

SAIF Corporation

*Financial Statements—Statutory Basis
as of and for the Years Ended December 31,
2019 and 2018, Supplementary Schedules
as of December 31, 2019, 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, 2019 and 2018, 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 fraud or error.

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, 2019 and 2018, 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 (reinsurance) 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.

The image shows a handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Portland, Oregon
July 27, 2020

SAIF CORPORATION

STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS—STATUTORY BASIS AS OF DECEMBER 31, 2019 and 2018 (In thousands)

	2019	2018
ADMITTED ASSETS		
CASH AND INVESTED ASSETS:		
Bonds	\$ 3,828,095	\$ 3,879,279
Common stocks	492,781	532,875
Real estate, net of accumulated depreciation of \$15,292 and \$12,930:		
Properties occupied by SAIF	97,830	95,594
Cash, cash equivalents, and short-term investments	151,094	62,016
Other invested assets	76,321	21,266
Receivable for securities sold	71	68
Security lending reinvested collateral	42,786	143,445
Total cash and invested assets	4,688,978	4,734,543
Interest, dividends, and real estate income due and accrued	32,643	33,956
Premiums in course of collection	7,449	6,168
Premiums and installments booked but deferred and not yet due	295,054	297,943
Accrued retrospective premiums receivable	12,395	7,735
Reinsurance recoverables	3,118	1,743
Electronic data processing (EDP) equipment and operating software, net of accumulated depreciation of \$3,850 and \$2,910	1,419	1,667
Due from Workers' Compensation Division	8,756	8,279
Other assets	28,442	29,832
TOTAL	<u>\$ 5,078,254</u>	<u>\$ 5,121,866</u>
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Losses	\$ 2,118,095	\$ 2,128,990
Loss adjustment expenses	421,080	417,715
Other accrued expenses	51,558	52,830
Taxes, licenses, and fees	35,696	33,774
Unearned premiums	228,166	226,891
Advance premium	12,608	12,504
Dividends to policyholders declared and unpaid	17	54
Ceded reinsurance premiums payable	1,776	2,834
Amounts withheld or retained for account of others	42,875	38,368
Other liabilities	7,615	8,865
Unclaimed property	1,188	1,324
Payable for securities purchased	4	3
Payable for securities lending	42,774	143,475
Accrued retrospective premiums payable	38,360	50,277
Total liabilities	<u>3,001,812</u>	<u>3,117,904</u>
CAPITAL AND SURPLUS:		
Assigned surplus - PERS unfunded actuarial liability	124,823	90,082
Unassigned surplus	1,951,619	1,913,880
Total capital and surplus	<u>2,076,442</u>	<u>2,003,962</u>
TOTAL	<u>\$ 5,078,254</u>	<u>\$ 5,121,866</u>

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, 2019 AND 2018 (In thousands)

	2019	2018
UNDERWRITING REVENUES—Premiums earned, net	\$ 507,393	\$ 523,681
UNDERWRITING EXPENSES:		
Losses incurred, net	314,836	166,396
Loss adjustment expenses incurred	89,650	57,328
Other underwriting expenses incurred	118,972	117,359
Total underwriting expenses	523,458	341,083
NET UNDERWRITING GAIN (LOSS)	(16,065)	182,598
NET INVESTMENT INCOME:		
Net investment income earned	151,127	154,340
Net realized investment gains	139,386	4,321
Net investment income	290,513	158,661
OTHER INCOME (EXPENSE):		
Net loss from premium balances charged off	(1,465)	(359)
Other income	1,255	1,199
Total other income (expense), net	(210)	840
Net income before dividends to policyholders	274,238	342,099
POLICYHOLDER DIVIDENDS	(159,872)	(159,939)
NET INCOME	\$ 114,366	\$ 182,160
CAPITAL AND SURPLUS:		
Total capital and surplus—beginning of year	\$ 2,003,962	\$ 1,890,661
Net income	114,366	182,160
Change in net unrealized capital gains (losses)	46,262	(66,018)
Change in nonadmitted assets	(100,086)	(3,453)
Prior APBO service costs	-	612
Change in accounting principles	11,938	-
Net change in capital and surplus	72,480	113,301
Total capital and surplus—end of year	\$ 2,076,442	\$ 2,003,962

See notes to financial statements—statutory basis.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS—STATUTORY BASIS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In thousands)

	<u>2019</u>	<u>2018</u>
CASH FROM (USED IN) OPERATIONS:		
Cash from underwriting:		
Premiums collected, net of reinsurance	\$ 503,969	\$ 537,403
Net investment income	<u>167,982</u>	<u>166,693</u>
Net cash from underwriting	<u>671,951</u>	<u>704,096</u>
Miscellaneous income (expense)	(211)	840
Benefits and loss related payments	(325,844)	(320,923)
Underwriting expenses paid	(199,224)	(198,962)
Policyholder dividend payments	<u>(159,909)</u>	<u>(159,885)</u>
Net cash from (used in) operations	<u>(13,237)</u>	<u>25,166</u>
CASH FROM (USED IN) INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,322,226	1,555,198
Common stocks	181,611	305
Other invested assets	106,278	55,588
Cash and short-term investments	(1)	1
Miscellaneous payments	<u>(3)</u>	<u>512</u>
Total proceeds from investments sold, matured, or repaid	<u>1,610,111</u>	<u>1,611,604</u>
Cost of investments acquired:		
Bonds	1,239,720	1,574,052
Common stocks	107	1,445
Real estate	5,533	26,050
Other invested assets	160,701	55,588
Miscellaneous receipts	<u>(1)</u>	<u>47,508</u>
Total cost of investments acquired	<u>1,406,060</u>	<u>1,704,643</u>
Net cash from (used in) investments	<u>204,051</u>	<u>(93,039)</u>
CASH FROM (USED IN) FINANCING AND MISCELLANEOUS SOURCES:		
Other cash provided	2,644	(3,743)
Other cash applied	<u>(104,380)</u>	<u>(5,631)</u>
Net cash from (used in) financing and miscellaneous sources	<u>(101,736)</u>	<u>(9,374)</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Net increase (decrease) in cash, cash equivalents, and short-term investments	89,078	(77,247)
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—Beginning of year	<u>62,016</u>	<u>139,263</u>
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS—End of year	<u>\$ 151,094</u>	<u>\$ 62,016</u>

See notes to financial statements—statutory basis.

Supplemental schedule of noncash transactions:

Noncash investment transactions were \$29.2 million and \$63.5 million for both investment acquisitions and dispositions resulting from tax-free exchange transactions for the years ended December 31, 2019 and 2018, respectively.

SAIF CORPORATION

NOTES TO FINANCIAL STATEMENTS—STATUTORY BASIS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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 partners with Zurich Insurance Group Ltd. (Zurich) and United States Insurance Services (USIS) to provide other states coverage. 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 18.1 percent and 18.0 percent of standard premium during 2019 and 2018, 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 \$316.3 million and \$303.9 million at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, 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 2019 and 2018, 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, while under GAAP short-term investments have maturities of over 90 days but less than one year.
- (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 SAP, SAIF offsets accounts with negative cash balances with accounts with positive balances instead of presenting 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) Accounting for the multiple employer benefit plan differs from SAP to GAAP accounting. SAIF 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 SAP, 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, 2019. 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 \$124.8 million and \$90.1 million at December 31, 2019 and 2018, respectively.

- (k) On December 30, 2019, SAIF funded a PERS side account totaling \$97.0 million which represented approximately 90 percent of SAIF's UAL based on a preliminary actuarial valuation from PERS (See Note 10). This side account does not impact employee benefits received under PERS; instead, it represents a prepayment of SAIF's on-going contributions. On SAIF's GAAP statements, this amount appears with deferred outflows as a contribution subsequent to the measurement date.

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, 2019 and 2018. 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). 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 (losses), a component of unassigned surplus.

The fair values for investment securities for 2019 and 2018 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, 2019 and 2018.

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 changes are reflected in net realized investment 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, 2019 and 2018, 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, 2019 and 2018.

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/pages/default.aspx>. As of December 31, 2019 and 2018, SAIF's balance in the OSTF was \$50.3 million and \$36.6 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, 2019 and 2018, was 35 days and 28 days, respectively. The Institutional U.S. Government Money Market Fund had a credit quality rating of AAAM at December 31, 2019 and 2018. At December 31, 2019 and 2018, SAIF's balance in the Institutional U.S. Government Money Market Fund was \$4.1 million and \$7.0 million, respectively. At December 31, 2019, SAIF held \$18.2 million in Treasury bills which mature in January 2020. At December 31, 2018, SAIF held \$11.5 million in Treasury bills which matured in January 2019. There were no short-term bonds held as of December 31, 2019.

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. There were no investments in the fund as of December 31, 2019. At December 31, 2018, SAIF's balance in the fund was \$1.3 million.

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	15-50 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, 2019 and 2018, were \$9.2 million and \$2.9 million, respectively.

In 2019, SAIF completed construction on a significant home office renovation. Capital project life-to-date costs were \$92.3 million and \$86.8 million, respectively, for the years ended December 31, 2019 and 2018. Capital project year-to-date costs were \$5.5 million and \$26.1 million, respectively, for the years ended December 31, 2019 and 2018. A SAIF owned building was demolished during the first quarter of 2019 as part of the home office renovation and addition project. A realized loss of \$187 thousand was recognized in the same quarter.

In 2019, SAIF implemented a new policy and billing system. Capital project life-to-date costs were \$28.2 million and \$25.5 million, respectively, for the years ended 2019 and 2018. Capital project year-to-date costs were \$2.7 million and \$7.7 million, respectively, for the years ended December 31, 2019 and 2018.

SAIF has an active software replacement project for the financial system that began in 2019. Capital project life-to-date costs were \$0.5 million for the year ended December 31, 2019. SAIF has an additional software project that began in 2019 for digital quote and bind. Capital project life-to-date costs were \$3.5 million for the year ended December 31, 2019.

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 No. 16, admitted EDP & operating software is limited to 3 percent of the prior reported period surplus.

Cumulative effect of change in accounting principles—While preparing the year-end 2019 financial statements, SAIF discovered a change in the reporting of premium on retrospective policies, resulting in an understatement of surplus. The change related to estimating ultimate premiums and did not have any direct impact on policyholders. The change dates back many years, with correct ultimate premium being recognized once the retrospective policy closed. We estimate the impact to be less than 1 percent of SAIF's annual premium across an 11-year period. In prior years, accrued retrospective premiums were understated and accrued retrospectively rate return premium was overstated, causing a net \$11.9 million estimated understatement of surplus as of year-end 2018. These changes have been made through an increase to 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, 2019 and 2018 were \$295.1 million and \$297.9 million, respectively, including unearned premiums of \$173.6 million and \$173.3 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, 2019 and 2018, were \$19.3 million and \$18.8 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 2019 and 2018 were \$74.5 million and \$77.9 million, respectively, or 14.6 and 15.0 percent of net premiums written, respectively, for each year. While preparing the year-end 2019 financial statements, SAIF discovered an error in the reporting of premium on retrospective policies causing a net understatement of \$11.9 million as discussed previously in Note 2.

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, 2019 and 2018, the admitted balance was as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Total accrued retrospective premiums receivable	\$13,772	\$8,594
Less nonadmitted amount (10 percent)	<u>1,377</u>	<u>859</u>
Admitted accrued retrospective premiums receivable	<u>\$12,395</u>	<u>\$7,735</u>

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, 2019 and 2018 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, legislative, judicial 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, 2019 and 2018, 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 2019 and 2018, policyholder dividends of \$159.9 million 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 income 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 \$38.9 million and \$37.6 million for the years ended December 31, 2019 and 2018, respectively. Premium assessments were accrued in the amount of \$37.2 million and \$36.1 million as of December 31, 2019 and 2018, respectively. Premium assessment income net of premium assessment expense for the years ended December 31, 2019 and 2018, was \$(1.6) million and \$375 thousand, respectively, and is included as a component of other underwriting expenses incurred. The negative premium assessment for 2019 is related to the accounting change that was discussed previously in Note 2.

Use of estimates—The preparation of financial statements 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. 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):

	2019			2018		
	Loss Adjustment Expenses Incurred	Other Underwriting Expenses Incurred	Investment Expenses	Loss Adjustment Expenses Incurred	Other Underwriting Expenses Incurred	Investment Expenses
Salaries, wages, & other benefits	\$ 71,520	\$ 61,446	\$ 2,726	\$ 44,096	\$ 58,510	\$ 2,596
Commissions	-	34,462	-	-	37,291	-
Other	18,130	23,064	9,755	13,232	21,558	8,319
Total allocable expenses	<u>\$ 89,650</u>	<u>\$ 118,972</u>	<u>\$ 12,481</u>	<u>\$ 57,328</u>	<u>\$ 117,359</u>	<u>\$ 10,915</u>

Prior year presentation—Certain prior year balances have been modified to conform to the current year presentation.

Subsequent events—On January 30, 2020, the World Health Organization declared a global health emergency in response to the coronavirus outbreak discovered in China. On March 23, 2020, the Governor of Oregon issued an executive order requiring all residents to shelter-in-place at home until further notice.

Significant layoffs associated with the economic downturn will impact SAIF's 2020 premium revenues which are based on employers' reported payroll. SAIF also has exposure to coronavirus related claims. Due to significant uncertainty, SAIF does not have an estimate of the financial impact.

The significant economic downturn is also impacting SAIF's investment holdings. SAIF is continuing to monitor investments that have been hardest hit by the crisis. Management has reviewed the investment losses in accordance with SAIF's policies, and at this time, SAIF has not impaired any of its investments for other-than-temporary impairments.

During the first quarter of 2020, the SAIF Board of Directors approved \$10.0 million to fund a Worker Safety Fund. This fund is designed to promote employee safety, reduce injuries, and decrease exposures by helping businesses impacted by coronavirus. Due to the volume of applications, the Board of Directors approved an additional \$15.0 million in April 2020 to extend the fund.

On June 3, 2020, SAIF's Board of Directors declared a \$100.0 million dividend for policyholders on policies that expired in 2019 and meet certain other eligibility criteria. The valuation date for eligible policies will be September 2, 2020 and will be paid before October, 31 2020.

Subsequent events have been considered through July 27, 2020, which is the date the financial 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, 2019 or 2018.

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 percent to 13 percent of the market value of invested assets with a target allocation of 10 percent.

Effective April 24, 2019, the Council approved a revised asset allocation policy for SAIF. The new allocation reaffirms a 5 percent target allocation to real estate in the form of private or publicly traded funds, allows for an 8 percent combined target allocation to bank loans and private credit, and reduced the target allocation to fixed income holdings from 90 percent to 77 percent. The target allocation to global equities of 10 percent remains unchanged.

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, 2019 and 2018.

The carrying value and fair value of SAIF's investment securities at December 31, 2019 and 2018, were as follows (dollars in thousands):

2019	Carrying Value	Fair Value	Excess Of Fair Value Over (Under) Carrying Value
Bonds:			
U.S. Government	\$ 416,993	\$ 426,198	\$ 9,205
All other governments	37,244	39,837	2,593
U.S. states, territories, and possessions	-	-	-
U.S. political subdivisions of states, territories, and possessions	13,533	14,362	829
U.S. special revenue and special assessment	81,078	89,254	8,176
Hybrid securities	17,835	20,958	3,123
Industrial and miscellaneous	2,200,429	2,456,589	256,160
Mortgage and other asset-backed securities	<u>1,060,983</u>	<u>1,088,942</u>	<u>27,959</u>
Total bonds	<u>\$ 3,828,095</u>	<u>\$ 4,136,140</u>	<u>\$ 308,045</u>
Short-term investments	<u>\$ 71,667</u>	<u>\$ 71,663</u>	<u>\$ (4)</u>
Real estate investments - Prime Property Fund LLC	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ -</u>
Common stock - BlackRock MSCI ACWI IMI Index Fund	<u>\$ 492,781</u>	<u>\$ 492,781</u>	<u>\$ -</u>

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	<u>1,038,497</u>	<u>1,035,001</u>	<u>(3,496)</u>
Total bonds	<u>\$ 3,879,279</u>	<u>\$ 3,908,367</u>	<u>\$ 29,088</u>
Short-term investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Real estate investments - Prime Property Fund LLC	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Common stock - BlackRock MSCI ACWI IMI Index Fund	<u>\$ 532,875</u>	<u>\$ 532,875</u>	<u>\$ -</u>

Proceeds from the sale of bonds were \$1.3 billion and \$1.6 billion during 2019 and 2018, respectively. Proceeds from the sale of stocks were \$181.6 million and \$0.3 million during 2019 and 2018, respectively.

The carrying value and fair value of bonds at December 31, 2019 and 2018, 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.

	2019		2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Due in one year or less	\$ 48,800	\$ 49,064	\$ 21,386	\$ 21,481
Due after one year through five years	764,471	791,777	802,210	801,276
Due after five years through ten years	1,164,682	1,249,608	1,294,248	1,283,307
Due after ten years	<u>1,850,142</u>	<u>2,045,691</u>	<u>1,761,435</u>	<u>1,802,303</u>
Total bonds	<u>\$ 3,828,095</u>	<u>\$ 4,136,140</u>	<u>\$ 3,879,279</u>	<u>\$ 3,908,367</u>

Net investment income earned for the years ended December 31, 2019 and 2018, was comprised of the following (dollars in thousands):

	2019	2018
Bonds	\$ 156,597	\$ 157,766
Common stock	106	138
Other invested assets	<u>6,905</u>	<u>7,351</u>
Total gross investment income earned	163,608	165,255
Less investment expenses	<u>12,481</u>	<u>10,915</u>
Net investment income earned	<u>\$ 151,127</u>	<u>\$ 154,340</u>

Gross realized gains and losses and the net realized gains (losses) for the years ended December 31, 2019 and 2018, were as follows (dollars in thousands):

2019	Gross Realized Gains	Gross Realized Losses	Net Realized Gains (Losses)
Bonds	\$ 40,346	\$ (4,584)	\$ 35,762
Common stock	103,178	-	103,178
Real estate	-	(187)	(187)
Short-term investments	-	(1)	(1)
Other invested assets	<u>634</u>	<u>-</u>	<u>634</u>
Total	<u>\$ 144,158</u>	<u>\$ (4,772)</u>	<u>\$ 139,386</u>

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	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 22,275</u>	<u>\$ (17,954)</u>	<u>\$ 4,321</u>

The following tables represent unrealized losses on bonds at December 31, 2019 and 2018, 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 arise from mark to market changes in a bond's price. These are primarily, but not only, attributable to interest rate risk, credit risk, prepayment risk, inflation risk, call risk, and/or liquidity discounts (dollars in thousands):

2019 Unrealized Losses	Amortized Cost	Unrealized Losses	Fair Value
Less than one year			
U.S. Government	\$ 142,756	\$ 1,584	\$ 141,172
All other governments	-	-	-
U.S. states, territories, and possessions	-	-	-
U.S. political subdivisions of states, territories, and possessions	4,120	73	4,047
U.S. special revenue and special assessment	3,860	117	3,743
Hybrid securities	-	-	-
Industrial and miscellaneous	45,904	433	45,471
Mortgage and other asset-backed securities	175,913	616	175,297
Total less than one year	<u>\$ 372,553</u>	<u>\$ 2,823</u>	<u>\$ 369,730</u>
Greater than one year			
U.S. Government	\$ 7,990	\$ 4	\$ 7,986
All other governments	-	-	-
U.S. states, territories, and possessions	-	-	-
U.S. political subdivisions of states, territories, and possessions	-	-	-
U.S. special revenue and special assessment	-	-	-
Hybrid securities	-	-	-
Industrial and miscellaneous	23,952	357	23,595
Mortgage and other asset-backed securities	135,869	958	134,911
Total greater than one year	<u>\$ 167,811</u>	<u>\$ 1,319</u>	<u>\$ 166,492</u>
Total unrealized losses	<u>\$ 540,364</u>	<u>\$ 4,142</u>	<u>\$ 536,222</u>
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	<u>\$ 1,755,195</u>	<u>\$ 54,497</u>	<u>\$ 1,700,698</u>
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	<u>\$ 649,954</u>	<u>\$ 24,588</u>	<u>\$ 625,366</u>
Total unrealized losses	<u>\$ 2,405,149</u>	<u>\$ 79,085</u>	<u>\$ 2,326,064</u>

As of December 31, 2019 and 2018, 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, 2019 and 2018 (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Bonds, excluding loan-backed securities	\$ -	\$ 1,807
Mortgage and other asset-backed securities	-	-
Total realized losses due to OTTI	<u>\$ -</u>	<u>\$ 1,807</u>

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, 2019, 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, 2019 and 2018 were:

Description	Actual Cost	Book/Adjusted Carrying Value (Excluding Interest)	Fair Value	Other-Than- Temporary Impairment Losses Recognized
2019 Residential mortgage-backed securities	\$ 16,587	\$ 16,575	\$ 16,582	\$ -
2018 Residential mortgage-backed securities	\$ 19,296	\$ 19,284	\$ 18,309	\$ -

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, 2019 and 2018, 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, 2019 and 2018. Certificates of deposit with a carrying value of \$333 thousand and \$108 thousand were on deposit at U.S. Bank as required by DCBS at December 31, 2019 and 2018, respectively. U.S. Treasury obligations with a carrying value of \$35.1 million and \$33.1 million were on deposit

with Wilmington Trust for loss payments with Zurich, a reinsurer for other states coverage, as of December 31, 2019 and 2018, 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 2019 and 2018, 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 2019 and 2018. At December 31, 2019 and 2018, the Fund had an average life-final maturity of 202 days and 148 days, respectively.

The cash collateral held at December 31, 2019 and 2018, was \$42.8 million and \$143.5 million, respectively. Securities received as collateral at December 31, 2019 and 2018, were \$0.2 million and \$50.1 million, respectively. At December 31, 2019 and 2018, the fair value, including accrued investment income related to the securities on loan, was \$42.0 million and \$190.0 million, respectively. For 2019 and 2018, securities lending income was \$2.6 million and \$4.2 million and securities lending expense was \$2.3 million and \$3.6 million, respectively. These amounts are reported net in the accompanying financial statements 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, 2019 and 2018, were (dollars in thousands):

2019

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 and miscellaneous	\$ -	\$ 3,905	\$ -	\$ -	\$ 3,905
Common stocks-mutual funds	-	492,781	-	-	492,781
Cash equivalents-money market fund	-	4,075	-	-	4,075
Other invested assets-real estate	-	-	-	60,000	60,000
Total assets at fair value	\$ -	\$ 500,761	\$ -	\$ 60,000	\$ 560,761
Liabilities at fair value	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities at fair value	\$ -	\$ -	\$ -	\$ -	\$ -

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 and miscellaneous	\$ -	\$ 153,456	\$ -	\$ -	\$ 153,456
Common stocks-mutual funds	-	532,875	-	-	532,875
Cash equivalents-money market fund	-	7,029	-	-	7,029
Other invested assets-real estate	-	-	-	-	-
Total assets at fair value	\$ -	\$ 693,360	\$ -	\$ -	\$ 693,360
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 into and out of Level 3. At December 31, 2019 and 2018, there were no assets or liabilities 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, 2019 and 2018.

The following tables reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments as of December 31, 2019 and 2018, 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):

2019						Net Asset Value (NAV)	Not Practicable (Carrying Value)
Type of Financial Instrument	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3		
Assets							
Bonds	\$ 4,136,140	\$ 3,828,094	\$ 2,085	\$ 4,133,722	\$ -	\$ -	\$ 333
Common stocks	492,781	492,781	-	492,781	-	-	-
Other invested assets	84,223	76,321	-	24,223	-	60,000	-
Securities lending reinvested collateral	42,786	42,786	-	42,786	-	-	-
Cash, cash equivalents, & short-term	151,091	151,094	57,106	93,985	-	-	-
Total assets	<u>\$ 4,907,021</u>	<u>\$ 4,591,076</u>	<u>\$ 59,191</u>	<u>\$ 4,787,497</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 333</u>
Liabilities							
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2018						Net Asset Value (NAV)	Not Practicable (Carrying Value)
Type of Financial Instrument	Aggregate Fair Value	Admitted Value	Level 1	Level 2	Level 3		
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	<u>\$ 4,674,256</u>	<u>\$ 4,638,881</u>	<u>\$ 45,473</u>	<u>\$ 4,628,675</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108</u>
Liabilities							
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

It was not practicable to determine the fair values of the bonds in the following table as of December 31, 2019 and 2018, 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):

2019	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
	U.S. Bank certificate of deposit	225	2.05%	4/1/2024
	Total	<u>\$ 333</u>		

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	<u>\$ 108</u>		

On December 30, 2019, SAIF invested \$60.0 million in Morgan Stanley Prime Property Fund, LLC, an open-ended real estate fund that permits quarterly redemption of shares, subject to certain requirements being met. The fund is valued using net asset value (NAV). The fund is expected to be held for the long term and generate a cash flow that will represent a significant component of the total return. As of December 31, 2019, SAIF had unfunded commitments of \$60.0 million to be invested in the fund, subject to capital calls by the fund.

7. LOSSES AND LOSS ADJUSTMENT EXPENSES

SAIF has established a reserve for both reported and unreported insured events, which includes estimates of future payments of losses and related LAE. In estimating the reserve for losses and LAE, SAIF considers prior experience, industry information, currently recognized trends affecting data specific to SAIF, and other factors relating to workers' compensation insurance underwritten by SAIF.

The following table provides a reconciliation of the beginning and ending reserve for losses and LAE at December 31, 2019 and 2018 (dollars in thousands):

	2019	2018
Gross reserve for losses and loss adjustment expenses—beginning of year	\$ 2,628,242	\$ 2,814,914
Less reinsurance ceded—beginning of year	<u>(81,537)</u>	<u>(87,178)</u>
Net balance—beginning of year	<u>2,546,705</u>	<u>2,727,736</u>
Incurred related to:		
Current year	546,359	536,340
Prior year	<u>(141,873)</u>	<u>(312,616)</u>
Total incurred losses and loss adjustment expenses	<u>404,486</u>	<u>223,724</u>
Paid related to:		
Current year	155,831	142,736
Prior year	<u>256,185</u>	<u>262,019</u>
Total paid losses and loss adjustment expenses	<u>412,016</u>	<u>404,755</u>
Net balance—end of year	2,539,175	2,546,705
Plus reinsurance ceded—end of year	<u>79,317</u>	<u>81,537</u>
Gross reserve for losses and loss adjustment expenses—end of year	<u>\$ 2,618,492</u>	<u>\$ 2,628,242</u>

The reserve for losses and LAE decreased \$7.5 million in 2019, which was net of favorable loss development of \$141.9 million. Loss reserves decreased \$10.9 million as compared to the prior year. This was driven by a combination of payments made on previously incurred claims and favorable development in prior accident years, combined with newly established reserves for the 2019 accident year. A significant portion of the favorable development on prior accident years is due to a decrease in ultimate medical claims costs. Estimates of ultimate medical claims costs are based on numerous assumptions, including future increases in medical costs (i.e., medical escalation), the number and types of claims, and how far into the future payments will be made. The reduction in ultimate medical claims costs was driven largely by lower than expected medical escalation and fewer permanent disability claims in more recent years than previously forecasted.

LAE reserves increased \$3.4 million. This was driven by a combination of paid LAE associated with previously incurred claims and favorable development in prior accident years, offset by newly established reserves for the 2019 accident year. The favorable development in unpaid LAE was largely attributable to the overall reduction in loss reserves, due to the strong relationship of the level of unpaid LAE to the level of unpaid loss.

The reserve for losses and LAE decreased \$181.0 million in 2018, which was net of favorable loss 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. A significant portion of the reduction is due to a reduction in ultimate medical claims costs. Estimates of ultimate medical claims costs are based on a number of assumptions, including future increases in medical costs (i.e., medical escalation), the number and types of claims, and how far into the future payments will be made. The reduction in ultimate medical claims costs was driven largely by lower medical escalation and fewer permanent disability claims in more recent years than previously forecasted. LAE reserves decreased \$26.5 million. LAE reserves for the 2018 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE reserve development was largely attributable to the overall reduction in loss reserves.

SAIF discounts the indemnity case reserves for workers' compensation claims 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. For federal claims, SAIF uses the 1999 United States Life Tables and a discount rate of 3.5 percent. SAIF does not discount any incurred but not reported reserves, medical reserves, or any LAE reserves, except for assumed IBNR reserves reported by the National Workers Compensation Reinsurance Pool. Net reserves subject to tabular discounting were \$202.8 million and \$210.8 million for 2019 and 2018, respectively. The discounts were \$95.3 million and \$96.5 million as of December 31, 2019 and 2018, respectively.

Anticipated salvage and subrogation of \$39.6 million and \$36.8 million was included as a reduction of the reserve for losses and LAE at December 31, 2019 and 2018, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of \$13.3 million and \$14.3 million for losses and LAE are related to asbestos claims as of December 31, 2019 and 2018, respectively. Amounts paid for asbestos-related claims were \$569 thousand and \$618 thousand for the years ended December 31, 2019 and 2018, 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; 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 \$4.7 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. In addition, SAIF elects to purchase additional coverage, including cyber insurance, through the fund. SAIF's assessment was \$0.7 million and \$1.0 million for the years ended December 31, 2019 and 2018, respectively.

SAIF is self-insured for workers' compensation insurance. 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, collective investment trusts, and other offerings selected by SAIF's Deferred Compensation Plan Committee. Plan assets are generally held in a trust account with Wells Fargo 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 (or book value in the case of the stable value option) 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. Employees' Retirement System annual financial report may be obtained by writing to PERS, Fiscal Services Division, PO Box 23700, Tigard, Oregon 97281-3700. The report may also be accessed online at: http://oregon.gov/PERS/pages/section/financial_reports/financials.aspx.

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. As of December 31, 2019, SAIF contributes 21.21 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). As of December 31, 2019, SAIF contributes 14.75 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 5.60 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, 2019 and 2018, consist of the following (dollars in thousands):

	2019	2018
Employer contributions:		
Debt service	\$ 5,060	\$ 4,854
PERS-Pension Program	6,425	6,118
OPSRP-Pension Program	6,308	4,739
Total employer contributions	<u>17,793</u>	<u>15,711</u>
Employee contributions paid by SAIF:		
PERS-IAP	1,988	2,053
OPSRP-IAP	2,975	2,638
Total employee contributions	<u>4,963</u>	<u>4,691</u>
Total contributions	<u>\$ 22,756</u>	<u>\$ 20,402</u>

For the years ended December 31, 2019 and 2018, 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, 2019. 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.

On December 30, 2019, SAIF funded a PERS side account totaling \$97.0 million which represented approximately 90 percent of SAIF's unfunded actuarial liability based on a preliminary actuarial valuation from PERS. This side account does not impact employee benefits received under PERS; instead, it represents a prepayment of SAIF's on-going contributions. SAIF will see the benefit of lower contribution rates over the next 16 years as the account is amortized. The balance is included in aggregate write-ins for other-than-

invested assets. This appears as a nonadmitted asset and a reduction of surplus because it represents a prepayment and the assets are held in the PERS trust, so they cannot be repurposed.

11. POST RETIREMENT BENEFITS AND COMPENSATED ABSENCES

Plan description – SAIF administers a single-employer defined benefit healthcare plan which is accounted for in accordance with SSAP No. 92. 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's APBO was \$9.7 million and \$10.0 million as of December 31, 2019 and 2018, respectively, all of which was unfunded. It is recorded as other accrued expenses on the Statement of Admitted Assets, Liabilities, and Capital and Surplus.

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, 2019 and 2018, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 2.75 percent discount rate as of December 31, 2019, and 4.00 percent as of December 31, 2018. The health care cost trend rate used for 2019 was:

<u>Year</u>	<u>Rate</u>
2019	6.50%
2020	6.00%
2021	5.50%
2022-2024	5.00%
2025-2042	4.75%
2043-2049	5.00%
2050-2064	4.75%
2065-2068	4.50%
2069-2071	4.25%
2072+	4.00%

The health care cost trend rate used for 2018 was:

Year	Rate
2018	6.50%
2019	5.75%
2020-2029	5.25%
2030-2031	6.00%
2032	6.25%
2033-2040	6.00%
2041-2043	5.75%
2044-2052	5.50%
2053-2064	5.25%
2065-2066	5.00%
2067-2069	4.75%
2070-2072	4.50%
2073+	4.25%

The net periodic benefit cost recognized for the years ended December 31, 2019 and 2018, was (dollars in thousands):

Components of net periodic benefit cost

	Postemployment & Compensated Absence Benefits	
	2019	2018
Service cost	\$ 526	\$ 559
Interest cost	390	331
Transition obligation recognized - Scheduled	-	612
Recognition of net (gain)	(648)	(797)
Total net periodic benefit cost	<u>\$ 268</u>	<u>\$ 705</u>

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	\$ 1,101	\$ (956)
Effect on total of service and interest cost component	\$ 126	\$ (105)

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

<u>Year(s)</u>	<u>Amount</u>
2020	\$ 491
2021	469
2022	494
2023	514
2024	596
2025 through 2029	3,854

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 due to each item below at December 31, 2019 and 2018, was as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Net unrealized investment gains	\$ 282,148	\$ 235,886
Nonadmitted assets	\$ (143,229)	\$ (43,142)
Change in accounting principle	\$ 11,938	\$ -

SAIF 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 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 \$124.8 million and \$90.1 million at December 31, 2019 and 2018, 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 are \$2.6 million and \$2.7 million at December 31, 2019 and 2018, respectively.

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

SAIF had entered into an \$88.7 million construction contract in 2018, of which \$2.2 million is still outstanding as of December 31, 2019.

SAIF had unfunded commitments of \$60.0 million to be invested in the Morgan Stanley Prime Property Fund, LLC, and \$120.0 million to be invested in DWS RREEF America REIT II, Inc. subject to capital calls by the fund, as of December 31, 2019.

14. LEASE COMMITMENTS

SAIF leases office space in several locations under operating leases expiring during various years through 2029. Lease expense was \$1.5 million and \$2.1 million for the years ended December 31, 2019 and 2018, respectively.

SAIF's future minimum lease payments under noncancelable operating leases at December 31, 2019, are as follows (dollars in thousands):

<u>Year(s)</u>	<u>Amount</u>
2020	\$ 1,245
2021	1,227
2022	1,093
2023	1,001
2024	<u>942</u>
Total minimum payments	<u>\$ 5,508</u>

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 which provides limits of \$160.0 million of coverage per occurrence in excess of a \$35.0 million retentions, with a \$10.0 million limit 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 2019, SAIF had reinsurance protection for 81 percent of losses in excess of 20 percent of 2018 direct earned 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 as a result of reinsurance ceded, excluding balances ceded to the Oregon Workers' Compensation Insurance Plan, for 2019 and 2018 (dollars in thousands):

	<u>2019</u>	<u>2018</u>
Reserve for losses and loss adjustment expenses	\$ 24,826	\$ 24,231
Premiums written and earned	\$ 2,013	\$ 1,898
Losses and loss adjustment expenses incurred	\$ 949	\$ 1,226

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

In 2019 and 2018, SAIF did not commute ceded reinsurance.

SAIF partners 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 2019 and 2018 (dollars in thousands):

Other States Coverage	2019	2018
Assumed:		
Reserve for losses and loss adjustment expenses	\$ 27,827	\$ 22,771
Unearned premiums	7,173	7,744
Premiums written	14,884	17,491
Premiums earned	15,454	17,002
Losses and loss adjustment expenses incurred	11,931	7,244
Commission expense	2,267	2,785

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 (NWCRC). 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 as a result of participation in the Plan in 2019 and 2018 (dollars in thousands):

NWCRP	2019	2018
Assumed:		
Reserve for losses and loss adjustment expenses	\$ 97,639	\$ 96,977
Unearned premiums	3,843	4,804
Premiums written	23,152	29,055
Premiums earned	24,112	29,856
Losses and loss adjustment expenses incurred	14,251	29,806
Commission expense	7,378	9,096
Ceded:		
Reserve for losses and loss adjustment expenses	\$ 54,492	\$ 57,307
Unearned premiums	5,365	6,644
Premiums written	14,998	19,318
Premiums earned	16,276	19,719
Losses and loss adjustment expenses incurred	4,153	1,599
Commission expense	5,936	6,896

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, 2019 and 2018.

Admitted EDP equipment and software at December 31, 2019 and 2018, were as follows (dollars in thousands):

	<u>2019</u>	<u>2018</u>
EDP equipment and software	\$ 42,506	\$ 13,620
Nonadmitted EDP software in development	(23,260)	-
Accumulated depreciation	<u>(17,827)</u>	<u>(11,953)</u>
Balance, net	<u>\$ 1,419</u>	<u>\$ 1,667</u>

Depreciation expense related to admitted EDP equipment and software was \$5.9 million and \$835 thousand for the years ended December 31, 2019 and 2018, 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 for the years ended December 31, 2019 and 2018.

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):

2019	Filed	Audited	Difference
(In thousands)			
Statement of admitted assets, liabilities, and capital and surplus:			
Other assets	\$ 29,224	\$ 28,442	\$ (782)
Total admitted assets	5,079,036	5,078,254	(782)
Losses	2,121,141	2,118,095	(3,046)
Unearned premiums	228,620	228,166	(454)
Other liabilities	4,598	7,615	3,017
Other accrued expenses	51,411	51,558	147
Total liabilities	3,002,148	3,001,812	(336)
Capital and surplus—PERS UAL	108,000	124,823	16,823
Capital and surplus—unassigned funds	1,968,888	1,951,619	(17,269)
Total capital and surplus	2,076,888	2,076,442	(446)
Total	5,079,036	5,078,254	(782)
Statement of revenues, expenses, and capital and surplus:			
Premiums earned, net	\$ 507,269	\$ 507,393	\$ 124
Losses incurred, net	316,607	314,836	(1,771)
Loss adjustment expenses incurred	89,574	89,650	76
Other underwriting expenses incurred	118,993	118,972	(21)
Total underwriting expenses	525,174	523,458	(1,716)
Net underwriting loss	(17,905)	(16,065)	1,840
Net investment income	290,516	290,513	(3)
Net loss from premium balances charged off	(1,201)	(1,465)	(264)
Other income	1,256	1,255	(1)
Total other income (expense)—net	55	(210)	(265)
Net income before dividends to policyholders	272,666	274,238	1,572
Net income	112,794	114,366	1,572
Net change in capital and surplus	70,908	72,480	1,572
Total capital and surplus—end of year	2,076,888	2,076,442	(446)
Statement of cash flows:			
Premiums collected net of reinsurance	\$ 503,922	\$ 503,969	\$ 47
Net investment income	167,985	167,982	(3)
Miscellaneous income (expense)	55	(211)	(266)
Benefits and loss related payments	(327,044)	(325,844)	1,200
Underwriting expenses paid	(199,367)	(199,224)	143
Net cash from (used in) operations	(14,358)	(13,237)	1,121
Other cash provided	(100,615)	2,644	103,259
Other cash applied	-	(104,380)	(104,380)
Net cash from (used in) financing and miscellaneous sources	(100,615)	(101,736)	(1,121)

2018 (In thousands)	<u>Filed</u>	<u>Audited</u>	<u>Difference</u>
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	<u>(609)</u>
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	<u>1,410</u>
Capital and surplus—PERS UAL	91,953	90,082	(1,871)
Capital and surplus—unassigned funds	1,914,028	1,913,880	<u>(148)</u>
Total capital and surplus	2,005,981	2,003,962	<u>(2,019)</u>
Total	5,122,475	5,121,866	<u>(609)</u>
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	<u>(151)</u>
Total underwriting expenses	338,293	341,083	<u>2,790</u>
Net underwriting income	185,995	182,598	(3,397)
Other income	(574)	(359)	215
Total other income (expense)—net	1,197	1,199	<u>3</u>
Net income before dividends to policyholders	345,278	342,099	<u>(3,180)</u>
Net income	185,340	182,160	<u>(3,180)</u>
Net change in capital and surplus	116,481	113,301	<u>(3,180)</u>
Total capital and surplus—end of year	2,005,981	2,003,962	<u>(2,019)</u>
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)	<u>325</u>
Net cash from operations	24,905	25,166	<u>261</u>
Other cash provided	(9,113)	(3,743)	5,370
Other cash applied	-	(5,631)	<u>(5,631)</u>
Net cash from (used in) financing and miscellaneous sources	(9,113)	(9,374)	<u>(261)</u>

SUPPLEMENTARY SCHEDULES

APPENDIX A
SUMMARY INVESTMENT SCHEDULE

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage of Column 1 Line 13	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage of Column 5 Line 13
1. Long-Term Bonds (Schedule D, Part 1):						
1.01 U.S. Governments	481,309,587	10.26	481,309,587		481,309,587	10.26
1.02 All other governments	37,243,845	0.79	37,243,845		37,243,845	0.79
1.03 U.S. states, territories and possessions, etc. guaranteed						
1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	13,532,613	0.29	13,532,613		13,532,613	0.29
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	626,656,517	13.36	626,656,517		626,656,517	13.36
1.06 Industrial and miscellaneous	2,651,517,309	56.55	2,651,517,309		2,651,517,309	56.55
1.07 Hybrid securities	17,834,709	0.38	17,834,709		17,834,709	0.38
1.08 Parent, subsidiaries and affiliates						
1.09 SVO identified funds						
1.10 Unaffiliated bank loans						
1.11 Total long-term bonds	3,828,094,580	81.64	3,828,094,580		3,828,094,580	81.64
2. Preferred stocks (Schedule D, Part 2, Section 1):						
2.01 Industrial and miscellaneous (Unaffiliated)						
2.02 Parent, subsidiaries and affiliates						
2.03 Total preferred stocks						
3. Common stocks (Schedule D, Part 2, Section 2):						
3.01 Industrial and miscellaneous Publicly traded (Unaffiliated)						
3.02 Industrial and miscellaneous Other (Unaffiliated)						
3.03 Parent, subsidiaries and affiliates Publicly traded						
3.04 Parent, subsidiaries and affiliates Other						
3.05 Mutual funds	492,780,536	10.51	492,780,536		492,780,536	10.51
3.06 Unit investment trusts						
3.07 Closed-end funds						
3.08 Total common stocks	492,780,536	10.51	492,780,536		492,780,536	10.51
4. Mortgage loans (Schedule B):						
4.01 Farm mortgages						
4.02 Residential mortgages						
4.03 Commercial mortgages						
4.04 Mezzanine real estate loans						
4.05 Total mortgage loans						
5. Real estate (Schedule A):						
5.01 Properties occupied by company	97,829,906	2.09	97,829,906		97,829,906	2.09
5.02 Properties held for production of income						
5.03 Properties held for sale						
5.04 Total real estate	97,829,906	2.09	97,829,906		97,829,906	2.09
6. Cash, cash equivalents and short-term investments:						
6.01 Cash (Schedule E, Part 1)	57,105,934	1.22	57,105,934		57,105,934	1.22
6.02 Cash equivalents (Schedule E, Part 2)	22,320,902	0.48	22,320,902	42,786,286	65,107,188	1.39
6.03 Short-term investments (Schedule DA)	71,666,671	1.53	71,666,671		71,666,671	1.53
6.04 Total cash, cash equivalents and short-term investments	151,093,507	3.22	151,093,507	42,786,286	193,879,793	4.13
7. Contract loans						
8. Derivatives (Schedule DB)						
9. Other invested assets (Schedule BA)	76,321,387	1.63	76,321,387		76,321,387	1.63
10. Receivables for securities	70,530	0.00	70,530		70,530	0.00
11. Securities Lending (Schedule DL, Part 1)	42,786,286	0.91	42,786,286	X X X	X X X	X X X
12. Other invested assets (Page 2, Line 11)						
13. Total invested assets	4,688,976,732	100.00	4,688,976,732	42,786,286	4,688,976,732	100.00

APPENDIX B

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2019
(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 93-9001769

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. \$ 5,078,254,274

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	\$ 492,780,536	9.702 %
2.02 FHLMO	Bond	\$ 337,569,822	6.645 %
2.03 FNMA	Bond	\$ 291,533,732	4.952 %
2.04 Morgan Stanley	Bond/Real Estate Fund	\$ 111,948,018	2.204 %
2.05 FHLB	Bond	\$ 72,808,554	1.430 %
2.06 JP Morgan Chase & Co	Bond	\$ 65,412,698	1.286 %
2.07 Goldman Sachs Group Inc.	Bond	\$ 62,802,357	1.233 %
2.08 Citigroup Inc.	Bond	\$ 58,125,274	1.144 %
2.09 Wells Fargo & Co	Bond	\$ 45,709,275	0.900 %
2.10 AT&T Inc.	Bond	\$ 43,358,054	0.854 %

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	\$ 2,303,782,190	45.359 %	3.07 P/RP-1	\$	%
3.02 NAIC 2	\$ 1,442,254,710	28.398 %	3.08 P/RP-2	\$	%
3.03 NAIC 3	\$ 149,840,717	2.950 %	3.09 P/RP-3	\$	%
3.04 NAIC 4	\$ 22,119,190	0.435 %	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	\$ 798,304,825	15.718 %
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:

	<u>1</u>	<u>2</u>
5.01 Countries designated NAIC 1	\$ 707,086,302	13.933 %
5.02 Countries designated NAIC 2	\$ 81,158,538	1.598 %
5.03 Countries designated NAIC 3 or below	\$ 9,479,785	0.187 %

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

Countries designated NAIC 1:		
6.01 Country 1: CAYMAN ISLANDS	\$ 176,877,319	3.482 %
6.02 Country 2: UNITED KINGDOM	\$ 108,216,509	2.144 %
Countries designated NAIC 2:		
6.03 Country 1: MEXICO	\$ 22,935,718	0.452 %
6.04 Country 2: INDONESIA	\$ 19,002,637	0.374 %
Countries designated NAIC 3 or below:		
6.05 Country 1: BRAZIL	\$ 4,599,849	0.091 %
6.06 Country 2: SOUTH AFRICA	\$ 2,812,337	0.055 %

7. Aggregate unhedged foreign currency exposure	\$	%
---	----	---

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

	<u>1</u>	<u>2</u>
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:

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:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	<u>Issuer</u>	<u>NAIC Designation</u>		
10.01	HSBC Holdings PLC	1FE	\$ 14,917,319	0.294 %
10.02	GFC Funding LTD	1FE	\$ 14,574,248	0.287 %
10.03	Carlyle GlobalMarket	1FE	\$ 14,375,000	0.283 %
10.04	UBS Group Funding Switzerland	1FE	\$ 13,830,793	0.268 %
10.05	Magnette CLO LTD	1FE	\$ 13,450,000	0.265 %
10.06	Cooperative Rabobank UA	2FE	\$ 13,343,257	0.263 %
10.07	Apidos CDO	1FE	\$ 11,993,245	0.236 %
10.08	Telefonica Emisiones SAU	2FE	\$ 11,029,473	0.217 %
10.09	Credit Suisse Group Funding LTD	2FE	\$ 10,985,588	0.216 %
10.10	Teva Pharmaceuticals	3FE	\$ 10,537,730	0.207 %

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 ☒ No ☐

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

	<u>1</u>	<u>2</u>	
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 ☒ No ☐

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	<u>1</u>	<u>2</u>	<u>3</u>	
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 ☒

If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

	<u>1</u> Issuer	<u>2</u>	<u>3</u>	
13.02 BlackRock MSCI ACWI Index Fund	\$	482,780,538	9,702	%
13.03 Morgan Stanley Prime Property Fund LLC	\$	60,000,000	1,181	%
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.

14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities	<u>1</u>	<u>2</u>	<u>3</u>	%
		\$		

Largest three investments held in nonaffiliated, privately placed equities:

14.03	\$	%
14.04	\$	%
14.05	\$	%

Ten largest fund managers:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	
	Fund Manager	Total Invested	Diversified	Nondiversified	
14.06 BlackRock	\$	492,780,536	\$	492,780,536	%
14.07 Morgan Stanley	\$	60,000,000	\$	60,000,000	%
14.08 State Street Global Advisors	\$	4,075,335	\$	4,075,335	%
14.09	\$		\$		%
14.10	\$		\$		%
14.11	\$		\$		%
14.12	\$		\$		%
14.13	\$		\$		%
14.14	\$		\$		%
14.15	\$		\$		%

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.

15.02 Aggregate statement value of investments held in general partnership interests	<u>1</u>	<u>2</u>	<u>3</u>	%
		\$		

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.

	<u>1</u>	<u>2</u>	<u>3</u>	
	Type (Residential, Commercial, Agricultural)			
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 ☐ 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 ☐ 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		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$ 38,460,513	0.758 %	\$	131,009,851	\$ 154,225,969	\$ 95,729,250
20.02 Repurchase agreements	\$	%	\$		\$	\$
20.03 Reverse repurchase agreements	\$	%	\$		\$	\$
20.04 Dollar repurchase agreements	\$	%	\$		\$	\$
20.05 Dollar reverse repurchase agreements	\$	%	\$		\$	\$

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

	Owned			Written	
	<u>1</u>	<u>2</u>		<u>3</u>	<u>4</u>
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		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
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		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
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 results of earthquake models and 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 uninsured 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 noncancelable 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 37 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 (PSAP) 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
(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
(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]
Yes [] No [X]
Yes [] No [X]