



Financial**Report**

March '07

Positive results are continuing to be generated by BWC's efforts to strengthen financial performance. Combined net assets have increased from a \$127 million deficit at June 30, 2006 to a \$766 million combined surplus at February 28, 2007.

Net investment income contributed \$1 billion to the growth of net assets. This growth is partially offset by an operating loss of \$143 million. While premium and assessment income increased and workers' compensation benefits decreased from the prior fiscal year these improvements alone are not enough to generate positive operating results.

The fiscal year 2007 results are being positively impacted by growth in the estimated collectible premium for private employers resulting from the 3.9 percent increase in private employer rates for the July 1, 2006 policy period.

Medical payments in fiscal year 2007 are \$39 million lower than in the same period of fiscal year 2006 and are approximately 15 percent lower than expected. Lump sum settlement payments have increased by \$38 million this fiscal year compared to last fiscal year due to the settlement pilot focusing on higher reserve PTD and death claim settlements.

Fiscal year-to-date results reflect January decreases of approximately \$146 million to the reserves for compensation and compensation adjustment expenses based on projections prepared by BWC's actuarial consultants reflecting payment trends through December 31, 2006.

The net investment income ratio is being impacted by higher interest earnings resulting from the transition of the investment portfolio to a bond index fund during the third quarter of fiscal year 2006. In January and February 2007, the State Insurance Fund's bond index fund units were liquidated and the holdings transferred to 2 transition managers. At the end of January, \$2.5 billion was transitioned to a passively managed S&P 500 index account and \$3 billion to a passively managed TIPS account. In March, approximately \$9 billion will be transitioned to 2 long-term duration fixed income managers.

The fiscal year-to-date 2007 operating results have generated over a 38 point improvement in the trade combined ratio. The trade combined ratio is 74.8 percent at February 28, 2007 compared to 113.4 percent at February 28, 2006.

Statement of Operations

➤➤ Fiscal year to date February 28, 2007

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total Operating Revenues	\$ 1,649	\$ 1,685	\$ (36)	\$ 1,413	\$ 236
Total Operating Expenses	<u>1,792</u>	<u>2,029</u>	<u>(237)</u>	<u>2,002</u>	<u>(210)</u>
Net Operating Gain (Loss)	(143)	(344)	201	(589)	446
Net Investment Income	<u>1,036</u>	<u>149</u>	<u>887</u>	<u>932</u>	<u>104</u>
Increase (Decrease) in Net Assets	893	(195)	1,088	343	550
Net Assets Beginning of Period	<u>(127)</u>	<u>(127)</u>	<u>—</u>	<u>(990)</u>	<u>863</u>
Net Assets End of Period	\$ 766	\$ (322)	\$ 1,088	\$ (647)	\$ 1,413

Statement of Operations

➤➤ Fiscal year to date February 28, 2007

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$ 1,670	\$ 1,711	\$ (41)	\$ 1,436	\$ 234
Provision for Uncollectibles	(28)	(31)	3	(29)	1
Other Income	<u>7</u>	<u>5</u>	<u>2</u>	<u>6</u>	<u>1</u>
Total Operating Revenue	1,649	1,685	(36)	1,413	236
Operating Expenses					
Benefits & Compensation Adj. Expense	1,730	1,960	(230)	1,923	(193)
Other Expenses	<u>62</u>	<u>69</u>	<u>(7)</u>	<u>79</u>	<u>(17)</u>
Total Operating Expenses	<u>1,792</u>	<u>2,029</u>	<u>(237)</u>	<u>2,002</u>	<u>(210)</u>
Net Operating Gain (Loss)	(143)	(344)	201	(589)	446
Investment Income					
Interest and dividend income	550	576	(26)	450	100
Realized & unrealized capital gains (losses)	493	(415)	908	559	(66)
Investment manager and operational fees	(7)	(12)	5	(77)	70
Gain (loss) on disposal of fixed assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net Investment Income	<u>1,036</u>	<u>149</u>	<u>887</u>	<u>932</u>	<u>104</u>
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Statement of Operations Combining Schedule

➤➤ Fiscal year to date February 28, 2007

<i>(in thousands)</i>	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work- Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Totals
Operating Revenues								
Premium & Assessment Income	\$ 1,314,786	\$ 88,414	\$ 458	\$ 299	\$ 587	\$ 14,388	\$ 250,871	\$ 1,669,803
Provision for Uncollectibles	(24,235)	(2,101)	–	–	–	187	(2,096)	(28,245)
Other Income	4,859	–	–	–	–	–	2,526	7,385
Total Operating Revenue	1,295,410	86,313	458	299	587	14,575	251,301	1,648,943
Operating Expenses								
Benefits & Compensation Adj. Expense	1,391,841	72,598	980	342	164	14,088	249,814	1,729,827
Other Expenses	12,811	244	455	–	48	–	48,876	62,434
Total Operating Expenses	1,404,652	72,842	1,435	342	212	14,088	298,690	1,792,261
Net Operating Income (loss) before operating transfers out	(109,242)	13,471	(977)	(43)	375	487	(47,389)	(143,318)
Operating transfers out	(1,420)	–	–	–	–	–	1,420	–
Net operating income (loss)	(110,662)	13,471	(977)	(43)	375	487	(45,969)	(143,318)
Investment Income								
Investment income	497,839	39,190	8,242	767	548	1,312	2,131	550,029
Realized & unrealized capital gains (losses)	453,655	31,452	6,463	590	419	–	–	492,579
Investment manager and operational fees	(6,419)	(312)	(65)	(6)	(4)	–	–	(6,806)
Gain (loss) on disposal of fixed assets	–	–	–	–	–	–	(14)	(14)
Total non-operating revenues, net	945,075	70,330	14,640	1,351	963	1,312	2,117	1,035,788
Increase (decrease) in Net Assets (deficit)	834,413	83,801	13,663	1,308	1,338	1,799	(43,852)	892,470
Net Assets (deficit) Beginning of Period	1,278,844	(960,065)	160,138	16,146	12,158	3,472	(637,315)	(126,622)
Net Assets (deficit) End of Period	\$ 2,113,257	\$ (876,264)	\$ 173,801	\$ 17,454	\$ 13,496	\$ 5,271	\$ (681,167)	\$ 765,848

Statement of Net Assets

➤➤ As of February 28, 2007

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Assets					
Total Cash and Investments	\$ 18,778	\$ 16,464	\$ 2,314	\$ 16,999	\$ 1,779
Accrued Premiums	3,098	2,865	233	2,945	153
Other Accounts Receivable	209	284	(75)	179	30
Investment Receivables	1,267	135	1,132	123	1,144
Other Assets	<u>123</u>	<u>121</u>	<u>2</u>	<u>128</u>	<u>(5)</u>
Total Assets	\$ 23,475	\$ 19,869	\$ 3,606	\$ 20,374	\$ 3,101
Liabilities					
Reserve for Compensation and Compensation Adj. Expense	\$ 19,147	\$ 19,349	\$ (202)	\$ 19,731	\$ (584)
Accounts Payable	136	124	12	114	22
Investment Payable	2,765	–	2,765	460	2,305
Other Liabilities	<u>661</u>	<u>718</u>	<u>(57)</u>	<u>716</u>	<u>(55)</u>
Total Liabilities	<u>22,709</u>	<u>20,191</u>	<u>2,518</u>	<u>21,021</u>	<u>1,688</u>
Net Assets	\$ 766	\$ (322)	\$ 1,088	\$ (647)	\$ 1,413

Statement of Cash Flows

➤➤ Fiscal year to date February 28, 2007

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Cash flows from operating activities:					
Cash receipts from premiums	\$ 1,780	\$ 1,872	(\$ 92)	\$ 1,733	\$ 47
Cash receipts – other	19	7	12	17	2
Cash disbursements for claims	(1,389)	(1,367)	(22)	(1,392)	3
Cash disbursements for other	<u>(385)</u>	<u>(284)</u>	<u>(101)</u>	<u>(287)</u>	<u>(98)</u>
Net cash provided (used) by operating activities	25	228	(203)	71	(46)
Net cash flows from capital and related financing activities	(6)	(3)	(3)	(5)	(1)
Net cash provided (used) by investing activities	<u>2,357</u>	<u>15</u>	<u>2,342</u>	<u>1,489</u>	<u>868</u>
Net increase (decrease) in cash and cash equivalents	2,376	240	2,136	1,555	821
Cash and cash equivalents, beginning of period	<u>193</u>	<u>193</u>	<u>–</u>	<u>1,282</u>	<u>(1,089)</u>
Cash and cash equivalents, end of period	\$ 2,569	\$ 433	\$ 2,136	\$ 2,837	\$ (268)

Statement of Investment Income

➤➤ Fiscal year to date February 28, 2007

	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Interest Income					
Bond Interest	\$ 510,454,276	\$ 541,000,000	\$ (30,545,724)	\$ 276,117,802	\$ 234,336,474
Dividend Income (Dom & Int'l)	9,555,905	8,400,000	1,155,905	57,120,734	(47,564,829)
Money Market/ Commercial Paper Income	12,238,465	16,000,000	(3,761,535)	39,529,028	(27,290,563)
Misc. Income (Corp actions, etc.)	2,759,990	2,400,000	359,990	20,574,830	(17,814,840)
Private Equity	11,291,053	4,210,000	7,081,053	4,113,662	7,177,391
Net Securities Lending Income	<u>3,729,939</u>	<u>4,000,000</u>	<u>(270,061)</u>	<u>3,923,764</u>	<u>(193,825)</u>
Total Interest Income	<u>550,029,628</u>	<u>576,010,000</u>	<u>(25,980,372)</u>	<u>401,379,820</u>	<u>148,649,808</u>
Realized & Unrealized Capital Gains and (Losses)					
Net realized gain (loss) - Stocks (Dom & Int'l)	(4,598,480)	-	(4,598,480)	1,455,025,867	(1,459,624,347)
Net realized gain (loss) - Bonds	105,444,327	(220,000,000)	325,444,327	(101,061,512)	206,505,839
Net gain (loss) - PE	20,976,249	(7,290,000)	28,266,249	9,723,686	11,252,563
Unrealized gain (loss) - Stocks (Dom & Int'l)	(41,461,355)	32,669,000	(74,130,355)	(685,976,850)	644,515,495
Unrealized gain (loss) - Bonds	<u>412,217,662</u>	<u>(220,001,000)</u>	<u>632,218,662</u>	<u>(118,647,588)</u>	<u>530,865,250</u>
Change in Portfolio Value	<u>492,578,403</u>	<u>(414,622,000)</u>	<u>907,200,403</u>	<u>559,063,603</u>	<u>(66,485,200)</u>
Investment Expenses-Manager & Operational Fees	<u>(6,805,743)</u>	<u>(11,986,841)</u>	<u>5,181,098</u>	<u>(28,432,588)</u>	<u>21,626,845</u>
Total Investment Income	<u>\$1,035,802,288</u>	<u>\$ 149,401,159</u>	<u>\$ 886,401,129</u>	<u>\$ 932,010,835</u>	<u>\$ 103,791,453</u>

Projected Statement of Operations

➤➤ July 1, 2006 – February 28, 2007

<i>(in millions)</i>	Actual Quarter Sept. 30, 2006	Actual Quarter Dec. 31, 2006	Actual Jan. 31, 2007	Actual Feb. 28, 2007
Total Operating Revenues	\$ 596	\$ 649	\$ 199	\$ 205
Total Operating Expenses	<u>773</u>	<u>706</u>	<u>78</u>	<u>235</u>
Net Operating Gain (Loss)	(177)	(57)	121	(30)
Net Investment Income	<u>602</u>	<u>221</u>	<u>12</u>	<u>201</u>
Increase (Decrease) In Net Assets	425	164	133	171
Net Assets Beginning of Period	<u>(127)</u>	<u>298</u>	<u>462</u>	<u>595</u>
Net Assets End of Period	\$ 298	\$ 462	\$ 595	\$ 766

<i>(in millions)</i>	Projected March 31, 2007	Projected Quarter March 31, 2007	Projected Quarter June 30, 2007	Projected Fiscal Year June 30, 2007
Total Operating Revenues	\$ 208	\$ 612	\$ 600	\$ 2,457
Total Operating Expenses	<u>242</u>	<u>555</u>	<u>785</u>	<u>2,819</u>
Net Operating Gain (Loss)	(34)	57	(185)	(362)
Net Investment Income	<u>81</u>	<u>294</u>	<u>197</u>	<u>1,314</u>
Increase (Decrease) In Net Assets	47	351	12	952
Net Assets Beginning of Period	<u>766</u>	<u>462</u>	<u>813</u>	<u>(127)</u>
Net Assets End of Period	\$ 813	\$ 813	\$ 825	\$ 825

Projected Statement of Cash Flows

➤➤ July 1, 2006 – February 28, 2007

<i>(in millions)</i>	Actual Quarter Sept. 30, 2006	Actual Quarter Dec. 31, 2006	Actual Jan. 31, 2007	Actual Feb. 28, 2007
Cash flows from operating activities:				
Cash receipts from premiums	\$ 821	\$ 209	\$ 185	\$ 565
Cash receipts – other	9	6	2	2
Cash disbursements for claims	(509)	(526)	(177)	(178)
Cash disbursements for other	<u>(139)</u>	<u>(143)</u>	<u>(60)</u>	<u>(42)</u>
Net cash provided (used) by operating activities	182	(454)	(50)	347
Net cash flows from capital and related financing activities	(5)	–	–	(1)
Net cash provided (used) by investing activities	<u>9</u>	<u>278</u>	<u>75</u>	<u>1,994</u>
Net increase (decrease) in cash and cash equivalents	186	(176)	25	2,340
Cash and cash equivalents, beginning of period	<u>194</u>	<u>380</u>	<u>204</u>	<u>229</u>
Cash and cash equivalents, end of period	\$ 380	\$ 204	\$ 229	\$ 2,569

<i>(in millions)</i>	Projected Quarter March 31, 2007	Projected Quarter March 31, 2007	Projected Quarter June 30, 2007	Projected Fiscal Year June 30, 2007
Cash flows from operating activities:				
Cash receipts from premiums	\$ 198	\$ 948	\$ 482	\$ 2,460
Cash receipts – other	1	5	3	23
Cash disbursements for claims	(169)	(524)	(534)	(2,093)
Cash disbursements for other	<u>(27)</u>	<u>(129)</u>	<u>(103)</u>	<u>(514)</u>
Net cash provided (used) by operating activities	3	300	(152)	(124)
Net cash flows from capital and related financing activities	(17)	(18)	–	(23)
Net cash provided (used) by investing activities	<u>(4)</u>	<u>2,065</u>	<u>6</u>	<u>2,358</u>
Net increase (decrease) in cash and cash equivalents	(18)	2,347	(146)	2,211
Cash and cash equivalents, beginning of period	<u>2,569</u>	<u>204</u>	<u>2,551</u>	<u>194</u>
Cash and cash equivalents, end of period	\$ 2,551	\$ 2,551	\$ 2,405	\$ 2,405

Projected Statement of Investment Income

➤➤ July 1, 2006 – February 28, 2007

	Actual Quarter Sept. 30, 2006	Actual Quarter Dec. 31, 2006	Actual Quarter Jan. 31, 2007	Actual Quarter Feb. 28, 2007
Interest Income				
Bond Interest	\$ 210,425,631	\$ 211,533,891	\$ 63,056,784	\$ 25,437,969
Dividend Income (Dom & Int'l)	99,113	1,487,524	2,131,327	5,837,942
Money Market/ Commercial Paper Income	3,413,767	3,498,766	2,263,811	3,062,121
Misc. Income (Corp actions, etc.)	1,403,869	848,764	75,893	431,465
Private Equity	4,984,705	6,128,224	153,024	25,100
Net Securities Lending Income	1,541,324	1,111,616	1,076,999	–
Total Interest Income	221,868,409	224,608,785	68,757,838	34,794,597
Realized & Unrealized Capital Gains and (Losses)				
Net realized gain (loss) - Stocks (Dom & Int'l)	881,489	(133,284)	(5,402,679)	55,993
Net realized gain (loss) - Bonds	(75,423)	5,224,840	(7,485,832)	107,780,743
Net gain (loss) - PE	2,807,629	13,753,836	16,951	4,397,830
Unrealized gain (loss) - Stocks (Dom & Int'l)	(1,911,863)	(1,381,741)	15,423,355	(53,591,107)
Unrealized gain (loss) - Bonds	382,119,778	(18,178,216)	(59,345,980)	107,622,083
Change in Portfolio Value	383,821,610	(714,565)	(56,794,185)	166,265,542
Investment Expenses-Manager & Operational Fees	(3,411,150)	(2,471,937)	(419,841)	(502,815)
Total Investment Income	\$ 602,278,869	\$ 221,422,283	\$ 11,543,812	\$ 200,557,324
	Projected March 31, 2007	Projected Quarter March 31, 2007	Projected Quarter June 30, 2007	Projected Fiscal Year June 30, 2007
Interest Income				
Bond Interest	\$ 67,662,500	\$ 156,157,253	\$ 202,987,500	\$ 781,104,275
Dividend Income (Dom & Int'l)	2,512,500	10,481,769	7,537,500	19,605,906
Money Market/ Commercial Paper Income	2,456,250	7,782,182	7,368,750	22,063,465
Misc. Income (Corp actions, etc.)	300,000	807,358	900,000	3,959,991
Private Equity	–	178,124	–	11,291,053
Net Securities Lending Income	500,000	1,576,999	1,500,000	5,729,939
Total Interest Income	73,431,250	176,983,685	220,293,750	843,754,629
Realized & Unrealized Capital Gains and (Losses)				
Net realized gain (loss) - Stocks (Dom & Int'l)	21,000,000	15,653,314	–	16,401,519
Net realized gain (loss) - Bonds	–	100,294,911	(2,000,000)	103,444,328
Net gain (loss) - PE	–	4,414,781	–	20,976,246
Unrealized gain (loss) - Stocks (Dom & Int'l)	9,552,083	(28,615,669)	28,656,249	(3,253,024)
Unrealized gain (loss) - Bonds	(15,390,000)	32,886,103	(46,170,000)	350,657,665
Change in Portfolio Value	15,162,083	124,633,440	(19,513,751)	488,226,734
Investment Expenses-Manager & Operational Fees	(7,526,933)	(8,449,589)	(3,430,800)	(17,763,476)
Total Investment Income	\$ 81,066,400	\$ 293,167,536	\$ 197,349,199	\$ 1,314,217,887

Insurance Ratios

➤➤ July 1, 2006 – February 28, 2007

	Actual FY07	Projected FY07	Actual FY06
Loss Ratio	80.75%	89.53%	112.22%
LAE Ratio - MCO	7.87%	10.13%	9.76%
LAE Ratio - BWC	<u>14.97%</u>	<u>14.93%</u>	<u>11.93%</u>
Net Loss Ratio	103.59%	114.59%	133.91%
Expense Ratio	3.74%	4.04%	6.05%
Policyholder Dividend Ratio	<u>0.00%</u>	<u>0.00%</u>	<u>-0.57%</u>
Combined Ratio	107.33%	118.63%	139.39%
Net Investment Income Ratio	<u>32.53%</u>	<u>32.97%</u>	<u>25.97%</u>
Operating Ratio (Trade Ratio)	74.80%	85.66%	113.42%

	Actual FY07	Projected FY07	Actual FY06
Premiums to surplus	2.18	-5.31	-2.22
Assets to liabilities	1.03	0.98	0.97
Total reserves to surplus	25.00	-60.09	-30.50
Loss reserves to surplus	22.70	-54.68	-27.64
Investments to loss reserves	1.08	0.94	0.95
Cash + bonds to loss reserves	0.91	0.72	0.92
Cash % of total investments	14%	3%	17%
Bond % of total investments	71%	74%	81%
Equities % of total investments	13%	20%	0%
Equities as % of surplus	320%	-1023%	-5%

Projected Insurance Ratios

➤➤ Fiscal years 2002 – 2007

	Projected FY 07	FY06	FY05	FY04	FY03	FY02
Loss Ratio	85.9%	74.3%	106.7%	96.7%	128.9%	105.6%
LAE Ratio - MCO	8.3%	8.6%	7.1%	9.1%	8.8%	9.4%
LAE Ratio - BWC	<u>14.9%</u>	<u>6.4%</u>	<u>14.7%</u>	<u>8.3%</u>	<u>12.9%</u>	<u>9.2%</u>
Net Loss Ratio	109.1%	89.3%	128.5%	114.2%	150.6%	124.1%
Expense Ratio	3.8%	4.0%	4.0%	5.1%	4.1%	4.0%
Policyholder Dividend Ratio	<u>0.0%</u>	<u>-0.4%</u>	<u>10.3%</u>	<u>18.6%</u>	<u>28.7%</u>	<u>62.4%</u>
Combined Ratio	112.9%	92.9%	142.8%	137.9%	183.4%	190.5%
Net Investment Income Ratio	<u>33.1%</u>	<u>30.4%</u>	<u>22.1%</u>	<u>20.5%</u>	<u>23.9%</u>	<u>27.0%</u>
Operating Ratio (Trade Ratio)	79.8%	62.5%	120.7%	117.3%	159.5%	163.5%

Note: FY 06 ratios have been significantly impacted by improvements in medical payment trends due to reductions in the cost of pharmacy benefits and lower payments to hospitals. These trends contributed to an approximately \$1 billion reduction in loss expenses in FY 06.

	Projected FY 07	FY06	FY05	FY04	FY03	FY02
Premiums to surplus	3.03	-17.10	-2.29	2.59	4.04	1.25
Assets to liabilities	1.04	0.99	0.96	1.04	1.03	1.09
Total reserves to surplus	23.48	-149.48	-19.50	18.90	28.93	7.88
Loss reserves to surplus	21.30	-136.24	-17.68	16.98	25.90	7.02
Investments to loss reserves	1.08	0.94	0.96	1.12	1.13	1.30
Cash + bonds to loss reserves	0.87	0.91	0.54	0.65	0.75	0.85
Cash % of total investments	2%	1%	8%	10%	13%	14%
Bond % of total investments	78%	96%	49%	48%	54%	52%
Equities % of total investments	20%	0%	38%	36%	30%	32%
Equities as % of surplus	461%	-9%	-641%	680%	869%	292%