SAIF Corporation

Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2014 and 2013, Supplementary Schedules as of December 31, 2014, and Report of Independent Auditors

SAIF CORPORATION

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MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

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, 2014 and 2013, and the related statutory statements of revenues, expenses, and capital and surplus, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

MOSS ADAMS LLP

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of SAIF Corporation as of December 31, 2014 and 2013, 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

Eugene, Oregon
July 30, 2015

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2014 and 2013
(In thousands)

	2014	2013
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	$ 3,734,135	$ 3,627,583
Common stocks	444,251	485,713
Real estate, net of accumulated depreciation of $16,288 and $15,588:		
Properties occupied by SAIF	12,762	12,797
Properties held for the production of income	-	665
Cash, cash equivalents, and short-term investments	64,197	58,376
Other invested assets	27,963	27,962
Receivable for securities sold	738	68
Security lending reinvested collateral	146,178	172,668
Total cash and invested assets	4,430,224	4,385,832
Interest, dividends, and real estate income due and accrued	36,509	35,875
Premiums in course of collection	6,117	5,459
Premiums and installments booked but deferred and not yet due	288,749	279,104
Accrued retrospective premiums receivable	20,144	26,263
Reinsurance recoverables	852	1,121
Electronic data processing (EDP) equipment and operating software, net of accumulated depreciation of $2,611 and $2,453	375	391
Due from Workers' Compensation Division	9,652	9,156
Other assets	26,276	21,421
TOTAL	$ 4,818,898	$ 4,764,622
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	$ 2,551,855	$ 2,641,230
Loss adjustment expenses	419,692	409,195
Other accrued expenses	38,704	32,296
Taxes, licenses, and fees	25,642	24,573
Unearned premiums	219,702	213,526
Advance premiums	3,761	3,783
Ceded reinsurance premiums payable	2,988	3,680
Amounts withheld or retained for account of others	34,145	29,279
Other liabilities	8,677	5,020
Unclaimed property	456	411
APBO transition liability	8,266	9,919
Payable for securities lending	146,180	172,633
Accrued retrospective premiums payable	40,303	34,720
Total liabilities	3,500,371	3,580,265
CAPITAL AND SURPLUS—Unassigned funds	1,318,527	1,184,357
TOTAL	$ 4,818,898	$ 4,764,622

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, 2014 AND 2013

(In thousands)

	2014	2013
UNDERWRITING REVENUES—Premiums earned, net	$ 474,355	$ 435,671
UNDERWRITING EXPENSES:		
Losses incurred, net	199,473	242,110
Loss adjustment expenses incurred	72,612	74,062
Other underwriting expenses incurred	93,543	86,093
Total underwriting expenses	365,628	402,265
NET UNDERWRITING INCOME (LOSS)	108,727	33,406
NET INVESTMENT INCOME:		
Net investment income earned	146,232	145,602
Net realized investment gains	46,956	51,289
Net investment income	193,188	196,891
OTHER INCOME:		
Net loss from premium balances charged off	(1,372)	(926)
Other income	1,143	1,159
Total other income—net	(229)	233
Net income before dividends to policyholders	301,686	230,530
POLICYHOLDER DIVIDENDS	(164,950)	(129,145)
NET INCOME	$ 136,736	$ 101,385
CAPITAL AND SURPLUS:		
Unassigned funds—beginning of year	$ 1,184,357	$ 1,006,317
Net income	136,736	101,385
Prior APBO service costs	827	(9,092)
Change in net unrealized capital gains	(4,023)	84,729
Change in nonadmitted assets	(318)	(59)
Change in provision for reinsurance	948	1,077
Net change in capital and surplus	134,170	178,040
Unassigned funds—end of year	$ 1,318,527	$ 1,184,357

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
CASH FROM (USED BY) OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	$ 475,301	$ 436,889
Net investment income	157,853	157,728
Net cash from underwriting	633,154	594,617
Miscellaneous income	(229)	234
Benefits and loss related payments	(288,578)	(271,607)
Underwriting expenses paid	(147,660)	(133,381)
Policyholder dividend payments	(164,950)	(129,180)
Net cash from operations	31,737	60,683
CASH FROM (USED BY) INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	994,576	1,131,485
Common stocks	60,254	58,294
Other invested assets	26,453	143,184
Cash and short-term investments	2	21
Miscellaneous payments	(669)	(30)
Total proceeds from investments sold, matured, or repaid	1,080,616	1,332,954
Cost of investments acquired:		
Bonds	1,088,460	1,498,319
Common stocks	48	50
Other invested assets	26,453	143,184
Miscellaneous receipts	-	14,632
Total cost of investments acquired	1,114,961	1,656,185
Net cash from (used by) investments	(34,345)	(323,231)
CASH FROM (USED BY) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	13,776	11,984
Other cash applied	(5,347)	(5,529)
Net cash from (used by) financing and miscellaneous sources	8,429	6,455
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Net increase (decrease) in cash, cash equivalents, and short-term investments	5,821	(256,093)
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Beginning of year	58,376	314,469
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—End of year	$ 64,197	$ 58,376

See notes to financial statements—statutory basis.

Supplemental schedule of noncash transactions:
Noncash investment transactions were $37.6 million and $58.9 million for both investment acquisitions and dispositions resulting from conversions and tax-free exchange transactions for the years ended December 31, 2014 and 2013, 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 22.7 percent and 26.5 percent of standard premium during 2014 and 2013, 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 $289.5 million and $298.3 million at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, 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 2014 and 2013, subject to any deviations prescribed or permitted by the Insurance Division.

Accounting practices and procedures of the NAIC as prescribed or permitted by the Insurance Division comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The more significant differences are as follows:

(a) Investments in bonds are generally carried at amortized cost, while under GAAP they are carried at fair value, with changes in fair value recorded as investment income (loss).

(b) Changes in the fair value of common stock are charged directly to capital and surplus whereas, under GAAP, changes in fair value are recorded as investment income (loss).

(c) Changes in fair value for investments considered to be other-than-temporarily impaired (OTTI) are recognized as realized losses, while under GAAP they are recorded as investment income (loss).

(d) Assets are reported under Statutory Accounting Principles (SAP) at “admitted asset” value and “nonadmitted” assets are excluded through a charge against capital and surplus, while under GAAP such assets are reinstated to the balance sheet, net of any valuation allowance. The statutory Statement of Concepts states that assets that cannot be used to fulfill policyholder obligations or are subject to third party interests shall not be recognized on the statutory balance sheet. Nonadmitted assets include such assets as premiums receivable past due for more than ninety days, furniture and equipment, and application software.

(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 flow differ in certain respects from the presentation required by GAAP, including the presentation of the changes in cash and short-term investments instead of cash and cash equivalents and absence of a reconciliation between net income and cash provided by operating activities. Under statutory accounting principles, SAIF offsets accounts with negative cash balances with accounts with positive balances instead of presenting accounts with negative balances as short-term liabilities.

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

Investments—Bonds and short-term investments not backed by mortgages or other assets are generally carried at amortized cost using the scientific interest method. Noninvestment grade bonds (NAIC designation 3 to 6) are carried at the lower of amortized cost or fair value. SAIF held bonds which were in or near default with a carrying value of $1.5 million and $0.1 thousand at December 31, 2014 and 2013, respectively. Residential and commercial mortgage-backed securities are carried at the lower of amortized cost or fair value based on the financial model provided by the NAIC. Other asset-backed securities are carried at either amortized cost (NAIC 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 2014 and 2013 were obtained from Thomson Reuters, IDC, Barclays Capital, JPM Pricing Direct, and Bloomberg. Equity securities traded on a national exchange are valued at the last reported sales price. Prior to December 2014, debt securities were generally valued at the midpoint between the bid and asked prices. For some debt securities where fair value could not be determined in this manner, a similar 'benchmark' security was used. The benchmark security has a coupon rate and maturity date comparable to the debt security being valued, as well as similar market risk. As of December 31, 2013, the percent of SAIF's debt securities priced using the benchmark method was 35.4 percent. In December 2014, Oregon State Treasury changed its pricing service agreement with State Street Bank, and debt securities are now valued using evaluated bid prices.

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, 2014 and 2013, 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, 2014 and 2013.

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, 2014 and 2013, SAIF's balance in the OSTF was $33.9 million and $30.5 million, respectively.

Oregon's State Treasurer employs the services of two external investment managers to manage SAIF's fixed income portfolios. The cash balances of the fixed income managers are invested in the SSgA Prime Money Market Fund which had a fund credit quality rating of AAAm. This fund's stated objectives are to maximize current income while maintaining a stable $1.00 unit value by investing in high-quality, short maturity securities. The average maturity of the SSgA Prime Money Market Fund as of December 31, 2014 and 2013, was 34 days and 24 days, respectively. As of December 31, 2014 and 2013, SAIF's balance in the SSgA Prime Money Market Fund was $2.8 million and $22.7 million, respectively. Bonds with maturity dates greater than three months and less than one year included in the short-term balance at December 31, 2014, were $22.0 million. There were no bonds with maturity dates greater than three months and less than one year included in the short-term balance at December 31, 2013.

Concentrations of credit risk—Financial instruments, which potentially subject SAIF to concentrations of credit risk, consist principally of temporary cash investments and debt securities. SAIF places its investment securities with financial institutions approved by the State of Oregon and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to investments in debt securities are limited due to the large number of such investments and their distribution among many different industries and geographic regions.

Property and equipment—Property and equipment, both admitted and nonadmitted, are recorded at cost, less accumulated depreciation. Maintenance, repairs, and minor renovations are charged to expense as costs are incurred. Upon retirement or sale, any resulting gain or loss is included as a component of net income. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Life
Buildings and improvements	30-40 years
Furniture, equipment, and automobiles	3-7 years
Data processing software	3 years

Total depreciation and amortization expense for both admitted and nonadmitted property and equipment for the years ended December 31, 2014 and 2013, were $1.2 million.

Internal and external costs incurred to develop internal-use computer software and web sites during the application development stage are capitalized, if they meet the $500 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, 2014 and 2013 were $288.7 million and $279.1 million, respectively, including unearned premiums of $170.5 million and $168.3 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, 2014 and 2013, were $14.2 million and $12.6 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 2014 and 2013 were $90.8 million and $82.0 million, respectively, or 18.9 percent and 18.0 percent of net premiums written, respectively.

SAIF has nonadmitted 10 percent of the amount of accrued retrospective premiums receivable not offset by accrued retrospective premiums payable to the same party (other than the reserve for losses and loss adjustment expenses), or collateral. At December 31, 2014 and 2013, the admitted balance was as follows (dollars in thousands):

	2014	**2013**
Total accrued retrospective premiums receivable	$22,382	$29,181
Less nonadmitted amount (10 percent)	2,238	2,918
Admitted accrued retrospective premium receivable	$20,144	$26,263

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, 2014 and 2013, is a reasonable estimate of the ultimate net costs of settling claims and claim expenses incurred. Annually, the Board of Directors reviews the actuarial assumptions utilized in determining the liability for such losses. Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other societal and economic factors. As a result, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates. The amount ultimately paid may be more or less than such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur (see note 7).

Premium deficiency—Premium deficiency is based upon an estimate of the amount by which the sum of anticipated claims costs, claims adjustment expenses, and maintenance expenses exceeds expected premium income and earnings on investments. At December 31, 2014 and 2013, 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 2014, policyholder dividends of $165.0 million were incurred and paid to qualifying policyholders. In 2013, policyholder dividends of $129.1 million and $129.2 million were incurred and paid, respectively, 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 $28.5 million and $27.1 million, including $26.6 million and $24.8 million of accrued premium assessments, for the years ended December 31, 2014 and 2013, respectively. Premium assessment income net of premium assessment expense for the years ended December 31, 2014 and 2013, was $731.2 thousand and $322.9 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):

	2014			2013		
	Loss Adjustment Expenses Incurred	**Other Underwriting Expenses Incurred**	**Investment Expenses**	**Loss Adjustment Expenses Incurred**	**Other Underwriting Expenses Incurred**	**Investment Expenses**
Salaries, wages, & other benefits	$60,796	$ 47,345	$ 2,018	$62,888	$ 44,454	$ 1,726
Commissions	-	33,897	-	-	30,498	-
Other	11,816	12,301	8,612	11,174	11,141	7,558
Total allocable expenses	$72,612	$ 93,543	$10,630	$74,062	$ 86,093	$ 9,284

Subsequent events—Subsequent events have been considered through July 30, 2015, which is the date the statutory statements were available to be issued. There were no events occurring subsequent to the end of the year that merited recognition or disclosure in these statements.

3. NEW STATUTORY ACCOUNTING PRINCIPLES

No applicable new statutory accounting principles were adopted by SAIF in 2014.

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, 2014 and 2013.

The carrying value and fair value of SAIF's investment securities at December 31, 2014 and 2013, were as follows (dollars in thousands):

2014	Carrying Value	Fair Value	Excess Of Fair Value Over (Under) Carrying Value
Bonds:			
U.S. government	$ 137,894	$ 138,877	$ 983
All other governments	11,577	12,307	730
U.S. states, territories, and possessions	8,575	8,635	60
U.S. political subdivisions of states, territories, and possessions	15,019	17,305	2,286
U.S. special revenue and special assessment	72,830	83,422	10,592
Hybrid securities	32,001	34,965	2,964
Industrial and miscellaneous	2,168,222	2,388,538	220,316
Mortgage and other asset-backed securities	1,288,017	1,322,732	34,715
Total bonds	$ 3,734,135	$ 4,006,781	$ 272,646
Short-term investments	$ 24,791	$ 24,792	$ 1
Common stock - BlackRock MSCI ACWI IMI Index Fund	$ 444,251	$ 444,251	$ -

2013	Carrying Value	Fair Value	Excess Of Fair Value Over (Under) Carrying Value
Bonds:			
U.S. government	$ 192,884	$ 189,619	$ (3,265)
All other governments	6,154	6,483	329
U.S. states, territories, and possessions	10,240	10,569	329
U.S. political subdivisions of states, territories, and possessions	18,610	19,063	453
U.S. special revenue and special assessment	75,880	78,671	2,791
Hybrid securities	26,180	29,585	3,405
Industrial and miscellaneous	2,131,201	2,283,093	151,892
Mortgage and other asset-backed securities	1,166,434	1,185,480	19,046
Total bonds	$ 3,627,583	$ 3,802,563	$ 174,980
Short-term investments	$ 22,677	$ 22,677	$ -
Common stock - BlackRock MSCI ACWI IMI Index Fund	$ 485,713	$ 485,713	$ -

Proceeds from the sale of bonds were $994.6 million and $1.1 billion during 2014 and 2013, respectively. Proceeds from the sale of stocks were $60.3 million and $58.3 million during 2014 and 2013, respectively.

The carrying value and fair value of bonds at December 31, 2014 and 2013, 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.

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Due in one year or less	$ 353,324	$ 359,713	$ 59,798	$ 60,708
Due after one year through five years	1,310,183	1,369,659	897,275	949,574
Due after five years through ten years	1,023,777	1,061,440	927,784	957,608
Due after ten years	1,046,851	1,215,969	1,742,726	1,834,673
Total bonds	$ 3,734,135	$ 4,006,781	$ 3,627,583	$ 3,802,563

Net investment income earned for the years ended December 31, 2014 and 2013, was comprised of the following (dollars in thousands):

	2014	2013
Bonds	$ 151,216	$ 148,874
Common stock	46	50
Other invested assets	5,600	5,962
Total gross investment income earned	156,862	154,886
Less investment expenses	10,630	9,284
Net investment income earned	$ 146,232	$ 145,602

Gross realized gains and losses and the net realized gains (losses) for the years ended December 31, 2014 and 2013, were as follows (dollars in thousands):

2014	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	$ 33,073	$ (6,359)	$ 26,714
Common stock	20,240	-	20,240
Short-term investments	2	-	2
Total	$ 53,315	$ (6,359)	$ 46,956

2013	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	$ 44,228	$ (8,545)	$ 35,683
Common stock	15,586	-	15,586
Short-term investments	20	-	20
Total	$ 59,834	$ (8,545)	$ 51,289

The following tables represent unrealized losses on bonds as of December 31, 2014 and 2013, that were in a loss position for less than one year and a continuous loss position for greater than one year. These bonds were not considered OTTI, as SAIF's investment managers assert that they have the intent and ability to hold these securities long enough to allow the cost basis of these securities to be recovered. Unrealized losses are primarily attributable to credit spread widening and increased liquidity discounts (dollars in thousands):

2014 Less 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	9,315	82	9,233
Hybrid securities	3,611	72	3,539
Industrial and miscellaneous	264,963	8,388	256,575
Mortgage and other asset-backed securities	412,346	1,695	410,651
Total less than one year	$ 690,235	$ 10,237	$ 679,998

2014 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	513	2	511
Hybrid securities	-	-	-
Industrial and miscellaneous	64,772	1,581	63,191
Mortgage and other asset-backed securities	176,650	2,912	173,738
Total greater than one year	241,935	4,495	237,440
Total	$ 932,170	$ 14,732	$ 917,438

2013 Less Than One Year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	$ 150,905	$ 2,728	$ 148,177
All other governments	-	-	-
U.S. states, territories, and possessions	-	-	-
U.S. political subdivisions of states, territories, and possessions	1,670	175	1,495
U.S. special revenue and special assessment	23,391	1,839	21,552
Hybrid securities	3,615	138	3,477
Industrial and miscellaneous	390,934	14,149	376,785
Mortgage and other asset-backed securities	557,062	16,845	540,217
Total less than one year	$ 1,127,577	$ 35,874	$ 1,091,703

2013 Greater Than One Year	Amortized Cost	Unrealized Losses	Fair Value
U.S. Government	$ 8,706	$ 1,725	$ 6,981
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	1,012	7	1,005
Hybrid securities	-	-	-
Industrial and miscellaneous	7,710	489	7,221
Mortgage and other asset-backed securities	35,087	2,226	32,861
Total greater than one year	52,515	4,447	48,068
Total	$ 1,180,092	$ 40,321	$ 1,139,771

As of December 31, 2014 and 2013, 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, 2014 and 2013 (dollars in thousands):

	2014	2013
Bonds, excluding loan-backed securities	$ 3,915	$ 2,276
Mortgage and other asset-backed securities	92	1,873
Total realized losses due to OTTI	$ 4,007	$ 4,149

SAIF invests in several asset classes that could potentially be adversely affected by subprime mortgage exposure. These investments include mortgage-backed securities, debt obligations of financial institutions participating in subprime lending practices, and unaffiliated equity securities, issued by financial institutions participating in subprime lending. SAIF believes that its greatest exposure is to unrealized losses from declines in asset values versus realized losses resulting from defaults or foreclosures. SAIF has reviewed its mortgage-backed securities portfolio and believes that all of these investments are in pools that are backed by loans made to well-qualified borrowers or tranches that have minimal default risk. 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 as of December 31, 2014 and 2013.

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, 2014 and 2013, and reacquired within 30 days of the sale.

Securities on deposit—U.S. Treasury obligations with a carrying value of $8.3 million and $7.5 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 as of December 31, 2014 and 2013, respectively. In addition, certificates of deposit with a carrying value of $372 thousand and $434 thousand were on deposit at U.S. Bank as required by the DCBS at December 31, 2014 and 2013, respectively.

5. SECURITIES LENDING

In accordance with state investment policies, SAIF participates in securities lending transactions. The Oregon State Treasury has, through a Securities Lending Agreement, authorized State Street to lend SAIF's securities to broker-dealers and banks pursuant to a form of loan agreement. Both SAIF and the borrowers maintain the right to terminate all securities lending transactions on demand. There have been no significant violations of the provisions of securities lending agreements.

During 2014 and 2013, 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 2014 and 2013. At December 31, 2014 and 2013, the Fund had an average life-final maturity of 109 days and 146 days, respectively.

The cash collateral held at December 31, 2014 and 2013 was $146.2 million and $172.7 million, respectively. Securities received as collateral were $31.7 million as of December 31, 2014. There were no securities received as collateral as of December 31, 2013. At December 31, 2014 and 2013, the fair value, including accrued investment income related to the securities on loan, was $174.3 million and $168.8 million, respectively. For 2014 and 2013, securities lending income was $407 thousand and $613 thousand and securities lending expense was $93 thousand and $169 thousand, respectively. These amounts are reported net in the accompanying financial statements—statutory basis as a component of net investment income earned.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

In accordance with the NAIC disclosure requirements of SSAP No. 100, *Fair Value Measurements*, SAIF has categorized its assets and liabilities that are measured at fair value into the three-level fair value hierarchy as reflected in the table 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 exchange-traded common stocks. The estimated fair value of the equity securities within this category are based on quoted prices in active markets and are thus classified as Level 1.

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

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

The following assets and liabilities measured and reported at fair value in the Level 1, 2, or 3 category as of December 31, 2014 and 2013 were (dollars in thousands):

2014

Description For Each Class of Asset or Liability	Level 1	Level 2	Level 3	Total
Assets at fair value				
Bonds-industrial & misc.	$ -	$ 120,266	$ -	$ 120,266
Common stocks-mutual funds	-	444,251	-	444,251
Other invested assets	-	-	-	-
Total assets at fair value	$ -	$ 564,517	$ -	$ 564,517
Liabilities at fair value	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -

2013

Description For Each Class of Asset or Liability	Level 1	Level 2	Level 3	Total
Assets at fair value				
Bonds-industrial & misc.	$ -	$ 34,960	$ -	$ 34,960
Common stocks-mutual funds	-	485,713	-	485,713
Other invested assets	-	-	-	-
Total assets at fair value	$ -	$ 520,673	$ -	$ 520,673
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, 2014 and 2013, 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, 2014 and 2013.

The following tables reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments as of December 31, 2014 and 2013, 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):

2014

Type of Financial Instrument	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Assets						
Bonds	$ 4,006,781	$ 3,734,135	$ 1,993	$3,897,113	$ 107,303	$ 372
Common stocks	444,251	444,251	-	444,251	-	-
Other invested assets	39,482	27,963	-	39,481	-	1
Securities lending reinvested collateral	146,178	146,178	-	146,178	-	-
Cash, cash equivalents, & short-term	64,198	64,197	39,406	24,792	-	-
Total assets	$4,700,890	$ 4,416,724	$41,399	$4,551,815	107,303	$ 373
Liabilities						
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -

2013

Type of Financial Instrument	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Assets						
Bonds	$ 3,802,563	$ 3,627,583	$ 2,043	$3,793,739	$ 6,346	$ 435
Common stocks	485,713	485,713	-	485,713	-	-
Other invested assets	35,708	27,962	-	35,708	-	-
Securities lending reinvested collateral	172,668	172,668	-	172,668	-	-
Cash, cash equivalents, & short-term	58,376	58,376	35,699	22,677	-	-
Total assets	$4,555,028	$ 4,372,302	$37,742	$4,510,505	6,346	$ 435
Liabilities						
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -

It was not practicable to determine the fair values of the bonds in the following table as of December 31, 2014 and 2013, for purposes of the above disclosures, due to the fact that these items are not traded, and therefore, quoted market prices are not available. Also, the cost of obtaining estimates of fair values from other sources was considered excessive given the immateriality of the bonds (dollars in thousands):

2014

Type or Class of Financial Instrument	Carrying Value	Effective Interest Rate	Maturity Date
Bonds			
U.S. Bank certificate of deposit	260	1.87%	7/1/2016
U.S. Bank certificate of deposit	112	1.45%	10/28/2016
Lehman Brothers 5249087M6	-	6.75%	12/28/2017
Lehman Brothers 524908R36	1	6.50%	7/19/2017
Lehman Brothers 524908XA3	-	5.86%	11/29/2049
Total	$ 373		

2013

Type or Class of Financial Instrument	Carrying Value	Effective Interest Rate	Maturity Date
Bonds			
U.S. Bank certificate of deposit	62	3.65%	8/5/2014
U.S. Bank certificate of deposit	260	1.87%	7/1/2016
U.S. Bank certificate of deposit	112	1.45%	10/28/2016
Lehman Brothers 5249087M6	-	6.75%	12/28/2017
Lehman Brothers 524908R36	1	6.50%	7/19/2017
Lehman Brothers 524908XA3	-	5.86%	11/29/2049
Total	$ 435		

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, 2014 and 2013 (dollars in thousands):

	2014	2013
Gross reserve for losses and loss adjustment expenses—beginning of year	$ 3,185,362	$ 3,197,866
Less reinsurance ceded—beginning of year	(134,937)	(135,243)
Net balance—beginning of year	3,050,425	3,062,623
Incurred related to:		
Current year	532,542	515,490
Prior year	(260,457)	(199,318)
Total incurred losses and loss adjustment expenses	272,085	316,172
Paid losses related to:		
Current year	131,832	119,675
Prior year	219,131	208,695
Total paid losses and loss adjustment expenses	350,963	328,370
Net balance—end of year	2,971,547	3,050,425
Plus reinsurance ceded—end of year	124,899	134,937
Gross reserve for losses and loss adjustment expenses—end of year	$ 3,096,446	$ 3,185,362

The reserve for losses and LAE decreased $78.9 million in 2014, which was net of favorable development of $260.5 million. Loss reserves decreased $89.4 million as compared to the prior year. Loss reserves for the 2014 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves. The key drivers were a decrease in the tail factor and the continuing downward trend in medical severity. The observed medical escalation rate for 2014 was well below the assumption. Indemnity loss reserves experienced unfavorable development as indemnity costs for recent accident years were higher than expected.

LAE reserves increased $10.5 million. LAE reserves for the 2014 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.

The reserve for losses and LAE decreased $12.2 million in 2013, which was net of favorable development of $199.3 million. Loss reserves decreased $29.7 million as compared to the prior year. Loss reserves for the 2013 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves from recent accident years and a change to the future medical escalation rate assumption from 8.5 percent to 8.0 percent. Indemnity loss reserves experienced favorable development as indemnity costs for recent accident years were much lower than expected. LAE reserves increased $17.5 million. LAE reserves for the 2013 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributed to a decrease in the forecast of future activities and 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 $269.1 million and $258.3 million for 2014 and 2013, respectively. The discounts were $95.1 million and $89.1 million as of December 31, 2014 and 2013, respectively.

Anticipated salvage and subrogation of $33.2 million and $32.4 million was included as a reduction of the reserve for losses and LAE at December 31, 2014 and 2013, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $20.6 million and $23.1 million for losses and LAE are related to asbestos claims as of December 31, 2014 and 2013, respectively. Amounts paid for asbestos-related claims were $776 thousand and $547 thousand at December 31, 2014 and 2013, respectively.

8. RISK MANAGEMENT

The State of Oregon administers property and casualty insurance programs covering state government agencies through its Insurance Fund, an internal service fund. The Insurance Fund services claims for: direct physical loss or damage to state property; tort liability claims brought against the state, its officers, employees, or agents; workers' compensation; and employees, elected officials, and members of commissions and boards for faithful performance. The Insurance Fund is backed by a commercial excess property policy with limits of $400 million and a blanket commercial excess bond with limits of $20 million.

SAIF participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each participating state entity based on its share of services provided in a prior period. The total statewide assessment of each 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 $222 thousand as of December 31, 2014 and 2013.

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 investment committee. Plan assets are held in a trust account with Wells Fargo, and administered by Empower Retirement Services for the exclusive benefit of the participant or his or her beneficiary. Participants' rights under the plan are equal to the fair market value of the deferred 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 only to 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 multiple-employer defined benefit pension plan.

The PERS Board of Trustees under the guidelines of ORS Chapter 238 administers PERS. The PERS retirement allowance, payable monthly for life, may be selected from multiple retirement benefit options. Options include survivorship benefits and lump-sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits.

Beginning January 1, 2004, all covered employees are required by state statute to contribute 6.00 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. For the year ended December 31, 2014, SAIF's contribution rate of each covered employee's salary was 9.86 percent. 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 (cost sharing multiple-employer plan) administered by the PERS Board of Trustees under the guidelines of ORS Chapter 238A with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). SAIF currently contributes 8.14 percent of each covered employee's salary to the Pension Program and 6.00 percent to the Individual Account Program. This contribution is the minimum contribution required for future periods. Rates are subject to change as a result of subsequent actuarial valuations.

The retirement system does not make separate measurements of assets and pension benefit obligation for individual employers. Therefore, the present value of accrued benefits, the amount of vested benefits, and the fair value and market value of the plan assets for SAIF as of the most recent actuarial valuation date is not available.

SAIF participates, along with other State of Oregon agencies, in paying debt service for State of Oregon general obligation bonds issued in October 2003 to reduce the unfunded PERS liability. The bonds are scheduled to mature 25 years after the date of issuance. Currently, the repayment rate is 6.70 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, 2014 and 2013, consist of the following (dollars in thousands):

	2014	2013
Employer contributions:		
Debt service	$ 4,195	$ 3,823
PERS-Pension Program	3,902	3,938
OPSRP-Pension Program	1,877	1,561
Total employer contributions	9,974	9,322
Employee contributions paid by SAIF:		
PERS-IAP	2,373	2,435
OPSRP-IAP	1,383	1,157
Total employee contributions	3,756	3,592
Total contributions	$ 13,730	$ 12,914

For the years ended December 31, 2014 and 2013, SAIF's employer contributions were equal to the annual required contributions. SAIF's contributions were less than 5 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, 2014. 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 $8.3 million and $9.1 million as of December 31, 2014 and 2013, 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 $14.0 million and $10.7 million for the years ended December 31, 2014 and 2013, 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, 2014, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 3.50 percent weighted-average discount rate. A 5.75 percent health care cost trend rate was used for 2015, 5.50 percent for 2016, 5.75 percent for 2017 through 2025, 6.00 percent for 2026, 6.75 percent for 2027 through 2029, 6.50 percent for 2030 through 2035, 6.25 percent for 2036, 6.00 percent for 2037 through 2041, 5.75 percent for 2042 through 2048, and a 5.50 percent ultimate trend rate thereafter.

At December 31, 2014, the Accumulated Postretirement Benefit Obligation was $14.0 million, $8.3 million of which is recorded as APBO transition liability and $5.7 million recorded as other accrued expenses on the Statement of Admitted Assets, Liabilities, and Capital and Surplus.

At December 31, 2013, the Accumulated Postretirement Benefit Obligation was $10.7 million, $9.9 million of which is recorded as APBO transition liability and $.8 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, 2014 and 2013, was (dollars in thousands):

Components of net periodic benefit cost

	Postemployment & Compensated Absence Benefits	
	2014	**2013**
Service cost	$ 587	$ 459
Interest cost	533	339
Expected return on plan assets	-	-
Transition asset or obligation	827	827
Gains and losses	2,858	-
Prior service cost or credit	-	-
Gain or loss recognized due to a settlement or curtailment	-	-
Total net periodic benefit cost	$ 4,805	$ 1,625

Assumed health care cost trend rates have a significant effect on the amounts of 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	$ 1,779	$ (1,538)
Effect on total of service and interest cost component	192	(162)

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**
2015	$ 734
2016	725
2017	780
2018	792
2019	751
2020 through 2024	4,465

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, 2014, and 2013, was as follows (dollars in thousands):

	2014	2013
Net unrealized investment gains	$ 152,633	$ 156,656
Nonadmitted assets	(18,355)	(18,037)
Provision for reinsurance	-	(948)
Prior APBO service costs	(8,266)	(9,092)

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 $3.3 million and $3.4 million at December 31, 2014 and 2013, respectively.

During the normal course of business, SAIF becomes involved in litigation arising out of matters incident to the conduct of its insurance operations. SAIF is represented in these actions by the Oregon Department of Justice. Some of these potential liabilities become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability would be recorded on SAIF's financial statements. Management believes that these matters do not materially impact the financial statements.

14. LEASE COMMITMENTS

SAIF leases office space in several locations under noncancelable operating leases expiring during various years through 2021. Lease expense was $1.3 million as of December 31, 2014 and 2013.

SAIF's future minimum lease payments under operating leases at December 31, 2014, are as follows (dollars in thousands):

2015	$ 1,385
2016	1,333
2017	1,366
2018	1,297
2019	414
Total minimum payments	$ 5,795

Certain rental commitments have renewal options extending through the year 2031. Some of these renewals are subject to adjustments in future periods. Total minimum lease payments have not been reduced by total minimum sublease rentals of approximately $31 thousand on leases due in the future under noncancelable subleases as of December 31, 2014.

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.

SAIF maintains reinsurance protection providing limits of $60 million excess of $35 million per occurrence with a $10 million maximum on any one life and a $120 million aggregate limit. This reinsurance protection excludes coverage for nuclear, biological, chemical, or radiological events in some or all instances. During 2014, SAIF had reinsurance protection for 85 percent of losses in excess of 20 percent of 2013 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 2014 and 2013 (dollars in thousands):

	2014	2013
Reserve for losses and loss adjustment expenses	$ 44,131	$ 50,073
Premiums written and earned	682	977
Losses and loss adjustment expenses incurred	(5,780)	2,420

SAIF does not have unsecured reinsurance recoverables as of December 31, 2014 that exceed three percent of policyholders' surplus.

In 2014, SAIF performed a commutation with Excalibur Reinsurance Corporation extinguishing Excalibur Reinsurance Corporation'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 $2.7 million. This amount is shown below by statement of income classification and by reinsurer.

Statement of Income Account	Amount
Losses incurred	$ 2,969
Loss adjustment expenses incurred	-
Premium earned	(266)
Other	-
Total	$ 2,703

Reinsurer	Amount
Excalibur Reinsurance Corporation	$ 2,703

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 2014 and 2013 (dollars in thousands):

Other States Coverage	**2014**	**2013**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 9,474	$ 6,452
Unearned premiums	6,311	5,955
Premiums written	13,769	11,587
Premiums earned	13,412	10,151
Losses and loss adjustment expenses incurred	8,135	7,998
Commission expense	1,948	1,776

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 2014 and 2013 (dollars in thousands):

NWCRP	**2014**	**2013**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 70,183	$ 69,343
Unearned premiums	5,126	4,452
Premiums written	32,289	24,099
Premiums earned	31,614	23,353
Losses and loss adjustment expenses incurred	13,843	12,526
Commission expense	11,151	8,883
Ceded:		
Reserve for losses and loss adjustment expenses	$ 80,768	$ 84,864
Unearned premiums	6,555	6,477
Premiums written	17,287	16,040
Premiums earned	17,209	14,301
Losses and loss adjustment expenses incurred	3,217	4,021
Commission expense	6,725	5,885

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 three years. There were no nonoperating software assets admitted at December 31, 2014 and 2013.

Admitted EDP equipment and software at December 31, 2014 and 2013, were as follows (dollars in thousands):

	2014	2013
EDP equipment and software	$ 2,986	$ 2,844
Accumulated depreciation	(2,611)	(2,453)
Balance—net	$ 375	$ 391

Depreciation expense related to admitted EDP equipment and software was $293 thousand and $282 thousand for the years ended December 31, 2014 and 2013, 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, 2014 and 2013.

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):

2014	Filed	Audited	Difference
Statement of admitted assets, liabilities, and capital and surplus:			
Other assets	$ 26,583	$ 26,276	$ (307)
Total admitted assets	4,819,205	4,818,898	(307)
Losses	2,558,794	2,551,855	(6,939)
Unearned premiums	219,609	219,702	93
Other liabilities	4,960	8,677	3,717
Total liabilities	3,503,500	3,500,371	(3,129)
Capital and surplus—Unassigned funds	1,315,705	1,318,527	2,822
Total	4,819,205	4,818,898	(307)
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	$ 474,610	$ 474,355	$ (255)
Losses incurred, net	200,603	199,473	(1,130)
Other underwriting expenses incurred	93,767	93,543	(224)
Total underwriting expenses	366,982	365,628	(1,354)
Net underwriting income (loss)	107,628	108,727	1,099
Net loss from premium balances charged off	(1,020)	(1,372)	(352)
Other income	1,147	1,143	(4)
Total other income - net	127	(229)	(356)
Net Income before dividends to policyholders	300,943	301,686	743
Net income	135,993	136,736	743
Net change in capital and surplus	133,427	134,170	743
Unassigned funds—end of year	1,315,705	1,318,527	2,822
Statement of cash flows:			
Premiums collected net of reinsurance	$ 481,115	$ 475,301	$ (5,814)
Miscellaneous income	127	(229)	(356)
Benefits and loss related payments	(287,812)	(288,578)	(766)
Underwriting expenses paid	(147,927)	(147,660)	267
Net cash from operations	38,406	31,737	(6,669)
Other cash provided	9,694	13,776	4,082
Other cash applied	(7,934)	(5,347)	2,587
Net cash from (used by) financing and miscellaneous sources	1,760	8,429	6,669

2013	Filed	Audited	Difference
Statement of admitted assets, liabilities, and capital and surplus:			
Other assets	$ 21,366	$ 21,421	$ 55
Total admitted assets	4,764,567	4,764,622	55
Losses	2,646,272	2,641,230	(5,042)
Unearned premiums	213,458	213,526	68
Other liabilities	2,070	5,020	2,950
Total liabilities	3,582,289	3,580,265	(2,024)
Capital and surplus—Unassigned funds	1,182,278	1,184,357	2,079
Total	4,764,567	4,764,622	55
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	$ 435,176	$ 435,671	$ 495
Losses incurred, net	240,558	242,110	1,552
Other underwriting expenses incurred	85,832	86,093	261
Total underwriting expenses	400,452	402,265	1,813
Net underwriting income (loss)	34,724	33,406	(1,318)
Net loss from premium balances charged off	(1,031)	(926)	105
Other income	1,155	1,159	4
Total other income - net	124	233	109
Net Income before dividends to policyholders	231,739	230,530	(1,209)
Policyholder dividends	(128,966)	(129,145)	(179)
Net income	102,773	101,385	(1,388)
Net change in capital and surplus	179,428	178,040	(1,388)
Unassigned funds—end of year	1,182,278	1,184,357	2,079
Statement of cash flows:			
Premiums collected net of reinsurance	$ 437,897	$ 436,889	$ (1,008)
Miscellaneous income	124	234	110
Benefits and loss related payments	(271,131)	(271,607)	(476)
Underwriting expenses paid	(131,947)	(133,381)	(1,434)
Net cash from operations	63,491	60,683	(2,808)
Other cash provided	6,079	11,984	5,905
Other cash applied	(2,432)	(5,529)	(3,097)
Net cash from (used by) financing and miscellaneous sources	3,647	6,455	2,808

SUPPLEMENTAL SCHEDULES

APPENDIX A

SUMMARY INVESTMENT SCHEDULE

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	130,307,888	2.94	130,307,888		130,307,888	2.94
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies	7,843,249	0.18	7,843,249		7,843,249	0.18
1.22 Issued by U.S. government sponsored agencies	3,992,751	0.09	3,992,751		3,992,751	0.09
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	11,577,283	0.26	11,577,283		11,577,283	0.26
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations	8,575,000	0.19	8,575,000		8,575,000	0.19
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	15,018,943	0.34	15,018,943		15,018,943	0.34
1.43 Revenue and assessment obligations	106,310,567	2.40	106,310,567		106,310,567	2.40
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	122,376,583	2.76	122,376,583		122,376,583	2.76
1.512 Issued or guaranteed by FNMA and FHLMC	397,571,742	8.97	397,571,742		397,571,742	8.97
1.513 All other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	37,556,255	0.85	37,556,255		37,556,255	0.85
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	246,429,236	5.56	246,429,236		246,429,236	5.56
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	2,047,925,799	46.23	2,047,925,799		2,047,925,799	46.23
2.2 Unaffiliated non-U.S. securities (including Canada)	598,650,134	13.51	598,650,134		598,650,134	13.51
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds	444,250,617	10.03	444,250,617	146,178,104	590,428,721	13.33
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	12,761,989	0.29	12,761,989		12,761,989	0.29
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	737,597	0.02	737,597		737,597	0.02
9. Securities Lending (Line 10, Asset Page reinvested collateral)	146,178,104	3.30	146,178,104	X X X	X X X	X X X
10. Cash, cash equivalents and short-term investments	64,196,535	1.45	64,196,535		64,196,535	1.45
11. Other invested assets	27,963,237	0.63	27,963,237		27,963,237	0.63
12. Total invested assets	4,430,223,509	100.00	4,430,223,509	146,178,104	4,430,223,509	100.00

APPENDIX B

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2014

(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. $ 4,819,205,276

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

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	BlackRock MSCI ACWI Index Fund	Index Fund	$ 444,250,617	9.218 %
2.02	FHLMC	Bond	$ 241,826,621	5.018 %
2.03	FNMA	Bond	$ 193,301,379	4.011 %
2.04	JP Morgan Chase & Co	Bond	$ 131,934,347	2.738 %
2.05	Bank of America Corp	Bond	$ 68,551,282	1.422 %
2.06	Wells Fargo & Co	Bond	$ 66,144,273	1.373 %
2.07	General Elec Cap Corp	Bond	$ 58,965,374	1.224 %
2.08	Morgan Stanley Group	Bond	$ 55,776,909	1.157 %
2.09	Citigroup Inc	Bond	$ 41,635,497	0.864 %
2.10	Goldman Sachs Group Inc	Bond	$ 40,061,075	0.831 %

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	$ 2,318,175,008	48.103 %	3.07	P/RP-1	$	%
3.02	NAIC 2	$ 1,139,365,147	23.642 %	3.08	P/RP-2	$	%
3.03	NAIC 3	$ 224,944,660	4.668 %	3.09	P/RP-3	$	%
3.04	NAIC 4	$ 59,716,831	1.239 %	3.10	P/RP-4	$	%
3.05	NAIC 5	$ 15,194,407	0.315 %	3.11	P/RP-5	$	%
3.06	NAIC 6	$ 1,530,118	0.032 %	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	$ 742,997,266	15.417 %
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	$ 667,906,145	13.859 %
5.02	Countries designated NAIC 2	$ 74,380,320	1.543 %
5.03	Countries designated NAIC 3 or below	$ 710,801	0.015 %

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	$ 210,321,152	4.364 %
6.02	Country 2:	United Kingdom	$ 137,111,819	2.845 %
	Countries designated NAIC 2:			
6.03	Country 1:	Mexico	$ 30,289,082	0.629 %
6.04	Country 2:	Spain	$ 14,914,563	0.309 %
	Countries designated NAIC 3 or below:			
6.05	Country 1:	Portugal	$ 266,550	0.006 %
6.06	Country 2:	Greece	$ 222,125	0.005 %

	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 Issuer	2 NAIC Designation	3	4
10.01	OZLM Funding Ltd	1FE	$ 21,450,096	0.445 %
10.02	BP Capital Markets PLC	1FE	$ 18,560,887	0.385 %
10.03	Rio Tinto Fin USA Ltd	1FE	$ 18,365,635	0.381 %
10.04	HSBC Holdings PLC	1FE	$ 17,622,023	0.366 %
10.05	Carlyle Global Market Strategies	1FE	$ 16,292,429	0.338 %
10.06	Telefonica Emisiones Sau	2FE	$ 12,657,187	0.263 %
10.07	Standard Chartered PLC	1FE,2FE	$ 12,277,840	0.255 %
10.08	Apidos CDO	1FE	$ 11,861,001	0.246 %
10.09	Deutsche Telekom Intl Fin	2FE	$ 11,016,848	0.229 %
10.10	Braskem Finance Ltd	2FE	$ 10,779,796	0.224 %

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 Issuer	2	3
13.02	BlackRock MSCI ACWI Index Fund	$ 444,250,617	9.218 %
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 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 1	2	3
18.02		$	%
18.03		$	%
18.04		$	%
18.05		$	%
18.06		$	%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in mezzanine real estate loans:	$	%

Largest three investments held in mezzanine real estate loans:

19.03		$	%
19.04		$	%
19.05		$	%

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)	$ 166,222,947	3.449 %	$ 165,604,075	$ 150,032,503	$ 132,131,510
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

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]