SEIBELS BRUCE GROUP INC
Form 10-K
March 31, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K
ANNUAL REPORT

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-8804

THE SEIBELS BRUCE GROUP, INC.
(Exact name of registrant as specified in its charter)

SOUTH CAROLINA (State or other jurisdiction of incorporation or organization)	57-0672136 (IRS employer identification no.)
1501 LADY STREET (P.O. BOX 1) COLUMBIA, S.C. (Address of principal executive offices)	29201(2) (Zip code)

Registrant's telephone number, including area code (803) 748-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, PAR VALUE $1.00 PER SHARE
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of

1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act. Yes / / No /X/

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the most recently completed second fiscal quarter (quotation date of June 28, 2002), based on the closing sale price of the registrant's common stock, par value $1.00 per share, as reported on the National Association of Securities Dealers Over-the-Counter Bulletin Board on such date: $18,012,887.

The number of shares outstanding of the registrant's common stock as of March 10, 2003: 7,831,690.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement in connection with the annual meeting of shareholders to be held May 7, 2003 are incorporated by reference into Part III.

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ABBREVIATIONS

The following abbreviations used in the text have the meaning set forth below unless the context requires otherwise:

AFS.......................	America's Flood Services, Inc.
Catawba...................	Catawba Insurance Company
CAIC......................	Consolidated American Insurance Company
FEMA......................	Federal Emergency Management Administration
GAAP......................	Generally Accepted Accounting Principles
Graward...................	Graward General Companies, Inc.
INS.......................	Insurance Network Services, Inc.
JUA.......................	Joint Underwriting Association
LAE.......................	Loss Adjustment Expenses
MGA.......................	Managing General Agent
NC Facility...............	North Carolina Reinsurance Facility
NAIC......................	National Association of Insurance Commissioners
NASDAQ....................	National Association of Securities Dealers Automated Quotation System
NCDOI.....................	North Carolina Department of Insurance
NFIP......................	National Flood Insurance Program
Norwest...................	Norwest Financial Resources, Inc.
OTC Bulletin Board.........	National Association of Securities Dealers Over-the-Counter Bulletin Board
PBP.......................	Premium Budget Plan, Inc.
Premium...................	Premium Service Corporation of Columbia
QualSure..................	QualSure Insurance Corporation
QualSure Holding...........	QualSure Holding Corporation
RAD.......................	Regulatory Action Division
RBC.......................	Risk-Based Capital
SAP.......................	Statutory Accounting Principles
The Company...............	The Seibels Bruce Group, Inc.
The Hartford..............	The Hartford Financial Services Group, Inc.

SBC........................	Seibels, Bruce & Company
SCAAIP.....................	South Carolina Associated Auto Insurers Plan
SCDOI......................	South Carolina Department of Insurance
SCIC.......................	South Carolina Insurance Company
SC Facility................	South Carolina Reinsurance Facility
SFAS.......................	Statement of Financial Accounting Standards
UIC........................	Universal Insurance Company

PART I

FORWARD LOOKING STATEMENTS

Some of the statements discussed or incorporated by reference in this annual report on Form 10-K are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding management's current knowledge, expectations, estimates, beliefs and assumptions. All forward-looking statements included in this document or incorporated by reference are based on information available to The Seibels Bruce Group, Inc. (the "Company") on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. Results may differ materially because of both known and unknown risks and uncertainties which the Company faces. Factors which could cause results to differ materially from our forward-looking statements include, but are not limited to:

- the possibility that the Company will be unable to meet its cash flow requirements; the Company has previously incurred net operating losses and the Company may experience net operating losses in the future;

- the costs of defending pending litigation and administrative proceedings and the risk of material adverse outcomes of pending and potential litigation and administrative proceedings involving the Company;

- the continuing impact of the South Carolina Department of Insurance's Administrative Supervision of South Carolina Insurance Company, Catawba Insurance Company and Consolidated American Insurance Company;

- the impact of exiting the National Flood Insurance Program;

- the ability to satisfy dividend obligations related to the Company's Adjustable Rate Cumulative Nonvoting Preferred Special Stock;

- the ability to secure additional sources of revenue;

- the ability to secure and maintain long-term relationships with customers and agents;

- the effects of economic conditions and conditions which affect the market for property and casualty insurance, including, but not limited to, interest rate fluctuations and flood zone determination services;

- the effects and impact of laws, rules and regulations which apply to insurance companies;

- the effects if estimated reserves for losses and loss adjustment expenses established by the Company are deficient;

- geographic concentrations of loss exposure, causing revenues and profitability to be subject to prevailing regulatory, demographic and other conditions in the areas in which the Company operates;

- the availability of reinsurance and the ability of the Company's reinsurance arrangements to balance the geographical concentrations of the Company's risks;

- the impact of competition from new and existing competitors, many of which have superior financial and marketing resources than the Company;

- the continuing impact of the decisions to exit the Nashville and South Carolina nonstandard automobile operations;

- the risk that current initiatives may not be successful;

- restrictions on the Company's ability to declare and pay dividends;

- the fact that the Company has experienced, and can be expected in the future to experience, storm and weather-related losses, which may result in a material adverse effect on the Company's results of operations, financial condition and cash flows;

- the uncertainty associated with estimating loss reserves, and the adequacy of such reserves, capital resources and other financial items;

- the risk of loss of one or more key managing general agent relationships and the related risk that such agent could not be replaced;

- control of the Company by a principal shareholder, which shareholder has the ability to exert significant influence over the policies and affairs of the Company;

- risks the Company faces in diversifying the services it offers and entering new markets, including risks associated with the Company's development and deployment of new management information systems to develop and deploy new strategies; and

- other risk factors listed from time to time in the Company's Securities and Exchange Commission filings.

Accordingly, there can be no assurance that the actual results will conform to the forward-looking statements discussed or incorporated by reference in this annual report on Form 10-K.

ITEM 1. BUSINESS

(dollars in thousands except per share amounts)

CORPORATE PROFILE AND OVERVIEW OF OPERATIONS

Tracing its roots to 1869, the Company, a South Carolina corporation, is a provider of a wide range of services to the insurance industry, as well as a provider of automobile, flood and other property and casualty insurance products. The Company is committed to providing quality customer service, building strong relationships with its customers, developing and capitalizing on territorial knowledge, and fostering the creativity and innovation of its associates. The Company's headquarters is located at 1501 Lady Street, Columbia, South Carolina 29201 and its telephone number is (803) 748-2000.

The Company conducts business in two primary categories: fee-based property and casualty insurance operations and risk-bearing property and casualty insurance operations. Its fee-based property and casualty insurance operations

include the following:

- CLAIMS ADJUSTING AND MANAGEMENT SERVICES

The Company's premium concentration in the catastrophe-heavy Southeast led to the creation of its subsidiary, Insurance Network Services, Inc. ("INS"), to manage the Company's internal claims activity. INS has since grown into a full service claims organization offering an array of capabilities to the insurance industry, including all-lines claim handling, automobile appraisals, catastrophe claim adjusting and glass claim services. INS is an important part of the Company's corporate structure and can accommodate claims services requests from anywhere in the United States.

Effective January 21, 2000, three of the Company's insurance subsidiaries made a combined investment in the common stock of QualSure Holding Corporation ("QualSure Holding"), representing a combined ownership interest of 30.625%. QualSure Holding owns 100% of the issued and outstanding stock of QualSure Insurance Corporation ("QualSure"), a homeowners take out insurance company domiciled in the state of Florida, and QualSure Underwriting Agencies, Inc., a managing general agent ("MGA") for QualSure. In connection with this

investment, INS entered into a Claims Administration Services Agreement with QualSure to adjudicate all of its claims for a fee based upon subject earned premium. Effective October 3, 2002, the combined ownership interest in QualSure Holding was redeemed by QualSure Holding. Under the terms of the underlying redemption agreement, INS continues to provide claim administration services to QualSure under an amended contract at a reduced rate for terms that expire from October 4, 2005 through January 21, 2010. The most significant component of INS' revenues is the fees earned under its Claims Administration Services Agreement with QualSure, accounting for over 56%, 38% and 30% of its total revenues for the years ended December 31, 2002, 2001 and 2000, respectively.

INS also generates a substantial portion of its income from the loss adjusting services provided in connection with the South Carolina Reinsurance Facility ("SC Facility"). The SC Facility began its planned runoff effective March 1, 1999, at which time no new business was accepted into the SC Facility. Effective October 1, 1999, voluntary renewals were no longer accepted by the SC Facility. However, servicing carriers were able to cede renewals to the SC Facility until March 1, 2002, at which time final runoff of the SC Facility commenced. INS' fees earned from the loss adjusting services provided in connection with the SC Facility amounted to 6%, 10% and 20% of its total revenues for the years ended December 31, 2002, 2001 and 2000, respectively.

In the fourth quarter of 2002, the Company undertook a profitability and viability analysis of each of INS' service lines. As a result, INS has begun a process of discontinuing certain of its service lines and eliminating the related expenses. INS' continuing operations are centered on its Claims Administration Services Agreement with QualSure and complemented by its network glass claims handling, all-lines claims administration and catastrophe claims administration services. Though INS' revenues may be lower in 2003 as compared to 2002, management believes it will be more profitable as a result of its initiatives.

- NATIONAL FLOOD INSURANCE PROGRAM ("NFIP")

Through its subsidiaries, South Carolina Insurance Company ("SCIC") and

Catawba Insurance Company ("Catawba"), the Company participated in the NFIP, a flood insurance program administered by the federal government. In this capacity, SCIC and Catawba were responsible for all aspects of policy administration over the term of the policies, including underwriting, processing and statistical reporting, subject to administration guidelines of the NFIP. The companies were also responsible for all aspects of claims administration associated with claims reported under the business they produce. SCIC and Catawba received commission and service income from the NFIP for these policy and claims administration services, but retained no underwriting risk on any of the business produced because all of the premiums and associated losses were fully ceded to the NFIP. These commissions amounted to approximately 31% of direct premiums written for policy administration and 3.3% of direct incurred losses for claims administration.

On September 12, 2002, the Company announced that it had received notice from the Federal Emergency Management Agency ("FEMA") that FEMA did not intend to offer SCIC and Catawba a Financial Assistance/Subsidy Arrangement with the Federal Insurance and Mitigation Administration for the fiscal year beginning October 1, 2002, effectively terminating their participation in the NFIP. FEMA's decision was the result of the Order Imposing Administrative Supervision and Appointing Supervisor (see further discussion immediately following "Workers' Compensation"). The Company made numerous attempts to change FEMA's decision, but FEMA would not reconsider the decision as a result of an unsatisfactory underwriting operation review of the Company's NFIP policies. Though the Company's numerous efforts to change FEMA's decision were unsuccessful, it obtained an extension of the existing arrangement for

renewal business only through December 31, 2002, at which time the inforce policies were to be transitioned to the NFIP, or to another carrier in the NFIP, and the Company's servicing carrier status would be terminated. On November 15, 2002, the Company received approval from both FEMA and the South Carolina Department of Insurance ("SCDOI") and then announced that it had completed a transaction with The Hartford Financial Services Group, Inc. ("The Hartford") under which The Hartford acquired the right to renew or assume all of SCIC and Catawba's in-force NFIP business.

- NORTH CAROLINA REINSURANCE FACILITY ("NC FACILITY")

The NC Facility is a state-sponsored plan for assuring the availability of motor vehicle liability insurance to all North Carolina drivers outside of the voluntary market. Two of the Company's subsidiaries, SCIC and Universal Insurance Company ("UIC"), cede business to the NC Facility. In this capacity, each company is responsible for all aspects of policy administration over the term of the policies, including underwriting, processing and statistical reporting, subject to administration guidelines of the NC Facility. The companies are also responsible for all aspects of claims administration associated with claims reported under the business they produce. SCIC and UIC receive commission and service income from the NC Facility for these policy and claims administration services, but retain no underwriting risk on any of the business produced because all of the premiums and associated losses are fully ceded to the NC Facility. While UIC currently cedes substantially all of its motor vehicle liability premiums to the NC Facility, SCIC's NC Facility operations have been in runoff since the third quarter of 2000.

UIC writes nonstandard automobile insurance (principally liability and physical damage coverages) primarily in the state of North Carolina. Approximately 57% and 59% of its total direct written premium in 2002 and

2001, respectively, are premiums for liability coverage, substantially all of which are ceded to the NC Facility. UIC receives underwriting and claims commissions for the premiums and related claims it cedes to the NC Facility equal to approximately 27% and 14%, respectively, of premiums written in the NC Facility.

- SOUTH CAROLINA REINSURANCE FACILITY ("SC FACILITY")

  Catawba is one of three servicing carriers for the SC Facility, a state-sponsored plan for insuring South Carolina drivers outside of the voluntary market. In its capacity as a servicing carrier, Catawba is responsible for all aspects of policy administration over the term of the policies, including underwriting, processing and statistical reporting, subject to administration guidelines of the SC Facility. Catawba is also responsible for all aspects of claims administration associated with claims reported under the business it produces. Catawba receives commission and service income from the SC Facility for these policy and claims administration services, but retains no underwriting risk on any of the business produced because all of the premiums and associated losses are fully ceded to the SC Facility. These commissions amount to approximately 11% of premiums written in the SC Facility for policy administration and approximately 11% of paid losses ceded to the SC Facility for claims administration. The SC Facility began its planned runoff effective March 1, 1999, at which time no new business was accepted into the SC Facility. Effective October 1, 1999, voluntary renewals were no longer accepted by the SC Facility. However, servicing carriers were able to cede renewal business to the SC Facility until March 1, 2002, at which time final runoff of the SC Facility commenced. The South Carolina Associated Automobile Insurers Program (the "SCAAIP") became effective in March 1999 and survived the SC Facility. Although the SCAAIP offers the Company access to additional fee-based revenue with no underwriting risk, thus far into the runoff of the SC Facility, the Company has not experienced significant activity in the SCAAIP. Effective March 1, 2003, the SCAAIP began its planned runoff.

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- FLOOD ZONE DETERMINATIONS AND FLOOD ZONE MAPPING TRACKING SERVICES

  The Company's subsidiary, America's Flood Services, Inc. ("AFS") offers flood zone determinations and flood zone mapping services to customers located throughout the United States. These services are provided primarily to real estate lenders to determine whether or not homes are located in flood zones and, therefore, require flood insurance for loan closing. As a complementary product, AFS also offers flood insurance as an agent through servicing carriers of the NFIP. As a result, AFS' revenues can be affected by increasing or decreasing general market interest rates due to the impact these fluctuations have on the number of new real estate loans. In recognition of this fact, AFS has been actively working to expand its agency operations in an effort to balance the cyclical nature of its flood zone determination and flood mapping services. Commissions and fees from AFS' flood zone determinations and flood zone mapping services accounted for approximately 58%, 67% and 86% of its total revenues during 2002, 2001 and 2000, respectively, while commissions and fees from its agency operations accounted for approximately 41%, 33% and 11% of its total revenues for the same periods, respectively.

- PREMIUM FINANCING SERVICES

  Until December 2001, a substantial portion of UIC's written premium had traditionally been financed through the Company's premium finance subsidiary, Premium Budget Plan, Inc. ("PBP"). Under this arrangement, PBP

received interest income from insureds on premiums it financed, as well as a variety of set up and maintenance fees associated with the related premium finance contracts. While PBP had proved to be an effective sales and marketing tool to facilitate premium growth for UIC over the years, management continually struggled with the challenge of limiting the volume of bad debt expenses associated with its operations. As a result of PBP's operating losses and reassessments of its core competencies, the Company entered into a management contract with an unaffiliated company effective June 1, 2001 to manage the operations of PBP. In December 2001, UIC introduced an installment billing program to its insureds and PBP was placed into runoff. Additionally, UIC continues to offer premium finance alternatives to its insureds through a number of unaffiliated premium finance companies. At December 31, 2002, the runoff of PBP was substantially complete.

- MANAGING GENERAL AGENCY SERVICES

Effective July 1, 2002, one of the Company's subsidiaries, Seibels, Bruce & Company ("SBC"), entered into an agreement with a Florida domiciled insurance company to serve as managing general agent for that company's low-value dwelling homeowners' insurance program in the state of Florida until such time as that program is runoff. Runoff began January 1, 2003; therefore, SBC will not earn significant revenue related to the agreement after December 31, 2002. In its capacity as managing general agent, SBC is responsible for policy issuance and administration, customer service and claims administration. SBC's claims administration responsibilities are fulfilled through a Claims Administration Services Agreement with INS.

The Company seeks to balance its fee-based operations with selective risk underwriting in an effort to increase the Company's value for its shareholders, agents and employees by pursuing growth with an element of limited risk exposure. The Company's risk-bearing property and casualty insurance operations include the following:

- NONSTANDARD AUTOMOBILE

Substantially all of UIC's retained risk nonstandard automobile operations relate to its physical damage coverage, which are minimum limit policies partially reinsured through quota share reinsurance agreements. North Carolina is a "consent to rate" state for physical damage coverage premium charged by insurance companies. As such, UIC is not required to file its physical damage coverage premium rates with the North Carolina Department of Insurance

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("NCDOI") prior to making them effective, as long as those rates are within statutorily defined limits of rates established by the North Carolina Rate Bureau. This provides UIC with the ability to quickly respond to developing trends in its marketplace and the underwriting results of its operations.

Through its nonowners automobile program, Catawba provides supplemental automobile insurance coverage policies in South Carolina to employee drivers of company owned, operated and insured vehicles.

During 2000, the Company discontinued its Nashville operations and placed all of this business into runoff, resulting in a special items charge to earnings of $16,365 for the year ended December 31, 2000. For the year ended December 31, 2002, there were no written premiums associated with this operation. Furthermore, as of December 31, 2002, only 149 claims with

total net reserves for losses and loss adjustment expenses ("LAE") of $1,586 remained on this book of business.

In contemplation of the runoff of the SC Facility, the Company introduced a voluntary nonstandard automobile program in South Carolina during 1997. In July 2000, the Company concluded that the operation could not generate profits in the foreseeable future and, therefore, placed the business into runoff. For the year ended December 31, 2002, there were no written premiums associated with this operation. Furthermore, as of December 31, 2002, only 64 claims with total net reserves for losses and LAE of $559 remained on this book of business.

- COMMERCIAL LINES

SCIC reentered the risk-bearing commercial lines market in February 1998 when it converted a substantial amount of premiums written in an MGA capacity for another insurance carrier to retained risk premiums. Under this program SCIC offered commercial package, business owners and garage liability policies primarily to small businesses in the states of South Carolina, North Carolina, Tennessee, Georgia and Kentucky. In April 1999, Catawba began offering a nonstandard tiered commercial automobile program in the state of South Carolina to capitalize upon the planned runoff of the SC Facility. Since that time SCIC and Catawba have capitalized on the long-standing relationships of their commercial lines agents and benefited from the experience of its qualified underwriters.

- WORKERS' COMPENSATION

Effective January 1, 2002, the Company, through SCIC and Consolidated American Insurance Company ("CAIC"), issued two workers' compensation insurance master policies to Human Dynamics Corporation ("HDC") and included as named insureds Infinet Holdings, Inc. and HDC Financial Services Corporation (collectively with HDC, the "HDC Group"). Significant matters related to these policies were litigated and mediated (see Item 3. Legal Proceedings). Pursuant to proceedings of the Arizona Superior Court, it was ordered that the HDC workers' compensation program (the "HDC Program") is to function as a large deductible workers' compensation program with HDC being responsible for all losses and LAE of the program up to $1,000 per occurrence (the "deductible"). Coverage for losses and LAE in excess of the deductible is provided by the Company, subject to its reinsurance for losses and LAE of $15,000 in excess of $5,000 per occurrence.

On August 21, 2002, the SCDOI issued an Order Imposing Administrative Supervision and Appointing Supervisor (the "Order") that placed SCIC, Catawba and CAIC under administrative supervision for at least six months as a result of the disputes associated with the HDC Program of SCIC and CAIC. Provisions of the Order provided for SCIC, Catawba and CAIC to immediately cease writing risk-bearing business and for SCIC and CAIC to immediately cease renewal of existing risk-bearing business. On August 23, 2002, SCIC and Catawba submitted to the SCDOI a request to

permit Catawba (1) to continue to write its existing risk-bearing business and (2) to renew, in all states in which Catawba is also licensed, the risk-bearing commercial lines business previously written through SCIC. On September 4, 2002, the SCDOI notified Catawba that this request had been approved (the "Approval"). The Approval permits Catawba to continue to write new and renewal premiums in its risk-bearing automobile business and allows it to renew the risk-bearing commercial lines business previously written through SCIC in the states of South Carolina, Georgia and Tennessee. A subsequent request of, and approval from, the

SCDOI and the Georgia Department of Insurance permits Catawba to also write new commercial lines business in South Carolina and Georgia. On September 12, 2002, SCIC and UIC submitted to the North Carolina Department of Insurance (the "NCDOI") a request to permit UIC to renew the risk-bearing commercial lines business previously written through SCIC in the state of North Carolina. This request was granted on November 25, 2002, and UIC subsequently began renewing the North Carolina commercial lines business of SCIC. The only other state in which SCIC wrote risk-bearing commercial lines business is Kentucky. Catawba's application to the Kentucky Department of Insurance to write this business was withdrawn and this business is being runoff. The Order had a negative impact on the Company's operations during the third and fourth quarters of 2002 (see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations). The Company cannot reasonably estimate the effects of the Order on its future operations.

The Company's fee-based property and casualty insurance operations and risk-bearing property and casualty insurance operations discussed above are reported under the following segments:

- AUTOMOBILE

  The Automobile segment includes UIC's retained risk nonstandard automobile and premium finance operations, Catawba's retained risk nonowners automobile program, the runoff of the Company's retained risk Nashville and South Carolina automobile operations, and the fee-based NC Facility, SC Facility and SCAAIP operations.

- FLOOD

  The Flood segment contains the fee-based NFIP operations of SCIC and Catawba, the fee-based flood zone determinations and flood zone mapping services of AFS, and the fee-based flood insurance agency operations of AFS.

- COMMERCIAL

  The Commercial segment includes the runoff retained risk commercial operations of SCIC, the retained risk commercial operations of Catawba and UIC, and the fee-based commercial automobile activity for the NC Facility and SC Facility.

- ADJUSTING SERVICES

  The Adjusting Services segment contains all of the fee-based operations of INS.

- ALL OTHER

  The All Other segment contains the runoff risk-bearing environmental and general liability operations from the 1980's, primarily written in the state of California. The segment also includes the Company's runoff risk-bearing workers' compensation operations primarily written in the state of Florida in the early 1990's. Approximately 68% and 66% of the Company's total net reserves for losses and LAE at December 31, 2002 and 2001, respectively, relate to these long tail runoff operations.

  The All Other segment also contains the runoff risk-bearing workers' compensation program written by SCIC and CAIC through the HDC Group and the fee-based managing general agency services of SBC. The workers' compensation program written by SCIC and CAIC through the HDC Group was effective January 1, 2002 and terminated December 31, 2002. The

fee-based managing general agency services of SBC began July 1, 2002 and entered into runoff effective December 31, 2002.

Financial information about the Company's business segments is set forth in Item 7 of this Form 10-K and in Note 13 to the consolidated financial statements included in this Form 10-K.

The Company's operations as it enters 2003 are substantially different than they were when it entered 2002. As a result of the SCDOI Order and the sale of its NFIP book of business, the runoff of its managing general agent operations, the final runoff of the SC Facility and the SCAAIP, and the loss of its commercial lines business in the state of Kentucky, the Company has been forced to scale back its operations accordingly and is exploring opportunities for additional sources of revenue:

- On January 20, 2003 Catawba requested permission from the SCDOI to begin writing a new risk-bearing nonstandard automobile program in the state of South Carolina. The SCDOI approved Catawba's request on February 6, 2003. The new program is expected to be implemented in the second quarter of 2003 and is expected to generate approximately $2,000 in direct written premium during 2003.

- On January 20, 2003 Catawba requested permission from the SCDOI to begin writing a new risk-bearing homeowners program in the state of South Carolina. The SCDOI approved Catawba's request on February 6, 2003. The new program is expected to be effective in the third quarter of 2003 but is not expected to have a significant impact on the Company's operations in 2003.

- On March 7, 2003 UIC requested permission from the NCDOI to write new fee-based commercial automobile business through the NC Facility. This request is currently pending.

- UIC plans to submit a request to the NCDOI in the second quarter of 2003 to allow it to begin writing new commercial lines risk-bearing business in the state of North Carolina.

Though the Company believes it can successfully implement each of the above initiatives and develop a presence in the South Carolina nonstandard automobile and homeowners markets, as well as recover its market share in the North Carolina commercial lines market, no guaranty can be provided as to their success. Therefore, the Company also believes it is very important to place heavy emphasis on maintaining or growing its continuing operations from 2002: the risk-bearing nonstandard automobile and nonowners operations of UIC (North Carolina) and Catawba (South Carolina), respectively; the risk-bearing commercial lines operations of UIC (North Carolina) and Catawba (South Carolina, Georgia, and Tennessee); UIC's fee-based NC Facility operations (North Carolina); and the multi state fee-based operations of INS and AFS.

REINSURANCE

The Company utilizes reinsurance in certain business segments to reduce its exposure and to provide protection against large catastrophic occurrences. Reinsurance contracts do not relieve the Company of its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurer to minimize its exposure to significant losses from reinsurer insolvency.

From December 31, 1999 through June 30, 2002, UIC reinsured its physical damage coverage through 75% quota share reinsurance agreements with unaffiliated reinsurers. Effective July 1, 2002, the 75% quota share reinsurance agreement was replaced with a 60% quota share reinsurance agreement. Quota share reinsurance is designed to increase a company's capacity to write new and renewal business. Under its 60% quota share reinsurance agreement, UIC cedes 60% of its risk-bearing premiums, net of a ceding commission, as well as 60% of its incurred losses, to the reinsurer. The

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agreement provides for a loss corridor between 69% and 80% in which UIC retains all risk of loss. The reinsurer accepts 60% of the incurred losses above 80%.

From April 1, 1999 through March 31, 2000 the Company's commercial lines were subject to a 90% quota share reinsurance agreement. Effective April 1, 2000, the 90% quota share reinsurance agreement was amended to become a 70% quota share reinsurance agreement, and the amended agreement was terminated at the Company's request effective April 1, 2001. The Company's commercial lines are presently reinsured through facultative, excess of loss, catastrophe and umbrella coverages.

In connection with the workers' compensation program written by SCIC and CAIC through the HDC Group, SCIC and CAIC are party to catastrophe excess of loss reinsurance agreements that provide coverage amounting to $15,000 in excess of $5,000 per occurrence. In addition, as a large deductible workers' compensation program, estimated deductibles recoverable from the insured have reduced the Company's direct reserves for losses and LAE. The Company, in consultation with its consulting actuary, has estimated that the deductibles recoverable from the insured may be as much as $9,800 as of December 31, 2002. Approximately $4,300 of these recoverables has been collateralized as of the filing of this document as a result of various Court proceedings related to the program.

The Company has issued a substantial number of automobile and flood insurance policies for, and fully reinsured those risks with, the NC Facility, the SC Facility and the NFIP. While the amount of reinsurance recoverable under these arrangements is significant, the Company believes the balances due from the NC Facility, the SC Facility and the NFIP are fully collectable due to the applicable governmental agency's backing and/or ability to assess policyholders and member companies for deficiencies.

INVESTMENTS AND INVESTMENT RESULTS

The Company's investment portfolio is managed by the Investment Committee of its Board of Directors. In addition to complying with regulatory guidelines, the Company's investment policy stresses preservation of capital, market liquidity and diversification of risk. The Company's cash and investments are as follows at December 31:

	2002	%	2001
U.S. Government, government agencies and authorities........	$15,195	30.6	$14,605
States, municipalities and political subdivisions...........	390	0.8	388
Corporate bonds...	21,970	44.3	18,545
Total debt securities.....................................	37,555	75.7	33,538
Equity securities...	1,661	3.3	5,961
Cash and short-term investments.............................	10,423	21.0	6,375

Total cash and investments................................	$49,639	100.0	$45,874	1

The Company's investment in debt securities are considered available-for-sale securities and reported at fair value at December 31, 2002 and 2001.

At December 31, 2001, the Company's equity securities consisted of its investments in Sunshine State Holding Corporation ("Sunshine State") and QualSure Holding. During 1997, the Company invested $854 in Sunshine for an ownership interest of 21.49%. Sunshine owns 100% of the issued and outstanding stock of Sunshine State Insurance Company, a Florida-based writer of homeowners insurance. Effective January 21, 2000, three of the Company's insurance subsidiaries collectively acquired a 30.625% equity ownership interest in QualSure Holding for $4,900. QualSure Holding is the holding company parent of QualSure, a homeowners take-out insurance company domiciled in the State of Florida. As each of these equity investments exceeds 20% of the equity of each respective

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company, the Company's equity in the undistributed earnings of the unconsolidated affiliates, using the equity method, are included in current earnings.

Effective October 3, 2002, the Company's ownership interest in QualSure Holding, with a carrying value of $4,143, was redeemed by QualSure Holding for $4,775.

At December 31, 2001, the Company owned 32,676 shares of common stock of Insurance Services Offices, Inc. ("ISO") which it had received in 1997 as a result of ISO converting from a mutual organization to a stock company. Since the equity security received in connection with the conversion was not marketable, the Company had historically valued the investment at cost ($0). In February 2002, ISO offered, and the Company accepted, to repurchase the Company's shares of ISO for a price of $64.80 per share, resulting in a realized investment gain of $2,117.

Short-term investments are carried at cost, which approximates fair value.

The weighting of the Company's overall cash and investments shifted towards cash and short-term investments as of December 31, 2002, as compared to December 31, 2001 as a result of the redemption of the Company's investment in QualSure and the sale of the renewal rights to its NFIP book of business to The Hartford. These transactions provided cash totaling $8,575 in the fourth quarter of 2002, a substantial portion of which had not been invested in longer term securities as of December 31, 2002.

The following table sets forth the consolidated investment results for the three years ended December 31:

	2002	2001	2000
Total average investments(1).....................	$47,906	$47,841	$47,780
Net investment income............................	$ 2,183	$ 2,500	$ 2,660
Average yield....................................	4.6%	5.2%	5.6%
Net realized investment gain (loss)..............	$ 2,817	$ 90	$ (236)

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(1) Average of the aggregate invested amounts reported as of January 1, March 31, June 30, September 30, and December 31 as reported in the Company's applicable Forms 10-Q and 10-K.

Declining levels of general market interest rates over the last 24 months have had a significant negative impact on the Company's average yield. Further, the shift in weighting of the Company's overall cash and investments towards lower yielding cash and short-term investments as of December 31, 2002, as compared to December 31, 2001 had a negative impact on the Company's average yield.

REGULATION

STATE REGULATION. Insurance companies are subject to supervision and regulation in the jurisdictions in which they transact business. Such supervision and regulation relate to numerous aspects of an insurance company's business and financial condition. The primary purpose of such supervision and regulation is the protection of policyholders. The extent of such regulation varies but generally derives from state statutes which delegate regulatory, supervisory and administrative authority to state insurance departments. Accordingly, the state insurance departments have the authority to establish standards of solvency that must be met and maintained by insurers, to license insurers and agents, and to approve policy forms. State insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies.

Most states have enacted legislation that regulates insurance holding company systems, including acquisitions, dividends, the terms of surplus notes, the terms of affiliate transactions and other related matters. Three of the Company's insurance subsidiaries, SCIC, Catawba and CAIC, are domiciled in the state of South Carolina and are principally regulated by the SCDOI. UIC is domiciled in the state of North Carolina and is principally regulated by the NCDOI.

Insurance companies are required to file detailed annual statements with the state insurance regulators in each of the states in which they conduct business. Their business and accounts are subject to examination by such regulators at any time. In addition, these insurance regulators periodically examine the insurer's financial condition, adherence to statutory accounting principles and compliance with insurance department rules and regulations. South Carolina and North Carolina law, rather than federal bankruptcy law, would apply to the liquidation or reorganization of any of the Company's insurance companies. An examination by the SCDOI of SCIC, CAIC and Catawba, as of December 31, 1998 was completed in December 1999 with no material findings. An examination by the NCDOI of UIC as of December 31, 2000 was completed in September 2002 with no material findings. During 2002, the SCDOI has performed targeted examination procedures and has informed the Company that it will conduct an examination of SCIC, CAIC and Catawba as of December 31, 2002 beginning in 2003. In addition, the NCDOI has notified the Company that it will conduct a limited market conduct examination of SCIC in August 2003.

Effective January 1, 2001, both the NCDOI and the SCDOI adopted the Codification of Statutory Accounting Principles ("Codification") as the prescribed basis of accounting for insurance companies domiciled in their

respective states. Accordingly, all of the Company's statutory subsidiaries adopted Codification effective January 1, 2001. Adoption of Codification did not have a material effect on the financial statements of any of the Company's statutory subsidiaries.

Since before the Company's acquisition of UIC in 1997, UIC has operated, and continues to operate, under the Regulatory Action Division ("RAD") of the NCDOI. Under the requirements of the RAD, UIC is required to submit monthly financial statements to the NCDOI.

On August 21, 2002, the SCDOI issued an Order Imposing Administrative Supervision and Appointing Supervisor that placed SCIC, Catawba and CAIC under administrative supervision for at least six months as a result of the disputes associated with the HDC Program of SCIC and CAIC. Provisions of the Order provided for SCIC, Catawba and CAIC to immediately cease writing risk-bearing business and for SCIC and CAIC to immediately cease renewal of existing risk-bearing business. On August 23, 2002, SCIC and Catawba submitted to the SCDOI a request to permit Catawba (1) to continue to write its existing risk-bearing business and (2) to renew, in all states in which Catawba is also licensed, the risk-bearing commercial lines business previously written through SCIC. On September 4, 2002, the SCDOI notified Catawba that this request had been approved. The Approval permits Catawba to continue to write new and renewal premiums in its risk-bearing automobile business and allows it to renew the risk-bearing commercial lines business previously written through SCIC in the states of South Carolina, Georgia and Tennessee. A subsequent request of, and approval from, the SCDOI and the Georgia Department of Insurance permits Catawba to also write new commercial lines business in South Carolina and Georgia. On September 12, 2002, SCIC and UIC submitted to the NCDOI a request to permit UIC to renew the risk-bearing commercial lines business previously written through SCIC in the state of North Carolina. This request was granted on November 25, 2002, and UIC subsequently began renewing the North Carolina commercial lines business of SCIC. The only other state in which SCIC wrote risk-bearing commercial lines business is Kentucky. Catawba's application to the Kentucky Department of Insurance to write this business was withdrawn and this business is being runoff.

NAIC GUIDELINES. The National Association of Insurance Commissioners ("NAIC") has adopted Risk-Based Capital ("RBC") requirements for property and casualty insurance companies to evaluate

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the adequacy of statutory capital and surplus in relation to investment and insurance risks such as asset quality, asset and liability matching, loss reserve adequacy and other business factors. The RBC formula is used by state insurance regulators as an early warning tool to identify, for the purpose of initiating regulatory action, insurance companies that may be inadequately capitalized. Compliance is determined by the ratio of the Company's regulatory total adjusted capital to its company action level RBC (as defined by the NAIC). Companies which fall below the company action level RBC are required to disclose plans to remedy the situation. As of December 31, 2002, all of the insurance subsidiaries have ratios in excess of the level which would prompt regulatory action.

REGULATION OF DIVIDENDS AND OTHER PAYMENTS FROM INSURANCE SUBSIDIARIES. See Item 5 of this Form 10-K for a discussion of regulatory restrictions on the payment of dividends and other payments from insurance subsidiaries.

REQUIRED PARTICIPATION

STATE RESIDUAL MARKET PLANS. Most states in which the Company's property and casualty insurance subsidiaries write business have collective pools,

underwriting associations, reinsurance facilities, assigned risk plans and/or other types of residual market plans pursuant to which coverages not normally available in the voluntary market are shared by all companies writing that type of business in that state. Participation is usually based on the ratio of the Company's share of the voluntary market in a given state.

SC FACILITY. The SC Facility is an unincorporated, non-profit administrative state-sponsored plan for insuring South Carolina drivers outside of the voluntary market. The SC Facility provided a mechanism for insurance companies conducting business in the state of South Carolina to cede mandated, high-risk coverages under automobile policies to the SC Facility and to share the cost of those coverages ceded. Every insurer authorized to write automobile liability insurance in South Carolina was required to participate in the SC Facility. The SC Facility began its planned runoff effective March 1, 1999, at which time no new business was accepted into the SC Facility. Effective October 1, 1999, voluntary renewals were no longer accepted by the SC Facility. However, servicing carriers were able to cede renewal business to the SC Facility until March 1, 2002, at which time final runoff of the SC Facility commenced. The SCAAIP became effective in March 1999 and survived the SC Facility. Effective March 1, 2003, the SCAAIP began its planned runoff.

NFIP. FEMA's Federal Insurance and Mitigation Administration manages the NFIP. The NFIP regulations established the Financial Assistance/Subsidy Arrangement pursuant to which the NFIP Administrator and private sector insurers participate in the Write-Your-Own Program. Under the Write-Your-Own Program, insurers that are party to a Financial Assistance/Subsidy Arrangement may issue, in the name of FEMA, a Standard Flood Insurance Policy, the form and substance of which is approved by the NFIP Administrator. Insurers are responsible for all aspects of service, including policy issuance, endorsements and renewals of policies and the adjudication of claims brought under the policies, while the NFIP Administrator monitors the performance levels of all insurers participating in the Write-Your-Own Program. The Company is required to furnish FEMA such summaries and analyses of information, including claims information, as may be necessary to carry out the purposes of the National Flood Insurance Act of 1968, as amended.

COMPETITION AND OTHER FACTORS

The Company operates in highly competitive industry markets. Many of its competitors have greater financial resources and higher ratings by A.M. Best. As a result of the Order, SCIC, CAIC and Catawba are currently rated "E--Under Regulatory Supervision" by A.M. Best. UIC currently has been assigned a rating of "C+--Marginal" by A.M. Best. In general, the Company competes with both large national writers and smaller regional companies in each state in which it operates. These competitors

include other companies that, like the Company, serve the agency market as well as companies that sell insurance directly to policyholders. Direct writers may have certain competitive advantages over agency writers, including increased name recognition, increased customer base loyalty and, potentially, reduced acquisition costs. Further, diversity of product offerings may be a meaningful factor in maintaining an advantage over competitors. Many of the Company's competitors offer a broader array of products and services and may, therefore, hold a competitive advantage.

NONSTANDARD AUTOMOBILE INSURANCE BUSINESS. The Company competes in North Carolina with the major carriers for nonstandard voluntary automobile insurance business. The nonstandard automobile insurance business is price sensitive and certain competitors of the Company have, from time to time, decreased their prices in an apparent attempt to gain market share. Although the Company's

pricing is inevitably influenced to some degree by that of its competitors, management believes that it is generally not in its best interest to match such price decreases; choosing instead to compete on the basis of underwriting criteria and superior service to its agents and insureds. Competition in the North Carolina market is driven not only by price, but also by premium financing. The North Carolina market is sensitive to the down payment required on a nonstandard automobile policy. For this reason, the Company offered premium financing through PBP, its premium finance company, through mid December 2001. In December 2001, the Company placed PBP into runoff and introduced an installment bill program directly administered by UIC. Under the program, UIC bills the insured monthly for premiums due and collects from the insured an installment fee. Additionally, UIC continues to offer premium finance alternatives to its insureds through a number of unaffiliated premium finance companies. The nonowners automobile market in South Carolina is a limited market with limited possibilities for significant increases in market share. While this business is somewhat price sensitive, customer service and agent relations are more crucial in maintaining market share.

FLOOD PROGRAM. With respect to the continuing flood operations of AFS, factors influencing the choice of a competitor over AFS include pricing, automation of the flood zone determination process, service and size and financial resources of competitors relative to AFS. AFS' flood zone determination and flood insurance agency operations are not marketed toward larger financial institutions and insurance agencies, but rather are focused on small to medium sized operations. This niche that AFS has developed serves to reduce the amount of competitive pressures faced by AFS from larger competitors that may have greater financial resources than AFS.

COMMERCIAL LINES. The Company continues to focus on small businesses in developing its "Main Street" book of business, but competition in this market is intense. The Company competes with large national and regional carriers, many with higher A.M. Best ratings, which influences the decisions of many commercial insurance customers. In addition, companies offering workers' compensation coverage may hold some competitive advantage over the Company as the Company does not offer this coverage. The Company is reinsuring its book of business with A rated carriers in an attempt to minimize the effects of not having its own A.M. Best rating.

ADJUSTING SERVICES. INS operates in an intensely competitive environment. Many of its competitors sustain regional, multi-regional and national operations capable of servicing claims for all lines of insurance coverage. INS' continuing challenge is to provide customer service superior to that of its competitors in order to retain its existing customer base and attract new customers. Further, with the continuing runoff of the SC Facility, INS' revenues are concentrated in its Claims Administration Services Agreement with QualSure. The loss of this agreement would have a material adverse impact on the operations of the Adjusting Services segment. The ideal method of growth within INS is to obtain similar contracts with other insurance carriers. However, such opportunities are very infrequent and typically are associated with equity or some other type of investment in the customer. Many of INS' competitors have greater financial resources to quickly capitalize on such opportunities as they arise.

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EMPLOYEES

At December 31, 2002, the Company and its subsidiaries employed a total of 264 employees. The Company believes that its relationship with its employees is good.

ITEM 2. PROPERTIES

The Columbia, South Carolina headquarters, containing approximately 125,000 square feet, is owned by Charles H. Powers, the Company's majority shareholder, Chairman of the Board of Directors and Chief Executive Officer, and leased by the Company through 2003 for the property and casualty insurance and claims operations of SCIC, CAIC, Catawba and INS, as well as the managing general agent operations of SBC. The Winston-Salem, North Carolina office is the base for the operations of UIC and PBP. That office contains approximately 18,000 square feet and is leased through 2005. AFS is located in Rancho Cordova, California. AFS leases approximately 5,300 square feet, with the lease expiring in May 2005. Some additional premises are leased by the Company in other locations in which it operates. Management believes that these facilities are sufficient for the Company's current and foreseeable future needs.

ITEM 3. LEGAL PROCEEDINGS

(dollars in thousands)

(a) Litigation was initiated in the United States District Court for the Middle District of Florida, Tampa Division in November 2001 by QualSure, a Florida property and casualty insurance holding company that was formerly known as Magna Holding Corporation, and involves three of the Company's wholly-owned subsidiaries--SCIC, Catawba, and CAIC, who are the three defendants to the litigation and who collectively owned 30.625% of the stock of QualSure until October 3, 2002. Effective October 3, 2002, the ownership interest in QualSure held by SCIC, Catawba and CAIC was redeemed by QualSure. A condition of the redemption was that the litigation would be dismissed with prejudice. On October 17, 2002, the litigation was dismissed with prejudice.

(b) In February 2002, litigation was initiated in the District Court of Shelby County, Texas, in a lawsuit styled Mary Masterson, individually and on behalf of all others similarly situated, vs. America's Flood Service, Inc., et al. The litigation involves both the Company and its wholly-owned subsidiary, AFS, and is in its very earliest stages, with appearances and responsive pleadings being filed in July 2002. The pleadings allege that a putative class of persons in Texas received facsimile advertisements in violation of the federal Telephone Consumer Protection Act (TCPA). The plaintiffs seek statutory minimum damages of five hundred dollars per fax, plus additional damages of up to one thousand five hundred dollars per fax for allegedly knowingly violating the TCPA. AFS has filed a third-party claim against DeBroux Marketing Co. ("DeBroux") for fraud and indemnity stemming from DeBroux's transmission of the faxes at issue. Settlement discussions are ongoing, but the Company does not believe final resolution of the litigation will have a material impact on its financial statements.

(c) Litigation was initiated in the Maricopa County Superior Court, State of Arizona on March 25, 2002 by Du Pre Insurance Services, Inc., a California corporation, Infinet Holdings, Inc., an Arizona corporation, Human Dynamics Corporation, a California corporation and HDC Financial Services Corporation, an Arizona corporation. The litigation names as defendants the Company, SCIC and CAIC. Effective January 1, 2002, the Company, through SCIC and CAIC, issued two workers' compensation insurance master policies to HDC and included as named insureds Infinet and HDC Financial (collectively, the "HDC Group"). The HDC Group is a professional employment organization. SCIC and CAIC did not obtain the approval of the SCDOI prior to issuing the master policies and, therefore, subsequently canceled them. Litigation was initiated in the Superior Court of the State of Arizona on March 25, 2002 by the HDC Group against the Company, alleging that the Company wrongfully terminated workers compensation coverage, breached its implied duty of good

faith and fair dealing by unilaterally rescinding HDC's workers compensation

coverage and that the Company breached its contract with the HDC Group to provide workers compensation coverage. HDC claims its entitlement to punitive damages in an unspecified amount. On July 9, 2002, an Arizona Superior Court Judge ruled that the policies are in effect from January 1, 2002 through December 31, 2002. The Company intends to appeal the decision.

In September 2002, the Company and the HDC Group mediated several outstanding issues which resulted in an Interim Agreement between the parties that was approved by the Court in October 2002. In accordance with the court-approved Interim Agreement, the HDC Group is responsible for funding all losses of the HDC 2002 workers' compensation program. Reinsurance coverage for the HDC Program was obtained on October 21, 2002 effective for losses incurred between January 1, 2002 and December 31, 2002 and amounting to $15,000 in excess of $5,000 per occurrence. The Company, upon receiving approval from the SCDOI, elected to retain the risk for losses amounting to $4,000 in excess of $1,000 per occurrence for premiums prescribed in the court-approved Interim Agreement. In addition, the Company received or is to receive fees equal to 4% of collected premium equivalents under the HDC Program as well as reimbursement for actual boards, bureaus, assessments and premium taxes incurred for the insurance policies. All premiums not remitted to the reinsurers or to the Company were retained by the HDC Group.

In subsequent Court proceedings it was ordered that the HDC Program is to function as a large deductible workers' compensation program with HDC being responsible for all losses and LAE of the program up to $1,000 per occurrence (the "deductible"). Coverage for losses and LAE in excess of the deductible is provided by the Company, subject to its reinsurance for losses and LAE of $15,000 in excess of $5,000 per occurrence. The Court has ordered HDC to retain an independent actuary to estimate the unpaid losses and LAE of the HDC Program, subject to the deductible, as of December 31, 2002, and has ordered HDC to deposit funds in an equivalent amount in a Court-restricted commercial checking account to serve as the funds from which losses of the HDC Program are to be paid. The actuary retained by HDC has issued a report estimating HDC's liability for the deductibles to be $4,300 as of December 31, 2002 and HDC has deposited funds totaling $4,300 into a Court-restricted commercial checking account to serve as the funds from which losses are to be paid. Pursuant to the court order, the Company has retained an actuary to review the work of the actuary retained by HDC. The actuary retained by the Company has raised questions regarding aspects of the methodology used by the actuary retained by HDC and has not received a response to those questions. The Company, in consultation with its consulting actuary, has estimated that HDC's liability for the deductibles may be as much as $9,800 as of December 31, 2002. Whether the actuaries will be able to agree on an amount representing HDC's estimated liability for the deductibles at December 31, 2002 cannot be determined at this time.

With respect to punitive damages claimed by HDC, the Company intends to vigorously defend this matter and is considering filing a counterclaim. The ultimate outcome of this litigation cannot be reasonably determined at this time.

(d) On August 21, 2002, the SCDOI issued the Order that placed SCIC, Catawba and CAIC under administrative supervision for at least six months as a result of the disputes associated with the HDC Program of SCIC and CAIC. Provisions of the Order provided for SCIC, Catawba and CAIC to immediately cease writing risk-bearing business and for SCIC and CAIC to immediately cease renewal of existing risk-bearing business. On August 23, 2002, SCIC and Catawba submitted to the SCDOI a request to permit Catawba (1) to continue to write its existing risk-bearing business and (2) to renew, in all states in which Catawba is also licensed, the risk-bearing commercial lines business previously written through SCIC. On September 4, 2002, the SCDOI notified Catawba that this request had been approved. The Approval permits Catawba to continue to write new and renewal premiums in its risk-bearing automobile business and allows it to renew the

risk-bearing commercial lines business previously written through SCIC in the states of South Carolina, Georgia and Tennessee. A subsequent

request of, and approval from, the SCDOI and the Georgia Department of Insurance permits Catawba to also write new commercial lines business in South Carolina and Georgia. On September 12, 2002, SCIC and UIC submitted to the NCDOI a request to permit UIC to renew the risk-bearing commercial lines business previously written through SCIC in the state of North Carolina. This request was granted on November 25, 2002, and UIC subsequently began renewing the North Carolina commercial lines business of SCIC. The only other state in which SCIC wrote risk-bearing commercial lines business is Kentucky. Catawba's application to the Kentucky Department of Insurance to write this business was withdrawn and this business is being runoff.

(e) The Company and its subsidiaries are parties to various other lawsuits generally arising in the normal course of their insurance and ancillary businesses. The Company does not believe that the eventual outcome of such suits will have a material effect on the financial condition or results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders by the Company during the fourth quarter of 2002.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

(dollars in thousands except per share amounts)

(a) Market Information

The Company's common stock is quoted and traded on the National Association of Securities Dealers Over-the-Counter Bulletin Board ("OTC Bulletin Board") under the symbol "SBIG." The following table sets forth the range of high and low closing bid prices as reported on the OTC Bulletin Board. Such bid prices represent inter-dealer quotations, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. On March 10, 2003 the last reported bid price of the Company's common stock on the OTC Bulletin Board was $1.50 per share.

	HIGH	LOW
2003		
First quarter (through March 10, 2003)	$1.50	$1.10
2002		
First quarter	$3.22	$1.75
Second quarter	3.34	2.05
Third quarter	2.50	0.78
Fourth quarter	1.70	0.75

2001		
First quarter	$1.88	$0.59
Second quarter	3.10	1.70
Third quarter	2.74	2.00
Fourth quarter	2.70	2.00

(b) Holders

There were approximately 3,939 shareholders of record as of March 10, 2003.

(c) Dividends

There have been no dividends declared by the Company on its common stock during the past 5 years, and the Board of Directors does not presently intend to pay any cash dividends on common stock in the foreseeable future. The Company is a legal entity separate and distinct from its subsidiaries. As a holding company, the primary sources of cash needed to meet its obligations, including the lease payments on its corporate headquarters and the dividend payments associated with the Adjustable Rate Cumulative Nonvoting Preferred Special Stock held by its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer, are dividends and other permitted payments, including management fees, from its subsidiaries and affiliates. The Company's insurance subsidiaries are regulated as to their payment of dividends by their respective state of domicile's insurance laws. Payment of cash dividends by the Company is at the discretion of its Board of Directors and is based on its earnings, financial condition, capital requirements and other relevant factors.

Except in limited circumstances, South Carolina and North Carolina insurance laws and regulations require a domestic insurer to report any action authorizing distributions to shareholders and material payments from subsidiaries and affiliates at least 30 days prior to distribution or payment. Additionally, those laws and regulations provide the SCDOI and the NCDOI the right to disapprove and prohibit distributions meeting the definition of an "Extraordinary Dividend" under applicable statutes and regulations.

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The South Carolina Insurance Holding Company Regulatory Act requires that all non-extraordinary dividends be approved by the SCDOI prior to payment. Extraordinary dividends are defined as dividends within a 12-month period that exceed the lesser of (i) 10% of an insurer's surplus as regards policyholders as shown in the insurer's most recent Annual Statement, or (ii) net income, not including realized capital gains or losses, as shown in the insurer's most recent Annual Statement. Extraordinary dividends must be approved by the Commissioner of the SCDOI, or his designee, prior to payment.

The North Carolina Insurance Holding Company System Regulatory Act allows payment of non-extraordinary dividends without prior approval of the Commissioner of the NCDOI provided that, in the Commissioner's judgment, the dividends do not impair the financial soundness of the company or are not detrimental to its policyholders. Extraordinary dividends are defined as dividends within a 12-month period that exceed the lesser of (i) 10% of an insurer's surplus as regards policyholders as of the preceding December 31, or (ii) net income, not including realized capital gains, for the 12-month period ending the preceding December 31. In determining whether a dividend or distribution is extraordinary, an insurer other than a life insurer may carry forward net income from the previous two calendar years that has not already been paid out as dividends. Extraordinary dividends must be approved by the Commissioner of the NCDOI prior to payment.

Payment of cash dividends by the Company is at the discretion of its Board of Directors and is based on its earnings, financial condition, capital requirements and other relevant factors. If the ability of the Company's insurance subsidiaries to pay dividends or make other payments to the Company is materially restricted by regulatory requirements, it could affect the Company's ability to service its Adjustable Rate Cumulative Nonvoting Preferred Special Stock and/or pay dividends. In addition, no assurance can be given that North Carolina or South Carolina will not adopt statutory provisions more restrictive than those currently in effect.

At December 31, 2001 and during a portion of 2002, the Company had 50,000 shares of $0.625 Cumulative, Convertible, Redeemable, Nonvoting Special Preferred Stock and 209,000 shares of $0.620 Cumulative, Convertible, Redeemable, Nonvoting Special Preferred Stock issued and outstanding. These obligations paid quarterly dividends at an annual rate of $0.625 per share and $0.62 per share, respectively. The Company paid a total of $101, $161 and $168 in dividends on these obligations in 2002, 2001 and 2000, respectively. Each issue of the Special Stock was redeemed on August 15, 2002 for cash.

On March 28, 2002, the Company issued 800,000 shares of Adjustable Rate Cumulative Nonvoting Preferred Special Stock to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer in a transaction exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, and Regulation D promulgated thereunder. The Adjustable Rate Cumulative Nonvoting Preferred Special Stock is nonconvertible and nonredeemable and pays quarterly dividends at an annual adjustable rate of 3.5% plus LIBOR (4.9% at December 31, 2002). The Company paid $329 in dividends related to this obligation in 2002.

(d) Equity Compensation Plan Information

The information required by Item 201(d) of Regulation S-K is set forth in Item 12 of this Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

(dollars in thousands except per share amounts)

The following selected historical financial data for each of the five years ended December 31 is derived from the Company's audited consolidated financial statements. The selected data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of

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Operations (Item 7) and the consolidated financial statements and accompanying notes (Item 8) included elsewhere herein.

	2002	2001	2000	1999	1998
FINANCIAL CONDITION:					
Total cash and investments	$ 49,639	$ 45,874	$ 48,707	$ 59,614	$ 64,250
Total assets	133,674	150,638	170,666	254,803	295,563
Total debt	--	7,721	10,159	14,986	16,250
Special stock	--	2,590	2,700	2,700	2,700
Shareholders' equity	31,224	16,974	11,992	26,557	35,588
Book value per share:					
Preferred	10.00	--	--	--	--

Common	2.97	2.17	1.53	3.39	4.58
RESULTS OF OPERATIONS:					
Revenues:					
Commission and service income	$ 33,853	$ 36,272	$ 35,890	$ 45,652	$ 49,298
Property and casualty premiums earned	15,661	14,433	25,137	53,344	22,762
Credit life premiums earned	--	--	--	--	13
Net investment and other interest income	2,242	3,901	4,627	4,220	4,645
Net realized gain (loss)	3,084	(211)	(225)	338	54
Other income	2,306	2,913	4,693	4,779	4,645
Total revenues	$ 57,146	$ 57,308	$ 70,122	$108,333	$ 81,417
Income (loss) before accounting change	$ 6,123	$ 4,366	$(15,361)	$ (7,536)	$ (2,293)
Effect of accounting change	--	--	--	--	(601)
Net income (loss)	$ 6,123	$ 4,366	$(15,361)	$ (7,536)	$ (2,894)
Basic earnings (loss) per share before accounting change	$ 0.73	$ 0.54	$ (1.98)	$ (0.99)	$ (0.31)
Basic loss per share effect of accounting change	--	--	--	--	(0.08)
Basic earnings (loss) per share after accounting change	$ 0.73	$ 0.54	$ (1.98)	$ (0.99)	$ (0.39)
Diluted earnings (loss) per share before accounting change	$ 0.72	$ 0.53	$ (1.98)	$ (0.99)	$ (0.31)
Diluted loss per share effect of accounting change	--	--	--	--	(0.08)
Diluted earnings (loss) per share after accounting change	$ 0.72	$ 0.53	$ (1.98)	$ (0.99)	$ (0.39)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands except per share amounts)

The selected financial data and consolidated financial statements and related notes thereto should be read in conjunction with the following discussion as they contain important information for evaluation of the Company's financial condition and operating results.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments

about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management has identified the following policies as critical in understanding and evaluating the Company's reported financial results:

VALUATION OF INVESTMENTS

The Company's debt securities are reported at fair values in the consolidated balance sheets. Fair values are generally based on quoted market prices. The impact of changes in the reported values of the Company's debt securities is recorded through accumulated other comprehensive income, a separate component of shareholders' equity.

At December 31, 2002, the Company's equity securities consist of its investments in Sunshine State, representing an ownership interest of 21.49%. As the investment exceeds 20% of Sunshine State's equity, the Company's equity in the undistributed earnings of the unconsolidated affiliate, using the equity method, are included in current earnings.

If any decline in value of an investment is considered to be other than temporary, a write down of the investment through a charge to current earnings is required. Factors the Company considers in evaluating whether a decline in value is other than temporary include: 1) the Company's intent and ability to hold the investment long enough to allow for an expected recovery in value; 2) the duration and extent to which the fair value has been less than cost; and 3) the financial condition, operating environment and forecasted operations of the issuer.

ASSET VALUATION RESERVES AND IMPAIRMENT

The Company routinely evaluates the collectability of its agents' balances receivable and premium notes receivable based upon historical aging analyses, past experience, and known economic trends or conditions and has established reserves for estimated uncollectable accounts amounting to $2,681 and $3,763 at December 31, 2002 and 2001, respectively, representing 43.2% and 37.5%, respectively, of gross agents' balances receivable and premium notes receivable. The large reserve estimate is a direct result of the continuing runoff of the Company's Nashville operation begun in June 2000, the runoff of its premium finance operation begun in December 2001, and UIC's retention of receivables previously financed. Though the Company believes its current estimated allowances for doubtful accounts are adequate and not excessive, it is possible that the accuracy of the estimation process could be materially impacted as current economic trends or conditions change or develop.

The Company has recorded reinsurance recoverables on paid and unpaid losses and LAE amounting to $38,075 and $51,078 at December 31, 2002 and 2001, respectively, from a variety of reinsurers. Reinsurance contracts do not relieve the Company of its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. Therefore, the Company routinely evaluates the collectability of these recoverables by monitoring the financial condition of the reinsurer, primarily through the use of A.M. Best ratings and reports. For recoverables from the SC Facility, the NC Facility and the NFIP, aggregating to $29,690 and $39,383 at December 31, 2002 and 2001, respectively, the Company believes that any collections risk is mitigated due to each governmental

agency's backing and/or ability to assess policyholders and member companies for funding deficiencies. For recoverables from all other reinsurers, the Company has no reason to believe that the amounts will not be recovered in full.

In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets with indefinite useful lives are no longer subject to periodic amortization. Rather they are subject to impairment tests that are required to be performed on at least an annual basis. These impairment tests require, among other things, the estimation of a fair market value of reporting units associated with a company's goodwill. The Company has unamortized goodwill totaling $4,513 associated with its November 1997 and March 1998 purchases of The Innovative Company (former 100% owner of UIC and PBP) and AFS, respectively. In estimating the fair value of these business units, the Company employs both an income-based approach and a market-based approach. Significant judgments and estimates involved in this estimation process include forecasts of future sustainable operations, the selection of appropriate discount rates and the identification of appropriate comparable companies and multiples of earnings.

DEFERRED POLICY ACQUISITION COSTS

The Company defers costs that are attributable to, and vary with, the production of insurance premiums to the extent that these costs are considered recoverable from future profits. These deferred policy acquisition costs (DPAC) amounted to $1,168 and $1,200 at December 31, 2002 and 2001, respectively, and are being amortized into income evenly over the life of the underlying insurance contracts. Periodic recoverability tests, including estimates of sustainable loss and operating expense ratios, are performed on the DPAC and estimated unrecoverable amounts are charged to earnings during the period in which they are deemed unrecoverable.

PROPERTY AND CASUALTY UNPAID LOSSES AND LAE

The Company's liability for property and casualty unpaid losses and LAE includes:

(1) An accumulation of case estimates for losses reported prior to the close of the accounting period.

(2) Estimates of incurred-but-not-reported losses based upon past experience and current circumstances.

(3) Estimates of allocated, as well as unallocated, LAE liabilities.

(4) The deduction of estimated amounts recoverable from salvage, subrogation and second injury funds.

(5) Estimated losses for reinsurance assumed.

Management, in conjunction with the Company's consulting actuary, performs a complete review of the Company's recorded reserves for unpaid losses and LAE to evaluate the adequacy of such reserves. Management believes the reserves, which approximate the amount determined by independent actuarial reviews, are adequate. However, establishing reserves is an estimation process and the ultimate liability may be in excess of or less than the amount recorded. Changes in estimated loss reserves are recorded in the year so determined. For example, for the years ended December 31, 2002, 2001 and 2000, the Company experienced development in its December 31, 2001, 2000 and 1999 unpaid losses and LAE of $970, $23, and $2,355, respectively. The development was recorded during the years ended December 31, 2002, 2001 and 2000, the periods in which the development was determined.

Premiums and losses of the HDC Program are recorded on the books of SCIC and CAIC as direct insurance activity and ceded as applicable to reinsurers. SCIC and CAIC, in consultation with their consulting actuary, have established

reserves for estimated unpaid losses and LAE, including estimates

of incurred but not reported claims. Except for the layer of losses retained by SCIC and CAIC ($4,000 in excess of $1,000 per occurrence), changes in the estimated liability for losses and LAE for the program are not expected to have a net impact on SCIC and CAIC results of operations. The estimated recoveries under this program related to the first $1,000 per occurrence, and reinsurance recoverable related to $15,000 in excess of $5,000 per occurrence, are expected to vary by the same amount as any change in the estimated reserves for losses and LAE in those layers, offsetting any impact on operations. Due to limited historical loss experience for the population of insureds participating in the HDC Program, estimates of the liability for losses and LAE and the related deductibles and reinsurance recoverable may vary significantly from amounts recorded at December 31, 2002. Additionally, estimated deductibles recoverable from the insured have reduced the Company's direct reserves for losses and LAE. The Company, in consultation with its consulting actuary, has estimated that the deductibles recoverable from the insured may be as much as $9,800 as of December 31, 2002. Approximately $4,300 of these recoverables has been collateralized as of the filing of this document as a result of various Court proceedings related to the program.

LEGAL CONTINGENCIES

The Company is party to significant litigation with respect to the HDC Program. The ultimate outcome of this litigation cannot be reasonably determined at this time.

The Company and its subsidiaries are parties to various other lawsuits generally arising in the normal course of their insurance and ancillary businesses. The Company does not believe that the eventual outcome of such suits will have a material effect on the financial condition or results of operations of the Company. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in the Company's assumptions, or the effectiveness of its strategies, related to legal proceedings. Management consults with the Company's legal counsel in developing estimates of ranges of potential loss and in estimating any required legal reserves.

INCOME TAXES

Over the last 10 to 15 years the Company has generated substantial net operating losses, which have resulted in sizeable federal tax operating loss carryforwards and capital loss carryforwards of $92,198. In addition, the Company has experienced three "change in ownership" events since June 1998, which limit the Company's ability to fully utilize the benefit of these carryforwards. Due to its lack of consistent earnings, the Company has placed a full valuation reserve against its net deferred tax asset at December 31, 2002 and 2001. Subsequent revisions to the net realizable value of the net deferred tax asset could cause the Company's provision for income taxes to vary significantly from period to period, although its cash tax payments would remain unaffected until the benefit of the federal net operating loss carryforward expires or is utilized.

REVENUE DEFERRAL

One of AFS' product offerings is a "life of loan" flood zone determination whereby AFS agrees to update the zoning status of the subject property throughout the life of the original underlying loan. Therefore, AFS defers a portion of the revenues associated with this product and amortizes it into income over the estimated life of the original underlying loan. Significant

estimates AFS must make in determining the estimated annual amortization of this deferred revenue include rates of loan amortization and loan prepayment. Loan prepayment rates are materially impacted by the general level of mortgage interest rates. For example, higher loan prepayment rates will be experienced during periods of falling mortgage interest rates and lower prepayment rates will be experienced during periods of rising mortgage interest rates. The higher the loan prepayment rate, the faster AFS' deferred revenues will amortize into income.

Under its Claims Administration Services Agreements with QualSure Holding and similar agreements with other customers, INS records service income and fees over the period in which the claims adjusting, file management and settlement services are performed. The most significant estimate INS must make in recording this income is the settlement status of individual claims within the monthly total portfolio of reported claims for each month in which fees were received. Simply stated, the faster INS is able to close these claims, the faster its deferred revenue will be amortized into income.

Included in other liabilities and deferred items as of December 31, 2002 and 2001 is $1,046 and $368, respectively, of deferred revenue for services to be performed in the future.

On November 15, 2002, the Company received approval from both FEMA and the SCDOI and then announced that it had completed a transaction with The Hartford under which The Hartford acquired the right to renew or assume all of SCIC and Catawba's in-force NFIP business. The purchase price of the renewal rights was $3,800 in cash at closing, plus up to $1,000 to be paid on November 15, 2003, if certain retention thresholds on the book of business are achieved. Provisions of the underlying sales agreement, as approved by FEMA, provide that The Hartford administer and report the Company's business to the NFIP over the transition period that ends September 30, 2003. As a result of the Company's continuing involvement with the book of business during the transition period, the gain on the transaction of $3,499 (purchase price of $3,800 less expenses of sale of $301) has been deferred and will be recognized evenly over the transition period. It is uncertain whether the Company will meet the retention thresholds to qualify for the additional $1,000. Any such additional amounts will only be reflected in revenue if and when the retention thresholds and related requirements are achieved. Included in other liabilities and deferred items as of December 31, 2002 is $3,149 of deferred revenue associated with this transaction.

OTHER

The above listing is not intended to be a comprehensive list of all of the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. See Item 8 for the Company's audited consolidated financial statements and notes thereto which contain accounting policies and other disclosures required by accounting principles generally accepted in the United States.

OVERVIEW

The Company conducts its business in two primary categories, fee-based property and casualty insurance operations and risk-bearing property and casualty insurance operations, and reports its operations through five distinct

business segments. Following is a summary of the Company's reporting segments with indications of whether the supporting operating segments are risk-bearing or fee-based operations, whether the supporting operating segments are ongoing operations or in runoff, and the supporting operating segment's total revenues in 2002, 2001 and 2000:

	OPERATION:			TO
SEGMENT	DESCRIPTION	TYPE	STATUS	2002
Automobile:	UIC nonstandard automobile(1)	Both	Ongoing	$11,474
	Catawba nonowners automobile	Risk-bearing	Ongoing	774
	Nashville and SC automobile(1)	Risk-bearing	Runoff	1,652
	SC Facility and SCAAIP	Fee-based	Runoff	1,158
	Premium financing	Fee-based	Runoff	40
				$15,098
Flood:	AFS operations	Fee-based	Ongoing	$ 2,132
	NFIP	Fee-based	Runoff	15,398
				$17,530
Commercial:	Commercial operations(1),(2)	Risk-bearing	Ongoing	$11,326
Adjusting Services:	INS operations	Fee-based	Ongoing	$ 8,210
All Other:	HDC Program	Risk-bearing	Runoff	$ 1,383
	Managing general agent	Fee-based	Runoff	1,424
	All other(3)	Risk-bearing	Runoff	2,175
				$ 4,982
				$57,146

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(1) At December 31, 2001, the Company owned 32,676 shares of common stock of ISO which it had received in 1997 as a result of ISO converting from a mutual organization to a stock company. Since the equity security received in connection with the conversion was not marketable, the Company had historically valued the investment at cost ($0). In February 2002, ISO offered, and the Company accepted, to repurchase the Company's shares for a price of $64.80 per share, resulting in a realized investment gain of $2,117 allocated as follows:

Nashville and SC automobile	$1,191
Commercial operations	807
UIC nonstandard automobile	119
	$2,117

(2) Includes SCIC's commercial operations in the state of Kentucky, which is

currently in runoff. Direct premiums earned by SCIC in the state of Kentucky amounted to $2,471, $1,968 and $1,812 in 2002, 2001, and 2000, respectively.

(3) The Company is the beneficiary of several key man life insurance policies maintained on certain former directors or officers of the Company. During the three months ended June 30, 2002, the Company recorded a gain on the settlement of one of these policies of $294.

The Company's net income (loss) by business segment is as follows:

	2002	2001	2000
Automobile	$1,413	$2,332	$(15,245)
Flood	971	912	(142)
Commercial	1,785	792	(247)
Adjusting services	876	1,100	1,768
All other	1,078	(770)	(1,495)
Net income (loss)	$6,123	$4,366	$(15,361)
Per share	$ 0.73	$ 0.54	$ (1.98)

AUTOMOBILE

The Automobile segment includes UIC's retained risk nonstandard automobile and runoff premium finance operations, Catawba's retained risk nonowners automobile program, the runoff of the Company's retained risk Nashville and South Carolina automobile operations, and the fee-based NC Facility, SC Facility and SCAAIP operations.

UIC OPERATIONS

UIC writes nonstandard automobile insurance (principally liability and physical damage coverages) primarily in the state of North Carolina. Approximately 57% and 59% of its total direct written premium in 2002 and 2001, respectively, are premiums for liability coverage, substantially all of which are ceded to the NC Facility. The NC Facility is a state-sponsored plan for assuring the availability of motor vehicle liability insurance to all North Carolina drivers outside of the voluntary market. UIC derives commission and service income from the NC Facility for writing and administering the premiums and servicing the related claims, but it retains no underwriting risk. UIC receives underwriting and claims commissions for the premiums and related claims it cedes to the NC Facility equal to approximately 27% and 14%, respectively, of premiums written in the NC Facility.

Substantially all of UIC's retained risk nonstandard automobile operations relate to its physical damage coverage, which are minimum limit policies partially reinsured through quota share reinsurance agreements. From December 31, 1999 through June 30, 2002, UIC reinsured its physical damage coverage through 75% quota share reinsurance agreements with unaffiliated reinsurers. Effective July 1, 2002, the 75% quota share reinsurance agreement was replaced with a 60% quota share reinsurance agreement. North Carolina is a "consent to rate" state for physical damage coverage premium charged by insurance companies. As such, UIC is not required to file its physical damage coverage premium rates with the NCDOI prior to making them effective, as long as

those rates are within statutorily defined limits of rates established by the North Carolina Rate Bureau. This provides UIC with the ability to quickly respond to developing trends in its marketplace and the underwriting results of its operations.

A substantial portion of UIC's written premium has traditionally been financed through the Company's premium finance subsidiary, PBP. Under this arrangement, PBP received interest income from insureds on premiums it financed, as well as a variety of set up and maintenance fees associated with the related premium finance contracts. While PBP had proved to be an effective sales and marketing tool to facilitate premium growth for UIC over the years, management continually struggled with the challenge of limiting the volume of bad debt expenses associated with its operations. As a result of PBP's operating losses and reassessments of its core competencies, the Company entered into a management contract with an unaffiliated company effective June 1, 2001 to manage the operations of PBP. In December 2001, UIC introduced an installment billing program to its insureds and PBP was placed into runoff. Additionally, UIC continues to offer premium finance alternatives to its insureds

through a number of unaffiliated premium finance companies. At December 31, 2002 the runoff of PBP was substantially complete.

NONOWNERS AUTOMOBILE PROGRAM

Through its nonowners automobile program, Catawba provides supplemental automobile insurance coverage policies in South Carolina to employee drivers of company owned, operated and insured vehicles. The nonowners automobile market in South Carolina is a limited market with limited possibilities for significant increases in market share. While this business is somewhat price sensitive, customer service and agent relations are more crucial in maintaining market share.

NASHVILLE AND SOUTH CAROLINA AUTOMOBILE OPERATIONS

During 2000, the Company discontinued its Nashville operations and placed all of this business into runoff, resulting in a special items charge to earnings of $16,365 for the year ended December 31, 2000. For the year ended December 31, 2002 there were no written premiums associated with this operation. Furthermore, as of December 31, 2002 only 149 claims with total net reserves for losses and LAE of $1,586 remained on this book of business.

In contemplation of the runoff of the SC Facility, the Company introduced a voluntary nonstandard automobile program in South Carolina during 1997. In July 2000, the Company concluded that the operation could not generate profits in the foreseeable future and, therefore, placed the business into runoff. For the year ended December 31, 2002 there were no written premiums associated with this operation. Furthermore, as of December 31, 2002 only 64 claims with total net reserves for losses and LAE of $559 remained on this book of business.

All of the revenues reported for these operations for the year ended December 31, 2002 result from allocated realized gain from the sale of the Company's equity investment in ISO and allocated investment income associated with the operation's portfolio of outstanding losses and LAE.

SC FACILITY AND SCAAIP OPERATIONS

Catawba is one of three servicing carriers for the SC Facility, a state-sponsored plan for insuring South Carolina drivers outside of the voluntary market. In its capacity as a servicing carrier, Catawba receives commission and service income from the SC Facility for writing and administering

the premiums and servicing the related claims, but retains no underwriting risk because all of the premiums and losses are fully ceded to the SC Facility. These commissions amount to approximately 11% of premiums written in the SC Facility for policy administration and approximately 11% of paid losses ceded to the SC Facility for claims administration. The SC Facility began its planned runoff effective March 1, 1999, at which time no new business was accepted into the SC Facility. Effective October 1, 1999, voluntary renewals were no longer accepted by the SC Facility. However, servicing carriers were able to cede renewal business to the SC Facility until March 1, 2002, at which time final runoff of the SC Facility commenced. The SCAAIP became effective in March 1999 and survived the SC Facility. Although the SCAAIP offers the Company access to additional fee-based revenue with no underwriting risk, thus far into the runoff of the SC Facility, the Company has not experienced significant activity in the SCAAIP. Effective March 1, 2003, the SCAAIP began its planned runoff.

FLOOD

The Flood segment contains the runoff fee-based NFIP operations of SCIC and Catawba, the fee-based flood zone determinations and flood zone mapping services of AFS, and the fee-based flood insurance agency operations of AFS.

NFIP

Through SCIC and Catawba, the Company participated in the NFIP, a flood insurance program administered by the federal government. In this capacity, SCIC and Catawba received commissions and service income from the NFIP for writing and administering the premiums and servicing the related claims, but retained no underwriting risk because all of the premiums and losses were fully ceded to the NFIP. These commissions amount to approximately 32% (during 2002) and 31% (during 2001) of direct premiums written for policy administration and 3.3% of direct incurred losses for claims administration.

During 2002 and 2001, the Company's NFIP written premium increased at a rate that surpassed that of the total NFIP, due primarily to obtaining several large books of flood business from independent insurance agents across the United States. This was facilitated by geographic expansion and the introduction of new technology to its agency force, including internet-based policy rating and flood zone determination services. As a result of its premium growth and the retention of its NFIP book of business, the Company received marketing bonuses from the NFIP of $615 and $553 in March 2002 and 2001, respectively.

On September 12, 2002, the Company announced that it had received notice from FEMA that FEMA did not intend to offer SCIC and Catawba a Financial Assistance/Subsidy Arrangement with the Federal Insurance and Mitigation Administration for the fiscal year beginning October 1, 2002, effectively terminating their participation in the NFIP. FEMA's decision was the result of the Order Imposing Administrative Supervision and Appointing Supervisor. The Company made numerous attempts to change FEMA's decision, but FEMA would not reconsider the decision as a result of an unsatisfactory underwriting operation review of the Company's NFIP policies. Though the Company's numerous efforts to change FEMA's decision were unsuccessful, it obtained an extension of the existing arrangement for renewal business only through December 31, 2002, at which time the inforce policies were to be transitioned to the NFIP, or to another carrier in the NFIP, and the Company's servicing carrier status would be terminated. On November 15, 2002, the Company received approval from both FEMA and the SCDOI and then announced that it had completed a transaction with The Hartford under which The Hartford acquired the right to renew or assume all of SCIC and Catawba's in-force NFIP business. The purchase price of the renewal rights was $3,800 in cash at closing, plus up to $1,000 to be paid on November 15, 2003, if certain retention thresholds on the book of business are

achieved. Provisions of the underlying sales agreement, as approved by FEMA, provide that The Hartford administer and report the Company's business to the NFIP over the transition period that ends September 30, 2003. As a result of the Company's continuing involvement with the book of business during the transition period, the gain on the transaction of $3,499 (purchase price of $3,800 less expenses of sale of $301) has been deferred and will be recognized evenly over the transition period. It is uncertain whether the Company will meet the retention thresholds to qualify for the additional $1,000. Any such additional amounts will only be reflected in revenue if and when the retention thresholds and related requirements are achieved.

FLOOD ZONE DETERMINATIONS AND FLOOD ZONE MAPPING TRACKING SERVICES

The Company's subsidiary, AFS offers flood zone determinations and flood zone mapping services to customers located throughout the United States. These services are provided primarily to real estate lenders to determine whether or not homes are located in flood zones and, therefore, require flood insurance for loan closing. As a complementary product, AFS also offers flood insurance as an agent through servicing carriers of the NFIP. As a result, AFS' revenues can be affected by increasing or decreasing general market interest rates due to the impact these fluctuations have on the number of new real estate loans. In recognition of this fact, AFS has been actively working to expand its agency operations in an effort to balance the cyclical nature of its flood zone determination and flood mapping services. Commissions and fees from AFS' flood zone determinations and flood zone mapping services

accounted for approximately 58%, 67% and 86% of its total revenues during 2002, 2001 and 2000, respectively, while commissions and fees from its agency operations accounted for approximately 41%, 33% and 11% of its total revenues for the same periods, respectively.

One of AFS' product offerings is a "life of loan" flood zone determination whereby AFS agrees to update the zoning status of the subject property throughout the life of the original underlying loan. Therefore, AFS defers a portion of the revenues associated with this product and amortizes it into income over the estimated life of the original underlying loan. As of and for the year ended December 31, 2002, AFS has deferred approximately $500 of revenues associated with its "life of loan" product offering.

COMMERCIAL

The Commercial segment includes the runoff retained risk commercial operations of SCIC, the retained risk commercial operations of Catawba and UIC, and the fee-based commercial automobile activity for the NC Facility and SC Facility.

SCIC reentered the risk-bearing commercial lines market in February 1998 when it converted a substantial amount of premiums written in an MGA capacity for another insurance carrier to retained risk premiums. Under this program SCIC offers commercial package, business owners and garage liability policies primarily to small businesses in the states of South Carolina, North Carolina, Tennessee, Georgia and Kentucky. In April 1999, Catawba began offering a nonstandard tiered commercial automobile program in the state of South Carolina to capitalize upon the planned runoff of the SC Facility. Since that time SCIC and Catawba have capitalized on the long-standing relationships of their commercial lines agents and benefited from the experience of its qualified underwriters. The Company's commercial lines have historically been reinsured primarily through quota share reinsurance agreements. From April 1, 1999 through March 31, 2000 the Company's commercial lines were subject to a 90% quota share reinsurance agreement. Effective April 1, 2000, the 90% quota share reinsurance

agreement was amended to become a 70% quota share reinsurance agreement, and the amended agreement was terminated at the Company's request effective April 1, 2001. The Company's commercial lines are presently reinsured through facultative, excess of loss, catastrophe and umbrella coverages.

On August 21, 2002, the SCDOI issued an Order Imposing Administrative Supervision and Appointing Supervisor that placed SCIC, Catawba and CAIC under administrative supervision for at least six months as a result of the disputes associated with the HDC Program of SCIC and CAIC. Provisions of the Order provided for SCIC, Catawba and CAIC to immediately cease writing risk-bearing business and for SCIC and CAIC to immediately cease renewal of existing risk-bearing business. On August 23, 2002, SCIC and Catawba submitted to the SCDOI a request to permit Catawba (1) to continue to write its existing risk-bearing business (the nonowners automobile program) and (2) to renew, in all states in which Catawba is also licensed, the risk-bearing commercial lines business previously written through SCIC. On September 4, 2002, the SCDOI notified Catawba that this request had been approved. The Approval permits Catawba to continue to write new and renewal premiums in its risk-bearing automobile business and allows it to renew the risk-bearing commercial lines business previously written through SCIC in the states of South Carolina, Georgia and Tennessee. A subsequent request of, and approval from, the SCDOI and the Georgia Department of Insurance permits Catawba to also write new commercial lines business in South Carolina and Georgia. On September 12, 2002, SCIC and UIC submitted to the NCDOI a request to permit UIC to renew the risk-bearing commercial lines business previously written through SCIC in the state of North Carolina. This request was granted on November 25, 2002 and UIC subsequently began renewing the North Carolina commercial lines business of SCIC. The only other state in which SCIC wrote risk-bearing commercial lines business is Kentucky. Catawba's application to the Kentucky Department of Insurance to write this business was withdrawn and this business is being runoff. The Order had a negative impact

on the Company's operations during the third and fourth quarters of 2002 (see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations). The Company cannot reasonably estimate the effects of the Order on its future operations.

ADJUSTING SERVICES

The Adjusting Services segment contains all of the fee-based operations of INS. INS provides a variety of claims-related management and adjudication services to the insurance industry, including claims handling, networked glass claims handling and automobile appraisals. The Company's premium concentration in the catastrophe-heavy Southeast led to the creation of this subsidiary to manage the Company's internal claims activity. Currently, INS is a full service claims organization offering an array of capabilities to the insurance industry, including all-lines claim handling, automobile appraisals, catastrophe claim adjusting and glass claim services. INS is an important part of the Company's corporate structure and can accommodate claims services requests from anywhere in the United States.

Effective January 21, 2000, three of the Company's insurance subsidiaries made a combined investment in the common stock of QualSure Holding, representing a combined ownership interest of 30.625%. QualSure Holding owns 100% of the issued and outstanding stock of QualSure, a homeowners take out insurance company domiciled in the state of Florida, and QualSure Underwriting Agencies, Inc., an MGA for QualSure. In connection with this investment, INS entered into a Claims Administration Services Agreement with QualSure to adjudicate all of its claims for a fee based upon subject earned premium. Effective October 3, 2002, the combined ownership interest in QualSure Holding

was redeemed by QualSure Holding. Under the terms of the underlying redemption agreement, INS continues to provide claim administration services to QualSure under an amended contract at a reduced rate for terms that expire from October 4, 2005 through January 21, 2010. The most significant component of INS' revenues is the fees earned under its Claims Administration Services Agreement with QualSure, accounting for over 56%, 38% and 30% of its total revenues for the years ended December 31, 2002, 2001 and 2000, respectively.

INS also generates a substantial portion of its income from the loss adjusting services provided in connection with the SC Facility. The SC Facility began its planned runoff effective March 1, 1999, at which time no new business was accepted into the SC Facility. Effective October 1, 1999, voluntary renewals were no longer accepted by the SC Facility. However, servicing carriers were able to cede renewals to the SC Facility until March 1, 2002, at which time final runoff of the SC Facility commenced. INS' fees earned from the loss adjusting services provided in connection with the SC Facility amounted to 6%, 10% and 20% of its total revenues for the years ended December 31, 2002, 2001 and 2000, respectively.

In the fourth quarter of 2002, the Company undertook a profitability and viability analysis of each of INS' service lines. As a result, INS has begun a process of discontinuing certain of its service lines and eliminating the related expenses. INS' continuing operations are centered on its Claims Administration Services Agreement with QualSure and complemented by its network glass claims handling, all-lines claims administration and catastrophe claims administration services. Though INS' revenues may be lower in 2003 as compared to 2002, management believes it will be more profitable as a result of its initiatives.

ALL OTHER

The All Other segment contains the runoff risk-bearing environmental and general liability operations from the 1980's, primarily written in the state of California. The segment also includes the Company's runoff risk-bearing workers' compensation operations primarily written in the state of Florida in the early 1990's.

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The All Other segment also contains the runoff risk-bearing workers' compensation program written by SCIC and CAIC through the HDC Group and the fee-based managing general agency services of SBC. The workers' compensation program written by SCIC and CAIC through the HDC Group was effective January 1, 2002 and terminated December 31, 2002. The fee-based managing general agency services of SBC began July 1, 2002 and entered into runoff effective December 31, 2002.

RUNOFF ENVIRONMENTAL, GENERAL LIABILITY AND WORKERS COMPENSATION

The Company continues to maintain reserves and pay significant claims with respect to these runoff operations, which have resulted in substantial losses to the Company over the past 15 years. During 2002, the Company experienced significant development related to these reserves amounting to approximately $1,272. The development resulted from a sharp increase in the trend of new claims associated with this business alleging that the Company was liable for damages. Though the Company was found not to be liable in all cases, the LAE incurred in connection with defending the Company, as well as the strengthening of LAE reserves as a result of the change in trends, resulted in substantial adverse development during 2002. Approximately 68% and 66% of the Company's total net reserves for losses and LAE at December 31, 2002 and 2001, respectively, relate to these long tail runoff operations.

HDC PROGRAM

Effective January 1, 2002, the Company, through SCIC and CAIC, issued two workers' compensation insurance master policies to the HDC Group. The HDC Group is a professional employment organization. SCIC and CAIC did not obtain the approval of the SCDOI prior to issuing the master policies and, therefore, subsequently canceled them. Litigation was initiated in the Superior Court of the State of Arizona on March 25, 2002 by the HDC Group against the Company, alleging that the Company wrongfully terminated workers compensation coverage, breached its implied duty of good faith and fair dealing by unilaterally rescinding HDC's workers compensation coverage and that the Company breached its contract with the HDC Group to provide workers compensation coverage. HDC claims its entitlement to punitive damages in an unspecified amount. On July 9, 2002, an Arizona Superior Court Judge ruled that the policies are in effect from January 1, 2002 through December 31, 2002. The Company intends to appeal the decision.

In September 2002, the Company and the HDC Group mediated several outstanding issues which resulted in an Interim Agreement between the parties that was approved by the Court in October 2002. In accordance with the court-approved Interim Agreement, the HDC Group is responsible for funding all losses of the HDC 2002 workers' compensation program. Reinsurance coverage for the HDC Program was obtained on October 21, 2002 effective for losses incurred between January 1, 2002 and December 31, 2002 and amounting to $15,000 in excess of $5,000 per occurrence. The Company, upon receiving approval from the SCDOI, elected to retain the risk for losses amounting to $4,000 in excess of $1,000 per occurrence for premiums prescribed in the court-approved Interim Agreement. In addition, the Company received or is to receive fees equal to 4% of collected premium equivalents under the HDC Program as well as reimbursement for actual boards, bureaus, assessments and premium taxes incurred for the insurance policies. All premiums not remitted to the reinsurers or to the Company were retained by the HDC Group.

In subsequent Court proceedings it was ordered that the HDC Program is to function as a large deductible workers' compensation program with HDC being responsible for all losses and LAE of the program up to $1,000 per occurrence (the "deductible"). Coverage for losses and LAE in excess of the deductible is provided by the Company, subject to its reinsurance for losses and LAE of $15,000 in excess of $5,000 per occurrence. The Court has ordered HDC to retain an independent actuary to estimate the unpaid losses and LAE of the HDC Program, subject to the deductible, as of

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December 31, 2002, and has ordered HDC to deposit funds in an equivalent amount in a Court-restricted commercial checking account to serve as the funds from which losses of the HDC Program are to be paid. The actuary retained by HDC has issued a report estimating HDC's liability for the deductibles to be $4,300 as of December 31, 2002 and HDC has deposited funds totaling $4,300 into a Court-restricted commercial checking account to serve as the funds from which losses are to be paid. Pursuant to the court order, the Company has retained an actuary to review the work of the actuary retained by HDC. The actuary retained by the Company has raised questions regarding aspects of the methodology used by the actuary retained by HDC and has not received a response to those questions. The Company, in consultation with its consulting actuary, has estimated that HDC's liability for the deductibles may be as much as $9,800 as of December 31, 2002. Whether the actuaries will be able to agree on an amount representing HDC's estimated liability for the deductibles at December 31, 2002 cannot be determined at this time.

A summary of the impact of the HDC Program on the Company as of and for the year ended December 31, 2002 is as follows:

Income Statement:	
Direct written and earned premium	$1,544
Ceded written and earned premium	(964)
Net earned premium	580
Net incurred losses and loss adjusting expenses	(580)
Fee income	802
Net results	$ 802
Balance Sheet:	
Receivable from HDC (Other assets)*	$ 94
Reserves: Losses and LAE	$ 580
Accrued Liabilities: Premium taxes	$ 65
Boards, bureaus and assessments	33
Total accrued liabilities	$ 98

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* Net of $4 previously paid.

HDC reported that it collected $20,054 in premium equivalents and that it paid losses amounting to $1,292 under its 2002 program. All reserve and accrual amounts are management's best estimates of ultimate liability at this time and these estimates are subject to change as more information becomes available. Estimated reserves for losses and LAE for claims arising under the HDC Program have been established by the Company net of the deductible that HDC is required to pay under order of the Court. The Company has a potential off-balance sheet credit risk associated with such deductibles if the Company were required to fund the deductibles in the event that HDC cannot pay the deductible.

MANAGING GENERAL AGENT SERVICES

Effective July 1, 2002, one of the Company's subsidiaries, SBC, entered into an agreement with a Florida domiciled insurance company to serve as managing general agent for that company's low-value dwelling homeowners' insurance program in the state of Florida until such time as that program is runoff. Runoff began January 1, 2003; therefore, SBC will not earn significant revenue related to the agreement after December 31, 2002. In its capacity as managing general agent, SBC is responsible for policy issuance and administration, customer service and claims administration. SBC's claims

administration responsibilities are fulfilled through a Claims Administration Services Agreement with INS.

OUTLOOK

The Company's operations as it enters 2003 are substantially different than they were when it entered 2002. As a result of the SCDOI Order and the sale of the renewal rights to its NFIP book of business, the runoff of its managing general agent operations, the final runoff of the SC Facility and the SCAAIP, and the loss of its commercial lines business in the state of Kentucky, the

Company has been forced to scale back its operations accordingly and is exploring opportunities for additional sources of revenue:

- On January 20, 2003 Catawba requested permission from the SCDOI to begin writing a new risk-bearing nonstandard automobile program in the state of South Carolina. The SCDOI approved Catawba's request on February 6, 2003. The new program is expected to be implemented in the second quarter of 2003 and is expected to generate approximately $2,000 in direct written premium during 2003.

- On January 20, 2003 Catawba requested permission from the SCDOI to begin writing a new risk-bearing homeowners program in the state of South Carolina. The SCDOI approved Catawba's request on February 6, 2003. The new program is expected to be effective in the third quarter of 2003 but is not expected to have a significant impact on the Company's operations in 2003.

- On March 7, 2003 UIC requested permission from the NCDOI to write new fee-based commercial automobile business through the NC Facility. This request is currently pending.

- UIC plans to submit a request to the NCDOI in the second quarter of 2003 to allow it to begin writing new commercial lines risk-bearing business in the state of North Carolina.

Though the Company believes it can successfully implement each of the above initiatives and develop a presence in the South Carolina nonstandard automobile and homeowners markets, as well as recover its market share in the North Carolina commercial lines market, no guaranty can be provided as to their success. Therefore, the Company also believes it is very important to place heavy emphasis on maintaining or growing its continuing operations from 2002: the risk-bearing nonstandard automobile and nonowners operations of UIC (North Carolina) and Catawba (South Carolina), respectively; the risk-bearing commercial lines operations of UIC (North Carolina) and Catawba (South Carolina, Georgia, and Tennessee); UIC's fee-based NC Facility operations (North Carolina); and the multi state fee-based operations of INS and AFS.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2002 AND 2001

COMMISSION AND SERVICE INCOME

Commission and service income decreased $2,419 or 6.7%, to $33,853 for the year ended December 31, 2002 from $36,272 for the year ended December 31, 2001. The automobile segment accounted for a decrease of $3,235, reporting commission and service income of $6,854 for the year ended December 31, 2002, versus $10,089 for the same period of 2001. The decrease is substantially the result of the continuing runoff of the SC Facility, which has been in runoff since March 1, 1999 but began its final stage of runoff effective March 1, 2002. Commission and service income generated through the SC Facility and the related SCAAIP amounted to $1,075 for the year ended December 31, 2002 and $3,146 for the year ended December 31, 2001, a decrease of $2,071. The operations of the Company's North Carolina domiciled subsidiary, UIC, accounted for another $1,164 decrease in

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commission and service income, resulting entirely from business ceded to the NC Facility. The decrease is primarily the result of pricing and other competitive initiatives effected by certain of UIC's competitors in an effort to increase premium volume, the effects of which were intensified as a result of the SCDOI's

order placing UIC's affiliates, SCIC, Catawba and CAIC, under administrative supervision. UIC generally does not engage in pricing competitions with its competitors. Rather, UIC relies on its superior customer service, long standing agency relationships and proven commitment to the North Carolina marketplace to maintain or grow its premium volume.

Commission and service income for the adjusting services segment was $7,233 for the year ended December 31, 2002, versus $8,435 for the same period of 2001, a decrease of $1,202. The SC Facility began its planned runoff effective March 1, 1999 and entered its final state of runoff effective March 1, 2002. Commission and service income generated from the SC Facility amounted to $454 and $1,065 for the years ended December 31, 2002 and 2001, respectively, a decrease of $611. Another $614 of the overall net decrease related to decreased commissions associated with the continuing runoff of claims associated with the Company's Nashville and South Carolina automobile programs, which began runoff in the second and third quarters of 2000. Another $405 of the overall net decrease resulted from INS' catastrophe claims operation, primarily as a result of a less active catastrophe season across the nation during 2002 as compared to 2001. In addition, that operation experienced some turnover in key management early in the third quarter of 2002, resulting in the loss of certain customers. Partially offsetting these decreases in commission and service income was an increase of $693 related to INS' Claims Administration Services agreement with QualSure. Under this agreement, INS administers the claims of QualSure for a fee based upon subject earned premium. QualSure's premium volume has been increasing throughout 2002 as compared to 2001. The remaining net decrease of $265 came from all other activities of the adjusting services segment and is reflective of the Company's profitability and viability analysis of each of INS' service lines. As a result, INS has begun a process of discontinuing certain of its service lines and eliminating the related expenses. INS' continuing operations are centered on its Claims Administration Services Agreement with QualSure and complemented by its network glass claims handling, all-lines claims administration and catastrophe claims administration services.

The commercial segment accounted for a further decrease of $222, reporting commission and service income of $467 for the year ended December 31, 2002, versus $689 for the same period of 2001. The decrease is substantially attributable to the continuing runoff of the SC Facility. No commission and service income was earned through the SC Facility for the year ended December 31, 2002 as compared to the $318 that was earned for the same period of 2001. Partially offsetting this decrease was a $96 increase in commission and service income earned through the NC Facility as a result of increased premiums ceded to the NC Facility for the year ended December 31, 2002 as compared to the same period of 2001. In accordance with a mandate from the NCDOI, the Company ceased writing new risk-bearing commercial business in the state of North Carolina at the beginning of the third quarter of 2000. Though the Company was allowed to renew existing risk-bearing commercial business at its discretion, the only new commercial business permitted was that which would be ceded to the NC Facility. The mandate was issued as a result of the deteriorated financial condition of SCIC that resulted from the discontinuation of the Company's Nashville operations in the second quarter of 2000. Until the SCDOI Order issued in August 2002, SCIC had been recovering portions of its NC Facility book lost during 2001 and the last six months of 2000.

Commission and service income for the flood segment was $17,152 for the year ended December 31, 2002, versus $16,984 for the same period of 2001, an increase of $168. The NFIP operations component of the flood segment accounted for $542 of the overall increase, reporting commission and service income of $15,035 for the year ended December 31, 2002 and $14,493 for the same period of 2001. Throughout 2001 and continuing through the nine months ended September 30, 2002, the Company's NFIP written premium demonstrated significant growth, due primarily to obtaining several large books of flood business from independent insurance agents across the United

States. This was facilitated by geographic expansion and the introduction of new technology to its agency force, including internet-based policy rating and flood zone determination services. Through September 30, 2002, as compared to the same period of 2001, the Company's NFIP written premium had increased $1,730. During the fourth quarter of 2002, however, the Company's NFIP written premium decreased substantially over the same period of 2001 as a result of FEMA's decision not to offer SCIC and Catawba a Financial Assistance/Subsidy Arrangement with the Federal Insurance and Mitigation Administration for the fiscal year beginning October 1, 2002 and the Company's subsequent transaction with The Hartford under which The Hartford acquired the renewal rights to the Company's NFIP business. As a result, the Company's NFIP written premium for the years ended December 31, 2002 and 2001 amounted to $44,603 and $44,724, respectively. Though the Company's NFIP written premium was somewhat constant between years, the operation experienced increased commission and service income as a result of the higher commission rate in effect for the entire year of 2002. Further, as a result of its premium growth and the retention of its NFIP book of business, the Company received marketing bonuses from the NFIP of $615 in March 2002 and $553 in March 2001, an increase of $62. Largely offsetting the NFIP operation's increase in commission and service income was the decrease reported by AFS. For the year ended December 31, 2002, AFS reported commission and service income of $2,117, a decrease of $374 over the $2,491 reported for the same period of 2001. AFS actually experienced continued growth in volume during 2002 as a result of increased volume stemming from continually declining mortgage interest rates. However, AFS must defer a portion of the revenues associated with its "life of loan" product offering and amortize it into income over the estimated life of the original underlying loan. As of and for the year ended December 31, 2002, AFS' deferred approximately $500 of revenues.

Commission and service income reported by the all other segment was $2,147 and $75 for the years ended December 31, 2002 and 2001, respectively, an increase of $2,072. Approximately $1,349 of the overall increase resulted from the MGA operations of SBC that began in July 2002. This program began runoff effective December 31, 2002 and will not have a material impact on the Company's future results of operations. An additional $802 of the overall increase resulted from the fees earned under the HDC Program that was effective January 1, 2002. This program ended December 31, 2002 and will not be a recurring source of revenue for the Company. The remaining $79 decrease in commission and service income reported by the all other segment came from all of the segment's other runoff operations.

PROPERTY AND CASUALTY PREMIUMS EARNED

Net premiums earned increased $1,228, or 8.5%, to $15,661 for the year ended December 31, 2002 from $14,433 for the year ended December 31, 2001. Premiums earned by the commercial segment amounted to $9,290 for the year ended December 31, 2002 as compared to the 7,379 earned for the same period of 2001, an increase of $1,911. As a result of the issuance of the SCDOI Order, the Company lost portions of its commercial lines book of business in the states of South Carolina, North Carolina, Georgia and Tennessee and is running off its complete commercial lines book of business in the state of Kentucky. Direct premiums written for the years ended December 31, 2002 and 2001 amounted to $11,870 and $12,578, respectively, a decrease of 5.6%. As a result of a decreasing premium volume, the unearned premium reserve is amortizing into income more rapidly than it is being increased by new and renewal writings. Further contributing to the commercial segment's increase in premiums earned, though to a much lesser extent, was the positive effect of retaining a larger portion of its commercial operations during the first quarter of 2002 as compared to the same period of 2001. From April 1, 2000 through March 31, 2001, the Company's commercial lines were reinsured primarily through a 70% quota

share reinsurance agreement. Effective April 1, 2001, the agreement was cancelled at the Company's request to capitalize upon the favorable underwriting results of the commercial book of business.

Premiums earned reported by the all other segment was $606 and $49 for the years ended December 31, 2002 and 2001, respectively, an increase of $557. Approximately $580 the overall increase resulted from the premiums earned under the HDC Program that was effective January 1, 2002. Direct premiums written and earned under the HDC Program amounted to $1,544 and ceded premiums written and earned amounted to $964 for the year ended December 31, 2002. This program ended December 31, 2002 and will not be a recurring source of revenue for the Company. The remaining $23 decrease in premiums earned reported by the all other segment came from all of the segment's other runoff operations.

The automobile segment accounted for a decrease of $1,240, reporting premiums earned of $5,764 for the year ended December 31, 2002 as compared to $7,004 for the same period of 2001. The overall decrease primarily resulted from three factors. First, in the second and third quarters of 2000, respectively, the Company announced the discontinuation of its Nashville operations and its withdrawal from the voluntary nonstandard automobile market in South Carolina. Premiums earned from these operations for the year ended December 31, 2002 amounted to $8, a decrease of $1,665 over the $1,673 earned for the same period of 2001. Second, premiums earned through the nonstandard automobile risk-bearing operations of Catawba amounted to $774 and $1,049 for the years ended December 31, 2002 and 2001, respectively, a decrease of $275 that resulted from business lost as a result of the SCDOI's Order placing Catawba under administrative supervision. Third, premiums earned by UIC amounted to $4,929 for the year ended December 31, 2002 versus $4,393 for the same period of 2001, an increase of $536. As previously discussed, UIC experienced a marked decrease in premium volume for the year ended December 31, 2002 as compared to the same period of 2001 primarily as a result of pricing and other competitive initiatives effected by certain of UIC's competitors. However, since approximately 57% of UIC's automobile premium volume for the year was ceded to the NC Facility the decreasing premium volume did not have as dramatic an impact on premiums earned. More than offsetting the decrease in premiums earned resulting from a decrease in premium volume was the effect of a change in UIC's reinsurance program. From December 31, 1999 until July 1, 2002, UIC's retained-risk automobile business had been subject to a 75% quota share reinsurance agreement. Effective July 1, 2002, the existing 75% quota share reinsurance agreement was canceled in favor of a 60% quota share reinsurance agreement. Retaining more premium under the new quota share reinsurance agreement had a favorable impact on UIC's premiums earned for the year ended December 31, 2002. The remaining $164 increase in premiums earned by the automobile segment came from business the Company is required to assume from the SC Facility and mostly was assumed in the first and second quarters of 2002.

NET INVESTMENT INCOME

Net investment income decreased $317, or 12.7%, to $2,183 for the year ended December 31, 2002 from $2,500 for the year ended December 31, 2001. The principal cause of the decrease was the continually decreasing general level of market interest rates. For the year ended December 31, 2002, the Company's investment portfolio yielded an average return of 4.6%, a deterioration over the 5.2% averaged for the same period of 2001. Though the Company's cash and invested asset base increased substantially between December 31, 2001 and December 31, 2002, the majority of the increase occurred in the fourth quarter of 2002 and has been retained in lower yielding commercial paper investments until quality long-term investments could be located.

OTHER INTEREST INCOME, NET

Net other interest income decreased $1,342 or 95.8%, to $59 for the year ended December 31, 2002 from $1,401 for the year ended December 31, 2001. The decrease is substantially due to a reduction in UIC premiums financed through PBP as a result of the implementation of UIC's installment billing program. A substantial portion of UIC's written premium has traditionally been financed through the Company's premium finance subsidiary, PBP. PBP received interest income from insureds on premiums it financed, as well as a variety of set up and maintenance fees associated with the related premium finance contracts. While PBP has proved to be an effective sales and marketing tool to facilitate premium growth for UIC over the years, management has continually struggled with the challenge of limiting the volume of bad debt expenses associated with its operations. As a result of PBP's operating losses and reassessments of its core competencies, the Company entered into a management contract with an unaffiliated company effective June 1, 2001 to manage the operations of PBP. In December 2001, UIC introduced an installment billing program to its insureds and PBP was placed into runoff. Net other interest income realized by PBP was $37 for the year ended

December 31, 2002 versus $1,132 for the same period of 2001, a decrease of $1,095. Another $227 of the decrease in other interest income was attributable to the continued runoff of the SC Facility, which began its final stage of runoff effective March 1, 2003. The remaining $20 decrease in net other interest income came from all other operations.

NET REALIZED GAIN (LOSS)

Net realized gains amounted to $3,084 for the year ended December 31, 2002. At December 31, 2001, the Company owned 32,676 shares of common stock of ISO that it had received in 1997 as a result of ISO converting from a mutual organization to a stock company. Since the equity security received in connection with the conversion was not marketable, the Company has historically valued the investment at cost ($0). In February 2002, ISO offered, and the Company accepted, to repurchase the Company's shares for a price of $64.80 per share, resulting in a realized investment gain of $2,117. In addition, the Company is the beneficiary of several key man life insurance policies maintained on certain former directors or officers of the Company. During the three months ended June 30, 2002, the Company recorded a gain on the settlement of one of these policies of $294. Effective October 3, 2002, the Company's combined ownership interest in QualSure Holding was redeemed by QualSure Holding for $4,775 resulting in a realized gain of $632. Another $68 in net gains were realized from the sale of investments. Finally, in connection with the sale of the renewal rights to its NFIP business to The Hartford, the Company impaired certain data processing equipment and software used in that operation, resulting in a realized loss of $27.

Net realized losses amounted to $211 for the year ended December 31, 2001 due to $301 of losses realized on the sale of automobiles no longer required for operations and the disposal of obsolete data processing equipment and software, partially offset by $90 in gains realized on the liquidation of a portion of the Company's bond portfolio to fund its operations.

EQUITY IN (LOSS) EARNINGS OF UNCONSOLIDATED AFFILIATES

The Company's loss in earnings of its unconsolidated subsidiaries amounted to $72 and $485 for the years ended December 31, 2002 and relates to investments in Sunshine State (21.49% interest) and QualSure Holding (formerly 30.625% interest). As each of these equity investments exceeds 20% of the equity of each respective company, the Company's equity in the undistributed earnings of the unconsolidated affiliates, using the equity method, are included in current

earnings. Effective October 3, 2002, the Company's combined ownership interest in QualSure Holding was redeemed by QualSure Holding. Therefore, the Company no longer records equity in the undistributed earnings of QualSure Holding.

OTHER INCOME

Other income decreased $1,020, or 30.0%, to $2,378 for the year ended December 31, 2002 from $3,398 for the year ended December 31, 2001. Historically, the Company's primary source of policy fees revenue was its Nashville nonstandard automobile operations and its premium financing operations of PBP, which were placed into runoff in June 2000 and December 2001, respectively. As a result, virtually no premiums were written through the Nashville operation or financed through PBP for the year ended December 31, 2002. Because the policy fees associated with each of these operations are directly correlated to premium writings and financing, they decreased $737 to a balance of $1 for the year ended December 31, 2002 versus $738 for the same period in 2001. Partially offsetting these decreases in other income was the $238 increase in other income earned by UIC associated with fees it is allowed to charge on the installment billing program that began in December 2001.

Further contributing to the overall decrease in other income was a decrease of $766 associated with a division of the adjusting services segment. The division posted other income of $891 for the year

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December 31, 2002 versus $1,657 for the same period of 2001. The decrease is attributable to a general decrease in business volumes within the division's primary market of South Carolina resulting from the runoff of the SC Facility and the withdrawal of key customers' automobile programs in the state. In addition, in December 2002 the division refunded approximately $150 of fees charged to and paid by UIC in excess of fees approved by the NCDOI.

Effective July 1, 2002, one of the Company's subsidiaries, SBC, entered into an agreement with a Florida domiciled insurance company to serve as managing general agent for that company's low-value dwelling homeowners' insurance program in the state of Florida until such time as that program is runoff. Therefore, the Company does not expect to recognize significant revenue related to the agreement after December 31, 2002. In its capacity as managing general agent SBC earned policy fees of $71, which are included in the all other segment.

On November 15, 2002, the Company received approval from both FEMA and the SCDOI and then announced that it had sold the right to renew or assume all of SCIC and Catawba's in-force NFIP business to The Hartford for $3,800 in cash at closing, plus up to $1,000 to be paid on November 15, 2003, if certain retention thresholds on the book of business are achieved. Provisions of the underlying sales agreement, as approved by FEMA, provide that The Hartford administer and report the Company's business to the NFIP over the transition period that ends September 30, 2003. As a result of the Company's continuing involvement with the book of business during the transition period, the gain on the transaction of $3,499 (purchase price of $3,800 less expenses of sale of $301) has been deferred and will be recognized evenly over the transition period. Included in other income for the year ended December 31, 2002 is $350 of amortized gain.

The remaining decrease in other income of $176 came from all other operations.

LOSSES AND LOSS ADJUSTMENT EXPENSES

Losses and LAE increased $1,694 or 21.9%, to $9,434 for the year ended December 31, 2002 from $7,740 for the year ended December 31, 2001. Included in

the losses and LAE incurred is $970 and $23 incurred for the years ended December 31, 2002 and 2001, respectively, related to the change in estimated unpaid losses and LAE of prior years ("development"), an increase of $947. The largest components of the unfavorable development are the Company's runoff environmental and general liability operations and its continuing commercial operations, which are partially offset by the net favorable development reported by the various components of its automobile operations. Certain components of the overall unfavorable development reported for the year ended December 31, 2002 are discussed in the following paragraphs.

Approximately $580 of the increase is attributable to the net losses and LAE incurred under the HDC Program. Incurred losses and LAE of the HDC Program are recorded on the Company's books as direct insurance activity and ceded as applicable to reinsurers. As a large deductible workers' compensation program, HDC is responsible for all losses and LAE of the HDC Program up to a deductible of $1,000 per occurrence, at which point coverage is provided by the Company subject to its reinsurance that amounts to $15,000 in excess of $5,000 per occurrence.

Furthering the overall increase in losses and LAE was the $1,576 increase reported by the commercial segment. During the year ended December 31, 2002, the Company experienced unfavorable development related to its loss and LAE reserves of prior accident years amounting to $870 as a result of a reserve reconciliation project initiated by the Company's recently hired commercial lines claims manager. Furthermore, the Company incurred a significant commercial lines loss in the second quarter of 2002 that crossed into its excess of loss reinsurance agreement. The Company's retention for this claim was $250. Finally, from April 1, 2000 through March 31, 2001, the Company's commercial lines were reinsured primarily through a 70% quota share reinsurance agreement. Effective April 1, 2001, the agreement was cancelled at the Company's request to capitalize upon the favorable underwriting

results of the commercial book of business. Retaining a larger portion of its commercial book of business had a negative impact on the Company's losses and LAE for the year ended December 31, 2002 over the same period of 2001.

The automobile segment accounted for another $25 of the overall increase, reporting losses and LAE of $2,953 for the year ended December 31, 2002 versus $2,928 for the same period of 2001. The overall increase primarily resulted from three factors. First, in the second and third quarters of 2000, respectively, the Company announced the discontinuation of its Nashville operations and its withdrawal from the voluntary nonstandard automobile market in South Carolina. Losses and LAE associated with these operations for the year ended December 31, 2002 amounted to $30, an increase of $514 over the $(484) incurred for the same period of 2001. The favorable development experienced in 2001 resulted from the more precise estimation of ultimate losses and LAE as a result of the furthering runoff of those programs. Second, losses and LAE incurred through the nonstandard automobile risk-bearing operations of Catawba amounted to $3 and $41 for the years ended December 31, 2002 and 2001, respectively, a decrease of $38 that resulted from the re-estimation of reserves from the 2001 accident year as a result of new information obtained during 2002. Third, losses and LAE incurred by UIC amounted to $2,789 for the year ended December 31, 2002 versus $3,141 for the same period of 2001, a decrease of $352. As previously discussed, from December 31, 1999 until July 1, 2002, UIC's retained-risk automobile business had been subject to a 75% quota share reinsurance agreement. Effective July 1, 2002, the existing 75% quota share reinsurance agreement was canceled in favor of a 60% quota share reinsurance agreement. Retaining more premium under the new quota share reinsurance agreement had an unfavorable impact on UIC's losses and LAE incurred for the year ended December 31, 2002. However, the effect of the change of the quota share reinsurance agreement was substantially mitigated by

the decreased premium volume discussed in PREMIUMS EARNED. Furthermore, in December 2002 a division of the adjusting services segment that performs certain loss adjudication services for UIC refunded approximately $150 of fees charged to and paid by UIC in excess of fees approved by the NCDOI. The remaining $99 decrease in losses and LAE incurred by the automobile segment came from business the Company is required to assume from the SC Facility.

Partially offsetting the overall increase in losses and LAE was the $102 decrease posted by the Company's runoff environmental and general liability operations. During the year ended December 31, 2001, the Company was engaged in a general strengthening of its reserves for these runoff operations. As a result, the operation posted losses and LAE incurred of $1,388. While no broad policy of reserve strengthening was employed during the year ended December 31, 2002, additional environmental reserves were incurred during the period as a result of the recent insolvency of Reliance Insurance Company. As a result of this insolvency, the Company was notified that all reinsurers who shared liability exposure with Reliance Insurance Company are required to absorb that company's share of loss exposure. Furthermore, the Company experienced a sharp increase in the trend of new claims associated with its runoff environmental and general liability business written in the 1980's alleging that the Company was liable for damages. Though the Company was found not to be liable in all cases, the LAE incurred in connection with defending the Company, as well as the strengthening of LAE reserves as a result of the change in trends, resulted in substantial adverse development during 2002. As a result of these factors, the runoff operations reported additional adverse development of $1,286 for the year ended December 31, 2002.

The remaining decrease in losses and LAE of $385 resulted from the Company's runoff flood operations. On November 15, 2002, the Company received approval from both FEMA and the SCDOI and then announced that it had sold the right to renew or assume all of SCIC and Catawba's in-force NFIP business to The Hartford.

POLICY ACQUISITION COSTS

Policy acquisition costs decreased $348, or 1.5%, from a balance of $23,162 for the year ended December 31, 2001 to a balance of $22,814 for the same period of 2002. Fluctuations in policy acquisition costs are directly correlated to fluctuations in, and the relative mix of, segmental direct written premium. Policy acquisition costs as a percentage of direct written premium was 23.2% and 20.6% for the years ended December 31, 2002 and 2001, respectively. The higher percentage of acquisition costs is primarily attributable to the decreasing premium volume of the SC Facility and NC Facility components of the automobile segment, as they pay much lower agent commissions than the other components of the Company's operations.

INTEREST EXPENSE

Interest expense was $180 and $728 for the years ended December 31, 2002 and 2001, respectively, a decrease of $548. On March 28, 2002, the Company issued 800,000 shares of Adjustable Rate Cumulative Nonvoting Preferred Special Stock to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer in exchange for $8,000. The Adjustable Rate Cumulative Nonvoting Preferred Special Stock is nonconvertible and nonredeemable and pays quarterly dividends at an annual adjustable rate of 3.5% plus LIBOR (4.9% at December 31, 2002). The Company used the proceeds from the transactions to fully repay the outstanding balance of its credit facility.

OTHER OPERATING COSTS AND EXPENSES

Other operating costs and expenses decreased $2,813, or 13.1%, to $18,625 for the year ended December 31, 2002 from $21,438 for the year ended December 31, 2001. In addition to the wide array of general expense reductions that would normally be associated with a decreasing revenue base there were certain other noteworthy fluctuations:

- INS experienced significant reductions in revenue for the year ended December 31, 2002 as compared to the same period of 2001 for a variety of reasons previously discussed. Associated with this decrease in revenues are corresponding reductions in other operating costs and expenses. Most notably, claims adjusting expenses incurred decreased $1,059 between periods.

- A substantial portion of UIC's written premium has traditionally been financed through the Company's premium finance subsidiary, PBP. While PBP had proven to be an effective sales and marketing tool to facilitate premium growth for UIC over the years, management continually struggled with the challenge of limiting the volume of bad debt expenses associated with its operations. As a result of PBP's operating losses and reassessments of its core competencies, the Company entered into a management contract with an unaffiliated company effective June 1, 2001 to manage the operations of PBP. In December 2001, UIC introduced an installment billing program to its insureds and PBP was placed into runoff. Management fee expenses incurred for the years ended December 31, 2002 and 2001 were $24 and $669, respectively, a decrease of $645.

  At the time PBP was placed into runoff, management established substantial additional reserves for uncollectable premium notes receivable based upon its historical experience with PBP's operations, its business environment and the fact that the business was moving into runoff. However, as a result of significant receivables monitoring and collections efforts by both the Company's internal collections department and the unaffiliated management company, PBP's actual and final bad debt exposure was substantially less than historically experienced or expected. Therefore, for the year ended December 31, 2002, PBP's allowance for uncollectable premium notes receivable was reduced by approximately $300 through a credit to earnings.

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  Finally, as a result of PBP's runoff, which was substantially complete at December 31, 2002, the Company has experienced a reduction in its other operating costs and expenses incurred (excluding recovery of bad debts and management fee expenses incurred discussed above) of approximately $2,586 for the year ended December 31, 2002 as compared to the same period of 2001.

- In September 2001, the Compensation Committee of the Company's Board of Directors recommended, and the Board of Directors approved, the adoption of an incentive compensation program covering certain members of management. The program was terminated by the Company's Board of Directors on October 31, 2002. Expenses under the program for the years ended December 31, 2002 and 2001 were $0 and $852, respectively.

- As compensation for personal services rendered in connection with the settlement of certain then-outstanding litigation, the Company incurred $433 in consulting expenses to a member of its Board of Directors during the year ended December 31, 2001. Consulting services to this Board member amounted to $150 for the corresponding period of 2002.

- Effective May 1, 2002, the Company changed service providers related to the statistical processing and reporting of its flood business written

through the NFIP in order to capitalize on a more efficient fee structure charged for these services. Further, as a result of FEMA's decision not to offer the Company Financial Assistance/Subsidy Agreement for the fiscal year beginning October 1, 2002 and the subsequent sale of the renewal rights to the Company's NFIP business, the Company's NFIP written premium decreased $121 during 2002 as compared to 2001. As a result, the Company's processing and reporting expenses for its flood operations decreased $288 for the year ended December 31, 2002 as compared to the same period of 2001.

- On December 21, 2000, the Company sold its corporate headquarters to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer. Concurrent with this transaction, the Company leased the property back for a fixed period of three years without an option for renewal. Monthly lease expense is calculated annually at a predetermined spread over the Prime Lending Rate. Lease expense for the year ended December 31, 2002 was $290, a decrease of $168 over the expense incurred for the same period of 2001.

- Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires an entity to separate its goodwill, intangible assets with definite useful lives and intangible assets with indefinite useful lives. Goodwill and intangible assets with indefinite useful lives are no longer subject to periodic amortization. Rather they are subject to impairment tests that are required to be performed on at least an annual basis. As a result of adopting SFAS No. 142, other operating costs and expenses for the year ended December 31, 2002 did not include goodwill amortization of $125.

- On March 28, 2002, the Company repaid all amounts outstanding on its credit facility. In connection with this transaction, the unamortized portion of the deferred loan origination fees were expensed. As a result, other operating costs and expenses for the year ended December 31, 2002 includes additional amortization expense of $72 as compared to the same period of 2001.

- The Company or its subsidiaries were party to three primary pieces of litigation during the year ended December 31, 2002 (see Item 3. Legal Proceedings and the Notes to Financial Statements). As a result, legal expenses for the year ended December 31, 2002 are approximately $791 higher than for the corresponding period of 2001.

SPECIAL ITEMS

During the quarter ended June 30, 2000, the Company recorded a special items charge in the amount of $16,421 associated with the discontinuation of its Nashville operations and the impairment

of long-lived assets associated with those operations. As of December 31, 2001, the restructuring plan associated with the restructuring charge was completed, resulting in a final revision of the initial estimate of $156 that was taken into income in September 2001.

YEARS ENDED DECEMBER 31, 2001 AND 2000

COMMISSION AND SERVICE INCOME

Commission and service income increased $382 or 1.1%, to $36,272 for the year ended December 31, 2001 from $35,890 for the year ended December 31, 2000. The flood segment accounted for an increase of $2,193, posting commission and

service income of $16,984 for the year ended December 31, 2001, versus $14,791 for the same period of 2000. As a servicing carrier for the NFIP, the Company recognizes income for the policies it processes and the related claims it services in the amount of 31.0% of gross written premium and 3.3% of gross incurred losses, respectively. During the year ended December 31, 2001, the Company's NFIP written premium has increased at a rate that surpassed that of the total NFIP, due primarily to obtaining several large books of flood business from independent insurance agents across the United States. This was facilitated by expanding the Company's product offering to independent agents and the introduction of new technology to its agency force, including internet-based policy rating and flood zone determination services. The Company's NFIP written premium for the years ended December 31, 2001 and 2000 amounted to $44,724 and $38,348, respectively, an increase of $6,376, or 16.6%. Further, as a result of its premium growth and the retention of its NFIP book of business, the Company received an unanticipated marketing bonus from the NFIP of $553 in March 2001. No such bonus was received during 2000.

The commercial segment accounted for a further increase of $35, posting commission and service income of $689 for the year ended December 31, 2001, versus $654 for the same period of 2000. The overall increase is substantially attributable to the net effect of two factors. First, in accordance with a mandate from the NCDOI, the Company ceased writing new risk-bearing commercial business in the state of North Carolina at the beginning of the third quarter of 2000. Though the Company may, however, continue renewing existing risk-bearing commercial business at its discretion, any new commercial business generated is ceded to the NC Facility. The mandate was issued as a result of the deteriorated financial condition of SCIC that resulted from the discontinuation of the Company's Nashville operations in the second quarter of 2000. Commission and service income generated through the NC Facility amounted to $371 and $298 for the years ended December 31, 2001 and 2000, respectively, an increase of $73. Second, commission and service income generated through the SC Facility amounted to $318 and $356 for the years ended December 31, 2001 and 2000, respectively, a decrease of $38. The SC Facility has been in runoff since March 1, 1999 and entered the final stage of runoff effective March 1, 2002.

Commission and service income for the automobile segment was $10,089 for the year ended December 31, 2001, versus $11,194 for the same period of 2000, a decrease of $1,105. The decrease is substantially the result of the continuing runoff of the SC Facility, a residual market for automobile insurance in the state of South Carolina. Effective March 1, 1999, no new policies could be ceded to the SC Facility, and no voluntary renewals could be ceded to the SC Facility after September 1999. Designated agents, such as the Company, are able to renew business in the SC Facility through March 1, 2002. Commission and service income generated through the SC Facility and the SCAAIP amounted to $3,146 for the year ended December 31, 2001 and $4,019 for the year ended December 31, 2000, a decrease of $873. The operations of the Company's North Carolina domiciled subsidiary, UIC, accounted for another $220 decrease in commission and service income, resulting entirely from business ceded to the NC Facility. Though the Company experienced an increase in premium writings within the NC Facility during the year ended December 31, 2001 versus the same period of 2000, claims commissions earned from the NC Facility actually decreased. This is attributable to a reduction in losses ceded to the NC Facility resulting from much lower weather-related claims

activities during 2001 as compared to 2000. The remaining $12 decrease in commission and service income came from the Company's Nashville and South Carolina nonstandard automobile operations, which began runoff in the second and third quarters of 2000, respectively.

Commission and service income for the adjusting services segment was $8,435

for the year ended December 31, 2001, versus $9,249 for the same period of 2000, a decrease of $814. The overall decrease is substantially attributable to the net effect of two factors. First and foremost, commission and service income generated from the SC Facility amounted to $1,065 and $2,284 for the years ended December 31, 2001 and 2000, respectively, a decrease of $1,219. The SC Facility has been in runoff since March 1, 1999 and entered the final stage of runoff effective March 1, 2002. Second, in connection with the Company's $4,900 investment in QualSure Holding, INS entered into a Claims Administration Services Agreement with QualSure to adjudicate all of its claims for a fee based upon subject earned premium. Commission and service income earned under this agreement amounted to $3,915 and $3,458 for the years ended December 31, 2001 and 2000, respectively, an increase of $457. The remaining decrease of $52 came from the other activities of the adjusting services segment.

The remaining $73 increase in commission and service income came from all other operations.

PROPERTY AND CASUALTY PREMIUMS EARNED

Net premiums earned decreased $10,704, or 42.6%, to $14,433 for the year ended December 31, 2001 from $25,137 for the year ended December 31, 2000. The automobile segment accounted for $14,930 of the overall decrease, posting premiums earned of $7,004 for the year ended December 31, 2001 versus $21,934 for the same period of 2000. The overall decrease is the result of three factors. First, in the second and third quarters of 2000, respectively, the Company announced the discontinuation of its Nashville operations and its withdrawal from the voluntary nonstandard automobile market in South Carolina. Premiums earned from these operations for the year ended December 31, 2001 amounted to $2,722, a decrease of $12,952 over the $15,674 earned for the same period of 2000. Second, in June 2000 the Company began running off its Second Tier rating program in North Carolina. This program was the only book of the Company's business not subject to a quota share reinsurance agreement. As the Second Tier business came up for renewal during the runoff period, prevailing rates of UIC were offered to the insureds. Accepted renewals were subject to UIC's 75% quota share reinsurance agreement. Therefore, UIC's year ended December 31, 2001 included a significant amount of premiums that were subject to its 75% quota share reinsurance agreement that were not subject to the agreement for the same period of 2000. Premiums earned from UIC's operations for the year ended December 31, 2001 amounted to $4,393, a decrease of $1,155 over the $5,548 earned for the same period of 2000. The third factor in the decrease in premiums earned by the automobile segment was the $823 reduction in premiums earned from business the Company is required to assume from the SC Facility. The SC Facility has been in runoff since March 1, 1999 and entered the final stage of runoff effective March 1, 2002.

Premiums earned by the commercial segment amounted to $7,379 for the year ended December 31, 2001, versus $3,040 for the same period of 2000, an increase of $4,339. The Company's commercial lines have been reinsured primarily through quota share reinsurance agreements since December 31, 1999. For the year ended December 31, 2000, the Company's commercial lines were subject to a 90% quota share reinsurance agreement. Effective April 1, 2000, the 90% quota share reinsurance agreement was amended to become a 70% quota share reinsurance agreement, and the amended agreement was terminated at the Company's request effective April 1, 2001. Premiums ceded to reinsurers by the commercial segment amounted to $2,067 for the year ended December 31, 2001 versus $10,525 for the same period of 2000, a decrease of $8,458. Retaining a larger portion of its commercial book of business had a positive impact on the Company's premiums earned for the year ended December 31, 2001 over the same period of 2000. Partially offsetting this increase was the impact of a decrease in direct commercial writings of $1,276 for the year ended December 31, 2001

over the same period of 2000. In accordance with a mandate from the NCDOI, the Company ceased writing new risk-bearing commercial business in the state of North Carolina at the beginning of the third quarter of 2000. The Company may, however, continue renewing existing risk-bearing commercial business at its discretion. The mandate was issued as a result of the deteriorated financial condition of SCIC that resulted from the discontinuation of the Company's Nashville operations in the second quarter of 2000.

The remaining $113 decrease in premiums earned came from all other operations.

NET INVESTMENT INCOME

Net investment income decreased $160, or 6.0%, to $2,500 for the year ended December 31, 2001 from $2,660 for the year ended December 31, 2000. The principal cause of the decrease was the gradual decrease throughout 2001 of the general level of market interest rates. For the year ended December 31, 2001, the Company's investment portfolio yielded an average return of 5.2%, a slight deterioration over the 5.6% averaged for the same period of 2000.

OTHER INTEREST INCOME, NET

Net other interest income decreased $566, or 28.8%, to $1,401 for the year ended December 31, 2001 from $1,967 for the year ended December 31, 2000. The decrease is substantially due to the net effect of two factors. First, net other interest income was unusually high in 2000 as a result of the Company's recording $800 from the SC Facility related to the time value of money consideration on recoupment premiums the Company writes for the SC Facility. The Company's mandatory participation in the numerous residual market pools and associations of the 46 states in which the Company's insurance subsidiaries are licensed, including the SC Facility, is calculated by and communicated to the Company on a quarterly basis by a centralized statistical processing agency. Second, and partially offsetting this decrease, there was an increase in net other interest income earned by the Company's North Carolina premium financing company, PBP. Because the majority of UIC's written premium is financed through PBP, interest income associated with PBP's premium financing activities will fluctuate with the premium volume of UIC. Beginning in January 2001, the Company implemented an initiative designed on growing its book of business written through UIC. As a result of that initiative, UIC's direct written premium increased 15.3% for the year ended December 31, 2001 over the same period of 2000, driving similar increases in interest income on premiums financed by PBP. Partially offsetting PBP's increase in interest income related to UIC's premium growth was the effect of a reduction in UIC premiums financed through PBP and toward unrelated finance companies that began in the third quarter of 2001 and culminated in December 2001 with the Company placing PBP in runoff. This transition was initiated for a variety of reasons, including the operating losses generated by PBP and overall reassessments of the Company's core competencies. Other interest income realized by PBP as a result of this net growth was $1,132 for the year ended December 31, 2001 versus $779 for the same period of 2000, an increase of $353. The Company also experienced decreases in net other interest income from the Nashville and South Carolina nonstandard automobile components of its automobile segment of $48 as a result of the runoff of these operations which began in the second and third quarters of 2000. The remaining decrease of $71 came from all other operations.

NET REALIZED GAIN (LOSS)

Net realized losses amounted to $211 for the year ended December 31, 2001 due to $301 of losses realized on the sale of automobiles no longer required for operations and the disposal of obsolete data processing equipment and software, partially offset by $90 in gains realized on the liquidation of a portion of the

Company's bond portfolio to fund its operations. Sales of fully depreciated property and equipment during the year ended December 31, 2000 resulted in realized gains of $11, while realized

losses on the sale of investments amounted to $236 and resulted from the liquidation of a portion of the Company's investment portfolio to fund its operations and investment in QualSure Holding.

In December 2000, the Company sold its corporate headquarters to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer for a gain of $1,892. Concurrent with this transaction, the Company leased the property back for a fixed period of three years without an option for renewal. The gain resulting from this transaction was deferred and is being amortized into income evenly over the term of the related leaseback (see OTHER INCOME).

OTHER INCOME

Other income decreased $1,780, or 37.9%, to $2,913 for the year ended December 31, 2001 from $4,693 for the year ended December 31, 2000. This overall decrease is the net result of several significant factors. The Company's primary source of policy fees revenues is its Nashville nonstandard automobile and PBP premium finance operations. The Nashville nonstandard automobile operations were placed into runoff in June 2000. As a result of this action, direct premiums written through the Nashville operation declined to a balance of $(13) for the year ended December 31, 2001 from a balance of $8,129 for the same period in 2000. Because policy fees are directly correlated to premium writings, the operation's policy fees decreased $1,340 to a balance of $41 for the year ended December 31, 2001 versus $1,381 for the same period in 2000. Further, PBP receives a variety of set up, maintenance and other policy-related fees associated with the premiums it finances for insureds of UIC. As a result of PBP's operating losses and reassessments of its core competencies, the Company entered into a management contract with an unaffiliated company effective June 1, 2001 to manage the operations of PBP. Under the contract, all policy related fees previously retained by PBP now belong to the vendor. Policy fees associated with PBP's operations decreased $161 to a balance of $697 for the year ended December 31, 2001 versus $858 for the same period in 2000.

Also contributing to the overall decrease in other income was the Company's net $615 decrease in equity in earnings of its unconsolidated subsidiaries, Sunshine State and QualSure Holding from income of $129 for the year ended December 31, 2000 to a loss of $486 for the same period in 2001. The Company invested $854 and $4,900 in Sunshine State and QualSure Holding, respectively, for ownership interests of 21.49% and 30.625%, respectively. As each of these investments exceeds 20% of the equity of each respective company, the Company's equity in the undistributed earnings of the unconsolidated affiliates, using a computed equity method, are included in current earnings.

Further contributing to the overall decrease in other income was a decrease of $371 associated with a division of the adjusting services segment. The division posted other income of $1,657 for the year ended December 31, 2001 versus $2,028 for the same period of 2000. The decrease is attributable to a general decrease in business volumes within the division's primary market of South Carolina resulting from the runoff of the SC Facility, the Company's withdrawal of its voluntary operations in the state, and the withdrawal of other key customers' automobile programs in the state.

In December 2000, the Company sold its corporate headquarters to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer for a gain of $1,892. Concurrent with this transaction, the Company

leased the property back for a fixed period of three years without an option for renewal. The gain resulting from this transaction was deferred and is being amortized into income evenly over the term of the related leaseback. Included in other income for the year ended December 31, 2001 is $631 of amortized gain.

The remaining net increase in other income of $76 came from all other operations.

LOSSES AND LOSS ADJUSTMENT EXPENSES

Losses and LAE decreased $16,705, or 68.3%, to $7,740 for the year ended December 31, 2001 from $24,445 for the year ended December 31, 2000. The automobile segment accounted for $18,255 of the overall decrease, posting incurred losses and LAE of $2,928 for the year ended December 31, 2001 versus $21,183 for the same period of 2000. The largest component of this decrease is the $15,737 combined decrease resulting from the aforementioned discontinuation of the Company's Nashville operations and its withdrawal from the voluntary nonstandard automobile market in South Carolina. Further, as previously mentioned, UIC's year ended December 31, 2000 included certain risk-bearing business that was not subject to its 75% quota share reinsurance agreement while all risk-bearing business during the year ended December 31, 2001 was subject to its 75% quota share reinsurance agreement. This situation largely accounted for the $1,739 decrease in losses and LAE incurred by UIC for the year ended December 31, 2001 versus the same period of 2000. Finally, the Company experienced a $779 reduction in losses and LAE related to business the Company is required to assume from the SC Facility, which has been in runoff since March 1, 1999 and entered the final stage of runoff effective March 1, 2002.

Partially offsetting the overall decrease in losses and LAE was the $1,472 increase posted by the commercial segment. As previously discussed, the Company's commercial lines have been reinsured primarily through quota share reinsurance agreements since December 31, 1999. For the year ended December 31, 2000, the Company's commercial lines were subject to a 90% quota share reinsurance agreement. Effective April 1, 2000, the 90% quota share reinsurance agreement was amended to become a 70% quota share reinsurance agreement, and the amended agreement was terminated at the Company's request effective April 1, 2001. By retaining a larger portion of its commercial book of business, the Company's commercial operations experienced an increase in losses and LAE for the year ended December 31, 2001 over the same period of 2000. However, somewhat offsetting this increase was the impact of a decrease in commercial writings for the year ended December 31, 2001 over the same period of 2000. In accordance with a mandate from the NCDOI, the Company ceased writing new risk-bearing commercial business in the state of North Carolina at the beginning of the third quarter of 2000. The Company may, however, continue renewing existing risk-bearing commercial business at its discretion. The mandate was issued as a result of the deteriorated financial condition of SCIC that resulted from the discontinuation of the Company's Nashville operations in the second quarter of 2000.

The remaining net increase of $78 came from all other operations.

POLICY ACQUISITION COSTS

Policy acquisition costs decreased $1,841, or 7.4%, to $23,162 for the year ended December 31, 2001 from $25,003 for the year ended December 31, 2000. Fluctuations in policy acquisition costs are directly correlated to fluctuations in direct written premium of each of the Company's business segments. Direct written premium for the year ended December 31, 2001 amounted to $112,282, a $12,736, or 10.2%, decrease from the $125,018 written during the same period in 2000. See Property and Casualty Premiums Earned for discussion concerning the

decrease in premium volume for the year ended December 31, 2001 versus the same period of 2000.

INTEREST EXPENSE

Interest expense was $728 and $1,436 for the years ended December 31, 2001 and 2000, respectively, a decrease of $708. The Company's credit facility bore interest at a pre-determined spread over LIBOR. The decrease in interest expense for the year ended December 31, 2001 as compared to the same period of 2000 is due to lower average interest rates in 2001 versus 2000, coupled with interest saved through the pay down of debt. The average interest rate of the Company's debt was 6.89% between December 31, 2000 and December 31, 2001 versus 9.24% between December 31, 1999 and December 31, 2000. Further, at December 31, 2001, the outstanding balance of the Credit Facility was $7,721, a $2,438 decrease over the balance existing at December 31, 2000.

OTHER OPERATING COSTS AND EXPENSES

Other operating costs and expenses decreased $5,023, or 19.0%, to $21,438 for the year ended December 31, 2001 from $26,461 for the year ended December 31, 2000. The most significant causes of the overall decrease are expense reductions directly associated with the Company's discontinuation of its Nashville operations and its withdrawal from the voluntary nonstandard automobile market in South Carolina in the second and third quarters of 2000, respectively. Most notably, the Company experienced reductions in force between December 31, 2000 and 2001 that led to consolidated salary and benefit expense savings of $4,309. In addition, when announcing the discontinuation of its Nashville operations in September 2000, the Company recorded goodwill and fixed asset impairment charges for assets associated with that operation. This was the leading cause of reduced goodwill amortization and fixed asset depreciation charges of $1,259 for the year ended December 31, 2001 over the same period of 2000. The Company has also experienced a wide array of other expense reductions directly associated with the Company's decreasing premium volume, including reduced licensing fees ($123); data processing costs ($158); premium taxes ($264); telephone expenses ($164); and postage costs ($305). Also contributing to the overall decrease in other operating costs and expenses was the decrease in settlement costs related to a lawsuit involving Wells Fargo Financial Resources, Inc. (Wells Fargo) (formerly known as Norwest Financial Resources, Inc.). During the second quarter of 2001, the Company reduced its estimated settlement amount associated with this lawsuit by $370. Effective July 31, 2001, the Company settled the lawsuit at the revised estimated settlement amount.

Partially offsetting these expense reductions were $852 in increased salary and benefits expenses associated with the Company's accrual of obligations under a newly approved incentive compensation plan for certain members of its management team. Further offsetting the overall reduction in other operating costs and expenses between periods were increased municipal tax expenses during the year ended December 31, 2001 over the same period of 2000. In March 2000, the Company settled a claim with the Municipal Association of South Carolina which claimed it had a potential deficiency of certain South Carolina municipality taxes. The claim was settled for $1,525, resulting in a reduction in expense of $902 that was recorded as an offset to municipal tax expense for the year ended December 31, 2000. In addition, on December 21, 2000, the Company sold its corporate headquarters to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer. Concurrent with this transaction, the Company leased the property back for a fixed period of three years without an option for renewal. Lease expense incurred under this related party lease amounted to $458 and $13 for the years ended December 31, 2001 and 2000, respectively, an increase of $445. Finally, as a result of PBP's operating

losses and reassessments of its core competencies, the Company entered into a management contract with an unaffiliated company effective June 1, 2001 to manage the operations of PBP. Management fees paid to the vendor amounted to $669 for the year ended December 31, 2001. No such fees were incurred for the same period of 2000.

Though the Company's bad debt expenses remained relatively consistent for the years ended December 31, 2001 and 2000, the sources of the expenses did not. Of the $1,716 total bad debt expense incurred for the year ended December 31, 2000, approximately $1,148 related to the operations of PBP, $266 related to the rest of the automobile segment, and $302 related to all other operations combined. Of the $1,835 total bad debt expense incurred for the year ended December 31, 2001, approximately $2,666 related to the operations of PBP, a recovery of $678 related to the rest of the automobile segment, and a recovery of $153 related to all other operations combined. The bad debt expenses experienced by the PBP operation was the primary factor leading to the aforementioned PBP management contract and eventual discontinuation of the operation. The significant recovery of bad debt expense by the other components of the automobile segment came substantially from the Nashville operation and resulted from policy cancellations during 2001 related to fully reserved receivables at December 31, 2000. Neither of the sources of the Company's unusual bad debt expense results (PBP and Nashville) are expected to be material in the Company's future operations.

SPECIAL ITEMS

During the quarter ended June 30, 2000, the Company recorded a special items charge in the amount of $16,421 associated with the discontinuation of its Nashville operations and the impairment of long-lived assets associated with those operations. As of December 31, 2001, the restructuring plan associated with the restructuring charge has been completed, resulting in a final revision of the initial estimate of $156 that was taken into income in September 2001.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Loss and LAE reserves are estimates at a given point in time of the amount of claims that the insurer expects to pay claimants plus investigation and litigation costs, based on facts and circumstances then known. It can be expected that the ultimate liability in each case will differ from such estimates. During the loss settlement period, additional facts regarding individual claims may become known and, consequently, it becomes necessary to refine and adjust existing estimates of liability. Management, in conjunction with the Company's consulting actuary, performs a complete review of the Company's recorded reserves for unpaid losses and LAE to evaluate the adequacy of such reserves. Management believes the reserves, which approximate the amount determined by independent actuarial reviews, are adequate. However, establishing reserves is an estimation process and the ultimate liability may be in excess of or less than the amount recorded. Changes in estimated loss reserves are recorded in the year so determined.

The liability for losses on direct business is determined using case-basis evaluations and statistical projections. The liabilities determined under these procedures are reduced, for GAAP reporting purposes, by an estimated amount to be received through salvage and subrogation. The resulting liabilities represent the Company's estimate of the net cost of all unpaid losses and LAE incurred through December 31 of each year. These estimates may be affected by the frequency and/or severity of future claims. These estimates are continually reviewed and, as experience develops and new information becomes known, the liability is adjusted as necessary.

The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered, an increase in average severity of claims may be caused by a number of factors that vary with the individual type of policy written. Future average severity is projected based on historical trends as adjusted for changes in underwriting standards, policy provisions, and general economic trends. These anticipated trends are monitored based on actual developments and are modified as necessary. The Company does not discount its reserves for unpaid losses and LAE.

The following table presents, on a GAAP basis, a three-year analysis of losses and LAE, net of ceded reinsurance recoverable, with the net liability reconciled to the gross liability as reported in the Company's financial statements:

	2002	2001	2000
Liability for losses and LAE at the beginning of the year:			
Gross liability per balance sheet	$ 66,875	$ 85,833	$113,850
Ceded reinsurance recoverable, classified as an asset	(40,832)	(50,012)	(74,017)
Net liability	26,043	35,821	39,833
Provision for losses and LAE for claims occurring in the current year	8,464	7,717	22,090
Increase in estimated losses and LAE for claims occurring in prior years	970	23	2,355
	9,434	7,740	24,445
Loss and LAE payments for claims occurring during:			
Current year	5,044	5,060	11,608
Prior years	7,509	12,458	16,849
	12,553	17,518	28,457
Liability for losses and LAE at the end of the year:			
Net liability	22,924	26,043	35,821
Ceded reinsurance recoverable, classified as an asset	30,786	40,832	50,012
Gross liability per balance sheet	$ 53,710	$ 66,875	$ 85,833

The ceded reinsurance recoverable on unpaid losses and LAE, classified as an asset, includes $23,473, $31,369 and $37,318 at December 31, 2002, 2001 and 2000, respectively, of balances recoverable from the SC Facility, the NC Facility and the NFIP.

The difference between the year-end net liability for losses and LAE reported in the accompanying consolidated financial statements in accordance with GAAP and that reported in accordance with Statutory Accounting Principles ("SAP") was as follows for the years ended December 31:

	2002	2001

Net liability on a SAP basis as filed in annual statements	$23,107	$26,248
Established salvage and subrogation recoveries recorded on a cash basis for SAP and on an accrual basis for GAAP	(183)	(205)
Net liability on a GAAP basis, at year end	22,924	26,043
Ceded reinsurance recoverable classified as an asset	30,786	40,832
Gross liability on a GAAP basis, at year end	$53,710	$66,875

The following table presents an analysis of loss and LAE development (all amounts are in millions):

	1992	1993*	1994	1995	1996	199
Liability for unpaid losses and LAE--Gross		$ 195	$ 167	$146	$ 132	$ 11
Less reinsurance recoverable on unpaid losses		(75)	(87)	(84)	(84)	(7
Liability for unpaid losses and LAE--Net	$118	$ 120	$ 80	$ 62	$ 48	$ 3
Cumulative liability paid through:						
One year later	30	65	26	16	9	1
Two years later	84	86	42	29	17	1
Three years later	102	99	52	35	17	1
Four years later	112	108	58	35	17	1
Five years later	120	114	58	35	17	1
Six years later	125	114	58	35	17	
Seven years later	126	114	58	35		
Eight years later	126	115	58			
Nine years later	126	114				
Ten years later	126					
Liability re-estimated as of:						
One year later	129	138	85	63	45	4
Two years later	139	144	87	62	45	4
Three years later	151	143	85	62	45	4
Four years later	149	141	85	62	45	4
Five years later	150	141	85	62	45	4
Six years later	149	141	85	62	45	
Seven years later	149	142	85	62		
Eight years later	149	141	85			
Nine years later	149	142				
Ten years later	149					
Cumulative (deficiency) redundancy--Net	$(31)	$ (22)	$ (5)	$ --	$ 3	$ (
Re-estimated liability for unpaid losses and LAE--Gross		$ 272	$ 229	$151	$ 176	$ 16
Less: re-estimated reinsurance recoverable on unpaid losses		(130)	(144)	(89)	(131)	(12
Re-estimated liability for unpaid losses and LAE--Net		$ 142	$ 85	$ 62	$ 45	$ 4

Cumulative (deficiency) redundancy--Gross................	$ (77)	$ (62)	$ (5)	$ (44)	$ (4
	=====	=====	====	=====	====

	2000	2001	2002
Liability for unpaid losses and LAE--Gross.......................	$ 86	$ 67	$ 54
Less reinsurance recoverable on unpaid losses....................	(50)	(41)	(31)
Liability for unpaid losses and LAE--Net.........................	$ 36	$ 26	$ 23
Cumulative liability paid through:			
One year later..................	6	1	
Two years later.................	8		
Three years later...............			
Four years later................			
Five years later................			
Six years later.................			
Seven years later...............			
Eight years later...............			
Nine years later................			
Ten years later.................			
Liability re-estimated as of:			
One year later..................	36	24	
Two years later.................	36		
Three years later...............			
Four years later................			
Five years later................			
Six years later.................			
Seven years later...............			
Eight years later...............			
Nine years later................			
Ten years later.................			
Cumulative (deficiency) redundancy--Net.................	$ --	$ 2	
	====	====	
Re-estimated liability for unpaid losses and LAE--Gross......................	$ 93	$ 72	
Less: re-estimated reinsurance recoverable on unpaid losses.....	(57)	(47)	
Re-estimated liability for unpaid losses and LAE--Net.............	$ 36	$ 25	
	====	====	
Cumulative (deficiency) redundancy--Gross................	$ (7)	$ (5)	
	====	====	

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* In 1993 the Company adopted Statement of Financial Accounting Standards No. 113, "Accounting and Reporting of Short-Duration and Long-Duration Contracts". In accordance with the provisions of the statement, the Company began presenting its liability for unpaid losses and LAE on a gross basis.

The above table presents the development of balance sheet liabilities for 1992 through 2001. The top portion of the table shows a reconciliation of the direct and net estimated liabilities for unpaid losses and LAE recorded at the

balance sheet date for each of the indicated years. The next section of the table shows the cumulative amount paid with respect to the previously recorded liability as of the end of each succeeding year. The following portion of the table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimate is increased or decreased as more information about the claims becomes known for individual years. For example, as of December 31, 2002 the companies had paid $126,000 of the currently estimated $149,000 of losses and LAE that had been incurred through the end of 1992. Thus an estimated $23,000 of losses incurred during 1992 remain unpaid as of the current financial statement date. The next portion of the table represents the aggregate change in the original reserve estimates over all subsequent years through December 31, 2002. For example, the 1992 liability has developed unfavorably by $31,000 over the ensuing ten years.

The final section of the above table presents the re-estimated direct liability for unpaid losses and LAE, with separate disclosure of the re-estimated reinsurance recoverables thereon.

In evaluating the above information, it should be noted that each amount includes the effects of all changes in amounts for prior periods. This table does not present accident or policy year development data, which readers may be more accustomed to analyzing. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on this table.

A part of the Company's reserve for losses and LAE is for environmental, pollution, and toxic tort claims. These claims relate to business written by the Company's previously owned West Coast operation prior to 1986. On June 7, 1994, the Company settled a dispute related to approximately 400 of these claims. Any future liability on these claims is limited to 50% of the direct loss and LAE paid. The Company's obligation does not begin until the other company involved in the settled dispute pays, subsequent to the settlement date, a total of $20 million in losses and LAE. Current third party actuarial estimates indicate that the other company involved in the settled dispute will not reach the threshold at which the Company must begin sharing the liability.

Of the remaining environmental, pollution and toxic tort claims, the following activity took place during 2002 and 2001:

	2002	2001
Pending, January 1	38	40
New claims advised	7	7
Claims settled	(15)	(9)
Pending, December 31	30	38

The policies corresponding to these claims were written on a direct basis. The Company has excess of loss reinsurance with company retention through 1980 of $100 and between $250 and $500 thereafter. The claims are reserved as follows as of December 31, 2002 and 2001:

	2002	2001
Case reserves	$2,297	$2,614
IBNR reserves	1,301	1,610
LAE reserves	2,500	1,770
Total	$6,098	$5,994

The claims involve four Superfund sites, nine asbestos or toxic claims, seven underground storage tanks and ten miscellaneous clean-up sites. For this direct business there are usually several different insurers participating in the defense and settlement of claims made against the insured. Costs and settlements are pro-rated by either time on the risk or policy limits.

In estimating the liability for reported and estimated losses and LAE related to environmental and construction defect claims, management considers facts currently known along with current laws and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy and management can reasonably estimate its liability. In exposures on both known and unasserted claims, estimates of the liabilities are reviewed and updated continually. The potential development of losses is restricted by policy limits.

Because only thirty claims remain open as of December 31, 2002, the exposure to significant additional development is less than when the claims were less mature. In addition, the likelihood of

new claims being asserted for construction liability is lessened by the expiration of statutes of limitations since the last policy expired over ten years ago.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

Liquidity relates to the Company's ability to produce sufficient cash to fulfill its contractual obligations. In addition to payments for its routine and recurring operating expenses, the Company's principal contractual obligations include the payment of liabilities to its policyholders for unpaid losses, LAE and unearned premiums, the payment of dividends on its Adjustable Rate Cumulative Nonvoting Preferred Special Stock, and the future lease payments under its various operating leases. The Company's direct reserves for losses and LAE under the HDC Program have been reduced by estimated deductibles recoverable of $9,800. The Company is contingently liable for reserves for unpaid losses and LAE of the HDC Program, gross of the estimated deductibles recoverable, with the deductible recoverable representing an off balance-sheet credit risk to the Company. To mitigate these risks, the Company relies on the Court-Ordered Interim Agreement that clearly and specifically states that HDC is responsible for funding all claims of the large deductible program. Furthermore, the Court has required HDC to place funds totaling approximately $4,300 in a Court-restricted commercial checking account at an Arizona financial institution to serve as the funds from which losses of the HDC Program are to be paid--effectively collateralizing a significant portion of the Company's estimated ultimate off balance sheet credit risk for deductible recoverables. The Court has further required HDC to obtain an independent actuarial review of the HDC Program and to share the results of that review with the Company's

actuary for the purpose of agreeing upon estimated ultimate losses and loss adjustment expenses of the HDC Program and for adjusting the balance of the Court-restricted commercial checking account. The appointed actuary for HDC has submitted a report that is the basis for the $4,300 deposit. The report is currently being reviewed by the Company's actuary. The Company currently believes that, should additional depository funding be ordered by the Court in response to actuarial findings, HDC will provide such funds. The Company is not party to, or contingently liable for, any other off balance sheet financing arrangements or guarantees of any related or unaffiliated third party debt.

The Company's principal sources of liquidity during 2003 include the collection of commission and service fees, including substantial amounts received from the NC Facility and QualSure; premium collections on insurance policies issued; the collection of policy fees and interest income on insurance policies financed; collections of balances due from its reinsurers; and the collection of net investment income and proceeds received from the sale or maturity of investments. The Company's cash outflows can vary greatly because of the uncertainties regarding settlement dates for liabilities for unpaid losses and LAE and because of the potential for large losses. Accordingly, the Company maintains investment and reinsurance programs generally intended to avoid the forced sale of investments to meet claims obligations.

The Company believes that its existing sources of funds are adequate to enable it to conduct its business as described in this Annual Report on Form 10-K for the foreseeable future.

SOURCES AND USES OF CASH FLOWS

OPERATING ACTIVITIES

Net cash provided by operations was $7,898 for the year ended December 31, 2002 on net income of $6,123 (see "Results of Operations"). Included in the net income for the year is a gain on sale of previously nonmarketable equity securities of $2,117 as well as a $632 gain on the redemption of the Company's combined ownership interest in QualSure Holding by QualSure Holding (see INVESTING ACTIVITIES below). In addition, the Company is the beneficiary of several key man life insurance policies

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maintained on certain former directors or officers of the Company. Included in the net income for the year is a $294 gain on the settlement of one of these policies. Cash provided by the settlement amounted to $848.

On November 15, 2002, the Company received approval from both FEMA and the SCDOI and then announced that it had completed a transaction with The Hartford under which The Hartford acquired the right to renew or assume all of SCIC and Catawba's in-force NFIP business. The purchase price of the renewal rights was $3,800 in cash at closing, plus up to $1,000 to be paid on November 15, 2003, if certain retention thresholds on the book of business are achieved. Provisions of the underlying sales agreement, as approved by FEMA, provide that The Hartford administer and report the Company's business to the NFIP over the transition period that ends September 30, 2003. As a result of the Company's continuing involvement with the book of business during the transition period, the gain on the transaction of $3,499 (purchase price of $3,800 less expenses of sale of $301) has been deferred and will be recognized evenly over the transition period.

Effective July 1, 2002 SBC entered into an agreement with a Florida domiciled insurance company to serve as managing general agent for that company's low-value dwelling homeowners' insurance program in the state of Florida until such time as that program is runoff. SBC collected cash in the

amount of $897 related to this program for the year ended December 31, 2002.

In connection with the large deductible workers' compensation program written through the HDC Group, SCIC and CAIC collected cash from HDC amounting to $1,386 for the year ended December 31, 2002 for reinsurance premiums for the retained-risk layers of $4,000 in excess of $1,000 and fees.

Other significant sources of cash from operations include the net collection of reinsurance recoverable on paid and unpaid losses and LAE of $13,003 and the $6,324 reduction in reinsurance premiums prepaid to the Company's reinsurers. The reduction is attributable to continued runoff of the Company's Nashville and South Carolina automobile operations, the continued runoff of the SC Facility, and the curtailment of its commercial operations in the third and fourth quarters of 2002 as a result of the SCDOI Order. Further, the Company sold the renewal rights to its NFIP business to The Hartford in November 2002, thus beginning the runoff of that operation. As a result of these factors, collections on reinsurance recoverable on paid and unpaid losses and LAE outstanding at December 31, 2001 surpassed new recoverables being generated through continuing operations. Finally, effective July 1, 2002, the existing 75% quota share reinsurance agreement on UIC's retained-risk nonstandard automobile program was canceled in favor of a 60% quota share reinsurance agreement. Retaining more risk on the program resulted in fewer premiums being prepaid to reinsurers and fewer ceded losses and LAE to recover from reinsurers.

Another significant source of cash was the $4,378 in collections on PBP's premium notes receivable. A substantial portion of UIC's written premium has traditionally been financed through PBP. In December 2001, UIC introduced an installment billing program to its insureds and PBP was placed into runoff. At the time PBP was placed into runoff, management established substantial additional reserves for uncollectable premium notes receivable based upon its historical experience with PBP's operations, its business environment and the fact that the business was moving into runoff. However, as a result of significant receivables monitoring and collections efforts by both the Company's internal collections department and the unaffiliated management company, PBP's actual and final bad debt exposure was substantially less than historically experienced or expected. Therefore, during the year ended December 31, 2002, PBP's allowance for uncollectable premium notes receivable was reduced by approximately $300 through credits to earnings.

Significant uses of cash flows from operating activities include reductions in the liability for losses and LAE of $13,165 and the liability for unearned premiums of $6,306. The primary cause of these reductions is the continued runoff of the Company's environmental, workers compensation, Nashville

and South Carolina nonstandard automobile programs, as well as the sale of the Company's renewal rights of its NFIP business to The Hartford in November 2002.

Another significant use of cash was the $888 net increase in premiums and agents' balances receivable. The majority of UIC's written premium has traditionally been financed through PBP. In December 2001, UIC introduced an installment billing program to its insureds and PBP was placed into runoff. As such, premiums historically paid in full by PBP to UIC are now being billed and collected by UIC.

In September 2001, the Compensation Committee of the Company's Board of Directors recommended, and the Board of Directors approved, the adoption of an incentive compensation program covering certain members of management. The program was terminated by the Company's Board of Directors on October 31, 2002. Expenses under the program for the years ended December 31, 2002 and 2001 were $0 and $852, respectively.

INVESTING ACTIVITIES

Investing activities for the year ended December 31, 2002 used cash in the amount of $1,109. Cash expended for the purchase of fixed assets amounted to $655 as the Company upgraded certain obsolete computer equipment, installed a backup generator at its corporate headquarters, and made leasehold improvements to its corporate headquarters. In connection with the sale of the renewal rights to its NFIP business to The Hartford, the Company impaired certain data processing equipment and software used in that operation, resulting in a realized loss of $27. Cash expended in the net acquisition of investments amounted to $454 for the period primarily as a result of the Company's profitable operations.

At December 31, 2001, the Company owned 32,676 shares of common stock of ISO which it had received in 1997 as a result of ISO converting from a mutual organization to a stock company. Since the equity security received in connection with the conversion was not marketable, the Company has historically valued the investment at cost ($0). In February 2002, ISO offered, and the Company accepted, to repurchase the Company's shares for a price of $64.80 per share, resulting in a realized investment gain of $2,117.

Effective October 3, 2002, the Company's ownership interest in QualSure Holding with a carrying value of $4,143 was redeemed by QualSure Holding for $4,775. Under the terms of the underlying redemption agreement, INS continues to provide claim administration services to QualSure under an amended contract at a reduced rate for terms that expire from October 4, 2005 through January 21, 2010.

In its investment strategy, the Company attempts to match the average duration of its investment portfolio with the approximate duration of its liabilities. Total cash and investments at December 31, 2002 and December 31, 2001 was $49,639 and $45,874, respectively. All debt securities are considered available-for-sale and are carried at fair value as of December 31, 2002 and 2001. The weighted-average maturity of the fixed income investments as of December 31, 2002 and 2001 was approximately 2.14 and 2.17 years, respectively. The average net investment yield on the Company's investment portfolio was 4.6% and 5.2% for the years ended December 31, 2002 and 2001, respectively.

FINANCING ACTIVITIES

Financing activities for the year ended December 31, 2002 used cash in the amount of $2,741. On March 28, 2002, the Company issued 800,000 shares of Adjustable Rate Cumulative Nonvoting Preferred Special Stock to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer for an aggregate purchase price of $8,000. The proceeds from the transaction were used to repay the outstanding balance of the Credit Facility and for general corporate purposes. The

Adjustable Rate Cumulative Nonvoting Preferred Special Stock is nonconvertible and nonredeemable and pays quarterly dividends at an annual adjustable rate of 3.5% plus LIBOR (amounting to 4.9% at December 31, 2002). On August 15, 2002, the Company redeemed its Special Stock and AFS Special Stock at a price of $10.00 per share, using cash in the amount of $2,590. Dividends paid on the Company's Special Stock, AFS Special Stock and Adjustable Rate Cumulative Nonvoting Preferred Special Stock amounted to $430 for the year ended December 31, 2002.

OFF-BALANCE SHEET ARRANGEMENTS

Under the HDC Program, estimated reserves for losses and LAE for claims arising under the HDC Program have been established by the Company net of the deductible that HDC is required to pay under order of the Court. The Company has a potential off-balance sheet credit risk associated with such deductibles if the Company were required to fund the deductibles in the event that HDC cannot pay the deductible.

The Court has ordered HDC to retain an independent actuary to estimate the HDC program unpaid losses and LAE, subject to the deductible, as of December 31, 2002, and has ordered HDC to deposit funds in an equivalent amount in accounts collateralizing HDC's liabilities under the deductible program. The actuary retained by HDC has issued a report estimating HDC's liability for such deductibles at December 31, 2002 to be $4,300. HDC has deposited funds totaling $4,300 into a Court-restricted commercial checking account ($3,000 on January 29, 2003 and $1,300 on February 21, 2003. Pursuant to court order, the Company has retained an actuary to review the work of the actuary retained by HDC. The actuary retained by the Company has raised questions regarding aspects of the methodology used by the actuary retained by HDC. As of March 26, 2003, the Company has not received a response to those questions. The Company, in consultation with its consulting actuary, has estimated that HDC's liability for such deductibles as of December 31, 2002 may be as much as $9,800.

UTILIZATION OF NET OPERATING LOSS CARRYFORWARDS

The Company has unused tax operating loss carryforwards and capital loss carryforwards of $92,198 for income tax purposes. However, due to "change in ownership" events that occurred in June 1998, January 1997, and January 1995, the Company's use of the net operating loss carryforwards are subject to maximum limitations in future years of approximately $2,205 per year. Net operating loss carryforwards available for use in 2003 are approximately $6,428 due to losses incurred after the June 1998 change in ownership event occurred and the carryover of previous years' unused limitations. The Company has determined, based on its recent earnings history, that a valuation allowance should be maintained against the deferred tax asset at December 31, 2002 and 2001.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

(dollars in thousands)

A substantial portion of the Company's cash and investments is comprised of investments in market-rate sensitive debt securities. The amortized costs and estimated fair values of these market-rate sensitive investments as of December 31, 2002 and 2001 are as follows:

	2002		2001	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIM FAIR
U.S. Government, government agencies and authorities	$14,586	$15,195	$14,202	$14,
States, municipalities and political subdivisions	375	390	375	
Corporate bonds	20,922	21,970	17,930	18,
Total	$35,883	$37,555	$32,507	$33,

The fair values of these investments can fluctuate greatly according to changes in the general level of market interest rates. For example, a one percentage point increase (decrease) in the general level of market interest rates would (decrease) increase the total estimated fair value of the Company's debt securities by approximately $(934) and $735, respectively, as of December 31, 2002. In its investment strategy, the Company attempts to match the average duration of its investment portfolio with the approximate duration of its liabilities. All debt securities are considered available for sale and are carried at fair value as of December 31, 2002 and 2001. The weighted-average maturity of the fixed income investments as of December 31, 2002 and 2001 was approximately 2.14 and 2.17 years, respectively.

The Company pays dividends on its Adjustable Rate Cumulative Nonvoting Preferred Special Stock at a rate of 3.5% plus LIBOR (4.9% at December 31, 2002).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (CONTINUED ON FOLLOWING PAGE).

(a) Financial Statements

(b) Supplementary Data (Unaudited)

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors and Shareholders
The Seibels Bruce Group, Inc.:

We have audited the consolidated balance sheet of The Seibels Bruce Group, Inc. and subsidiaries (collectively the "Company") as of December 31, 2002, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit. The Company's consolidated balance sheet as of December 31, 2001 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2001, were audited by other auditors whose dual dated opinion of March 7 and March 28, 2002 expressed an unqualified opinion on those financial statements and also indicated that the schedules listed in Part IV, Item 15 are fairly stated in all material respects in relation to the December 31, 2001 financial statements taken as a whole.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Seibels Bruce Group, Inc. and subsidiaries as of December 31, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules I, II, III, IV, V and VI listed in Part IV, Item 15 are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements for the year ended December 31, 2002, and in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

JOHNSON LAMBERT & CO.

Raleigh, North Carolina,
March 26, 2003

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THIS IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP AND IT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.

REPORT OF INDEPENDENT ACCOUNTANTS

To The Seibels Bruce Group, Inc.:

We have audited the accompanying consolidated balance sheets of The Seibels Bruce Group, Inc. (the Parent Company--a South Carolina corporation) and subsidiaries (collectively the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Seibels Bruce Group, Inc. and subsidiaries as of December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules I, II, III, IV, V and VI listed in Part IV, Item 14 are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Columbia, South Carolina,
March 7, 2002, except for Note 17, as to
which the date is March 28, 2002.

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31,

(DOLLARS SHOWN IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2002	2001
ASSETS		
Cash and investments:		
Debt securities, available-for-sale, at fair value (cost of $35,883 in 2002 and $32,507 in 2001)	$ 37,555	$ 33,538
Equity securities	1,661	5,961
Cash and short-term investments	10,423	6,375
Total cash and investments	49,639	45,874
Accrued investment income	713	702
Premiums and agents' balances receivable, net of allowance for doubtful accounts of $2,681 in 2002 and $3,013 in 2001	3,492	2,604
Premium notes receivable, net of allowance for doubtful accounts of $0 in 2002 and $750 in 2001	40	3,668
Reinsurance recoverable on paid losses and loss adjustment expenses	7,289	10,246
Reinsurance recoverable on unpaid losses and loss adjustment expenses	30,786	40,832
Property and equipment, net	993	807
Prepaid reinsurance premiums--ceded business	30,224	36,548
Deferred policy acquisition costs	1,168	1,200
Goodwill	4,513	4,513
Other assets	4,817	3,644
Total assets	$133,674	$150,638
LIABILITIES		
Losses and loss adjustment expenses:		
Reported and estimated losses and claims--retained business	$ 18,857	$ 21,334
--ceded business	29,717	38,785
Adjustment expenses--retained business	4,067	4,709
--ceded business	1,069	2,047
Unearned premiums--retained business	6,134	6,116
--ceded business	30,224	36,548
Balances due other insurance companies	3,158	3,372
Debt	--	7,721
Other liabilities and deferred items	9,224	10,442

Total liabilities	102,450	131,074
COMMITMENTS AND CONTINGENCIES		
SPECIAL STOCK, no par value, authorized 5,000,000 shares:		
Issued and outstanding 0 and 209,000 shares in 2002 and 2001, respectively, of cumulative $0.62, convertible, redeemable, nonvoting, special preferred stock	--	2,090
Issued and outstanding 0 and 50,000 shares in 2002 and 2001, respectively, of cumulative $0.625 convertible, redeemable, nonvoting, special preferred stock	--	500
Total special stock	--	2,590
SHAREHOLDERS' EQUITY		
Adjustable Rate Cumulative Nonvoting Preferred Special Stock, issued and outstanding 800,000 shares (issued from the Special Stock, no par value, authorized 5,000,000 shares)	8,000	--
Common stock, $1 par value, authorized 17,500,000 shares, issued and outstanding 7,831,690 shares	7,832	7,832
Additional paid-in-capital	61,989	61,989
Accumulated other comprehensive income	1,691	1,134
Accumulated deficit	(48,288)	(53,981)
Total shareholders' equity	31,224	16,974
Total liabilities and shareholders' equity	$133,674	$150,638

The accompanying notes are an integral part of these consolidated financial statements.

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THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31,

(DOLLARS AND WEIGHTED AVERAGE SHARES OUTSTANDING SHOWN IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2002	2001	2000
Revenue:			
Commission and service income	$33,853	$36,272	$ 35,890
Property and casualty premiums earned	15,661	14,433	25,137
Net investment income	2,183	2,500	2,660
Other interest income, net	59	1,401	1,967
Net realized gain (loss)	3,084	(211)	(225)
Equity in (loss) earnings of unconsolidated affiliates	(72)	(485)	191

Other income	2,378	3,398	4,502
Total revenue	57,146	57,308	70,122
Expenses:			
Losses and loss adjustment expenses	9,434	7,740	24,445
Policy acquisition costs	22,814	23,162	25,003
Interest expense	180	728	1,436
Other operating costs and expenses	18,625	21,438	26,461
Special items	--	(156)	8,138
Total expenses	51,053	52,912	85,483
Income (loss) from operations, before benefit (provision) for income taxes	6,093	4,396	(15,361)
Benefit (provision) for income taxes	30	(30)	--
Net income (loss)	6,123	4,366	(15,361)
Other comprehensive income:			
Change in value of marketable securities, less reclassification adjustment of $(68), $(90) and $236 for net (gains) losses included in net income (loss) of 2002, 2001 and 2000, respectively	557	777	962
Comprehensive net income (loss)	$ 6,680	$ 5,143	$(14,399)
Basic earnings (loss) per share	$ 0.73	$ 0.54	$ (1.98)
Weighted average shares outstanding	7,832	7,832	7,832
Diluted earnings (loss) per share	$ 0.72	$ 0.53	$ (1.98)
Weighted average shares outstanding	8,088	8,206	7,832

The accompanying notes are an integral part of these consolidated financial statements.

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THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31,

(DOLLARS SHOWN IN THOUSANDS)

	2002	2001	2000
Adjustable Rate Cumulative Nonvoting Preferred Special Stock:			

Beginning of year	$ --	$ --	$ --
Stock issued during the year	8,000	--	--
End of year	$ 8,000	$ --	$ --
Common stock:			
Beginning of year	$ 7,832	$ 7,832	$ 7,831
Stock issued under stock option plans	--	--	1
End of year	$ 7,832	$ 7,832	$ 7,832
Additional paid-in-capital:			
Beginning of year	$ 61,989	$ 61,989	$ 61,988
Stock issued under stock option plans	--	--	1
End of year	$ 61,989	$ 61,989	$ 61,989
Accumulated other comprehensive income:			
Beginning of year	$ 1,134	$ 357	$ (605)
Change during the year	557	777	962
End of year	$ 1,691	$ 1,134	$ 357
Accumulated deficit:			
Beginning of year	$(53,981)	$(58,186)	$(42,657)
Net income (loss)	6,123	4,366	(15,361)
Dividends on special stock	(430)	(161)	(168)
End of year	$(48,288)	$(53,981)	$(58,186)
Total shareholders' equity	$ 31,224	$ 16,974	$ 11,992

The accompanying notes are an integral part of these consolidated financial statements.

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31,

(DOLLARS SHOWN IN THOUSANDS)

	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	$ 6,123	$ 4,366	$(15,361)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Special items	--	--	7,510
Equity in loss (earnings) of unconsolidated			

affiliates	72	485	(191)
Amortization of deferred policy acquisition costs	22,814	23,162	25,003
Depreciation and amortization	488	496	1,847
Realized gain on settlement of life insurance policy	(294)	--	--
Realized gain on sale of previously nonmarketable security	(2,117)	--	--
Realized gain on sale of investment in unconsolidated subsidiary	(632)	--	--
Realized (gain) loss on sale of investments, net	(68)	(90)	236
Realized loss (gain) on sale of property and equipment	27	301	(11)
Change in assets and liabilities:			
Accrued investment income	(11)	47	86
Premiums and agents' balances receivable, net	(888)	(1,077)	6,519
Premium notes receivable, net	3,628	1,592	(1,825)
Reinsurance recoverable on losses and loss adjustment expenses	13,003	12,965	28,502
Prepaid reinsurance premiums--ceded business	6,324	4,449	15,727
Deferred policy acquisition costs	(22,782)	(23,962)	(24,030)
Unpaid losses and loss adjustment expenses	(13,165)	(18,958)	(28,017)
Unearned premiums	(6,306)	(3,389)	(16,467)
Balances due other insurance companies	(214)	(1,220)	(10,341)
Accrued restructuring charges	--	(276)	276
Other, net	1,896	(1,561)	(3,260)
Net cash provided by (used in) operating activities	7,898	(2,670)	(13,797)
Cash flows from investing activities:			
Proceeds from investments sold or matured	18,599	12,316	11,335
Cost of investments acquired	(19,053)	(10,501)	(15,837)
Proceeds from property and equipment sold	--	3	4,492
Purchases of property and equipment	(655)	(584)	(212)
Net cash (used in) provided by investing activities	(1,109)	1,234	(222)
Cash flows from financing activities:			
Issuance of capital stock	--	--	2
Issuance of Adjustable Rate Cumulative Nonvoting Preferred Special Stock	8,000	--	--
Redemption of Special Stock	(2,590)	--	--
Repayment of debt	(7,721)	(2,438)	(2,127)
Dividends paid	(430)	(161)	(168)
Net cash used in financing activities	(2,741)	(2,599)	(2,293)
Net increase (decrease) in cash and short-term investments	4,048	(4,035)	(16,312)
Cash and short-term investments, beginning of year	6,375	10,410	26,722
Cash and short-term investments, end of year	$ 10,423	$ 6,375	$ 10,410
Supplemental cash flow information:			
Interest paid	$ 180	$ 728	$ 1,077
Income taxes (recovered) paid	(30)	30	--
Non-cash investing, financing and other activities:			
Elimination of special stock or debt in connection with the settlement of purchase price adjustments	$ --	$ (110)	$ (2,700)
Settlement of obligations in connection with the			

resolution of preacquisition liabilities...............	--	--	(5,527)
	========	========	========

The accompanying notes are an integral part of these consolidated financial statements.

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THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of The Seibels Bruce Group, Inc. and its wholly-owned subsidiaries (collectively, the "Company") and have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany balances and transactions have been eliminated in consolidation.

DESCRIPTION OF THE BUSINESS

The Company conducts business in two primary categories: fee-based property and casualty insurance operations and risk-bearing property and casualty insurance operations. Its fee-based property and casualty insurance operations include the following:

- CLAIMS ADJUSTING AND MANAGEMENT SERVICES

  The Company's subsidiary, Insurance Network Services, Inc. ("INS"), provides a variety of claims-related management and adjudication services to the insurance industry, including all-lines claims administration, networked glass claims administration and catastrophe claims services. Approximately 13.6%, 10.8% and 9.6% of the Company's commission and service income for the years ended December 31, 2002, 2001 and 2000, respectively, was earned from INS' largest customer, QualSure Insurance Corporation (see Note 2).

- NATIONAL FLOOD INSURANCE PROGRAM ("NFIP")

  Through its subsidiaries, South Carolina Insurance Company ("SCIC") and Catawba Insurance Company ("Catawba"), the Company participated in the NFIP, a flood insurance program administered by the federal government. In this capacity, SCIC and Catawba were responsible for all aspects of policy administration over the term of the policies, including underwriting, processing and statistical reporting, subject to administration guidelines of the NFIP. The companies were also responsible for all aspects of claims administration associated with claims reported under the business they produce. SCIC and Catawba received commission and service income from the NFIP for these policy and claims administration services, but retained no underwriting risk on any of the business produced because all of the premiums and associated losses were fully ceded to the NFIP. Approximately 44.9%, 41.2% and 34.5% of the Company's commission and service income for the years ended December 31, 2002, 2001 and 2000, respectively, was earned from the NFIP.

On November 15, 2002, the Company received approval from both FEMA and the SCDOI and then announced that it had completed a transaction with The Hartford Financial Services Group, Inc. ("The Hartford") under which The Hartford acquired the right to renew or assume all of SCIC and Catawba's in-force NFIP business (see TRANSACTION WITH THE HARTFORD).

- NORTH CAROLINA REINSURANCE FACILITY ("NC FACILITY")

The NC Facility is a state-sponsored plan for assuring the availability of motor vehicle liability insurance to all North Carolina drivers outside of the voluntary market. Two of the Company's subsidiaries, SCIC and Universal Insurance Company ("UIC"), cede business to the NC Facility.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In this capacity, each company is responsible for all aspects of policy administration over the term of the policies, including underwriting, processing and statistical reporting, subject to administration guidelines of the NC Facility. The companies are also responsible for all aspects of claims administration associated with claims reported under the business they produce. SCIC and UIC receive commission and service income from the NC Facility for these policy and claims administration services, but retain no underwriting risk on any of the business produced because all of the premiums and associated losses are fully ceded to the NC Facility. While UIC currently cedes substantially all of its motor vehicle liability premiums to the NC Facility, SCIC's NC Facility operations have been in runoff since the third quarter of 2000. Approximately 18.5%, 20.2% and 20.8% of the Company's commission and service income for the years ended December 31, 2002, 2001 and 2000, respectively, was earned through the NC Facility.

- SOUTH CAROLINA REINSURANCE FACILITY ("SC FACILITY")

Catawba is one of three servicing carriers for the SC Facility, a state-sponsored plan for insuring South Carolina drivers outside of the voluntary market. In its capacity as a servicing carrier, Catawba is responsible for all aspects of policy administration over the term of the policies, including underwriting, processing and statistical reporting, subject to administration guidelines of the SC Facility. Catawba is also responsible for all aspects of claims administration associated with claims reported under the business it produces. Catawba receives commission and service income from the SC Facility for these policy and claims administration services, but retains no underwriting risk on any of the business produced because all of the premiums and associated losses are fully ceded to the SC Facility. The SC Facility began its planned runoff effective March 1, 1999 and entered its final stage of runoff effective March 1, 2002. The South Carolina Associated Automobile Insurers Program (the "SCAAIP") became effective in March 1999 and survived the SC Facility. Although the SCAAIP offered the Company access to additional fee-based revenue with no underwriting risk, thus far into the runoff of the SC Facility, the Company has not experienced significant activity in the SCAAIP. Effective March 1, 2003, the SCAAIP began its planned runoff. Approximately 4.5%, 12.7% and 18.6% of the Company's commission and service income for the years ended December 31, 2002, 2001 and 2000, respectively, was earned through the SC Facility and the SCAAIP.

- FLOOD ZONE DETERMINATIONS AND COMPLIANCE TRACKING SERVICES

The Company's subsidiary, America's Flood Services, Inc. ("AFS") offers flood zone determinations and flood zone mapping services to customers located throughout the United States. These services are provided primarily to real estate lenders to determine whether or not homes are located in flood zones and, therefore, require flood insurance for loan closing. As a complementary product, AFS also offers flood insurance as an agent through servicing carriers of the NFIP. The operations of AFS are not dependent upon any single customer or class of customers.

- MANAGING GENERAL AGENCY SERVICES

Effective July 1, 2002, one of the Company's subsidiaries, Seibels, Bruce & Company ("SBC"), entered into an agreement with a Florida domiciled insurance company to serve as managing general agent for that company's low-value dwelling homeowners' insurance program in the state

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of Florida until such time as that program is runoff. Runoff began January 1, 2003; therefore, SBC will not earn significant revenue related to the agreement after December 31, 2002. In its capacity as managing general agent, SBC is responsible for policy issuance and administration, customer service and claims administration. SBC's claims administration responsibilities are fulfilled through a Claims Administration Services Agreement with INS. SBC earned commission and service income amounting to 5.7% of total commission and service income for the year ended December 31, 2002 through this managing general agency agreement.

The Company's risk-bearing property and casualty insurance operations include the following:

- NONSTANDARD AUTOMOBILE

The Company's North Carolina domiciled insurance subsidiary, UIC, provides nonstandard automobile insurance coverage to insureds located primarily in the state of North Carolina. In this capacity, UIC retains the risk of loss for the physical damage coverage components of the policy and cedes substantially all of the liability coverage components of the policy to the NC Facility as discussed above.

Through its nonowners automobile program, Catawba provides supplemental automobile insurance coverage policies in South Carolina to employee drivers of company owned, operated and insured vehicles (see ORDER IMPOSING ADMINISTRATIVE SUPERVISION AND APPOINTING SUPERVISOR).

- COMMERCIAL LINES

SCIC, Catawba and UIC offer various commercial lines insurance products to its insureds, including commercial automobile, commercial package, business owners policies and garage liability policies. This business is marketed primarily to small businesses in the states of South Carolina, North Carolina, Tennessee, Georgia and Kentucky (see ORDER IMPOSING

ADMINISTRATIVE SUPERVISION AND APPOINTING SUPERVISOR).

- WORKERS' COMPENSATION

SCIC and Consolidated American Insurance Company ("CAIC") have issued workers' compensation insurance master policies to a professional employment organization headquartered in Mesa, Arizona to provide workers' compensation insurance for that organization's client companies located in California (SCIC) and Arizona (CAIC), providing coverage for the period January 1, 2002 through December 31, 2002 (see HDC WORKERS' COMPENSATION PROGRAM and Note 14).

ORDER IMPOSING ADMINISTRATIVE SUPERVISION AND APPOINTING SUPERVISOR

On August 21, 2002, the South Carolina Department of Insurance (the "SCDOI") issued an Order Imposing Administrative Supervision and Appointing Supervisor (the "Order") that placed SCIC, Catawba and CAIC under administrative supervision for at least six months as a result of the disputes associated with the workers' compensation program of SCIC and CAIC (see HDC WORKERS' COMPENSATION PROGRAM and Note 14). Provisions of the Order provided for SCIC, Catawba and CAIC to immediately cease writing risk-bearing business and for SCIC and CAIC to immediately cease renewal of existing risk-bearing business. On August 23, 2002, SCIC and Catawba submitted to the

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SCDOI a request to permit Catawba (1) to continue to write its existing risk-bearing business (the nonowners automobile program) and (2) to renew, in all states in which Catawba is also licensed, the risk-bearing commercial lines business previously written through SCIC. On September 4, 2002, the SCDOI notified Catawba that this request had been approved (the "Approval"). The Approval permits Catawba to continue to write new and renewal premiums in its risk-bearing automobile business and allows it to renew the risk-bearing commercial lines business previously written through SCIC in the states of South Carolina, Georgia and Tennessee. A subsequent request of, and approval from, the SCDOI and the Georgia Department of Insurance permits Catawba to also write new commercial lines business in South Carolina and Georgia. On September 12, 2002, SCIC and UIC submitted to the NCDOI a request to permit UIC to renew the risk-bearing commercial lines business previously written through SCIC in the state of North Carolina. This request was granted on November 25, 2002 and UIC subsequently began renewing the North Carolina commercial lines business of SCIC. The only other state in which SCIC wrote risk-bearing commercial lines business is Kentucky. Catawba's application to the Kentucky Department of Insurance to write this business was withdrawn and this business is being runoff.

TRANSACTION WITH THE HARTFORD

On September 12, 2002, the Company announced that it had received notice from the Federal Emergency Management Agency ("FEMA") that FEMA did not intend to offer SCIC and Catawba a Financial Assistance/Subsidy Arrangement with the Federal Insurance and Mitigation Administration for the fiscal year beginning October 1, 2002, effectively terminating their participation in the NFIP. The Company obtained an extension of the existing arrangement for renewal business only through December 31, 2002, at which time the inforce policies were to be

transitioned to the NFIP, or to another carrier in the NFIP, and the Company's servicing carrier status would be terminated. On November 15, 2002, the Company received approval from both FEMA and the SCDOI and then announced that it had completed a transaction with The Hartford under which The Hartford acquired the right to renew or assume all of SCIC and Catawba's in-force NFIP business. The purchase price of the renewal rights was $3,800 in cash at closing, plus up to $1,000 to be paid on November 15, 2003, if certain retention thresholds on the book of business are achieved. Provisions of the underlying sales agreement, as approved by the SCDOI and FEMA, provide that The Hartford administer and report the Company's business to the NFIP over the transition period that ends September 30, 2003. As a result of the Company's continuing involvement with the book of business during the transition period, the gain on the transaction of $3,499 (purchase price of $3,800 less expenses of sale of $301) has been deferred and will be recognized evenly over the transition period. Included in the Other Income line item of the accompanying Statements of Operations for the year ended December 31, 2002 is $350 of amortized gain associated with the Company's transaction with The Hartford. It is uncertain whether the Company will meet the retention thresholds to qualify for the additional $1,000. Any such additional amounts will only be reflected in revenue if and when the retention thresholds and related requirements are achieved.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of debt securities are disclosed in Note 2 and were determined from nationally quoted market rates if available and, alternatively, from Bloomberg or Hub Market Data quotations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair values of cash and short-term investments approximate carrying values (cost) due to the short-term nature of those instruments.

Premiums and agents' balances receivable and premium notes receivable are carried at historical cost which approximates fair value as a result of timely collections and evaluations of recoverability with a provision for uncollectable amounts. Premium notes receivable are generally short-term in nature, with a duration of approximately six months.

CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consists of cash on hand, time deposits and commercial paper. Short-term investments have an original maturity of three months or less and are considered to be cash equivalents.

INVESTMENTS

Investments in debt securities and marketable equity securities are classified as either held-to-maturity, available for sale or trading. All of the Company's debt securities are classified as available-for-sale and are reported at estimated fair value. Changes in fair value are reflected as unrealized investment gains and losses, net of tax, and are credited or charged directly to accumulated other comprehensive income included in shareholders' equity. The Company owned no marketable equity securities at December 31, 2002 or 2001.

Investments in equity securities exceeding 20% of the equity of the investee

company, but short of the ownership required for consolidation, are accounted for using the equity method. Under the equity method, the Company's equity in the undistributed earnings of the unconsolidated affiliates is included in current earnings and the Company's equity in the unrealized gains and losses of the unconsolidated affiliates is credited or charged directly to accumulated other comprehensive income included in shareholders' equity. From the acquisition date of its equity method investees through December 31, 2000, 2001 and 2002, the Company has recorded equity in the undistributed net earnings of the investees amounting to $577, $92 and $20.

Investment in non marketable equity securities not qualifying for the equity method are reflected at cost.

Realized gains and losses on investments included in the results of operations are determined using the identified cost method.

When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be "other than temporary", the investment is written down to its estimated fair value. The determination of an "other than temporary" decline in estimated fair value includes, in addition to other relevant factors, a presumption that if the estimated fair value is significantly below cost for an extended period of time, a write down is necessary. Any such write downs are reported as net realized losses on investments. No write downs for other than temporary impairment were recorded for the years ended December 31, 2002, 2001 and 2000.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREMIUM NOTES RECEIVABLE

PBP has historically offered premium financing arrangements to the insureds of UIC. Under these arrangements, UIC received full payment of its premiums receivable from PBP who, in turn, collected a down payment from the insureds and financed the remaining premium balance over a six month term. PBP received interest income from insureds on premiums it financed, as well as a variety of set-up and maintenance fees associated with the related premium finance contracts. Beginning in December 2001, UIC initiated an installment billing program for its insureds as an alternative to PBP's premium financing arrangements and PBP began runoff. At December 31, 2002 the runoff of PBP was substantially complete.

REINSURANCE RECOVERABLE

The Company utilizes reinsurance to reduce its exposure and to provide protection against large catastrophic occurrences. A significant portion of the Company's direct business is ceded to the SC Facility, the NC Facility and the NFIP; therefore, the Company retains no risk of loss related to this business. Reinsurance recoverable is estimated using assumptions consistent with those used to estimate the liability for unpaid losses and loss adjustment expenses ("LAE") (see Property and Casualty Unpaid Losses and LAE). Changes in estimated reinsurance recoverable are recorded in the year so determined.

ALLOWANCE FOR UNCOLLECTABLE ACCOUNTS

The Company routinely evaluates the collectability of receivables and has

established an allowance for uncollectable accounts for agents' balances and direct billed balances receivable and premium notes receivable in the amount of approximately $2,681 and $3,763 at December 31, 2002 and 2001, respectively. For the years ended December 31, 2002, 2001 and 2000, bad debt expense, net of recoveries was $5, $1,839 and $1,773. Included in 2002 bad debt expense is a credit (reduction in bad debt expense) of approximately $300 related to a change in estimated uncollectible amounts related to notes receivable of PBP which was placed in runoff in December 2001. PBP's actual bad debt exposure in runoff was less than historically experienced or expected.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost and, for financial reporting purposes, depreciated on a straight-line basis over the estimated useful lives of the assets. For income tax purposes, accelerated depreciation methods are used. Maintenance and repairs costs are charged to expense as incurred.

GOODWILL

Effective January 1, 2002, the Company adopted the provisions of Statement on Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 establishes accounting and reporting standards for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets." It requires an entity to separate its goodwill, intangible assets with definite useful lives and intangible assets with indefinite useful lives. Goodwill and intangible assets with indefinite useful lives are no longer subject to periodic amortization. Rather

they are subject to impairment tests that are required to be performed on at least an annual basis. At December 31, 2002 and 2001, the Company had unamortized goodwill totaling $4,513 associated with its November 1997 and March 1998 purchases of The Innovative Company (former 100% owner of UIC and PBP) and AFS, respectively. Annual amortization of goodwill, which ceased to be recorded effective January 1, 2002 upon the adoption of SFAS No. 142, was $125. Had the Company not incurred amortization expenses associated with its goodwill during 2001 and 2000, its basic and diluted earnings per share would have been $0.55 and $(1.94), respectively. The Company determined that there was no impairment to either component of the goodwill as a result of adopting SFAS No. 142.

KEY MAN LIFE INSURANCE POLICIES

The Company is the beneficiary of several key man life insurance policies maintained on certain former directors or officers of the Company. In June 2002, the Company recorded a gain on the settlement of one of these policies of $294. As of December 31, 2002 and 2001, the net cash value of the policies was $311 and $851, respectively, and is included in other assets.

PROPERTY AND CASUALTY UNPAID LOSS AND LAE

The liability for property and casualty unpaid losses and LAE includes:

(1) An accumulation of case estimates for losses reported prior to the close

of the accounting period.

(2) Estimates of incurred-but-not-reported losses based upon past experience and current circumstances.

(3) Estimates of allocated, as well as unallocated, LAE.

(4) The deduction of estimated amounts recoverable from salvage, subrogation, and second injury funds.

(5) Estimated losses for reinsurance assumed.

Management, in conjunction with the Company's consulting actuary, performs a complete review of the Company's recorded reserves for unpaid losses and LAE to evaluate the adequacy of such reserves. Management believes the reserves, which approximate the amount determined by independent actuarial reviews, are adequate. However, establishing reserves is an estimation process and the ultimate liability may be in excess of or less than the amount recorded. Changes in estimated loss reserves are recorded in the year so determined.

INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. This method also requires the recognition of future tax benefits such as net operating loss carryforwards to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected

to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

COMMISSION AND SERVICE INCOME

Commission and service income is predominately derived from servicing carrier, managing general agent, claims processing activities and flood zone determination and mapping services. The commission income related to producing and underwriting the business is recognized in the period in which the business is written. Service income is earned over the period in which the related services are performed. Included in other liabilities and deferred items as of December 31, 2002 and 2001 is $1,046 and $368, respectively, of deferred revenue for services to be performed in the future.

PROPERTY AND CASUALTY PREMIUMS EARNED

Property and casualty premiums are reflected in income when earned as computed on a monthly pro-rata basis. Written premiums and earned premiums have been reduced by reinsurance placed with other companies, including amounts related to business produced through the NC Facility, the SC Facility and the

NFIP.

HDC WORKERS' COMPENSATION PROGRAM

Effective January 1, 2002, the Company, through SCIC and CAIC, issued two workers' compensation insurance master policies to Human Dynamics Corporation ("HDC") and included as named insureds Infinet Holdings, Inc. and HDC Financial Services Corporation (collectively, the "HDC Group") (the "HDC Program"). Certain significant matters related to these policies have been litigated and mediated (see Note 14). Pursuant to proceedings of the Arizona Superior Court, it was ordered that the HDC Program is to function as a large deductible workers' compensation program with HDC being responsible for all losses and LAE of the HDC Program up to $1,000 per occurrence (the "deductible"). Coverage for losses and LAE in excess of the deductible is provided by the Company, subject to its reinsurance for losses and LAE of $15,000 in excess of $5,000 per occurrence. As a large deductible workers' compensation program, estimated reserves for losses and LAE for claims arising under the HDC Program have been established by the Company net of the deductible that HDC is required to pay under order of the Court.

The Company received or is to receive commissions equal to 4% of total premium equivalents collected by HDC from participants in the HDC Program as well as full reimbursement for actual boards, bureaus, assessments and premium taxes incurred by the Company under the HDC Program. For the year ended December 31, 2002, the Company recorded commission and service income amounting to $802 under the HDC Program.

POLICY ACQUISITION COSTS

Policy acquisition costs attributable to property and casualty operations represent that portion of the cost of writing business that varies with, and is primarily related to, the production of business. Such costs are deferred and charged against income as the premiums are earned. The deferral of policy

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THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
acquisition costs is subject to the application of recoverability tests to each primary line or source of business based on past and anticipated underwriting results. The deferred policy acquisition costs that are not recoverable from future policy revenues, if any, are expensed. The Company considers anticipated investment income in determining whether premium deficiencies exist.

OTHER INTEREST INCOME

Other interest income includes interest received on reinsurance balances withheld, agents' balances receivable, balances due from the SC Facility and the SCAAIP, and financing of premium notes receivable. Other interest income is recognized on an accrual basis as earned.

MANAGEMENT COMPENSATION PROGRAM

During 2001, the Compensation Committee of the Company's Board of Directors recommended, and the Board of Directors approved, the adoption of an incentive compensation program covering certain members of management. Awards under the plan were payable each March and were based upon the Company's performance

during the prior year ended December 31. The provisions of the plan required recipients to achieve a designated market value based ownership level in the Company to be eligible to participate in the plan. The Company had accrued $852 for its obligations under the plan at December 31, 2001 and paid these obligations in March 2002. On October 3, 2002, the Plan was terminated by the Company's Board of Directors.

EARNINGS PER SHARE

In accordance with SFAS No. 128, "Earnings Per Share", the Company measures earnings per share at two levels: basic earnings per share and diluted earnings per share. Basic per share data is calculated by dividing income (loss) allocable to common stockholders by the weighted average number of shares outstanding during the year. Diluted per share data is calculated by dividing income (loss) allocable to common stockholders by the weighted average number of shares outstanding during the year, as adjusted for the potentially dilutive effects of stock options, warrants and/or convertible preferred stock, unless common equivalent shares are antidilutive.

USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform with the current year presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." This statement will require gains

and losses on extinguishments of debt for fiscal years beginning after May 15, 2002 to be classified as income or loss from continuing operations rather than as extraordinary items as previously required. The Company does not believe this statement will have a material impact on its consolidated financial position and results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is in the process of evaluating the impact that the adoption of SFAS No. 146 will have on its consolidated financial position and results of operations.

NOTE 2 INVESTMENTS

The amortized cost and estimated fair values of investments in debt securities were as follows:

DECEMBER 31, 2002	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTI FAIR
U.S. Government, government agencies and authorities	$14,586	$ 609	$ --	$15
States, municipalities and political subdivisions	375	15	--	
Corporate bonds	20,922	1,062	(14)	21
Total	$35,883	$1,686	$(14)	$37

DECEMBER 31, 2001	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTI FAIR
U.S. Government, government agencies and authorities	$14,202	$ 451	$(48)	$14
States, municipalities and political subdivisions	375	13	--	
Corporate bonds	17,930	625	(10)	18
Total	$32,507	$1,089	$(58)	$33

Excluding investments in the U.S. Government, government agencies and authorities, there were no investments at December 31, 2002 that exceeded 10% of shareholders' equity.

There were no non-income producing debt securities for the 12 months ended December 31, 2002, 2001 and 2000. Debt securities with an amortized cost of $17,112 at December 31, 2002 and $16,648 at December 31, 2001 were on deposit with regulatory authorities.

NOTE 2 INVESTMENTS (CONTINUED)

Actual maturities of debt securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties. The amortized cost and estimated fair value of debt securities at December 31, 2002, by contractual maturity, are as follows:

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 6,021	$ 6,164
Due after one year through five years	16,583	17,465
Due after five years through ten years	3,756	3,984
Due after ten years	9,523	9,942
Total	$35,883	$37,555

At December 31, 2001, the Company's equity securities included its investments in Sunshine State Holding Corporation ("Sunshine") and QualSure Holding Corporation ("QualSure"). As each of these investments exceeds 20% of the equity of each respective company, the Company follows the equity method of accounting for these investments. During 1997, the Company invested $854 in Sunshine for an ownership interest of 21.49%. Sunshine owns 100% of the issued and outstanding stock of Sunshine State Insurance Company, a Florida-based writer of homeowners insurance. Effective January 21, 2000, three of the Company's insurance subsidiaries collectively acquired a 30.625% equity ownership interest in QualSure for $4,900. QualSure is the holding company parent of QualSure Insurance Corporation, a homeowners take-out insurance company domiciled in the State of Florida. Effective October 3, 2002, the Company's ownership interest in QualSure with a carrying value of $4,143 was redeemed by QualSure for $4,775.

At December 31, 2001, the Company owned 32,676 shares of common stock of Insurance Services Offices, Inc. ("ISO") which it had received in 1997 as a result of ISO converting from a mutual organization to a stock company. Since the equity security received in connection with the conversion was not marketable, the Company had historically valued the investment at cost ($0). In February 2002, ISO offered, and the Company accepted, to repurchase the Company's shares for a price of $64.80 per share, resulting in a realized investment gain of $2,117.

The Company's net realized gain (loss) and the change in its net unrealized gain (loss) on investments are summarized as follows:

	DEBT SECURITIES	EQUITY SECURITIES	TOTAL
Realized:			
2002	$ 68	$2,749	$2,817
2001	90	--	90
2000	(236)	--	(236)
Change in unrealized:			
2002	$ 641	$ (84)	$ 557
2001	637	140	777
2000	999	(37)	962

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 2 INVESTMENTS (CONTINUED)

Proceeds from sales of debt and equity securities and the related realized gains and losses are as follows:

	2002	2001	2000
Proceeds from sales	$18,599	$12,315	$11,335
Gross realized gains	2,826	90	--
Gross realized losses	9	--	236

Unrealized gains and losses at December 31 are as follows:

	2002	2001	2000
Gross unrealized gains	$1,705	$1,192	$ 477
Gross unrealized losses	(14)	(58)	(120)
Net unrealized gain (loss)	$1,691	$1,134	$ 357

The Company's share of the net unrealized gain on the debt securities of Sunshine was $19 at December 31, 2002 and the Company's share of the net unrealized gain on the debt securities of Sunshine and QualSure was $103 and $(37) at December 31, 2001 and 2000, respectively.

Net investment income consists of the following:

	2002	2001	2000
Debt securities	$2,140	$2,203	$2,460
Short-term investments	172	384	286
Other	7	79	46
Total investment income	2,319	2,666	2,792
Investment expenses	(136)	(166)	(132)
Net investment income	$2,183	$2,500	$2,660

Accretion of bond discount, net of amortization of bond premium, increased the Company's net investment income by $44, $55 and $50 for the years ended December 31, 2002, 2001 and 2000.

NOTE 3 PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 is as follows:

DESCRIPTION	ESTIMATED LIFE	2002	2001
Leasehold improvements	1-5 years	$ 420	$ 1,639
Data processing equipment and software	1-7 years	1,397	8,384
Furniture, fixtures and equipment	2-7 years	143	6,451
Automobiles	3-5 years	34	46
		1,994	16,520
Accumulated depreciation		(1,001)	(15,713)
		$ 993	$ 807

NOTE 3 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense charged to operations was $442 in 2002, $390 in 2001, and $1,451 in 2000.

In December 2000, the Company sold its corporate headquarters with a net book value of $2,589 to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer for $4,500, resulting in a gain of $1,892. Expenses incurred in connection with the sale were $19. Concurrent with this transaction, the Company leased the property back for a fixed period of three years without an option for renewal. The gain resulting from this transaction has been deferred and is being amortized into income evenly over the term of the leaseback. Included in the Other Income line item of the accompanying Statements of Operations for the years ended December 31, 2002 and 2001 is $631 of amortized gain associated with this transaction.

In connection with the sale of the renewal rights to its NFIP business to The Hartford, the Company determined that certain data processing equipment and software used in that operation had been impaired resulting in a realized loss of $27. Such assets are no longer in use by the Company and are not readily marketable.

NOTE 4 DEFERRED POLICY ACQUISITION COSTS

Policy acquisition costs incurred and amortized to income on property and casualty business were as follows:

	2002	2001
Deferred at beginning of year	$ 1,200	$ 400
Costs incurred and deferred during year:		
Commissions and brokerage	16,106	17,147

Taxes, licenses and fees	4,195	4,052
Other	2,481	2,763
Total	22,782	23,962
Amortization charged to income during year	(22,814)	(23,162)
Deferred at end of year	$ 1,168	$ 1,200

NOTE 5 REINSURANCE

A reconciliation of direct to net premiums, on both a written and an earned basis is as follows:

	2002		2001		2000	
	WRITTEN	EARNED	WRITTEN	EARNED	WRITTEN	EARNED
Direct	$ 98,240	$104,540	$112,282	$ 115,387	$ 125,018	$ 141,24
Assumed	53	59	(454)	(169)	1,185	1,42
Ceded	(82,613)	(88,938)	(96,335)	(100,785)	(101,806)	(117,53
Net	$ 15,680	$ 15,661	$ 15,493	$ 14,433	$ 24,397	$ 25,13

NOTE 5 REINSURANCE (CONTINUED)

A significant portion of the Company's direct business is ceded to the SC Facility, the NC Facility and the NFIP. Therefore, the Company retains no risk of loss related to this business. Each of these programs is guaranteed by the applicable state or the Federal government. In the event that premiums charged for the business are not sufficient to cover the individual program's liabilities, the applicable state or the Federal government has the ability to increase premium rates, assess member companies and charge premium surcharges to the insureds. The Company is subject to periodic examination by the state or the Federal government to ensure its compliance with the guidelines of the servicing carrier operation.

Reinsurance contracts do not relieve the Company of its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurer to minimize its exposure to significant losses from reinsurer insolvency. Amounts due from reinsurance companies for prepaid reinsurance premiums, unpaid losses and LAE, and paid losses and LAE are as follows:

	2002	2001
Prepaid reinsurance premiums	$30,224	$36,548
Unpaid losses and LAE	30,786	40,832
Paid losses and LAE	7,289	10,246

A summary of the Company's reinsurance recoverable on paid and unpaid losses and LAE, as well as its prepaid reinsurance premiums at December 31, 2002 is as follows:

	A.M. BEST RATING	REINSURANCE RECOVERABLE	PREPAID REINSURAN
NC Facility	N/A	$24,019	$ 5,165
Swiss Reinsurance Corporation	A++	5,473	--
SC Facility	N/A	5,399	125
Erie Insurance Exchange	A++	1,165	--
Motors Insurance Corporation	A+	928	2,084
NFIP	N/A	272	22,796
American Reinsurance Company	A+	158	--
Dorinco Reinsurance Company	A	87	--
GE Reinsurance Company	A+	85	--
National Reinsurance Corporation	N/A	82	--
All others	N/A	407	54
Totals		$38,075	$30,224

"N/A" designates that the company is not rated.

The Company believes that the balances due from the NC Facility, the SC Facility and the NFIP are fully collectable due to the applicable governmental agency's backing and/or ability to assess policyholders and member companies for deficiencies. The remaining recoverables due from nonaffiliated reinsurance companies are also considered fully collectable by the Company.

NOTE 6 PROPERTY AND CASUALTY UNPAID LOSSES AND LAE

The following table summarizes net property and casualty losses and LAE incurred:

	2002	2001	2000
Direct losses and LAE incurred	$ 53,074	$ 74,763	$ 97,551

Estimated reinsurance recoveries on losses and LAE incurred	(43,640)	(67,023)	(73,106)
Net losses and LAE incurred	$ 9,434	$ 7,740	$ 24,445

Direct losses and LAE incurred have been reduced by recoveries made and estimated to be made from reinsurers based on projected ultimate losses. Such amounts also include substantial amounts related to the business produced as a servicing carrier for the SC Facility, the NC Facility and the NFIP.

Activity in the liability for unpaid losses and LAE is summarized as follows:

	2002	2001	2000
Liability for losses and LAE at the beginning of the year:			
Gross liability per balance sheet	$ 66,875	$ 85,833	$113,850
Ceded reinsurance recoverable, classified as an asset	(40,832)	(50,012)	(74,017)
Net liability	26,043	35,821	39,833
Provision for losses and LAE for claims occurring in the current year	8,464	7,717	22,090
Increase in estimated losses and LAE for claims occurring in prior years	970	23	2,355
	9,434	7,740	24,445
Loss and LAE payments for claims occurring during:			
Current year	5,044	5,060	11,608
Prior years	7,509	12,458	16,849
	12,553	17,518	28,457
Liability for losses and LAE at the end of the year:			
Net liability	22,924	26,043	35,821
Ceded reinsurance recoverable, classified as an asset	30,786	40,832	50,012
Gross liability per balance sheet	$ 53,710	$ 66,875	$ 85,833

The ceded reinsurance recoverable on unpaid losses and LAE, classified as an asset, includes $23,473, $31,369 and $37,318 at December 31, 2002, 2001 and 2000, respectively of balances recoverable from the SC Facility, the NC Facility and the NFIP.

Incurred losses for the years ended December 31, 2002, 2001 and 2000, include changes in estimates of unpaid losses and LAE for claims occurring in prior years of $970, $23 and $2,355. The Company's runoff environmental and general liability business (see discussion to follow) is the primary source of the unfavorable development of reserves from prior accident years. During 2000, the development resulted from general reserve strengthening in response to unexpectedly high loss and LAE payments during the year. While there was no significant development of these reserves during

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 6 PROPERTY AND CASUALTY UNPAID LOSSES AND LAE (CONTINUED)

2001, additional environmental reserves for prior accident years were recorded during 2002 as a result of the Company receiving notification that it would be required to assume a proportionally larger share of liability for claims shared with the insolvent Reliance Insurance Company. Furthermore, the Company experienced a sharp increase in the trend of new claims associated with its runoff environmental and general liability business during 2002. The LAE incurred in connection with defending the Company, as well as the strengthening of LAE reserves as a result of the change in trends, resulted in additional adverse development.

A part of the Company's reserve for losses and LAE is for environmental, pollution, and toxic tort claims. These claims relate to business written by the Company's previously owned West Coast operation prior to 1986. On June 7, 1994, the Company settled a dispute related to approximately 400 of these claims. Any future liability on these claims is limited to 50% of the direct loss and LAE paid. The Company's obligation does not begin until the other company involved in the settled dispute pays, subsequent to the settlement date, a total of $20,000 in losses and LAE. Current third party actuarial estimates indicate that the other company involved in the settled dispute will not reach the threshold at which the Company must begin sharing the liability.

Of the remaining environmental, pollution and toxic tort claims, the following activity took place during 2002 and 2001:

	2002	2001
Pending, January 1	38	40
New claims advised	7	7
Claims settled	(15)	(9)
Pending, December 31	30	38

The policies corresponding to these claims were written on a direct basis. The Company has excess of loss reinsurance with company retention through 1980 of $100 and between $250 and $500 thereafter. The claims are reserved as follows as of December 31:

	2002	2001
Case reserves	$2,297	$2,614
LAE reserves	2,500	1,770
IBNR reserves	1,301	1,610
Total	$6,098	$5,994

The claims involve four Superfund sites, nine asbestos or toxic claims, seven underground storage tanks and ten miscellaneous clean-up sites. For this direct business there are usually several different insurers participating in the defense and settlement of claims made against the insured. Costs and settlements are pro-rated by either time on the risk or policy limits.

In estimating the liability for reported and estimated losses and LAE related to environmental and construction defect claims, management considers facts currently known along with current laws and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation)

NOTE 6 PROPERTY AND CASUALTY UNPAID LOSSES AND LAE (CONTINUED)
when sufficient information has been developed to indicate the involvement of a specific insurance policy and management can reasonably estimate its liability. In exposures on both known and unasserted claims, estimates of the liabilities are reviewed and updated continually. The potential development of losses is restricted by policy limits.

NOTE 7 DEBT

On March 31, 1998, the Company entered into a $15,000 Credit Facility with a major lending institution for the purpose of financing its acquisition activity and other general corporate purposes. Quarterly principal payments began in March 1999 and the final payment of all remaining principal and accrued interest was to be in June 2004. Accrued interest was payable monthly on the outstanding balance under the Credit Facility and was calculated using a pre-determined spread over LIBOR. On March 28, 2002, the outstanding balance of the Credit Facility was repaid in full with the proceeds from the issuance of Adjustable Rate Cumulative Nonvoting Preferred Special Stock to the Company's majority shareholder, Chairman of the Board of Directors and Chief Executive Officer (see Note 9).

NOTE 8 INCOME TAXES

The Company and its subsidiaries file a consolidated federal income tax return. A formal tax-sharing agreement has been established by the Company with its subsidiaries. A reconciliation of the income tax provision to that computed by applying the statutory federal income tax rate to the income (loss) before provision for income taxes is as follows:

	2002	2001	2000
Federal income tax provision (benefit) at statutory rates...	$ 2,072	$ 1,495	$(5,223)
(Decrease) increase in taxes due to:			
Tax exempt interest income..............................	(5)	(7)	(6)
Non-deductible special items charges.....................	--	--	4,325
Nontaxable proceeds on settlement of life insurance policy..	(105)	--	--
Changes in valuation allowances..........................	(1,938)	(1,530)	831

Other	(54)	72	73
(Benefit) provision for income taxes	$ (30)	$ 30	$ --

The (benefit) provision for income taxes on income from operations consists of current income taxes resulting from the effects of alternative minimum tax. The change in deferred amounts has been offset by the valuation allowance.

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 8 INCOME TAXES (CONTINUED)

Deferred tax liabilities and assets at December 31, 2002 and 2001 are comprised of the following:

	2002 TAX EFFECT	2001 TAX EFFECT
Deferred tax liabilities:		
Deferred acquisition costs	$ 397	$ 408
Property and equipment	325	304
Net unrealized investing gains	575	386
Other	86	439
Total deferred tax liabilities	1,383	1,537
Deferred tax assets:		
Net operating loss carryforwards	(10,198)	(11,688)
Insurance reserves	(1,825)	(1,006)
Deferred gain on sale of NFIP renewal rights	(1,071)	--
Bad debts	(912)	(500)
Deferred gain on sale of property	(472)	(413)
Deferred revenue on service contracts	(356)	(125)
Other	(305)	(205)
Total deferred tax assets	(15,139)	(13,937)
Valuation allowance	13,756	12,400
Net deferred tax liabilities	$ --	$ --

The Company has determined, based on its recent earnings history, that a valuation allowance should be maintained against the deferred tax asset at December 31, 2002 and 2001.

The Company has unused tax operating loss carryforwards and capital loss carryforwards of $92,198 for income tax purposes. However, due to "change in ownership" events that occurred in June 1998, January 1997, and January 1995, the Company's use of the net operating loss carryforwards are subject to maximum limitations in future years of approximately $2,205 per year. Net operating loss

carryforwards available for use in 2003 are approximately $6,428 due to losses incurred after the June 1998 change in ownership event occurred and the carryover of previous years' unused limitations.

NOTE 8 INCOME TAXES (CONTINUED)

The years of expiration of the tax carryforwards are as follows:

YEAR OF EXPIRATION	NET OPERATING LOSS
2004	$ 2,478
2006	20,411
2007	31,931
2009	19,342
2010	3,918
2011	1,764
2012	690
2018	3,988
2019	7,265
2020	411
	$92,198

NOTE 9 SPECIAL STOCK

On December 1, 1997, the Company issued 220,000 shares of Cumulative, Convertible, Redeemable, Nonvoting Special Preferred Stock ("Special Stock") in connection with an acquisition. The Company determined the value of the Special Stock at the issuance date to be $2,200. The Special Stock paid quarterly dividends at an annual rate of $0.62 per share. In January 2001, the holders of the Special Stock surrendered, and the Company cancelled, 11,000 shares of the Special Stock to settle a dispute between the Company and the holders. The Company paid $81, $130 and $137 in special stock dividends for the years ended December 31, 2002, 2001, and 2000, respectively. On August 15, 2002, the Company redeemed the Special Stock at a price of $10.00 per share.

On March 31, 1998, the Company issued 50,000 shares of Cumulative, Convertible, Redeemable, Nonvoting Special Preferred Stock ("AFS Special Stock") in connection with its acquisition of AFS. The Company determined the value of the AFS Special Stock at the issuance date to be $500. The AFS Special Stock paid quarterly dividends at an annual rate of $0.625 per share. The Company paid $20, $31 and $31 in special stock dividends for the years ended December 31, 2002, 2001 and 2000, respectively. On August 15, 2002, the Company redeemed the AFS Special Stock at a price of $10.00 per share.

On March 28, 2002, the Company issued 800,000 shares of Adjustable Rate Cumulative Nonvoting Preferred Special Stock to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer for an aggregate

purchase price of $8,000. The proceeds from the transaction were used to repay the outstanding balance of the Company's Credit Facility and for general corporate purposes. The Adjustable Rate Cumulative Nonvoting Preferred Special Stock is nonconvertible and nonredeemable and pays quarterly dividends at an annual adjustable rate of 3.5% plus LIBOR (4.9% at December 31, 2002). The Company paid $329 in preferred special stock dividends for the year ended December 31, 2002.

NOTE 10 EARNINGS PER SHARE

The following table shows the computation of the Company's income (loss) per share:

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	SHAR AMOU
FOR THE YEAR ENDED DECEMBER 31, 2002:			
Net income	$ 6,123		
Less: Preferred stock dividends	(430)		
Basic EPS	5,693	7,832	$ 0.
Effect of dilutive securities:			
Convertible preferred stock	101	202	
Stock options and warrants	--	54	
Diluted EPS	$ 5,794	8,088	$ 0.
FOR THE YEAR ENDED DECEMBER 31, 2001:			
Net income	$ 4,366		
Less: Preferred stock dividends	(161)		
Basic EPS	4,205	7,832	$ 0.
Effect of dilutive securities:			
Convertible preferred stock	161	324	
Stock options and warrants	--	50	
Diluted EPS	$ 4,366	8,206	$ 0.
FOR THE YEAR ENDED DECEMBER 31, 2000:			
Net loss	$(15,361)		
Less: Preferred stock dividends	(168)		
Basic and diluted EPS	$(15,529)	7,832	$(1.

Options and warrants to purchase shares of common stock that were outstanding during the year but not included in the computation of diluted EPS because their effect would be antidilutive is summarized as follows:

FOR THE YEAR ENDED DECEMBER 31:	SHARES EXCLUDED	EXERCISE PRICE: LOW	HIGH
2002	641,386	$1.81	$10.50
2001	553,439	2.55	10.50
2000	1,121,759	1.09	22.00

NOTE 11 DIVIDEND RESTRICTIONS AND STATUTORY REPORTING

The Seibels Bruce Group, Inc. is a legal entity separate and distinct from its subsidiaries. As a holding company, the primary sources of cash needed to meet its obligations, including the lease payments on its corporate headquarters and the dividend payments associated with the Adjustable Rate Cumulative Nonvoting Preferred Special Stock held by its majority shareholder, Chairman of the Board

NOTE 11 DIVIDEND RESTRICTIONS AND STATUTORY REPORTING (CONTINUED)

of Directors and Chief Executive Officer, are dividends and other permitted payments, including management fees, from its subsidiaries and affiliates.

SCIC, Catawba and CAIC are regulated by the SCDOI. The South Carolina Insurance Holding Company Regulatory Act requires that all non-extraordinary dividends be approved by the SCDOI prior to payment. Extraordinary dividends are defined as dividends within a 12-month period that exceed the lesser of (i) 10% of an insurer's surplus as regards policyholders as shown in the insurer's most recent Annual Statement, or (ii) net income, not including realized capital gains or losses, as shown in the insurer's most recent Annual Statement. Extraordinary dividends must be approved by the Commissioner of the SCDOI, or his designee, prior to payment.

UIC is regulated by the NCDOI. The North Carolina Insurance Holding Company System Regulatory Act allows payment of non-extraordinary dividends without prior approval of the Commissioner of the NCDOI provided that, in the Commissioner's judgment, the dividends do not impair the financial soundness of the company or are not detrimental to its policyholders. Extraordinary dividends are defined as dividends within a 12-month period that exceed the lesser of (i) 10% of an insurer's surplus as regards policyholders as of the preceding December 31, or (ii) net income, not including realized capital gains, for the 12-month period ending the preceding December 31. In determining whether a dividend or distribution is extraordinary, an insurer other than a life insurer may carry forward net income from the previous two calendar years that has not already been paid out as dividends. Extraordinary dividends must be approved by the Commissioner of the NCDOI prior to payment.

The Company's insurance subsidiaries' assets, liabilities and results of operations have been reported in these consolidated financial statements in accordance with GAAP, which varies from statutory accounting practices ("SAP")

prescribed or permitted by insurance regulatory authorities. Prescribed statutory accounting practices are found in a variety of publications of the National Association of Insurance Commissioners ("NAIC"), state laws and regulations, as well as through general practices. The principal differences between SAP and GAAP are that under SAP: (1) certain assets that are not admitted assets are eliminated from the balance sheet, (2) acquisition costs for policies are expensed as incurred, while they may be deferred and amortized over the estimated life of the policies under GAAP, (3) deferred tax assets calculated for statutory purposes are subject to an admissibility test and (4) the gains on the sale-leaseback of property and the sale of the renewal rights to the Company's NFIP business are not deferred. Each of the Company's insurance subsidiaries must file with applicable state insurance regulatory authorities an "Annual Statement" which reports, among other items, net income (loss) and shareholders' equity (called "surplus as regards policyholders" in statutory reporting).

NOTE 11 DIVIDEND RESTRICTIONS AND STATUTORY REPORTING (CONTINUED)

A reconciliation between the GAAP net income (loss) and the statutory net income (loss) of the insurance subsidiaries is as follows for the year ended December 31:

	2002	2001	2000
GAAP net income (loss)	$ 6,123	$ 4,366	$(15,361)
(Decrease) increase due to:			
Dividends paid and received between statutory subsidiaries	6,000	--	--
Deferral of gain on sale of renewal rights to NFIP business	3,149	--	--
Equity in loss (earnings) of unconsolidated subsidiary	244	578	(66)
Decrease in salvage/subrogation recoverable	22	334	369
Decrease (increase) in deferred policy acquisition costs	32	(800)	973
(Decrease) increase in deferred ceding commission income	(65)	65	--
(Amortization) deferral of gain on sale of property	(631)	(631)	1,892
GAAP-only items and results of non-statutory subsidiaries	(4,167)	(1,283)	1,982
Excess of GAAP gain over SAP loss on redemption of QualSure	(756)	--	--
Realized gain on liquidation of subsidiary	--	--	(893)
Other, net	--	--	21
Statutory net income (loss)	$ 9,951	$ 2,629	$(11,083)

A reconciliation between GAAP shareholders' equity and surplus as regards policyholders, at December 31, is as follows:

	2002	2001
GAAP shareholders' equity	$31,224	$16,974
Increase (decrease) due to:		
Deferred gain on sale of renewal rights to NFIP business	3,149	--
Deferred gain on sale of property	630	1,261
Deferred ceding commission income	--	65
Deferred policy acquisition costs	(1,168)	(1,200)
GAAP-only items and other non-statutory companies' shareholders' equity	(5,726)	3,390
Salvage/subrogation recoverable	(183)	(205)
Assets nonadmitted for statutory surplus	(29)	(150)
Surplus as regards policyholders	$27,897	$20,135

Effective January 1, 2001, both the North Carolina and South Carolina Departments of Insurance adopted the Codification of Statutory Accounting Principles ("Codification") as the prescribed basis of accounting for insurance companies domiciled in their respective states. Accordingly, all of the Company's statutory subsidiaries adopted Codification effective January 1, 2001. Adoption of Codification did not have a material effect on the financial statements of any of the Company's statutory subsidiaries.

Since before the Company's acquisition of UIC in 1997, UIC has operated, and continues to operate, under the Regulatory Action Division ("RAD") of the NCDOI. Under the requirements of

NOTE 11 DIVIDEND RESTRICTIONS AND STATUTORY REPORTING (CONTINUED)

the RAD, UIC is required to submit monthly financial statements to the NCDOI. On August 21, 2002, the SCDOI issued an Order Imposing Administrative Supervision and Appointing Supervisor that placed SCIC, Catawba and CAIC under administrative supervision (see Note 1).

NOTE 12 BENEFIT AND STOCK OPTION PLANS

STOCK OPTIONS AND STOCK OPTION PLANS

The Company currently has three plans under which stock options and incentive stock may be granted to employees, non-employee directors, consultants and active independent agents of the Company. Under the 1996 Stock Option Plan for Employees ("Employee Plan") and the 1995 Stock Option Plan for Independent Agents ("Agents Plan"), stock options expire five (5) years from the date of grant. Under the 1995 Stock Option Plan for Non-Employee Directors ("Directors Plan"), the options expire ten (10) years from the date of grant. Each plan is administered by a committee appointed by the Board of Directors.

The Employee Plan became effective on November 1, 1995. The Employee Plan has reserved 2,500,000 shares of the Company's common stock for issuance under the plan as options and incentive stock to employees and consultants of the

Company. Activity in the Employee Plan is summarized as follows:

	2002	2001	2000
Shares under options outstanding, beginning of year.........	436,519	676,257	1,306,559
Granted during the year....................................	--	--	--
Exercised during the year..................................	--	--	--
Canceled or expired during the year........................	(57,974)	(239,738)	(630,302)
Shares under options outstanding, end of year..............	378,545	436,519	676,257
Shares under options exercisable, end of year..............	378,545	436,519	601,581

Options vest at the discretion of the Compensation Committee of the Company's Board of Directors. All grants made under the Employee Plan have exercise prices no lower than the market price at the date of grant. At December 31, 2002, 1,933,968 shares of the Company's common stock have been reserved for future grants. Following is a summary of options outstanding and exercisable by price range as of December 31, 2002:

	OPTIONS OUTSTANDING		OPTIONS EXERCISAB	
RANGE OF EXERCISE PRICES	OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	EXERCISABLE
$2.20 - $4.40....................	163,780	0.9	$3.41	163,780
$4.40 - $6.60....................	17,875	1.5	5.07	17,875
$6.60 - $8.13....................	196,890	0.2	7.46	196,890
	378,545	0.6	$5.59	378,545

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THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 12 BENEFIT AND STOCK OPTION PLANS (CONTINUED)

The Agents Plan became effective on June 15, 1996. The Agents Plan has reserved 125,000 shares of the Company's common stock for issuance under the plan as options to independent insurance agents of the Company. Activity in the Agents Plan is summarized as follows:

	2002	2001	2000

Shares under options outstanding, beginning of year.........	26,120	37,675	49,325
Granted during the year....................................	--	2,500	3,950
Exercised during the year..................................	--	--	(300)
Canceled or expired during the year........................	(1,250)	(14,055)	(15,300)
Shares under options outstanding, end of year..............	24,870	26,120	37,675
Shares under options exercisable, end of year..............	22,870	22,620	34,675

Options vest at the discretion of the 1995 Stock Option Plan for Independent Agents Committee. All grants made under the Agents Plan have exercise prices no lower than the market price at the date of grant. Options granted during 2001 and 2000 were granted at exercise prices of $2.01 and $1.83, respectively. At December 31, 2002, 95,581 shares of the Company's common stock have been reserved for future grants. Following is a summary of options outstanding and exercisable by price range as of December 31, 2002:

	OPTIONS OUTSTANDING		OPTIONS EXERCISAB	
RANGE OF EXERCISE PRICES	OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	EXERCISABLE
$0.00 - $2.20....................	5,450	2.7	$1.92	3,450
$2.20 - $4.40....................	870	1.1	3.68	870
$4.40 - $6.60....................	9,150	1.4	4.75	9,150
$6.60 - $8.13....................	9,400	0.3	6.97	9,400
	24,870	1.3	$4.93	22,870

The Directors Plan became effective on June 15, 1995, with 250,000 shares of the Company's common stock reserved for issuance under the plan. Activity in the Directors Plan is summarized as follows:

	2002	2001	2000
Shares under options outstanding, beginning of year.........	55,000	50,000	42,500
Granted during the year....................................	8,750	8,750	10,000
Exercised during the year..................................	--	--	--
Canceled or expired during the year........................	--	(3,750)	(2,500)
Shares under options outstanding, end of year..............	63,750	55,000	50,000
Shares under options exercisable, end of year..............	63,750	55,000	50,000

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 12 BENEFIT AND STOCK OPTION PLANS (CONTINUED)

Under the Directors Plan, all non-employee directors holding office on June 15 of each year are granted 1,250 fully vested options to purchase the Company's common stock. All grants made under the Directors Plan have exercise prices no lower than the market price at the date of grant. Options granted during 2002, 2001 and 2000 were granted at exercise prices of $2.50, $2.55 and $1.09, respectively. At December 31, 2002, 182,500 shares of the Company's common stock have been reserved for future grants. Following is a summary of options outstanding and exercisable by price range as of December 31, 2002:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING		OPTIONS EXERCISAB	
	OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	EXERCISABLE
$0.00 - $ 2.20..................	8,750	7.5	$ 1.09	8,750
$2.20 - $ 4.40..................	21,250	7.8	2.70	21,250
$4.40 - $ 6.60..................	10,000	6.5	4.75	10,000
$6.60 - $ 8.13..................	18,750	5.0	7.09	18,750
$8.80 - $10.50..................	5,000	3.5	10.50	5,000
	63,750	6.4	$ 4.70	63,750

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for its three stock option plans. Had compensation costs for the Company's stock option plans been determined based on the fair value at the grant date for awards in 2002, 2001 and 2000 consistent with the provisions of SFAS No. 123, the Company's net income (loss) and income (loss) per share would have been as follows:

	2002	2001	2000
As reported:			
Net income (loss)......................................	$6,123	$4,366	$(15,361)
Income (loss) per share:			
Basic..	0.73	0.54	(1.98)
Diluted..	0.72	0.53	(1.98)
Pro forma:			
Net income (loss)......................................	$6,103	$4,358	$(15,367)
Income (loss) per share:			
Basic..	0.72	0.54	(1.98)
Diluted..	0.71	0.53	(1.98)

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 12 BENEFIT AND STOCK OPTION PLANS (CONTINUED)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2002		
	EMPLOYEE PLAN	DIRECTORS PLAN	AGENTS
Expected dividend yield	--	0%	
Expected stock price volatility	--	7.90%	
Risk-free interest rate	--	4.83%	
Expected life of options	--	8.06 years	

	2001		
	EMPLOYEE PLAN	DIRECTORS PLAN	AGENTS
Expected dividend yield	--	0%	
Expected stock price volatility	--	7.79%	7
Risk-free interest rate	--	5.27%	4
Expected life of options	--	7.83 years	3.09 ye

	2000		
	EMPLOYEE PLAN	DIRECTORS PLAN	AGENTS
Expected dividend yield	--	0%	
Expected stock price volatility	--	7.65%	7
Risk-free interest rate	--	6.26%	6
Expected life of options	--	7.54 years	3.08 ye

WARRANTS

During the year ended December 31, 2001, the Company issued warrants to purchase 75,000 shares of its common stock at a price of $2.00 per share and an additional 75,000 shares of its common stock at a price of $1.00 per share in connection with the settlement of liabilities assumed in an acquisition. The warrants expire February 19, 2006.

In connection with the elimination of certain debt and the settlement of certain litigation during the year ended December 31, 2000, the Company issued warrants to purchase 25,000 shares of its common stock at a price of $3.00 per share and an additional 25,000 shares of its common stock at a price of $7.00 per share. The warrants expire upon the death of the holder.

During the year ended December 31, 1998, the Company issued warrants to purchase 57,971 shares of its common stock to the holder of its Credit Facility that was repaid on March 28, 2002 (see Note 7). The warrants currently allow for the purchase of the Company's stock at a price of $2.00 per share and expire September 30, 2004.

NOTE 12 BENEFIT AND STOCK OPTION PLANS (CONTINUED)

OTHER BENEFIT PLANS

The Company sponsors the South Carolina Insurance Company Employees' Profit-Sharing and Savings Plan (the "Plan"), which provides both a profit-sharing and a 401(k) element for the employees of the Company, its subsidiaries and affiliates. As of December 31, 2002, the amount of assets available in the Plan was $9,516. The profit-sharing element of the Plan covers all full-time employees who have met minimum eligibility requirements. There were no contributions to this part of the Plan in 2002, 2001 or 2000. Under the 401(k) element of the Plan, employees may elect to have a portion of their salary withheld from pre-tax wages for investment in the Plan, subject to limitations imposed by IRS regulations. The Company matches 50% of the first 6% of the employee's contribution to the Plan. The Company's contribution to the Plan on behalf of the participating employees was $268, $244, and $310 in 2002, 2001, and 2000 respectively.

The Company currently provides certain health care and life insurance benefits for certain retired employees. The projected future cost of providing post-retirement benefits is reflected as an expense as employees render services instead of when the benefits are paid. The net transition obligation is being recorded as a charge against income on a prospective basis as part of the future annual benefit cost. Post-retirement benefit expense was approximately $59 in 2002, $70 in 2001, and $110 in 2000.

	2002	2001
Benefit obligation, beginning of year	$ 521	$ 850
Service cost	6	7
Interest cost	32	37
Plan participants' contributions	20	23
Actuarial gain	(57)	(348)
Benefits paid	(52)	(49)
Benefit obligation, end of year	470	520
Fair value of plan assets	--	--

Funded status of plan	470	520
Unrecognized actuarial gain (loss)	249	202
Unrecognized net transition obligation	(314)	(345)
Net obligation	$ 405	$ 377
Weighted-average assumed discount rate	6.75%	7.25%

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 12 BENEFIT AND STOCK OPTION PLANS (CONTINUED)

	2002	2001
Components of net periodic benefit cost:		
Service cost	$ 6	$ 7
Interest cost	32	37
Amortization of unrecognized transitional liability	31	31
Recognition of net actuarial (gain) loss	(10)	(5)
	$ 59	$70

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was 10.0% for 2002 (11% for 2001) and is assumed to decrease to a 5% ultimate trend with a duration to ultimate trend of five years (six years in 2001). Increasing or decreasing the assumed health care cost trend rate by one percentage point would have no significant effect on the post-retirement benefit obligation as of December 31, 2002.

NOTE 13 SEGMENT REPORTING

Reportable segments are determined based on management's internal reporting approach, which is based on product line and complementary coverages. The reportable segments are comprised of Automobile, Flood, Commercial, Adjusting Services and All Other. Following is a summary of the Company's reporting segments with indications of whether the supporting operating segments are risk-bearing or fee-based operations and whether the supporting operating segments are ongoing operations or in runoff:

	OPERATION:		
SEGMENT	DESCRIPTION	TYPE	STATUS
Automobile:	UIC nonstandard automobile	Both	Ongoing
	Catawba nonowners automobile	Risk-bearing	Ongoing

	Nashville and SC automobile	Risk-bearing	Runoff
	SC Facility and SCAAIP	Fee-based	Runoff
	Premium financing	Fee-based	Runoff
Flood:	AFS operations	Fee-based	Ongoing
	NFIP	Fee-based	Runoff
Commercial:	Commercial operations	Risk-bearing	Ongoing
Adjusting Services:	INS operations	Fee-based	Ongoing
All Other:	HDC Program	Risk-bearing	Runoff
	Managing general agent	Fee-based	Runoff
	All other	Risk-bearing	Runoff

While the majority of revenues and expenses are captured directly by each reportable segment, the Company does have shared income and expenses. Shared income comprised approximately 67%, 35% and 35% of "all other income" in fiscal 2002, 2001 and 2000, respectively. The gain on the sale of investment in the common stock of ISO accounted for 26% of shared "all other income" for fiscal 2002

NOTE 13 SEGMENT REPORTING (CONTINUED)
(see Note 2). Shared expenses comprised approximately 4%, 2% and 2% of "all other expenses" in fiscal 2002, 2001 and 2000, respectively. These shared amounts were allocated on a basis proportionate with each reportable segment's total net loss and LAE and unearned premium reserves. The results of the reportable segments are included in the following tables:

	FOR THE YEAR ENDED DECEMBER 31, 2002				
	AUTOMOBILE	FLOOD	COMMERCIAL	ADJUSTING SERVICES	ALL
REVENUES:					
Commission and service income.............	$ 6,854	$17,152	$ 467	$7,233	$2,
Property and casualty premiums earned.....	5,765	--	9,290	--	
All other income..........................	2,479	378	1,569	977	2,
Total revenues.........................	15,098	17,530	11,326	8,210	4,
EXPENSES:					
Losses and loss adjustment expenses.......	2,953	--	4,615	--	1,
All other expenses........................	10,739	16,564	4,935	7,338	2,
Total expenses.........................	13,692	16,564	9,550	7,338	3,
INCOME FROM OPERATIONS BEFORE BENEFIT FOR INCOME TAXES............................	1,406	966	1,776	872	1,
Benefit for income taxes..................	7	5	9	4	

NET INCOME	$ 1,413	$ 971	$ 1,785	$ 876	$1,

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 13 SEGMENT REPORTING (CONTINUED)

	AS OF DECEMBER 31, 2002				
	AUTOMOBILE	FLOOD	COMMERCIAL	ADJUSTING SERVICES	ALL O
TOTAL ASSETS	$35,317	$41,007	$26,492	$19,205	$11,
LIABILITIES:					
Losses and loss adjustment expenses	$27,683	$ 271	$ 4,277	$ --	$21,
Unearned premiums	8,487	22,795	5,064	--	
All other liabilities	3,271	3,799	2,454	1,779	1,
Total liabilities	$39,441	$26,865	$11,795	$ 1,779	$22,

	FOR THE YEAR ENDED DECEMBER 31, 2001				
	AUTOMOBILE	FLOOD	COMMERCIAL	ADJUSTING SERVICES	ALL
REVENUES:					
Commission and service income	$10,089	$16,984	$ 689	$ 8,435	$
Property and casualty premiums earned	7,004	--	7,379	--	
All other income	3,233	106	310	1,797	1,
Total revenues	20,326	17,090	8,378	10,232	1,
EXPENSES:					
Losses and loss adjustment expenses	2,928	385	3,039	--	1,
Special items	(156)	--	--	--	
All other expenses	15,206	15,787	4,542	9,124	
Total expenses	17,978	16,172	7,581	9,124	2,
INCOME (LOSS) FROM OPERATIONS BEFORE (PROVISION) BENEFIT FOR INCOME TAXES	2,348	918	797	1,108	(
(Provision) benefit for income taxes	(16)	(6)	(5)	(8)	
NET INCOME (LOSS)	$ 2,332	$ 912	$ 792	$ 1,100	$ (

	AS OF DECEMBER 31, 2001				
	AUTOMOBILE	FLOOD	COMMERCIAL	ADJUSTING SERVICES	ALL O
TOTAL ASSETS............................	$53,429	$44,925	$22,021	$26,894	$ 3,
LIABILITIES:					
Losses and loss adjustment expenses....	$38,448	$ 1,472	$ 3,686	$ --	$23,
Unearned premiums.....................	12,714	23,840	6,090	--	
All other liabilities.................	7,638	6,422	3,148	3,845	
Total liabilities..................	$58,800	$31,734	$12,924	$ 3,845	$23,

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THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

NOTE 13 SEGMENT REPORTING (CONTINUED)

	FOR THE YEAR ENDED DECEMBER 31, 2000				
	AUTOMOBILE	FLOOD	COMMERCIAL	ADJUSTING SERVICES	ALL O
REVENUES:					
Commission and service income............	$ 11,194	$14,791	$ 654	$ 9,249	$
Property and casualty premiums earned....	21,934	45	3,040	--	
All other income........................	5,128	52	175	2,094	1,
Total revenues........................	38,256	14,888	3,869	11,343	1,
EXPENSES:					
Losses and loss adjustment expenses......	21,183	402	1,567	--	1,
Special items...........................	8,138	--	--	--	
All other expenses......................	24,180	14,628	2,549	9,575	1,
Total expenses........................	53,501	15,030	4,116	9,575	3,
(LOSS) INCOME FROM OPERATIONS BEFORE PROVISION FOR INCOME TAXES............	(15,245)	(142)	(247)	1,768	(1,
Provision for income taxes...............	--	--	--	--	
NET (LOSS) INCOME.......................	$(15,245)	$ (142)	$ (247)	$ 1,768	$(1,

	AS OF DECEMBER 31, 2000				
	AUTOMOBILE	FLOOD	COMMERCIAL	ADJUSTING SERVICES	ALL O
TOTAL ASSETS............................	$93,108	$36,236	$ 9,418	$27,607	$ 4,
LIABILITIES:					
Losses and loss adjustment expenses....	$55,572	$ 1,061	$ 4,074	$ --	$25,
Unearned premiums.....................	16,522	22,741	6,483	--	
All other liabilities.................	13,141	5,114	1,329	3,897	
Total liabilities..................	$85,235	$28,916	$11,886	$ 3,897	$26,

NOTE 14 COMMITMENTS AND CONTINGENCIES

(a) In December 2000, the Company sold its corporate headquarters to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer. Concurrent with this transaction, the Company leased the property back for a fixed period of three years without an option for renewal. Lease expense incurred under this related party lease amounted to $290 and $458 in 2002 and 2001, respectively. Approximate minimum future lease payments are $259 in 2003.

The Company and its subsidiaries lease various other office space, computer equipment and automobiles under several operating leases that expire at various times. Lease expense amounted to

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)
$822, $1,027, and $1,320 in 2002, 2001, and 2000 respectively. Approximate minimum future lease payments under these operating leases at December 31, 2002 are as follows:

2003...	$ 797
2004...	721
2005...	462
2006...	61
Total..	$2,041

(b) A contingent liability exists with respect to reinsurance placed with other companies (See Note 5).

(c) Estimated reserves for losses and LAE for claims arising under the HDC Program have been established by the Company net of the deductible that HDC is required to pay under order of the Court. The Company has a potential off-balance sheet credit risk associated with such deductibles if the Company

were required to fund the deductibles in the event that HDC cannot pay the deductible.

The Court has ordered HDC to retain an independent actuary to estimate the unpaid losses and LAE of the HDC Program, subject to the deductible, as of December 31, 2002, and has ordered HDC to deposit funds in an equivalent amount in a Court-restricted commercial checking account to serve as the funds from which losses of the HDC Program are to be paid. The actuary retained by HDC has issued a report estimating HDC's liability for the deductibles to be $4,300 as of December 31, 2002 and HDC has deposited funds totaling $4,300 into a Court-restricted commercial checking account ($3,000 on January 29, 2003, and $1,300 on February 21, 2003) to serve as the funds from which losses are to be paid. Pursuant to the court order, the Company has retained an actuary to review the work of the actuary retained by HDC. The actuary retained by the Company has raised questions regarding aspects of the methodology used by the actuary retained by HDC and has not received a response to those questions. The Company, in consultation with its consulting actuary, has estimated that HDC's liability for the deductibles may be as much as $9,800 as of December 31, 2002. Whether the actuaries will be able to agree on an amount representing HDC's estimated liability for the deductibles at December 31, 2002 cannot be determined at this time.

(d) Litigation was initiated in the United States District Court for the Middle District of Florida, Tampa Division in November 2001 by QualSure, a Florida property and casualty insurance holding company that was formerly known as Magna Holding Corporation, and involves three of the Company's wholly-owned subsidiaries--SCIC, Catawba, and CAIC, who were the three defendants to the litigation and who collectively owned 30.625% of the stock of QualSure until October 3, 2002. Effective October 3, 2002, the ownership interest in QualSure held by SCIC, Catawba and CAIC was redeemed by QualSure. A condition of the redemption was that the litigation would be dismissed with prejudice. On October 17, 2002, the litigation was dismissed with prejudice.

(e) In February 2002, litigation was initiated in the District Court of Shelby County, Texas, in a lawsuit styled Mary Masterson, individually and on behalf of all others similarly situated, vs. America's Flood Service, Inc., et al. The litigation involves both the Company and its wholly-owned subsidiary, AFS, and is in its very earliest stages. The pleadings allege that a putative class of persons in Texas

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

received facsimile advertisements in violation of the federal Telephone Consumer Protection Act (TCPA). The plaintiffs seek statutory minimum damages of five hundred dollars per fax, plus additional damages of up to one thousand five hundred dollars per fax for allegedly knowingly violating the TCPA. AFS has filed a third-party claim against DeBroux Marketing Co. ("DeBroux") for fraud and indemnity stemming from DeBroux's transmission of the faxes at issue. Settlement discussions are ongoing, but the Company does not believe final resolution of the litigation will have a material impact on its financial statements.

(f) Litigation was initiated in the Maricopa County Superior Court, State of Arizona on March 25, 2002 by Du Pre Insurance Services, Inc., a California corporation, Infinet Holdings, Inc., an Arizona corporation, Human Dynamics

Corporation, a California corporation and HDC Financial Services Corporation, an Arizona corporation. The litigation names as defendants the Company, SCIC and CAIC. Effective January 1, 2002, the Company, through SCIC and CAIC, issued two workers' compensation insurance master policies to the HDC Group. SCIC and CAIC did not obtain the approval of the SCDOI prior to issuing the master policies and, therefore, subsequently canceled them. Litigation was initiated in the Superior Court of the State of Arizona on March 25, 2002 by the HDC Group against the Company, alleging that the Company wrongfully terminated workers compensation coverage, breached its implied duty of good faith and fair dealing by unilaterally rescinding HDC's workers compensation coverage and that the Company breached its contract with the HDC Group to provide workers compensation coverage. HDC claims its entitlement to punitive damages in an unspecified amount. On July 9, 2002, an Arizona Superior Court Judge ruled that the policies are in effect from January 1, 2002 through December 31, 2002. The Company intends to appeal the decision.

In September 2002, the Company and the HDC Group mediated several outstanding issues which resulted in an Interim Agreement between the parties that was approved by the Court in October 2002. In accordance with the court-approved Interim Agreement, the HDC Group is responsible for funding all losses of the HDC 2002 workers' compensation program. Reinsurance coverage for the HDC Program was obtained on October 21, 2002 effective for losses incurred between January 1, 2002 and December 31, 2002 and amounting to $15,000 in excess of $5,000 per occurrence. The Company, upon receiving approval from the SCDOI, elected to retain the risk for losses amounting to $4,000 in excess of $1,000 per occurrence for premiums prescribed in the court-approved Interim Agreement. In addition, the Company received or is to receive fees equal to 4% of collected premium equivalents under the HDC Program as well as reimbursement for actual boards, bureaus, assessments and premium taxes incurred for the insurance policies. All premiums not remitted to the reinsurers or to the Company were retained by the HDC Group.

In subsequent Court proceedings it was ordered that the HDC Program is to function as a large deductible workers' compensation program with HDC being responsible for all losses and LAE of the program up to $1,000 per occurrence (the "deductible"). Coverage for losses and LAE in excess of the deductible is provided by the Company, subject to its reinsurance for losses and LAE of $15,000 in excess of $5,000 per occurrence (see item (c) above).

With respect to punitive damages claimed by HDC, the Company intends to vigorously defend this matter and is considering filing a counterclaim. The ultimate outcome of this litigation cannot be reasonably determined at this time.

NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)

(g) The Company and its subsidiaries are parties to various other lawsuits generally arising in the normal course of their insurance and ancillary businesses. The Company does not believe that the eventual outcome of such suits will have a material effect on the financial condition or results of operations of the Company.

NOTE 15 RELATED PARTY TRANSACTIONS

INS recorded commission and service income of $4,608, $3,915 and $3,458,

respectively, in connection with its Claims Administration Services Agreement with QualSure. Effective October 3, 2002, the Company's ownership interest in QualSure Holding was redeemed by QualSure Holding. Under the terms of the underlying redemption agreement, INS continues to provide claim administration services to QualSure under an amended contract at a reduced rate for terms that expire from October 4, 2005 through January 21, 2010.

The Company's majority shareholder, Chairman of the Board of Directors and Chief Executive Officer is an owner and operator of SADISCO Corporation ("SADISCO"), a provider of salvage and disposal services for the Company. During the fiscal years ended December 31, 2002, 2001 and 2000, the Company paid a total of $116, $242 and $225, respectively, to SADISCO.

On December 21, 2000, the Company sold its corporate headquarters to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer. Concurrent with this transaction, the Company leased the property back for a fixed period of three years without an option for renewal. Lease expense incurred under this related party lease amounted to $290 and $458 in 2002 and 2001, respectively.

During the years ended December 31, 2002, 2001 and 2000, the Company paid a total of $12, $61 and $110 to FHI, Inc. ("FHI"), respectively, for services related to the settlement of certain outstanding litigation and other consulting services. A member of the Company's Board of Directors is the owner of FHI. For this Director's personal services, the Company paid FHI an additional $150 and $373 in 2002 and 2001, respectively.

On March 28, 2002, the Company issued 800,000 shares of $10 par value Adjustable Rate Cumulative Nonvoting Preferred Special Stock to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer for an aggregate purchase price of $8,000. The proceeds from the transaction were used to repay the outstanding balance of the Credit Facility. The Adjustable Rate Cumulative Nonvoting Preferred Special Stock pays quarterly dividends at an annual adjustable rate of 3.5% plus LIBOR (4.9% at December 31, 2002).

SUPPLEMENTARY DATA

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

The following is a summary of unaudited quarterly information for the years ended December 31, 2002 and 2001:

2002	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Commission and service income	$8,512	$8,410	$9,568	$7,363
Premiums earned	3,457	3,587	13,682	(5,065)
Net investment income	539	547	562	535
Other interest income	34	12	7	6
Net realized (loss) gain	2,136	330	13	605
Equity in (loss) earnings of unconsolidated affiliates	(17)	14	(202)	133
Other income	563	499	510	806
Net income	2,504	1,045	1,769	805

Basic income per share............................	$ 0.31	$ 0.11	$ 0.21	$ 0.09
Diluted income per share...........................	0.30	0.11	0.21	0.09
	======	======	======	======

Commission and service income showed a marked decrease in the fourth quarter of 2002 primarily as a result of the sale of the renewal rights to the Company's NFIP business to The Hartford. On September 12, 2002, the Company announced that it had received notice from FEMA that FEMA did not intend to offer SCIC and Catawba a Financial Assistance/Subsidy Arrangement with the Federal Insurance and Mitigation Administration for the fiscal year beginning October 1, 2002, effectively terminating their participation in the NFIP. On November 15, 2002, the Company announced completion of the transaction with The Hartford. Further negatively impacting overall commission and service income during 2002 was that reported by AFS. One of AFS' product offerings is a "life of loan" flood zone determination whereby AFS agrees to update the zoning status of the subject property throughout the life of the original underlying loan. AFS has deferred approximately $500 of commission and service income at December 31, 2002 associated with this product and will amortize it into income over the estimated life of the original underlying loans. Finally, commission and service income was negatively impacted during 2002 as a result of the pricing and other competitive initiatives effected by certain of UIC's competitors and the continued runoff of the SC Facility. UIC generally does not engage in pricing competitions with its competitors. Rather, UIC relies on its superior customer service, long standing agency relationships and proven commitment to the North Carolina marketplace to maintain or grow its premium volume. The SC Facility has been in runoff since March 1, 1999 but began its final stage of runoff effective March 1, 2002.

Premiums earned exhibited significant fluctuations between the second, third and fourth quarters of 2002, primarily as a result of the accounting and reporting for the HDC Program. The program was originally intended to be a fronted program, administered by HDC with minimal underwriting risk to SCIC and CAIC due to the anticipated placement of multiple layers of reinsurance coverage. SCIC and CAIC did not obtain the approval of the SCDOI prior to issuing the master policies and subsequently canceled them during the first quarter of 2002. The cancellation of these policies is the ongoing subject of litigation and mediation. On July 9, 2002, an Arizona Superior Court Judge ruled that the policies are in effect from January 1, 2002 through December 31, 2002. The Company did not receive sufficient information to enable the recording of estimated premiums earned under this fronting program until the third quarter of 2002, at which time it recorded premiums earned of $10,046 representing estimated premiums earned from January 1 through September 30, 2002. In subsequent Court proceedings it was

ordered that the HDC Program was to function as a large deductible workers' compensation program with HDC being responsible for all losses and LAE of the program up to $1,000 per occurrence (the "deductible"). The impact of this ruling is significant to the accounting treatment of the program because the premium equivalents for a large deductible program do not include amounts related to the deductible, as this risk is borne by the policyholder. Accordingly, during the fourth quarter of 2002, the Company recorded the changes to reflect the HDC Program cumulatively in 2002 as a large deductible program in accordance with the order of the Court.

Following is a comparison of the HDC Program for the quarter and nine months ended September 30, 2002 as reported (accounted for as a fronting type arrangement) and proforma disclosure of the HDC Program for the same period as if it had been accounted for as a large deductible program. The following table also includes a comparison to the actual amounts recorded with respect to this large deductible program year to date December 31, 2002:

	QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2002		QUARTER ENDED DECEMBER 31, 2002	D
	AS REPORTED (FRONTING ARRANGEMENT)	PRO FORMA (LARGE DEDUCTIBLE PROGRAM)	AS REPORTED (LARGE DEDUCTIBLE PROGRAM)	(
Direct earned premium............	$10,046	$831	$(8,502)	
Ceded earned premium.............	483	483	481	
Net earned premium...............	9,563	348	(8,983)	
Net incurred losses and LAE......	8,402	348	(7,822)	
Excess of earned premium over losses and LAE.................	1,161	--	(1,161)	
Less: Estimated boards, bureaus, assessments and premium taxes..........................	759	--	(759)	
Add: Fee income..................	--	402	802	
Net results, representing fees...	$ 402	$402	$ 400	

The trend of net investment income during 2002 is directly related to the general level of market interest rates and the relative mix and duration of the Company's investment portfolio. In the fourth quarter of 2002, the Company received cash of $8,575 related to the sale of QualSure Holding and the renewal rights to its NFIP business. However, substantially all of these proceeds remained invested in lower yielding short duration cash equivalents at December 31, 2002.

The gradually decreasing balances of other interest income is a direct result of the runoff of the Company's North Carolina premium finance operation, PBP. Beginning in December 2001 no additional premiums were financed through PBP and its reported other interest income was, therefore, that received on the runoff of already financed premiums.

The net realized gain reported in the fourth quarter of 2002 is due to the net effect of two transactions. First, effective October 3, 2002, the Company's combined ownership interest in QualSure Holding was redeemed by QualSure Holding for $4,775 resulting in a realized gain of $632. Second, in connection with the sale of the renewal rights to its NFIP business to The Hartford, the Company impaired certain data processing equipment and software used in that operation, resulting in a realized loss of $27.

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SUPPLEMENTARY DATA

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

The equity in (loss) earnings of unconsolidated subsidiary result from the Company's equity ownership interests in Sunshine State and QualSure. As each of these investments exceeds 20% of the equity of each respective company, the Company's equity in the undistributed earnings of the unconsolidated affiliates, using the equity method, are included in current earnings. Effective October 3, 2002, the Company's ownership interest in QualSure was redeemed by QualSure.

The fourth quarter increase in other income is primarily related to policy fees earned through SBC's managing general agent operation and amortization of the deferred gain on the sale of the renewal rights to the Company's NFIP business. Effective July 1, 2002, SBC entered into an agreement with a Florida domiciled insurance company to serve as managing general agent for that company's low-value dwelling homeowners' insurance program in the state of Florida until such time as that program is runoff. Therefore, the Company does not expect to recognize significant revenue related to the agreement after December 31, 2002. In its capacity as managing general agent SBC earned policy fees of $17 during the fourth quarter of 2002. On November 15, 2002, the Company announced that it had sold the right to renew or assume all of SCIC and Catawba's in-force NFIP business to The Hartford for $3,800 in cash at closing, plus up to $1,000 to be paid on November 15, 2003, if certain retention thresholds on the book of business are achieved. Provisions of the underlying sales agreement, as approved by FEMA, provide that The Hartford administer and report the Company's business to the NFIP over the transition period that ends September 30, 2003. As a result of the Company's continuing involvement with the book of business during the transition period, the gain on the transaction of $3,499 (purchase price of $3,800 less expenses of sale of $301) has been deferred and will be recognized evenly over the transition period. Included in other income for the fourth quarter of 2002 is $350 of amortized gain.

2001	1ST QUARTER	2ND QUARTER	3RD QUARTER	QU
Commission and service income	$9,152	$9,457	$9,461	$
Premiums earned	3,873	3,855	3,288	
Net investment income	651	647	600	
Other interest income	569	41	309	
Net realized (loss) gain	(218)	--	51	
Other income	720	1,009	579	
Special items	--	--	(156)	
Net income	1,019	1,050	1,186	
Basic income per share	$ 0.12	$ 0.13	$ 0.15	$
Diluted income per share	0.12	0.13	0.14	

Commission and service income showed an overall modest increase over 2000. While the Company endured continuing decreases in its commission and service income related to the SC Facility, it also experienced significant premium growth in its NFIP operations. The SC Facility began its planned runoff effective March 1, 1999, at which time no new business was accepted into the SC Facility. Effective October 1, 1999, voluntary renewals were no longer accepted by the SC Facility. However, servicing carriers were able to cede renewals to the SC Facility until March 1, 2002, at which time final runoff of the SC Facility commenced. Commission and service income attributable to the Company's NFIP operations increased 14.8% for the year ended December 31, 2001 as compared

to the same period of 2000. The increase is primarily due to obtaining several large books of flood business from independent insurance agents across the United States that was facilitated by the introduction of new

SUPPLEMENTARY DATA

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

technology. During the second and third quarters of 2001, overall commission and service income exhibited modest increases primarily due to normal cyclical fluctuations of the Company's underwriting operations for the NFIP. However, as there was very little hurricane-related claims activity for the 2001 season, commission and service income related to the NFIP decreased sharply in the fourth quarter of 2001.

Premiums earned continued to show substantial overall quarterly reductions when compared to the quarterly results of 2000. This is primarily attributable to the discontinuation of the Company's Nashville and South Carolina automobile operations at the beginning of the third quarter of 2000. Marginally offsetting the significant decrease in premiums earned through the Company's Nashville and South Carolina automobile operations was an increase in premiums earned through its Commercial operations. From April 1, 2000 through March 31, 2001, the Company ceded 70% of its written and earned premium to a reinsurer under a quota share reinsurance agreement. Effective April 1, 2001 this agreement was canceled and replaced with excess of loss and catastrophe reinsurance coverages.

Net investment income exhibited gradual decreases throughout 2001 resulting primarily from steady decreases in the general level of market interest rates and fluctuations in the Company's investment portfolio.

Other interest income experienced widely fluctuating results throughout 2001 as a result of the Company's mandatory participation in the numerous residual market pools and associations of the 46 states in which the Company's insurance subsidiaries are licensed. The Company's participation in each of these pools and associations is calculated by and communicated to the Company on a quarterly basis by a centralized statistical processing agency. Similar to the unusual fourth quarter fluctuation of other interest income in 2000, the second and third quarter fluctuations in 2001 are directly related to the time value of money consideration on recoupment premiums the Company writes for the SC Facility. The tendency for large fluctuations in this activity is heightened as the SC Facility is nearing the end stages of runoff. Excluding the effects of the mandatory residual market pools and associations, other interest income is substantially comprised of interest income on premium notes receivable earned by the Company's premium finance subsidiary, PBP. For a variety of reasons, including PBP's continuing operating losses and reassessments of the Company's strategic direction, PBP was placed into runoff in mid December 2001. Other interest income earned by PBP for the first through fourth quarters of 2001 was $266, $251, $348 and $266, respectively.

Net realized losses of $211 for the year ended December 31, 2001 resulted from the sale of certain automobiles no longer required for operations and the disposal of certain obsolete data processing equipment and software partially offset by gains realized on the liquidation of a portion of the Company's bond portfolio to fund its operations.

A substantial source of other income for the Company has historically been its Nashville and PBP operations. Other income showed substantial overall quarterly reductions in 2001 as compared to the quarterly results of 2000. This

is largely attributable to the net effect of several factors. First, at the beginning of the third quarter of 2000, the Nashville operations were discontinued. During 2001, premium activity related to the Nashville operations, upon which its policy fees are based, was insignificant. Second, as a result of PBP's operating losses and reassessments of its core competencies, the Company entered into a management contract with an unaffiliated company effective June 1, 2001 to manage the operations of PBP. As such, policy setup and the related fee income previously retained by PBP became the responsibility of the vendor. Third, the Company holds equity investments in two unconsolidated affiliates. As each of the investments exceeds 20% of the equity of each respective

company, the Company's equity in the undistributed earnings of the affiliates, using a computed equity method, are recorded as other income. Other income recorded by the Company in 2001 was a loss of $486 as compared to income in 2000 of $129. Finally, partially offsetting these decreases in other income was the amortization of the deferred gain on sale of the Company's corporate headquarters. In December 2000, the Company sold its corporate headquarters to its majority shareholder, Chairman of the Board of Directors and Chief Executive Officer, resulting in a gain of $1,892. Concurrent with this transaction, the Company leased the property back for a fixed period of three years without an option for renewal. The entire gain resulting from this transaction was deferred and is being amortized into income evenly over the term of the leaseback.

In June 2000, the Company's Board of Directors approved and the Company announced the Restructuring Plan centering on the discontinuation of its Nashville operations. The Restructuring Plan was completed by September 30, 2001, and included a final downward adjustment to the original estimated cost of $156.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On May 30, 2002, upon the recommendation of the Company's Audit Committee, the Board of Directors appointed Johnson Lambert & Co. ("Johnson Lambert") to serve as the Company's independent auditors for the fiscal year ended December 31, 2002. Johnson Lambert replaced Arthur Andersen LLP ("Andersen") which had been the Company's independent auditors since 1993. Andersen was dismissed on May 30, 2002.

Andersen's reports on the consolidated financial statements of the Company and its subsidiaries for the two previous fiscal years ended December 31, 2001 did not contain any adverse opinion or disclaimer of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's two previous fiscal years ended December 31, 2001, and the subsequent period ending May 30, 2002, there were: (i) no disagreements between the Company and Andersen on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Andersen's satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their

reports on the Company's consolidated financial statement for such years; and (ii) no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

During the Company's two most recent fiscal years ended December 31, 2001 and the subsequent interim period through May 30, 2002, the Company did not consult with Johnson Lambert with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information about the executive officers of the Company.

NAME	AGE	POSITION
Steven M. Armatoe....................	51	Vice President of Human Resources of certain subsidiaries since 1993. Employed by the Compan April 1981.
Michael A. Culbertson................	54	President of the Company since October 2002. Al the position of Director of certain subsidiarie Company. Previously served as President of Insu Network Services, Inc. and Insurance Services G Inc. from 1999 until 2000 and Vice President of subsidiaries since December 1995. Held the posi Senior Vice President of the Company from 1995- Vice President of Claims from June 1993 until J Employed by the Company in various claims capac since December 1974.
John F. Gibson.......................	52	Director, President and Chief Operating Officer certain subsidiaries since 1994.
Franklin D. Hutchinson...............	66	Senior Vice President of Insurance Operations s October 2002. Vice President of certain subsidi since June 1999. Employed by the Company since 1998. From June 1998 until October 1998, Mr. Hu served as a consultant for the South Carolina D of Insurance and from 1979 through May 1998 was by Unisun Insurance Company.
S. Melinda Hydrick...................	44	Vice President of certain subsidiaries since Ma Employed by the Company since November 1988.
Susan M. Kenney......................	32	Vice President of certain subsidiaries since Ma Previously held position of Assistant Vice Pres certain subsidiaries from February 2001 until M Employed by the Company in various marketing ca since 1996.
Matthew P. McClure...................	33	General Counsel and Corporate Secretary of the and certain subsidiaries since July 1998. Elect President in 1999. Also serves as a Director fo

		subsidiaries. Previously served as Assistant Se and Legal Counsel since November 1996.
Charles H. Powers....................	76	Chairman of the Board of Directors since 1998 a Executive Officer of the Company since October owner and operator of SADISCO since 1964. He is Vice President and Treasurer of Holland Grills North Carolina and President of PC Inc., in Myr Beach, South Carolina. Mr. Powers was designate Powers Group to serve on the Board of Directors

NAME	AGE	POSITION
Bryan D. Rivers......................	34	Treasurer of the Company and certain subsidiari October 2002. Controller of the Company and cer subsidiaries since June 1999. Prior to joining Company, Mr. Rivers was employed for eight year Arthur Andersen LLP in Columbia, South Carolina with Arthur Andersen LLP, Mr. Rivers served on Company's audit for four years as Audit Senior Audit Manager. Mr. Rivers is a Certified Public Accountant.
Gregory L. Spray.....................	55	Vice President and General Manager of certain subsidiaries since January 2001. Previously ser Vice President and Senior Consultant with Lee H Harrison from October 1999 until February 2001. that he served in various executive-level posit Integon Insurance Corporation since May 1992.

The information relating to Directors of the Company set forth under the caption "Election of Directors--Vote Required and Board Recommendation" and "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated by reference from the Company's definitive proxy statement to be used in connection with the 2003 Annual Meeting of Shareholders which is expected to be filed pursuant to Regulation 14A within 120 days after the end of the Company's fiscal year ended December 31, 2002 (the "Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information relating to executive compensation set forth in the Proxy Statement under the caption "Compensation of Directors and Executive Officers" with the exception of the information set forth under the captions "Report of the Compensation Committee on Executive Compensation" and "Stock Performance Chart" is incorporated herein by reference from the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of December 31, 2002 about all of the Company's equity compensation plans. All plans have been approved by the Company's shareholders.

PLAN CATEGORY	(A) NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(B) WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(C) NUMBER OF SECU REMAINING AVAILA FUTURE ISSUA (EXCLUDING SECUR COLUMN (A)
EQUITY COMPENSATION PLANS APPROVED BY SECURITY HOLDERS:			
1996 Stock Option Plan for Employees	378,545	$ 5.59	1,933,968
1995 Stock Option Plan for Independent Agents	24,870	4.93	95,581
1995 Stock Option Plan for Non-Employee Directors	63,750	4.70	182,500
	467,165	5.43	2,212,049
EQUITY COMPENSATION PLANS NOT APPROVED BY SECURITY HOLDERS	--	--	--
Total	467,165	$ 5.44	2,212,049

The other information relating to security ownership of certain beneficial owners and management set forth in the Proxy Statement under the caption "Security Ownership of the Company" is herein incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information relating to certain relationships and related transactions set forth in the Proxy Statement under the caption "Certain Transactions" is herein incorporated by reference.

ITEM 14. CONTROLS AND PROCEDURES

(a) Based on their evaluation of the issuer's disclosure controls and procedures (as defined in 17 C.F.R. Sections 240.13a-14(c) and 240.15d-14(c)) as of a date within 90 days prior to the filing of this annual report, the issuer's chief executive officer and treasurer and controller (principal financial officer) concluded that the effectiveness of such controls and procedures was adequate.

(b) There were no significant changes in the issuer's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) AND (2) LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS SCHEDULES

- The following consolidated financial statements of The Seibels Bruce Group, Inc. and subsidiaries are included in Item 8:

- Report of Independent Public Accountants--Johnson Lambert & Co.

- Report of Independent Public Accountants--Arthur Andersen LLP (This is a copy of a report previously issued by Arthur Andersen LLP and it has not been reissued by Arthur Andersen LLP)

- Consolidated Balance Sheets--As of December 31, 2002 and 2001

- Consolidated Statements of Operations--For the years ended December 31, 2002, 2001 and 2000

- Consolidated Statements of Changes in Shareholders' Equity--For the years ended December 31, 2002, 2001 and 2000

- Consolidated Statements of Cash Flows--For the years ended December 31, 2002, 2001 and 2000

- The Notes to Consolidated Financial Statements included in Item 8 pertain both to the consolidated financial statements listed above and the condensed financial information of the Registrant included in Schedule II under Item 15(d).

- The following financial statement schedules are included in item 15(d):

  - Schedule I--Summary of Investments Other than Investments in Related Parties

  - Schedule II--Condensed Financial Information of Registrant

  - Schedule III--Supplementary Insurance Information

  - Schedule IV--Reinsurance

  - Schedule V--Valuation and Qualifying Accounts

  - Schedule VI--Supplemental Information Concerning Property/Casualty Insurance Operations

- All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) LIST OF EXHIBITS

3.1	Restated Articles of Incorporation of the Registrant, as amended, dated February 12, 1999, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 3.1, for the year ended December 31, 1998. Articles of Amendment to the Restated Articles of Incorporation, dated March 28, 2002, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 3.1, for the year ended December 31, 2001. See Exhibit 3.1.
3.2	By-laws of the Registrant, as amended and restated, dated February 4, 1999, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 3.2, for the year ended December 31, 1998.

4.1	The rights of the Company's equity security holders are defined in the Company's Restated Articles of Incorporation, as amended, dated February 12, 1999, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 3.1, for the year ended December 31, 1998 and the Company's Articles of Amendment to the Restated Articles of Incorporation, dated March 28, 2002.
4.2	Form of the certificate of the Company's Common Stock, par value $1.00 per share, incorporated herein by reference to the Registrant's Registration Statement on Form S-2 (File No. 333-24081).
10.1	South Carolina Insurance Company Employee's Profit Sharing and Savings Plan, dated June 30, 1992, as amended January 4, 1993, incorporated herein by reference to the Annual Report on Form 10-K(10)(9)-9, for the year ended December 31, 1992. Amendments dated June 2, 1993, April 21, 1994, July 1, 1994, July 1, 1995, July 1, 1996 and September 26, 1997, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.1, for the year ended December 31, 1997. Amendment dated March 16, 1998, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.1, for the year ended December 31, 1998. Amendments dated April 16, 1999 and September 1, 2000, incorporated by reference to the Annual Report on Form 10-K, Exhibit 10.1, for the year ended December 31, 2000.
10.2	Stock Purchase Agreement, dated January 29, 1996, by and between the Registrant and Charles H. Powers and Walker S. Powers, and amendment thereto, incorporated herein by reference to the Definitive Proxy Statement filed May 10, 1996.
10.3	Stock Purchase Agreement, dated March 28, 1996, by and between the Registrant and Fred C. Avent, Frank H. Avent and PepsiCo of Florence, incorporated herein by reference to Form S-2, filed October 15, 1996, file number 333-14123.
10.4	Stock Purchase Agreement, dated March 28, 1996, by and between Registrant and Junius DeLeon Finklea, Joseph K. Newsom, Sr., Mark J. Ross, Larry M. Brice, J. Howard Stokes, Winston W. Godwin, IRA and Peter D. and Vera C. Hyman, incorporated herein by reference to Form S-2, filed October 15, 1996, file number 333-14123.
10.5	The Seibels Bruce Group, Inc. 1996 Stock Option Plan for Employees, dated November 1, 1995, incorporated herein by reference to the Definitive Proxy Statement filed May 10, 1996, as amended by the Amendment thereto, effective October 8, 1998, incorporated herein by reference to Form S-8, filed October 9, 1998, file number 333-65537.
10.6	The Seibels Bruce Group, Inc. 1995 Stock Option Plan for Independent Agents, dated June 14, 1996, incorporated herein by reference to the Definitive Proxy Statement filed May 10, 1996.

10.7	The Seibels Bruce Group, Inc. 1995 Stock Option Plan for Non-Employee Directors, dated June 14, 1996, incorporated herein by reference to the Definitive Proxy Statement filed May 10, 1996. Amendment dated November 11, 1999 incorporated by reference to the Definitive Proxy Statement filed April 5, 2000.
10.8	Arrangement, dated October 1, 1996, by and between Catawba Insurance Company, Kentucky Insurance Company and South Carolina Insurance Company and The United States of America Federal Emergency Management Agency, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.14, for the year ended December 31, 1996.
10.9	Joint Underwriting Association contract, dated October 13, 1998, by and between South Carolina Insurance Company and the South Carolina Associated Auto Insurers Plan, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.15, for the year ended December 31, 1998.

10.10	Stock Purchase Agreement, dated March 28, 2002, by and between The Seibels Bruce Group, Inc. and Charles H. Powers, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.16, for the year ended December 31, 2001.
10.11	Registration Rights Agreement, dated March 28, 2002, by and between The Seibels Bruce Group, Inc. and Charles H. Powers, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.17, for the year ended December 31, 2001.
10.12	Commercial Lease, dated December 21, 2000, by and between The Seibels Bruce Group, Inc. and Charles H. Powers, incorporated herein by reference to the Annual Report on Form 10-K, Exhibit 10.18, for the year ended December 31, 2001.
10.13	Claim Administration Services Agreement, dated January 21, 2000, by and between Insurance Network Services, Inc. and QualSure Insurance Corporation (f/k/a Magna Florida Insurance Company, Inc.). Amendment dated October 4, 2002.
10.14	Stock Redemption Agreement, dated October 4, 2002, by and between South Carolina Insurance Company, Catawba Insurance Company, Consolidated American Insurance Company, QualSure Holding Corporation, Fenelon Ventures II, LLC and N.E.M. (West Indies) Insurance Limited.
10.15	Renewal Rights and Assumption Reinsurance Agreement, dated November 15, 2002, by and between South Carolina Insurance Company, Catawba Insurance Company and The Hartford Fire Insurance Company.
21.1	Subsidiaries of the Registrant.

23.1 Consent of Johnson Lambert & Co.

(b) REPORTS ON FORM 8-K.

(i) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on October 1, 2002 to report that the Company had entered into a non-binding letter of intent with Selective Insurance Company of America under which the Company would transfer its rights, title and interest in flood insurance policies written by its insurance subsidiaries through the National Flood Insurance Program.

(ii) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on October 2, 2002 to report that the previously announced letter of intent to transfer its flood insurance servicing rights to Selective Insurance Company of America was mutually terminated due to lack of regulatory approval.

(iii) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on October 4, 2002 to report that Charles H. Powers had assumed the position of chief executive officer and that Bryan D. Rivers had been appointed treasurer.

(iv) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on October 10, 2002 to report that the Company's investment in QualSure Holding Corporation ("QualSure") had been redeemed by QualSure.

(v) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on October 29, 2002 to report that Michael A. Culbertson had been appointed president.

(vi) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on November 15, 2002 to report that the Company had completed a transaction with The Hartford Financial Services Group, Inc. ("The Hartford") under which The Hartford acquired

the right to renew or assume all of the Company's in-force National Flood Insurance Program business written under the Write Your Own Program.

(vii) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on December 10, 2002 to report certain senior management changes.

(viii) Form 8-K filed pursuant to Item 5 thereof with the Securities and Exchange Commission on February 7, 2003 to report that the South Carolina Department of Insurance had approved the Company's request to permit its subsidiary Catawba Insurance Company to enter the risk-bearing personal automobile and property insurance markets in South Carolina.

(c) AND (d) EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The applicable exhibits and financial statement schedules are included immediately after the signature pages.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SEIBELS BRUCE GROUP, INC. (Registrant)

Date: March 28, 2003

By /s/ MICHAEL A. CULBERTSON

Michael A. Culbertson
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 28, 2003

By /s/ CHARLES H. POWERS

Charles H. Powers
Chairman of the Board, Director and CEO

Date: March 28, 2003

By /s/ MICHAEL A. CULBERTSON

Michael A. Culbertson
President

Date: March 28, 2003

By /s/ FRANK H. AVENT

Frank H. Avent
Director

Date: March 28, 2003

By /s/ A. CRAWFORD CLARKSON, JR.

A. Crawford Clarkson, Jr.
Director

Date: March 28, 2003

By /s/ CLAUDE E. MCCAIN

Claude E. McCain
Director

Date: March 28, 2003

By /s/ KENNETH W. PAVIA

Kenneth W. Pavia
Director

Date: March 28, 2003

By /s/ JOHN P. SEIBELS

John P. Seibels
Director

Date: March 28, 2003

By /s/ GEORGE R.P. WALKER, JR.

George R.P. Walker, Jr.
Director

Date: March 28, 2003

By /s/ BRYAN D. RIVERS

Bryan D. Rivers
Treasurer and Controller (Principal Accounting Officer)

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CERTIFICATIONS

I, Charles H. Powers, certify that:

1. I have reviewed this annual report on Form 10-K of The Seibels Bruce Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or

in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 28, 2003	By	/s/ CHARLES H. POWERS
Date		Charles H. Powers, CHIEF EXECUTIVE OFFICER

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CERTIFICATIONS

I, Bryan D. Rivers, certify that:

1. I have reviewed this annual report on Form 10-K of The Seibels Bruce Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other

employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 28, 2003	By	/s/ BRYAN D. RIVERS
Date		Bryan D. Rivers, TREASURER AND CONTROLLER (PRINCIPAL ACCOUNTING OFFICER)

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THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

SCHEDULE I--SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS

IN RELATED PARTIES

AS OF DECEMBER 31, 2002

(DOLLARS SHOWN IN THOUSANDS)

	AMORTIZED COST	FAIR VALUE	BALANCE SHEET VALUE
DEBT SECURITIES (AVAILABLE-FOR-SALE)			
Bonds:			
U.S. Government and government agencies and authorities...	$14,586	$15,195	$15,195
State, municipalities and political subdivisions..........	375	390	390
Corporate bonds..	20,922	21,970	21,970
	35,883	37,555	37,555
CASH AND SHORT-TERM INVESTMENTS............................	10,423	10,423	10,423
	$46,306	$47,978	$47,978

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SCHEDULE II--CONDENSED FINANCIAL INFORMATION OF REGISTRANT

THE SEIBELS BRUCE GROUP, INC. (PARENT COMPANY)

BALANCE SHEETS

AS OF DECEMBER 31,

(DOLLARS SHOWN IN THOUSANDS)

	2002	2001
ASSETS		
Cash and short-term investments	$ 285	$ --
Investment in subsidiary companies*	25,804	24,396
Other investments	1,661	1,489
Property and equipment, net	432	228
Intercompany receivables*	3,032	1,475
Other assets	621	692
Total assets	$ 31,835	$ 28,280
LIABILITIES		
Book overdraft	$ --	$ 448
Notes payable	--	7,721
Other liabilities	611	547
Total liabilities	611	8,716
COMMITMENTS AND CONTINGENCIES		
SPECIAL STOCK, no par value, authorized 5,000,000 shares:		
Issued and outstanding 209,000 and 220,000 shares in 2001 and 2000, respectively of cumulative $0.62, convertible, redeemable, nonvoting, special preferred stock, redemption value $2,090 and $2,200 in 2001 and 2000, respectively	--	2,090
Issued and outstanding 50,000 shares of cumulative $0.625, convertible, redeemable, nonvoting, special preferred stock, redemption value $500	--	500
Total special stock	--	2,590
SHAREHOLDERS' EQUITY		
Adjustable Rate Cumulative Nonvoting Preferred Special Stock, issued and outstanding 800,000 shares	8,000	--
Common stock, $1 par value, authorized 17,500,000 shares, issued and outstanding 7,831,690 shares	7,832	7,832
Additional paid-in-capital	61,989	61,989
Accumulated other comprehensive income	1,691	1,134
Accumulated deficit	(48,288)	(53,981)
Total shareholders' equity	31,224	16,974
Total liabilities and shareholders' equity	$ 31,835	$ 28,280

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* Eliminated in consolidation.

The accompanying notes are an integral part of these financial statements.

SCHEDULE II (CONTINUED)--CONDENSED FINANCIAL INFORMATION OF REGISTRANT

THE SEIBELS BRUCE GROUP, INC. (PARENT COMPANY)

STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31,

(DOLLARS AND WEIGHTED AVERAGE SHARES OUTSTANDING SHOWN IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2002	2001	2000
Revenues:			
Management fees*	$4,138	$2,895	$ 3,261
Equity in undistributed earnings (loss) of unconsolidated subsidiary	172	92	126
Other	35	26	16
Total revenues	4,345	3,013	3,403
Expenses:			
Interest	96	672	1,191
Other	854	1,807	2,041
Total expenses	950	2,479	3,232
Income before tax benefit and equity in undistributed income (loss) of consolidated subsidiaries	3,395	534	171
Tax benefit	777	1,195	105
Income before equity in undistributed income (loss) of subsidiaries	4,172	1,729	276
Equity in undistributed income (loss) of consolidated subsidiaries*	1,951	2,637	(15,637)
Net income (loss)	$6,123	$4,366	$(15,361)
Basic earnings (loss) per share	$ 0.73	$ 0.54	$ (1.98)
Weighted average shares outstanding	7,832	7,832	7,832
Diluted earnings (loss) per share	$ 0.72	$ 0.53	$ (1.98)
Weighted average shares outstanding	8,088	8,206	7,832

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* Eliminated in consolidation.

The accompanying notes are an integral part of these financial statements.

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SCHEDULE II (CONTINUED)--CONDENSED FINANCIAL INFORMATION OF REGISTRANT

THE SEIBELS BRUCE GROUP, INC. (PARENT COMPANY)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31,

(DOLLARS SHOWN IN THOUSANDS)

	2002	2001	2000
Adjustable Rate Cumulative Nonvoting Preferred Special Stock:			
Beginning of year	$ --	$ --	$ --
Stock issued during the year	8,000	--	--
End of year	$ 8,000	$ --	$ --
Common stock:			
Beginning of year	$ 7,832	$ 7,832	$ 7,831
Stock issued under stock option plans	--	--	1
End of year	$ 7,832	$ 7,832	$ 7,832
Additional paid-in-capital:			
Beginning of year	$ 61,989	$ 61,989	$ 61,988
Stock issued under stock option plans	--	--	1
End of year	$ 61,989	$ 61,989	$ 61,989
Accumulated other comprehensive income:			
Beginning of year	$ 1,134	$ 357	$ (605)
Change during the year	557	777	962
End of year	$ 1,691	$ 1,134	$ 357
Accumulated deficit:			
Beginning of year	$(53,981)	$(58,186)	$(42,657)
Net income (loss)	6,123	4,366	(15,361)
Dividends on special stock	(430)	(161)	(168)
End of year	$(48,288)	$(53,981)	$(58,186)
Total shareholders' equity	$ 31,224	$ 16,974	$ 11,992

The accompanying notes are an integral part of these financial statements.

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SCHEDULE II (CONTINUED)--CONDENSED FINANCIAL INFORMATION OF REGISTRANT

THE SEIBELS BRUCE GROUP, INC. (PARENT COMPANY)

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31,

(DOLLARS SHOWN IN THOUSANDS)

2002	2001	2000

Cash flows from operating activities:			
Net income (loss)	$ 6,123	$ 4,366	$(15,361)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in undistributed income of unconsolidated subsidiary	(172)	(92)	(126)
Equity in undistributed (income) loss of consolidated subsidiaries, net	(1,951)	(2,637)	15,637
Depreciation and amortization	239	124	335
Net realized loss (gain) on sale of property and equipment	--	187	1
Changes in assets and liabilities	(1,959)	(981)	100
Net cash provided by operating activities	2,280	967	586
Cash flows from investing activities:			
Purchases of property and equipment	(354)	(218)	--
Dividends received from subsidiaries	1,100	1,850	1,580
Net cash provided by investing activities	746	1,632	1,580
Cash flows from financing activities:			
Issuance of capital stock	--	--	2
Issuance of Adjustable Rate Cumulative Nonvoting Preferred Special Stock	8,000	--	--
Redemption of Special Stock	(2,590)	--	--
Repayment of debt	(7,721)	(2,438)	(2,127)
Dividends paid	(430)	(161)	(168)
Net cash used in financing activities	(2,741)	(2,599)	(2,293)
Net decrease in cash and short-term investments	285	--	(127)
Cash and short-term-investments, beginning of year	--	--	127
Cash and short-term-investments, end of year	$ 285	$ --	$ --
Supplemental cash flow information:			
Interest paid	$ 180	$ 728	$ 1,077
Income taxes (recovered) paid	(30)	30	--
Non-cash investing, financing and other activities:			
Elimination of special stock or debt in connection with the settlement of purchase price adjustments	$ --	$ (110)	$ (2,700)
Settlement of obligations in connection with the resolution of preacquisition liabilities	--	--	(5,527)

The accompanying notes are an integral part of these financial statements.

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THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

SCHEDULE III--SUPPLEMENTARY INSURANCE INFORMATION

(DOLLARS SHOWN IN THOUSANDS)

	DEFERRED POLICY ACQUISITION COSTS	FUTURE POLICY BENEFITS, CLAIMS, LOSSES AND LOSS EXPENSES	UNEARNED PREMIUMS	PREMIUM REVENUE	NET INVESTMENT AND ALL OTHER INCOME(1)	BENEFIT CLAIMS LOSSE AND SETTLEM EXPENS
YEAR ENDED DECEMBER 31, 2002:						
Automobile..........	$ 190	$27,683	$ 8,487	$ 5,765	$2,479	$ 2,95
Flood...............	--	271	22,795	--	378	-
Commercial..........	978	4,277	5,064	9,290	1,569	4,61
Adjusting services...	--	--	--	--	977	-
All other...........	--	21,479	12	606	2,229	1,86
Total.............	$1,168	$53,710	$36,358	$15,661	$7,632	$ 9,43
YEAR ENDED DECEMBER 31, 2001:						
Automobile..........	$ 100	$38,448	$12,714	$ 7,004	$3,233	$ 2,92
Flood...............	--	1,472	23,840	--	106	38
Commercial..........	1,100	3,686	6,090	7,379	310	3,03
Adjusting services...	--	--	--	--	1,797	-
All other...........	--	23,269	20	50	1,157	1,38
Total.............	$1,200	$66,875	$42,664	$14,433	$6,603	$ 7,74
YEAR ENDED DECEMBER 31, 2000:						
Automobile..........	$ 110	$55,572	$16,522	$21,934	$5,128	$21,18
Flood...............	--	1,061	22,741	45	52	40
Commercial..........	290	4,074	6,483	3,040	175	1,56
Adjusting services...	--	--	--	--	2,094	-
All other...........	--	25,126	307	118	1,646	1,29
Total.............	$ 400	$85,833	$46,053	$25,137	$9,095	$24,44

	OTHER OPERATING COSTS AND EXPENSES(1)	PREMIUMS WRITTEN
YEAR ENDED DECEMBER 31, 2002:		
Automobile..........	$ 3,194	$ 6,121
Flood...............	4,657	--
Commercial..........	1,834	8,952
Adjusting services...	7,114	--
All other...........	1,826	606
Total.............	$18,625	$15,679
YEAR ENDED DECEMBER 31, 2001:		
Automobile..........	$ 3,494	$ 4,991

Flood................	6,336	--
Commercial...........	1,892	10,454
Adjusting services...	9,055	--
All other............	661	48
Total..............	$21,438	$15,493
YEAR ENDED DECEMBER 31, 2000:		
Automobile...........	$ 8,767	$20,195
Flood................	6,964	7
Commercial...........	(233)	4,071
Adjusting services...	9,699	--
All other............	1,264	124
Total..............	$26,461	$24,397

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(1) Allocations of net investment income and other operating expenses are based on a number of assumptions and estimates. Results would change if different methods were applied.

THE SEIBELS BRUCE GROUP, INC. AND SUBSIDIARIES

SCHEDULE IV--REINSURANCE

(DOLLARS SHOWN IN THOUSANDS)

	GROSS AMOUNT*	CEDED TO OTHER COMPANIES	ASSUMED FROM OTHER COMPANIES	NET AMOUNT	PER AMO TO
YEAR ENDED DECEMBER 31, 2002:					
Property/casualty insurance premiums earned.............	$104,540	$ (88,938)	$ 59	$15,661	
YEAR ENDED DECEMBER 31, 2001:					
Property/casualty insurance premiums earned.............	$115,387	$(100,785)	$ (169)	$14,433	
YEAR ENDED DECEMBER 31, 2000:					
Property/casualty insurance premiums earned...............	$141,243	$(117,532)	$1,426	$25,137	

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* Includes amount written as designated carrier for the NC Facility, SC Facility and NFIP.

THE SEIBELS BRUCE GROUP, INC.
SCHEDULE V--VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS SHOWN IN THOUSANDS)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS	DEDUCTIONS	BALA EN Y
YEAR ENDED DECEMBER 31, 2002				
Allowance for uncollectable:				
Premiums and agents' balances receivable.........	$3,013	$ 501	$ (833)	$2
Premium notes receivable........................	750	--	(750)	
Restructuring accrual...........................	--	--	--	
	======	======	=======	==
YEAR ENDED DECEMBER 31, 2001				
Allowance for uncollectable:				
Premiums and agents' balances receivable.........	$4,780	$ 181	$(1,948)	$3
Premium notes receivable........................	400	1,770	(1,420)	
Restructuring accrual...........................	276	--	(276)	
	======	======	=======	==
YEAR ENDED DECEMBER 31, 2000				
Allowance for uncollectable:				
Premiums and agents' balances receivable.........	$4,247	$1,128	$ (595)	$4
Premium notes receivable........................	393	7	--	
Restructuring accrual...........................	--	16,365	(16,089)	
	======	======	=======	==

THE SEIBELS BRUCE GROUP, INC.
SCHEDULE VI--SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY/CASUALTY INSURANCE OPERATIONS
(DOLLARS SHOWN IN THOUSANDS)

	DEFERRED POLICY ACQUISITION COSTS	RESERVES FOR UNPAID CLAIMS AND CLAIM ADJUSTMENTS EXPENSES	DISCOUNT DEDUCTED IN COLUMN C*	UNEARNED PREMIUMS	EARNED PREMIUMS	NET INVESTME AND ALL OTHER INCOME
Year Ended December 31, 2002...........	$1,168	$53,710	$ --	$36,358	$15,661	$7,633
	======	=======	==========	=======	=======	======
Year Ended December 31, 2001...........	$1,200	$66,875	$ --	$42,664	$14,433	$6,603
	======	=======	==========	=======	=======	======
Year Ended December 31, 2000...........	$ 400	$85,833	$ --	$46,053	$25,137	$9,095
	======	=======	==========	=======	=======	======

	AMORTIZATION OF DEFERRED POLICY ACQUISITION COSTS	PAID CLAIMS AND CLAIM ADJUSTMENTS EXPENSES	PREMIUMS WRITTEN
Year Ended December 31, 2002...........	$22,814	$12,553	$15,679
Year Ended December 31, 2001...........	$23,162	$17,518	$15,493
Year Ended December 31, 2000...........	$25,003	$28,457	$24,397

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* The Company does not discount its loss and LAE reserves.