WCRA®

WORKERS' COMPENSATION REINSURANCE ASSOCIATION

2003 ANNUAL REPORT

A Trusted Partner Serving Minnesota Since 1979

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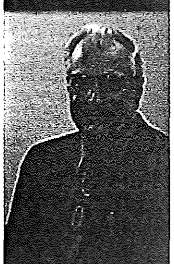

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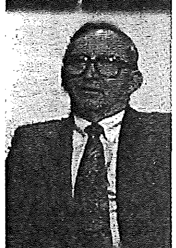

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To Our Members

The WCRA opened its doors for business on October 1, 1979. As we approach the completion of 25 years of partnership with our members, we're pleased to report that 2003 was highlighted by strong financial performance driven by outstanding returns on our investment portfolio. Highlights of the year are summarized in this letter.

A 20 percent overall investment return exceeded the Association's average annualized return of 11 percent since 1979. This represented a significant recovery from the bear market of 2000-2002, during which the average annualized return was -2 percent. The strong investment return resulted in 2003 comprehensive income of $70 million, a dramatic turnaround from the $194 million comprehensive loss in 2002.

Your Board of Directors commissioned Milliman USA to conduct an independent review of the Association's year-end 2002 loss reserves, as well as the long-term economic assumptions used in calculating those reserves. Milliman found that reserve levels were within a reasonable range, and also recommended that the Board reevaluate the economic assumptions. As a result, the Board revised its assumptions and, most notably, reduced the discount rate assumption from 7.5 percent to a more conservative 7 percent. These changes strengthened reserves by $34 million, bringing the year-end 2003 reserve level for funded losses to $1.09 billion.

The Association reimbursed 2,421 member claims totaling $52 million. While both of these totals are record numbers, the amount of claims paid was in line with our long-term actuarial projections. In addition, 31 percent of the reimbursement requests were submitted electronically by WCRA eMembers. These electronic submissions, as well as increased use of WCRA online calculators by our members, improve both the efficiency and accuracy of reimbursement requests. Cost savings for our members and time savings for the Association's claims services staff are the results.

The Secretary of the Treasury issued regulations confirming the WCRA's participation in the federal Terrorism Insurance Program. While further clarification as to how this participation will be implemented is being sought, it clearly provides significant added protection to WCRA members in the event of a terrorist event in Minnesota.

The Association continued to carefully manage its operating expenses to maximize efficiency and minimize the cost to members. Total operating expenses in 2003 were $3.4 million, 2 percent under budget. Operating expenses were back to the level of 1996, which reflects the WCRA's long-term focus on expense containment.

The WCRA demonstrated its financial strength during the difficult investment markets of 2000-2002. After nearly 25 years in business, the Association continues to be well-positioned to meet its long-term obligations to its members and to Minnesota's employees and employers.

David R. Young

David Young
Chair of the Board

Carl Cummins III

Carl W. Cummins III
President and CEO

MANAGEMENT'S SUMMARY ANALYSIS OF 2003 FINANCIAL RESULTS

Overview

The WCRA experienced significant financial improvement in 2003. The Association recorded comprehensive income of $70 million, a turnaround from the $194 million comprehensive loss recorded in 2002. At December 31, 2003, the balance sheet deficit was $35 million, an improvement of $70 million from the December 31, 2002 deficit of $105 million. This significant financial improvement was primarily due to a strong upturn in the domestic and international investment markets. The investment portfolio returned 20 percent in 2003 compared to a loss of 9 percent in 2002.

The substantial reduction in the deficit was achieved even after a $34 million increase in loss reserves relating to an update in economic assumptions, including a decrease in the discount rate from 7.5 percent to 7 percent. The Board of Directors has a policy objective of maintaining a surplus band between -10 percent and +30 percent of the discounted funded loss reserve liability. The December 31, 2003 deficit of $35 million represented -3 percent of funded reserves, a significant improvement from the -10 percent position at December 31, 2002.

The WCRA maintained adequate liquidity and continued to meet all of its financial obligations. For 2003, premiums collected, interest and dividends from investments, loss and loss expenses paid, and operating expenses were all in line with management's expectations.

Operating Results and Comprehensive Income

Premiums and Losses

The WCRA earned $32 million in funded premiums in 2003, up from $30 million in 2002. The increase was primarily the result of the new terrorism reinsurance coverage provided for members in 2003.

Funded losses and loss expenses incurred for 2003 were $136 million, a small increase of $2 million over the prior year. A reserve increase of $61 million in 2003 resulted from the reduction in the WCRA's long-term earnings assumption and reserve discount rate from 7.5 percent to 7 percent. This reserve increase was offset by actuarial adjustments that reduced reserves $32 million, primarily because pricing and inflation assumptions were lowered. In 2002, an update in life expectancy assumptions was the primary reason that actuarial adjustments increased reserves by $35 million. The components of funded loss and loss expenses are outlined below.

Funded Losses and Loss Expenses Incurred-Discounted
(in millions)

	2003	**2002**
Prior accident years:		
Present value update	$ 74	$ 67
Actuarial adjustments	(32)	35
Reduction in reserve discount rate	61	--
	103	102
Current accident year	33	32
Total funded losses and loss expenses incurred	$ 136	$ 134

Investment Performance

The investment portfolio had a total rate of return of 20 percent in 2003, a strong improvement compared to a loss of 9 percent in 2002. The 2003 return was primarily due to a strong upturn in the domestic and international stocks markets. Domestic stocks returned 28 percent and international stocks returned 35 percent. The components of investment results are shown below (in millions).

	2003	2002
Investment income, net of related expenses	$ 23	$ 26
Net realized investment gain (loss)	15	(47)
Change in unrealized gain (loss) on securities	141	(67)
Total investment results	$ 179	$ (88)

During 2003 and 2002, the Association determined that the decline in fair value of certain investments was other than temporary. As a result, the cost basis of these securities was written down to market value and unrealized losses of $3 million and $16 million were reclassified as realized investment losses in 2003 and 2002, respectively.

Comprehensive Income

The WCRA recorded comprehensive income of $70 million in 2003, a significant turnaround from the comprehensive loss of $194 million recorded in 2002. Comprehensive income (loss) consists of net loss and the change in unrealized gain (loss) on investments. For 2003, comprehensive income was primarily due to the strong investment performance. The actual investment return of 20 percent significantly exceeded the 7 percent investment return assumed in reserving. Partially offsetting the investment results was the increase in prior year loss reserves due primarily to the decrease in the discount rate.

Balance Sheet

Assets and Liabilities

Total assets were $1.51 billion at December 31, 2003 compared with $1.30 billion from the end of the previous year. The increase in total assets was primarily due to the increase in the market value of the investment portfolio.

Total liabilities were $1.55 billion at December 31, 2003 compared with liabilities of $1.40 billion at December 31, 2002. The increase in liabilities resulted from an increase in loss and loss expense reserves combined with an increase in amounts payable under securities loan agreements.

The WCRA's largest liability is the reserve for funded losses and loss expenses. This liability totaled $1.09 billion at December 31, 2003 compared with $1.01 billion at December 31, 2002. This liability represents the present value, discounted at 7 percent at December 31, 2003, of the total estimated obligation for losses and loss expenses for unpaid amounts up to the prefunded limit. Because this liability involves claims that will be paid out over a period of many years, judgments as to the ultimate exposure are an important component of the loss reserving process. Reserves are reviewed on a regular basis using a variety of actuarial techniques. They are adjusted based on loss experience and as new information becomes available. Changes in the discounted liability for funded loss and loss expenses are shown below (in millions).

	2003	2002
Funded Reserves as of January 1	$ 1,008	$ 920
Losses and loss expenses incurred:		
Prior accident years	103	102
Current accident year	33	32
Total incurred	136	134
Losses and loss expenses paid	(53)	(46)
Funded reserves as of December 31	$ 1,091	$ 1,008

The components of prior accident year incurred losses and loss expenses are discussed above under "Operating Results and Comprehensive Income."

The liability for unfunded losses and loss expenses totaled $126 million at December 31, 2003 compared with $86 million at December 31, 2002. This liability represents the present value, discounted at 7 percent at year-end 2003, of the total estimated obligation for losses and loss expenses for unpaid amounts in excess of the prefunded limit. The $40 million increase in this liability in 2003 was due primarily to a change in discount factor methodology. Unfunded deferred premium revenue of $40 million was recognized in 2003 concurrent with the increase in the related unfunded loss and loss expense liability. The WCRA began making payments in excess of prefunded limits in 2003 with payments totaling $459 thousand.

Deficit

At year-end 2003, the WCRA had an accumulated deficit of $35 million compared with a deficit of $105 million at the end of 2002. This $70 million improvement was the result of the strong investment results in 2003. The Board of Directors has a policy objective of maintaining a surplus band between -10 percent and +30 percent of the discounted funded loss reserve liability. The December 31, 2003 deficit represented -3 percent of funded reserves, a significant improvement from the -10 percent position at December 31, 2002.

Cash Flow

During 2003, the WCRA maintained adequate liquidity and continued to meet all of its financial obligations. Cash flow from operating activities was negative $5 million in 2003 compared with positive cash flow of $9 million in 2002. This reduction in operating cash flow resulted from a decline in interest income from investments combined with an expected increase in loss and loss expense payments. Net realized gains on the sale of investments are not reported as part of net cash provided by operating activities. However, net realized investment gains provide an additional planned source of cash flow to fund the operations of the Association. Net realized investment gains were $15 million in 2003, compared with net realized investment losses of $47 million in 2002.

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Report of Independent Auditors

To the Board of Directors and Members of
Workers' Compensation Reinsurance Association

In our opinion, the accompanying balance sheets and the related statements of operations, comprehensive income and accumulated deficit and cash flows present fairly, in all material respects, the financial position of the Workers' Compensation Reinsurance Association (the "Association") at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 13, 2004

WORKERS' COMPENSATION REINSURANCE ASSOCIATION

Balance Sheets
December 31, 2003 and 2002

(in thousands of dollars)	2003	2002
Assets		
Investments, at market value		
Cash and cash equivalents (including securities lending collateral of $276,213 and $177,638 at December 31, 2003 and 2002, respectively)	$ 333,552	$ 273,556
Short-term	62,406	-
Common and preferred stock	652,664	514,334
Bonds	319,492	380,575
Total investments	1,368,114	1,168,465
Uncollected reinsurance premiums		
Current premiums due	44	147
Deferred funded premiums	2,553	-
Deferred for unfunded losses	125,646	86,114
Total uncollected reinsurance premiums	128,243	86,261
Accrued investment income	3,315	3,419
Due from securities brokers	12,552	37,750
Prepaid reinsurance	703	-
Prepaid expenses and other assets	251	64
Property and equipment, less accumulated depreciation of $582 and $736 at December 31, 2003 and 2002, respectively	220	283
Total assets	$ 1,513,398	$ 1,296,242
Liabilities and Accumulated Deficit		
Liabilities		
Losses and loss expenses		
Funded	$ 1,090,970	$ 1,008,148
Unfunded	125,537	86,114
Total losses and loss expenses	1,216,507	1,094,262
Payable under securities loan agreement	276,213	177,638
Due to securities brokers	55,255	129,068
Accounts payable and accrued expenses	210	575
Total liabilities	1,548,185	1,401,543
Accumulated deficit from operations	(154,696)	(84,450)
Accumulated other comprehensive income (loss)	119,909	(20,851)
Designated accumulated deficit (Note 2)	(34,787)	(105,301)
Total liabilities and accumulated deficit	$ 1,513,398	$ 1,296,242

The accompanying notes are an integral part of these financial statements.

WORKERS' COMPENSATION REINSURANCE ASSOCIATION

Statements of Operations, Comprehensive Income and Accumulated Deficit
Years Ended December 31, 2003 and 2002

(in thousands of dollars)	**2003**	**2002**
Revenues		
Reinsurance premiums		
Funded earned	$ 32,231	$ 29,890
Unfunded deferred	39,882	11,041
Ceded reinsurance	(2,812)	-
Investment income, net of related expenses	22,604	25,616
Net realized investment gain (loss)	14,914	(46,500)
Restricted investment loss, net of related expenses	-	(82)
Total revenues	106,819	19,965
Expenses		
Losses and loss expenses		
Funded	135,768	134,391
Unfunded	39,882	11,041
Losses and loss expenses incurred	175,650	145,432
Operating and administrative expenses	1,551	2,186
Total expenses	177,201	147,618
Net loss	(70,382)	(127,653)
Other comprehensive income (loss)		
Change in unrealized gains (losses) on securities and foreign currency translation adjustment (Note 3)	140,760	(66,529)
Comprehensive income (loss)	70,378	(194,182)
Accumulated (deficit) surplus, beginning of year	(105,301)	86,270
Recovery of excess funds distribution (Note 6)	136	2,611
Accumulated deficit, end of year	$ (34,787)	$ (105,301)

The accompanying notes are an integral part of these financial statements.

WORKERS' COMPENSATION REINSURANCE ASSOCIATION

Statements of Cash Flows
Years Ended December 31, 2003 and 2002

(in thousands of dollars)	2003	2002
Cash flows from operating activities		
Net premiums collected	$ 26,616	$ 30,050
Interest and dividends received, net of related expenses	23,204	27,175
Loss and loss expenses paid	(53,405)	(46,580)
Operating and administrative expenses paid	(1,673)	(1,990)
Net cash (used in) provided by operating activities	(5,258)	8,655
Cash flows from investing activities		
Sale of investments		
Common and preferred stocks	404,245	429,309
Bonds	1,316,199	1,648,563
Purchase of investments		
Short-term, net	(62,406)	-
Common and preferred stocks	(385,621)	(470,385)
Bonds	(1,305,507)	(1,553,306)
Collateral for securities on loan	98,575	(47,751)
Restricted cash and cash equivalents	-	1,720
Purchase of equipment	(68)	(44)
Net cash provided by investing activities	65,417	8,106
Cash flows from financing activities		
Payments on excess funds distribution payable	(163)	2,894
Net cash (used in) provided by financing activities	(163)	2,894
Net increase in cash and cash equivalents	59,996	19,655
Cash and cash equivalents		
Beginning of year	273,556	253,901
End of year	$ 333,552	$ 273,556

The accompanying notes are an integral part of these financial statements.

1. General Information

Description of Association

In 1979, the Minnesota Legislature created the Workers' Compensation Reinsurance Association (the "Association"), a nonprofit, unincorporated association, to provide reinsurance protection for serious workers' compensation losses to all primary workers' compensation insurance providers and self-insured employers in the state of Minnesota. The Association provides full indemnification to its members for workers' compensation losses paid in accordance with Minnesota Statutes Chapter 176 that exceed a member's retention limit.

Operating procedures are prescribed by Minnesota Statutes Section 79.34-79.40, as amended (the "Enabling Act"), and the Association's Plan of Operation (the "Plan"). Amendments to the Plan must be approved by the Board of Directors of the Association (the "Board") and the Minnesota Commissioner of Labor and Industry.

Membership

All insurance carriers authorized to underwrite workers' compensation risks in Minnesota and all employers, including political sub-divisions, authorized to self-insure their workers' compensation liabilities in Minnesota are required to be members of the Association.

Retention Limits

For 2003, members selected one of three maximum per-loss occurrence retention limits, which were $360,000, $720,000, or $1,440,000. For 2002, members selected one of three maximum per-loss occurrence retention limits, which were $350,000, $700,000, or $1,400,000. Retention limits are determined annually based on a formula prescribed in the Enabling Act. Minnesota workers' compensation losses incurred by members in excess of the retention limit selected are reinsured by the Association.

Premiums

The estimated aggregate annual reinsurance premium billed by the Association to members in each calendar year is calculated to cover the following estimated costs:

* The present value of the estimated ultimate liability for members' incurred losses above the selected retention limit up to and including the prefunded limit of $7.2 million per occurrence for 2003 ($7.0 million per occurrence for 2002) for funded losses reinsured by the Association.

* Loss payments expected to be made to members for claim amounts in excess of prefunded limits (unfunded losses).

* Operating and administrative expenses of the Association, and loss expenses incurred by the Association. (Loss expenses incurred by members on reinsured claims are not recoverable from the Association.)

* Charges for the current year or a prior year, as determined by the Board, for any reinsurance coverage purchased by the Association.

* Adjustments due to excess or deficient funded premiums, if any, for prior years as determined by the Board.

Estimated reinsurance premiums for each year are billed to the individual members based on: (1) the funded rate for the member's selected retention limit; (2) the rate for expected unfunded payments; and (3) the member's most recent actual exposure base available at the beginning of the annual billing cycle, adjusted for a factor which represents the estimated difference between the member's most recent actual exposure base and the actuarially projected exposure base. In the following year, reinsurance premium adjustments to bring the estimated premiums to actual are calculated and billed or credited to members. In addition, members may be charged for reinsurance purchased by the Association based on: (1) the rate for the reinsurance protection, and (2) the member's estimated or actual exposure base for the coverage year of the reinsurance protection.

For insurer members, the exposure base is the earned premium at the designated statistical reporting level reported in the Annual Financial Call for Experience to the Minnesota Workers' Compensation Insurers Association ("MWCIA") multiplied by 1.20. Experience rating modifications of the insurers' individual insureds are reflected in the Annual Call data.

For self-insurer members, the exposure base is calculated from Minnesota's covered payroll, multiplied by pure premium base rates as published by the MWCIA, multiplied by 1.20, multiplied by an experience rating modification factor.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Risks and Uncertainties

The Association invests in stocks and bonds of U.S. and foreign companies, U.S. government securities, and mortgage-backed securities. The investment viability and return of funds is dependent on, among other factors, the financial results of the underlying issuers. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values will occur in the near term and that such changes could materially affect the financial statements.

The process of estimating the liability for losses and loss expenses, by its very nature, involves substantial uncertainty. The level of uncertainty is influenced by factors such as the economic assumptions associated with workers' compensation reinsurance. Ultimate actual payments for losses and loss expenses could be significantly different from the estimates.

Comprehensive Income

The Association follows the reporting concept of "Comprehensive Income" which requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Comprehensive income for the Association includes net income, unrealized gains and losses (other comprehensive income) on available-for-sale securities, and the impact of foreign currency translation adjustments on securities denominated in a currency other than U.S. dollars.

Cash Equivalents
Cash on deposit, shares in money market funds, and short-term debt securities with original maturities of three months or less are classified as cash equivalents.

Short-Term
Debt securities with original maturities greater than three months and less than one year are classified as short term. Amortized cost approximates market value.

Investments
The Association has classified its investments as "available-for-sale" and carries such securities at fair market value based on quoted market prices. Accordingly, the net unrealized gains or losses are included in other comprehensive income as a separate component of surplus. In determining the realized gain or loss on sales of investments, cost is based on the average cost method. Interest income is recognized when earned. Dividend income is recognized on the ex-dividend date.

When a decline in value of an investment is determined to be other than temporary, the specific investment is carried at estimated realizable value, and its original book value is reduced to reflect this impairment. Such reductions in book value are recognized as realized investment losses in the period in which they were written down.

The Association has entered into interest-rate future, stock index future and interest-rate option contracts. These exchange-traded derivatives are valued at market value and account for less than 1% of total investments.

Property and Equipment
Property and equipment are stated at cost. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations.

Determination of Surplus
After the close of each fiscal year or at such other times that it deems appropriate, the Board reports whether a surplus or deficit exists based on the annual audited year-end financial statements. In determining whether or not to declare an excess surplus distribution or a deficiency assessment, the Board evaluates surplus or deficit relative to the reserves for discounted funded loss and loss expenses. The Board has determined that up to 30% of funded losses should be retained and reflected on the balance sheet as designated surplus. These provisions are intended to maintain sufficient assets to provide for variations between expected and actual investment returns, variations between expected and actual claims experience, and other unexpected financial developments.

The Board may declare an excess surplus distribution or a deficiency assessment if no such distribution or assessment has been declared in the preceding four years, provided that distributions or assessments may be more or less frequently than every five years if the Board, at its sole discretion, determines that it is necessary and prudent to do so. Excess surplus distributions or deficiency assessments may be declared by the Board and distributed to or collected from self-insurer members or policyholders pursuant to the provisions of The Enabling Act and applicable provisions of the Plan.

Reinsurance Premiums

Funded earned reinsurance premiums are for the calendar year coverage period for funded losses (losses up to and including the prefunded limit). These premiums are billed in the current period. The reinsurance premiums for the calendar year may also include a credit or charge to equitably distribute excess or deficient premiums for previous periods, including any excess or deficient premiums resulting from a retroactive change in the prefunded limit. No excess or deficient premiums were distributed or collected in 2003 or 2002.

During the first quarter of 2003, the Board approved the purchase of a terrorism reinsurance policy that provides coverage of $50 million excess of a $10 million retention to the Association for certain domestic and international terrorist events that may occur during a three-year period beginning on January 1, 2003. This protection is intended to minimize the impact of potential assessments or additional premium charges to Association members by covering terrorism losses not covered by the federal Terrorism Risk Insurance Act of 2002 (TRIA). The annual ceded reinsurance premium for this terrorism reinsurance policy is approximately $2.8 million.

The Association will charge for the terrorism reinsurance coverage in annual amounts during calendar years 2004, 2005, and 2006. However, each charge will relate to each member's exposure for the previous year, thereby matching the period covered by the terrorism reinsurance contract. Therefore, members will be billed for 2003 terrorism coverage during 2004, using their 2003 estimated exposure base. The billings will be calculated to both anticipate a no-claims recovery at the end of the reinsurance contract and the billing lag. The amount of $2.6 million is reflected as earned premium and as a deferred funded premium receivable in 2003.

Unfunded deferred reinsurance premiums are to be billed in future years for unfunded losses (loss amounts in excess of the prefunded limit) incurred during the calendar year coverage period and are recognized as earned revenue concurrent with the related unfunded losses and loss expenses. Reinsurance premiums for unfunded losses are billed to the members of the Association in the calendar year when payments in excess of prefunded limits are expected to be reimbursed by the Association. Premiums of $350,000 for the prior years' losses in unfunded layer were billed to members for the first time in 2003.

Losses and Loss Expenses

The liability for funded losses and loss expenses represents the present value, discounted using 7% for December 31, 2003, and 7.5% for December 31, 2002, of the estimated liability for losses and loss expenses of the Association for unpaid amounts up to and including the prefunded limit, as determined by actuarial projections using historical pricing model simulations and the payment and case reserve experience of the Association.

The liability for unfunded losses and loss expenses represents the present value, discounted using 7% for December 31, 2003, and 7.5% for December 31, 2002, of the estimated liability for losses and loss expenses of the Association for unpaid amounts in excess of the prefunded limit, as determined by actuarial projections of the Association.

3. Investments

The cost of common and preferred stocks, amortized cost of bonds, and estimated fair values at December 31, 2003 and 2002, are as follows:

(in thousands of dollars)	**2003** Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Common stocks	$ 536,320	$ 123,183	$ (9,252)	$ 650,251
Preferred stocks	2,305	108	-	2,413
Total stocks	$ 538,625	$ 123,291	$ (9,252)	$ 652,664
U.S. Treasury securities and obligations of U.S. government and agencies	$ 42,755	$ 800	$ (476)	$ 43,079
Corporate debt securities	155,250	5,476	(1,344)	159,382
Mortgage backed securities	115,617	1,543	(129)	117,031
Total bonds	$ 313,622	$ 7,819	$ (1,949)	$ 319,492

(in thousands of dollars)	**2002** Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Common stocks	$ 542,568	$ 34,837	$ (66,579)	$ 510,826
Preferred stocks	3,424	84	-	3,508
Total stocks	$ 545,992	$ 34,921	$ (66,579)	$ 514,334
U.S. Treasury securities and obligations of U.S. government and agencies	$ 75,035	$ 1,797	$ (376)	$ 76,456
Corporate debt securities	183,027	7,708	(1,575)	189,160
Mortgage backed securities	111,706	3,277	(24)	114,959
Total bonds	$ 369,768	$ 12,782	$ (1,975)	$ 380,575

Total unrealized losses were $11.2 million and $68.6 million at December 31, 2003 and 2002, respectively. The following table provides a breakdown of unrealized losses as of December 31, 2003. The Association has reviewed the components and duration of these unrealized losses and concluded that the losses are temporary in nature. The unrealized losses are primarily on common stocks. These losses have been reduced significantly during the last year due to improving economic conditions reflected in the United States and international stock markets. Only $5.6 million of the unrealized losses are on securities that have been in an unrealized loss position for over 12 months. Many of these securities are in industries such as technology that suffered during the economic and stock market decline of 2000 through 2002.

	Unrealized Holding Losses as of December 31, 2003					
	Less than 12 months		12 months or more		Total	
(in thousands of dollars)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Common stocks	$ 36,767	$ (3,932)	$ 50,641	$ (5,320)	$ 87,408	$ (9,252)
Preferred stocks	-	-	-	-	-	-
Total stocks	$ 36,767	$ (3,932)	$ 50,641	$ (5,320)	$ 87,408	$ (9,252)
U.S. Treasury securities and obligations of U.S. government and agencies	$ 13,662	$ (476)	$ -	$ -	$ 13,662	$ (476)
Corporate debt securities	48,345	(1,062)	2,993	(282)	51,338	(1,344)
Mortgage backed securities	32,835	(129)	-	-	32,835	(129)
Total bonds	$ 94,842	$ (1,667)	$ 2,993	$ (282)	$ 97,835	$ (1,949)

The amortized cost and estimated fair value of debt securities at December 31, 2003, by contractual maturity, are shown below:

(in thousands of dollars)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,148	$ 4,182
Due after one year through five years	66,212	68,216
Due after five years through ten years	49,223	51,444
Due after ten years	194,039	195,650
	$ 313,622	$ 319,492

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

During 2003, the Association made a determination that the decline in the fair value of certain of its investments was other than temporary. As a result of this determination, the cost bases of the individual securities were written down to fair value as the new cost bases, and the total amount of the write-down of approximately $2.8 million was recorded in earnings as a realized loss. The Association wrote down $15.9 million of individual securities to fair value in 2002.

Other comprehensive loss in 2003 and 2002 is comprised of the change in unrealized gains (losses) on available-for-sale securities arising during the year and the impact of foreign currency translation adjustments on securities denominated in currency other than U.S. dollars as follows:

(in thousands of dollars)	2003	2002
Change in unrealized gains (losses) on securities	$ 131,947	$ (77,662)
Foreign currency translation gain	8,813	11,133
Total other comprehensive income (loss)	$ 140,760	$ (66,529)
Unrealized holding gains (losses)	$ 125,846	$ (113,029)
Reclassification adjustment for gains included in net income	14,914	46,500
Net other comprehensive income (loss)	$ 140,760	$ (66,529)

(in thousands of dollars)	2003	2002
Accumulated other comprehensive income (loss) consists of		
Unrealized gains (losses) on securities	$ 105,129	$ (27,384)
Foreign currency translation gain	14,780	6,533
	$ 119,909	$ (20,851)

Gross gains of $98 million and $127 million, and gross losses of $83 million and $174 million, were realized on sales of investments during 2003 and 2002, respectively. Net investment income and net realized investment gains (losses) during the years ended December 31, 2003 and 2002, are summarized below:

	Net Investment Income		Net Realized Gains (Losses)	
(in thousands of dollars)	2003	2002	2003	2002
Securities lending	$ 369	$ 314	$ -	$ -
Cash and cash equivalents	951	976	(11)	437
Common and preferred stocks	9,175	8,435	9,210	(53,149)
Bonds	16,538	20,121	5,715	6,212
Miscellaneous	128	103	-	-
	27,161	29,949	$ 14,914	$ (46,500)
Investment expenses	(4,557)	(4,333)		
	$ 22,604	$ 25,616		

In 2003, net realized gains consisted of gains on securities of approximately $9 million and foreign currency translation gain of $6 million. In 2002, net realized losses consisted of losses on securities of approximately $49 million offset by a foreign currency translation gain of $2 million.

To enhance the return on investments, the Association maintains a securities lending program. At December 31, 2003 and 2002, the Association had equity and fixed income securities with fair values of $269 million and $171 million out on loan, respectively. Cash of at least 102% of the fair value of the securities lent was held as collateral as part of the securities lending program.

The Association reflects the collateral received for securities on loan on the balance sheet if the Association has control over the collateral. An asset of approximately $276 million and $178 million, and the related liability representing the collateral received, is reflected on the balance sheet at December 31, 2003 and 2002, respectively.

4. Liabilities for Losses and Loss Expenses

The liability for losses and loss expenses at December 31, 2003 and 2002, is summarized as follows:

(in thousands of dollars)	**2003**	**2002**
Funded, undiscounted	$ 3,602,376	$ 3,579,860
Discount	(2,511,406)	(2,571,712)
Funded, discounted	1,090,970	1,008,148
Unfunded, undiscounted	1,071,778	1,207,178
Discount	(946,241)	(1,121,064)
Unfunded, discounted	125,537	86,114
Total, discounted	$ 1,216,507	$ 1,094,262

Funded Liabilities

Activity in the funded liability for losses and loss expenses is summarized as follows:

(in thousands of dollars)	**2003**	**2002**
Balance at January 1		
Funded, undiscounted	$ 3,579,860	$ 3,183,736
Incurred related to		
Current year	159,276	175,625
Prior years	(83,814)	267,079
Total incurred	75,462	442,704
Paid related to		
Current year	27	291
Prior years	52,919	46,289
Total paid	52,946	46,580
Balance at December 31		
Funded, undiscounted	3,602,376	3,579,860
Discount	(2,511,406)	(2,571,712)
Funded, discounted	$ 1,090,970	$ 1,008,148

Reserves are reviewed periodically and updated based on current claims experience, trends, and economic outlook. In 2003, the Association updated the economic assumptions applicable to reserves. Lower inflation and wage growth assumptions reduced reserves, while a lower discount rate increased reserves.

The following table compares the present value of the Association's funded reserve changes during 2003 with those of 2002.

	2003	2002
Discount rate at prior year end	7.5%	7.5%
Discount rate at year end	7.0%	7.5%

(in thousands of dollars)	2003	2002
Funded reserves as of prior year end	$ 1,008,148	$ 920,337
Prior year impact of actuarial adjustments	(31,925)	35,121
Payments on prior accident years	(52,919)	(46,289)
Present value update	73,627	67,289
Discount rate reduction on prior years	61,417	-
Reserves for current accident year	32,622	31,690
Total calendar year funded reserve changes	82,822	87,811
Funded reserves as of year end	$ 1,090,970	$ 1,008,148

The impacts of all funded actuarial adjustments on prior accident years are quantified and discussed below.

(in thousands of dollars)	2003	2002
Annual adjustment of actuarial credibility weights	$ (18,373)	$ (16,884)
Upward loss development	61,739	17,533
Pricing assumption updates and enhanced loss expense	(45,291)	4,347
Update of life expectancy assumptions	-	30,125
Lower inflation/wage/benefit assumptions	(30,000)	-
Funded prior year impact (discounted at 7.5%)	(31,925)	$ 35,121
Discount rate reduction	61,417	
Funded prior year impact (discounted at 7%)	$ 29,492	

Association reserve calculations blend indicated reserves from the claims experience with the Association's pricing assumptions. Each year the credibility weights used in the reserve analyses are adjusted to assign more weight to the data of known claims and less weight to the theoretical assumptions made during the pricing process. This *Annual adjustment of actuarial credibility weights* normally decreases reserves because the amounts actuarially indicated by known claims have generally been lower than the theoretical amounts.

The *Upward loss development* arises from the review of known claims. The 2003 upward development is larger than those of recent years due to both the size and the number of known claims. One force behind these increased costs is the rapid rise in medical costs. Another contributing factor is a decrease in claims that close without payment. Finally, this year's reserve analysis accelerated its recognition of recent claims history, which produced a higher-than-usual impact.

The *Pricing assumptions updates and enhanced loss expense* category for 2003 shows a decrease compared to 2002. The majority of this year's decrease arises from reductions made to our lifetime pricing frequency assumptions on recent accident years. For low, high and super retention accident years after 1995, we reduced the underlying lifetime frequency assumption over 25% with results still conservative with respect to observed frequency levels.

Inflation/wage/benefit assumptions and *Discount rate reduction* reflect the reserve impacts of updating economic assumptions. Combined, the 2003 economic adjustments increased reserve levels $31.4 million for accident years 1979-2002, and almost $3.0 million for accident year 2003, for a total increase of $34.4 million. Selected economic assumptions that changed during 2003 are compared below at December 31, 2003 and 2002.

	2003	**2002**
Inflation/wage/benefit assumptions		
General inflation and social security escalation	3.0%	4.0%
Uncapped wage growth	4.5%	5.5%
Discount rate reduction	7.0%	7.5%

Unfunded Liabilities

The Association began making payments in excess of prefunded limits in February 2003. Anticipated payments resulted in the billing of premiums for the unfunded layer. Actual payments totaled $459,000.

The unfunded reserve methodology follows the funded analysis. Discount rates for unfunded reserves are the same as the funded reserves. The table below compares the present value unfunded reserve changes during 2003 with those of 2002.

(in thousands of dollars)	**2003**	**2002**
Unfunded reserves as of prior year end	$ 86,114	$ 75,073
Prior year changes		
Payments on prior accident years	(459)	-
Present value update	6,441	5,630
Case-versus-theoretical cash flow differences	3,035	(751)
Change in discount factor methodology	35,894	-
Discount rate reduction on prior years	13,352	-
Update of life expectancy assumptions	-	8,858
Other changes	(24,190)	(5,236)
Reserves for the current accident year	5,350	2,540
Total calendar year unfunded reserve changes	39,423	11,041
Unfunded reserves as of year end	$ 125,537	$ 86,114

For the year-end 2003 unfunded analysis, the *Change in discount factor methodology* increased prior-year reserves by $35.9 million. This change dominates the 2003 actuarial impact on unfunded liabilities. The 2003 actuarial updates project that the Association will ultimately pay out fewer claim dollars above prefunded limits, but will pay those amounts to members sooner than previously projected. In past years, unfunded layer discount factors were selected by blending cash flows indicated by 1) the case reserves of known claims, and 2) the Association's simulation model used in funded pricing. The case reserve results are based on actual claims and the judgment of claims specialists. For year-end 2003, usage of the simulation model was eliminated and full weight was given to the case reserve discount factors. This had an upward impact on the unfunded reserves.

Other changes decreased year-end 2003 prior-year unfunded reserves by $24.2 million. The primary reason for this decrease is the economic assumption update of 2003, which lowered the outlook for inflation and wage growth. The wage growth decrease resulted in lower indemnity escalation assumptions.

Reserve changes for the unfunded layer do not have an impact on accumulated deficit because unfunded losses incurred (which include reserve changes) are offset by an unfunded deferred premium.

5. Income Tax Status

In 1996, the Association was granted an exemption from federal income taxes under Section 501(c)(27) of the Internal Revenue Code. The Association received a tax-exempt determination letter from the Internal Revenue Service dated February 7, 1997. Therefore, no provision for income taxes is included in the Association's financial statements.

6. Recovery of Excess Funds Distribution

On March 8, 2001, the Board declared an excess funds distribution of $310 million, which is equal to the Association's year-end 2000 adjusted surplus, less an amount equal to 32% of discounted funded losses and loss expense reserves. In 2003 and 2002, $.1 million and $2.6 million, respectively, reverted back to the Association as a result of unclaimed refunds. Accounting for the distribution process was concluded at December 31, 2003.

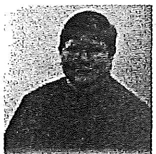
7. Cash Flows

A reconciliation of net loss to net cash (used in) provided by operating activities for the years ended December 31, 2003 and 2002, is as follows:

(in thousands of dollars)	**2003**	**2002**
Net loss	$ (70,382)	$ (127,653)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Net realized investment (gains) losses	(14,914)	46,500
(Increase) decrease in funded uncollected reinsurance premiums, net of accrued premium adjustments	(2,450)	160
Increase in liability for funded losses and loss expenses	82,822	87,811
Other, net	(334)	1,837
Total adjustments	65,124	136,308
Net cash (used in) provided by operating activities	$ (5,258)	$ 8,655

Net realized gains on the sale of investments are not reported as part of net cash provided by operating activities. However, net realized investment gains provide an additional source of cash flow to fund the operations of the Association.

Your WCRA Staff



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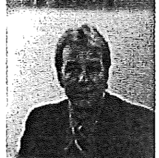

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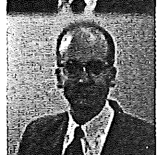

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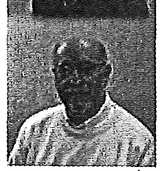

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