



Date: 4/11/23

Virtual Meeting

LIFE RISK-BASED CAPITAL (E) WORKING GROUP

Friday, April 14, 2023

12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

Philip Barlow, Chair	District of Columbia	William Leung	Missouri
Sheila Travis	Alabama	Michael Muldoon	Nebraska
Thomas Reedy	California	Seong-min Eom	New Jersey
Wanchin Chou	Connecticut	Bill Carmello	New York
Dalora Schafer	Florida	Andrew Schallhorn	Oklahoma
Vincent Tsang	Illinois	Rachel Hemphill	Texas
Mike Yanacheak	Iowa	Tomasz Serbinowski	Utah
Fred Andersen	Minnesota		

NAIC Support Staff: Dave Fleming

AGENDA

1. Consider Adoption of Proposal 2023-05-L Removal of Dual Trend Test—*Philip Barlow (DC)*
  - American Council of Life Insurers (ACLI) Comment Letter Attachment 1
  - Proposal 2023-05-L Attachment 2
2. Consider Adoption of Proposal 2023-06-L C-2 Mortality Structure Change—*Philip Barlow (DC)*
  - ACLI Comment Letter Attachment 3
  - Proposal 2023-06-L Attachment 4
3. Consider Adoption of Proposal 2023-07-L CM6 & CM7 Mortgage Structure Change—*Philip Barlow (DC)* Attachment 5
4. Discuss Proposal 2023-08-L Comfort Trusts—*Philip Barlow (DC)*
  - Comfort Control Accounts Attachment 6
  - Proposal 2023-08-L Attachment 7
5. Discuss Any Other Matters Brought Before the Working Group—*Philip Barlow (DC)*
6. Adjournment



**Brian Bayerle**  
Senior Actuary  
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**Colin Masterson**  
Policy Analyst  
202-624-2463  
[ColinMasterson@acli.com](mailto:ColinMasterson@acli.com)

February 9, 2023

Phillip Barlow  
Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: Exposure to Remove Dual Trend Test Presentation

Dear Mr. Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the LRBC Working Group's Exposure to Remove Dual Trend Test Presentation which was made available for public comment on January 26, 2023.

ACLI has no opposition to this proposal and is supportive of its adoption during a future LRBC call. Thank you once again and we are looking forward to further collaboration and discussion with regulators as we continue to work into the new year.

A handwritten signature in cursive script that reads 'P Barlow'.

*Colin Masterson*

cc: Dave Fleming

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

[acli.com](http://acli.com)

## Capital Adequacy (E) Task Force

### RBC Proposal Form

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force                      | <input type="checkbox"/> Health RBC (E) Working Group      | <input checked="" type="checkbox"/> Life RBC (E) Working Group              |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup                        | <input type="checkbox"/> P/C RBC (E) Working Group         | <input type="checkbox"/> Longevity Risk (A/E) Subgroup                      |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>1/26/2023</u></p> <p><b>CONTACT PERSON:</b> <u>Dave Fleming</u></p> <p><b>TELEPHONE:</b> <u>816-783-8121</u></p> <p><b>EMAIL ADDRESS:</b> <u>dfleming@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>Life Risk-Based Capital (E) Working Group</u></p> <p><b>NAME:</b> <u>Philip Barlow, Chair</u></p> <p><b>TITLE:</b> <u>Associate Commissioner of Insurance</u></p> <p><b>AFFILIATION:</b> <u>District of Columbia</u></p> <p><b>ADDRESS:</b> <u>1050 First Street, NE Suite 801</u> <u>Washington, DC 20002</u></p>	<p style="text-align: center;"><b>FOR NAIC USE ONLY</b></p> <p>Agenda Item # <u>2023-05-L</u> Year <u>2023</u></p> <p style="text-align: center;"><b>DISPOSITION</b></p> <p><b>ADOPTED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>EXPOSED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>REJECTED:</b></p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p><b>OTHER:</b></p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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#### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- |  |   |   |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks       | <input type="checkbox"/> Property/Casualty RBC Blanks       | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions      |
| <input type="checkbox"/> Health RBC Formula      | <input type="checkbox"/> Property/Casualty RBC Formula      | <input type="checkbox"/> Life and Fraternal RBC Formula           |
| <input type="checkbox"/> OTHER _____             |   |   |

#### DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

The dual presentation of the life risk-based capital trend test was adopted as an interim approach while member jurisdictions transitioned to the higher 300% threshold. That transition is now complete, so the dual presentation is no longer needed.

**Additional Staff Comments:**

**\*\* This section must be completed on all forms.**

**Revised 2-2023**

**RISK-BASED CAPITAL LEVEL OF ACTION**  
**(Including Tax Sensitivity Test)**

	<u>Source</u>	<u>(1)</u> <u>RBC Amount</u>
(1) Total Adjusted Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 30	LR033 Calculation of Total Adjusted Capital Column (2) Line (12)	
<u>Trigger Points for Level of Regulatory Action:</u>		
(2) Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(3) Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(4) Authorized Control Level Risk-Based Capital - REPORT AMOUNT IN FIVE-YEAR HISTORICAL DATA PAGE 22 COLUMN 1 LINE 31	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(5) Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (73)	
(6) Level of Action†:		
(7) Authorized Control Level RBC Ratio	Line (1) / Line (4)	0.000%
<u>Tax Sensitivity Test</u>		
(8) Tax Sensitivity Test: Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Column (2) Line (17)	
(9) Tax Sensitivity Test: Company Action Level = 200% of Authorized Control Level Risk-Based Capital	2.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(10) Tax Sensitivity Test: Regulatory Action Level = 150% of Authorized Control Level Risk-Based Capital	1.5 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(11) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	1.0 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(12) Tax Sensitivity Test: Mandatory Control Level = 70% of Authorized Control Level Risk-Based Capital	0.7 times LR031 Calculation of Total Authorized Control Level Risk-Based Capital Column (1) Line (75)	
(13) Tax Sensitivity Test: Level of Action:		
† If Total Adjusted Capital Line (1) exceeds Company Action Level Risk-Based Capital Line (2), None will be indicated (unless the Trend Test triggers Company Action Level). Otherwise, the appropriate level of action will be indicated.		
	<b>If the trend test is applicable for the company, the level that the trend test applies to for the state of domicile as reported on LR035 Trend Test Line (18) is indicated as being:</b>	
(0000001)	<b>If 3.0 had been selected for LR035 Trend Test Line (18) as the state of domicile level, the Line (6) level of action above would have been:</b>	
(0000002)	<b>If 2.5 had been selected for LR035 Trend Test Line (18) as the state of domicile level, the Line (6) level of action above would have been:</b>	

Denotes items that must be manually entered on the filing software.

**TREND TEST**

	Source	(1) <u>3.0 Amount</u>	(2) <u>3.0 Result</u>	(3) <u>2.5 Amount</u>	(4) <u>2.5 Result</u>
<u>Criteria for Applying Trend Test</u>					
(1)	Authorized Control Level Risk-Based Capital	LR031 Calculation of Authorized Control Level Risk-Based Capital Column (1) Line (73)			
(2)	Trend Test Safe Harbor	<del>Column (1)=3.0 x Line (1), Column (3)=2.5 x Line (1)</del>			
(3)	Total Adjusted Capital	LR033 Calculation of Total Adjusted Capital Line (12)			
<u>Trend Test Data</u>					
(4)	First Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 2 Line 30			
(5)	First Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 2 Line 31			
(6)	Third Prior Year Total Adjusted Capital	Five-Year Historical Data Page 22 Column 4 Line 30			
(7)	Third Prior Year Authorized Control Level Risk-Based Capital	Five-Year Historical Data Page 22 Column 4 Line 31			
<u>Trend Test Calculation (only if applicable)†</u>					
(8)	Current Year Margin	Line (3) - Line (1)			
(9)	First Prior Year Margin	Line (4) - Line (5)			
(10)	Third Prior Year Margin	Line (6) - Line (7)			
(11)	Decrease in Margin from First Prior Year	Line (9) - Line (8) (use zero if negative)			
(12)	Decrease in Margin from Third Prior Year	Line (10) - Line (8) (use zero if negative)			
(13)	Average decrease in Last Three Years	1/3 of Line (12)			
(14)	Marginal Difference	Greater of Line (11) and Line (13)			
(15)	Total Adjusted Capital Less Margin Difference	Line (3) - Line (14)			
(16)	Level of Risk-Based Capital‡	1.9 x Line (1)			
(17)	<del>Negative Trend?‡</del>				
(18)	<del>For companies where one of the above trend tests applies, does the state of domicile require action at 2.5 or 3.0 times Authorized Control Level RBC?</del>	Select "2.5", "3.0" or "N/A"			

† The Trend Test applies only if Total Adjusted Capital Line (3) is less than the Trend Test Safe Harbor Line (2) and the LR034 Risk-Based Capital Level of Action Line (6) is "None".

‡ If Line (15) is less than Line (16), the company triggers regulatory attention at the Company Action Level based on the trend test. ~~The NAIC is in the process of changing the upper level where the trend test can be triggered from 2.5 times the Authorized Control Level RBC to 3.0 times the Authorized Control Level RBC. Until all states have transitioned to the 3.0 standard, there may be differences between states as to whether columns (1) and (2) or columns (3) and (4) of the LR035 Trend Test page apply to a particular company, so information is provided to alert users to potential alternative trend test results during the transition period.~~

Denotes items that must be manually entered on the filing software.



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March 1, 2023

Phillip Barlow  
Chair, NAIC Life Risk-Based Capital (E) Working Group (LRBC)

Re: Academy Proposal for Life C-2 Structural and Instruction Updates and a New Financial Statement Note

Dear Mr. Barlow:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment on the American Academy of Actuaries' (Academy) Proposal for Life C-2 Structural and Instruction Updates and a New Financial Statement Note which was made available for public comment on January 26, 2023.

ACLI has no opposition to this proposal and is supportive of its adoption during a future LRBC call. With that said, there was one issue we seek clarification on in addition to one minor change we feel should be made help mitigate any potential uncertainty brought about by this APF:

1. What was the reasoning behind the change "in excess of the mortality cost expected under the moderately adverse scenario"?
2. Should the word "term" be removed from the group life reference (highlighted portion below)? This would make it consistent with our understanding of how the size band tiers have been done historically and avoid confusion with the Group & Credit Term Life bucket.

*The NAR size bands apply to the total amounts for individual & industrial life and **group term & credit life**. The size bands are allocated proportionately to the NAR for each of the factor categories. Size band 1 is for NAR amounts up to \$500 million. Size band 2 is for NAR amounts greater than \$500 million and up to \$25 billion. Size band 3 is for NAR amounts greater than \$25 billion.*

American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

Thank you once again and we are looking forward to further discussion.

*B. Banfield*      *Colin Masterson*

cc: Dave Fleming



January 12, 2023

Mr. Philip Barlow  
Chair, Life Risk-Based Capital (E) Working Group (LRBCWG)  
National Association of Insurance Commissioners (NAIC)  
Via email: Dave Fleming ([dfleming@naic.org](mailto:dfleming@naic.org))

Re: Proposal for Life C-2 Structural and Instruction Updates and a New Financial Statement Note

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Dear Philip,

On behalf of the C-2 Mortality Work Group of the American Academy of Actuaries<sup>1</sup>, we are providing the following proposed Life C-2 updates for consideration for 2023 year-end financial statements.

1. Structural updates where it pertains to the treatment of group permanent life and miscellaneous other instruction updates. The proposal assigns the same factors to group permanent life as individual permanent life for categories stating with and without pricing flexibility.
2. A new financial statement note to provide the development of net amounts at risk for the Life C-2 categories to create a direct link to a financial statement source, and accompanying Life C-2 structural and instruction updates. The proposed second update includes the updates specified in the first update.

If you have any questions on the above topics, please contact Amanda Barry-Moilanen, life policy analyst, at [barrymoilanen@actuary.org](mailto:barrymoilanen@actuary.org).

Sincerely,

Chris Trost, MAAA, FSA  
Chairperson, C-2 Mortality Work Group

Ryan Fleming, MAAA, FSA  
Vice Chairperson, C-2 Mortality Work Group

American Academy of Actuaries

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<sup>1</sup> The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.



## Capital Adequacy (E) Task Force

### RBC Proposal Form

- |   |   |  |
|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force  | <input type="checkbox"/> Health RBC (E) Working Group     | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup    | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup         |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group        |  |

<b>DATE:</b> <u>1/12/23</u>	<b><u>FOR NAIC USE ONLY</u></b>
<b>CONTACT PERSON:</b> <u>Ryan Fleming, MAAA, FSA</u>	Agenda Item # _____
<b>TELEPHONE:</b> <u>(414) 665-5020</u>	Year <u>2023</u>
<b>EMAIL ADDRESS:</b> <u>ryanfleming@northwesternmutual.com</u>	<b><u>DISPOSITION</u></b>
<b>ON BEHALF OF:</b> <u>AAA C-2 Mortality Work Group</u>	<input type="checkbox"/> ADOPTED _____
<b>NAME:</b> <u>Ryan Fleming, MAAA, FSA</u>	<input type="checkbox"/> REJECTED _____
<b>TITLE:</b> <u>Vice Chairperson</u>	<input type="checkbox"/> DEFERRED TO _____
<b>AFFILIATION:</b> <u>American Academy of Actuaries</u>	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____
<b>ADDRESS:</b> <u>1850 M Street NW, Suite 300</u>	<input type="checkbox"/> EXPOSED _____
<u>Washington, DC 20036</u>	<input type="checkbox"/> OTHER (SPECIFY) _____

#### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- |  |   |   |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks                                     | <input type="checkbox"/> Property/Casualty RBC Blanks       | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Instructions                               | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks       |
| <input checked="" type="checkbox"/> OTHER _Notes to Financial Statements _____ |   |   |

#### DESCRIPTION OF CHANGE(S)

Update 1: proposed updated blank for C2 Life Mortality on LR025, LR026, LR030 and LR031 and instruction updates.

Update 2: proposed new financial statement note and accompanying LR025 structural and instruction updates. Update 2 includes the updates included in the first update.

#### REASON OR JUSTIFICATION FOR CHANGE \*\*

Update 1: Structural changes and instruction updates to address the treatment of group permanent life policies. Other instruction updates are included to add clarity.

Update 2: The new financial statement note will develop the net amounts at risk in the categories needed for the Life C-2 schedule to create a direct link to a financial statement source.

#### Additional Staff Comments:

\*\* This section must be completed on all forms.

Revised 2-2019

	Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
<b>Individual &amp; Industrial Life Net Amount at Risk</b>				
(1) Ordinary Life In Force	Exhibit of Life Insurance Column 4 Line 23 x 1000			
(2) Plus Industrial Life In Force	Exhibit of Life Insurance Column 2 Line 23 x 1000			
(3) Total Individual & Industrial Life In Force	Lines (1) + (2)			
<b>Individual Life Reserves</b>				
(4) Ordinary Life Reserves	Exhibit 5 Column 4 Line 0199999			
(5) Plus Industrial Life Reserves	Exhibit 5 Column 3 Line 0199999			
(6) Plus Ordinary Life Separate Accounts	Separate Accounts Exhibit 3 Column 3 Line 0199999			
(7) Plus Ordinary & Industrial Life Modified Coinsurance Assumed Reserves	Schedule S Part 1 Section 1 Column 12, in part ‡			
(8) Less Ordinary & Industrial Life Modified Coinsurance Ceded Reserves	Schedule S Part 3 Section 1 Column 14, in part ‡			
(9) Total Individual & Industrial Life Reserves	Lines (4) + (5) + (6) + (7) - (8)			
(10) Total Individual & Industrial Life Net Amount at Risk	Lines (3) - (9)			
<b>Individual &amp; Industrial Life Policies with Pricing Flexibility In Force</b>				
(11) <b>Individual &amp; Industrial</b> Life Policies with Pricing Flexibility In Force	Company Records *			
(12) Less <b>Individual &amp; Industrial</b> Life Policies with Pricing Flexibility in Force Reserves	Company Records *			
(13) Total <b>Individual &amp; Industrial</b> Life Policies with Pricing Flexibility Net Amount at Risk	Lines (11) - (12)		X † =	
<b>Individual &amp; Industrial Term Life Policies without Pricing Flexibility In Force</b>				
(14) <b>Individual &amp; Industrial</b> Term Life Policies without Pricing Flexibility Reserves	Company Records *			
(15) Less <b>Individual &amp; Industrial</b> Term Life Policies without Pricing Flexibility Reserves	Company Records *			
(16) Total <b>Individual &amp; Industrial</b> Term Life Policies without Pricing Flexibility Net Amount at Risk	Lines (14) - (15)		X † =	
<b>Individual &amp; Industrial Permanent Life Policies without Pricing Flexibility In Force</b>				
(17) <b>Individual &amp; Industrial</b> Permanent Life Policies without Pricing Flexibility In Force	Lines (3) - (11) - (14)			
(18) Less <b>Individual &amp; Industrial</b> Permanent Life Policies without Pricing Flexibility Reserves	Lines (9) - (12) - (15)			
(19) Total <b>Individual &amp; Industrial</b> Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (17) - (18)		X † =	
(20) Total Individual & Industrial Life	Lines (13) + (16) + (19)			
<b>Group &amp; Credit Life Net Amount at Risk</b>				
(21) Group Life In Force	Exhibit of Life Insurance Column 9 Line 23 x 1000			
(22) Plus Credit Life In Force	Exhibit of Life Insurance Column 6 Line 23 x 1000			
(23) Less Group FEGLI In Force	Exhibit of Life Insurance Column 4 Line 43 x 1000			
(24) Less Group SGLI In Force	Exhibit of Life Insurance Column 4 Line 44 x 1000			
(25) Less Credit FEGLI In Force	Exhibit of Life Insurance Column 2 Line 43 x 1000			
(26) Less Credit SGLI In Force	Exhibit of Life Insurance Column 2 Line 44 x 1000			
(27) Total Group & Credit Life In Force Excluding FEGLI/SGLI	Lines (21) + (22) - (23) - (24) - (25) - (26)			
<b>Group Life Reserves</b>				
(28) Group Life Reserves	Exhibit 5 Column 6 Line 0199999			
(29) Plus Credit Life Reserves	Exhibit 5 Column 5 Line 0199999			
(30) Plus Group Life Separate Accounts	Separate Accounts Exhibit 3 Column 4 Line 0199999			
(31) Plus Group & Credit Life Modified Coinsurance Assumed Reserves	Schedule S Part 1 Section 1 Column 12, in part ‡			
(32) Less Group & Credit Life Modified Coinsurance Ceded Reserves	Schedule S Part 3 Section 1 Column 14, in part ‡			
(33) Total Group & Credit Life Reserves	Lines (28) + (29) + (30) + (31) - (32)			
(34) Total Group & Credit Life Net Amount at Risk Excluding FEGLI/SGLI	Lines (27) - (33)			
<b>Group &amp; Credit Term Life In Force with Remaining Rate Terms 36 Months and Under</b>				
(35) Group & Credit <b>Term</b> Life In Force with Remaining Rate Terms 36 Months and Under	Company Records *			
(36) Less Group & Credit <b>Term</b> Life Reserves with Remaining Rate Terms 36 Months and Under	Company Records *			
(37) Group & Credit <b>Term</b> Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under	Lines (35) - (36)		X † =	
<b>Group &amp; Credit Term Life In Force with Remaining Rate Terms Over 36 Months</b>				
(38) Group & Credit <b>Term</b> Life In Force with Remaining Rate Terms Over 36 Months	<del>Lines (27) - (35) - (38) - (41)</del>			
(39) Less Group & Credit <b>Term</b> Life Reserves with Remaining Rate Terms Over 36 Months	<del>Lines (33) - (36) - (39) - (42)</del>			
(40) Group & Credit Life <b>Term</b> Life Net Amount at Risk with Remaining Rate Terms Over 36 Months	Lines (38) - (39)		X † =	
<b>Group &amp; Credit Permanent Life Policies with Pricing Flexibility In Force</b>				
(41) <b>Group &amp; Credit</b> Permanent Life Policies with Pricing Flexibility In Force	Company Records *			
(42) Less <b>Group &amp; Credit</b> Permanent Life Policies with Pricing Flexibility Reserves	Company Records *			
(43) <b>Group &amp; Credit</b> Permanent Life Policies with Pricing Flexibility Net Amount at Risk	Lines (41) - (42)		X † =	
<b>Group &amp; Credit Permanent Life Policies without Pricing Flexibility In Force</b>				
(44) <b>Group &amp; Credit</b> Permanent Life Policies without Pricing Flexibility In Force	Lines (27) - (35) - (38) - (41)			
(45) Less <b>Group &amp; Credit</b> Permanent Life Policies without Pricing Flexibility Reserves	Lines (33) - (36) - (39) - (42)			
(46) <b>Group &amp; Credit</b> Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (44) - (45)		X † =	
<del>(44)-(47)</del> FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4 Line 43 and 44 x 1000		X 0.0004 =	
<del>(42)-(48)</del> Total Group & Credit Life	Lines (37) + (40) + <del>(44)</del> + (43) + (46) + (47)			
<del>(43)-(49)</del> Total Life	Lines (20) + <del>(42)</del> + (48)			

\* The definitions are specified in the Life Insurance section of the risk-based capital instructions  
 † The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.  
 ‡ Include only the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

Denotes items that must be manually entered on the filing software.

**Proposed 2023 Update 1**  
**PREMIUM STABILIZATION RESERVES**

	<u>Annual Statement Source</u>	(1) <u>Statement Value</u>	<u>Factor</u>	(2) RBC <u>Requirement</u>
<u>Group and Credit Life and Health Reported Premium Stabilization Reserves</u>				
(1)	Stabilization Reserves and Experience Rating Refunds included in Line 3	Page 3 Column 1 Line 3 in part	_____ X	_____
(2)	Provision for Experience Rating Refunds	Page 3 Column 1 Line 9.2 in part	_____ X	_____
(3)	Reserve for Group Rate Credits	Company Records	_____ X	_____
(4)	Reserve for Credit Rate Credits	Company Records	_____ X	_____
(5)	Premium Stabilization Reserves	Page 3 Column 1 Line 25 in part	_____ X	_____
(6)	Total of Preliminary Premium Stabilization Reserve Credit	Sum of Lines (1) through (5)	=====	=====
<u>Group &amp; Credit Life and Health Risk-Based Capital</u>				
(7)	Life	LR025 Life Insurance Column (2) Line <del>(42)</del> (48)	_____	
(8)	Health	LR024 Health Claim Reserves Column (4) Line (16) + [LR024 Column (4) Line (15) x 0.65] + LR019 Health Premiums Column (2) Lines (12), (17), (18) and (19) + [[LR019 Column (2) Lines (23), (24), and (27)] x 0.65] + [LR020 Underwriting Risk - Experience Fluctuation Risk Column (5) Line (18) - Column (4) Line (18) x Line (1.2) / Line (1.3) ]	_____	
(9)	Maximum Risk-Based Capital	Lines (7) + (8)	=====	
(10)	Final Premium Stabilization Reserve	Column (2) Line (6), but not more than Column (1) Line (9)	_____ X	_____

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Proposed 2023 Update 1
CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

Table with columns: Source, (1) RBC Amount, Tax Factor, (2) RBC Tax Effect. Rows include ASSET RISKS, Bonds (001-018), Mortgages (019-029), and Farm Mortgages (024-029).

† Denotes lines that are deducted from the total rather than added.

Denotes items that must be manually entered on the filing software.

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

			(1)		(2)
		Source	RBC Amount	Tax Factor	RBC Tax Effect
(030) Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (22)		X	0.1575	=
(031) Residential Mortgages - Other	LR004 Mortgages Column (6) Line (23)		X	0.1575	=
(032) Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (24)		X	0.1575	=
(033) Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (25)		X	0.1575	=
(034) Due & Unpaid Taxes Mortgages	LR004 Mortgages Column (6) Line (26)		X	0.1575	=
(035) Due & Unpaid Taxes - Foreclosures	LR004 Mortgages Column (6) Line (27)		X	0.1575	=
(036) Mortgage Reduction - Reinsurance	LR004 Mortgages Column (6) Line (29)		X	0.2100	= †
(037) Mortgage Increase - Reinsurance Preferred Stock	LR004 Mortgages Column (6) Line (30)		X	0.2100	=
(038) Unaffiliated Preferred Stock NAIC 1	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9)		X	0.1575	=
(039) Unaffiliated Preferred Stock NAIC 2	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10)		X	0.1575	=
(040) Unaffiliated Preferred Stock-NAIC 3	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11)		X	0.1575	=
(041) Unaffiliated Preferred Stock NAIC 4	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12)		X	0.1575	=
(042) Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X	0.1575	=
(043) Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X	0.2100	=
(044) Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X	0.2100	= †
(045) Preferred Stock Increase-Reinsurance Separate Accounts	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X	0.2100	=
(046) Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X	0.1575	=
(047) Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X	0.1575	=
(048) Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X	0.1575	=
(049) Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X	0.2100	= †
(050) Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X	0.2100	=
(051) Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X	0.1575	=
(052) Separate Account Surplus Real Estate	LR006 Separate Accounts Column (3) Line (13)		X	0.1575	=
(053) Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X	0.2100	=
(054) Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X	0.2100	=
(055) Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X	0.2100	=
(056) Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X	0.2100	= †
(057) Real Estate Increase - Reinsurance Schedule BA	LR007 Real Estate Column (3) Line (12)		X	0.2100	=
(058) Sch BA Real Estate Excluding Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (16)		X	0.2100	=
(059) Guaranteed Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (17) + Line (19)		X	0.0000	=
(060) Non-Guaranteed and All Other Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (18) + Line (20) + Line (21)		X	0.0000	=
(061) Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X	0.2100	= †
(062) Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X	0.2100	=

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

			(1)		(2)
		Source	RBC Amount	Tax Factor	RBC Tax Effect
(063)	Sch BA Bond NAIC 1	LR008 Other Long-Term Assets Column (5) Line (2)	X	0.1575	=
(064)	Sch BA Bond NAIC 2	LR008 Other Long-Term Assets Column (5) Line (3)	X	0.1575	=
(065)	Sch BA Bond NAIC 3	LR008 Other Long-Term Assets Column (5) Line (4)	X	0.1575	=
(066)	Sch BA Bond NAIC 4	LR008 Other Long-Term Assets Column (5) Line (5)	X	0.1575	=
(067)	Sch BA Bond NAIC 5	LR008 Other Long-Term Assets Column (5) Line (6)	X	0.1575	=
(068)	Sch BA Bond NAIC 6	LR008 Other Long-Term Assets Column (5) Line (7)	X	0.2100	=
(069)	BA Bond Reduction - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (9)	X	0.2100	= †
(070)	BA Bond Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (10)	X	0.2100	=
(071)	BA Preferred Stock NAIC 1	LR008 Other Long-Term Assets Column (5) Line (12.3)	X	0.1575	=
(072)	BA Preferred Stock NAIC 2	LR008 Other Long-Term Assets Column (5) Line (13)	X	0.1575	=
(073)	BA Preferred Stock NAIC 3	LR008 Other Long-Term Assets Column (5) Line (14)	X	0.1575	=
(074)	BA Preferred Stock NAIC 4	LR008 Other Long-Term Assets Column (5) Line (15)	X	0.1575	=
(075)	BA Preferred Stock NAIC 5	LR008 Other Long-Term Assets Column (5) Line (16)	X	0.1575	=
(076)	BA Preferred Stock NAIC 6	LR008 Other Long-Term Assets Column (5) Line (17)	X	0.2100	=
(077)	BA Preferred Stock Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (19)	X	0.2100	= †
(078)	BA Preferred Stock Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (20)	X	0.2100	=
(079)	Rated Surplus Notes	LR008 Other Long-Term Assets Column (5) Line (31)	X	0.1575	=
(080)	Rated Capital Notes	LR008 Other Long-Term Assets Column (5) Line (41)	X	0.1575	=
(081)	BA Common Stock Affiliated	LR008 Other Long-Term Assets Column (5) Line (48.3)	X	0.2100	=
(082)	BA Collateral Loans	LR008 Other Long-Term Assets Column (5) Line (50)	X	0.1575	=
(083)	Other BA Assets	LR008 Other Long-Term Assets Column (5) Line (52.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	X	0.2100	=
(084)	Other BA Assets Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (54)	X	0.2100	= †
(085)	Other BA Assets Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (55)	X	0.2100	=
(086)	BA Mortgages - In Good Standing	LR009 Schedule BA Mortgages Column (6) Line (11)	X	0.1575	=
(087)	BA Mortgages - 90 Days Overdue	LR009 Schedule BA Mortgages Column (6) Line (15)	X	0.1575	=
(088)	BA Mortgages - In Process of Foreclosure	LR009 Schedule BA Mortgages Column (6) Line (19)	X	0.1575	=
(089)	Reduction - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (21)	X	0.2100	= †
(090)	Increase - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (22)	X	0.2100	=
	<u>Miscellaneous</u>				
(091)	Asset Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page	X	0.1575	=
(092)	Miscellaneous Assets	LR012 Miscellaneous Assets Column (2) Line (7)	X	0.1575	=
(093)	Derivatives - Collateral and Exchange Traded	LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10)	X	0.1575	=
(094)	Derivatives NAIC 1	LR012 Miscellaneous Assets Column (2) Line (11)	X	0.1575	=
(095)	Derivatives NAIC 2	LR012 Miscellaneous Assets Column (2) Line (12)	X	0.1575	=
(096)	Derivatives NAIC 3	LR012 Miscellaneous Assets Column (2) Line (13)	X	0.1575	=
(097)	Derivatives NAIC 4	LR012 Miscellaneous Assets Column (2) Line (14)	X	0.1575	=
(098)	Derivatives NAIC 5	LR012 Miscellaneous Assets Column (2) Line (15)	X	0.1575	=
(099)	Derivatives NAIC 6	LR012 Miscellaneous Assets Column (2) Line (16)	X	0.2100	=
(100)	Miscellaneous Assets Reduction-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (19)	X	0.2100	= †
(101)	Miscellaneous Assets Increase-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (20)	X	0.2100	=

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

	Source	(1)		(2)	
		RBC Amount	Tax Factor	RBC Tax Effect	
(102) Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	X	0.1575	=	
(103) Reinsurance	LR016 Reinsurance Column (4) Line (17)	X	0.2100	=	
(104) Investment Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (6)	X	0.2100	=	
(105) Investment in Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)	X	0.2100	=	
(106) Other Affiliate: Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)	X	0.2100	=	
(107) Other Affiliate: Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)	X	0.2100	=	
(108) Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (14)	X	0.2100	=	
(109) Subtotal for C-1o Assets	Sum of Lines (001) through (108), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)				
<u>C-0 Affiliated Common Stock</u>					
(110) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)	X	0.1575	=	
(111) Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)	X	0.2100	=	†
(112) Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)	X	0.2100	=	
(113) Affiliated US Property - Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)	X	0.2100	=	
(114) Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)	X	0.2100	=	
(115) Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)	X	0.2100	=	
(116) Affiliated US Property - Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)	X	0.2100	=	
(117) Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)	X	0.2100	=	
(118) Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)	X	0.2100	=	
(119) Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)	X	0.0000	=	
(120) Subtotal for C-0 Affiliated Common Stock	Lines (110)-(111)+(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)				
<u>Common Stock</u>					
(121) Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	X	0.2100	=	
(122) Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)	X	0.2100	=	†
(123) Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)	X	0.2100	=	†
(124) Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)	X	0.2100	=	
(125) BA Common Stock Unaffiliated	LR008 Other Long-Term Assets Column (5) Line (47)	X	0.2100	=	
(126) BA Common Stock Affiliated - C-1cs	LR008 Other Long-Term Assets Column (5) Line (49.2)	X	0.2100	=	
(127) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	X	0.2100	=	
(128) NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (51.1)	X	0.1575	=	
(129) NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (51.2)	X	0.1575	=	
(130) Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated Investments Column (4) Line (7)	X	0.2100	=	
(131) Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)	X	0.2100	=	
(132) Total for C-1cs Assets	Lines (121)-(122)-(123)+(124)+(125)+(126)+(127)+(128)+(129)+(130)+(131)				
<u>Insurance Risk</u>					
(133) Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)	X	0.2100	=	

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

		(1)		(2)
	Source	RBC Amount	Tax Factor	RBC Tax Effect
(134) Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)	_____ X	0.2100	= _____
(135) Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line (20)	_____ X	0.2100	= _____
(136) Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Lines <del>(42)</del> (48)	_____ X	0.2100	= _____
(136b) Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)	_____ X	0.2100	= _____
(137) Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)	_____ X	0.2100	= _____
(138) Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	_____ X	0.0000	= _____
(139) Total C-2 Risk	$L(133) + L(134) + L(137) + L(138) + \text{Greatest of } [\text{Guardrail Factor} * (L(135)+L(136)), \text{Guardrail Factor} * L(136b), \text{Square Root of } [(L(135) + L(136))^2 + L(136b)^2 + 2 * (\text{Correlation Factor}) * (L(135) + L(136)) * L(136b) ]]$	=====		=====
(140) Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)	_____ X	0.2100	= _____
(141) Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)	_____ X	0.0000	= _____
(142) Market Risk	LR027 Interest Rate Risk Column (3) Line (37)	_____ X	0.2100	= _____
(143) Business Risk	LR029 Business Risk Column (2) Line (40)	_____ X	0.2100	= _____
(144) Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)	_____ X	0.0000	= _____
(145) Total Tax Effect	Lines (109) + (120) + (132) + (139) + (140) + (141) + (142) + (143) + (144)	=====		=====

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(1)  
RBC

Requirement

Source

	Source	(1) RBC Requirement
<u>Insurance Affiliates and Misc. Other Amounts (C-0)</u>		
(1) Affiliated US Property-Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)	_____
(2) Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)	_____
(3) Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)	_____
(4) Affiliated US Property-Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)	_____
(5) Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)	_____
(6) Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)	_____
(7) Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)	_____
(8) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	_____
(9) Total (C-0) - Pre-Tax	Sum of Lines (1) through (8)	_____
(10) (C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (120)	_____
(11) Net (C-0) - Post-Tax	Line (9) - Line (10)	=====
<u>Asset Risk - Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u>		
(12) Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	_____
(13) Schedule BA Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (47)	_____
(14) Schedule BA Affiliated Common Stock - C-1cs	LR008 Other Long-Term Assets Column (5) line (49.2)	_____
(15) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	_____
(16) Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (7)	_____
(17) Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)	_____
(18) Total (C-1cs) - Pre-Tax	Sum of Lines (12) through (17)	_____
(19) (C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (132)	_____
(20) Net (C-1cs) - Post-Tax	Line (18) - Line (19)	=====
<u>Asset Risk - All Other (C-1o)</u>		
(21) Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	_____
(22) Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	_____
(23) Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	_____
(24) Affiliated Preferred Stock and Common Stock - Investment Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (6)	_____
(25) Affiliated Preferred Stock and Common Stock - Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)	_____
(26) Affiliated Preferred Stock and Common Stock - Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)	_____
(27) Affiliated Preferred Stock and Common Stock - Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)	_____
(28) Affiliated Preferred Stock and Common Stock - Publicly Traded Insurers Held at Fair Value (excess of statement value over book value)	LR042 Summary for Affiliated Investments Column (4) Line (14)	_____
(29) Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	_____

Denotes items that must be manually entered on the filing software.

Company Name	Source	RBC Requirement
(30) Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	_____
(31) Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	_____
(32) Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	_____
(33) Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	_____
(34) Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (56) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	_____
(35) Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (23)	_____
(36) Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page	_____
(37) Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	_____
(38) Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	_____
(39) Reinsurance	LR016 Reinsurance Column (4) Line (17)	_____
(40) Total (C-1o) - Pre-Tax	Sum of Lines (21) through (39)	_____
(41) (C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (109)	_____
(42) Net (C-1o) - Post-Tax	Line (40) - Line (41)	=====
<u>Insurance Risk (C-2)</u>		
(43) Individual & Industrial Life Insurance	LR025 Life Insurance Column (2) Line (20)	_____
(44) Group & Credit Life Insurance	LR025 Life Insurance Column (2) Lines <del>(42)</del> (48)	_____
(44b) Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	_____
(45) Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	_____
(46) Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	_____
(47) Total (C-2) - Pre-Tax	$L(45) + L(46) + \text{Greatest of } [ \text{Guardrail Factor} * (L(43)+L(44)), \text{Guardrail Factor} * L(44b), \text{Square Root of } [ (L(43) + L(44))^2 + L(44b)^2 + 2 * (\text{Correlation Factor}) * (L(43) + L(44)) * L(44b) ] ]$	_____
(48) (C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (139)	_____
(49) Net (C-2) - Post-Tax	Line (47) - Line (48)	=====
<u>Interest Rate Risk (C-3a)</u>		
(50) Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	_____
(51) (C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (140)	_____
(52) Net (C-3a) - Post-Tax	Line (50) - Line (51)	=====
<u>Health Credit Risk (C-3b)</u>		
(53) Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	_____
(54) (C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	_____
(55) Net (C-3b) - Post-Tax	Line (53) - Line (54)	=====
<u>Market Risk (C-3c)</u>		
(56) Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)	_____
(57) (C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	_____
(58) Net (C-3c) - Post-Tax	Line (56) - Line (57)	=====

Denotes items that must be manually entered on the filing software.

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

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Company Name	Source	RBC (1) Requirement
<u>Business Risk (C-4a)</u>		
(59) Premium Component	LR029 Business Risk Column (2) Lines (12) + (24) + (36)	_____
(60) Liability Component	LR029 Business Risk Column (2) Line (39)	_____
(61) Subtotal Business Risk (C-4a) - Pre-Tax	Lines (59) + (60)	_____
(62) (C-4a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	_____
(63) Net (C-4a) - Post-Tax	Line (61) - Line (62)	=====
<u>Business Risk (C-4b)</u>		
(64) Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax	LR029 Business Risk Column (2) Line (57)	_____
(65) (C-4b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144)	_____
(66) Net (C-4b) - Post-Tax	Line (64) - Line (65)	=====
<u>Total Risk-Based Capital After Covariance Before Basic Operational Risk</u>		
(67) $C-0 + C-4a + \text{Square Root of } [(C-1o + C-3a)^2 + (C-1cs + C-3c)^2 + (C-2)^2 + (C-3b)^2 + (C-4b)^2]$	REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE $L(11)+L(63) + \text{Square Root of } [(L(42) + L(52))^2 + (L(20) + L(58))^2 + L(49)^2 + L(55)^2 + L(66)^2]$	=====
(68) Gross Basic Operational Risk	$0.03 \times L(67)$	_____
(69) C-4a of U.S. Life Insurance Subsidiaries	Company Records	_____
(70) Net Basic Operational Risk	Line (68) - (Line (63) + Line (69)) (Not less than zero)	_____
(71) Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2	LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2	_____
(72) Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2)	Line (67) + Line (70) + Line (71)	=====
<u>Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)</u>		
(73) Total Risk-Based Capital After Covariance Times Fifty Percent	Line (72) x 0.50	=====
<u>Tax Sensitivity Test</u>		
(74) Tax Sensitivity Test: Total Risk-Based Capital After Covariance	$L(9)+L(61) + \text{Square Root of } [(L(40) + L(50))^2 + (L(18) + L(56))^2 + L(47)^2 + L(53)^2 + L(64)^2]$	_____
(75) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (74) x 0.50	_____

  Denotes items that must be manually entered on the filing software.

**PROPOSED 2023 UPDATE 1**  
**LIFE INSURANCE**  
 LR025

*Basis of Factors*

The factors developed represent surplus needed to provide for life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected) over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates for emerging experience. The mortality risks included in the development of the factors were volatility, level, trend, and catastrophe. The factors were developed by stochastically simulating the run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as a dollar amount, is determined as the greatest present value of accumulated deficiencies at the 95<sup>th</sup> percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released ~~in excess of the mortality cost expected under the moderately adverse scenario minus mortality margin present in reserves~~. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95<sup>th</sup> percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

*Specific Instructions for Application of the Formula*

Lines 2, 5 and 21-~~41-47~~ are not applicable to Fraternal Benefit Societies.

The NAR is derived for each of the factor categories using annual statement sources and company records. In Force and Reserves amounts are net of reinsurance throughout. The In Force amounts throughout derived from company records need to be consistent with the Exhibit of Life Insurance. The Reserves amounts throughout derived from company records need to be consistent with Exhibit 5, Separate Accounts Exhibit, and Schedule S.

The NAR size bands apply to the total amounts for individual & industrial life and group term & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories.- Size band 1 is for NAR amounts up to \$500 million. Size band 2 is for NAR amounts greater than \$500 million and up to \$25 billion. Size band 3 is for NAR amounts greater than \$25 billion.

Pricing Flexibility for Individual & Industrial Life Insurance ~~and Group & Credit Life Permanent Life Insurance~~ is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices. For the purposes of assessing whether business is categorized as having "Pricing Flexibility", grouping of gross amounts may be done at either the contract level or at a cohort level consistent with grouping for pricing purposes. The categorization for ceded amounts for direct insurers should be based on the terms of each reinsurance treaty. Non-affiliated reinsurers are to assess the flexibility to adjust rates on in force contracts based on the terms of each reinsurance treaty and constraints based on typical business practices. For example, if a non-affiliated

reinsurer has historical precedent for changing in force rates, then that may provide support for assigning policies to the category with pricing flexibility. Affiliated reinsurers are to assign the factor category based on the direct policies. In force contracts may move between categories throughout their remaining lifetime if the degree of pricing flexibility changes as of each valuation date. A material rate adjustment is defined as the ability to recover, on a present value basis, the difference in mortality risks provided for in the factors below for contracts with and without pricing flexibility. ~~These differences in factors are shown in the Line (13) table below in the Permanent Life Flexibility Factor and Term Life Flexibility Factor columns.~~ The flexibility factor for each category multiplied by the NAR results in the minimum dollar margin needed for a material rate adjustment, which can then be compared against margins available to adjust rates. In force contracts that have margin available that is greater than or equal to the minimum dollar margin needed may be assigned to the category for policies with pricing flexibility. Insurers may choose to assign contracts to the categories without pricing flexibility if the evaluation of margins is not completed or if the degree of pricing flexibility is uncertain.

Lines (11) and (12) Individual & Industrial Life Policies with Pricing Flexibility In Force and Reserves are derived from company records. Examples of products intended for this category include, but aren't limited to, participating whole life insurance, universal life insurance without secondary guarantees, and yearly renewable term insurance where scheduled premiums may be changed on an annual basis from the date of issue. The table below illustrates the RBC requirement calculation embedded in Line (13) for Individual & Industrial Life Policies with Pricing Flexibility.

Line (13) <u>Individual &amp; Industrial</u> Life Policies with Pricing Flexibility	(1)	Factor	(2)	<u>Permanent Life Flexibility Factor</u>	<u>Term Life Flexibility Factor</u>
	Statement Value		RBC Requirement		
Allocation of First \$500 Million	_____	X 0.-00220 =	_____	<u>0.00230</u>	<u>0.00110</u>
Allocation of Next \$24,500 Million	_____	X 0.-00105 =	_____	<u>0.00120</u>	<u>0.00065</u>
Allocation of Over \$25,000 Million	_____	X 0.-00080 =	_____	<u>0.00085</u>	<u>0.00055</u>
Total <u>Individual &amp; Industrial</u> Life Policies with Pricing Flexibility Net Amount at Risk	=====		=====		

Lines (14) and (15) Individual & Industrial Term Life Policies without Pricing Flexibility In Force and Reserves are derived from company records. Examples of products intended for this category include, but aren't limited to, level term insurance with guaranteed level premiums and yearly renewable term insurance where scheduled premiums may not be changed. The table below illustrates the RBC requirement calculation embedded in Line (16) for Individual & Industrial Term Life Policies without Pricing Flexibility.

Line (16) <u>Individual &amp; Industrial</u> Term Life Policies without Pricing Flexibility	(1)	Factor	(2)
	Statement Value		RBC Requirement
Allocation of First \$500 Million	_____	X 0.00280 =	_____
Allocation of Next \$24,500 Million	_____	X 0.00120 =	_____
Allocation of Over \$25,000 Million	_____	X 0.00085 =	_____
Total <u>Individual &amp; Industrial</u> Term Life Policies without Pricing Flexibility Net Amount at Risk	=====		=====

Lines (17) and (18) Individual & Industrial Permanent Life Policies without Pricing Flexibility In Force and Reserves are derived from the aggregate amounts derived in lines (1) to (10) minus the amounts recorded in the other individual life categories. Examples of products intended for this category include, but aren't limited to, universal life with secondary guarantees and non-participating whole life insurance. Policies that aren't recorded in the other individual life categories default to this category which has the highest factors. The table below illustrates the RBC requirement calculation embedded in Line (19) for Individual & Industrial Permanent Life Policies without Pricing Flexibility.

Line (19) <u>Individual &amp; Industrial</u> Permanent Life Policies without Pricing Flexibility	(1) Statement Value	Factor	(2) RBC Requirement
Allocation of First \$500 Million	_____	X 0.00400 =	_____
Allocation of Next \$24,500 Million	_____	X 0.00175 =	_____
Allocation of Over \$25,000 Million	_____	X 0.00120 =	_____
<b>Total <u>Individual &amp; Industrial</u> Permanent Life Policies without Pricing Flexibility Net Amount at Risk</b>	<b>=====</b>		<b>=====</b>

Lines (35) and (36) Group & Credit Term Life In Force and Reserves with Remaining Rate Terms 36 Months and Under are derived from company records. This category includes group term life contracts where the premium terms have 36 months or fewer until expiration or renewal. Insurers may choose to assign contracts to the category for remaining rate terms over 36 months if the evaluation of remaining rate terms is not completed. The in force amount classified in this category needs to be consistent with the Exhibit of Life Insurance. The reserves amount classified in this category needs to be consistent with Exhibit 5 used for Lines (28) and (29), Separate Accounts Exhibit used for Line (30), and Schedule S used for Lines (31) and (32). Federal Employees’ Group Life Insurance (FEGLI) and Servicemembers’ Group Life Insurance (SGLI) contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (37) for Group & Credit Term Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under Net Amount at Risk.

Line (37) <u>Group &amp; Credit Term</u> Life with Remaining Rate Terms 36 Months and Under	(1) Statement Value	Factor	(2) RBC Requirement
Allocation of First \$500 Million	_____	X 0.00140 =	_____
Allocation of Next \$24,500 Million	_____	X 0.00055 =	_____
Allocation of Over \$25,000 Million	_____	X 0.00040 =	_____
<b>Total Group &amp; Credit <u>Term</u> Life <u>Net Amount at Risk</u> with Remaining Rate Terms 36 Months and Under <u>Net Amount at Risk</u></b>	<b>=====</b>		<b>=====</b>

Lines (38) and (39) Group & Credit Term Life In Force and Reserves with Remaining Rate Terms Over 36 Months are derived from ~~the aggregate amounts derived in lines (21) to (34) minus the Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under in lines (35) and (36)~~ company records. This category includes group term life contracts where the premium terms have over 36 months until expiration or renewal. FEGLI and SGLI contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (40) for Group & Credit Life Term Net Amount at Risk with Remaining Rate Terms Over 36 Months Net Amount at Risk.

Line (40) <u>Group &amp; Credit Term</u> Life with Remaining Rate Terms Over 36 Months	(1) Statement Value	Factor	(2) RBC Requirement
Allocation of First \$500 Million	_____	X 0.00190 =	_____
Allocation of Next \$24,500 Million	_____	X 0.00080 =	_____
Allocation of Over \$25,000 Million	_____	X 0.00055 =	_____
<b>Total Group &amp; Credit <u>Term</u> Life <u>Net Amount at Risk</u> with Remaining Rate Terms Over 36 Months <u>Net Amount at Risk</u></b>	<b>=====</b>		<b>=====</b>

Lines (41) and (42) Group & Credit Permanent Life Policies with Pricing Flexibility In Force and Reserves are derived from company records. FEGLI and SGLI contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (43) for Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk. The capital factors assigned are the same as Individual & Industrial Permanent Life Policies with Pricing Flexibility.

<u>Line (43)</u>	<u>Group &amp; Credit Permanent Life Policies with Pricing Flexibility</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
	<u>Allocation of First \$500 Million</u>	_____	X 0.00220 =	_____
	<u>Allocation of Next \$24,500 Million</u>	_____	X 0.00105 =	_____
	<u>Allocation of Over \$25,000 Million</u>	_____	X 0.00080 =	_____
	<u>Total Group &amp; Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk</u>	_____		_____

Lines (44) and (45) Group & Credit Permanent Life Policies without Pricing Flexibility In Force and Reserves are derived from the aggregate amounts derived in lines (21) to (34) minus the other Group & Credit life amounts derived in lines (35) to (43). FEGLI and SGLI contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (46) for Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk. The capital factors assigned are the same as Individual & Industrial Permanent Life Policies without Pricing Flexibility.

<u>Line (46)</u>	<u>Group &amp; Credit Permanent Life Policies without Pricing Flexibility</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
	<u>Allocation of First \$500 Million</u>	_____	X 0.00400 =	_____
	<u>Allocation of Next \$24,500 Million</u>	_____	X 0.00175 =	_____
	<u>Allocation of Over \$25,000 Million</u>	_____	X 0.00120 =	_____
	<u>Total Group &amp; Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk</u>	_____		_____

Line ~~(4147)~~ FEGLI/SGLI In Force amounts are retrieved from the Exhibit of Life Insurance. -The capital factor assigned is the same as the largest size band for group & credit term life contracts with remaining rate terms 36 months and under.

<u>Line</u>	<u>FEGLI/SGLI</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
<del>(4147)</del>	In Force	_____	X 0.00040 =	_____

All amounts should be entered as required. The risk-based capital software will calculate the RBC requirement for individual and industrial and for group and credit.

## Proposed 2023 Update 2

## NOTE 37 Life Insurance Net Amount at Risk by Product Characteristics

Refer to LR025 of the RBC instructions for category definitions

## A. INDIVIDUAL &amp; INDUSTRIAL LIFE

## Line Definitions

(1)	Life In Force	Exhibit of Life Insurance Amount of Insurance for Industrial and Ordinary Life, Lines 21 and 22
(2)	Exhibit 5 Life Reserves	Exhibit 5 for Industrial and Ordinary Life, Lines 0199997 and 0199998
(3)	Separate Account Life Reserves	Separate Accounts, Exhibit 3, Column 3 Line 0199999
(4)	Modified Coinsurance Life Reserves	Schedule S, Part 1 Section 1 Column 12 and Part 3 Section 1 Column 14, the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

Table A1

		Total Individual & Industrial Life			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A2

		Individual & Industrial Life Policies with Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A3

		Individual & Industrial Term Life Policies without Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				

Table A4

		Individual & Industrial Permanent Life Policies without Pricing Flexibility			
		(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1)	Life In Force				
(2)	Exhibit 5 Life Reserves				
(3)	Separate Account Life Reserves				
(4)	Modified Coinsurance Life Reserves				
(5)	Life Reserves (2) + (3) + (4)				
(6)	Life Net Amount at Risk (1) - (5)				



**B. GROUP & CREDIT LIFE EXCLUDING FEGLI/SGLI**

Line Definitions

<p>(1) Life In Force                  (2) Exhibit 5 Life Reserves                  (3) Separate Account Life Reserves                    (4) Modified Coinsurance Life Reserves</p>	<p>Exhibit of Life Insurance Amount of Insurance for Group and Credit Life, Lines 21 and 22; exclude amounts for FEGLI and SGLI reported on lines 43 and 44                  Exhibit 5 for Group and Credit Life, Lines 0199997 and 0199998                  Separate Accounts, Exhibit 3, Column 4 Line 0199999                    Schedule S, Part 1 Section 1 Column 12 and Part 3 Section 1 Column 14, the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.</p>
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Table B1

Total Group & Credit Life Excluding FEGLI/SGLI				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

Table B2

Group & Credit Term Life with Remaining Rate Terms 36 Months and Under				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

Table B3

Group & Credit Term Life with Remaining Rate Terms Over 36 Months				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

Table B4

Group & Credit Permanent Life Policies with Pricing Flexibility				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

Table B5

Group & Credit Permanent Life Policies without Pricing Flexibility				
	(1) Gross	(2) Assumed	(3) Ceded	(4) Net of Reinsurance (1) + (2) - (3)
(1) Life In Force				
(2) Exhibit 5 Life Reserves				
(3) Separate Account Life Reserves				
(4) Modified Coinsurance Life Reserves				
(5) Life Reserves (2) + (3) + (4)				
(6) Life Net Amount at Risk (1) - (5)				

	Annual Statement Source	(1) Statement Value	Factor	(2) RBC Requirement
<b>Individual &amp; Industrial Life-Net Amount at Risk</b>				
(4) Ordinary Life In Force	Exhibit of Life Insurance Column 4 Line 23 x 1000	_____		
(2) Plus Industrial Life In Force	Exhibit of Life Insurance Column 2 Line 23 x 1000	_____		
(3) Total Individual & Industrial Life In Force	Lines (1) + (2)	=====		
<b>Reserves</b>				
(4) Ordinary Life Reserves	Exhibit 5 Column 4 Line 0199999	_____		
(5) Plus Industrial Life Reserves	Exhibit 5 Column 2 Line 0199999	_____		
(6) Plus Ordinary Life Separate Accounts	Separate Accounts Exhibit 3 Column 3 Line 0199999	_____		
(7) Plus Ordinary & Industrial Life Modified Coinsurance Assumed Reserves	Schedule S Part 1 Section 1 Column 12, in part ‡	_____		
(8) Less Ordinary & Industrial Life Modified Coinsurance Ceded Reserves	Schedule S Part 2 Section 1 Column 14, in part ‡	_____		
(9) Total Individual & Industrial Life Reserves	Lines (4) + (5) + (6) + (7) - (8)	_____		
(40)-(1) Total Individual & Industrial Life Net Amount at Risk	Lines (3) - (9); Notes to Financial Statements Item 37, Table A1, Column (4), Line (6)	_____		
<b>Pricing Flexibility</b>				
(11) Individual & Industrial Life Policies with Pricing Flexibility In Force	Company Records ±	_____		
(12) Less Individual & Industrial Life Policies with Pricing Flexibility in Force Reserves	Company Records ±	_____		
(13)-(2) Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	Lines (11) - (12); Notes to Financial Statements Item 37, Table A2, Column (4), Line (6)	_____	X †	= _____
<b>Term Life Policies without Pricing Flexibility Reserves</b>				
(14) Individual & Industrial Term Life Policies without Pricing Flexibility In Force	Company Records ±	_____		
(15) Less Individual & Industrial Term Life Policies without Pricing Flexibility Reserves	Company Records ±	_____		
(16)-(3) Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	Lines (14) - (15); Notes to Financial Statements Item 37, Table A3, Column (4), Line (6)	_____	X †	= _____
<b>Permanent Life Policies without Pricing Flexibility In Force</b>				
(17) Individual & Industrial Permanent Life Policies without Pricing Flexibility In Force	Lines (3) - (11) - (14)	_____		
(18) Less Individual & Industrial Permanent Life Policies without Pricing Flexibility Reserves	Lines (9) - (12) - (15)	_____		
(19)-(4) Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (17) - (18) (1) - (2) - (3)	_____	X †	= _____
(20)-(5) Total Individual & Industrial Life	Lines (13) + (16) + (19) (2) + (3) + (4)	_____		
<b>Group &amp; Credit Life-Net Amount at Risk</b>				
(21) Group Life In Force	Exhibit of Life Insurance Column 9 Line 23 x 1000	_____		
(22) Plus Credit Life In Force	Exhibit of Life Insurance Column 6 Line 23 x 1000	_____		
(23) Less Group FEGLI In Force	Exhibit of Life Insurance Column 4 Line 43 x 1000	_____		
(24) Less Group SGLI In Force	Exhibit of Life Insurance Column 4 Line 44 x 1000	_____		
(25) Less Credit FEGLI In Force	Exhibit of Life Insurance Column 2 Line 43 x 1000	_____		
(26) Less Credit SGLI In Force	Exhibit of Life Insurance Column 2 Line 44 x 1000	_____		
(27) Total Group & Credit Life In Force Excluding FEGLI/SGLI	Lines (21) + (22) - (23) - (24) - (25) - (26)	_____		
<b>Reserves</b>				
(28) Group Life Reserves	Exhibit 5 Column 6 Line 0199999	_____		
(29) Plus Credit Life Reserves	Exhibit 5 Column 5 Line 0199999	_____		
(30) Plus Group Life Separate Accounts	Separate Accounts Exhibit 3 Column 4 Line 0199999	_____		
(31) Plus Group & Credit Life Modified Coinsurance Assumed Reserves	Schedule S Part 1 Section 1 Column 12, in part ‡	_____		
(32) Less Group & Credit Life Modified Coinsurance Ceded Reserves	Schedule S Part 2 Section 1 Column 14, in part ‡	_____		
(33) Total Group & Credit Life Reserves	Lines (28) + (29) + (30) + (31) - (32)	_____		
(34)-(6) Total Group & Credit Life Excluding FEGLI/SGLI Net Amount at Risk Excluding FEGLI/SGLI	Lines (27) - (33); Notes to Financial Statements Item 37, Table B1, Column (4), Line (6)	_____		
<b>Remaining Rate Terms</b>				
(35) Group & Credit Term Life In Force with Remaining Rate Terms 36 Months and Under	Company Records ±	_____		
(36) Less Group & Credit Term Life Reserves with Remaining Rate Terms 36 Months and Under	Company Records ±	_____		
(37)-(7) Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk with Rem	Lines (35) - (36); Notes to Financial Statements Item 37, Table B2, Column (4), Line (6)	_____	X †	= _____
<b>Remaining Rate Terms Over 36 Months</b>				
(38) Group & Credit Term Life In Force with Remaining Rate Terms Over 36 Months	Lines (27) - (35) Company Records ±	_____		
(39) Less Group & Credit Term Life Reserves with Remaining Rate Terms Over 36 Months	Lines (32) - (36) Company Records ±	_____		
(40)-(8) Group & Credit Life Term Life with Remaining Rate Terms Over 36 Months Net Amount at Risk with Rem	Lines (38) - (39); Notes to Financial Statements Item 37, Table B3, Column (4), Line (6)	_____	X †	= _____
<b>Pricing Flexibility</b>				
(41) Group & Credit Permanent Life Policies with Pricing Flexibility In Force	Company Records ±	_____		
(42) Less Group & Credit Permanent Life Policies with Pricing Flexibility Reserves	Company Records ±	_____		
(43)-(9) Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	Lines (41) - (42); Notes to Financial Statements Item 37, Table B4, Column (4), Line (6)	_____	X †	= _____
<b>Permanent Life Policies without Pricing Flexibility In Force</b>				
(44) Group & Credit Permanent Life Policies without Pricing Flexibility In Force	Lines (27) - (35) - (38) - (41)	_____		
(45) Less Group & Credit Permanent Life Policies without Pricing Flexibility Reserves	Lines (33) - (36) - (39) - (42)	_____		
(46)-(10) Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (44) - (45) (6) - (7) - (8) - (9)	_____	X †	= _____
(41)-(47)-(11) FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4 Line 43 and 44 x 1000	_____	X 0.0004	= _____
(42)-(48)-(12) Total Group & Credit Life	Lines (37) + (40) + (41) + (43) + (46) + (47) (7) + (8) + (9) + (10) + (11)	_____		
(43)-(49)-(13) Total Life	Lines (20) + (42) + (48) (5) + (12)	=====		

± The definitions are specified in the Life Insurance section of the risk-based capital instructions.  
† The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.  
‡ Include only the portion which relates to policy reserves that, if written on a direct basis, would be included on Exhibit 5.

-Denotes items that must be manually entered on the filing software.

		(1) Statement Value	Factor	(2) RBC Requirement
<u>Individual &amp; Industrial Life</u>				
(1)	Total Individual & Industrial Life Net Amount at Risk	Notes to Financial Statements Item 37, Table A1, Column (4), Line (6)		
(2)	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	Notes to Financial Statements Item 37, Table A2, Column (4), Line (6)		
(3)	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	Notes to Financial Statements Item 37, Table A3, Column (4), Line (6)		
(4)	Total Individual & Industrial Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (1) - (2) - (3)		
(5)	Total Individual & Industrial Life	Lines (2) + (3) + (4)		
<u>Group &amp; Credit Life</u>				
(6)	Total Group & Credit Life Excluding FEGLI/SGLI Net Amount at Risk	Notes to Financial Statements Item 37, Table B1, Column (4), Line (6)		
(7)	Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk	Notes to Financial Statements Item 37, Table B2, Column (4), Line (6)	X †	=
(8)	Group & Credit Life Term Life with Remaining Rate Terms Over 36 Months Net Amount at Risk	Notes to Financial Statements Item 37, Table B3, Column (4), Line (6)	X †	=
(9)	Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk	Notes to Financial Statements Item 37, Table B4, Column (4), Line (6)	X †	=
(10)	Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk	Lines (6) - (7) - (8) - (9)	X †	=
(11)	FEGLI/SGLI Life In Force	Exhibit of Life Insurance Sum of Column 2 and 4 Line 43 and 44 x 1000	X 0.0004	=
(12)	Total Group & Credit Life	Lines (7) + (8) + (9) + (10) + (11)		
(13)	Total Life	Lines (5) + (12)		

† The tiered calculation is illustrated in the Life Insurance section of the risk-based capital instructions.

**Proposed 2023 Update 2**  
**PREMIUM STABILIZATION RESERVES**

	<u>Annual Statement Source</u>	(1) <u>Statement Value</u>	<u>Factor</u>	(2) <u>RBC Requirement</u>
<u>Group and Credit Life and Health Reported Premium Stabilization Reserves</u>				
(1)	Stabilization Reserves and Experience Rating Refunds included in Line 3	Page 3 Column 1 Line 3 in part	_____ X	_____
(2)	Provision for Experience Rating Refunds	Page 3 Column 1 Line 9.2 in part	_____ X	_____
(3)	Reserve for Group Rate Credits	Company Records	_____ X	_____
(4)	Reserve for Credit Rate Credits	Company Records	_____ X	_____
(5)	Premium Stabilization Reserves	Page 3 Column 1 Line 25 in part	_____ X	_____
(6)	Total of Preliminary Premium Stabilization Reserve Credit	Sum of Lines (1) through (5)	=====	=====
<u>Group &amp; Credit Life and Health Risk-Based Capital</u>				
(7)	Life	LR025 Life Insurance Column (2) Line <del>(42)</del> <del>(48)</del> (12)	_____	
(8)	Health	LR024 Health Claim Reserves Column (4) Line (16) + [LR024 Column (4) Line (15) x 0.65] + LR019 Health Premiums Column (2) Lines (12), (17), (18) and (19) + [[LR019 Column (2) Lines (23), (24), and (27)] x 0.65] + [LR020 Underwriting Risk - Experience Fluctuation Risk Column (5) Line (18) - Column (4) Line (18) x Line (1.2) / Line (1.3) ]	_____	
(9)	Maximum Risk-Based Capital	Lines (7) + (8)	=====	
(10)	Final Premium Stabilization Reserve	Column (2) Line (6), but not more than Column (1) Line (9)	_____ X	_____

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Proposed 2023 Update 2
CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL

Table with columns: Source, (1) RBC Amount, Tax Factor, (2) RBC Tax Effect. Rows include ASSET RISKS, Bonds (001-018), Mortgages, and In Good Standing (019-029).

† Denotes lines that are deducted from the total rather than added.

Denotes items that must be manually entered on the filing software.

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

			(1)		(2)
		Source	RBC Amount	Tax Factor	RBC Tax Effect
(030) Residential Mortgages - Insured	LR004 Mortgages Column (6) Line (22)		X	0.1575	=
(031) Residential Mortgages - Other	LR004 Mortgages Column (6) Line (23)		X	0.1575	=
(032) Commercial Mortgages - Insured	LR004 Mortgages Column (6) Line (24)		X	0.1575	=
(033) Commercial Mortgages - Other	LR004 Mortgages Column (6) Line (25)		X	0.1575	=
(034) Due & Unpaid Taxes Mortgages	LR004 Mortgages Column (6) Line (26)		X	0.1575	=
(035) Due & Unpaid Taxes - Foreclosures	LR004 Mortgages Column (6) Line (27)		X	0.1575	=
(036) Mortgage Reduction - Reinsurance	LR004 Mortgages Column (6) Line (29)		X	0.2100	= †
(037) Mortgage Increase - Reinsurance Preferred Stock	LR004 Mortgages Column (6) Line (30)		X	0.2100	=
(038) Unaffiliated Preferred Stock NAIC 1	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (1) + LR018 Off-Balance Sheet Collateral Column (3) Line (9)		X	0.1575	=
(039) Unaffiliated Preferred Stock NAIC 2	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (2) + LR018 Off-Balance Sheet Collateral Column (3) Line (10)		X	0.1575	=
(040) Unaffiliated Preferred Stock-NAIC 3	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (3) + LR018 Off-Balance Sheet Collateral Column (3) Line (11)		X	0.1575	=
(041) Unaffiliated Preferred Stock NAIC 4	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (4) + LR018 Off-Balance Sheet Collateral Column (3) Line (12)		X	0.1575	=
(042) Unaffiliated Preferred Stock NAIC 5	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (5) + LR018 Off-Balance Sheet Collateral Column (3) Line (13)		X	0.1575	=
(043) Unaffiliated Preferred Stock NAIC 6	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (6) + LR018 Off-Balance Sheet Collateral Column (3) Line (14)		X	0.2100	=
(044) Preferred Stock Reduction-Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (8)		X	0.2100	= †
(045) Preferred Stock Increase-Reinsurance Separate Accounts	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (9)		X	0.2100	=
(046) Guaranteed Index	LR006 Separate Accounts Column (3) Line (1)		X	0.1575	=
(047) Nonindex-Book Reserve	LR006 Separate Accounts Column (3) Line (2)		X	0.1575	=
(048) Separate Accounts Nonindex-Market Reserve	LR006 Separate Accounts Column (3) Line (3)		X	0.1575	=
(049) Separate Accounts Reduction-Reinsurance	LR006 Separate Accounts Column (3) Line (5)		X	0.2100	= †
(050) Separate Accounts Increase-Reinsurance	LR006 Separate Accounts Column (3) Line (6)		X	0.2100	=
(051) Synthetic GICs	LR006 Separate Accounts Column (3) Line (8)		X	0.1575	=
(052) Separate Account Surplus Real Estate	LR006 Separate Accounts Column (3) Line (13)		X	0.1575	=
(053) Company Occupied Real Estate	LR007 Real Estate Column (3) Line (3)		X	0.2100	=
(054) Foreclosed Real Estate	LR007 Real Estate Column (3) Line (6)		X	0.2100	=
(055) Investment Real Estate	LR007 Real Estate Column (3) Line (9)		X	0.2100	=
(056) Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (11)		X	0.2100	= †
(057) Real Estate Increase - Reinsurance Schedule BA	LR007 Real Estate Column (3) Line (12)		X	0.2100	=
(058) Sch BA Real Estate Excluding Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (16)		X	0.2100	=
(059) Guaranteed Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (17) + Line (19)		X	0.0000	=
(060) Non-Guaranteed and All Other Low Income Housing Tax Credits	LR007 Real Estate Column (3) Line (18) + Line (20) + Line (21)		X	0.0000	=
(061) Sch BA Real Estate Reduction - Reinsurance	LR007 Real Estate Column (3) Line (23)		X	0.2100	= †
(062) Sch BA Real Estate Increase - Reinsurance	LR007 Real Estate Column (3) Line (24)		X	0.2100	=

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

			(1)		(2)
		Source	RBC Amount	Tax Factor	RBC Tax Effect
(063)	Sch BA Bond NAIC 1	LR008 Other Long-Term Assets Column (5) Line (2)	X	0.1575	=
(064)	Sch BA Bond NAIC 2	LR008 Other Long-Term Assets Column (5) Line (3)	X	0.1575	=
(065)	Sch BA Bond NAIC 3	LR008 Other Long-Term Assets Column (5) Line (4)	X	0.1575	=
(066)	Sch BA Bond NAIC 4	LR008 Other Long-Term Assets Column (5) Line (5)	X	0.1575	=
(067)	Sch BA Bond NAIC 5	LR008 Other Long-Term Assets Column (5) Line (6)	X	0.1575	=
(068)	Sch BA Bond NAIC 6	LR008 Other Long-Term Assets Column (5) Line (7)	X	0.2100	=
(069)	BA Bond Reduction - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (9)	X	0.2100	= †
(070)	BA Bond Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (10)	X	0.2100	=
(071)	BA Preferred Stock NAIC 1	LR008 Other Long-Term Assets Column (5) Line (12.3)	X	0.1575	=
(072)	BA Preferred Stock NAIC 2	LR008 Other Long-Term Assets Column (5) Line (13)	X	0.1575	=
(073)	BA Preferred Stock NAIC 3	LR008 Other Long-Term Assets Column (5) Line (14)	X	0.1575	=
(074)	BA Preferred Stock NAIC 4	LR008 Other Long-Term Assets Column (5) Line (15)	X	0.1575	=
(075)	BA Preferred Stock NAIC 5	LR008 Other Long-Term Assets Column (5) Line (16)	X	0.1575	=
(076)	BA Preferred Stock NAIC 6	LR008 Other Long-Term Assets Column (5) Line (17)	X	0.2100	=
(077)	BA Preferred Stock Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (19)	X	0.2100	= †
(078)	BA Preferred Stock Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (20)	X	0.2100	=
(079)	Rated Surplus Notes	LR008 Other Long-Term Assets Column (5) Line (31)	X	0.1575	=
(080)	Rated Capital Notes	LR008 Other Long-Term Assets Column (5) Line (41)	X	0.1575	=
(081)	BA Common Stock Affiliated	LR008 Other Long-Term Assets Column (5) Line (48.3)	X	0.2100	=
(082)	BA Collateral Loans	LR008 Other Long-Term Assets Column (5) Line (50)	X	0.1575	=
(083)	Other BA Assets	LR008 Other Long-Term Assets Column (5) Line (52.3) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	X	0.2100	=
(084)	Other BA Assets Reduction-Reinsurance	LR008 Other Long-Term Assets Column (5) Line (54)	X	0.2100	= †
(085)	Other BA Assets Increase - Reinsurance	LR008 Other Long-Term Assets Column (5) Line (55)	X	0.2100	=
(086)	BA Mortgages - In Good Standing	LR009 Schedule BA Mortgages Column (6) Line (11)	X	0.1575	=
(087)	BA Mortgages - 90 Days Overdue	LR009 Schedule BA Mortgages Column (6) Line (15)	X	0.1575	=
(088)	BA Mortgages - In Process of Foreclosure	LR009 Schedule BA Mortgages Column (6) Line (19)	X	0.1575	=
(089)	Reduction - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (21)	X	0.2100	= †
(090)	Increase - Reinsurance	LR009 Schedule BA Mortgages Column (6) Line (22)	X	0.2100	=
(091)	Miscellaneous				
(091)	Asset Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page	X	0.1575	=
(092)	Miscellaneous Assets	LR012 Miscellaneous Assets Column (2) Line (7)	X	0.1575	=
(093)	Derivatives - Collateral and Exchange Traded	LR012 Miscellaneous Assets Column (2) Lines (8) + (9) + (10)	X	0.1575	=
(094)	Derivatives NAIC 1	LR012 Miscellaneous Assets Column (2) Line (11)	X	0.1575	=
(095)	Derivatives NAIC 2	LR012 Miscellaneous Assets Column (2) Line (12)	X	0.1575	=
(096)	Derivatives NAIC 3	LR012 Miscellaneous Assets Column (2) Line (13)	X	0.1575	=
(097)	Derivatives NAIC 4	LR012 Miscellaneous Assets Column (2) Line (14)	X	0.1575	=
(098)	Derivatives NAIC 5	LR012 Miscellaneous Assets Column (2) Line (15)	X	0.1575	=
(099)	Derivatives NAIC 6	LR012 Miscellaneous Assets Column (2) Line (16)	X	0.2100	=
(100)	Miscellaneous Assets Reduction-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (19)	X	0.2100	= †
(101)	Miscellaneous Assets Increase-Reinsurance	LR012 Miscellaneous Assets Column (2) Line (20)	X	0.2100	=

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

	Source	(1)		(2)	
		RBC Amount	Tax Factor	RBC Tax Effect	
(102) Replications	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	X	0.1575	=	
(103) Reinsurance	LR016 Reinsurance Column (4) Line (17)	X	0.2100	=	
(104) Investment Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (6)	X	0.2100	=	
(105) Investment in Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)	X	0.2100	=	
(106) Other Affiliate: Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)	X	0.2100	=	
(107) Other Affiliate: Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)	X	0.2100	=	
(108) Publicly Traded Insurance Affiliates	LR042 Summary for Affiliated Investments Column (4) Line (14)	X	0.2100	=	
(109) Subtotal for C-1o Assets	Sum of Lines (001) through (108), Recognizing the Deduction of Lines (013), (014), (015), (036), (044), (049), (056), (061), (069), (077), (084), (089) and (100)				
<u>C-0 Affiliated Common Stock</u>					
(110) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (27)	X	0.1575	=	
(111) Off-Balance Sheet Items Reduction - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (28)	X	0.2100	=	†
(112) Off-Balance Sheet Items Increase - Reinsurance	LR017 Off-Balance Sheet and Other Items Column (5) Line (29)	X	0.2100	=	
(113) Affiliated US Property - Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)	X	0.2100	=	
(114) Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)	X	0.2100	=	
(115) Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)	X	0.2100	=	
(116) Affiliated US Property - Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)	X	0.2100	=	
(117) Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)	X	0.2100	=	
(118) Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)	X	0.2100	=	
(119) Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)	X	0.0000	=	
(120) Subtotal for C-0 Affiliated Common Stock	Lines (110)-(111)+(112)+(113)+(114)+(115)+(116)+(117)+(118)+(119)				
<u>Common Stock</u>					
(121) Unaffiliated Common Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (17) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	X	0.2100	=	
(122) Credit for Hedging - Common Stock	LR015 Hedged Asset Common Stock Schedule Column (10) Line (0299999)	X	0.2100	=	†
(123) Stock Reduction - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (19)	X	0.2100	=	†
(124) Stock Increase - Reinsurance	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (20)	X	0.2100	=	
(125) BA Common Stock Unaffiliated	LR008 Other Long-Term Assets Column (5) Line (47)	X	0.2100	=	
(126) BA Common Stock Affiliated - C-1cs	LR008 Other Long-Term Assets Column (5) Line (49.2)	X	0.2100	=	
(127) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	X	0.2100	=	
(128) NAIC 01 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (51.1)	X	0.1575	=	
(129) NAIC 02 Working Capital Finance Notes	LR008 Other Long-Term Assets Column (5) Line (51.2)	X	0.1575	=	
(130) Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subs	LR042 Summary for Affiliated Investments Column (4) Line (7)	X	0.2100	=	
(131) Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)	X	0.2100	=	
(132) Total for C-1cs Assets	Lines (121)-(122)-(123)+(124)+(125)+(126)+(127)+(128)+(129)+(130)+(131)				
<u>Insurance Risk</u>					
(133) Disability Income Premium	LR019 Health Premiums Column (2) Lines (21) through (27)	X	0.2100	=	

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CALCULATION OF TAX EFFECT FOR LIFE AND FRATERNAL RISK-BASED CAPITAL (CONTINUED)

	Source	(1)		(2)	
		RBC Amount	Tax Factor	RBC Tax Effect	
(134) Long-Term Care	LR019 Health Premiums Column (2) Line (28) + LR023 Long-Term Care Column (4) Line (7)	_____	X 0.2100	=	_____
(135) Individual & Industrial Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line <del>(20)</del> (5)	_____	X 0.2100	=	_____
(136) Group & Credit Life Insurance C-2 Risk	LR025 Life Insurance Column (2) Line <del>(42)</del> (48) <del>(12)</del>	_____	X 0.2100	=	_____
(136b) Longevity C-2 Risk	LR025-A Longevity Risk Column (2) Line (5)	_____	X 0.2100	=	_____
(137) Disability and Long-Term Care Health Claim Reserves	LR024 Health Claim Reserves Column (4) Line (9) + Line (15)	_____	X 0.2100	=	_____
(138) Premium Stabilization Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	_____	X 0.0000	=	_____
(139) Total C-2 Risk	L(133) + L(134) + L(137) + L(138) + Greatest of [Guardrail Factor * (L(135)+L(136)), Guardrail Factor * L(136b), Square Root of [ (L(135) + L(136)) <sup>2</sup> + L(136b) <sup>2</sup> + 2 * (Correlation Factor) * (L(135) + L(136)) * L(136b) ] ]	=====		=	=====
(140) Interest Rate Risk	LR027 Interest Rate Risk Column (3) Line (36)	_____	X 0.2100	=	_____
(141) Health Credit Risk	LR028 Health Credit Risk Column (2) Line (7)	_____	X 0.0000	=	_____
(142) Market Risk	LR027 Interest Rate Risk Column (3) Line (37)	_____	X 0.2100	=	_____
(143) Business Risk	LR029 Business Risk Column (2) Line (40)	_____	X 0.2100	=	_____
(144) Health Administrative Expenses	LR029 Business Risk Column (2) Line (57)	_____	X 0.0000	=	_____
(145) Total Tax Effect	Lines (109) + (120) + (132) + (139) + (140) + (141) + (142) + (143) + (144)	=====		=	=====

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CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL

	Source	(1) RBC Requirement
<u>Insurance Affiliates and Misc. Other Amounts (C-0)</u>		
(1) Affiliated US Property-Casualty Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (1)	_____
(2) Affiliated US Life Insurers Directly Owned	LR042 Summary for Affiliated Investments Column (4) Line (2)	_____
(3) Affiliated US Health Insurers Directly and Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (3)	_____
(4) Affiliated US Property-Casualty Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (4)	_____
(5) Affiliated US Life Insurers Indirectly Owned	LR042 Summary for Affiliated Investments Column (4) Line (5)	_____
(6) Affiliated Alien Life Insurers - Canadian	LR042 Summary for Affiliated Investments Column (4) Line (8)	_____
(7) Affiliated Alien Life Insurers - All Others	LR042 Summary for Affiliated Investments Column (4) Line (9)	_____
(8) Off-Balance Sheet and Other Items	LR017 Off-Balance Sheet and Other Items Column (5) Line (34)	_____
(9) Total (C-0) - Pre-Tax	Sum of Lines (1) through (8)	_____
(10) (C-0) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (120)	_____
(11) Net (C-0) - Post-Tax	Line (9) - Line (10)	=====
<u>Asset Risk - Unaffiliated Common Stock and Affiliated Non-Insurance Stock (C-1cs)</u>		
(12) Schedule D Unaffiliated Common Stock	LR005 Unaffiliated Common Stock Column (5) Line (21) + LR018 Off-Balance Sheet Collateral Column (3) Line (16)	_____
(13) Schedule BA Unaffiliated Common Stock	LR008 Other Long-Term Assets Column (5) line (47)	_____
(14) Schedule BA Affiliated Common Stock - C-1cs	LR008 Other Long-Term Assets Column (5) line (49.2)	_____
(15) Common Stock Concentration Factor	LR011 Common Stock Concentration Factor Column (6) Line (6)	_____
(16) Affiliated Preferred Stock and Common Stock - Holding Company in Excess of Indirect Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (7)	_____
(17) Affiliated Preferred Stock and Common Stock - All Other	LR042 Summary for Affiliated Investments Column (4) Line (13)	_____
(18) Total (C-1cs) - Pre-Tax	Sum of Lines (12) through (17)	_____
(19) (C-1cs) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (132)	_____
(20) Net (C-1cs) - Post-Tax	Line (18) - Line (19)	=====
<u>Asset Risk - All Other (C-1o)</u>		
(21) Bonds after Size Factor	LR002 Bonds Column (2) Line (27) + LR018 Off-Balance Sheet Collateral Column (3) Line (8)	_____
(22) Mortgages (including past due and unpaid taxes)	LR004 Mortgages Column (6) Line (31)	_____
(23) Unaffiliated Preferred Stock	LR005 Unaffiliated Preferred and Common Stock Column (5) Line (10) + LR018 Off-Balance Sheet Collateral Column (3) Line (15)	_____
(24) Affiliated Preferred Stock and Common Stock - Investment Subsidiaries	LR042 Summary for Affiliated Investments Column (4) Line (6)	_____
(25) Affiliated Preferred Stock and Common Stock - Parent	LR042 Summary for Affiliated Investments Column (4) Line (10)	_____
(26) Affiliated Preferred Stock and Common Stock - Property and Casualty Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (11)	_____
(27) Affiliated Preferred Stock and Common Stock - Life Insurers not Subject to Risk-Based Capital	LR042 Summary for Affiliated Investments Column (4) Line (12)	_____
(28) Affiliated Preferred Stock and Common Stock - Publicly Traded Insurers Held at Fair Value (excess of statement value over book value)	LR042 Summary for Affiliated Investments Column (4) Line (14)	_____
(29) Separate Accounts with Guarantees	LR006 Separate Accounts Column (3) Line (7)	_____

Denotes items that must be manually entered on the filing software.

Company Name

Confidential when Completed

NAIC Company Code

	Source	RBC Requirement
(30) Synthetic GIC's (C-1o)	LR006 Separate Accounts Column (3) Line (8)	_____
(31) Surplus in Non-Guaranteed Separate Accounts	LR006 Separate Accounts Column (3) Line (13)	_____
(32) Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (13)	_____
(33) Schedule BA Real Estate (gross of encumbrances)	LR007 Real Estate Column (3) Line (25)	_____
(34) Other Long-Term Assets	LR008 Other Long-Term Assets Column (5) Line (56) + LR018 Off-Balance Sheet Collateral Column (3) Line (17) + Line (18)	_____
(35) Schedule BA Mortgages	LR009 Schedule BA Mortgages Column (6) Line (23)	_____
(36) Concentration Factor	LR010 Asset Concentration Factor Column (6) Line (62) Grand Total Page	_____
(37) Miscellaneous	LR012 Miscellaneous Assets Column (2) Line (21)	_____
(38) Replication Transactions and Mandatory Convertible Securities	LR013 Replication (Synthetic Asset) Transactions and Mandatory Convertible Securities Column (7) Line (9999999)	_____
(39) Reinsurance	LR016 Reinsurance Column (4) Line (17)	_____
(40) Total (C-1o) - Pre-Tax	Sum of Lines (21) through (39)	_____
(41) (C-1o) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (109)	_____
(42) Net (C-1o) - Post-Tax	Line (40) - Line (41)	=====
<u>Insurance Risk (C-2)</u>		
(43) Individual & Industrial Life Insurance	LR025 Life Insurance Column (2) Line <del>(20)</del> (5)	_____
(44) Group & Credit Life Insurance	LR025 Life Insurance Column (2) Line <del>(42)</del> (48) <del>(12)</del>	_____
(44b) Longevity Risk	LR025-A Longevity Risk Column (2) Line (5)	_____
(45) Total Health Insurance	LR024 Health Claim Reserves Column (4) Line (18)	_____
(46) Premium Stabilization Reserve Credit	LR026 Premium Stabilization Reserves Column (2) Line (10)	_____
(47) Total (C-2) - Pre-Tax	$L(45) + L(46) + \text{Greatest of [ Guardrail Factor * (L(43)+L(44)), Guardrail Factor * L(44b), Square Root of [ (L(43) + L(44))^2 + L(44b)^2 + 2 * (Correlation Factor) * (L(43) + L(44)) * L(44b) ] ]}$	_____
(48) (C-2) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (139)	_____
(49) Net (C-2) - Post-Tax	Line (47) - Line (48)	=====
<u>Interest Rate Risk (C-3a)</u>		
(50) Total Interest Rate Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (36)	_____
(51) (C-3a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (140)	_____
(52) Net (C-3a) - Post-Tax	Line (50) - Line (51)	=====
<u>Health Credit Risk (C-3b)</u>		
(53) Total Health Credit Risk - Pre-Tax	LR028 Health Credit Risk Column (2) Line (7)	_____
(54) (C-3b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (141)	_____
(55) Net (C-3b) - Post-Tax	Line (53) - Line (54)	=====
<u>Market Risk (C-3c)</u>		
(56) Total Market Risk - Pre-Tax	LR027 Interest Rate Risk Column (3) Line (37)	_____
(57) (C-3c) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (142)	_____
(58) Net (C-3c) - Post-Tax	Line (56) - Line (57)	=====

Denotes items that must be manually entered on the filing software.

CALCULATION OF AUTHORIZED CONTROL LEVEL RISK-BASED CAPITAL (CONTINUED)

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NAIC Company Code

Company Name	Source	RBC Requirement
<u>Business Risk (C-4a)</u>		
(59) Premium Component	LR029 Business Risk Column (2) Lines (12) + (24) + (36)	_____
(60) Liability Component	LR029 Business Risk Column (2) Line (39)	_____
(61) Subtotal Business Risk (C-4a) - Pre-Tax	Lines (59) + (60)	_____
(62) (C-4a) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (143)	_____
(63) Net (C-4a) - Post-Tax	Line (61) - Line (62)	=====
<u>Business Risk (C-4b)</u>		
(64) Health Administrative Expense Component of Business Risk (C-4b) - Pre-Tax	LR029 Business Risk Column (2) Line (57)	_____
(65) (C-4b) Tax Effect	LR030 Calculation of Tax Effect for Life and Fraternal Risk-Based Capital Column (2) Line (144)	_____
(66) Net (C-4b) - Post-Tax	Line (64) - Line (65)	=====
<u>Total Risk-Based Capital After Covariance Before Basic Operational Risk</u>		
(67) $C-0 + C-4a + \text{Square Root of } [(C-1o + C-3a)^2 + (C-1cs + C-3c)^2 + (C-2)^2 + (C-3b)^2 + (C-4b)^2]$	REPORT AMOUNT ON PARENT COMPANY'S RBC IF APPLICABLE $L(11)+L(63) + \text{Square Root of } [(L(42) + L(52))^2 + (L(20) + L(58))^2 + L(49)^2 + L(55)^2 + L(66)^2]$	=====
(68) Gross Basic Operational Risk	$0.03 \times L(67)$	_____
(69) C-4a of U.S. Life Insurance Subsidiaries	Company Records	_____
(70) Net Basic Operational Risk	Line (68) - (Line (63) + Line (69)) (Not less than zero)	_____
(71) Primary Security Shortfall Calculated in Accordance With Actuarial Guideline XLVIII Multiplied by 2	LR036 XXX/AXXX Reinsurance Primary Security Shortfall by Cession Column (7) Line (9999999) Multiplied by 2	_____
(72) Total Risk-Based Capital After Covariance (Including Basic Operational Risk and Primary Security Shortfall multiplied by 2)	Line (67) + Line (70) + Line (71)	=====
<u>Authorized Control Level Risk-Based Capital (After Covariance Adjustment and Shortfall)</u>		
(73) Total Risk-Based Capital After Covariance Times Fifty Percent	Line (72) x 0.50	=====
<u>Tax Sensitivity Test</u>		
(74) Tax Sensitivity Test: Total Risk-Based Capital After Covariance	$L(9)+L(61) + \text{Square Root of } [(L(40) + L(50))^2 + (L(18) + L(56))^2 + L(47)^2 + L(53)^2 + L(64)^2]$	_____
(75) Tax Sensitivity Test: Authorized Control Level Risk-Based Capital	Line (74) x 0.50	_____

Denotes items that must be manually entered on the filing software.

**PROPOSED 2023 UPDATE 2**  
**LIFE INSURANCE**  
 LR025

*Basis of Factors*

The factors developed represent surplus needed to provide for life insurance mortality risk, which is defined as adverse variance in life insurance deaths (i.e., insureds dying sooner than expected) over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates for emerging experience. The mortality risks included in the development of the factors were volatility, level, trend, and catastrophe. The factors were developed by stochastically simulating the run-off of in force life insurance blocks typical of U.S. life insurers.

The capital need, expressed as a dollar amount, is determined as the greatest present value of accumulated deficiencies at the 95<sup>th</sup> percentile of the stochastic distribution of scenarios over the remaining lifetime of a block of business while appropriately reflecting the pricing flexibility to adjust current mortality rates. Statutory losses are defined as the after-tax quantification of gross death benefits minus reserves released ~~in excess of the mortality cost expected under the moderately adverse scenario minus mortality margin present in reserves~~. The after-tax statutory losses are discounted to the present by using 20-year averages for U.S. swap rates. By selecting the largest present value accumulated loss across all projection years, the solved for capital ensures non-negative capital at all projection periods. Earlier period losses are not allowed to be offset by later period gains to reduce capital. The 95<sup>th</sup> percentile is the commonly accepted statistical safety level used for Life RBC C-2 mortality risk to identify weakly capitalized companies. The after-tax capital needs are translated to a factor expressed as a percentage of the net amount at risk (NAR). The pre-tax factor is determined by taking the after-tax factor divided by (1 minus the tax rate).

The factors are differentiated between individual & industrial life and group & credit life, and by in force block size. Within individual & industrial life, the factors are differentiated into categories by contract type depending on the degree of pricing flexibility. Within group & credit life, the factors are differentiated into categories by the remaining length of the premium rate term by group contract. There are distinct factors for contracts that have remaining premium rate terms 36 months and under and for contracts that have remaining premium rate terms over 36 months. The Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) receive a separate factor applied to the amounts in force.

*Specific Instructions for Application of the Formula*

Lines ~~2, 5 and 21-41-6-11~~ are not applicable to Fraternal Benefit Societies.

The NAR ~~is derived in total and~~ for each of the factor categories ~~using annual statement sources and company records are retrieved from the Notes to the Financial Statements Item 37 and are -In Force and Reserves amounts are~~ net of reinsurance throughout. ~~The In Force amounts throughout derived from company records need to be consistent with the Exhibit of Life Insurance. The Reserves amounts throughout derived from company records need to be consistent with Exhibit 5, Separate Accounts Exhibit, and Schedule S.~~

The NAR size bands apply to the total amounts for individual & industrial life and group term & credit life. The size bands are allocated proportionately to the NAR for each of the factor categories.- Size band 1 is for NAR amounts up to \$500 million. Size band 2 is for NAR amounts greater than \$500 million and up to \$25 billion. Size band 3 is for NAR amounts greater than \$25 billion.

Pricing Flexibility for Individual ~~& Industrial~~ Life Insurance ~~and Group & Credit Life Permanent Life Insurance~~ is defined as the ability to materially adjust rates on in force contracts through changing premiums and/or non-guaranteed elements as of the valuation date and within the next 5 policy years and reflecting typical business practices. For the purposes of assessing whether business is categorized as having "Pricing Flexibility", grouping of gross amounts may be done at either the contract level or at a cohort level consistent with grouping for pricing purposes. The categorization for ceded amounts for direct insurers should be based on the terms of each reinsurance treaty. Non-affiliated reinsurers are to assess the flexibility to adjust rates on in force contracts based on the terms of each reinsurance treaty and constraints based on typical business practices. For example, if a non-affiliated

reinsurer has historical precedent for changing in force rates, then that may provide support for assigning policies to the category with pricing flexibility. Affiliated reinsurers are to assign the factor category based on the direct policies. In force contracts may move between categories throughout their remaining lifetime if the degree of pricing flexibility changes as of each valuation date. A material rate adjustment is defined as the ability to recover, on a present value basis, the difference in mortality risks provided for in the factors below for contracts with and without pricing flexibility. ~~These differences in factors are shown in the Line (13) table below in the Permanent Life Flexibility Factor and Term Life Flexibility Factor columns.~~ The flexibility factor for each category multiplied by the NAR results in the minimum dollar margin needed for a material rate adjustment, which can then be compared against margins available to adjust rates. In force contracts that have margin available that is greater than or equal to the minimum dollar margin needed may be assigned to the category for policies with pricing flexibility. Insurers may choose to assign contracts to the categories without pricing flexibility if the evaluation of margins is not completed or if the degree of pricing flexibility is uncertain.

~~The table below illustrates the RBC requirement calculation embedded in Line (2) for Individual & Industrial Life Policies with Pricing Flexibility. Lines (11) and (12) Life Policies with Pricing Flexibility In Force and Reserves are derived from company records.~~ Examples of products intended for this category include, but aren't limited to, participating whole life insurance, universal life insurance without secondary guarantees, and yearly renewable term insurance where scheduled premiums may be changed on an annual basis from the date of issue. ~~The table below illustrates the RBC requirement calculation embedded in Line (13) for Life Policies with Pricing Flexibility.~~

Line (132)	Individual & Industrial Life Policies with Pricing Flexibility	(1)	Factor	(2)	Permanent Life Flexibility Factor	Term Life Flexibility Factor
		Statement Value		RBC Requirement		
	Allocation of First \$500 Million	_____	X 0.00220 =	_____	<u>0.00230</u>	<u>0.00110</u>
	Allocation of Next \$24,500 Million	_____	X 0.00105 =	_____	<u>0.00120</u>	<u>0.00065</u>
	Allocation of Over \$25,000 Million	_____	X 0.00080 =	_____	<u>0.00085</u>	<u>0.00055</u>
	Total Individual & Industrial Life Policies with Pricing Flexibility Net Amount at Risk	=====		=====		

~~The table below illustrates the RBC requirement calculation embedded in Line (3) for Individual & Industrial Term Life Policies without Pricing Flexibility. Lines (14) and (15) Term Life Policies without Pricing Flexibility In Force and Reserves are derived from company records.~~ Examples of products intended for this category include, but aren't limited to, level term insurance with guaranteed level premiums and yearly renewable term insurance where scheduled premiums may not be changed. ~~The table below illustrates the RBC requirement calculation embedded in Line (16) for Term Life Policies without Pricing Flexibility.~~

Line (163)	Individual & Industrial Term Life Policies without Pricing Flexibility	(1)	Factor	(2)
		Statement Value		RBC Requirement
	Allocation of First \$500 Million	_____	X 0.00280 =	_____
	Allocation of Next \$24,500 Million	_____	X 0.00120 =	_____
	Allocation of Over \$25,000 Million	_____	X 0.00085 =	_____
	Total Individual & Industrial Term Life Policies without Pricing Flexibility Net Amount at Risk	=====		=====

~~The table below illustrates the RBC requirement calculation embedded in Line (4) for Individual & Industrial Permanent Life Policies without Pricing Flexibility. Lines (17) and (18) Permanent Life Policies without Pricing Flexibility In Force and Reserves are derived from the aggregate amounts derived in lines (1) to (10) minus the amounts recorded in the other individual life categories.~~ Examples of products intended for this category include, but aren't limited to, universal life with secondary guarantees and non-participating whole life insurance. Policies that aren't recorded in the other individual life categories default to this category which has the highest factors. ~~The table below illustrates the RBC requirement calculation embedded in Line (19) for Permanent Life Policies without Pricing Flexibility.~~

Line		(1) Statement Value	Factor	(2) RBC Requirement
<u>(194)</u>	<u>Individual &amp; Industrial Permanent Life Policies without Pricing Flexibility</u>			
	Allocation of First \$500 Million	_____	X 0.00400 =	_____
	Allocation of Next \$24,500 Million	_____	X 0.00175 =	_____
	Allocation of Over \$25,000 Million	_____	X 0.00120 =	_____
	Total <u>Individual &amp; Industrial</u> Permanent Life Policies without Pricing Flexibility Net Amount at Risk	=====		=====

~~The table below illustrates the RBC requirement calculation embedded in Line (7) for Group & Credit Term Life with Remaining Rate Terms 36 Months and Under Net Amount at Risk. Lines (35) and (36) Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under are derived from company records. This category includes group term life contracts where the premium terms have 36 months or fewer until expiration or renewal. Insurers may choose to assign contracts to the category for remaining rate terms over 36 months if the evaluation of remaining rate terms is not completed. The in force amount classified in this category needs to be consistent with the Exhibit of Life Insurance. The reserves amount classified in this category needs to be consistent with Exhibit 5 used for Lines (28) and (29), Separate Accounts Exhibit used for Line (30), and Schedule S used for Lines (31) and (32). Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI) contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (37) for Group & Credit Life Net Amount at Risk with Remaining Rate Terms 36 Months and Under.~~

Line		(1) Statement Value	Factor	(2) RBC Requirement
<u>(37)</u>	<u>Group &amp; Credit Term Life with Remaining Rate Terms 36 Months and Under</u>			
	Allocation of First \$500 Million	_____	X 0.00140 =	_____
	Allocation of Next \$24,500 Million	_____	X 0.00055 =	_____
	Allocation of Over \$25,000 Million	_____	X 0.00040 =	_____
	Total Group & Credit <u>Term</u> Life <u>Net Amount at Risk</u> with Remaining Rate Terms 36 Months and Under <u>Net Amount at Risk</u>	=====		=====

~~The table below illustrates the RBC requirement calculation embedded in Line (8) for Group & Credit Life Term with Remaining Rate Terms Over 36 Months Net Amount at Risk. Lines (38) and (39) Group & Credit Life In Force and Reserves with Remaining Rate Terms Over 36 Months are derived from the aggregate amounts derived in lines (21) to (34) minus the Group & Credit Life In Force and Reserves with Remaining Rate Terms 36 Months and Under in lines (35) and (36). This category includes group term life contracts where the premium terms have over 36 months until expiration or renewal. FEGLI and SGLI contracts are excluded. The table below illustrates the RBC requirement calculation embedded in Line (40) for Group & Credit Life Net Amount at Risk with Remaining Rate Terms Over 36 Months.~~

Line		(1) Statement Value	Factor	(2) RBC Requirement
<u>(408)</u>	<u>Group &amp; Credit Term Life with Remaining Rate Terms Over 36 Months</u>			
	Allocation of First \$500 Million	_____	X 0.00190 =	_____
	Allocation of Next \$24,500 Million	_____	X 0.00080 =	_____
	Allocation of Over \$25,000 Million	_____	X 0.00055 =	_____
	Total Group & Credit <u>Term</u> Life <u>Net Amount at Risk</u> with Remaining Rate Terms Over 36 Months <u>Net Amount at Risk</u>	=====		=====

Risk

The table below illustrates the RBC requirement calculation embedded in Line (9) for Group & Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk. The capital factors assigned are the same as Individual & Industrial Permanent Life Policies with Pricing Flexibility. FEGLI and SGLI contracts are excluded.

<u>Line (9)</u>	<u>Group &amp; Credit Permanent Life Policies with Pricing Flexibility</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
	<u>Allocation of First \$500 Million</u>	_____	X 0.00220 =	_____
	<u>Allocation of Next \$24,500 Million</u>	_____	X 0.00105 =	_____
	<u>Allocation of Over \$25,000 Million</u>	_____	X 0.00080 =	_____
	<u>Total Group &amp; Credit Permanent Life Policies with Pricing Flexibility Net Amount at Risk</u>	_____		_____

The table below illustrates the RBC requirement calculation embedded in Line (10) for Group & Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk. The capital factors assigned are the same as Individual & Industrial Permanent Life Policies without Pricing Flexibility. FEGLI and SGLI contracts are excluded.

<u>Line (10)</u>	<u>Group &amp; Credit Permanent Life Policies without Pricing Flexibility</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
	<u>Allocation of First \$500 Million</u>	_____	X 0.00400 =	_____
	<u>Allocation of Next \$24,500 Million</u>	_____	X 0.00175 =	_____
	<u>Allocation of Over \$25,000 Million</u>	_____	X 0.00120 =	_____
	<u>Total Group &amp; Credit Permanent Life Policies without Pricing Flexibility Net Amount at Risk</u>	_____		_____

Line ~~(4+11)~~ FEGLI/SGLI In Force amounts are retrieved from the Exhibit of Life Insurance. -The capital factor assigned is the same as the largest size band for group & credit term life contracts with remaining rate terms 36 months and under.

<u>Line</u>	<u>FEGLI/SGLI</u>	<u>(1)</u> <u>Statement Value</u>	<u>Factor</u>	<u>(2)</u> <u>RBC Requirement</u>
<del>(4+11)</del>	In Force	_____	X 0.00040 =	_____

All amounts should be entered as required. The risk-based capital software will calculate the RBC requirement for individual and industrial and for group and credit.





November 16, 2022

Phillip Barlow  
 Associate Commissioner  
 Chair, Life Risk-Based Capital (E) Working Group  
 Washington, D.C Department of  
 Insurance, Securities and Banking  
 1050 First Street, NE, 801  
 Washington, D.C. 20002

Dear Mr. Barlow,

Thank you for allowing the Mortgage Bankers Association (MBA) and the American Council of Life Insurers (ACLI) on behalf of our respective members the time to address the Working Group on the CM6 and CM7 RBC factor normalization. MBA and ACLI submit this letter in response to the questions raised on the October 7, 2022 call to help move this issue forward to approval.

First, Attachment 3 in the October 7, 2022, meeting agenda contained the proposed amendments to forms LR004 and LR009, but the formatting of this document was incorrect and did not show several changes that were being proposed in redline format. As a follow up, please see the attached document that has the full redline changes. The attached document's final version is not different from Attachment 3, but the full redline is more informative. John Waldeck addressed this in his remarks during the discussion.

Second, MBA and ACLI seek to provide context for the limited nature of the investments subject to this change. There is a minimal set of loans in the CM6 and CM7 categories, as shown in the below table.

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American Council of Life Insurers | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

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The American Council of Life Insurers (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

**acli.com**

The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 400,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,200 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: [www.mba.org](http://www.mba.org).

**UPB of Life Company CM6 & CM7 Loans as a Percent of Total UPB**

	CM6	CM7
12/31/2013	0.02%	0.05%
12/31/2014	0.01%	0.04%
12/31/2015	0.00%	0.08%
12/31/2016	0.00%	0.00%
12/31/2017	0.00%	0.00%
12/31/2018	0.00%	0.00%
12/31/2019	0.00%	0.00%
12/31/2020	0.01%	0.08%
12/31/2021	0.00%	0.04%

Source: MBA Life Company Loan Performance Database

This proprietary MBA database comprises roughly 72% of all life insurance company mortgage loans (representing 100% of the participating companies' portfolios) and is assumed to be consistent with the full population. As indicated, the percentage of CM6 & CM7 loans is very small, at less than 0.1% of total loans for each of the last 9 years. The modification to the CM6 and CM7 RBC factors being requested will have an immaterial impact on Risk Based capital.

Third, there was a request to analyze the applicability of the equity RBC factors for the CM6 and CM7 loans. To understand the applicability of equity RBC factors, it is important to understand the type of loans that are part of the CM6 and CM7 categories and why they behave similarly to equity investments. CM6 and CM7 loans are loans that are not performing (payments not being made). A CM6 loan is in process of evaluation by the lender to determine how it should be handled. If the lender believes it will likely return to performing status (Borrower makes all missed payments and begins making payments again), then they will not pursue their loan remedies to foreclose on the Borrower and will leave it in this status. This means that a CM6 is not currently performing and may or may not become current.

The distinction between CM6 and CM7 is that a CM7 loan is an asset that the Life Company lender has decided will not likely return to a performing status and has decided to foreclose out the borrower and realize on the loan security, and the lender has started that legal process to do so. At the conclusion of this process, the Lender will become the owner of the underlying real estate asset and will hold it in its portfolio as a real estate equity asset. So, a CM7 loan will quickly become an equity investment subject to equity RBC.

The requested change to the RBC factors is to have CM6 loans at an 11.0% RBC charge and CM7 loans at a 13.0% RBC charge. The highest equity RBC charge is 13.0% (for schedule BA assets), and the lowest is 11.0% (for Schedule A assets). Most companies will foreclose on a non-performing loan into a subsidiary entity, which would place the resulting equity asset on Schedule BA. The proposed charge for CM7 mortgages is consistent with the highest 13.0% equity RBC charge because after a likely foreclosure, this is the RBC charge it will be subject to.

When a loan is transitioned to become in the process of foreclosure, the lender will evaluate the value of the underlying real estate asset and impair the mortgage investment to be equal to the value of the

underlying real estate asset. In essence, the resulting STAT book value of the mortgage is the same as if the lender acquired the underlying real estate as an equity investment. Applying the same RBC charge just prior to foreclosure and after foreclosure means that the life company will have consistent risk-based capital through this transition. Prior to the change of the equity RBC from 23% to 13% (for schedule BA), the RBC charges for CM7 and equity RBC were consistent, and the requested change in RBC factors for CM6 and CM7 mortgages maintains this consistency.

The analysis done for the change in equity RBC factors is appropriate for the support of the change in the CM7 RBC factor because the CM7 mortgage asset is, as described above, soon to become an equity investment by the life company. Having the CM6 RBC factor aligned with the lowest equity RBC factor of 11% (for Schedule A assets) is appropriate because these investments may, but are not yet assumed to become an equity investment. The slight discount in the RBC factor reflects the higher likelihood of a CM6 mortgage asset returning to performing loan status.

Given the immaterial portion of life insurers' investments rated CM6 or CM7 and the logical consistency with equity RBC treatment for these assets, we believe the requested change is appropriate and consistent with best RBC practices.

Thank you for considering this request. If you have any questions, please do not hesitate to contact Mike Monahan, Senior Director of Accounting Policy, ACLI (MikeMonahan@acli.com) or Stephanie Milner, Associate Vice President, Commercial & Multifamily Policy, MBA (smilner@mba.org).

Sincerely,

A handwritten signature in black ink, appearing to read "M Monahan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mike Monahan, American Council of Life Insurers  
Mortgage Bankers Association

cc: Dave Fleming, NAIC Senior Insurance Reporting Analyst

**Capital Adequacy (E) Task Force**  
**RBC Proposal Form**

- |   |   |  |
|---|---|--|
| <input type="checkbox"/> Capital Adequacy (E) Task Force  | <input type="checkbox"/> Health RBC (E) Working Group     | <input checked="" type="checkbox"/> Life RBC (E) Working Group |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup    | <input type="checkbox"/> Investment RBC (E) Working Group | <input type="checkbox"/> Longevity Risk (A/E) Subgroup         |
| <input type="checkbox"/> C3 Phase II/ AG43 (E/A) Subgroup | <input type="checkbox"/> P/C RBC (E) Working Group        |  |

		<b>DATE:</b> <u>July 8, 2022</u>	<b><u>FOR NAIC USE ONLY</u></b>
<b>CONTACT PERSON:</b>	Grant Carlson	Mike Monahan	Agenda Item # _____
<b>TELEPHONE:</b>	(202) 557-2765	(202) 624-2324	Year _____
<b>EMAIL:</b>	<a href="mailto:gcarlson@mba.org">gcarlson@mba.org</a>	<a href="mailto:mikemonahan@acli.com">mikemonahan@acli.com</a>	<b><u>DISPOSITION</u></b>
<b>ON BEHALF OF:</b>	Mortgage Bankers Association	American Council of Life Insurers	<input type="checkbox"/> ADOPTED _____
<b>NAME:</b>	Mike Flood	Mike Monahan	<input type="checkbox"/> REJECTED _____
<b>TITLE:</b>	Senior Vice President, Commercial and Multifamily	Senior Director, Accounting Policy	<input type="checkbox"/> DEFERRED TO _____
<b>AFFILIATION:</b>	Mortgage Bankers Association	American Council of Life Insurers	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP
<b>ADDRESS:</b>	1919 M Street, NW Washington, DC 20036	101 Constitution Ave, NW Washington, DC 20001	<input type="checkbox"/> EXPOSED _____
			<input type="checkbox"/> OTHER (SPECIFY) _____

**IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED**

- |  |   |   |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks       | <input type="checkbox"/> Property/Casualty RBC Blanks       | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Blanks       |
| <input type="checkbox"/> OTHER _____             |   |   |

**DESCRIPTION OF CHANGE(S)**

**This proposal would make the following two related changes.**

- Align the CM6 and CM7 Life RBC factors for non-performing commercial and farm mortgages with the RBC factors for Schedule A and Schedule BA investments in real estate as those factors were adjusted in 2021; and
- Adopt the same formula for calculating RBC amounts for non-performing and performing residential, commercial and farm mortgages.

**REASON OR JUSTIFICATION FOR CHANGE \*\***

**1. Revising CM6 and CM7 factors would re-align the factors for non-performing mortgages with the factors for Schedule A and Schedule BA real estate investments.**

*Historical alignment and the 2021 change*

Prior to the 2021, the 23% factor for CM7 In Process of Foreclosure commercial and farm mortgages was perfectly aligned with the 23% factor for Schedule BA real estate assets; and the 18% factor for CM6 90-Days Delinquent commercial and farm mortgages was roughly aligned with the 15% factor for Schedule A real estate assets.

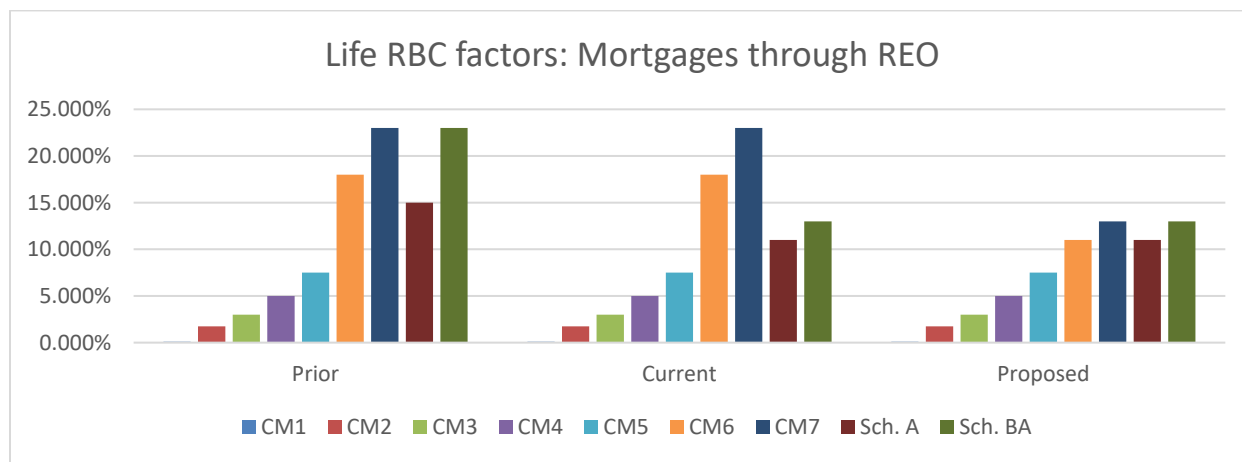
That alignment made sense as a matter of risk because the worst-case path for a non-performing mortgage loan results in the asset becoming a real estate equity investment on the insurer’s balance sheet. In 2021, however, the factor assigned to Schedule A real estate investments dropped from 15% to 11%, and the factor for Schedule BA real estate investments dropped from 23% to 13%. As a result, the 18% and 23% factors for CM6 and CM7 mortgage are no longer aligned with the factors for real estate investments.

*The proposal*

The proposal is to adjust the factor for CM6 mortgages from 15% to 11% and adjust the factor for CM7 mortgages from 23% to 13%. The changes necessary to implement this proposal are reflected in the attached mark-up of LR004 and LR009 RBC Reporting Instructions.

*Impacts*

The table below illustrates the relationships between CM6 and CM7 factors and Schedule A and Schedule BA real estate assets, historically, currently, and as proposed.



**2. Adopting the same formula for calculating RBC amounts for non-performing and performing residential, commercial and farm mortgages would ensure that the effective RBC factor for non-performing residential, commercial and farm mortgages would not be less than the nominal RBC charge.**

As we considered the proposal to align the factors for delinquent mortgages and for real estate investments, we also revisited the formula for computing RBC for non-performing mortgages. Based on that consideration, we concluded that there is no reasonable basis for continuing to use a different calculation formula for performing and non-performing mortgages.

*The current state: non-performing mortgages*

The formula for applying RBC factors to non-performing mortgages both adds in and backs out any applicable write-downs, as follows:

$$RBC_{non-perf} = [(STAT\ Book\ Value + \underline{STAT\ Write-downs} - STAT\ Invol.\ Reserves) \times CM\ 6-7\ Charge] - \underline{STAT\ Write-downs}$$

Because this formula can result in very low and even negative RBC amounts for non-performing loans, it is supplemented by a requirement that the resulting RBC amount cannot be lower than the applicable CM1-5 charge for the mortgage if the investment was performing.

*The current state: performing mortgages*

The formula for applying RBC factors to performing mortgages is as follows:

$$RBC_{perf} = (STAT\ Book\ Value - STAT\ Invol.\ Reserves) \times CM\ 1-5\ Charge$$

There is no need for a backstop to this formula because the effective RBC factor for a performing loan is always the same as the nominal RBC charge for the applicable CM category.

*The proposal*

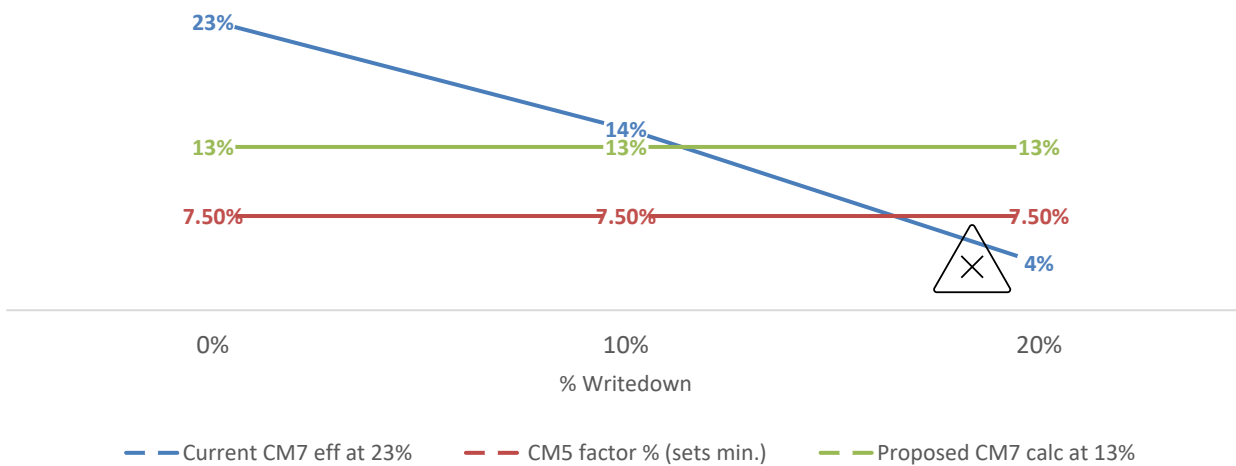
The proposal would apply the same formula for both performing and non-performing mortgages. The changes necessary to implement this proposal are reflected in the attached mark-up of LR004 and LR009 RBC Reporting Instructions.

*Impacts*

Under the proposal, the RBC charge for some non-performing mortgages would increase and the RBC charge for other non-performing mortgages would decrease, depending on the amount of any write-downs.

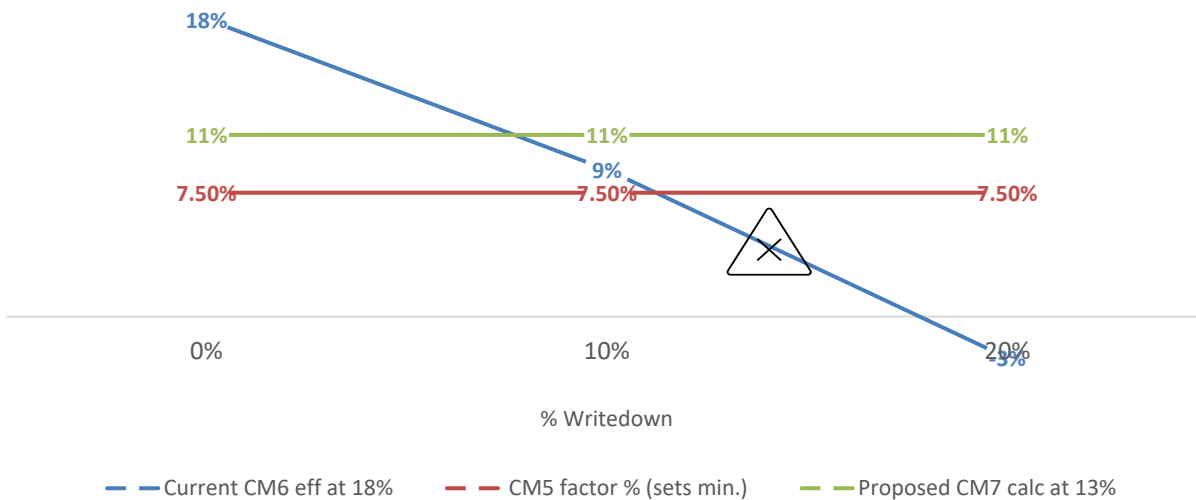
In Table 1, the blue and brown lines illustrate that, for a CM7 mortgage under the current state, the effective RBC factor would range from 23% to 7.5% of the statutory book value less involuntary reserves (assuming the performing loan rating would be CM5), depending on the amount of any write-down. The green line in the table illustrates that, under the proposal, the effective RBC factor would be equal to the RBC charge for a CM7 mortgage (as adjusted in part 1 of this proposal) without regard to write-downs.

Table 1: Effective RBC factor current vs. proposed at CM7 = 13%



In Table 2, the blue and brown lines illustrate that, for a CM6 mortgage under the current state, the effective RBC factor would range from 18% to 7.5% of the statutory book value less involuntary reserves (assuming the performing loan rating would be CM5), depending on the amount of any write-down. The green line in the table illustrates that, under the proposal, the effective RBC factor would be equal to the RBC charge for a CM6 mortgage (as adjusted in part 1 of this proposal) without regard to write-downs.

Table 2: Effective RBC factor current vs. proposed at CM6 = 11%



Both tables illustrate that adopting the performing mortgage loans formula and the proposed CM6 and CM7 factors would reduce the required RBC amount for non-performing mortgages with smaller levels of write-downs but would increase required RBC amounts for non-performing mortgages with larger write-downs.

Attachment: Suggested mark-up of Instructions LR004 and LR009.

Notes to the mark-up:

- The attached mark-up adds the previously approved instructions for reporting 2020 NOI. See [Guidance for Troubled Debt Restructurings for December 31, 2020 and Interim Risk-Based Capital Filings \(where required\)](#) (October 9, 2020, Revised February 11, 2021).
- The attached mark-up also reflects a suggested deletion of the version number of the CREFC Methodology for Analyzing and Reporting Property Income Statements, to avoid the ongoing need to update the Instructions to reflect each new versions of that methodology. This is not part of the proposal described above, but the Life Risk-Based Capital Working Group may want to consider it.

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**Additional Staff Comments:**

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**\*\* This section must be completed on all forms.**

**Revised 2-2019**



## MORTGAGES

### LR004

#### *Basis of Factors*

##### Mortgages in Good Standing

The pre-tax factors for commercial mortgages were developed based on analysis using the Commercial Mortgage Metrics model of Moody's Analytics and documented in a report from the American Council of Life Insurers on March 27, 2013. The factors provide for differing levels of risk, the levels determined by a contemporaneous debt service coverage ratio and the contemporaneous loan-to-value. The 0.14 percent pre-tax factor on insured and guaranteed mortgages represents approximately 30-60 days interest lost due to possible delay in recovery on default. The pre-tax factor of 0.68 percent for residential mortgages reflects a significantly lower risk than commercial mortgages. The pre-tax factors were developed by dividing the post-tax factor by 0.7375 (0.7375 is calculated by taking 1.0 less the result of 0.75 multiplied by 0.35). The pre-tax factors are not changing for 2018 due to tax reform.

##### Mortgages 90 Days Overdue, Not in Process of Foreclosure

The category pre-tax factor for commercial and farm mortgages of ~~18~~ 11 percent is based on ~~data taken from the Society of Actuaries "Commercial Mortgage Credit Risk Study."~~ the 11 percent factor for real estate investments reported on Schedule A. For insured and guaranteed or residential mortgages, factors are set at twice the level for those "in good standing" to reflect the increased likelihood of default losses.

##### Mortgages in Process of Foreclosure

~~The category pre-tax factor of 13 percent for mortgages in process of foreclosure is based on the 13 percent factor for real estate investments reported on Schedule BA are considered to be as risky as NAIC 5 bonds and are assigned the same category pre-tax factor of 23 percent for commercial and farm mortgages.~~

##### Due and Unpaid Taxes on Overdue Mortgages and Mortgages in Foreclosure

The factor for due and unpaid taxes on overdue mortgages and mortgages in foreclosure is 100 percent.

#### *Specific Instructions for Application of the Formula*

##### Column (1)

Insured or guaranteed mortgages should be reported separately from residential and commercial mortgages. Insured or guaranteed loans include only those mortgage loans insured or guaranteed by the Federal Housing Administration, under the National Housing Act (Canada) or by the Veterans Administration (exclusive of any portion insured by FHA). Mortgage loans guaranteed by another company (affiliated or unaffiliated) are not to be included in the insured or guaranteed category.

Except for Lines (1) through (3), ~~(17) through (19), (22) through (24), (26) and (27)~~, calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. ~~Refer to the mortgage calculation worksheet A (Figure 1) for how the individual mortgage calculations are completed for Other Than In Good Standing mortgages on Lines (16) through (25).~~ Refer to the mortgage calculation worksheet – company developed (Figure ~~23~~) for how the individual mortgage calculations are completed for In Good Standing – Commercial mortgages on Lines (4) through (8) and for In Good Standing – Farm mortgages on Lines (10) through (14) and for Other Than In Good Standing mortgages on Lines (16), (20), (21), and (25). Line (28) should equal Page 2, Column 3, Lines 3.1 plus 3.2, plus Schedule B, Part 1 Footnotes 3 and 4, first of the two amounts in the footnotes.

##### Column (2)

Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule B by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in SSAP No. 37 paragraph 16. These reserves are held as an offset for a particular troubled mortgage loan that would be required to be written down if

the impairment was permanent.

### Column (3)

Column (3) is calculated as the net of Column (1) less Column (2).

### Column (4)

~~Summary amounts of the individual mortgage calculations are entered in this column for each class of mortgage investments. Refer to the mortgage calculation worksheet (Figure 1). Cumulative writedowns include the total amount of writedowns, amounts non admitted and involuntary reserves that have been taken or established with respect to a particular mortgage. No longer used. Place "XXX" in any blanks for this column.~~

### Column (5)

~~For Lines (1) and (3), the pre-tax factor is equal to 0.0014~~

~~For Lines (2), the pre-tax factor is equal to 0.0068~~

~~-For Lines (4) and (10), the pre-tax factor is equal to 0.0090~~

~~For Lines (5) and (11), the pre-tax factor is equal to 0.0175~~

~~For Lines (6) and (12), the pre-tax factor is equal to 0.0300~~

~~For Lines (7) and (13), the pre-tax factor is equal to 0.0500~~

~~For Lines (8) and (14), the pre-tax factor is equal to 0.0750~~

~~For Lines (16) and (20), the pre-tax factor is equal to 0.1100~~

~~For Lines (17) and (19), the pre-tax factor is equal to 0.0027~~

~~For Lines (18), the pre-tax factor is equal to 0.0140~~

~~For Lines (21) and (25), the pre-tax factor is equal to 0.1300~~

~~For Lines (22) and (24), the pre-tax factor is equal to 0.0054~~

~~For Lines (23), the pre-tax factor is equal to 0.0270~~

~~For Lines (26) and (27), the pre-tax factor is 1.0. For Lines (16) through (25), the average factor column is calculated as Column (6) divided by Column (3).~~

### Column (6)

~~For Lines (4) through (8), (10) through (14), and (16), (20), (21) and through (25), summary amounts are entered for Column (6) based on calculations done on an individual mortgage basis. Refer to the mortgage calculation worksheets (Figure 1) and (Figure 23). For Lines (1) through (3), (17) through (19), (22) through (24), (26) and (27), the RBC subtotal is multiplied by the factor to calculate Column (6).~~

(Figure 1)

Mortgage Worksheet A  
Other Than In-Good Standing

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(7a)	(8)	(9)	(10)
Name / ID	Book/Adjusted Carrying Value	Involuntary Reserve Adjustment <sup>§</sup>	RBC Subtotal <sup>£</sup>	Cumulative Writedowns <sup>*</sup>	Category Factor	In-Good Standing Factor	In-Good Standing Category	Col(6) X [Col (4)+(5)] -Col(5)	Col(4) X Col(7)	RBC Requirement <sup>‡</sup>
(1) All Mortgages Without Cumulative Writedowns				XXX	‡	‡	‡			
All Mortgages With Cumulative Writedowns:					‡	‡	‡			
(2)					‡	‡	‡			
(3)					‡	‡	‡			
(4)					‡	‡	‡			
(5)					‡	‡	‡			
(6)					‡	‡	‡			
(7)					‡	‡	‡			
(8)					‡	‡	‡			
(9)					‡	‡	‡			
(10)					‡	‡	‡			
(11)					‡	‡	‡			
(12)					‡	‡	‡			
(13)					‡	‡	‡			
(14)					‡	‡	‡			
(15)					‡	‡	‡			
Total Mortgages										

This worksheet is prepared on a loan by loan basis for each of the mortgage categories listed in (Figure 2) that are applicable. The Column (2), (3), (5) and (10) subtotals for each category are carried over and entered in Columns (1), (2), (4) and (6) of the Mortgages (LR004) in the risk-based capital formula. Small mortgages aggregated into one line on Schedule B can be treated as one mortgage on this worksheet. NOTE: This worksheet will be available in the risk-based capital filing software.

- ‡ See (Figure 2) for factors to use in the calculation. The In-Good Standing Factor will be based on the CM category developed in the company generated worksheet (Figure 3) and reported in Column 7a for Commercial or Farm Mortgages.
- ‡ The RBC Requirement column is calculated as the greater of Column (8) or Column (9), but not less than zero.
- § Involuntary reserves are reserves held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3, Line 25 of the annual statement.
- £ Column (4) is calculated as Column (2) less Column (3).
- \* Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.

(Figure 12)

The mortgage factors are used in conjunction with the mortgage worksheets (Figures 1 and 32) to calculate the RBC Requirement for each individual mortgage. ~~The factors are used in Columns (6), (7) and (7a) of the mortgage worksheet and are dependent on which of the 25 mortgage categories below the mortgage falls into.~~ The following factors are used for each category of mortgages:

LR004 Line Number	Mortgage Factors	Category Factor <sup>‡</sup>	In-Good Standing Factor	MEA Factor
		<u>In Good Standing</u>		
(1)	Residential Mortgages-Insured or Guaranteed	<del>0.0014</del> N/A <sup>‡</sup>	0.0014	N/A
(2)	Residential Mortgages-All Other	<del>0.0068</del> N/A <sup>‡</sup>	0.0068	N/A
(3)	Commercial Mortgages-Insured or Guaranteed	<del>0.0014</del> N/A <sup>‡</sup>	0.0014	N/A
(4)	Commercial Mortgages-All Other – Category CM1	<del>0.0090</del> N/A <sup>‡</sup>	0.0090	N/A <sup>‡</sup>
(5)	Commercial Mortgages – Category CM2	<del>0.0175</del> N/A <sup>‡</sup>	0.0175	N/A <sup>‡</sup>
(6)	Commercial Mortgages – Category CM3	<del>0.0300</del> N/A <sup>‡</sup>	0.0300	N/A <sup>‡</sup>
(7)	Commercial Mortgages – Category CM4	<del>0.0500</del> N/A <sup>‡</sup>	0.0500	N/A <sup>‡</sup>
(8)	Commercial Mortgages – Category CM5	<del>0.0750</del> N/A <sup>‡</sup>	0.0750	N/A <sup>‡</sup>
(10)	Farm Mortgages – Category CM1	<del>0.0090</del> N/A <sup>‡</sup>	0.0090	N/A <sup>‡</sup>
(11)	Farm Mortgages – Category CM2	<del>0.0175</del> N/A <sup>‡</sup>	0.0175	N/A <sup>‡</sup>
(12)	Farm Mortgages – Category CM3	<del>0.0300</del> N/A <sup>‡</sup>	0.0300	N/A <sup>‡</sup>
(13)	Farm Mortgages – Category CM4	<del>0.0500</del> N/A <sup>‡</sup>	0.0500	N/A <sup>‡</sup>
(14)	Farm Mortgages – Category CM5	<del>0.0750</del> N/A <sup>‡</sup>	0.0750	N/A <sup>‡</sup>
	<u>90 Days Overdue, Not in Process of Foreclosure</u>			
(16)	Farm Mortgages – Category CM6	<del>0.1800</del> 0.1100	‡	N/A <sup>‡</sup>
(17)	Residential Mortgages-Insured or Guaranteed	0.0027	0.0014	-1.0 N/A
(18)	Residential Mortgages-All Other	0.0140	0.0068	-1.0 N/A
(19)	Commercial Mortgages-Insured or Guaranteed	0.0027	0.0014	-1.0 N/A
(20)	Commercial Mortgages-All Other – Category CM6	<del>0.1800</del> 0.1100	‡	N/A <sup>‡</sup>
	<u>In Process of Foreclosure</u>			
(21)	Farm Mortgages – Category CM7	<del>0.2300</del> 0.1300	‡	N/A <sup>‡</sup>
(22)	Residential Mortgages-Insured or Guaranteed	0.0054	0.0014	-1.0 N/A
(23)	Residential Mortgages-All Other	0.0270	0.0068	-1.0 N/A
(24)	Commercial Mortgages-Insured or Guaranteed	0.0054	0.0014	-1.0 N/A
(25)	Commercial Mortgages-All Other – Category CM7	<del>0.2300</del> 0.1300	‡	N/A <sup>‡</sup>

<sup>‡</sup> The category factor is a factor used for a particular category of mortgage loans that are not in good standing.

<sup>‡</sup> The RBC Requirement for mortgage loans in good standing or restructured are not calculated on Figure (1). These requirements are calculated on Mortgage Worksheet (company developed) (Figure 3) and transferred to LR004 Mortgage Loans Lines (4) through (8) and (10) through (14). In addition, for Commercial and Farm mortgage loans 90 days past due or In Process of Foreclosure, the CM category is determined in Mortgage Worksheet (company developed) and transferred to Worksheet A.

(Figure 23)

Mortgage Worksheet (company developed)

~~In Good Standing~~—Commercial Mortgages and Farm Mortgages

Price Index current (year-end calculations to be based off of 3 <sup>rd</sup> Quarter index of the given year)}	{input Price Index as of September 30}							
Name / ID (1)	Date of Origination (2)	Maturity Date (3)	Property Type (4)	Farm Loan Sub-property type (5)	Postal Code (6)	Book / Adjusted Carrying Value (7)	Statutory Write-downs (8)	Statutory Involuntary Reserve (9)

Original Loan Balance (10)	Principal Loan Balance to Company (11)	Balloon Payment at Maturity (12)	Principal Balance Total (13)	NOI Second Prior Year (14)	NOI Prior Year (15)	NOI (16)	Interest Rate (17)

Trailing 12 Month Debt Service (18)	Original Property Value (19)	Property Value (20)	Year of Valuation (21)	Calendar Quarter of Valuation (22)	Credit Enhancement? (23)	Senior Debt? (24)	Construction Loan? (25)

Construction Loan out of Balance? (26)	Construction Loan Issues? (27)	Land Loan? (28)	90 Days Past Due? (29)	In Process of Foreclosure? (30)	Current payment lower than based on Loan Interest? (31)	Is loan interest a floating rate? (32)	Is fixed rate reset during term? (33)

Is negative amortization allowed? (34)	Amortization Type (35)	Rolling Average NOI (36)	RBC Debt Service (37)	RBC DCR (38)	Price Index at Valuation (39)	Contemporaneous Property Value (40)	RBC LTV (41)	CM Category (42)

The Company should develop this worksheet on a loan-by-loan basis for each commercial mortgage – other or farm loan held in Annual Statement Schedule B. This worksheet columns (7) and (9) subtotals for each category are to be carried over and entered in Columns (1) and (2) of Mortgages (LR004) in the risk-based capital formula lines (4) – (8), and (10) – (14), (16), (20), (21), and (25). Small mortgages aggregated into one line on Schedule B can be treated as one mortgage on this worksheet. ~~Amounts in Columns (7), (9) and (12) are carried individually to Worksheet A columns (2), (3) and (7a) for loans that are 90 Days Past Due and In Process of Foreclosure.~~ NOTE: This worksheet will not be available in the risk-based capital filing software and needs to be developed by the company.

Column			Description / explanation of item
#	Heading		
			Price Index current is the value on 9/30 of the current year for the National Council of Real Estate Investor Fiduciaries Price Index for the United States.
(1)	Name / ID	Input	Identify each mortgage included as in good standing.
(2)	Date of Origination	Input	Enter the year and month that the loan was originated. If the loan has been restructured, extended, or otherwise re-written, enter that new date.
(3)	Maturity Date	Input	Enter earlier of maturity of the loan, or the date the lender can call the loan.
(4)	Property Type	Input	Enter 1 for mortgages with an Office, Industrial, Retail or multifamily property as collateral. Enter 2 for mortgages with a Hotel and Specialty Commercial as property type. For properties that are multiple use, use the property type with the greatest square footage in the property. Enter 3 for Farm Loans.
(5)	Farm Sub-type	Input	If Property Type=3 (Farm Loans), then you must enter a Sub Category: 1=Timber, 2=Farm and Ranch, 3=Agribusiness Single Purpose, 4=Agribusiness All Other (See Note 8.)
(6)	Postal Code	Input	Enter zip code of property for US. If multiple properties or zip codes, enter multiple codes. If foreign address, use postal code. If not available, N/A.
(7)	Book / Adjusted Carrying Value	Input	Enter the value that the loan is carried at on the company ledger.
(8)	Statutory Write-downs	Input	Enter the value of any write-downs taken on this loan due to permanent impairment.
(9)	Involuntary Reserve	Input	Enter the amount of any involuntary reserve amount. Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
(10)	Original Loan Balance?	Input	Enter the loan balance at the time of origination of the loan.
(11)	Principal Balance to Co.	Input	Enter the value of the loan balance owed by the borrower.
(12)	Balloon Payment at Maturity	Input	Enter the amount of any balloon or principal payment due at maturity.
(13)	Principal Balance Total	Input	Enter the total amount of mortgage outstanding including debt that is senior to or pari passu with the company's mortgage (Note 2)
(14)	NOI Second Prior	Input	Enter the NOI from the year prior to the value in (15). See Note 1.
(15)	NOI Prior	Input	Enter the NOI from the prior year to the value in (16). See Note 1.
(16)	NOI	Input	Enter the Net Operating Income for the most recent 12 month fiscal period with an end-date between July 1 of the year prior to this report and June 30 of the year of this report. The NOI should be reported following the guidance of the Commercial Real Estate Finance Council Investor Reporting Profile v.5.0. Section VII. See Notes 1, 3, 4, 5, and 6 below.

(17)	Interest Rate	Input	Enter the annual interest rate at which the loan is accruing. -If the rate is floating, enter the larger of the current month rate or the average rate of interest for the prior 12 months, or -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate. If the 'Total Loan Balance' consists of multiple loans, use an average loan interest rate weighted by principal balance.
(18)	Trailing 12 Month Debt Service	Input	Enter actual 12 months debt service for prior 12 months
(19)	Original Property Value	Input	Enter the Property Value at the time of origination of the loan. (Note 9)
(20)	Property Value	Input	Property Value is the value of the Property at time of loan origination, or at time of revaluation due to impairment underwriting, restructure, extension, or other re-writing. (Note 9)
(21)	Year of Valuation	Input	Year of the valuation date defining the value in (20). This will be either the date of origination, or time of restructure, refinance, or other event which precipitates a new valuation.
(22)	Quarter of Valuation	Input	Calendar quarter of the valuation date defining the value in (20).
(23)	Credit Enhancement	Input	Enter the full dollar amount of any credit enhancement. (see Note 5)
(24)	Senior Debt?	Input	Enter yes if senior position, no if not. (see Note 7.)
(25)	Construction Loan?	Input	Enter 'Yes' if this is a construction loan. (see Note 4.)
(26)	Construction – not in balance?	Input	Enter 'Yes' if this is a construction loan that is not in balance. (see Note 4)
(27)	Construction – Issues?	Input	Enter 'Yes' if this is a construction loan with issues. (see Note 4)
(28)	Land Loan?	Input	Enter 'Yes' if this is a loan on non-income producing land. (see Note 6)
(29)	90 days past due?	Input	Enter 'Yes' if payments are 90 days past due.
(30)	In process of foreclosure?	Input	Enter 'Yes' if the loan is in process of foreclosure.
(31)	Is current payment lower than a payment based on the loan interest?	Input	Yes / No
(32)	Is loan interest a floating rate?	Input	Yes / No
(33)	If not floating, does loan reset during term?	Input	Yes / No - Some fixed rate loans define in the loan document a change to a new rate during the life of the loan, which may be a pre-determined rate or may be the then current market rate. Generally any such changes are less frequent than annual.
(34)	Is negative amortization allowed?	Input	Yes / No
(35)	Amortization type?	Input	1 = fully amortizing 2 = amortizing with balloon 3 = full I/O 4 = partial I/O, then amortizing
(36)	Rolling Average NOI	Computation	For 2013 – 100% of NOI For 2014 – 65% NOI + 35% NOI Prior For 2015 – 50% NOI + 30% NOI Prior + 20% NOI 2 <sup>nd</sup> Prior For loans originated or valued within the current year, use 100% NOI. For loans originated 2013 or later and within 2 years, use 65% NOI and 35% NOI Prior

(37)	RBC Debt Service	Computation	This amount is the amount of 12 monthly principal and interest payments required to amortize the Total Loan Balance (13) using a Standardized Amortization period of 300 months and the Annual Loan Interest Rate (17).
(38)	RBC DCR	Computation	This is the ratio of the Net Operating Income (36) divided by the RBC Debt Service (37) rounded down to 2 decimal places. See Note 3 below for special circumstances.
(39)	NCREIF Price Index at Valuation	Computation	The value of the NCREIF Price Index on the last day of the calendar quarter that includes the date defined in (21) and (22).
(40)	Contemporaneous Property Value	Computation	The Property Value (20) times the ratio (rounded to 4 decimal places) of the Price Index current to the Price Index at valuation (39).
(41)	RBC LTV	Computation	The Total Loan Value (13) divided by the Contemporaneous Value (40) rounded to the nearest percent.
(42)	CM Category	Computation	The risk category determined by <u>either being not in good standing (either 90 Days Past Due or In Process of Foreclosure) or the loan being in good standing or restructured and</u> applying the DCR (38) and the LTV (41) to the criteria in Figure (34), Figure (45) or Figure (56). See Notes 2, 3, 4, 5, and 6 below for special circumstances.

Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements ~~v.5.1.~~ ([www.crefc.org/irp](http://www.crefc.org/irp)). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance would be a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3 year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2<sup>nd</sup> prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (36), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

Note 2: The calculation of debt service coverage and loan to value will include all debt secured by the property that is (1) senior to or pari passu with the insurer's investment; and (2) any debt subordinate to the insurer's investment that is not (a) subject to an intercreditor, standstill or subordination agreement with the insurer provided that the agreement does



not grant the subordinate debt holder any rights that would materially affect the rights of the insurer and provided that the subordinate debt holder is prohibited from taking any action against the borrower that would materially affect the insurer's priority lien position with respect to the property without the prior written consent of the insurer, or (b) subject to governing laws that provide that the insurer's investment holds a senior position to the subordinated debt holder and provide substantially similar protections to the insurer as in (2)(a) above.

Note 3: *Unavailable Operating Statements*

There are a variety of situations where the most recent annual period's operating statement may not be available to assist in determining NOI. These situations will occur in distinct categories and each category requires special consideration. The categories are:

1. Loans on owner occupied properties
  - a. For properties where the owner is the sole or primary tenant (50% or more of the rentable space), property level operating statements may not be available or meaningful. If the property is occupied and the loan, taxes and insurance are current, it will be acceptable to derive income and a reasonable estimate of expenses from the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).
  - b. For properties where the owner is a minority tenant (49% or less of the rentable space), the owner-occupied space should be underwritten at the average rent per square foot of the arm's length tenant leases. This income estimate should be added to the other tenant leases and combined with a reasonable estimate of expenses based on the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).
2. Borrower does not provide the annual operating statement
  - a. Borrower refuses to provide the annual operating statements
    - i. If the leases are in place and evidenced by estoppels and inspections, NOI would be derived from normalized underwriting in accordance with the CREFC Methodology for Analyzing and Reporting Property Income Statements.
    - ii. If there is evidence from inspection that the property is occupied, but there is no evidence of in place leases (e.g., lease documents or estoppels), NOI would be set equal to the lesser of calculated debt service (DSC=1.0) or the NOI from the normalized underwriting.
    - iii. If there is no evidence from inspection that the property is occupied and no evidence of in place leases (e.g., lease documents or estoppels), assume NOI = \$0.
  - b. If the borrower does not have access to a complete previous year operating statement, determine NOI based on the CREFC guidelines for analyzing a partial year income statement.

Note 4: Construction loans:

Construction loans would be categorized as follows, based on a determination by the loan servicer whether the loan is in balance and whether construction issues exist:

- |  |                                    |
|--|------------------------------------|
| a. In balance, no construction issues:     | DSC = 1.0, LTV determined as usual |
| b. Not in Balance, no construction issues: | CM4                                |
| c. Construction issues:                    | CM5                                |

A loan is "*in balance*" if the committed amount of the construction loan plus any lender held reserves and unfunded borrower equity is sufficient to cover the remaining costs of the development project, including debt service not anticipated to be paid from property operations.

A "*construction issue*" is a problem that may reasonably jeopardize the completion of the project. Examples of construction issues include the abandonment of construction and construction defects that are not being addressed.

Note 5: Credit enhancements: Where the loan payments are secured by a letter of credit from an investment grade financial institution or an escrow account held at an investment grade financial institution, NOI less than the debt service may be increased by these amounts until it is equal to but not exceeding the debt service. These situations are typically short term in nature and are intended to bridge the lease-up following renovation or loss of a major tenant.

Note 6: Non-income-producing land: NOI = \$0

Note 7: Non-senior financing:

- a. The company should first calculate DSC and LTV for non-senior financing using the standardized debt service and aggregate LTV of all financing pari passu and senior to the position held by the company.
- b. The non-senior piece should then be assigned to the next riskier RBC category. For example, if the DSC and LTV metrics determined in (a) indicate a category of CM2, the non-senior piece would be assigned to category CM3. However, it would not be required to assign a riskier category than CM5 if the loan is not at least 90-days delinquent or in foreclosure.

Note 8: Definitions of each type of Farm Mortgage:

Timber: A loan is classified as a timber loan if more than 50% of the collateral market value (land and timber) of the security is attributable to land supporting a timber crop that is or will be of commercial value.

Farm & Ranch: Farm and ranch land utilized in the production of agricultural commodities of all kinds, including grains, cotton, sugar, nuts, fruits, vegetables, forage crops and livestock of all kinds, including, beef, swine, poultry, fowl and fish. Loans included in this category are those in which agricultural land accounts for more than 50% of total collateral market value.

Agribusiness Single Purpose: Specialized collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of the single-purpose (special use) collateral would account for more than 50% of total collateral market value.

This collateral is generally not multi-functional and can only be used for a specific production, manufacturing and/or processing function within a specific sub-sector of the food or agribusiness industry and whereby such assets are not strategically important in nature to the overall industry capacity. These assets can be shut down or replicated easily in other locations, or existing plants can be expanded to absorb shuttered capacity. The assets are not generally limited in nature by environmental or operational permits and/or regulatory requirements. An example would be a poultry processing plant located in the Southeast of the United States where there is excess capacity inherent to the industry and production capacity is easily replaceable.

Other loans included in this category are those collateralized by single purpose (special use) confinement livestock production facilities in which the special use facilities account for more than 50% of total collateral market value.

Agribusiness All Other: Multiple-use collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of any single use portion may not be greater than 50% of total collateral market value.

This collateral is multi-functional in nature, adaptable to other manufacturing, processing, or servicing food or agribusiness industries or sub-industries. Assets could also be very strategic in nature and not easily replaceable either due to cost, location, environmental permitting and/or government regulations. These assets may be single purpose in nature, but so vital to the industry capacity needs that they will be generally purchased by another like processing company or strategic or financial buyer. An example of these types of assets are strategically located and highly automated cold storage facilities whereby they can be used for dry storage, distribution centers or converted into

warehouse or other type uses. Another example may be a cheese processing plant that is strategically located within the heart of the dairy industry, limited permits, environmental restrictions that would limit added capacity, or high barriers to entry to build a like facility within the industry. For example, one of the largest cheese plants in the industry is located in California and it is not easily replicated within the cheese processing industry due to its location, capacity, costs, access to fluid milk supply and related feed and water, as well as highly regulated environmental and government restrictions.

Other loans included in this category are those in which more than 50% of the collateral market value is accounted for by chattel assets or other assets related to the business and financial operations of agribusinesses, including inventories, accounts, trade receivables, cash and brokerage accounts, machinery, equipment, livestock and other assets utilized for or generated by agribusiness operations.

Note 9. The origination value is developed during the underwriting process using appropriate appraisal standards.

a. If values were received from a qualified third-party appraiser, those values must be used.

b. If the company performs internal valuations using standards comparable to an external appraisal, then the internal valuation may be used.

(Figure 34)

For Office, Industrial, Retail and Multi-family:

RISK CATEGORY	DSC LIMITS		LTV LIMITS
CM1	$1.50 \leq DSC$	and	$LTV < 85\%$
CM2	$0.95 \leq DSC < 1.50$	and	$LTV < 75\%$
CM2	$1.15 \leq DSC < 1.50$	and	$75\% \leq LTV < 100\%$
CM2	$1.50 \leq DSC$	and	$85\% \leq LTV < 100\%$
CM2	$1.75 \leq DSC$	and	$100\% \leq LTV$
CM3	$DSC < 0.95$	and	$LTV < 85\%$
CM3	$0.95 \leq DSC < 1.15$	and	$75\% \leq LTV < 100\%$
CM3	$1.15 \leq DSC < 1.75$	and	$100\% \leq LTV$
CM4	$DSC < 0.95$	and	$85\% \leq LTV < 105\%$
CM4	$0.95 \leq DSC < 1.15$	and	$100\% \leq LTV$
CM5	$DSC < 0.95$	and	$105\% \leq LTV$
CM6	Loans 90 days past due but not yet in process of foreclosure		
CM7	Loans in process of foreclosure		

(Figure 45)

For Hotels and Specialty Commercial:

RISK CATEGORY	DSC LIMITS		LTV LIMITS
CM1	$1.85 \leq DSC$	and	$LTV < 60\%$
CM2	$1.45 \leq DSC < 1.85$	and	$LTV < 70\%$
CM2	$1.85 \leq DSC$	and	$60\% \leq LTV < 115\%$
CM3	$0.90 \leq DSC < 1.45$	and	$\leq LTV < 80\%$
CM3	$1.45 \leq DSC < 1.85$	and	$70\% \leq LTV$
CM3	$1.85 \leq DSC$	and	$115\% \leq LTV$
CM4	$DSC < 0.90$	and	$LTV < 90\%$
CM4	$0.90 \leq DSC < 1.10$	and	$80\% \leq LTV < 90\%$
CM4	$1.10 \leq DSC < 1.45$	and	$80\% \leq LTV$
CM5	$1.10 \leq DSC$	and	$90\% \leq LTV$
<u>CM6</u>	<u>Loans 90 days past due but not yet in process of foreclosure</u>		
<u>CM7</u>	<u>Loans in process of foreclosure</u>		

(Figure 56)

Farm Mortgages (Agricultural Loans):

	<u>Timber</u>	<u>Farm &amp; Ranch</u>	<u>Agribusiness Single Purpose</u>	<u>Agribusiness All Other</u>
CM1	$LTV \leq 55\%$	$LTV \leq 60\%$		$LTV \leq 60\%$
CM2	$55\% < LTV \leq 65\%$	$60\% < LTV \leq 70\%$	$LTV \leq 60\%$	$60\% < LTV \leq 70\%$
CM3	$65\% < LTV \leq 85\%$	$70\% < LTV \leq 90\%$	$60\% < LTV \leq 70\%$	$70\% < LTV \leq 90\%$
CM4	$85\% < LTV \leq 105\%$	$90\% < LTV \leq 110\%$	$70\% < LTV \leq 90\%$	$90\% < LTV \leq 110\%$
CM5	$105\% < LTV$	$110\% < LTV$	$90\% < LTV$	$110\% < LTV$
<u>CM6</u>	<u>Loans 90 days past due but not yet in process of foreclosure</u>			
<u>CM7</u>	<u>Loans in process of foreclosure</u>			

## SCHEDULE BA MORTGAGES

### LR009

#### *Basis of Factors*

For Affiliated Mortgages, Line **12999999**, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined using a company generated worksheet ~~for In-Good Standing (Figure 10) and (Figure 8) for Past Due or In Process of Foreclosure.~~

For Unaffiliated Mortgages, Line **11999999**, the factors used are the same as for commercial mortgages and are defined in Figure 9. Risk categories and factors are determined as follows:

- 1) For Investments that contain covenants whereby factors of maximum LTV and minimum DSC, or equivalent thresholds must be complied with and it can be determined that the Investments are in compliance, these investments would use the process for directly held mortgages using the maximum LTV and minimum DSC using the company generated worksheet and transferred to LR009 line (2) for mortgages with covenants that are in compliance.
- 2) Investments that are defeased with government securities will be assigned to CM1 and transferred to LR009 line (3).
- 3) Other investments comprised primarily of senior debt will be assigned to CM2 and transferred to LR009 line (4).
- 4) All other investments in this category will be assigned CM3 and transferred to LR009 line (5). This would include assets such as a mortgage fund that invests in mezzanine or sub debt, or investments that cannot be determined to be in compliance with the covenants.

#### *Specific Instructions for Application of the Formula*

##### Column (1)

Except for Lines (1), ~~(12), and (16)~~, calculations are done on an individual mortgage basis and then the summary amounts are entered in this column for each class of mortgage investment. Refer to the Schedule BA mortgage calculation worksheets ~~(Figure 8) and (Figure 10)~~ for how the individual mortgage calculations are completed. Line (20) should equal Schedule BA Part 1, Column 12, Line **11999999** plus Line **12999999**.

##### Column (2)

Companies are permitted to reduce the book/adjusted carrying value of mortgage loans reported in Schedule BA by any involuntary reserves. Involuntary reserves are equivalent to valuation allowances specified in the codification of statutory accounting principles. They are non-AVR reserves reported on Annual Statement Page 3, Line 25. These reserves are held as an offset for a particular troubled Schedule BA mortgage loan that would be required to be written down if the impairment was permanent.

##### Column (3)

Column (3) is calculated as the net of Column (1) less Column (2).

##### Column (4)

~~No longer used. Place "XXX" in any blanks for this column. For Lines (12) through (14) and Lines (16) through (18), summary amounts of the individual mortgage calculations are entered in this column for each class of mortgage investments. Refer to the Schedule BA mortgage calculation worksheet (Figure 8).~~

##### Column (5)

For Line (1), the pre-tax factor is 0.0014.

For Line (2), the average factor column is calculated as Column (6) divided by Column (3).

For Line (3), the pre-tax factor is 0.0090.

For Line (4), the pre-tax factor is 0.0175.

For Line (5), the pre-tax factor is 0.0300.

For Line (6), the pre-tax factor is 0.0090.  
 For Line (7), the pre-tax factor is 0.0175.  
 For Line (8), the pre-tax factor is 0.0300.  
 For Line (9), the pre-tax factor is 0.0500.  
 For Line (10), the pre-tax factor is 0.0750.  
 For Line (12), the pre-tax factor is 0.0027.  
 For Lines (13) through (14), the pre-tax factor is 0.1100.  
 For Line (15), the pre-tax factor is 0.0054.  
 For Lines (13) through (14), the pre-tax factor is 0.1300.

See Figure 9 for computation of appropriate factors.

**Column (6)**  
 For Lines (1), (3) through (10), (12) through (14), and (16) through (18), the RBC subtotal in Column (3) is multiplied by the average factor to calculate Column (6). The categories and subtotals will be determined in the company developed worksheet Figure (10).

For Lines (12) through (14) and Lines (16) through (18), summary amounts are entered for Column (6) based on calculations done on an individual mortgage basis as determined in the company developed worksheet Figure (10). Refer to the Schedule BA mortgage calculation worksheet (Figure 8).

(Figure 8)

Schedule BA Mortgage Worksheet A  
Other Than In Good Standing

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(7a)	(8)	(9)	(10)
	Name / ID	Book/Adjusted Carrying Value	Involuntary Reserve Adjustment§	RBC Subtotal£	Cumulative Writedowns *	Category Factor	In Good Standing Factor	In Good Standing Category	Col(6) X [Col (4)+(5)] -Col(5)	Col(4) X Col(7)	RBC Requirement ‡
	<del>90 Days Overdue – Insured or Guaranteed</del>					‡	‡	‡			
(1)	All Mortgages Without Cumulative Writedowns				XXX	0.0027	0.0014	N/A			
(2)	With Cumulative Writedowns:					0.0027	0.0014	N/A			
(3)						0.0027	0.0014	N/A			
	Total										
	<del>90 Days Overdue – Unaffiliated</del>										
(1)	All Mortgages Without				XXX	0.1800	‡	‡			

	<del>Cumulative Writedowns</del>										
(2)	<del>With Cumulative Writedowns:</del>					0.1800	‡	‡			
(3)						0.1800	‡	‡			
	<del>Total</del>										
	<del>90 Days Overdue—Affiliated</del>										
(1)	<del>All Mortgages Without Cumulative Writedowns</del>				XXX	0.1800	‡	‡			
(2)	<del>With Cumulative Writedowns:</del>					0.1800	‡	‡			
(3)						0.1800	‡	‡			
	<del>Total</del>										
	<del>In Process of Foreclosure—Insured or Guaranteed</del>										
(1)	<del>All Mortgages Without Cumulative Writedowns</del>				XXX	0.0054	0.0014	N/A			
(2)	<del>With Cumulative Writedowns:</del>					0.0054	0.0014	N/A			
(3)						0.0054	0.0014	N/A			
	<del>Total</del>										
	<del>In Process of Foreclosure—Unaffiliated</del>										
(1)	<del>All Mortgages Without Cumulative Writedowns</del>				XXX	0.2300	‡	‡			
(2)	<del>With Cumulative Writedowns:</del>					0.2300	‡	‡			
(3)						0.2300	‡	‡			
	<del>Total</del>										
	<del>In Process of Foreclosure—Affiliated</del>										
(1)	<del>All Mortgages Without Cumulative Writedowns</del>				XXX	0.2300	‡	‡			
(2)	<del>With Cumulative Writedowns:</del>					0.2300	‡	‡			

(3)						0.2300	‡	‡			
	Total										
(99)	Total Schedule BA Mortgages										

This worksheet is prepared on a loan by loan basis for each of the mortgage categories listed in (Figure 9) that are applicable. The Column (2), (3), (5) and (10) subtotals for each category are carried over and entered in Columns (1), (2), (4) and (6) of the Schedule BA Mortgages (LR009) Lines (12) through (14) and Lines (16) through (18) in the risk based capital formula. NOTE: This worksheet will be available in the risk based capital filing software.

‡ See (Figure 9) for factors to use in the calculation. The In Good Standing Factor will be based on the CM category developed in the company generated worksheet (Figure 10) and reported in Column 7a.

‡ The RBC Requirement column (10) is calculated as the greater of Column (8) or Column (9), but not less than zero.

§ Involuntary reserves are reserves held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3, Line 25 of the annual statement.

£ Column (4) is calculated as Column (2) less Column (3).

\* Cumulative writedowns include the total amount of writedowns, amounts non-admitted and involuntary reserves that have been taken or established with respect to a particular mortgage.

(Figure 9)

The mortgage factors are used in conjunction with the mortgage worksheets (Figures 8 and 10) to calculate the RBC Requirement for each individual mortgage in an affiliated structure and in an unaffiliated structure where there are covenants. The factors are used in Columns (6) and (7) of the mortgage worksheet (Figure 8) and are dependent on which of the 14 mortgage categories below the mortgage falls into. Residential Mortgages and Commercial Mortgages Insured or Guaranteed are classified as Category CM1. The following factors are used for each category of mortgages:

LR009 Line Number	Schedule BA Mortgage Factors	Category Factor‡	In Good Standing Factor
(3)	Unaffiliated – defeased with government securities	0.0090N/A‡	0.0090
(4)	Unaffiliated investments comprised primarily of Senior Debt	0.0175N/A‡	0.0175
(5)	Unaffiliated – all other unaffiliated mortgages	0.0300N/A‡	0.0300
(6)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM1	0.0090N/A‡	0.0090
(7)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM2	0.0175N/A‡	0.0175
(8)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM3	0.0300N/A‡	0.0300
(9)	Affiliated Mortgages and Unaffiliated Mortgages with Covenants – Category CM4	0.0500N/A‡	0.0500



(10)	Affiliated Mortgages <u>and Unaffiliated Mortgages with Covenants</u> -- Category CM5	<del>0.0750</del> N/A‡	<del>0.0750</del>
(12)	90 Days Past Due - Insured or Guaranteed	0.0027	<del>.0014</del>
(13)	90 Days Past Due (CM6)- Unaffiliated <u>with Covenants</u>	<del>0.18000</del> .1100	‡
(14)	90 Days Past Due (CM 6)- Affiliated	<del>0.18000</del> .1100	‡
(16)	In Process of Foreclosure - Insured or Guaranteed	0.0054	<del>.0014</del>
(17)	In Process of Foreclosure (CM7)- Unaffiliated <u>with Covenants</u>	<del>0.23000</del> .1300	‡
(18)	In Process of Foreclosure (CM7)- Affiliated	<del>0.23000</del> .1300	‡

‡ The category factor is a factor used for a particular category of mortgage loans that are not in good standing.

‡ The RBC Requirement for mortgage loans in good standing are not calculated on Figure (8). These requirements are calculated on the company's Schedule BA Mortgage Worksheet and transferred to LR009 Schedule BA Mortgage Loans Lines (12) — (14) and (16) — (18).

(Figure 10)

Mortgage Worksheet (company developed)

~~In Good Standing~~ -- Commercial Mortgages and Farm Mortgages

Price Index current (year-end calculations to be based off of 3 <sup>rd</sup> Quarter index of the given year)}	{input Price Index as of September 30}							
Name / ID (1)	Date of Origination (2)	Maturity Date (3)	Property Type (4)	Farm Loan Sub-property Type (5)	Postal Code (6)	Book/Adjusted Carrying Value (7)	Statutory Write-downs (8)	Statutory Involuntary Reserve (9)

Original Loan Balance (10)	Principal Loan Balance to Company (11)	Balloon Payment at Maturity (12)	Principal Balance Total (13)	NOI Second Prior Year (14)	NOI Prior Year (15)	NOI (16)	Interest Rate (17)

Trailing 12 Month Debt Service (18)	Original Property Value (19)	Property Value (20)	Year of Valuation (21)	Calendar Quarter of Valuation (22)	Credit Enhancement? (23)	Senior Debt (24)	Construction Loan (25)
-------------------------------------	------------------------------	---------------------	------------------------	------------------------------------	--------------------------	------------------	------------------------

Construction Loan out of Balance (26)	Construction Loan Issues (27)	Land Loan (28)	90 Days Past Due (29)	In Process of Foreclosure? (30)	Current payment lower than based on Loan Interest? (31)	Is loan interest floating? (32)	Is fixed rate reset during term? (33)

Is negative amortization allowed? (34)	Amortization Type (35)	Schedule BA mortgage? (36)	Affiliated Mortgage (37)	Covenant – Max LTV (39)	Covenant – Min DCR (40)	Loan Covenants in compliance? (41)	Defeased with government securities? (42)
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Primarily Senior positions? (43)	Rolling Average NOI (44)	RBC DCR (45)	Price Index at Valuation (46)	Contemporaneous Property Value (47)	RBC - Loan to Value Ratio (48)	RBC Risk Category (49)

This worksheet is prepared on a loan-by-loan basis for each commercial mortgage – other or farm loan held in Schedule BA. The Column (7) and (9) subtotals for each category are carried over and entered in Columns (1) and (2) of the Mortgages (LR009) in the risk-based capital formula lines (2) – (10), (13) – (14), and (17) – (18). Small mortgages aggregated into one line on Schedule BA can be treated as one mortgage on this worksheet. ~~Amounts in Columns (7), (9) and (49) are carried individually to Worksheet A columns (2), (3) and (7a) for loans that are 90 Days Past Due and In Process of Foreclosure.~~ NOTE: This worksheet will not be available in the risk-based capital filing software and must be developed by the Company.

Column			Description / Explanation of Item
#	Heading		
			Price Index current is the value on 9/30 of the current year for the National Council of Real Estate Investor Fiduciaries Price Index for the United States.
(1)	Name / ID	Input	Identify each mortgage included as in good standing.
(2)	Date of Origination	Input	Enter the year and month that the loan was originated. If the loan has been restructured, extended, or otherwise re-written, enter that new date.
(3)	Maturity Date	Input	Enter earlier of maturity of the loan, or the date the lender can call the loan.
(4)	Property Type	Input	Enter 1 for mortgages with an Office, Industrial, Retail or multifamily property as collateral. Enter 2 for mortgages with a Hotel and Specialty Commercial as property type. For properties that are multiple use, use the property type with the greatest square footage in the property. Enter 3 for Farm Loans.
(5)	Farm Sub-type	Input	Sub-category – If Property Type=3 (Farm Loans), then you must enter a Sub Category: 1=Timber, 2=Farm and Ranch, 3=Agribusiness Single Purpose, 4=Agribusiness All Other. (See Note 8)
(6)	Postal Code	Input	Enter zip code of property for US properties. If multiple properties or zip codes, enter multiple codes. If foreign, enter postal code. If not available, N/A.
(7)	Book / Adjusted Carrying	Input	Enter the value that the loan is carried at on the company ledger.

	Value		
(8)	Statutory Writedowns	Input	Enter the value of any writedowns taken on this loan due to permanent impairment.
(9)	Involuntary Reserve	Input	Enter the amount of any involuntary reserve amount. Involuntary reserves are reserves that are held as an offset to a particular asset that is clearly a troubled asset and are included on Page 3 Line 25 of the Annual Statement.
(10)	Original Loan Balance?	Input	Enter the loan balance at the time of origination of the loan.
(11)	Principal Balance to Co.	Input	Enter the value of the loan balance owed by the borrower.
(12)	Balloon Payment at Maturity	Input	Enter the amount of any balloon or principal payment due at maturity.
(13)	Principal Balance Total	Input	Enter the total amount of mortgage outstanding that is senior to or pari passu with the company's mortgage
(14)	NOI Second Prior	Input	Enter the NOI from the year prior to the value in (15). See Note 1.
(15)	NOI Prior	Input	Enter the NOI from the prior year to the value in (16). See Note 1.
(16)	NOI	Input	Enter the Net Operating Income for the most recent 12 month fiscal period with an end-date between July 1 of the year prior to this report and June 30 of the year of this report. The NOI should be reported following the guidance of the Commercial Real Estate Finance Council Investor Reporting Profile v.5.0. Section VII. See Notes 1, 2, 3, 4, 5 and 6 below.
(17)	Interest Rate	Input	Enter the annual interest rate at which the loan is accruing. -If the rate is floating, enter the larger of the current month rate or the average rate of interest for the prior 12 months, or -If the rate is fixed by the contract, not level over the year, but level for the next 12 months, use current rate. If the 'Total Loan Balance' consists of multiple loans, use an average loan interest rate weighted by principal balance.
(18)	Trailing 12 Month Debt Service	Input	Enter actual 12 months debt service for prior 12 months.
(19)	Original Property Value	Input	Enter the loan balance at the time of origination of the loan.
(20)	Property Value	Input	The value of the Property at time of loan origination, or at time of revaluation due to impairment underwriting, restructure, extension, or other re-writing.
(21)	Year of Valuation	Input	Year of the valuation date defining the value in (20). This will be either the date of origination, or time of restructure, refinance, or other event which precipitates a new valuation.
(22)	Quarter of Valuation	Input	Calendar quarter of the valuation date defining the value in (20).
(23)	Credit Enhancement	Input	Enter the full dollar amount of any credit enhancement. (see Note 5)
(24)	Senior Loan?	Input	Enter 'Yes' if senior position, 'No' if not. (see Note 7)
(25)	Construction Loan?	Input	Enter 'Yes' if this is a construction loan. (see Note 4)
(26)	Construction – not in balance	Input	Enter 'Yes' if this is a construction loan that is not in balance. (see Note 4)
(27)	Construction – Issues	Input	Enter 'Yes' if this is a construction loan with issues. (see Note 4)
(28)	Land Loan?	Input	Enter 'Yes' if this is a loan on non-income producing land. (see Note 6)
(29)	90 days past due?	Input	Enter 'Yes' if payments are 90 days past due.
(30)	In process of foreclosure?	Input	Enter 'Yes' if the loan is in process of foreclosure.
(31)	Is current payment lower than a payment based on the Loan Interest?	Input	Yes / No
(32)	Is loan interest a floating	Input	Yes / No

	rate?		
(33)	If not floating, does loan reset during term?	Input	Yes / No - Some fixed rate loans define in the loan document a change to a new rate during the life of the loan, which may be a predetermined rate or may be the then current market rate. Generally any such changes are less frequent than annual.
(34)	Is negative amortization allowed?	Input	Yes / No
(35)	Amortization type?	Input	1 = fully amortizing 2 = amortizing with balloon 3 = full I/O 4 = partial I/O, then amortizing
(36)	Schedule BA mortgage?	Input	Yes / No
(37)	Affiliated Mortgage?	Input	Yes / No
(38)	Covenant Max LTV	Input	For mortgage investments with covenants, what is the maximum LTV allowed?
(39)	Covenant Min DCR	Input	For mortgage investments with covenants, what is the minimum DCR allowed?
(40)	Covenants in compliance?	Input	Yes / No – for mortgage investments with covenants, is the investment in compliance with the covenants?
(41)	Defeased with government securities	Input	Yes / No – has the mortgage loan been defeased using government securities?
(42)	Primarily Senior Mortgages	Input	Is the mortgage pool primarily senior mortgage instruments? {If yes, assign to CM2}
(43)	Rolling Average NOI	Computation	For 2012 – 100% of NOI For 2014 – 65% NOI + 35% NOI Prior For 2015 – 50% NOI + 30% NOI Prior + 20% NOI 2 <sup>nd</sup> Prior For loans originated or valued within the current year, use 100% NOI. For loans originated 2012 or later and within 2 years, use 65% NOI and 35% NOI Prior.
(44)	RBC Debt Service	Computation	RBC Debt Service Amount is the amount of 12 monthly principal and interest payments required to amortize the Total Loan Balance (13) using a Standardized Amortization period of 300 months and the Annual Loan Interest Rate (17).
(45)	RBC - DCR	Computation	Debt Coverage Ratio is the ratio of the Net Operating Income (43) divided by the RBC Debt Service (44) rounded down to 2 decimal places. See Note 3 below for special circumstances. For loan pools with covenants, this will be the minimum DCR by covenant.
(46)	NCREIF Index at Valuation	Computation	Price index is the value of the NCREIF Price Index on the last day of the calendar quarter that includes the date defined in (21) and (22).
(47)	Contemporaneous Property Value	Computation	Contemporaneous Value is the Property Value (11) times the ratio (rounded to 4 decimal places) of the Price Index current to the Price Index (46).
(48)	RBC - LTV	Computation	The Loan to Value ratio is the Loan Value (13) divided by the Contemporaneous Value (47) rounded to the nearest percent. For Loan Pools with covenants, this will be the max LTV by covenant.
(49)	CM Category	Computation	Commercial Mortgage Risk category is the risk category determined <u>by either being not in good standing (either 90 Days Past Due or In Process of Foreclosure) or the loan being in good standing or restructured and</u> by applying the DCR (45) and the LTV (48) to the criteria in Figure (11), Figure (12) or Figure (13). See Notes 2, 3, 4, 5, and 6 below for special circumstances. If (41) = yes, CM1. If (42) = yes, CM2. If no LTV and DCR, and (41) = no and (42) = no, CM3.

Note 1: Net Operating Income (NOI): The majority of commercial mortgage loans require the borrower to provide the lender with at least annual financial statements. The NOI would be determined at the RBC calculation date based on the most recent annual period from financial statements provided by the borrower and analyzed based on accepted industry standards. The most recent annual period is determined as follows:

- If the borrower reports on a calendar year basis, the statements for the calendar year ending December 31 of the year prior to the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the calendar year that ends 12/31/2011.
- If the borrower reports on a fiscal year basis, the statements for the fiscal year that ends after June 30 of the prior calendar year and no later than June 30 of the year of the RBC calculation date will be used. For example, if the RBC calculation date is 12/31/2012, the most recent annual period is the fiscal year that ends after 6/30/2011 and no later than 6/30/2012.
- The foregoing time periods are used to provide sufficient time for the borrower to prepare the financial statements and provide them to the lender, and for the lender to calculate the NOI.

The accepted industry standards for determining NOI were developed by the Commercial Mortgage Standards Association now known as CRE Financial Council (CREFC). The company must develop the NOI using the standards provided by the CREFC Methodology for Analyzing and Reporting Property Income Statements ~~v. 5.1~~ ([www.crefc.org/irp](http://www.crefc.org/irp)). These standards are part of the CREFC Investor Reporting Package (CREFC IRP Section VII.) developed to support consistent reporting for commercial real estate loans owned by third party investors. This guidance is a standardized basis for determining NOI for RBC.

The NOI will be adjusted to use a 3-year rolling average for the DSC calculation. For 2013, a single year of NOI will be used. For 2014, 2 years will be used, weighted 65% most recent year and 35% prior year. Thereafter, 3 years will be used weighted 50% most recent year, 30% prior year, and 20% 2<sup>nd</sup> prior year. This will apply when there is a history of NOI values. For new originations, including refinancing, the above schedule would apply by duration from origination. For the special circumstances listed below, the specific instructions below will produce the NOI to be used, without further averaging.

For purposes of the NOI inputs at (14), (15), (16), and the computation of a Rolling Average NOI at (43), an insurer may report 2020 NOI (i.e., NOI for any 12-month fiscal period ending after June 30, 2020 but not later than June 30, 2021) as the greater of: (1) actual NOI as determined under the CREF-C IRP Standards or (2) 85% of NOI determined for the immediate preceding fiscal year's annual report. This guidance with respect to 2020 NOI applies to the application of the 2020 NOI in risk-based capital reporting for 2021, 2022, and 2023. In cases where an insurer reports 85% of 2019 NOI as the 2020 NOI input, the insurer should retain information about actual 2020 NOI in its workpapers so that the information can be readily available to regulators.

Note 2: The calculation of debt service coverage and loan to value will include all debt secured by the property that is (1) senior to or pari passu with the insurer's investment; and (2) any debt subordinate to the insurer's investment that is not (a) subject to an intercreditor, standstill or subordination agreement with the insurer provided that the agreement does not grant the subordinate debt holder any rights that would materially affect the rights of the insurer and provided that the subordinate debt holder is prohibited from taking any action against the borrower that would materially affect the insurer's priority lien position with respect to the property without the prior written consent of the insurer, or (b) subject to governing laws that provide that the insurer's investment holds a senior position to the subordinated debt holder and provide substantially similar protections to the insurer as in (2)(a) above.

Note 3: *Unavailable Operating Statements:*

There are a variety of situations where the most recent annual period's operating statement may not be available to assist in determining NOI. These situations will occur in distinct categories and each category requires special consideration. The categories are:

1. Loans on owner occupied properties

- a. For properties where the owner is the sole or primary tenant (50% or more of the rentable space), property level operating statements may not be available or meaningful. If the property is occupied and the loan, taxes and insurance are current, it will be acceptable to derive income and a reasonable estimate of expenses from the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).
- b. For properties where the owner is a minority tenant (49% or less of the rentable space), the owner-occupied space should be underwritten at the average rent per square foot of the arm's length tenant leases. This income estimate should be added to the other tenant leases and combined with a reasonable estimate of expenses based on the most recent appraisal or equivalent and additional known actual expenses (e.g., real estate taxes and insurance).

2. Borrower does not provide the annual operating statement

- a. Borrower refuses to provide the annual operating statements
  - i. If the leases are in place and evidenced by estoppels and inspections, NOI would be derived from normalized underwriting in accordance with the CREFC Methodology for Analyzing and Reporting Property Income Statements.
  - ii. If there is evidence from inspection that the property is occupied, but there is no evidence of in place leases (e.g., lease documents or estoppels), NOI would be set equal to the lesser of calculated debt service (DSC=1.0) or the NOI from the normalized underwriting.
  - iii. If there is no evidence from inspection that the property is occupied and no evidence of in place leases (e.g., lease documents or estoppels), assume NOI = \$0.
- b. If the borrower does not have access to a complete previous year operating statement, determine NOI based on the CREFC guidelines for analyzing a partial year income statement.

Note 4: Construction loans

Construction loans would be categorized as follows, based on a determination by the loan servicer whether the loan is in balance and whether construction issues exist:

- a. In balance, no construction issues: DSC = 1.0, LTV determined as usual
- b. Not in Balance, no construction issues: CM4
- c. Construction issues: CM5

A loan is "*in balance*" if the committed amount of the construction loan plus any lender held reserves and unfunded borrower equity is sufficient to cover the remaining costs of the development project, including debt service not anticipated to be paid from property operations.

A "*construction issue*" is a problem that may reasonably jeopardize the completion of the project. Examples of construction issues include the abandonment of construction and construction defects that are not being addressed.

Note 5: Credit enhancements: Where the loan payments are secured by a letter of credit from an investment grade financial institution or an escrow account held at an investment grade financial institution, NOI less than the debt service may be increased by these amounts until it is equal to but not exceeding the debt service. These situations are typically short term in nature, and are intended to bridge the lease-up following renovation or loss of a major tenant.

Note 6: Non-income-producing land: NOI = \$0

Note 7: Non-senior financing

- a. The company should first calculate DSC and LTV for non-senior financing using the standardized debt service and aggregate LTV of all financing pari passu and senior to the position held by the company.
- b. The non-senior piece should then be assigned to the next riskier RBC category. For example, if the DSC and LTV metrics determined in (a) indicate a category of CM2, the non-senior piece would be assigned to category CM3. However, it would not be required to assign a riskier category than CM5 if the loan is not at least 90-days delinquent or in foreclosure.

Note 8: Definitions of each type of Farm Mortgage:

Timber: A loan is classified as a timber loan if more than 50% of the collateral market value (land and timber) of the security is attributable to land supporting a timber crop that is or will be of commercial value.

Farm & Ranch: Farm and ranch land utilized in the production of agricultural commodities of all kinds, including grains, cotton, sugar, nuts, fruits, vegetables, forage crops and livestock of all kinds, including, beef, swine, poultry, fowl and fish. Loans included in this category are those in which agricultural land accounts for more than 50% of total collateral market value.

Agribusiness Single Purpose: Specialized collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of the single-purpose (special use) collateral would account for more than 50% of total collateral market value.

This collateral is generally not multi-functional and can only be used for a specific production, manufacturing and/or processing function within a specific sub-sector of the food or agribusiness industry and whereby such assets are not strategically important in nature to the overall industry capacity. These assets can be shut down or replicated easily in other locations, or existing plants can be expanded to absorb shuttered capacity. The assets are not generally limited in nature by environmental or operational permits and/or regulatory requirements. An example would be a poultry processing plant located in the Southeast of the United States where there is excess capacity inherent to the industry and production capacity is easily replaceable.

Other loans included in this category are those collateralized by single purpose (special use) confinement livestock production facilities in which the special use facilities account for more than 50% of total collateral market value.

Agribusiness All Other: Multiple-use collateral utilized in the production, further processing, adding value or manufacturing of an agricultural commodity or forest product. In order for a loan to be classified as such, the market value of any single use portion may not be greater than 50% of total collateral market value.

This collateral is multi-functional in nature, adaptable to other manufacturing, processing, or servicing food or agribusiness industries or sub-industries. Assets could also be very strategic in nature and not easily replaceable either due to cost, location, environmental permitting and/or government regulations. These assets may be single purpose in nature, but so vital to the industry capacity needs that they will be generally purchased by another like processing company or strategic or financial buyer. An example of these types of assets are strategically located and highly automated cold storage facilities whereby they can be used for dry storage, distribution centers or converted into warehouse or other type uses. Another example may be a cheese processing plant that is strategically located within the heart of the dairy industry, limited permits, environmental restrictions that would limit added capacity, or high barriers to entry to build a like facility within the industry. For example, one of the largest cheese plants in the industry is located in California and it is not easily replicated within the cheese processing industry due to its location, capacity, costs, access to fluid milk supply and related feed and water, as well as highly regulated environmental and government restrictions.

Other loans included in this category are those in which more than 50% of the collateral market value is accounted for by chattel assets or other assets related to the business and financial operations of agribusinesses, including inventories, accounts, trade receivables, cash and brokerage accounts, machinery, equipment, livestock and other assets utilized for or generated by agribusiness operations.

(Figure 11)

For Office, Industrial, Retail and Multi-family

Risk Category	DSC Limits		LTV Limits
CM1	$1.50 \leq DSC$	and	$LTV < 85\%$
CM2	$0.95 \leq DSC < 1.50$	and	$LTV < 75\%$
CM2	$1.15 \leq DSC < 1.50$	and	$75\% \leq LTV < 100\%$
CM2	$1.50 \leq DSC$	and	$85\% \leq LTV < 100\%$
CM2	$1.75 \leq DSC$	and	$100\% \leq LTV$
CM3	$DSC < 0.95$	and	$LTV < 85\%$
CM3	$0.95 \leq DSC < 1.15$	and	$75\% \leq LTV < 100\%$
CM3	$1.15 \leq DSC < 1.75$	and	$100\% \leq LTV$
CM4	$DSC < 0.95$	and	$85\% \leq LTV < 105\%$
CM4	$0.95 \leq DSC < 1.15$	and	$100\% \leq LTV$
CM5	$DSC < 0.95$	and	$105\% \leq LTV$
CM6	Loans 90 days past due but not yet in process of foreclosure		
CM7	Loans in process of foreclosure		

(Figure 12)

For Hotels and Specialty Commercial

Risk category	DSC limits		LTV limits
CM1	$1.85 \leq DSC$	and	$LTV < 60\%$
CM2	$1.45 \leq DSC < 1.85$	and	$LTV < 70\%$
CM2	$1.85 \leq DSC$	and	$60\% \leq LTV < 115\%$
CM3	$0.90 \leq DSC < 1.45$	and	$\leq LTV < 80\%$
CM3	$1.45 \leq DSC < 1.85$	and	$70\% \leq LTV$
CM3	$1.85 \leq DSC$	and	$115\% \leq LTV$
CM4	$DSC < 0.90$	and	$LTV < 90\%$
CM4	$0.90 \leq DSC < 1.10$	and	$80\% \leq LTV < 90\%$
CM4	$1.10 \leq DSC < 1.45$	and	$80\% \leq LTV$
CM5	$1.10 \leq DSC$	and	$90\% \leq LTV$
<u>CM6</u>	<u>Loans 90 days past due but not yet in process of foreclosure</u>		
<u>CM7</u>	<u>Loans in process of foreclosure</u>		

(Figure 13)

For Farm Loans:

	<u>Timber</u>	<u>Farm &amp; Ranch</u>	<u>Agribusiness Single Purpose</u>	<u>Agribusiness All Other</u>



CM1	LTV <= 55%	LTV <= 60%		LTV <= 60%
CM2	55% < LTV <= 65%	60% < LTV <= 70%	LTV <= 60%	60% < LTV <= 70%
CM3	65% < LTV <= 85%	70% < LTV <= 90%	60% < LTV <= 70%	70% < LTV <= 90%
CM4	85% < LTV <= 105%	90% < LTV <= 110%	70% < LTV <= 90%	90% < LTV <= 110%
CM5	105% < LTV	110% < LTV	90% < LTV	110% < LTV
<u>CM6</u>	<u>Loans 90 days past due but not yet in process of foreclosure</u>			
<u>CM7</u>	<u>Loans in process of foreclosure</u>			

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# Custody Control Accounts

October 2022

FOR DISCUSSION PURPOSES ONLY

**J.P.Morgan**

# Credit mitigation vs. capital relief

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- ▶ Life reinsurance transactions with licensed, accredited or reciprocal jurisdiction reinsurers (RJR) generally do not require a collateral mechanism to provide credit for reinsurance (CFR).
- ▶ Separate and distinct from CFR, the Life RBC Manual instructions reference certain collateral mechanisms (e.g., funds withheld or trustee collateral), which, if present, allow the Cedant to avoid an overstatement of RBC charges that would otherwise be applied for credit exposure to reinsurance counterparties. The Life RBC formula addresses unmitigated credit exposure to reinsurers, whether admitted/accredited, unauthorized or RJR, and offers RBC credit only for those listed collateral mechanisms.
- ▶ While the subject provision of the Life RBC Manual allows an RBC credit for certain non-CFR collateral mechanisms, other credit risk mitigation (comfort) arrangements have been developed by large custodial institutions which are not similarly treated, resulting in significant inefficiencies in those transactions.

# Growing demand for credit protection, where Custody Control Accounts can be leveraged

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- ▶ In many life reinsurance transactions, where the parties negotiate and agree to collateral arrangements for commercial reasons, they are forced to use trustee assets in order to achieve the desired RBC result, even where a trust is not needed to satisfy CFR requirements; such "comfort trusts" are common in a variety of life reinsurance transactions, including block acquisitions, embedded value and reserve financings and pension risk transfers
- ▶ Other collateral mechanisms can provide the same level of security to Cedants with lower costs and greater flexibility.
- ▶ The Finance industry widely supports and leverages custodial control accounts ("Custody Control Accounts") where segregated collateralization under third-party control is required (e.g., pledges to FHLBs, Segregated Initial Margin, variation margin for 40 Act clients, etc.). In the same way, a Custodian can hold assets pledged by the Reinsurer for the benefit of the Cedant in connection with a reinsurance transaction.
- ▶ The intent of the Custody Control Account is to provide the same protections to the Cedant as would be provided by a trust arrangement.
- ▶ However, a Custody Control Account offers the same operational control as a trust arrangement, at a reduced cost due to increased scale and automation.

# Proposed changes to RBC instruction

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## From Risk-Based Capital Forecasting & Instructions – Life and Fraternal, 2019

### REINSURANCE

LR016 (p. 53 of the 2019 Edition)

There is a risk associated with recoverability of amounts from reinsurers. The risk is deemed comparable to that represented by bonds between risk classes 1 and 2 and is assigned a pre-tax factor of 0.78 percent. To avoid an overstatement of risk-based capital, the formula gives a 0.78 percent pre-tax credit for reinsurance with non-authorized and certified companies, for reinsurance among affiliated companies, for reinsurance with funds withheld or reinsurance with authorized reinsurers that is supported by equivalent trusted **or custodied** collateral ~~that meets the requirements of the types~~ stipulated in **paragraph 18 of** Appendix A-785 (Credit for Reinsurance), where there have been regular bona fide withdrawals from such trusted **or custodied** collateral to pay claims or recover payments of claims during the calendar year covered by the RBC report, and for reinsurance involving policy loans. Withdrawals from trusted **or custodied** collateral that are less than the amounts due the ceding company shall be deemed to not be bona fide withdrawals. **For purposes of these instructions, “custodied collateral” shall mean assets held pursuant to a custodial arrangement with a qualified U.S. financial institution (as defined in Appendix A-785 (Credit for Reinsurance)) pursuant to which the underlying assets are segregated from other assets of the reinsurer and are subject to the exclusive control of, and available to, the ceding company in the event of the reinsurer’s failure to pay under, and otherwise pursuant to the terms of, the subject reinsurance agreement.**

# Contractual Terms for Custody Control Arrangement

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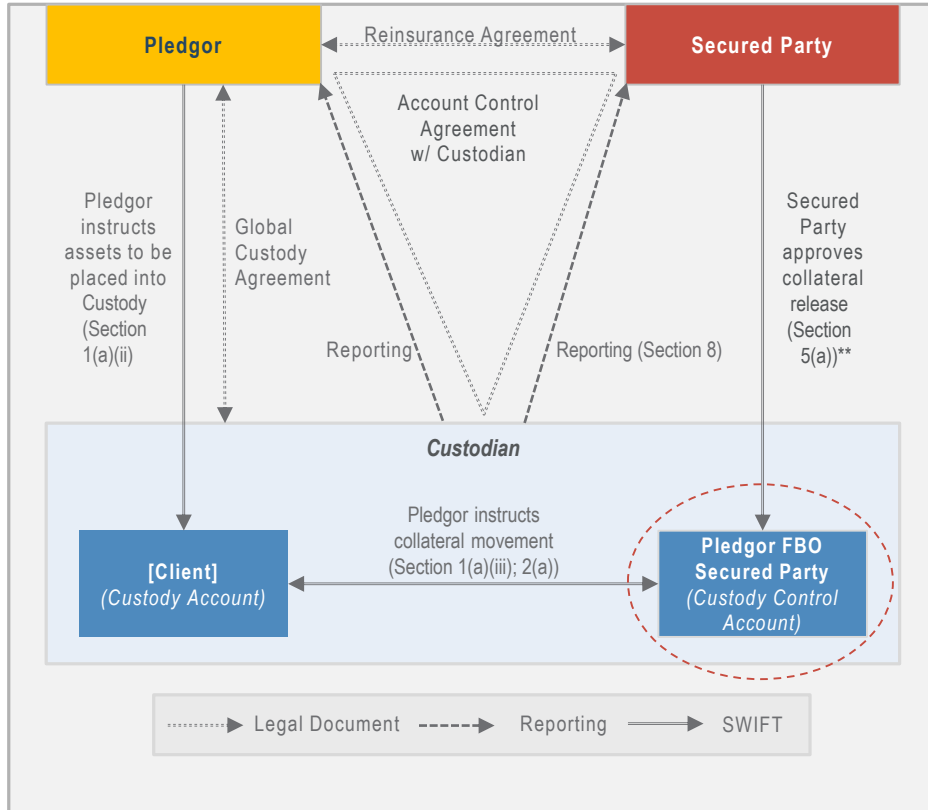
- Establishment of the Account
  - Reinsurer establishes one or more accounts pursuant to a Custody Agreement with the Custodian
  - The account is recorded as separate from any other assets of the Client, the Custodian, or other customers of the Custodian
- Pledge of Account
  - Pursuant to the Reinsurance Agreement or a separate Security Agreement (between Reinsurer and Ceding Company), the Reinsurer pledges the account, including the assets therein, to the Ceding Company
- Pledgor, Secured Party and Custodian enter into the Account Control Agreement (ACA)
  - Account Control Agreement is intended to create adequate control of the account and perfection of the lien on the account and its assets in accordance with Articles 8 and 9 of the Uniform Commercial Code (UCC)
- Investment of the Account (Pre-Default) [Section 5]
  - Reinsurer and Ceding Company agree to parameters for the ability of the Reinsurer to give instructions for withdrawals and investments of the account
  - Generally, so long as no event of default has occurred (including credit or other events identified in the Reinsurance Agreement), the Reinsurer may give instructions for investments or other withdrawals (of assets in excess of required funding)
  - At the agreement of the parties, such instructions may be structured to require dual consent or other monitoring mechanisms as agreed in the ACA

## Contractual Terms for Custody Control Arrangement (Cont.)

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- Notice of Exclusive Control [Section 5]
  - Following its receipt of a notice of exclusive control from the Ceding Company, the Custodian will take instructions solely from the Ceding Company without further consent of the Reinsurer
  - Under the terms of the ACA, instructions from the Ceding Company may include full withdrawal of the assets in the account
  - The ability of the Ceding Company to deliver a notice of exclusive control is restricted only under the Reinsurance Agreement or Security Agreement and is not restricted by the ACA
  - The Custodian does not monitor whether the notice of exclusive control was permitted under Reinsurance or Security Agreement

# Custody Control Account Schematic\*



## Legal & Operational Highlights

<p><b>Legal Documents Required</b></p>	<ul style="list-style-type: none"> <li>▶ <b>Global Custody Agreement:</b> Bilateral agreement for custodial services between Pledgor and Custodian</li> <li>▶ <b>Account Control Agreement:</b> Tri-party agreement between Pledgor, Secured Party and Custodian</li> </ul>
<p><b>Legal &amp; Operational Framework</b></p>	<ul style="list-style-type: none"> <li>▶ Custody Bank acts as Custodian (<u>not</u> as Trustee)</li> <li>▶ Custodian has subordinated lien over assets in the control account (though may retain a first priority lien for fees and expenses) (Section 4(b))</li> <li>▶ Assets are segregated in a control account in the Pledgor's name FBO the Secured Party (Section 1(a)(iii); 2(a))</li> <li>▶ The Secured Party can assume control of the account at any time upon the satisfaction of conditions as stipulated in the underlying bilateral agreement w/ the Pledgor (e.g. an event of default as notified and exclusively determined by the Secured Party) and following Custodian's receipt of a Notice of Exclusive Control (NOEC). Custodian has a reasonable time to act on the instruction without any requirement to validate the event of default (Section 5(a))</li> <li>▶ Custodian is indemnified for following instructions (Section 15(a))</li> <li>▶ Custodian acts upon instructions by Pledgor to deliver assets into the control account</li> <li>▶ Parties have flexibility to decide on the control model – i.e., whether release and/or substitution of assets requires single party or dual (Pledgor and Secured Party) instructions (Section 5(a))</li> <li>▶ The Account Control Agreement supplements a Global Custody Agreement and is not a standalone agreement (Section 1(a)(iii))</li> </ul>

## Key Features

<p><b>Custody</b></p>	<ul style="list-style-type: none"> <li>▶ Pledgor instructs assets to be placed into custody account free of payment</li> <li>▶ Asset servicing on securities that are registered in J.P. Morgan's nominee name</li> <li>▶ Automated income transfer capability, back to main custody account in respect of any income earned on depository eligible assets can be provided (Section 6)</li> </ul>
<p><b>Control</b></p>	<ul style="list-style-type: none"> <li>▶ SWIFT message release automation for collateral release AND substitutions. Support for different arrangements (e.g. Unilateral/Dual Authentication)</li> <li>▶ Secured Party can assume control of account upon Notice of Exclusive Control instruction to the Custodian (NOEC) (Section 5(a))</li> </ul>
<p><b>Reporting</b></p>	<ul style="list-style-type: none"> <li>▶ Consolidated custody reporting available to both client and secured party (Section 8)</li> <li>▶ View and schedule customized or pre-defined reports</li> <li>▶ Intra-day and end-of-day reporting via SWIFT</li> </ul>

\*Section references on this slide refer to the form of Account Control Agreement provided to the NAIC

\*\*This model is illustrative only; the Account Control Agreement template provides optionality of control models - unilateral by either Pledgor or Secured Party, or dual



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The chart below summarizes key comparisons between: (1) a trust account established by a reinsurer to provide an asset or reduction from liability to a ceding company for reinsurance ceded (a “Credit for Reinsurance Trust”); (2) a trust account established by a reinsurer in connection with a reinsurance agreement that is not necessary to provide an asset or reduction from liability for reinsurance but rather provides credit protections to the ceding company (a “Comfort Trust”); and (3) a custodial account established by a reinsurer to provide credit protections to a ceding company in connection with a reinsurance agreement (a “Custody Control Account”). With respect to a Custody Control Account, the chart contemplates the structure proposed by JPMorgan in connection with its proposed changes to the RBC Manual.

	<b>Credit for Reinsurance Trust</b>	<b>Comfort Trust</b>	<b>Custody Control Account</b>
<b>Nature of Reinsurer</b>	Reinsurer is <b>not</b> licensed or accredited in Cedant’s domiciliary jurisdiction.	Reinsurer is licensed or accredited in the Cedant’s domiciliary jurisdiction.	Reinsurer is licensed or accredited in the Cedant’s domiciliary jurisdiction.
<b>Effect on Credit for Reinsurance</b>	Collateral in trust provides a reduction for liability (statutory credit for reinsurance) where Reinsurer is not licensed or accredited.	No effect on Credit for Reinsurance as collateral is not required in order for the Cedant to receive statutory reserve credit.	No effect on Credit for Reinsurance as collateral is not required in order for the Cedant to receive statutory reserve credit.
<b>Cedant Reinsurance Counterparty Credit Exposure RBC Charges and Credits</b>	An RBC credit is applied to offset the RBC charge for reinsurance counterparty credit exposure because such exposure has been mitigated through the trust mechanism.	An RBC credit is applied to offset the RBC charge for reinsurance counterparty credit exposure because such exposure has been mitigated through the trust mechanism.	Although credit exposure would be reduced under a Custody Control Account similar to both a Credit for Reinsurance Trust or Comfort Trust, the current RBC instructions mandate a reinsurance counterparty credit charge with no offsetting credit because of the form of the legal agreement governing the collateralization arrangement.  Under JPMorgan’s proposed revisions to the RBC Instructions, the RBC charges and credits across all three of these arrangements would be harmonized. Custodial Account Equivalent with a trust.

	<b>Credit for Reinsurance Trust</b>	<b>Comfort Trust</b>	<b>Custody Control Account</b>
<b>Structure</b>	Assets deposited in trust with a third-party trustee by the Reinsurer for the benefit of the Cedant.	Assets deposited in trust with a third-party trustee by the Reinsurer for the benefit of the Cedant.	Assets deposited in custodial account established by the Reinsurer with a third-party account bank subject to the first priority lien and exclusive control of the Cedant.
<b>Asset Classes</b>	Assets permitted to be deposited in trust are specified by the applicable statute. Frequently limited to cash, U.S. Treasuries or Agencies and SVO Listed Securities.	Asset classes are subject to the RBC instructions, and additionally include foreign securities, equity interests and interests in investment companies.	Asset classes would be subject to the RBC instructions, and additionally include foreign securities, equity interests and interests in investment companies.
<b>Valuation</b>	Cedant is only allowed to receive credit for reinsurance based on the <u>market value</u> of assets of the Trust Account.	Valuation is based on the contractual agreement between the parties. Frequently comfort trust agreements and related reinsurance agreements provide that the asset balance required is based on <u>book value</u> of assets unless one or more specified credit events have occurred, in which case market values are required.	Similar to a Comfort Trust, parties would agree to method of valuation of account assets.
<b>Duties of Trustee/Bank</b>	Trustee is a directed trustee, required to hold assets and act in accordance with the instructions of the parties, as set forth in the Trust Agreement.	Trustee is a directed trustee, required to hold assets and act in accordance with the instructions of the parties, as set forth in the Trust Agreement.	Bank would be required to hold assets and act in accordance with the instructions of the parties, as set forth in the Account Control Agreement.
<b>Title of Assets</b>	Title of assets is transferred to the trustee of the trust.	Title of assets is transferred to the trustee of the trust.	Title of assets is maintained by the Reinsurer, but subject to a lien in favor of the Ceding Company, which lien is perfected through exclusive control over the assets pursuant to an Account Control Agreement.

	<b>Credit for Reinsurance Trust</b>	<b>Comfort Trust</b>	<b>Custody Control Account</b>
<b>Withdrawal Conditions</b>	<p>No conditions are allowed for the withdrawal of assets by the Ceding Company.</p> <p>Withdrawal of assets by the Reinsurer is generally not allowed except to the extent that the market value of assets exceeds 102% of the reserves ceded under the reinsurance agreement, in which case the Reinsurer can request the trustee to release such excess.</p>	<p>Reason and nature for withdrawal by the Ceding Company are agreed to by the parties and is typically based on specified defaults of the Reinsurer.</p> <p>Withdrawals by Reinsurer may be allowed based on both market value or book value tests; if such tests are met, the Reinsurer can request the trustee to release such excess.</p>	<p>Reason and nature for withdrawal by the Ceding Company are agreed to by the parties and is typically be based on specified defaults of the Reinsurer.</p> <p>Withdrawals by Reinsurer may be allowed based on both market value or book value tests; if such tests are met, the Reinsurer can request the Bank to release such excess and the corresponding lien.</p>
<b>Substitution of Assets</b>	<p>Substitution of assets are only allowed to the extent that the market value of replacement assets exceeds the market value of the replaced assets.</p>	<p>Restrictions on substitutions are agreed between the parties and are typically based on book value and market value of relevant assets.</p>	<p>Restrictions on substitutions are agreed between the parties and are typically based on book value and market value of relevant assets.</p>

October 2022

## ACCOUNT CONTROL AGREEMENT

This account control agreement, dated [•] (this “Agreement”) is among [\_\_\_\_\_]  
(the “Customer”), [\_\_\_\_\_] (the “Secured Party”), and [\_\_\_\_\_] (“Bank”).

### 1. INTENTION OF THE PARTIES; DEFINITIONS; INTERPRETATION

#### (a) Intention of the Parties

- (i) The Secured Party and the Customer have entered into a [Reinsurance Agreement] dated [•] (as amended from time to time, the “Reinsurance Agreement”), pursuant to which the Customer has agreed to pledge collateral to the Secured Party to secure, in part, Customer’s obligations under the Reinsurance Agreement.
- (ii) Bank and the Customer have entered into a [Global] Custody Agreement dated [•] (the “Custody Agreement”), pursuant to which Bank acts as Customer’s custodian and maintains certain accounts in the name of Customer.
- (iii) Bank has established at the request of the Customer one or more custody accounts in the name of the Customer for the benefit of Secured Party (each, an “Account”; together, the “Accounts”) to hold the Pledged Assets (as defined herein) pursuant to the Custody Agreement and subject to the further terms of this Agreement.
- (iv) The Customer has granted the Secured Party a security interest in the Account(s) and the Pledged Assets pursuant to the Reinsurance Agreement.
- (v) The Secured Party and the Customer, and Bank, at the request of the Secured Party and the Customer, are entering into this Agreement to provide for the control of each Account.

#### (b) Definitions

As used herein the following terms shall have the following meanings:

“**Account**” has the meaning set forth in Section 1(a)(iii).

“**Affiliated Subcustodian Bank**” shall mean a Subcustodian that is both a subsidiary of Bank and either (i) a bank chartered or incorporated in the U.S. or (ii) a branch or subsidiary of such a bank.

“**Applicable Law**” means any applicable statute, treaty, rule, regulation or law (including common law) and any applicable decree, injunction, judgment, order, formal interpretation or ruling issued by a court or governmental entity.

“**Authorized Person**” shall mean each person Bank reasonably believes to be a person (i) listed on Exhibit B annexed hereto, (ii) who has been designated by written notice from the Customer or Secured Party (as applicable) to act on behalf of such party under this Agreement or (iii) utilizing an authorized access code of the Customer or Secured Party (as applicable) which allows for the provision of Instructions. Bank may assume that such persons will continue to be Authorized Persons until such time as Bank receives and has had reasonable time to act upon instructions from the Customer or Secured Party, as applicable, that any such person is no longer an Authorized Person.

**“Business Day”** means any day on which Bank is open for business in New York.

**“Cash”** means cash in any currency.

**“Confidential Information”** means all non-public information concerning the Secured Party, the Customer or the Accounts which Bank receives in the course of providing services under this Agreement. Nevertheless, the term Confidential Information does not include (i) information that is or becomes available to the general public other than as a direct result of Bank’s breach of the terms of this Agreement, (ii) information that Bank develops independently without using the Customer’s or the Secured Party’s confidential information, (iii) information that Bank obtains on a non-confidential basis from a person who is not known to be subject to any obligation of confidence to the Customer or to the Secured Party with respect to that information, or (iv) information that the Customer or the Secured Party has designated as non-confidential or consented to be disclosed.

**“Country Risk”** shall mean the risk of investing or holding assets in a particular country or market, including, but not limited to, risks arising from nationalization, expropriation, capital controls, currency restrictions or other governmental actions; the country’s financial infrastructure, including prevailing custody, tax and settlement practices; laws applicable to the safekeeping and recovery of Financial Assets and cash held in custody; the regulation of the banking and securities industries, including changes in market rules; currency devaluations or fluctuations; and market conditions affecting the orderly execution of securities transactions or the value of assets.

**“Custody Agreement”** has the meaning set forth in Section 1(a)(ii).

**“Financial Assets”** shall mean any Securities held in the Account that are eligible for deposit with a Securities Depository and such other assets as may be agreed by the parties; provided, that Financial Assets does not include any Cash that may be maintained in the Account.

**“Instructions”** shall mean written communications, including without limitation, Entitlement Orders, instructions and other directions, which are signed by an Authorized Person of the Secured Party or the Customer (as applicable) and delivered in accordance with Section 18.

**“Bank Affiliates”** shall mean an entity controlling, controlled by, or under common control with Bank.

**“Bank Indemnitees”** shall mean Bank and Bank Affiliates, and their respective nominees, directors, officers, employees and agents.

**“Liabilities”** shall mean any and all liabilities, losses, claims, costs, damages, penalties, fines, obligations, taxes (other than taxes based solely on a party’s own income), or expenses of any kind whatsoever (whether actual or contingent and including, without limitation, attorneys’, accountants’, consultants’ and experts’ fees and disbursements reasonably incurred and outstanding from time to time.

**“Notice of Exclusive Control”** shall mean a written notice from the Secured Party to Bank in the form annexed hereto as Exhibit C, that the Secured Party is thereby exercising exclusive control over the Account.

**“Pledged Assets”** shall mean any Financial Assets and any Cash which may be maintained in the Account.

**“Reinsurance Agreement”** has the meaning set forth in Section 1(a)(i).

**“Resignation Period”** has the meaning set forth in Section 17(b).

**“Securities”** means shares, stocks, debentures, bonds, notes or other like obligations, whether issued in certificated or uncertificated form, and any certificates, receipts, warrants or other instruments representing rights to receive, purchase or subscribe for the same that are commonly traded or dealt in on securities exchanges or financial markets and any other property as may be acceptable to Bank for the Account.

**“Securities Depository”** means any securities depository, clearing corporation, dematerialized book entry system or similar system for the central handling of Securities.

**“Subcustodian”** means any of the subcustodians appointed by Bank from time to time to hold Financial Assets and act on its behalf in different jurisdictions and includes any Affiliated Subcustodian Bank. In no event will an entity that is a Securities Depository, whether or not acting in that capacity, be deemed to be a Subcustodian. For the avoidance of doubt, the transfer agent of a Financial Asset shall not be deemed to be a Subcustodian with respect to that Financial Asset.

**“U.S.”** means United States.

The terms **“Securities Entitlement”**, **“Securities Intermediary”**, **“Entitlement Holder”** and **“Entitlement Order”** shall have the same respective meanings set forth in Sections 8-102 and 8-501 of the Uniform Commercial Code as in effect in the State of New York (the **“UCC”**).

### (c) Interpretation

- (i) Headings are for convenience of reference only and shall not in any way form part of or affect the construction or interpretation of any provision of this Agreement.
- (ii) Unless otherwise expressly stated to the contrary herein, references to Sections are to Sections of this Agreement and references to paragraphs are to paragraphs of the Sections in which they appear.
- (iii) Unless the context requires otherwise, references in this Agreement to “persons” shall include legal as well as natural entities; references importing the singular shall include the plural (and vice versa) use of the term “including” shall be deemed to mean “including but not limited” to, and references to appendices and numbered sections shall be to such addenda and provisions herein.
- (iv) Unless the context requires otherwise, any reference to a statute or a statutory provision shall include such statute or provision as from time to time modified to the extent such modification applies to any service provided hereunder. Any reference to a statute or a statutory provision shall also include any subordinate legislation made from time to time under that statute or provision.
- (v) The Schedules to the Agreement are incorporated herein by reference and form part of the Agreement and shall have the same force and effect as if expressly set out in the

body of the Agreement. If and to the extent that there is an inconsistency between the terms of the body of the Agreement and its Schedules, the terms of the body of the Agreement shall prevail unless expressly stated otherwise.

## **2. THE ACCOUNTS**

- (a) Exhibit A annexed hereto is a complete and accurate list of the Accounts being pledged. The Accounts shall be in the name of the Customer for the benefit of Secured Party. Except for the claims and interest of the Secured Party and the Customer in the Account (subject to any claim in favor of Bank permitted under Sections 3 and 4 hereof), Bank has not been notified in writing of any claim to or interest in the Account.
- (b) The Account will be recorded on Bank's books and records as a separate account from any other assets of Bank, any other customer of Bank or the other accounts maintained by Bank for the Customer under the Custody Agreement.
- (c) Any Cash received by or on behalf of Bank for the Account, including for the avoidance of doubt, any proceeds of Securities in the Account, will be deposited in one or more cash accounts at Bank in New York or at one of its non- U.S. branch offices and will constitute a debt owing to the Customer (for the benefit of the Secured Party) by Bank as banker, provided that any Cash so deposited with a non-U.S. branch office will be payable exclusively by that branch office in the applicable currency, subject to compliance with Applicable Law, including, without limitation, any applicable currency restrictions.

## **3. PLEDGED ASSETS**

- (a) Bank shall be under no obligation to extend credit in respect of the Pledged Assets and shall be entitled to reverse any cash credit previously made to the Account due to error or the non-receipt of any income or dividend distribution.
- (b) The Secured Party and the Customer agree that, except as expressly provided herein, Bank has no duty or responsibility for determining the eligibility, valuation or sufficiency of any collateral pledged by the Customer to the Secured Party, or the compliance of the Customer or the Secured Party with any requirements under the Reinsurance Agreement or any other agreement.
- (c) All parties agree that all property other than Cash held by Bank in the Account will be treated as "financial assets" under Article 8 of the UCC. With respect to any Cash on deposit in the Account, such Account will be deemed to be a "deposit account" (within the meaning of Section 9-102(a)(29) of the UCC) with respect to such Cash deposited in or credited to the Account, in respect of which the Bank will be deemed to be a "bank" (within the meaning of Section 9-102(a)(8) of the UCC) and the Customer will be deemed to be its "customer" (as defined in Section 4-104 of the UCC).
- (d) Bank reserves the right to refuse to accept delivery of Securities or Cash for the Account in certain countries and jurisdictions. A list of the countries and jurisdictions in which Bank accepts delivery of Securities or Cash for the Account can be obtained from Bank upon request.

## **4. PRIORITY OF LIEN**

- (a) Bank hereby acknowledges the security interest granted to the Secured Party by the Customer under the terms of the Reinsurance Agreement. The Secured Party and the



Customer acknowledge and agree that Bank has no responsibility with respect to the validity or perfection of such security interest other than to act in accordance with the terms of this Agreement.

- (b) With respect to the Secured Party's interest in the Account, Bank hereby subordinates any liens, encumbrances, claims and rights of setoff it may have against the Account or any Pledged Assets carried in the Account to any security interest of the Secured Party in the Account; provided, however, that Bank shall retain a first priority lien on any Pledged Assets in the Account for the payment of its fees and expenses and for the payment of any Pledged Assets credited to the Account for which payment or reimbursement to Bank has not been made or received. Subject to Section 12 hereof, Bank will not agree with any third party to comply with Entitlement Orders concerning the Account originated by such third party without the prior written consent of the Secured Party and the Customer.
- (c) For the avoidance of doubt, the Customer has granted Bank a security interest in and lien on, the assets in the custody accounts established pursuant to the Custody Agreement as security for any and all amounts which are now or become owing to Bank, and Bank may enforce its rights against any of the other custody accounts maintained for the Customer for any amounts owed or owing to Bank under any provision of this Agreement, whether matured or contingent.

## 5. CONTROL

(a) [Except as otherwise provided by Sections 4, 6 and 7 and any instruction originated by the Customer to accept Pledged Assets into the Account on a free of payment basis, Bank will comply with any Instruction originated by the Customer that is validated via a separate and matching Instruction from the Secured Party, until Bank receives a Notice of Exclusive Control. Following receipt of such notice, Bank will comply within a reasonable time with any Instruction originated by the Secured Party concerning Pledged Assets held in the Account without further consent of the Customer. Contemporaneously with the Secured Party's delivery of a Notice of Exclusive Control to Bank, the Secured Party shall provide a copy of such Notice of Exclusive Control to the Customer. Bank shall have no duty to confirm the Customer's receipt of such Notice of Exclusive Control.]

### OR

[Except as otherwise provided by Sections 4, 6 and 7 and any Instruction originated by the Customer to accept Pledged Assets into the Account on a free of payment basis, Bank will comply with Instructions originated by the Secured Party concerning the Account without further consent by the Customer.]

### OR

[Bank will comply with Instructions originated by the Customer concerning the Account without further consent by the Secured Party until Bank receives a Notice of Exclusive Control. Following receipt of such notice, Bank will comply within a reasonable time with any Instruction originated by the Secured Party concerning Pledged Assets held in the Account without further consent of the Customer. Contemporaneously with the Secured Party's delivery of a Notice of Exclusive Control to Bank, the Secured Party shall provide a copy of such Notice of Exclusive Control to the Customer. Bank shall have no duty to confirm the Customer's receipt of such Notice of Exclusive Control.]

(b) The Customer and Secured Party acknowledge that Bank has established cut-off times for receipt of Instructions, which will be made available to the Customer and the Secured Party. If Bank receives an Instruction after its established cut-off time, Bank will attempt to act upon such Instruction on the day requested only if Bank deems it practicable to do so or otherwise as soon as practicable after the day on which it was received.

## **6. PAYMENT OF INCOME**

Bank shall without instruction or action by the Customer or Secured Party (i) credit to the Account all interest, dividends, income or other “proceeds” (as defined in Section 9-102(a)(64) of the UCC) of the Financial Assets in the Account, and (ii) transfer all cash distributions received by Bank with respect of the Financial Assets in the Account to the Customer’s custody cash account. The parties agree that any such cash distributions shall not be subject to any security interest granted to the Secured Party. For the avoidance of doubt, cash redemptions of Financial Assets in the Account or cash payments of principal with respect to Financial Assets in the Account will not be transferred to the Customer’s custody cash account and will be credited to the Account. After Bank receives a Notice of Exclusive Control, and has had a reasonable time to comply with such notice, Bank will promptly cease transferring cash distributions received by Bank with respect to Financial Assets in the Account to the Customer’s custody cash account and will thereafter credit all such cash distributions to the Account.

## **7. CORPORATE ACTIONS AND VOTING RIGHTS**

Pursuant to the terms of the Custody Agreement with the Customer, unless Bank has received a Notice of Exclusive Control, Bank shall send to the Customer any proxies and other voting rights and corporate actions received by Bank in respect of the Pledged Assets and follow any Instruction from the Customer in respect of such proxies and rights. After Bank receives the Notice of Exclusive Control, and has had reasonable time to comply with such notice, it will send to the Secured Party any proxies and other voting rights and corporate actions received by Bank in respect of the Pledged Assets and follow any Instruction from the Secured Party in respect of such proxies and rights.

## **8. STATEMENTS, CONFIRMATIONS AND NOTICES OF ADVERSE CLAIMS**

Bank will send or make available by electronic means copies of all statements and confirmations concerning the Account to each of the Customer and the Secured Party, as instructed by the Customer and the Secured Party. If any person notifies Bank of its assertion of any lien, encumbrance or adverse claim against the Account or in any Financial Asset contained therein, Bank will promptly notify the Secured Party and the Customer thereof.

## **9. SUBCUSTODIANS AND SECURITIES DEPOSITORIES.**

(a) Appointment of Subcustodians; Use of Securities Depositories.

- (i) Bank is authorized under this Agreement to act through and hold the Financial Assets with Subcustodians. In addition, Bank and each Subcustodian may deposit Financial Assets with, and hold Financial Assets in any Securities Depository on such terms as such Securities Depository customarily operates, and the Customer the Secured Party will provide Bank with such documentation or acknowledgements that Bank may require to hold the Financial Assets in such Securities Depository. On the basis of such terms, a Securities Depository may have a security interest or lien over, or right of set-off in relation to the Financial Assets.

- (ii) Any agreement that Bank enters into with a Subcustodian for holding Financial Assets will provide (i) that such assets will not be subject to any right, charge, security interest, lien or claim of any kind in favor of such Subcustodian or its creditors except a claim for payment for their safe custody or administration, or, in the case of Cash deposits, except for liens or rights in favor of creditors of the Subcustodian arising under bankruptcy, insolvency or similar law, and (ii) that the beneficial ownership thereof will be freely transferable without the payment of money or value other than for safe custody or administration, unless in each case required otherwise by Applicable Law in the relevant market. Bank shall be responsible for all claims for payment of fees for safe custody or administration so that no Subcustodian exercises any claim for such payment against the Financial Assets. Where a Subcustodian deposits Financial Assets with a Securities Depository, Bank will direct the Subcustodian to identify on its records that the Financial Assets deposited by the Subcustodian at such Securities Depository belong to Bank, as agent of the Customer.
- (b) Liability for Subcustodians and Securities Depositories
- (i) Bank will be liable for direct Liabilities incurred by the Customer or the Secured Party that result from: (a) the failure by a Subcustodian to use reasonable care in the provision of custodial services by it in accordance with the standards prevailing in the relevant market or from the fraud or willful misconduct of such Subcustodian in the provision of custodial services by it; or (b) the insolvency of any Affiliated Subcustodian Bank.
  - (ii) Bank will use reasonable care in the selection, monitoring and continued appointment of Subcustodians. Subject to Bank's duty in the foregoing sentence and Bank's duty to use reasonable care in the monitoring of a Subcustodian's financial condition as reflected in its published financial statements and other publicly available financial information concerning it customarily reviewed by Bank in its oversight process, Bank will not be responsible for any Liabilities (whether direct or indirect) incurred by the Customer or the Secured Party that result from the insolvency of any Subcustodian which is not a branch of Bank or an Affiliated Subcustodian Bank.
  - (iii) Bank is not responsible for the selection or monitoring of any Securities Depository and will not be liable for any Liabilities arising out of any act or omission by (or the insolvency of) any Securities Depository. In the event the Customer or the Secured Party incurs any Liabilities due to an act or omission, negligence, willful misconduct, fraud or insolvency of a Securities Depository, Bank will make reasonable efforts, in its discretion, to seek recovery from the Securities Depository, but Bank will not be obligated to institute legal proceedings, file a proof of claim in any insolvency proceeding or take any similar action.
  - (iv) Investing in Financial Assets and Cash in foreign jurisdictions may involve risks of loss or other burdens and costs. The parties acknowledge that Bank is not providing any legal, tax or investment advice in connection with the services under this Agreement and that the Customer remains responsible for assessing and managing investment-related exposures arising out of Country Risk. Accordingly, Bank will not be responsible for any Liabilities resulting from Country Risk.

## 10. FEES

The Customer shall pay to Bank the compensation agreed upon in writing from time to time and any other includable expenses incurred in connection herewith.

## 11. REPRESENTATIONS

Each of the parties represents and warrants that (i) it is duly incorporated or organized and is validly existing in good standing in its jurisdiction of incorporation or organization, (ii) the execution, delivery and performance of this Agreement and all documents and instruments to be delivered hereunder or thereunder have been duly authorized, (iii) the person executing this Agreement on its behalf has been duly authorized to act on its behalf, (iv) this Agreement constitutes its legal, valid, binding and enforceable agreement, and (v) its entry into this Agreement will not violate any agreement, law, rule or regulation by which it is bound or by which any of its assets are affected.

## 12. COMPLIANCE WITH LEGAL PROCESS AND JUDICIAL ORDERS

If any Pledged Assets subject to this Agreement are at any time attached or levied upon, or in case the transfer, delivery, redemption or withdrawal of any such Pledged Assets shall be stayed or enjoined, or in the case of any other legal process or judicial order affecting such Pledged Assets, Bank is authorized to comply with any such order in any matter as Bank or its legal counsel reasonably deems appropriate. If Bank complies with any process, order, writ, judgment or decree relating to the Pledged Assets subject to this Agreement, then Bank shall not be liable to the Customer or the Secured Party or to any other person or entity even if such order or process is subsequently modified, vacated or otherwise determined to have been without legal force or effect.

## 13. RESPONSIBILITY OF BANK

- (a) Bank shall have no responsibility or liability to the Secured Party for following any Instruction of the Customer or its Authorized Persons upon which Bank is authorized to rely pursuant to the terms of this Agreement, which are received by Bank before Bank has received, and had a reasonable opportunity to comply with, a Notice of Exclusive Control.
- (b) Bank shall have no responsibility or liability to the Customer for complying with a Notice of Exclusive Control or complying with any Instruction concerning the Account originated by the Secured Party upon which it is authorized to rely pursuant to the terms of this Agreement.
- (c) Bank shall have no duty to investigate or make any determination as to whether a default, termination event, dispute or other event exists under any agreement between the Customer and the Secured Party and shall comply with a Notice of Exclusive Control even if it believes that no such default, termination event, dispute or other event exists.
- (d) This Agreement does not create any obligation or duty for Bank other than those expressly set forth herein.

## 14. STANDARD OF CARE

- (a) Notwithstanding any provision contained herein or in any other document or instrument to the contrary, Bank Indemnitees shall not be liable for following the instruction of any Authorized Person of the Secured Party or the Customer upon which Bank is authorized to rely pursuant to the terms of this Agreement.
- (b) Bank will only be liable for the Customer's or the Secured Party's direct Liabilities and only to the extent (i) they result from Bank's gross negligence, fraud or willful misconduct in performing its duties as set out in this Agreement and (ii) provided in Section 9.
- (c) Under no circumstances will Bank be liable for (i) any loss of profits (whether direct or indirect) or (ii) any indirect, incidental, consequential or special damages of any form, incurred by any person or entity, whether or not foreseeable and regardless of the type of

action in which such a claim may be brought, with respect to the Accounts, Bank's performance or non-performance under this Agreement, or Bank's role as custodian or banker.

- (d) Without limiting the foregoing, and notwithstanding any provision to the contrary elsewhere, Bank Indemnitees:
- (i) shall have no responsibilities, obligations or duties other than those expressly set forth in this Agreement, and no implied duties, responsibilities or obligations shall be read into this Agreement against Bank Indemnitees; without limiting the foregoing, Bank shall have no duty to preserve, exercise or enforce rights in the Pledged Assets (against prior parties or otherwise);
  - (ii) may in any instance where Bank determines that it lacks or is uncertain as to its authority to take or refrain from taking certain action, or as to the requirements of this Agreement under any circumstance before it, delay or refrain from taking action unless and until it has received instructions from the Secured Party or advice from legal counsel (or other appropriate advisor), as the case may be;
  - (iii) so long as it and they shall have acted (or refrained from acting) in good faith, shall not be liable for any error of judgment in any action taken, suffered or omitted by, or for any act done or step taken, suffered or omitted by, or for any mistake of fact or law, unless such action constitutes gross negligence or willful misconduct on its (or their) part;
  - (iv) may consult with legal counsel selected by it (or other experts for it, the Secured Party or the Customer), and shall not be liable for any action taken or not taken by it or them in good faith in accordance with the advice of such experts;
  - (v) will not be responsible to the Secured Party or to the Customer for any statement, warranty or representation made by any party other than Bank in connection with this Agreement;
  - (vi) will have no duty to ascertain or inquire as to the performance or observance by the Customer or the Secured Party of any of the terms, conditions or covenants of any security agreement between the Customer and the Secured Party;
  - (vii) will not be responsible to the Secured Party or the Customer for the due execution, legality, validity, enforceability, genuineness, effectiveness or sufficiency of this Agreement, (provided, however, that Bank warrants above that Bank has legal capacity to enter into this Agreement);
  - (viii) will not incur any liability by acting or not acting in reliance upon any notice, consent, certificate, statement or other instrument or writing believed by it or them to be genuine and signed or sent by an Authorized Person, the proper party or parties;
  - (ix) will not incur liability for any notice, consent, certificate, statement, wire instruction, telecopy, or other writing which is delayed, canceled or changed without the actual knowledge of Bank;

- (x) shall not be deemed to have or be charged with notice or knowledge of any fact or matter unless a written notice thereof has been received by Bank at the address and to the person designated in (or as subsequently designated pursuant to) this Agreement;
- (xi) shall not be obligated or required by any provision of this Agreement to expend or risk Bank's own funds, or to take any action (including but not limited to the institution or defense of legal proceedings) which in its or their judgment may cause it or them to incur or suffer any expense or liability; provided, however, if Bank elects to take any such action it shall be entitled to security or indemnity for the payment of the costs, expenses (including but not limited to attorneys' fees) and liabilities which may be incurred therein or thereby, satisfactory to Bank); and
- (xiii) shall not be responsible for the title, validity or genuineness of any Financial Asset in physical form that is received by or delivered to Bank from or by the Customer and credited to the Account.

## **15. INDEMNIFICATION OF BANK**

- (a) The Customer and the Secured Party, jointly and severally, agree to indemnify and hold Bank Indemnitees harmless from and against any and all Liabilities that may be imposed on, incurred by, or asserted against, Bank Indemnitees or any of them for following any Instructions upon which Bank is authorized to rely pursuant to the terms of this Agreement.
- (b) In addition to and not in limitation of paragraph (a) immediately above, the Customer and the Secured Party also jointly and severally agree to indemnify and hold Bank Indemnitees and each of them harmless from and against any and all Liabilities that may be imposed on, incurred by, or asserted against, Bank Indemnitees or any of them in connection with or arising out of Bank's performance under this Agreement, provided Bank Indemnitees have not acted with gross negligence or engaged in willful misconduct.
- (c) The foregoing indemnifications shall survive any termination of this Agreement.

## **16. FORCE MAJEURE**

Bank shall not be responsible for any Liabilities of any nature that the Customer, the Secured Party or any third party may suffer or incur, caused by an act of God, fire, flood, epidemics, earthquakes or other disasters, civil or labor disturbance, war, terrorism, act of any governmental authority or other act or threat of any authority (de jure or de facto), nationalization, expropriation, legal constraint, fraud, theft or forgery (other than on the part of Bank or its employees), cyber-attack, malfunction of equipment or software (except where such malfunction is primarily and directly attributable to Bank's negligence in maintaining the equipment or software), currency re-denominations, currency restrictions, failure of or the effect of rules or operations of any external funds transfer system, inability to obtain (or interruption of) external communications facilities, power failures or any other cause beyond the reasonable control of Bank (including, without limitation, the non-availability of appropriate foreign exchange). Without limiting the generality of the foregoing, if an event resulting from Country Risk leads to restrictions on, or losses of, Cash held by Bank or any Affiliated Subcustodian Bank in any market for the purposes of facilitating Bank's global custody business, Bank may in its sole discretion apply the impact of those restrictions or losses to the relevant currency held in any sub-cash account under the Account or in connection with the Account, in a proportional manner as Bank may reasonably determine.

## 17. TERMINATION

(a) The rights and powers granted herein to the Secured Party have been granted in order to perfect its security interest in the Account, are powers coupled with an interest and will neither be affected by the bankruptcy of the Customer nor by the lapse of time. The obligations under this Agreement shall continue in effect (i) until the security interest of the Secured Party in the Account has been terminated and the Secured Party has notified Bank of such termination in writing, or (ii) this Agreement is terminated in accordance with Sections 17(b) or (c) below.

(b) This Agreement may be terminated by:

- (i) Bank upon not less than 30 days prior written notice to the Customer and the Secured Party; or
- (ii) Customer and Secured Party, acting jointly, upon not less than 30 days prior written notice to Bank,

(such 30 days prior notice periods the "Resignation Period");

provided, however, that no termination under this Section 17(b) shall be effective until the Pledged Assets (to the extent there are any remaining in the Account) have been transferred to a substitute bank reasonably satisfactory to the Customer and the Secured Party and identified to Bank by the Customer and the Secured Party, acting jointly, via written notice, provided that, should the Customer and the Secured Party fail to provide Bank with such written notice identifying a substitute bank within 30 days of the end of the Resignation Period, Bank may transfer the Pledged Assets to the Secured Party (as the Secured Party may instruct pursuant to reasonable notice). For the avoidance of doubt, Bank must comply with all of its obligations under this Agreement until the Pledged Assets have been transferred to either a substitute bank or the Secured Party.

(c) This Agreement will terminate upon receipt by Bank of a Notice Exclusive Control, provided, however, that no termination under this Section 17(c) shall be effective until the Pledged Assets have been transferred to a substitute bank reasonably satisfactory to the Secured Party and identified to Bank via an Instruction from the Secured Party. Should the Secured Party fail to provide Bank with an Instruction identifying a substitute bank within 30 days of Bank's receipt of the Notice of Exclusive Control, Bank may transfer the Pledged Assets to the Secured Party (as the Secured Party may instruct pursuant to reasonable notice). For the avoidance of doubt, Bank must comply with all of its obligations under this Agreement until the Pledged Assets have been transferred to either a substitute bank or the Secured Party.

## 18. NOTICES

Any notice, request, Entitlement Order or other communication required or permitted to be given under this Agreement shall be in writing and delivered in accordance with the means specified below. Until such time a party properly notifies each other party that its address, email address or facsimile number has changed, notices to such party shall be sent as follows:

If to Bank:

For Notice of Exclusive Control, Pledgor Termination Notice, or Notice to Contest, please email to: \[\_\_\_\_\_].

For Instructions concerning the Pledged Assets, please deliver via SWIFT messaging, or if SWIFT is unavailable, please fax to: [\_\_\_\_\_]

If to the Customer:

\_\_\_\_\_

Attention: \_\_\_\_\_

Telephone: \_\_\_\_\_

Fax: \_\_\_\_\_

If to the Secured Party:

\_\_\_\_\_

Attention: \_\_\_\_\_

Telephone: \_\_\_\_\_

Fax: \_\_\_\_\_

## 19. INFORMATION CONCERNING DEPOSITS AT BANK'S NON-U.S. BRANCHES.

- (a) Under U.S. federal law, deposit accounts that the Customer maintains in Bank's foreign branches (outside of the U.S.) are not insured by the Federal Deposit Insurance Corporation. In the event of Bank's liquidation, foreign branch deposits have a lesser preference than U.S. deposits, and such foreign deposits are subject to cross-border risks.
- (b) Bank's London Branch is a participant in the UK Financial Services Compensation Scheme (the "FSCS"), and the following terms apply to the extent any amount standing to the credit of any cash account related to the Financial Assets or the Account is deposited in one or more deposit accounts at Bank's London Branch. The terms of the FSCS offer protection in connection with deposits to certain types of claimants to whom Bank's London Branch provides services in the event that they suffer a financial loss as a direct consequence of Bank's London Branch being unable to meet any of its obligations and, subject to the FSCS rules regarding eligible deposits, the Customer may have a right to claim compensation from the FSCS. Subject to the FSCS rules, the maximum compensation payable by the FSCS in relation to eligible deposits is as set out in the relevant information sheet which is available online as referenced below. For the purposes of establishing such maximum compensation, all the Customer's eligible deposits at Bank's London Branch are aggregated and the total is subject to such maximum compensation. For further information about the compensation provided by the FSCS, refer to the FSCS website at [www.FSCS.org.uk](http://www.FSCS.org.uk). Further information is also available online at [\_\_\_\_\_].

## 20. MISCELLANEOUS

### (a) CONFIDENTIALITY.

- (i) Subject to Section 20(a)(iii), Bank will hold all Confidential Information in confidence and will not disclose any Confidential Information except as may be required by (A) Applicable Law or courts of competent jurisdiction, (B) governmental, regulatory or



- supervisory authorities, or law enforcement agencies with jurisdiction over Bank's businesses, or (C) with the consent of the Customer or the Secured Party (as applicable).
- (ii) The Customer and the Secured Party authorize Bank to use Confidential Information (A) in connection with the provision of services to or administration of the relationship with the Customer or the Secured Party (as applicable), (B) for any operational, credit or risk management purposes, (C) for due diligence, verification or sanctions screening purposes or (D) for the prevention or investigation of crime, fraud or any malpractice, including the prevention of terrorism, money laundering and corruption as well as for tax reporting.
  - (iii) The Customer and Secured Party authorize Bank to disclose Confidential Information to:
    - A. any Subcustodian, subcontractor, consultant, agent, Securities Depository, securities exchange, central counterparty, custodian, depository, trading venue, broker, proxy solicitor, issuer, registrar, service provider or vendor, or any person that Bank believes is reasonably required in connection with Bank's provision of relevant services under this Agreement;
    - B. its and any Bank Affiliate's professional advisors, auditors and public accountants;
    - C. its branches and any Bank Affiliate;
    - D. any proposed assignee of Bank's rights under this Agreement; and
    - E. any revenue authority or any governmental entity in relation to the processing of any tax claim.
- (b) **SUCCESSORS.** This Agreement will be binding on each of the parties' successors and assigns. The parties agree that no party can assign or otherwise transfer any of its rights or obligations under this Agreement without the prior written consent of the other parties, which consent will not be unreasonably withheld, delayed or conditioned. Nevertheless, the foregoing restriction on transfer shall not apply to any assignment or transfer by Bank to any affiliate of Bank or in connection with a merger, reorganization, stock sale or sale of all or substantially all of Bank's custody business; or by the Federal Deposit Insurance Corporation or a duly appointed conservator or receiver of Bank in furtherance of its authority under Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act and/or the Federal Deposit Insurance Act.
- (c) **ENTIRE AGREEMENT.** This Agreement and the exhibits hereto and the agreements and instruments required to be executed and delivered hereunder set forth the entire agreement of the parties with respect to the subject matter hereof and supersede and discharge all prior agreements (written or oral) and negotiations and all contemporaneous oral agreements concerning such subject matter and negotiations. There are no oral conditions precedent to the effectiveness of this Agreement. For the avoidance of doubt, as between the Customer and Bank, in the event of any inconsistency between the Custody Agreement and this Agreement with respect to the Accounts, the terms of this Agreement will prevail.
- (d) **AMENDMENTS.** No amendment, modification or termination of this Agreement or waiver of any right hereunder shall be binding on any party hereto unless it is in writing and is signed by all parties.
- (e) **GOVERNING LAW AND JURISDICTION.**
- (i) This Agreement will be construed, regulated and administered under the laws of the U.S. or the State of New York, as applicable, without regard to New York's principles

regarding conflict of laws, except that the foregoing shall not reduce any statutory right to choose New York law or forum. The U.S. District Court for the Southern District of New York will have the sole and exclusive jurisdiction over any lawsuit or other judicial proceeding relating to or arising from this Agreement. If that court lacks federal subject matter jurisdiction, the Supreme Court of the State of New York, New York County will have sole and exclusive jurisdiction. Either of these courts will have proper venue for any such lawsuit or judicial proceeding, and the parties waive any objection to venue or their convenience as a forum. The parties agree to submit to the jurisdiction of any of the courts specified and to accept service of process to vest personal jurisdiction over them in any of these courts. The parties further hereby knowingly, voluntarily and intentionally waive, to the fullest extent permitted by Applicable Law, any right to statutory prejudgment interest and a trial by jury with respect to any such lawsuit or judicial proceeding arising or relating to this Agreement or the transactions contemplated hereby. To the extent that in any jurisdiction the Customer or the Secured Party may now or hereafter be entitled to claim, for itself or its assets, immunity from suit, execution, attachment (before or after judgment) or other legal process, the Customer or the Secured Party, as applicable, shall not claim, and hereby irrevocably waives, such immunity.

- (ii) Notwithstanding any other provision in the Custody Agreement, for purposes of the UCC and, if applicable, the Hague Securities Convention, the State of New York shall be deemed to be Bank's location (including for the purposes of this Agreement and the perfection and priority of the Secured Party's security interest as well as for the purposes of any Cash constituting Pledged Assets held in the Account), and the Account (as well as the Security Entitlements related thereto) shall be governed by the laws of the State of New York. The parties hereto agree that this Agreement shall constitute an "account agreement" within the meaning of the Hague Securities Convention. The parties hereto further agree that the State of New York is the "securities intermediary's jurisdiction" and the "bank's jurisdiction" for purposes of the UCC and, if applicable, the law in force in the State of New York is applicable to all issues specified in the Hague Securities Convention Article (2)(l) relative to this Agreement.
- (f) SEVERABILITY; WAIVER; SURVIVAL.
- (i) If one or more provisions of this Agreement are held invalid, illegal or unenforceable in any respect on the basis of any particular circumstances or in any jurisdiction, the validity, legality and enforceability of such provision or provisions under other circumstances or in other jurisdictions and of the remaining provisions will not in any way be affected or impaired.
  - (ii) Except as otherwise provided herein, no failure or delay on the part of either party in exercising any power or right under this Agreement operates as a waiver, nor does any single or partial exercise of any power or right preclude any other or further exercise, or the exercise of any other power or right. No waiver by a party of any provision of this Agreement, or waiver of any breach or default, is effective unless it is in writing and signed by the party against whom the waiver is to be enforced.
  - (iii) The parties' rights, protections and remedies under this Agreement shall survive its termination.
- (g) COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing and delivering one or more counterparts.

(h) NO THIRD PARTY BENEFICIARIES. A person who is not a party to this Agreement shall have no right to enforce any term of this Agreement.

*[signature page follows]*

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

**[CUSTOMER]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**[BANK]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**[SECURED PARTY]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**EXHIBIT A**  
**Accounts**

Account Number	Account Name

**EXHIBIT B**

**AUTHORIZED PERSONS OF CUSTOMER**

<b>NAME</b>	<b>TITLE</b>	<b>TELEPHONE</b>	<b>SIGNATURE</b>

**AUTHORIZED PERSONS OF SECURED PARTY**

<b>NAME</b>	<b>TITLE</b>	<b>TELEPHONE</b>	<b>SIGNATURE</b>

EXHIBIT C

[to be placed on Secured Party’s Letterhead]

NOTICE OF EXCLUSIVE CONTROL

\_\_\_\_\_20\_\_

[Bank]  
[Address]\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attention:\_\_\_\_\_

Re: Account Control Agreement dated as of \_\_\_\_\_ (the “Agreement”)  
among \_\_\_\_\_, as Secured Party,  
\_\_\_\_\_, as Customer, and Bank, relating to Account  
No.\_\_\_\_\_

Ladies and Gentlemen:

This constitutes the Notice of Exclusive Control referred to in the above referenced Agreement.

We certify that we are entitled to deliver this notice under the Reinsurance Agreement.

[Secured Party’s Name]

By:\_\_\_\_\_  
Name:  
Title:

cc: [Customer]

## Capital Adequacy (E) Task Force

### RBC Proposal Form

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force                      | <input type="checkbox"/> Health RBC (E) Working Group      | <input checked="" type="checkbox"/> Life RBC (E) Working Group              |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup                        | <input type="checkbox"/> P/C RBC (E) Working Group         | <input type="checkbox"/> Longevity Risk (A/E) Subgroup                      |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>4/11/23</u></p> <p><b>CONTACT PERSON:</b> <u>Andrew Holland</u></p> <p><b>TELEPHONE:</b> <u>212-839-5882</u></p> <p><b>EMAIL ADDRESS:</b> <u>aholland@sidley.com</u></p> <p><b>ON BEHALF OF:</b> <u>J.P. Morgan Securities LLC</u></p> <p><b>NAME:</b> <u>Philip Prince</u></p> <p><b>TITLE:</b> <u>Managing Director</u></p> <p><b>AFFILIATION:</b> <u>Interested Party</u></p> <p><b>ADDRESS:</b> <u>383 Madison Ave., 7th Floor</u> <u>New York, NY 10017</u></p>	<p style="text-align: center;"><b>FOR NAIC USE ONLY</b></p> <hr/> <p>Agenda Item # <u>2023-08-L</u> Year <u>2023</u></p> <hr/> <p style="text-align: center;"><b>DISPOSITION</b></p> <p><b>ADOPTED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>EXPOSED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input type="checkbox"/> WORKING GROUP (WG) _____</p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>REJECTED:</b></p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p><b>OTHER:</b></p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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#### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- |  |   |   |
|--|---|---|
| <input type="checkbox"/> Health RBC Blanks       | <input type="checkbox"/> Property/Casualty RBC Blanks       | <input type="checkbox"/> Life and Fraternal RBC Blanks                  |
| <input type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input checked="" type="checkbox"/> Life and Fraternal RBC Instructions |
| <input type="checkbox"/> Health RBC Formula      | <input type="checkbox"/> Property/Casualty RBC Formula      | <input type="checkbox"/> Life and Fraternal RBC Formula                 |
| <input type="checkbox"/> OTHER _____             |   |   |

#### DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

See attached.

**Additional Staff Comments:**

**\*\* This section must be completed on all forms.**

**Revised 2-2023**



## RBC Proposal Form – Custody Control Accounts

### Background

- Life reinsurance transactions with Reinsurers which are licensed, accredited or approved as reciprocal jurisdiction reinsurers in a Cedant's state of domicile generally do not require a collateral mechanism to provide credit for reinsurance (CFR).
- In many life reinsurance transactions, however, the parties nonetheless negotiate and agree to collateral arrangements for commercial reasons.
  - Such collateral arrangements are common in a variety of life reinsurance transactions, including block acquisitions, embedded value and reserve financings, and pension risk transfers.
- The Life RBC Manual instructions currently allow a Cedant to avoid an overstatement of RBC charges that would otherwise be applied for credit exposure to reinsurance counterparties if such collateral is held by the Cedant as funds withheld or a "comfort" reinsurance trust is established by the Reinsurer.
- Other collateral mechanisms can provide the same level of security to Cedants with lower costs and greater flexibility.
  - The Finance industry widely supports and leverages custodial control accounts ("Custody Control Accounts") where segregated collateralization under third-party control is required (e.g., pledges of assets to Federal Home Loan Banks, posting of initial margin and variation margin on derivatives transactions).
- A Custody Control Account can similarly hold assets pledged by a Reinsurer for the benefit of a Cedant in connection with a reinsurance transaction.
- A Custody Control Account can provide the same protections to the Cedant as would be provided by a trust arrangement. However, a Custody Control Account operates at a reduced cost due to increased scale and automation.
- This proposal would amend the Life RBC formula to similarly avoid overstatement of credit risk on a reinsurance transaction when collateral is held by the Cedant in a Custody Control Account.
  - No changes to the Credit for Reinsurance Model Law or Credit for Reinsurance Model Regulation are being proposed.

## Proposed Changes to Life RBC Instructions

From Risk-Based Capital Forecasting & Instructions – Life and Fraternal, 2019

### REINSURANCE

LR016 (p. 53 of the 2019 Edition)

There is a risk associated with recoverability of amounts from reinsurers. The risk is deemed comparable to that represented by bonds between risk classes 1 and 2 and is assigned a pre-tax factor of 0.78 percent. To avoid an overstatement of risk-based capital, the formula gives a 0.78 percent pre-tax credit for reinsurance with non-authorized and certified companies, for reinsurance among affiliated companies, for reinsurance with funds withheld or reinsurance with authorized reinsurers that is supported by equivalent trusted **or custodied** collateral ~~that meets the requirements of the types~~ stipulated in **paragraph 18 of** Appendix A-785 (Credit for Reinsurance), where there have been regular bona fide withdrawals from such trusted **or custodied** collateral to pay claims or recover payments of claims during the calendar year covered by the RBC report, and for reinsurance involving policy loans. Withdrawals from trusted **or custodied** collateral that are less than the amounts due the ceding company shall be deemed to not be bona fide withdrawals. **For purposes of these instructions, “custodied collateral” shall mean assets held pursuant to a custodial arrangement with a qualified U.S. financial institution (as defined in Appendix A-785 (Credit for Reinsurance)) pursuant to which the underlying assets are segregated from other assets of the reinsurer and are subject to the exclusive control of, and available to, the ceding company in the event of the reinsurer’s failure to pay under, and otherwise pursuant to the terms of, the subject reinsurance agreement.**

### Additional Resource Materials

- Presentation dated October 2022 containing Summary of Contractual Terms for Custody Control Arrangement and Schematic Diagram
- Form of Custody Control Agreement Wording
- Comparison Chart – CFR Trust, Comfort Reinsurance Trust and Custody Control Account