SAIF CORPORATION

Statutory-Basis Financial Statements and Supplemental Schedules as of and for the Years Ended December 31, 2002 and 2001, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors of
SAIF Corporation

The Secretary of State Audits Division,
State of Oregon

We have audited the accompanying statements of admitted assets, liabilities, capital and surplus—statutory basis of SAIF Corporation (the "Company") as of December 31, 2002 and 2001, and the related statements of revenues, expenses, capital and surplus—statutory basis and cash flows—statutory-basis for the years then ended. These statutory-basis financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statutory-basis financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the State of Oregon, Department of Consumer and Business Services, Insurance Division (the "Insurance Division"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of SAIF Corporation as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

As discussed in Note 3 to the financial statements, the Company has changed certain accounting practices as a result of the adoption by the Insurance Division of the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual—Version effective March 2001.

Our audits were conducted for the purpose of forming an opinion on the basic statutory-basis financial statements taken as a whole. The supplemental investment risk interrogatories and the summary investment schedule as of and for the year ended December 31, 2002 are presented for complying with the National Association of Insurance Commissioner's instructions to Annual Audited Financial

Reports and are not a required part of the basic 2002 statutory-basis financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic statutory-basis financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2002 statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management of SAIF Corporation, the Secretary of the State Audits Division, and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

June 20, 2003

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS—STATUTORY BASIS DECEMBER 31, 2002 AND 2001 (In thousands)

ADMITTED ASSETS	2002	2001
CASH AND INVESTED ASSETS:		
Bonds	$2,155,153	$2,087,476
Preferred stocks	13,711	44,276
Common stocks	315,446	390,809
Mortgage loans on real estate, first liens	1,091	1,646
Real estate, net of accumulated depreciation of $7,529 and $6,807:		
Properties occupied by the Company	19,829	20,520
Properties held for the production of income	1,008	1,039
Cash and short-term investments	380,438	187,044
Other invested assets	31,202	42,392
Receivable for securities sold	40,888	9,385
Total cash and invested assets	2,958,766	2,784,587
Premiums in course of collection	8,353	7,880
Premiums and installments booked but deferred and not yet due	48,622	51,990
Accrued retrospective premiums receivable	48,697	25,270
Reinsurance recoverables	118	101
Electronic data processing (EDP) equipment and software, net of accumulated depreciation of $15,144 and $16,231	1,681	1,834
Interest, dividends and real estate income due and accrued	18,315	19,342
Equities and deposits in pools and associations	6,469	2,688
Due from Workers' Compensation Division	12,505	12,930
Other assets, net of accumulated depreciation of $3,578 and $3,483	5,931	4,939
TOTAL ADMITTED ASSETS	$3,109,457	$2,911,561

LIABILITIES, CAPITAL AND SURPLUS

LIABILITIES:		
Losses	$1,927,584	$1,799,533
Loss adjustment expenses	347,853	334,387
Other expenses	11,732	12,220
Taxes, licenses and fees	14,824	13,731
Unearned premiums	43,067	35,666
Advance premiums	2,637	14,015
Ceded reinsurance premiums payable	1,939	2,493
Amounts withheld or retained for account of others	17,075	12,604
Payable for securities	468,778	301,612
Accrued retrospective premiums payable	12,171	10,622
Total liabilities	2,847,660	2,536,883
CAPITAL AND SURPLUS—Unassigned funds	261,797	374,678
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$3,109,457	$2,911,561

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, CAPITAL AND SURPLUS—STATUTORY BASIS YEARS ENDED DECEMBER 31, 2002 AND 2001 (In thousands)

	2002	2001
UNDERWRITING REVENUES:		
Premiums earned	$292,691	$248,297
UNDERWRITING EXPENSES:		
Losses incurred	320,480	229,511
Loss adjustment expenses incurred	49,152	26,510
Other underwriting expenses incurred	75,971	70,686
Total underwriting expenses	445,603	326,707
NET UNDERWRITING LOSS	(152,912)	(78,410)
NET INVESTMENT INCOME (LOSS):		
Net investment income earned	109,284	105,328
Net realized capital gains (losses)	10,134	(7,649)
Net investment income	119,418	97,679
OTHER INCOME (EXPENSE):		
Net loss from premium balances charged off	(2,162)	(1,270)
Premium assessment income	22,492	18,375
Other income	915	852
Total other income, net	21,245	17,957
NET INCOME (LOSS)	$ (12,249)	$ 37,226
CAPITAL AND SURPLUS:		
Unassigned funds, beginning of year	$374,678	$404,283
Net income (loss)	(12,249)	37,226
Net unrealized capital losses	(98,868)	(73,653)
Change in nonadmitted assets	(1,764)	(1,376)
Cumulative effect of changes in accounting principles		8,198
Net change in capital and surplus	(112,881)	(29,605)
Unassigned funds, end of year	$261,797	$374,678

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2002 AND 2001 (In thousands)

	2002	2001
CASH FROM OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	$ 264,241	$ 232,567
Loss and loss adjustment expenses paid	(228,132)	(214,674)
Underwriting expenses paid	(74,643)	(60,072)
Total cash from underwriting	(38,534)	(42,179)
Net investment income	111,419	115,987
Premium assessment income	22,492	18,375
Due from Oregon Workers' Compensation Division	425	(12,930)
Other expenses	(295)	(5,214)
Net cash from operations	95,507	74,039
CASH FROM INVESTMENTS:		
Proceeds from investments sold, matured or repaid:		
Bonds	6,549,818	5,395,953
Common and preferred stocks	90,562	175,682
Mortgage loans	555	583
Real estate		2,668
Other invested assets	11,579	5,600
Net gains (losses) on cash and short-term investments	(22)	9
Miscellaneous proceeds	(31,503)	(9,385)
Total proceeds from investments sold, matured or repaid	6,620,989	5,571,110
Cost of investments acquired:		
Bonds	6,607,513	5,559,195
Common and preferred stocks	84,314	153,454
Real estate		1,346
Other invested assets		6,302
Miscellaneous payments	(167,166)	(156,293)
Total cost of investments acquired	6,524,661	5,564,004
Net cash from investments	96,328	7,106
CASH FROM FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	3,489	12,768
Other cash applied	(1,930)	(240)
Net cash from financing and miscellaneous sources	1,559	12,528

(Continued)

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS
YEARS ENDED DECEMBER 31, 2002 AND 2001 (In thousands)

	2002	2001
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS:		
Net increase in cash and short-term investments	$ 193,394	$ 93,673
Cash and short-term investments:		
Beginning of year	187,044	93,371
End of year	$ 380,438	$ 187,044

See notes to financial statements—statutory basis.

(Concluded)

1. NATURE OF OPERATIONS

SAIF Corporation ("SAIF" or the "Company") is a public corporation created by an act of the Oregon Legislature. It traces its origins to 1914 when its predecessor organization commenced business.

The Company is an insurance company authorized to write workers' compensation coverage in Oregon and certain other jurisdictions as required by the Department of Consumer and Business Services and to service accounts in the assigned risk pool. The Company also provides coverage governed by the Longshoremen's and Harbor Workers' Compensation Act, Jones Act, and Federal Employers Liability Law. The Company's Board of Directors is appointed by the Governor of the State of Oregon (the "State") and consists of prominent Oregon business and community leaders, not otherwise in the employ of the Company.

The Company writes business on a direct basis and through agents. Direct written premiums were 32.4% and 34.8% during 2002 and 2001, respectively.

The Department of Consumer and Business Services enforces workers' compensation laws under Oregon Revised Statutes ("ORS").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The Company's statutory-basis financial statements are presented on the basis of accounting practices prescribed or permitted by the State of Oregon, Department of Consumer and Business Services, Insurance Division ("Insurance Division").

The Insurance Division has adopted the National Association of Insurance Commissioners' ("NAIC") codification of statutory accounting practices ("SAP") as the basis of its statutory accounting practices.

Accounting practices and procedures of the NAIC as prescribed or permitted by the insurance departments of the applicable states of domicile comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant differences are as follows:

(a) Investments in bonds are generally carried at amortized cost, while under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Company's ability and intent to hold or trade the securities;

(b) Certain investments in TBA securities are carried at amortized cost, while under GAAP, they are considered derivative instruments and only the fair value of the contracts and not the underlying securities are recorded;

(c) Investments in common stocks are valued as prescribed by the Securities Valuation Office ("SVO") of the NAIC, while under GAAP, common stocks are reported at market value;

(d) Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred, while under GAAP, they are deferred and amortized to income as premiums are earned or in relation to estimated gross profits;

(e) Assets are reported under SAP at "admitted asset" value and "nonadmitted" assets are excluded through a charge against surplus, while under GAAP, "nonadmitted assets" are reinstated to the balance sheet, net of any valuation allowance.

Use of Estimates—The preparation of financial statements in accordance with SAP requires management to make estimates and assumptions that affect the reported amounts of admitted 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 period. Premiums in course of collection; premiums and installments booked but deferred and not yet due; accrued retrospective premiums receivable and payable; losses and loss adjustment expenses; unearned premiums; and advance premiums represent significant estimates. Actual results could differ significantly from those estimates.

Cash and Short-Term Investments—Oregon's State Treasurer employs the services of three external investment managers to manage SAIF's funds, one that manages a convertible bond portfolio and two that manage fixed income portfolios. The cash balances of the convertible bond manager are invested in the SSgA Money Market Fund, and the cash of the fixed income managers is invested in the State Street Short Term Investment Fund (STIF). Both funds seek to maximize current income while maintaining a stable $1.00 unit value by investing in high-quality, short maturity securities. The average maturity of the SSgA Money Market Fund as of December 31, 2002 and 2001 was 55 days and 53 days, respectively. The average maturity for the State Street STIF as of December 31, 2002 and 2001 was 53 days and 68 days, respectively.

SAIF places its temporary cash investments with the Oregon Short Term Fund. The Oregon Short Term Fund is a cash and investment pool that operates as a demand deposit account. As a result, SAIF's investment is not impacted by changes in the market value of the Oregon Short Term Fund. By statute, the Oregon Short Term Fund may hold securities with maturities no greater than three years. The average maturity as of December 31, 2002 and 2001 was 93 days and 71 days, respectively

Investments—For all investments, impairments are recorded when it is determined that the decline in fair value of an investment below its amortized cost is other than temporary. Impairment charges are reflected in net realized capital gains or losses. The cost basis of the investment is then adjusted to reflect the impairment.

Bonds not backed by other loans are generally stated at amortized cost using the scientific interest method. Noninvestment grade bonds are stated at the lower of amortized cost or fair value. There were no bonds held by the Company which were in or near default at December 31, 2002, except as follows: the Company recognized a $2,682,591 other-than-temporary impairment on its investments in WorldCom bonds during the year ended December 31, 2002.

Mortgage-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values. Changes in estimated cash flows from the original purchase assumptions are accounted for using the prospective method. Interest only securities and securities where the yield has become negative are valued using the prospective method. In 2002 and 2001, there were no securities which changed from the retrospective to the prospective methodology due to negative yields.

Common stocks are carried at NAIC-designated market value. The change in the stated value is recorded as a change in net unrealized capital gains or losses, a component of unassigned funds.

Preferred stocks are stated at cost, lower of cost or amortized cost, or NAIC-designated market values depending on the assigned credit rating and whether the preferred stock has mandatory sinking fund provisions.

Mortgage loans on real estate are stated at the amortized unpaid principal balance.

The Company has minority ownership interests in joint ventures. The Company carries these interests based on the underlying unaudited GAAP equity of the investee, as of September 30, 2002, adjusted for distributions or disposals. Prior to January 1, 2001, the Company's investment in joint ventures was carried at cost adjusted to reflect statutory operating results. See Note 3 for a description of the change in accounting principle.

Net investment income earned consists primarily of interest and dividends less investment expenses. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined on a specific identification basis.

Accrued interest more than 180 days past due deemed collectible on mortgage loans in default is nonadmitted. All other investment income due and accrued with amounts over 90 days past due is nonadmitted. At December 31, 2002 and 2001, no accrued interest or other investment income due and accrued was excluded from unassigned funds.

Concentrations of Credit Risk—Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and short-term investments, stocks and bonds. The Company invests in securities with high-credit quality financial institutions and limits the amounts of credit exposure to any one financial institution. Concentrations of credit risk with respect to investments in debt securities are limited due to the large number of such investments and their distribution among U.S. government bonds, many different industries and geographic regions.

Premiums and Related Commissions—Premiums are earned over the terms of the related insurance policies and reinsurance contracts. A liability for unearned premiums is established to cover the unexpired portion of premiums written. Such liability is computed by pro rata methods for direct business and is based on reports received from ceding companies for reinsurance.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to expense as incurred.

Premiums and installments booked but deferred and not yet due primarily represent an estimate of the difference between amounts earned ratably on installment-billed policies and the amount to be billed on the policy. Premiums and installments booked but deferred and not yet due also include estimated billings on payroll reporting policies which were earned but not billed prior to year end. The Company uses its historical experience to estimate earned but not billed amounts. These unbilled amounts are estimates, and while the Company believes such amounts are reasonable, there can be no assurance the amounts ultimately received will equal the recorded unbilled amounts. The ultimate collectibility of the unbilled amounts can be affected by general changes in the economy and the regulatory environment due to the increased time required to determine the billable amount. The Company considers these factors when estimating the premiums and installments booked but deferred and not yet due.

Certain policyholders are required to remit deposits which represent premium expected to be payable to the Company at the end of the month following the reporting period (monthly and quarterly), plus one additional month. Deposits are generally in the form of cash, and are recorded in amounts withheld or retained by the Company for account of others. However, policyholders may pledge surety bonds and securities in lieu of cash deposits. At December 31, 2002 and 2001, there were no pledged bonds and securities.

In addition to its regular premium plans, the Company offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 4-1/2 years following the plan year based on policyholders' loss experience. Adjustments to the original premiums are paid to or collected from the policyholders six months following the expiration of the policy and annually thereafter for up to 4-1/2 years. The amounts of expected ultimate settlements are included in the accompanying statements of admitted assets, liabilities, capital and surplus as accrued retrospective premiums receivable and payable. Changes in estimated settlements are recorded at the time they are known.

Retrospectively Rated Contracts—The Company estimates accrued retrospective premiums receivable and payable by reviewing historical loss and premium development patterns at various stages of maturity and using these historical patterns to arrive at the best estimate of return and additional retrospective premiums on all open retrospectively rated policies. Premiums written on retrospective workers compensation policies for 2002 and 2001 were $95.7 million and $75.5 million, or 33% and 32% of total premiums written, respectively.

The Company has nonadmitted 10% of the amount of accrued retrospective premiums receivable not offset by accrued retrospective premiums payable, other liabilities to the same party (other than loss and loss adjustment expense reserves), or collateral as follows (in thousands):

	2002	2001
Total accrued retrospective premiums receivable	$54,107	$28,078
Less nonadmitted amount (10%)	5,410	2,808
Admitted accrued retrospective premiums receivable	$48,697	$25,270

Losses and Loss Adjustment Expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported (IBNR). Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease and inflation, and other societal and economic factors. As a result, the process used in computing the ultimate cost of settling losses and expenses for administering losses is necessarily based on assumptions and estimates. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Currently, the Company discounts the reserve for losses for known unpaid fatal and permanent total disability losses. The Company does not discount the reserve for losses for unpaid fatal and permanent total disability loss adjustment expenses. Oregon Attorney General Opinion Number 6176 requires the Company to use the discount rate that reflects the anticipated rate of return on investments taking into consideration the uncertainty inherent in long payout patterns. The discount rate used by the Company was 3.5% at December 31, 2002 and 2001. Annually, the Board of Directors reviews the actuarial assumptions and discount rates utilized in determining the liability for such losses. The discount reflected in the reserve for losses was $101.1 million and $91.9 million at December 31, 2002 and 2001, respectively.

Managed Care Organization Fees—The Company contracts with managed care organizations ("MCOs"). MCOs manage claims by arranging to provide medical and health care services. The expense is based on the number of claims accepted and closed while managed by an MCO. Claims covered by contracts with MCOs were approximately 86% and 64% of total claims during 2002 and 2001, respectively.

Fixed Assets are carried at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred. The Company provides for depreciation of fixed assets using the straight-line method over the estimated useful lives of the assets as follows:

Real estate	30 to 40 years
Furniture, equipment, and automobiles	3 to 7 years
Data processing software	3 to 5 years

Depreciation expense was approximately $3.5 million and $3.7 million for the years ended December 31, 2002 and 2001, respectively.

Management reviews fixed assets for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value.

Taxes and Assessments—The Oregon Department of Justice has determined that the Company is exempt from federal taxes because it is an integral part of the State of Oregon and, alternatively, exempt under either or both sections 501(c)(27)(B) and 115(1) of the Internal Revenue Code.

The Company is subject to levies by the Oregon Workers' Compensation Division of the Department of Consumer and Business Services. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessments were $23.1 million and $17.8 million for the years ended December 31, 2002 and 2001, respectively.

Internally Developed Software—Internal and external costs incurred to develop internal-use computer software and web sites during the application development stage and infrastructure stage are capitalized; costs incurred during the preliminary project stage and post-implementation/operation stage are expensed as incurred. The threshold for capitalization of internally developed software is set at $500,000.

Pending Accounting Standards—In September 2002, the NAIC adopted SSAP No. 87, *Capitalized Policy, an Amendment to SSAP Nos. 4,19,29,73,79 and 82.* This statement requires that a redefined threshold be established for capitalization of certain assets, and that any purchase that does not meet that predefined threshold be expensed. This statement is effective for years beginning on or after January 1, 2004, with earlier adoption encouraged, and was adopted by the Company January 1, 2003. Prior to the adoption of SSAP No. 87, the Company had established capitalization thresholds for fixed assets. However, there was no predefined threshold for prepaid expenses (SSAP No. 29). The threshold for capitalization of prepaid expenses was set at $500,000 upon adoption. The adoption of this standard is not expected to have any effect on the Company's results of operations, financial positions or cash flows.

In May 2002, the NAIC adopted SSAP No. 86, *Accounting for Derivative Instruments and Hedging, Income Generation, and Replication Transactions*. This statement is effective for fiscal year 2003. SSAP No. 86 provides expanded definitions of derivative instruments, and addresses related recognition and measurement issues. SAIF is currently evaluating the impact of the adoption of SSAP No. 86.

3. ACCOUNTING CHANGES

The Company prepares its statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Insurance Division. The Insurance Division requires that insurance companies domiciled in the State of Oregon prepare their statutory-basis financial statements in accordance with the NAIC *Accounting Practices and Procedures Manual* – Version effective March 2002 and 2001 respectively, subject to any deviations prescribed or permitted by the Insurance Division. Accordingly, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended, have been determined in accordance with the new accounting principles.

Accounting changes adopted in 2001 to conform to these provisions are reported as the cumulative effect of changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Company reported a change of accounting principle, as an adjustment that increased unassigned funds, of $8.2 million as of January 1, 2001. This adjustment results from changing the Company's accounting for its investment in joint ventures.

Prior to 2002, the Company recorded a receivable and an advance premium liability for premium billings that were issued prior to the inception of the policy. During 2002, the NAIC issued INT 02-02, an interpretation of SSAP No. 6, *Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers*, which clarified that premiums receivable should not be recognized in the financial statements until the effective date of the policy. Therefore, the Company eliminated the receivable and associated advance premium liability for billings issued prior to the policy inception date of $11.9 million at December 31, 2002. The receivable and related advance premium liability included in the statement of admitted assets, liabilities, capital and surplus at December 31, 2001 is $11.8 million.

4. INVESTMENTS

Oregon's State Treasurer acts as the Company's investment officer, investing in any instrument in which persons of prudence, discretion and intelligence would invest for their own accounts. The Oregon Investment Council establishes the Company's investment policy.

Bond, mortgage-backed, and asset-backed security transactions are recorded on a trade date basis, generally three business days prior to the settlement date. However, the number of days between trade and settlement dates for mortgage-backed securities can be up to 30 days or longer depending on the security. Receivables for securities not received within 15 days from the settlement date are nonadmitted. There were no such receivables at December 31, 2002. At December 31, 2001, $1.4 million of such receivables for securities were excluded from unassigned funds.

The book/carrying value and NAIC designated fair value of the Company's investment securities were as follows at December 31, 2002 and 2001 (in thousands):

2002	Book/Adjusted Carrying Value	NAIC-Designated Fair Value	Excess of NAIC Fair Value Over Book/Adjusted Carrying Value
Bonds:			
U.S. government	$ 586,478	$ 601,061	$ 14,583
All other governments	39,296	42,882	3,586
Special revenue and special assessments	371,790	371,864	74
Public utilities	155,782	163,098	7,316
Industrial and miscellaneous	1,001,807	1,033,064	31,257
Total bonds	$ 2,155,153	$ 2,211,969	$ 56,816
Short-term investments	$ 310,784	$ 310,784	$ -
Stocks:			
Preferred stock	$ 13,711	$ 13,763	$ 52
Common stock	315,446	315,446	
	$ 329,157	$ 329,209	$ 52
2001			
Bonds:			
U.S. government	$ 617,807	$ 626,846	$ 9,039
All other governments	30,145	32,251	2,106
States, territories and possessions	1,326	1,299	(27)
Special revenue and special assessments	339,352	342,918	3,566
Public utilities	265,202	268,255	3,053
Industrial and miscellaneous	833,644	847,381	13,737
Total bonds	$ 2,087,476	$ 2,118,950	$ 31,474
Short-term investments	$ 4,314	$ 4,324	$ 10
Stocks:			
Preferred stock	$ 44,276	$ 41,261	$ (3,015)
Common stock	390,809	390,809	
	$ 435,085	$ 432,070	$ (3,015)

Proceeds from the sale and maturity of bonds and stocks were $6.5 billion and $90.6 million; and $5.4 billion and $175.7 million during 2002 and 2001, respectively.

The book value/adjusted carrying value and NAIC-designated fair value of bonds at December 31, 2002 and 2001, by contractual maturity, are shown below (in thousands). 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.

	2002		2001	
	Book Value/ Adjusted Carrying Value	NAIC-Designated Fair Value	Book Value/ Adjusted Carrying Value	NAIC-Designated Fair Value
Due in one year or less	$ 179,105	$ 179,450	$ 72,996	$ 74,273
Due after one year through five years	507,042	512,909	261,118	269,266
Due after five years through ten years	491,073	511,574	399,307	395,637
Due after ten years	977,933	1,008,035	1,354,055	1,379,774
Total	$2,155,153	$2,211,968	$2,087,476	$2,118,950

Gross realized gains and losses and the net realized gains (losses) from investment securities consist of the following for the years ended December 31, 2002 and 2001 (in thousands):

2002	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	$69,012	$(44,993)	$ 24,019
Preferred stocks	2,480	(17,255)	(14,775)
Common stocks	1,944	(177)	1,767
Short-term investments	1	(23)	(22)
Other invested assets	541	(1,396)	(855)
Total	$73,978	$(63,844)	$ 10,134
2001			
Bonds	$65,424	$(76,700)	$(11,276)
Preferred stocks	8,227	(12,298)	(4,071)
Common stocks	2,630	(1,126)	1,504
Short-term investments	9		9
Real estate	1,707		1,707
Other invested assets	4,478		4,478
Total	$82,475	$(90,124)	$ (7,649)

5. SECURITIES LENDING

In accordance with State investment policies, the Company participates in securities lending transactions. The Oregon State Treasury has, through a Securities Lending Agreement, authorized State Street Bank and Trust Company ("State Street") to lend the Company's securities to broker-dealers and banks pursuant to a form of loan agreement. Both the Company and the borrowers maintain the right to terminate all securities lending transactions on demand. There have been no significant violations of the provisions of securities lending agreements.

During 2002 and 2001, State Street loaned the Company fixed income and equity securities and received as collateral U.S. dollar-denominated cash. Borrower's were required to deliver cash collateral for each loan equal to at least 102% of the fair value of the loaned security, or 105% in the case of international equity securities. The Company did not impose any restrictions on the amount of the loans State Street made on its behalf. The Company was fully indemnified by State Street against losses due to borrower default, and there were no losses from the failure of borrowers to return loaned securities. There were no restrictions on collateral held by the Company at December 31, 2002 and 2001.

State Street is authorized by the Securities Lending Agreement to invest cash collateral received for securities loans in the State Street Bank and Trust Company Oregon Short-Term Investment Fund ("Fund"). The fair value of the Company's position in this fund is not the same as the value of the fund's shares, because unrealized gains and losses on the fund's investments included in its fair value are not distributed to fund participants. At December 31, 2002 the Fund had an average weighted maturity of 347 days. Since the securities loans are callable on demand by either the lender or borrower, the life of the loans at December 31, 2002 is effectively one day and consequently does not generally match the life of the investments in the Fund. On December 31, 2002 the Company had no credit risk exposure to borrowers. Under SAP, the collateral held and the fair value including accrued income of the Company's securities on loan at December 31, 2002 and 2001 were $151.1 million and $147.9 million; and $194.0 million and $192.0 million, respectively, are not included in the Company's statutory-basis financial statements.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The statement value and NAIC-designated fair value of financial instruments at December 31, 2002 and 2001 are as follows (in thousands):

	2002		2001	
	Statement Value	**NAIC-Designated Fair Value**	**Statement Value**	**NAIC-Designated Fair Value**
Fair value of financial instruments:				
Bonds	$ 2,155,153	$ 2,211,968	$ 2,087,476	$ 2,118,950
Preferred stock	13,711	13,763	44,276	41,261
Common stock	315,446	315,446	390,809	390,809
Mortgage loans	1,091	1,091	1,646	1,649
Short-term investments	310,784	310,784	4,314	4,324
Total	$ 2,796,185	$ 2,853,052	$ 2,528,521	$ 2,556,993

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in losses and loss adjustment expenses is summarized as follows (in thousands):

	2002	2001
Balance at beginning of year	$2,133,920	$2,092,543
Less reinsurance recoverables prior year	(101)	(71)
Net balance at beginning of year	2,133,819	2,092,472
Incurred related to:		
Current year	393,059	348,751
Prior years	(23,427)	(92,730)
Total incurred	369,632	256,021
Paid related to:		
Current year paid	78,213	70,689
Prior year	149,919	143,985
Total paid	228,132	214,674
Net balance at end of year	2,275,319	2,133,819
Plus reinsurance recoverables	118	101
Balance at end of year	$2,275,437	$2,133,920

Reserves for losses have been discounted on a tabular basis using the 1989-1991 U.S. Decennial Life Tables, the 1979 NCCI Remarriage Table and a discount rate of 3.5%. The Company does not discount any incurred but not reported reserves, medical unpaid losses or unpaid loss adjustment expenses. Discounted reserves include fatal and permanent total disability losses. Gross reserves subject to tabular discounting were $529.7 million and $493.3 million. The discounts were $101.1 million and $91.9 million as of December 31, 2002 and 2001, respectively.

Anticipated salvage and subrogation of $12.8 million and $9.5 million is included as a reduction of the reserve for losses at December 31, 2002 and 2001, respectively.

Risk Management—The State of Oregon administers property and casualty insurance programs covering State government agencies through its Insurance Fund. The Insurance Fund services claims for direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; workers' compensation; and employees, elected officials, and members of commissions and boards for honesty and faithful performance. The Insurance Fund is backed by a commercial excess property policy with limits of $400 million and a blanket commercial excess bond with limits of $10 million.

As a state agency, the Company participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each State entity based on its share of services provided in a prior period. The total statewide assessment of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less carry-forward or equity in the Insurance Fund. Assessments were $306,000 for each of the years ended December 31, 2002 and 2001.

8. DEFERRED COMPENSATION PLAN

A deferred compensation plan (Plan) was authorized under Internal Revenue Code Section 457 and ORS 243.400 to 243.495. The Plan is a benefit available to all employees wherein they may execute an individual agreement with the Company to defer a portion of their current income until future years so as to shelter such funds from federal and state taxation until withdrawal. Participants cannot receive the funds until certain circumstances are met. Funds accumulated by the Company under the Plan have been invested with various financial institutions and insurance companies. Plan assets are held in a custodial account or an annuity contract by the Plan provider for the exclusive benefit of the participants or beneficiary. Participants' rights under the Plan are equal to the fair market value of the deferred account for each participant.

9. RETIREMENT PLAN

The Company's employees participate in the Oregon Public Employees' Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS is administered by the Public Employees Retirement Board under the guidelines of ORS Chapter 238. All employees are eligible to participate in PERS after completing six months of service. Covered employees are required by state statutes to contribute 6.0% of their salary to the plan. Current law permits employers to pay employee contributions to PERS and the Company has elected to do so. The Company is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. Currently the rate is 9.49% of each covered employee's salary. The Company's contributions to the Plan were \$6.6 million and \$6.4 million for the years ended December 31, 2002 and 2001, respectively.

10. CAPITAL AND SURPLUS

The portion of unassigned funds represented or reduced by each item below, is as follows at December 31, 2002 and 2001 (in thousands):

	2002	2001
Net unrealized capital losses	\$(132,314)	\$ (41,644)
Cumulative effect of change in accounting principles		8,198
Nonadmitted assets	(16,337)	(14,573)

The Company is subject to Risk Based Capital ("RBC") requirements of the NAIC, which establishes that certain required amounts of capital be maintained. As of December 31, 2002, the Company's RBC exceeded the required amount, in connection with its NAIC statutory filing. While the Company is not subject to the minimum capital requirements set forth in ORS, the Company uses various benchmarking and risk level techniques to monitor and maintain an adequate level of surplus.

11. COMMITMENTS AND CONTINGENCIES

The Company has entered into structured settlements wherein the Company has purchased annuities of which the claimant is payee, but for which the Company is contingently liable. The amount of the contingent liability is the amount of the liability due to the various claimants that has been offset by the purchase of the annuity. Contingent liabilities arising from these settlements were \$5.6 million and \$4.8 million at December 31, 2002 and 2001, respectively.

From time to time the Company is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on the results of operations, liquidity or financial position of the Company.

12. LEASE COMMITMENTS

The Company leases office space in several locations under noncancelable operating leases expiring during various years through 2005. Lease expense was $581,000 and $653,000 for the years ended December 31, 2002 and 2001, respectively. At December 31, 2002, the minimum aggregate rental commitments are as follows (in thousands):

2003	$ 547
2004	380
2005	217
Total minimum lease payments	$ 1,144

Certain rental commitments have renewal options extending through the year 2010. Some of these renewals are subject to adjustments in future periods. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $302,000 on leases due in the future under noncancelable subleases as of December 31, 2002.

13. WASH SALES

In the course of the Company's asset management, securities are sold and reacquired within 30 days of the sale date to enhance the Company's yield on its investment portfolio.

The aggregate detail of securities with NAIC designation of 3 or below sold during the years ended December 31, 2002 and 2001 and reacquired within 30 days of the sale date is as follows (in thousands):

2002	**Number of Transactions**	**Book Value of Securities Sold**	**Cost of Securities Repurchased**	**Loss**
Bonds:				
NAIC 3	1	$ 251,639	$ 1,033	$ (17)
2001				
Bonds:				
NAIC 3	1	$ 4,813	$ 4,896	$ (744)
NAIC 4	3	12,662	12,797	(2,290)
Total	4	$ 17,475	$ 17,693	$ (3,034)

14. SECURITIES ON DEPOSIT

Securities with an amortized cost of $3.1 million at December 31, 2002 and 2001 were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshoremen's and Harbor Workers' Compensation Act.

15. REINSURANCE

In the ordinary course of business, the Company cedes premiums for purposes of risk diversification and limiting maximum loss exposure from catastrophic events through contractual agreements with reinsurers. If such assuming reinsurers are unable to meet the obligations assumed under these reinsurance agreements, the Company would be liable to pay the obligation. To minimize its exposure to significant losses from reinsurer insolvencies, the Company regularly evaluates the financial condition of its reinsurers and monitors concentration of credit risk.

Effective October 1, 2002, the Company acquired reinsurance protection providing limits of $70 million excess of $30 million per occurrence with a $2 million maximum on any one life and a $140 million aggregate limit. This reinsurance protection excludes coverage for nuclear, biological or chemical terrorist attacks. The Company has reinsurance protection for 90% of losses in excess of 7% of 2002 direct earned premium, for acts of foreign terrorism through the Federal Reinsurance Act.

Throughout 2001, the Company maintained coverage for loss occurrences involving one person subject to a limit of $5 million in excess of a $5 million per claimant retention and $155 million in excess of $10 million per occurrence with a $5 million maximum on any one life and a $310 million aggregate limit.

The following amounts have been deducted in the accompanying statutory-basis financial statements as a result of reinsurance ceded (in thousands):

	2002	2001
Liability for losses and loss adjustment expenses	$ 17,386	$ 15,314
Premiums earned	1,063	1,093
Losses and loss adjustment expenses incurred	2,395	3,328

The Company is authorized to write business on behalf of the Oregon Workers' Compensation Insurance Plan (the "Oregon Insurance Plan"), administered by the National Council on Compensation Insurance through the National Workers' Compensation Reinsurance Pool. The Oregon Insurance Plan provides a guaranteed source of workers' compensation insurance for employers unable to obtain coverage because of unstable financial condition, poor loss experience, or the inherently dangerous nature of the work. The Company cedes such business to the Oregon Insurance Plan. In addition, the Company is also required to assume its share of premiums and losses from the Oregon Insurance Plan based on voluntary market share.

The following amounts are included in the accompanying statutory-basis financial statements as a result of participation in the Oregon Insurance Plan (in thousands):

	2002	2001
Assumed:		
Liability for losses and loss adjustment expenses	$ 42,034	$ 19,799
Advance premiums	1,838	1,311
Premiums earned	17,091	10,055
Losses and loss adjustment expenses incurred	15,560	7,073
Ceded:		
Liability for losses and loss adjustment expenses	63,629	55,425
Advance premiums	3,820	2,245
Premiums earned	18,400	11,197
Losses and loss adjustment expenses incurred	14,085	10,967

16. EDP EQUIPMENT AND SOFTWARE

EDP equipment, operating and nonadmitted nonoperating software are carried at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three years for EDP equipment and operating system software. Depreciation expense for nonadmitted nonoperating system software is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three to five years. There were no operating software assets admitted at December 31, 2002.

EDP equipment consisted of the following at December 31, 2002 and 2001 (in thousands):

	2002	2001
EDP equipment	$ 9,714	$ 11,099
Accumulated depreciation	(8,033)	(9,265)
Balance, net	$ 1,681	$ 1,834

Depreciation expense related to EDP equipment and operating and nonadmitted nonoperating software totaled $2.4 million and $2.5 million for the years ended December 31, 2002 and 2001, respectively.

17. NONCASH TRANSACTIONS

Non-cash investment transactions were $92 million for both acquisitions and dispositions resulting from conversions and tax free exchange transactions for the year ended December 31, 2002.

18. RECONCILIATION OF ANNUAL STATEMENTS TO AUDITED STATUTORY-BASIS FINANCIAL STATEMENTS

The following illustrates the differences between the annual statements as filed with the Insurance Division and the audited statutory-basis financial statements.

The differences are the result of reclassifications made after the annual statements were filed and are as follows (in thousands):

2002	Filed	Audited	Difference
Statement of Revenues, Expenses, Capital and Surplus:			
Premium assessment income	$ 20,842	$ 22,492	$ 1,650
Other income	2,565	915	(1,650)
Statement of Cash Flows:			
Premium collected net of reinsurance	$ 276,050	$ 264,241	$ (11,809)
Loss and loss adjustment expenses paid	(215,202)	(228,132)	(12,930)
Underwriting expenses paid	(75,582)	(74,643)	939
Premium assessment income	8,337	22,492	14,155
Due from Workers' Compensation Division		425	425
Other expenses	922	(295)	(1,217)
Other cash applied	(12,369)	(1,930)	10,439

2001 Reconciliation of Annual Statement to Audited Statement

Statement of Admitted Assets, Liabilities, Capital and Surplus:			
Due from Workers' Compensation Division	$ -	$ 12,930	$ 12,930
Losses	(1,786,603)	(1,799,533)	(12,930)
Statement of Cash Flows:			
Loss and loss adjustment expenses paid	$ (227,546)	$ (214,674)	$ 12,872
Due from Workers' Compensation Division		(12,930)	(12,930)
Other cash provided	12,710	12,768	58

* * * * * *

SUPPLEMENTAL SCHEDULES

APPENDIX A—SUMMARY INVESTMENT SCHEDULE

APPENDIX B—SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

APPENDIX A

SUMMARY INVESTMENT SCHEDULE

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	143,199,719	4.840	143,199,719	4.840
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies	66,027,517	2.232	66,027,517	2.232
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	39,295,545	1.328	39,295,545	1.328
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	363,497	0.012	363,497	0.012
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (including residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA	377,251,656	12.750	377,251,656	12.750
1.512 Issued by FNMA and FHLMC	366,763,508	12.396	366,763,508	12.396
1.513 Privately issued				
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC	4,662,993	0.158	4,662,993	0.158
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC				
1.523 All other privately issued	142,896,479	4.830	142,896,479	4.830
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	898,709,502	30.374	898,709,502	30.374
2.2 Unaffiliated foreign securities	136,411,318	4.610	136,411,318	4.610
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	306,837,202	10.370	306,837,202	10.370
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	13,711,239	0.463	13,711,239	0.463
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	8,609,062	0.291	8,609,062	0.291
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated	10,773,557	0.364	10,773,557	0.364
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties	509,467	0.017	509,467	0.017
4.4 Multifamily residential properties				
4.5 Commercial loans	581,871	0.020	581,871	0.020
5. Real estate investments:				
5.1 Property occupied by company	19,828,504	0.670	19,828,504	0.670
5.2 Property held for production of income (includes $ 0 of property acquired in satisfaction of debt)	1,008,309	0.034	1,008,309	0.034
5.3 Property held for sale ($ 0 including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	40,887,887	1.382	40,887,887	1.382
8. Cash and short-term investments	380,437,590	12.858	380,437,590	12.858
9. Other invested assets				
10. Total invested assets	2,958,766,422	100.000	2,958,766,422	100.000

APPENDIX B

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

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SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Due April 1
For the year ended December 31, 2002

Of The SAIF Corporation Insurance Company

Address (City, State, Zip Code): 400 High Street SE, Salem, OR 97312

NAIC Group Code 0000 NAIC Company Code 36196 Employer's ID Number 93-6001769

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by stating the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1, 2, 3, 4, 11 and, if applicable 20 through 24. Answer each of interrogatories 5 through 19 (except 11) only if the reporting entity's aggregate holding in the gross investment category addressed in that interrogatory equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts. For Property Casualty blank, responses are to exclude Protected Cell Accounts.

1. State the reporting entity's total admitted assets as reported in Page 2 of this annual statement. $ 3,109,457,161

2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U. S. government agency securities and those U. S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans.

	1 Investment Category	2 Amount	3 Percentage of Total Admitted Assets
2.01	BGI Russell 3000 Index Fund	$ 306,837,202	9.868 %
2.02	UBS Warburg	$ 29,943,854	0.963 %
2.03	Goldman Sachs Group	$ 20,662,559	0.665 %
2.04	Asset Securitization Corp	$ 17,720,864	0.570 %
2.05	Morgan Stanley - Ser 2000-Life	$ 17,507,026	0.563 %
2.06	Ford Motor Credit Co	$ 16,265,895	0.523 %
2.07	Impac CMB TR 2002	$ 15,586,144	0.501 %
2.08	Lehman Bros Holdings	$ 15,464,235	0.497 %
2.09	North Telecomm PVT	$ 14,947,780	0.481 %
2.10	GMAC Mtn 3 Month Libor +30	$ 14,651,232	0.471 %

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 1,907,719,517	61.352 %	3.07	P/RP-1	$ 10,429,814	0.335 %
3.02	NAIC-2	$ 391,101,455	12.578 %	3.08	P/RP-2	$ 2,659,470	0.086 %
3.03	NAIC-3	$ 116,934,110	3.761 %	3.09	P/RP-3	$ 621,955	0.020 %
3.04	NAIC-4	$ 37,043,894	1.191 %	3.10	P/RP-4	$	%
3.05	NAIC-5	$ 12,271,129	0.395 %	3.11	P/RP-5	$	%
3.06	NAIC-6	$ 867,388	0.028 %	3.12	P/RP-6	$	%

4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31 - Derivative Instruments), including (4.01) foreign-currency-denominated investments of $ 0 ; .000 % (4.02) supporting insurance liabilities denominated in that same foreign currency of $ 0 ; .000 % and excluding (4.03) Canadian investments and currency exposure of $ 0 ; .000 %

Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 5 - 10.(4.04) Yes [ ] No [X]

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC-1	$ 107,728,663	3.465 %
5.02	Countries rated NAIC-2	$ 23,286,718	0.749 %
5.03	Countries rated NAIC-3 or below	$ 14,584,362	0.469 %

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC-1:		
6.01	Country: United Kingdom	$ 27,934,143	0.898 %
6.02	Country: Cayman Islands	$ 18,515,755	0.595 %
	Countries rated NAIC-2:		
6.03	Country: Mexico	$ 19,009,571	0.611 %
6.04	Country: South Africa	$ 2,893,910	0.093 %
	Countries rated NAIC-3 or below:		
6.05	Country: Panama	$ 4,022,377	0.129 %
6.06	Country: Peru	$ 3,567,757	0.115 %

		1	2
7.	Aggregate unhedged foreign currency exposure	$	%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC-1	$	%
8.02	Countries rated NAIC-2	$	%
8.03	Countries rated NAIC-3 or below	$	%

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC-1:		
9.01	Country:	$	%
9.02	Country:	$	%
	Countries rated NAIC-2:		
9.03	Country:	$	%
9.04	Country:	$	%
	Countries rated NAIC-3 or below:		
9.05	Country:	$	%
9.06	Country:	$	%

10. List the 10 largest non-sovereign (i.e. non-governmental) foreign issues:

	1 NAIC Rating	2	3
10.01	NAIC rating NAIC-3	$ 9,004,514	0.290 %
10.02	NAIC rating NAIC2PE	$ 7,628,279	0.245 %
10.03	NAIC rating NAIC-2	$ 7,128,935	0.229 %
10.04	NAIC rating NAIC1PE	$ 7,126,910	0.229 %
10.05	NAIC rating NAIC1PE	$ 6,402,495	0.206 %
10.06	NAIC rating NAIC1PE	$ 6,200,000	0.199 %
10.07	NAIC rating NAIC-5	$ 5,812,500	0.187 %
10.08	NAIC rating NAIC-2Z	$ 5,482,813	0.176 %
10.09	NAIC rating NAIC-2	$ 5,250,000	0.169 %
10.10	NAIC rating NAIC-1	$ 5,141,492	0.165 %

11. State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of (11.01) $ 0 ; .000 % supporting Canadian-denominated insurance liabilities of (11.02) $ 0 ; .000 %

Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 12. (11.03) Yes [X] No [ ]

12. Aggregate Canadian investment exposure.

		1	2
12.01	Canadian investments	$	%
12.02	Unhedged Canadian currency exposure	$	%

13. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13. Yes [X] No [ ]

	1	2	3
13.01	Aggregate statement value of investments with contractual sales restrictions	$	%
	Largest 3 investments with contractual sales restrictions:		
13.02		$	%
13.03		$	%
13.04		$	%

14. State the amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1).

Assets held in equity interests less than 2.5% of the reporting entity's total; admitted assets, therefore detail not required for interrogatory 14. Yes [ ] No [X]

	1 Investment Category	2	3
14.01	BGI Russell 3000 Index	$ 306,837,202	9.868 %
14.02	KKR Limited Partnerships	$ 10,773,557	0.346 %
14.03	Sempra Energy	$ 5,140,688	0.165 %
14.04	UBS PFD Funding Trust	$ 4,653,649	0.150 %
14.05	Boise Cascade Corp	$ 3,468,374	0.112 %
14.06	Baxter International Inc	$ 3,187,500	0.103 %
14.07	Metlife Inc	$ 2,466,900	0.079 %
14.08	TXU Corp	$ 2,329,470	0.075 %
14.09	Inco Ltd	$ 621,955	0.020 %
14.10	Platinum Underwriters	$ 330,000	0.011 %

15. State the amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions.

Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 15. Yes [X] No [ ]

	1	2	3
15.01	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	%
	Largest 3 investments held in nonaffiliated, privately placed equities:		
15.02		$	%
15.03		$	%
15.04		$	%

16. State the amounts and percentages of the reporting entity's total admitted assets held in general partnership interests (included in other equity securities).

Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 16. Yes [X] No [ ]

	1	2	3
16.01	Aggregate statement value of investments held in general partnership interests.	$	%
	Largest 3 investments with contractual sales restrictions:		
16.02		$	%
16.03		$	%
16.04		$	%

17. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets held.

Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 17 and 18. Yes [X] No [ ]

Each of the 10 largest aggregate mortgage interests. The aggregate mortgage interest represents the combined value of all mortgages secured by the same property or same group of properties:

	1 Type (Residential, Commercial, Agricultural)	2	3
17.01		$	%
17.02		$	%
17.03		$	%
17.04		$	%
17.05		$	%
17.06		$	%
17.07		$	%
17.08		$	%
17.09		$	%
17.10		$	%

18. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

	Loan-to-Value	Residential		Commercial		Agricultural	
		1	2	3	4	5	6
18.01	above 95%	$	%	$	%	$	%
18.02	91% to 95%	$	%	$	%	$	%
18.03	81% to 90%	$	%	$	%	$	%
18.04	71% to 80%	$	%	$	%	$	%
18.05	below 70%	$	%	$	%	$	%

		1	2
18.06	Construction loans	$	%
18.07	Mortgage loans over 90 days past due	$	%
18.08	Mortgage loans in the process of foreclosure	$	%
18.09	Mortgage loans foreclosed	$	%
18.10	Restructured mortgage loans	$	%

19. State the amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A, excluding property occupied by the company.

Assets held in each of the five largest investment in one parcel or group of contiguous parcels of real estate reported in Schedule A less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 19.Yes [X] No [ ]

	1	2	3
19.01		$	%
19.02		$	%
19.03		$	%
19.04		$	%
19.05		$	%

20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ 130,430,176	4.195 %	$ 187,526,120	$ 171,332,429	$ 246,881,350
20.02	Repurchase agreements	$	%	$	$	$
20.03	Reverse repurchase agreements	$	%	$	$	$
20.04	Dollar repurchase agreements	$	%	$	$	$
20.05	Dollar reverse repurchase agreements	$	%	$	$	$

21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	$	%	$	%
21.02	Income generation	$	%	$	%
21.03	Other	$	%	$	%

22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	$	%	$	$	$
22.02	Income generation	$	%	$	$	$
22.03	Replications	$	%	$	$	$
22.04	Other	$	%	$	$	$

23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
23.01	Hedging	$	%	$	$	$
23.02	Income generation	$	%	$	$	$
23.03	Replications	$	%	$	$	$
23.04	Other	$	%	$	$	$

24. State the amounts and percentages of 10 largest investments included in the Write-ins for Invested Assets category included on the Summary Investment Schedule.

	1	2	3
24.01	NONE	$	%
24.02		$	%
24.03		$	%
24.04		$	%
24.05		$	%
24.06		$	%
24.07		$	%
24.08		$	%
24.09		$	%
24.10		$	%