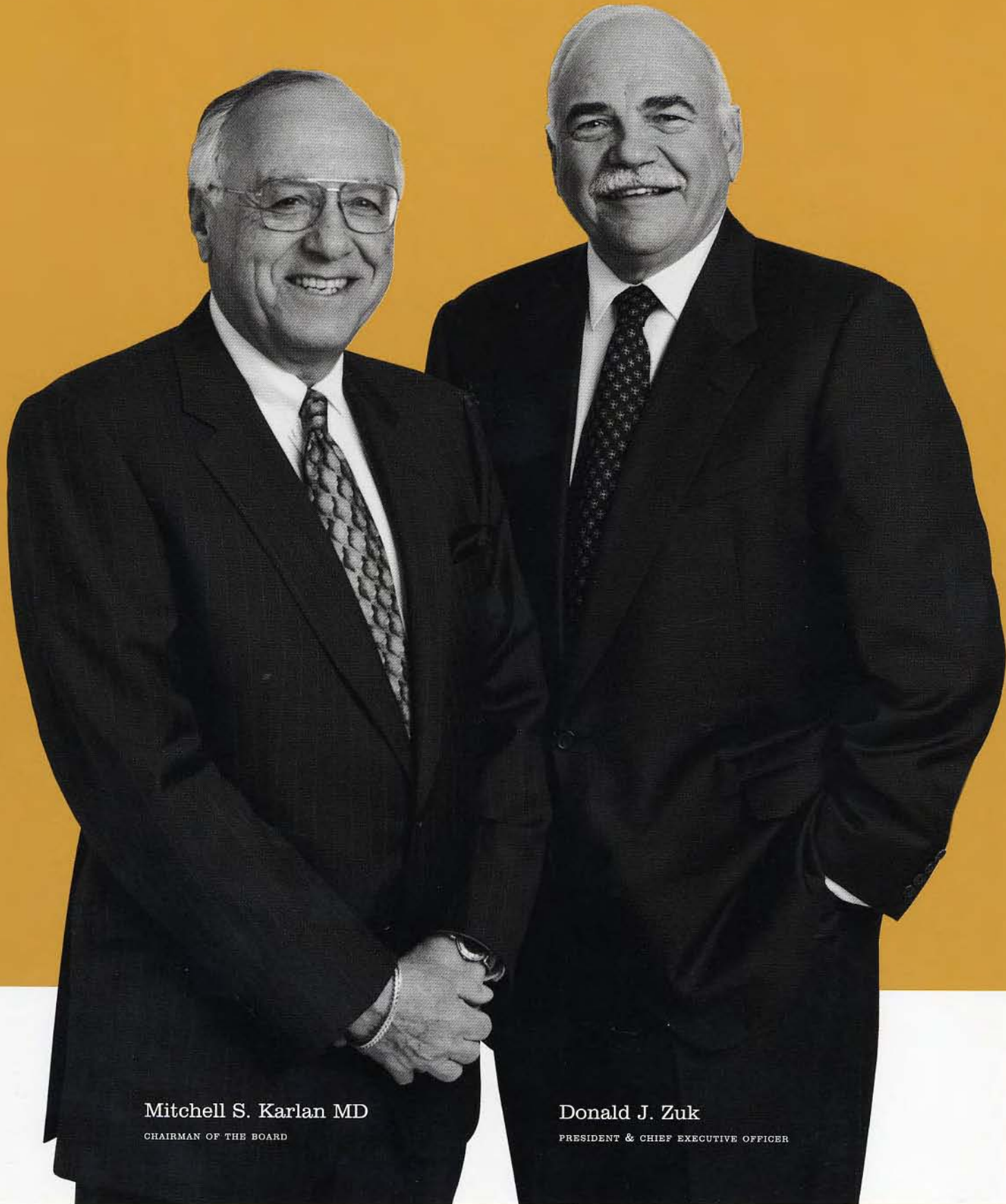


TO OUR STOCKHOLDERS:



Mitchell S. Karlan MD  
CHAIRMAN OF THE BOARD

Donald J. Zuk  
PRESIDENT & CHIEF EXECUTIVE OFFICER

The year 2000 is a global milestone, and it has added significance for SCPIE: It marks the beginning of our 25th year of operation. Despite many challenges, SCPIE has grown and prospered during the past quarter century. As we enter the 21st century, we are proud to say, "SCPIE is rock-solid."

In the face of last year's very soft stock market for insurance companies, our stock price increased 6% at year-end. As of March 31, 1999, SCPIE's Board of Directors raised the regular quarterly cash dividend to \$.08 per share from \$.06, a 33% increase in tangible return to our stockholders.

To further build stockholder value for our investors, we held a "Dutch Auction" self-tender offer of our stock. We accepted for purchase slightly more than two million shares at a price of \$35 per share, which contributed to an increase in our operating return on equity — a basic measure of corporate performance — from 7.7% in 1998 to 10.2% in 1999.

SCPIE Holdings Inc. earned a respectable profit last year. By adopting more stringent underwriting guidelines, we even made an underwriting profit in 1999, a major accomplishment in today's medical malpractice insurance industry! Our combined ratio dropped below 100%, indicative of management's consistent attention to that critical measure of financial stability.

Although our insistence on writing a high-quality book of business meant that some of last year's numbers weren't as strong as the prior year's, we are confident our emphasis on tighter underwriting will prove beneficial in the long run.

#### **DIVERSIFICATION OF REVENUE BASE**

In order to remain solidly successful in today's difficult medical malpractice insurance market, management has focused considerable efforts on diversifying our revenue base. This is a strategy we have pursued vigorously since SCPIE became a public company in 1997: first with geographic expansion outside our traditional California base; next with the addition of new insurance products for other medical professionals and hospitals; and recently with a broadening of our sales base from sole reliance on a direct sales force to now include a quality broker network.

# We are



We continued to implement our strategy in 1999 with a corporate decision to increase reinsurance from its current 5% of total premium to upwards of 30% over a period of time. Toward that goal, we opened a reinsurance office in New York City, the center of the industry in the United States. By having a strong presence in New York, we have ready access to reinsurance brokers and ceding companies, which will help spur our growth in this significant sector.

To head the office and spearhead our reinsurance program, we appointed Timothy C. Rivers as Senior Vice President, Ceded and Assumed Reinsurance. Tim brings more than 30 years of reinsurance experience and expertise to his new position — many of those working with SCPIE in his previous positions at other companies.

Also in 1999, we purchased approximately 7.4 million shares of the common stock of London-based GoshawK Insurance Holdings plc., giving us nearly 10% ownership of the company. As a result, SCPIE and Munich Re, one of the largest international reinsurers in the industry, now participate equally in a 15% quota share reinsurance treaty with GoshawK. The transaction enabled us to become a core investor with the highly respected Lloyd's Marine Specialists Syndicate — which GoshawK manages — while at the same time letting us participate in a significant net quota share treaty as assumed reinsurance.

#### **INDUSTRY TRENDS**

As it has for nearly a decade, the medical malpractice insurance industry continued to suffer from unrealistically low pricing last year. It was driven by overcapacity and the penchant of some insurers to invest their assets in common stock to make up for underwriting losses.

IN AN INDUSTRY FRAUGHT WITH IRRESPONSIBLE PRICING, SCPIE REMAINS FINANCIALLY STRONG. WE CONTINUE TO MANAGE OUR COMPANY IN A WAY THAT IS FISCALLY SOUND.

# ROCK-

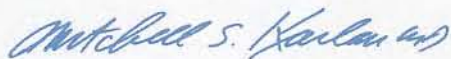
This unrealistic pricing and risky approach to rate subsidization cannot be sustained much longer. We believe that rates will return to their proper levels within the next two to three years. Many of our competitors who have not been setting rates correctly will be forced to adopt pricing structures comparable to SCPIE's.

We already are witnessing this trend in the reinsurance sector. Because of unsustainable pricing structures by medical malpractice insurers, many reinsurers matched those low rates with their own unrealistic rates. Recently, however, there has been a definite upward rate adjustment in the reinsurance marketplace. SCPIE is expanding its reinsurance business at precisely the right time to take advantage of this trend.

We think we are extremely well-positioned as we enter the new millennium. We continue to pursue our strategy of slow, steady and prudent growth. We continue to resist building policyholder volume at the expense of quality business practices. And we are confident that our reinsurance expansion will give our entire operation even greater balance and strength.

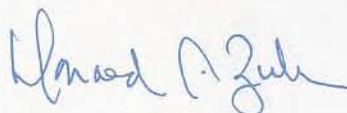
Lastly, a personal note: Those of us who have been with SCPIE from the start mourned the passing last year of Ralph M. Milliken MD at the age of 88. As one of the company's founders, its first policyholder and its medical director for many years, Dr. Milliken dedicated much of his life to SCPIE and the professional liability insurance industry. He will be missed.

In this year's Annual Report, we celebrate a number of qualities that make SCPIE the company it is. Even more important, we celebrate the people who are responsible for its success: our employees. They truly are the ones who make "We are SCPIE" a statement of pride.



**Mitchell S. Karlan MD**

CHAIRMAN OF THE BOARD



**Donald J. Zuk**

PRESIDENT & CHIEF EXECUTIVE OFFICER

# SOLID