



INFORMATIONAL ONLY

Financial Update: Report on Statutory Financial Results **Nine Months Ended September 30, 2012**

Dan Sevilla, Chief Financial Officer

The following summarizes our statutory financial results for the nine months ended September 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, unemployment and market pricing.
 - We maintained our disciplined approach to underwriting and wrote approximately 102,000 policies, which was 9% less than budget and 11% less than the nine months ended September 30, 2011 (the same period in the prior year). The average premium per policy written was approximately \$6,700 or 3% less than budget and about the same compared to the same period in the prior year.
 - Net premiums earned on policies in force of \$705 million were 7% more than budget and 4% less than the same period in the prior year.
 - Our loss and loss adjustment expenses (LAE) ratio of 98% was on budget and 27 points lower than the same period in the prior year due to 2011 LAE reserve strengthening.
 - Our underwriting expense ratio was 1 point lower than budget and 1 point higher than the same period in the prior year.
 - Our combined ratio of 137% was 1 point lower than budget and 27 points lower than the same period in the prior year, and the related underwriting loss of \$248 million was 3% less than budget and 47% less than the same period in the prior year.
- Investment and other non-underwriting results
 - Net investment income of \$583 million was 1% more than budget, and 7% less than the same period in the prior year. Reinvestment yields were slightly higher than planned.
 - Realized capital gains of \$31 million were \$31 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 \$23 million less than budget and \$45 million less than the same period in the prior year.

- Net income and policyholders' surplus
 - Net income of \$352 million was \$65 million more than budget and \$239 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 6% to over \$6 billion.
- Subsequent event

On October 4, 2012, the Board of Directors declared a \$100 million or 10% dividend to qualifying policyholders for the 2012 policy year as a result of improved efficiencies, disciplined pricing and sound investment returns.

Financial Results (\$ millions)	2011 Actual	2012 Budget	2012 Actual	Variance to budget	Variance to prior year
Net premiums earned (NPE)	732	660	705	7%	-4%
Losses	50	495	528	7%	958%
Loss adjustment expenses	866	149	159	7%	-82%
Underwriting expenses	285	271	265	-2%	-7%
Underwriting results	(469)	(255)	(248)	3%	47%
Net investment income	627	579	583	1%	-7%
Realized capital gain (loss)	14	-	31	31	17
Other income (expense)	(59)	(38)	(14)	23	45
Income before dividends to policyholders	113	287	352	65	239
Dividends to policyholders	-	-	-	n/a	n/a
Net income	113	287	352	65	239
Standard Industry Ratios					
Loss ratio	7%	75%	75%	0%	68%
LAE ratio	118%	23%	23%	0%	-96%
Loss and LAE ratio	125%	98%	98%	0%	-28%
Underwriting expense ratio	39%	41%	40%	-1%	1%
Combined ratio	164%	138%	137%	-1%	-27%

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.