North Carolina Department of Insurance
Mike Causey, Commissioner
Financial Analysis Division
1203 Mail Service Center
Raleigh, NC 27699-1203

Pledged Asset Supplement Instructions

Pursuant to North Carolina General Statute ("N.C.G.S.") 58-13-25(b), every domestic insurer is required to file, as a supplement to financial statements filed under N.C.G.S. 58-2-165, a statement sworn to by the chief executive officer that:

(i) Title to assets in an amount equal to the policyholder-related liabilities and minimum required capital and surplus are vested in the insurer and are not pledged, hypothecated, or otherwise encumbered;

(ii) The only assets of the insurer that are pledged, hypothecated, or otherwise encumbered are as identified and reported in the sworn statement and no other assets of the insurer are pledged, hypothecated, or otherwise encumbered; and

(iii) The terms and provisions of the transaction of the pledge, hypothecation, or encumbrance are as reported in the sworn statement.

To fulfill these requirements, domestic insurers are required to complete the **Pledged Asset Supplement** using the form provided by the North Carolina Department of Insurance (the "Department"). Guidance concerning the proper completion of the **Pledged Asset Supplement** is as follows:

Item 1: Policyholder-related liabilities include all liabilities that are required to be established by an insurer for all of its outstanding insurance policies in accordance with N.C.G.S. Chapter 58, which could include certain write-in liabilities.

Minimum required capital and surplus is the greater of:

(a) Minimum statutory capital and surplus as required pursuant to N.C.G.S. 58-7-75, N.C.G.S. 58-67-110(b), and/or N.C.G.S. 58-93-70(b) or

(b) Authorized control level risk-based capital pursuant to N.C.G.S. Chapter 58, Article 12.

When an insurer maintains multiple types of authority (i.e., a stock insurer under N.C.G.S. 58-7-75(2) with Health Maintenance Organization authority under N.C.G.S. Chapter 58, Article 67) the minimum statutory capital and surplus requirements must be aggregated together to calculate the total minimum statutory capital and surplus required.

Choose the appropriate response in Item 1. The response that is not applicable to the insurer should be removed from the insurer's **Pledged Asset Supplement** submission.

<u>No Offsets are Utilized</u>
If the insurer does not utilize offsets in the calculation of assets, it will use the first statement outlined in the **Pledged Asset Supplement** form for Item 1, which includes the calculation and the following language: *"No offsets were utilized in the calculation of assets as outlined above."*

<u>Approved Offsets are Utilized</u>
If the insurer has received approval from the Department to offset certain assets, which are not normally considered in the calculation of total invested assets, against policyholder-related liabilities, it will use the second statement outlined in the **Pledged Asset Supplement** form for Item 1. The insurer is to also report the asset line number and asset amount, as well as the policyholder-related liability line number and liability amount against which the asset is to be used as an offset. The asset and liability line numbers are those reflected in the financial statements filed by the insurer.

Unapproved Offsets

Unapproved offsets are not allowed to be used in the calculation of assets. Insurers with unapproved offsets must request approval for offsets from the Department before such offsets can be utilized in the calculation of assets and reported on the **Pledged Asset Supplement**.

Item 2: Choose the appropriate response in Item 2. The response that is not applicable to the insurer should be removed from the insurer's **Pledged Asset Supplement** submission.

No Assets Pledged, Hypothecated, or Otherwise Encumbered

If the insurer has no assets pledged, hypothecated, or otherwise encumbered, it will use the first statement outlined in the **Pledged Asset Supplement** form for Item 2, which is as follows: *"[COMPANY NAME] had no assets, which were pledged, hypothecated, or otherwise encumbered as defined within Article 13 of Chapter 58 of the North Carolina General Statutes, the Asset Protection Act."*

Assets Pledged, Hypothecated, or Otherwise Encumbered

If the insurer does have assets pledged, hypothecated, or otherwise encumbered, it will use the second statement outlined in the **Pledged Asset Supplement** form for Item 2, which is as follows: *"Assets listed on the attached detailed schedule are pledged, hypothecated, or otherwise encumbered. The terms and provisions of the transaction of the pledge, hypothecation, or encumbrance are as reported in the attached statement. Such pledging, hypothecation, or encumbrance was approved by the Department by Order dated [ORDER DATE]. No other assets are pledged, hypothecated, or otherwise encumbered."* The detailed schedule of assets and terms and provisions of the transaction would need to be attached to the **Pledged Asset Supplement**.

Execution: The **Pledged Asset Supplement** must be signed by the insurer's chief executive officer, with such signature being notarized. Only a wet signature will be accepted. If the insurer has a corporate seal, the corporate seal must be affixed to the **Pledged Asset Supplement**.