# *SAIF Corporation*

*Financial Statements—Statutory Basis*
*as of and for the Years Ended December 31,*
*2017 and 2016, Supplementary Schedules*
*as of December 31, 2017, and Report of*
*Independent Auditors*

# SAIF CORPORATION

## TABLE OF CONTENTS

# 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, 2017 and 2016, 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.

***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, 2017 and 2016, 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 Matters***

*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

Portland, Oregon
July 30, 2018

# SAIF CORPORATION

## STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2017 and 2016
**(In thousands)**

| | 2017 | 2016 |
|---|---|---|
| **ADMITTED ASSETS** | | |
| CASH AND INVESTED ASSETS: | | |
| Bonds | $ 3,875,309 | $ 3,590,006 |
| Common stocks | 589,331 | 473,934 |
| Real estate, net of accumulated depreciation of $11,011 and $10,695: | | |
| Properties occupied by SAIF | 71,463 | 25,903 |
| Properties held for sale | - | 512 |
| Cash, cash equivalents, and short-term investments | 139,263 | 380,977 |
| Other invested assets | 21,264 | 27,967 |
| Receivable for securities sold | 578 | 347 |
| Security lending reinvested collateral | 199,080 | 62,085 |
| Total cash and invested assets | 4,896,288 | 4,561,731 |
| Interest, dividends, and real estate income due and accrued | 33,565 | 33,284 |
| Premiums in course of collection | 6,957 | 5,682 |
| Premiums and installments booked but deferred and not yet due | 302,067 | 309,060 |
| Accrued retrospective premiums receivable | 15,215 | 18,181 |
| Reinsurance recoverables | 1,072 | 1,037 |
| Electronic data processing (EDP) equipment and operating software, net of accumulated depreciation of $2,814 and $2,579 | 461 | 860 |
| Due from Workers' Compensation Division | 7,805 | 8,915 |
| Other assets | 30,599 | 29,087 |
| TOTAL | $ 5,294,029 | $ 4,967,837 |
| **LIABILITIES AND CAPITAL AND SURPLUS** | | |
| LIABILITIES: | | |
| Losses | $ 2,283,546 | $ 2,396,083 |
| Loss adjustment expenses | 444,190 | 437,572 |
| Other accrued expenses | 53,258 | 45,629 |
| Taxes, licenses, and fees | 32,164 | 29,815 |
| Unearned premiums | 232,070 | 233,201 |
| Advance premiums | 4,281 | 4,481 |
| Ceded reinsurance premiums payable | 3,063 | 3,471 |
| Amounts withheld or retained for account of others | 40,970 | 39,307 |
| Other liabilities | 57,459 | 11,323 |
| Unclaimed property | 908 | 558 |
| APBO transition liability | 612 | 1,438 |
| Payable for securities lending | 199,063 | 62,051 |
| Accrued retrospective premiums payable | 51,784 | 55,499 |
| Total liabilities | 3,403,368 | 3,320,428 |
| CAPITAL AND SURPLUS | | |
| Assigned surplus - PERS UAL | 91,953 | - |
| Unassigned surplus | 1,798,708 | 1,647,409 |
| TOTAL CAPITAL AND SURPLUS | 1,890,661 | 1,647,409 |
| TOTAL | $ 5,294,029 | $ 4,967,837 |

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, 2017 AND 2016 (In thousands)

| | 2017 | 2016 |
|---|---|---|
| UNDERWRITING REVENUES—Premiums earned, net | $ 527,186 | $ 516,185 |
| UNDERWRITING EXPENSES: | | |
| Losses incurred, net | 206,258 | 198,316 |
| Loss adjustment expenses incurred | 82,557 | 80,820 |
| Other underwriting expenses incurred | 106,868 | 104,721 |
| Total underwriting expenses | 395,683 | 383,857 |
| NET UNDERWRITING INCOME | 131,503 | 132,328 |
| NET INVESTMENT INCOME: | | |
| Net investment income earned | 141,331 | 141,677 |
| Net realized investment gains | 30,667 | 42,005 |
| Net investment income | 171,998 | 183,682 |
| OTHER INCOME: | | |
| Net loss from premium balances charged off | (642) | (1,761) |
| Other income | 1,359 | 1,451 |
| Total other income (loss)—net | 717 | (310) |
| Net income before dividends to policyholders | 304,218 | 315,700 |
| POLICYHOLDER DIVIDENDS | (160,094) | (139,935) |
| NET INCOME | $ 144,124 | $ 175,765 |
| CAPITAL AND SURPLUS: | | |
| Total capital and surplus—beginning of year | $ 1,647,409 | $ 1,427,184 |
| Net income | 144,124 | 175,765 |
| Change in net unrealized capital gains | 116,712 | 46,042 |
| Change in nonadmitted assets | (18,411) | (2,409) |
| Prior APBO service costs | 827 | 827 |
| Net change in capital and surplus | 243,252 | 220,225 |
| Total capital and surplus—end of year | $ 1,890,661 | $ 1,647,409 |

See notes to financial statements—statutory basis.

## SAIF CORPORATION

### STATEMENTS OF CASH FLOWS—STATUTORY BASIS
### FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
### (In thousands)

| | 2017 | 2016 |
|---|---|---|
| CASH FROM (USED IN) OPERATIONS: | | |
| Cash from underwriting: | | |
| Premiums collected net of reinsurance | $ 530,836 | $ 520,929 |
| Net investment income | 162,031 | 167,289 |
| Net cash from underwriting | 692,867 | 688,218 |
| Miscellaneous income | 717 | (310) |
| Benefits and loss related payments | (318,829) | (292,495) |
| Underwriting expenses paid | (172,117) | (167,930) |
| Policyholder dividend payments | (160,094) | (139,935) |
| Net cash from operations | 42,544 | 87,548 |
| CASH FROM (USED IN) INVESTMENTS: | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | 1,707,170 | 1,526,658 |
| Common stocks | 261 | 227 |
| Real estate | 488 | - |
| Other invested assets | (126,139) | (9,767) |
| Cash and short-term investments | (4) | (24) |
| Miscellaneous payments | (232) | (171) |
| Total proceeds from investments sold, matured, or repaid | 1,581,544 | 1,516,923 |
| Cost of investments acquired: | | |
| Bonds | 1,985,151 | 1,298,963 |
| Common stocks | 220 | 53 |
| Real estate | 46,046 | 13,932 |
| Other invested assets | (137,012) | (9,767) |
| Miscellaneous receipts | (47,509) | - |
| Total cost of investments acquired | 1,846,896 | 1,303,181 |
| Net cash from (used in) investments | (265,352) | 213,742 |
| CASH FROM (USED IN) FINANCING AND MISCELLANEOUS SOURCES: | | |
| Other cash provided | 1,752 | 6,706 |
| Other cash applied | (20,658) | (4,898) |
| Net cash from (used in) in financing and miscellaneous sources | (18,906) | 1,808 |
| RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Net increase (decrease) in cash, cash equivalents, and short-term investments | (241,714) | 303,098 |
| CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Beginning of year | 380,977 | 77,879 |
| CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—End of year | $ 139,263 | $ 380,977 |

See notes to financial statements—statutory basis.

Supplemental schedule of noncash transactions:

Noncash investment transactions were $146.6 million and $111.4 million for both investment acquisitions and dispositions resulting from tax-free exchange transactions for the years ended December 31, 2017 and 2016, 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 18.5 percent and 18.9 percent of standard premium during 2017 and 2016, 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 $314.3 million and $281.3 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, 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 2017 and 2016, subject to any deviations prescribed or permitted by the Insurance Division.

Accounting practices and procedures of the NAIC as prescribed or permitted by the Oregon Division of Financial Responsibility 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) 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 Statements of Admitted Assets, Liabilities and Capital and Surplus. Nonadmitted assets include such assets as premiums receivable past due for more than ninety days, furniture and equipment, and application software.

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

(f) Cumulative effects of changes in accounting are reported as an adjustment to surplus in the period of the change in accounting principle.

(g) 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.

(h) The statements of cash flows 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.

(i) Policyholder dividends are accrued when declared by the Board of Directors, whereas GAAP requires the accrual of estimated policyholder dividends.

(j) The Company participates in a cost-sharing multiemployer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS) (see note 10). PERS has a net Unfunded Actuarial Liability (UAL) which represents the estimated unfunded pension benefits. GAAP accounting requires the UAL to be recorded as a liability while SAP does not allow for recording of the UAL as a liability. Instead for Statutory Accounting, SAIF established a special surplus fund in 2017 to identify its portion of the PERS UAL and has adjusted the fund based on information provided by PERS as of June 30, 2017. Due to the timing delay, SAIF has evaluated subsequent events that may impact the assets and liabilities of the plan and determined that the valuation of liability is still materially accurate. Based on this information, the special surplus fund for the unfunded pension benefits is $92.0 million at December 31, 2017.

***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 designation 3 to 6) are carried at the lower of amortized cost or fair value. There were no bonds held by SAIF which were in or near default at December 31, 2017. SAIF held bonds which were in or near default with a carrying value of $343 thousand at December 31, 2016. 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 designation 1 and 2) or the lower of amortized cost or fair value (NAIC designation 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 2017 and 2016 were obtained from Thomson Reuters, IDC, JPM Direct, and Bloomberg. Equity securities traded on a national exchange are valued at the last reported sales price. Debt securities are valued using evaluated bid prices at December 31, 2017 and 2016.

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, 2017 and 2016, 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, 2017 and 2016.

***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, 2017 and 2016, SAIF's balance in the OSTF was $21.7 million and $26.3 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 money market funds with the objective of maximizing current income while maintaining a stable net asset value. The average maturity of the Institutional U.S. Government Money Market Fund at December 31, 2017 and 2016, was 27 days. The Institutional U.S. Government Money Market Fund had a credit quality rating of AAAm at December 31, 2017 and 2016. At December 31, 2017 and 2016, SAIF's balance in the Institutional U.S. Government Money Market Fund was $56.6 million and $16.1 million, respectively. Bonds with maturity dates greater than three months and less than one year included in the short-term balance at December 31, 2017 and 2016, were $54.1 million and $330.9 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 | 30-50 years |
| Furniture, equipment, and automobiles | 3-7 years |
| Operating and nonoperating system software | 3-5 years |

Total depreciation and amortization expense for both admitted and nonadmitted property and equipment for the years ended December 31, 2017 and 2016, were $1.2 million.

SAIF has active construction in progress for a significant home office renovation and addition project. Capital project life-to-date costs were $60.7 million and $14.7 million, respectively, for the years ended 2017 and 2016. Capital project year-to-date costs were $46.0 million and $13.9 million, respectively, for the years ended 2017 and 2016.

SAIF has an active software replacement project for the policy and billing system. Capital project life-to-date costs were $17.8 million and $1.2 million, respectively, for the years ended

2017 and 2016. Capital project year-to-date costs were $16.6 million and $1.2 million, respectively, for the years ended 2017 and 2016.

Costs incurred to develop internal-use computer software and web sites during the application development stage are capitalized, if they meet the $500 thousand threshold. Costs incurred during the preliminary project stage and post-implementation/operation stage are expensed as incurred. The predefined capitalization thresholds have not changed from those of the prior year.

***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 receivable at December 31, 2017 and 2016 were $302.1 million and $309.1 million, respectively, including unearned premiums of $177.3 million and $180.3 million, respectively, and are included in premiums and installments booked but deferred and not yet due.

Certain policyholders are required to remit deposits which represent premium expected to be payable to SAIF at the end of the month following the reporting period (monthly and quarterly), plus one additional month. Deposits are generally in the form of cash and are recorded as policyholders' premium deposits and included on the statements of admitted assets, liabilities, and capital and surplus in amounts withheld or retained for account of others. However, policyholders may pledge surety bonds and securities, as well as letters of credit, in lieu of cash deposits. Premium deposits at December 31, 2017 and 2016, were $17.9 million and $16.5 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 2017 and 2016 were $77.3 million and $89.1 million, respectively, or 14.7 and 16.9 percent of net premiums written, respectively, for each year.

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, 2017 and 2016, the admitted balance was as follows (dollars in thousands):

| | 2017 | 2016 |
|---|---|---|
| Total accrued retrospective premiums receivable | $16,906 | $20,201 |
| Less nonadmitted amount (10 percent) | 1,691 | 2,020 |
| Admitted accrued retrospective premiums receivable | $15,215 | $18,181 |

***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, 2017 and 2016, is a reasonable estimate of the ultimate net costs of settling claims and claim expenses incurred. Annually, executive leaders review 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, 2017 and 2016, 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 2017 and 2016, policyholder dividends of $160.1 million and $139.9 million, respectively, were incurred 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 $35.1 million and $32.4 million, including $34.2 million and $32.0 million of accrued premium assessments, for the years ended December 31, 2017 and 2016, respectively. Premium assessment income net of premium assessment expense for the years ended December 31, 2017 and 2016, was $4 thousand and $237 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):

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Loss Adjustment Expenses Incurred | Other Underwriting Expenses Incurred | Investment Expenses | Loss Adjustment Expenses Incurred | Other Underwriting Expenses Incurred | Investment Expenses |
| Salaries, wages, & other benefits | $ 66,853 | $ 54,927 | $ 2,437 | $ 65,390 | $ 51,439 | $ 2,193 |
| Commissions | - | 36,597 | - | - | 36,669 | - |
| Other | 15,704 | 15,344 | 9,971 | 15,430 | 16,613 | 9,261 |
| Total allocable Expenses | $ 82,557 | $ 106,868 | $12,408 | $ 80,820 | $ 104,721 | $ 11,454 |

***Subsequent events***—Subsequent events have been considered through July 30, 2018, which is the date the statutory statements were available to be issued.

## 3. NEW STATUTORY ACCOUNTING PRINCIPLES

No applicable new statutory accounting principles were adopted by SAIF in 2017 or 2016.

## 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, 2017 and 2016.

The carrying value and fair value of SAIF's investment securities at December 31, 2017 and 2016, were as follows (dollars in thousands):

| 2017 | Carrying Value | Fair Value | Excess Of Fair Value Over (Under) Carrying Value |
|---|---|---|---|
| Bonds: | | | |
| U.S. government | $ 335,423 | $ 337,342 | $ 1,919 |
| All other governments | 35,993 | 35,936 | (57) |
| U.S. states, territories, and possessions | 1,019 | 1,027 | 8 |
| U.S. political subdivisions of states, territories, and possessions | 11,249 | 11,100 | (149) |
| U.S. special revenue and special assessment | 113,270 | 122,447 | 9,177 |
| Hybrid securities | 18,867 | 21,450 | 2,583 |
| Industrial and miscellaneous | 2,209,128 | 2,408,964 | 199,836 |
| Mortgage and other asset-backed securities | 1,150,360 | 1,168,023 | 17,663 |
| Total bonds | $ 3,875,309 | $ 4,106,289 | $ 230,980 |
| Short-term investments | $ 54,146 | $ 54,146 | $ - |
| Common stock - BlackRock MSCI ACWI IMI Index Fund | $ 589,331 | $ 589,331 | $ - |

| 2016 | Carrying Value | Fair Value | Excess Of Fair Value Over (Under) Carrying Value |
|---|---|---|---|
| Bonds: | | | |
| U.S. government | $ 271,720 | $ 258,771 | $ (12,949) |
| All other governments | 18,466 | 18,155 | (311) |
| U.S. states, territories, and possessions | 1,034 | 1,032 | (2) |
| U.S. political subdivisions of states, territories, and possessions | 5,060 | 4,832 | (228) |
| U.S. special revenue and special assessment | 49,361 | 55,635 | 6,274 |
| Hybrid securities | 26,579 | 28,569 | 1,990 |
| Industrial and miscellaneous | 2,144,716 | 2,293,208 | 148,492 |
| Mortgage and other asset-backed securities | 1,073,070 | 1,091,024 | 17,954 |
| Total bonds | $ 3,590,006 | $ 3,751,226 | $ 161,220 |
| Short-term investments | $ 346,958 | $ 346,941 | $ (17) |
| Common stock - BlackRock MSCI ACWI IMI Index Fund | $ 473,934 | $ 473,934 | $ - |

Proceeds from the sale of bonds were $1.7 billion and $1.5 billion during 2017 and 2016, respectively. Proceeds from the sale of stocks were $0.3 million and $0.2 million during 2017 and 2016, respectively.

The carrying value and fair value of bonds at December 31, 2017 and 2016, by contractual maturity, except for asset-backed securities which are by expected maturity, are shown as follows (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.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Due in one year or less | $ 77,294 | $ 78,105 | $ 236,839 | $ 241,212 |
| Due after one year through five years | 718,848 | 739,867 | 1,059,581 | 1,094,509 |
| Due after five years through ten years | 1,167,379 | 1,207,114 | 1,234,648 | 1,256,822 |
| Due after ten years | 1,911,788 | 2,081,203 | 1,058,938 | 1,158,683 |
| Total bonds | $ 3,875,309 | $ 4,106,289 | $ 3,590,006 | $ 3,751,226 |

Net investment income earned for the years ended December 31, 2017 and 2016, was comprised of the following (dollars in thousands):

| | 2017 | 2016 |
|---|---|---|
| Bonds | $ 147,628 | $ 147,373 |
| Common stock | 219 | 54 |
| Other invested assets | 5,892 | 5,704 |
| Total gross investment income earned | 153,739 | 153,131 |
| Less investment expenses | 12,408 | 11,454 |
| Net investment income earned | $ 141,331 | $ 141,677 |

Gross realized gains and losses and the net realized gains (losses) for the years ended December 31, 2017 and 2016, were as follows (dollars in thousands):

| 2017 | Gross Realized Gains | Gross Realized Losses | Net Realized Gains (Losses) |
|---|---|---|---|
| Bonds | $ 39,567 | $ (13,162) | $ 26,405 |
| Common stock | 121 | - | 121 |
| Real Estate | 5 | (29) | (24) |
| Short-term investments | 2 | (6) | (4) |
| Other invested assets | 4,169 | - | 4,169 |
| Total | $ 43,864 | $ (13,197) | $ 30,667 |

| 2016 | Gross Realized Gains | Gross Realized Losses | Net Realized Gains (Losses) |
|---|---|---|---|
| Bonds | $ 50,087 | $ (8,135) | $ 41,952 |
| Common stock | 77 | - | 77 |
| Real Estate | - | - | - |
| Short-term investments | - | (24) | (24) |
| Other invested assets | - | - | - |
| Total | $ 50,164 | $ (8,159) | $ 42,005 |

The following tables represent unrealized losses on bonds at December 31, 2017 and 2016, 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 interest rate risk, credit risk, and increased liquidity discounts (dollars in thousands):

| 2017 Less Than One Year | Amortized Cost | Unrealized Losses | Fair Value |
|---|---|---|---|
| U.S. Government | $ 89,324 | $ 835 | $ 88,489 |
| All other governments | 17,862 | 194 | 17,668 |
| U.S. states, territories, and possessions | - | - | - |
| U.S. political subdivisions of states, territories, and possessions | - | - | - |
| U.S. special revenue and special assessment | 635 | 5 | 630 |
| Hybrid securities | - | - | - |
| Industrial and miscellaneous | 180,762 | 1,888 | 178,874 |
| Mortgage and other asset-backed securities | 368,162 | 2,591 | 365,571 |
| Total less than one year | $ 656,745 | $ 5,513 | $ 651,232 |

| 2017 Greater Than One Year | Amortized Cost | Unrealized Losses | Fair Value |
|---|---|---|---|
| U.S. Government | $ 28,555 | $ 1,135 | $ 27,420 |
| All other governments | 5,198 | 103 | 5,095 |
| U.S. states, territories, and possessions | - | - | - |
| U.S. political subdivisions of states, territories, and possessions | 5,060 | 164 | 4,896 |
| U.S. special revenue and special assessment | - | - | - |
| Hybrid securities | - | - | - |
| Industrial and miscellaneous | 59,296 | 1,906 | 57,390 |
| Mortgage and other asset-backed securities | 186,048 | 3,415 | 182,633 |
| Total greater than one year | 284,157 | 6,723 | 277,434 |
| Total | $ 940,902 | $ 12,236 | $ 928,666 |

| **2016 Less Than One Year** | **Amortized Cost** | **Unrealized Losses** | **Fair Value** |
|---|---|---|---|
| U.S. Government | $ 249,148 | $ 12,827 | $ 236,321 |
| All other governments | 17,629 | 1,041 | 16,588 |
| U.S. states, territories, and possessions | 1,034 | 2 | 1,032 |
| U.S. political subdivisions of states, territories, and possessions | 5,060 | 228 | 4,832 |
| U.S. special revenue and special assessment | 3,485 | 102 | 3,383 |
| Hybrid securities | 1,200 | 18 | 1,182 |
| Industrial and miscellaneous | 410,928 | 10,012 | 400,916 |
| Mortgage and other asset-backed securities | 415,638 | 5,471 | 410,167 |
| Total less than one year | $ 1,104,122 | $ 29,701 | $ 1,074,421 |

| **2016 Greater Than One Year** | **Amortized Cost** | **Unrealized Losses** | **Fair Value** |
|---|---|---|---|
| U.S. Government | $ - | $ - | $ - |
| All other governments | - | - | - |
| U.S. states, territories, and possessions | - | - | - |
| U.S. political subdivisions of states, territories, and possessions | - | - | - |
| U.S. special revenue and special assessment | - | - | - |
| Hybrid securities | 2,404 | 64 | 2,340 |
| Industrial and miscellaneous | 14,678 | 500 | 14,178 |
| Mortgage and other asset-backed securities | 119,619 | 2,485 | 117,134 |
| Total greater than one year | 136,701 | 3,049 | 133,652 |
| Total | $ 1,240,823 | $ 32,750 | $ 1,208,073 |

As of December 31, 2017 and 2016, 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, 2017 and 2016 (dollars in thousands):

| | **2017** | **2016** |
|---|---|---|
| Bonds, excluding loan-backed securities | $ - | $ 777 |
| Mortgage and other asset-backed securities | 6 | 197 |
| Total realized losses due to OTTI | $ 6 | $ 974 |

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 as of December 31, 2017, 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 two securities, Bayview Opportunity Master Fund Trust and Credit Suisse Mortgage Trust, included below. Default risk on these bonds appears minimal at this time. The impact on these investments, should the subprime credit crisis worsen, cannot be assessed at this time. There were no investments held by SAIF with subprime exposure at December 31, 2016. The mortgage-backed securities portfolio at December 31, 2017 is as follows (dollars in thousands):

| Description | Actual Cost | Book / Adjusted Carrying Value (Excluding Interest) | Fair Value | Other-Than-Temporary Impairment Losses Recognized |
|---|---|---|---|---|
| Residential mortgage-backed securities | $ 21,869 | $ 21,863 | $ 21,675 | $ - |

**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, 2017 and 2016, and reacquired within 30 days of the sale.

**Securities on deposit**—U.S. Treasury obligations with a carrying value of $8.0 million and $8.1 million were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshore and Harbor Workers' Compensation Act at December 31, 2017 and 2016, respectively. Certificates of deposit with a carrying value of $108 thousand and $480 thousand were on deposit at U.S. Bank as required by the DCBS at December 31, 2017 and 2016, respectively. In addition, at December 31, 2017, SAIF had a U.S. Treasury obligation with a carrying value of $33.2 million on deposit with Wilmington Trust for loss payments with Zurich American Insurance Company, a reinsurer for other states coverage.

**Real estate**— In September 2016, SAIF's Board of Directors authorized officers to pursue the sale of the Roseburg building. The sale was finalized in June of 2017, with SAIF receiving $488 thousand in net proceeds and recognizing a loss of $24 thousand on the sale. The sale of the building was pursued because SAIF no longer used it for operations.

## 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 2017 and 2016, 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 2017 and 2016. At December 31, 2017 and 2016, the Fund had an average life-final maturity of 86 days and 94 days, respectively.

The cash collateral held at December 31, 2017 and 2016, was $199.1 million and $62.1 million, respectively. Securities received as collateral at December 31, 2017 and 2016, were $1.6 million and $9.9 million, respectively. At December 31, 2017 and 2016, the fair value, including accrued investment income related to the securities on loan, was $196.8 million and $70.6 million, respectively. For 2017 and 2016, securities lending income was $1.6 million and $0.7 million and securities lending expense was $1.3 million and $0.3 million, respectively. These amounts are reported net in the accompanying financial statements—statutory basis as a component of net investment income earned.

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 that follows. 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 hybrid securities and 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, 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 and reported at fair value in the Level 1, 2, or 3 category as of December 31, 2017 and 2016 were (dollars in thousands):

**2017**

| Description For Each Class of Asset or Liability | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets at fair value | | | | |
| Bonds-industrial & misc. | $ - | $ 37,625 | $ - | $ 37,625 |
| Common stocks-mutual funds | | $ 589,331 | | 589,331 |
| Cash equivalents-money market fund | - | 56,568 | - | 56,568 |
| Total assets at fair value | $ - | $ 683,524 | $ - | $ 683,524 |
| Liabilities at fair value | $ - | $ - | $ - | $ - |
| Total liabilities at fair value | $ - | $ - | $ - | $ - |

**2016**

| Description For Each Class of Asset or Liability | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets at fair value | | | | |
| Bonds-industrial & misc. | $ - | $ 38,607 | $ - | $ 38,607 |
| Common stocks-mutual funds | - | 473,934 | - | 473,934 |
| Total assets at fair value | $ - | $ 512,541 | $ - | $ 512,541 |
| 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, 2017 and 2016, 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 SAIF 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, 2017 and 2016.

The following tables reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments as of December 31, 2017 and 2016, 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):

**2017**

| Type of Financial Instrument | Aggregate Fair Value | Admitted Value | Level 1 | Level 2 | Level 3 | Not Practicable (Carrying Value) |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Bonds | $4,106,289 | $ 3,875,309 | $ 2,061 | $4,104,120 | $ - | $ 108 |
| Common stocks | 589,331 | 589,331 | - | 589,331 | - | - |
| Other invested assets | 30,151 | 21,264 | - | 30,151 | - | - |
| Securities lending reinvested collateral | 199,080 | 199,080 | - | 199,080 | - | - |
| Cash, cash equivalents, & short-term | 139,263 | 139,263 | 28,549 | 110,714 | - | - |
| Total assets | $5,064,114 | $ 4,824,247 | $30,610 | $5,033,396 | - | $ 108 |
| Liabilities | | | | | | |
| Total liabilities | $ - | $ - | $ - | $ - | $ - | $ - |

**2016**

| Type of Financial Instrument | Aggregate Fair Value | Admitted Value | Level 1 | Level 2 | Level 3 | Not Practicable (Carrying Value) |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Bonds | $3,751,226 | $ 3,590,006 | $ 1,936 | $3,748,810 | $ - | $ 480 |
| Common stocks | 473,934 | 473,934 | - | 473,934 | - | - |
| Other invested assets | 37,291 | 27,967 | - | 37,291 | - | - |
| Securities lending reinvested collateral | 62,085 | 62,085 | - | 62,085 | - | - |
| Cash, cash equivalents, & short-term | 380,979 | 380,977 | 34,019 | 346,960 | - | - |
| Total assets | $4,705,515 | $ 4,534,969 | $35,955 | $4,669,080 | - | $ 480 |
| Liabilities | | | | | | |
| Total liabilities | $ - | $ - | $ - | $ - | $ - | $ - |

It was not practicable to determine the fair values of the bonds in the following table as of December 31, 2017 and 2016, for purposes of the above disclosures, as 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):

**2017**

| Type or Class of Financial Instrument | Carrying Value | Effective Interest Rate | Maturity Date |
|---|---|---|---|
| Bonds | | | |
| U.S. Bank certificate of deposit | 108 | 1.10% | 10/12/2020 |
| Total | $ 108 | | |

**2016**

| Type or Class of Financial Instrument | Carrying Value | Effective Interest Rate | Maturity Date |
|---|---|---|---|
| Bonds | | | |
| U.S. Bank certificate of deposit | 112 | 0.40% | 10/30/2017 |
| U.S. Bank certificate of deposit | 260 | 0.32% | 12/29/2017 |
| U.S. Bank certificate of deposit | 108 | 1.10% | 10/12/2020 |
| Total | $ 480 | | |

## 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, 2017 and 2016 (dollars in thousands):

| | 2017 | 2016 |
|---|---|---|
| Gross reserve for losses and loss adjustment expenses—beginning of year | $ 2,931,058 | $3,030,359 |
| Less reinsurance ceded—beginning of year | (97,403) | (113,133) |
| Net balance—beginning of year | 2,833,655 | 2,917,226 |
| Incurred related to: | | |
| Current year | 572,980 | 549,039 |
| Prior year | (284,165) | (269,903) |
| Total incurred losses and loss adjustment expenses | 288,815 | 279,136 |
| Paid losses related to: | | |
| Current year | 154,880 | 139,620 |
| Prior year | 239,854 | 223,087 |
| Total paid losses and loss adjustment expenses | 394,734 | 362,707 |
| Net balance—end of year | 2,727,736 | 2,833,655 |
| Plus reinsurance ceded—end of year | 87,178 | 97,403 |
| Gross reserve for losses and loss adjustment expenses—end of year | $ 2,814,914 | $2,931,058 |

The reserve for losses and LAE decreased $105.9 million in 2017, which was net of favorable development of $284.2 million. Loss reserves decreased $112.5 million as compared to the prior year. Loss reserves for the 2017 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total disability (PTD) and permanent partial disability (PPD) medical loss reserves. The key drivers were a decrease in ultimate PPD counts and the continuing downward trend in medical severity. The observed medical escalation rate for 2017 was well below the assumption.

LAE reserves increased $6.6 million. LAE reserves for the 2017 accident year were partially offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributed to the overall reduction in reserves.

The reserve for losses and LAE decreased $83.6 million in 2016, which was net of favorable development of $269.9 million. Loss reserves decreased $94.2 million as compared to the prior year. Loss reserves for the 2016 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total disability and permanent partial disability medical loss reserves. The key drivers were a decrease in ultimate counts and the continuing downward trend in medical severity. The observed medical escalation rate for 2016 was well below the assumption. Indemnity loss reserves experienced favorable development driven by actual costs for permanent total disability being lower than expected for recent accident years and the reduction in ultimate projected counts for fatal.

LAE reserves increased $10.6 million. LAE reserves for the 2016 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributed to the overall reduction in reserves.

SAIF discounts the indemnity reserve for known unpaid fatal and permanent total disability losses on a tabular basis using the 2007 United States Life Tables, the 1997 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 $268.8 million and $267.5 million for 2017 and 2016, respectively. The discounts were $97.5 million and $96.2 million as of December 31, 2017 and 2016, respectively.

Anticipated salvage and subrogation of $34.6 million and $32.9 million was included as a reduction of the reserve for losses and LAE at December 31, 2017 and 2016, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $15.9 million and $17.0 million for losses and LAE are related to asbestos claims as of December 31, 2017 and 2016, respectively. Amounts paid for asbestos-related claims were $432 thousand and $761 thousand for the years ended December 31, 2017 and 2016, respectively.

## 8. RISK MANAGEMENT

The State of Oregon administers property and casualty insurance programs covering state government agencies through its Insurance Fund, an internal service fund. The Insurance Fund services claims for: direct physical loss or damage to state property; tort liability claims brought against the state, its officers, employees, or agents; workers' compensation; and employees, elected officials, and members of commissions and boards for faithful performance. The Insurance Fund is backed by a commercial excess property policy with limits of $425 million and a blanket commercial excess bond with limits of $7.7 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 $0.9 million and $1.6 million for the years ended December 31, 2017 and 2016, respectively.

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

## 9. DEFERRED COMPENSATION PLAN

SAIF provides a deferred compensation plan, authorized under and consistent with Internal Revenue Code Section 457(b), as a benefit available to all its employees. The plan authorizes the employee to execute an individual agreement with the plan's record keeper, Empower Retirement Services, whereby the employee defers a portion of his or her current income until future years as a retirement savings vehicle in which funds are sheltered from federal and state taxation until withdrawal. Participants cannot receive the funds until certain circumstances are met. Funds withheld from employee compensation and remitted to the plan are invested by the employee in a variety of mutual funds and other offerings selected by SAIF's Deferred Compensation Plan Committee. Plan assets are generally held in a trust account with Wells Fargo (the Guaranteed Interest Fund is a general account product), and administered by Empower Retirement Services for the exclusive benefit of the participants or his or her beneficiary(s). Participants' rights under the plan are equal to the fair market value of the deferred compensation plan account for each participant. SAIF has no rights to participant funds and does not perform the investing function for the participant. SAIF's fiduciary accountability for the plan extends to aspects related to the administration of the plan which includes the selection of the investment options that are made available to the participants. Thus, plan assets and any related liability to plan participants have been excluded from the financial statements.

## 10. RETIREMENT PLAN

SAIF's employees hired prior to August 29, 2003, participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiemployer 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 6.00 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. SAIF currently contributes 17.84 percent of each covered employee's salary to the PERS Program. This contribution is the minimum contribution required for future periods. 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 (multiemployer 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 IAP (defined contribution). SAIF currently contributes 10.78 percent of each covered employee's salary to the Pension Program and 6.00 percent to the IAP. This contribution is the minimum contribution required for future periods. Rates are subject to change as a result of subsequent actuarial valuations.

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 6.20 percent of payroll each month. The payment rate is recalculated periodically, as needed.

The total amount contributed by SAIF for all plans for the years ended December 31, 2017 and 2016, consist of the following (dollars in thousands):

| | 2017 | 2016 |
|---|---|---|
| Employer contributions: | | |
| Debt service | $ 4,487 | $ 4,212 |
| PERS-Pension Program | 5,448 | 4,909 |
| OPSRP-Pension Program | 3,536 | 2,431 |
| Total employer contributions | 13,471 | 11,552 |
| Employee contributions paid by SAIF: | | |
| PERS-IAP | 2,120 | 2,215 |
| OPSRP-IAP | 2,344 | 1,996 |
| Total employee contributions | 4,464 | 4,211 |
| Total contributions | $ 17,935 | $ 15,763 |

For the years ended December 31, 2017 and 2016, SAIF's employer contributions were equal to the annual required contributions. SAIF's contributions were less than 5.00 percent of each plan's total contributions. There are no funding improvement or rehabilitation plans implemented or pending for any of the plans SAIF participates in. SAIF did not pay any surcharges during the year ended December 31, 2017. SAIF is a funder of last resort, embodied in the scheme of ORS chapter 238, along with every other employer in PERS. PERS' board from time to time will evaluate the liabilities of PERS and set the amount of contributions to be made by SAIF to ensure that those liabilities will be funded no more than 40 years after the date on which the determination is made.

## 11. POST RETIREMENT BENEFITS AND COMPENSATED ABSENCES

On January 1, 2013, SAIF adopted the provisions of SSAP 92, Accounting for Postretirement Benefits Other Than Pensions, a replacement of SSAP No.14. SSAP 92 provided new requirements for recording and calculating the liability and expense of postretirement benefit plans other than pensions. SAIF elected to recognize the entire surplus impact of adopting SSAP 92 as of January 1, 2013, resulting in recognition of an accumulated postretirement benefit obligation (APBO) of $9.9 million and a decrease in unassigned funds, prior APBO service costs. Over time, this amount will be amortized through periodic charges to income. The balance was $0.6 million and $1.4 million as of December 31, 2017 and 2016, respectively. Current year changes in the postemployment benefit obligation are charged to income in the current period.

Plan description – SAIF administers a single-employer defined benefit healthcare plan. SAIF employees retiring under Oregon PERS are eligible to receive medical coverage for self and eligible dependents until age 65. Retirees must pay the premium for the coverage elected. Premiums for coverage are identical for active and retired employees, except to the extent that SAIF pays all or a portion of its active employees' premiums. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. Benefit provisions are established by SAIF.

Funding policy – SAIF's funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. The plan Accumulated Postretirement Benefit Obligation was $10.5 million and $9.5 million as of December 31, 2017 and 2016, respectively, all of which was unfunded.

Actuarial methods and assumptions – Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and participating members to that point. Actuarial calculations reflect a long-term perspective and include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by a consulting actuary as of December 31, 2017 and 2016, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 3.25 percent discount rate. A 6.50 percent health care cost trend rate was used for 2018, 5.75 percent for 2019, 5.25 percent for 2020 through 2029, 6.00 percent for 2030 through 2031, 6.25 percent for 2032, 6.00 percent for 2033 through 2040, 5.75 percent for 2041 through 2043, 5.50 percent for 2044 through 2052, 5.25 percent for 2053 through 2064, 5.00 percent for 2065 through 2066, 4.75 percent for 2067 through 2069, 4.50 percent for 2070 through 2072, and a 4.25 percent ultimate trend rate thereafter.

As of December 31, 2016, significant assumptions used in the actuarial valuation include a 3.75 percent investment rate of return. A 6.00 percent health care cost trend rate was used for 2017, 5.25 percent for 2018 through 2019, 5.50 percent for 2020 through 2029, 6.00 percent for 2030, 6.75 percent for 2031 through 2032, 6.50 percent for 2033 through 2037, 6.25 percent for 2038 through 2040, 6.00 percent for 2041 through 2047, 5.75 percent for 2048 through 2060, 5.50 percent for 2061 through 2063, 5.25 percent for 2064 through 2066, 5.00 percent for 2067 through 2069, and a 4.75 percent ultimate trend rate thereafter.

At December 31, 2017, the Accumulated Postretirement Benefit Obligation was $10.5 million, $0.6 million of which is recorded as APBO transition liability and $9.9 million recorded as other accrued expenses on the Statement of Admitted Assets, Liabilities, and Capital and Surplus.

At December 31, 2016, the Accumulated Postretirement Benefit Obligation was $9.5 million, $1.4 million of which is recorded as APBO transition liability and $8.1 million recorded as other accrued expenses on the Statement of Admitted Assets, Liabilities, and Capital and Surplus.

The net periodic benefit cost recognized for the years ended December 31, 2017 and 2016, was (dollars in thousands):

Components of net periodic benefit cost

| | **Postemployment & Compensated Absence Benefits** | |
|---|---|---|
| | **2017** | **2016** |
| Service cost | $ 446 | $ 421 |
| Interest cost | 348 | 339 |
| Transition obligation recognized - Scheduled | 827 | 827 |
| Recognition of net loss | 634 | - |
| Total net periodic benefit cost | $ 2,255 | $ 1,587 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (dollars in thousands):

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| Effect on APBO | $ 1,210 | $ (1,050) |
| Effect on total of service and interest cost component | 137 | (115) |

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated (dollars in thousands):

| Year(s) | Amount |
|---|---|
| 2018 | $ 531 |
| 2019 | 545 |
| 2020 | 516 |
| 2021 | 518 |
| 2022 | 573 |
| 2023 through 2027 | 3,879 |

SAIF has accrued obligations to former employees for benefits after their employment but before their retirement. A liability for earned but untaken vacation pay for current employees has been accrued.

## 12. 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, 2017, and 2016, was as follows (dollars in thousands):

| | 2017 | 2016 |
|---|---|---|
| Net unrealized investment gains | $ 301,903 | $ 185,190 |
| Nonadmitted assets | (39,689) | (21,278) |
| Prior APBO service costs | (612) | (1,438) |

The Company participates in a cost-sharing multiemployer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS) (Note 10). PERS has a net pension liability which represents the unfunded pension benefits. SAIF established a special surplus fund in 2017 to identify its portion of the PERS liability and has adjusted the fund based on information provided by PERS as of June 30, 2016. Due to the timing delay, SAIF has evaluated subsequent events that may impact the assets and liabilities of the plan and determined that the valuation of liability is still materially accurate. Based on this information, the special surplus fund for the unfunded pension benefits is $92.0 million at December 31, 2017.

## 13. 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 $2.7 million and $2.9 million at December 31, 2017 and 2016, respectively.

On January 23, 2017, SAIF's Board of Directors voted to settle a civil litigation case filed in 2014 by a former employee for $1.7 million. The settlement amount was included in other liabilities on the statements of admitted assets, liabilities, and capital and surplus, as of December 31, 2016. The settlement was paid in 2017, and SAIF believes there are no further obligations related to this matter.

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.

As of December 31, 2017, SAIF has entered into an $80.9 million construction contract, of which $25.6 million is still outstanding.

## 14. LEASE COMMITMENTS

SAIF leases office space in several locations under operating leases expiring during various years through 2025. Lease expense was $2.9 million and $2.7 million as of December 31, 2017 and 2016, respectively.

SAIF's future minimum lease payments under noncancelable operating leases at December 31, 2017, are as follows (dollars in thousands):

| Year(s) | Amount |
|---|---|
| 2018 | $ 1,980 |
| 2019 | 691 |
| 2020 | 397 |
| 2021 | 316 |
| 2022 | 196 |
| Total minimum payments | $ 3,580 |

Certain rental commitments have renewal options extending through the year 2031.

## 15. 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.

The Company maintains reinsurance protection providing limits of $160 million excess of $35 million per occurrence with a $10 million maximum on any one life. The Terrorism Risk Insurance Act provides coverage for terrorist events that are nuclear, biological, chemical, or radiological in nature, which are excluded from the reinsurance contract. During 2017, SAIF had reinsurance protection for 83 percent of losses in excess of 20 percent of 2016 direct written premium for acts of foreign and domestic terrorism through the Terrorism Risk Insurance Program Reauthorization Act.

The following amounts have been deducted in the accompanying financial statements—statutory basis as a result of reinsurance ceded for 2017 and 2016 (dollars in thousands):

| | 2017 | 2016 |
|---|---|---|
| Reserve for losses and loss adjustment expenses | $ 23,076 | $ 27,394 |
| Premiums written and earned | 1,971 | 2,028 |
| Losses and loss adjustment expenses incurred | (4,200) | (8,553) |

SAIF does not have unsecured reinsurance recoverables as of December 31, 2017 that exceed three percent of policyholders' surplus.

In 2017, SAIF did not commute ceded reinsurance. In 2016, SAIF performed a commutation with Continental Casualty Company extinguishing Continental Casualty Company's 25 percent participation in SAIF's 1992 and 1993 $4 million in excess of $1 million per claim reinsurance treaty. SAIF recognized the amounts received from the reinsurer as a reduction of losses and loss adjustment expenses paid (thereby reducing losses and loss adjustment expenses incurred) in the current year. SAIF also increased its loss and loss adjustment expense reserves (thereby increasing losses and loss adjustment expenses incurred) to recognize the effect of releasing the reinsurer from its obligations under the treaty. The net effect of the commutation was a decrease in underwriting income of $1.4 million. This amount is shown below by statement of income classification and by reinsurer.

| 2017 | | 2016 | |
|---|---|---|---|
| **Statement of Income Account** | **Amount** | **Statement of Income Account** | **Amount** |
| Losses incurred | $ - | Losses incurred | $ 1,441 |
| Loss adjustment expenses incurred | - | Loss adjustment expenses incurred | - |
| Premium earned | - | Premium earned | - |
| Other | - | Other | - |
| Total | $ - | Total | $ 1,441 |
| **Reinsurer** | **Amount** | **Reinsurer** | **Amount** |
| | $ - | Continental Casualty Company | $ 1,441 |

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 2017 and 2016 (dollars in thousands):

| Other States Coverage | 2017 | 2016 |
|---|---|---|
| Assumed: | | |
| Reserve for losses and loss adjustment expenses | $ 18,233 | $ 17,348 |
| Unearned premiums | 7,255 | 6,846 |
| Premiums written | 16,341 | 15,576 |
| Premiums earned | 15,931 | 14,586 |
| Losses and loss adjustment expenses incurred | 10,841 | 10,792 |
| Commission expense | 2,466 | 2,406 |

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 2017 and 2016 (dollars in thousands):

| NWCRP | 2017 | 2016 |
|---|---|---|
| Assumed: | | |
| Reserve for losses and loss adjustment expenses | $ 84,470 | $ 83,647 |
| Unearned premiums | 5,604 | 5,433 |
| Premiums written | 32,069 | 32,874 |
| Premiums earned | 31,898 | 32,872 |
| Losses and loss adjustment expenses incurred | 16,755 | 24,184 |
| Commission expense | 9,922 | 10,500 |
| Ceded: | | |
| Reserve for losses and loss adjustment expenses | $ 64,102 | $ 70,009 |
| Unearned premiums | 7,045 | 6,823 |
| Premiums written | 18,904 | 18,892 |
| Premiums earned | 18,683 | 18,859 |
| Losses and loss adjustment expenses incurred | 1,029 | 1,199 |
| Commission expense | 6,966 | 6,859 |

## 16. 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 five years. There were no nonoperating software assets admitted at December 31, 2017 and 2016.

Admitted EDP equipment and software at December 31, 2017 and 2016, were as follows (dollars in thousands):

| | 2017 | 2016 |
|---|---|---|
| EDP equipment and software | $ 3,275 | $ 3,439 |
| Accumulated depreciation | (2,814) | (2,579) |
| Balance—net | $ 461 | $ 860 |

Depreciation expense related to admitted EDP equipment and software was $510 thousand and $499 thousand for the years ended December 31, 2017 and 2016, respectively.

## 17. 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, 2017 and 2016.

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

| 2017 | Filed | Audited | Difference |
|---|---|---|---|
| Statement of admitted assets, liabilities, and capital and surplus: | | | |
| Other assets | $ 30,764 | $ 30,599 | $ (165) |
| Total admitted assets | 5,294,194 | 5,294,029 | (165) |
| Losses | 2,289,539 | 2,283,546 | (5,993) |
| Unearned premiums | 232,193 | 232,070 | (123) |
| Other liabilities | 52,670 | 57,459 | 4,789 |
| Total liabilities | 3,404,694 | 3,403,368 | (1,326) |
| Capital and surplus—PERS UAL | 93,600 | 91,953 | (1,647) |
| Capital and surplus—unassigned funds | 1,795,900 | 1,798,708 | 2,808 |
| Total capital and surplus | 1,889,500 | 1,890,661 | 1,161 |
| Total | 5,294,194 | 5,294,029 | (165) |
| Statement of revenues, expenses, and capital and surplus: | | | |
| Premiums earned, net | $ 526,695 | $ 527,186 | $ 491 |
| Losses incurred, net | 204,209 | 206,258 | 2,049 |
| Other underwriting expenses incurred | 106,497 | 106,868 | 371 |
| Total underwriting expenses | 393,263 | 395,683 | 2,420 |
| Net underwriting income | 133,432 | 131,503 | (1,929) |
| Other income | (911) | (642) | 269 |
| Net income before dividends to policyholders | 305,878 | 304,218 | (1,660) |
| Net income | 145,784 | 144,124 | (1,660) |
| Net change in capital and surplus | 244,912 | 243,252 | (1,660) |
| Total capital and surplus—end of year | 1,889,500 | 1,890,661 | 1,161 |
| Statement of cash flows: | | | |
| Premiums collected net of reinsurance | $ 530,318 | $ 530,836 | $ 518 |
| Miscellaneous income | 448 | 717 | 269 |
| Benefits and loss related payments | (318,333) | (318,829) | (496) |
| Underwriting expenses paid | (171,794) | (172,117) | (323) |
| Net cash from operations | 42,575 | 42,544 | (31) |
| Other cash provided | (18,937) | 1,752 | 20,689 |
| Other cash applied | - | (20,658) | (20,658) |
| Net cash from (used by) financing and miscellaneous sources | (18,937) | (18,906) | 31 |

| 2016 | Filed | Audited | Difference |
|---|---|---|---|
| Statement of admitted assets, liabilities, and capital and surplus: | | | |
| Other assets | $ 29,662 | $ 29,087 | $ (575) |
| Total admitted assets | 4,968,412 | 4,967,837 | (575) |
| Losses | 2,403,628 | 2,396,083 | (7,545) |
| Unearned premiums | 233,350 | 233,201 | (149) |
| Other liabilities | 7,025 | 11,323 | 4,298 |
| Total liabilities | 3,323,824 | 3,320,428 | (3,396) |
| Capital and surplus—unassigned funds | 1,644,588 | 1,647,409 | 2,821 |
| Total | 4,968,412 | 4,967,837 | (575) |
| Statement of revenues, expenses, and capital and surplus: | | | |
| Premiums earned, net | $ 516,510 | $ 516,185 | $ (325) |
| Losses incurred, net | 198,261 | 198,316 | 55 |
| Other underwriting expenses incurred | 104,998 | 104,721 | (277) |
| Total underwriting expenses | 384,079 | 383,857 | (222) |
| Net underwriting income | 132,431 | 132,328 | (103) |
| Net loss from premium balances charged off | (1,484) | (1,761) | (277) |
| Total other income (loss)—net | (33) | (310) | (277) |
| Net income before dividends to policyholders | 316,080 | 315,700 | (380) |
| Net income | 176,145 | 175,765 | (380) |
| Net change in capital and surplus | 220,605 | 220,225 | (380) |
| Unassigned funds—end of year | 1,644,588 | 1,647,409 | 2,821 |
| Statement of cash flows: | | | |
| Premiums collected net of reinsurance | $ 521,394 | $ 520,929 | $ (465) |
| Miscellaneous income | (32) | (310) | (278) |
| Benefits and loss related payments | (292,808) | (292,495) | 313 |
| Underwriting expenses paid | (168,006) | (167,930) | 76 |
| Net cash from operations | 87,902 | 87,548 | (354) |
| Other cash provided | 1,454 | 6,706 | 5,252 |
| Other cash applied | - | (4,898) | (4,898) |
| Net cash from (used by) financing and miscellaneous sources | 1,454 | 1,808 | 354 |

# SUPPLEMENTARY SCHEDULES

# APPENDIX A

# SUMMARY INVESTMENT SCHEDULE

# SUMMARY INVESTMENT SCHEDULE

| Investment Categories | Gross Investment Holdings | | Admitted Assets as Reported in the Annual Statement | | | |
|---|---|---|---|---|---|---|
| | 1 Amount | 2 Percentage | 3 Amount | 4 Securities Lending Reinvested Collateral Amount | 5 Total (Col. 3 + 4) Amount | 6 Percentage |
| 1. Bonds: | | | | | | |
| 1.1 U.S. treasury securities | 335,423,313 | 6.85 | 335,423,313 | | 335,423,313 | 6.85 |
| 1.2 U.S. government agency obligations (excluding mortgage-backed securities): | | | | | | |
| 1.21 Issued by U.S. government agencies | | | | | | |
| 1.22 Issued by U.S. government sponsored agencies | 3,861,861 | 0.08 | 3,861,861 | | 3,861,861 | 0.08 |
| 1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities) | 35,993,324 | 0.74 | 35,993,324 | | 35,993,324 | 0.74 |
| 1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.: | | | | | | |
| 1.41 States, territories and possessions general obligations | 1,019,247 | 0.02 | 1,019,247 | | 1,019,247 | 0.02 |
| 1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations | 11,248,417 | 0.23 | 11,248,417 | | 11,248,417 | 0.23 |
| 1.43 Revenue and assessment obligations | 50,050,749 | 1.02 | 50,050,749 | | 50,050,749 | 1.02 |
| 1.44 Industrial development and similar obligations | | | | | | |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | | | |
| 1.51 Pass-through securities: | | | | | | |
| 1.511 Issued or guaranteed by GNMA | 77,465,606 | 1.58 | 77,465,606 | | 77,465,606 | 1.58 |
| 1.512 Issued or guaranteed by FNMA and FHLMC | 418,706,313 | 8.55 | 418,706,313 | | 418,706,313 | 8.55 |
| 1.513 All other | | | | | | |
| 1.52 CMOs and REMICs: | | | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA | 134,784,855 | 2.75 | 134,784,855 | | 134,784,855 | 2.75 |
| 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 | 347,533,553 | 7.10 | 347,533,553 | | 347,533,553 | 7.10 |
| 2. Other debt and other fixed income securities (excluding short term): | | | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | 1,905,515,230 | 38.92 | 1,905,515,230 | | 1,905,515,230 | 38.92 |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | 553,706,072 | 11.31 | 553,706,072 | | 553,706,072 | 11.31 |
| 2.3 Affiliated securities | | | | | | |
| 3. Equity interests: | | | | | | |
| 3.1 Investments in mutual funds | 589,330,561 | 12.04 | 589,330,561 | | 589,330,561 | 12.04 |
| 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 | 71,463,153 | 1.46 | 71,463,153 | | 71,463,153 | 1.46 |
| 5.2 Property held for production of income (including $ 0 of property acquired in satisfaction of debt) | | | | | | |
| 5.3 Property held for sale (including $ 0 property acquired in satisfaction of debt) | | | | | | |
| 6. Contract loans | | | | | | |
| 7. Derivatives | | | | | | |
| 8. Receivables for securities | 578,368 | 0.01 | 578,368 | | 578,368 | 0.01 |
| 9. Securities Lending (Line 10, Asset Page reinvested collateral) | 199,080,475 | 4.07 | 199,080,475 | XXX | XXX | XXX |
| 10. Cash, cash equivalents and short-term investments | 139,263,137 | 2.84 | 139,263,137 | 199,080,475 | 338,343,612 | 6.91 |
| 11. Other invested assets | 21,264,019 | 0.43 | 21,264,019 | | 21,264,019 | 0.43 |
| 12. Total invested assets | 4,896,288,253 | 100.00 | 4,896,288,253 | 199,080,475 | 4,896,288,253 | 100.00 |

# APPENDIX B

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

36196201728500100

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2017

(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 0000 NAIC Company Code 36196 Employer's ID Number 93-6001769

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 5,294,028,834

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

| | 1<br>Issuer | 2<br>Description of Exposure | 3<br>Amount | 4<br>Percentage of Total Admitted Assets |
|---|---|---|---|---|
| 2.01 | BlackRock MSCI ACWI Index Fund | Index Fund | $ 589,330,561 | 11.132 % |
| 2.02 | FHLMC | Bond | $ 342,815,220 | 6.475 % |
| 2.03 | FNMA | Bond | $ 210,675,949 | 3.979 % |
| 2.04 | Wells Fargo & Co | Bond | $ 82,395,275 | 1.556 % |
| 2.05 | JP Morgan Chase & Co | Bond | $ 72,125,829 | 1.362 % |
| 2.06 | Goldman Sachs Group Inc | Bond | $ 66,961,304 | 1.265 % |
| 2.07 | Morgan Stanley | Bond | $ 60,750,641 | 1.147 % |
| 2.08 | Citigroup Inc | Bond | $ 56,626,082 | 1.070 % |
| 2.09 | New Residential Mortgage Loan | Bond | $ 54,337,600 | 1.026 % |
| 2.10 | Federal Home Loan Discount Note | Bond | $ 53,778,068 | 1.016 % |

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

| | Bonds | 1 | 2 | | Preferred Stocks | 3 | 4 |
|---|---|---|---|---|---|---|---|
| 3.01 | NAIC 1 | $ 2,286,761,884 | 43.194 % | 3.07 | P/RP-1 | $ | % |
| 3.02 | NAIC 2 | $ 1,394,635,710 | 26.343 % | 3.08 | P/RP-2 | $ | % |
| 3.03 | NAIC 3 | $ 190,204,780 | 3.593 % | 3.09 | P/RP-3 | $ | % |
| 3.04 | NAIC 4 | $ 57,425,349 | 1.085 % | 3.10 | P/RP-4 | $ | % |
| 3.05 | NAIC 5 | $ 426,528 | 0.008 % | 3.11 | P/RP-5 | $ | % |
| 3.06 | NAIC 6 | $ | % | 3.12 | P/RP-6 | $ | % |

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

| | | | |
|---|---|---|---|
| 4.02 | Total admitted assets held in foreign investments | $ 807,664,902 | 15.256 % |
| 4.03 | Foreign-currency-denominated investments | $ | % |
| 4.04 | Insurance liabilities denominated in that same foreign currency | $ | % |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES - Continued

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

| | | 1 | 2 |
|---|---|---|---|
| 5.01 | Countries designated NAIC 1 | $ 702,987,156 | 13.278 % |
| 5.02 | Countries designated NAIC 2 | $ 86,988,008 | 1.643 % |
| 5.03 | Countries designated NAIC 3 or below | $ 17,689,738 | 0.334 % |

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

| | | | 1 | 2 |
|---|---|---|---|---|
| | Countries designated NAIC 1: | | | |
| 6.01 | Country 1: | Cayman Islands | $ 136,432,218 | 2.577 % |
| 6.02 | Country 2: | United Kingdom | $ 108,241,094 | 2.045 % |
| | Countries designated NAIC 2: | | | |
| 6.03 | Country 1: | Mexico | $ 23,312,991 | 0.440 % |
| 6.04 | Country 2: | Spain | $ 23,186,627 | 0.438 % |
| | Countries designated NAIC 3 or below: | | | |
| 6.05 | Country 1: | Russia | $ 7,022,855 | 0.133 % |
| 6.06 | Country 2: | South Africa | $ 4,773,578 | 0.090 % |

| | 1 | 2 |
|---|---|---|
| 7. Aggregate unhedged foreign currency exposure | $ | % |

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

| | | 1 | 2 |
|---|---|---|---|
| 8.01 | Countries designated NAIC 1 | $ | % |
| 8.02 | Countries designated NAIC 2 | $ | % |
| 8.03 | Countries designated NAIC 3 or below | $ | % |

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

| | | | 1 | 2 |
|---|---|---|---|---|
| | Countries designated NAIC 1: | | | |
| 9.01 | Country 1: | | $ | % |
| 9.02 | Country 2: | | $ | % |
| | Countries designated NAIC 2: | | | |
| 9.03 | Country 1: | | $ | % |
| 9.04 | Country 2: | | $ | % |
| | Countries designated NAIC 3 or below: | | | |
| 9.05 | Country 1: | | $ | % |
| 9.06 | Country 2: | | $ | % |

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

| | 1<br>Issuer | 2<br>NAIC Designation | 3 | 4 |
|---|---|---|---|---|
| 10.01 | GE Capital Intl Funding | 1FE | $ 21,494,342 | 0.406 % |
| 10.02 | BP Capital Markets PLC | 1FE | $ 20,594,323 | 0.389 % |
| 10.03 | Credit Suisse Group Fund Ltd | 2FE | $ 16,680,362 | 0.315 % |
| 10.04 | Apidos CLO | 1FE | $ 14,517,690 | 0.274 % |
| 10.05 | Carlyle Global Markets | 1FE | $ 14,375,000 | 0.272 % |
| 10.06 | BNP Paribas | 1FE | $ 14,027,701 | 0.265 % |
| 10.07 | Deutsche Telekom Intl Fin | 2FE | $ 13,677,451 | 0.258 % |
| 10.08 | Telefonica Emisiones SAU | 2FE | $ 12,014,791 | 0.227 % |
| 10.09 | Petrobras Global Finance | 3FE | $ 11,325,744 | 0.214 % |
| 10.10 | HSBC Holdings PLC | 1FE | $ 10,583,018 | 0.200 % |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES - Continued

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<br>Issuer | 2 | 3 |
|---|---|---|---|
| 13.02 | BlackRock MSCI ACWI Index Fund | $ 589,330,561 | 11.132 % |
| 13.03 | | $ | % |
| 13.04 | | $ | % |
| 13.05 | | $ | % |
| 13.06 | | $ | % |
| 13.07 | | $ | % |
| 13.08 | | $ | % |
| 13.09 | | $ | % |
| 13.10 | | $ | % |
| 13.11 | | $ | % |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES - Continued

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<br>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 | | $ | % |

## SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES - Continued

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<br>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 admited 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 | | $ | % |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES - Continued

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) | $ 184,459,142 | 3.484 % | $ 90,020,662 | $ 180,903,160 | $ 175,650,249 |
| 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 | $ | % | $ | $ | $ |

# APPENDIX C

# GENERAL INTERROGATORIES (REINSURANCE)

# GENERAL INTERROGATORIES

## PART 2 – PROPERTY & CASUALTY INTERROGATORIES

6.2 Describe the method used to estimate this reporting entity's probable maximum insurance loss, and identify the type of insured exposures comprising that probable maximum loss, the locations of concentrations of those exposures and the external resources (such as consulting firms or computer software models), if any, used in the estimation process:
The Company reviewed several earthquake studies of an analysis performed by its reinsurance broker. The greatest concentrations of workers are in Portland, Salem and along the Oregon coast.

6.3 What provision has this reporting entity made (such as a catastrophic reinsurance program) to protect itself from an excessive loss arising from the types and concentrations of insured exposures comprising its probable maximum property insurance loss?
Catastrophic reinsurance was purcahsed as described in 6.1.

6.4 Does the reporting entity carry catastrophe reinsurance protection for at least one reinstatement, in an amount sufficient to cover its estimated probable maximum loss attributable to a single loss event or occurrence? Yes [ X ] No [ ]

6.5 If no, describe any arrangements or mechanisms employed by the reporting entity to supplement its catastrophe reinsurance program or to hedge its exposure to unreinsured catastrophic loss

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? Yes [ ] No [ X ]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions.

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? Yes [ ] No [ X ]

8.1 Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on this risk, or portion thereof, reinsured? Yes [ ] No [ X ]

8.2 If yes, give full information

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:
(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
(c) Aggregate stop loss reinsurance coverage;
(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. Yes [ ] No [ X ]

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:
(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract. Yes [ ] No [ X ]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:
(a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income;
(b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 9.1 or 9.2; and
(c) A brief discussion of management's principle objectives in entering into the reinsurance contract including the economic purpose to be achieved.

9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or
(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? Yes [ ] No [ X ]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP.

9.6 The reporting entity is exempt from the Reinsurance Attestation Supplement under one or more of the following criteria:
(a) The entity does not utilize reinsurance; or, Yes [ ] No [ X ]
(b) The entity only engages in a 100% quota share contract with an affiliate and the affiliated or lead company has filed an attestation supplement; or Yes [ ] No [ X ]
(c) The entity has no external cessions and only participates in an intercompany pool and the affiliated or lead company has filed an attestation supplement. Yes [ ] No [ X ]