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Date: November 23, 2015

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 5 – Financial Update: 3 rd Quarter 2015
II. NAME AND PROGRAM:	Peter Guastamachio, Chief Financial Officer
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

- Net premiums earned of \$1.2 billion were 5% more than same period last year.
- Our combined ratio of 129.2% was 5 points lower than the same period in the prior year which resulted in an underwriting loss of \$352 million.
- Net income of \$181 million was comparable to the same period in the prior year.
- Policyholders' surplus grew by \$24 million since December 31, 2014.

VI. ANALYSIS /BACKGROUND:

- Statutory financial results are filed with the California Department of Insurance and the National Association of Insurance Commissioners on a quarterly basis.
- Highlights are also shared with the Board on a quarterly basis.

STATE COMPENSATION INSURANCE FUND
Report on Statutory Financial Results
Nine Months Ended September 30, 2015

The following summarizes our statutory financial results for the nine months ended September 30, 2015. Our results reflect continued growth in premiums and policyholders' surplus.

- Underwriting results
 - Due to the nature of our business, our underwriting results are significantly impacted by the dynamics that affect California business including economic conditions, unemployment and market pricing.
 - Net premiums earned of \$1.2 billion were 5% more than the same period last year. The increase continues to come from growth in payrolls from our renewal business. Our premium growth is consistent with the increase in payrolls and wages reflected in all sectors of the California economy.
 - Our loss and loss adjustment expenses (LAE) ratio of 106.4% was 5 points lower than the same period last year.
 - Our underwriting expense ratio of 22.8% was 1 point higher than the same period last year.
 - Our combined ratio of 129.2% was 5 points lower than the same period last year and the related year-to-date underwriting loss was \$352 million, \$30 million less than last year.
- Investment and other non-underwriting results
 - Net investment income of \$484 million was 2% lower than the same period in prior year.
 - Realized capital gains of \$59 million were \$2 million higher than the same period in prior year.
 - Other expenses mostly represent charge-offs of uncollectible premiums, were \$3 million higher than the same period in the prior year.
- Net income and policyholders' surplus
 - Net income of \$181 million was comparable to the same period in prior year.
 - Policyholders' surplus grew by \$24 million since December 31, 2014.

STATE COMPENSATION INSURANCE FUND
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Financial Results (\$ millions)	2014 Actual	2015 Actual	Actual vs. Prior Year \$ Variance	Actual vs. Prior Year % Variance
Net premiums earned	1,137	1,199	62	5%
Losses	898	935	37	4%
Loss adjustment expenses (LAE)	373	341	(32)	-9%
Underwriting expenses	248	275	27	11%
Underwriting results	(382)	(352)	30	8%
Net investment income	494	484	(10)	-2%
Realized capital gain (loss)	57	59	2	4%
Other income (expense)	(6)	(9)	(3)	-46%
Income before dividends to policyholders	162	181	20	12%
Dividends to policyholders (credits)	(20)	-	20	100%
Net income	<u>182</u>	<u>181</u>	(0)	0%
Standard Industry Ratios				
Loss ratio	79.0%	78.0%		-1%
LAE ratio	32.8%	28.4%		-4%
Loss and LAE ratio	111.8%	106.4%		-5%
Underwriting expense ratio	22.2%	22.8%		1%
Combined ratio	<u>134.0%</u>	<u>129.2%</u>		-5%

Numbers or ratios may not foot or cross foot due to rounding.

Dash (-) represents a null value.

Zero (0) represents a calculated zero or number which rounds to zero.

Green represents better than prior year.

Red represents worse than prior year.