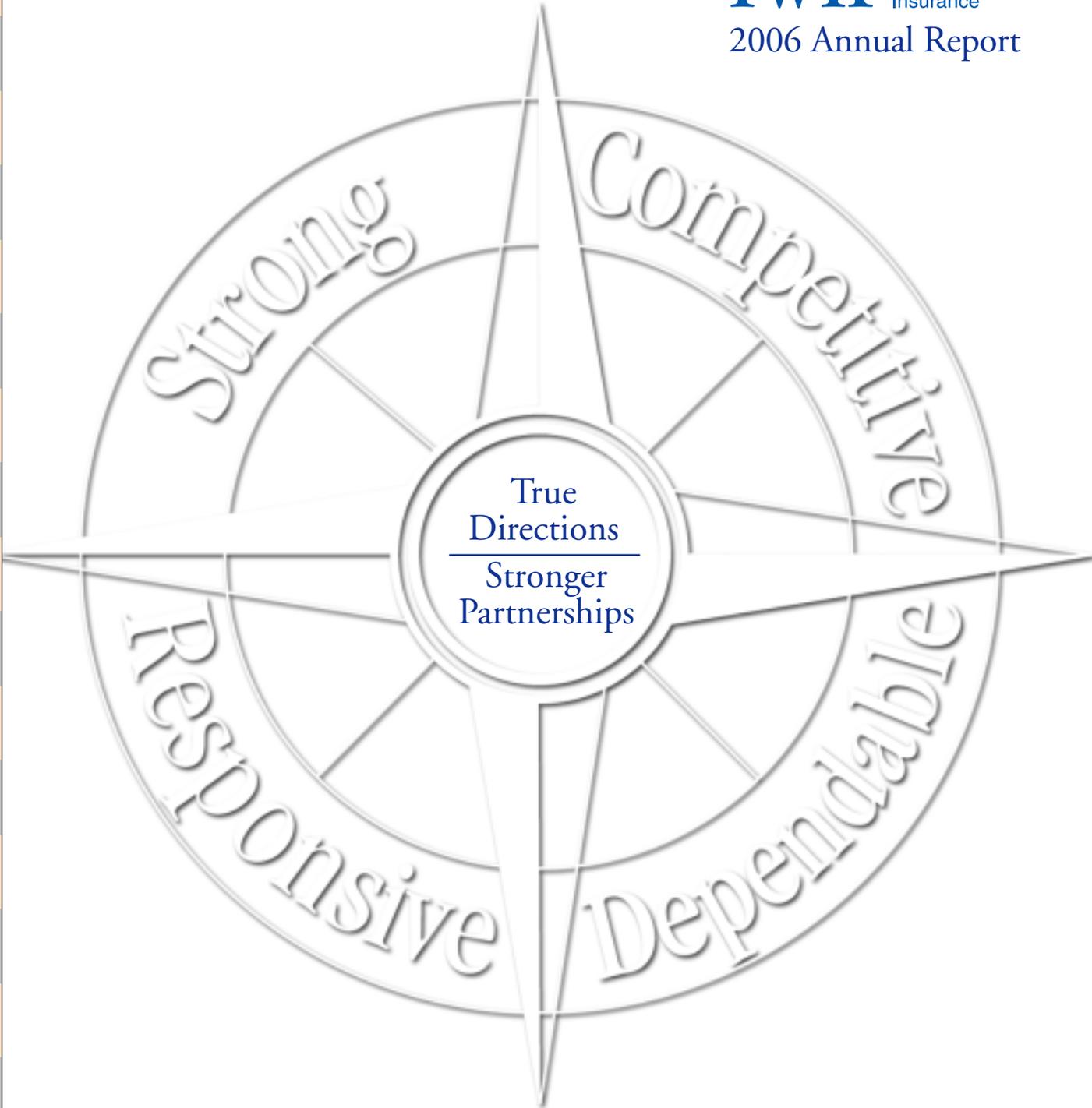


IWIF Workers'
Compensation
Insurance

2006 Annual Report



True Directions



Stronger Partnerships

Today, IWIF's mission and direction remain as true and constant as they did when we began in business 93 years ago. We continue to be guided by the principles of financial strength; competitive pricing; responsive and excellent customer service; and protection you can depend on.

We thank you for placing your business and your trust with IWIF as we continue on our journey to stronger partnerships.

IWIF Financial Highlights at a Glance

| | 2006 | 2005 | 2004 |
|-------------------------------------|-----------------|------------------|------------------|
| Earned Premium | \$ 321,248,920 | \$ 321,167,547 | \$ 286,164,356 |
| Net Investment Income | \$ 66,829,569 | \$ 57,044,120 | \$ 49,472,606 |
| Claims Expense Net | \$ 278,662,802 | \$ 281,193,712 | \$ 255,609,126 |
| Underwriting Loss | \$ (29,152,008) | \$ (29,008,428) | \$ (31,424,917) |
| Dividends Paid to Policyholders ... | \$ 3,897,389 | \$ 4,100,730 | \$ 2,386,254 |
| Total Assets | \$1,513,430,774 | \$ 1,382,087,128 | \$ 1,244,285,966 |
| Fund Equity | \$ 228,000,752 | \$ 186,421,736 | \$ 172,904,507 |
| Loss/LAE Ratio | 86.7% | 87.6% | 89.3% |
| Expense Ratio | 22.6% | 21.0% | 20.5% |
| Combined Ratio | 109.3% | 108.6% | 109.8% |



Daniel E. McKew,
Chairman,
IWIF Board

To our policyholders and business partners:

I join my fellow IWIF board members and leadership team in sharing our business success story. In 2006, we reached a financial record-breaking milestone as net income increased to \$48 million, a 30% increase over the prior year.

Strong Financial Results

There were a number of other significant accomplishments associated with the strong financial finish for the year. Total assets grew 9% to \$1.5 billion, and net operating gain improved to \$37.7 million. Despite a softening workers' compensation market, our competitive rates and our attention to customer satisfaction helped us to write \$32.7 million in new business and a total of \$326 million in gross written premium in 2006. As a result, IWIF remains the largest provider of workers' compensation insurance in Maryland, with a 32% market share and more than 30,000 policyholders.

I am very pleased to report that the organization now meets the minimum statutory requirements under Risk Based Capital (RBC) standards established by the National Association of Insurance Commissioners (NAIC). RBC is a method of measuring the minimum amount of capitalization appropriate for an insurance company to support its business operations. IWIF's statutory surplus for 2006 stands in excess of \$200 million.

Strong results were also reflected in our improved loss ratio of 86.7% in 2006, the lowest in IWIF's history. This progress is attributable to the increasing commitment of our customers to workplace safety, our utilization of best practices in claims management, and our adherence to disciplined underwriting.

Strategy for Market Competitiveness

In 2006, IWIF was able to keep overall base premium rates flat, due in large part to the exceptional performance of our investment operations. Another operational factor that drives competitiveness is our strategy to maximize productivity, leverage efficiencies and deliver cost savings throughout the organization. Every department is striving to find ways to reduce operating costs. Our information systems professionals are creating more online e-services for both our policyholders and agents. This ultimately reduces time-consuming processes, streamlines our operations and cuts costs.

Responsive Care for Injured Workers

When workplace injuries do occur, we work with our policyholders to make sure their employees receive prompt and appropriate medical treatment. Not only does this demonstrate care and commitment to injured workers, it is the most widely acknowledged action to reduce medical and indemnity costs.

IWIF is proactive in claims management. We initiate open communications with an injured worker within 24 hours of a reported injury claim to ensure responsive treatment and prompt benefits. IWIF's claims and medical professionals continuously assist policyholders and their injured workers by applying best practices in claims management and offering help with effective transitional return-to-work programs.

In 2006, we continued to see the care and cost containment benefits of our preferred provider network partnership, with \$2.5 million in medical cost savings. We also implemented a software program that reviews the medical billing and treatment utilization for injured workers. This medical cost control program will identify excessive and costly medical treatment plans for aggressive management.



IWIF successfully pursues claims cost containment through our Special Investigations Unit and Subrogation Department. The diligent efforts of these professionals helped IWIF reach new levels of financial recoveries in 2006. These recoveries are a significant tool in our effort to keep rates fair and equitable.

Dependable Partner for Workplace Safety

IWIF continues to lead and champion workplace safety as a core value for all Maryland businesses. From our dedicated loss control professionals in the field, to our publications, seminars and website, we are helping to educate our customers about the life-saving and financial benefits of workplace safety. We take pride in being a dependable partner in assisting you, our policyholders and agents, in working to reduce workplace injuries.

We are the only workers' compensation insurer that invests in providing free seminars for policyholders to teach safety principles to help prevent injuries and contain loss costs. I encourage you to take advantage of our safety knowledge and expertise.

We were pleased by the nearly 9.7% decrease in the number of reported injuries in 2006. By making safety a priority, 88% of our policyholders reported no workplace injuries last year.

We Added New Leadership and Guidance

Over the past year we welcomed Maxine Adler and Patricia McHugh Lambert as new IWIF Board members. Both bring a wealth of business, insurance and legal knowledge to the Board. My fellow Board members and I wish to express our sincere appreciation and respect to outgoing IWIF Board members Gregory D. Chasney and Michelle Duffy-Orr. They were instrumental in bringing new insight and direction while serving on the IWIF Board.



Executive Team

Our Proven "True Directions"

This year's annual report highlights IWIF's "True Directions" through the stories of IWIF professionals and our agent partners who make a difference in the lives of our customers on a daily basis. IWIF's "True Directions," Strong, Competitive, Responsive and Dependable, are our compass points and guiding principles to building stronger partnerships with our customers. The caring and compassion of our professionals, their expertise, dedication, and leadership, make IWIF a first-class workers' compensation insurer.

On behalf of the entire IWIF team, I thank you, our partners in safety, for making 2006 another successful year.

With appreciation,

Daniel E. McKew, Chairman, IWIF Board

Seated L-R

Thomas Phelan, CPA,
Executive Vice President,
Chief Financial Officer

George Matthews, AAI,
Executive Vice President,
Marketing/Business
Development

Standing L-R

Rona Finkelstein, Esq.,
Vice President, Legal Services
and Human Resources

Dennis Carroll, Esq.,
Executive Vice President,
General Counsel

Tim Michels, Esq.,
Executive Vice President,
Claim Services

Robert Merritt, CFA,
Executive Vice President,
Chief Investment Officer

Donna Wilson,
Vice President,
Communications
& Strategic Planning

Robert Marshall,
Vice President,
Information Systems



IWIF's fiduciary responsibility to its policyholders is paramount. Our financial strength is built upon a successful, conservative investment strategy combined with a proven record of sound financial and operational decision making.

IWIF's financial results for 2006 continue an upward trend for the company that began earlier in the decade. Over this time, we have seen steady increases in our net operating performance, while loss ratios have steadily decreased. Underlying these consistently positive financial results is a savvy, yet prudent, investment foundation.

"What we do every day impacts people's lives. We need to have the financial strength to take care of people if they become injured."

Tom Phelan,
IWIF Executive
Vice President, CFO

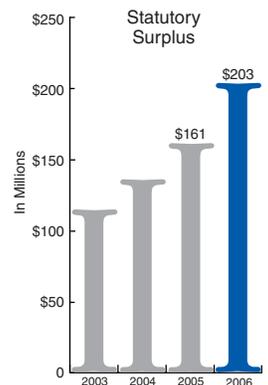
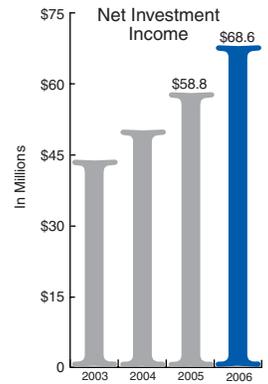
Under the sound fiscal leadership of Robert E. Merritt, CFA, Executive Vice President and Chief Investment Officer, a conservative investment strategy adopted by the IWIF Board in 2003 has proven extremely successful in supporting the goals of IWIF's insurance operations. Consistently positive returns on investments have allowed IWIF to keep premium costs equitable for our policyholders.

IWIF's successful financial strategy was recently revised to ensure IWIF would obtain Risk Based Capital (RBC) requirements by year-end 2005. In fact, in 2006, IWIF generated \$37.7 million in net operating gain and grew statutory surplus to \$203 million.

IWIF's investment portfolio totals more than \$1.5 billion, and provides a strong financial foundation. One hundred percent of IWIF's investment portfolio is invested in fixed income securities, with four external managers led by the IWIF investment management team.

For 2006 the core bond portfolio, which is directly managed by Bob Merritt and his assistant, David Hinks, has been ranked in the 20th percentile nationwide within the Callan Associates Inc. Core Bond Universe. For the two years prior, IWIF's core bond portfolio ranked in the 1st percentile. Additionally, IWIF's investment yield in 2005, the most recent year for which data was available, ranked second best among 20 state funds.

Policyholders who insure with IWIF, and agents who sell IWIF, can do so with confidence knowing that our product is backed by nearly 100 years of experience and superior financial strength.





IWIF's financial leadership team has guided the company to produce strong results year after year.

From left,

- David Hinks, Portfolio Manager
- Thomas J. Phelan, CPA, Executive Vice President and Chief Financial Officer
- Rial Simons, FCAS, MAAA, Chief Actuary
- Robert E. Merritt, CFA, Executive Vice President and Chief Investment Officer
- Paige Beck, CPA, Assistant Vice President, Finance
- Frank Linardi, CPA, Controller

Strong



Dependable

Seated,
Joseph Gillian, CSP, ALCM, Director, IWIF Loss Control Department
Standing, left to right,
Mary Smith, Loss Control Consultant
Adrienne Kaspar, CHCP, Loss Control Supervisor
Lester Groff, CSP, ARM, Senior Loss Control Consultant
Jack Cooper, SERMA Risk Management Consultant



Maryland businesses depend on IWIF to help protect their workers and keep their companies financially sound by teaching how to prevent workplace accidents.

We believe that safety is a basic value, not just a priority. That's why a core part of IWIF's mission is to educate our policyholders on workplace safety.

Because unsafe behavior contributes to more than 90% of all injuries, IWIF's Loss Control Department is dedicated to helping our policyholders learn how to prevent accidents.

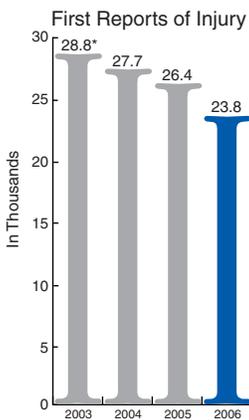
Safety and risk management services are offered to every policyholder as an added value to their workers' compensation coverage with IWIF. Our risk management services are delivered by experienced and highly trained IWIF safety and risk management field professionals. Many, including IWIF Director of Loss Control Joseph Gillian, have achieved regional and national recognition for their expertise.

IWIF loss control services include risk assessment, safety program development and evaluation, training and education, loss reviews and analysis, and follow-up workplace evaluations. Additionally, with the help of new computer models that map accident statistics and trends, we can show the direct correlation between the frequency and severity of a company's accidents and their actual costs to a company's bottom line. It is our basic benefit message to all policyholders that **"Safety Saves With IWIF."**

Not only do IWIF policyholders benefit from our risk management services; so does the State of Maryland. Through SERMA, the State Employees' Risk Management Administration, IWIF has implemented risk management initiatives within many state agencies that have resulted in positive outcomes and cost reductions.

By helping to create a safety culture throughout every organization we touch, IWIF helps to ensure the profitability of Maryland's companies and state agencies — the backbone of our state's economy.

IWIF's Loss Control Department made more than 4,500 policyholder visits in 2006.



* IWIF added Bethlehem Steel Injured Workers' Claims in 2003



IWIF is proud to partner with Maryland's insurance agent and broker community.

Sal Dipietro
Diversified
Insurance

Gail Macharsky
BB&T Frederick
Underwriters, Inc.

Pete Moscker
Moscker Insurance
Agency, Inc.

Larry Sanders
Edward L. Sanders
Insurance Agency, Inc.

Carol Brogan
Lowe-Tillson
Insurance
Associates, Inc.

Paul Troeschel
Insurance
Associates, Inc.

Competitive



Our goal is to work as partners with our agents to provide competitive workers' compensation products that meet the needs of Maryland businesses.

Bruce Talbot
Advantage
Group, Inc.

Dave Bollinger
Barnes-Bollinger
Insurance Services, Inc.

Tom Lowe
Tidewater Insurance

Rob Cannon
Gorges & Company

Laura Bren
Atlantic Smith
Cropper & Deeley
Insurance

The IWIF Insurance Agency Advisory Council, an 11-member group of independent insurance agents, meets regularly with IWIF's executive and business development teams to discuss major business initiatives. The Council offers important insights on how IWIF can continue to improve and target its products and services for Maryland agents and their clients.

More than 1,000 valued agent partners now represent 70% of our customer base, and are responsible for 86% of our written premium. As Maryland's first choice for workers' compensation insurance, IWIF provides coverage to 32% of the marketplace.



Every injury reported to IWIF receives prompt attention, but CAT injuries take priority over everything else. The IWIF CAT adjusters are on call 24/7 to respond immediately to the call.

When they hear the distinctive ring of the CAT phone, IWIF's five-member Catastrophic Injury Team (CAT) springs into action.

Senior Claims Adjusters Pam Reed and Jeannie Miller, along with Claims Adjuster Stephanie Matthews, the newest member of the CAT Team, take turns at being "on call" 24 hours a day, 7 days a week. They consult with IWIF Senior Nurse Case Manager Jody Woodward, and keep CAT Team Supervisor Karen Lowrey apprised of those injuries needing the team's immediate attention.

Any condition with serious or life-threatening effects is considered a catastrophic injury. Such injuries include head injuries, spinal cord injuries, severe burns, heart attacks, strokes, and multiple internal injuries or bone fractures.

CAT injuries have a greater potential of resulting in a serious disability for the injured worker. For this reason, it's critical to provide the best care early on. IWIF's CAT Team works closely with medical experts around the country to evaluate the extent of the injury and determine the optimal course of treatment.

A recent CAT claim involved a young tree trimmer from Western Maryland. While moving a harness clip from one limb of the tree to another, he lost his balance and fell 15 feet to the ground. He sustained a severe spinal cord injury, which left him a paraplegic. After acute rehabilitation, he was placed in a retraining program for computers and information management. Upon completion of the training, he worked with a vocational counselor to locate a job as a Help Desk Technician.

The IWIF CAT Team stood by him throughout that time, offering medical intervention, financial assistance, and emotional support. Karen and her team are now happy to report that, notwithstanding the seriousness of his disability, the young man has returned to work full time and is now earning a salary greater than that of a tree trimmer.

Fortunately, catastrophic injuries do not make up the majority of injury claims to IWIF. Of the 23,851 claims reported to IWIF in 2006, 81 were for catastrophic injuries.

Responsive

The IWIF CAT Team

Seated, from left,

Karen Lowrey, CAT Team Supervisor

Jeannie Miller, AIC, Senior Claims Adjuster

Standing, from left,

Stephanie Matthews, Claims Adjuster

Jody Woodward, RN, BSN, CCM, WCCM, Senior Nurse Case Manager

Pam Reed, AIC, Senior Claims Adjuster





Operations Highlights

Marketing IWIF with Competitive Products

- The Marketing and Underwriting departments worked together to expand our association and safety group partnership programs in 2006, welcoming three new programs:
 - Maryland Automobile Dealers Association (MADA)
 - National Federation of Independent Businesses (NFIB)
 - Maryland Arborist Association (MAA)

IWIF now partners with 11 association and industry safety groups.

- Take Aim at Target Markets was successfully launched in 2006 to promote to our agents those specific business class codes of interest and future growth. In 2006, IWIF wrote more than \$4 million in written premium representing these target markets.

Disciplined Underwriting Performance

- In 2006, we underwrote \$326 million in gross written premium.
- Of that, \$32.7 million was in new business premium.
- We welcomed 6,750 new customers in 2006.
- Our continued adherence to underwriting discipline resulted in an improvement to our loss ratio to 86.7% in 2006, as compared to 87.6% in 2005.
- As Maryland continued to experience an increasingly soft market, we successfully retained 86% of expiring premium.
- Predictive modeling/automatic underwriting for smaller accounts was implemented to enhance service delivery to our customers. This significant change has been well received by our agency partners.
- In 2006, at policy expiration/cancellation, we worked with policyholders to ensure their premium was priced accurately and fairly, based on risk exposure – no more and no less. As a result, in 2006, \$31 million in audited premium was assessed.

We welcomed
6,750
new customers.

Responsive Claims and Legal Services Contain Loss Costs

- IWIF was committed to caring for more than 30,800 injured workers and/or their dependents, paying for their medical care, indemnity (lost time) payments, or both in 2006. This was a decrease from 33,500 in 2005.
- A continuing and encouraging trend for 2006 was a 9.7% decrease in workplace injuries reported to IWIF.
- Our focus on claim case closures and settlements continues, where appropriate. In 2006, we settled 1,975 claims cases.



Our Special Investigations Unit helped save \$39.6 million in claim reserves associated with claimant fraud.

- Our Medical Bill Payment department has established a service standard to pay all medical invoices within three to five business days. This payment policy has been leveraged with numerous hospitals to obtain a more favorable price discount.
- IWIF's Subrogation department had two goals in 2006: settlements and recoveries. In 2006, there were a total of 150 settlements with recoveries totaling \$10.3 million, which is 4.5% of claims paid.
- The Special Investigations Unit produced a total of 33 claimant arrests or prosecution referrals, and recovered \$195,000 in claim cash recoveries. In addition, the department collected \$5.4 million in underpaid premium and, most important, generated \$39.6 million in claim reserve reductions associated with claimant fraud.
- IWIF attorneys prepared for 8,400 legal hearings in 2006, 17% fewer hearings than in 2005.
- Attorneys conducted 396 policyholder visits in 2006, more than in any other year. Policyholders surveyed rated their overall satisfaction with attorney representation at 92%.
- Maryland's intermediate appellate court ruled in IWIF's favor in the case of *Green v. Carr Lowery*, holding that a claimant who alleges occupational hearing loss must meet the statutory threshold for occupational hearing loss compensability in order to be entitled to any benefits, including medical benefits.

87%

of policyholders were satisfied overall with the customer service and value they received from IWIF.

Customer Service and Ease of Doing Business are Strategic Imperatives

- The results of IWIF's 2006 policyholder satisfaction survey of 400 randomly selected customers indicated 87% of policyholders were satisfied overall with the service and value they received from IWIF. Similarly, 89% of our leading agents and brokers were satisfied with IWIF's services.
- A new billing system was created that includes new and easier-to-understand invoices.
- The Call Center piloted a new Business Activity Customer Information screen, which allows Call Center staff to quickly review account history and recent customer transactions.
- The Call Center had a 28% improvement in average speed of phone calls answered: 36 seconds to 26 seconds. The insurance industry average is 45-50 seconds.



E-Services are Key to Operational Efficiencies

- IWIF e-Users continued to take advantage of efficient and time-saving online services. We saw a 34% increase in e-Certificates of Insurance requests and a 93% increase in e-Payments.
- IWIF's data security initiatives were strengthened in 2006 by instituting a corporate-wide data security policy.
- IWIF's industry-leading applications of e-Services and business technology across all departments have been key factors to improving operations.

3,873 customers are registered e-Users.

Strengthening the IWIF Workplace

- We continued a successful summer intern program to introduce college students to the benefits of a career in the insurance industry.
- Mandatory yearly training for all employees was expanded to cover harassment avoidance, diversity, and IWIF's Code of Conduct policy.
- IWIF is built on the values of integrity and trust. To help safeguard our operations, we worked with a third-party consultant to institute an anonymous whistleblower hotline and e-mail address for employees to report concerns involving ethics, compliance, fraud, or safety.

Brand IWIF

- We created and implemented our "Safety Saves" campaign in June dedicated to the important topic of workplace safety for non-English speaking Hispanic workers. The award-winning campaign included an information kit and radio public service announcements in Spanish and English.
- We established a cooperative advertising program with our agent partners.
- With continued leadership and focus on education, IWIF sponsored eight, free policyholder seminars across the State, which were attended by more than 450 Maryland businesses. We also added online seminar registration for the convenience of our customers.
- 2006 was another award-winning year for IWIF Communications and educational materials. IWIF received five national awards from the American Association of State Compensation Insurance Funds, one national award from the Insurance Marketing and Communications Association, and six awards from the Maryland Public Relations Society of America.

450

policyholders
attended our
policyholder
seminars in
2006.



State Employees' Risk Management Administration

The State of Maryland self-insures to cover the workers' compensation costs for its 85,000 employees. IWIF has been a proud partner with the State acting as the third-party administrator providing loss control and claims adjusting services.



The following are a few examples of programs initiated by IWIF in 2006 to save taxpayer dollars:

- Maryland State agencies saw a decrease in the frequency of first reports of injury of 7.5%, or a reduction of 621 over calendar year 2005. Medical costs decreased by 9%, which is primarily attributable to fewer catastrophic claims. We initiated an early intervention medical pilot in partnership with the Maryland Transit Administration, which focuses on targeted medical management in an effort to reduce temporary total and medical costs.
- In 2006, the SERMA Risk Management Consultants made 509 agency visits, and trained over 1,700 State supervisors and employees in topics which included defensive driving, back safety, and accident investigation. We continue to assist with the Managed Return to Work pilot program, led by the Department of Budget and Management, which was expanded in 2006, and which will be expanded again in 2007.

In Our Community

- IWIF and its employees welcome the opportunities, big and small, to give of our time, talents and treasures as corporate citizens in our local community. Highlight activities included IWIF and its employees contributing \$80,000 to the annual Maryland United Charities drive; mentoring and volunteering in the Big Brothers Big Sisters school programs; and actively participating in American Red Cross blood drives.
- IWIF management takes an active role on the boards of numerous civic and charitable organizations.
- 2006 marked the fifth year of our business/school partnership with Mergenthaler Vocational Senior High School in Baltimore City. This partnership includes a student safety poster contest and yearly donation to the school for the purchase of safety equipment.
- IWIF's primary corporate charity is the Kids' Chance of Maryland, Inc. Scholarship Fund. IWIF is a cornerstone partner, along with key legal, insurance, medical and business representatives in the Maryland community, in support of Kids' Chance.



This important scholarship fund provides financial and educational assistance to children of parents who were severely injured or lost their lives in a workplace accident. Seventeen students were awarded scholarships in 2006. If you know of a severely injured or deceased worker who may have a child in need of financial assistance, please visit the Kids' Chance website at www.kidschance-md.org for more details.



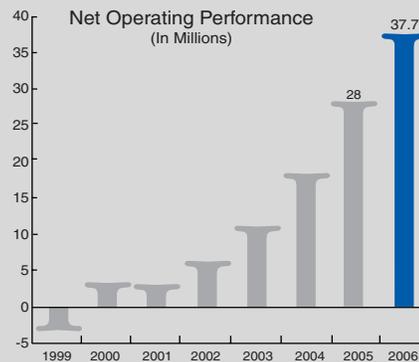
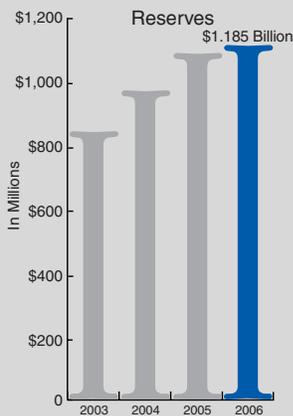
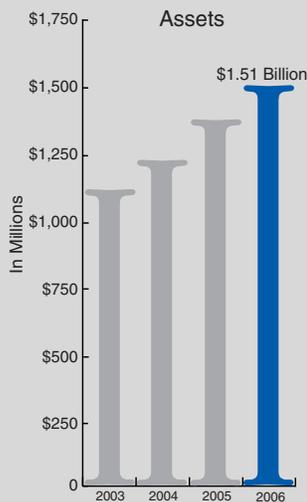
Balance Sheet

| | Years Ended December 31 | |
|------------------------------------------------|-------------------------------|--------------------------------|
| | 2006 | 2005 |
| ASSETS | | |
| Cash and cash equivalents | \$ 266,503,019 | \$ 198,256,150 |
| Investments, available for sale | 1,151,033,096 | 1,094,709,953 |
| Investments, held to maturity | 3,999,390 | 3,999,090 |
| Accrued interest on investments | 11,272,787 | 10,475,846 |
| Premiums receivable | 28,127,370 | 29,228,320 |
| Land, building, and equipment | 15,925,124 | 13,204,626 |
| Reinsurance recoverable on paid losses | - | 1,417,882 |
| Reinsurance recoverable on unpaid losses | 19,298,000 | 17,422,000 |
| Prepaid reinsurance | 2,164,826 | - |
| Other assets | 15,107,162 | 13,373,261 |
| Total assets | <u>\$1,513,430,774</u> | <u>\$ 1,382,087,128</u> |
| LIABILITIES AND FUND EQUITY | | |
| Liabilities: | | |
| Loss and loss adjustment expenses | \$1,184,746,000 | \$ 1,086,422,000 |
| Unearned premiums | 72,226,980 | 75,051,278 |
| Accounts payable and accrued expenses | 11,945,835 | 13,489,218 |
| Other liabilities | 16,511,207 | 20,702,896 |
| Total liabilities | <u>1,285,430,022</u> | <u>1,195,665,392</u> |
| Total fund equity | <u>228,000,752</u> | <u>186,421,736</u> |
| Total liabilities and fund equity | <u>\$1,513,430,774</u> | <u>\$ 1,382,087,128</u> |



Statement of Operations

| | Years Ended December 31 | |
|--------------------------------------------------|-------------------------|----------------|
| | 2006 | 2005 |
| REVENUES | | |
| Premiums earned | \$ 321,248,920 | \$ 321,167,547 |
| Investment income | 66,829,569 | 57,044,120 |
| Net gain on sale of investments | 9,671,274 | 8,021,776 |
| Other income | 717,253 | 885,510 |
| Total revenues | 398,467,016 | 387,118,953 |
| EXPENSES | | |
| Loss and loss adjustment expenses incurred | 278,662,802 | 281,193,712 |
| Net operating expenses | 71,738,126 | 68,982,263 |
| Total expenses | 350,400,928 | 350,175,975 |
| NET INCOME | \$ 48,066,088 | \$ 36,942,978 |



The 2006 condensed financial statements have been derived from complete GAAP financial statements which were audited by Johnson Lambert & Co. The schedules referred to in the Actuarial Opinion on page 18 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.



February 27, 2007

STATEMENT OF ACTUARIAL OPINION

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 Consulting 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 in Exhibit A, as shown in the Annual Statement of IWIF as prepared for filing with state regulatory officials, as of December 31, 2006. The loss and loss adjustment expense reserves specified in Exhibit A, on which I am expressing an opinion, reflect the Loss Reserve Disclosure items (3 thru 8) listed in Exhibit B.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by Mr. Thomas J. Phelan, CPA, CFO and Executive Vice President 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 paragraph on [Page 21] 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 listed in Exhibit A, 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.

Opinion

In my opinion, the amounts carried in Exhibit A on account of the items identified:

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

Relevant Comments

A. Risk of Material Adverse Deviation

The company is exposed to the uncertainty of variability of the reserves which could result in material adverse deviation.

With respect to this Statement of Actuarial Opinion, the amount of adverse deviation that I consider to be material is \$40,670,281. My basis for determining this amount is 20% of surplus which is an amount that would represent a reasonable upward fluctuation in reserves from those carried by IWIF that I would consider material. My selection of materiality standard was driven by the fact that this Opinion is prepared for regulatory purposes. Other measures of materiality might be used for reserves that are being evaluated in a different context.

The size of IWIF's loss and loss adjustment expense reserves relative to its surplus is relatively large compared to industry norms. Therefore, there is more than a remote possibility that adverse fluctuations of actual versus expected liabilities will be material. For this reason I believe that there are significant risks and uncertainties that could result in material adverse deviation in the loss and loss adjustment expense reserves. For example, the high-end of the range of reasonable net loss and loss adjustment expense reserves are \$72,291,000 greater than IWIF's carried reserves. Other major factors underlying the risks and uncertainties which could result in material adverse deviation include but are not necessarily limited to:

- The nature of the coverage written;
- Changes in claims handling procedures making it more difficult to estimate ultimate losses;
- Retention of key personnel required to efficiently settle claims;
- Significant growth of business in recent years;
- Discounting of the tabular unpaid losses for workers compensation; and
- The collectibility of ceded reinsurance if losses emerge toward the high-end of a range of reasonableness.

B. Disclosure of Unearned Premium Reserves for Long Duration Contracts

IWIF writes no policies or contracts related to 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).

C. Other Disclosures in Exhibit B Discounting, Item 4.

IWIF discounts liabilities for unpaid losses associated with both case outstanding and incurred but not reported reserves for Workers Compensation, as disclosed in this Statement of Actuarial Opinion.

Long-term unpaid Workers Compensation indemnity claims are discounted on a tabular basis using the 2003 National Vital Statistics United States Life Tables Volume 54, Number 14. The discount rate selected by IWIF management is 3.25%. The amount of tabular discount is \$84,588,213. I am not expressing an opinion on the appropriateness of the interest rate or mortality tables chosen. The total discount of \$84,588,213 represents approximately 42% of IWIF's stated surplus.



Underwriting Pools or Associations, Item 5.

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

Asbestos Exposures and Environmental Exposures, Item 6.

I have reviewed IWIF's exposure to asbestos and environmental claims. IWIF currently carries \$472,187 of net reserves for loss and loss adjustment expenses, which is intended to represent IWIF'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.

D. Reinsurance

Reinsurance Collectibility

My opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectible. The total loss and loss adjustment expense reinsurance recoverable is all with companies rated A- (Excellent) or better. IWIF Management has informed me that it does not anticipate reinsurance collectibility problems with respect to these recorded reinsurance recoverables. 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.

Retroactive Reinsurance, Financial Reinsurance

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

E. 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 IWIF's management. No exceptional values were calculated for these tests.

F. September 11, 2001 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, 2006 arising from terrorist attack losses is remote, given the nature of the coverages provided by IWIF and prevailing coverage interpretations.

G. Schedule P Reconciliation

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).

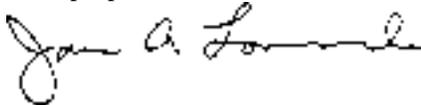
H. General Uncertainty

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 data base or which are not yet quantifiable.

Actuarial Report

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

This Opinion is provided for regulatory purposes only and is not intended for any other purpose.



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February 27, 2007

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OUR MISSION

IWIF, a dedicated team of 384 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.

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