

**STATE COMPENSATION INSURANCE FUND**  
**Report on Statutory Financial Results**  
**Year Ended December 31, 2010**

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 unaudited statutory financial results for the calendar year ended December 31, 2010:

- Premiums
  - We wrote approximately 161,000 policies, which was 4% less than budget and 11% less than the prior year. Our average premium per policy of approximately \$7,300 was 1% less than budget and 9% less than the prior year.
  - Net premiums earned of \$1.136 billion slightly exceeded our forecast of \$1.1 billion and were 11% less than budget and 9% less than the prior year.
- Losses
  - Incurred losses of \$850 million were 11% less than budget and 10% less than the prior year.
  - Our incurred loss ratio of 75% was on budget and consistent with the prior year.
- Expenses
  - Loss adjustment expenses and underwriting expenses totaled \$930 million, and were 12% less than budget and 10% less than the prior year.
  - Other expenses of \$80 million represented charge-offs of uncollectible premiums, including \$33 million related to fraud, and were \$32 million more than budget and \$33 million more than prior year.
  - Based on loss adjustment expenses, underwriting expenses and other expenses, our expense ratio of 90% was 4 points higher than budget and prior year.
  - Beginning with 2011 results reporting, we will follow industry standards and exclude other expenses from the calculation of our expense ratio. Using this industry standard approach, our 2010 expense ratio of 82% was comparable to budget and prior year on the same basis.
- Underwriting results
  - We had an underwriting loss of \$645 million, which was 12% lower than budget and 11% lower than the prior year.
  - Our combined ratio including other expenses was 165%, or 3 points higher than budget and 4 points higher than the prior year.
  - Beginning with 2011 results reporting, we will follow industry standards and exclude other expenses from the calculation of our combined ratio. As a result, our combined ratio will be a measure of underwriting results. Using this industry standard approach, our 2010 combined ratio of 157% was slightly less than budget and prior year on the same basis.
- Net investment income of \$861 million was 3% more than budget, and 5% less than the prior year.
- Realized capital gains of \$34 million were \$34 million more than budget and \$30 million more than prior year.
- Net income of \$171 million was \$121 million more than budget and \$28 million more than the prior year, driven by improved underwriting results and improved net investment income.

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<b>Financial Results (\$ millions)</b>	<b>2009 Actual</b>	<b>2010 Budget</b>	<b>2010 Actual</b>	<b>Variance to Budget</b>	<b>Variance to Prior Year</b>
Net premiums earned	1,248	1,271	1,136	-11%	-9%
Losses incurred	940	953	850	-11%	-10%
Loss adjustment expenses	574	599	521	-13%	-9%
Underwriting expenses	456	454	409	-10%	-10%
Underwriting results	(723)	(735)	(645)	-12%	-11%
Net investment income	908	833	861	3%	-5%
Realized capital gain (loss)	4	0	34	34	30
Other income (expense)	(46)	(48)	(80)	(32)	(33)
Net income	143	50	171	121	28
<b>Key ratios including other expenses (see Note)</b>					
LAE, UW & other expense	1,077	1,101	1,010	-8%	-6%
Loss ratio	75.3%	75.0%	74.9%	-0.1%	-0.4%
Expense ratio	86.0%	86.5%	90.0%	3.5%	4.0%
Combined ratio	161.3%	161.5%	164.9%	3.4%	3.6%
<b>Standard industry ratios (See Note)</b>					
Loss ratio	75.3%	75.0%	74.9%	-0.1%	-0.4%
Loss adjustment expense ratio	46.0%	47.1%	45.9%	-1.3%	-0.2%
Underwriting expense ratio	36.4%	35.7%	36.5%	0.8%	0.0%
Total expense ratio	82.5%	82.8%	82.3%	-0.4%	-0.1%
Combined ratio	157.8%	157.8%	157.2%	-0.6%	-0.6%

**Note**

State Fund has historically included other expenses in the calculation of expense ratio and combined ratio. Beginning with 2011 results reporting, State Fund will follow industry standards and exclude other expenses from the calculation of expense ratio and combined ratio. As a result, our combined ratio will be a measure of underwriting results.