SAIF Corporation

Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2006 and 2005, Supplemental Schedules as of December 31, 2006, 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 discrete component of the State of Oregon, as of December 31, 2006 and 2005, 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, 2006 and 2005, 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 2006 audit was conducted for the purpose of forming an opinion on the basic 2006 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, 2006, 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 2006 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 2006 financial statements—statutory basis and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2006 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 17, 2007

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2006 and 2005

(In thousands)

	2006	2005
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	$ 2,802,178	$ 2,618,667
Preferred stocks	8,362	5,277
Common stocks	573,041	495,679
Mortgage loans on real estate—first liens	62	115
Real estate, net of accumulated depreciation of $10,418 and $9,696:		
Properties occupied by the Company	17,067	17,758
Properties held for the production of income	883	915
Cash, cash equivalents, and short-term investments	53,301	40,376
Other invested assets	12,580	7,910
Receivable for securities sold	959	262
Total cash and invested assets	3,468,433	3,186,959
Interest, dividends, and real estate income due and accrued	31,139	27,482
Premiums in course of collection	9,004	8,936
Premiums and installments booked but deferred and not yet due	93,137	75,808
Accrued retrospective premiums receivable	70,307	71,120
Reinsurance recoverables	108	2,323
Electronic data processing ("EDP") equipment and software, net of accumulated depreciation of $6,712 and $6,426	539	646
Due from Workers' Compensation Division	12,013	12,223
Other assets, net of accumulated depreciation of $3,168 and $3,140	11,138	12,173
TOTAL	$ 3,695,818	$ 3,397,670
LIABILITIES, CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	$ 2,404,091	$ 2,272,192
Loss adjustment expenses	294,220	328,035
Other expenses	18,481	18,652
Taxes, licenses, and fees	11,976	13,548
Unearned premiums	71,951	63,736
Advance premiums	4,408	3,921
Ceded reinsurance premiums payable	8,999	2,197
Amounts withheld or retained for account of others	23,678	22,444
Other liabilities	1,358	1,626
Payable for securities purchased	2	1,921
Accrued retrospective premiums payable	29,933	32,410
Total liabilities	2,869,097	2,760,682
CAPITAL AND SURPLUS—Unassigned funds	826,721	636,988
TOTAL	$ 3,695,818	$ 3,397,670

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, CAPITAL AND SURPLUS—STATUTORY BASIS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands)

	2006	2005
UNDERWRITING REVENUES—Premiums earned	$ 437,983	$ 413,172
UNDERWRITING EXPENSES:		
Losses incurred	400,577	294,304
Loss adjustment expenses incurred	7,494	48,516
Other underwriting expenses incurred	91,565	94,661
Total underwriting expenses	499,636	437,481
NET UNDERWRITING LOSS	(61,653)	(24,309)
NET INVESTMENT INCOME:		
Net investment income earned	144,152	119,866
Net realized capital gains	7,497	15,777
Net investment income	151,649	135,643
OTHER INCOME:		
Net loss from premium balances charged off	(976)	(1,423)
Premium assessment income	24,552	27,238
Other income	262	2,588
Total other income—net	23,838	28,403
NET INCOME	$ 113,834	$ 139,737
CAPITAL AND SURPLUS:		
Unassigned funds—beginning of year	$ 636,988	$ 461,690
Net income	113,834	139,737
Net unrealized capital gains	76,278	31,735
Change in nonadmitted assets	(379)	3,826
Net change in capital and surplus	189,733	175,298
Unassigned funds—end of year	$ 826,721	$ 636,988

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands)

	2006	2005
CASH FROM (USED BY) OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	$ 436,073	$ 405,874
Net investment income	145,964	121,172
Premium assessment income	24,552	27,238
Miscellaneous income	(714)	1,165
Benefits and loss related payments	(266,462)	(262,355)
Underwriting expenses paid	(133,618)	(134,184)
Net cash from operations	205,795	158,910
CASH FROM (USED BY) INVESTMENTS:		
Proceeds from investments sold, matured or repaid:		
Bonds	2,227,706	5,032,332
Common and preferred stocks	4,423	76,856
Mortgage loans	53	64
Other invested assets		2,527
Cash and short-term investments	43	
Miscellaneous receipts	(698)	5,860
Total proceeds from investments sold, matured or repaid	2,231,527	5,117,639
Cost of investments acquired:		
Bonds	2,410,031	5,318,607
Common and preferred stocks	7,045	169,622
Other invested assets	4,696	
Miscellaneous receipts	1,918	(757)
Total cost of investments acquired	2,423,690	5,487,472
Net cash used by investments	(192,163)	(369,833)
CASH FROM (USED BY) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	3,061	11,743
Other cash applied	(3,768)	(4,432)
Net cash from (used by) financing and miscellaneous sources	(707)	7,311
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Net increase (decrease) in cash, cash equivalents and short-term investments	12,925	(203,612)
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—Beginning of year	40,376	243,988
CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS—End of year	$ 53,301	$ 40,376

See notes to financial statements—statutory basis.

1. NATURE OF OPERATIONS

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

SAIF is an insurance company authorized to write workers' compensation coverage in Oregon and is a servicing carrier for accounts in the assigned risk pool. SAIF also provides coverage governed by the Longshore and Harbor Workers' Compensation Act, Jones Act, and Federal Employers Liability Law. SAIF'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 SAIF.

SAIF writes business on a direct basis as well as through agents. Premiums written on a direct basis were 29.3 percent and 29.7 percent of standard premium during 2006 and 2005, respectively.

The Oregon Department of Consumer Business Services ("DCBS") enforces workers' compensation laws under the Oregon Revised Statutes ("ORS"). Under the reporting requirements of the DCBS, Insurance Division (the "Insurance Division"), SAIF 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. SAIF's RBC calculated minimum capital and surplus amount was $284.5 million and $265.9 million at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, the statutory capital and surplus of SAIF exceeded the minimum RBC requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—SAIF'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 NAIC's 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.

(b) Changes in the fair value of investments are charged directly to capital and surplus whereas, under GAAP, changes in fair value are recorded as investment income.

(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.

(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.

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. SAIF considers several factors in determining if an impairment is other than temporary, including the extent and duration of impairment, the financial condition and short-term prospects of the issuer, SAIF's ability to hold the investment to allow recovery in value, as well as management's intent to sell the investment. 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 SAIF which were in or near default at December 31, 2006 and 2005. 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 2006 and 2005, 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 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.

SAIF has minority ownership interests in joint ventures. SAIF 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 using 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, 2006 and 2005, no accrued interest or other investment income due and accrued was excluded from unassigned funds.

SAIF's policy requires a minimum of 102 percent of the fair value of securities purchased under repurchase agreements to be maintained as collateral. The collateral securities are held at State Street Bank. There were no securities purchased under repurchase agreements at December 31, 2006.

Cash and Cash Equivalents—SAIF places its temporary cash investments with the Oregon Short Term Fund. The Oregon Short Term Fund is a cash and investment pool that operates as a demand deposit account. As a result, SAIF's investment is not impacted by changes in the market value of the Oregon Short Term Fund. By statute, the Oregon Short Term Fund may hold securities with maturities no greater than three years. The average maturity of the Oregon Short Term Fund as of December 31, 2006 and 2005 was 190 days and 165 days, respectively.

Oregon's State Treasurer employs the services of two external investment managers to manage SAIF's fixed income portfolios. The cash balances of the fixed income managers are invested in the SSgA Prime Money Market Fund. This fund seeks 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 Prime Money Market Fund as of December 31, 2006 and 2005 was 44 days and 24 days, respectively.

Concentrations of Credit Risk—Financial instruments, which potentially subject SAIF to concentrations of credit risk, consist principally of temporary cash investments and debt securities. SAIF places its investment securities with high-credit quality financial institutions and limits the amount 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.

Property and Equipment—Property and equipment are stated at cost, less accumulated depreciation. Maintenance, repairs, and minor renovations are charged to expense as costs are incurred. Upon retirement or sale, any resulting gain or loss is included as a component of net income. Property and equipment are capitalized and depreciated 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 and amortization expense for the years ended December 31, 2006 and 2005 were $1.8 million and $2.1 million, respectively.

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

Premiums—Premiums are based on individual employers' reported payroll using predetermined insurance rates based on employee risk classifications and are recognized as income on a pro rata basis over the coverage period. Ceded premiums are recognized consistent with the underlying reinsurance agreement. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Policyholders' premiums due to SAIF are recorded as premiums in course of collection, net of the allowance for uncollectible accounts. Premiums receivable consists of both billed and unbilled amounts. Unbilled premiums receivable, recorded as 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 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. SAIF uses its historical experience to estimate earned but unbilled amounts. These unbilled amounts are estimates, and while SAIF 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. SAIF 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 SAIF 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 policyholders' premium deposits and included in amounts withheld or retained for account of others. However, policyholders may pledge surety bonds and securities in lieu of cash deposits.

In addition to its regular premium plans, SAIF offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 10-1/2 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 10-1/2 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.

SAIF 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 2006 and 2005 were $103.2 million and $95.9 million, respectively, or 23.1 percent and 22.9 percent of net premiums written, respectively.

SAIF has nonadmitted 10 percent of the amount of accrued retrospective premiums receivable not offset by accrued retrospective premiums payable, other liabilities to the same party (other than loss and loss adjustment expense reserves), or collateral. At December 31, 2006 and 2005, the balances were as follows (dollars in thousands):

	2006	2005
Total accrued retrospective premiums receivable	$ 78,119	$ 79,022
Less nonadmitted amount (10 percent)	7,812	7,902
Admitted accrued retrospective premiums receivable	$ 70,307	$ 71,120

Reserve for Loss and Loss Adjustment Expenses—The reserve for loss and loss adjustment expenses is generally based on past experience, except for certain awarded claims which are determined on an individual case basis. The liability includes provisions for reported claims, claims incurred but not reported, and claims that are currently closed but which experience indicates will be reopened.

Management believes that the reserve for incurred but unpaid loss and loss adjustment expenses at December 31, 2006 and 2005 are a reasonable estimate of the ultimate net costs of settling claims and claims expenses incurred. Annually, the board of directors reviews the actuarial assumptions utilized in determining the liability for such losses. Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other societal and economic factors. As a result, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates. The amount ultimately paid may be more or less than such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur (see Note 7).

SAIF discounts the indemnity reserve for known unpaid fatal and permanent total disability losses. SAIF does not discount the reserve for unpaid fatal and permanent total disability loss adjustment expenses. The discount rate used by SAIF was 3.5 percent at December 31, 2006 and 2005. The tabular discounts reflected in the reserve for losses were $97.9 million and $97.3 million at December 31, 2006 and 2005, respectively.

Managed Care Organization Fees—SAIF 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. During 2006 and 2005 claims covered by contracts with MCOs were approximately 88.1 percent and 88.3 percent, respectively, of total claims.

Premium Deficiency—Premium deficiency is based upon an estimate of the amount by which the sum of anticipated claims costs, claims adjustment expenses, and maintenance expenses exceeds expected premium income and earnings on investments. At December 31, 2006 and 2005, no reserve for premium deficiency was required to be recorded.

Policyholders' Dividends—Substantially all of SAIF's business is written under various participating plans wherein a dividend may be returned to the policyholder. Dividends may be paid to the extent that a surplus is accumulated from premiums, investment gains, or loss reserve reductions. No policyholder dividends were declared in 2006 and 2005.

Taxes and Assessments—The Oregon Department of Justice has determined that SAIF 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.

SAIF 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 $24.2 million and $27.5 million, including $9.5 million and $9.9 million of accrued premium assessments, for the years ended December 31, 2006 and 2005, respectively.

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. Actual results could differ from those estimates.

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

	2006			2005		
	Loss adjustment expenses incurred	Other underwriting expenses incurred	Investment expenses	Loss adjustment expenses incurred	Other underwriting expenses incurred	Investment expenses
Salaries, wages & other benefits	$ 6,251	$ 35,767	$ 1,813	$ 38,751	$ 34,395	$ 1,744
Commissions		20,857			19,839	
State premium taxes		23,446			27,687	
Other	1,243	11,495	7,521	9,765	12,740	5,431
Total allocable expenses	$ 7,494	$ 91,565	$ 9,334	$ 48,516	$ 94,661	$ 7,175

Prepaid Expenses—The threshold for capitalization of prepaid expenses is set at the greater of $500 thousand or .5 percent of projected annual direct operating expenses.

3. ACCOUNTING CHANGES

SAIF 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 2006 and 2005, subject to any deviations prescribed or permitted by the Insurance Division. There were no changes in accounting methods in 2006 and 2005 and no new statutory accounting principles which had or are expected to have a material impact on the financial statements when adopted by SAIF.

4. INVESTMENTS

SAIF's investment policies are governed by statute and the Oregon Investment Council ("Council"). The State Treasurer ("Treasurer") is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with Oregon statutes, the investment funds are invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. While the Treasurer is authorized to use demand deposit accounts and fixed-income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Equity investments are limited to not more than 50 percent of the monies contributed to the Industrial Accident Fund (SAIF Corporation). However, SAIF's adopted investment policy as approved by the Council limits equity holdings to a range of 10 to 20 percent of the market value of invested assets with a target allocation of 15 percent.

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, 2006 and December 31, 2005.

The book/adjusted carrying value and NAIC-designated fair value of SAIF's investment securities at December 31, 2006 and 2005 were as follows (dollars in thousands):

2006	**Book/Adjusted Carrying Value**	**NAIC - Designated Fair Value**	**Excess of NAIC Fair Value over (under) Book/Adjusted Carrying Value**
Bonds:			
U.S. government	$ 592,776	$ 593,627	$ 851
All other governments	45,858	47,169	1,311
Political subdivisions of states and territories	3,554	3,556	2
Special revenue and special assessment	4,740	4,774	34
Public utilities	103,197	106,445	3,248
Industrial and miscellaneous	1,171,094	1,182,067	10,973
Asset-backed securities	880,959	868,387	(12,572)
Total bonds	$ 2,802,178	$ 2,806,025	$ 3,847
Short-term investments	$ 3,404	$ 3,404	$
Stocks:			
Preferred stock	$ 8,362	$ 8,362	$
Common stock	573,041	573,041	
Total stocks	$ 581,403	$ 581,403	$

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	$

Proceeds from the sale and maturity of bonds were $2.2 billion and $5.0 billion during 2006 and 2005, respectively. Proceeds from the sale of stocks were $4.4 million and $76.9 million during 2006 and 2005, respectively.

The book/adjusted carrying value and NAIC-designated fair value of bonds at December 31, 2006 and 2005, by contractual maturity, except for asset-backed securities which are by expected maturity, are shown below (dollars 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.

	2006		2005	
	Book/ Adjusted Carrying Value	NAIC- Designated Fair Value	Book/ Adjusted Carrying Value	NAIC- Designated Fair Value
Due in one year or less	$ 220,050	$ 218,385	$ 268,730	$ 266,795
Due after one year through five years	654,768	651,888	778,922	774,586
Due after five years through ten years	680,299	678,337	604,902	609,020
Due after ten years	1,247,061	1,257,415	966,113	989,997
Total bonds	$ 2,802,178	$ 2,806,025	$ 2,618,667	$ 2,640,398

Net investment income for the years ended December 31, 2006 and 2005 comprises the following (dollars in thousands):

	2006	2005
Investment income	$ 153,486	$ 127,041
Net realized capital gains	7,497	15,777
Total gross investment income	160,983	142,818
Less investment expense	(9,334)	(7,175)
Net investment income	$ 151,649	$ 135,643

Gross realized gains and losses and the net realized gains (losses) from investment securities for the years ended December 31, 2006 and 2005 were as follows (dollars in thousands):

2006	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	$ 27,114	$ (19,771)	$ 7,343
Preferred stocks			
Common stocks	116	(5)	111
Short-term investments	43		43
Total	$ 27,273	$ (19,776)	$ 7,497

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

In accordance with SSAP No. 26, SAIF considers several factors in determining if an impairment is other than temporary. These include the extent and duration of impairment, the financial condition and short-term prospects of the issuer, SAIF's ability to hold the investment to allow recovery in value, as well as management's intent to sell the investment. SAIF seeks guidance from the external investment managers on a regular basis to determine if any impairments exist and to monitor potential impairments.

The following table represents unrealized losses on bonds as of December 31, 2006, that were in a loss position for less than one year and a continuous loss position for greater than one year. As of December 31, 2006, there were no impairments deemed other than temporary. (Dollars in thousands):

2006 less than one year	**Amortized Cost**	**Unrealized Losses**	**NAIC Designated Fair Value**
U.S. Government	$ 189,880	$ 2,007	$ 187,873
All other governments	45,909	669	45,240
Asset-backed securities	46,703	352	46,351
Public utilities	8,594	151	8,443
Industrial & miscellaneous	415,607	6,770	408,837
Total less than one year	$ 706,693	$ 9,949	$ 696,744

2006 greater than one year	**Amortized Cost**	**Unrealized Losses**	**NAIC Designated Fair Value**
U.S. Government	153,881	2,675	151,206
All other governments	25,080	1,208	23,872
Asset-backed securities	376,242	9,173	367,069
Public utilities			
Industrial & miscellaneous	330,212	10,950	319,262
Total greater than one year	885,415	24,006	861,409
Total	$ 1,592,108	$ 33,955	$ 1,558,153

5. SECURITIES LENDING

In accordance with state investment policies, SAIF 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 SAIF's securities to broker-dealers and banks pursuant to a form of loan agreement. Both SAIF 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 2006 and 2005, State Street loaned SAIF'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 percent of the fair value of the loaned security, or 105 percent in the case of international equity securities. SAIF did not impose any restrictions on the amount of the loans State Street made on its behalf. SAIF 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 SAIF at December 31, 2006 and 2005.

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 SAIF'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, 2006 and 2005, the Fund had an average-weighted maturity of 279 days and 214 days, respectively. On December 31, 2006 and 2005, SAIF had no credit risk exposure to borrowers. The collateral held and the fair value including accrued income of the SAIF securities on loan at December 31, 2006 were $648.2 million and $635.1 million, and at December 31, 2005 they were $684.2 million and $670.5 million. For 2006 and 2005, security lending income was $33.0 million and $21.6 million and security lending expense was $31.7 million and $20.3 million, respectively. These amounts are reported net in SAIF'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, 2006 and 2005 were as follows (dollars in thousands):

	2006		2005	
	Book/Adjusted Carrying Value	**NAIC-Designated Fair Value**	**Book/Adjusted Carrying Value**	**NAIC-Designated Fair Value**
Fair value of financial instruments:				
Bonds	$ 2,802,178	$ 2,806,025	$ 2,618,667	$ 2,640,398
Preferred stock	8,362	8,362	5,277	5,277
Common stock	573,041	573,041	495,679	495,679
Mortgage loans	62	62	115	115
Short-term investments	3,404	3,404	4,313	4,313
Total	$ 3,387,047	$ 3,390,894	$ 3,124,051	$ 3,145,782

7. LOSS AND LOSS ADJUSTMENT EXPENSES

Activity in loss and loss adjustment expenses is summarized at December 31, 2006 and 2005 as follows (dollars in thousands):

	2006	2005
Gross reserve for losses and loss adjustment expenses—beginning of year	$ 2,660,219	$ 2,636,944
Less reinsurance ceded—beginning of year	(59,992)	(79,342)
Net balance—beginning of year	2,600,227	2,557,602
Incurred related to:		
Current year	516,090	472,265
Prior year	(108,019)	(129,445)
Total incurred	408,071	342,820
Paid related to:		
Current year paid	107,591	99,620
Prior year	202,396	200,575
Total paid	309,987	300,195
Net balance—end of year	2,698,311	2,600,227
Plus reinsurance ceded—end of year	57,647	59,992
Gross reserve for losses and loss adjustment expenses—end of year	$ 2,755,958	$ 2,660,219

Loss reserves increased primarily due to growth in SAIF's book of business as both the number of policyholders and premium grew during the year. There was favorable loss reserve development for the prior accident years which is attributed to a number of factors. Medical cost escalation for 2006 was lower than expected, and the explicit assumption for medical cost escalation for the next three years was also lowered to recognize the current short-term trend. Based on historical evidence, the assumption for the number of permanent total disability claims, the most costly claims, was lowered to recognize current trends. The favorable loss adjustment expense (LAE) development was largely attributed to lowering the future salary and benefit assumption to reflect a change in the escalation rate, and the fact that LAE payments were lower than expected in 2006. The favorable prior year loss reserve development for 2005 was the result of changing the future medical cost escalation rate assumption.

SAIF 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 percent. SAIF 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 $277.6 million and $274.8 million for 2006 and 2005, respectively. The discounts were $97.9 million and $97.3 million as of December 31, 2006 and 2005.

Anticipated salvage and subrogation of $21.1 million and $22.3 million was included as a reduction of the reserve for losses at December 31, 2006 and 2005, respectively.

The Company exposure to asbestos claims arose from the sale of workers' compensation policies. The Company does not hold significant reserves for loss and loss adjustment expenses for asbestos claims. Amounts paid for asbestos related claims were $70 thousand and $95 thousand for the years ended December 31, 2006 and 2005, respectively.

8. 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.

SAIF 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 any available fund balance from the prior biennium. Assessments were $248 thousand for the years ended December 31, 2006 and 2005.

9. DEFERRED COMPENSATION PLAN

A deferred compensation 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 SAIF employees wherein they may execute an individual agreement with SAIF 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.

10. RETIREMENT PLAN

The majority of SAIF'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. 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 percent 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 PERS, Fiscal Services, 11410 SW 68th Parkway, Tigard, Oregon 97223.

Beginning January 1, 2004, all covered employees are required by state statute to contribute 6.0 percent of their salary to the Individual Account Program (a defined contribution plan). Current law permits employers to pay employees' contributions to PERS, which SAIF has elected to do. Additionally, SAIF is required by statute to contribute a percentage of each covered employee's salary to fund the PERS program. As of December 31, 2006, the rate was 8.69 percent. Rates are subject to change as a result of subsequent actuarial valuations.

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 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). SAIF currently contributes 4.43 percent of each covered employee's salary to the Pension Program and 6.0 percent 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.

SAIF participates, along with other State of Oregon agencies, in paying debt service for bonds issued in October 2003 to reduce the unfunded PERS liability. The bonds are scheduled to mature 25 years after the date of issuance. Currently, the repayment rate is 6.2 percent of payroll each month. The payment rate is recalculated each state fiscal biennium. SAIF paid $3.0 million for the years ended December 31, 2006 and 2005.

The amounts contributed by SAIF for all plans for the years ended December 31, 2006 and 2005 were $9.9 million and $8.8 million, respectively. SAIF employer contributions for the years ended December 31, 2006 and 2005 were $7.0 million and $6.1 million, respectively, which are equal to the required contributions for the year. Employee contributions paid by SAIF for the years ended December 31, 2006 and 2005 were $2.9 million and $2.7 million, respectively.

11. 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, 2006 and 2005 was as follows (dollars in thousands):

	2006	2005
Net unrealized capital gains	$ 150,836	$ 74,558
Nonadmitted assets	(18,124)	(17,745)

SAIF is subject to RBC reporting requirements of the NAIC, which establishes that certain amounts of capital and surplus be maintained. As of December 31, 2006 and 2005, SAIF's capital and surplus exceeded the RBC required amount. While SAIF is not subject to the minimum capital and surplus requirements set forth in ORS 731.554, SAIF uses various benchmarking and risk level techniques to monitor and maintain an adequate level of capital and surplus.

12. CONTINGENCIES

SAIF has entered into structured settlements wherein SAIF has purchased annuities of which the claimant is payee, but for which SAIF 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 $6.9 million and $7.0 million at December 31, 2006 and 2005, respectively.

During the normal course of business, SAIF becomes involved in litigation arising out of matters incident to the conduct of its insurance operations. SAIF is represented in these actions by the Oregon Department of Justice. Some of these potential liabilities become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability would be accrued and an expense recorded on SAIF's financial statements. As of December 31, 2006 SAIF has recorded a contingent liability of $1.2 million recorded as 'Other liabilities' based on a legal assessment of potential liability. The disposition of this contingency is dependent upon the final court ruling. In the opinion of management, based upon information furnished by counsel, the ultimate disposition of any remaining contingencies will not have a material adverse effect on SAIF's financial position or results of operation.

13. LEASE COMMITMENTS

SAIF leases office space in several locations under non-cancelable operating leases expiring during various years through 2011. Lease expense was $649 thousand and $616 thousand for the years ended December 31, 2006 and 2005, respectively.

SAIF's future minimum lease payments under operating leases at December 31, 2006 are as follows (dollars in thousands):

2007	$ 647
2008	515
2009	493
2010	503
2011	16
Total minimum payments	$ 2,174

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 $518 thousand and $831 thousand on leases due in the future under non-cancelable subleases as of December 31, 2006 and 2005, respectively.

14. WASH SALES

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

No such securities with NAIC designation of 3 or below were sold during the years ended December 31, 2006 and 2005 and reacquired within 30 days of the sale.

15. SECURITIES ON DEPOSIT

Securities with an adjusted carrying value of $15.2 million and $3.7 million at December 31, 2006 and 2005, respectively, were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshore and Harbor Workers' Compensation Act. In addition, securities with an adjusted carrying value of $400 thousand and $100 thousand at December 31, 2006 and 2005, respectively, were on deposit at US Bank as required by the DCBS.

16. REINSURANCE

In the ordinary course of business, SAIF 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, SAIF would be liable to pay the obligation. To minimize its exposure to significant losses from reinsurer insolvencies, SAIF evaluates the financial condition of its reinsurers and monitors concentration of credit risk.

SAIF maintains reinsurance protection providing limits of $60 million excess of $40 million per occurrence with a $5 million maximum on any one life and a $120 million aggregate limit. This reinsurance protection excludes coverage for nuclear, biological, chemical, or radiological events in some or all instances. During 2006, SAIF had reinsurance protection for 90 percent of losses in excess of 17.5 percent of 2005 direct earned premium for acts of foreign terrorism through the Federal Terrorism Reinsurance Act.

The following amounts have been deducted (added) in the accompanying financial statements—statutory basis as a result of reinsurance ceded for 2006 and 2005 (dollars in thousands):

	2006	**2005**
Reserve for loss and loss adjustment expenses	$ 57,647	$ 59,992
Premiums earned	1,423	2,306
Loss and loss adjustment expenses incurred	204	(19,018)

SAIF is authorized to write business on behalf of the Oregon Workers' Compensation Insurance Plan (the "Plan"), administered by the National Council on Compensation Insurance through the National Workers' Compensation Reinsurance Pool ("NWCRP"). The 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. SAIF cedes such business to the Plan. In addition, SAIF is required to assume its share of premiums and losses from the 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 Plan in 2006 and 2005 (dollars in thousands):

	2006	2005
Assumed:		
Reserve for loss and loss adjustment expenses	$ 71,341	$ 75,180
Unearned premiums	7,630	3,174
Premiums earned	30,188	33,040
Loss and loss adjustment expenses incurred	13,711	21,629
Ceded:		
Reserve for loss and loss adjustment expenses	$ 97,055	$ 89,025
Unearned premiums	11,334	3,817
Premiums earned	29,299	29,330
Loss and loss adjustment expenses incurred	22,311	14,762

17. ELECTRONIC DATA PROCESSING ("EDP") EQUIPMENT AND SOFTWARE

EDP equipment, operating, and non-operating 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 non-operating 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 non-operating software assets admitted at December 31, 2006 and 2005.

EDP equipment and software at December 31, 2006 and 2005 were as follows (dollars in thousands):

	2006	2005
EDP equipment and software	$ 7,251	$ 7,072
Accumulated depreciation	(6,712)	(6,426)
Balance—net	$ 539	$ 646

Depreciation expense related to EDP equipment and software was $858 thousand and $1.1 million for the years ended December 31, 2006 and 2005, respectively.

18. NONCASH TRANSACTIONS

Noncash investment transactions were $23.2 million and $75.1 million for both acquisitions and dispositions resulting from conversions and tax-free exchange transactions for the years ended December 31, 2006 and 2005, respectively.

19. 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, 2006.

The following reclassifications and adjustments were made after the annual statements were filed. These reclassifications and adjustments were primarily the result of differences between estimates of reinsurance ceded and assumed recorded in the filed annual statements and actual amounts of reinsurance ceded and assumed recorded in the audited statements (dollars in thousands):

2006	Filed	Audited	Difference
Statements of admitted assets, liabilities, capital and surplus:			
Other invested assets	$ 12,545	$ 12,580	$ 35
Other assets—net	13,264	11,138	(2,126)
Total admitted assets	3,697,909	3,695,818	(2,091)
Losses	2,413,322	2,404,091	(9,231)
Other expenses	17,261	18,481	1,220
Unearned premiums	70,866	71,951	1,085
Total liabilities	2,876,022	2,869,097	(6,925)
Capital and surplus—Unassigned funds	821,887	826,721	4,834
Total	3,697,909	3,695,818	(2,091)
Statements of revenues, expenses, capital and surplus:			
Premiums earned	$ 439,899	$ 437,983	$ (1,916)
Losses incurred	402,326	400,577	(1,749)
Loss adjustment expenses incurred	7,491	7,494	3
Other underwriting expenses incurred	92,614	91,565	(1,049)
Total underwriting expenses	502,430	499,636	(2,794)
Net underwriting loss	(62,531)	(61,653)	878
Net investment income earned	144,294	144,152	(142)
Net investment income	151,792	151,649	(143)
Net loss from premium balances charged off	(825)	(976)	(151)
Other income	265	262	(3)
Net income	113,253	113,834	581
Net unrealized capital gains	75,724	76,278	554
Change in nonadmitted assets	(364)	(379)	(15)
Change in capital and surplus	188,613	189,733	1,120
Unassigned funds—end of year	821,887	826,721	4,834
Statements of cash flows:			
Premiums collected net of reinsurance	$ 437,140	$ 436,073	$ (1,067)
Miscellaneous income	(560)	(714)	(154)
Benefits and loss related payments	(266,833)	(266,462)	371
Underwriting expenses paid	(134,079)	(133,618)	461
Net cash from operations	206,184	205,795	(389)
Other cash provided	2,008	3,061	1,053
Other cash applied	(3,104)	(3,768)	(664)
Net cash from (used by) financing and miscellaneous sources	(1,096)	(707)	389

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 following reclassifications and adjustments were made after the annual statements were filed. These reclassifications and adjustments were primarily the result of differences between estimates of reinsurance ceded and assumed recorded in the filed annual statements and actual amounts of reinsurance ceded and assumed recorded in the audited statements (dollars 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)
Total assets	3,399,357	3,397,670	(1,687)
Losses	2,280,294	2,272,192	(8,102)
Other expenses	16,184	18,652	2,468
Unearned premiums	63,500	63,736	236
Total liabilities	2,766,082	2,760,682	(5,400)
Capital and surplus—Unassigned funds	633,275	636,988	3,713
Total	3,399,357	3,397,670	(1,687)
Statements of revenues, expenses, capital and surplus:			
Premiums 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
Total underwriting expenses	439,488	437,481	(2,007)
Net underwriting loss	(27,333)	(24,309)	3,024
Net investment income earned	119,946	119,866	(80)
Net investment income	135,724	135,643	(81)
Net loss from premium balances charged off	(2,898)	(1,423)	1,475
Other income	2,402	2,588	186
Net income	135,132	139,737	4,605
Net unrealized capital gains	32,558	31,735	(823)
Change in capital and surplus	171,516	175,298	3,782
Unassigned funds—end of year	633,275	636,988	3,713
Statements of cash flows:			
Premiums collected net of reinsurance	$ 404,675	$ 405,874	$ 1,199
Premium assessment income	26,291	27,238	947
Miscellaneous income	450	1,165	715
Benefits and loss related payments	(261,977)	(262,355)	(378)
Underwriting expenses paid	(133,094)	(134,184)	(1,090)
Net cash from operations	157,517	158,910	1,393
Other cash provided	9,625	11,743	2,118
Other cash applied	(921)	(4,432)	(3,511)
Net cash from (used by) financing and miscellaneous sources	8,704	7,311	(1,393)

* * * * * *

SUPPLEMENTAL SCHEDULES

APPENDIX A

SUMMARY INVESTMENT SCHEDULE

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	494,399,054	14.254	494,399,054	14.254
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	4,631,751	0.134	4,631,751	0.134
1.22 Issued by U.S. government sponsored agencies	98,377,359	2.836	98,377,359	2.836
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	45,857,629	1.322	45,857,629	1.322
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	3,553,955	0.102	3,553,955	0.102
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	4,739,694	0.137	4,739,694	0.137
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	114,820,833	3.310	114,820,833	3.310
1.512 Issued or guaranteed by FNMA and FHLMC	499,930,827	14.414	499,930,827	14.414
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	17,286,383	0.498	17,286,383	0.498
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	3,340,099	0.096	3,340,099	0.096
1.523 All other	160,682,127	4.633	160,682,127	4.633
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	1,123,051,202	32.379	1,123,051,202	32.379
2.2 Unaffiliated foreign securities	231,506,785	6.675	231,506,785	6.675
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	573,040,281	16.522	573,040,281	16.522
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	8,361,839	0.241	8,361,839	0.241
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	688		688	
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	62,197	0.002	62,197	0.002
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	17,066,570	0.492	17,066,570	0.492
5.2 Property held for production of income (including $ 0 of property acquired in satisfaction of debt)	883,588	0.025	883,588	0.025
5.3 Property held for sale (including $ 0 property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	958,939	0.028	958,939	0.028
8. Cash, cash equivalents and short-term investments	53,301,000	1.537	53,301,000	1.537
9. Other invested assets	12,580,409	0.363	12,580,409	0.363
10. Total invested assets	3,468,433,209	100.000	3,468,433,209	100.000

APPENDIX B

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

36196200628500100

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2006
(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. $ 3,695,817,765

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	$ 573,040,281	15.505 %
2.02	Citigroup Inc	Bond	$ 27,771,966	0.751 %
2.03	Comcast Corp	Bond	$ 25,665,116	0.694 %
2.04	Wachovia Corp	Bond	$ 24,406,228	0.660 %
2.05	Tyco Intl Group SA	Bond	$ 24,296,058	0.657 %
2.06	Bear Stearns	Bond	$ 23,603,746	0.639 %
2.07	General Elec Cap Corp	Bond	$ 22,987,229	0.622 %
2.08	Ford Motor Credit Co	Bond	$ 19,535,605	0.529 %
2.09	JP Morgan Chase & Co	Bond	$ 17,934,514	0.485 %
2.10	Conoco Inc	Bond	$ 17,606,036	0.476 %

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	$ 2,152,260,885	58.235 %	3.07	P/RP-1	$ 4,832,929	0.131 %
3.02	NAIC-2	$ 542,431,160	14.677 %	3.08	P/RP-2	$ 3,528,910	0.095 %
3.03	NAIC-3	$ 62,619,872	1.694 %	3.09	P/RP-3	$	%
3.04	NAIC-4	$ 49,640,985	1.343 %	3.10	P/RP-4	$	%
3.05	NAIC-5	$ 16,572,852	0.448 %	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.	$ 239,668,595	6.485 %
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	$ 175,891,344	4.759 %
5.02	Countries rated NAIC-2	$ 46,116,864	1.248 %
5.03	Countries rated NAIC-3 or below	$ 17,660,387	0.478 %

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	$ 44,867,960	1.214 %
6.02	Country: United Kingdom	$ 28,146,706	0.762 %
	Countries rated NAIC-2:		
6.03	Country: Russia	$ 16,994,931	0.460 %
6.04	Country: Mexico	$ 16,160,801	0.437 %
	Countries rated NAIC-3 or below:		
6.05	Country: Brazil	$ 9,796,259	0.265 %
6.06	Country: Colombia	$ 2,896,110	0.078 %

		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	Tyco Intl Group SA	2FE	$ 24,296,059	0.657 %
10.02	Russian Federation	2FE	$ 12,879,092	0.348 %
10.03	Telecom Italia	2FE	$ 11,321,901	0.306 %
10.04	British Telecom PLC	2FE	$ 9,597,894	0.260 %
10.05	Deutsche Telekom Intl Fin	1FE	$ 8,271,827	0.224 %
10.06	Vale Overseas Limited	2FE	$ 8,118,772	0.220 %
10.07	CE Electric UK Funding 144A	2FE	$ 7,529,002	0.204 %
10.08	Koninklijke KPN NV	2FE	$ 7,314,841	0.198 %
10.09	Granite Master Issuer PLC	1FE	$ 7,221,373	0.195 %
10.10	Taqa Abu Dhabi National 144A	1FE	$ 7,015,727	0.190 %

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	$ 573,040,281	15.505 %
13.03	BAC Capital Trust VI	$ 4,543,776	0.123 %
13.04	Wachovia Capital Trust III	$ 3,528,910	0.095 %
13.05	KKR	$ 365,462	0.010 %
13.06	Home Ownership Funding ST	$ 147,527	0.004 %
13.07	Home Ownership Funding ST	$ 141,626	0.004 %
13.08	Dynegy Inc	$ 688	%
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 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. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in investments held in mezzanine real estate loans:	$	%
	Largest 3 investments held in mezzanine real estate loans:		
19.03		$	%
19.04		$	%
19.05		$	%

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

		At Year-end		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	$ 635,752,839	17.202 %	$ 610,473,164	$ 667,947,389	$ 403,892,852
20.02	Repurchase agreements	$	%	$	$	$
20.03	Reverse repurchase agreements	$	%	$	$	$
20.04	Dollar repurchase agreements	$	%	$	$	$
20.05	Dollar reverse repurchase agreements	$	%	$	$	$

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

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

22. 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
22.01	Hedging	$	%	$	$	$
22.02	Income generation	$	%	$	$	$
22.03	Replications	$	%	$	$	$
22.04	Other	$	%	$	$	$

23. 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
23.01	Hedging	$	%	$	$	$
23.02	Income generation	$	%	$	$	$
23.03	Replications	$	%	$	$	$
23.04	Other	$	%	$	$	$