



SAIF Corporation

*Financial Statements—Statutory Basis
as of and for the Years Ended December 31,
2008 and 2007, Supplemental Schedules
as of December 31, 2008, and Independent
Auditors' Report*

SAIF CORPORATION

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KPMG LLP
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Independent Auditors' Report

The Board of Directors of
SAIF Corporation:

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

We have audited the accompanying statements of admitted assets, liabilities, and capital and surplus – statutory basis of SAIF Corporation (SAIF) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and capital and surplus – statutory basis, and cash flows – statutory basis for the years then ended. These financial statements are the responsibility of SAIF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements 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 SAIF'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, 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 more fully in note 2 to the financial statements, SAIF prepared these financial statements using accounting practices prescribed or permitted by the Insurance Division of the Oregon Department of Consumer and Business Services, which practices differ from U.S. generally accepted accounting principles. The effects on the financial statements of the variances between the statutory accounting practices and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of SAIF Corporation as of December 31, 2008 and 2007, or the results of its operations or its cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of SAIF Corporation as of December 31, 2008 and 2007, and the results of its operations and its cash flow for the years then ended, on the basis of accounting described in note 2.



Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on the summary investment schedule and supplemental investment risks interrogatories is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

August 18, 2009

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2008 and 2007

(In thousands)

	2008	2007
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	\$ 3,005,753	\$ 2,961,975
Preferred stocks	50,116	34,172
Common stocks	380,588	577,223
Mortgage loans on real estate—first liens	6	21
Real estate, net of accumulated depreciation of \$11,885 and \$11,144:		
Properties occupied by the Company	16,344	16,907
Properties held for the production of income	821	852
Cash, cash equivalents, and short-term investments	78,555	39,862
Other invested assets	4,777	5,000
Receivable for securities sold	132	280
	<u>3,537,092</u>	<u>3,636,292</u>
Total cash and invested assets		
Interest, dividends, and real estate income due and accrued	38,451	35,176
Premiums in course of collection	6,751	7,456
Premiums and installments booked but deferred and not yet due	250,579	235,577
Accrued retrospective premiums receivable	46,680	67,393
Reinsurance recoverables	129	136
Electronic data processing (“EDP”) equipment and software, net of accumulated depreciation of \$4,746 and \$6,274	1,151	916
Due from Workers’ Compensation Division	10,939	11,096
Other assets	12,728	15,430
	<u>3,904,500</u>	<u>4,009,472</u>
TOTAL		
	<u>\$ 3,904,500</u>	<u>\$ 4,009,472</u>
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	\$ 2,610,251	\$ 2,528,814
Loss adjustment expenses	311,881	287,513
Other accrued expenses	23,876	25,713
Taxes, licenses, and fees	14,910	17,322
Unearned premiums	194,676	203,038
Advance premiums	3,995	4,545
Ceded reinsurance premiums payable	6,033	9,232
Amounts withheld or retained for account of others	26,228	26,771
Other liabilities	3	2,461
Unclaimed property	82	25
Payable for securities purchased	5	5
Accrued retrospective premiums payable	35,337	25,536
	<u>3,227,277</u>	<u>3,130,975</u>
Total liabilities		
CAPITAL AND SURPLUS—Unassigned funds	<u>677,223</u>	<u>878,497</u>
TOTAL	<u>\$ 3,904,500</u>	<u>\$ 4,009,472</u>

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CAPITAL AND SURPLUS—STATUTORY BASIS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007 (In thousands)

	2008	2007
UNDERWRITING REVENUES—Premiums earned, net	\$ 416,016	\$ 459,977
UNDERWRITING EXPENSES:		
Losses incurred, net	361,735	399,241
Loss adjustment expenses incurred	74,365	36,831
Other underwriting expenses incurred	<u>67,541</u>	<u>75,599</u>
Total underwriting expenses	<u>503,641</u>	<u>511,671</u>
NET UNDERWRITING LOSS	<u>(87,625)</u>	<u>(51,694)</u>
NET INVESTMENT INCOME:		
Net investment income earned	181,055	161,871
Net realized losses	<u>(49,952)</u>	<u>(7,886)</u>
Net investment income	<u>131,103</u>	<u>153,985</u>
OTHER INCOME:		
Net loss from premium balances charged off	(1,575)	(770)
Other income	<u>2,148</u>	<u>1,458</u>
Total other income—net	<u>573</u>	<u>688</u>
Net income before dividends to policyholders	<u>44,051</u>	<u>102,979</u>
POLICYHOLDER DIVIDENDS	<u>-</u>	<u>(59,979)</u>
NET INCOME	<u>\$ 44,051</u>	<u>\$ 43,000</u>
CAPITAL AND SURPLUS:		
Unassigned funds—beginning of year	\$ 878,497	\$ 826,721
Net income	44,051	43,000
Change in net unrealized capital gains	(246,802)	10,767
Change in nonadmitted assets	(361)	(150)
Change in provision for reinsurance	<u>1,838</u>	<u>(1,841)</u>
Net change in capital and surplus	<u>(201,274)</u>	<u>51,776</u>
Unassigned funds—end of year	<u>\$ 677,223</u>	<u>\$ 878,497</u>

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands)

	2008	2007
CASH FROM (USED BY) OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	\$ 409,792	\$ 453,084
Net investment income	<u>178,718</u>	<u>159,929</u>
Net cash from underwriting	<u>588,510</u>	<u>613,013</u>
Miscellaneous income	574	688
Benefits and loss related payments	(280,305)	(274,546)
Underwriting expenses paid	(121,034)	(107,327)
Policyholder dividend payments	<u>-</u>	<u>(59,979)</u>
Net cash from operations	<u>187,745</u>	<u>171,849</u>
CASH FROM (USED BY) INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	635,208	1,851,861
Common and preferred stocks	12,199	15,281
Mortgage loans	16	41
Other invested assets	-	7,500
Miscellaneous receipts	<u>146</u>	<u>679</u>
Total proceeds from investments sold, matured, or repaid	<u>647,569</u>	<u>1,875,362</u>
Cost of investments acquired:		
Bonds	750,953	2,042,600
Common and preferred stocks	56,267	12,830
Real Estate, properties occupied by the company	148	535
Miscellaneous receipts	<u>1</u>	<u>(3)</u>
Total cost of investments acquired	<u>807,369</u>	<u>2,055,962</u>
Net cash used by investments	<u>(159,800)</u>	<u>(180,600)</u>
CASH FROM (USED BY) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	12,144	5,662
Other cash applied	<u>(1,396)</u>	<u>(10,350)</u>
Net cash from (used by) financing and miscellaneous sources	<u>10,748</u>	<u>(4,688)</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Net increase (decrease) in cash, cash equivalents, and short-term investments		
	38,693	(13,439)
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Beginning of year	<u>39,862</u>	<u>53,301</u>
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—End of year	<u>\$ 78,555</u>	<u>\$ 39,862</u>

See notes to financial statements—statutory basis.

Supplemental schedule of noncash transactions:

Noncash investment transactions were \$50.3 million and \$41.3 million for both investment acquisitions and dispositions resulting from conversions and tax-free exchange transactions for the years ended December 31, 2008 and 2007, respectively.

SAIF CORPORATION

NOTES TO FINANCIAL STATEMENTS—STATUTORY BASIS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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. Three members of SAIF's board of directors are employed with policyholders of SAIF. The transactions between SAIF and these policyholders were within SAIF's standard terms and conditions.

SAIF writes business on a direct basis as well as through agents. Premiums written on a direct basis were 32.0 percent and 30.5 percent of standard premium during 2008 and 2007, respectively. SAIF issues workers' compensation insurance policies to individual Oregon employers including state agencies.

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) 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 \$229.5 million and \$340.5 million at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the statutory capital and surplus of SAIF exceeded the minimum RBC requirements. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—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 2008 and 2007, subject to any deviations prescribed or permitted by the Insurance Division.

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 and certain preferred stocks are generally carried at amortized cost, while under GAAP they are carried at fair value, with changes in fair value recorded as investment income.
- (b) Changes in the fair value of common and certain preferred stock are charged directly to capital and surplus whereas, under GAAP, changes in fair value are recorded as investment income.
- (c) Changes in fair value for investments considered to be other-than-temporarily impaired (OTTI) are recognized as realized losses, while under GAAP they are recorded as investment income.
- (d) Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred, while under GAAP they are deferred and amortized to income as premiums are earned.
- (e) Assets are reported under Statutory Accounting Principles (SAP) at "admitted asset" value and "nonadmitted" assets are excluded through a charge against capital and surplus, while under GAAP such assets are reinstated to the balance sheet, net of any valuation allowance. The statutory Statement of Concepts states that assets that cannot be used to fulfill policyholder obligations or are subject to third party interests shall not be recognized on the statutory balance sheet. Nonadmitted assets include such assets as premiums receivable past due for more than ninety days, furniture and equipment, and application software.
- (f) Cash collateral and collateral due to borrowers for securities lending activity are reported on the GAAP financial statements. Statutory accounting does not require the reporting of such items as assets and liabilities, if the collateral received is not available for the general use of the transferor.
- (g) Short-term investments include securities with maturities, at the time of acquisition, of one year or less.
- (h) Cumulative effects of changes in accounting are reported as an adjustment to surplus in the period of the change in accounting principle. GAAP requires that the cumulative effect of a change in accounting be reported as a component of net income.
- (i) A liability for reinsurance balances is provided for unsecured unearned premiums, unpaid losses ceded to reinsurers unauthorized by license to assume such business, and certain overdue reinsurance balances. Changes in those amounts are credited and charged directly to unassigned surplus.
- (j) The statements of cash flow differ in certain respects from the presentation required by GAAP, including the presentation of the changes in cash and short-term investments instead of cash and cash equivalents and absence of a reconciliation between net income and cash provided by operating activities. SAIF offsets accounts with negative cash balances with accounts with positive balances instead of presenting accounts with negative balances as short-term liabilities.

Investments—Bonds and short-term investments not backed by mortgages or other assets are generally carried at amortized cost using the scientific interest method. Non-investment grade bonds (NAIC rated 3 or lower) are carried at the lower of amortized cost or fair value. At December 31, 2008, SAIF held bonds with a carrying value of \$7.1 million which were in or near default. There were no bonds held by SAIF which were in or near

default at December 31, 2007. Mortgage and other asset-backed securities are carried at either amortized cost (NAIC rated 1 and 2) or the lower of amortized cost or fair value (NAIC rated 3 or lower). Premiums and discounts on mortgage-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 Bloomberg. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method. Interest-only securities are valued using the prospective method. In 2008 and 2007, there were no securities which changed from the retrospective to the prospective methodology due to negative yields.

Common stocks are carried at NAIC-designated fair 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 carried at amortized cost or fair values depending on the assigned credit rating and whether the preferred stock has mandatory sinking fund provisions.

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

The estimated fair values for investment securities for 2007 were based on the market values prescribed by the Securities Valuation Office (SVO) of the NAIC. In 2008, the SVO changed its valuation methodology to allow insurance companies to use alternative pricing sources. The estimated fair values for investment securities for 2008 were obtained from JP Morgan Pricing Direct, Barclay's Capital, FT Interactive, and Reuters. Equity securities traded on a national exchange are valued at the last reported sales price. Debt securities are generally valued at the midpoint between the bid and asked prices. For some debt securities, fair value cannot be determined in this manner. For these securities, a similar "benchmark" security is used. The benchmark security has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions. As of December 31, 2008, 14.3 percent of SAIF's debt securities were priced using the benchmark method.

For all investments, impairments are recorded in the statement of revenues, expenses, and capital and surplus when it is determined that the decline in fair value of an investment below its amortized cost is other-than-temporary. The measurement of other-than-temporary impairment for equity securities, bonds, and securities not backed by other assets is measured by the difference between amortized cost and fair value. Other-than-temporary impairment for mortgage and other asset-backed securities is based upon the difference between amortized cost and future projected undiscounted cash flows. 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, cash flows of underlying collateral for mortgage and other asset-backed securities, SAIF's ability to hold the investment to allow for any anticipated recovery in value, as well as management's intent to sell the investment. Other-than-temporary impairment charges are reflected in net realized capital gains. The cost basis of the investment is then adjusted to reflect the other-than-temporary impairment.

Net investment income earned consists primarily of interest and dividends less investment expenses. Interest income 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, 2008 and 2007, no accrued interest or other investment income due and accrued was required to be nonadmitted.

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, 2008 and 2007.

Cash, Cash Equivalents, and Short-Term Investments—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, 2008 and 2007, was 160 days and 168 days, respectively. As of December 31, 2008 and 2007, SAIF's balance in the Oregon Short Term Fund was \$17.4 million and \$20.0 million, 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's stated objectives are 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, 2008 and 2007, was 31 days and 28 days, respectively. As of December 31, 2008 and 2007, SAIF's balance in the SSgA Prime Money Market Fund was \$16.1 million and \$13.2 million, 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 many different industries and geographic regions.

Property and Equipment—Property and equipment, both admitted and nonadmitted, are recorded 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 depreciated using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Life
Real estate	30–40 years
Furniture, equipment, and automobiles	3–7 years
Data processing software	3 years

Total depreciation and amortization expense for both admitted and nonadmitted property and equipment for the years ended December 31, 2008 and 2007, were \$1.5 million and \$1.7 million, respectively.

Internal and external costs incurred to develop internal-use computer software and web sites during the application development stage are capitalized; costs incurred during the preliminary project stage and post-implementation/operation stage are expensed as incurred.

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 which is generally one year. Ceded premiums are recognized consistent with the underlying policies. 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 receivable, net of the allowance for uncollectible accounts. Premiums receivable consists of both billed amounts (recorded as premiums in course of collection) and unbilled amounts (recorded as premiums and installments booked but deferred and not yet due). Unbilled premiums receivable primarily represent premium recorded as deferred and written at the policy inception date and not yet billed, as well as an estimate of the difference between amounts earned ratably on installment-billed policies and the amount billed on the policy. Unbilled premiums receivable 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 which are recorded as premiums receivable. 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 premiums receivable 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 receivable for unbilled premiums. Unbilled premiums at December 31, 2008 and 2007, were \$250.6 million and \$235.6 million, respectively, including unearned premiums of \$161.1 million and \$172.4 million, respectively and are included in 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 as 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. Premium deposits were \$12.5 million and \$14.7 million as of December 31, 2008 and 2007, respectively.

In addition to its regular premium plans, SAIF offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 10½ 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 10½ years. The amounts of expected ultimate settlements are included in the accompanying statements of admitted assets, liabilities, and 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 2008 and 2007 were \$119.8 million and

\$137.0 million, respectively, or 29.4 percent and 23.2 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 the reserve for losses and loss adjustment expenses), or collateral. At December 31, 2008 and 2007, the admitted balance was as follows (dollars in thousands):

	2008	2007
Total accrued retrospective premiums receivable	\$ 51,867	\$ 74,881
Less nonadmitted amount (10 percent)	<u>5,187</u>	<u>7,488</u>
Admitted accrued retrospective premiums receivable	<u>\$ 46,680</u>	<u>\$ 67,393</u>

Reserve for Losses and Loss Adjustment Expenses—The reserve for losses and loss adjustment expenses is generally based on past experience. 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 losses and loss adjustment expenses at December 31, 2008 and 2007, 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).

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, 2008 and 2007, 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 or paid in 2008. In 2007, SAIF's Board of Directors declared and paid a policyholder dividend of \$60.0 million.

Taxes and Assessments—The Oregon Department of Justice has determined that SAIF is exempt from federal and state 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 \$18.0 million and \$27.3 million, including \$12.4 million and \$15.1 million of accrued premium assessments, for the years ended December 31, 2008 and 2007, respectively. Premium assessment income net of premium assessment expense for the years ended

December 31, 2008 and 2007, were \$1.5 million and \$148 thousand, respectively, and is included as a component of other underwriting expenses incurred.

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 the reported amounts of revenues and expenses during the reporting period and disclosures of contingent assets and liabilities at the date of the financial statements—statutory basis. 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):

	2008			2007		
	Loss adjustment expenses incurred	Other underwriting expenses incurred	Investment expenses	Loss adjustment expenses incurred	Other underwriting expenses incurred	Investment expenses
Salaries, wages, & other benefits	\$ 60,097	\$ 37,308	\$ 1,767	\$ 29,786	\$ 37,806	\$ 1,916
Commissions	-	20,461	-	-	27,163	-
State premium taxes	-	(1,754)	-	-	(241)	-
Other	<u>14,268</u>	<u>11,526</u>	<u>6,190</u>	<u>7,045</u>	<u>10,871</u>	<u>6,361</u>
Total allocable expenses	<u>\$ 74,365</u>	<u>\$ 67,541</u>	<u>\$ 7,957</u>	<u>\$ 36,831</u>	<u>\$ 75,599</u>	<u>\$ 8,277</u>

Reclassifications—Certain reclassifications have been made to prior year amounts in order to conform with current year presentation.

3. NEW STATUTORY ACCOUNTING PRINCIPLES

During 2008, the NAIC issued SSAP No. 98, *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 Loan-Backed and Structured Securities*. This statement establishes statutory accounting principles for impairment analysis and subsequent valuation of loan-backed and structured securities. In addition, the NAIC issued SSAP No. 99, *Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment*. This statement establishes the statutory accounting principles for the treatment of premium or discount applicable to certain securities subsequent to the recognition of an other-than-temporary impairment. The requirements of both statements are effective for SAIF's 2009 financial statements.

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 ORS 293.726, the investment funds are required to be 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, 2008 and 2007.

The carrying value and fair value of SAIF's investment securities at December 31, 2008 and 2007, were as follows (dollars in thousands):

	Carrying Value	Fair Value	Excess of Fair Value over (under) Carrying Value
2008			
Bonds:			
U.S. government	\$ 387,126	\$ 503,691	\$ 116,565
All other governments	30,180	28,605	(1,575)
Political subdivisions of states and territories	5,035	4,662	(373)
Special revenue and special assessment	19,470	14,504	(4,966)
Public utilities	95,678	90,434	(5,244)
Industrial and miscellaneous	1,637,408	1,501,323	(136,085)
Mortgage and other asset-backed securities	<u>830,856</u>	<u>787,256</u>	<u>(43,600)</u>
Total bonds	<u>\$ 3,005,753</u>	<u>\$ 2,930,475</u>	<u>\$ (75,278)</u>
Short-term investments	<u>\$ 55,182</u>	<u>\$ 55,211</u>	<u>\$ 29</u>
Stocks:			
Preferred stock	\$ 50,116	\$ 44,194	\$ (5,922)
Common stock - Russell 3000 Pooled Equity Fund	<u>380,588</u>	<u>380,588</u>	<u>-</u>
Total stocks	<u>\$ 430,704</u>	<u>\$ 424,782</u>	<u>\$ (5,922)</u>
2007			
Bonds:			
U.S. government	\$ 631,290	\$ 658,708	\$ 27,418
All other governments	31,497	33,121	1,624
Political subdivisions of states and territories	3,550	3,614	64
Special revenue and special assessment	24,604	24,072	(532)
Public utilities	81,776	83,836	2,060
Industrial and miscellaneous	1,289,487	1,280,324	(9,163)
Mortgage and other asset-backed securities	<u>899,771</u>	<u>899,354</u>	<u>(417)</u>
Total bonds	<u>\$ 2,961,975</u>	<u>\$ 2,983,029</u>	<u>\$ 21,054</u>
Short-term investments	<u>\$ 13,287</u>	<u>\$ 13,287</u>	<u>-</u>
Stocks:			
Preferred stock	\$ 34,172	\$ 32,942	\$ (1,230)
Common stock - Russell 3000 Pooled Equity Fund	<u>577,223</u>	<u>577,223</u>	<u>-</u>
Total stocks	<u>\$ 611,395</u>	<u>\$ 610,165</u>	<u>\$ (1,230)</u>

Proceeds from the sale of bonds were \$0.4 billion and \$1.6 billion during 2008 and 2007, respectively. Proceeds from the sale of stocks were \$12.2 million and \$15.3 million during 2008 and 2007, respectively.

The carrying value and fair value of bonds at December 31, 2008 and 2007, 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.

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 158,774	\$ 154,844	\$ 163,599	\$ 162,665
Due after one year through five years	653,624	620,649	835,701	839,106
Due after five years through ten years	851,986	789,513	672,750	670,893
Due after ten years	<u>1,341,369</u>	<u>1,365,469</u>	<u>1,289,925</u>	<u>1,310,365</u>
Total bonds	<u>\$ 3,005,753</u>	<u>\$ 2,930,475</u>	<u>\$ 2,961,975</u>	<u>\$ 2,983,029</u>

Net investment income earned for the years ended December 31, 2008 and 2007, is comprised of the following (dollars in thousands):

	2008	2007
Bonds	\$ 172,118	\$ 155,947
Preferred stock	4,284	1,974
Common stock	66	33
Other invested assets	<u>12,544</u>	<u>12,194</u>
Total gross investment income earned	189,012	170,148
Less investment expenses	<u>7,957</u>	<u>8,277</u>
Net investment income earned	<u>\$ 181,055</u>	<u>\$ 161,871</u>

Gross realized gains and losses and the net realized gains (losses) for the years ended December 31, 2008 and 2007, were as follows (dollars in thousands):

2008	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	\$ 16,703	\$ (63,178)	\$ (46,475)
Preferred stock	-	(3,015)	(3,015)
Common stock	37	(24)	13
Other invested assets	<u>-</u>	<u>(475)</u>	<u>(475)</u>
Total	<u>\$ 16,740</u>	<u>\$ (66,692)</u>	<u>\$ (49,952)</u>

2007	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	\$ 15,385	\$ (27,025)	\$ (11,640)
Preferred stock	-	(1,004)	(1,004)
Common stock	5,145	-	5,145
Other invested assets	<u>-</u>	<u>(387)</u>	<u>(387)</u>
Total	<u>\$ 20,530</u>	<u>\$ (28,416)</u>	<u>\$ (7,886)</u>

The following tables represent unrealized losses on bonds as of December 31, 2008 and 2007, that were in a loss position for less than one year and a continuous loss position for greater than one year. These bonds were not considered other-than-temporarily impaired, because the decline in market value was primarily interest related, the increase in liquidity spread, the investment manager's intent was to hold the securities, and the expectation that the investments will recover in value as market conditions improve (dollars in thousands):

2008 less than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	\$ 38,999	\$ 927	\$ 38,072
All other governments	19,401	2,371	17,030
Mortgage and other asset-backed securities	159,424	42,726	116,698
Public utilities	40,330	4,558	35,772
Industrial & miscellaneous	<u>657,543</u>	<u>82,058</u>	<u>575,485</u>
Total less than one year	<u>\$ 915,697</u>	<u>\$ 132,640</u>	<u>\$ 783,057</u>

2008 greater than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	\$ 16,113	\$ 4,438	\$ 11,675
All other governments	-	-	-
Mortgage and other asset-backed securities	99,076	20,290	78,786
Public utilities	29,222	8,447	20,775
Industrial & miscellaneous	<u>567,008</u>	<u>97,889</u>	<u>469,119</u>
Total greater than one year	<u>711,419</u>	<u>131,064</u>	<u>580,355</u>
Total	<u>\$ 1,627,116</u>	<u>\$ 263,704</u>	<u>\$ 1,363,412</u>

2007 less than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	\$ 74,373	\$ 915	\$ 73,458
All other governments	62,602	2,547	60,055
Mortgage and other asset-backed securities	88,059	1,360	86,699
Public utilities	23,613	359	23,254
Industrial & miscellaneous	<u>395,582</u>	<u>17,642</u>	<u>377,940</u>
Total less than one year	<u>\$ 644,229</u>	<u>\$ 22,823</u>	<u>\$ 621,406</u>
2007 greater than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	\$ 47,042	\$ 458	\$ 46,584
All other governments	21,316	457	20,859
Mortgage and other asset-backed securities	406,087	4,744	401,343
Public utilities	430	20	410
Industrial & miscellaneous	<u>184,790</u>	<u>12,787</u>	<u>172,003</u>
Total greater than one year	<u>659,665</u>	<u>18,466</u>	<u>641,199</u>
Total	<u>\$ 1,303,894</u>	<u>\$ 41,289</u>	<u>\$ 1,262,605</u>

The following tables represent unrealized losses on equity securities as of December 31, 2008 and 2007, that were in a loss position for less than one year and a continuous loss position for greater than one year. These stocks were not considered other-than-temporarily impaired, primarily because of the expectation that they will recover in value in the near term as market conditions improve (dollars in thousands):

2008 less than one year	Amortized Cost	Unrealized Losses	Fair Value
Preferred stock	\$ 14,219	\$ 5,426	\$ 8,793
Common stock	<u>429,397</u>	<u>48,809</u>	<u>380,588</u>
Total less than one year	<u>\$ 443,616</u>	<u>\$ 54,235</u>	<u>\$ 389,381</u>
2008 greater than one year	Amortized Cost	Unrealized Losses	Fair Value
Preferred stock	\$ 49,456	\$ 14,055	\$ 35,401
Common stock	<u>-</u>	<u>-</u>	<u>-</u>
Total greater than one year	<u>49,456</u>	<u>14,055</u>	<u>35,401</u>
Total	<u>\$ 493,072</u>	<u>\$ 68,290</u>	<u>\$ 424,782</u>

2007 less than one year	Amortized Cost	Unrealized Losses	Fair Value
Preferred stock	\$ 29,779	\$ 2,168	\$ 27,611
Common stock	-	-	-
Total less than one year	<u>\$ 29,779</u>	<u>\$ 2,168</u>	<u>\$ 27,611</u>

2007 greater than one year	Amortized Cost	Unrealized Losses	Fair Value
Preferred stock	\$ 4,763	\$ 664	\$ 4,099
Common stock	-	-	-
Total greater than one year	<u>4,763</u>	<u>664</u>	<u>4,099</u>
Total	<u><u>\$ 34,542</u></u>	<u><u>\$ 2,832</u></u>	<u><u>\$ 31,710</u></u>

SAIF seeks guidance from the external investment managers on a regular basis to determine if any other-than-temporary impairments exist. Based on management's other-than-temporary impairment analysis as of December 31, 2008 and 2007, SAIF recorded total realized losses of \$59.9 million and \$12.2 million, respectively related to securities that were deemed other-than-temporarily impaired as of December 31, 2008 and 2007, respectively, as follows: \$56.4 million and \$10.8 million in realized losses for bonds, \$3.0 million and \$1.0 million for preferred stocks, and \$0.5 million and \$0.4 million for other securities. Other-than-temporary impairments are recorded as realized capital losses on the statement of revenues, expenses, and capital and surplus.

SAIF invests in several asset classes that could potentially be adversely affected by subprime mortgage exposure. These investments include mortgage-backed securities, debt obligations of financial institutions participating in subprime lending practices, and unaffiliated equity securities, both preferred and common, issued by financial institutions participating in subprime lending. SAIF believes that its greatest exposure is to unrealized losses from declines in asset values versus realized losses resulting from defaults or foreclosures.

SAIF has reviewed its mortgage and other asset-backed securities portfolio and believes that all of these investments are in tranches that have previously experienced, as well as have projected minimal defaults, with the exception of one security, Ace Securities Corporation SER 2006 HE1, listed in the following table. All bonds held that were issued by financial institutions participating in subprime lending activities are investment grade quality. Management believes default risk on these bonds is minimal. The impact on these investments should the subprime credit crisis worsen cannot be assessed at this time. The following is a summary of SAIF's investments with subprime exposure as of December 31, 2008.

Residential mortgage-backed securities (dollars in thousands):

Description	Actual Cost	Carrying Value	Fair Value	Impairments Recognized
ACE Securities Corporation	\$4,400	\$4,397	\$4,084	\$0

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 securities with NAIC designations of 3 or below were sold during the years ended December 31, 2008 and 2007, and reacquired within 30 days of the sale.

Securities on Deposit—U.S. Treasury obligations with a carrying value of \$7.6 million and \$15.1 million at December 31, 2008 and 2007, 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, certificates of deposit with a carrying value of \$200 thousand and \$300 thousand at December 31, 2008 and 2007, respectively, were on deposit at U.S. Bank as required by the DCBS.

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 2008 and 2007, 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. 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. The collateral held by SAIF at December 31, 2008 and 2007, is restricted.

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). SAIF’s participation in this fund is voluntary. The fair value of investments held by this fund is based upon valuations provided by a recognized pricing service. This fund is not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. No income from the Fund was assigned to another fund by the custodial agent during 2008 and 2007. At December 31, 2008 and 2007, the Fund had an average-weighted maturity of 339 days and 315 days, respectively. As of December 31, 2008 and 2007, Standard and Poor’s weighted average credit quality for the Fund was AA.

At December 31, 2008 and 2007, the collateral held was \$439.2 million and \$570.1 million, respectively. At December 31, 2008 and 2007, the fair value, including accrued investment income related to the securities on loan, was \$448.7 million and \$558.6 million, respectively. For 2008 and 2007, securities lending income was \$15.2 million and \$34.3 million and securities lending expense was \$11.2 million and \$32.1 million, respectively. These amounts are reported net in the accompanying financial statements—statutory basis as a component of net investment income earned.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by SAIF in estimating the fair value disclosures for financial instruments in the accompanying financial statements:

Cash, cash equivalents, and short-term investments, premiums receivable, accrued expenses, and other liabilities: The carrying amounts for these financial instruments as reported in the accompanying statements of admitted assets, liabilities, and capital and surplus approximate their fair values.

Investment securities: The estimated fair values for investment securities are based on methods and assumptions as described in note 2 and disclosed in note 4.

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides a reconciliation of the beginning and ending reserve for losses and loss adjustment expenses (LAE) at December 31, 2008 and 2007, as follows (dollars in thousands):

	2008	2007
Gross reserve for losses and loss adjustment expenses—beginning of year	\$ 2,971,597	\$ 2,853,013
Less reinsurance ceded—beginning of year	<u>(155,270)</u>	<u>(154,702)</u>
Net balance—beginning of year	<u>2,816,327</u>	<u>2,698,311</u>
Incurred related to:		
Current year	473,021	509,007
Prior year	<u>(36,921)</u>	<u>(72,935)</u>
Total incurred losses and loss adjustment expenses	<u>436,100</u>	<u>436,072</u>
Paid losses related to:		
Current year	106,849	105,485
Prior year	<u>223,446</u>	<u>212,571</u>
Total paid losses and loss adjustment expenses	<u>330,295</u>	<u>318,056</u>
Net balance—end of year	2,922,132	2,816,327
Plus reinsurance ceded—end of year	<u>158,827</u>	<u>155,270</u>
Gross reserve for losses and loss adjustment expenses—end of year	<u>\$ 3,080,959</u>	<u>\$ 2,971,597</u>

The reserve for losses and LAE increased \$105.8 million in 2008, which was somewhat offset by favorable loss reserve development related to prior accident years. The favorable development of \$36.9 million is attributed to a number of factors. Claim count development was lower than expected. The methods used to estimate ultimate settlement fees and vocational rehabilitation expenses were revised, resulting in lower tail factors. Prior year development for indemnity reserves was unfavorable due to case reserve strengthening, partially offsetting the overall favorable loss development. The unfavorable LAE development was largely attributed to an update of SAIF's internal expense allocation in 2008. Additional resources have been allocated to the loss adjustment function, resulting in an increase in LAE reserves.

The reserve for losses and LAE increased during 2007 primarily due to growth in SAIF's book of business as both the number of policyholders and premium amount grew during the year. There was favorable development of \$72.9 million related to prior accident years, which is attributed to a number of factors. Medical cost escalation for 2007 was lower than expected, and the explicit assumption for medical cost escalation for the next three years was lowered to recognize the current short-term trend. Prior year development for indemnity reserves was also favorable due to lower tail factors for permanent total disability and fatal awards. The favorable LAE development was largely attributed to a reduction in the number of payments and reserve changes performed by claims adjusters during 2007.

SAIF discounts the indemnity reserve for known unpaid fatal and permanent total disability 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 LAE. Gross reserves subject to tabular discounting were \$277.2 million and \$275.7 million for 2008 and 2007, respectively. The discounts were \$97.0 million and \$99.2 million as of December 31, 2008 and 2007, respectively.

Anticipated salvage and subrogation of \$21.5 million and \$19.5 million was included as a reduction of the reserve for losses and LAE at December 31, 2008 and 2007, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of \$24.5 million and \$22.8 million for losses and loss adjustment expenses are related to asbestos claims as of December 31, 2008 and 2007, respectively. Amounts paid for asbestos related claims were \$527 thousand and \$488 thousand for the years ended December 31, 2008 and 2007, respectively.

8. RISK MANAGEMENT

The State of Oregon administers property and casualty insurance programs covering state government agencies through its Insurance Fund, an internal service 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 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 \$20 million.

SAIF participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each participating 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 of the Insurance Fund from the prior biennium. SAIF's assessment was \$260 thousand for the years ended December 31, 2008 and 2007.

SAIF's employees do not participate in the State of Oregon's health insurance plans.

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. SAIF does not perform the investing function and has no fiduciary accountability for the plan. Thus, plan assets and any related liability to plan participants have been excluded from the financial statements.

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.

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 (IAP), 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. For the year ended December 31, 2008, SAIF's contribution rate of each covered employee's salary was 6.54 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 8.03 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 for SAIF 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 State of Oregon general obligation 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 5.95 percent of payroll each month. The payment rate is recalculated each state fiscal biennium.

The total amount contributed by SAIF for all plans for the years ended December 31, 2008 and 2007, consist of the following (dollars in thousands):

	2008	2007
Employer contributions:		
Debt service	\$ 3,211	\$ 3,114
PERS-Pension Program	2,785	3,072
OPSRP-Pension Program	<u>904</u>	<u>501</u>
Total employer contributions	<u>6,900</u>	<u>6,687</u>
Employee contributions paid by SAIF:		
PERS-IAP	2,555	2,517
OPSRP-IAP	<u>676</u>	<u>497</u>
Total employee contributions	<u>3,231</u>	<u>3,014</u>
Total contributions	<u>\$ 10,131</u>	<u>\$ 9,701</u>

For the years ended December 31, 2008 and 2007, SAIF's employer contributions were equal to the annual required contributions.

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, 2008, 2007, and 2006 was as follows (dollars in thousands):

	2008	2007	2006
Net unrealized capital (losses) gains	\$ (88,645)	\$ 161,603	\$ 150,836
Nonadmitted assets	(18,635)	(18,274)	(18,124)
Provision for reinsurance	(3)	(1,841)	-

12. CONTINGENCIES

SAIF has entered into structured settlements wherein SAIF has purchased annuities for 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 \$6.5 million and \$6.7 million at December 31, 2008 and 2007, 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 recorded on SAIF's financial statements. Management believes that these matters do not materially impact the financial statements.

13. LEASE COMMITMENTS

SAIF leases office space in several locations under non-cancellable operating leases expiring during various years through 2019. Lease expense was \$730 thousand and \$671 thousand for the years ended December 31, 2008 and 2007, respectively.

SAIF's future minimum lease payments under operating leases at December 31, 2008, are as follows (dollars in thousands):

2009	\$	815
2010		941
2011		878
2012		887
2013		<u>914</u>
Total minimum payments	\$	<u>4,435</u>

Certain rental commitments have renewal options extending through the year 2024. Some of these renewals are subject to adjustments in future periods. Total minimum lease payments have not been reduced by total minimum sublease rentals of approximately \$204 thousand and \$411 thousand on leases due in the future under non-cancellable subleases as of December 31, 2008 and 2007, respectively.

14. 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 \$10 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 2008, SAIF had reinsurance protection for 85 percent of losses in excess of 20 percent of 2007 direct earned premium for acts of foreign terrorism through the Terrorism Risk Insurance Program Reauthorization Act.

The following amounts have been deducted (added) in the accompanying financial statements—statutory basis as a result of reinsurance ceded for 2008 and 2007 (dollars in thousands):

	2008	2007
Reserve for losses and loss adjustment expenses	\$ 56,397	\$ 54,213
Premiums earned	1,234	1,390
Losses and loss adjustment expenses incurred	2,640	(3,045)

Of the \$56.4 and \$54.2 million recoverable, SAIF had an unsecured reinsurance recoverable from Swiss Reinsurance America Corporation of \$29.4 million and \$25.8 million, respectively as of December 31, 2008 and 2007, that exceeds 3 percent of policyholders' surplus.

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 2008 and 2007 (dollars in thousands):

	2008		2007
Assumed:			
Reserve for losses and loss adjustment expenses	\$ 76,875	\$	75,853
Unearned premiums	2,871		3,517
Premiums written	24,942		33,780
Premiums earned	25,588		37,893
Losses and loss adjustment expenses incurred	18,218		22,117
Commission expense	8,008		10,625
Ceded:			
Reserve for losses and loss adjustment expenses	\$ 102,430	\$	101,057
Unearned premiums	7,409		11,254
Premiums written	19,177		30,203
Premiums earned	23,022		30,283
Losses and loss adjustment expenses incurred	16,797		17,975
Commission expense	6,115		8,498

15. ELECTRONIC DATA PROCESSING (EDP) EQUIPMENT AND SOFTWARE

EDP equipment and 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, 2008 and 2007.

Admitted EDP equipment and software at December 31, 2008 and 2007, were as follows (dollars in thousands):

	2008		2007
EDP equipment and software	\$ 5,898	\$	7,190
Accumulated depreciation	<u>(4,746)</u>		<u>(6,274)</u>
Balance—net	<u>\$ 1,152</u>	\$	<u>916</u>

Depreciation expense related to admitted EDP equipment and software was \$558 thousand and \$779 thousand for the years ended December 31, 2008 and 2007, respectively.

16. 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 years ended December 31, 2008 and 2007.

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 to and assumed from NWCRP recorded in the filed annual statements and actual amounts of reinsurance ceded to and assumed from NWCRP recorded in the audited financial statements. An additional adjustment was made in 2008 to recognize other-than-temporary impairment for those securities disposed of during the first quarter of 2009 that were in a loss position as of December 31, 2008 (dollars in thousands):

2008	Filed	Audited	Difference
Statement of admitted assets, liabilities, and capital and surplus:			
Other invested assets	\$ 4,793	\$ 4,777	\$ (16)
Other assets	16,695	12,728	(3,967)
Total admitted assets	3,908,484	3,904,500	(3,984)
Losses	2,612,177	2,610,251	(1,926)
Other accrued expenses	23,674	23,876	202
Unearned premiums	194,943	194,676	(267)
Amounts withheld or retained by company for account of others			
	26,312	26,228	(84)
Unclaimed property	-	82	82
Total liabilities	3,229,268	3,227,277	(1,991)
Capital and surplus—Unassigned funds	679,215	677,223	(1,992)
Total	3,908,484	3,904,500	(3,984)
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	\$ 416,373	\$ 416,016	\$ (357)
Losses incurred, net	358,424	361,735	3,311
Loss adjustment expenses incurred	73,936	74,365	429
Other underwriting expenses incurred	67,318	67,541	223
Total underwriting expenses	499,677	503,641	3,964
Net underwriting loss	(83,304)	(87,625)	(4,321)
Net investment income earned	181,074	181,055	(19)
Net realized losses	(42,351)	(49,952)	(7,601)
Net investment income	138,723	131,103	(7,620)
Net loss from premium balances charged off	(1,717)	(1,575)	142
Other income	2,153	2,148	(5)
Total other income	436	573	137
Net income	55,855	44,051	(11,804)
Change in net unrealized capital gains	(254,656)	(246,802)	7,854
Change in nonadmitted assets	(362)	(361)	1
Net change in capital and surplus	(197,325)	(201,274)	(3,949)
Unassigned funds—end of year	679,215	677,223	(1,992)
Statement of cash flows:			
Premiums collected net of reinsurance	\$ 420,262	\$ 409,792	\$ (10,470)
Net investment income	178,737	178,718	(19)
Miscellaneous income	436	574	138
Benefits and loss related payments	(280,683)	(280,305)	378
Underwriting expenses paid	(118,527)	(121,034)	(2,507)
Net cash from operations	200,226	187,745	(12,481)
Other cash provided	1,452	12,144	10,692
Other cash applied	(3,186)	(1,396)	1,790
Net cash from (used by) financing and miscellaneous sources	(1,734)	10,748	12,482

2007	Filed	Audited	Difference
Statement of admitted assets, liabilities, and capital and surplus:			
Other invested assets	\$ 5,270	\$ 5,000	\$ (270)
Other assets	17,792	15,430	(2,362)
Total admitted assets	4,012,104	4,009,472	(2,632)
Losses	2,534,443	2,528,814	(5,629)
Other accrued expenses	23,872	25,713	1,841
Unearned premiums	202,993	203,038	45
Other liabilities	3,307	2,461	(846)
Total liabilities	3,135,564	3,130,975	(4,589)
Capital and surplus—Unassigned funds	876,540	878,497	1,957
Total	4,012,104	4,009,472	(2,632)
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	\$ 459,388	\$ 459,977	\$ 589
Losses incurred, net	395,116	399,241	4,125
Loss adjustment expenses incurred	36,780	36,831	51
Other underwriting expenses incurred	76,687	75,599	(1,088)
Total underwriting expenses	508,583	511,671	3,088
Net underwriting loss	(49,195)	(51,694)	(2,499)
Net investment income earned	161,874	161,871	(3)
Net investment income	153,988	153,985	(3)
Net loss from premium balances charged off	(684)	(770)	(86)
Other income	1,456	1,458	2
Total other income	772	688	(84)
Net income	45,586	43,000	(2,586)
Change in net unrealized capital gains	11,072	10,767	(305)
Change in nonadmitted assets	(164)	(150)	14
Change in capital and surplus	54,653	51,776	(2,877)
Unassigned funds—end of year	876,540	878,497	1,957
Statement of cash flows:			
Premiums collected net of reinsurance	\$ 453,536	\$ 453,084	\$ (452)
Net investment income	159,931	159,929	(2)
Miscellaneous income	772	688	(84)
Benefits and loss related payments	(274,023)	(274,546)	(523)
Underwriting expenses paid	(108,427)	(107,327)	1,100
Net cash from operations	171,810	171,849	39
Other cash provided	3,544	5,662	2,118
Other cash applied	(8,193)	(10,350)	(2,157)
Net cash used by financing and miscellaneous sources	(4,649)	(4,688)	(39)

* * * * *

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	275,520,535	7.79	275,520,535	7.79
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	3,298,173	0.09	3,298,173	0.09
1.22 Issued by U.S. government sponsored agencies	111,605,162	3.16	111,605,162	3.16
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	30,180,102	0.85	30,180,102	0.85
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	5,035,259	0.14	5,035,259	0.14
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	19,470,118	0.55	19,470,118	0.55
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	96,228,056	2.72	96,228,056	2.72
1.512 Issued or guaranteed by FNMA and FHLMC	476,694,372	13.48	476,694,372	13.48
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	2,602,802	0.07	2,602,802	0.07
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	207,516,174	5.87	207,516,174	5.87
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	1,489,626,822	42.11	1,489,626,822	42.11
2.2 Unaffiliated foreign securities	287,975,088	8.14	287,975,088	8.14
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	380,588,109	10.76	380,588,109	10.76
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	50,116,324	1.42	50,116,324	1.42
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	5,762	0.00	5,762	0.00
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	16,343,851	0.46	16,343,851	0.46
5.2 Property held for production of income (including \$ 0 of property acquired in satisfaction of debt)	821,227	0.02	821,227	0.02
5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	132,485	0.00	132,485	0.00
8. Cash, cash equivalents and short-term investments	78,554,706	2.22	78,554,706	2.22
9. Other invested assets	4,776,558	0.14	4,776,558	0.14
10. Total invested assets	3,537,091,685	100.00	3,537,091,685	100.00

APPENDIX B
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES



36196200828500100

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2008

(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. \$ 3,904,499,505

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

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01 BGI Russell 3000 Index Fund	Index Fund	\$ 380,588,109	9.747
2.02 General Electric Co	Bond	\$ 65,233,151	1.671
2.03 Morgan Stanley Group	Bond	\$ 53,229,784	1.363
2.04 JP Morgan Chase & Co	Bond	\$ 50,886,151	1.303
2.05 Wells Fargo & Co	Bond	\$ 48,467,425	1.241
2.06 Bear Stearns Comm Mtge	Bond	\$ 47,563,070	1.218
2.07 Goldman Sachs Group Inc	Bond	\$ 44,853,633	1.149
2.08 Bank of America	Bond	\$ 42,473,755	1.088
2.09 Merrill Lynch & Co	Bond	\$ 40,654,814	1.041
2.10 Citigroup Inc	Bond	\$ 40,613,072	1.040

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

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
Bonds		Preferred Stocks	
3.01 NAIC-1 \$ 2,291,449,689	58.687	3.07 P/RP-1 \$ 16,105,709	0.412
3.02 NAIC-2 \$ 696,792,683	17.846	3.08 P/RP-2 \$ 17,783,339	0.455
3.03 NAIC-3 \$ 30,332,157	0.777	3.09 P/RP-3 \$ 16,208,558	0.415
3.04 NAIC-4 \$ 15,139,398	0.388	3.10 P/RP-4 \$	
3.05 NAIC-5 \$ 20,137,349	0.516	3.11 P/RP-5 \$	
3.06 NAIC-6 \$ 7,083,375	0.181	3.12 P/RP-6 \$ 18,718	0.000

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 \$ 268,094,962 6.866
 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:

	<u>1</u>	<u>2</u>
5.01 Countries rated NAIC-1	\$ 224,129,136	5.740
5.02 Countries rated NAIC-2	\$ 43,470,656	1.113
5.03 Countries rated NAIC-3 or below	\$ 495,170	0.013

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating:

Countries rated NAIC – 1:		<u>1</u>	<u>2</u>
6.01 Country 1:	Luxembourg	\$ 56,344,713	1.443
6.02 Country 2:	Cayman Islands	\$ 30,738,670	0.787
Countries rated NAIC – 2:			
6.03 Country 1:	Mexico	\$ 16,176,623	0.414
6.04 Country 2:	Russia	\$ 12,679,924	0.325
Countries rated NAIC – 3 or below:			
6.05 Country 1:	Marshall Islands	\$ 495,170	0.013
6.06 Country 2:		\$	

	<u>1</u>	<u>2</u>
7. Aggregate unhedged foreign currency exposure	\$	

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

	<u>1</u>	<u>2</u>
8.01 Countries rated NAIC – 1	\$	
8.02 Countries rated NAIC – 2	\$	
8.03 Countries rated NAIC – 3 or below	\$	

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

Countries rated NAIC – 1:		<u>1</u>	<u>2</u>
9.01 Country:		\$	
9.02 Country:		\$	
Countries rated NAIC – 2:			
9.03 Country:		\$	
9.04 Country:		\$	
Countries rated NAIC – 3 or below:			
9.05 Country:		\$	
9.06 Country:		\$	

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

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	<u>Issuer</u>	<u>NAIC Rating</u>		
10.01 Tyco Intl Group SA	2FE		\$ 26,623,121	0.682
10.02 Telecom Italia Capital	2FE		\$ 18,205,207	0.466
10.03 Russian Federation Sinking Fund	2FE		\$ 12,679,924	0.325
10.04 Deutsche Telekom Intl Fin	2FE		\$ 11,352,211	0.291
10.05 British Telecom PLC	2FE		\$ 11,087,149	0.284
10.06 Transocean Sedco Forex Inc	2FE		\$ 10,435,634	0.267
10.07 Koninklijke KPN NV	2FE		\$ 10,080,554	0.258
10.08 Rio Tinto Fin USA Ltd	2FE		\$ 8,598,772	0.220
10.09 Telefonica Europe BV	1FE		\$ 7,787,719	0.199
10.10 Delhaize Group	2FE		\$ 7,735,795	0.198

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.

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

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

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

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

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

13. Amounts and percentages of admitted assets held in the ten largest 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 is yes, responses are not required for the remainder of Interrogatory 13.

	<u>1</u> Issuer	<u>2</u>	<u>3</u>
13.02 BGI Russell 3000 Index	\$	380,588,109	9.747
13.03 Goldman Sachs Capital	\$	12,279,655	0.315
13.04 Suntrust Capital	\$	7,521,490	0.193
13.05 Metlife Inc	\$	5,498,400	0.141
13.06 Wells Fargo Capital	\$	5,060,849	0.130
13.07 Ace Capital Trust	\$	3,840,000	0.098
13.08 BAC Capital Trust	\$	3,826,054	0.098
13.09 Travelers Cos Inc	\$	2,951,200	0.076
13.10 General Elec Cap Corp	\$	2,925,000	0.075
13.11 American Express Co	\$	2,458,200	0.063

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

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

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

	<u>1</u>	<u>2</u>	<u>3</u>
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	\$ .....	.....
Largest three 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 above is yes, responses are not required for the remainder of Interrogatory 15.

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

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

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

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

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

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

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

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

18.01 Are assets held in real estate reported 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.

	<u>Description</u>	<u>2</u>	<u>3</u>
	<u>1</u>		
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.

	<u>1</u>	<u>2</u>	<u>3</u>
19.02 Aggregate statement value of investments held in mezzanine real estate loans:		\$	\$

Largest three 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:

	<u>At Year-end</u>		<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>	1st Qtr <u>3</u>	2nd Qtr <u>4</u>	3rd Qtr <u>5</u>
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ 369,630,686	9,467	\$ 518,881,157	\$ 381,116,077	\$ 323,454,743
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:

	<u>Owned</u>		<u>Written</u>	
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
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:

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

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