SAIF Corporation

Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2005 and 2004, Supplemental Schedules as of December 31, 2005, and Independent Auditors' Report

Secretary of State Audits Division Report No. 2006-32

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, 2005 and 2004, 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, 2005 and 2004, 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 2005 audit was conducted for the purpose of forming an opinion on the basic 2005 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, 2005, 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 2005 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 2005 financial statements—statutory basis and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2005 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 22, 2006

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2005 and 2004 (In thousands)

	2005	2004
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	$2,618,667	$2,325,814
Preferred stocks	5,277	33,701
Common stocks	495,679	340,561
Mortgage loans on real estate—first liens	115	179
Real estate, net of accumulated depreciation of $9,696 and $8,973:		
Properties occupied by the Company	17,758	18,449
Properties held for the production of income	915	946
Cash, cash equivalents, and short-term investments	40,376	243,988
Other invested assets	7,910	10,935
Receivable for securities sold	262	6,121
Total cash and invested assets	3,186,959	2,980,694
Interest, dividends, and real estate income due and accrued	27,482	20,561
Premiums in course of collection	8,936	8,196
Premiums and installments booked but deferred and not yet due	75,808	66,151
Accrued retrospective premiums receivable	71,120	65,528
Reinsurance recoverables	2,323	141
Electronic data processing ("EDP") equipment and software, net of accumulated depreciation of $6,426 and $6,812	646	841
Due from Workers' Compensation Division	12,223	11,509
Other assets, net of accumulated depreciation of $3,140 and $3,185	12,173	7,970
TOTAL	$3,397,670	$3,161,591
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	$2,272,192	$2,238,061
Loss adjustment expenses	328,035	319,541
Other expenses	18,652	15,800
Taxes, licenses, and fees	13,548	14,425
Unearned premiums	63,736	57,061
Advance premiums	3,921	3,639
Ceded reinsurance premiums payable	2,197	2,220
Amounts withheld or retained for account of others	22,444	21,420
Other liabilities	1,626	
Payable for securities purchased	1,921	1,163
Accrued retrospective premiums payable	32,410	26,571
Total liabilities	2,760,682	2,699,901
CAPITAL AND SURPLUS—Unassigned funds	636,988	461,690
TOTAL	$3,397,670	$3,161,591

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, CAPITAL AND SURPLUS—STATUTORY BASIS FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (In thousands)

	2005	2004
UNDERWRITING REVENUES—Premiums earned	$ 413,172	$ 373,520
UNDERWRITING EXPENSES:		
Losses incurred	294,304	469,370
Loss adjustment expenses incurred	48,516	7,997
Other underwriting expenses incurred	94,661	89,867
Total underwriting expenses	437,481	567,234
NET UNDERWRITING LOSS	(24,309)	(193,714)
NET INVESTMENT INCOME:		
Net investment income earned	119,866	108,626
Net realized capital gains	15,777	46,571
Net investment income	135,643	155,197
OTHER INCOME:		
Net loss from premium balances charged off	(1,423)	(2,527)
Premium assessment income	27,238	25,952
Other income	2,588	1,346
Total other income—net	28,403	24,771
NET INCOME (LOSS)	$ 139,737	$ (13,746)
CAPITAL AND SURPLUS:		
Unassigned funds—beginning of year	$ 461,690	$ 448,456
Net income (loss)	139,737	(13,746)
Net unrealized capital gains	31,735	31,884
Change in nonadmitted assets	3,826	(4,904)
Net change in capital and surplus	175,298	13,234
Unassigned funds—end of year	$ 636,988	$ 461,690

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In thousands)

	2005	2004
CASH FROM (USED BY) OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	$ 411,712	$ 360,551
Loss and loss adjustment expenses paid	(300,195)	(267,863)
Underwriting expenses paid	(92,685)	(87,108)
Total cash from underwriting	18,832	5,580
Net investment income	121,172	117,413
Premium assessment income	27,238	25,952
Recovered from Oregon Workers' Compensation Division	(714)	729
Other expenses	1,165	(661)
Net cash from operations	167,693	149,013
CASH FROM (USED BY) INVESTMENTS:		
Proceeds from investments sold, matured or repaid:		
Bonds	5,032,332	2,754,976
Common and preferred stocks	76,856	169,258
Mortgage loans	64	423
Other invested assets	2,527	24,489
Miscellaneous receipts	5,860	124,495
Total proceeds from investments sold, matured or repaid	5,117,639	3,073,641
Cost of investments acquired:		
Bonds	5,318,607	2,938,143
Common and preferred stocks	169,622	99,581
Miscellaneous receipts	(757)	50,789
Total cost of investments acquired	5,487,472	3,088,513
Net cash used by investments	(369,833)	(14,872)
CASH FROM (USED BY) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	4,428	309
Other cash applied	(5,900)	(6,689)
Net cash used by financing and miscellaneous sources	(1,472)	(6,380)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Net increase (decrease) in cash, cash equivalents and short-term investments	(203,612)	127,761
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Beginning of year	243,988	116,227
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—End of year	$ 40,376	$ 243,988

See notes to financial statements—statutory basis.

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 29.7% and 29.3% of standard premium during 2005 and 2004, respectively.

The State of Oregon, Department of Consumer Business Services ("DCBS") enforces workers' compensation laws under Oregon Revised Statutes ("ORS"). Under the reporting requirements of the DCBS, Insurance Division (the "Insurance Division"), the Company is subject to Risk Based Capital ("RBC") reporting requirements of the National Association of Insurance Commissioners' ("NAIC"), which establishes that certain amounts of capital and surplus be maintained. The Company's RBC calculated minimum capital and surplus amount is $265.9 million and $318.1 million at December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, the statutory capital and surplus of the Company exceeded the minimum RBC 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 Insurance Division.

The Insurance Division has adopted the NAICs' 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 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.

(e) Cash collateral and collateral due to borrowers for securities lending activity are reflected on the GAAP financial statements. Statutory accounting does not require the reporting of such items as assets and liabilities.

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, 2005 and 2004 was 25 days and 29 days, respectively. The average maturity of the SSgA Prime Fund as of December 31, 2005 and 2004 was 24 days and 30 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, 2005 and 2004 was 165 days and 160 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, 2005 and 2004. 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 2005 and 2004, 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, the 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, 2005 and 2004, no accrued interest or other investment income due and accrued was excluded from unassigned funds.

For repurchase agreements, the Company's 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 $10.9 million at December 31, 2005.

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 in premiums earned 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 2005 and 2004 were \$95.9 million and \$95.9 million, respectively, or 22.9% and 25.3% of net 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 losses and loss adjustment expense reserves), or collateral at December 31, 2005 and 2004, is as follows (in thousands):

	2005	2004
Total accrued retrospective premiums receivable	\$ 79,022	\$ 72,809
Less nonadmitted amount (10%)	7,902	7,281
Admitted accrued retrospective premiums receivable	\$ 71,120	\$ 65,528

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. Annually, the Board of Directors reviews the actuarial assumptions utilized in determining the liability for such losses.

Currently, the Company discounts the indemnity 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, 2005 and 2004. The Company does not discount the reserve for unpaid fatal and permanent total disability loss adjustment expenses. The discount reduced the reserve for losses by $97.3 million and $100.4 million at December 31, 2005 and 2004, 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 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. Claims covered by contracts with MCOs were approximately 88.3% and 87.3% of total claims during 2005 and 2004, 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 $2.1 million and $2.3 million for the years ended December 31, 2005 and 2004, 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 postimplementation/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 DCBS. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessments were $27.5 million and $26.3 million for the years ended December 31, 2005 and 2004, respectively. Accrued premium assessments payable were $9.9 million and $10.3 million as of December 31, 2005 and 2004, respectively.

Allocable Expenses—The material components of loss adjustment expenses, other underwriting expenses, and investment expenses are as follows (in thousands):

	2005			2004		
	Loss adjustment expenses incurred	Other underwriting expenses incurred	Net investment income	Loss adjustment expenses incurred	Other underwriting expenses incurred	Net investment income
Salaries, wages and other benefits	$ 38,751	$ 34,395	$ 1,744	$ 7,305	$ 31,548	$ 1,851
Commissions		19,839			16,661	
State premium taxes		27,687			27,155	
Other	9,765	12,740	5,431	692	14,503	5,575
Total bonds	$ 48,516	$ 94,661	$ 7,175	$ 7,997	$ 89,867	$ 7,426

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 2005 and 2004, subject to any deviations prescribed or permitted by the Insurance Division. There were no changes in accounting methods in 2005 and 2004 and no new statutory accounting principles which had or is expected to have a material impact on the financial statements when adopted by the Company.

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 no such receivables at December 31, 2005 and $1.0 million of such receivables nonadmitted at December 31, 2004.

The book/adjusted carrying value and NAIC-designated fair value of the Company's investment securities at December 31, 2005 and 2004 were as follows (in thousands):

2005	Book/Adjusted Carrying Value	NAIC - Designated Fair Value	Excess of NAIC Fair Value over (under) Book/Adjusted Carrying Value
Bonds:			
U.S. government	$ 646,357	$ 650,206	$ 3,849
All other governments	103,035	109,341	6,306
Political subdivisions of states and territories	3,558	3,664	106
Special revenue and special assessment	4,753	4,866	113
Public utilities	78,037	81,776	3,739
Industrial and miscellaneous	811,675	828,770	17,095
Asset-backed securities	971,252	961,775	(9,477)
Total bonds	$2,618,667	$2,640,398	$21,731
Short-term investments	$ 4,313	$ 4,313	$ -
Stocks:			
Preferred stock	$ 5,277	$ 5,277	$ -
Common stock	495,679	495,679	-
Total stocks	$ 500,956	$ 500,956	$ -

2004	Book/Adjusted Carrying Value	NAIC - Designated Fair Value	Excess of NAIC Fair Value over (under) Book/Adjusted Carrying Value
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	726,886	737,338	10,452
Total bonds	$2,325,814	$2,398,048	$72,234
Short-term investments	$ 12,296	$ 12,296	$ -
Stocks:			
Preferred stock	$ 33,701	$ 35,495	$ 1,794
Common stock	340,561	340,561	-
Total stocks	$ 374,262	$ 376,056	$ 1,794

Proceeds from the sale and maturity of bonds were $5.0 billion and $2.7 billion during 2005 and 2004, respectively. Proceeds from the sale of stocks were $76.9 million and $169.3 million during 2005 and 2004, respectively.

The book/adjusted carrying value and NAIC-designated fair value of bonds at December 31, 2005 and 2004, 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.

	2005		2004	
	Book/ Adjusted Carrying Value	NAIC-Designated Fair Value	Book/ Adjusted Carrying Value	NAIC-Designated Fair Value
Due in one year or less	$ 268,730	$ 266,795	$ 195,015	$ 197,099
Due after one year through five years	778,922	774,586	966,314	976,139
Due after five years through ten years	604,902	609,020	544,709	566,082
Due after ten years	966,113	989,997	619,776	658,728
Total bonds	$ 2,618,667	$ 2,640,398	$ 2,325,814	$ 2,398,048

Net investment income for the years ended December 31, 2005 and 2004 comprises the following (in thousands):

	2005	2004
Investment income	$ 127,041	$ 116,052
Net realized capital gains	15,777	46,571
Total gross investment income	142,818	162,623
Less investment expense	(7,175)	(7,426)
Net investment income	$ 135,643	$ 155,197

Gross realized gains and losses and the net realized gains (losses) from investment securities for the years ended December 31, 2005 and 2004 consist of the following (in thousands):

2005	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	$ 35,212	$ (24,679)	$ 10,533
Preferred stocks	1,401	(1,077)	324
Common stocks	5,091	(185)	4,906
Other invested assets	14	-	14
Total	$ 41,718	$ (25,941)	$ 15,777

2004	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
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	8,274	(3,978)	4,296
Total	$ 78,475	$ (31,904)	$ 46,571

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 2005 and 2004, 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, 2005 and 2004.

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, 2005 and 2004, the Fund had an average weighted maturity of 214 days and 398 days, respectively. On December 31, 2005 the Company had no credit risk exposure to borrowers. The collateral held for the Company's securities on loan at December 31, 2005 and 2004 were $684.2 million and $800.1 million, respectively. The fair value including accrued income of the Company's securities on loan at December 31, 2005 and 2004 were $670.5 million and $783.9 million, respectively. These amounts are not included in the Company's financial statements—statutory basis. Securities lending income was $21.6 million and $8.9 million for 2005 and 2004, respectively. Securities lending expense was $20.3 million and $7.9 million for 2005 and 2004, 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, 2005 and 2004 are as follows (in thousands):

	2005		2004	
	Book/Adjusted Carrying Value	NAIC-Designated Fair Value	Book/Adjusted Carrying Value	NAIC-Designated Fair Value
Fair value of financial instruments:				
Bonds	$2,618,667	$2,640,398	$2,325,814	$2,398,048
Preferred stock	5,277	5,277	33,701	35,495
Common stock	495,679	495,679	340,561	340,561
Mortgage loans	115	115	179	179
Short-term investments	4,313	4,313	12,296	12,296
Total	$3,124,051	$3,145,782	$2,712,551	$2,786,579

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in losses and loss adjustment expenses is summarized at December 31, 2005 and 2004 as follows (in thousands):

	2005	2004
Gross reserve for losses and loss adjustment expenses—beginning of year	$2,636,944	$2,422,226
Less reinsurance ceded—beginning of year	(79,342)	(74,128)
Net balance—beginning of year	2,557,602	2,348,098
Incurred related to:		
Current year	472,265	451,652
Prior year	(129,445)	25,715
Total incurred	342,820	477,367
Paid related to:		
Current year paid	99,620	95,198
Prior year	200,575	172,665
Total paid	300,195	267,863
Net balance—end of year	2,600,227	2,557,602
Plus reinsurance ceded—end of year	59,992	79,342
Gross reserve for losses and loss adjustment expenses—end of year	$2,660,219	$2,636,944

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses decreased by $129.4 million in 2005 and increased by $25.7 million in 2004, respectively. In 2005, the changes resulted from changes in the assumptions in the expected rate of medical inflation; in 2004 the changes resulted from actual permanent total disability claims differing from amounts provided for at the beginning of the year.

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 $274.8 million and $278.1 million for 2005 and 2004, respectively. The discounts were $97.3 million and $100.4 million as of December 31, 2005 and 2004.

Anticipated salvage and subrogation of $22.3 million and $22.6 million is included as a reduction of the reserve for losses at December 31, 2005 and 2004, 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 $248 thousand and $242 thousand for the years ended December 31, 2005 and 2004, respectively.

8. DEFERRED COMPENSATION PLAN

A deferred compensation plan (the "Plan") was authorized under Internal Revenue Code Section 457(b) 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 PERS Board of Trustees under the guidelines of ORS Chapter 238 administers PERS. 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. Additionally, the Company is required by statute to contribute a percentage of each covered employee's salary to fund the PERS program. As of December 31, 2005, the rate was 8.69%. Rates are subject to change as a result of subsequent actuarial valuations.

The Company 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 PERS Board of Trustees 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 6.0% 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 Company participates along with 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 25 years after the date of issuance. Currently, the repayment rate is 6.45% of payroll each month. The payment rate is recalculated each state fiscal biennium. The Company paid $3.0 million and $2.1 million for the years ended December 31, 2005 and 2004, respectively.

The amounts contributed to PERS and OPSRP by the Company for the years ended December 31, 2005 and 2004 were $8.8 million and $6.8 million, respectively. Employee contributions paid by the Company for the years ended December 31, 2005 and 2004 were $2.7 million and $2.6 million, respectively.

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, 2005 and 2004 is as follows (in thousands):

	2005	2004
Net unrealized capital gains	$ 74,558	$ 42,823
Nonadmitted assets	(17,745)	(21,571)

The Company is subject to RBC reporting requirements of the NAIC, which establishes that certain amounts of capital and surplus be maintained. As of December 31, 2005 and 2004, the Company's capital and surplus exceeded the RBC required amount. While the Company is not subject to the minimum capital and surplus requirements set forth in ORS 731.554, the Company uses various benchmarking and risk level techniques to monitor and maintain an adequate level of capital and 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 $7.0 million and $5.2 million at December 31, 2005 and 2004, respectively.

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 $616 thousand and $579 thousand for the years ended December 31, 2005 and 2004, respectively. At December 31, 2005, the minimum aggregate rental commitments are as follows (in thousands):

2006	$ 589
2007	464
2008	479
2009	472
2010	481
Thereafter	-
Total minimum lease payments	$2,485

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 $831 thousand on leases due in the future under noncancelable subleases as of December 31, 2005.

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, 2005 and 2004 and reacquired within 30 days of the sale.

14. SECURITIES ON DEPOSIT

Securities with an adjusted carrying value of $3.8 million at December 31, 2005 and 2004 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 $60 million, excess of $40 million per occurrence, with a $5 million maximum on any one life. This reinsurance protection excludes coverage for nuclear, biological, chemical or radiological events in some or all instances. During 2005, the Company had reinsurance protection for 90% of losses in excess of 15% of 2004 direct earned premium for acts of foreign terrorism through the Federal Reinsurance Act.

The following amounts have been deducted (added) in the accompanying financial statements—statutory basis as a result of reinsurance ceded at December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
Liability for losses and loss adjustment expenses	$ 59,992	$ 79,342
Premiums earned	2,306	2,643
Losses and loss adjustment expenses incurred	(19,018)	5,533

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 included in the accompanying financial statements—statutory basis as a result of participation in the Oregon Insurance Plan at December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
Assumed:		
Liability for losses and loss adjustment expenses	$ 75,180	$ 69,686
Advance premiums	3,174	2,721
Premiums earned	33,040	31,642
Losses and loss adjustment expenses incurred	21,629	23,851
Ceded:		
Liability for losses and loss adjustment expenses	$ 89,025	$ 88,279
Advance premiums	3,817	3,457
Premiums earned	29,330	30,220
Losses and loss adjustment expenses incurred	14,762	24,724

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 three years. There were no nonoperating software assets admitted at December 31, 2005 and 2004.

EDP equipment and software at December 31, 2005 and 2004 consisted of the following (in thousands):

	2005	2004
EDP equipment and software	$ 7,072	$ 7,653
Accumulated depreciation	(6,426)	(6,812)
Balance—net	$ 646	$ 841

Depreciation expense related to EDP equipment and software totaled $1.1 million and $1.3 million for the years ended December 31, 2005 and 2004, respectively.

17. NONCASH TRANSACTIONS

Noncash investment transactions were $75.1 million and $64.3 million for both acquisitions and dispositions resulting from conversions and tax-free exchange transactions for the years ended December 31, 2005 and 2004, 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, 2005.

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):

2005	Filed	Audited	Difference
Statements of admitted assets, liabilities, capital, and surplus:			
Other invested assets	$ 8,427	$ 7,910	$ (517)
Interest, dividends and real estate income due and accrued	27,339	27,482	143
Reinsurance recoverables	2,573	2,323	(250)
Other assets—net	13,234	12,173	(1,061)
Losses	2,280,294	2,272,192	(8,102)
Other expenses	16,184	18,652	2,468
Unearned premiums	63,500	63,736	236
Capital and surplus—unassigned funds	633,275	636,988	3,713
Statements of revenues, expenses, capital, and surplus:			
Premium earned	$ 412,155	$ 413,172	$ 1,017
Losses incurred	298,020	294,304	(3,716)
Loss adjustment expenses incurred	48,517	48,516	(1)
Other underwriting expenses incurred	92,951	94,661	1,710
Net investment income earned	119,946	119,866	(80)
Net loss from premium balances charged off	(2,898)	(1,423)	1,475
Other income (expense)	2,402	2,588	186
Net unrealized capital gains	32,558	31,735	(823)
Unassigned funds—end of year	633,275	636,988	3,713
Statements of cash flows:			
Premiums collected net of reinsurance	$ 404,675	$ 411,712	$ 7,037
Loss and loss adjustment expenses paid	(261,977)	(300,195)	(38,218)
Underwriting expenses paid	(133,094)	(92,685)	40,409
Other expenses	(496)	1,165	1,661
Cash from (used by) financing and miscellaneous			
Net cash from (used by) financing and miscellaneous sources	$ 8,702	$ (1,472)	$(10,174)

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)

* * * * * *

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	471,700,616	14.801	471,700,616	14.799
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	4,780,000	0.150	4,780,000	0.150
1.22 Issued by U.S. government sponsored agencies	174,656,032	5.480	174,656,032	5.479
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	103,035,369	3.233	103,035,369	3.233
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	3,557,961	0.112	3,557,961	0.112
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	4,753,181	0.149	4,753,181	0.149
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	140,131,964	4.397	140,131,964	4.396
1.512 Issued or guaranteed by FNMA and FHLMC	562,246,282	17.642	562,246,282	17.639
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	17,067,367	0.536	17,067,367	0.535
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	155,422,122	4.877	155,422,122	4.876
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	831,912,790	26.104	831,912,790	26.099
2.2 Unaffiliated foreign securities	149,403,733	4.688	149,403,733	4.687
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	495,679,356	15.553	495,679,356	15.551
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	5,277,432	0.166	5,277,432	0.166
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
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	114,808	0.004	114,808	0.004
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	17,757,668	0.557	17,757,668	0.557
5.2 Property held for production of income (including $ 0 of property acquired in satisfaction of debt)	914,768	0.029	914,768	0.029
5.3 Property held for sale (including $ 0 property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	262,313	0.008	262,313	0.008
8. Cash, cash equivalents and short-term investments	40,375,849	1.267	40,375,849	1.267
9. Other invested assets	7,909,004	0.248	8,427,405	0.264
10. Total invested assets	3,186,958,615	100.000	3,187,477,016	100.000

APPENDIX B

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

36196200528500100

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2005
(To be Filed by April 1)

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. $ 3,397,670,425

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	BGI Russell 3000 Index Fund	Index Fund	$ 495,679,355	14.589 %
2.02	United Mexican States	Bond	$ 27,120,343	0.798 %
2.03	Tyco Intl Group SA	Bond	$ 24,429,962	0.719 %
2.04	Bear Stearns	Bond	$ 23,808,028	0.701 %
2.05	Sprint Capital Corp	Bond	$ 20,628,015	0.607 %
2.06	Ford Motor Credit Co	Bond	$ 18,355,620	0.540 %
2.07	Russian Federation	Bond	$ 18,050,064	0.531 %
2.08	General Elec Cap Corp	Bond	$ 16,584,285	0.488 %
2.09	Morgan Stanley	Bond	$ 16,542,795	0.487 %
2.10	Wachovia Corp	Bond	$ 16,393,928	0.483 %

3. 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	$ 2,074,182,787	61.047 %	3.07	P/RP-1	$ 5,277,432	0.155 %
3.02	NAIC-2	$ 436,654,911	12.852 %	3.08	P/RP-2	$	%
3.03	NAIC-3	$ 95,125,022	2.800 %	3.09	P/RP-3	$	%
3.04	NAIC-4	$ 19,515,154	0.574 %	3.10	P/RP-4	$	%
3.05	NAIC-5	$ 8,302,610	0.244 %	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]

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

4.02	Total admitted assets held in foreign investments.	$ 235,357,775	6.927 %
4.03	Foreign-currency-denominated investments.	$	%
4.04	Insurance liabilities denominated in that same foreign currency.	$	%

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

		1	2
5.01	Countries rated NAIC-1	$ 124,509,093	3.665 %
5.02	Countries rated NAIC-2	$ 75,445,053	2.220 %
5.03	Countries rated NAIC-3 or below	$ 35,403,629	1.042 %

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

		1	2
	Countries rated NAIC-1:		
6.01	Country: Luxembourg	$ 38,997,000	1.148 %
6.02	Country: United Kingdom	$ 22,204,383	0.654 %
	Countries rated NAIC-2:		
6.03	Country: Mexico	$ 41,110,546	1.210 %
6.04	Country: Russia	$ 22,082,916	0.650 %
	Countries rated NAIC-3 or below:		
6.05	Country: Brazil	$ 18,877,900	0.556 %
6.06	Country: Colombia	$ 4,485,860	0.132 %

		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. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01	United Mexican States	2FE	$ 27,120,343	0.798 %
10.02	Tyco Intl Group SA	2FE	$ 24,429,962	0.719 %
10.03	Russian Federation	2FE	$ 18,050,064	0.531 %
10.04	Federal Republic of Brazil	3FE	$ 11,782,817	0.347 %
10.05	Telecom Italia	2FE	$ 11,317,038	0.333 %
10.06	British Telecom PLC	1FE	$ 8,124,187	0.239 %
10.07	CE Electric UK Funding 144A	2FE	$ 7,556,283	0.222 %
10.08	Deutsche Telekom Intl Fin	1FE	$ 7,437,393	0.219 %
10.09	Petroliam Nasional Berhd	1FE	$ 6,600,772	0.194 %
10.10	Grupo Televisa SA	2FE	$ 5,266,077	0.155 %

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 [X] No [ ]

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

		1	2
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 [X] No [ ]

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

	1	2	3
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 ten equity interests:

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

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

	1 Name of Issuer	2	3
13.02	BGI Russell 3000 Index Fund	$ 495,679,355	14.589 %
13.03	BAC Capital Trust VI	$ 4,735,248	0.139 %
13.04	Home Ownership Funding Step-Down PFD 144A	$ 276,594	0.008 %
13.05	Home Ownership Funding Step-Down PFD 144A	$ 265,590	0.008 %
13.06		$	%
13.07		$	%
13.08		$	%
13.09		$	%
13.10		$	%
13.11		$	%

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.

	1	2	3
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.

	1	2	3
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.

	1 Type (Residential, Commercial, Agricultural)	2	3
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:

	Loan-to-Value	Residential		Commercial		Agricultural	
		1	2	3	4	5	6
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 [X] 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.

	Description 1	2	3
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:

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
19.01	Securities lending agreements (do not include assets held as collateral for such transactions)	$ 656,257,497	19.315 %	$ 584,163,133	$ 607,521,913	$ 408,858,999
19.02	Repurchase agreements	$	%	$	$	$
19.03	Reverse repurchase agreements	$	%	$	$	$
19.04	Dollar repurchase agreements	$	%	$	$	$
19.05	Dollar reverse repurchase agreements	$	%	$	$	$

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

	Owned 1	Owned 2	Written 3	Written 4
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:

	At Year-end		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
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:

	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	$	%	$	$	$