



INFORMATIONAL ONLY

Financial Update: Report on Statutory Financial Results **Year Ended December 31, 2012** **Dan Sevilla, Chief Financial Officer**

The following summarizes our statutory financial results for the year ended December 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, unemployment and market pricing.
 - We maintained our disciplined approach to underwriting and wrote approximately 132,600 policies, which was 10% less than budget and the year ended December 31, 2011 (the prior year). The average premium per policy written was approximately \$7,000 or 1% less than budget and 2% more than the prior year.
 - Net premiums earned on policies in force of \$923 million were 4% more than budget and 8% less than the prior year.
 - Our loss and loss adjustment expenses (LAE) ratio of 97.5% was on budget and 20 points lower than the prior year due to 2011 LAE reserve strengthening.
 - Our underwriting expense ratio of 40.2% was slightly higher than budget and about the same as the prior year.
 - Our combined ratio of 137.7% was slightly higher than budget and 21 points lower than the prior year, and the related underwriting loss of \$334 million was slightly more than budget and 43% less than the prior year.
- Investment and other non-underwriting results
 - Net investment income of \$760 million was about the same as budget, and 8% less than the prior year.
 - Realized capital gains of \$43 million were \$43 million more than budget and \$15 million higher than the prior year.
 - Other expenses mostly represent charge-offs of uncollectible premiums and were \$39 million less than budget and \$87 million less than the prior year.
- Net income and policyholders' surplus
 - Income before dividends of \$458 million was \$77 million more than budget and \$279 million more than the prior year, driven by the combination of improved underwriting results, realized gains and other expense.
 - The Board of Directors approved \$100 million in policyholder dividends, which resulted in net income of \$359 million.
 - Policyholders' surplus grew by 6% to over \$6 billion.

Financial Results (\$ millions)	2011 Actual	2012 Budget	2012 Actual	Variance to budget	Variance to prior year
Net premiums earned (NPE)	1,002	884	923	4%	-8%
Losses	252	663	692	4%	174%
Loss adjustment expenses	928	199	208	4%	-78%
Underwriting expenses	401	353	357	1%	-11%
Underwriting results	(580)	(331)	(334)	-1%	43%
Net investment income	829	762	760	0%	-8%
Realized capital gain (loss)	28	-	43	43	15
Other income (expense)	(98)	(50)	(11)	39	87
Income before dividends to policyholders	179	381	458	77	279
Dividends to policyholders	(50)	(75)	(100)	25	50
Net income	130	306	359	53	229
Standard Industry Ratios					
Loss ratio	25.2%	75.0%	75.0%	0.0%	49.8%
LAE ratio	92.7%	22.5%	22.5%	0.0%	-70.2%
Loss and LAE ratio	117.9%	97.5%	97.5%	0.0%	-20.4%
Underwriting expense ratio	40.3%	39.5%	40.2%	0.6%	-0.1%
Combined ratio	158.2%	137.0%	137.7%	0.6%	-20.5%

Numbers or ratios may not 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 plan or prior year.

Red represents worse than plan or prior year.