

CONSOLIDATED BALANCE SHEETS

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

(in thousands, except share data)	December 31,	2004	2003
Assets			
Investments:			
Fixed maturities:			
Available-for-sale, at fair value (amortized cost — \$992,650 in 2004 and \$817,205 in 2003)		\$1,008,949	\$ 835,229
Held-to-maturity, at amortized cost (fair value — \$166,293 in 2004 and \$195,047 in 2003)		156,787	180,700
Trading, at fair value (amortized cost — \$11,756 in 2004 and \$7,946 in 2003)		11,939	8,406
Equity securities available-for-sale, at fair value (cost — \$169,479 in 2004 and \$144,550 in 2003)		315,875	276,021
Short-term investments, at cost which approximates fair value		76,168	33,004
Total investments		1,569,718	1,333,360
Cash		—	—
Accrued investment income		15,183	12,915
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$16,164 in 2004 and \$11,220 in 2003		146,667	152,860
Ceded unearned premiums		101,446	101,748
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$13,837 in 2004 and \$13,569 in 2003		464,180	372,048
Deferred policy acquisition costs, net		67,146	63,737
Property and equipment, at cost, net of accumulated depreciation of \$36,777 in 2004 and \$34,647 in 2003		18,335	18,616
Investment in unconsolidated investees		43,398	30,683
Goodwill, net of accumulated amortization of \$4,700 in 2004 and 2003		26,214	26,214
Other assets		16,488	22,183
Total assets		\$2,468,775	\$2,134,364
Liabilities and shareholders' equity			
Liabilities:			
Unpaid losses and settlement expenses		\$1,132,599	\$ 903,441
Unearned premiums		367,205	367,642
Reinsurance balances payable		78,062	92,382
Notes payable, short-term debt		46,839	47,560
Income taxes — current		11,612	7,152
Income taxes — deferred		38,966	38,818
Bonds payable, long-term debt		100,000	100,000
Other liabilities		69,831	23,235
Total liabilities		1,845,114	1,580,230
Shareholders' equity:			
Common stock (\$1 par value, authorized 50,000,000 shares, issued 31,108,607 shares in 2004 and 30,957,837 shares in 2003)		31,109	30,958
Paid-in capital		180,592	179,684
Accumulated other comprehensive earnings net of tax		106,017	97,699
Retained earnings		386,968	326,808
Deferred compensation		6,891	6,069
Treasury stock, at cost (5,792,753 shares in 2004 and 5,792,487 shares in 2003)		(87,916)	(87,084)
Total shareholders' equity		623,661	554,134
Total liabilities and shareholders' equity		\$2,468,775	\$2,134,364

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

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

(in thousands, except per share data)	Years ended December 31,	2004	2003	2002
Net premiums earned		\$511,348	\$463,597	\$348,065
Net investment income		54,087	44,151	37,640
Net realized investment gains (losses)		13,365	12,138	(3,552)
Consolidated revenue		578,800	519,886	382,153
Losses and settlement expenses		306,131	278,990	203,122
Policy acquisition costs		134,595	119,281	105,543
Insurance operating expenses		30,731	27,989	23,792
Interest expense on debt		6,894	1,010	1,860
General corporate expenses		5,536	3,886	3,505
Total expenses		483,887	431,156	337,822
Equity in earnings of unconsolidated investees		5,429	5,548	4,397
Earnings before income taxes and cumulative effect		100,342	94,278	48,728
Income tax expense (benefit):				
Current		32,495	23,760	18,494
Deferred		(5,189)	(773)	(5,618)
Income tax expense		27,306	22,987	12,876
Net earnings		\$ 73,036	\$ 71,291	\$ 35,852
Other comprehensive earnings (loss), net of tax				
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period		\$ 16,871	\$ 31,793	\$ (24,538)
Less: Reclassification adjustment for gains (losses) included in net earnings		(8,553)	(5,391)	2,359
Other comprehensive earnings (loss)		8,318	26,402	(22,179)
Comprehensive earnings		\$ 81,354	\$ 97,693	\$ 13,673
Earnings per share:				
Basic				
Net earnings per share		\$2.90	\$2.84	\$1.80
Comprehensive earnings per share		\$3.23	\$3.89	\$0.69
Diluted				
Net earnings per share		\$2.80	\$2.76	\$1.75
Comprehensive earnings per share		\$3.12	\$3.78	\$0.67
Weighted average number of common shares outstanding:				
Basic		25,223	25,120	19,937
Diluted		26,093	25,846	20,512

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

(in thousands, except per share data)	Total Shareholders' Equity	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Earnings (Loss)	Retained Earnings	Deferred Compensation	Treasury Stock at Cost
Balance, January 1, 2002	\$335,432	\$12,821	\$ 73,181	\$93,476	\$237,006	\$6,040	\$(87,092)
Net earnings	35,852				35,852		
Other comprehensive loss, net of tax	(22,179)			(22,179)			
2-for-1 stock split	—	12,835	(12,835)				
Shares issued from public offering, less costs	114,620	4,800	109,820				
Treasury shares reissued (24,573 shares)	634		575				59
Adjustment to accounting for deferred compensation plans	—					(509)	509
Shares issued from exercise of stock options	431	17	414				
Other capital items, including CatEPuts amortization	(950)		(950)				
Dividends declared (\$.35 per share)	(7,285)				(7,285)		
Balance, December 31, 2002	\$456,555	\$30,473	\$170,205	\$71,297	\$265,573	\$5,531	\$(86,524)
Net earnings	71,291				71,291		
Other comprehensive earnings, net of tax	26,402			26,402			
Shares issued from public offering, less costs	10,048	420	9,628				
Treasury shares purchased (798 shares)	(22)						(22)
Adjustment to accounting for deferred compensation plans	—					538	(538)
Shares issued from exercise of stock options	708	65	643				
Other capital items, including CatEPuts amortization	(792)		(792)				
Dividends declared (\$.40 per share)	(10,056)				(10,056)		
Balance, December 31, 2003	\$554,134	\$30,958	\$179,684	\$97,699	\$326,808	\$6,069	\$(87,084)
Net earnings	73,036				73,036		
Other comprehensive earnings, net of tax	8,318			8,318			
Treasury shares purchased (266 shares)	(10)						(10)
Adjustment to accounting for deferred compensation plans						822	(822)
Shares issued from exercise of stock options	1,059	151	908				
Dividends declared (\$.51 per share)	(12,876)				(12,876)		
Balance, December 31, 2004	\$623,661	\$31,109	\$180,592	\$106,017	\$386,968	\$6,891	\$(87,916)

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(in thousands)	Years ended December 31,	2004	2003	2002
Cash flows from operating activities				
Net earnings		\$ 73,036	\$ 71,291	\$ 35,852
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Net realized investment gains (losses)		(13,365)	(12,138)	3,552
Depreciation		3,033	3,234	3,546
Other items, net		10,738	164	(884)
Change in:				
Accrued investment income		(2,378)	(5,209)	(3,392)
Premiums and reinsurance balances receivable (net of direct write-offs and commutations)		6,193	(30,602)	(17,090)
Reinsurance balances payable		(14,320)	14,151	19,793
Ceded unearned premium		302	(6,342)	(28,780)
Reinsurance balances recoverable on unpaid losses		(92,132)	(31,162)	(63,631)
Deferred policy acquisition costs		(3,409)	(3,635)	(7,230)
Accounts payable and accrued expenses		2,411	5,107	6,801
Unpaid losses and settlement expenses		229,158	170,603	128,333
Unearned premiums		(437)	16,839	94,353
Income taxes:				
Current		4,460	5,365	1,102
Deferred		(5,189)	(773)	(5,618)
Changes in investment in unconsolidated investees: Undistributed earnings		(5,429)	(5,548)	(4,397)
Net proceeds from trading portfolio activity		(3,710)	(326)	(339)
Net cash provided by operating activities		\$ 188,962	\$ 191,019	\$ 161,971
Cash flows from investing activities				
Purchase of:				
Fixed maturities, held-to-maturity		\$ —	\$ (3,002)	\$ (7,568)
Fixed maturities, available-for-sale		(360,162)	(508,785)	(354,137)
Equity securities, available-for-sale		(58,675)	(31,505)	(47,867)
Short-term investments, net		(2,219)	—	—
Property and equipment		(4,051)	(4,403)	(3,397)
Proceeds from sale of:				
Fixed maturities, held-to-maturity		—	6,340	—
Fixed maturities, available-for-sale		108,088	116,047	57,085
Equity securities, available-for-sale		39,638	31,907	46,008
Short-term investments, net		—	13,816	1,305
Property and equipment		1,298	311	533
Insurance shell (UIH)		—	5,100	—
Proceeds from call or maturity of:				
Fixed maturities, held-to-maturity		24,080	48,079	38,657
Fixed maturities, available-for-sale		71,814	40,684	19,758
Note receivable		3,000	1,500	1,500
Net cash used in investing activities		\$(177,189)	\$(283,911)	\$(248,123)
Cash flows from financing activities				
Proceeds from stock offering		\$ —	\$ 10,048	\$ 114,620
Proceeds from issuance of long-term debt — bonds		—	98,463	—
Proceeds from issuance of short-term debt		366	1,185	11,380
Payment on short-term debt		(1,088)	(7,981)	(34,263)
Shares issued under stock option plan		1,059	708	431
Treasury shares purchased		(10)	(22)	—
Treasury shares reissued		—	—	634
Cash dividends paid		(12,100)	(9,509)	(6,650)
Net cash provided by (used in) financing activities		\$ (11,773)	\$ 92,892	\$ 86,152
Net decrease in cash		—	—	—
Cash at beginning of year		—	—	—
Cash at end of year		\$ —	\$ —	\$ —