



INFORMATIONAL ONLY

Financial Update: Report on Statutory Financial Results

Six Months Ended June 30, 2012

Dan Sevilla, Chief Financial Officer

The following summarizes our statutory financial results for the six months ended June 30, 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 73,100 policies, which was 6% less than budget and 10% less than the six months ended June 30, 2011 (the same period in the prior year). The average premium per policy written was approximately \$6,600 or 4% less than budget and 1% less than same period in the prior year.
 - Net premiums earned on policies in force of \$480 million were 11% more than budget and 3% more than the same period in the prior year.
 - Our incurred loss ratio of 75% was on budget and consistent with the same period in the prior year.
 - Our loss adjustment expenses (LAE) ratio of 23% was on budget and 30 points lower than the same period in the prior year, due to 2011 LAE reserve strengthening.
 - Our underwriting expense ratio was 2 points lower than budget and 1 point higher than the same period in the prior year.
 - Our combined ratio of 139% was 2 points lower than budget and 30 points lower than the same period in the prior year, and the related underwriting loss of \$173 million was 2% less than budget and 46% less than the same period in the prior year.
- Investment and other non-underwriting results
 - Net investment income of \$395 million was 2% more than budget, and 6% less than the same period in the prior year. Reinvestment yields were slightly higher than planned.
 - Realized capital gains of \$28 million were \$28 million more than budget and \$17 million higher than the same period in the prior year.
 - Other expenses represent charge-offs of uncollectible premiums and were \$19 million less than budget and \$8 million less than the same period in the prior year.
- Net income and policyholders' surplus
 - Net income of \$245 million was \$56 million more than budget and \$145 million more than the same period in the prior year, driven by the combination of improved underwriting results, realized gains and other expense.
 - Policyholders' surplus grew by 4% to over \$5.8 billion.

Financial Results (\$ millions)	2011 Actual	2012 Budget	2012 Actual	Variance to budget	Variance to prior year
Net premiums earned	464	431	480	11%	3%
Losses	350	323	360	11%	3%
Loss adjustment expenses	243	97	108	11%	-56%
Underwriting expenses	190	186	185	-1%	-3%
Underwriting results	(319)	(176)	(173)	-2%	-46%
Net investment income	421	389	395	2%	-6%
Realized capital gain (loss)	11	0	28	28	17
Other income (expense)	(14)	(25)	(6)	19	8
Income before dividends to policyholders	99	188	245	56	145
Dividends to policyholders	-	-	-	n/a	n/a
Net income	99	188	245	56	145
Standard Industry Ratios					
Loss ratio	75%	75%	75%	0%	0%
LAE ratio	52%	23%	23%	0%	-30%
Loss and LAE ratio	128%	98%	98%	0%	-30%
Underwriting expense ratio	40%	43%	41%	-2%	1%
Combined ratio	168%	140%	139%	-2%	-30%

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.