SAIF Corporation

Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2011 and 2010, Supplementary Schedules as of December 31, 2011, and Report of Independent Auditors

SAIF CORPORATION

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REPORT OF INDEPENDENT AUDITORS

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, 2011 and 2010, 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 audit 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, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Insurance Division of the Oregon Department of Consumer and Business Services, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

MOSS-ADAMS LLP

Our audits were conducted for the purpose of forming an opinion on the statutory financial statements that collectively comprise SAIF Corporation's financial statements. The summary investment schedule and supplemental investment risk interrogatories are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the summary investment schedule and supplemental investment risk interrogatories are fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the board of directors and the management of SAIF, the Governor of the State of Oregon, the President of the Senate of the State of Oregon, the Speaker of the House of Representatives of the State of Oregon, and the Insurance Division of the Oregon Department of Consumer and Business Services and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Eugene, Oregon
July 31, 2012

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2011 and 2010 (In thousands)

	2011	2010
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	$ 3,427,549	$ 3,371,359
Preferred stocks	-	4,765
Common stocks	378,852	467,988
Real estate, net of accumulated depreciation of $14,110 and $13,368:		
Properties occupied by the Company	14,213	14,923
Properties held for the production of income	728	759
Cash, cash equivalents, and short-term investments	63,877	41,742
Other invested assets	11,754	11,857
Receivable for securities sold	1,487	162
Security lending reinvested collateral	199,303	228,043
Total cash and invested assets	4,097,763	4,141,598
Interest, dividends, and real estate income due and accrued	36,554	40,058
Premiums in course of collection	4,485	2,981
Premiums and installments booked but deferred and not yet due	242,771	221,619
Accrued retrospective premiums receivable	35,980	40,717
Reinsurance recoverables	368	138
Electronic data processing (EDP) equipment and software, net of accumulated depreciation of $2,561 and $2,727	267	540
Due from Workers' Compensation Division	9,951	10,580
Other assets	14,886	13,546
TOTAL	$ 4,443,025	$ 4,471,777
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	$ 2,677,485	$ 2,699,068
Loss adjustment expenses	351,776	316,043
Other accrued expenses	23,708	22,012
Taxes, licenses, and fees	20,493	17,079
Unearned premiums	180,283	164,124
Advance premiums	3,775	3,947
Ceded reinsurance premiums payable	5,362	5,664
Amounts withheld or retained for account of others	23,090	21,591
Other liabilities	3,512	3,458
Unclaimed property	60	53
Payable for securities lending	199,315	228,042
Accrued retrospective premiums payable	35,072	30,305
Total liabilities	3,523,931	3,511,386
CAPITAL AND SURPLUS—Unassigned funds	919,094	960,391
TOTAL	$ 4,443,025	$ 4,471,777

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, 2011 AND 2010 (In thousands)

	2011	2010
UNDERWRITING REVENUES—Premiums earned, net	$ 357,475	$ 333,323
UNDERWRITING EXPENSES:		
Losses incurred, net	242,220	328,979
Loss adjustment expenses incurred	85,600	36,337
Other underwriting expenses incurred	70,889	63,974
Total underwriting expenses	398,709	429,290
NET UNDERWRITING LOSS	(41,234)	(95,967)
NET INVESTMENT INCOME:		
Net investment income earned	163,193	173,522
Net realized investment gains	26,091	223,757
Net investment income	189,284	397,279
OTHER INCOME:		
Net loss from premium balances charged off	(954)	(1,284)
Other income	1,091	1,172
Total other income (loss)—net	137	(112)
Net income before dividends to policyholders	148,187	301,200
POLICYHOLDER DIVIDENDS	(150,043)	(200,541)
NET INCOME (LOSS)	$ (1,856)	$ 100,659
CAPITAL AND SURPLUS:		
Unassigned funds—beginning of year	$ 960,391	$ 951,192
Net income (loss)	(1,856)	100,659
Change in net unrealized capital gains	(39,127)	(89,378)
Change in nonadmitted assets	(235)	419
Change in provision for reinsurance	(79)	(2,501)
Net change in capital and surplus	(41,297)	9,199
Unassigned funds—end of year	$ 919,094	$ 960,391

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(In thousands)

	2011	2010
CASH FROM (USED BY) OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	$ 354,995	$ 337,419
Net investment income	174,222	166,844
Net cash from underwriting	529,217	504,263
Miscellaneous income (expense)	137	(112)
Benefits and loss related payments	(264,032)	(272,058)
Underwriting expenses paid	(115,111)	(109,290)
Policyholder dividend payments	(150,043)	(200,541)
Net cash from (used by) operations	168	(77,738)
CASH FROM (USED BY) INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,098,537	1,387,804
Common and preferred stocks	155,334	1,357,556
Other invested assets	28,973	228,042
Cash and short-term investments	-	(1)
Miscellaneous payments	(1,325)	(27)
Total proceeds from investments sold, matured, or repaid	1,281,519	2,973,374
Cost of investments acquired:		
Bonds	1,145,767	1,589,269
Common and preferred stocks	90,343	1,099,693
Other invested assets	28,727	228,042
Miscellaneous receipts	(4)	3
Total cost of investments acquired	1,264,833	2,917,007
Net cash from investments	16,686	56,367
CASH FROM (USED BY) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	7,176	728
Other cash applied	(1,895)	(4,509)
Net cash from (used by) financing and miscellaneous sources	5,281	(3,781)
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Net decrease in cash, cash equivalents, and short-term investments	22,135	(25,152)
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Beginning of year	41,742	66,894
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—End of year	$ 63,877	$ 41,742

See notes to financial statements—statutory basis.

Supplemental schedule of noncash transactions:
Noncash investment transactions were $44.0 million and $36.3 million for both investment acquisitions and dispositions resulting from conversions and tax-free exchange transactions for the years ended December 31, 2011 and 2010, respectively.

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 has partnered with Zurich American Insurance Company and United States Insurance Services to provide other states coverage effective February 1, 2011. SAIF's board of directors is appointed by the governor of the State of Oregon and consists of Oregon business and community leaders not otherwise in the employ of SAIF. Certain members of SAIF's board of directors are SAIF policyholders or are employed by SAIF policyholders. 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 31.7 percent and 33.0 percent of standard premium during 2011 and 2010, respectively. SAIF issues workers' compensation insurance policies to individual Oregon employers including state agencies.

The Oregon Department of Consumer and 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 $276.2 million and $276.0 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, 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 2011 and 2010, 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 (loss).

(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 (loss).

(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 (loss).

(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) Short-term investments include securities with maturities, at the time of acquisition, of one year or less.

(g) 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.

(h) 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.

(i) 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. Under statutory accounting principles, SAIF offsets accounts with negative cash balances with accounts with positive balances instead of presenting accounts with negative balances as short-term liabilities.

(j) Policyholder dividends are accrued when declared by the board of directors, whereas GAAP requires the accrual of estimated policyholder dividends.

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 to 6) are carried at the lower of amortized cost or fair value. As of December 31, 2011 and 2010, SAIF held bonds which were in or near default with a carrying value of $3.9 million and $9.5 million, respectively. Residential and commercial mortgage-backed securities are carried at the lower of amortized cost or fair value based on the financial model provided by the NAIC. 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 to 6) based on the modified filing exempt model provided by the NAIC. 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. The prospective method is used for securities recognized as other-than-temporarily impaired, when collection of all contractual cash flows is not probable. Interest-only securities are valued using the prospective method. In 2011 and 2010, there were no securities that changed from the retrospective to the prospective methodology due to negative yields.

Common stocks are carried at 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.

The fair values for investment securities for 2011 and 2010 were obtained from Reuters, FT Interactive, Barclay's Capital, and JPM Pricing Direct. 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, 2011 and 2010, the percent of SAIF's debt securities priced using the benchmark method was 28.6 percent and 20.4 percent, respectively.

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 discounted 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 (losses). 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 prepayments. 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.

Investment income due and accrued with amounts over 90 days past due is nonadmitted. At December 31, 2011 and 2010, 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 and Trust Company (State Street). There were no securities purchased under repurchase agreements at December 31, 2011 and 2010.

Cash, Cash Equivalents, and Short-Term Investments—SAIF places its temporary cash investments with the Oregon Short-Term Fund (OSTF). The OSTF 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 OSTF. By statute, the OSTF may hold securities with maturities no greater than three years. The average maturity of the OSTF as of December 31, 2011 and 2010, was 202 days and 178 days, respectively. As of December 31, 2011 and 2010, SAIF's balance in the OSTF was $28.4 million and $18.1 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, 2011 and 2010, was 19 days and 32 days, respectively. As of December 31, 2011 and 2010, SAIF's balance in the SSgA Prime Money Market Fund was $10.6 million and $18.8 million, respectively. Also included in the short-term balance at December 31, 2011, was a $20.0 million U.S. Treasury Bill, which matures on July 26, 2012.

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 financial institutions approved by the State of Oregon 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
Buildings and improvements	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, 2011 and 2010, were $1.3 million and $1.4 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, DCBS approved 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 premiums recorded as 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 collectability 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 premium receivable for unbilled premiums. Unbilled premiums at December 31, 2011 and 2010, were $242.8 million and $221.6 million, respectively, including unearned premiums of $142.5 million and $130.3 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 on the statements of admitted assets, liabilities, and capital and surplus in amounts withheld or retained for account of others. However, policyholders may pledge surety bonds and securities, as well as letters of credit, in lieu of cash deposits. Premium deposits at December 31, 2011 and 2010, were $8.7 million.

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 2011 and 2010 were $92.9 million and $88.1 million, respectively, or 24.9 percent and 26.7 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 to the same party (other than the reserve for losses and loss adjustment expenses), or collateral. At December 31, 2011 and 2010, the admitted balance was as follows (dollars in thousands):

	2011	**2010**
Total accrued retrospective premiums receivable	$39,977	$45,241
Less nonadmitted amount (10 percent)	3,997	4,524
Admitted accrued retrospective premium receivable	$35,980	$40,717

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, 2011 and 2010, is a reasonable estimate of the ultimate net costs of settling claims and claim 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, 2011 and 2010, 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. Policyholder dividends of $150.0 million were declared and paid to qualifying policyholders in 2011. Policyholder dividends of $200.5 million were declared and paid to qualifying policyholders in 2010.

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 $23.5 million and $18.1 million, including $20.4 million and $15.9 million of accrued premium assessments, for the years ended December 31, 2011 and 2010, respectively. Premium assessment income net of premium assessment expense for the years ended December 31, 2011 and 2010, was $293.6 thousand and $108.7 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, 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):

	2011			2010		
	Loss adjustment expenses incurred	Other underwriting expenses incurred	Investment expenses	Loss adjustment expenses incurred	Other underwriting expenses incurred	Investment expenses
Salaries, wages, & other benefits	$ 72,440	$ 38,999	$ 1,514	$ 30,621	$ 37,416	$ 1,772
Commissions	-	21,220	-	-	15,968	-
Other	13,160	10,670	6,910	5,716	10,590	6,571
Total allocable expenses	$ 85,600	$ 70,889	$ 8,424	$ 36,337	$ 63,974	$ 8,343

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

3. NEW STATUTORY ACCOUNTING PRINCIPLES

On March 3, 2012, the NAIC issued SSAP No. 92—Accounting for Postretirement Benefits Other Than Pensions, a replacement of SSAP No. 14. This statement applies to all postretirement benefits expected to be provided by an employer to current and former employees pursuant to the terms of an employer's undertaking to provide those benefits. A postretirement benefit plan may be part of a larger plan or arrangement that provides benefits currently to active employees as well as to retirees. In those circumstances, the promise to provide benefits to present and future retirees under the plan shall be segregated from the promise to provide benefits currently to active employees and shall recognize the cost and funding of the benefits. The statement is effective January 1, 2013, with early adoption permitted. SAIF is currently evaluating the impact of this standard on the 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 7 to 13 percent of the market value of invested assets with a target allocation of 10 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, 2011 and 2010.

The carrying value and fair value of SAIF's investment securities at December 31, 2011 and 2010, were as follows (dollars in thousands):

2011	Carrying Value	Fair Value	Excess of Fair Value over (under) Carrying Value
Bonds:			
U.S. government	$ 165,477	$ 173,447	$ 7,970
All other governments	5,541	6,169	628
States, territories, and possessions	19,299	20,961	1,662
Political subdivisions of states and territories	11,129	11,838	709
Special revenue and special assessment	82,651	93,743	11,092
Hybrid securities	14,589	14,753	164
Industrial and miscellaneous	2,072,477	2,245,738	173,261
Mortgage and other asset-backed securities	1,056,386	1,104,056	47,670
Total bonds	$ 3,427,549	$ 3,670,705	$ 243,156
Short-term investments	$ 30,556	$ 30,556	$ -
Stocks:			
Preferred stock	$ -	$ -	$ -
Common stock - BlackRock MSCI ACWI IMI Index Fund	378,852	378,852	-
Total stocks	$ 378,852	$ 378,852	$ -

2010	Carrying Value	Fair Value	Excess of Fair Value over (under) Carrying Value
Bonds:			
U.S. government	$ 147,607	$ 157,421	$ 9,814
All other governments	11,900	12,448	548
States, territories, and possessions	18,932	18,388	(544)
Political subdivisions of states and territories	5,280	5,023	(257)
Special revenue and special assessment	74,785	74,222	(563)
Hybrid securities	19,634	19,243	(391)
Industrial and miscellaneous	2,068,557	2,209,040	140,483
Mortgage and other asset-backed securities	1,024,664	1,056,596	31,932
Total bonds	$ 3,371,359	$ 3,552,381	$ 181,022
Short-term investments	$ 18,779	$ 18,779	$ -
Stocks:			
Preferred stock	$ 4,765	$ 3,888	$ (877)
Common stock - BlackRock MSCI ACWI IMI Index Fund	467,988	467,988	-
Total stocks	$ 472,753	$ 471,876	$ (877)

Proceeds from the sale of bonds were $1.1 billion and $1.4 billion during 2011 and 2010, respectively. Proceeds from the sale of stocks were $155.3 million and $1.4 billion during 2011 and 2010, respectively.

The carrying value and fair value of bonds at December 31, 2011 and 2010, 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.

	2011		**2010**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Due in one year or less	$ 66,246	$ 67,921	$ 29,699	$ 30,100
Due after one year through five years	823,948	847,222	562,549	588,287
Due after five years through ten years	1,047,312	1,121,980	937,720	1,001,486
Due after ten years	1,490,043	1,633,582	1,841,391	1,932,508
Total bonds	$ 3,427,549	$ 3,670,705	$ 3,371,359	$ 3,552,381

Net investment income earned for the years ended December 31, 2011 and 2010, was comprised of the following (dollars in thousands):

	2011	**2010**
Bonds	$ 167,155	$ 176,559
Preferred stock	241	277
Common stock	55	46
Other invested assets	4,166	4,983
Total gross investment income earned	171,617	181,865
Less investment expenses	8,424	8,343
Net investment income earned	$ 163,193	$ 173,522

Gross realized gains and losses and the net realized gains (losses) for the years ended December 31, 2011 and 2010, were as follows (dollars in thousands):

2011	**Gross Realized Gains**	**Gross Realized Losses**	**Net Realized Gains (Losses)**
Bonds	$ 37,800	$ (19,764)	$ 18,036
Preferred stock	50	-	50
Common stock	7,862	(1)	7,861
Other invested assets	144	-	144
Total	$ 45,856	$ (19,765)	$ 26,091

2010	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	$ 66,403	$ (26,294)	$ 40,109
Preferred stock	140	-	140
Common stock	183,523	(14)	183,509
Short-term investments	1	(2)	(1)
Total	$ 250,067	$ (26,310)	$ 223,757

The following tables represent unrealized losses on bonds as of December 31, 2011 and 2010, 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 liquidity spread increased, 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):

2011 less than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	$ 32,427	$ 2	$ 32,425
All other governments	-	-	-
States, territories, and possessions	-	-	-
Political subdivisions of states and territories	-	-	-
Special revenue and special assessment	2,873	40	2,833
Mortgage and other asset-backed securities	190,827	3,104	187,723
Hybrid securities	7,089	154	6,935
Industrial & miscellaneous	427,584	19,459	408,125
Total less than one year	$ 660,800	$ 22,759	$ 638,041

2011 greater than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	$ -	$ -	$ -
All other governments	-	-	-
States, territories, and possessions	-	-	-
Political subdivisions of states and territories	-	-	-
Special revenue and special assessment	-	-	-
Mortgage and other asset-backed securities	84,861	2,159	82,702
Hybrid securities	-	-	-
Industrial & miscellaneous	55,193	5,446	49,747
Total greater than one year	140,054	7,605	132,449
Total	$ 800,854	$ 30,364	$ 770,490

2010 less than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	$ 4,051	$ 117	$ 3,934
All other governments	-	-	-
States, territories, and possessions	11,158	668	10,490
Political subdivisions of states and territories	5,280	257	5,023
Special revenue and special assessment	43,076	972	42,104
Mortgage and other asset-backed securities	365,225	5,978	359,247
Hybrid securities	1,746	13	1,733
Industrial & miscellaneous	367,920	9,008	358,912
Total less than one year	$ 798,456	$ 17,013	$ 781,443

2010 greater than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	$ -	$ -	$ -
All other governments	-	-	-
States, territories, and possessions	-	-	-
Political subdivisions of states and territories	-	-	-
Special revenue and special assessment	2,890	138	2,752
Mortgage and other asset-backed securities	18,748	1,272	17,476
Hybrid securities	14,854	837	14,017
Industrial & miscellaneous	50,859	3,738	47,121
Total greater than one year	87,351	5,985	81,366
Total	$ 885,807	$ 22,998	$ 862,809

As of December 31, 2011, there were no unrealized losses on equity securities that were in a loss position for less than one year and a continuous loss position for greater than one year. The following table represents such securities as of December 31, 2010. 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):

2010 less than one year	Amortized Cost	Unrealized Losses	Fair Value
Preferred stock	$ -	$ -	$ -
Common stock	-	-	-
Total less than one year	$ -	$ -	$ -

2010 greater than one year	Amortized Cost	Unrealized Losses	Fair Value
Preferred stock	$ 4,765	$ 877	$ 3,888
Common stock	-	-	-
Total greater than one year	4,765	877	3,888
Total	$ 4,765	$ 877	$ 3,888

SAIF seeks guidance from the external investment managers on a regular basis to determine if any other-than-temporary impairments exist. Other-than-temporary impairments are recorded as realized investment losses on the statement of revenues, expenses, and capital and surplus.

The following table summarizes the total realized losses recorded based on management's other-than-temporary impairment analysis as of December 31, 2011 and 2010 (dollars in thousands):

	2011	2010
Bonds, excluding loan-backed securities	$ 2,000	$ 2,378
Mortgage and other asset-backed securities	9,987	17,233
Preferred stock	-	-
Total realized losses	$ 11,987	$ 19,611

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 pools that are backed by loans made to well-qualified borrowers or tranches that have minimal default risk. 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. As of December 31, 2011 and 2010, there were no investments held by SAIF with subprime exposure.

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, 2011 and 2010, and reacquired within 30 days of the sale.

Securities on Deposit—U.S. Treasury obligations with a carrying value of $7.6 million at December 31, 2011 and 2010, 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 $600 thousand and $300 thousand were on deposit at U.S. Bank as required by the DCBS at December 31, 2011 and 2010, respectively.

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 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 2011 and 2010, State Street loaned SAIF's fixed income securities and received cash and non-cash collateral denominated in U.S. dollars. Borrowers were required to deliver 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 during the year from the failure of borrowers to return loaned securities.

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 2011 and 2010. At December 31, 2011 and 2010, the Fund had an average-weighted maturity of 86 days and 119 days, respectively.

At December 31, 2011 and 2010, the collateral held was $199.3 million and $228.0 million, respectively. At December 31, 2011 and 2010, the fair value, including accrued investment income related to the securities on loan, was $195.3 million and $225.0 million, respectively. For 2011 and 2010, securities lending income was $0.8 million and $1.6 million and securities lending expense was $0.3 million and $1.0 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 fair values for investment securities are based on methods and assumptions as described in note 2 and disclosed in note 4.

In accordance with the NAIC disclosure requirements of SSAP No. 100, *Fair Value Measurements*, SAIF has categorized its assets and liabilities that are measured at fair value into the three-level fair value hierarchy as reflected in the table below. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

Level 1 – Quoted Prices in Active Markets for Identical Assets and Liabilities: This category, for items measured at fair value on a recurring basis, includes exchange-traded preferred and common stocks. The estimated fair value of the equity securities within this category are based on quoted prices in active markets and are thus classified as Level 1.

Level 2 – Significant Other Observable Inputs: This category, for items measured at fair value on a recurring basis, includes bonds, preferred stocks, and common stocks which are not exchange-traded. The estimated fair values of some of these items were determined by independent pricing services using observable inputs. Others were based on quotes from markets which were not considered actively traded.

Level 3 – Significant Unobservable Inputs: This category, for items measured at fair value where there is no independent pricing source available, includes bonds, non exchange-traded preferred and common stocks, and other invested assets. The estimated fair values of these items were determined by SAIF's investment managers' own assumptions using unobservable inputs.

The following assets and liabilities measured at fair value in the Level 1, 2, or 3 category as of December 31, 2011 and 2010 were (dollars in thousands):

2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Bonds	$ -	$ 72,848	$ -	$ 72,848
Common stocks	-	378,852	-	378,852
Preferred stocks	-	-	-	-
Other Invested Assets	-	-	-	-
Total assets at fair value	$ -	$ 451,700	$ -	$ 451,700
Liabilities at fair value	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -

2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value				
Bonds	$ -	$ 67,886	$ -	$ 67,886
Common stocks	-	467,988	-	467,988
Preferred stocks	-	-	-	-
Other Invested Assets	-	-	102	102
Total assets at fair value	$ -	$ 535,874	$ 102	$ 535,976
Liabilities at fair value	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -

At the end of each reporting period, SAIF evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2 or transferred into and out of Level 3. At December 31, 2011 and 2010, there were no assets or liabilities transferred between Levels 1 and 2 or transferred into and out of Level 3.

Bonds and common stocks carried at fair value categorized as Level 2 were valued using a market approach. Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. The valuations were determined by using evaluated pricing based on a compilation of primarily observable market information, or a broker's quote in a non-active market. There were no assets measured at fair value in the Level 3 category at December 31, 2011 and 2010.

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, 2011 and 2010, as follows (dollars in thousands):

	2011	2010
Gross reserve for losses and loss adjustment expenses—beginning of year	$ 3,162,661	$ 3,121,198
Less reinsurance ceded—beginning of year	(147,550)	(151,200)
Net balance—beginning of year	3,015,111	2,969,998
Incurred related to:		
Current year	456,691	410,032
Prior year	(128,871)	(44,716)
Total incurred losses and loss adjustment expenses	327,820	365,316
Paid losses related to:		
Current year	104,351	100,300
Prior year	209,319	219,903
Total paid losses and loss adjustment expenses	313,670	320,203
Net balance—end of year	3,029,261	3,015,111
Plus reinsurance ceded—end of year	137,922	147,550
Gross reserve for losses and loss adjustment expenses—end of year	$ 3,167,183	$ 3,162,661

The reserve for losses and LAE increased $14.1 million in 2011, which was net of favorable development of $128.9 million. Loss reserves decreased $21.6 million as compared to the prior year. Loss reserves for the 2011 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves from recent accident years which had lower loss development than was expected. Indemnity loss reserves were virtually unchanged.

LAE reserves increased $35.7 million. The unfavorable LAE development was largely attributable to an increase in selected LAE severity for the current year.

The reserve for losses and LAE increased $45.1 million in 2010, which was net of favorable development of $44.7 million. The favorable development is attributed to the more recent accident years, as permanent total disability and permanent partial disability medical reserves had lower loss development than was expected. The favorable development was offset somewhat by unfavorable development for indemnity loss reserves, which may be due to fewer return-to-work opportunities. Loss adjustment expense reserves decreased $11.8 million. The favorable LAE development was largely attributed to a reduction in the long-term LAE escalation rate due to the average increase in salary and benefits trending downward.

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 $260.3 million and $269.3 million for 2011 and 2010, respectively. The discounts were $90.0 million and $93.8 million as of December 31, 2011 and 2010, respectively.

Anticipated salvage and subrogation of $29.6 million and $25.7 million was included as a reduction of the reserve for losses and LAE at December 31, 2011 and 2010, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $27.6 million and $29.0 million for losses and LAE are related to asbestos claims as of December 31, 2011 and 2010, respectively. Amounts paid for asbestos-related claims were $0.8 million and $1.0 million for the years ended December 31, 2011 and 2010, 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 $255 thousand and $321 thousand for the years ended December 31, 2011 and 2010, respectively.

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 multiple 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, 2011, SAIF's contribution rate of each covered employee's salary was 9.55 percent. Rates are subject to change as a result of subsequent actuarial valuations.

SAIF employees hired on or 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 (cost sharing multiple-employer 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 8.05 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 6.33 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, 2011 and 2010, consist of the following (dollars in thousands):

	2011	**2010**
Employer contributions:		
Debt service	$ 3,370	$ 3,338
PERS-Pension Program	2,361	883
OPSRP-Pension Program	793	377
Total employer contributions	6,524	4,598
Employee contributions paid by SAIF:		
PERS-IAP	2,496	2,571
OPSRP-IAP	867	796
Total employee contributions	3,363	3,367
Total contributions	$ 9,887	$ 7,965

For the years ended December 31, 2011 and 2010, 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, 2011, and 2010, was as follows (dollars in thousands):

	2011	2010
Net unrealized investment gains	$ 2,854	$ 41,981
Nonadmitted assets	(18,278)	(18,043)
Provision for reinsurance	(3,495)	(3,416)

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 $4.0 million and $4.3 million at December 31, 2011 and 2010, 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 $1.2 million and $1.1 million for the years ended December 31, 2011 and 2010, respectively.

SAIF's future minimum lease payments under operating leases at December 31, 2011, are as follows (dollars in thousands):

2012	$ 1,205
2013	1,226
2014	1,145
2015	1,176
2016	1,195
Total minimum payments	$ 5,947

Certain rental commitments have renewal options extending through the year 2028. 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 $525 thousand on leases due in the future under non-cancellable subleases as of December 31, 2011.

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 $35 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 2011, SAIF had reinsurance protection for 85 percent of losses in excess of 20 percent of 2010 direct written premium for acts of foreign and domestic 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 2011 and 2010 (dollars in thousands):

		2011		**2010**
Reserve for losses and loss adjustment expenses	$	47,148	$	50,919
Premiums written and earned		1,002		997
Losses and loss adjustment expenses incurred		(3,344)		(208)

SAIF does not have unsecured reinsurance recoverables as of December 31, 2011 that exceed three percent of policyholders' surplus.

In November 2010, SAIF received formal approval from the DCBS for implementation of its other states coverage program. Beginning February 1, 2011, SAIF partnered with Zurich American Insurance Company and United States Insurance Services (USIS) to provide other states coverage. Zurich issues policies covering the non-Oregon operation of SAIF's customers and manages claims arising from those policies. SAIF reinsures those policies in full. USIS, a broker licensed in all fifty states, provides marketing and administrative services.

The following amounts are included in the accompanying financial statements as a result of participation in other states coverage in 2011 and 2010 (dollars in thousands):

Other States Coverage		**2011**		**2010**
Assumed:				
Reserve for losses and loss adjustment expenses	$	1,281	$	-
Unearned premiums		2,395		-
Premiums written		3,954		-
Premiums earned		1,559		-
Losses and loss adjustment expenses incurred		1,372		-
Commission expense		581		-

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 2011 and 2010 (dollars in thousands):

	2011	2010
Assumed:		
Reserve for losses and loss adjustment expenses	$ 70,800	$ 72,875
Unearned premiums	2,527	2,175
Premiums written	14,280	12,331
Premiums earned	13,927	12,671
Losses and loss adjustment expenses incurred	8,182	6,022
Commission expense	5,626	4,800
Ceded:		
Reserve for losses and loss adjustment expenses	$ 90,774	$ 96,630
Unearned premiums	4,002	4,168
Premiums written	8,794	9,367
Premiums earned	8,960	10,025
Losses and loss adjustment expenses incurred	1,251	4,355
Commission expense	2,615	2,651

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, 2011 and 2010.

Admitted EDP equipment and software at December 31, 2011 and 2010, were as follows (dollars in thousands):

	2011	2010
EDP equipment and software	$ 2,828	$ 3,267
Accumulated depreciation	(2,561)	(2,727)
Balance—net	$ 267	$ 540

Depreciation expense related to admitted EDP equipment and software was $345 thousand and $481 thousand for the years ended December 31, 2011 and 2010, 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, 2011 and 2010.

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 (dollars in thousands):

2011	Filed	Audited	Difference
Statement of admitted assets, liabilities, and capital and surplus:			
Other assets	$ 16,928	$ 14,886	$ (2,042)
Total admitted assets	4,445,065	4,443,025	(2,040)
Losses	2,681,567	2,677,485	(4,082)
Other accrued expenses	23,568	23,708	140
Unearned premiums	180,244	180,283	39
Total liabilities	3,527,836	3,523,931	(3,905)
Capital and surplus—Unassigned funds	917,230	919,094	1,864
Total	4,445,065	4,443,025	(2,040)
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	$ 356,841	$ 357,475	$ 634
Losses incurred, net	242,027	242,220	193
Loss expenses incurred	85,517	85,600	83
Other underwriting expenses incurred	70,381	70,889	508
Total underwriting expenses	397,925	398,709	784
Net underwriting loss	(41,084)	(41,234)	(150)
Net investment income earned	163,034	163,193	159
Net investment income	189,125	189,284	159
Net loss from premium balances charged off	(993)	(954)	39
Other income	1,094	1,091	(3)
Total other income - net	101	137	36
Net Income before dividends to policyholders	148,142	148,187	45
Net income	(1,901)	(1,856)	45
Change in capital and surplus	(41,343)	(41,297)	46
Unassigned funds—end of year	917,230	919,094	1,864
Statement of cash flows:			
Premiums collected net of reinsurance	$ 358,992	$ 354,995	$ (3,997)
Net investment income	174,063	174,222	159
Miscellaneous income (expense)	101	137	36
Benefits and loss related payments	(263,966)	(264,032)	(66)
Underwriting expenses paid	(113,938)	(115,111)	(1,173)
Net cash from (used by) operations	5,209	168	(5,041)
Other cash provided	1,793	7,176	5,383
Other cash applied	(1,553)	(1,895)	(342)
Net cash used by financing and miscellaneous sources	240	5,281	5,041

2010	Filed	Audited	Difference
Statement of admitted assets, liabilities, and capital and surplus:			
Other assets	$ 15,592	$ 13,546	$ (2,046)
Total admitted assets	4,473,823	4,471,777	(2,046)
Losses	2,703,377	2,699,068	(4,309)
Other accrued expenses	21,570	22,012	442
Unearned premiums	164,122	164,124	2
Total liabilities	3,515,251	3,511,386	(3,865)
Capital and surplus—Unassigned funds	958,572	960,391	1,819
Total	4,473,823	4,471,777	(2,046)
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	$ 332,966	$ 333,323	$ 357
Losses incurred, net	334,071	328,979	(5,092)
Loss expenses incurred	36,336	36,337	1
Other underwriting expenses incurred	64,788	63,974	(814)
Total underwriting expenses	435,195	429,290	(5,905)
Net underwriting loss	(102,229)	(95,967)	6,262
Net loss from premium balances charged off	(1,010)	(1,284)	(274)
Other income	1,173	1,172	(1)
Total other income - net	163	(112)	(275)
Net Income before dividends to policyholders	295,213	301,200	5,987
Net income	94,672	100,659	5,987
Change in capital and surplus	3,213	9,199	5,986
Unassigned funds—end of year	958,572	960,391	1,819
Statement of cash flows:			
Premiums collected net of reinsurance	$ 336,674	$ 337,419	$ 745
Miscellaneous income (expense)	164	(112)	(276)
Benefits and loss related payments	(272,815)	(272,058)	757
Underwriting expenses paid	(109,229)	(109,290)	(61)
Net cash from (used by) operations	(78,903)	(77,738)	1,165
Other cash provided	896	728	(168)
Other cash applied	(3,512)	(4,509)	(997)
Net cash used by financing and miscellaneous sources	(2,616)	(3,781)	(1,165)

* * * * * *

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 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	153,509,215	3.75	153,509,215		153,509,215	3.75
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies	1,265,987	0.03	1,265,987		1,265,987	0.03
1.22 Issued by U.S. government sponsored agencies	11,968,287	0.29	11,968,287		11,968,287	0.29
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	5,540,614	0.14	5,540,614		5,540,614	0.14
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations	19,299,080	0.47	19,299,080		19,299,080	0.47
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	11,128,911	0.27	11,128,911		11,128,911	0.27
1.43 Revenue and assessment obligations	82,651,470	2.02	82,651,470		82,651,470	2.02
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	143,080,880	3.49	143,080,880		143,080,880	3.49
1.512 Issued or guaranteed by FNMA and FHLMC	399,818,165	9.76	399,818,165		399,818,165	9.76
1.513 All other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	56,135,489	1.37	56,135,489		56,135,489	1.37
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	148,791,906	3.63	148,791,906		148,791,906	3.63
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	2,024,845,652	49.41	2,024,845,652		2,024,845,652	49.41
2.2 Unaffiliated non-U.S. securities (including Canada)	369,513,196	9.02	369,513,196		369,513,196	9.02
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds	378,851,939	9.25	378,851,939	199,303,424	578,155,363	14.11
3.2 Preferred stocks:						
3.21 Affiliated						
3.22 Unaffiliated						
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						
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	14,212,908	0.35	14,212,908		14,212,908	0.35
5.2 Property held for production of income (including $ 0 of property acquired in satisfaction of debt)	727,686	0.02	727,686		727,686	0.02
5.3 Property held for sale (including $ 0 property acquired in satisfaction of debt)						
6. Contract loans						
7. Derivatives						
8. Receivables for securities	1,487,011	0.04	1,487,011		1,487,011	0.04
9. Securities Lending (Line 10, Asset Page reinvested collateral)	199,303,424	4.86	199,303,424	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	63,876,653	1.56	63,876,653		63,876,653	1.56
11. Other invested assets	11,754,606	0.29	11,754,606		11,754,606	0.29
12. Total invested assets	4,097,763,079	100.00	4,097,763,079	199,303,424	4,097,763,079	100.00

APPENDIX B

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

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SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2011

(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 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. $ 4,443,025,006

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	BlackRock MSCI ACWI Index Fund	Index Fund	$ 378,851,939	8.527 %
2.02	JP Morgan Chase & Co	Bond	$ 94,649,331	2.130 %
2.03	SLM Corp	Bond	$ 78,360,608	1.764 %
2.04	Bank of America Corp	Bond	$ 73,229,452	1.648 %
2.05	General Elec Cap Corp	Bond	$ 58,797,038	1.323 %
2.06	Morgan Stanley	Bond	$ 51,366,484	1.156 %
2.07	Goldman Sachs Group Inc	Bond	$ 51,079,047	1.150 %
2.08	AT&T Inc	Bond	$ 49,319,510	1.110 %
2.09	Wells Fargo & Co	Bond	$ 48,980,459	1.102 %
2.10	Citigroup Inc	Bond	$ 46,169,809	1.039 %

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	$ 2,379,146,726	53.548 %	3.07	P/RP-1	$	%
3.02	NAIC-2	$ 871,763,436	19.621 %	3.08	P/RP-2	$	%
3.03	NAIC-3	$ 143,224,440	3.224 %	3.09	P/RP-3	$	%
3.04	NAIC-4	$ 51,439,343	1.158 %	3.10	P/RP-4	$	%
3.05	NAIC-5	$ 8,651,279	0.195 %	3.11	P/RP-5	$	%
3.06	NAIC-6	$ 3,879,743	0.087 %	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	$ 331,526,090	7.462 %
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	$ 292,535,882	6.584 %
5.02	Countries rated NAIC-2	$ 38,990,211	0.878 %
5.03	Countries rated NAIC-3 or below	$	%

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

			1	2
	Countries rated NAIC – 1:			
6.01	Country 1:	United Kingdom	$ 58,430,514	1.315 %
6.02	Country 2:	Cayman Islands	$ 42,552,462	0.958 %
	Countries rated NAIC – 2:			
6.03	Country 1:	Mexico	$ 15,340,445	0.345 %
6.04	Country 2:	Brazil	$ 8,563,416	0.193 %
	Countries rated NAIC – 3 or below:			
6.05	Country 1:		$	%
6.06	Country 2:		$	%

		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. Largest unhedged foreign currency exposures by 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	BP Capital Markets PLC	1FE	$ 15,629,782	0.352 %
10.02	Westpac Banking Corp	1FE	$ 15,531,511	0.350 %
10.03	Transocean Sedco Forex Inc	2FE	$ 13,824,721	0.311 %
10.04	Deutsche Telekom Intl Fin	2FE	$ 11,200,677	0.252 %
10.05	Telefonica Emisiones SAU	2FE	$ 10,897,544	0.245 %
10.06	GMAC Mortgage Servicer	1FE	$ 9,338,495	0.210 %
10.07	Arcelormittal	2FE	$ 9,053,941	0.204 %
10.08	HSBC Holdings PLC	1FE	$ 8,841,400	0.199 %
10.09	Rio Tinto Fin USA Ltd	1FE	$ 7,927,907	0.178 %
10.10	BNP Paribas/BNP US MTN	1FE	$ 7,912,894	0.178 %

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 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.

1 Issuer	2	3
13.02 BlackRock MSCI ACWI Index	$ 378,851,939	8.527 %
13.03 KKR Limited Partnerships	$ 1	0.000 %
13.04	$	%
13.05	$	%
13.06	$	%
13.07	$	%
13.08	$	%
13.09	$	%
13.10	$	%
13.11	$	%

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

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

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

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$	%

Largest 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.

	1	2	3
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.

	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 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:

	At Year-end 1	At Year-end 2	At End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$ 186,719,577	4.203 %	$ 208,456,713	$ 253,260,710	$ 271,195,310
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 1	Owned 2	Written 3	Written 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 1	At Year-end 2	At End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 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 1	At Year-end 2	At End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23.01 Hedging	$	%	$	$	$
23.02 Income generation	$	%	$	$	$
23.03 Replications	$	%	$	$	$
23.04 Other	$	%	$	$	$