2015 NAIC QUARTERLY STATEMENT INSTRUCTIONS – TITLE

MAR 2015 REVISIONS

PAGE 40: NOTES TO FINANCIAL STATEMENTS
Revision: Update list of required quarterly notes disclosures.
Reason: Disclosures added to instructions required by SAP but not included in instructions.

PAGE 41 & 42: NOTES TO FINANCIAL STATEMENTS
Revision: Add Note 1C(6) to instructions.
Reason: Required by SSAP No. 43R.

PAGE 51: NOTES TO FINANCIAL STATEMENTS
Revision: Add Note 17B(2)a and 17B(2)c to instructions.
Reason: Required by SSAP No.103.

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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Reconcile Change in Accounting:

Capital and Surplus Account (Page 4) Line 25 of current year-to-date

Allocate all amounts due to change in accounting to the appropriate section of the worksheet

Supplemental Disclosure of Non-cash Transactions

Report the amount of non-cash investing and financing transactions consistent with the classifications contained on the Assets and Liabilities, Surplus and Other Funds (all except Health) Liabilities, Capital and Surplus (Health) page of the financial statement excluding amounts associated with policy or contract loans. Refer to SSAP No. 69, Statement of Cash Flow, for accounting guidance.

Examples of non-cash investing and financing transactions include:

- Converting debt to equity;
- Acquiring assets by assuming directly related liabilities, such as purchasing a building by incurring a mortgage to the seller; and
- Exchanging non-cash assets or liabilities for other non-cash assets or liabilities.

Illustration:

The Company reported the following non-cash investing and financing activities in 20___:

<table>
<thead>
<tr>
<th>Current Year</th>
<th>Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.0001. Real estate acquired in satisfaction of debt</td>
<td>XXX</td>
</tr>
<tr>
<td>20.0002. Bonds &amp; stocks acquired in a business acquisition</td>
<td>XXX</td>
</tr>
<tr>
<td>20.0003. Policy reserves acquired in a business acquisition</td>
<td>XXX</td>
</tr>
</tbody>
</table>
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, 1C(6), 5D, 5E(3)b, 5f(2), 5f(3), 5J, 11B, 12A(4), 17B(2), 17B(4)a, 17B(4)b, 17C, 20 and 25 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.

C. Disclose all accounting policies that materially affect the assets, liabilities, capital and surplus or results of operations. Include:

(6) Basis at which the loan-backed securities are stated and the adjustment methodology used for each type of security (prospective or retrospective).

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.
THE RECONCILIATION TABLE BELOW IS REQUIRED REGARDLESS OF WHETHER THE REPORTING ENTITY HAS ANY STATE PRESCRIBED OR PERMITTED PRACTICES.

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 15, 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>
<tr>
<td><strong>SURPLUS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) ABC Company state basis (Page 3, Line 32, 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.

C. Accounting Policy

(6) Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. The retrospective adjustment method is used to value all securities except for interest only securities or securities where the yield had become negative, that are valued using the prospective method.

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.
17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

Instruction:

B. Transfer and Servicing of Financial Assets

For transactions reported in accordance with SSAP No. 103, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a reporting entity shall disclose the following:

(2) For all servicing assets and servicing liabilities:

a. A description of the risks inherent in servicing assets and servicing liabilities and, if applicable, the instruments used to mitigate the income statement effect of changes in fair value to the servicing assets and servicing liabilities. (Disclosure of quantitative information about the instruments used to manage the risks inherent in servicing assets and servicing liabilities is encouraged but not required.)

b. The amount of contractually specified servicing fees, late fees and ancillary fees earned for each period for which results of operations are presented, including a description of where each amount is reported in the statement of income.

c. Quantitative and qualitative information about the assumptions used to estimate the fair value (for example, discount rates, anticipated credit losses, and prepayment speeds). An entity that provides quantitative information about the instruments used to manage the risks inherent in the servicing assets and servicing liabilities, as encouraged by SSAP No. 103, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, also is encouraged, but not required to disclose the quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.

(4) For securitizations, asset-backed financing arrangements and similar transfers accounted for as sales when the transferor has continuing involvement (as defined in the glossary of the Accounting Practices and Procedures Manual) with the transferred financial assets:

a. For each income statement presented:

1. The characteristics of the transfer (including a description of the transferor’s continuing involvement with the transferred financial assets, the nature and initial fair value of the assets obtained as proceeds and the liabilities incurred in the transfer, and the gain or loss from the sale of transferred financial assets. For initial fair value measurements of assets obtained and liabilities incurred in the transfer, the following information:

   (a) The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2) and significant unobservable inputs (Level 3).

   (b) The key inputs and assumptions used in measuring the fair value of assets obtained and liabilities incurred as a result of the sale that relate to the transferor’s continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates; expected prepayments, including the expected weighted-average life of pre-payable financial assets; and anticipated credit losses, including expected static pool losses).

   • If an entity has aggregated multiple transfers during a period, it may disclose the range of assumptions.

   • The weighted-average life of pre-payable assets in periods (for example, months or years) can be calculated by multiplying the principal collections expected in each future period by the number of periods until that future period, summing those products, and dividing the sum by the initial principal balance.

   • Expected static pool losses can be calculated by summing the actual and projected future credit losses and dividing the sum by the original balance of the pool of assets.

2. Cash flows between a transferor and transferee, including proceeds from new transfers, proceeds from collections reinvested in revolving-period transfers, purchases of previously transferred financial assets, servicing fees and cash flows received from a transferor’s beneficial interests.
b. For each statement of financial position presented, regardless of when the transfer occurred:

1. Qualitative and quantitative information about the transferor’s continuing involvement with transferred financial assets that provides financial statement users with sufficient information to assess the reasons for the continuing involvement and the risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the extent that the transferor’s risk profile has changed as a result of the transfer (including, but not limited to, credit risk, interest rate risk and other risks), including:

   (a) The total principal amount outstanding, the amount that has been derecognized and the amount that continues to be recognized in the statement of financial position.

   (b) The terms of any arrangements that could require the transferor to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to the transferee or its beneficial interest holders, including a description of any events or circumstances that could expose the transferor to loss and the amount of the maximum exposure to loss.

   (c) Whether the transferor has provided financial or other support during the periods presented that it was not previously contractually required to provide to the transferee or its beneficial interest holders, including when the transferor assisted the transferee or its beneficial interest holders in obtaining support, including:

      • The type and amount of support.
      • The primary reasons for providing the support.

   (d) Information is encouraged about any liquidity arrangements, guarantees, and/or other commitments provided by third parties related to the transferred financial assets that may affect the transferor’s exposure to loss or risk of the related transferor’s interest.

2. The entity’s accounting policies for subsequently measuring assets and liabilities that relate to the continuing involvement with the transferred financial assets.

3. The key inputs and assumptions used in measuring the fair value of assets or liabilities that relate to the transferor’s continuing involvement (including, at a minimum, but not limited to, and if applicable, quantitative information about discount rates; expected prepayments, including the expected weighted-average life of pre-payable financial assets; and anticipated credit losses, including expected static pool losses).

4. For the transferor’s interests in the transferred financial assets, a sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported per SSAP No. 103, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, independently from any change in another key assumption, and a description of the objectives, methodology and limitations of the sensitivity analysis or stress test.

5. Information about the asset quality of transferred financial assets and any other assets that it manages together with them. This information shall be separated between assets that have been derecognized and assets that continue to be recognized in the statement of financial position. This information is intended to provide financial statement users with an understanding of the risks inherent in the transferred financial assets, as well as in other assets and liabilities that it manages together with transferred financial assets. For example, information for receivables shall include, but is not limited to:

      • Delinquencies at the end of the period.
      • Credit losses, net of recoveries, during the period.