2014 NAIC QUARTERLY STATEMENT INSTRUCTIONS – PROPERTY

JUN 2014 REVISIONS

PAGE 41 & 43: NOTES TO FINANCIAL STATEMENT
Revision: Added wording to include reconciliation table for Note 1A
Reason: Clarify that reconciliation table is required

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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NOTES TO FINANCIAL STATEMENTS

The interim financial information shall include disclosures sufficient to make the information presented not misleading. It may be presumed that the users of the interim financial information have read or have access to the annual statement for the preceding period and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure that would substantially duplicate the disclosure contained in the most recent annual statement or audited financial statements, such as a statement of significant accounting policies and practices, details of accounts that have not changed significantly in amount or composition since the end of the most recently completed fiscal year, may be omitted but the footnote number and annotation such as “no change” should be included. However, provide disclosure for annual Note 1A, 5D, 5E(3)b, 5I(2), 5I(3), 11B, 12A(4), 17B(2)b, 17B(4)a, 17B(4)b, 17C, 20, 21G, 21I, 25 and 36B in all quarters; and all other Notes where events subsequent to the end of the most recent fiscal year have occurred that have a material impact on the reporting entity. Disclosures shall encompass, for example, significant changes since the end of the period reported on the last annual statement in such items as statutory accounting principles and practices; estimates inherent in the preparation of financial statements; status of long term contracts; capitalization including significant new borrowings or modifications of existing financial arrangements; and the reporting entity resulting from business combinations or dispositions. Notwithstanding the above, where material noninsurance contingencies exist, disclosure of such matters shall be provided even though a significant change since year-end may not have occurred. If the reporting entity has changed the accounting policies since the end of its preceding year, the changes shall be disclosed in the quarterly financial statements. Information should be reported for current year-to-date.

1. Summary of Significant Accounting Policies

Instruction:

Refer to SSAP No. 1, Disclosure of Accounting Policies, Risks & Uncertainties, and Other Disclosures, for accounting guidance regarding disclosure requirements. The major disclosure requirements are as follows:

A. This note (including a table reconciling income and surplus between the state basis and SAP basis) is to be completed, even if there are no prescribed practices or permitted practices to report. Indicate that the statement has been completed in accordance with the Accounting Practices and Procedures Manual. If a reporting entity employs accounting practices that depart from the Accounting Practices and Procedures Manual including different practices required by state law, disclose the following information about those accounting practices that affect net income, statutory surplus or risk-based capital.

Include:

- A description of the accounting practice;
- A statement that the accounting practice differs from NAIC statutory accounting practices and procedures (NAIC SAP);
- The monetary effect on net income and statutory surplus of using an accounting practice that differs from NAIC statutory accounting practices and procedures; and
- If an Insurance enterprise’s risk-based capital would have triggered a regulatory event had it not used a prescribed or permitted practice, that fact should be disclosed in the financial statements.

In addition, disclose the following information about accounting practices when NAIC statutory accounting practices and procedures do not address the accounting for the transaction:

- A description of the transaction and of the accounting practice used; and
- A statement that the NAIC statutory accounting practices and procedures do not address the accounting for the transaction.
NOTE: Amounts reported in other notes to the financial statements shall reference Note 1 if impacted by prescribed or permitted practices. The following is an example of inserting a statement within applicable notes:

Example Illustration: Note 3. Business Combinations and Goodwill

Illustration:

A. Statutory Purchase Method

(1) The Company purchased 100% interest of XYZ Insurance Company on 6/30/_____. XYZ Insurance Company is licensed in 49 states and sells individual term life products exclusively.

(2) The transaction was accounted for as a statutory purchase.

(3) The cost was $_______, resulting in goodwill in the amount of $_______.*

(4) Goodwill amortization relating to the purchase of XYZ Insurance Company was $_______ for the year ended 12/31/_____.*

* These amounts reflect prescribed or permitted practices that depart from the NAIC Accounting Practices and Procedures Manual, See Note 1, Summary of Significant Accounting Policies for additional information.

Illustration:

A. Accounting Practices

The financial statements of XYZ Company are presented on the basis of accounting practices prescribed or permitted by the ABC Insurance Department.

The ABC Insurance Department recognizes only statutory accounting practices prescribed or permitted by the State of ABC for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the ABC Insurance Law. The Accounting Practices and Procedures Manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of ABC. The state has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, 1) goodwill arising from the purchase of a subsidiary, controlled or affiliated entity is written off directly to surplus in the year it originates by ABC domiciled companies. In NAIC SAP, goodwill in amounts not to exceed 10% of an insurer’s capital and surplus may be capitalized and all amounts of goodwill are amortized to unrealized gains and losses on investments over periods not to exceed 10 years, and, 2) 100% of all fixed assets are admitted by ABC domiciled companies. In NAIC SAP, fixed assets are not admitted. The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices.

The Company, with the explicit permission of the Commissioner of Insurance of the State of ___, records the value of its home office building at fair market value instead of at depreciated cost required by the NAIC SAP. If the home office building were carried at depreciated cost, home office property and statutory surplus would be decreased by $_____ and $_____ as of December 31, 20__ (prior year end) and 20__ (current year to date), respectively. Additionally, net income would be increased by $_____ and $_____, respectively, for the years then ended. Finally, if the Company had not been permitted to record the value of its home office building at fair market value, the Company’s risk-based capital would have triggered a regulatory event.
A reconciliation of the Company’s net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of ABC is shown below:

<table>
<thead>
<tr>
<th>State of Domicile</th>
<th>20____</th>
<th>20_____</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NET INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) ABC Company state basis (Page 4, Line 20, Columns 1 &amp; 3)</td>
<td>$_________</td>
<td>$_________</td>
</tr>
<tr>
<td>(2) State Prescribed Practices that increase/(decrease) NAIC SAP: e.g., Depreciation of fixed assets</td>
<td>$_________</td>
<td>__________</td>
</tr>
<tr>
<td>(3) State Permitted Practices that increase/(decrease) NAIC SAP: e.g., Depreciation, home office property</td>
<td>$_________</td>
<td>__________</td>
</tr>
<tr>
<td>(4) NAIC SAP (1-2-3=4)</td>
<td>$_________</td>
<td>$_________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>SURPLUS</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(5) ABC Company state basis (Page 3, Line 37, Columns 1 &amp; 2)</td>
<td>$_________</td>
<td>$_________</td>
</tr>
<tr>
<td>(6) State Prescribed Practices that increase/(decrease) NAIC SAP: e.g., Goodwill, net e.g., Fixed Assets, net</td>
<td>$_________</td>
<td>__________</td>
</tr>
<tr>
<td>(7) State Permitted Practices that increase/(decrease) NAIC SAP: e.g., Home Office Property</td>
<td>$_________</td>
<td>__________</td>
</tr>
<tr>
<td>(8) NAIC SAP (5-6-7=8)</td>
<td>$_________</td>
<td>$_________</td>
</tr>
</tbody>
</table>

**NOTE:** The permitted and prescribed adjustments detailed in the reconciliation illustrated above are only examples of permitted or prescribed practices that could be disclosed in the Notes to Financial Statements. Other permitted or prescribed practices not shown in the example should also be shown in the reporting entities printed and electronic notes.
5. **Investments**

**Instruction:**

**D. Loan-Backed Securities**

For loan-backed securities, disclose the following:

1. Descriptions of sources used to determine prepayment assumptions.

2. All securities within the scope of this statement with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment:
   - Intent to sell.
   - Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis.

3. For each security, by CUSIP, with an other-than-temporary impairment, recognized in the current reporting period by the reporting entity, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities:
   - The amortized cost basis, prior to any current-period other-than-temporary impairment.
   - The other-than-temporary impairment recognized in earnings as a realized loss.
   - The fair value of the security.
   - The amortized cost basis after the current-period other-than-temporary impairment.

4. All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):
   a. The aggregate amount of unrealized losses (that is, the amount by which cost or amortized cost exceeds fair value); and
   b. The aggregate related fair value of securities with unrealized losses.

The disclosures in (a) and (b) above should be segregated by those securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer using fair values determined in accordance with SSAP No. 27, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk.

5. Additional information should be included describing the general categories of information that the investor considered in reaching the conclusion that the impairments are not other-than-temporary.

**E. Repurchase Agreements and/or Securities Lending Transactions**

3. If the entity or its agent has accepted collateral that it is permitted by contract or custom to sell or repledge, disclose the following information by type of program (repurchase agreement, securities lending or dollar repurchase agreement) as of the date of each statement of financial position:
   - The fair value as of the date of each statement of financial position presented of that collateral and of the portion of that collateral that it has sold or repledged.

**I Working Capital Finance Investments**

2. Disclose the aggregate book/adjusted carrying value maturity distribution on the underlying Working Capital Finance Programs by the following categories: maturities up to 180 days and 181 to 365 days.

3. Disclose any events of default of working capital finance investments during the reporting period.