

SAIF Corporation

*Financial Statements—Statutory Basis as of and for
the Years Ended December 31, 2004 and 2003,
Supplemental Schedules as of December 31, 2004,
and Independent Auditors' Report*

SAIF CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
SAIF Corporation

To the Secretary of State Audits Division of
The State of Oregon

We have audited the accompanying statements of admitted assets, liabilities, capital and surplus—statutory basis of SAIF Corporation (the “Company”), a component of the State of Oregon, as of December 31, 2004 and 2003, and the related statements of revenues, expenses, capital and surplus—statutory basis and cash flows—statutory basis for the years then ended. These financial statements—statutory basis are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements—statutory basis 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 financial statements—statutory basis are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements—statutory basis, 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—statutory basis, these financial statements—statutory basis were prepared in conformity with the accounting practices prescribed or permitted by the State of Oregon, Department of Consumer and Business Services, 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—statutory basis present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of SAIF Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Our 2004 audit was conducted for the purpose of forming an opinion on the basic 2004 financial statements—statutory basis taken as a whole. The summary investment schedule and the supplemental investment risk interrogatories as of and for the year ended December 31, 2004, are presented to comply with the National Association of Insurance Commissioner’s instructions to Annual Audited Financial Reports and are not a required part of the basic 2004 financial statements—statutory basis. 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 2004 financial statements—statutory basis and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2004 financial statements—statutory basis 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

August 18, 2005

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2004 and 2003 (In thousands)

	2004	2003
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	\$2,325,814	\$2,116,167
Preferred stocks	33,701	35,943
Common stocks	340,561	369,391
Mortgage loans on real estate—first liens	179	602
Real estate, net of accumulated depreciation of \$8,973 and \$8,251:		
Properties occupied by the Company	18,449	19,140
Properties held for the production of income	946	977
Cash, cash equivalents and short-term investments	243,988	116,227
Other invested assets	10,935	30,498
Receivable for securities sold	6,121	130,617
	<u>2,980,694</u>	<u>2,819,562</u>
Total cash and invested assets		
Interest, dividends, and real estate income due and accrued	20,561	20,181
Premiums in course of collection	8,196	8,464
Premiums and installments booked but deferred and not yet due	66,151	59,498
Accrued retrospective premiums receivable	65,528	55,430
Reinsurance recoverables	141	143
Electronic data processing (“EDP”) equipment and software, net of accumulated depreciation of \$6,812 and \$8,158	841	1,068
Due from Workers’ Compensation Division	11,509	12,238
Other assets, net of accumulated depreciation of \$3,185 and \$3,345	7,970	7,255
	<u>7,970</u>	<u>7,255</u>
TOTAL	<u>\$3,161,591</u>	<u>\$2,983,839</u>
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	\$2,238,061	\$1,999,465
Loss adjustment expenses	319,541	348,633
Other expenses	15,800	13,217
Taxes, licenses, and fees	14,425	14,502
Unearned premiums	57,061	50,915
Advance premiums	3,639	2,800
Ceded reinsurance premiums payable	2,220	2,377
Amounts withheld or retained for account of others	21,420	25,757
Payable for securities purchased	1,163	51,952
Accrued retrospective premiums payable	26,571	25,765
	<u>2,699,901</u>	<u>2,535,383</u>
Total liabilities		
CAPITAL AND SURPLUS—Unassigned funds	<u>461,690</u>	<u>448,456</u>
TOTAL	<u>\$3,161,591</u>	<u>\$2,983,839</u>

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, CAPITAL AND SURPLUS—STATUTORY BASIS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands)

	2004	2003
UNDERWRITING REVENUES—Premiums earned	<u>\$ 373,520</u>	<u>\$ 312,050</u>
UNDERWRITING EXPENSES:		
Losses incurred	469,370	339,872
Loss adjustment expenses incurred	7,997	37,469
Other underwriting expenses incurred	<u>89,867</u>	<u>81,288</u>
Total underwriting expenses	<u>567,234</u>	<u>458,629</u>
NET UNDERWRITING LOSS	<u>(193,714)</u>	<u>(146,579)</u>
NET INVESTMENT INCOME:		
Net investment income earned	108,626	96,499
Net realized capital gains	<u>46,571</u>	<u>20,263</u>
Net investment income	<u>155,197</u>	<u>116,762</u>
OTHER INCOME:		
Net loss from premium balances charged off	(2,527)	(1,084)
Premium assessment income	25,952	26,341
Other income (expense)	<u>1,346</u>	<u>(2,428)</u>
Total other income—net	<u>24,771</u>	<u>22,829</u>
NET LOSS	<u>\$ (13,746)</u>	<u>\$ (6,988)</u>
CAPITAL AND SURPLUS:		
Unassigned funds—beginning of year	<u>\$ 448,456</u>	<u>\$ 312,522</u>
Net loss	(13,746)	(6,988)
Net unrealized capital gains	31,884	143,253
Change in nonadmitted assets	<u>(4,904)</u>	<u>(331)</u>
Net change in capital and surplus	<u>13,234</u>	<u>135,934</u>
Unassigned funds—end of year	<u>\$ 461,690</u>	<u>\$ 448,456</u>

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (In thousands)

	2004	2003
CASH FROM (USED BY) OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	\$ 360,551	\$ 310,795
Loss and loss adjustment expenses paid	(267,863)	(249,386)
Underwriting expenses paid	(87,108)	(78,902)
Total cash from (used by) underwriting	5,580	(17,493)
Net investment income	117,413	109,841
Premium assessment income	25,952	26,342
Recovered from Oregon Workers' Compensation Division	729	267
Other expenses	(661)	(3,775)
Net cash from operations	149,013	115,182
CASH FROM (USED BY) INVESTMENTS:		
Proceeds from investments sold, matured or repaid:		
Bonds	2,754,976	3,514,485
Common and preferred stocks	169,258	491,436
Mortgage loans	423	491
Other invested assets	24,489	790
Net gains on cash, cash equivalents and short-term investments		70
Miscellaneous receipts (payments)	124,495	(89,729)
Total proceeds from investments sold, matured or repaid	3,073,641	3,917,543
Cost of investments acquired:		
Bonds	2,938,143	3,428,265
Common and preferred stocks	99,581	466,163
Real estate		2
Miscellaneous receipts	50,789	416,826
Total cost of investments acquired	3,088,513	4,311,256
Net cash used by investments	(14,872)	(393,713)
CASH FROM (USED BY) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	309	12,020
Other cash applied	(6,689)	2,300
Net cash from (used by) financing and miscellaneous sources	(6,380)	14,320
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Net increase (decrease) in cash, cash equivalents and short-term investments		
	127,761	(264,211)
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Beginning of year	116,227	380,438
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—End of year	<u>\$ 243,988</u>	<u>\$ 116,227</u>

See notes to financial statements—statutory basis.

SAIF CORPORATION

NOTES TO FINANCIAL STATEMENTS—STATUTORY BASIS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

1. NATURE OF OPERATIONS

SAIF Corporation (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 is a servicing carrier for 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 Oregon business and community leaders not otherwise in the employ of the Company.

The Company writes business on a direct basis and through agents. Premiums written on a direct basis were 29.3% and 30.7% of standard premium during 2004 and 2003, respectively.

The DCBS enforces workers’ compensation laws under Oregon Revised Statutes (“ORS”). Under the reporting requirements of the State of Oregon, Department of Consumer Business Services, Insurance Division, SAIF’s calculated minimum surplus amount is \$318.1 million and \$253.3 million at December 31, 2004 and 2003, respectively. At December 31, 2004 and 2003, the statutory surplus of SAIF exceeded the minimum requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Accounting practices and procedures of the NAIC as prescribed or permitted by the Insurance Division 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) 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;
- (c) 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; and

- (d) Assets are reported under SAP at “admitted asset” value and “nonadmitted” assets are excluded through a charge against capital and 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—statutory basis 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—statutory basis 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, loss adjustment expenses, unearned premiums, advance premiums, and depreciation 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 the Company’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 are invested in the SSgA Prime Fund. These 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, 2004 and 2003 was 29 days and 58 days, respectively. The average maturity of the SSgA Prime Fund as of December 31, 2004 and 2003 was 30 days and 61 days, respectively.

The Company 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, the Company’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 of the Oregon Short Term Fund as of December 31, 2004 and 2003 was 160 days and 174 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. 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, 2004 and 2003. 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 2004 and 2003, 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, 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.

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, 2004 and 2003, no accrued interest or other investment income due and accrued was excluded from unassigned funds.

In 2004, SAIF entered into a repurchase agreement. Company policy requires a minimum of 102% of the fair value of securities purchased under repurchase agreements to be maintained as collateral. The collateral securities are being held at State Street Bank. The fair value of such collateral held is \$197.0 million at December 31, 2004.

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, premiums receivable and reinsurance recoverables. 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. Concentrations of credit risk with respect to premiums receivable are limited due to the large number of policyholders. 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.

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 and recorded in other underwriting expenses 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 for account of others. However, policyholders may pledge surety bonds and securities in lieu of cash deposits.

Retrospectively Rated Contracts—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.

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 2004 and 2003 were \$95.9 million and \$78.9 million, respectively, or 25% of net premiums written.

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 losses and loss adjustment expense reserves), or collateral as follows (in thousands):

	2004	2003
Total accrued retrospective premiums receivable	\$ 72,809	\$ 61,589
Less nonadmitted amount (10%)	<u>7,281</u>	<u>6,159</u>
Admitted accrued retrospective premiums receivable	<u>\$ 65,528</u>	<u>\$ 55,430</u>

Losses and Loss Adjustment Expenses—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 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 discount rate used by the Company was 3.5% at December 31, 2004 and 2003. The Company does not discount the reserve for losses for unpaid fatal and permanent total disability loss adjustment expenses. Annually, the Board of Directors reviews the actuarial assumptions and discount rates utilized in determining the liability for such losses. The discount reduced the reserve for losses by \$100.4 million at December 31, 2004 and 2003.

Managed Care Organization Fees—The Company contracts with managed care organizations (“MCOs”). MCOs manage claims by arranging to provide medical and health care services under capitation agreements. The expense is based on the number of claims accepted and closed at a specific negotiated rate while managed by an MCO. The number of claims covered by contracts with MCOs was approximately 87.3% and 86.7% of total claims during 2004 and 2003, respectively.

Fixed Assets—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	30–40 years
Furniture, equipment, and automobiles	3–7 years
Data processing software	3 years

Depreciation expense was approximately \$2.3 million and \$3.1 million for the years ended December 31, 2004 and 2003, 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.

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 thousand.

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 \$26.3 million and \$24.5 million for the years ended December 31, 2004 and 2003, respectively. Accrued premium assessments payable were \$10.3 million and \$9.7 million as of December 31, 2004 and 2003, respectively.

Prepaid Expenses—The threshold for capitalization of prepaid expenses is set at \$500 thousand.

3. ACCOUNTING CHANGES

The Company prepares its financial statements—statutory basis 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 financial statements—statutory basis in accordance with the NAIC Accounting Practices and Procedures Manual—Version effective March 2004 and 2003, subject to any deviations prescribed or permitted by the Insurance Division. Certain reclassifications have been made to prior-year balances to conform to current-year presentation. Such reclassifications do not affect previously reported net loss.

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, asset-backed and equity 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 \$1.0 million and \$0 of such receivables nonadmitted at December 31, 2004 and December 31, 2004 and 2003, respectively.

The book/adjusted carrying value and NAIC-designated fair value of the Company's investment securities at December 31, 2004 and 2003 were as follows (in thousands):

	Book/Adjusted Carrying Value	NAIC - Designated Fair Value	Excess of NAIC Fair Value over (under) Book/Adjusted Carrying Value
2004			
Bonds:			
U.S. government	\$ 778,667	\$ 781,785	\$ 3,118
All other governments	65,790	70,972	5,182
Political subdivisions of states and territories	3,562	3,631	69
Special revenue and special assessment	4,766	4,909	143
Public utilities	65,329	70,607	5,278
Industrial and miscellaneous	680,814	728,806	47,992
Asset-backed securities	<u>726,886</u>	<u>737,338</u>	<u>10,452</u>
Total bonds	<u>\$2,325,814</u>	<u>\$2,398,048</u>	<u>\$72,234</u>
Short-term investments	<u>\$ 12,296</u>	<u>\$ 12,296</u>	<u>\$ -</u>
Stocks:			
Preferred stock	\$ 33,701	\$ 35,495	\$ 1,794
Common stock	<u>340,561</u>	<u>340,561</u>	<u>-</u>
Total stocks	<u>\$ 374,262</u>	<u>\$ 376,056</u>	<u>\$ 1,794</u>

2003	Book/Adjusted Carrying Value	NAIC - Designated Fair Value	Excess of NAIC Designated Fair Value over (under) Book/Adjusted Carrying Value
Bonds:			
U.S. government	\$ 427,128	\$ 423,486	\$ (3,642)
All other governments	39,404	41,098	1,694
Special revenue and special assessment	4,778	4,744	(34)
Public utilities	89,892	95,132	5,240
Industrial and miscellaneous	641,057	690,807	49,750
Asset-backed securities	913,908	913,930	22
Total bonds	<u>\$2,116,167</u>	<u>\$2,169,197</u>	<u>\$ 53,030</u>
Short-term investments	<u>\$ 90,621</u>	<u>\$ 90,621</u>	<u>\$ -</u>
Stocks:			
Preferred stock	\$ 35,943	\$ 39,498	\$ 3,555
Common stock	369,391	369,391	
Total stocks	<u>\$ 405,334</u>	<u>\$ 408,889</u>	<u>\$ 3,555</u>

Proceeds from the sale and maturity of bonds were \$2.7 billion and \$3.5 billion during 2004 and 2003, respectively. Proceeds from the sale of stocks were \$169.3 million and \$491.4 million during 2004 and 2003, respectively.

The book/adjusted carrying value and NAIC-designated fair value of bonds at December 31, 2004 and 2003, by contractual maturity, except for asset-backed securities which are by expected 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.

	2004		2003	
	Book/ Adjusted Carrying Value	NAIC- Designated Fair Value	Book/ Adjusted Carrying Value	NAIC- Designated Fair Value
Due in one year or less	\$ 195,015	\$ 197,099	\$ 316,209	\$ 316,591
Due after one year through five years	966,314	976,139	690,007	697,471
Due after five years through ten years	544,709	566,082	476,147	497,881
Due after ten years	619,776	658,728	633,804	657,254
Total bonds	<u>\$2,325,814</u>	<u>\$2,398,048</u>	<u>\$2,116,167</u>	<u>\$2,169,197</u>

Net investment income for the years ended December 31, 2004 and 2003 comprises the following (in thousands):

	2004	2003
Investment income	\$ 116,052	\$ 103,955
Net realized capital gains	<u>46,571</u>	<u>20,263</u>
Total gross investment income	162,623	124,218
Less investment expense	<u>(7,426)</u>	<u>(7,456)</u>
Net investment income	<u>\$ 155,197</u>	<u>\$ 116,762</u>

Gross realized gains and losses and the net realized gains (losses) from investment securities for the years ended December 31, 2004 and 2003 consist of the following (in thousands):

	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
2004			
Bonds	\$ 57,693	\$ (21,576)	\$ 36,117
Preferred stocks	6,773	(5,898)	875
Common stocks	5,735	(445)	5,290
Short-term investments		(7)	(7)
Other invested assets	<u>8,274</u>	<u>(3,978)</u>	<u>4,296</u>
Total	<u>\$ 78,475</u>	<u>\$ (31,904)</u>	<u>\$ 46,571</u>
2003			
Bonds	\$ 65,771	\$ (19,233)	\$ 46,538
Preferred stocks	1,827	(1,366)	461
Common stocks	2,925	(29,731)	(26,806)
Short-term investments	<u>70</u>	<u></u>	<u>70</u>
Total	<u>\$ 70,593</u>	<u>\$ (50,330)</u>	<u>\$ 20,263</u>

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 2004 and 2003, State Street loaned the Company's fixed income and equity securities and received as collateral U.S. dollar-denominated cash. Borrowers 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, 2004 and 2003.

State Street is authorized by the Securities Lending Agreement to invest cash collateral received for securities loaned in the State Street Bank and Trust Company Oregon Short-Term Investment Fund (the "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, 2004 and 2003, the Fund had an average weighted maturity of 398 days and 325 days, respectively. On December 31, 2004 the Company had no credit risk exposure to borrowers. The collateral held for the Company's securities on loan at December 31, 2004 and 2003 were \$800.1 million and \$471.3 million, respectively. The fair value including accrued income of the Company's securities on loan at December 31, 2004 and 2003 were \$783.9 million and \$461.8 million, respectively. These amounts are not included in the Company's financial statements—statutory basis. Securities lending income was \$8.9 million and \$2.1 million for 2004 and 2003, respectively. Securities lending expense was \$7.9 million and \$1.7 million for 2004 and 2003, respectively. These amounts are reported net in the Company's financial statements—statutory basis in net investment income earned.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The book/adjusted carrying value and NAIC-designated fair value of financial instruments at December 31, 2004 and 2003 are as follows (in thousands):

	2004		2003	
	Book/Adjusted Carrying Value	NAIC- Designated Fair Value	Book/Adjusted Carrying Value	NAIC- Designated Fair Value
Fair value of financial instruments:				
Bonds	\$2,325,814	\$2,398,048	\$2,116,167	\$2,169,197
Preferred stock	33,701	35,495	35,943	39,498
Common stock	340,561	340,561	369,391	369,391
Mortgage loans	179	179	602	602
Short-term investments	<u>12,296</u>	<u>12,296</u>	<u>90,621</u>	<u>90,621</u>
Total	<u>\$2,712,551</u>	<u>\$2,786,579</u>	<u>\$2,612,724</u>	<u>\$2,669,309</u>

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2004	2003
Gross reserve for losses and loss adjustment expenses—beginning of year	\$ 2,422,226	\$ 2,295,918
Less reinsurance ceded—beginning of year	<u>(74,128)</u>	<u>(75,775)</u>
Net balance—beginning of year	<u>2,348,098</u>	<u>2,220,143</u>
Incurred related to:		
Current year	451,652	382,922
Prior year	<u>25,715</u>	<u>(5,581)</u>
Total incurred	<u>477,367</u>	<u>377,341</u>
Paid related to:		
Current year paid	95,198	84,652
Prior year	<u>172,665</u>	<u>164,734</u>
Total paid	<u>267,863</u>	<u>249,386</u>
Net balance—end of year	2,557,602	2,348,098
Plus reinsurance ceded—end of year	<u>79,342</u>	<u>74,128</u>
Gross reserve for losses and loss adjustment expenses—end of year	<u>\$ 2,636,944</u>	<u>\$ 2,422,226</u>

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses increased by \$25.7 million in 2004 and decreased by \$5.6 million in 2003, respectively. The changes resulted from actual permanent total disability claims differing from amounts provided for at the beginning of the respective years.

The Company discounts its case unpaid losses on a tabular basis using the 1999 United States Life Tables, the 1980 United States of America Railroad Retirement Board 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 known unpaid fatal and permanent total disability losses. Gross reserves subject to tabular discounting were \$278.1 million and \$282.9 million for 2004 and 2003, respectively. The discounts were \$100.4 million as of December 31, 2004 and 2003.

Anticipated salvage and subrogation of \$22.6 million and \$11.4 million is included as a reduction of the reserve for losses at December 31, 2004 and 2003, 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 carryforward or equity in the Insurance Fund. Assessments were \$242 thousand for the years ended December 31, 2004 and 2003.

8. DEFERRED COMPENSATION PLAN

A deferred compensation plan (the "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 withheld from employees and remitted to 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 majority of the Company's employees participate in the Oregon Public Employees' Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. The Public Employees Retirement Board under the guidelines of ORS Chapter 238 administers PERS. The PERS retirement allowance, payable monthly for life, may be selected from thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67% of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the Oregon Public Employees' Retirement System annual financial report may be obtained from the Fiscal Services Division, Public Employees Retirement System, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Beginning January 1, 2004, all covered employees are required by statute to contribute 6.0% of their salary to the Individual Account Program (a defined contribution plan). Current law permits employers to pay employees' contributions to PERS, which the Company has elected to do. At December 31, 2004, the Company is required by statute to contribute 4.71% of each covered employee's salary to fund the PERS program. Rates are subject to change as a result of subsequent actuarial valuations.

In 2004, the Company began participating along with other State of Oregon agencies, in paying debt service for the bonds issued in October 2003 used to reduce the unfunded PERS liability. The bonds are scheduled to mature in 25 years. Currently, the repayment rate is 6.71% of payroll each month. The payment rate is recalculated each state fiscal biennium. In 2004, the Company paid \$2.1 million.

SAIF employees hired after August 29, 2003 participate in the Oregon Public Service Retirement Plan ("OPSRP") after completing six months of service. OPSRP is a hybrid pension plan administered by the Public Employees' Retirement Board under the guidelines of ORS Chapter 238A with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). The Company currently contributes 8.04% of each covered employee's salary to the Pension Program and 6%, to the Individual Account Program. Rates are subject to change as a result of subsequent actuarial valuations.

The Retirement System does not make separate measurements of assets and pension benefit obligation for individual employers. Therefore, the present value of accrued benefits, the amount of vested benefits, and the fair value and market value of the plan assets as of the most recent actuarial valuation date is not available.

The amounts contributed to PERS and OPSRP by the Company for the years ended December 31, 2004 and 2003 were \$6.8 million and \$6.7 million, respectively. Employee contributions paid by the Company for the years ended December 31, 2004 and 2003 were \$2.6 million.

10. CAPITAL AND SURPLUS

The cumulative increase (decrease) to capital and surplus reported in the financial statements—statutory basis due to each item below at December 31, 2004 and 2003 is as follows (in thousands):

	2004	2003
Net unrealized capital gains	\$ 42,823	\$ 10,939
Nonadmitted assets	(21,571)	(16,667)

The Company is subject to Risk Based Capital (“RBC”) reporting requirements of the NAIC, which establishes that certain required amounts of capital be maintained. As of December 31, 2004 and 2003, the Company’s RBC exceeded the required amount. While the Company is not subject to the minimum capital requirements set forth in ORS Chapter 731, the Company uses various benchmarking and risk level techniques to monitor and maintain an adequate level of surplus.

11. 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 \$5.2 million at December 31, 2004 and 2003.

From time to time the Company is involved in pending or 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, cash flows 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 2010. Lease expense was \$579 thousand and \$587 thousand for the years ended December 31, 2004 and 2003, respectively. At December 31, 2004, the minimum aggregate rental commitments are as follows (in thousands):

2005	\$ 599
2006	532
2007	408
2008	422
2009	412
Thereafter	<u>420</u>
Total minimum lease payments	<u>\$2,793</u>

Certain rental commitments have renewal options extending through the year 2018. 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 \$1.1 million on leases due in the future under noncancelable subleases as of December 31, 2004.

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.

No such securities with NAIC designation of 3 or below were sold during the years ended December 31, 2004 and 2003 and reacquired within 30 days of the sale.

14. SECURITIES ON DEPOSIT

Securities with an adjusted carrying value of \$3.8 million and \$3.1 million at December 31, 2004 and 2003, respectively, 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.

The Company maintains reinsurance protection providing limits of \$55 million in excess of a \$20 million per occurrence with a \$5 million maximum on any one life and a \$110 million aggregate limit. This reinsurance protection excludes coverage for nuclear, biological or chemical terrorist attacks. During 2004, the Company had reinsurance protection for 90% of losses in excess of 10% of 2003 direct earned premium for acts of foreign terrorism through the Federal Reinsurance Act.

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

	2004	2003
Liability for losses and loss adjustment expenses	\$ 79,342	\$ 74,128
Premiums earned	2,643	2,988
Losses and loss adjustment expenses incurred	5,533	1,393

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 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 financial statements—statutory basis as a result of participation in the Oregon Insurance Plan (in thousands):

	2004	2003
Assumed:		
Liability for losses and loss adjustment expenses	\$ 69,686	\$ 62,594
Advance premiums	2,721	2,541
Premiums earned	31,642	31,685
Losses and loss adjustment expenses incurred	23,851	30,976
Ceded:		
Liability for losses and loss adjustment expenses	\$ 88,279	\$ 75,240
Advance premiums	3,457	3,985
Premiums earned	30,220	36,387
Losses and loss adjustment expenses incurred	24,724	23,358

16. ELECTRONIC DATA PROCESSING (EDP) EQUIPMENT AND SOFTWARE

EDP equipment, operating and 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 five years. There were no nonoperating software assets admitted at December 31, 2004 and 2003.

EDP equipment and software at December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
EDP equipment and software	\$ 7,653	\$ 9,226
Accumulated depreciation	<u>(6,812)</u>	<u>(8,158)</u>
Balance—net	<u>\$ 841</u>	<u>\$ 1,068</u>

Depreciation expense related to EDP equipment and software totaled \$1.3 million and \$2.1 million for the years ended December 31, 2004 and 2003, respectively.

17. NONCASH TRANSACTIONS

Noncash investment transactions were \$64.3 million and \$37.2 million for both acquisitions and dispositions resulting from conversions and tax free exchange transactions for the years ended December 31, 2004 and 2003, respectively.

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

The following reconciles the differences between the annual statements as filed with the Insurance Division and the audited financial statements—statutory basis for the year ended December 31, 2004.

The primary differences are the result of reclassifications and adjustments including the effect of adjustments related to recording reinsurance ceded and assumed. The reclassifications and adjustments were made after the annual statements were filed and are as follows (in thousands):

2004	Filed	Audited	Difference
Statements of admitted assets, liabilities, capital and surplus:			
Other invested assets	\$ 10,630	\$ 10,935	\$ 305
Interest, dividends and real estate income due and accrued	20,339	20,561	222
Other assets, net	11,595	7,970	(3,625)
Losses	2,241,819	2,238,061	(3,758)
Other expenses	15,125	15,800	675
Unearned premiums	57,008	57,061	53
Capital and surplus—unassigned funds	461,759	461,690	(69)
Statements of revenues, expenses, capital and surplus:			
Premium earned	\$ 375,077	\$ 373,520	\$ (1,557)
Losses incurred	455,536	469,370	13,834
Loss adjustment expenses incurred	7,999	7,997	(2)
Other underwriting expenses incurred	89,993	89,867	(126)
Net investment income earned	108,404	108,626	222
Net realized capital gains	47,397	46,571	(826)
Net loss from premium balances charged off	(846)	(2,527)	(1,681)
Other income (expense)	(632)	1,346	1,978
Statements of cash flows:			
Premiums collected net of reinsurance	\$ 362,617	\$ 360,551	\$ (2,066)
Loss and loss adjustment expenses paid	(286,957)	(267,863)	19,094
Underwriting expenses paid	(124,811)	(87,108)	37,703
Other expenses	(1,479)	(661)	818
Proceeds from investments sold, matured or repaid:			
Common and preferred stocks	\$ 193,858	\$ 169,258	\$(24,600)
Miscellaneous receipts	99,895	124,495	24,600
Cash from (used by) financing and miscellaneous sources—other cash provided, net			
	\$ 51,199	\$ (6,380)	\$(57,579)

The following reconciles the differences between the annual statements as filed with the Insurance Division and the audited financial statements—statutory basis for the year ended December 31, 2003.

The primary differences are the result of reclassifications and adjustments including the effect of trade date accounting on certain security transactions, changes in accounting for commutation agreements, and other adjustments related to recording reinsurance ceded and assumed. The reclassifications and adjustments were made after the annual statements were filed and are as follows (in thousands):

2003	Filed	Audited	Difference
Statements of admitted assets, liabilities, capital and surplus:			
Common stock	\$ 393,164	\$ 369,391	\$ (23,773)
Cash, cash equivalents and short-term investments	114,925	116,227	1,302
Receivable for securities sold	106,017	130,617	24,600
All other assets, net	7,535	7,255	(280)
Losses	2,073,241	1,999,465	(73,776)
Other expenses	12,950	13,217	267
Unearned premiums	50,795	50,915	120
Amounts withheld or retained for account of others	22,747	25,757	3,010
Capital and surplus—unassigned funds	376,229	448,456	72,227
Statements of revenues, expenses, capital and surplus:			
Premium earned	\$ 304,616	\$ 312,050	\$ 7,434
Losses incurred	352,182	339,872	(12,310)
Other underwriting expenses incurred	84,268	81,288	(2,980)
Net realized capital gains	19,438	20,263	825
Net loss from premium balances charged off	(1,012)	(1,084)	(72)
Other income (expense)	(454)	(2,428)	(1,974)
Statements of cash flows:			
Premiums collected	\$ 308,296	\$ 310,795	\$ 2,499
Loss and loss adjustment expenses paid	(206,550)	(249,386)	(42,836)
Underwriting expenses paid	(119,297)	(78,902)	40,395
Other operating income and expense—net	24,611	22,834	(1,777)
Proceeds from investments sold, matured or repaid:			
Common and preferred stocks	\$ 466,835	\$ 491,436	\$ 24,601
Miscellaneous receipts (payments)	(65,129)	(89,729)	(24,600)
Cash from financing and miscellaneous sources—other cash provided, net			
	\$ 11,302	\$ 14,320	\$ 3,018

19. SUBSEQUENT EVENT

In 2005, the Oregon legislature passed Senate Bill 386, which allows certain injured workers who are not able to return to work in a job that pays above a certain level to qualify for Permanent Total Disability (“PTD”) benefits. Under the previous law, these workers could not gain PTD benefits if they were able to return to any form of work. The effective date of the change would be for claims granted PTD status after January 1, 2006, regardless of injury date. SAIF is evaluating the impact that Senate Bill 386 will have on its financial position, results of operations or cash flows – statutory basis.

* * * * *

SUPPLEMENTAL SCHEDULES

APPENDIX A
SUMMARY INVESTMENT SCHEDULE

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	655,168,006	21.980	655,168,006	21.983
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	123,498,967	4.143	123,498,967	4.144
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	65,789,644	2.207	65,789,644	2.207
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	3,561,754	0.119	3,561,754	0.120
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	4,765,957	0.160	4,765,957	0.160
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	171,335,894	5.748	171,335,894	5.749
1.512 Issued or guaranteed by FNMA and FHLMC	344,271,540	11.550	344,271,540	11.551
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	7,906,163	0.265	7,906,163	0.265
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage- backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other	99,636,875	3.343	99,636,875	3.343
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	724,244,165	24.298	724,244,165	24.300
2.2 Unaffiliated foreign securities	125,634,905	4.215	125,634,905	4.215
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	310,885,093	10.430	310,885,093	10.431
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	33,700,688	1.131	33,700,688	1.131
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	29,676,189	0.996	29,676,189	0.996
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
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	179,108	0.006	179,108	0.006
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company	18,448,766	0.619	18,448,766	0.619
5.2 Property held for production of income (includes \$ 0 of property acquired in satisfaction of debt)	945,948	0.032	945,948	0.032
5.3 Property held for sale (\$ 0 including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	6,121,414	0.205	6,121,414	0.205
8. Cash, cash equivalents and short-term investments	243,988,044	8.186	243,988,044	8.186
9. Other invested assets	10,934,781	0.367	10,630,112	0.357
10. Total invested assets	2,980,693,901	100.000	2,980,389,232	100.000

APPENDIX B
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES



36196200428500100

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIESDue April 1
For the year ended December 31, 2004

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 reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 3,161,591,000
 2. Ten largest exposures to a single issuer/borrower/investment.

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	BGI Russell 3000 Index Fund	Index Fund	\$ 310,885,093	9.833 %
2.02	Nomura	Cash Equivalent	\$ 193,100,000	6.108 %
2.03	United Mexican States	Bond	\$ 19,787,162	0.626 %
2.04	Ford Motor Credit Co	Bond	\$ 19,393,481	0.613 %
2.05	Morgan Stanley	Bond	\$ 16,879,218	0.534 %
2.06	Russian Federation	Bond	\$ 16,568,015	0.524 %
2.07	Asset Securitization Corp	Bond	\$ 16,229,839	0.513 %
2.08	Tyco Intl Group	Bond	\$ 14,651,262	0.463 %
2.09	Liberty Media Corp	Bond	\$ 12,542,181	0.397 %
2.10	Morgan Stanley Group	Bond	\$ 12,244,248	0.387 %

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

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	Bonds		Preferred Stocks	
3.01	NAIC-1 \$ 1,869,453,933	59.130 %	3.07 P/RP-1 \$ 2,962,750	0.094 %
3.02	NAIC-2 \$ 322,941,292	10.215 %	3.08 P/RP-2 \$ 16,141,307	0.511 %
3.03	NAIC-3 \$ 75,381,768	2.384 %	3.09 P/RP-3 \$ 5,193,843	0.164 %
3.04	NAIC-4 \$ 55,613,609	1.759 %	3.10 P/RP-4 \$ 9,402,788	0.297 %
3.05	NAIC-5 \$ 14,719,436	0.466 %	3.11 P/RP-5 \$	%
3.06	NAIC-6 \$	%	3.12 P/RP-6 \$	%

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [] No [X]
4.02	Total admitted assets held in foreign investments.	\$ 168,574,533 5.332 %
4.03	Foreign-currency-denominated investments.	\$ %
4.04	Insurance liabilities denominated in that same foreign currency.	\$ %

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

SUPPLEMENT FOR THE YEAR 2004 OF THE SAIF Corporation

5.	Aggregate foreign investment exposure categorized by NAIC sovereign rating:		<u>1</u>	<u>2</u>
5.01	Countries rated NAIC-1	\$	104,245,392	3.297 %
5.02	Countries rated NAIC-2	\$	49,537,208	1.567 %
5.03	Countries rated NAIC-3 or below	\$	14,791,934	0.468 %
6.	Two largest foreign investment exposures in a single country, categorized by the country's NAIC sovereign rating:		<u>1</u>	<u>2</u>
	Countries rated NAIC-1:			
6.01	Country: United Kingdom	\$	20,477,185	0.648 %
6.02	Country: Netherlands	\$	16,687,819	0.528 %
	Countries rated NAIC-2:			
6.03	Country: Mexico	\$	24,049,112	0.761 %
6.04	Country: Russia	\$	16,568,015	0.524 %
	Countries rated NAIC-3 or below:			
6.05	Country: Brazil	\$	3,566,664	0.113 %
6.06	Country: Peru	\$	3,218,272	0.102 %
			<u>1</u>	<u>2</u>
7.	Aggregate unhedged foreign currency exposure	\$		%
8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:		<u>1</u>	<u>2</u>
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:		<u>1</u>	<u>2</u>
	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.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:		<u>1</u>	<u>2</u>
			<u>3</u>	<u>4</u>
			<u>Issuer</u>	<u>NAIC Rating</u>
10.01	Tyco Intl Group		2FE	\$ 14,651,262 0.463 %
10.02	CE Electric UK Funding		2FE	\$ 7,581,853 0.240 %
10.03	Schlumberger Limited		1	\$ 5,273,340 0.167 %
10.04	Amdocs Limited		2FE	\$ 5,180,750 0.164 %
10.05	British Telecom		1FE	\$ 5,125,643 0.162 %
10.06	Telefonica Europe		1FE	\$ 5,111,702 0.162 %
10.07	Teva Pharmaceutical		2	\$ 5,035,640 0.159 %
10.08	Renaissancere Holdings		1FE	\$ 4,996,085 0.158 %
10.09	Kreditanstalt Fuer		1FE	\$ 4,268,694 0.135 %
10.10	Codeleo Inc		1FE	\$ 3,774,453 0.119 %

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes No

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

	<u>1</u>	<u>2</u>	
11.02 Total admitted assets held in Canadian Investments	\$		%
11.03 Canadian-currency-denominated investments	\$		%
11.04 Canadian-denominated insurance liabilities	\$		%
11.05 Unhedged Canadian currency exposure	\$		%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes No

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	<u>1</u>	<u>2</u>	<u>3</u>
12.02 Aggregate statement value of investments with contractual sales restrictions	\$		%
Largest 3 investments with contractual sales restrictions:			
12.03	\$		%
12.04	\$		%
12.05	\$		%

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes No

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	<u>1</u>	<u>2</u>	<u>3</u>
	Name of Issuer		
13.02 BGI Russell 3000 Index Fund	\$ 310,885,093		9.833 %
13.03 Constellation Brands Inc	\$ 6,094,440		0.193 %
13.04 Schering-Plough	\$ 5,610,000		0.177 %
13.05 Sempra Energy	\$ 5,446,000		0.172 %
13.06 FPL Group	\$ 5,369,823		0.170 %
13.07 Baxter International	\$ 5,363,700		0.170 %
13.08 Dominion Resources Inc	\$ 5,167,607		0.163 %
13.09 Alltel Corp	\$ 5,130,330		0.162 %
13.10 Gilead Sciences Inc	\$ 4,913,471		0.155 %
13.11 Chesapeake Energy Corp	\$ 3,521,494		0.111 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	<u>1</u>	<u>2</u>	<u>3</u>
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities		\$ %
Largest 3 investments held in nonaffiliated, privately placed equities:			
14.03		\$ %
14.04		\$ %
14.05		\$ %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

	<u>1</u>	<u>2</u>	<u>3</u>
15.02 Aggregate statement value of investments held in general partnership interests.		\$ %
Largest 3 investments in general partnership interests:			
15.03		\$ %
15.04		\$ %
15.05		\$ %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	<u>1</u>	<u>2</u>	<u>3</u>
	<u>Type (Residential, Commercial, Agricultural)</u>		
16.02		\$ %
16.03		\$ %
16.04		\$ %
16.05		\$ %
16.06		\$ %
16.07		\$ %
16.08		\$ %
16.09		\$ %
16.10		\$ %
16.11		\$ %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

Loans

16.12	Construction loans	\$	.....	%
16.13	Mortgage loans over 90 days past due	\$	.....	%
16.14	Mortgage loans in the process of foreclosure	\$	.....	%
16.15	Mortgage loans foreclosed	\$	.....	%
16.16	Restructured mortgage loans	\$	.....	%

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

	<u>Loan-to-Value</u>	<u>Residential</u>		<u>Commercial</u>		<u>Agricultural</u>	
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
17.01	above 95%	\$	.....	%	\$	.....	%
17.02	91% to 95%	\$	.....	%	\$	.....	%
17.03	81% to 90%	\$	.....	%	\$	.....	%
17.04	71% to 80%	\$	.....	%	\$	.....	%
17.05	below 70%	\$	.....	%	\$	.....	%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets? Yes No

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	<u>Description</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
18.02	\$
18.03	\$
18.04	\$
18.05	\$
18.06	\$

19. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>3rd Qtr</u>
19.01	Securities lending agreements (do not include assets held as collateral for such transactions)	\$ 766,279,574	24.237 %	\$ 538,949,892	\$ 659,447,762	\$ 571,735,413
19.02	Repurchase agreements	\$	%	\$	\$	\$
19.03	Reverse repurchase agreements	\$	%	\$	\$	\$
19.04	Dollar repurchase agreements	\$	%	\$	\$	\$
19.05	Dollar reverse repurchase agreements	\$	%	\$	\$	\$

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20. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	<u>Owned</u>		<u>Written</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
20.01 Hedging	\$	%	\$	%
20.02 Income generation	\$	%	\$	%
20.03 Other	\$	%	\$	%

21. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
21.01 Hedging	\$	%	\$	\$	\$	
21.02 Income generation	\$	%	\$	\$	\$	
21.03 Replications	\$	%	\$	\$	\$	
21.04 Other	\$	%	\$	\$	\$	

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	
22.01 Hedging	\$	%	\$	\$	\$	
22.02 Income generation	\$	%	\$	\$	\$	
22.03 Replications	\$	%	\$	\$	\$	
22.04 Other	\$	%	\$	\$	\$	