SAIF Corporation

Financial Statements—Statutory Basis as of and for the Years Ended December 31, 2018 and 2017, Supplementary Schedules as of December 31, 2018, and Report of Independent Auditors

SAIF CORPORATION

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Report of Independent Auditors

The Board of Directors of
SAIF Corporation

The Secretary of State Audits Division of
The State of Oregon

Report on Financial Statements

We have audited the accompanying statutory financial statements of SAIF Corporation ("SAIF"), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2018 and 2017, and the related statutory statements of revenues, expenses, and capital and surplus, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of SAIF Corporation as of December 31, 2018 and 2017, 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, supplemental investment risk interrogatories, and general 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 audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

Restriction on Use

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

Moss Adams LLP

Portland, Oregon
July 29, 2019

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2018 and 2017
(In thousands)

	2018	2017
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	$ 3,879,279	$ 3,875,309
Common stocks	532,875	589,331
Real estate, net of accumulated depreciation of $12,930 and $11,011:		
Properties occupied by SAIF	95,594	71,463
Cash, cash equivalents, and short-term investments	62,016	139,263
Other invested assets	21,266	21,264
Receivable for securities sold	68	578
Security lending reinvested collateral	143,445	199,080
Total cash and invested assets	4,734,543	4,896,288
Interest, dividends, and real estate income due and accrued	33,956	33,565
Premiums in course of collection	6,168	6,957
Premiums and installments booked but deferred and not yet due	297,943	302,067
Accrued retrospective premiums receivable	7,735	15,215
Reinsurance recoverables	1,743	1,072
Electronic data processing (EDP) equipment and operating software, net of accumulated depreciation of $2,910 and $2,814	1,667	461
Due from Workers' Compensation Division	8,279	7,805
Other assets	29,832	30,599
TOTAL	$ 5,121,866	$ 5,294,029
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	$ 2,128,990	$ 2,283,546
Loss adjustment expenses	417,715	444,190
Other accrued expenses	52,830	53,258
Taxes, licenses, and fees	33,774	32,164
Unearned premiums	226,891	232,070
Advance premium	12,504	4,281
Dividends to policyholders declared and unpaid	54	-
Ceded reinsurance premiums payable	2,834	3,063
Amounts withheld or retained for account of others	38,368	40,970
Other liabilities	8,865	9,948
Unclaimed property	1,324	908
APBO transition liability	-	612
Payable for securities purchased	3	47,511
Payable for securities lending	143,475	199,063
Accrued retrospective premiums payable	50,277	51,784
Total liabilities	3,117,904	3,403,368
CAPITAL AND SURPLUS		
Assigned surplus - PERS UAL	90,082	91,953
Unassigned surplus	1,913,880	1,798,708
TOTAL CAPITAL AND SURPLUS	2,003,962	1,890,661
TOTAL	$ 5,121,866	$ 5,294,029

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, 2018 AND 2017
(In thousands)

	2018	2017
UNDERWRITING REVENUES—Premiums earned, net	$ 523,681	$ 527,186
UNDERWRITING EXPENSES:		
Losses incurred, net	166,396	206,258
Loss adjustment expenses incurred	57,328	82,557
Other underwriting expenses incurred	117,359	106,868
Total underwriting expenses	341,083	395,683
NET UNDERWRITING GAIN	182,598	131,503
NET INVESTMENT INCOME:		
Net investment income earned	154,340	141,331
Net realized investment gains	4,321	30,667
Net investment income	158,661	171,998
OTHER INCOME:		
Net loss from premium balances charged off	(359)	(642)
Other income	1,199	1,359
Total other income - net	840	717
Net income before dividends to policyholders	342,099	304,218
POLICYHOLDER DIVIDENDS	(159,939)	(160,094)
NET INCOME	$ 182,160	$ 144,124
CAPITAL AND SURPLUS:		
Total capital and surplus—beginning of year	$ 1,890,661	$ 1,647,409
Net income	182,160	144,124
Change in net unrealized capital gains	(66,018)	116,712
Change in nonadmitted assets	(3,453)	(18,411)
Prior APBO service costs	612	827
Net change in capital and surplus	113,301	243,252
Total capital and surplus—end of year	$ 2,003,962	$ 1,890,661

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
CASH FROM (USED IN) OPERATIONS:		
Cash from underwriting:		
Premiums collected net of reinsurance	$ 537,403	$ 530,836
Net investment income	166,693	162,031
Net cash from underwriting	704,096	692,867
Miscellaneous income	840	717
Benefits and loss related payments	(320,923)	(318,829)
Underwriting expenses paid	(198,962)	(172,117)
Policyholder dividend payments	(159,885)	(160,094)
Net cash from operations	25,166	42,544
CASH FROM (USED IN) INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,555,198	1,707,170
Common stocks	305	261
Real estate	-	488
Other invested assets	55,588	(126,139)
Cash and short-term investments	1	(4)
Miscellaneous payments	512	(232)
Total proceeds from investments sold, matured, or repaid	1,611,604	1,581,544
Cost of investments acquired:		
Bonds	1,574,052	1,985,151
Common stocks	1,445	220
Real estate	26,050	46,046
Other invested assets	55,588	(137,012)
Miscellaneous receipts	47,508	(47,509)
Total cost of investments acquired	1,704,643	1,846,896
Net cash from (used in) investments	(93,039)	(265,352)
CASH FROM (USED IN) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	(3,743)	1,752
Other cash applied	(5,631)	(20,658)
Net cash from (used in) in financing and miscellaneous sources	(9,374)	(18,906)
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Net increase (decrease) in cash, cash equivalents, and short-term investments	(77,247)	(241,714)
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Beginning of year	139,263	380,977
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—End of year	$ 62,016	$ 139,263

See notes to financial statements—statutory basis.

Supplemental schedule of noncash transactions:
Noncash investment transactions were $63.5 million and $146.6 million for both investment acquisitions and dispositions resulting from tax-free exchange transactions for the years ended December 31, 2018 and 2017, respectively.

SAIF CORPORATION

NOTES TO FINANCIAL STATEMENTS—STATUTORY BASIS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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 Zurich Insurance Group Ltd. (Zurich) and United States Insurance Services (USIS) to provide other states coverage effective February 1, 2011. SAIF's Board of Directors is appointed by the governor of the State of Oregon and consists of Oregon business and community leaders not otherwise in the employ of SAIF. Certain members of SAIF's Board of Directors are SAIF policyholders or are employed by SAIF policyholders. The transactions between SAIF and these policyholders were within SAIF's standard terms and conditions.

SAIF writes business on a direct basis as well as through agents. Premiums written on a direct basis were 18.0 percent and 18.5 percent of standard premium during 2018 and 2017, 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 DCBS, Division of Financial Regulation (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 Company Action Level (CAL) RBC calculated minimum capital and surplus amount was $303.9 million and $314.3 million at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, 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 2018 and 2017, 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 Statements of Admitted Assets, Liabilities and Capital and Surplus. Nonadmitted assets include such assets as premiums receivable past due for more than ninety days, furniture and equipment, and application software.

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

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

(g) A liability for reinsurance balances is provided for unsecured unearned premiums, unpaid losses ceded to reinsurers unauthorized by license to assume such business, and certain overdue reinsurance balances. Changes in those amounts are credited and charged directly to unassigned surplus.

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

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

(j) The Company participates in a cost-sharing multiemployer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS) (see note 10). PERS has a net Unfunded Actuarial Liability (UAL) which represents the estimated unfunded pension benefits. GAAP accounting requires the UAL to be recorded as a liability while SAP does not allow for recording of the UAL as a liability. Instead for Statutory Accounting, SAIF established a special surplus fund in 2017 to identify its portion of the PERS UAL and has adjusted the fund based on information provided by PERS and allocated by the Oregon Department of Administration Services as of June 30, 2018. Due to the timing delay, SAIF has evaluated subsequent events that may impact the assets and liabilities of the plan and determined that the valuation of liability is still materially accurate. Based on this information, the special surplus fund for the unfunded pension benefits is $90.1 million and $92.0 million at December 31, 2018 and 2017, respectively.

Investments—Bonds and short-term investments not backed by mortgages or other assets are generally carried at amortized cost using the scientific interest method. Noninvestment grade bonds (NAIC designation 3 to 6) are carried at the lower of amortized cost or fair value.

There were no bonds held by SAIF which were in or near default at December 31, 2018 and 2017. 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 2018 and 2017 were obtained from Thomson Reuters, IDC, JPM Direct, and Bloomberg. Equity securities traded on a national exchange are valued at the last reported sales price. Debt securities are valued using evaluated bid prices at December 31, 2018 and 2017.

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, 2018 and 2017 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, 2018 and 2017.

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:

https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/documents/ostf-fund-facts/2018-q4-ostf-fund-fact-page.pdf. As of December 31, 2018 and 2017, SAIF's balance in the OSTF was $36.6 million and $21.7 million, respectively.

Oregon's State Treasurer employs the services of two external investment managers to manage SAIF's fixed income portfolios. The cash balances of the fixed income managers are invested in money market funds with the objective of maximizing current income while maintaining a stable net asset value. The average maturity of the Institutional U.S. Government Money Market Fund at December 31, 2018 and 2017, was 28 days and 27 days, respectively. The Institutional U.S. Government Money Market Fund had a credit quality rating of AAAM at December 31, 2018 and 2017. At December 31, 2018 and 2017, SAIF's balance in the Institutional U.S. Government Money Market Fund was $7.0 million and $56.6 million, respectively. At December 31, 2018, SAIF held $11.5 million in Treasury bills which mature in January 2019. There were no Treasury bills held as of December 31, 2017. There were no short-term bonds held as of December 31, 2018. At December 31, 2017, bonds with maturity dates greater than three months and less than one year included in the short-term balance were $54.1 million.

Periodically, SAIF uses the State Street Short-Term Investment Fund (STIF) to hold cash used in trading activity. The STIF seeks to provide safety of principal, a high level of liquidity, and a competitive yield. This fund is not registered with the Securities and Exchange Commission. The average maturity of the fund as of December 31, 2018, was 24 days and the average credit quality was A1/P1 (AA-). At December 31, 2018, SAIF's balance in the fund was $1.3 million. There were no investments in the fund as of December 31, 2017.

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	20-50 years
Furniture, equipment, and automobiles	3-7 years
Operating and nonoperating system software	3-5 years

Total depreciation and amortization expense for both admitted and nonadmitted property, equipment and software for the years ended December 31, 2018 and 2017, were $2.9 million and $1.2 million, respectively.

SAIF has active construction in progress for a significant home office renovation. Capital project life-to-date costs were $86.8 million and $60.7 million, respectively, for the years ended December 31, 2018 and 2017. Capital project year-to-date costs were $26.1 million and $46.0 million, respectively, for the years ended December 31, 2018 and 2017.

SAIF has an active software replacement project for the policy and billing system. Capital project life-to-date costs were $25.5 million and $17.8 million, respectively, for the years ended 2018 and 2017. Capital project year-to-date costs were $7.7 million and $16.6 million, respectively, for the years ended December 31, 2018 and 2017.

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. Under SSAP #16 admitted EDP & operating software is limited to 3 percent of the prior reported period surplus.

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, 2018 and 2017 were $297.9 million and $302.1 million, respectively, including unearned premiums of $173.3 million and $177.3 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, 2018 and 2017, were $18.8 million and $17.9 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 2018 and 2017 were $77.9 million and $77.3 million, respectively, or 15.0 and 14.7 percent of net premiums written, respectively, for each year.

SAIF has nonadmitted 10 percent of the amount of accrued retrospective premiums receivable not offset by accrued retrospective premiums payable to the same party (other than the reserve for losses and loss adjustment expenses), or collateral. At December 31, 2018 and 2017, the admitted balance was as follows (dollars in thousands):

	2018	**2017**
Total accrued retrospective premiums receivable	$8,594	$16,906
Less nonadmitted amount (10 percent)	859	1,691
Admitted accrued retrospective premiums receivable	$7,735	$15,215

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 and claims incurred but not yet reported.

Management believes the reserve for unpaid losses and LAE at December 31, 2018 and 2017 is a reasonable estimate of net future claim costs and expenses associated with administering claims. Annually, executive leaders review key actuarial assumptions used to estimate this liability and consider the significant uncertainty associated with these estimates in booking the reserve. Actual future claims costs and LAE depend on a number of factors, including, but not limited to, the duration of worker disability, claimant and beneficiary lifespans, medical cost trends, occupational disease exposure, inflation, and other societal and economic factors. As a result, the process used to compute the ultimate cost of settling claims and expenses associated with administering claims is necessarily based on estimates. The amount ultimately paid may be higher or lower than these 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, 2018 and 2017, 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 2018 and 2017, policyholder dividends of $159.9 million and $160.1 million, respectively, were incurred and paid to qualifying policyholders.

Taxes and assessments—The Oregon Department of Justice has determined that SAIF is exempt from federal and state taxes, because it is an integral part of the State of Oregon and, alternatively, exempt under either or both Sections 501(c)(27)(B) and 115(1) of the Internal Revenue Code.

SAIF collects and remits levies on behalf of their policyholders to the Oregon Workers' Compensation Division of DCBS. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessment expenses were $37.6 million and $35.1 million for the years ended December 31, 2018 and 2017 respectively. Premium assessments were accrued of $36.1 million and $34.2 million as of December 31, 2018 and 2017, respectively. Premium assessment income net of premium assessment expense for the years ended December 31, 2018 and 2017, was $375 thousand and $4 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):

	2018			2017		
	Loss Adjustment Expenses Incurred	Other Underwriting Expenses Incurred	Investment Expenses	Loss Adjustment Expenses Incurred	Other Underwriting Expenses Incurred	Investment Expenses
Salaries, wages, & other benefits	$ 44,096	$ 58,510	$ 2,596	$ 66,853	$ 54,927	$ 2,437
Commissions	-	37,291		-	36,597	-
Other	13,232	21,558	8,320	15,704	15,344	9,971
Total allocable Expenses	$ 57,328	$ 117,359	$ 10,916	$ 82,557	$ 106,868	$ 12,408

Subsequent events— A SAIF owned building was demolished on January 21, 2019, as part of the home office renovation and addition project. A realized loss of $187 thousand was recognized in January 2019.

Subsequent events have been considered through July 29, 2019, which is the date the statutory statements were available to be issued.

3. NEW STATUTORY ACCOUNTING PRINCIPLES

No applicable new statutory accounting principles were adopted by SAIF for the years ended December 31, 2018 or 2017.

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, 2018 and 2017.

The carrying value and fair value of SAIF's investment securities at December 31, 2018 and 2017, were as follows (dollars in thousands):

2018	**Carrying Value**	**Fair Value**	**Excess Of Fair Value Over (Under) Carrying Value**
Bonds:			
U.S. government	$ 415,095	$ 416,453	$ 1,358
All other governments	38,811	36,249	(2,562)
U.S. states, territories, and possessions	1,004	1,006	2
U.S. political subdivisions of states, territories, and possessions	11,246	11,213	(33)
U.S. special revenue and special assessment	90,298	96,594	6,296
Hybrid securities	25,788	25,237	(551)
Industrial and miscellaneous	2,258,540	2,286,614	28,074
Mortgage and other asset-backed securities	1,038,497	1,035,001	(3,496)
Total bonds	$ 3,879,279	$ 3,908,367	$ 29,088
Short-term investments	$ -	$ -	$ -
Common stock - BlackRock MSCI ACWI IMI Index Fund	$ 532,875	$ 532,875	$ -

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

Proceeds from the sale of bonds were $1.6 billion and $1.7 billion during 2018 and 2017, respectively. Proceeds from the sale of stocks were $0.3 million during 2018 and 2017.

The carrying value and fair value of bonds at December 31, 2018 and 2017, 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.

	2018		2017	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Due in one year or less	$ 21,386	$ 21,481	$ 77,294	$ 78,105
Due after one year through five years	802,210	801,276	718,848	739,867
Due after five years through ten years	1,294,248	1,283,307	1,167,379	1,207,114
Due after ten years	1,761,435	1,802,303	1,911,788	2,081,203
Total bonds	$ 3,879,279	$ 3,908,367	$ 3,875,309	$ 4,106,289

Net investment income earned for the years ended December 31, 2018 and 2017, was comprised of the following (dollars in thousands):

	2018	**2017**
Bonds	$ 157,766	$ 147,628
Common stock	138	219
Other invested assets	7,351	5,892
Total gross investment income earned	165,255	153,739
Less investment expenses	10,915	12,408
Net investment income earned	$ 154,340	$ 141,331

Gross realized gains and losses and the net realized gains (losses) for the years ended December 31, 2018 and 2017, were as follows (dollars in thousands):

2018	**Gross Realized Gains**	**Gross Realized Losses**	**Net Realized Gains (Losses)**
Bonds	$ 22,115	$ (17,954)	$ 4,161
Common stock	159	-	159
Real estate	-	-	-
Short-term investments	1	-	1
Other invested assets	-	-	-
Total	$ 22,275	$ (17,954)	$ 4,321

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

The following tables represent unrealized losses on bonds at December 31, 2018 and 2017, that were in a loss position for less than one year and a continuous loss position for greater than one year. These bonds were not considered OTTI, as SAIF's investment managers assert that they have the intent and ability to hold these securities long enough to allow the cost basis of these securities to be recovered. Unrealized losses are primarily attributable to interest rate risk, credit risk, and increased liquidity discounts (dollars in thousands):

2018 Unrealized Losses	**Amortized Cost**	**Unrealized Losses**	**Fair Value**
Less than one year			
U.S. Government	$ 115,721	$ 1,184	$ 114,537
All other governments	11,200	529	10,671
U.S. states, territories, and possessions	-	-	-
U.S. political subdivisions of states, territories, and possessions	6,195	9	6,186
U.S. special revenue and special assessment	-	-	-
Hybrid securities	15,813	1,615	14,198
Industrial and miscellaneous	1,238,027	46,544	1,191,483
Mortgage and other asset-backed securities	368,239	4,616	363,623
Total less than one year	$ 1,755,195	$ 54,497	$ 1,700,698
Greater than one year			
U.S. Government	$ 49,792	$ 1,045	$ 48,747
All other governments	22,154	2,297	19,857
U.S. states, territories, and possessions	-	-	-
U.S. political subdivisions of states, territories, and possessions	5,060	33	5,027
U.S. special revenue and special assessment	626	2	624
Hybrid securities	-	-	-
Industrial and miscellaneous	171,341	8,783	162,558
Mortgage and other asset-backed securities	400,981	12,428	388,553
Total greater than one year	649,954	24,588	625,366
Total unrealized losses	$ 2,405,149	$ 79,085	$ 2,326,064

2017 Unrealized losses	Amortized Cost	Unrealized Losses	Fair Value
Less than one year			
U.S. Government	$ 89,324	$ 835	$ 88,489
All other governments	17,862	194	17,668
U.S. states, territories, and possessions	-	-	-
U.S. political subdivisions of states, territories, and possessions	-	-	-
U.S. special revenue and special assessment	635	5	630
Hybrid securities	-	-	-
Industrial and miscellaneous	180,762	1,888	178,874
Mortgage and other asset-backed securities	368,162	2,591	365,571
Total less than one year	$ 656,745	$ 5,513	$ 651,232
Greater than one year			
U.S. Government	$ 28,555	$ 1,135	$ 27,420
All other governments	5,198	103	5,095
U.S. states, territories, and possessions	-	-	-
U.S. political subdivisions of states, territories, and possessions	5,060	164	4,896
U.S. special revenue and special assessment	-	-	-
Hybrid securities	-	-	-
Industrial and miscellaneous	59,296	1,906	57,390
Mortgage and other asset-backed securities	186,048	3,415	182,633
Total greater than one year	284,157	6,723	277,434
Total unrealized losses	$ 940,902	$ 12,236	$ 928,666

As of December 31, 2018 and 2017, 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, 2018 and 2017 (dollars in thousands):

	2018	2017
Bonds, excluding loan-backed securities	$ 1,807	$ -
Mortgage and other asset-backed securities	-	6
Total realized losses due to OTTI	$ 1,807	$ 6

SAIF invests in several asset classes that could potentially be adversely affected by subprime mortgage exposure. These investments include mortgage-backed securities, debt obligations of financial institutions participating in subprime lending practices, and unaffiliated equity securities, issued by financial institutions participating in subprime lending. SAIF believes that its greatest exposure is to unrealized losses from declines in asset values versus realized losses resulting from defaults or foreclosures. SAIF has reviewed its mortgage-backed securities portfolio as of December 31, 2018, and believes that all of these investments are in pools that are backed by loans made to well-qualified borrowers or tranches that have minimal default risk, with the exception of two securities, Bayview Opportunity Master Fund Trust and Credit Suisse Mortgage Trust, included below. Default risk on these bonds appears minimal at this time. The impact on these investments, should the market conditions worsen, cannot be assessed at this time. The mortgage-backed securities portfolio at December 31, 2018 and 2017 is as follows (dollars in thousands):

Description	Actual Cost	Book/Adjusted Carrying Value (Excluding Interest)	Fair Value	Other-Than-Temporary Impairment Losses Recognized
2018 Residential mortgage-backed securities	$ 19,296	$ 19,284	$ 18,309	$ -
2017 Residential mortgage-backed securities	$ 21,869	$ 21,863	$ 21,675	$ -

Wash sales—In the course of SAIF's asset management, securities are sold and reacquired within 30 days of the sale date to enhance SAIF's yield on its investment portfolio.

No securities with NAIC designations of 3 or below were sold during the years ended December 31, 2018 and 2017, and reacquired within 30 days of the sale.

Securities on deposit—U.S. Treasury obligations with a carrying value of $8.0 million were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshore and Harbor Workers' Compensation Act at December 31, 2018 and 2017, respectively. Certificates of deposit with a carrying value of $108 thousand were on deposit at U.S. Bank as required by DCBS at December 31, 2018 and 2017, respectively. U.S. Treasury obligations with a carrying value of $33.1 million and $33.2 million were on deposit with Wilmington Trust for loss payments with Zurich, a reinsurer for other states coverage, as of December 31, 2018 and 2017, 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 2018 and 2017, 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 2018 and 2017. At December 31, 2018 and 2017, the Fund had an average life-final maturity of 148 days and 86 days, respectively.

The cash collateral held at December 31, 2018 and 2017, was $143.5 million and $199.1 million, respectively. Securities received as collateral at December 31, 2018 and 2017, were $50.1 million and $1.6 million, respectively. At December 31, 2018 and 2017, the fair value, including accrued investment income related to the securities on loan, was $190.0 million and $196.8 million, respectively. For 2018 and 2017, securities lending income was $4.2 million and $1.6 million and securities lending expense was $3.6 million and $1.3 million, respectively. These amounts are reported net in the accompanying financial statements—statutory basis as a component of net investment income earned.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The following assets and liabilities measured and reported at fair value in the Level 1, 2, or 3 category as of December 31, 2018 and 2017 were (dollars in thousands):

2018

Description For Each Class of Asset or Liability	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Assets at fair value					
Bonds-industrial & misc.	$ -	$ 153,456	$ -	$ -	$ 153,456
Common stocks-mutual funds	-	532,875	-	-	532,875
Cash equivalents-money market fund	-	7,029	-	-	7,029
Total assets at fair value	$ -	$ 693,360	$ -	$ -	$ 693,360
Liabilities at fair value	$ -	$ -	$ -	$ -	$ -
Total liabilities at fair value	$ -	$ -	$ -	$ -	$ -

2017

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

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, 2018 and 2017, 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, 2018 and 2017.

The following tables reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments as of December 31, 2018 and 2017, 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):

2018

Type of Financial Instrument	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Not Practicable (Carrying Value)
Assets							
Bonds	$ 3,908,368	$ 3,879,279	$ 1,982	$ 3,906,278	$ -	$ -	$ 108
Common stocks	532,875	532,875	-	532,875	-	-	-
Other invested assets	27,552	21,266	-	27,552	-	-	-
Securities lending reinvested collateral	143,445	143,445	-	143,445	-	-	-
Cash, cash equivalents, & short-term	62,016	62,016	43,491	18,525	-	-	-
Total assets	$ 4,674,256	$ 4,638,881	$ 45,473	$ 4,628,675	-	-	$ 108
Liabilities							
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -

2017 Type of Financial Instrument	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Not Practicable (Carrying Value)
Assets							
Bonds	$ 4,106,289	$ 3,875,309	$ 2,061	$ 4,104,120	$ -	$ -	$ 108
Common stocks	589,331	589,331	-	589,331	-	-	-
Other invested assets	30,151	21,264	-	30,151	-	-	-
Securities lending reinvested collateral	199,080	199,080	-	199,080	-	-	-
Cash, cash equivalents, & short-term	139,263	139,263	28,549	110,714	-	-	-
Total assets	$ 5,064,114	$ 4,824,247	$ 30,610	$ 5,033,396	-	-	$ 108
Liabilities							
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -

It was not practicable to determine the fair values of the bonds in the following table as of December 31, 2018 and 2017, for purposes of the above disclosures, as these items are not traded, and therefore, quoted market prices are not available. Also, the cost of obtaining estimates of fair values from other sources was considered excessive given the immateriality of the bonds (dollars in thousands):

2018

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

2017

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

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

The following table provides a reconciliation of the beginning and ending reserve for losses and loss adjustment expenses (LAE) at December 31, 2018 and 2017 (dollars in thousands):

	2018	2017
Gross reserve for losses and loss adjustment expenses—beginning of year	$ 2,814,914	$ 2,931,058
Less reinsurance ceded—beginning of year	(87,178)	(97,403)
Net balance—beginning of year	2,727,736	2,833,655
Incurred related to:		
Current year	536,340	572,980
Prior year	(312,616)	(284,165)
Total incurred losses and loss adjustment expenses	223,724	288,815
Paid losses related to:		
Current year	142,736	154,880
Prior year	262,019	239,854
Total paid losses and loss adjustment expenses	404,755	394,734
Net balance—end of year	2,546,705	2,727,736
Plus reinsurance ceded—end of year	81,537	87,178
Gross reserve for losses and loss adjustment expenses—end of year	$ 2,628,242	$ 2,814,914

The reserve for losses and LAE decreased $181.0 million in 2018, which was net of favorable development of $312.6 million. Loss reserves decreased $154.6 million as compared to the prior year. Loss reserves for the 2018 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total disability (PTD) and permanent partial disability (PPD) medical loss reserves. The key drivers were a decrease in ultimate PPD counts and the continuing downward trend in medical severity. The observed medical escalation rate for 2018 was well below the assumption. LAE reserves decreased $26.5 million, during 2018. LAE reserves for the 2018 accident year were partially offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributed to the overall reduction in loss reserves.

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

LAE reserves decreased $6.6 million during 2017. LAE reserves for the 2017 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 loss reserves.

SAIF discounts the indemnity reserve for known unpaid fatal and permanent total disability losses on a tabular basis using the 2007 United States Life Tables, the 1997 United States of

America Railroad Retirement Board Remarriage Table, and a discount rate of 3.5 percent. SAIF does not discount any incurred but not reported reserves, medical unpaid losses, or unpaid LAE. Gross reserves subject to tabular discounting were $268.9 million and $268.8 million for 2018 and 2017, respectively. The discounts were $96.5 million and $97.5 million as of December 31, 2018 and 2017, respectively.

Anticipated salvage and subrogation of $36.8 million and $34.6 million was included as a reduction of the reserve for losses and LAE at December 31, 2018 and 2017, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $14.3 million and $15.9 million for losses and LAE are related to asbestos claims as of December 31, 2018 and 2017, respectively. Amounts paid for asbestos-related claims were $618 thousand and $432 thousand for the years ended December 31, 2018 and 2017, respectively.

8. RISK MANAGEMENT

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

SAIF participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each participating state entity based on its share of services provided in a prior period. The total statewide assessment of each type of coverage is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance of the Insurance Fund from the prior biennium. SAIF's assessment was $1.0 million and $0.9 million for the years ended December 31, 2018 and 2017, respectively.

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

9. DEFERRED COMPENSATION PLAN

SAIF provides a deferred compensation plan, authorized under and consistent with Internal Revenue Code Section 457(b), as a benefit available to all its employees. The plan authorizes the employee to execute an individual agreement with the plan's record keeper, Empower Retirement, whereby the employee defers a portion of their current income until future years as a retirement savings vehicle in which funds are sheltered from federal and state taxation until withdrawal. Participants cannot receive the funds until certain circumstances are met. Funds withheld from employee compensation and remitted to the plan are invested by the employee in a variety of mutual funds and other offerings selected by SAIF's Deferred Compensation Plan Committee. Plan assets are generally held in a trust account with Wells Fargo (the Guaranteed Interest Fund is a general account product), and administered by Empower Retirement for the exclusive benefit of the participants or their beneficiary(ies). Participants' rights under the plan are equal to the fair market value of the deferred compensation plan account for each participant. SAIF has no rights to participant funds and does not perform the investing function for the participant. SAIF's primary fiduciary responsibilities for the plan extends 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 multiemployer defined benefit pension plan. The PERS Board of Trustees under the guidelines of ORS Chapter 238 administers PERS. The PERS retirement allowance, payable monthly for life, may be selected from multiple retirement benefit options. Options include survivorship benefits and lump-sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits.

Beginning January 1, 2004, all covered employees are required by state statute to contribute 6.00 percent of their salary to the Individual Account Program (IAP), a defined contribution plan. Current law permits employers to pay employees' contributions to PERS, which SAIF has elected to do. Additionally, SAIF is required by statute to contribute a percentage of each covered employee's salary to fund the PERS program. SAIF currently contributes 17.84 percent of each covered employee's salary to the PERS Program. This contribution is the minimum contribution required for future periods. Rates are subject to change as a result of subsequent actuarial valuations.

SAIF employees hired on or after August 29, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) after completing six months of service. OPSRP is a hybrid pension plan (multiemployer plan) administered by the PERS Board of Trustees under the guidelines of ORS Chapter 238A with two components: the Pension Program (defined benefit) and the IAP (defined contribution). SAIF currently contributes 10.78 percent of each covered employee's salary to the Pension Program and 6.00 percent to the IAP. This contribution is the minimum contribution required for future periods. Rates are subject to change as a result of subsequent actuarial valuations.

SAIF participates, along with other State of Oregon agencies, in paying debt service for State of Oregon general obligation bonds issued in October 2003 to reduce the unfunded PERS liability. The bonds are scheduled to mature 25 years after the date of issuance. Currently, the repayment rate is 6.20 percent of payroll each month. The payment rate is recalculated periodically, as needed.

The total amount contributed by SAIF for all plans for the years ended December 31, 2018 and 2017, consist of the following (dollars in thousands):

	2018	2017
Employer contributions:		
Debt service	$ 4,854	$ 4,487
PERS-Pension Program	6,118	5,448
OPSRP-Pension Program	4,739	3,536
Total employer contributions	15,711	13,471
Employee contributions paid by SAIF:		
PERS-IAP	2,053	2,120
OPSRP-IAP	2,638	2,344
Total employee contributions	4,691	4,464
Total contributions	$ 20,402	$ 17,935

For the years ended December 31, 2018 and 2017, SAIF's employer contributions were equal to the annual required contributions. SAIF's contributions were less than 5.00 percent of each plan's total contributions. There are no funding improvement or rehabilitation plans implemented or pending for any of the plans SAIF participates in. SAIF did not pay any surcharges during the year ended December 31, 2018. 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 was amortized through periodic charges to income. The balance was $0 and $0.6 million as of December 31, 2018 and 2017, respectively. Current year changes in the postemployment benefit obligation are charged to income in the current period.

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

Funding policy – SAIF's funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. The plan Accumulated Postretirement Benefit Obligation was $10.0 million and $10.5 million as of December 31, 2018 and 2017, 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, 2018 and 2017, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 4.00 percent discount rate as of December 31, 2018 and a 3.25 percent as of December 31, 2017. A 6.50 percent health care cost trend rate was used for 2018, 5.75 percent for 2019, 5.25 percent for 2020 through 2029, 6.00 percent for 2030 through 2031, 6.25 percent for 2032, 6.00 percent for 2033 through 2040, 5.75 percent for 2041 through 2043, 5.50 percent for 2044 through 2052, 5.25 percent for 2053 through 2064, 5.00 percent for 2065 through 2066, 4.75 percent for 2067 through 2069, 4.50 percent for 2070 through 2072, and a 4.25 percent ultimate trend rate thereafter.

As of December 31, 2017, significant assumptions used in the actuarial valuation include a 3.25 percent discount rate of return. A 6.50 percent health care cost trend rate was used for 2018, 5.75 percent for 2019, 5.25 percent for 2020 through 2029, 6.00 percent for 2030 through 2031, 6.25 percent for 2032, 6.00 percent for 2033 through 2040, 5.75 percent for 2041 through 2043, 5.50 percent for 2044 through 2052, 5.25 percent for 2053 through 2064, 5.00 percent for 2065 through 2066, 4.75 percent for 2067 through 2069, 4.50 percent for 2070 through 2072, and a 4.25 percent ultimate trend rate thereafter.

At December 31, 2018, the Accumulated Postretirement Benefit Obligation was $10.0 million, which is recorded as other accrued expenses on the Statement of Admitted Assets, Liabilities, and Capital and Surplus.

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

The net periodic benefit cost recognized for the years ended December 31, 2018 and 2017, was (dollars in thousands):

Components of net periodic benefit cost

	Postemployment & Compensated Absence Benefits	
	2018	**2017**
Service cost	$ 559	$ 446
Interest cost	331	348
Transition obligation recognized - Scheduled	612	827
Recognition of net (gain) loss	(797)	634
Total net periodic benefit cost	$ 705	$ 2,255

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

	1 Percentage Point Increase	**1 Percentage Point Decrease**
Effect on APBO	$ 1,204	$ (1,045)
Effect on total of service and interest cost component	$ 137	$ (116)

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
2019	$ 545
2020	516
2021	518
2022	573
2023	626
2024 through 2028	4,228

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, 2018, and 2017, was as follows (dollars in thousands):

	2018	2017
Net unrealized investment gains	$ 235,886	$ 301,903
Nonadmitted assets	(43,142)	(39,689)
Prior APBO service costs	-	(612)

The Company participates in a cost-sharing multiemployer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS) (Note 10). PERS has a net pension liability which represents the unfunded pension benefits. SAIF established a special surplus fund in 2017 to identify its portion of the PERS liability and has adjusted the fund based on information provided by PERS and allocated by the Oregon Department of Administrative Services as of June 30, 2018. Due to the timing delay, SAIF has evaluated subsequent events that may impact the assets and liabilities of the plan and determined that the valuation of liability is still materially accurate. Based on this information, the special surplus fund for the unfunded pension benefits is $90.1 million and $92.0 million at December 31, 2018 and 2017, respectively.

13. CONTINGENCIES

SAIF has entered into structured settlements wherein SAIF has purchased annuities for which the claimant is payee, but for which SAIF is contingently liable. The amount of the contingent liability is the amount of the liability due to the various claimants that has been offset by the purchase of the annuity. Contingent liabilities arising from these settlements were $2.7 million at December 31, 2018 and 2017.

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

As of December 31, 2018, SAIF has entered into an $88.7 million construction contract, of which $8.1 million is still outstanding.

14. LEASE COMMITMENTS

SAIF leases office space in several locations under operating leases expiring during various years through 2029. Lease expense was $2.1 million and $2.9 million as of December 31, 2018 and 2017, respectively.

SAIF's future minimum lease payments under noncancelable operating leases at December 31, 2018, are as follows (dollars in thousands):

Year(s)	Amount
2019	$ 1,198
2020	1,226
2021	1,188
2022	1,076
2023	1,105
Total minimum payments	$ 5,793

Certain rental commitments have renewal options extending through the year 2039.

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 $160 million excess of $35 million per occurrence with a $10 million maximum on any one life. The Terrorism Risk Insurance Act provides coverage for terrorist events that are nuclear, biological, chemical, or radiological in nature, which are excluded from the reinsurance contract. During 2018, SAIF had reinsurance protection for 82 percent of losses in excess of 20 percent of 2017 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 2018 and 2017 (dollars in thousands):

	2018	2017
Reserve for losses and loss adjustment expenses	$ 24,231	$ 23,076
Premiums written and earned	1,898	1,971
Losses and loss adjustment expenses incurred	1,226	(4,200)

The company does not have an unsecured aggregate reinsurance recoverable from any individual reinsurer that exceeds 3 percent of policyholders' surplus.

In 2018 and 2017, SAIF did not commute ceded reinsurance.

In November 2010, SAIF received formal approval from DCBS for implementation of its Other States Coverage program. Beginning February 1, 2011, SAIF partnered with Zurich and 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 2018 and 2017 (dollars in thousands):

Other States Coverage	2018	2017
Assumed:		
Reserve for losses and loss adjustment expenses	$ 18,139	$ 18,233
Unearned premiums	7,744	7,255
Premiums written	17,491	16,341
Premiums earned	17,002	15,931
Losses and loss adjustment expenses incurred	7,244	10,841
Commission expense	2,785	2,466

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 2018 and 2017 (dollars in thousands):

NWCRP	2018	2017
Assumed:		
Reserve for losses and loss adjustment expenses	$ 96,977	$ 84,470
Unearned premiums	4,804	5,604
Premiums written	29,055	32,069
Premiums earned	29,856	31,898
Losses and loss adjustment expenses incurred	29,806	16,755
Commission expense	9,096	9,922
Ceded:		
Reserve for losses and loss adjustment expenses	$ 57,307	$ 64,102
Unearned premiums	6,644	7,045
Premiums written	19,318	18,904
Premiums earned	19,719	18,683
Losses and loss adjustment expenses incurred	1,599	1,029
Commission expense	7,320	6,966

16. ELECTRONIC DATA PROCESSING (EDP) EQUIPMENT AND SOFTWARE

EDP equipment and operating and nonoperating software are carried at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the lesser of the estimated useful life of the related asset or three years for EDP equipment and operating system software. Depreciation expense for nonadmitted nonoperating system software is computed using the straight-line method over the lesser of the estimated useful life of the related asset or five years. There were no nonoperating software assets admitted at December 31, 2018 and 2017.

Admitted EDP equipment and software at December 31, 2018 and 2017, were as follows (dollars in thousands):

	2018	2017
EDP equipment and software	$ 4,577	$ 3,275
Accumulated depreciation	(2,910)	(2,814)
Balance—net	$ 1,667	$ 461

Depreciation expense related to admitted EDP equipment and software was $835 thousand and $510 thousand for the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

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):

2018 **(In thousands)**	**Filed**	**Audited**	**Difference**
Statement of admitted assets, liabilities, and capital and surplus:			
Other assets	$ 30,441	$ 29,832	$ (609)
Total admitted assets	5,122,475	5,121,866	(609)
Losses	2,131,464	2,128,990	(2,474)
Unearned premiums	227,268	226,891	(377)
Other liabilities	4,606	8,865	4,259
Total liabilities	3,116,494	3,117,904	1,410
Capital and surplus—PERS UAL	91,953	90,082	(1,871)
Capital and surplus—unassigned funds	1,914,028	1,913,880	(148)
Total capital and surplus	2,005,981	2,003,962	(2,019)
Total	5,122,475	5,121,866	(609)
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	$ 524,287	$ 523,681	$ (606)
Losses incurred, net	163,454	166,396	2,942
Other underwriting expenses incurred	117,511	117,359	(151)
Total underwriting expenses	338,293	341,083	2,790
Net underwriting income	185,995	182,598	(3,397)
Net loss from premium balances charged off	(574)	(359)	215
Total other income (loss)—net	1,197	1,199	3
Net income before dividends to policyholders	345,278	342,099	(3,180)
Net income	185,340	182,160	(3,180)
Net change in capital and surplus	116,481	113,301	(3,180)
Total capital and surplus—end of year	2,005,981	2,003,962	(2,019)
Statement of cash flows:			
Premiums collected net of reinsurance	$ 538,263	$ 537,403	$ (860)
Miscellaneous income	623	840	217
Benefits and loss related payments	(321,501)	(320,923)	578
Underwriting expenses paid	(199,287)	(198,962)	325
Net cash from operations	24,905	25,166	261
Other cash provided	(9,113)	(3,743)	5,370
Other cash applied	-	(5,631)	(5,631)
Net cash from (used by) financing and miscellaneous sources	(9,113)	(9,374)	(261)

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

SUPPLEMENTARY SCHEDULES

APPENDIX A

SUMMARY INVESTMENT SCHEDULE

SUMMARY INVESTMENT SCHEDULE

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
Investment Categories	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities	415,095,400	8.77	415,095,400		415,095,400	8.77
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies						
1.22 Issued by U.S. government sponsored agencies	4,751,907	0.10	4,751,907		4,751,907	0.10
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	38,810,806	0.82	38,810,806		38,810,806	0.82
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations	1,003,822	0.02	1,003,822		1,003,822	0.02
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	11,245,802	0.24	11,245,802		11,245,802	0.24
1.43 Revenue and assessment obligations	85,546,250	1.81	85,546,250		85,546,250	1.81
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	89,668,804	1.89	89,668,804		89,668,804	1.89
1.512 Issued or guaranteed by FNMA and FHLMC	402,586,904	8.50	402,586,904		402,586,904	8.50
1.513 All other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	58,133,206	1.23	58,133,206		58,133,206	1.23
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	251,587,664	5.31	251,587,664		251,587,664	5.31
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	1,907,915,932	40.30	1,907,915,932		1,907,915,932	40.30
2.2 Unaffiliated non-U.S. securities (including Canada)	612,932,821	12.95	612,932,821		612,932,821	12.95
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds	532,875,263	11.26	532,875,263		532,875,263	11.26
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	95,593,927	2.02	95,593,927		95,593,927	2.02
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	67,784	0.00	67,784		67,784	0.00
9. Securities Lending (Line 10, Asset Page reinvested collateral)	143,445,233	3.03	143,445,233	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	62,016,206	1.31	62,016,206	143,445,233	205,461,439	4.34
11. Other invested assets	21,265,752	0.45	21,265,752		21,265,752	0.45
12. Total invested assets	4,734,543,483	100.00	4,734,543,483	143,445,233	4,734,543,483	100.00

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APPENDIX B

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

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SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2018

(To Be Filed by April 1)

Of The SAIF Corporation Insurance Company

Address (City, State, Zip Code) 400 High Street Southeast, Salem, OR 97312

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

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

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

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 5,121,866,451

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	$ 531,566,879	10.377 %
2.02	FHLMC	Bond	$ 305,688,863	5.968 %
2.03	FNMA	Bond	$ 197,711,399	3.860 %
2.04	JP Morgan Chase & Co	Bond	$ 71,799,231	1.402 %
2.05	Goldman Sachs Group Inc	Bond	$ 71,359,577	1.393 %
2.06	Citigroup Inc	Bond	$ 68,573,796	1.339 %
2.07	Morgan Stanley	Bond	$ 65,710,958	1.283 %
2.08	AT&T Inc	Bond	$ 52,376,958	1.022 %
2.09	Wells Fargo & Co	Bond	$ 50,521,415	0.986 %
2.10	New Residential Mortgage Loan	Bond	$ 45,890,550	0.896 %

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	$ 2,199,390,959	42.936 %	3.07	P/RP-1	$	%
3.02	NAIC 2	$ 1,491,188,494	29.111 %	3.08	P/RP-2	$	%
3.03	NAIC 3	$ 166,260,596	3.246 %	3.09	P/RP-3	$	%
3.04	NAIC 4	$ 33,935,352	0.662 %	3.10	P/RP-4	$	%
3.05	NAIC 5	$	%	3.11	P/RP-5	$	%
3.06	NAIC 6	$	%	3.12	P/RP-6	$	%

4. Assets held in foreign investments:

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

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

4.02	Total admitted assets held in foreign investments	$ 810,583,343	15.824 %
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	$	733,946,511	14.326 %
5.02 Countries designated NAIC 2	$	70,153,036	1.370 %
5.03 Countries designated NAIC 3 or below	$	6,483,799	0.127 %

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	$	144,587,449	2.823 %
6.02 Country 2:	United Kingdom	$	117,282,648	2.290 %
Countries designated NAIC 2:				
6.03 Country 1:	Mexico	$	20,607,166	0.402 %
6.04 Country 2:	Indonesia	$	19,337,666	0.378 %
Countries designated NAIC 3 or below:				
6.05 Country 1:	Brazil	$	4,571,475	0.089 %
6.06 Country 2:	Kenya	$	1,114,974	0.022 %

		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 Apidos CLO	1FE	$	22,366,891	0.437 %
10.02 Credit Suisse Group Fund Ltd	2FE	$	15,931,550	0.311 %
10.03 CIFC Funding Ltd	1FE	$	14,582,247	0.285 %
10.04 Carlyle Global Markets	1FE	$	14,375,000	0.281 %
10.05 Telefonica Emisiones SAU	2FE	$	14,332,565	0.280 %
10.06 UBS Group Funding Switzerland	1FE	$	14,032,793	0.274 %
10.07 Cooperatieve Rabobank UA	2FE	$	13,836,494	0.270 %
10.08 BNP Paribas	1FE	$	13,521,778	0.264 %
10.09 Magnetite CLO Ltd	1FE	$	13,450,000	0.263 %
10.10 HSBC Holdings PLC	1FE	$	12,618,115	0.246 %

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	$ 531,566,879	10.377 %
13.03	State Street Bank & Trust Co Short-Term Investment Fund	$ 1,308,384	0.026 %
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)	$ 192,064,850	3.749 %	$ 214,855,222	$ 212,972,889	$ 196,629,006
20.02 Repurchase agreements	$	%	$	$	$
20.03 Reverse repurchase agreements	$	%	$	$	$
20.04 Dollar repurchase agreements	$	%	$	$	$
20.05 Dollar reverse repurchase agreements	$	%	$	$	$

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

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

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

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

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

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

APPENDIX C

GENERAL INTERROGATORIES (REINSURANCE)

GENERAL INTERROGATORIES

PART 2 – PROPERTY & CASUALTY INTERROGATORIES

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

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

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

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

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

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

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

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

8.2 If yes, give full information

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

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

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

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

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

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