

NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

<p align="right">DATE: <u>03/13/2017</u></p> <p>CONTACT PERSON: _____</p> <p>TELEPHONE: _____</p> <p>EMAIL ADDRESS: _____</p> <p>ON BEHALF OF: _____</p> <p>NAME: <u>Dale Bruggeman</u></p> <p>TITLE: <u>Chair SAPWG</u></p> <p>AFFILIATION: <u>Ohio Department of Insurance</u></p> <p>ADDRESS: <u>50W. Town St., 3rd Fl., Ste. 300</u> <u>Columbus, OH 43215</u></p>	<p align="center">FOR NAIC USE ONLY</p> <p>Agenda Item # <u>2017-12BWG MOD</u></p> <p>Year <u>2017</u></p> <p>Changes to Existing Reporting [X]</p> <p>New Reporting Requirement []</p> <hr/> <p align="center">REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT</p> <p>No Impact [X]</p> <p>Modifies Required Disclosure []</p> <hr/> <p align="center">DISPOSITION</p> <p>[] Rejected For Public Comment</p> <p>[] Referred To Another NAIC Group</p> <p>[] Received For Public Comment</p> <p>[X] Adopted Date <u>06/14/2017</u></p> <p>[] Rejected Date _____</p> <p>[] Deferred Date _____</p> <p>[] Other (Specify) _____</p>
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BLANK(S) TO WHICH PROPOSAL APPLIES

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| <input checked="" type="checkbox"/> ANNUAL STATEMENT | <input checked="" type="checkbox"/> QUARTERLY STATEMENT | |
| <input checked="" type="checkbox"/> INSTRUCTIONS | <input type="checkbox"/> CROSSCHECKS | <input type="checkbox"/> BLANK |
| <input checked="" type="checkbox"/> Life and Accident & Health | <input checked="" type="checkbox"/> Property/Casualty | <input checked="" type="checkbox"/> Health |
| <input type="checkbox"/> Separate Accounts | <input checked="" type="checkbox"/> Fraternal | <input checked="" type="checkbox"/> Title |
| <input type="checkbox"/> Other Specify _____ | | |

Anticipated Effective Date: Annual 2017

IDENTIFICATION OF ITEM(S) TO CHANGE

Add a code to the Code Column to allow designation of SVO Identified Funds for valuation using systematic value and make the appropriate modifications to the instructions for the Book Adjusted/Carrying Value Column, the Unrealized Valuation Increase/(Decrease) Column and the Current Year's (Amortization)/Accretion Column for Schedule D (Parts 1, 4 and 5) and Schedule DA (Part 1). Also add additional disclosure to Note 1C for mandatory convertible securities, and SVO-identified investments. Also modify IMR instructions to reflect SVO Identified Funds designated for reporting at systematic value.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The purpose of this proposal is to modify the instructions to reflect the use of the systematic value for determining the book adjusted/carrying value for SVO Identified Funds and adds additional disclosure for mandatory convertible securities, and SVO-identified investments.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date: _____

Other Comments:

** This section must be completed on all forms.

DRAFTING NOTE: Make the same changes noted below for the Code Column on Schedule D for Code Column on Schedules DL, Parts 1 & 2.

ANNUAL STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

SCHEDULE D – PART 1

LONG-TERM BONDS OWNED DECEMBER 31 OF CURRENT YEAR



Column 3 – Code

Enter “*” in this column for all SVO Identified Funds designated for systematic value.

Enter “@” in this column for all Principal STRIP Bonds or other zero coupon bonds.

Enter “\$” in this column for Certificates of Deposit under the FDIC limit.

Enter “&” in this column for TBA (To Be Announced) securities.

Enter “^” in this column for all assets that are bifurcated between the insulated separate account filing and the non-insulated separate account filing.

If bonds are not under the exclusive control of the company as shown in the General Interrogatories, they are to be identified by placing one of the codes **identified in the Investment Schedules General Instructions** in this column.

If the security is a SVO Identified Fund designated for systematic value, Principal STRIP bond or other zero coupon bond, Certificates of Deposit under the FDIC limit or a TBA (To Be Announced) security and is not under the exclusive control of the company, the “*”, “@”, “\$” or “&” should appear first, immediately followed by the appropriate code (**identified in the Investment Schedules General Instructions**).

Separate Account Filing Only:

If the asset is a bifurcated asset between the insulated separate account filing and the non-insulated separate account filing, the “^” should appear first and may be used simultaneously with the “*”, “@”, “\$” or “&” with the “^” preceding the other characters (“*”, “@”, “\$” or “&”) depending on the asset being reported, immediately followed by the appropriate code (**identified in the Investment Schedules General Instructions**).



Column 7 – Actual Cost

This column should contain the actual consideration paid to purchase the security. The Actual Cost column amount should be adjusted for: pay downs and partial sales (both reported in Schedule D, Part 4) and subsequent acquisitions of the same issue (reported in Schedule D, Part 3). Actual cost will need to be adjusted due to “other-than-temporary impairments” recognized, for use when determining realized gain/(loss) at disposition.

Include: Brokerage and other related fees, to the extent they do not exceed the fair value at the date of acquisition.

Cost of acquiring the bond or stock including broker’s commission and incidental expenses of effecting delivery, transaction fees on re-pooling of securities, and reductions for origination fees intended to compensate the reporting entity for interest rate risks (i.e., points).

Exclude: Accrued interest.

All other costs, including internal costs or costs paid to an affiliated reporting entity related to origination, purchase or commitment to purchase bonds, are charged to expense when incurred.

For SVO Identified Funds (Bond Mutual Funds—~~as Identified by the SVO~~ and Exchange Traded Funds—~~as Identified by the SVO~~), enter the original cost of the shares purchased, including brokerage and other related fees.

Column 8 – Rate Used to Obtain Fair Value

Report rate used for determining fair value.

For SVO Identified Funds (Bond Mutual Funds—~~as Identified by the SVO~~ and Exchange Traded Funds—~~as Identified by the SVO~~), enter the per share fair value or net asset value as of the reporting date.

For U.S. Treasury Inflation-Indexed Securities enter the VOS rate (provided in the *Valuation of Securities*) multiplied by the inflation ratio.

Column 9 – Fair Value

The fair value should be the price which, when multiplied by the notional amount (Column 10, Par Value) results in the dollar amount that would be received (excluding accrued interest) if the security was sold at fair value.

The fair value included in this column (calculated from the Rate Used to Obtain Fair Value column) should be the amount used in any comparison of fair value to another valuation method (e.g., book value or amortized cost) that is prescribed by the accounting/valuation rules.

For loan-backed securities, the prospective or retrospective methods are used in determining amortized value.

Exclude: Accrued interest.

For SVO Identified Funds (Bond Mutual Funds—~~as Identified by the SVO~~ and Exchange Traded Funds—~~as Identified by the SVO~~), enter the amount representing the number of shares owned at year-end times the rate specified in Column 8.

For U.S. Treasury Inflation-Indexed Securities, Fair Value should utilize the VOS rate multiplied by the inflation ratio.

Column 10 – Par Value

Enter the par value of the bonds owned adjusted for repayment of principal. For mortgage-backed/loan-backed and structured securities, enter the par amount of principal to which the reporting entity has a claim. For interest only bonds without a principal amount on which the reporting entity has a claim, use a zero value. Enter the statement date par value for bonds with adjustable principal. An interest only bond with a small par amount of principal would use that amount.

For SVO Identified Funds (Bond Mutual Funds—~~as Identified by the SVO~~ and Exchange Traded Funds—~~as Identified by the SVO~~), enter Zero (0).

Column 11 – Book/Adjusted Carrying Value

Securities excluding SVO Identified fund and mandatory convertible bonds:

This should be the amortized value or the lower of amortized value or fair value, depending upon the designation of the bond (and adjusted for any other-than-temporary impairment), as of the end of the current reporting year.

Include: The original cost of acquiring the bond, including brokerage and other related fees.

Amortization of premium or accrual of discount, but not including any accrued interest paid thereon.

Amortization of deferred origination and commitment fees.

Deduct: A direct write-down for a decline in the fair value of a bond that is other-than-temporary.

Exclude: All other costs, including internal costs or costs paid to an affiliated reporting entity related to origination, purchase or commitment to purchase bonds, are charged to expense when incurred. Cost should also be reduced by payments attributed to the recovery of cost.

Accrued interest.

Refer to *SSAP No. 26R—Bonds*.

For reporting entities maintaining an AVR:

NAIC Designation 1 – 5* Enter amortized cost

NAIC Designation 6 Enter the lower of fair value or amortized cost

For reporting entities not maintaining an AVR:

NAIC Designations 1 – 2* Enter amortized cost

NAIC Designations 3 – 6 Enter the lower of fair value or amortized cost

*NOTE: An exception exists for Treasury Inflation Adjusted Securities under INT 01-25, where the book/adjusted carrying value may include an unrealized gain. See INT 01-25, Accounting for U.S. Treasury Inflation-Indexed Securities, for accounting guidance.

Mandatory Convertible Bonds:

The amount should be the lower of amortized cost or fair value during the period prior to conversion.

SVO Identified Funds:

The amount should be fair value unless the reporting entity has designated a qualifying security for systematic value. The election of using systematic value is irrevocable.

NOTE: Use of systematic value is effective Dec. 31, 2017. This effective date requires entities to either report SVO-Identified investments at fair value on the effective date, or to identify the SVO-Identified investments with a code to identify use of systematic value. If the investment is coded for systematic value, the investment will be reported in the 2017 annual financial statements using the measurement method utilized throughout 2017. For these investments, beginning January 1, 2018, the reporting entity shall report the investment using the calculated systematic value method detailed in SSAP No. 26R.

Refer to SSAP No. 26R—Bonds.

For reporting entities maintaining an AVR:

NAIC Designation 1 – 5 Enter fair value or systematic value
NAIC Designation 6 Enter fair value

For reporting entities not maintaining an AVR:

NAIC Designations 1 – 2 Enter fair value or systematic value
NAIC Designations 3 – 6 Enter fair value

The amount reported in this column should equal:

Book/Adjusted Carrying Value reported in the Prior Year statement (or Actual Cost for newly acquired securities)
plus “Unrealized Valuation Increase/(Decrease)Total in Book/Adjusted Carrying Value”
plus “Current Year’s (Amortization)/Accretion”
minus “Current Year’s Other-Than-Temporary Impairment Recognized”
plus “Total Foreign Exchange Change in Book/Adjusted Carrying Value”
plus Changes due to amounts reported in Schedule D, Parts 3, 4 and 5

Column 12 – Unrealized Valuation Increase/(Decrease)

The total unrealized valuation increase/(decrease) for a specific security will be the change in Book/Adjusted Carrying Value that is due to carrying or having carried (in the previous year) the security at Fair Value. Thus this amount could be:

The difference due to changing from Amortized Cost in the previous year to Fair Value in the current year’s Book/Adjusted Carrying Value column (calculated as **current year** Fair Value minus **current year** Amortized Value);

The difference of moving from Fair Value in the previous year to Amortized Cost in the current year’s Book/Adjusted Carrying Value column (calculate as **prior year** Amortized Value minus **prior year** Fair Value); or

The difference between the Fair Value in the previous year and the Fair Value in the current year’s Book/Adjusted Carrying Value column (calculate as **current year** Fair Value minus **prior year** Fair Value minus **current year** Accrual of Discount/(Amortization of Premium)).

Column 19 – Admitted Interest Due and Accrued

This should equal the admitted amount of due and accrued interest for a specific security, based upon the assessment of collectability required by *SSAP No. 34—Investment Income Due and Accrued* and any other requirements for nonadmitting investment income due and accrued.

Column 20 – Amount Received During Year

For SVO Identified Funds (Bond Mutual Funds—~~as Identified by the SVO~~ and Exchange Traded Funds—~~as Identified by the SVO~~), enter the amount of distributions received in cash or reinvested in additional shares.

Include: The proportionate share of interest directly related to the securities reported in this schedule.

Report amounts net of foreign withholding tax.

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ANNUAL & QUARTERLY STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL & TITLE

SCHEDULE D – PART 4

**LONG-TERM BONDS AND STOCKS SOLD, REDEEMED OR OTHERWISE DISPOSED OF
DURING CURRENT YEAR**

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Column 16 – Book/Adjusted Carrying Value at Disposal Date

Deduct: A direct write-down for a decline in the fair value of a bond that is other-than-temporary.

Exclude: Accrued Interest.

~~For Bond Mutual Funds—as Identified by the SVO and Exchange Traded Funds—as Identified by the SVO, enter same number as in Column 9.~~

This should equal the Actual Cost Column amount (adjusted for other-than-temporary impairments recognized) for each specific common stock and for each preferred stock that is not amortizable; and the Amortized Cost (adjusted for other-than-temporary impairments recognized) at disposal date for each specific redeemable preferred stock that is amortizable.

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ANNUAL STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

SCHEDULE D – PART 5

LONG-TERM BONDS AND STOCKS ACQUIRED DURING THE YEAR AND FULLY DISPOSED OF DURING CURRENT YEAR



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Column 11 – Book /Adjusted Carrying Value at Disposal

This should equal the Actual Cost column amount (adjusted for other-than-temporary impairments recognized) for each specific common stock and for each preferred stock that is not amortizable and Amortized Cost (adjusted for other-than-temporary impairments recognized) at disposal date for each specific bond and for each specific redeemable preferred stock that is amortizable.

Deduct: A direct write-down for a decline in the fair value of a bond that is other-than-temporary.

Exclude: Accrued Interest.

~~For Bond Mutual Funds as Identified by the SVO and Exchange Traded Funds as Identified by the SVO, enter same number as in Column 9.~~



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ANNUAL STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

SCHEDULE DA – PART 1

SHORT-TERM INVESTMENTS OWNED DECEMBER 31 OF CURRENT YEAR



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Column 3 – Code

Enter “*” in this column for all SVO Identified Funds designated for systematic value.

Enter “@” in this column for all Principal STRIP Bonds or other zero coupon bonds.

Enter “^” in this column for all assets that are bifurcated between the insulated separate account filing and the non-insulated separate account filing.

If short-term investments are not under the exclusive control of the company as shown in the General Interrogatories, they are to be identified by placing one of the codes **identified in the Investment Schedules General Instructions** in this column.

If the security is a SVO Identified Fund designated for systematic value or Principal STRIP bond or other zero coupon bond and is not under the exclusive control of the company, the “*” or “@” should appear first, immediately followed by the appropriate code (**identified in the Investment Schedules General Instructions**).

Separate Account Filing Only:

If the asset is a bifurcated asset between the insulated separate account filing and the non-insulated separate account filing, the “^” should appear first and may be used simultaneously with the “*” or “@” with the “^” preceding the “*” or “@” depending on the asset being reported, immediately followed by the appropriate code (**identified in the Investment Schedules General Instructions**).



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Column 8 – Book/Adjusted Carrying Value

Securities excluding SVO Identified fund and mandatory convertible bonds:

This should be the amortized value or the lower of amortized value or fair value, as appropriate (and adjusted for any other-than-temporary impairment), as of the end of the current reporting year.

Include: The original cost of acquiring the investment, including brokerage and other related fees.

Amortization of premium or accrual of discount, but not including any accrued interest or dividends paid thereon.

Amortization of deferred origination and commitment fees.

Deduct: A direct write-down for a decline in the fair value that is other-than-temporary.

Exclude: All other costs, including internal costs or costs paid to an affiliated reporting entity related to origination, purchase or commitment to purchase, are charged to expense when incurred. Cost should also be reduced by payments attributed to the recovery of cost.

Accrued interest or dividends.

Mandatory Convertible Bonds:

The amount should be the lower of amortized cost or fair value during the period prior to conversion.

SVO Identified Funds:

The amount should be fair value unless the reporting entity has designated a qualifying security for systematic value. The election of using systematic value is irrevocable.

NOTE: Use of systematic value is effective Dec. 31, 2017. This effective date requires entities to either report SVO-Identified investments at fair value on the effective date, or to identify the SVO-Identified investments with a code to identify use of systematic value. If the investment is coded for systematic value, the investment will be reported in the 2017 annual financial statements using the measurement method utilized throughout 2017. For these investments, beginning January 1, 2018, the reporting entity shall report the investment using the calculated systematic value method detailed in SSAP No. 26R.

The amount reported in this column should equal:

Actual Cost
plus Unrealized Valuation Increase (Decrease)/Total in Book/Adjusted Carrying Value
plus Current Year's (Amortization)/Accretion
minus Current Year's Other-Than-Temporary Impairment Recognized
plus Total Foreign Exchange Change in Book/Adjusted Carrying Value
plus Changes due to acquisitions or disposals.

Column 9 – Unrealized Valuation Increase (Decrease)

The total unrealized valuation increase (decrease) for a specific security will be the change in Book/Adjusted Carrying Value that is due to carrying or having carried (in the previous year) the security at Fair Value.

Include For SVO-identified funds, the change from the prior reported BACV to fair value/net asset value. If an SVO-identified fund no longer qualifies for systematic value, the difference from systematic value in prior year to fair value/net asset value in current year.

These amounts are to be reported as unrealized capital gains (losses) in the Exhibit of Capital Gains (Losses) and in the Capital and Surplus Account.

Column 10 – Current Year's (Amortization)/Accretion

This amount should equal the current reporting year's amortization of premium or accrual of discount (regardless of whether the security is currently carried at Amortized Cost). The accrual of discount amounts in this column are to be reported as increases to investment income in the Exhibit of Net Investment Income, while the amortization of premium amounts are to be reported as decreases to investment income.

Include The (Amortization)/Accretion of SVO Identified Funds designated for reporting at systematic value.



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NOTES TO FINANCIAL STATEMENTS



1. Summary of Significant Accounting Policies and Going Concern

Instruction:



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

- (1) Basis at which the short-term investments are stated.
- (2) Basis at which the bonds mandatory convertible securities, and SVO-identified investments identified in SSAP No. 26R are stated and the amortization method.

Amortization method for bonds and mandatory convertible securities, and if elected by the reporting entity, the approach for determining the systematic value for SVO-identified securities per SSAP No. 26R. If utilizing systematic value measurement method approach for SVO-identified investments, the reporting entity must include the following information:

- Whether the reporting entity consistently utilizes the same measurement method for all SVO-identified investments (e.g., fair value or systematic value). If different measurement methods are used, information on why the reporting entity has elected to use fair value for some SVO-identified investments and systematic value for others.
- Whether SVO-identified investments are being reported at a different measurement method from what was used in an earlier current-year interim and/or in a prior annual statement. (For example, if reported at systematic value prior to the sale, and then reacquired and reported at fair value.) This disclosure is required in all interim reporting periods and in the year-end financial statements for the year in which an SVO-Identified investment has been reacquired and reported using a different measurement method from what was previously used for the investment. (This disclosure is required regardless of the length of time between the sale/reacquisition of the investments, but is only required in the year in which the investment is reacquired.)
- Identification of securities still held that no longer qualify for the systematic value method. This should separately identify those securities that are still within scope of SSAP No. 26R and those that are being reported under a different SSAP.

- (3) Basis at which the common stocks are stated.



Illustration:

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C. Accounting Policy

Life premiums are recognized as income over the premium-paying period of the related policies. Annuity considerations are recognized as revenue when received. Health premiums are earned ratably over the terms of the related insurance and reinsurance contracts or policies. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred.

The amount of dividends to be paid to policyholders is determined annually by the Company's Board of Directors. The aggregate amount of policyholders' dividends is related to actual interest, mortality, morbidity, and expense experience for the year and judgment as to the appropriate level of statutory surplus to be retained by the Company.

In addition, the company uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the interest method.

The company holds three (3) SVO-Identified bond ETFs reported on Schedule D-1. Two of these ETFs are reported at fair value, and the company has made an irrevocable decision to hold one of the ETFs at systematic value. The company has elected to utilize different measurement methods for the SVO-Identified bond ETFs for the following reasons:

The company previously utilized systematic value for the reporting of an SVO-Identified bond ETF reported on Schedule D-1. On June 1, XX, the company sold all interests in the SVO-Identified bond ETF (entire CUSIP). On October 30, XX, the reporting entity reacquired the SVO-Identified bond ETF (same CUSIP) and did not elect to utilize the systematic value for this SVO-Identified bond ETF. Pursuant to the guidance in SSAP No. 26R, a different measurement method is permitted as the reacquisition occurred 90-days after the sale of the SVO-Identified investment.

Illustration: The Company previously utilized systematic value for the reporting of an SVO-Identified bond ETF reported on Schedule D-1. As of Dec. 31, XX, the SVO-Identified bond ETF was no longer included on the SVO listing an SVO-Identified bond ETF, therefore this ETF was no longer captured within the scope of SSAP No. 26R and permitted to be reported on Schedule D-1. Pursuant to the statutory accounting guidance, this ETF is now captured within scope of SSAP No. 30, and is reported at fair value on Schedule D-2-2.

The company previously utilized systematic value for the reporting of an SVO-Identified bond ETF reported on Schedule D-1. As of Dec. 31, XX, the SVO-Identified bond ETF had an NAIC designation of 3. Pursuant to the guidance in SSAP No. 26R, a non-AVR reporting entity is only permitted to utilize systematic value for SVO-Identified bond ETFs with an NAIC designation of 1 or 2. As this ETF no longer qualifies for systematic value, but is still on the SVO-Identified list, it is captured within scope of SSAP No. 26R, reported on Schedule D-1, but is now reported at fair value.

- (3) Common Stocks are stated at market except that investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20% or more are carried on the equity basis.

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QUARTERLY STATEMENT INSTRUCTIONS – LIFE, HEALTH, PROPERTY, FRATERNAL AND TITLE

NOTES TO FINANCIAL STATEMENTS

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1. Summary of Significant Accounting Policies and Going Concern

Instruction:

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

(2) Whether SVO-identified investments are being reported at a different measurement method from what was used in an earlier current-year interim and/or in a prior annual statement. (For example, if reported at systematic value prior to the sale, and then reacquired and reported at fair value.) This disclosure is required in all interim reporting periods and in the year-end financial statements for the year in which an SVO-Identified investment has been reacquired and reported using a different measurement method from what was previously used for the investment. (This disclosure is required regardless of the length of time between the sale/reacquisition of the investments, but is only required in the year in which the investment is reacquired.)

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

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ANNUAL STATEMENT INSTRUCTIONS – LIFE AND FRATERNAL

INTEREST MAINTENANCE RESERVE

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Line 2 – Current Year's Realized Pre-tax Capital Gains/(Losses) of \$_____ Transferred into the Reserve Net of Taxes of \$_____

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Bond Mutual Funds – as Identified by the SVO. Include any capital gains/(losses) realized by the Company, whether from sale of the Fund or capital gains distributions by the Fund. If, during the course of the year, the SVO removes the designation of “NAIC 1” from a Bond Mutual Fund – as Identified by the SVO, the company shall not report capital gains/(losses) in this schedule. Any such removal of the “NAIC 1” designation will cause the Fund to be reported as common stock on the applicable schedules.

SVO Identified Funds designated for systematic value

Called bonds, tendered bonds, and sinking fund payments.

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The holding period for debt securities (excluding loan-backed and structured securities) and preferred stocks is defined as the period from the date of purchase to the date of sale. For the end of period classification, the most recent available designation should be used. For bonds acquired before January 1, 1991, the holding period is presumed to have begun on December 31, 1990. For preferred stocks acquired before January 1, 1993, the holding period is presumed to have begun on December 31, 1992. For Bond Mutual Fund – as Identified by the SVO, the holding period is defined as one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the holding period is the weighted-average life of the underlying bonds.

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AMORTIZATION

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Expected Maturity Date

The presence of sinking fund payments, amortization schedules, expected prepayments, and adjustable interest rates complicate the determination of the number of calendar years to expected maturity. The expected maturity date is:

- For fixed income instruments with fixed contractual repayment dates and amounts (including bonds, preferred stock, callable or convertible bonds and preferred(s)), the expected maturity is defined as the contractual retirement date which produces the lowest amortization value for annual statement purposes (lowest internal rate of return or “yield to worst”). Potential retirement dates include all possible call dates, and the contractual maturity date. However, where a convertible bond or convertible preferred stock is sold while its conversion value exceeds its book/adjusted carrying value and the gain is included in IMR, the expected maturity date is defined as the next conversion date. Conversion value is defined to mean the number of shares of common stock available currently or at next conversion date, multiplied by the stock’s current market price. When the instrument’s contractual terms include scheduled sinking fund payments of fixed amounts, an additional calculation of yield to average life should be included in the analysis where average life is defined as the date at which the instrument is 50% repaid. For puttable instruments, where the exercise option rests with the investor, expected maturity is the put or maturity date that produces the highest internal rate of return. For Bond Mutual Funds – as Identified by SVO, use one calendar year to expected maturity. For SVO Identified Funds designated for systematic value, the expected maturity is the weighted-average life of the underlying bonds. For perpetual instruments, the expected maturity is 30 years from the current date.

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