

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Six Months Ended June 30, 2011

Due to the nature of our business, our financial results are significantly impacted by economic conditions, including unemployment and market pricing. The following summarizes our statutory financial results for the six months ended June 30, 2011:

- Premiums
 - We wrote approximately 81,600 policies, which was 1% more than budget and 8% less than the prior period. Our average premium per policy was approximately \$6,700 or 10% less than budget and 12% less than prior period, due to continued loss of larger premium accounts.
 - Net premiums earned of \$464 million were 17% less than budget and 18% less than the prior period.
- Losses
 - Incurred losses of \$350 million were 17% less than budget and 18% less than the prior period.
 - Our incurred loss ratio of 75% was on budget and consistent with the prior period.
- Expenses
 - Loss adjustment expenses and underwriting expenses totaled \$433 million, and were 6% less than budget and 16% less than the prior period.
 - Our expense ratio of 93% was 11 points higher than budget and 3 points lower than prior period. The variance to budget was due to premium declining faster than expenses.
- Underwriting results
 - We had an underwriting loss of \$319 million, which was 1% lower than budget and 14% lower than the prior period.
 - Our combined ratio was 168%, or 11 points higher than budget and 3 points lower than the prior period.
- Net investment income of \$421 million was 11% more than budget, and 5% less than the prior period. Investment yields were higher than planned.
- Realized capital gains of \$11 million were \$11 million more than budget and \$7 million more than prior period.
- Other expenses of \$14 million represented charge-offs of uncollectible premiums and were \$24 million less than budget and \$27 million less than prior period.
- Net income of \$99 million was \$81 million more than budget and \$65 million more than the prior period, driven by the combination of improved net investment income, improved other expense, and improved realized gains.

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Financial Results (\$ millions)	2010 Actual	2011 Budget	2011 Actual	Variance to Budget	Variance to Prior Year
Net premiums earned (NPE)	569	562	464	-17%	-18%
Losses	428	422	350	-17%	-18%
Loss adjustment expenses	290	264	243	-8%	-16%
UW expenses	223	198	190	-4%	-15%
Underwriting results	(372)	(321)	(319)	1%	-14%
Net investment income	442	378	421	11%	-5%
Realized capital gain (loss)	4	-	11	11	7
Other income (expense)	(41)	(38)	(14)	-64%	-66%
Net income	34	18	99	81	65

Standard Industry Ratios

Loss ratio	75.2%	75.0%	75.4%	0.4%	0.2%
LAE ratio	50.9%	47.0%	52.4%	5.4%	1.5%
UW expense ratio	39.3%	35.1%	40.3%	5.2%	1.0%
Total expense ratio	90.2%	82.1%	92.7%	10.6%	2.5%
Combined ratio	165.4%	157.1%	168.1%	11.0%	2.7%

Notes:

Numbers or ratios may not foot due to rounding.

Dash (-) represents a null value.

Green represents better than plan or prior year.

Red represents worse than plan or prior year.