

**STATE COMPENSATION INSURANCE FUND**  
**Report on Statutory Financial Results**  
**Nine Months Ended September 30, 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 nine months ended September 30, 2011:

- Premiums
  - We wrote approximately 115,000 policies, which was 3% less than budget and 8% less than the prior period. Our average premium per policy was approximately \$6,700 or 9% less than budget and 8% less than prior period, due to continued loss of larger premium accounts.
  - Net premiums earned of \$732 million were 12% less than budget and 14% less than the prior period.
- Losses & loss adjustment expenses
  - During the third quarter we completed our periodic analyses of the adequacy of the loss and loss adjustment expense (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 \$916 million were 12% lower than budget and 12% lower than the prior year.
  - Our loss and LAE ratio of 125% was 1 point higher than budget and 3 points higher than the prior year.
- Underwriting expenses
  - Our underwriting expenses of \$285 million were 4% less than plan and 10% less than the prior year.
  - Our underwriting expense ratio of 39% was 4 points higher than plan and 2 points higher than the prior year due to premiums declining faster than expenses.
- Underwriting results
  - We had an underwriting loss of \$469 million, which was 5% lower than budget and 7% lower than the prior period.
  - Our combined ratio was 164%, or 5 points higher than both budget and the prior period.
- Investment and other non-underwriting results
  - Net investment income of \$627 million was 10% more than budget, and 5% less than the prior period. Investment yields were higher than planned.
  - Realized capital gains of \$14 million were \$14 million more than budget and \$8 million more than prior period.
  - Other expenses of \$59 million represented charge-offs of uncollectible premiums and were \$2 million more than budget and \$1 million less than prior period.
- Net income of \$113 million was \$97 million more than budget and \$13 million more than the prior period, driven by the combination of improved underwriting results, net investment income and realized gains.

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Financial Results (\$ millions)	2010 Actual	2011 Budget	2011 Actual	Variance to Budget	Variance to Prior Year
Net premiums earned	852	835	732	-12%	-14%
Losses	638	626	50	-92%	-92%
Loss adjustment expenses	402	408	866	112%	115%
Underwriting expenses	315	296	285	-4%	-9%
Underwriting results	(503)	(495)	(469)	-5%	-7%
Net investment income	657	568	627	10%	-5%
Realized capital gain (loss)	6	0	14	14	8
Other income (expense)	(60)	(57)	(59)	4%	-1%
Net income	100	15	113	97	13

**Standard Industry Ratios**

Loss ratio	74.9%	75.0%	6.8%	-68.2%	-68.1%
LAE ratio	47.2%	48.9%	118.3%	69.4%	71.1%
Loss and LAE ratio	122.1%	123.9%	125.1%	1.2%	3.0%
Underwriting expense ratio	37.1%	35.4%	38.9%	3.5%	1.8%
Combined ratio	159.2%	159.3%	164.0%	4.7%	4.8%

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.