SAIF Corporation

Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2012 and 2011, Supplementary Schedules as of December 31, 2012, 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

Report on Financial Statements

We have audited the accompanying statutory financial statements of SAIF Corporation ("SAIF"), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2012 and 2011, and the related statutory statements of revenues, expenses, and capital and surplus, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Insurance Division of the Oregon Department of Consumer and Business Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MOSS-ADAMS LLP

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of SAIF Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Emphasis of Matter Regarding Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The 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 basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Insurance Division of the State of Oregon. Our opinion is not modified with respect to this matter.

Other Matter

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the statutory financial statements as a whole. The summary investment schedule and supplemental investment risk interrogatories are presented for purposes of additional analysis and are not a required part of the statutory 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 statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Restriction on Use

This report is intended solely for the information and use of the board of directors and management of SAIF Corporation, 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 30, 2013

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2012 and 2011
(In thousands)

	2012	2011
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	$ 3,237,270	$ 3,427,549
Common stocks	442,543	378,852
Real estate, net of accumulated depreciation of $14,850 and $14,110:		
Properties occupied by the Company	13,504	14,213
Properties held for the production of income	697	728
Cash, cash equivalents, and short-term investments	314,469	63,877
Other invested assets	27,961	11,754
Receivable for securities sold	38	1,487
Security lending reinvested collateral	315,896	199,303
Total cash and invested assets	4,352,378	4,097,763
Interest, dividends, and real estate income due and accrued	36,117	36,554
Premiums in course of collection	4,716	4,485
Premiums and installments booked but deferred and not yet due	257,117	242,771
Accrued retrospective premiums receivable	30,801	35,980
Reinsurance recoverables	555	368
Electronic data processing (EDP) equipment and software, net of accumulated depreciation of $2,226 and $2,561	301	267
Due from Workers' Compensation Division	10,153	9,951
Other assets	16,594	14,886
TOTAL	$ 4,708,732	$ 4,443,025
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	$ 2,670,886	$ 2,677,485
Loss adjustment expenses	391,737	351,776
Other accrued expenses	25,949	23,708
Taxes, licenses, and fees	22,105	20,493
Unearned premiums	194,370	180,283
Advance premiums	3,921	3,775
Dividends to policyholders declared and unpaid	35	-
Ceded reinsurance premiums payable	2,617	5,362
Amounts withheld or retained for account of others	24,326	23,090
Other liabilities	16,939	3,512
Unclaimed property	320	60
Payable for securities lending	315,817	199,315
Accrued retrospective premiums payable	33,393	35,072
Total liabilities	3,702,415	3,523,931
CAPITAL AND SURPLUS—Unassigned funds	1,006,317	919,094
TOTAL	$ 4,708,732	$ 4,443,025

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, 2012 AND 2011
(In thousands)

	2012	2011
UNDERWRITING REVENUES—Premiums earned, net	$ 401,350	$ 357,475
UNDERWRITING EXPENSES:		
Losses incurred, net	260,771	242,220
Loss adjustment expenses incurred	91,987	85,600
Other underwriting expenses incurred	75,866	70,889
Total underwriting expenses	428,624	398,709
NET UNDERWRITING LOSS	(27,274)	(41,234)
NET INVESTMENT INCOME:		
Net investment income earned	154,011	163,193
Net realized investment gains	39,328	26,091
Net investment income	193,339	189,284
OTHER INCOME:		
Net loss from premium balances charged off	(944)	(954)
Other income	1,228	1,091
Total other income—net	284	137
Net income before dividends to policyholders	166,349	148,187
POLICYHOLDER DIVIDENDS	(149,970)	(150,043)
NET INCOME (LOSS)	$ 16,379	$ (1,856)
CAPITAL AND SURPLUS:		
Unassigned funds—beginning of year	$ 919,094	$ 960,391
Net income (loss)	16,379	(1,856)
Change in net unrealized capital gains	69,073	(39,127)
Change in nonadmitted assets	300	(235)
Change in provision for reinsurance	1,471	(79)
Net change in capital and surplus	87,223	(41,297)
Unassigned funds—end of year	$ 1,006,317	$ 919,094

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
CASH FROM (USED BY) OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	$ 403,705	$ 354,995
Net investment income	162,788	174,222
Net cash from underwriting	566,493	529,217
Miscellaneous income	285	137
Benefits and loss related payments	(267,558)	(264,032)
Underwriting expenses paid	(123,562)	(115,111)
Policyholder dividend payments	(149,935)	(150,043)
Net cash from operations	25,723	168
CASH FROM (USED BY) INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,100,067	1,098,537
Common stocks	216	155,334
Other invested assets	(116,501)	28,973
Miscellaneous payments	1,449	(1,325)
Total proceeds from investments sold, matured, or repaid	985,231	1,281,519
Cost of investments acquired:		
Bonds	872,866	1,145,767
Common stocks	120	90,343
Other invested assets	(100,296)	28,727
Miscellaneous receipts	(14,631)	(4)
Total cost of investments acquired	758,059	1,264,833
Net cash from investments	227,172	16,686
CASH FROM (USED BY) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	1,797	7,176
Other cash applied	(4,100)	(1,895)
Net cash from (used by) financing and miscellaneous sources	(2,303)	5,281
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Net increase in cash, cash equivalents, and short-term investments	250,592	22,135
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Beginning of year	63,877	41,742
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—End of year	$ 314,469	$ 63,877

See notes to financial statements—statutory basis.

Supplemental schedule of noncash transactions:
Noncash investment transactions were $50.4 million and $44.0 million for both investment acquisitions and dispositions resulting from conversions and tax-free exchange transactions for the years ended December 31, 2012 and 2011, 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 29.8 percent and 31.7 percent of standard premium during 2012 and 2011, 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 $284.4 million and $276.2 million at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, 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 2012 and 2011, 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 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 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.

(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. Noninvestment grade bonds (NAIC rated 3 to 6) are carried at the lower of amortized cost or fair value. As of December 31, 2012 and 2011, SAIF held bonds which were in or near default with a carrying value of $0.1 thousand and $3.9 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 OTTI, when collection of all contractual cash flows is not probable. Interest-only securities and securities where the yield has become negative are valued using the prospective method.

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.

The fair values for investment securities for 2012 and 2011 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, 2012 and 2011, the percent of SAIF's debt securities priced using the benchmark method was 29.2 percent and 28.6 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 OTTI for equity securities, bonds, and securities not backed by other assets is measured by the difference between amortized cost and fair value. OTTI 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 OTTI, 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. OTTI charges are reflected in net realized capital gains (losses). The cost basis of the investment is then adjusted to reflect the OTTI.

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, 2012 and 2011, 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, 2012 and 2011.

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. Audited financial statements and monthly compliance summaries, which include information about the OSTF's maturity distribution and credit quality, may be obtained at the Oregon State Treasury's web site: http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx. As of December 31, 2012 and 2011, SAIF's balance in the OSTF was $27.6 million and $28.4 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, 2012 and 2011, was 25 days and 19 days, respectively. As of December 31, 2012 and 2011, SAIF's balance in the SSgA Prime Money Market Fund was $51.8 million and $10.6 million, respectively. Bonds with maturity dates greater than three months and less than one year also included in the short-term balance at December 31, 2012 and 2011, were $226.1 million and $20.0 million, respectively.

Concentrations of credit risk—Financial instruments, which potentially subject SAIF to concentrations of credit risk, consist principally of temporary cash investments and debt securities. SAIF places its investment securities with 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, 2012 and 2011, were $1.2 million and $1.3 million, respectively.

Internal and external costs incurred to develop internal-use computer software and web sites during the application development stage are capitalized, if they meet the $500,000 threshold. 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 that 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, 2012 and 2011, were $257.1 million and $242.8 million, respectively, including unearned premiums of $150.8 million and $142.5 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, 2012 and 2011, were $10.2 million and $8.7 million, respectively.

In addition to its regular premium plans, SAIF offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 10½ years following the plan year based on policyholders' loss experience. Adjustments to the original premiums are paid to or collected from the policyholders six months following the expiration of the policy and annually thereafter for up to 10½ years. The amounts of expected ultimate settlements are included in the accompanying statements of admitted assets, liabilities, and capital and surplus as accrued retrospective premiums receivable and payable. Changes in estimated settlements are recorded in premiums earned at the time they are known.

SAIF estimates accrued retrospective premiums receivable and payable by reviewing historical loss and premium development patterns at various stages of maturity and using these historical patterns to arrive at the best estimate of return and additional retrospective premiums on all open retrospectively rated policies. Premiums written on retrospective workers' compensation policies for 2012 and 2011 were $88.0 million and $92.9 million, respectively, or 21.2 percent and 24.9 percent of net premiums written, respectively.

SAIF has nonadmitted 10 percent of the amount of accrued retrospective premiums receivable not offset by accrued retrospective premiums payable to the same party (other than the reserve for losses and loss adjustment expenses), or collateral. At December 31, 2012 and 2011, the admitted balance was as follows (dollars in thousands):

	2012	**2011**
Total accrued retrospective premiums receivable	$34,223	$39,977
Less nonadmitted amount (10 percent)	3,422	3,997
Admitted accrued retrospective premium receivable	$30,801	$35,980

Reserve for losses and loss adjustment expenses—The reserve for losses and loss adjustment expenses (LAE) 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 LAE at December 31, 2012 and 2011, 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, 2012 and 2011, 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, and/or loss reserve reductions. In 2012 and 2011, policyholder dividends of $150.0 million were declared and paid to qualifying policyholders.

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 $24.4 million and $23.5 million, including $22.4 million and $20.4 million of accrued premium assessments, for the years ended December 31, 2012 and 2011, respectively. Premium assessment income net of premium assessment expense for the years ended December 31, 2012 and 2011, was $137.2 thousand and $293.6 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):

	2012			2011		
	Loss Adjustment Expenses Incurred	**Other Underwriting Expenses Incurred**	**Investment Expenses**	**Loss Adjustment Expenses Incurred**	**Other Underwriting Expenses Incurred**	**Investment Expenses**
Salaries, wages, & other benefits	$ 78,039	$ 40,868	$ 1,586	$ 72,440	$ 38,999	$ 1,514
Commissions	-	24,940	-	-	21,220	-
Other	13,948	10,058	7,127	13,160	10,670	6,910
Total allocable Expenses	$ 91,987	$ 75,866	$ 8,713	$ 85,600	$ 70,889	$ 8,424

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. When retirees are included in the plan, the promise to provide benefits to present and future retirees under the plan shall be segregated from the promise to provide benefits to active employees. The cost and funding of the benefits upon retirement shall be recognized. The statement is effective January 1, 2013, with early adoption permitted. SAIF is adopting these reporting and disclosure requirements in the first quarter of 2013.

On March 3, 2012, the NAIC issued SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of SSAP No. 91R. This statement establishes statutory accounting principles for transfers and servicing of financial assets including asset securitization and securitizations of policy acquisition costs, extinguishments of liabilities, repurchase agreements, repurchase financing, and reverse repurchase agreements, including dollar repurchase and dollar reverse repurchase agreements that are consistent with the SAP statement of concepts and statutory hierarchy. The statement is effective January 1, 2013, with early adoption permitted. SAIF is adopting these reporting and disclosure requirements in the first quarter of 2013.

On December 18, 2012, the NAIC made revisions to SSAP 62R—Property and Casualty Reinsurance, to incorporate the concept of certified reinsurer. Qualified "certified" reinsurers will have a reduced collateral requirement and unauthorized reinsurers will have a 100 percent collateral requirement. This will affect the calculation of the provision for reinsurance, which is a measure of collectability. At year-end the certification program was not in force in all states and certifications were not available for use in the statement. SAIF does not expect that adoption of the program will have a material effect on the 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, 2012 and 2011.

The carrying value and fair value of SAIF's investment securities at December 31, 2012 and 2011, were as follows (dollars in thousands):

2012	**Carrying Value**	**Fair Value**	**Excess Of Fair Value Over (Under) Carrying Value**
Bonds:			
U.S. government	$ 99,630	$ 102,529	$ 2,899
All other governments	2,615	3,529	914
States, territories, and possessions	16,093	17,686	1,593
Political subdivisions of states and territories	20,127	21,633	1,506
Special revenue and special assessment	78,461	89,097	10,636
Hybrid securities	14,708	17,415	2,707
Industrial and miscellaneous	2,051,336	2,344,553	293,217
Mortgage and other asset-backed securities	954,300	1,010,810	56,510
Total bonds	$ 3,237,270	$ 3,607,252	$ 369,982
Short-term investments	$ 277,905	$ 277,909	$ 4
Common stock - BlackRock MSCI ACWI IMI Index Fund	$ 442,543	$ 442,543	$ –

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	$ –
Common stock - BlackRock MSCI ACWI IMI Index Fund	$ 378,852	$ 378,852	$ –

Proceeds from the sale of bonds were $1.1 billion during 2012 and 2011. Proceeds from the sale of stocks were $0.2 million and $155.3 million during 2012 and 2011, respectively.

The carrying value and fair value of bonds at December 31, 2012 and 2011, 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.

	2012		2011	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Due in one year or less	$ 46,166	$ 46,705	$ 66,246	$ 67,921
Due after one year through five years	834,731	890,014	823,948	847,222
Due after five years through ten years	962,491	1,071,513	1,047,312	1,121,980
Due after ten years	1,393,882	1,599,020	1,490,043	1,633,582
Total bonds	$ 3,237,270	$ 3,607,252	$ 3,427,549	$3,670,705

Net investment income earned for the years ended December 31, 2012 and 2011, was comprised of the following (dollars in thousands):

	2012	2011
Bonds	$ 158,147	$ 167,155
Preferred stock	-	241
Common stock	55	55
Other invested assets	4,522	4,166
Total gross investment income earned	162,724	171,617
Less investment expenses	8,713	8,424
Net investment income earned	$ 154,011	$ 163,193

Gross realized gains and losses and the net realized gains (losses) for the years ended December 31, 2012 and 2011, were as follows (dollars in thousands):

2012	**Gross Realized Gains**	**Gross Realized Losses**	**Net Realized Gains (Losses)**
Bonds	$ 44,784	$ (5,470)	$ 39,314
Common stock	14	-	14
Other invested assets	-	-	-
Total	$ 44,798	$ (5,470)	$ 39,328

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

The following tables represent unrealized losses on bonds as of December 31, 2012 and 2011, 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 OTTI, as SAIF's investment managers assert that they have the intent and ability to hold these securities long enough to allow the cost basis of these securities to be recovered. Unrealized losses are primarily attributable to credit spread widening and increased liquidity discounts (dollars in thousands):

2012 less than one year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	$ 12,631	$ 297	$ 12,334
All other governments	-	-	-
States, territories, and possessions	1,008	26	982
Political subdivisions of states and territories	-	-	-
Special revenue and special assessment	1,487	8	1,479
Mortgage and other asset-backed securities	56,409	391	56,018
Hybrid securities	-	-	-
Industrial & miscellaneous	36,240	311	35,929
Total less than one year	$ 107,775	$ 1,033	$ 106,742

2012 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	27,759	371	27,388
Hybrid securities	-	-	-
Industrial & miscellaneous	3,114	99	3,015
Total greater than one year	30,873	470	30,403
Total	$ 138,648	$ 1,503	$ 137,145

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

As of December 31, 2012 and 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.

SAIF seeks guidance from the external investment managers on a regular basis to determine if any OTTI exists. OTTI is 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 OTTI analysis as of December 31, 2012 and 2011 (dollars in thousands):

	2012	2011
Bonds, excluding loan-backed securities	$ 1,298	$ 2,000
Mortgage and other asset-backed securities	1,929	9,987
Total realized losses	$ 3,227	$ 11,987

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, 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-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, with the exception of one security, Springleaf Mortgage Loan Trust, listed below. Management believes default risk on this bond is minimal. The impact on this investment should the subprime credit crisis worsen cannot be assessed at this time. There were no investments held by SAIF with subprime exposure as of December 31, 2011. The following table summarizes SAIF's investments with subprime exposure as of December 31, 2012 (dollars in thousands):

Description	Actual Cost	Book/Adjusted Carrying Value (Excluding Interest)	Fair Value	OTTI Recognized
Residential mortgage-backed securities	$1,182	$1,182	$1,189	$ -

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, 2012 and 2011, and reacquired within 30 days of the sale.

Securities on deposit—U.S. Treasury obligations with a carrying value of $7.5 million and $7.6 million as of December 31, 2012 and 2011, respectively, were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshore and Harbor Workers' Compensation Act. In addition, certificates of deposit with a carrying value of $571 thousand were on deposit at U.S. Bank as required by the DCBS at December 31, 2012 and 2011.

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 2012 and 2011, State Street loaned SAIF's fixed income securities and received cash and noncash 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. Securities received as collateral may not be sold or pledged by SAIF, except in the event of borrower default. 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 2012 and 2011. At December 31, 2012 and 2011, the Fund had an average life-final maturity of 112 days and 86 days, respectively.

At December 31, 2012 and 2011, the cash collateral held was $315.9 million and $199.3 million, respectively. At December 31, 2012 and 2011, the fair value, including accrued investment income related to the securities on loan, was $316.9 million and $195.3 million, respectively. For 2012 and 2011, securities lending income was $0.8 million and securities lending expense was $0.3 million. 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 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 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 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, 2012 and 2011 were (dollars in thousands):

2012	Level 1	Level 2	Level 3	Total
Assets at fair value				
Bonds	$ -	$ 15,791	$ -	$ 15,791
Common stocks	-	442,543	-	442,543
Other invested assets	-	-	-	-
Total assets at fair value	$ -	$458,334	$ -	$458,334
Liabilities at fair value	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -

2011	Level 1	Level 2	Level 3	Total
Assets at fair value				
Bonds	$ -	$ 72,848	$ -	$ 72,848
Common stocks	-	378,852	-	378,852
Other invested assets	-	-	-	-
Total assets at fair value	$ -	$451,700	$ -	$451,700
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, 2012 and 2011, there were no assets or liabilities transferred between Levels 1 and 2 or transferred into and out of Level 3.

Bonds carried at fair value categorized as level 2 were valued using a market approach. These valuations were determined to be level 2 valuations as quoted market prices for similar instruments in an active market were utilized. This was accomplished by the use of matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status, and call and sinking fund features.

Common stocks carried at fair value categorized as level 2 were valued using a market approach. These valuations were determined to be level 2 valuations because quoted market prices for identical instruments trading in an inactive market were utilized. When an equity instrument is illiquid due to limited trading activity, the use of quoted market prices for identical instruments was determined by the Company to be the most reliable method to determine fair value. There were no assets measured at fair value in the Level 3 category at December 31, 2012 and 2011.

The following tables reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments as of December 31, 2012 and 2011, excluding those accounted for under the equity method (subsidiaries, joint ventures, and ventures). The fair values are also categorized into the three-level fair value hierarchy as described above (dollars in thousands):

2012 Type of financial instrument	Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Financial instruments-assets						
Bonds	$3,607,252	$ 3,237,270	$ 2,092	$3,492,591	$111,997	$ 572
Common stocks	442,543	442,543	-	442,543	-	-
Other invested assets	37,359	27,961	-	37,359	-	-
Securities lending reinvested collateral	315,896	315,896	-	315,896	-	-
Cash, cash equivalents, & short-term	314,473	314,469	32,764	281,709	-	-
Total assets	$4,717,523	$4,338,139	$34,856	$4,570,098	111,997	$ 572
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -

2011 Type of financial instrument	Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Financial instruments-assets						
Bonds	$3,670,705	$ 3,427,549	$ 1,954	$3,573,358	$ 94,822	$ 571
Common stocks	378,852	378,852	-	378,852	-	-
Other invested assets	13,696	11,754	-	13,696	-	-
Securities lending reinvested collateral	199,303	199,303	-	199,303	-	-
Cash, cash equivalents, & short-term	63,877	63,877	33,321	30,556	-	-
Total assets	$4,326,433	$4,081,335	$35,275	$4,195,765	94,822	$ 571
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -

It was not practicable to determine the fair values of the bonds in the following table as of December 31, 2012 and 2011, for purposes of the above disclosures, due to the fact that these items are not traded, and therefore, quoted market prices are not available. Also, the cost of obtaining estimates of fair values from other sources was considered excessive given the immateriality of the bonds (dollars in thousands):

2012 Type of financial instrument	Carrying Value	Effective Interest Rate	Maturity Date
Bonds			
U.S. Bank certificate of deposit	$ 137	0.10%	5/31/2013
U.S. Bank certificate of deposit	62	3.65%	8/5/2014
U.S. Bank certificate of deposit	260	1.87%	7/1/2016
U.S. Bank certificate of deposit	112	1.45%	10/28/2016
Lehman Brothers 5249087M6	-	6.75%	12/28/2017
Lehman Brothers 524908R36	1	6.50%	7/19/2017
Lehman Brothers 524908XA3	-	5.86%	11/29/2049
Total	$ 572		

2011	Carrying Value		Effective Interest Rate	Maturity Date
Type of financial instrument				
Bonds				
U.S. Bank certificate of deposit	$	137	6.00%	5/24/2012
U.S. Bank certificate of deposit		62	3.65%	8/5/2014
U.S. Bank certificate of deposit		260	1.87%	7/1/2016
U.S. Bank certificate of deposit		112	1.45%	10/28/2016
Total	$	571		

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides a reconciliation of the beginning and ending reserve for losses and LAE at December 31, 2012 and 2011 (dollars in thousands):

	2012	2011
Gross reserve for losses and loss adjustment expenses—beginning of year	$ 3,167,183	$ 3,162,661
Less reinsurance ceded—beginning of year	(137,922)	(147,550)
Net balance—beginning of year	3,029,261	3,015,111
Incurred related to:		
Current year	503,729	456,691
Prior year	(150,971)	(128,871)
Total incurred losses and loss adjustment expenses	352,758	327,820
Paid losses related to:		
Current year	116,778	104,351
Prior year	202,618	209,319
Total paid losses and loss adjustment expenses	319,396	313,670
Net balance—end of year	3,062,623	3,029,261
Plus reinsurance ceded—end of year	135,243	137,922
Gross reserve for losses and loss adjustment expenses—end of year	$ 3,197,866	$ 3,167,183

The reserve for losses and LAE increased $33.4 million in 2012, which was net of favorable development of $151.0 million. Loss reserves decreased $6.6 million as compared to the prior year. Loss reserves for the 2012 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. Reductions in the tail factors were also a driver. Indemnity loss reserves experienced favorable development as indemnity costs for recent accident years were much lower than expected.

LAE reserves increased $40.0 million. The unfavorable LAE development was largely attributable to an increase in selected LAE severity for the current calendar year due to recent increases in employee benefit and retirement costs.

The reserve for losses and LAE increased $14.1 million in 2011, which was net of favorable development of $128.9 million. The favorable 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.

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 $259.5 million and $260.3 million for 2012 and 2011, respectively. The discounts were $89.4 million and $90.0 million as of December 31, 2012 and 2011, respectively.

Anticipated salvage and subrogation of $29.0 million and $29.6 million was included as a reduction of the reserve for losses and LAE at December 31, 2012 and 2011, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $26.1 million and $27.6 million for losses and LAE are related to asbestos claims as of December 31, 2012 and 2011, respectively. Amounts paid for asbestos-related claims were $0.8 million at December 31, 2012 and 2011.

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 type of 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 as of December 31, 2012 and 2011.

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, 2012, 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, 2012 and 2011, consist of the following (dollars in thousands):

	2012	**2011**
Employer contributions:		
Debt service	$ 3,649	$ 3,370
PERS-Pension Program	3,954	2,361
OPSRP-Pension Program	1,318	793
Total employer contributions	8,921	6,524
Employee contributions paid by SAIF:		
PERS-IAP	2,478	2,496
OPSRP-IAP	982	867
Total employee contributions	3,460	3,363
Total contributions	$ 12,381	$ 9,887

For the years ended December 31, 2012 and 2011, 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, 2012, and 2011, was as follows (dollars in thousands):

	2012	2011
Net unrealized investment gains	$ 71,927	$ 2,854
Nonadmitted assets	(17,978)	(18,278)
Provision for reinsurance	(2,025)	(3,495)

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 $3.5 million and $4.0 million at December 31, 2012 and 2011, 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 noncancelable operating leases expiring during various years through 2019. Lease expense was $1.2 million as of December 31, 2012 and 2011.

SAIF's future minimum lease payments under operating leases at December 31, 2012, are as follows (dollars in thousands):

2013	$ 1,227
2014	1,145
2015	1,176
2016	1,195
2017	1,199
Total minimum payments	$ 5,942

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 $344 thousand on leases due in the future under noncancelable subleases as of December 31, 2012.

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 2012, SAIF had reinsurance protection for 85 percent of losses in excess of 20 percent of 2011 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 2012 and 2011 (dollars in thousands):

	2012	**2011**
Reserve for losses and loss adjustment expenses	$ 47,765	$ 47,148
Premiums written and earned	990	1,002
Losses and loss adjustment expenses incurred	1,768	(3,344)

SAIF does not have unsecured reinsurance recoverables as of December 31, 2012 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 2012 and 2011 (dollars in thousands):

Other States Coverage	**2012**	**2011**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 3,051	$ 1,281
Unearned premiums	4,519	2,395
Premiums written	8,770	3,954
Premiums earned	6,646	1,559
Losses and loss adjustment expenses incurred	2,977	1,372
Commission expense	1,359	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 2012 and 2011 (dollars in thousands):

NWCRP	2012	2011
Assumed:		
Reserve for losses and loss adjustment expenses	$ 67,956	$ 70,800
Unearned premiums	3,705	2,527
Premiums written	17,081	14,280
Premiums earned	15,903	13,927
Losses and loss adjustment expenses incurred	6,397	8,182
Commission expense	6,525	5,626
Ceded:		
Reserve for losses and loss adjustment expenses	$ 87,478	$ 90,774
Unearned premiums	4,738	4,002
Premiums written	9,274	8,794
Premiums earned	8,538	8,960
Losses and loss adjustment expenses incurred	3,537	1,251
Commission expense	4,021	2,615

15. ELECTRONIC DATA PROCESSING (EDP) EQUIPMENT AND SOFTWARE

EDP equipment and operating and nonoperating software are carried at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three years for EDP equipment and operating system software. Depreciation expense for nonadmitted nonoperating system software is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three years. There were no nonoperating software assets admitted at December 31, 2012 and 2011.

Admitted EDP equipment and software at December 31, 2012 and 2011, were as follows (dollars in thousands):

	2012	2011
EDP equipment and software	$ 2,527	$ 2,828
Accumulated depreciation	(2,226)	(2,561)
Balance—net	$ 301	$ 267

Depreciation expense related to admitted EDP equipment and software was $271 thousand and $345 thousand for the years ended December 31, 2012 and 2011, 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, 2012 and 2011.

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):

2012	Filed	Audited	Difference
Statement of admitted assets, liabilities, and capital and surplus:			
Other assets	$ 18,689	$ 16,594	$ (2,095)
Total admitted assets	4,710,827	4,708,732	(2,095)
Losses	2,677,004	2,670,886	(6,118)
Other accrued expenses	25,458	25,949	491
Unearned premiums	194,125	194,370	245
Policyholder dividends declared and unpaid	214	35	(179)
Total liabilities	3,707,976	3,702,415	(5,561)
Capital and surplus—Unassigned funds	1,002,851	1,006,317	3,466
Total	4,710,827	4,708,732	(2,095)
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	$ 402,252	$ 401,350	$ (902)
Losses incurred, net	262,693	260,771	(1,922)
Other underwriting expenses incurred	76,245	75,866	(379)
Total underwriting expenses	430,925	428,624	(2,301)
Net underwriting loss	(28,673)	(27,274)	1,399
Net loss from premium balances charged off	(968)	(944)	24
Total other income - net	260	284	24
Net Income before dividends to policyholders	164,927	166,349	1,422
Policyholder dividends	(150,149)	(149,970)	179
Net income (loss)	14,778	16,379	1,601
Net change in capital and surplus	85,621	87,223	1,602
Unassigned funds—end of year	1,002,851	1,006,317	3,466
Statement of cash flows:			
Premiums collected net of reinsurance	$ 402,722	$ 403,705	$ 983
Miscellaneous income	260	285	25
Benefits and loss related payments	(267,444)	(267,558)	(114)
Underwriting expenses paid	(124,956)	(123,562)	1,394
Net cash from operations	23,435	25,723	2,288
Other cash provided	2,459	1,797	(662)
Other cash applied	(2,474)	(4,100)	(1,626)
Net cash from (used by) financing and miscellaneous sources	(15)	(2,303)	(2,288)

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

* * * * * *

SUPPLEMENTAL SCHEDULES

APPENDIX A

SUMMARY INVESTMENT SCHEDULE

SUMMARY INVESTMENT SCHEDULE

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
Investment Categories	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities	91,854,528	2.11	91,854,528		91,854,528	2.11
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies	8,595,140	0.20	8,595,140		8,595,140	0.20
1.22 Issued by U.S. government sponsored agencies	4,068,101	0.09	4,068,101		4,068,101	0.09
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	2,614,645	0.06	2,614,645		2,614,645	0.06
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations	16,092,940	0.37	16,092,940		16,092,940	0.37
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	20,127,218	0.46	20,127,218		20,127,218	0.46
1.43 Revenue and assessment obligations	74,392,882	1.71	74,392,882		74,392,882	1.71
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	166,238,422	3.82	166,238,422		166,238,422	3.82
1.512 Issued or guaranteed by FNMA and FHLMC	339,042,539	7.79	339,042,539		339,042,539	7.79
1.513 All other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	33,121,097	0.76	33,121,097		33,121,097	0.76
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	168,681,763	3.88	168,681,763		168,681,763	3.88
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	1,973,195,739	45.34	1,973,195,739		1,973,195,739	45.34
2.2 Unaffiliated non-U.S. securities (including Canada)	339,244,777	7.79	339,244,777		339,244,777	7.79
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds	442,543,487	10.17	442,543,487	315,896,041	758,439,528	17.43
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	13,504,323	0.31	13,504,323		13,504,323	0.31
5.2 Property held for production of income (including $ 0 of property acquired in satisfaction of debt)	696,506	0.02	696,506		696,506	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	38,176	0.00	38,176		38,176	0.00
9. Securities Lending (Line 10, Asset Page reinvested collateral)	315,896,041	7.26	315,896,041	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	314,469,120	7.23	314,469,120		314,469,120	7.23
11. Other invested assets	27,960,562	0.64	27,960,562		27,960,562	0.64
12. Total invested assets	4,352,378,006	100.00	4,352,378,006	315,896,041	4,352,378,006	100.00

APPENDIX B

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2012

(To Be Filed by April 1)

Of The SAIF Corporation Insurance Company

Address (City, State, Zip Code) 400 High Street Southeast, 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. $ 4,708,731,971

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	$ 442,543,487	9.398 %
2.02	JP Morgan Chase & Co	Bond	$ 93,945,426	1.995 %
2.03	Bank of America Corp	Bond	$ 76,784,908	1.631 %
2.04	Wells Fargo & Co	Bond	$ 61,819,453	1.313 %
2.05	Morgan Stanley	Bond	$ 59,340,458	1.260 %
2.06	General Elec Cap Corp	Bond	$ 58,850,600	1.250 %
2.07	Goldman Sachs Group Inc	Bond	$ 52,522,843	1.115 %
2.08	SSGA Prime Money Market Funds	Bond	$ 51,828,586	1.101 %
2.09	Citigroup Inc	Bond	$ 45,115,101	0.958 %
2.10	SLM Corp	Bond	$ 37,941,030	0.806 %

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	$ 2,266,068,257	48.125 %	3.07	P/RP-1	$	%
3.02	NAIC-2	$ 1,028,272,439	21.838 %	3.08	P/RP-2	$	%
3.03	NAIC-3	$ 160,415,913	3.407 %	3.09	P/RP-3	$	%
3.04	NAIC-4	$ 47,448,066	1.008 %	3.10	P/RP-4	$	%
3.05	NAIC-5	$ 16,769,839	0.356 %	3.11	P/RP-5	$	%
3.06	NAIC-6	$ 118	0.000 %	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	$ 295,097,832	6.267 %
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	$ 249,403,648	5.297 %
5.02	Countries rated NAIC-2	$ 45,694,184	0.970 %
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	$ 75,812,366	1.610 %
6.02	Country 2:	Netherlands	$ 35,879,201	0.762 %
	Countries rated NAIC – 2:			
6.03	Country 1:	Mexico	$ 18,969,565	0.403 %
6.04	Country 2:	Spain	$ 9,872,424	0.210 %
	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	$ 15,623,616	0.332 %
10.02	Telefonica Emisiones Sau	2FE	$ 12,634,609	0.268 %
10.03	Deutsche Telekom Intl Fin	2FE	$ 11,143,303	0.237 %
10.04	Petrobas Intl Fin Co	2FE	$ 10,073,613	0.214 %
10.05	Ensco PLC	2FE	$ 10,068,300	0.214 %
10.06	Anglo American Capital	2FE	$ 9,697,125	0.206 %
10.07	HSBC Holdings PLC	1FE	$ 8,825,955	0.187 %
10.08	Rio Tinto Fin USA Ltd	1FE	$ 7,931,445	0.168 %
10.09	Westpac Banking Corp	1FE	$ 7,778,250	0.165 %
10.10	Pernod-Ricard SA	2FE	$ 6,956,042	0.148 %

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 Fund	$ 442,543,487	9.398 %
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		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$ 296,455,906	6.296 %	$ 160,684,284	$ 170,607,544	$ 232,189,695
20.02 Repurchase agreements	$	%	$	$	$
20.03 Reverse repurchase agreements	$	%	$	$	$
20.04 Dollar repurchase agreements	$	%	$	$	$
20.05 Dollar reverse repurchase agreements	$	%	$	$	$

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

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

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year-end		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
22.01 Hedging	$	%	$	$	$
22.02 Income generation	$	%	$	$	$
22.03 Replications	$	%	$	$	$
22.04 Other	$	%	$	$	$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

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