

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Year Ended December 31, 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 year ended December 31, 2011:

- Premiums
 - We wrote approximately 161,000 policies, which was 5% less than budget and 8% less than the prior period. Our average premium per policy was approximately \$7,300 or 9% less than budget and 6% less than prior period, due to continued loss of larger premium accounts.
 - Net premiums earned of \$1,002 million were 9% less than budget and 12% less than the prior period.
- Losses and loss adjustment expenses (LAE)
 - During the third quarter we completed our periodic analyses of the adequacy of the loss and LAE reserves. These analyses indicated that loss and LAE reserves overall remain adequate, but LAE reserves needed strengthening. Effective September 30, 2011, we reallocated \$500 million of reserves for prior accident years from loss reserves to LAE reserves. The reallocation had no effect on total reserves or net income, but did impact losses and LAE incurred (as well as related ratios) by offsetting amounts.
 - Losses and LAE of \$1,180 million were 13% lower than budget and 14% lower than the prior year.
 - Our loss and LAE ratio of 118% was 6 points lower than budget and 3 points lower than the prior year.
- Underwriting expenses
 - Our underwriting expenses of \$401 million were 4% higher than plan and 2% less than the prior year.
 - Our underwriting expense ratio of 40% was 5 points higher than plan and 4 points higher than the prior year due to premiums declining faster than expenses.
- Underwriting results
 - We had an underwriting loss of \$580 million, which was both 10% lower than budget and prior period. The underwriting loss included the accrual of \$50 million of expenses related to the reduction in force plan.
 - Our combined ratio was 158% which was comparable to budget but 1 point higher than the prior period.
- Investment and other non-underwriting results
 - Net investment income of \$829 million was 10% more than budget, and 4% less than the prior period. Investment yields were higher than planned.
 - Realized capital gains of \$28 million were \$28 million more than budget and \$6 million less than prior period.
 - Other expenses of \$98 million represented charge-offs of uncollectible premiums and were \$23 million more than budget and \$18 million more than prior period.

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- Net income
 - Income before dividends of \$179 million was \$144 million more than budget and \$8 million more than the prior period, driven by the combination of improved underwriting results, net investment income and realized gains.
 - The Board of Directors approved \$50 million in policyholder dividends, which resulted in net income of \$130 million.

Financial Results (\$ millions)	2010 Actual	2011 Budget	2011 Actual	Variance to Budget	Variance to Prior Year
Net premiums earned	1,136	1,100	1,002	-9%	-12%
Losses	850	825	252	-69%	-70%
Loss adjustment expenses	521	532	928	75%	78%
Underwriting expenses	409	386	401	4%	-2%
Underwriting results	(645)	(643)	(580)	-10%	-10%
Net investment income	861	753	829	10%	-4%
Realized capital gain (loss)	34	0	28	28	-6
Other income (expense)	(80)	(75)	(98)	-23	-18
Net income before dividends	171	35	179	144	8
Dividends to policyholders	-	-	(50)	-50	-50
Net income	171	35	130	94	-41

Standard Industry Ratios

Loss ratio	74.9%	75.0%	25.2%	-49.8%	-49.7%
LAE ratio	45.9%	48.3%	92.7%	44.3%	46.8%
Loss and LAE ratio	120.7%	123.3%	117.9%	-5.5%	-2.9%
Underwriting expense ratio	36.5%	35.1%	40.3%	5.2%	3.8%
Combined ratio	157.2%	158.4%	158.2%	-0.3%	0.9%

Notes:

Numbers or ratios may not foot due to rounding.

Green represents better than plan or prior year.

Red represents worse than plan or prior year.