

2011 Annual Report



It's How
Maryland
Spells
Comp

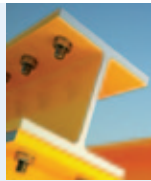
Balance Sheet Statutory - Basis

	As of December 31	
	2011	2010
Admitted Assets		
Bonds	\$ 1,388,740,543	\$ 1,172,255,921
Common stock	79,897,461	57,004,764
Real estate, occupied by IWIF	9,891,546	10,128,667
Cash, cash equivalents and short-term investments	137,205,289	379,982,307
Other invested assets	13,816,451	10,487,396
Total cash and invested assets	1,629,551,290	1,629,859,055
Accrued interest on investments	11,500,389	11,064,226
Premiums receivable	63,483,755	56,247,648
Securities lending reinvested collateral assets.....	—	43,389,625
Receivables under reinsurance contracts	1,730,245	2,102,201
Other assets.....	11,118,586	9,598,285
Total admitted assets	\$ 1,717,384,265	<u>\$ 1,752,261,040</u>
Liabilities and Surplus		
Liabilities:		
Reserves for losses and loss adjustment expenses	\$ 1,291,320,000	\$ 1,307,070,000
Accounts payable and accrued expenses.....	13,052,693	9,664,005
Unearned premiums.....	86,097,152	80,170,912
Payable for securities lending.....	—	43,389,625
Other liabilities	5,528,473	5,175,097
Total liabilities.....	1,395,998,318	<u>1,445,469,639</u>
Total surplus.....	321,385,947	306,791,401
Total liabilities and surplus	\$ 1,717,384,265	<u>\$ 1,752,261,040</u>



Tom Phelan

President,
Chief Executive Officer



In 2011, the economic slowdown continued to adversely impact many Maryland businesses; however, as the year progressed, there were signs of growth. IWIF capitalized on these opportunities and I am pleased to report a modest improvement in earned premium, net profit and surplus; the bottom line is that we maintained \$1.7 billion in assets.

As the slow economic conditions persisted, we concentrated efforts toward renovating and improving our operational foundation to prepare for future growth. Fortifying our internal structure will elevate customer service, improve the ease of doing business, and help to control medical costs. I would like to share with you some of the major initiatives undertaken this year:

Employee development: Our associates are the heart of our company – they are recognized in annual surveys for their courtesy, professionalism and knowledge of workers' compensation. These qualities are bolstered by IWIF's commitment to provide continual learning opportunities to our staff. To that end, we intensified training to motivate and recognize employees who secure professional certifications and/or college degrees. Employee development is an integral part of our strategic plan.

Technology: Combining the best people with the best systems serves as a model for many successful companies. It's no secret that technology drives efficiency and productivity and, at IWIF, technology is a priority. IWIF has begun an overhaul of systems and applications for the entire organization.

Processes: This year, we selected a new underwriting management system, which will improve workflow processes. Upon completion, the system will provide real-time information to our agent partners and will produce a quote instantly with straight-through processing. Initial testing of the pilot by several agents generated highly rated reviews. Additionally, the claims predictive modeling program will generate future returns through more efficient work processes and reduced claims costs. IWIF is an industry leader in utilizing data for decision making purposes, and this project builds upon that tradition. Years of claims data are being analyzed to help predict the best strategy for handling new claims as they arise. The claims predictive model is anticipated to produce savings, which ultimately benefit our policyholders.

Financial strength and viability: Medical expenses are among the fastest escalating costs we encounter. Our claims department has explored every opportunity to reduce medical expenses, hold steadfast to medical best practices and gain price advantage through volume. As a result, we strengthened existing practices and added new initiatives, such as tracking in-patient hospitalizations; discounted pricing from doctors in a Preferred Provider Network; and a pain management program that monitors utilization of prescribed opioid medications. These programs help to contain the growth rate of medical costs and, therefore, positively impact our rates.



Senior Management Team

In addition to a talented and dedicated staff, IWIF is led by a board of directors who is committed to the effective governance of the company. This year, we welcomed two new board members, Wayne R. Gioioso, Sr. and Ivory E. Tucker, and look forward to their active involvement and guidance. Also in 2011, the term of Patricia McHugh Lambert expired and we thank her for years of dedicated service and leadership.

IWIF's position as the largest writer of workers' compensation insurance in Maryland is built upon 97 years of dedicated products and services to the businesses in this state and years in close working partnership with independent insurance agents. We take pride in our legacy and the level of expertise we provide to policyholders as we protect their greatest asset – their employees. This annual report highlights the range of expert services we provided in 2011– and will continue to provide into the future.

On behalf of IWIF, I truly thank you for your trust, business and belief in our ability to protect your employees.

Best regards,

Thomas Phelan, CPA, President and CEO

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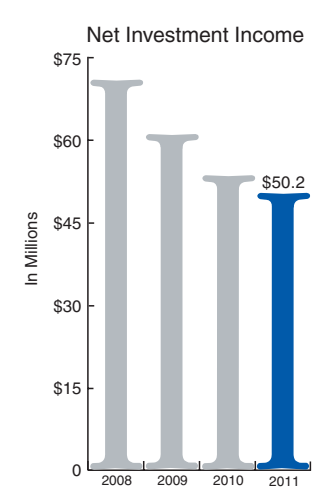
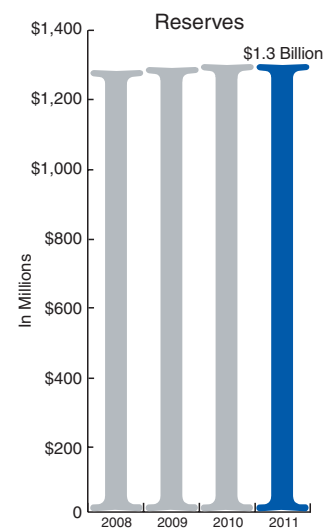
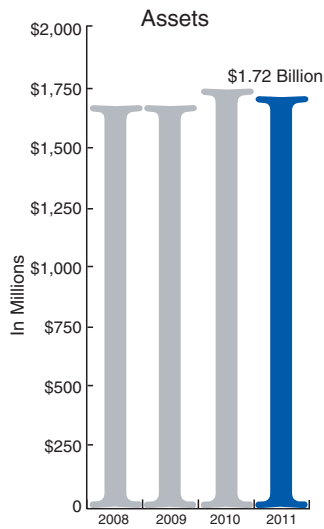
Rona Finkelstein, Esq.,
Chief Compliance Officer
Thomas Phelan, CPA,
President and
Chief Executive Officer
Tim Michels, Esq.,
Chief Operating Officer
Dennis Carroll, Esq.,
Executive Vice President,
General Counsel

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Paige Beck, CPA,
Chief Administrative Officer,
Chief Financial Officer
Paulette Lundy, Esq.,
Vice President,
Human Resources
Julio C. Shaik, CFA,
Assistant Vice President,
Chief Investment Officer
R. Steven Orr, CPCU,
Senior Vice President,
Marketing & Information
Systems
Kama Kolbe,
Vice President, Underwriting
and Loss Control
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Assistant Vice President,
Legal Services
Donna Wilson,
Senior Vice President,
Communications,
Customer Service
and Strategic Planning
Lisa Kruska,
Assistant Vice President,
Claims
Rial Simons, FCAS, MAAA,
Chief Actuary
Robert Marshall,
Vice President,
Chief Risk Officer
Frank Linardi, Jr., CPA,
Vice President, Finance,
and Controllor
Elbert Danquah,
Vice President, Internal Audit

Update: As this 2011 annual report goes to print, Governor Martin O'Malley signed legislation that will convert the Injured Workers' Insurance Fund (IWIF to Chesapeake Employers' Insurance Company (Chesapeake), effective October 1, 2013. Chesapeake will be a private, nonprofit, nonstock corporation that will continue to provide workers' compensation insurance only to Maryland businesses. The legislation prohibits the State of Maryland from claiming IWIF's surplus for transfer to the general fund. The result is that we are better positioned to protect and steward the company's surplus for the benefit of our policyholders and their injured workers. Our board and management team are invigorated by this change in status. For our policyholders and agents, the transition will be seamless since it will be a continuation of the same relationship. More importantly, this is a critical step in the evolution of the company as we strengthen the commitment to our mission and leadership position in workers' compensation insurance.

IWIF Financial Highlights at a Glance



	Years Ended December 31	
	2011	2010
Premiums earned.....	\$ 170,595,070	\$ 168,859,162
Net investment income	\$ 50,184,421	\$ 53,190,630
Loss & loss adjustment expenses incurred	\$ 178,878,060	\$ 186,171,791
Underwriting loss	\$ (50,232,905)	\$ (53,011,282)
Dividends paid to policyholders	\$ 275,229	\$ (869,353)
Total assets	\$ 1,717,384,265	\$ 1,752,261,040
Total surplus.....	\$ 321,385,947	\$ 306,791,401
Loss/LAE ratio	104.9%	110.3%
Expense ratio.....	23.6%	21.9%
Combined ratio.....	128.5%	132.2%

Statement of Operations, Statutory - Basis

	Years Ended December 31	
	2011	2010
Underwriting income:		
Net premiums earned.....	\$ 170,595,070	\$ 168,859,162
Losses incurred.....	150,861,819	161,513,346
Loss adjustment expenses incurred	28,016,241	24,658,445
Commissions.....	16,649,823	15,393,303
Other underwriting expenses, net.....	23,375,769	18,831,543
Provision for bad debt	1,131,323	1,473,807
Premium deficiency reserves	793,000	—
Underwriting loss	(50,232,905)	(53,011,282)
Net investment income	50,184,421	53,190,630
Net realized gain (loss) on investments ..	16,811,079	11,945,981
Net investment gain	66,995,500	65,136,611
Other income.....	613,932	752,942
Dividends to policyholders.....	275,229	(869,353)
Net income	<u>\$ 17,651,756</u>	<u>\$ 12,008,918</u>

The 2011 condensed financial statements, including the balance sheet on page 1, have been derived from complete statutory-basis financial statements which were audited by Johnson Lambert & Co. LLP. The schedules referred to in the Actuarial Opinion on page 11 relate to the "Yellow Book" schedules. A complete set of audited financial statements, with the unqualified opinion in accordance with the statutory-basis accounting practices and complete set of footnotes, may be obtained upon request.