

**What's
changing.**

**What's
not.**

Financial Highlights

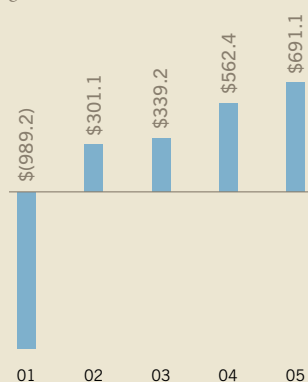
Dollars in millions, except share amounts

YEAR ENDED DECEMBER 31	2005	2004	2003	2002	2001
Revenues	\$6,351.1	\$6,195.4	\$5,450.1	\$5,225.4	\$5,069.8
Net Income (Loss)	691.1	562.4	339.2	301.1	(989.2)
Income (Loss) from Continuing Operations	691.1	620.2	285.5	239.1	(1,119.4)
Shareholders' Equity	4,124.6	3,920.9	5,023.3	4,431.6	3,634.6

PER COMMON SHARE	2005	2004	2003	2002	2001
Net Income (Loss) ¹	\$ 5.43	\$ 4.16	\$ 2.44	\$ 2.33	\$ (7.75)
Income (Loss) from Continuing Operations ¹	5.43	4.59	2.06	1.85	(8.76)
Dividends Paid	0.94	0.78	0.74	0.74	0.93
Book Value	33.38	30.88	36.24	32.07	28.45

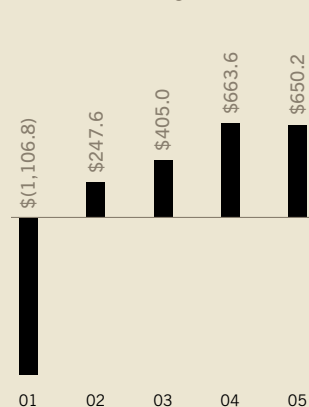
Net Income (Loss)

All income and expenses after taxes, including net realized investment gains or losses



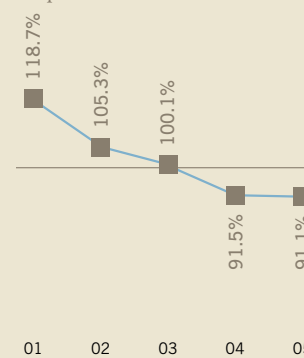
Operating Earnings (Loss)²

Net income (loss), excluding net realized investment gains or losses



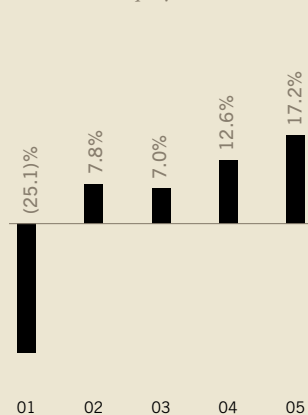
P&C Combined Ratio

Percentage of each premium dollar spent on claims and expenses – the lower the ratio, the better the performance



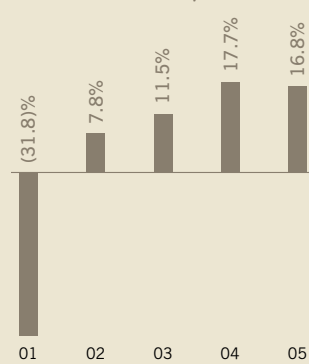
Net Return on Equity

Net income (loss) divided by average shareholders' equity



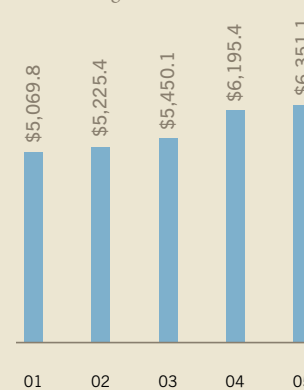
Operating Return on Equity²

Operating earnings (loss) divided by average shareholders' equity, excluding net unrealized gains or losses on fixed maturity investments



Total Revenues

Premiums on insurance policies, net investment income and net realized investment gains or losses



¹ On a diluted basis, except for the loss in 2001, which was calculated using the basic method.

² Operating Earnings (Loss) and Operating Return on Equity: Management uses these measures because net realized investment gains and losses can fluctuate significantly and distort a comparison between periods. These measures are not based on U.S. generally accepted accounting principles, or GAAP. A reconciliation to the most directly comparable GAAP measure is provided on page 112.

To Our Shareholders

What's changing? For one thing, I'm writing this letter instead of Mike McGavick, who you've come to know on this page over the last five years. Mike resigned from Safeco to run for the U.S. Senate, and I took the helm on January 1. Mike did a tremendous job getting this company back on track during his tenure. But it is my role to sign off on the 2005 financial statements for the company. As a consequence, I have immersed myself in the company's books, records, business processes, performance and potential in short order.

Through this process, I have developed some thoughts on what's changing, what's not changing and what needs to change at Safeco. I'll start by reviewing the past year, then share what's in store for 2006, and close with a discussion about the values that will continue to define Safeco in the times ahead.



Paula Rosput Reynolds
President and Chief Executive Officer

2005 highlights

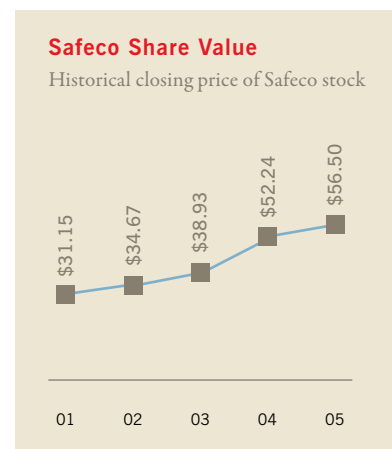
In back-to-back years of record industry catastrophes, Safeco turned in back-to-back record net income. Clearly, the company is doing a lot of things right. In the face of increasing competition, we maintained our underwriting discipline and generated profits in every major line of business – auto, home, small commercial and surety. We did not, and will not, sacrifice profits for market share.

Our record net income of \$691 million, overall P&C combined ratio of 91 percent and return on equity of 17 percent are a direct result of the intensified use of the automated underwriting capability we have developed. In personal auto, our largest line, we began rolling out the second iteration of our segmented product. In our commercial lines, we added 340 classes of business to our multi-peril package policy and made them all available through Safeco Now® – our Web-based sales-and-service platform. We expect these enhancements to invigorate our business as we go forward.

Your share value closed out 2005 at \$56.50, up 8.2 percent over end-of-year 2004. We increased the dividend by 13.6 percent as well, to \$1.00 per share on an annualized basis. We also bought back 4.5 million shares of Safeco stock in 2005 in an effort to manage our equity while keeping our company prudently capitalized. Our ratings (see page 60) are an indication of our continued financial strength.

In the early weeks of 2006, stocks in the insurance sector have weakened from the record highs experienced in late 2005. This trend reflects Wall Street's recognition of the challenging business environment in which we delivered these solid results. Growth in the property and casualty sector has slowed. Our self-imposed discipline in the market further contributed to a reduced level of policies in force. Most notably, we continue to closely manage our exposure in catastrophe-prone areas, such as the Gulf Coast and the New Madrid and Pacific Coast earthquake zones. While this has affected our policy-in-force numbers, we are grateful that our geographic diversification led to a positive result for the year.

Achieving consistent growth in the years ahead is essential for us to realize our potential as a national carrier. If there was one clear disappointment in last year's performance, it was our inability to make greater inroads in areas outside of our traditional top-producing states. We were competitive from a rate standpoint in most states, but we didn't have the network necessary to promote and sell our products. Going forward, our leadership team is focused on swiftly leveraging the advantages we gain through automated underwriting by increasing market penetration.



Here are the areas where we must execute well to be successful in 2006 and beyond:

1. We will grow through an expanded approach to distribution.

We have enjoyed a long and successful history selling our products through independent agents and brokers. That won't change. There are consumers who want the consultation and choice that agents offer. It's a strong value proposition, and we will continue appointing and supporting successful agents.

While we are committed to selling through independent agents, we also recognize that to be one of the winners in this next wave of intense competition, we need to market our products in ways that mirror the diversity of consumers and their buying preferences. More and more people want to comparison shop – by phone, through affinity groups, or on the Internet. The best agencies and carriers are those most creative and effective at reaching consumers on *their* terms.

We have many of the pieces already in place to be successful. Our automated underwriting and segmented pricing give us an advantage over many insurance companies. No other carrier in our industry offers more of their product lines on an automated quote-and-issue platform than Safeco – everything from motorcycle insurance to commercial liability coverage. And through our Internet sales capability, we're attracting people who want to buy insurance online and connecting them with independent agents for follow-up support.

We believe people are better off with a Safeco policy, and we are exploring new opportunities to expand our reach, deepen our market penetration and strengthen the value of the Safeco franchise for our agent partners and for you.

2. We will reduce our underlying costs – competition demands it.

In a world of perfect competition, the low-cost provider gains market share. Before automated underwriting was developed, neither the agent nor the consumer could know which carrier was the lowest cost, option by option. Today they can, and all carriers are challenged to reduce their costs and increase their service quality to compete successfully.

At Safeco, our underwriting capability is exceptional, but we can't yet boast the scale economies that some of our competitors enjoy. As we grow, we must reduce our loss costs through careful, continued improvements in our underwriting models, and reduce our expenses by streamlining our business processes – principally through technology.

3. We will step up the pace of innovation.

The days of taking a wait-and-see approach to innovation in our industry are over. Promising new technologies and new ways of mining and managing data are constantly being developed and leveraged. The advances we've

made in recent years position us to be in front with more breakthroughs. Here are a few of the ideas we're exploring that could make a difference in the future:

- Geo-spatial territorial analysis and use of the Global Positioning System to enhance the sophistication of our products and pricing capabilities; and the use of satellite photos combined with other data sources to advance our ability to segment the property market even further, thereby improving our profitability and competitiveness.
- Development of account-centric predictive models to improve our small-business underwriting capabilities as we increasingly automate the marketing of small-commercial insurance.
- Use of wireless technologies and logistics software to create a truly virtual field workforce, able to respond rapidly to the needs of our customers and simultaneously transmit claims data to our centralized processing facilities.

Bringing these concepts into day-to-day operations will be a multi-year undertaking. In doing so, we must be wise in balancing the need to reinvest in the business with the importance of providing you with competitive returns and maintaining a healthy balance sheet for the future. I can assure you that Safeco's leadership is mindful of the responsibility for maintaining this prudent balance.

Our purpose

Shortly before I decided to join Safeco, Hurricanes Katrina, Rita and Wilma were wreaking havoc in the Southeast. I witnessed tremendous acts of self-sacrifice as my former colleagues in the energy business worked around the clock to restore vital infrastructure operations and keep supplies flowing. I learned that the same dedication is in force at Safeco. During these devastating events, Safeco's National Catastrophe Team overcame personal hardships and logistical challenges to be on the ground and at work within 24 hours of hurricane landfall – in many areas, before any other insurance company or government emergency services provider.

At its most elemental, we are here to help people in distress. I am proud of the professional service we deliver. But our work will not be done until our customers and agents have rebuilt their lives.

So when we think about what's not changing at Safeco, it's simply this: the decency of how we run our business. It's been the Safeco way for 83 years now – and it will remain so in the years to come.

I look forward to being the steward of your investment and of the values that have made Safeco a well-respected insurer for millions of Americans.



Paula Rosput Reynolds

President and Chief Executive Officer

Our 2006 goals.

- **We will market our products in ways that mirror the diversity of consumers and their buying preferences.**
- **We will make progress to become a low-cost carrier.**
- **We will deploy our capital to provide meaningful returns to our shareholders for the long run.**
- **We will continue to build our infrastructure and technical capability to a best-in-class standard.**

Executive Team

Paula Rosput Reynolds

President and
Chief Executive Officer
Safeco Corporation

Arthur Chong

Executive Vice President and
Chief Legal Officer
Safeco Corporation

Charles Horne, Jr.

Senior Vice President and
Principal Accounting Officer
Safeco Corporation

Michael LaRocco

President and
Chief Operating Officer
Safeco Insurance Companies

Allie Mysliwy

Executive Vice President and
Chief Business Services Officer
Safeco Corporation

Frontline Katrina Update

David Treutel is a third-generation independent insurance agent in Bay St. Louis, Mississippi. Hurricane Katrina destroyed his home, business and historic hometown. After surveying the damage to his own property, his focus turned immediately to his customers. To help Treutel and other Safeco agents in the devastated region get up and running, Safeco deployed disaster-recovery teams and provided satellite-enabled phones and laptop computers, generators, fuel, water and other supplies. Safeco also set up mobile claims units in key locations and extended 24/7 policyholder service for agents until their systems were restored and normal operations could resume. Following is a brief excerpt from an e-mail update Treutel recently sent to Safeco's Mike LaRocco.

Thanks again for your words of encouragement last year at a challenging time. They meant a lot to us. Safeco representatives continue to handle themselves in a professional manner as they work to close out pending claims. The people of Safeco have been invaluable to us, especially your catastrophe team in the field. We appreciate the professional effort of your claims adjusters. We have renewed respect for these guys in the field who work in adverse conditions. They understand the situation our customers face and remain empathetic with people who are at times irate and frustrated. Keep up the good work!

David A. Treutel, Jr.

Treutel Insurance Agency
Bay St. Louis, Mississippi



Safeco agent David Treutel, his wife Angelyn, and dad Dave at the mobile claims unit in September 2005.

Board of Directors



Joseph W. "Jay" Brown
Chairman of MBIA, Inc.
*Non-Executive Chairman
of the Board.*



Robert S. Cline
Retired Chairman and
CEO of Airborne, Inc.
*Former Lead Director,
Chair of Audit Committee
and Member of Compensation
and Finance Committees.*



Peter L.S. Currie
President of Currie
Capital LLC
*Member of Audit and
Finance Committees.*



Maria S. Eitel
President of Nike Foundation
*Member of Compensation and
Nominating/Governance
Committees.*



Joshua Green III
Chairman and CEO
of Joshua Green Corporation
*Member of Audit, Finance
and Nominating/
Governance Committees.*



G. Thompson Hutton
President and CEO of White
Mountains Re Group, Ltd.
*Chair of Nominating/
Governance Committee and
Member of Audit Committee.*



Kerry Killinger
Chairman and CEO of
Washington Mutual, Inc.
*Chair of Compensation
Committee and Member of
Finance Committee.*



Gary F. Locke
Partner, Davis Wright
Tremaine LLP
Member of Audit Committee.



William G. "Gary" Reed, Jr.
Director of Green Diamond
Resource Company (f.k.a.
Simpson Resource Company)
*Chair of Finance Committee
and Member of Compensation
and Nominating/Governance
Committees.*



Paula Rosput Reynolds
President and CEO of
Safeco Corporation
Member of Finance Committee.



Judith M. Runstad
Of Counsel at Foster
Pepper PLLC
Member of Finance Committee.

Letter from Lead Director

In a year that saw increasing competitive pressures, major catastrophes and a top leadership transition, the people of Safeco showed discipline and consistency through change, delivering record earnings and generating underwriting profits in all core business lines.

Within the company, the biggest change was Mike McGavick's departure after nearly five years, and the announcement of Paula Rosput Reynolds as Safeco's new president and CEO.

The board conducted a national search, and in Paula we found a leader with proven executive experience. When she joined us in January 2006, Paula inherited a strong Safeco franchise – thanks in large part to Mike's leadership and the team he assembled.

During his tenure, Safeco recovered from a near-billion-dollar loss in 2001 to post its best-ever net income result in 2004, and again in 2005. Mike built a dynamic team of senior leaders and invested wisely in the development of automated tools. Under his leadership, Safeco also divested non-core businesses to concentrate on the company's traditional strength in property and casualty insurance. Looking at Safeco's solid financial foundation, talented team of insurance professionals and sophisticated underwriting systems, Mike's legacy is clear. The board is grateful for his significant contributions during a critical period in the company's history.

Now it's Paula's turn to leverage these strengths and develop new capabilities to see how far Safeco can go. At our December retreat, the board reviewed the company's strategic plan. We continue to believe in the power and unrealized potential of Safeco's business model. Paula is working with senior leaders to assess the subtleties of the strategy and drive the execution that will make Safeco one of the industry's top performers – year in and year out. The board is optimistic about the company's prospects with Paula at the helm.

At the board level, we welcomed three new directors in 2005 – Peter Currie, Maria Eitel and Gary Locke. Their diverse backgrounds and perspectives will continue to enrich our board. As the year came to a close, I finished my work as lead director, and Jay Brown assumed the duties of non-executive chairman of the board. Jay has been a Safeco director since 2001, and he brings to this role an extensive insurance background and a deep understanding of the issues facing property and casualty insurers. With Jay's insurance experience and Paula's fresh approach to the business, we have a terrific team governing your company.

It was a privilege representing you as lead director, and I look forward to continuing to serve on the board and being a part of what promises to be an exciting next several years at Safeco.



A handwritten signature in dark ink, appearing to read 'Bob Cline'.

Bob Cline
2005 Lead Director

For more about Safeco's corporate governance guidelines and charters of board committees, visit www.safeco.com/governance. An overview of governance practices also is included in the proxy statement that accompanies this report. Please share your comments or questions for the board at shacom@safeco.com.

Bob Cline (left), former Lead Director, and
Jay Brown, new Chairman of the Board

The numbers.

Following is our Form 10-K – an owner’s guide to our business – with a straightforward explanation of who we are, what we do and how we performed in 2005.

- **For a snapshot of our company, read Item 1.**
- **For a deeper look at our numbers and the drivers behind our performance, check out Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

We designed our 10-K with you in mind, and we welcome your questions and feedback. Please contact us at ir@safeco.com.

Shareholder Information

Corporate Headquarters

Safeco Corporation
Safeco Plaza
Seattle, WA 98185
(206) 545-5000
www.safeco.com

Annual Meeting

The annual meeting of shareholders will be held at 11:00 a.m., Wednesday, May 3, 2006, in the Safeco Plaza Auditorium, Level M. An annual meeting notice, proxy statement and proxy were provided to shareholders with this report.

Electronic Access to Proxy Materials and Voting

REGISTERED SHAREHOLDERS:

Shareholders of record may elect to receive future proxy materials electronically, in lieu of receiving paper copies in the mail. Shareholders who participate in this service will receive a notice from Safeco's transfer agent, The Bank of New York, providing Internet links to our proxy statement, annual report and electronic voting site. To enroll in the electronic proxy delivery service, please e-mail your request to The Bank of New York at: shareowners@bankofny.com.

BENEFICIAL SHAREHOLDERS:

Shareholders who own their shares through a brokerage should contact their broker to enroll in electronic proxy delivery.

Independent Registered Public Accounting Firm

Ernst & Young LLP
999 Third Ave., Suite 3500
Seattle, WA 98104

Stock Transfer Agent and Registrar

REGISTERED SHAREHOLDERS:

You are a registered shareholder if your securities are registered in your name and you hold a stock certificate. For address changes, replacement of missing dividend checks, electronic deposit of dividends, registration changes, lost certificates, account consolidations and 1099-DIV forms, contact Safeco's transfer agent, The Bank of New York at:

(800) 524-4458

Hearing Impaired TDD:
(888) 269-5221

www.stockbny.com

Or write:

The Bank of New York
Receive & Deliver
Department – 11W
P.O. Box 11002
Church Street Station
New York, NY 10286

E-mail:

shareowners@bankofny.com

For items sent via courier or overnight express, please use the following address:

The Bank of New York
101 Barclay Street – 12E
New York, NY 10286

Registered shareholders also have access to their account through The Bank of New York's Web site at www.stockbny.com. At this Web site, shareholders are able to view their account history, change their address, and download a variety of forms related to stock transactions. If you are a registered shareholder and want Internet access to your account, please log on to The Bank of New York's Web site, click on "Account Access" and follow the instructions.

BENEFICIAL SHAREHOLDERS:

Shareholders who own their shares through a brokerage should contact their broker regarding changes to their account.

Note Transfer, Paying Agent and Registrar

JPMorgan Chase Bank
Institutional Trust Services
2001 Bryan Street, 9th Floor
Dallas, TX 75201
(800) 275-2048

Investor Relations

Shareholders, securities analysts, financial representatives or other interested parties may direct their financial inquiries to:

Neal Fuller
Vice President – Finance & Treasurer
(206) 545-3399
ir@safeco.com

Reports and Other Financial Information

Annual reports on Form 10-K, quarterly earnings releases, live audio broadcasts and replays of quarterly results and investor conferences in which Safeco participates, along with other financial information, are available on Safeco's Web site at www.safeco.com/ir.

Requests for additional information may be directed to:

Investor Relations
Safeco Corporation
Safeco Plaza, T-15
Seattle, WA 98185
(206) 545-3399

Investor Relations Toll-Free Hotline

Shareholders without Internet access may listen to summaries of Safeco's earnings, dividend and other financial-related news releases, as well as current stock quotes and a list of most frequently asked questions, by calling:

(877) 947-7232
(877) 9IR-SAFC

Callers to the hotline may have their call transferred to Safeco's Investor Relations department by selecting Option "5" on their touchtone phone.

Stock Exchange Listing

Safeco's common stock trades on the NASDAQ Stock Market under the symbol SAFC.

Key Financial Dates

Payment of future dividends is dependent upon results of Safeco's operations, financial condition and other business considerations.

DIVIDEND DECLARATION DATES:

February 1, 2006
May 3, 2006
August 2, 2006
November 1, 2006

DIVIDEND RECORD DATES:

January 6, 2006
April 7, 2006
July 7, 2006
October 6, 2006
January 5, 2007

DIVIDEND PAYMENT DATES:

January 23, 2006
April 24, 2006
July 24, 2006
October 23, 2006
January 22, 2007

Stock Price and Dividend Information

The table below shows the high and low bid price of Safeco stock for each quarter and the amount of cash dividends paid per share during the past two years:

	HIGH	LOW	CASH DIVIDEND PAID
2005			
1st Qtr	\$52.28	\$45.43	\$0.220
2nd Qtr	\$56.06	\$51.57	\$0.220
3rd Qtr	\$56.21	\$51.11	\$0.250
4th Qtr	\$58.34	\$55.22	\$0.250

Total dividend paid in 2005 was \$0.940

	HIGH	LOW	CASH DIVIDEND PAID
2004			
1st Qtr	\$45.99	\$37.95	\$0.185
2nd Qtr	\$46.00	\$41.51	\$0.185
3rd Qtr	\$49.39	\$44.89	\$0.185
4th Qtr	\$52.64	\$45.70	\$0.220

Total dividend paid in 2004 was \$0.775

SAFECO CORPORATION
SEATTLE, WA
WWW.SAFECO.COM