SECTION VI

This Section is designed to assist insurers in clarifying filing requirements, which may differ from GAAP, or which require a specific GAAP treatment.

Reference page numbers in the left hand column of certain pages of the Annual Return, indicate the supporting exhibit pertaining to the particular statement item. For these items, the insurer should also refer to the instructions, in this Section, for the page number of the supporting exhibit.

All references to "Pages" refer to pages of the P&C-2.

Any reference to "Section" refers to a part of these Instructions. Statutory reference to a section of legislation will be presented as "Sec.".

Page 10.10 - Head Office and Chief Agency

In addition to the address of the Head Office and Chief Agency in Canada, the mailing address, telephone number and FAX number of the Chief Agency in Canada are requested.

- Contact

The contact is the person primarily responsible for the preparation of the Annual Return who could answer questions from Regulators.

- Officers and Chief Agent

The full name of each Officer and the Chief Agent and the postal address of his/her residence (not business) must be sufficiently complete to serve as a mailing address.

- External Auditor

The name of the partner-in-charge (of the audit) is requested in addition to the name of the accounting firm.

<u>Page 10.30</u> - Corporate Organization Chart

The Corporate Organization Chart should show the interrelationships between the insurer, its immediate and ultimate parent, and all other affiliated corporations (upstream and downstream) that are:

- publicly traded companies within the group
- banks and trust companies within the group
- other insurance companies within the group
- insurance companies in which the insurer has a controlling interest (such as joint ventures)
- subsidiaries of the insurer
- insurance management companies within the group

<u>Page 10.40</u> - Other Information

- Line 40 - Management services

Examples of "type of service" that an insurance company may engage a manager to perform are underwriting, investment counselling, administration, claims handling and/or other related services.

The full legal name and current address of the manager must be disclosed.

<u>Page 10.41</u> - Other Information (continued)

- Line 03-70 - Maximum net retention in Canada

Please refer to Section III for the definition of "Policy Limit" and "Net Retention".

- Line 20 - Automobile - Personal Accident

Insurers licensed to write Auto - Personal Accident in any Province or Territory other than or including a Province or Territory, notably Ontario, in which exposure to accident benefits is unlimited, should report their highest quantifiable exposure on line 20, column 01.

Insurers limited to writing Auto - Personal Accident in a Province or Territory in which exposure to accident benefits is unlimited should leave line 20, column 01 blank, and provide an explanation in a footnote.

<u>Page 10.41</u> - Line 75 - Change in reinsurance arrangement

"Significant changes" would include items such as:

(i) change in type of reinsurance (for example, from proportional to excess of loss),
(ii) change in make-up of reinsurers (for example, from registered to unregistered),
(iii) change in the level of protection provided by reinsurance (for example, change in surplus lines, change in catastrophe cover, reinsurance not placed or layers not covered),
(iv) change in reinstatement provisions, and
(v) any other change that could affect the insurer's overall financial condition.

- Line 76 – Portfolio transfer or commutation of treaty

Insurers are required to give details of each Balance Sheet and Statement of Income item and amounts involved, as of the date of the transaction.

<u>Page 10.42</u> - Other Information (continued)

- Line 1 - Pledged assets

Pledged assets are assets on which an insurer has granted a security interest. A security interest may be created in many ways, including providing deposits against reinsurance obligations, mortgaging real estate, and lending securities. By giving secured parties first claim against an insurer's assets, pledging affects the realization of assets for the benefit of policyholders. For this reason, insurers are required to obtain the applicable Regulator's written approval before creating a security interest. Please refer to Section V, *Jurisdictional Requirements*: Federal.

- Line 20 - Significant dependencies

If the answer to the question on line 20 is "yes", please indicate on the lines provided (21 - 25) the name(s) of the organization(s), the nature of each dependency, etc. Examples of “significant dependencies” would include, for example: 10% or more of total premiums from one source; fundamental operations or systems provided by others (claims, information technology, policy issuance, etc.). For further guidance, refer to Section 3841 of the CICA Handbook; note, however, that this question is not restricted to related party transactions.

<u>Page 10.60</u> - Summary of Selected Financial Data for Five Years

Insurers are requested to restate data for appropriate years where a "prior period adjustment" causes originally reported data to be materially different or misleading. This request does not apply to adjustments related to the impact of discounting (where applicable) or the Branch Adequacy of Assets Test for the years 2001, 2000 or 1999.

- Line 08 - Gross Claims Incurred

The figures must include claims incurred with respect to direct written and reinsurance assumed business, but must exclude claims incurred for marine business.

- Line 31 - Claims Ratio by Year of Accident

This ratio is calculated in the conventional manner (that is, incurred claims as a percentage of premiums earned), but claims data for the accident year are extracted from the claims run-off exhibit. The ratio will reflect claims "development" as initial estimates are refined. Therefore, it will be a better reflection of results than the conventional ratio calculated only for the specific year of account.

For purposes of this calculation, incurred claims are equal to the amounts paid minus Investment Income from UCAE and IBNR for the accident year, from the beginning of the accident year up to the end of the current year, plus the unpaid claims for that accident year at the end of the current year (Page 60.43). Accident year net premiums earned are taken from the appropriate column of Page 10.60, line 07, and are the same as the net premiums earned used for the claims ratio by year of account.

- Line 33 - Expense Ratio

Total of Page 20.30, lines 11, 12, 14 and 16, as a percentage of net premiums earned.

<u>Page 10.60</u> - Line 40 – Net Investment Income from Insurance Operations[3]

The following formula should be used to calculate amounts reported on line 40:

- the lesser of

[(A+B+C+D-E-F)[3] x Investment Yield (line 46[1])]

and

Net Investment Income (Page 20.30, line 39)

where

A = the average net[2] unpaid claims and adjustment expenses for the year
B = the average net[2] unearned premiums for the year
C = the average unearned commissions for the year
D = the average premium deficiency for the year
E = the average deferred policy acquisition expenses, for the year and
F = the average receivables from agents and brokers, policyholders and instalment premiums for the year

(1) Insurers may select a different methodology/investment yield than this default (e.g. companies allocating specific assets to their liabilities or with a material amount of investment income from Facility Association).

(2) Net of reinsurance and salvage and subrogation.

(3) Excluding Marine.

- Line 44 – Net Investment Income - other

Total Net Investment Income from Page 20.30, line 39 minus Net Investment Income from Insurance Operations (Page 10.60, line 40).

- Line 46 - Investment Yield

"Investment yield" on line 46 is to be calculated according to the formula:

$$\text{Yield} = \frac{2I}{(V_b+V_e-I)} \text{ X } 100$$

where "I" is net investment income including recognized gains (losses) on investments (Page 20.30, line 39, column 01) and "V" is cash, investment income due and accrued, and total investments (Page 20.10, lines 01, 02 and 19, column 01), at the beginning and end of the year.

- Total World-Wide Business

These amounts should be reported, unconsolidated, in the currency of the insurer's home jurisdiction. Please include a description of the currency.

Page 20.10 - Assets

- Line 01 - Cash

The term "cash" includes cash and cash equivalents. It does not include guaranteed investment certificates or term deposits that are not cash equivalents, which are to be included on Page 20.10, line 04.

Insurers must not offset credit balances in one depository institution against debit balances in another depository institution. Netting is allowed only between branches of the same depository institution.

- Line 09 – Investments: – Real Estate

See instructions for Page 40.70.

- Line 10 – Investments: - Other Investments

See instructions for Page 40.80.

- Lines 20 to 27 - Receivables

Receivables must be reported net of allowance for doubtful accounts.

- Line 22 - Instalment Premiums

Policy premiums that are payable over several periods (multiple payments and instalments) should be reported on this line.

Policies that provide for premiums to be paid by instalments should be reported and accounted for in accordance with the term of the policy and not the payment mode.

- Line 30 - Unearned Premiums - Recoverable

The reinsurer's portion of unearned premiums must be reported here. This amount must agree with the total on Page 60.10 line 89 column 03.

<u>Page 20.10</u> - Line 31 - Unpaid Claims and Adjustment Expenses - Recoverable

Recoverables from reinsurers regarding unpaid claims must be reported on a discounted basis.

The portion of recoverables (salvage and subrogation) from third parties that will be payable to reinsurers must be reported as a reduction of "recoverables from reinsurers" reported on this line. The amounts payable to reinsurers must also be reported by class of insurance on Page 60.30 in column 07.

- Line 37 - Other Recoverables on Unpaid Claims

The gross amount of recoverables (salvage and subrogation) estimated to be recoverable from third parties and included on Page 60.30 in columns 05 and 06 must be reported on a discounted basis, on this line if the amount is material. Refer to the example included with the Instructions for Page 60.30.

The amount of any Self-Insured Retention (SIR) recoverable must also be reported on this line. For additional information on SIRs, refer to Section IV of the Instructions.

- Line 41 – Real Estate for Insurer's Own Use

See instructions for Page 40.70.

- Line 43 - Deferred Policy Acquisition Expenses

Acquisition expenses in respect of individual non-cancellable accident and sickness policies must not be reported on line 43. Such contracts are long-term policies, and acquisition expenses may be deferred, where appropriate, using a modified reserving method.

- Line 88 – Other Assets

Record the aggregate amount of all other balance sheet assets not reported above.

<u>Page 20.20</u> – Liabilities and Head Office Account

- Line 13 – Unpaid Claims and Adjustment Expenses

Unpaid Claims and Adjustment Expenses must be reported "gross" and on a discounted basis.

- Line 28 - Other Liabilities

Record the aggregate amount of all other balance sheet liabilities not reported above, including derivative instruments whose mark to market position is negative. See also instructions for Page 50.50, line 50-88.

<u>Page 20.30</u> - Statement of Income

- Line 07 - Service Charges

Insurers must report only service charges to policyholders on this line. Insurers that do not wish to identify service charges separately or are not permitted to do so should continue to include them with premiums on line 01.

- Line 08 - Other

Insurers must report here the amount of policyholder dividends and rating refunds.

Experience rating refunds and retrospective rating credits are not to be deducted from premiums written. The "return premiums" referred to in the heading on Page 60.20 of the Annual Return are premiums returned on cancellation or on amendment of policies. Experience rating refunds and retrospective rating credits are to be treated as a payment to policyholders in the same way as dividends to policyholders.

- Line 10 - Net Claims and Adjustment Expenses

Amounts paid by automobile insurers to provinces for the recovery of health care costs are to be reported as claims on line 10.

- Line 12 - Taxes

Regulatory assessments are to be included with General Expenses on Page 80.20 and not with Taxes.

- Line 20 - Premium Deficiency Adjustments

Adjustments to any premium deficiency liability reported on Page 20.20, line 15 must be reported on this line. An "increase" in the liability would be an expense item on Page 20.30 and a "decrease" would be an income item and should be reported with brackets ( ).

- Line 43 - Other Revenue and Expenses

As an example of the type of income item that should be reported on line 43, some insurers, under the terms of their agreements with reinsurers, are entitled to all or a portion of the interest income earned on deposits that have been placed by the assuming insurers as security for reinsurance assumed. In this situation, the interest income should be reported on line 43; it should not be included with investment operations on line 39.

Investment income received from Facility, Facility Association, Risk Sharing Pool Pool or Plan de Répartition des Risques (“P.R.R.”)should be reported on line 43.

Page 20.45 - Head Office Account

Any transitional adjustments / balances from the adoption of a new accounting standard should be reported on line 04 in the year of transition.

Page 20.45 - Reserves

Insurers issuing nuclear risk policies are required to record an additional provision of 100% of net premiums written, less commissions. In the absence of meaningful statistical data on the severity and frequency of losses, regulators consider it appropriate for insurers to reverse this reserve after twenty years.

The provision for earthquake exposures (*Earthquake Reserves Required by Regulators*) is to be reported as two amounts: the *Earthquake Reserve Complement* (ERC) is to be reported on line 90 and the *Earthquake Premium Reserve* (EPR) on line 91.

Page 20.47 – Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

Transition Instructions

CICA Handbook section 1530 and amendments section 3251 are effective for fiscal years beginning on or after October 01, 2006. In accordance with GAAP, prior year amounts do not need to be reported in the year of transition, except prior year Currency Translation Account which should be reported on line 46, column 03: Foreign Currency (Net of Hedging Activities). This prior year amount should agree with line 56, column 03 on Page 20.20 in the transition year.

The total transition amount should be allocated to the appropriate line items in Accumulated Other Comprehensive Income (Loss), net of Income Taxes, i.e. Accumulated Gains/Losses on: Available for Sale – Loans, Bonds and Debentures, or Equities, and Foreign Currency (Net of Hedging Activities), i.e. lines 42-44 and line 46. (In the year of adoption, column 01 will include the activity for the year plus the transitional balance.)

General Instructions

All amounts should be reported on an after tax basis.

<u>Page 20.60</u> - Notes to Financial Statements

Notes to the Financial Statements (Pages 20.10 to 20.52 inclusive) are to be reproduced on, or attached to, Page 20.60.

In addition to notes normally required under GAAP, these notes should include the following items, where relevant:

- the existence of "financing reinsurance" arrangements and their financial impact,
- the percentage of the insurer's participation in a pool, and disclosure of its share of the amount of direct premiums written, reinsurance assumed and reinsurance ceded in the pool, and
- the amount by which Deferred Policy Acquisition Expenses have been written down due to a Premium Deficiency. This amount should be broken down by commission expense, commission income, premium taxes and other acquisition expenses, as applicable. The note must also indicate details of the adjustment made to Page 80.10, column 10, lines 09 - 79.

Page 30.40 - Insurers licensed in Quebec - Computation of Minimum Excess Amount of Assets over Liabilities excluding accumulated other comprehensive income (loss)

This calculation must be carried out in compliance with the requirements of Sec. 275 of the Quebec Act respecting insurance (R.S.Q., chapter A-32). Every insurer holding a licence to operate in Quebec, regardless of the place of its incorporation, must complete this exhibit.

- Line 01 - Excess (deficiency) of Assets over Liabilities excluding Accumulated Other Comprehensive Income (Loss)

The amounts reported on this line must be calculated by subtracting the amounts indicated on Page 20.20, line 29 and on page 20.20, line 56, from the amounts indicated on line 89 of Page 20.10 (including marine).

- Line 02 - 15% of Net Unpaid Claims and Adjustment Expenses

The amounts entered on this line are obtained by multiplying by 15% the amounts entered on Page 60.30, line 89, column 08 and 50.50, line 50, after deducting the provision for the "accident and sickness" class of insurance.

- Line 03 - 15% of Net Unearned Premiums

The amounts entered on this line are calculated by multiplying by 15% the amounts entered on Page 60.10, line 89, column 04, after deducting the unearned premiums for the "accident and sickness" class of insurance on line 70, column 04, or as calculated on Page 30.45.

- Line 10 - Accounts Receivable due 90 days and over from insurance Agents and Brokers

The amount to be shown here is the total receivables from agents and brokers as of December 31, respecting insurance policies issued before October 1, less the related allowance for doubtful accounts. Note that amounts "In Arrears" on Page 50.20 are now defined as "more than 65 days", while for purposes of Page 30.40, amounts "In Arrears" remain at "due 90 days and over".

- Lines 11 and 12 - Other Accounts Receivable, Premiums receivable from Policyholders and Instalment premiums in arrears

Line 11 refers to other accounts due after deducting the allowance for doubtful accounts. The amount of all accounts in arrears must be entered on this line, after deducting the allowance for doubtful accounts. The same applies to line 12, premiums in arrears and to premiums payable in instalments also in arrears.

<u>Page 30.40</u> - Line 20 - Earthquake Reserve

The amount to be reported on this line is the total of amounts included on lines 90 and 91 of page 20.45 that pertain to the Earthquake Reserve Required by Regulators.

<u>Page 30.45</u> - Insurers licensed in Quebec - Calculation of Required Margin on Net Unearned Premiums

Insurers using the expected claims ratio method to establish the required margin on net unearned premiums must complete this exhibit. For each class of insurance, the insurer must indicate under column 02 of the exhibit the expected claims ratio.

The total calculated (line 89, column 05) must be reported on Page 30.40, line 03, column 01. This exhibit must be completed and signed by the actuary who has evaluated and certified the reserves.

- Column 02 - Expected claims ratio

Claims ratios under column 02 are the ratios expected for the net unearned premiums on the policies issued by the insurer for the classes of insurance indicated.

- Column 03 - Minimum claims ratio

In column 03, the insurer must indicate the claims ratio used for the calculation of the required margin on net unearned premiums. This ratio must not be less than either the ratio in column 02, or the total of 60% of the ratio for the current year and 40% of the ratio for the preceding year.

<u>Page 30.80 and 30.81</u> - Branch Adequacy of Assets Test (BAAT)

Please refer also to OSFI's Guideline *Branch Adequacy of Assets Test*.
Note that all amounts are net of Marine business.

<u>Page 30.80</u> - Branch Adequacy of Assets Test

- Line 01 – Available Assets: Excess of Vested Assets over Net Liabilities

"Vested Assets" is the amount reported on Page 20.10, Line 89, Column 02.
"Net Liabilities" is equal to Total Liabilities reported on Page 20.20, Line 29, Column 02, net of the following amounts:

- Recoverable from Reinsurers reported on Page 20.10, Line 30 + 31, Column 01 (excluding Marine);
- Other (allowable) Recoverables on Unpaid Claims, including Salvage & Subrogation and Self Insured Retention reported on Page 20.10, Line 37, Column 01 (excluding Marine), to the extent permitted by OSFI;
- Unearned Commissions reported on Page 20.20, Line 14, Column 02; and,
- a specified portion of Deferred Policy Acquisition Expenses (excluding Marine). This reduction for Deferred Policy Acquisition Expenses (DPAE) is equal to the sum of:

  a) 65% of the net of Deferred Commissions and Unearned Commission (if the net value is zero or negative, there is no adjustment for this item); and,

  b) 100% of Deferred Premium Taxes.

<u>Page 30.80</u> - Line 03 –Available Assets: Receivables from Agents and Policyholders (including Brokers)

Report the total of lines 20, 21 and 22, Page 20.10, column 01 (excluding marine).

- Line 04 – Available Assets; Less: Recoverable from Unregistered Reinsurers in excess of Non-owned Deposits

Report Recoverables from Unregistered Reinsurers in excess of Non-owned Deposits per Page 70.39, line 89, column 14.

- Line 08 – Available Assets: Accumulated Net After-tax fair value gains (losses) on AFS Loans

Record accumulated net after-tax fair value gains (losses) on available for sale loans.

- Line 20 – Margin Required: Assets

Record the total margin required for Assets per Page 30.81, line 89, column 03.

<u>Page 30.80</u> - Line 22 – Margin Required: Unearned Premiums/Unpaid Claims/ Premium Deficiency

Factors for margin required for Unearned Premiums/Unpaid Claims are applied to the net Unearned Premiums and net Unpaid Claims (i.e., net of reinsurance, Salvage and Subrogation, and Self Insured Retentions) by class of insurance. A capital factor is also applied to Premium Deficiency.

Report the sum of the margin required on Unearned Premiums, Unpaid Claims and Premium Deficiency.

<u>Unearned Premiums</u>
The margin requirement for Unearned Premiums is determined as follows:

- for all lines of business, except Accident and Sickness insurance and Mortgage insurance, multiply the greater of the net unearned premiums and 50% of the net written premiums in the last 12 months by 8%;
- for Accident and Sickness insurance, multiply the net exposure with the factor that corresponds to the type of coverage and length of premium guarantee remaining. See Section IX for additional instructions and a sample worksheet; and
- for Mortgage insurance, refer to OSFI's Guideline *Branch Adequacy of Assets Test*.

<u>Unpaid Claims</u>
The margin required on Unpaid Claims is the sum of the margin required for Unpaid Claims by each class of insurance as follows:

- Personal property & commercial property, multiply the net unpaid claims by 5%;
- Automobile – Liability & personal accident, multiply the net unpaid claims by 10%;
- Automobile – Other, multiply the net unpaid claims by 5%;
- Accident and Sickness insurance, multiply the net exposure with the factor that corresponds to the length of benefit period remaining and the duration of the disability. See Section IX for additional instructions and a sample worksheet; and
- all other lines of business, multiply the net unpaid claims by 15%.

<u>Premium Deficiency</u>
A factor of 8% is applied to Premium Deficiency.

<u>Page 30.80</u> - Line 24 – Margin Required: Catastrophes

The margin required is the sum of the margin required for each type of Catastrophes as follows:

1. *Earthquake*

   Include an amount equal to the appropriation of margin that is required pursuant to the OSFI/Autorité earthquake exposure guidelines.

2. *Mortgage Insurance (refer to the OSFI Guideline, Branch Adequacy of Assets Test)*

   Multiply the single premium by the factor that corresponds to the original term of the policy (in years) and the completed policy duration in years.

3. *Nuclear*

   Include an amount equal to 100% of net premiums written, less commissions.

   In the absence of meaningful statistical data on the severity and frequency of losses, regulators consider it appropriate for insurers to reverse this provision after twenty years.

- Line 26 – Margin Required: Reinsurance Ceded to Unregistered Insurers

Record the sum of the amounts entered in column 17 on lines 89 and 95 of Page 70.39.

- Line 28 – Margin Required: Structured Settlements, Letters of Credit, Derivatives and Other Exposures

Multiply the Net Possible Credit Exposure (net of any collateral or guarantees) by the appropriate credit conversion factor and margin. See Section IX for additional instructions on calculating the margin required for Structured Settlements, Letters of Credit, Derivatives and Other Exposures, and a sample worksheet.

<u>Page 30.81</u> - Margin Required for Assets

Report the Balance Sheet Value of all assets, except loans, in column 02. For loans, amortized cost is reported with an adjustment at line 19 to reflect any difference between balance sheet value and amortized cost. Multiply the amount in column 02 by the Factor (%) to determine the Margin Required. Shaded lines in the Margin Required column denote items that are risk weighted at 0% or whose margin requirements are captured elsewhere in the return.

<u>Page 30.81</u> - Lines 03 to 22 – Grading of Investments

All investments recorded in these lines, except line 15, must be categorized as Government, Investment or Not-Investment Grade according to their counterparty risk.

In the case of an asset backed by a guarantee or collateral, the long-term issuer credit rating or, in the case of a government, the long-term sovereign risk rating, of the guarantor is used to determine the category.

The following list, by investment grade, should be used to determine the counterparty risk:

1. Government Grade

Government obligations include securities issued by, loans made to, or securities or loans guaranteed by, and accounts receivable from:

- the federal government or an agent of the Crown;
- a provincial or territorial government of Canada or one of its agents;
- a municipality or school corporation in Canada; and,
- the central government of a foreign country where:
  - the security is rated AAA or, if not rated,
  - the long-term sovereign credit rating of that country is AAA.

2. Investment Grade

A security is treated as Investment Grade if it's rating (excluding securities that are included in the Government Grade category) meets or exceeds the rating listed in the table below. If a rating is not available, or where the rating of the security, or guarantor, is less than the rating listed in the table, it will be assigned a Not-Investment Grade factor.

An insurer wishing to use the rating of another rating agency should seek the approval of OSFI.

<u>Page 30.81</u> - Lines 03 to 22 – Grading of Investments (cont'd)

Asset/Guarantor Ratings

Rating Agency	Commercial Paper	Bonds & Debentures	Preferred Shares
	(at least as high as)		
Moody's Investor Service	P-1	A	Aa
Dominion Bond Rating Service	R-1 (low)	A	Pfd-2
Standard and Poor's Corporation	A-	A	AA

3. Not-Investment Grade

Includes any item not included in the Government Grade or Investment Grade categories or where a credit rating is not available.

- Lines 03 to 12 – Investments: Term Deposits, Bonds and Debentures

Report Treasury Bills, Commercial Paper and other **term deposits, bonds and debentures** in these sections.

- Lines 13 to 18 – Loans (at amortized cost)

Loans are reported at amortized cost for the purpose of calculating margin required.

- Line 19 – Loans (at amortized cost): Adjustment to reflect difference between amortized cost and Balance Sheet value of loans

Report the difference between the sum of lines 13 to 18, plus any loans recorded in "Other Investments", less the total balance sheet value of loans reported on Page 20.10.

- Line 30 – Investment in Real Estate

See instructions for Page 40.70.

- Line 36 – Real Estate for Insurer's Own Use

See instructions for Page 40.70.

<u>Page 30.81</u> - Line 37 – Total Vested Assets

The total per column 02 must agree with the total per Page 20.10, line 89, column 02.

- Line 44 – Unmatched Foreign Currency Assets

Report the amount by which the balance sheet amount of vested foreign currency assets exceeds the amount of liabilities denominated in the same currency.

- Line 51 – Other (allowable) Recoverables on Unpaid Claims

Include Salvage & Subrogation and Self-Insured Retentions (SIRs), to the extent permitted, from Page 20.10, line 37, column 01 (excluding Marine).

- Line 54 – Instalment Premiums (not yet due)

Include instalment premiums receivable (see Instructions for Page 20.10, line 22) arising from the recording of premiums in advance of the services being provided.

- Lines 54-56 – Policyholder Receivables

The total of lines 54, 55 & 56 must equal the total of lines 20, 21 & 22, Page 20.10, column 01 (excluding Marine).

Page 40.07 - Summary of Investments

For each investment category listed in the summary the balance sheet value of the total investments should be reported in the columns based on their classification under CICA handbook section 3855.

All amounts must be denominated in Canadian dollars using the appropriate exchange rate in effect at the reporting date.

Refer to OSFI's Accounting Guideline D-10 *"Accounting for Financial Instruments Designated as Fair Value Option"*.

- Column 01 – Held for Trading

Report the balance sheet value of investments classified as Held for Trading under GAAP, CICA Handbook Section 3855.19(f)(i).

- Column 03 – Available for Sale

Report the balance sheet value of investments classified as Available for Sale under GAAP, CICA Handbook Section 3855.9(i), including items that are measured at Amortized Cost.

- Column 05 – Hedges

Report the Balance Sheet Value of derivative instruments that are part of designated cash flow or fair value hedging relationships under GAAP, CICA handbook section 3865. For a Fair Value Hedge, also report the Balance Sheet Value of the hedged item. For a Cash Flow Hedge the Balance Sheet Value of the hedged item should be reported in column 09.

- Column 07 – FV Option

Report the Balance Sheet Value of investments designated as Held for Trading ("Fair Value Option") under GAAP, CICA Handbook Section 3855.19 (f) (ii).

Page 40.07 - Column 09 – Amortized Cost

Report the Balance Sheet Value of investments measured using amortized cost including investments classified as Held to Maturity under GAAP, CICA Handbook Section 3855.19 (g), Cash Flow Hedges, and the Balance Sheet Value of Real Estate Investments.

- Column 12 – Balance Sheet

Sum of columns 01, 03, 05, 07, and 09.

- Column 15 – Realized Gains (Losses)

Record all pre-tax realized gains and losses on the sale of investments, hedge ineffectiveness, any permanent write-down of investments, including impairment losses on investments classified as Available for Sale, and all allowances for loan impairments.

- Column 16 – Income excluding FV Option

Record pre-tax income from investments including interest income, dividend income, unrealized fair value gains (losses) from items classified as Held for Trading & Fair Value Hedges and amortization. Do not include income from fair value gains (losses) for investments in column 07 FV Option.

- Column 19 – Unrealized Gain/Loss From FV Option

Record pre-tax unrealized gains (losses) on investments recorded in column 07 FV Option designated as Held for Trading ("Fair Value Option") under GAAP, CICA Handbook Section 3855.19 (f) (ii).

Aggregate Holdings

Page 40.07 - Lines 01 and 02 – Deposits, Bonds and Debentures

Include items such as Treasury Bills, commercial paper, short-term unsecured promissory notes issued by financial institutions and industrial corporations, interest bearing deposits with a deposit-taking institution, bank deposit certificates, trust company guaranteed investment certificates, bonds and debentures.

Deposits, bonds and debentures that mature, or can be repurchased by the issuing company, within 1 year must be recorded on Line 01. All others (including perpetual bonds) must be included on Line 02.

<u>Page 40.07</u> - Lines 03 and 04 – Mortgage Loans

Report only those residential and commercial mortgage loans where the total value of the loan(s) outstanding on the property is less than 75% of the market value of the property at the time of writing the loan on line 03. All other mortgages must be recorded on line 04.

The balance sheet value reported for each mortgage loan is the net balance sheet value after deducting any allowance for loan impairment.

- Lines 10 and 11 – Preferred Shares

Record preferred shares that are treated as debt under GAAP on line 10 and all other preferred shares on line 11.

- Line 20 – Investment Real Estate

Complete each column for all Investments in Real Estate reported on Page 40.70. See also instructions for Page 40.70.

- Line 30 – Other Investments

Complete each column for all investments reported on Page 40.80. See also instructions for Page 40.80.

- Line 39 – Total Investments

Amount reported in column 12 must equal page 20.10, line 19, column 02.

- Line 41 – Foreign Pay Securities

Investments in Canadian and foreign bonds, debentures, shares and other investments whose principal, interest, dividends or payments are denominated in a currency other than Canadian dollars.

Only column 12 is to be completed for this item. Record the total balance sheet value of all investments included in Total Investments (Line 39) that are in Canadian and foreign bonds, debentures, shares and other investments whose principal, interest, dividends or payments are denominated in a currency other than Canadian dollars.

Page 40.07 - Summary of Investments (cont'd)

***Individual Holdings* (Excluding government grade investments)**

This section is to be completed for all investments except Government Grade Investments. (For the definition of Government Grade Investments see Page 30.81 – Margin Required for Assets – Lines 03 to 22 – Grading of Investments: Government Grade).

- Lines 50 and 51 – Largest and 2^{nd} Largest Exposure to an Entity or Connected Group

Record the largest (and second largest) exposure to an entity or a connected group of entities that is not a government grade investment.

The exposure is the sum of all loans to and investments in (including debt, equity and derivative securities) that entity or connected group of entities.

An entity is connected with another entity in respect of loans if any 2 of the following 3 conditions are or would be met:

- the source of repayment of the loans would be wholly or substantially dependent on a common source of money;
- the loans would be, in substance, a single loan or would substantially serve the same purpose in the same or a related transaction;
- the loans would be dependent on the same security.

Page 40.70 - Real Estate

The split between investment real estate and real estate for own use as shown on this page is in keeping with the balance sheet treatment under GAAP.

If an insurer owns a building, part for its own use and part for investment purposes, then if the usage in part multiplied by the cost of the building:

- is not material, report the entire amount as an Investment Real Estate or as Real Estate For Own Use, depending on its main use;
- is material, the total amount must be apportioned between Investment Real Estate and Real Estate For Own Use segments according to the actual use of the property.

Insurers should indicate which of the real estate items have been allocated between the two categories.

Properties should be listed in accordance with the province or country of location, with sub-totals where applicable. The list should follow the alphabetical order of provinces and territories first, followed by countries other than Canada, where applicable.

Amounts shown in columns 04, 05 and 06 are gross (i.e. including encumbrances, which are shown separately on Page 20.20, line 11).

All amounts must be denominated in Canadian dollars using the appropriate exchange rate in effect at the reporting date.

Page 40.80 - Other Investments

Include, where permitted, investments in non-financial investments including, but not limited to, precious metals, coins and art.

Also include positive mark to market derivative instruments and other recognized financial investments not included in other investment categories including letters of credit and guarantees. For these items attach to the insurer's Annual Return the following details for each type and class of instrument held during the year and outstanding at year-end:

- notional amount and remaining term to maturity;
- the underlying assets;
- whether it is an over-the-counter or exchange traded instrument;
- whether the instrument is held for
  - (i) trading purposes
  - (ii) hedging purposes, or
  - (iii) other purposes; and
- the maximum credit risk exposure for each type of instrument.

The notional principal amount is:

- the stated notional amount, except where the stated notional amount is leveraged or enhanced by the structure of the transaction. In these cases, insurers must use the actual or effective notional amount when determining potential future exposure;
- nil, where the credit exposure on single currency floating/floating interest rate swaps would be evaluated solely on the basis of their marked-to-market value; or
- for contracts with multiple exchanges of principal, the sum of the remaining payments.

All amounts must be denominated in Canadian dollars using the appropriate exchange rate in effect at the reporting date.

See also Section IX, Appendix (k) or contact OSFI for further information.

Page 50.20 - Receivable from/payable to Agents and Brokers

To be completed for direct written business only. All amounts receivable from/payable to affiliated brokers must be shown with amounts receivable from/payable to affiliates on Page 50.40, not on this page.

Only information respecting agents and brokers whose accounts represent 10% or more of the total year-end amounts receivable/payable, or whose annual premium volume is 10% or more of total direct written premium, need be listed separately.

The number of agents and brokers reported must be the total of all agents and brokers (other than affiliates) that have written at least one policy during the statement year.

– Other Receivables

Only amounts that represent 10% or more of the total (Line 89) need to be listed separately.

Page 50.30 - Receivable from/payable to Other Insurers

Amounts receivable from/payable to other insurers should include accounts from insurance companies, reinsurers, mutuals, and other insurers where the amounts represent more than 10% of the total. Accounts representing less than 10% may be aggregated. However, amounts receivable from/payable to affiliated insurers must be shown on Page 50.40 in detail.

Amounts due from/to reinsurance intermediaries must be disclosed for each insurer and not as agent or broker balances.

Page 50.40 - Amounts receivable from/payable to Affiliates

Refer to the definition of the term "affiliate" in Section III.

Amounts receivable from/payable to affiliates arising out of insurance, reinsurance and any other activities must be shown for each company.

<u>Page 50.50</u> – Other Liabilities, and Unrecognized Assets and Liabilities

Other Liabilities

- Line 50 – Self-Insured Retention Portion of Unpaid Claims

Report any Self-Insured Retention (SIR) portion of unpaid claims. For additional information on Self-Insured Retention, refer to Section IV of the Instructions.

- Line 88 – Miscellaneous Liabilities

Include items such as: negative mark to market derivative instruments, non-owned assets held on deposit by the insurer and all Other Liabilities recorded on Page 20.20, line 28, except the Self-Insured Retention Portion of Unpaid Claims.

For negative mark to market derivative instruments, attach to the insurer's Annual Return the following details for each type and class of instrument held during the year and outstanding at year-end:

- notional amount and remaining term to maturity;
- the underlying assets / liabilities;
- whether it is an over-the-counter or exchange traded instrument;
- whether the instrument is held for
    - (i) trading purposes
    - (ii) hedging purposes, or
    - (iii) other purposes; and
- the maximum credit risk exposure for each type of instrument.

The notional principal amount is:

- the stated notional amount, except where the stated notional amount is leveraged or enhanced by the structure of the transaction. In these cases, insurers must use the actual or effective notional amount when determining potential future exposure;
- nil, where the credit exposure on single currency floating/floating interest rate swaps would be evaluated solely on the basis of their marked-to-market value; or
- for contracts with multiple exchanges of principal, the sum of the remaining payments.

See also Section IX, Appendix (k) or contact your primary Regulator for further information

<u>Page 50.50</u> – Other Liabilities, and Unrecognized Assets and Liabilities
(cont'd)

Unrecognized Assets And Liabilities

- Lines 91 and 95 – Unrecognized Assets and Liabilities

Record the notional principal amount of all unrecognized assets and liabilities (except those reported on page 70.40 – Non-owned Assets held on Deposit and Letters of Credit) and attach the following additional information with the insurer's Annual Returns.

The notional principal amount is:

- the stated notional amount, except where the stated notional amount is leveraged or enhanced by the structure of the transaction. In these cases, insurers must use the actual or effective notional amount when determining potential future exposure;

- nil, where the credit exposure on single currency floating/floating interest rate swaps would be evaluated solely on the basis of their marked-to-market value; or

- for contracts with multiple exchanges of principal, the sum of the remaining payments.

The following details for each type and class of instrument held during the year and:

a) outstanding at year-end:
  - notional amount and remaining term to maturity;
  - the underlying assets / liabilities;
  - whether it is an over-the-counter or exchange traded instrument;
  - whether the instrument is held for
    - (i) trading purposes
    - (ii) hedging purposes, or
    - (iii) other purposes; and
  - the maximum credit risk exposure for each type of instrument.

b) not outstanding at year end:
  - notional amount;
  - the underlying assets / liabilities;
  - whether it is an over-the-counter or exchange traded instrument; and
  - whether the instrument was held for:
    - (i) trading purposes
    - (ii) hedging purposes, or
    - (iii) other purposes.

See also Section IX, Appendix (k) or contact OSFI for further information.

<u>Page 60.10</u> - Unearned Premiums

Unearned premiums established at year-end must be sufficient to cover future claims and general expenses related to the unexpired term of the policies. The method of calculation adopted should be applied consistently from year to year.

The unearned premiums and mid-terminal reserves for accident and sickness business must be included with unearned premiums throughout the return.

For additional information on the classes of insurance, refer to Section IX, Appendix (e).

<u>Page 60.30</u> - Claims and Adjustment Expenses - Paid, Current Year and Unpaid, Current and Prior Year

Classes of insurance must not be grouped in this exhibit.

The amounts shown must include both the internal and external claims adjustment expenses. Based on historical experience and other factors that may affect the ultimate incurred claims, a provision must be included for IBNR claims.

- Column 05 and 06

These two columns must include the gross amount of salvage and subrogation estimated to be recoverable from third parties (see summary and example on the following page).

- Column 07

This column must include the portion of salvage and subrogation estimated to be recoverable from third parties that will be payable to reinsurers in accordance with their treaties (see summary and example below).

Reporting salvage and subrogation - summary:

<u>Item</u>	<u>Where reported</u>
Gross amount of recoverables from third parties	Page 20.10, line 37 Page 60.30, column 05 or 06 Page 60.41*
Portion of recoverables due to reinsurers	Page 20.10, line 31 Page 60.30, column 07 Page 60.41*

* or Page 60.40 if the insurer is not reporting Unpaid Claims on a discounted basis

Page 60.30 **- Claims and Adjustment Expenses - Paid, Current Year and Unpaid, Current and Prior Year** (cont'd)

Reporting salvage and subrogation - example:

Assuming an insurer has an unpaid claim of $100,000 and an estimated salvage of $20,000, the following is an example of the reporting method if the insurer has a 60-40 quota-share treaty with a reinsurer:

	Unpaid Claims & Adjustment Expenses 20.20.13.01	Recoverables on Unpaid Claims 20.10.31.01	Other Recoverables 20.10.37.01	Unpaid Claims - Direct or Assumed 60.30.89.05 or 60.30.89.06	Unpaid Claims - Ceded 60.30.89.07	Unpaid Claims - Net 60.30.89.08
Claims	100 000	40 000		100 000	40 000	60 000
Salvage		(8 000)	20 000	(20 000)	(8 000)	(12 000)
Amount reported	**100 000**	**32 000**	**20 000**	**80 000**	**32 000**	**48 000**

- Column 09

This column must include the total unpaid claims (claims, adjustment expenses, and IBNR), net of reinsurance, as reported on the Annual Return for the prior year (lines 51 and 52, column 12, Page 60.41, or Page 60.40 if the insurer is not reporting Unpaid Claims on a discounted basis).

- Column 10

This column must include the net payments made during the current year relative to all claims and adjustment expenses for all prior years.

<u>Page 60.30</u> - Column 13 – Investment Income on Unpaid Claims of Prior Years

Amounts reported in this column are equal to the product obtained by multiplying the average for the year of net unpaid claims and adjustment expenses of prior years (the average of columns 09 and 15) times the Investment Yield (Page 10.60, line 46[1]).

If the following formula applies:

(A+B+C+D-E-F) > Average Total Investments
(Page 20.10, sum of lines 01, 02 and 19)

where:

A = the average net[2] unpaid claims and adjustment expenses for the year
B = the average net[2] unearned premiums for the year
C = the average unearned commissions for the year
D = the average premium deficiency for the year
E = the average deferred policy acquisition expenses for the year, and
F = the average receivables from agents and brokers, policyholders and instalment premiums for the year.

Then the Investment Yield should first be multiplied by the following ratio:

$$\frac{\text{Average Total Investments}}{A+B+C+D-E-F}$$

(1) Insurers may select a different methodology/investment yield than this default (e.g. companies allocating specific assets to their liabilities or with a material amount of investment income from Facility Association).

(2) Net of reinsurance and salvage and subrogation.

- Column 15

This column must include the total unpaid claims and adjustment expenses, net of reinsurance, determined at the end of the current period, for all prior years.

<u>Classes of Insurance</u>

For additional information on the classes of insurance, refer to Section IX, Appendix (e).

<u>Page 60.40</u> - Insurers Licensed in Provinces that regulate Marine business - Net Claims and Adjustment Expenses - Run-off (including Marine)

The excess or deficiency in the unpaid claims must be calculated at each prior year-end.

Amounts shown on lines 50-59 must be taken from the insurer's claims records for the current year, and allocated by loss year. Lines 01-49 must be completed on the basis of the figures entered in the Annual Returns of the prior years, unless there has been a prior period adjustment. The prior period adjustments must be allocated to the proper loss year.

Incurred but not reported (IBNR) claims must include their related adjustment expenses allocated to each of the years included in the run-off.

IBNR has been clarified in Section III. Regulators are aware that the term may have had somewhat different meanings for different insurers. For example, some insurers consider this amount to be pure IBNR, that is, only estimated claims that have not been reported. Others may include some "development" reserves or other bulk adjustments. Regulators require that the amount reflect both elements.

The allocation of the total amount of IBNR by year will allow Regulators to review the appropriateness of the allocations and to monitor changes over time.

Just as paid claims are allocated by year of loss in this exhibit, internal adjustment expenses applicable to the settlement of prior years' claims must be allocated to the proper year of loss.

The amount of the Excess or (Deficiency) for a particular year of loss or period is determined by taking the opening unpaid claims and IBNR as shown at the top of the column and subtracting the subsequent paid and the ending unpaid claims and IBNR.

The Excess or (Deficiency) ratio is determined by dividing the amount of the Excess or (Deficiency) by the opening unpaid claims and IBNR. The ratio should be limited to two decimal points.

<u>Page 60.41</u> - Insurers Licensed in Provinces that regulate Marine business - Net Claims & Adjustment Expenses – Run-off – Discounted (including Marine)

The basis for actuarial liability valuation will be altered as a result of the new financial instruments standards commencing in 2007, and it will require several years to accumulate complete run-off information on the new basis. It is recognized that for a period of time there will be data inconsistencies in the run-off data. The inconsistencies will be small in comparison to the potential development in unpaid claims and, therefore, the information in this exhibit will continue to be valuable and all columns in this exhibit should be completed.

Amounts shown on lines 50-53 must be taken from the insurer's claims records for the current year, and allocated by loss year. Lines 01-49 must be completed on the basis of the figures entered in the Annual Returns of the prior years, where applicable, unless there has been a prior period adjustment. The prior period adjustments must be allocated to the proper loss year.

Incurred but not reported (IBNR) claims must include their related adjustment expenses allocated to each of the years included in the run-off.

IBNR has been clarified in Section III. Regulators are aware that the term may have had somewhat different meanings for different insurers. For example, some insurers consider this amount to be pure IBNR, that is, only estimated claims that have not been reported. Others may include some "development" reserves or other bulk adjustments. Regulators require that the amount reflect both elements.

The allocation of the total amount of IBNR by year will allow Regulators to review the appropriateness of the allocations and to monitor changes over time.

Just as paid claims are allocated by year of loss in this exhibit, internal adjustment expenses applicable to the settlement of prior years' claims must be allocated to the proper year of loss.

The amount of the Excess or (Deficiency) for a particular year of loss or period is determined by taking the opening unpaid claims and IBNR as shown at the top of the column and subtracting the subsequent paids and the ending unpaid claims and IBNR, and adding the related investment income.

The Excess or (Deficiency) ratio is determined by dividing the amount of the Excess or (Deficiency) by the opening unpaid claims and IBNR. The ratio should be limited to two decimal points.

<u>Page 60.41</u> - Lines 13, 23, 33, 43 and 53 - Investment Income from Unpaid Claims & Adjustment Expenses (including IBNR)

Report the product obtained by multiplying the average net(1) unpaid claims and adjustment expenses (including IBNR) for the year times the Investment Yield selected for the particular calendar year. For the current reporting year, the sum of all prior accident years' investment income allocation on exhibit 60.41, column 10, line 53 must equal the investment income allocated to prior years' claims for the year on exhibit 60.30, column 13, line 89. (Refer also to the Instructions for Page 60.30, column 13, where applicable).

(1) Net of reinsurance and salvage & subrogation

<u>Page 60.42</u> - Net Claims and Adjustment Expenses - Run-off (excluding Marine)

Refer to the Instructions for Page 60.40

<u>Page 60.43</u> - Net Claims and Adjustment Expenses - Run-off – Discounted (excluding Marine)

Refer to the Instructions for Page 60.41

<u>Page 60.50</u> - Adjustment Expenses

As mentioned in connection with completing Page 60.40, the portion of internal adjustment expenses applicable to prior years' claims must be written off against previously established loss provisions. Again, in principle, this is no different from external adjustment expenses, although it may be somewhat more difficult to determine how internal adjustment expenses must be apportioned to prior years' claim provisions. Insurers should have their cost accounting systems set up to estimate actual internal claims adjustment expenses, by year of claim. Alternatively, insurers may wish to allocate internal adjustment expenses in respect of prior years' losses on the basis of actual losses paid by year of claim.

Reinsurers that reimburse adjustment expenses on claims ceded to them must include these reimbursements as "claims incurred" (not as "adjustment expenses" in this exhibit).

Lines 02 and 20 are used to adjust lines 01 and 19 for the effect of reinsurance ceded.
Lines 01 and19 include direct and assumed adjustment expenses.

Line 59 relates to the adjustment expenses included on line 10 of the Statement of Income.

Line 69 must agree with Page 80.20, line 89, column 06.

<u>Page 67.10</u> - Provincial and Territorial Exhibit of Premiums Written

- Line 01 – Licensed (Y/N)

Insurers must answer “Yes” or “No” in each of Columns 01-14, based on whether or not the insurer was licensed in the applicable jurisdiction as at the end of the year of the Annual Return.

- Line 99 - Dividends

Dividends must be reported on a direct incurred basis.

<u>Pages 67.10 to 67.30</u> - Provincial and Territorial Exhibits of Premiums and Claims

Insurers are reminded that, unless otherwise directed, a copy of the Annual Return must be filed with all provinces and territories where the insurer is licensed. In addition, a copy of Pages 67.10, 67.20 and 67.30 must be filed with provinces and territories for which direct premiums and/or incurred claims are shown and in which the insurer is not licensed.

For instructions on the completion of Page 67.15, refer to Section V, *Jurisdictional Requirements*: Quebec.

For additional information on the classes of insurance, refer to Section IX, Appendix (e).

<u>Page 70.10</u> - Premiums and Claims - Reinsurance Ceded

The purpose of this exhibit is to compare claims incurred for each type of reinsurance ceded arrangement to premiums earned in respect of each arrangement. In this way the Regulator can assess the approximate profitability of business ceded to reinsurers by type of reinsurance and by major line of business.

Although this exhibit is best completed line by line for each of the regular classes of insurance, any reasonable groupings by lines of business will be acceptable.

Each column is intended to capture premiums earned and claims incurred data concerning a distinct type of reinsurance arrangement entered into by the insurer. For example, in column 02, all the premiums earned for quota share treaties should be included even if there is more than one quota share treaty. The other columns should be completed in the same manner, i.e. all premiums earned for surplus treaties are included together in column 03, etc.

The amount reported on line 89, column 06, "total premiums earned" must be equal to the total premiums ceded to reinsurers plus or minus the change in reinsurance ceded unearned premiums for the year.

<u>Page 70.21</u> - Insurers Licensed in Provinces that regulate Marine business - Summary of Reinsurance (including Marine)

Regulators must be in a position to ascertain that the business ceded/assumed is actually being reported in the Canadian Annual Return of the assuming/ceding insurer. The objective of this exhibit is to ensure that no reinsurance transaction has the effect of reducing the amount of assets that should properly be available in Canada for the protection of policyholders. Insurers must report each affiliated company separately.

In respect of business ceded to/assumed from non-affiliated insurers, where ceded/assumed premiums ceded/assumed claims incurred by a single insurer are less than 10% of the total ceded/assumed premiums ceded/assumed claims incurred, such business can be grouped and shown together on a single line.

Line 91, columns 02 to 05 must equal the corresponding amounts reported on Page 70.35, line 89, columns 02 to 05.

<u>Page 70.23</u> - Summary of Reinsurance (excluding Marine)

Refer to the Instructions for Page 70.21, except that line 91, columns 02 to 05 must equal the corresponding amounts reported on Page 70.39, line 89, columns 02 to 05.

<u>Page 70.35</u> - Insurers Licensed in Provinces that regulate Marine business - Reinsurance Ceded to Unregistered Insurers (including Marine)

The margin to be added in column 06 is in respect only of unearned premiums ceded to, and outstanding losses recoverable from unregistered assuming insurers. The margin requirement does not apply to additional policy provisions, to amounts receivable from the assuming insurer, or to actuarial liabilities of non-cancellable accident and sickness policies and reserves for instalment claims under accident and sickness policies.

Column 07 must include all receivables except for "Outstanding losses recoverable from assuming insurer" shown in column 05.

Column 08 should include amounts reported on the balance sheet as payable to unregistered affiliated or non-affiliated insurers, as well as deposits held in the insurer's bank account; these deposits must also be reported as "other liabilities" on Page 50.50.

Non-owned deposits held on behalf of an unregistered assuming insurer and reported in column 12 of the exhibit must be valued at market value as at the end of the statement year. Insurers may also include the amount of investment income due and accrued respecting these deposits.

Column 12 should be completed only in cases where a special trust account under the control of the Regulator has been established with a Canadian trust company in respect of the unregistered reinsurance under a "trust" agreement prescribed by the Regulator. If cash and securities received from unregistered reinsurers have been co-mingled with the insurer's own funds that are vested in trust, the assets so received should be shown on Page 20.10, column 02 in the appropriate asset categories. In this event, these assets would not appear in column 12. Where cash or securities have been co-mingled with the insurer's assets the associated payable should be included in column 08 with amounts "payable to assuming insurer".

Letters of credit (LOC) available for use, to the extent and under the conditions set out by the Regulator must be reported in column 13. For additional information on LOC/Deposits of Reinsurers, refer to Section IV, "Special Topics", and Section V, “Jurisdictional Requirements” (Quebec).

<u>Page 70.39</u> – Reinsurance Ceded to Unregistered Insurers

- Column 06 – 10% Margin on unearned premiums and outstanding losses recoverable

This margin is only in respect of unearned premiums ceded to, and outstanding losses recoverable from unregistered assuming insurers.

- Column 08 – Payable to assuming insurer

Include deposits held in the insurer's bank account; these deposits must also be reported as "Miscellaneous Other Liabilities" on page 50.50, line 88.

Amounts payable to assuming reinsurers may be deducted from amounts receivable and recoverable in the calculations in columns 14 and 15 only where there is a legal and contractual right of offset.

- Column 12 – Non-owned deposits held as security from assuming insurer

Complete only in cases where a special trust account under the control of OSFI has been established with a Canadian trust company in respect of the unregistered reinsurance under a "trust" agreement prescribed by OSFI.

If cash and securities received from unregistered reinsurers have been co-mingled with the insurer's own funds that are vested in trust, the assets so received should be shown on Page 20.10, column 02 in the appropriate asset categories. In this event, these assets would not appear in column 12. Where cash or securities have been co-mingled with the insurer's assets the associated payable should be included in column 08 with amounts "payable to assuming insurer".

Non-owned deposits held on behalf of an unregistered assuming insurer must be valued at market value as at the end of the statement year, including the amount of investment income due and accrued respecting these deposits.

- Column 16 – Letters of credit held as security from assuming insurer

LOC's may be used to reduce capital otherwise required up to a limit of the total margin on unearned premiums and outstanding losses recoverable (column 06, line 89). For additional information on LOC/Deposits of Reinsurers, refer to Section IV, *Special Topics*.

<u>Page 70.40</u> - Non-owned Assets held on Deposit and Letters of Credit

Securities held as non-owned deposits should be valued at market value as at the end of the statement year, including the amount of investment income due and accrued respecting these securities.

All other unrecognized assets and liabilities are to be recorded on Page 50.50.

<u>Page 80.10</u> - Commissions

Insurers are required to calculate and report separately deferred commissions and unearned commissions for the classes of insurance listed on this page. Net commissions attributable to the year must also be reported for these classes.

Deferred commissions must include commissions paid on direct business and on reinsurance assumed.

Unearned commissions arise from commission revenue on reinsurance ceded. The total unearned commissions must be reported on Page 20.20, line 14.

The split of net commissions (line 79, column 10) between commission expense and commission income, is to be shown on lines 80 and 81.

All commissions, including contingent and other non-deferrable commissions, must be shown on this page. Non-deferrable commissions are those that cannot be readily identified as exclusively relating to and varying with the acquisition of premiums and therefore are not recoverable.

All commissions in respect of individual non-cancellable accident and sickness policies and any renewal commission in respect of other accident and sickness policies must be reported as other non-deferrable commissions.

<u>Page 80.20</u> - Expenses – Insurance Operations

An expense classification is included in Section IX - Appendix (b).

This exhibit should be completed on an incurred basis for all expenses including internal adjustment expenses.

Insurers should analyse their operations to identify all operating expenses that are allocable to the acquisition of business. Accordingly, acquisition expenses that are deferred at the end of the year are to be reported in column 01; acquisition expenses that are not deferred or are attributable to the current year, including deferrals of the previous year, are to be reported in column 02. Expenses that should be reported in column 02 include:

Expenses that vary directly with and are directly related to the acquisition of business (new and renewal premiums written during the accounting period) and can be associated directly with specific revenues; for example:

- Agency
- Inspections and investigations
- Management fees
- Regulatory assessments

Other expenses which may vary indirectly with the acquisition of business but are directly related to the premiums written during the period in which they are incurred; for example:

- Salaries and Employee Benefits of employees in underwriting and policy issue
- Occupancy
- Bureaus and Associations
- Information Technology

Expenses that are not allocated to the acquisition of business (excluding adjustment and investment expenses) are to be reported in column 04.

Any management agreement that also provides for underwriting service and/or claims service and/or investment service must be apportioned to the appropriate type of operating expense on a reasonable basis. Management fees included on line 60 relate to services provided by outside parties, whether with related or non-related parties.

Line 89, column 06 must agree with Page 60.50, line 69.

Pages 99.10 and 99.15 - Affidavits Verifying Annual Return

The affidavit on page 99.10 is to be signed by the insurer's Canadian Chief Agent.

The affidavit on page 99.15 is to be signed by the President / Chief Executive Officer of the company and filed with the Annual Return; if it is not possible for the affidavit to be filed with the Annual Return, it must be filed within 30 days of the date that the Annual Return is due.

Each filed copy of the affidavits must bear the original signature of everyone who is required to sign.