011453 - Texas Mutual Insurance Company

Report Revision Date: 06/18/2013

Rating and Commentary [1]	*Financial* [2]	*General Information* [3]
Best's Credit Rating: 10/05/2012	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** N/A
Rating Rationale: 10/05/2012	**Last Updated:** 08/10/2013	**States Licensed:** 11/30/2001
Report Commentary: 06/18/2013	**Status:** Quality Cross Checked	**Officers and Directors:** 06/18/2013

Best's Credit Rating Methodology | Disclaimer | Best's Rating Guide

Additional Online Resources	
Related News	Archived AMB Credit Reports
Rating Activity and Announcements	Corporate Changes & Retirements
Company Overview	AMB Country Risk Reports - United States

[1] The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2] The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3] The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Texas Mutual Insurance Company

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Tel.: 512-224-3800 **Web:** www.texasmutual.com **Fax:** 512-224-6292

AMB #: 011453 **Ultimate Parent #:** N/A **NAIC #:** 22945 **FEIN#:** 74-2615873

Best's Credit Ratings

Best's Financial Strength Rating: A **Outlook:** Stable

Best's Issuer Credit Rating: a **Outlook:** Stable

Rating Effective Date: 10/05/2012

Financial Size Category: XIV

Report Revision Date: 06/18/2013

Rating Rationale

Rating Rationale: The ratings reflect Texas Mutual Insurance Company's (TMIC) superior risk-adjusted capitalization, strong underwriting and overall operating performance, and leading position in the Texas workers' compensation market. The ratings also acknowledge the company's experienced management team, knowledge of the Texas market, comprehensive enterprise risk management, reputation among policyholders for a high level of service and profit sharing, effective claims management, medical network and loss control services, commitment to reserve adequacy and prudent investment management. Furthermore, as the insurer of last resort in Texas, TMIC benefits from its ability to utilize a multi-tier underwriting and pricing approach and exemption from federal income taxes.

These positive rating factors are somewhat offset by the volatility in TMIC's operating results in recent years, particularly in 2008 when large realized and unrealized capital losses were reported, primarily reflecting its above-average investment allocation to equity securities. In addition, TMIC operates as a single state, monoline insurer with limited geographic spread that exposes its operations to changes in local regulatory, economic and competitive environments. Moreover, in the near term, the company's operating performance appears likely to be pressured by continued competitive market conditions, the likelihood of less favorable prior year loss reserve development and a continued decline in net investment income as a result of the current low interest rate environment. Nevertheless, A.M. Best believes TMIC has significant operating and financial flexibility as a result of its strong balance sheet, competitive loss and loss adjustment expense ratios, and sizable policyholder dividend payments which can be managed to benefit operating profitability and surplus. Lastly, movements in Washington, D.C., that are focused on tax-exempt organizations could potentially impact the federal tax-exempt status of certain state funds such as TMIC. Despite these concerns, the outlooks reflect TMIC's excellent capitalization, significant operating and financial flexibility, and strong market position.

While A.M. Best believes TMIC's ratings/outlooks are well positioned at current levels, they could come under pressure should continued soft market conditions and a lack of underwriting discipline result in the company's underwriting and overall profitability underperforming its peers; local legislative, regulatory or economic changes adversely affect the company's operating fundamentals; or should the company lose its federal tax-exempt status.

Five Year Rating History

	BEST'S	
Date	FSR	ICR
10/05/2012	A	a

View 25 Year Rating History

Key Financial Indicators

Period Ending	Statutory Data ($000)					
	Premiums Written		Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
	Direct	Net				
2012	906,405	927,005	75,812	168,674	4,890,294	1,934,389
2011	729,912	741,746	52,996	139,071	4,379,960	1,677,217
2010	596,191	601,963	109,694	194,468	4,720,887	1,610,179
2009	634,389	636,868	160,360	168,826	3,827,253	1,313,671
2008	756,894	758,796	70,449	-55,189	3,403,558	924,889
06/2013	510,491	524,288	-67,602	-11,387	5,238,087	1,974,737
06/2012	442,536	451,809	-52,856	4,378	4,672,686	1,704,128

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	105.1	3.2	9.0	72.1	0.5	2.0	165.4	136.2
2011	111.4	3.4	7.5	61.5	0.4	2.1	162.1	123.0
2010	107.9	3.9	17.6	102.4	0.4	2.3	151.8	127.2
2009	100.2	4.8	24.7	65.4	0.5	2.4	152.3	132.7
2008	112.1	5.1	9.3	78.2	0.8	3.5	137.3	136.1
5-Yr Avg	107.4	4.0	13.1	...	...	...	...	...
06/2013	126.0	3.0	-14.3	80.3	0.5	2.2	160.5	156.3
06/2012	127.3	3.0	-13.3	70.5	0.5	2.2	157.4	155.7

(*) Within several financial tables of this report, this company is compared against the Workers' Compensation Composite.
(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

Business Profile

In the late 1980s and early 1990s, workers' compensation rates were rapidly increasing, and few insurance companies were willing to provide coverage for Texas employers. In 1991, the Texas legislature created Texas Mutual Insurance Company (then called the Texas Workers' Compensation Insurance Fund) to ensure the availability and affordability of workers' compensation coverage in the state of Texas. In 1992, the Fund began underwriting workers' compensation insurance, and in 1994, became the state's insurer of last resort for businesses that were unable to find coverage elsewhere. In 2001, Texas House Bill 3458 went into law, changing the company's name to Texas Mutual Insurance Company (TMIC) and authorizing the company to operate as a domestic mutual insurance company, writing workers' compensation insurance in the state of Texas. The bill also maintained statutory mandates that the company remain a competitive force in the marketplace, guarantee the availability of workers' compensation insurance in Texas, and act as insurer of last resort. The legislation revised the statute under which TMIC operates to expressly provide that all money, revenues, and assets of the company belong solely to the company, and that the state has no rights to any of the assets or liability for any debts of the company. TMIC has a nine-member board of directors representing the interests of its policyholder owners. Five members, including the chair, are appointed by the Governor and confirmed by the Senate, and the company's policyholders elect the remaining four.

Given the company's statutory mandates as a workers' compensation provider, TMIC is mission-driven -- not strictly profit-driven. Moreover, a financial goal of the company is to maintain above-average capitalization to be able to respond to a shortage in the availability of workers' compensation coverage in Texas. While having some characteristics in common with other workers' compensation state funds such as being a market of last resort, exempt from federal taxes, and having a one line / one state focus, TMIC has some major differences such as being in a more competitive market than other state funds; paying all state taxes, while many funds do not; its employees not being state employees and not participating in state retirement programs; and operating under the same regulatory authority as all other insurance companies writing in Texas, and subject to the same actuarial pricing and reserving solvency requirements, as well as financial examinations and NAIC reporting requirements.

TMIC is required to provide a market for all agents in Texas and currently does business with about 5,000 agents. As a market of last resort, TMIC will accept direct placements, but strongly encourages employers to work through a professional agent. Notwithstanding, residual market business has accounted for a minimal amount of the company's total business in recent years. The company's enabling statute does not prohibit the company from writing outside of Texas, but some other states have statutes that prohibit TMIC from becoming licensed because the Texas governor appoints a majority of the TMIC's board members. TMIC covers non-Texas operations for Texas employers through a fronting arrangement with the Argonaut Insurance Company. TMIC's other state net writings totaled just $28 million in 2012. TMIC's small accounts (< $50,000) -- where there is an automation focused approach -- currently represent approximately 94% of policies and 45% of premium; medium accounts ($50,000 - $100,000) -- where there is an agency focused approach as the business is controlled by agents -- represent 3% of policies and 17% of premium; and large accounts (> $100,000) --- having a service focused approach -- represent 3% of policies and 38% of premium.

TMIC underwrites through pricing rather than risk selection and is believed to be the only carrier in Texas to use multiple rating tiers within one company. It utilizes seven rating tiers within which it prices above and below the Texas Department of Insurance benchmarks. This multi-tier underwriting and pricing approach has produced a well-diversified, broad based book among industry sectors that is fairly representative of Texas' small to medium size employers. The company's strategy is to use tiers as needed to obtain the appropriate price for each account, and if necessary utilize the residual market. Since its founding, TMIC has grown to be second largest among the 20 U.S. competitive state workers' compensation funds behind State Insurance Fund of New York based on net writings in 2012. Moreover, its share of the Texas workers' compensation market has grown to approximately 37.1%, based on 2012 direct premiums written.

TMIC introduced its Texas Star Network (TSN) in 2006 to ensure appropriate care and focus on returning employees to work. Analysis by the Texas Department of Insurance has demonstrated that the TSN produces lower average medical costs than other networks. With over 70% policyholder penetration, the company attributes the TSN as a major contributor to its low loss and LAE ratio.

In 2012, Texas lawmakers considered legislation that TMIC was pursuing which would have privatized the company, established a new residual workers' compensation market in the state and given the state insurance department the authority to set up an assigned risk plan. This legislation, which would have been effective in 2015, did not pass and the next regular session of the Texas legislature will not be until 2015. A.M. Best will closely monitor the degree of TMIC's continued interest in this legislation as the privatization of the company would likely have significant effects on its business strategies and operations.

Scope of Operations

Scope of Operations (Continued ...)

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	906,405	24.2	28,913	51.4	8,313	14.5	927,005	25.0
2011	729,912	22.4	19,096	47.0	7,262	0.5	741,746	23.2
2010	596,191	-6.0	12,994	22.0	7,223	-11.6	601,963	-5.5
2009	634,389	-16.2	10,647	-6.8	8,168	-14.2	636,868	-16.1
2008	756,894	0.7	11,425	33.3	9,523	0.4	758,796	1.0
5-Yr CAGR	...	3.8	...	27.5	...	-2.6	...	4.3
06/2013	510,491	15.4	16,758	27.7	2,960	-23.0	524,288	16.0
06/2012	442,536	26.6	13,118	43.9	3,844	11.8	451,809	27.2

Territory

The company is licensed in Texas.

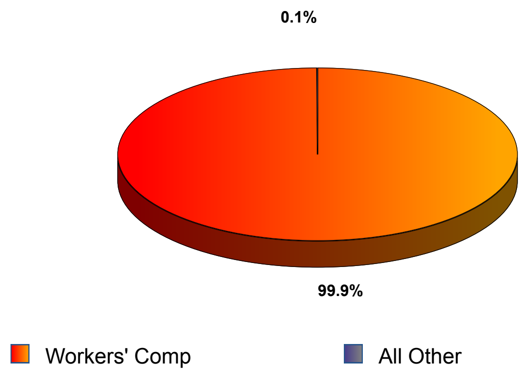
Business Trends

2012 By-Line Business ($000)

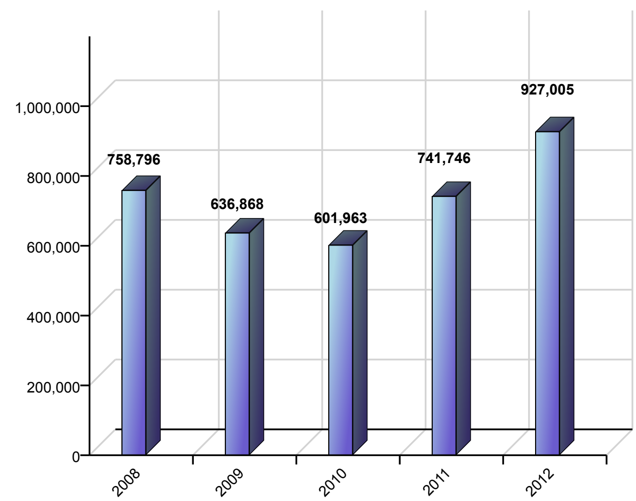
Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention %
	($000)	(%)	($000)	(%)	($000)	(%)	($000)	(%)	
Workers' Comp	906,405	100.0	28,401	98.2	8,313	100.0	926,493	99.9	99.1
All Other	...	...	512	1.8	...	...	512	0.1	100.0
Total	906,405	100.0	28,913	100.0	8,313	100.0	927,005	100.0	99.1

Business Trends (Continued ...)

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Workers' Comp	2,422,760	2,271,645	2,180,990	2,111,742	2,059,047
All Other	...	...	...	...	...
Total	2,422,760	2,271,645	2,180,990	2,111,742	2,059,047

Market Share / Market Presence

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
Texas	906,405	729,912	596,191	634,389	756,894
Total	906,405	729,912	596,191	634,389	756,894

Risk Management

TMIC maintains a comprehensive Enterprise Risk Management (ERM) program which is appropriate given its size and market profile. The company's ERM and Own Risk Solvency & Assessment (ORSA) initiatives are led by the Chief Financial Officer (CFO) and a Risk Officer who assist with risk identification, and analysis and mitigation of operational and strategic risks. Operational risk management advances efforts to identify and monitor operational risks and changes in risk levels throughout the organization; facilitates annual divisional risk assessments; enhances risk communication throughout the organization; and assists the general auditor and general counsel in advancing control evaluation, compliance and risk mitigation. Strategic risk management analyzes the financial consequences of risk; monitors compliance with risk appetite; defines and monitors risk tolerances; and assists and/or leads analysis of strategic opportunities and challenges.

While the CFO and Risk Officer lead the company's ERM initiative, divisional heads are accountable for risks in their divisions. Numerous committees with specific risk management roles play a major role in integrating the ERM program throughout the company, helping to understand the enterprise-wide implications of risks identified by each division, communicating the risks across the company and to the board of directors, providing forums to improve the understanding and management of the company's highest risks, and assist in defining and prioritizing preventive actions that can be taken proactively. The Risk Officer and general auditor report monthly to the company's board of directors' audit committee (responsible for matters related to the company's financial condition, all audit matters and ERM program) and periodically to its operations committee (which oversees insurance and business operations).

Regarding risk appetite, TMIC will consider all opportunities within management and board guidelines for which the estimated downside risk would not prevent the company from fulfilling its mission, which is to provide a stable, competitive source of workers' compensation insurance for Texas employers, act as insurer of last resort, and help to prevent on-the-job injuries and illnesses and minimize their consequences. TMIC's strategic steering committee monitors numerous operational risk metrics for which established tolerance levels, if exceeded, are presented to the board's audit committee quarterly to discuss what actions, if any, are required. TMIC uses a variety of different models to evaluate profitability and the financial consequences of different risks. Operational risks, which are closely monitored and appropriately mitigated to limit potential adverse effects, include inflation risk, credit risk, interest rate risk, loss of federal income tax exemption, reputational risks, and state fund related risks. Management believes risks most correlated to one another that could threaten the financial strength of the company include inflation's correlation to losses and negative correlation to bond prices, as well as terrorism or natural catastrophe correlated with significant adverse disruption in the capital markets.

Operating Performance

Operating Results: TMIC has reported strong underwriting and overall operating performance relative to the workers' compensation composite over the past five years. Over this period, the company's combined ratios before policyholder dividends, policyholder dividend ratios, combined ratios after policy holder dividends, net investment ratio and operating ratios have averaged 89.8, 19.7, 109.5, 22.0 and 87.5, respectively, which compares with 111.9, 4.8, 116.8, 24.5 and 92.2, respectively, for the workers' compensation composite.

Apparent in the TMIC's five-year average comparisons with the workers' compensation composite, and of significant importance, is that the company's combined ratios before policyholder dividends averaged 22.1 points better than the composite. TMIC's combined ratios after policyholder dividends averaged 7.3 points better for the five-year comparison. Overall, including its above-average policyholder dividends and net investment income, TMIC's five-year average pretax operating income as a percentage of net premiums earned (pretax ROR) through 2012 was 13.1%, which compares with the workers' compensation composite average of 6.6%, still a favorable comparison. Despite the company's above-average common stock leverage and superior capitalization, its five-year average total return on equity (Return on PHS) through 2012 was 9.0%, which compares with 4.1% for the workers' compensation composite.

TMIC's policyholder dividends, which have been substantial in recent years, are paid at the discretion of the board, and are not contractual. The company considers them "owner's dividends" rather than a part of the insurance product and believes they provide underwriting and capital management benefits. Regarding underwriting, dividends are paid to relieve pressure to price below costs; also, a longevity component in the dividend structure significantly improves the retention of good accounts. Regarding capital management, they can be a significant benefit in maintaining surplus levels during different economic environments, as evidenced in 2009 when the company's policyholder dividends were significantly lowered to partially mitigate recent realized and unrealized capital losses attributable to the sharp decline in the financial markets. The company's highly tailored dividend plans are also beneficial in reinforcing policyholder commitment to safety and risk management.

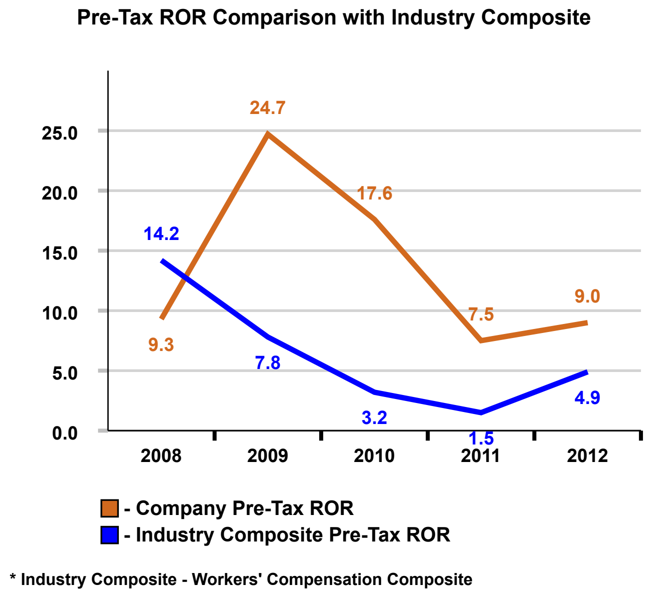
TMIC's five-year change in net premiums written through 2012 was 23.4%, which compares with approximately -30.0% for the workers' compensation composite. This above-average growth for the company appears largely a reflection of the above-average relative performance of the Texas economy in recent years, TMIC's knowledge of the Texas workers' compensation market, its reputation for service and payment of above-average dividends, and long-standing relationships with agents. TMIC's share of the Texas workers' compensation market grew to 37.1% in 2012 from 28.6% as recently as 2008.

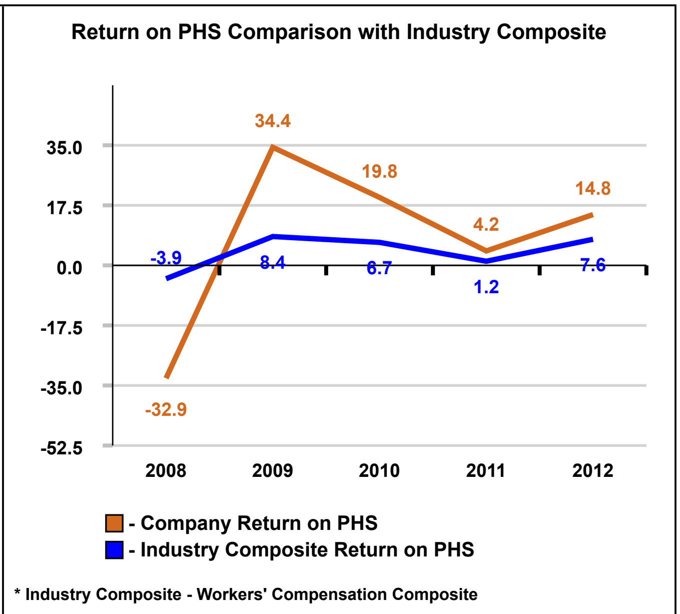
TMIC's investment portfolio has historically provided the company with a steady stream of income. While the company's net investment income has declined over the past four years (2009 through 2012) due to the low interest rate environment, the company still generated $139 million of net investment income in 2012, which equated to 16.5% of net premiums earned. Nevertheless, with an average maturity of 4.9 years on the company's bond portfolio (which compares with approximately 6.1 years for the workers' compensation composite), its net investment income will likely continue to decline over the near term, and with premiums earned likely to increase, its net investment ratio also will likely continue to decline. While net investment income declined in years 2009 through 2012, realized and unrealized capital gains contributed substantially to the company's total investment income, which together with solid operating income, resulted in surplus increases of 42% in 2009, 23% in 2010, 4% in 2011 and 15.3% in 2012. TMIC's surplus is up 48% since year-end 2007.

Profitability Analysis

	Company							Industry Composite		
Period Ending	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	75,812	75,812	168,674	266,766	9.0	14.8	88.6	4.9	7.6	93.6
2011	52,996	52,996	139,071	69,553	7.5	4.2	91.2	1.5	1.2	97.3
2010	109,694	109,694	194,468	289,456	17.6	19.8	83.1	3.2	6.7	95.2
2009	160,360	160,360	168,826	384,728	24.7	34.4	75.6	7.8	8.4	91.6
2008	70,449	70,449	-55,189	-367,292	9.3	-32.9	90.5	14.2	-3.9	85.1
5-Yr Avg/Tot	469,312	469,312	615,850	643,212	13.1	9.0	86.1	6.6	4.1	92.2
06/2013	-67,602	-67,602	-11,387	42,993	-14.3	15.6	111.6	XX	XX	XX
06/2012	-52,856	-52,856	4,378	22,727	-13.3	4.6	110.1	XX	XX	XX

Operating Performance (Continued ...)





Underwriting Results

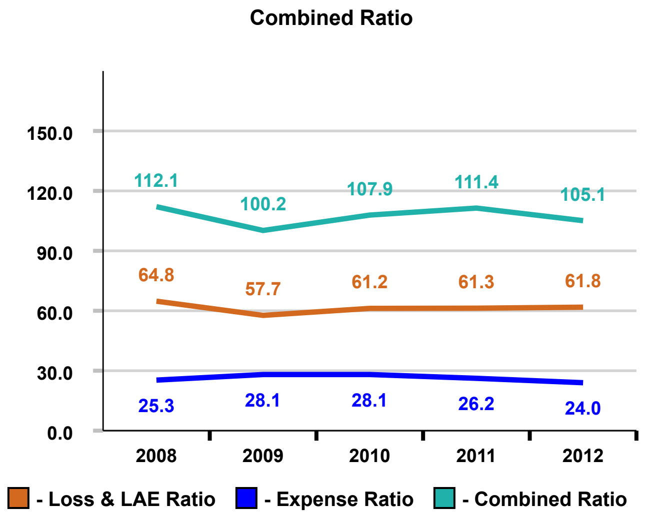
Underwriting Experience

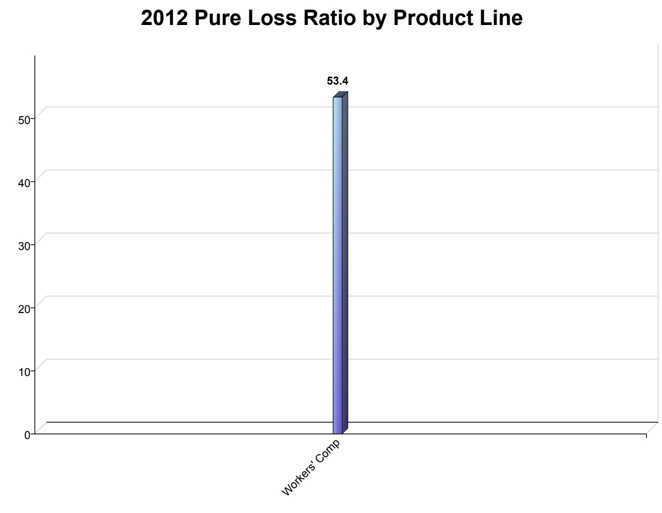
Year	Net Undrw Income ($000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.		
2012	-62,749	53.4	8.4	61.8	12.5	11.5	24.0	19.4	105.1
2011	-89,704	50.1	11.1	61.3	13.1	13.1	26.2	23.9	111.4
2010	-43,109	55.1	6.1	61.2	12.5	15.5	28.1	18.6	107.9
2009	1,825	45.9	11.8	57.7	12.9	15.2	28.1	14.4	100.2
2008	-92,286	54.7	10.1	64.8	12.5	12.8	25.3	22.0	112.1
5-Yr Avg	-286,023	52.0	9.5	61.5	12.7	13.4	26.1	19.8	107.4
06/2013	-135,020	53.8	11.2	65.0	XX	XX	23.3	37.7	126.0
06/2012	-121,262	53.1	11.9	65.0	XX	XX	23.2	39.1	127.3

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Workers' Comp	53.4	50.1	55.1	45.9	54.7	52.0
All Other	...	...	...	...	...	...
Total	53.4	50.1	55.1	45.9	54.7	52.0

Underwriting Results (Continued ...)





Direct Loss Ratios By State

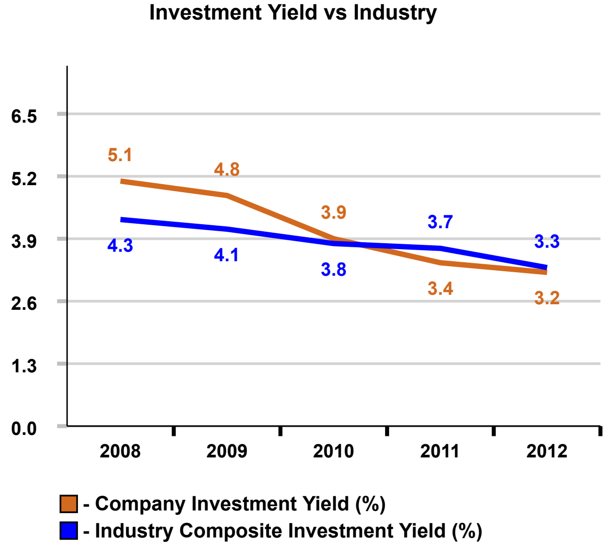
	2012	2011	2010	2009	2008	5-Yr. Avg.
Texas	54.3	49.7	53.4	44.1	53.3	51.2
Total	54.3	49.7	53.4	44.1	53.3	51.2

Investment Results

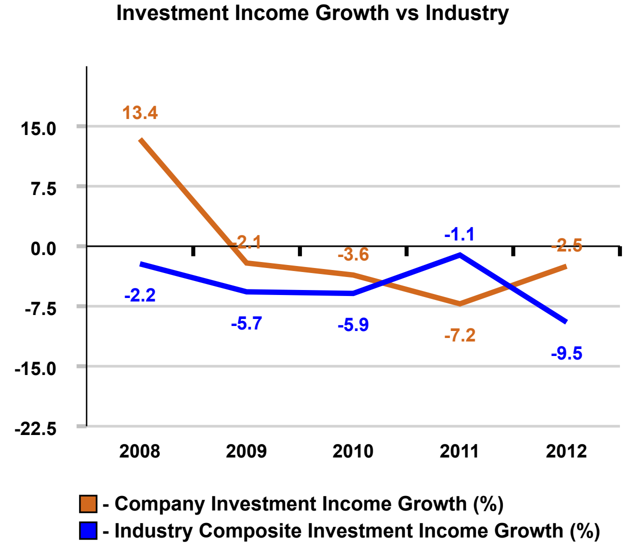
Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	139,346	92,862	98,092	-2.5	3.2	5.5	7.9	-9.5	3.3
2011	142,976	86,074	-69,517	-7.2	3.4	5.4	3.7	-1.1	3.7
2010	154,074	84,774	94,988	-3.6	3.9	6.0	8.5	-5.9	3.8
2009	159,753	8,466	215,902	-2.1	4.8	5.1	11.9	-5.7	4.1
2008	163,098	-125,638	-312,103	13.4	5.1	1.1	-8.0	-2.2	4.3
5-Yr Avg/Tot	759,247	146,539	27,361	-0.6	4.0	4.8	4.9	-4.8	3.9
06/2013	68,073	56,215	54,380	-0.9	3.0	5.1	8.2	XX	XX
06/2012	68,664	57,234	18,349	-7.1	3.0	4.9	3.3	XX	XX

Investment Results (Continued ...)



* Industry Composite - Workers' Compensation Composite



* Industry Composite - Workers' Compensation Composite

Balance Sheet Strength

Capitalization

Capitalization: TMIC's risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio is superior and comfortably supports its rating. The company's favorable overall capitalization is reflective of its conservative underwriting leverage measures and loss reserve position, somewhat offset by an above-average investment risk profile driven by common stock holdings. In addition, there is no long-term debt on the company's balance sheet. Despite the financial crisis in 2008 and early 2009, TMIC experienced solid policyholder surplus growth versus net premiums written growth over the five-year period 2008 through 2012, with surplus increasing 48.1% as compared with net writings rising just 23.4%. The favorable surplus growth was largely attributable to the company's highly favorable combined ratios before policyholder dividends, which averaged 87.6 for the five-year period, and solid net investment income ratio (net investment income / net premiums earned), which averaged 21.2. Realized and unrealized capital losses in 2008 and early 2009 stemming from the volatility in the financial markets were largely recouped by year-end 2011. Largely due the company's solid operating performance, surplus increased $628 million over the five-year period while net writings rose just $168 million. Contributing to the company's favorable combined ratios before policyholder dividends over the five-year period was $809 million of highly favorable prior year loss reserve development, while its average combined ratio after policyholder dividends of 107.4 was impacted by substantial policyholder dividends of $708 million.

In 2011and 2012, TMIC's net writings rose 23.2% and 25.0%, respectively, largely attributable to an increase in policyholder payrolls, a reflection of the relatively strong improvement in the Texas economy. Management also credits the company's strategy of maintaining competitive, yet responsible pricing, its strong history of policyholder dividends, strong agent relationships and dedication to customer service as also enabling the company to increase the number of policies written and its market share in Texas. While TMIC's combined ratio before policyholder dividends remained strong at 85.7 in 2012 (in part due to continued highly favorable prior year loss reserve development), its combined ratio after policyholder dividends of 105.1 was impacted by another substantial policyholder dividend payment equating to 19.4% of net premiums earned. Together with a continued decline in net investment income and realized and unrealized capital gains, surplus rose an appreciable 15.2% in 2012. A.M. Best believes TMIC has significant operating and financial flexibility as a result of its strong balance sheet, competitive loss and loss adjustment expense ratios, and sizable policyholder dividend payments which can be managed to benefit operating profitability and surplus. Barring a substantial decline in the capital markets, A.M. Best believes TMIC capitalization should remain highly supportive of its current rating in the near term.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	75,812	92,862	...	98,092	...	-9,594	257,172	15.3
2011	52,996	86,074	...	-69,517	...	-2,516	67,038	4.2
2010	109,694	84,774	...	94,988	...	7,051	296,507	22.6
2009	160,360	8,466	...	215,902	...	4,054	388,782	42.0
2008	70,449	-125,638	...	-312,103	...	-13,838	-381,131	-29.2
5-Yr Total	469,312	146,539	...	27,361	...	-14,843	628,369	8.2
06/2013	-67,602	56,215	...	54,380	...	-2,644	40,348	2.1
06/2012	-52,856	57,234	...	18,349	...	4,184	26,911	1.6

Capitalization (Continued ...)

Quality of Surplus ($000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	...	...	...	1,934,389	1,934,389	5	1,934,394
2011	...	...	...	1,677,217	1,677,217	2	1,677,218
2010	...	...	...	1,610,179	1,610,179	...	1,610,179
2009	...	...	...	1,313,671	1,313,671	...	1,313,671
2008	...	...	...	924,889	924,889	13	924,902
06/2013	...	...	...	1,974,737	1,974,737	5	1,974,743
06/2012	...	...	...	1,704,128	1,704,128	2	1,704,129

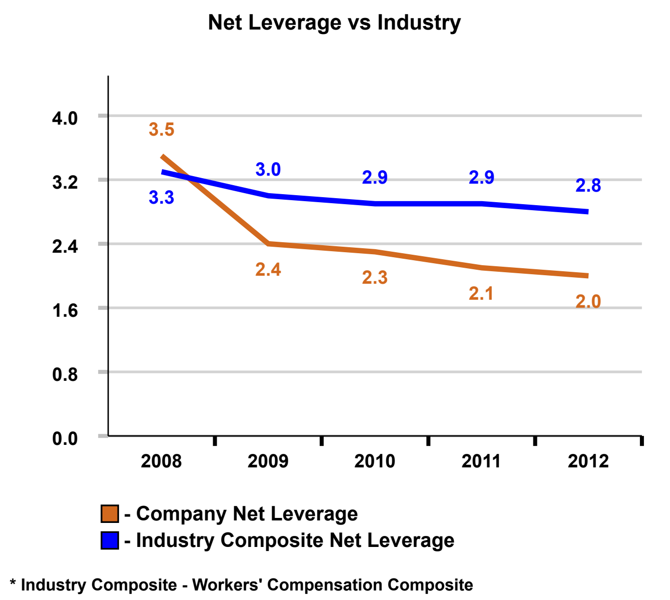
Underwriting Leverage

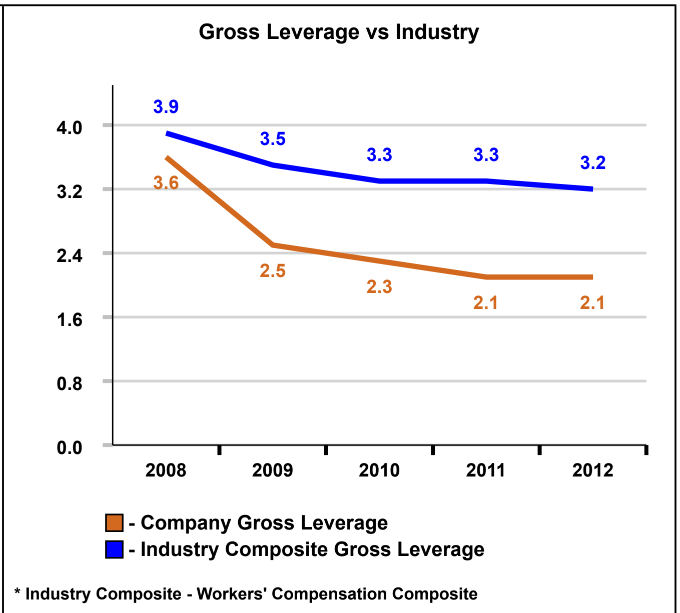
Leverage Analysis

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	0.5	1.3	2.0	2.1	0.5	1.9	2.8	3.2
2011	0.4	1.4	2.1	2.1	0.5	2.0	2.9	3.3
2010	0.4	1.4	2.3	2.3	0.4	2.0	2.9	3.3
2009	0.5	1.6	2.4	2.5	0.5	2.1	3.0	3.5
2008	0.8	2.2	3.5	3.6	0.6	2.3	3.3	3.9
06/2013	0.5	1.3	2.2	XX	XX	XX	XX	XX
06/2012	0.5	1.4	2.2	XX	XX	XX	XX	XX

Current BCAR: 385.5

Underwriting Leverage (Continued ...)





Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	92,244	99.1	4.3	4.8	69.2	32.3	41.1
2011	74,613	99.0	4.0	4.4	70.0	35.7	43.9
2010	70,396	98.8	3.9	4.4	70.3	37.7	45.0
2009	75,879	98.7	5.2	5.8	70.3	42.7	51.1
2008	74,519	98.8	7.0	8.1	72.7	49.1	58.6

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Insurers	59,647	14,723	...	...	74,370
Pools/Associations	1,462	362	...	...	1,824
Other Non-Us	6,186	1,551	...	...	7,737
Total(ex Us Affils)	67,295	16,636	...	...	83,931
Grand Total	67,295	16,636	...	...	83,931

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: TMIC has reported favorable prior year loss reserve development in each of past five calendar years (2008 through 2012), which benefited the company's combined ratios by 15.1, 27.1, 26.0, 27.4 and 19.4 points in these years, respectively. At year-end 2012, each of the company's previous nine accident years also had developed favorably, with most accident years having experienced highly favorable development. Earlier in the past decade, following several years of adverse development, TMIC conducted a reserve analysis which ultimately led to more conservative reserving practices and stronger reserves. For the past four years (2009 through 2012) calendar year development has been highly favorable at levels that likely are not sustainable. Combined with continued competitive market conditions and probable declines in net investment income, A.M. Best believes the company's operating performance could be remain pressured in the near term.

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	2,364,580	2,364,580	...	...	279.9	2,364,580	100.0
2011	2,222,448	2,058,413	-7.4	-9.8	290.9	1,857,797	90.3
2010	2,156,956	1,853,531	-14.1	-18.8	297.5	1,578,598	85.2
2009	2,088,990	1,698,896	-18.7	-29.7	262.1	1,384,897	81.5
2008	2,035,229	1,620,859	-20.4	-44.8	214.4	1,239,806	76.5
2007	1,857,020	1,478,113	-20.4	-29.0	202.6	1,085,385	73.4

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	506,783	506,783	...	506,783	81.8	125.2
2011	442,901	388,478	-12.3	279,199	78.2	128.3
2010	402,785	327,560	-18.7	193,701	75.4	122.1
2009	419,168	267,826	-36.1	145,091	61.8	104.3
2008	466,473	316,971	-32.0	154,421	61.2	108.5
2007	420,524	281,910	-33.0	137,494	56.8	99.6

Liquidity

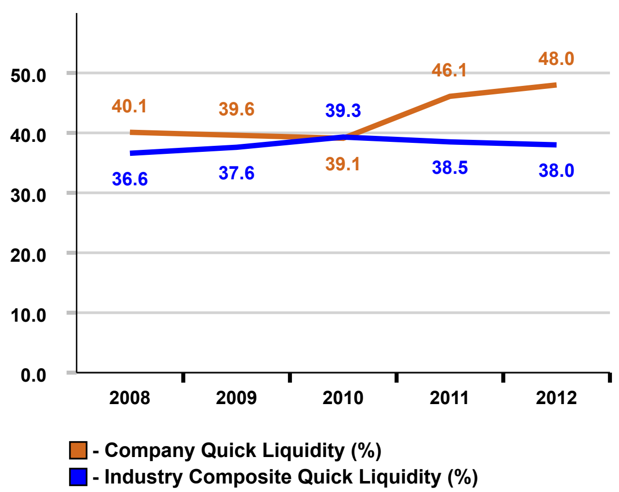
Liquidity: TMIC maintains favorable balance sheet liquidity, as invested assets exceed net liabilities by a comfortable margin. Both quick and current liquidity ratios are strong and compare favorably with the workers' compensation composite. The company's liquidity position is further enhanced by consistently positive operating cash flows, primarily reflective of positive underwriting cash flows and strong investment income. The company's investments consist largely of marketable bonds and stocks and money market funds that could be readily converted to cash for liquidity needs. The company maintains a liquid bond portfolio with 50.4% of the balance sheet value of bonds maturing within the next five years; its common stocks are publicly traded securities that are readily marketable on the major exchanges.

Liquidity (Continued ...)

Liquidity Analysis

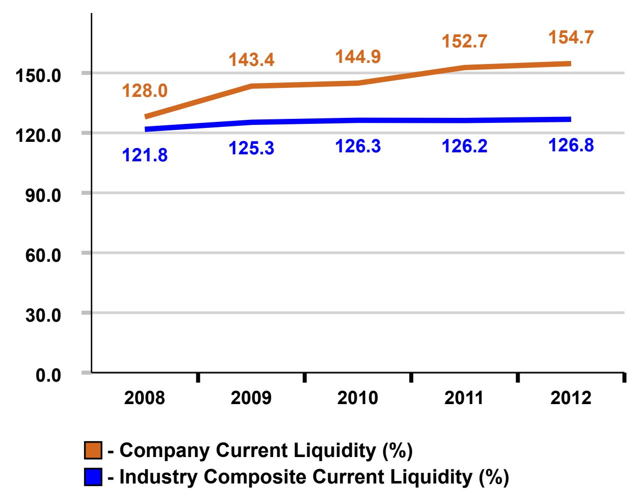
	Company				Industry Composite			
Year	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	48.0	154.7	165.4	1.3	38.0	126.8	141.6	5.7
2011	46.1	152.7	162.1	1.1	38.5	126.2	140.5	4.7
2010	39.1	144.9	151.8	0.8	39.3	126.3	140.6	4.0
2009	39.6	143.4	152.3	1.3	37.6	125.3	139.3	3.7
2008	40.1	128.0	137.3	1.8	36.6	121.8	135.8	5.0
06/2013	XX	149.3	160.5	1.4	XX	XX	XX	XX
06/2012	XX	147.5	157.4	1.2	XX	XX	XX	XX

Quick Liquidity vs Industry



* Industry Composite - Workers' Compensation Composite

Current Liquidity vs Industry



* Industry Composite - Workers' Compensation Composite

Liquidity (Continued ...)

Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	124,115	267,225	6,882	116.9	136.2	95.0	115.3
2011	14,390	158,354	41,536	102.1	123.0	83.3	105.0
2010	12,784	162,956	2,832	102.1	127.2	79.9	102.0
2009	44,810	195,348	-49,824	107.5	132.7	84.0	105.0
2008	77,806	240,618	40,872	111.7	136.1	94.7	112.8
5-Yr Total	273,905	1,024,500	42,297	...	...	...	...
06/2013	122,292	196,378	59,456	135.1	156.3	XX	XX
06/2012	97,029	170,772	115,871	131.7	155.7	XX	XX

Investments

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	10.0	0.1	8.5	53.6	72.1	0.9	4.5	26.7
2011	10.2	0.1	4.0	47.2	61.5	1.2	4.3	24.3
2010	11.9	0.1	39.1	51.3	102.4	1.3	4.3	23.8
2009	8.9	0.1	3.5	52.9	65.4	1.7	4.2	22.6
2008	17.9	0.1	4.2	56.0	78.2	2.5	3.8	19.7

Investments - Bond Portfolio

2012 Distribution By Maturity

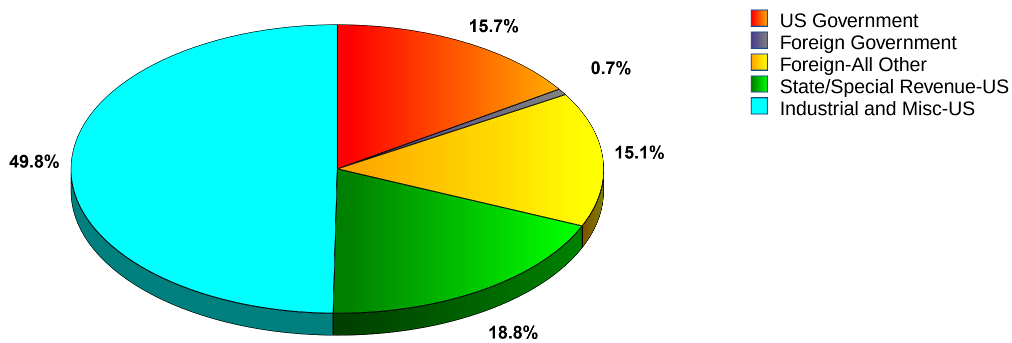
	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	1.2	5.4	9.7	0.1	...	5.6
Government Agencies & Muni.	3.7	9.2	4.3	0.6	0.2	4.2
Industrial & Misc.	7.7	32.7	22.5	2.0	0.8	5.0
Hybrid Securities	...	...	...	...	...	1.0
Total	12.6	47.3	36.4	2.8	1.0	4.9

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	3,193,680	3,097,180	2,920,429	2,736,213	2,440,836
US Government	15.7	19.5	18.7	14.4	11.1
Foreign Government	0.7	0.9	1.1	0.9	...
Foreign-All Other	15.1	12.1	11.4	9.1	4.2
State/Special Revenue-US	18.8	19.9	19.6	25.4	29.4
Industrial and Misc-US	49.8	47.6	49.2	50.2	55.3

2012 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Public Issues	100.0	100.0	100.0	100.0	100.0

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	72.2	75.5	75.6	70.4	76.1
Class 2	22.0	19.2	18.1	25.5	17.5
Class 3	3.9	4.3	5.0	3.1	3.5
Class 4	1.6	0.7	1.1	0.6	1.6
Class 5	0.2	0.2	0.1	0.1	0.6
Class 6	...	0.1	0.1	0.3	0.7

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	1,036,718	791,497	826,154	695,114	518,882
Unaffiliated Common	100.0	100.0	100.0	100.0	99.8
Unaffiliated Preferred	...	...	...	...	0.2

Investments - Mortgage Loans And Real Estate

	2012	2011	2010	2009	2008
Mortgage Loans and Real Estate (000)	19,513	20,878	21,911	23,264	24,356
Property Occupied by Company	93.6	94.0	94.3	94.6	94.9
Property Held for Income	6.4	6.0	5.7	5.4	5.1

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	312,919	209,739	730,548	143,314	186,217
Cash	0.1	11.4	-0.9	-7.4	-1.9
Short-Term	47.5	56.3	14.7	75.5	81.1
Schedule BA Assets	52.4	32.3	11.1	31.9	20.8
All Other	...	...	75.2	...	...

History

The Texas Workers Compensation Insurance Fund was formed in August 1991 through the passage of House Bill 62 by the Texas Legislature as a corporation licensed to sell workers' compensation insurance in Texas effective January 1, 1992. The Texas Workers' Compensation Insurance Fund was created to operate competitively in the Texas workers' compensation insurance market and became the insurer of last resort, beginning January 1, 1994, when the Texas Workers' Compensation Insurance Facility ceased writing new workers' compensation insurance policies.

Effective September 1, 2001, the Texas Workers' Compensation Insurance Fund, which began operations on January 1, 1992, became Texas Mutual Insurance Company. This change occurred through the passage of Texas House Bill 3458, during the 77th Regular Session of the Legislature. The legislation mandates that the company operate as a domestic mutual insurance company, authorized by the Legislature to write workers' compensation insurance in the state of Texas. Although the Texas Legislature established the company, this legislation expressly specified that all monies, revenues and assets belong solely to the company and may not be borrowed or appropriated by the state of Texas. The company is treated by the state of Texas as a commercial insurance company subject to the rules, regulations, taxes and assessments of the Texas Department of Insurance. The company continues to serve as a competitive force in the Texas workers' compensation insurance market and as the insurer of last resort.

Management

Texas Mutual has a nine-member Board of Directors made up of Texas business employers, five of which are appointed by the Governor and confirmed by the Senate. The company's policyholders elect the remaining four. Legislation prohibits the appointment of any person who has a potential conflict of interest because of other involvement within the insurance industry.

Officers And Directors

Officers

President Richard J. Gergasko
SVP and CFO P. Michael Barron
SVP Terry L. Frakes
SVP L. Randall Johnson
SVP Steven E. Math
SVP William A. McLellan, Jr.
SVP Mary B. Nichols
SVP Jeanette Ward
SVP Joseph Yurkovich
Vice President Jody A. Heins

Directors

Robert C. Barnes
Jay L. Eisen
Linda S. Foster-Smith
Bernard C. Francis
Eric L. Oliver
Tommy D. Phillips
Delia M. Reyes
John D. Swanson
George Wesch, Jr.

Regulatory

An examination of the financial condition was made as of December 31, 2008, by the insurance department of Texas. The 2012 annual independent audit of the company was conducted by Deloitte & Touche, LLP. The annual statement of actuarial opinion is provided by Mark W. Mulvaney, Milliman USA.

Reinsurance

TMIC maintains catastrophe reinsurance for $220.0 million excess of its retention, which is $30 million per occurrence. The current reinsurance program provides coverage for domestic and foreign acts of terrorism, including nuclear, biological, chemical and radiological attacks. There is one reinstatement at 100% additional premium. Maximum coverage on any one life is $10 million. Coverage applies to Texas and contiguous states.

Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	3,193,680	3,097,180	65.3	70.7
Preferred Stock	...	...	...	...
Common Stock	1,036,718	791,497	21.2	18.1
Cash & Short-Term Invest	148,883	142,001	3.0	3.2
Real estate, investment	1,251	1,251	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	164,037	67,738	3.4	1.5
Investments in Affiliates	...	...	...	...
Real Estate, Offices	18,262	19,626	0.4	0.4
Total Invested Assets	4,562,831	4,119,293	93.3	94.0
Premium Balances	293,632	227,075	6.0	5.2
Accrued Interest	29,367	28,925	0.6	0.7
Life department	...	...	...	...
All Other Assets	4,465	4,667	0.1	0.1
Total Assets	4,890,294	4,379,960	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	2,422,760	2,271,645	49.5	51.9
Unearned Premiums	428,273	346,110	8.8	7.9
Conditional Reserve Funds	5	2	...	...
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	104,867	84,986	2.1	1.9
Total Liabilities	2,955,905	2,702,743	60.4	61.7
Surplus notes	...	...	...	...
Capital & Assigned Surplus	...	...	...	...
Unassigned Surplus	1,934,389	1,677,217	39.6	38.3
Total Policyholders' Surplus	1,934,389	1,677,217	39.6	38.3
Total Liabilities & Surplus	4,890,294	4,379,960	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	3,269,709	3,314,820
Preferred Stock	...	...
Common Stock	1,132,935	1,130,317
Cash & Short-Term Invest	117,186	208,339
Other Investments	196,919	207,654
Total Invested Assets	4,716,750	4,861,130
Premium Balances	330,371	341,294
Accrued Interest	29,461	30,660
Reinsurance Funds	3,382	3,689
All Other Assets	1,231	1,315
Total Assets	5,081,195	5,238,087

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	2,477,319	2,537,042
Unearned Premiums	469,627	479,545
Conditional Reserve Funds	5	5
All Other Liabilities	59,417	246,758
Total Liabilities	3,006,368	3,263,350
Unassigned Surplus	2,074,827	1,974,737
Total Policyholders' Surplus	2,074,827	1,974,737
Total Liabilities & Surplus	5,081,195	5,238,087

Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	844,843	Premiums collected	860,668
Losses incurred	451,343	Benefit & loss-related pmts	318,255
LAE incurred	70,639		
Undwr expenses incurred	222,078	LAE & undwr expenses paid	256,320
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	163,532	Dividends to policyholders	161,979
Net underwriting income	-62,749	Underwriting cash flow	124,115
		Net transfer	...
Net investment income	139,346	Investment income	144,606
Other income/expense	-785	Other income/expense	-1,496
Pre-tax operating income	75,812	Pre-tax cash operations	267,225
Realized capital gains	92,862		
Income taxes incurred	...	Income taxes pd (recov)	...
Net income	168,674	Net oper cash flow	267,225

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	473,016	397,887	75,129
Losses incurred	254,280	211,418	42,862
LAE incurred	53,180	47,203	5,977
Undwr expenses incurred	122,403	104,755	17,648
Other expenses incurred	...	...	...
Dividends to policyholders	178,173	155,773	22,400
Net underwriting income	-135,020	-121,262	-13,758
Net investment income	68,073	68,664	-591
Other income/expense	-655	-258	-397
Pre-tax operating income	-67,602	-52,856	-14,746
Realized capital gains	56,215	57,234	-1,019
Income taxes incurred	...	...	...
Net income	-11,387	4,378	-15,765

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	470,812	403,525	67,287
Benefit & loss-related pmts	168,229	154,599	13,630
LAE & undwr expenses paid	176,364	147,034	29,330
Dividends to policyholders	3,927	4,863	-936
Underwriting cash flow	122,292	97,029	25,263
Net transfer	...	...	...
Investment income	74,789	74,001	788
Other income/expense	-704	-258	-446
Pre-tax cash operations	196,378	170,772	25,606
Income taxes pd (recov)	...	...	...
Net oper cash flow	196,378	170,772	25,606

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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