

**2009 NAIC QUARTERLY STATEMENT INSTRUCTIONS – FRATERNAL**

**JUN 2009 REVISIONS**

**PAGE 32:**

**CASH FLOW**

Revision:

Revise instruction 6.3 Other Cash Provided

Reason:

Current reference to 5.2 causing confusion as more than one 5.2 in Cash Flow instructions

**PAGE 49:**

**INVESTMENT GENERAL INSTRUCTION**

Revision:

Revise definition of Hybrid Securities

Reason:

Clarify definition

**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](http://www.naic.org/committees_e_app_blanks.htm).

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**Reconcile Unrealized Capital Gains (Losses)**

1	Surplus Account (Page 4) Line 34 + 35, current year-to-date	_____
2	Increase (Decrease) by Adjustment from Investment Worksheet (Ref. # B5 + S5 + M6 + R4 + O6 + P4 + W4)	_____
3	Increase (Decrease) on Cash, Cash Equivalents and Short-term Investments (report on Line 12.6 of Cash Flow)	_____
4	Depreciation (included in Line 2 and reported on Line 2.6 of Cash from Operations Worksheet)	_____
5	Total of 1 – 2 – 3 – 4 (amount should = 0, if not = 0 balance should be reported as cash from investments misc. on Line 12.7 if amount is an increase and Line 13.6 if amount is a decrease)	_____ 0

**Reconcile Realized Capital Gains (Losses)**

1	Summary of Operations (Page 4) Line 30, current year-to-date before transfer to IMR and before taxes	_____
2	Realized Gain (Loss) from Investment Worksheet (Ref. # B6 + S6 + M7 + R6 + O7 + P6 + W6)	_____
3	Gain (Loss) on Cash, Cash Equivalents and Short-term Investments (report on Line 12.6 of Cash Flow)	_____
4	Total of 1 – 2 – 3 (amount should = 0, if not = 0 balance should be reported as cash from investments misc. on Line 12.7 if amount is an increase and Line 13.6 if amount is a decrease)	_____ 0

**Cash from Financing Worksheet**

These lines calculate Line 16 of the Cash Flow.

**Cash Provided (Applied):**

**Surplus Notes, Capital Notes**

1.1	Change in Surplus Notes-Liabilities (Page 3) Line 27, current statement date less previous year	_____
1.2	Change in Capital Notes-Liabilities (Page 3) current statement date less previous year	<u>(N/A for Fraternal)</u>
1.3	_____	_____
1.4	Total of 1.1 + 1.2 + 1.3 (report on Line 16.1 of Cash Flow)	_____

**Capital and Paid in Surplus, Less Treasury Stock (N/A for Fraternal)**

2.1	Change in Capital-Liabilities, Surplus (Page 3) current statement date less previous year	<u>(N/A for Fraternal)</u>
2.2	Change in Paid in Surplus-Liabilities (Page 3) current statement date less previous year	<u>(N/A for Fraternal)</u>
2.3	Change in Treasury Stock-Liabilities, Surplus (Page 3) current statement date less previous year	<u>(N/A for Fraternal)</u>
2.4	Transfer from Unassigned Surplus to lines included in 2.1 or 2.2	<u>(N/A for Fraternal)</u>
2.5	_____	<u>(N/A for Fraternal)</u>
2.6	Total of 2.1 + 2.2 – 2.3 – 2.4 + 2.5 (report on Line 16.2 of Cash Flow)	<u>(N/A for Fraternal)</u>

**Borrowed Money**

3.1	Change in Borrowed Money-Liabilities (Page 3) Line 20, current statement date less previous year	_____
3.2	_____	_____
3.3	Total of 3.1 + 3.2 (report on Line 16.3 of Cash Flow)	_____

**Net Deposits on Deposit-type Contracts and Other Insurance Liabilities**

4.1	Change in Deposit-type Contracts-Liabilities, Surplus (Page 3) Line 3, current statement date less previous year	_____
4.2	_____	_____
4.3	Total of 4.1 + 4.2 (report on Line 16.4 of Cash Flow)	_____

**Dividends to Stockholders (N/A for Fraternal)**

5.1	Dividends to Stockholders-Capital and Surplus Account (Page 4)	(N/A for Fraternal)
5.2	Change in Dividends to Stockholders-Liabilities, Surplus (Page 3) current statement date less previous year	(N/A for Fraternal)
5.3	Total of 5.1 – 5.2 (report on Line 16.5 of Cash Flow)	(N/A for Fraternal)

**Other Cash Provided (Applied)**

6.1	Aggregate Write-ins for Gains (Losses) to Surplus-Capital and Surplus Account (Page 4) Line 44 + 45, current year-to-date	_____
6.2	Change in Misc. Liabilities-Liabilities, Surplus (Page 3) Line 15 + 16 + 17 + 19 + 21.3 to 21.6 + 22 + 26 + 28, current statement date less previous year	_____
6.3	Change in Misc. Assets-Assets (Page 2) Lines 18 + 19 + 21 + 22 (in part for amounts not included elsewhere) + 23 (in part for amounts not included elsewhere), Column 1, current statement date less previous year	_____
6.4	Transfer from Unassigned Surplus to lines included in 6.2	_____
6.5	Depreciation (included on Line 7.4 from Operations Worksheet)	_____
6.6	_____	_____
6.7	Total of 6.1 + 6.2 – 6.3 – 6.4 + 6.5 + 6.6 (report on Line 16.6 of Cash Flow)	_____

**Reconcile Change in Liability in Reinsurance in Unauthorized Companies**

1	Change in Liability for Reinsurance in Unauthorized Companies-Capital and Surplus Account (Page 4) Line 37, current year-to-date	_____
2	Change in Liability for Reinsurance in Unauthorized Companies-Liabilities, Surplus (Page 3) Line 21.2, current statement date less previous year	_____
3	Total of 1 – 2 (amount should = 0, if not = 0 balance should be reported as an adjustment to the appropriate line on the Cash Flow Statement)	_____ 0

**Reconcile Nonadmitted Assets**

1	Surplus Account (Page 4) Line 36, current year-to-date	_____
2	Change in nonadmitted (Page 2, Column 2 Total, current statement date – Column 2 Total, previous year adjusted for amounts reported in unrealized capital gains/losses)	_____
3	Other adjustments	_____
4	Total of 1 + 2 + 3 (amount should = 0, if not = 0, balance should be reported as cash from financing on Line 16.6)	_____ 0

**Reconcile Change in Accounting**

	Surplus Account (Page 4) Line 43, current year-to-date	_____
	Allocate all amounts due to change in accounting to the appropriate section of the worksheet	

Single class mortgage-backed/asset-backed securities of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agriculture Mortgage Corporation (Farmer Mac) and the Federal Home Loan Banks (FHL Banks) are not to be considered exempt and are reported in the Special Revenue and Special Assessment Obligations group. For statutory reporting purposes, GNMA and VA CMOs are not to be considered U.S. government bonds and are reported in the Special Revenue and Special Assessment Obligations group.

Multi-class securities as defined below, regardless of issuer, are not to be considered U.S. government bonds. For statutory reporting purposes, GNMA and VA CMOs are not to be considered U.S. government bonds and are reported in the Special Revenue and Special Assessment Obligations group.

All Other Governments:

This includes bond investments issued by non-U.S. governments, including bonds of political subdivisions and special revenue. This includes bonds issued by utilities owned by non-U.S. governments.

U.S. States, Territories and Possessions (Direct and Guaranteed):

General obligations of these entities (NAIC members), as well as bonds issued by utility companies owned by these entities. NAIC membership is composed of the 50 states, the District of Columbia, American Samoa, Guam, Northern Marianna Islands, Puerto Rico, and the U.S. Virgin Islands.

U.S. Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed):

General obligations of cities, counties, townships, etc., as well as bonds issued by utility companies owned by these entities.

U.S. Special Revenue and Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and Their Political Subdivisions:

Those U.S. government issues not listed in Appendix 14 of the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, yet included in Appendices 16 through 19. This category also includes bonds that are issued by states, territories, possessions and other political subdivisions that are issued for a specific financing project rather than as general obligation bonds.

Industrial and Miscellaneous (Unaffiliated):

This category includes all non-governmental issues that do not qualify for some other category in Schedule D, Part 1, including privatized (non-government ownership) utility companies, Class One Bond Mutual Fund as listed in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, Appendix 10 and Exchange Traded Funds listed in the *Purposes and Procedures Manual of the NAIC Securities Valuation Office*, Appendix 20.

Credit Tenant Loans:

First liens on real property where rental payments are assigned to the lender (i.e., the credit standing of the major tenant backs the loan).

Hybrid Securities:

Securities whose proceeds are accorded some degree of equity treatment by one or more of the nationally recognized statistical rating organizations and/or which are recognized as regulatory capital by the issuer's primary regulatory authority. Hybrid securities are designed with characteristics of debt and of equity and are intended to provide protection to the issuer's senior note holders. Hybrid securities products are sometimes referred to as capital securities. Examples of hybrid securities include Trust Preferreds, Yankee Tier 1s (with and without coupon step-ups) and debt-equity hybrids (with and without mandatory triggers).

This specifically excludes surplus notes, which are reported in Schedule BA, subordinated debt issues which have no coupon deferral features, and "Traditional" preferred stocks, which are reported in Schedule D Part 2 Section 1. With respect to preferred stock, traditional preferred stocks include, but are not limited to a) for U.S. issuers do not allow tax deductibility for dividends; and b) those issued as preferred stock of the entity or an operating subsidiary, not through a trust or a special purpose vehicle.

Parent, Subsidiaries and Affiliates:

Defined by SSAP 97

### **General Classifications Preferred Stock Only:**

#### Industrial and Miscellaneous (Unaffiliated):

All unaffiliated preferred stocks

#### Parent, Subsidiaries and Affiliates:

Defined by SSAP 97

### **General Classifications Common Stock Only:**

#### Industrial and Miscellaneous (Unaffiliated):

All unaffiliated common stocks that are not mutual funds or money market mutual funds.

#### Mutual Funds:

All investments in shares of funds regulated as mutual funds by the Securities and Exchange Commission. This definition does not include closed funds or hedge funds.

#### Money Market Mutual Funds:

All investment in shares of funds regulated as money market mutual funds by the Securities and Exchange Commission.

#### Parent, Subsidiaries and Affiliates:

Defined by SSAP 97

### **Specific Classifications:**

#### Issuer Obligations:

All bonds not backed by other loans and other assets.

#### Single Class Mortgage-Backed/Asset-Backed Securities:

Pass-through certificates and other "securitized" loans with only one class of investor. Payment of interest and/or principal of the security are/is directly proportional to interest and/or principal received by the business entity from the loans supporting the security.

#### Multi-Class Residential Mortgage-Backed Securities:

Residential mortgage-backed securities that have been divided into two or more classes of investors. These securities do not receive proportionate payments of principal and interest representing an ownership interest in instruments. Multi-Class Residential Mortgage-Backed Securities are divided into "Defined" and "Other" securities.

#### Defined Multi-Class Residential Mortgage-Backed Securities:

Those securities that are directly or indirectly secured by first liens on one to four family residential properties and are rated in one of the two highest categories by an Acceptable Rating Organization (ARO) that is recognized by the SVO.