

IWIF Workers'
Compensation
Insurance
2003 Annual Report

*Maryland's Beacon
Safety of Trust*



Financial Highlights at a Glance

	2003	2002
Total Assets	\$ 1,084,362,827	\$ 949,185,073
Earned Premium	\$ 236,846,212	\$ 181,721,722
Loss/LAE Ratio	98.6%	102.1%
Expense Ratio	13.5%	14.7%
Combined Ratio	112.1%	116.8%
Investment Income ...	\$ 44,782,347	\$ 44,530,882
Claims Expense Net ...	\$ 215,336,239	\$ 169,828,847

Message from the Chairman

To our friends and business partners:

Just as the Thomas Point Lighthouse has stood as a beacon of safety and trust, so too has IWIF stood for the past 89 years. IWIF has withstood the financial turbulence of an insurance market that has seen many commercial carriers leave the Maryland marketplace. To our customers and our partners we say, "You can depend on IWIF to be your constant, safe harbor for workers' compensation insurance coverage."

In 2003, we heartily welcomed Michelle Duffy-Orr and James Simpson as new members of IWIF's board of directors, and recently welcomed Rocky Gonzalez in 2004. We look forward to the energy and insight we can draw from them in our future progress. We also express our gratitude to the outgoing board members Leonard Schuler, Paul Rose, and Joseph Coale, whose wisdom and experience helped guide us to our current success.

That success is underscored by IWIF's stellar performance in 2003. Total assets surpassed \$1 billion, and operating profit rose to \$10.6 million, an increase of 23% over the prior year. These financial achievements resulted from sound and responsible stewardship, coupled with improving investment markets.

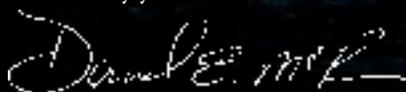
Another example of the health and vigor of IWIF is indicated by our steady growth in premium and market share, especially among larger accounts. It is IWIF's proven value proposition, which offers world-class services and best-practices in the insurance industry, that strengthen our reputation. Now, more than ever, businesses are choosing to partner with IWIF.

Through enhancements in our infrastructure and technology and through increased customer service excellence, we are well positioned to retain our customers and to remain the leader in the Maryland marketplace.

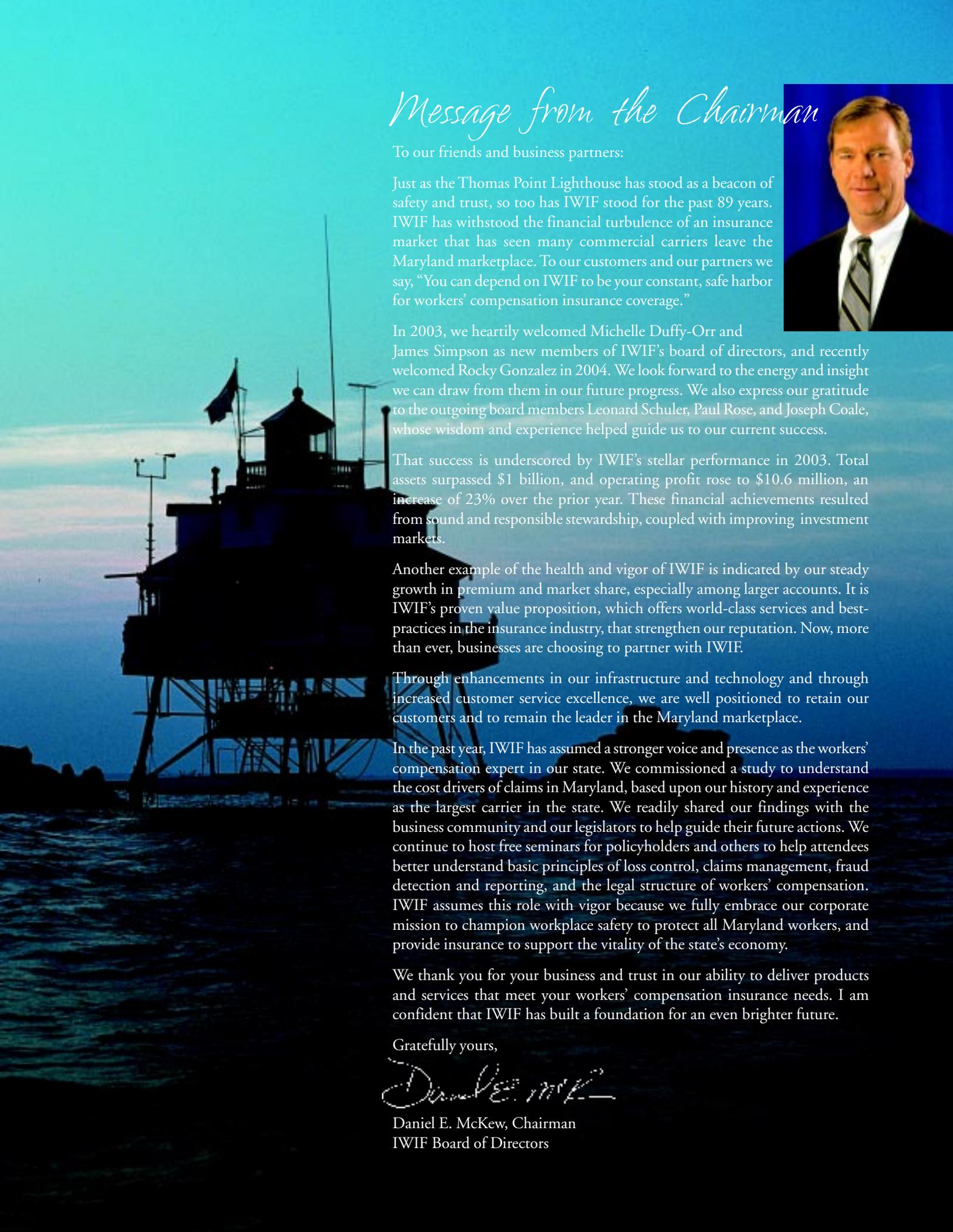
In the past year, IWIF has assumed a stronger voice and presence as the workers' compensation expert in our state. We commissioned a study to understand the cost drivers of claims in Maryland, based upon our history and experience as the largest carrier in the state. We readily shared our findings with the business community and our legislators to help guide their future actions. We continue to host free seminars for policyholders and others to help attendees better understand basic principles of loss control, claims management, fraud detection and reporting, and the legal structure of workers' compensation. IWIF assumes this role with vigor because we fully embrace our corporate mission to champion workplace safety to protect all Maryland workers, and provide insurance to support the vitality of the state's economy.

We thank you for your business and trust in our ability to deliver products and services that meet your workers' compensation insurance needs. I am confident that IWIF has built a foundation for an even brighter future.

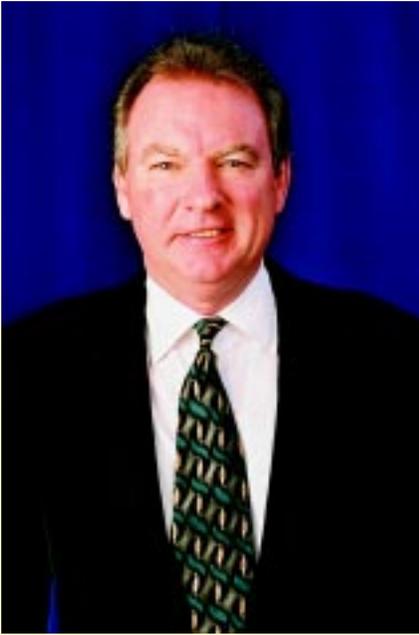
Gratefully yours,



Daniel E. McKew, Chairman
IWIF Board of Directors



President's Message



Thomas L. Bromwell
President, Chief Executive Officer

The Injured Workers' Insurance Fund (IWIF) emerged from 2003 in great financial health and well prepared to meet the challenges of the New Year. In this message, which covers my second year as CEO of IWIF, I wish to express gratitude to our agent/partners, policyholders, and dedicated, diligent employees responsible for our success.

Today, IWIF is the dominant underwriter of workers' compensation insurance in Maryland, with more than one-third market share among a crowded field of hundreds of insurance providers. IWIF has emerged as the carrier of choice, especially among small to medium-size companies, which comprise the backbone of Maryland's economy.

Our success reflects a steadfast commitment by IWIF employees to offer competitive products with outstanding customer service. Each year, we retain a market research firm to assess the satisfaction of our policyholders and agent/partners with the quality of our services. Over the past seven years, we have seen a steady improvement in the survey results. In 2003, we received outstanding marks, as satisfaction among policyholders rose to 87%, and for agents/brokers it grew to an all-time high of 92%.

The financial performance of the company reached historic highs. This performance was driven partly by the 1999 legislation that holds IWIF to the same financial solvency regulations under the Maryland Insurance Administration as all insurance carriers. We ended the year with assets exceeding \$1 billion. In addition, we registered improvements on several fronts. In 2003, IWIF's annual premium revenue continued to grow, due to our competitive pricing, improved services and favorable market conditions. We also welcomed more customers as the total number of policies grew from 27,600 to 29,500.

Favorable results were recorded in our expense ratio, loss ratio, and the combined ratio. One of our new cost containment programs in 2003 was to join in a partnership with a preferred medical provider organization (PPO). This strategic partnership is an important mechanism to mitigate the impact of rising medical costs. This partnership allows IWIF to control growth in medical expenditures, while simultaneously enhancing the quality and timeliness of medical care for injured workers. The biggest benefit of this new partnership for injured workers and our policyholders is the statewide availability of first class medical care. Our medical network now includes 100% of all hospitals and 75% of all physicians in Maryland.

But the value of IWIF does not rest on financial results alone. We are known as an organization with a heart and a company that holds true to its mission to support the economic vitality of the State of Maryland.

For instance, when Bethlehem Steel, Maryland's largest steel maker, declared bankruptcy on May 7, 2003, payments could no longer be paid to hundreds of injured workers for medical benefits. With the endorsement of the Office of the Governor, IWIF stepped in to prevent a lapse in payment of benefits. We took on the role of third-party administrator of these disability benefits primarily utilizing a \$9.2 million bond from the State of Maryland. Why did we do this? Because it was the right thing to do.



IWIF is a strong corporate citizen. The company continues to give back to our community through matching grants and donations, but more importantly through volunteer talents and hours. IWIF sponsors the non-profit organization Kids' Chance of MD, Inc., which raises money to provide scholarships to children whose parents were catastrophically injured or lost their life due to a workplace accident. We celebrated our third year in partnership with Mergenthaler Vocational Technical High School as we teach workplace safety to the teachers and students of that Baltimore high school. Our employees also work as volunteers and with fundraising for Big Brothers Big Sisters of Central Maryland. These are just a few examples of the extensive generosity of IWIF employees – they have large hearts, which is reflected in their care for injured workers.

While 2003 was a great year for IWIF, we identified a number of critical issues that are looming and could seriously impact the immediate future cost of workers' compensation in our state. Those issues include rising medical costs, as the average costs of medical payments is 27% higher in our state than those in comparison states. Another issue is the rate of attorney involvement in Maryland, which is 2-1/2 times above the national average for attorney-represented claimants. Still another challenge has been raised by the 2003 Maryland Court of Appeals' decision of Harris vs. Board of Education of Howard County, which overruled 75 years of precedent by no longer requiring that compensability for an injury be based upon an unusual activity. The Injured Workers' Insurance Fund will continue to bring these issues forward to our state leaders for resolution.

Our reputation has been built by being the financially solid, reliable, customer-oriented leader in the workers' compensation industry. That is a reputation not easily achieved over the last nine decades, but one to be jealously protected through continued commitment and exemplary service to the injured workers and business community of Maryland.

Respectfully,

Thomas L. Bromwell, President and CEO

IWIF Management Team L-R

Dennis Carroll, Executive Vice President,
General Counsel

Thomas Phelan, Executive Vice President,
Chief Financial Officer

Robert Merritt, Executive Vice President,
Chief Investment Officer

Don McDaniel, Vice President and
General Manager, Lighthouse Risk Solutions

Tim Michels, Esq., Vice President, Claim Services

Donna Wilson, Vice President, Corporate Services

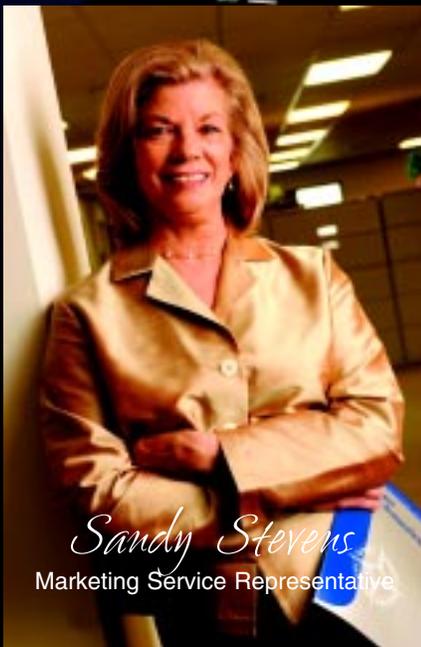
George Matthews, Vice President,
Insurance Operations

Robert Marshall, Vice President,
Information Systems

Expertly Designed



James Peterson
Underwriting Supervisor



Sandy Stevens
Marketing Service Representative

A 300-mm replica of the original high-quality Fresnel lens sits on the original cast iron pedestal in Thomas Point Shoal Lighthouse today. Its lamps are powered by solar panels. Rated at 6,000 candlepower, the lights are visible for almost 12 miles.

Like the lighthouse's expertly engineered, multi-dimensional lens, IWIF's professionals are committed to designing streamlined services that focus on the needs of our policyholders and agents.

Multifaceted Services

Marketing and Broker Relations

IWIF's Marketing Department is committed to building stronger relationships with Maryland's agent community. To that end, IWIF has created mechanisms for greater electronic data interchange between IWIF and producers. These new e-services—e-quotes and agent/carrier upload—facilitate the process of quoting and binding policies with greater efficiency.

Underwriting Services

With approximately 33% share of the market, IWIF is the primary provider of workers' compensation insurance in Maryland. As such, it is our responsibility to ensure that workers' compensation insurance continues to be available to everyone at a fair and affordable price.

In 2003, IWIF again continued to experience unprecedented growth in premium, particularly among large accounts with premium in excess of \$100,000. We ended the year with new business premium increasing by \$50 million.

IWIF's substantial increase in written premium is attributable not just to the continuing market conditions, but also to rates, services, and products that continue to meet business owners' expectations for fairness and value.

We introduced our Large Deductible Program, designed to service the financial and risk-bearing needs of our growing portfolio of large accounts. Additionally, we entered into an agreement with union contractors who utilize Alternative Dispute Resolution in the claims process, and this will minimize costly, lengthy, and unnecessary litigation.

Our positive underwriting results are testament to our commitment to maintaining underwriting integrity and

pricing discipline. The year ended with our pure loss ratio improving to 86.1% over the 88.2% result of 2002. Additionally, the combined ratio improved to 112.3% over 2002's result of 116.7%.

Safety and Loss Prevention

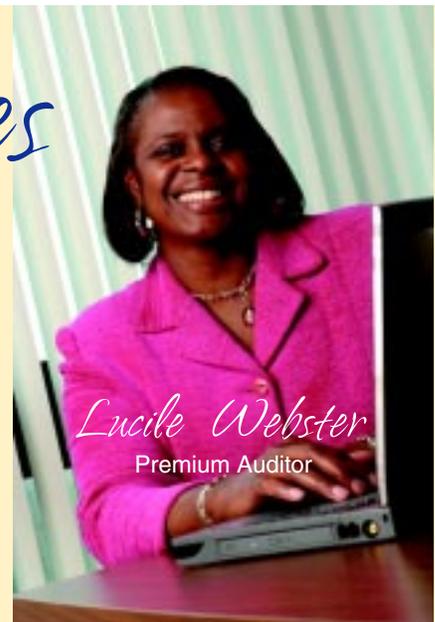
At IWIF, our slogan "Safety Saves With IWIF" is not just a marketing phrase. IWIF has a real commitment to making Maryland workplaces safer.

In 2003, our risk management professionals made over 2,600 policyholder consultations and training sessions on topics from back safety to safe driving to accident investigation.

IWIF also continued its successful policyholder seminars, which focus on safe working habits and effective loss control practices that reduce injuries and contain premiums. IWIF also sponsored several single-focus seminars on such topics as behavior-based safety and fall prevention.

In yet another approach to spreading our message about safety, we teamed up with several industry organizations to offer a range of safety-related information and activities. We sponsored the 3rd Annual Maryland's Safety Saves Week to promote workplace safety, and IWIF continued its partnership with the Maryland Safety Council on a number of safety seminars.

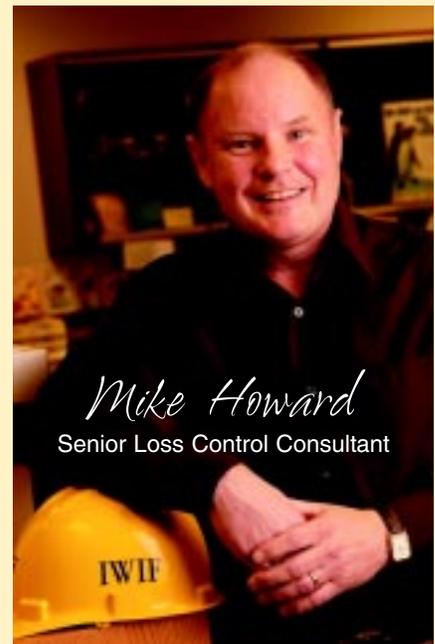
IWIF is also committed to teaching workplace safety to future Maryland employees, and has targeted young workers in our latest safety awareness campaign. "Safety Rules!" is an effort to educate high school students about the importance of safety in the workplace and to instill proper safety habits *before* they graduate and enter the workforce. This campaign is currently being provided to Mergenthaler Vocational Technical High School in Baltimore City.



Lucile Webster
Premium Auditor

Premium Audit Services

Premium Audit continued to focus on completing professional and accurate audits that help to ensure IWIF has assessed the proper premium for the risk exposure—no more and no less. In 2003 our audit professionals completed nearly 21,000 audits, representing 70% of our total book of business. A new audit procedure for accounts greater than \$100,000 was begun. These large accounts now undergo a preliminary audit at their inception rather than at expiration to ensure the proper premium has been assessed.



Mike Howard
Senior Loss Control Consultant

Fighting Fraud on all Fronts

Workers' compensation fraud costs every honest Maryland business owner. IWIF is leading the fight on all fronts against workers' compensation fraud. In 2003, IWIF succeeded in bringing about 23 claimant arrests or referrals for prosecution. We identified and billed more than \$4.4 million in premium fraud and avoidance, and collected more than \$2.9 million of that premium. Claims recoveries totaled \$155,229 in claimant fraud, and generated more than \$15.2 million in claim reserve takedowns.

IWIF's "Zero Tolerance" policy on workers' compensation fraud means that we aggressively investigate and prosecute those suspected of taking advantage of the system.

Subrogation Unit Recovered Record Dollars in 2003

Due to the outstanding efforts of IWIF's Subrogation Unit (recovery from third parties), in 2003, IWIF received another \$3 million in hard dollars and close to \$7 million in soft recoveries (i.e., credits against future claim payments). Total recoveries equaled close to \$10 million, a record amount for IWIF's five subrogation professionals.

In terms of Return on Investment (ROI), IWIF's Subrogation Unit recovered \$28.13 in both hard and soft dollars for every \$1 spent on operations, and recovered 6% in relation to claim payments.



Joanne Shanahan
Special Investigator

A Guardian, You

Legal Services

Despite a 10% increase in cases assigned for hearing in 2003, IWIF's Legal Department reported many favorable results for the year. Among its highlights:

- The team was successful in gaining Medicare approval for 12 cases, allowing those cases to be fully and finally settled by IWIF.
- Among the successful outcomes in litigated cases were eight claims in which the Maryland Workers' Compensation Commission awarded no increase at all in permanency benefits.
- More than \$180,000 was credited against permanency benefits awarded for disability retirement benefits received by the claimant.
- The department's team of attorneys was invited to participate in the Maryland Municipal Attorneys organization.
- The team personally conducted 250 policyholder visits in 2003.



John Keskula
Manager, Subrogation Unit



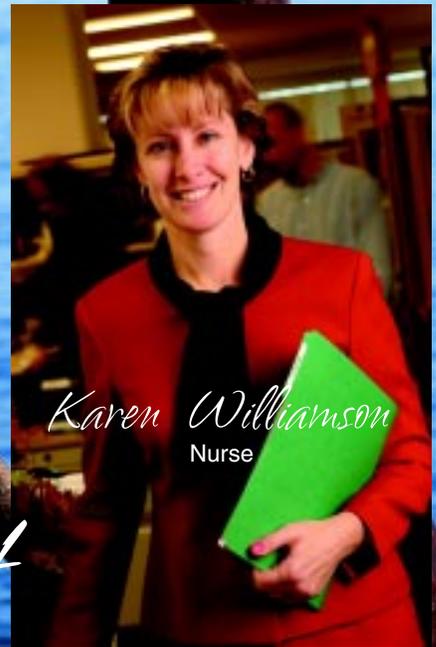
Tom Michels
Attorney

Can Always Trust



For more than a century, Thomas Point Shoal Lighthouse has weathered storms, floods, and ice floes — everything that Nature has thrown at it. Despite these challenges, it still remains intact and in use today.

Just as the lighthouse has stood guard over the shoals, protecting many a ship over time, so has IWIF stood at-the-ready for our customers — for almost a century.



Karen Williamson
Nurse

Ensuring that Injured Workers Get

Thomas Point Shoal Lighthouse is an elegant example of a screwpile lighthouse design. The foundation was built over open water on seven large wrought-iron piles that were literally screwed into the rock underneath.

Just as the lighthouse was built on strong supports, so was IWIF built on a strong financial foundation. And, true to our mission, IWIF continues to offer support for injured workers throughout Maryland.



Sherlbee Ackwood
Claims Supervisor



Katherine Pivanti
Claims Representative

the Support They Need

IWIF and Bethlehem Steel

When Bethlehem Steel declared bankruptcy in 2003, Governor Robert Ehrlich contacted IWIF President Thomas Bromwell, who immediately pledged IWIF's total support. Almost overnight, IWIF employees rose to the challenge of taking on some 3,000 new claims. Rather than risk further delay in mailing the new claimants' benefit checks, IWIF employees personally hand-delivered the first checks to their grateful recipients. This is just one example illustrating how IWIF is here to make sure injured workers get the benefits to which they are entitled under Maryland law.

Claims Services

In addition to the Bethlehem Steel claims, the number of new claims continued to rise last year. For the year-end, the number of claims assigned to adjusters was up 25% over 2002. Including the Bethlehem Steel claims, our Claims Department received a total of 16,478 new claims.

Excluding Bethlehem Steel, the number of new claims increased 11.3% in the private units and 5% in the state unit, as compared to the previous year.

Through a major focus on case closure and settlements, claim caseloads in the private units were reduced to an average of 127 per adjuster, down from 147 per adjuster in the previous year. Maintaining reasonable caseloads has always been an important goal for IWIF, as it allows our adjusters to provide a better quality of service to claimants.

While caseloads have decreased, the overall claims management responsibilities for adjusters have expanded to include:

- Attending Workers' Compensation Commission hearings
- Policyholder visits
- Litigation management in conjunction with IWIF's Legal Department
- Judgmental reserving

Nurse Case Management

Telephonic Nurse Case Management is responsible for coordinating quality and cost-effective medical care while working with injured workers, employers, and IWIF adjusters to achieve a safe and timely return to work.

IWIF's 15 Nurse Case Managers are licensed as Registered Nurses and also as Workers' Compensation Medical Case Managers (RN-WCCM). They meet all Maryland certification requirements for Rehabilitation Services Providers (MCRSP).

Our nurses' extensive clinical experience spans Medical-Surgical nursing to advanced nursing in Critical Care to Catastrophic Injuries.

In addition, most of our nurses hold advanced certifications in their particular area of expertise, including Psychiatric Counseling, Interventional Radiology, and various mind-body health disciplines. Our diverse group also includes two bilingual nurse case managers.

Attention to Craftsmanship

Corporate Services

The introduction of new technology in IWIF's Corporate Services Division has helped increase efficiency, improve quality, and reduce operating expenses in several key areas.

Telephone system upgrades provide the Customer Service Call Center greater flexibility and control over incoming call distribution by allowing calls to be routed directly to the Customer Service Representative best qualified to assist, based on his or her area of expertise.

This new application also allowed for a telephonic upgrade to Interactive Voice Responses (IVR) for self-service access to policy and claim information. The IVR technology interfaces with our internal Workers' Compensation Information System (WCIS), providing 24/7 automated access for customers seeking basic information about their accounts.

The IWIF Distribution Center processes an average of 3,500 outgoing pieces of mail daily. A new "Address Scanning Camera" enables mailroom personnel to catch any outgoing mail with missing or invalid addresses/zip codes. Expanded use of incoming electronic fax document software allows the Imaging/Indexing Department to provide faster, more efficient service to internal customers.

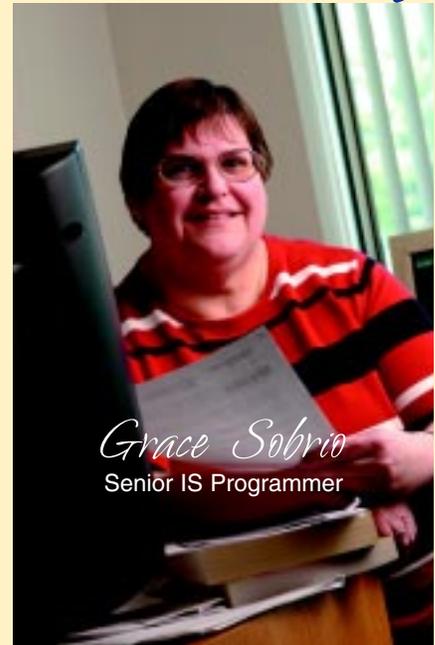
e-Services

Numerous electronic services were implemented in 2003 to foster productivity among our employees and to better meet the evolving needs of our customers. Results show that the use of our e-services has increased substantially.

- More than 7,500 First Reports of Injury were filed online in 2003;



Angela Onokala
Customer Service Representative



Grace Sobrio
Senior IS Programmer

- In excess of \$17 million in new and renewal premium was submitted electronically last year;
- More than \$11 million in payment transactions were processed.

In addition to the many e-services that were developed and put in place by our Information Systems Department, the team also completed installation of a "hot site," part of an emergency operations plan to ensure a continued flow of services and operations in the event of a disaster.

Customer Service Survey

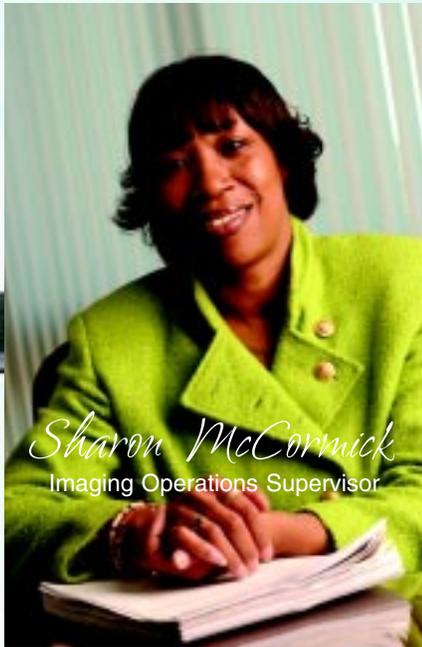
According to the results of our most recent customer service survey, the three main reasons cited for our customers' high levels of satisfaction with IWIF include:

- The quality of IWIF's services;
- Our employees' knowledge of the specialized line of workers' compensation insurance; and
- The ease of doing business with us.

In this survey, brokers from Maryland's top insurance agencies gave IWIF a 92% overall satisfaction rating for 2003, while a representative sample of 300 IWIF policyholders gave us an 87% satisfaction rating. Additionally, 97% of brokers said they would recommend IWIF to other clients.

2003 Customer Service Survey Satisfaction Results

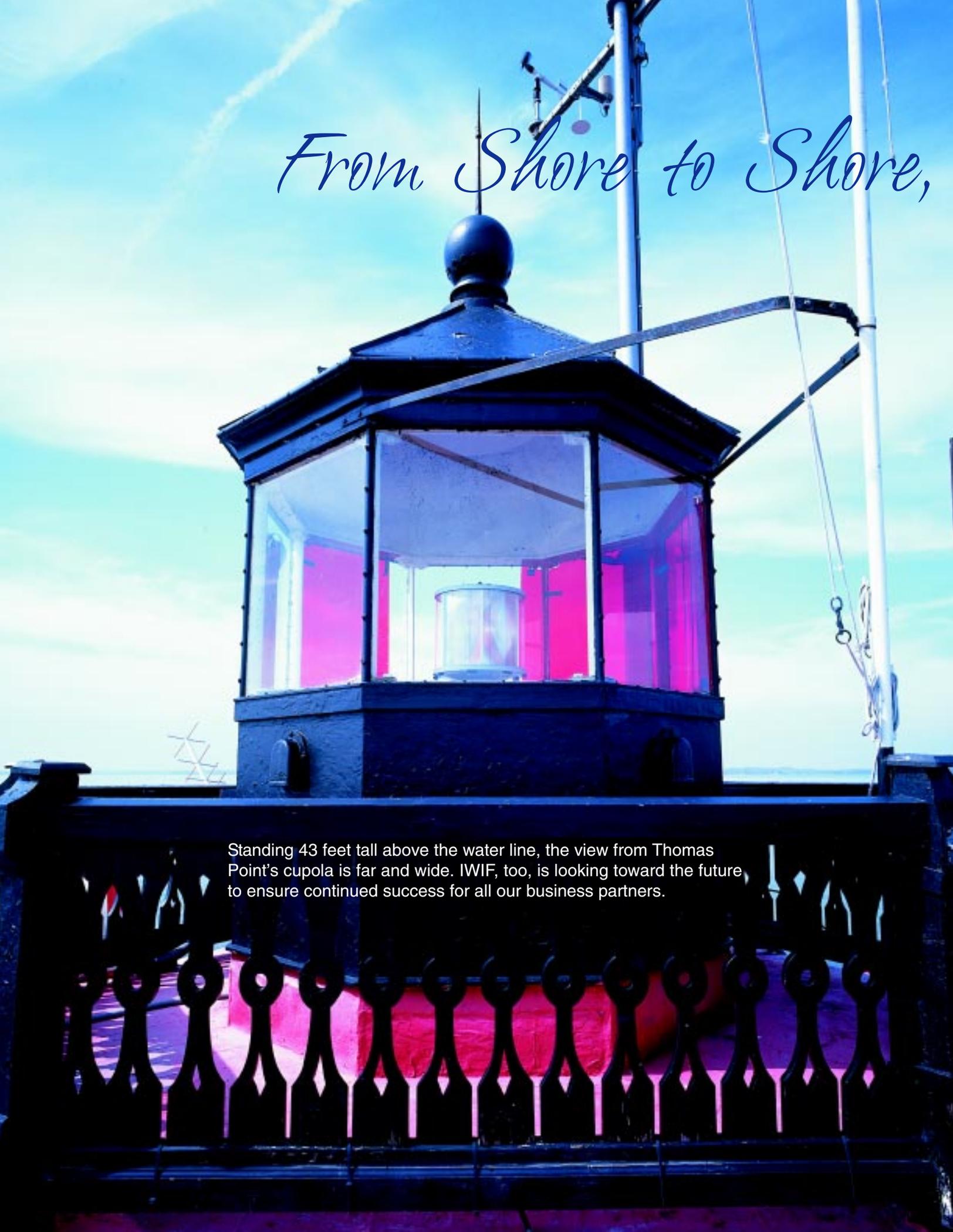




Sharon McCormick
Imaging Operations Supervisor

The first level of Thomas Point Shoal Lighthouse includes the wooden, cantilevered deck, which is enclosed by the decorative carved railing. The railing, with its wooden balusters, is unique among cottage-type lighthouses in the U.S.

Like the lighthouse's unique design, IWIF's services are innovative and often unique to the marketplace. Just as the lighthouse builders insisted on the highest level of craftsmanship, so are IWIF employees focused on the details and committed to meeting the highest levels of customer satisfaction.



From Shore to Shore,

Standing 43 feet tall above the water line, the view from Thomas Point's cupola is far and wide. IWIF, too, is looking toward the future to ensure continued success for all our business partners.



A Leader Who Sees Opportunities

Lighthouse Risk Solutions

In 2003, IWIF launched Lighthouse Risk Solutions. Its core mission is to prevent, mitigate, and manage risks for self-insured clients, focusing on the growing risk management needs of medium to large organizations based in Maryland.

Lighthouse gives IWIF the opportunity to extend our capabilities for third-

party administration of workers' compensation benefits to companies or organizations that are self-insured and to those who want to make a positive impact on their loss profile.

Lighthouse has assumed the role of third-party administrator of benefits for injured workers of the now-defunct Bethlehem Steel Corporation. In addition, all workers' compensation services provided to State of Maryland employees now come under IWIF's Lighthouse Risk Solutions.

State Employees' Risk Management Administration (SERMA)

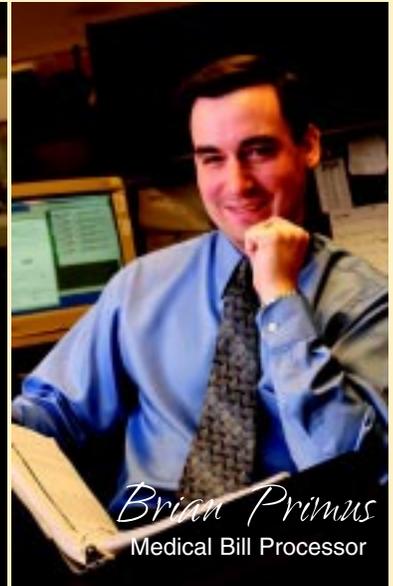
IWIF was instrumental in bringing about a renewed focus on workplace safety for State of Maryland workers as Governor Robert Ehrlich signed a new Executive Order to this effect at the close of the year.



Jamie Wolfe
Claims Representative



Mike Lowenstein
Business Development



Brian Primus
Medical Bill Processor

The new Executive Order reaffirmed IWIF's role as the third-party administrator for workers' compensation benefits for the State of Maryland, and authorized IWIF to establish a new, independent team of risk management consultants dedicated to providing support and loss prevention services.

Last year, IWIF continued to expand its e-services menu to state agency risk managers by developing management reports online and access to detailed claim status and hearing information also online.

IWIF in the Community

IWIF and its employees have a long tradition of giving back to the community. For us, the term "local focus" doesn't just refer to the fact that we are a local company serving the local marketplace; it also means that

we, as neighbors, are focused on serving our local communities as well.

As a result of the generosity of employees, and combined with a dollar-for-dollar company match, IWIF donated more than \$81,000 to the Maryland Charity Campaign in 2003 to help improve the quality of life for thousands of men, women, and children in Baltimore City and in Maryland.

In addition to this annual campaign, IWIF employees give year-round of their time, talents, and service to many of their favorite charitable organizations. Special campaigns for donations of care packages and wish list items were also begun in 2003 for the benefit of U.S. soldiers in the Middle East and their wounded comrades returning home.

Financial Highlights

ASSETS	Year Ended December 31	
	2003	2002
Cash and cash equivalents	\$ 118,575,877	\$ 69,982,484
Investments	914,003,090	831,787,759
Other assets	<u>51,783,860</u>	<u>46,103,049</u>
Total assets	<u>\$ 1,084,362,827</u>	<u>\$ 947,873,292</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:

Unpaid claims and related expenses	\$ 850,000,000	\$ 763,000,000
Unearned premiums	62,229,303	52,354,331
Other liabilities	<u>16,786,979</u>	<u>13,652,632</u>
Total liabilities	929,016,282	829,006,963
Total fund equity	<u>155,346,545</u>	<u>118,866,329</u>
Total liabilities and fund equity	<u>\$ 1,084,362,827</u>	<u>\$ 947,873,292</u>

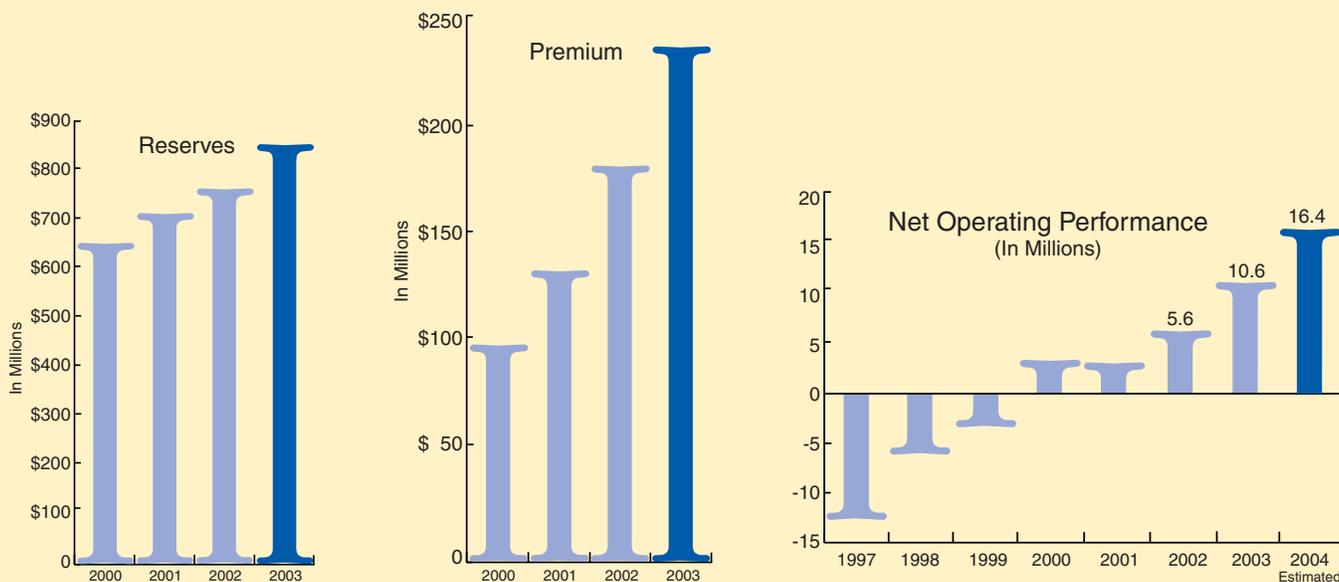
As shown in these financial statements, IWIF had a very good year in 2003. These financial statements, presented in conformity with Generally Accepted Accounting Principles (GAAP), reflect strong net income and surplus (fund equity) growth. The results are reflective of actions taken during 2003 to limit IWIF's exposure to external market conditions while continuing to improve its core operating areas. The benefits derived from these actions in 2003 have IWIF well positioned for 2004 and future years. IWIF remains committed to surplus growth through profitable operations in order to ensure full Risk Based Capital (RBC) compliance by 2005, as mandated by the Maryland Insurance Administration.

Thomas Phelan
Executive Vice President
Chief Financial Officer

Financial Highlights

STATEMENTS OF OPERATIONS

	Year Ended December 31	
	2003	2002
REVENUES		
Premiums	\$ 236,846,212	\$ 181,721,722
Net investment income	43,298,047	42,876,757
Net gain (loss) on investments	21,556,468	(37,477,238)
Other income	430,816	572,404
Total revenues	302,131,543	187,693,645
EXPENSES		
Claims expense, net	215,336,239	169,828,847
Net operating expenses	54,209,837	46,136,677
Total expenses	269,546,076	215,965,524
NET INCOME (Loss)	\$ 32,585,467	\$ (28,271,879)



The 2003 condensed financial statements have been derived from complete financial statements which were audited by ERNST & YOUNG, LLP. The schedules referred to in the Actuarial Opinion on page 16 relate to the "Yellow Book" schedules. A complete set of audited financial statements, with the unqualified opinion and complete set of footnotes, may be obtained upon request.

STATEMENT OF ACTUARIAL OPINION

February 25, 2004

Injured Workers' Insurance Fund

Identification

I, Jan A. Lommele, am a Principal with the firm of Deloitte Consulting LLP, which is affiliated with Deloitte & Touche LLP. I am a member of the American Academy of Actuaries and meet its qualification standards for rendering this Statement of Actuarial Opinion, and I am a Fellow of the Casualty Actuarial Society. Through the contract dated June 23, 1997 and the approval of the Board of Directors, Deloitte & Touche LLP has been retained by the Injured Workers' Insurance Fund (IWIF) to perform actuarial services including my rendering of this opinion.

Scope

I have examined the reserves listed below, as shown in the Annual Statement of IWIF as prepared for filing with State regulatory officials as of December 31, 2003.

(1)	Reserve for Unpaid Losses (Liabilities, Surplus, and Other Funds page, Losses line):	\$ 782,324,000
(2)	Reserve for Unpaid Loss Adjustment Expenses (Liabilities, Surplus, and Other Funds page, Loss adjustment expenses line):	\$ 67,676,000
	Total Net Reserves:	<u>\$ 850,000,000</u>
(3)	Reserve for Unpaid Losses - Direct and Assumed (Schedule P, Part 1, Totals from Columns 13 and 15):	\$ 830,726,000
(4)	Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P, Part 1, Totals from Columns 17, 19 and 21):	\$ 67,676,000
	Total Direct and Assumed Reserves:	<u>\$ 898,402,000</u>
(5)	The total claims made extended loss and expense reserve (Schedule P Interrogatories) whether reported in the loss reserves or the unearned premium reserves:	\$ 0
(6)	Reserve for Retroactive Reinsurance Assumed and Deposits (Liabilities, Surplus, and Other Funds page, write-in item Retroactive Reinsurance Reserves Assumed and Deposits line):	\$ 0

The loss and loss adjustment expense reserves specified above, on which I am expressing an opinion, reflect the following items:

- (A) Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P and on the Liabilities, Surplus, and Other Funds page, Losses and Loss adjustment expenses lines: \$11,945,000;
- (B) Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P and on the Liabilities, Surplus, and Other Funds page, Losses and Loss adjustment expenses lines: nontabular discount \$0 and tabular discount \$97,570,000;
- (C) The net reserves for losses and expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses which are included in reserves shown on the Liabilities, Surplus, and Other Funds page, Losses and Loss adjustment expenses lines: \$0;
- (D) The net reserves for losses and loss adjustment expenses that the Company carries for Asbestos liabilities \$520,104, and Environmental liabilities \$0, which are included in the reserves on the Liabilities, Surplus, and Other Funds page, Losses and Loss adjustment expenses lines, and disclosed in the Notes to Financial Statements; and
- (E) In the total reserves for losses and loss adjustment expenses, the Company reported the extended loss and expense reserve of \$0, that are reported in the Schedule P Interrogatories.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by responsible officers and employees of IWIF. I evaluated that data for reasonableness and consistency. I also reconciled that data to Schedule P - Part 1 of IWIF's current Annual Statement. Please refer to the Schedule P reconciliation paragraphs in the Relevant Comments for additional information. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.

My review was limited to items (1) through (6) above, and did not include an analysis of any other balance sheet items. I have not examined the assets of IWIF and I have formed no opinion as to the validity or value of these assets. My opinion on the reserves is based upon the assumption that all reserves are backed by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet the cash flow requirements.

Retroactive Reinsurance, Financial Reinsurance

Based on discussions with IWIF Management and its description of IWIF's ceded and assumed reinsurance, I am not aware of any reinsurance contract that either has been or should have been accounted for as a retroactive reinsurance or financial reinsurance.

September 11th Terrorist Attack Losses

I reviewed IWIF's exposures to terrorist attack losses. No claims have been presented to date. The risk of significant liabilities as of December 31, 2003 arising from terrorist attack losses is remote, given the nature of the coverages provided by IWIF and prevailing coverage interpretations.

Reinsurance Collectibility

IWIF Management has informed me that it does not anticipate reinsurance collectibility problems with respect to reinsurance recoverables recorded by IWIF. Ceded reserves for losses and loss adjustment expenses are all with companies rated A- (Excellent) or better. With respect to loss and loss adjustment expense reserves net of ceded reinsurance recorded by IWIF, I have not anticipated any contingent liability which could arise if any of the reinsurers prove unable to meet their loss and loss adjustment expense obligations under the terms and conditions of their contracts with IWIF.

Asbestos Exposures and Environmental Exposures

I have reviewed IWIF's exposure to asbestos and environmental claims. IWIF currently carries \$520,104 of net reserves for loss and loss adjustment expenses, which is intended to represent the Company's ultimate liability for these items. Estimation of ultimate liabilities for these claims is unusually difficult due to outstanding issues such as whether coverage exists, definition of an occurrence, determination of ultimate damages, and allocation of such damages to financially responsible parties. Therefore, any estimation of these liabilities is subject to significantly greater than normal variation and uncertainty.

Underwriting Pools or Associations

Management has informed me that IWIF does not participate in any pools or associations.

Discounting

IWIF discounts the liabilities for unpaid losses for Workers' Compensation, as disclosed above in this Statement of Actuarial Opinion.

Long-term unpaid Workers' Compensation indemnity claims are discounted on a tabular basis using the 2000 National Vital Statistics United States Life Tables Volume 51, Number 3. The discount rate selected by IWIF Management is 3.25%. The amount of tabular discount is \$97,570,000. I am not expressing an opinion on the appropriateness of the interest rate or mortality tables chosen. The total discount of \$97,570,000 represents approximately 85% of IWIF's stated surplus.

NAIC IRIS Tests

I reviewed the results of the following three NAIC IRIS Tests: One Year Reserve Development, Two Year Reserve Development and Estimated Current Reserve Deficiency to Surplus, as calculated by the Company's Management. No exceptional values were calculated for the One Year Reserve Development and Two Year Reserve Development Tests. The result for the Estimated Current Reserve Deficiency to Surplus Test is unusual. This is primarily a result of significant growth in earned premium. IWIF's 2003 earned premiums are approximately 30% higher than those earned in 2002 and are approximately 78% higher than those earned in 2001. The use of historical loss reserves to premium ratios create a distorted result for this test when applied to current premium levels.

Disclosure of Items for Unearned Premium Reserves for Long Duration Contracts

IWIF does not write single or fixed premium policies with coverage periods of thirteen months or greater which are non-cancelable and not subject to premium increase (excluding financial guaranty contracts, mortgage guaranty policies, and surety contracts).

Opinion

In my opinion, the amounts carried in the scope paragraph on account of the items identified above:

- (1) meet the requirements of the insurance laws of Maryland,
- (2) are computed in accordance with accepted loss reserving standards and principles; and
- (3) make a reasonable provision for all unpaid loss and loss expense obligations of IWIF under the terms of its contracts and agreements.

Relevant Comments

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expense, it is necessary to project future loss and loss adjustment expense payments. It is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that such variance will not occur. Further, my projections make no provision for the broadening of coverage by legislative action or judicial interpretation or for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in IWIF's historical database or which are not yet quantifiable.

Effective January 1, 1998, the NAIC adopted "new" definitions of allocated and unallocated loss adjustment expenses (i.e. ALAE and ULAE). Briefly, the new definition for ALAE includes all defense and cost containment expense, whether internal or external to IWIF. This expense category is now referred to as Defense & Cost Containment Expense (DCC). The revised definition of ULAE essentially includes all claims adjusting expense whether internal or external to IWIF. This expense category is now referred to as Adjusting & Other Expense (A&O). The actuarial report supporting this opinion is based on the "old" definition.

Beginning with the December 31, 2001 evaluation, IWIF adopted the new DCC and A&O definitions. IWIF displays the DCC portion of the ULAE reserves, based on the "old" definition, within the DCC category of Schedule P Part 1 (Columns 6, 7 and 17-20) and the A&O portion of the ULAE reserves within the A&O category of Schedule P Part 1 (Columns 8, 9, 21 and 22). However, IWIF has included ALAE, based on the "old" definition, within the loss category of the Annual Statement and Schedule P Part 1 (Liabilities, Surplus, and Other Funds page, Losses line and Schedule P Part 1 Columns 4, 5 and 13-16).

Schedule P, Parts 2 through 4 include DCC based on the "new" definition for only the latest three evaluations as of December 31, 2001 to December 31, 2003. IWIF does not have historical data to determine this expense for prior evaluations.

Risk of Material Adverse Deviation

IWIF is exposed to the uncertainty of variability of the loss and loss adjustment expense reserves which could result in material adverse deviation.

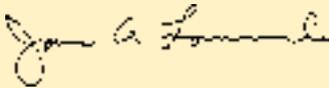
- A) With respect to this Statement of Actuarial Opinion, the amount of adverse deviation, which could be material to surplus, is 10% of surplus, or approximately \$11,500,000.

- B) A major risk factor is the size of IWIF's loss and loss adjustment expense reserves relative to its surplus. There is greater than a remote possibility that adverse fluctuations of actual versus expected liabilities will be material to or exceed surplus. For example, the high-end of the undiscounted range of reasonable net loss and loss adjustment expense reserves are approximately \$148,730,000 greater than IWIF's carried reserves. Other major factors underlying the risks and uncertainties, which could result in material adverse deviation, are described in the paragraphs above as well as in the items below. These include but are not necessarily limited to:
 - The nature of the coverage written.
 - Changes in claims handling procedures.
 - Discounting of the tabular unpaid losses for workers' compensation.
 - The collectibility of ceded reinsurance if losses emerge toward the high-end of a range of reasonableness.

Actuarial Report

An actuarial report and underlying actuarial work papers supporting the findings expressed in this Statement of Actuarial Opinion will be provided to IWIF to be retained for a period of seven years at its administrative offices and available for regulatory examination.

This opinion is provided for financial reporting purposes only and is not intended for any other purpose.



Jan A. Lommele, FCAS, MAAA, FCA
Deloitte Consulting LLP
City Place I
Hartford, Connecticut 06103-3402
(860) 543-7350
February 25, 2004

IWIF Board Members



Daniel E. McKew
Board Chairman
President, SunTrust Leasing Corporation



Theo C. Rodgers
Vice-Chairman
President, A&R
Development Corp.



Stephanie L. Fink, Esq.
Secretary
Partner
Fierst & Fink P.C.



Gregory D. Chasney
Board Member
Vice-President
Chasney & Company



Michael J. Wagner
Board Member
President
Michael's Eighth Avenue



Queen Logan Gladden
Board Member
Special Events Director
Greater Washington
Urban League



Michelle Duffy-Orr
Board Member
IT Business Consultant
Constellation Energy
Group



James C. Simpson
Board Member
Former State Senator



Rocky V. Gonzalez
Board Member
President R&R LLC

Our Mission

IWIF, a talented team of 391 workers' compensation professionals, protects more Maryland workers than our competitors by providing high quality services at a fair market price. We champion workplace safety to protect all Maryland workers. And, by providing insurance to the largest share of businesses, we support the State of Maryland and its economy.

Shirlbee Ackwood
Barry Adams
Joan Adelman
Jose Adia
Prabha Agarwal
Sharon Almanza
Rose Ambrose
Robert Ammons
Dorothy Anderson
Julia Andrews
Afia Badu
Brenda Baer
Gwendolyn Bailey
Shelley Baker
Geraldine Balducci
Richard Balducci
Jacqueline Baroody
John Barry
Peggy Barton
Michael Barton
Louis Beach
Paige Beck
Barbara Becker
Darlene Bell-Gross
Evelyn Boggs
Pamela Bonsuk
Andrew Boozer
Cheryle Bowser
Angela Boxley
Thomas Bromwell, Sr.
Elaine Brooks
Marguerite Brooks
Stacy Brooks
Angela Brown
Keith Brown
Lisa Bryant
Adolph Bucci
Michael Burke
Saundra Butler
Tamblyn Butler
Vickey Butts
Lisa Byrd
Virgil Cain
George Campbell
Deborah Campitelli
Dennis Carroll

Zachary Christopher
Claudia Ciolfi
Holly Clark
Linda Clark
Ruby Clemens
Patrick Clisham
Karen Clothier
Lisa Cole
Jenny Conlon
John Cooper
Annemarie Coughlin
Von Ceil Crenshaw
Kerri Cross
Carmine D'Alessandro
Rada Davinic
Nancy Davis
Murali Dega
David Delp
Kimberly Dennison
Mary Susan Dennison
Helena Diggs
Patricia Dishon
Elizabeth Dorney
Joanne Dreher
Robert Drouin
Barbara Dudnanski
Linda Dye
Sarah Egan
Sandra Elder
Robert Ellis
Katherine Emanuel
Lawrence Engel
Peter Engel
Lewis Epps
Richard Ferguson
Rona Finkelstein
Sharon Fitzpatrick
Dianna Fornaro
Gloria Foster
Cheryl Fowler
Deborah Frank
Aixa Fraser
David Fried
Gigi Friedman
Brian Furr
Gregg Gallagher

Ruth Gangi
Martha Garland
Amy Gates
Cathy Gay-Peters
Kim Gentry
Edgar Gerke
Linda Giesecking
Joseph Gillian
Jennifer Gilliard
Susan Gordes
Cynthia Gordon
Kallie Graff
Kathy Grafton
Aaron Gray
Montreal Green
Lester Groff
Joan Guilarte
Dean Gunby
Carolyn Gutermuth
Bernard Hackett, Jr
James Hall
Danielle Hamilton
Jeffrey Hamilton
Janet Hardy
Tondilea Harper
Nancy Harple
Sharon Harris
Theresa Harris
Alicia Harroll
Rovena Harvey
Sandra Hassell
Susan Hatley
Beverly Haynes
James Haynes
Martha Helton
George Hennick
David Hinks
Robert Hoeckel
Phyllis Hoffman
Beth Hollenbeck
Frank Hollenbeck
Peter Holzberg
Sharon Hornberger
Donna Howard
Michael Howard
Darlene Hurtig

IWIF Workers'
Compensation
Insurance



8722 Loch Raven Boulevard
Towson, MD 21286
410-494-2000
www.iwif.com
www.lighthouse-risk.com

SAFETY SAVES *With* IWIF