

2009 NAIC ANNUAL STATEMENT INSTRUCTIONS – PROPERTY

DEC 2009 REVISIONS

PAGE 96 – 97.1: **NOTES TO FINANCIAL STATEMENTS**
Revision: Add instructions for Note 9
Reason: Result of changes adopted by SAPWG for SSAP No. 10

PAGE 131 – 132: **NOTES TO FINANCIAL STATEMENTS**
Revision: Add instructions & Illustration for Note 21
Reason: Result of changes adopted by SAPWG for SSAP No. 9

PAGE 150 – 150.4: **NOTES TO FINANCIAL STATEMENTS**
Revision: Add instructions & Illustration for new Note 35B
Reason: Result of changes adopted by SAPWG for SSAP No. 60

PAGE 335: **SCHEDULE D, PART 6, SECTION 1**
Revision: Update codes shown in instructions
Reason: Location of SVO Manual instruction changed due to reformatting of manual. New codes reflect location like previous codes did.

EDITOR'S NOTE:

The above changes are highlighted within the attached instructions that follow this page.

Recent Blanks Working Group Agenda Items (Exposure Drafts) may be viewed in detail at the following web site:
http://www.naic.org/committees_e_app_blanks.htm.

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Illustration:

- A. The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.
- B. The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships and Limited Liability Companies during the statement periods.

7. Investment Income

Instruction:

Disclose the following for investment income due and accrued in the financial statements:

- A. The bases, by category of investment income, for excluding (nonadmitting) any investment income due and accrued.
- B. The total amount excluded.

Illustration:

- A. Due and accrued income was excluded from surplus on the following bases:

All investment income due and accrued with amounts that are over 90 days past due with the exception of mortgage loans in default.
- B. The total amount excluded was \$_____.

8. Derivative Instruments

Instruction:

Disclose the following information by category of derivative financial instrument:

- A. A discussion of the market risk, credit risk and cash requirements of the derivative.
- B. A description of the reporting entity's objectives for using derivatives, i.e., hedging, income generation or replication; as well as a description of the context needed to understand those objectives and its strategies for achieving those objectives, including the identification of the category, e.g. fair value hedges, cash flow hedges, or foreign currency hedges, and for all objectives, the type of instrument(s) used.
- C. A description of the accounting policies for recognizing (or reasons for not recognizing) and measuring the derivatives used, and when recognized and where those instruments and related gains and losses are reported.
- D. The net gain or loss recognized in unrealized gains or losses during the reporting period representing the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness.
- E. The net gain or loss recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting.
- F. For derivatives accounted for as cash flow hedges of a forecasted transaction, disclose:
 - (1) The maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments; and
 - (2) The amount of gains and losses classified in unrealized gains/losses related to cash flow hedges that have been discontinued because it was no longer probable that the original forecasted transactions would occur by the end of the originally specified time period or within 2 months of that date.

9. Income Taxes

Instruction:

- A. Disclose the components of the net deferred income tax asset (DTA) or deferred tax liability (DTL) recognized in the Company's financial statements as follows:
- (1) The total of all DTAs (gross, adjusted gross, admitted and nonadmitted) by tax character;
 - (2) The total of all DTLs by tax character;
 - (3) Net deferred tax asset (liability) [(1) – (2)]
Should agree with (Asset Page, Line 16.2, Column 1) – (Liability Page, Line 7.2, Column 1);
 - (4) The total DTAs nonadmitted as the result of the application of SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10;
 - (5) The Total of all DTAs admitted [(3) – (4)], not less than zero
Should agree with Asset Page, Line 16.2, Column 3;
 - (6) The net change during the year in the total DTAs nonadmitted.
 - (7) Whether the reporting entity has elected to admit DTAs pursuant to SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10; and whether the current-period election differs from the prior reporting period;
 - (8) The increased amount by tax character, and the change in such, of admitted adjusted gross DTAs as the result of the application of SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10, if applicable;
 - (9) The amount of each result or component of the calculation, by tax character and the risk-based capital level (total adjusted capital and authorized control level) as the result of the application of SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10.; and
 - (10) The amount of admitted DTAs, admitted assets, statutory surplus and total adjusted capital in the risk-based capital calculation and the increased amount of DTAs, admitted assets and surplus as the result of the application of SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10, if applicable.
- B. To the extent that DTLs are not recognized for amounts described in paragraph 31 of FAS 109, disclose the following:
- (1) A description of the types of temporary differences for which a DTL has not been recognized and the types of events that would cause those temporary differences to become taxable;
 - (2) The cumulative amount of each type of temporary difference;
 - (3) The amount of the unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration, if determination of that liability is practicable, or a statement that determination is not practicable; and
 - (4) The amount of the DTL for temporary differences other than those in item (3) above that is not recognized.

- C. Disclose the significant components of income taxes incurred (i.e., current income tax expenses) and the changes in DTAs and DTLs. These components would include, for example:
- (1) Current tax expense or benefit;
 - (2) The change in DTAs and DTLs (exclusive of the effects of other components listed below);
 - (3) Investment tax credits;
 - (4) The benefits of operating loss carry forwards;
 - (5) Adjustments of a DTA or DTL for enacted changes in tax laws or rates or a change in the tax status of the reporting entity; and
 - (6) Adjustments to gross deferred tax assets because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset, and the reason for the adjustment and change in judgment.
- D. To the extent that the sum of a reporting entity's income tax incurred and the change in its DTAs and DTLs is different from the result obtained by applying the federal statutory rate to its pretax net income, a reporting entity should disclose the nature of the significant reconciling items.
- E. A reporting entity should also disclose the following:
- (1) The amounts, origination dates and expiration dates of operating loss and tax credit carry forwards available for tax purposes;
 - (2) The amount of federal income taxes incurred in the current year and each preceding year that are available for recoupment in the event of future net losses; and
 - (3) The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code.
- F. If the reporting entity's federal income tax return is consolidated with those of any other entity or entities, provide the following:
- (1) A list of names of the entities with which the company's federal income tax return is consolidated for the current year, and
 - (2) The substance of the written agreement approved by the company's Board of Directors that sets forth the manner in which the total consolidated federal income tax for all entities is allocated to each entity that is a party to the consolidation. (If no written agreement has been executed, explain why such an agreement has not been executed.) Describe the method of allocation, setting forth the manner in which the company has an enforceable right to recoup federal income taxes in the event of future net losses that it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Refer to SSAP No. 10, Income Taxes, for accounting guidance on disclosure requirements, and INT 06-12 for more detail on protective tax deposits.

Illustration:

NOTE: Illustrations below do not reflect changes adopted by SSAP No. 10R, Income Taxes – Revised, A Temporary Replacement of SSAP No. 10

A. The components of the net deferred tax asset/(liability) at December 31 are as follows:

See illustration in paragraph 12.26 of the SSAP No. 10, Income Taxes Q&A.

B. Regarding deferred tax liabilities that are not recognized:

See example in paragraph 12.27 of the SSAP No. 10, Income Taxes Q&A.

C. Current income taxes incurred consist of the following major components:

See illustration in paragraph 12.28 of the SSAP No. 10, Income Taxes Q&A.

The main components of the 20__ deferred tax amounts are as follows:

See illustration in paragraph 12.29 of the SSAP No. 10, Income Taxes Q&A.

The changes in main components of DTAs and DTLs are as follows:

See illustration in paragraph 12.30 of the SSAP No. 10, Income Taxes Q&A.

D. Among the more significant book to tax adjustments were the following:

See illustration in paragraph 12.31 of the SSAP No. 10, Income Taxes Q&A.

E. See example in paragraph 12.32 of the SSAP No. 10, Income Taxes Q&A.

(3) The aggregate amount of deposits reported as admitted assets under Section 6603 of the Internal Revenue Service (IRS) Code was \$XX million as of December 31, 20XX.

F. See example in paragraph 12.33 of the SSAP No. 10, Income Taxes Q&A.

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10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

Instruction:

The financial statements shall include disclosures of all material related party transactions. In some cases, aggregation of similar transactions may be appropriate. Sometimes, the effect of the relationship between the parties may be so pervasive that disclosure of the relationship alone will be sufficient. If necessary to the understanding of the relationship, disclose the name of the related party. Transactions shall not be purported to be arm's-length transactions unless there is demonstrable evidence to support such statement. The disclosures shall include:

- A. The nature of the relationship involved;
- B. A description of the transactions for each of the periods for which financial statements are presented, and such other information considered necessary to obtain an understanding of the effects of the transactions on the financial statements. Exclude reinsurance transactions, any non-insurance transactions that are less than $\frac{1}{2}$ of 1% of the total admitted assets of the reporting entity, and cost allocation transactions. The following information shall be provided if applicable:
 - (1) Date of transaction;
 - (2) Explanation of transaction;
 - (3) Name of reporting entity;
 - (4) Name of affiliate;
 - (5) Description of assets received by reporting entity;
 - (6) Statement value of assets received by reporting entity;
 - (7) Description of assets transferred by reporting entity; and
 - (8) Statement value of assets transferred by reporting entity.
- C. The dollar amounts of transactions for each of the periods for which financial statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period;
- D. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement;
- E. Any guarantees or undertakings, written or otherwise, for the benefit of an affiliate or related party that result in a material contingent exposure of the reporting entity's or any related party's assets or liabilities;
- F. A description of material management or service contracts and cost-sharing arrangements involving the reporting entity and any related party. This shall include, but is not limited to, sale lease-back arrangements, computer or fixed asset leasing arrangements, and agency contracts that remove assets that may otherwise be recorded (and potentially nonadmitted) on the reporting entity's financial statements;
- G. The nature of the control relationship whereby the reporting entity and one or more other enterprises are under common ownership or control and the existence of that control could result in operating results or financial position of the reporting entity being significantly different from those that would have been obtained if the enterprises were autonomous. Disclose the relationship even though there are no transactions between the enterprises; and

- (3) Direct exposure through other investments.

| | 1 Actual Cost | 2 Book/Adjusted Carrying Value (excluding interest) | 3 Fair Value | 4 Other Than Temporary Impairment Losses Recognized |
|---|---------------------|--|--------------------|---|
| a. Residential mortgage-backed securities | | | | |
| b. Commercial mortgage-backed securities | | | | |
| c. Collateralized debt obligations | | | | |
| d. Structured securities | | | | |
| e. Equity investment in SCAs * | | | | |
| f. Other assets | | | | |
| g. Total | | | | |

* ABC Company's subsidiary XYZ Company has investments in subprime mortgages. These investments comprise ____% of the companies invested assets.

- (4) Underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage.

| | 1 Losses Paid in the Current Year | 2 Losses Incurred in the Current Year | 3 Case Reserves at End of Current Period | 3 IBNR Reserves at End of Current Period |
|--------------------------------|--|--|---|---|
| a. Mortgage Guaranty Coverage | | | | |
| b. Financial Guaranty Coverage | | | | |
| c. Other Lines (specify): | | | | |
| | | | | |
| d. Total | | | | |

21. Events Subsequent

Refer to SSAP No. 9, Subsequent Events, for accounting guidance.

Instruction:

Subsequent events shall be considered either:

Type I – Recognized Subsequent Events:

Events or transactions that provide additional evidence with respect to conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements.

Type II – Nonrecognized Subsequent Events:

Events or transactions that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose after that date.

For material Type I subsequent events, the nature and the amount of the adjustment shall be disclosed only if necessary to keep the financial statements from being misleading.

Material Type II subsequent events shall not be recorded in the financial statements, but shall be disclosed in the notes to the financial statements. For such events, an entity shall disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

An entity also shall consider supplementing the historical financial statements with pro forma financial data. Occasionally, a nonrecognized subsequent event may be so significant that disclosure can best be made by means of pro forma financial data.

Such data shall give effect to the event as if it had occurred on the balance sheet date. In some situations, an entity also shall consider presenting pro forma statements. If the Type II subsequent event is of such a nature that pro forma disclosures are necessary to keep the financial statements from being misleading, disclose supplemental pro forma financial data including the impact on net income, surplus, total assets, and total liabilities giving effect to the event as if it occurred on the date of the balance sheet.

Reporting entities shall disclose the dates through which subsequent events have been evaluated along with the dates the statutory reporting statements were issued, or available to be issued.

Illustration:

Type I – Recognized Subsequent Events:

Subsequent events have been considered through ___ / ___ / ___ for the statutory statement issued on ___ / ___ / ___.

On February 1, 20___, a settlement was reached in a major lawsuit against the Company. In conjunction with the lawsuit, the Company estimated and recorded a liability of \$ _____ on Line _____ of the Liabilities, Surplus and Other Funds page. The actual settlement amount of \$ _____ was paid to the plaintiff on February 10. The change will be recorded in the First Quarter Statement on Line _____ of the Statement of Income.

Type II – Nonrecognized Subsequent Events:

Subsequent events have been considered through ___ / ___ / ___ for the statutory statement issued on ___ / ___ / ___.

The Company faces loss exposure from the January 15, 20___ earthquake in the State of _____. This exposure is primarily in the Company's property and casualty subsidiaries, but also includes potential losses on its real estate and mortgage loan portfolios. Based on a review of the range of expected loss, the Company does not believe this event will have a material impact on its financial condition.

22. Reinsurance

Instruction:

A. Unsecured Reinsurance Recoverables

If the company has with any individual reinsurers, authorized or unauthorized, an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses, and unearned premium that exceeds 3% of the company's policyholder surplus, list each individual reinsurer and the unsecured aggregate recoverable pertaining to that reinsurer. If the individual reinsurer is part of a group, list the individual reinsurers, each of its related group members having reinsurance with the reporting company, and the total unsecured aggregate recoverables for the entire group.

Include: The NAIC group code number, where appropriate, and the Federal Employer Identification Number for each individual company.

B. Reinsurance Recoverable in Dispute

Reinsurance recoverable on paid and unpaid (including IBNR) losses in dispute by reason of notification, arbitration or litigation shall be identified in the schedule if the amounts in dispute from any company (and/or affiliate) exceeds 5% of the ceding company's policyholder's surplus or if the aggregate of all disputed items exceeds 10% of the ceding company's policyholders surplus. "Notification" means a formal written communication from a reinsurer denying the validity of coverage. Funds held under reinsurance arrangements should not be used to reduce reinsurance recoverables in dispute.

C. Reinsurance Assumed and Ceded

- (1) Report the maximum amount of return commission that would have been due reinsurers if they or you had canceled all of your company's reinsurance or if you or a receiver had canceled all of your company's insurance assumed as of the end of the period covered by this annual statement with the return of the unearned premium reserve. Equity amounts should be computed by applying the fixed or provisional commission rate for each contract to the unearned premium reserve.
- (2) Report the additional or return commission, predicated on loss experience or on any other form of profit sharing arrangements in this annual statement as a result of existing contractual arrangements.
- (3) Disclose the types of risks attributed to each of the company's protected cells, the ultimate amount of exposures covered, and the fair value of the underlying assets as of the annual statement date for each of the company's protected cells.

(3) Net of Ceded Reinsurance –

| | (1) <u>2005</u> | (2) <u>2006</u> | (3) <u>2007</u> | (4) <u>2008</u> | (5) <u>2009</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| a. Beginning reserves: | \$ <u>0</u> | \$ <u>0</u> | \$ <u>0</u> | \$ <u>0</u> | \$ <u>0</u> |
| b. Incurred losses and loss adjustment expense: | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| c. Calendar year payments for losses and loss adjustment expenses: | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| d. Ending reserves: | \$ <u>0</u> | \$ <u>0</u> | \$ <u>0</u> | \$ <u>0</u> | \$ <u>0</u> |

E. State the amount of the ending reserves for Bulk + IBNR included in D (Loss & LAE):

| | |
|-------------------------------------|-------------|
| (1) Direct Basis: | \$ <u>0</u> |
| (2) Assumed Reinsurance Basis: | \$ <u>0</u> |
| (3) Net of Ceded Reinsurance Basis: | \$ <u>0</u> |

F. State the amount of the ending reserves for loss adjustment expenses included in D (Case, Bulk + IBNR):

| | |
|-------------------------------------|-------------|
| (1) Direct Basis: | \$ <u>0</u> |
| (2) Assumed Reinsurance Basis: | \$ <u>0</u> |
| (3) Net of Ceded Reinsurance Basis: | \$ <u>0</u> |

33. Subscriber Savings Accounts

Instruction:

For reciprocal insurance companies only, describe the amount of surplus identified as subscriber savings accounts; indicate the source of the funds (either from the reciprocal's operations or contribution by the individual subscriber) and, the reporting location in surplus; and describe the conditions upon which the balances are paid to the subscribers.

Illustration:

At December 31, 20__ the Company has \$_____ identified to subscriber savings accounts. Of this amount, \$_____ is from company operations and is reported in Unassigned Funds (Page 3, Line 33). The balance identified to subscriber savings accounts, \$_____, was contributed directly by the subscribers and is separately reported in Other Than Special Surplus Funds (Page 3, Line 30). The subscriber savings account balances are paid to the subscribers upon their termination from the Company.

34. Multiple Peril Crop Insurance

Instruction:

Describe the method used to compute the unearned premium reserve. Disclose the amount of expense payment associated with the catastrophic coverage that was recorded as a reduction of loss expenses and the amount of expense payment for the buy-up coverage that was recorded as a reduction of other underwriting expenses.

Illustration:

The Company elected to compute the unearned premium reserve associated with the Multiple Peril Crop Insurance Program on a daily pro rata method as the Company did not believe it could demonstrate that the period of risk differs significantly from the contract period.

The Company reduced its loss expenses for expense payments associated with catastrophe coverage by \$_____ and \$_____ in 20__ and 20__, respectively. The Company reduced its other underwriting expenses for expense payments associated with buy-up coverage by \$_____ and \$_____ in 20__ and 20__, respectively.

35. Financial Guaranty Insurance

Instruction:

Financial guaranty insurers shall make all disclosures required below as well as other statements within the Accounting Practices and Procedures Manual, including but not limited to, the requirements of SSAP No. 55 and SSAP No. 1—*Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures*. (For disclosures within A and B below, all “expected” amounts and terms should be determined in accordance with management estimates.) In all instances, the insurer shall disclose when they elect to reflect timeframes or recognition principles from FAS 163 as permitted within the disclosure requirements.

An insurance enterprise shall disclose information that enables users of its financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

A. Disclose the following information for each annual reporting statement and in any interim period if a significant change has occurred in that interim period:

(1) For financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

a. Disclose the unearned premium revenue as of the reporting date, in proportion with the amount and expected coverage period of the insured risk, which would have been reflected if the premium had been received at inception.

NOTE: If desired, a reporting entity that follows FAS 163 for GAAP may elect to report this disclosure in accordance with the revenue recognition principles of FAS 163.

b. Provide a schedule of premiums (undiscounted) expected to be collected under all installment contracts detailing the following:

1. The four quarters of the subsequent annual period and each of the next four annual periods

2. The remaining periods aggregated in five-year increments

c. A roll forward of the expected future premiums (undiscounted), including:

1. Expected future premiums – Beginning of Year

2. Less – Premium payments received for existing installment contracts

3. Add – Expected premium payments for new installment contracts

4. Adjustments to the expected future premium payments

5. Expected future premiums – End of Year

(2) For non-installment contracts for which premium revenue recognition has been accelerated:

a. Disclose the amount and reasons for acceleration.

b. Provide a schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position detailing the following:

1. The four quarters of the subsequent annual period and each of the next four annual periods

2. The remaining periods aggregated in five year increments

(3) For the claim liability:

- a. The rate used to discount the claim liability. This rate shall equal the average rate of return on the admitted assets of the financial guaranty insurer as of the annual date of the computation of the reserve.

NOTE: The annual discount rate should be calculated pursuant to SSAP No. 60, Financial Guaranty Insurance, and shall be utilized for the subsequent year's quarterly financial statements. The discount rate shall be adjusted at the end of each year per SSAP No. 60.

- b. The significant component(s) of the change in the claim liability for the period (the accretion of the discount on the claim liability, changes in the timing, establishment of new reserves for defaults of insured contracts, changes or establishment of deficiency reserves, and changes or establishment of reserves for incurred but not reported claims), and the amount relating to each component(s).

(4) A description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations, including the following:

- a. A description of each grouping or category used to track and monitor deteriorating insured financial obligations
- b. The insurance enterprise's policies for placing an insured financial obligation in, and monitoring, each grouping or category
- c. The insurance enterprise's policies for avoiding or mitigating claim liabilities, the related expense and liability reported during the period for those risk mitigation activities (not including reinsurance), and a description of where that expense and that liability are reported in the statement of income and the statement of financial position, respectively.

B. An insurance enterprise shall disclose the following information for each annual and interim period related to the claim liability:

A schedule of insured financial obligations at the end of each interim period detailing, at a minimum, the following for each category or grouping of these financial obligations:

- (1) Number of issued and outstanding financial guarantee insurance contracts
- (2) Remaining weighted-average contract period

(Weighted average contract period shall be based on management's estimate of the weighted average life of the contracts. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.)

- (3) Insured contractual payments outstanding, segregating principal and interest

(Contractual payments outstanding shall be based on management's estimates of receivables. If desired, a reporting entity that follows FAS 163 for GAAP may elect to mirror the time period calculated under FAS 163.)

- (4) Gross claim liability

(Represents the unpaid losses and loss adjustment expenses calculated in accordance with SSAP No. 55 and SSAP No. 60, but excluding the effects of subrogation recoveries, ceded reinsurance and discounting.)

(5) Gross potential recoveries

(Includes (a) subrogation recoveries, which are deducted from the gross claim liabilities in accordance with SSAP No. 55 and (b) ceded reinsurance recoveries on unpaid losses, which are deducted from the gross claim liability in accordance with SSAP No. 62.)

(6) Discount, net (both claim liability and potential recoveries)

(Represents the discounting effect of the gross claim liability, subrogation recoveries and reinsurance recoveries.)

(7) Net claim liability

(Represents the gross claim liability less gross potential recoveries and the net discount. This line should reconcile to the sum of line 10, column 8 and column 9 (financial guaranty net unpaid losses and net unpaid loss adjustment expenses) of the Underwriting and Investment Exhibit, Part 2a – Unpaid Losses and Loss Adjustment Expenses.)

(8) Reinsurance recoverables

(Represents reinsurance recoverables on paid losses which is reported as an asset in accordance with SSAP No. 62. This line should reconcile to “Amounts recoverable from reinsurers” on the balance sheet.)

(9) Unearned premium revenue.

(Unearned premium revenue (UPR) should be consistent with the UPR measurement principles of SSAP No. 60. UPR reported in this schedule may not reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of all Premiums. To the extent that this amount does not reconcile to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a – Recapitulation of Premiums, provide an additional reconciliation to line 10, column 5 of the Underwriting and Investment Exhibit, Part 1a in a footnote to the tabular disclosures required in B.)

Illustration:

A.

(1) Financial guarantee insurance contracts where premiums are received as installment payments over the period of the contract, rather than at inception:

b. Schedule of premiums (undiscounted) expected to be collected under all installment contracts:

1.

| | |
|------------------------------|----------|
| 1 st Quarter 2011 | \$ _____ |
| 2 nd Quarter 2011 | _____ |
| 3 rd Quarter 2011 | _____ |
| 4 th Quarter 2011 | _____ |
| Year 2012 | _____ |
| Year 2013 | _____ |
| Year 2014 | _____ |
| Year 2015 | \$ _____ |

2.

| | |
|-------------------|----------|
| 2016 through 2020 | \$ _____ |
| 2021 through 2025 | _____ |
| 2026 through 2030 | _____ |
| Etc. | \$ _____ |

(NOTE: Use as many five year increments as needed)

c. Roll forward of the expected future premiums (undiscounted), including:

| | |
|--|----------|
| 1. Expected future premiums – Beginning of Year | \$ _____ |
| 2. Less – Premium payments received for existing installment contracts | _____ |
| 3. Add – Expected premium payments for new installment contracts | _____ |
| 4. Adjustments to the expected future premium payments | _____ |
| 5. Expected future premiums – End of Year | \$ _____ |

(2) Non-installment contracts for which premium revenue recognition has been accelerated:

b. Schedule of the future expected earned premium revenue on non-installment contracts as of the latest date of the statement of financial position:

1.

| | |
|------------------------------|----------|
| 1 st Quarter 2011 | \$ _____ |
| 2 nd Quarter 2011 | _____ |
| 3 rd Quarter 2011 | _____ |
| 4 th Quarter 2011 | _____ |
| Year 2012 | _____ |
| Year 2013 | _____ |
| Year 2014 | _____ |
| Year 2015 | \$ _____ |

2.

| | |
|-------------------|----------|
| 2016 through 2020 | \$ _____ |
| 2021 through 2025 | _____ |
| 2026 through 2030 | _____ |
| Etc. | \$ _____ |

(NOTE: Use as many five year increments as needed)

(3) Claim liability:

a. The company used a rate of ____ to discount the claim liability. This rate is equal to the average rate of return on the admitted assets of the company as of the December 31, 20XX.

b. Significant components of the change in the claim liability for the period

| Components | Amount |
|--|----------|
| Accretion of the discount | \$ _____ |
| Changes in timing | _____ |
| New reserves for defaults of insured contracts | _____ |
| Change in deficiency reserves | _____ |
| Change in incurred but not reported claims | _____ |
| Total | \$ _____ |

(4) Description of the insurance enterprise's risk management activities used to track and monitor deteriorating insured financial obligations:

a. Description of each grouping or category used to track and monitor deteriorating insured financial obligations

Category A: Includes insured financial obligations that are still currently performing (that is, insured contractual payments are made on time but the likelihood of an event of default has increased since the financial guarantee insurance contract was first issued), but if economic conditions persist for an extended period of time, they may not be performing in the future. The issuer of the insured financial obligation may have experienced credit deterioration as a result of a general economic downturn. As a result, the present value of expected net cash outflows may exceed the unearned premium revenue of the financial guarantee insurance contract some time in the future.

Category B: Includes insured financial obligations that are currently characterized as potentially nonperforming and may require action by the insurance enterprise to avoid or mitigate an event of default.

Category C: Includes insured financial obligations that are characterized as nonperforming and for which actions to date by the insurance enterprise have not been successful in avoiding or mitigating an event of default. The insurance enterprise continues its efforts to cure the claim, but an event of default is imminent.

Category D: Includes insured financial obligations where an event of default has occurred.

B. Schedule of insured financial obligations at the end of the period

| | <u>Surveillance Categories</u> | | | | <u>Total</u> |
|---|--------------------------------|-----------|-----------|-----------|--------------|
| | <u>A</u> | <u>B</u> | <u>C</u> | <u>D</u> | |
| Number of policies | | | | | |
| Remaining weighted-average contract period (in years) | | | | | XXX |
| Insured contractual payments outstanding: | | | | | |
| Principal | \$ | \$ | \$ | \$ | \$ |
| Interest | | | | | |
| Total | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Less: | | | | | |
| Gross potential recoveries | | | | | |
| Discount, net | | | | | |
| Net claim liability | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Unearned premium revenue | \$ | \$ | \$ | \$ | \$ |
| Reinsurance recoverables | \$ | \$ | \$ | \$ | \$ |

Column 1 – CUSIP Identification

All CUSIP/PPN/CINS numbers must conform to those published by the Securities Valuation Office (SVO). CUSIP numbers for all purchased publicly issued securities are available from the broker's confirmation or the certificate and will be identical to those used by the SVO. For private placement securities, the NAIC has created a special number called a PPN to be assigned by the Standard and Poor's CUSIP Bureau. For foreign securities, use a CINS that is assigned by the Standard and Poor's CUSIP Bureau.

NAIC numbers for privately placed (unregistered) securities (PPNs) owned prior to December 31, 1988, were made available to all insurers by the SVO in a special publication in early 1989 and are published in the December 31, 1989, and all subsequent versions of the *Valuation of Securities*. Number assignments for privately issued securities purchased subsequent to December 31, 1988, will be made by a special NAIC facility at the Standard and Poor's CUSIP Bureau. Call the SVO for details. Such a number must be obtained and provided to the SVO before any privately issued security can be listed in the *Valuation of Securities*.

Column 2 – Description

List the preferred and common stocks for each subsidiary, controlled, or affiliated (SCA) company, as defined in the General section of these instructions.

Column 3 – Foreign

Insert the appropriate code in the column based on the matrix provided in the Investment Schedules General Instructions.

Column 5 – NAIC Valuation Method

Include the NAIC valuation method as detailed in **Part FIVE, Section 4** of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*.

Use the following codes to indicate a specific valuation method:

| <u>CODE</u> | <u>Valuation Method</u> |
|-------------|---|
| 4ciA1 | Market Value |
| 4ciB1 | Investment in US Insurance Company SCAs |
| 4ciB2 | Investments in non-insurance SCA Entities Statutory Basis |
| 4ciB3 | Investments in non-insurance SCA Entities GAAP Basis |
| 4ciB4 | Investments in Foreign Insurance Company SCA Entities |
| 4ciB5 | Investments in Foreign non-insurance SCA Entities |
| 4ciB6 | Investments in Preferred Stock of an SCA |

Any NAIC Valuation Method which has not been approved by the filing of a SUB 1 form with the NAIC Securities Valuation Office and which is entered by the insurer under its own judgment shall have the letter "Z" appended to the method designation.

Column 6 – Do Insurer’s Assets Include Intangible Assets Connected with Holding of Such Company’s Stock?

State whether the assets shown by the insurer in this statement include, through the carrying value of stock of the SCA Company valued under the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, intangible assets arising out of the purchase of such stock by the insurer or the purchase by the SCA Company of the stock of a lower-tier company controlled by the SCA Company. For purposes of this question, intangible assets at purchase shall be defined as the excess of the purchase price over the tangible net worth (total assets less intangible assets and total liabilities) represented by such shares as recorded, immediately prior to the date of purchase, on the books of the company whose stock was purchased.

Column 7 – Total Amount of Such Intangible Assets

If the answer in Column 6 is “Yes,” give the total amount of intangible assets involved whether admitted or nonadmitted. The intangible assets shown for the SCA Company should include any intangible assets that are included in the SCA Company’s carrying value of the stock of one or more lower-tier companies controlled by the SCA Company. In all cases, the current intangible assets equal the intangible assets at purchase, as defined above, minus any writeoff thereof between the date of purchase and the statement date. If any portion of the total amount of intangible assets is required to be nonadmitted for all SCA companies combined in accordance with SSAP No. 88, Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 46 and SSAP No. 68, Business Combinations and Goodwill, state the total amount nonadmitted in the footnote at the bottom of the this section of the schedule.

Columns 9 and 10 – Stock of Such Company Owned by Insurer on Statement Date

State the number of shares of stock of the SCA Company owned by the insurer on the statement date and the percent owned of the outstanding shares of the same class.