



INFORMATIONAL ONLY

Financial Update: Report on Statutory Financial Results **Three Months Ended March 31, 2012**

Dan Sevilla, Chief Financial Officer

The following summarizes our statutory financial results for the three months ended March 31, 2012. Our results reflect improved underwriting results and net income, and modest growth in policyholders' surplus.

- Underwriting results
 - Due to the nature of our business, our underwriting results are significantly impacted by economic conditions, including unemployment and market pricing.
 - We maintained our disciplined approach to underwriting and wrote approximately 38,900 policies, which was 4% less than budget and 10% less than the three months ended March 31, 2011 (the prior period). The average premium per policy written was approximately \$7,200 or 3% less than budget and 4% less than prior period.
 - Net premiums earned on policies in force of \$235 million were 6% more than budget and 1% more than the prior period.
 - Our incurred loss ratio of 75% was on budget and consistent with the prior period.
 - Our loss adjustment expenses (LAE) ratio of 23% was on budget and 30 points lower than the prior period, due to 2011 LAE reserve strengthening.
 - Our underwriting expense ratio was 3 points lower than budget and 1 point higher than the prior period.
 - Our combined ratio of 139% was 3 points lower than budget and 29 points lower than the prior period, and the related underwriting loss of \$87 million was 7% less than budget and 46% less than the prior period.
- Investment and other non-underwriting results
 - Net investment income of \$201 million was 1% more than budget, and 4% less than the prior period. Reinvestment yields were slightly higher than planned.
 - Realized capital gains of \$9 million were \$9 million more than budget and \$6 million higher than the prior period.
 - Other expenses represent charge-offs of uncollectible premiums and were \$12 million less than budget and \$2 million less than the prior period.
- Net income and policyholders' surplus
 - Net income of \$122 million was \$29 million more than budget and \$74 million more than the prior period.
 - Policyholders' surplus grew by 2% to over \$5.7 billion.

Financial Results (\$ millions)	2011 Actual	2012 Budget	2012 Actual	Variance to Budget	Variance to prior year
Net premiums earned	234	223	235	6%	1%
Losses	175	167	177	6%	1%
Loss adjustment expenses	123	50	53	6%	-57%
Underwriting expenses	96	99	92	-7%	-4%
Underwriting results	(160)	(94)	(87)	-7%	-46%
Net investment income	209	199	201	1%	-4%
Realized capital gain (loss)	3	0	9	9	6
Other income (expense)	(3)	(13)	(1)	12	2
Income before dividends to policyholders	48	93	122	29	74
Dividends to policyholders	-	-	-	n/a	n/a
Net income	48	93	122	29	74
Standard Industry Ratios					
Loss ratio	75%	75%	75%	0%	0%
LAE ratio	53%	23%	23%	0%	-30%
Loss and LAE ratio	128%	98%	98%	0%	-30%
Underwriting expense ratio	40%	44%	41%	-3%	1%
Combined ratio	168%	142%	139%	-3%	-29%

Notes:

Numbers or ratios may not foot due to rounding.

Green represents better than plan and prior year.

Red represents worse than plan and prior year.