2021 FINANCIAL SUMMARY

RESULTS OF OPERATIONS

State Fund's results of operations for years ended December 31, 2021 and 2020 and its corresponding financial ratios are shown below:

(In millions)	2021	2020
Net premiums earned	$ 1,236	$ 1,016
Losses incurred	925	711
Loss adjustment expenses (LAE) incurred	333	223
Underwriting and administrative expenses	520	509
Premium deficiency	(10)	15
Net underwriting loss	(532)	(442)
Net investment and realized gain	674	662
Other income (loss)	23	(48)
Income before dividends	165	172
Dividends to policyholders	1	(100)
Net income	$ 166	$ 72

	2021	2020
Loss ratio	74.9%	70.0%
LAE ratio	26.9%	22.0%
Underwriting expense ratio	41.8%	49.2%
Combined ratio	143.6%	141.2%

State Fund's premium increased in 2021 due to the increase in reported payroll policies resulting from reopening of businesses, $45 million reduction in estimated audit premium in prior year and none this year, and the decrease in unearned premium due to discontinued deposit requirements for payroll-reporting policies. State Fund had a $532 million underwriting loss in 2021 compared to a $442 million underwriting loss in prior year. The 2021 underwriting loss was due to higher losses and LAE incurred of $324 million due to lower reserves release this year, one-time expense resulting from the LAE portion of a legal case settlement accrual, increase in salary and other claims adjustment cost, and higher reported claims count in transportation, manufacturing, and retail. The $11 million increase in underwriting expenses are represented by the underwriting portion of the aforementioned legal case settlement accrual, increase in commission expenses, partially offset by the $44 million COVID-19 Safety Funds paid last year.

Net investment income and realized gain on sale of equity increased by $12 million due to $71 million increase in gain on sale of equity investments, offset by lower interest rates and increase in amortization expenses of $59 million. Other income of $23 million this year represents charge-off recoveries and a change in the charge-off policy that became effective this year. Net income before dividends of $165 million was $7 million lower than prior year mainly due to $90 million increase in underwriting loss, offset by $12 million increase in net investment income and realized gain, and $71 million increase in other income.

Net income of $166 million was $94 million higher than last year mainly due to no dividends declared this year compared to $119 million declared policy year 2020 dividends, net of $18 million policy year 2019 dividend reserve release last year.

2021 FINANCIAL SUMMARY

FINANCIAL POSITION

State Fund's financial positions at December 31 are as follows:

(In millions)	**2021**	**2020**
Admitted Assets		
Bonds, at amortized cost	$ 18,515	$ 18,977
Common stocks	1,152	941
Real estate	294	288
Cash and short-term investments	141	55
Receivable for securities	55	-
Total cash and invested assets	20,157	20,261
Other assets	386	369
Total admitted assets	$ 20,543	$ 20,630
Liabilities and Policyholders' Surplus		
Loss and LAE reserves net of reinsurance	$ 11,337	$ 11,424
Other liabilities	2,699	2,840
Total liabilities	14,036	14,264
Policyholders' surplus	6,507	6,366
Total liabilities and policyholders' surplus	$ 20,543	$ 20,630

State Fund maintained a balanced investment portfolio that was focused on both credit quality and investment yield (88% of the $18.5 billion bond portfolio was rated NAIC 1, the NAIC's highest quality credit class). The weighted averages credit quality of the overall bond portfolio were Aa3 and AA- by Moody's and Standard & Poor's, respectively. Book yield at December 31, 2021 was 2.80%, decreased from 2.92% at December 31, 2020.

Management believes that its reserves are adequate and State Fund's appointed Actuary, Guy Avagliano of Milliman, Inc., consulting actuaries, opined to the adequacy of State Fund's carried reserves as of December 31, 2021 and 2020.

State Fund operates in conformity with the California law imposed for risk-based capital (RBC). As of December 31, 2021 and 2020, policyholders' surplus exceeded the minimum RBC requirements.

Policyholders' surplus went up by $141 million since December 31, 2020. This increase is a result of the net income of $166 million, a favorable increase of $98 million in unrealized capital gains, offset by an unfavorable increase of $62 million in non-admitted assets, and $61 million reclassification of special surplus to recognize State Fund's share of Pension and OPEB as liabilities in compliance with Statements of Statutory Accounting Principles (SSAP) No. 5R – "Liabilities, Contingencies and Impairment of Assets".

2021 FINANCIAL SUMMARY

CASH FLOW

State Fund's statements of cash flow are summarized below:

(In millions)	2021	2020
Premiums collected net of reinsurance	$ 1,146	$ 1,001
Net investment income	615	669
Miscellaneous income	22	9
Benefits and loss related payments	(1,070)	(1,113)
Other underwriting expenses	(754)	(814)
Dividend paid to policyholders	(47)	(141)
Net cash used in operations	(88)	(389)
Proceeds from investments sold, matured, or repaid	4,294	5,491
Cost of investments acquired:	(3,954)	(5,288)
Net cash provided by investments	340	203
Net cash (used in) provided by financing and miscellaneous sources	(165)	96
Net change in cash, cash equivalents, and short-term investments	86	(90)
Cash, cash equivalents, and short-term investments, beginning of year	55	145
Cash, cash equivalents, and short-term investments, end of year	$ 141	$ 55

Primary sources of cash included cash flow from premiums, investment income, and the sale or maturity of invested assets. Primary uses of cash included the purchase of long-term investments and the payments of benefits, loss related expenses, and other underwriting expenses.

Cash flow used in insurance operations decreased from prior year mainly due to more premium resulting from the increased payroll-reporting premium payments, less dividend payments of $94 million, and less operating expenses mainly due to $44 million COVID-19 Safety funds paid last year.