

OFF-BALANCE SHEET ITEMS

LR015

Basis of Factors

The potential for risk exists in off-balance sheet items. For items other than derivative instruments, a 1.3 percent factor was chosen on a judgment basis. The 1.3 percent pre-tax factor will differentiate between the companies that have small and large exposures to this risk. Since there is no firm actuarial basis for assigning the 1.3 percent pre-tax factor to these risks, off-balance sheet items are included in the sensitivity analysis using a factor of 3 percent, and leases are added as an additional off-balance sheet item. For securities lending programs, a reduced charge may apply to certain programs that meet the criteria as outlined below.

For derivative instruments, the book/adjusted carrying value exposure net of collateral (the balance sheet exposure) is included under miscellaneous C-10 risks. Because collars, swaps, forwards and futures can have book/adjusted carrying values that are positive, zero or negative, the potential exposure to default by the counterparty or exchange for these instruments cannot be measured by the book/adjusted carrying values. Schedule DB, therefore, includes a calculation of the potential exposure that is based on the March 1987 research paper "Potential Credit Exposure on Interest Rate and Foreign Exchange Rate Related Instruments," supporting the 1988 Bank of International Settlements framework for banks. The off-balance sheet exposure (Schedule DB, Part E, Section 1, Column 11) will measure this potential exposure for risk-based capital purposes. The factors applied to the derivatives off-balance sheet exposure are the same as those applied to bonds.

Specific Instructions for Application of the Formula

Column (2)

Assets directly funding guaranteed separate accounts or synthetic GIC contracts should be excluded from the noncontrolled assets computation.

Line (1)

Securities lending programs that have all of the following elements are eligible for a lower off-balance sheet charge:

1. A written plan adopted by the Board of Directors that outlines the extent to which the insurer can engage in securities lending activities and how cash collateral received will be invested.
2. Written operational procedures to monitor and control the risks associated with securities lending. Safeguards to be addressed should, at a minimum, provide assurance of the following:
 - a. Documented investment guidelines, including, where applicable, those between lender and investment manager with established procedure for review of compliance.
 - b. Investment guidelines for cash collateral that clearly delineate liquidity, diversification, credit quality, and average life/duration requirements.
 - c. Approved borrower lists and loan limits to allow for adequate diversification.
 - d. Holding excess collateral with margin percentages in line with industry standards, which are currently 102% (or 105% for cross currency loans).
 - e. Daily mark-to-market of lent securities and obtaining additional collateral needed to ensure that collateral at all times exceeds the value of the loans to maintain margin of 102% of market.
 - f. Not subject to any automatic stay in bankruptcy and may be closed out and terminated immediately upon the bankruptcy of any party.
3. A binding securities lending agreement (standard "Master Lending Agreement" from Securities Industry and Financial Markets Association) is in writing between the insurer, or its agent on behalf of the insurer, and the borrowers.
4. Acceptable collateral is defined as cash, cash equivalents, direct obligations of, or securities that are fully guaranteed as to principal and interest by, the government of the United States or any agency of the United States, or by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and NAIC 1-rated securities. Affiliate-issued collateral would not be deemed acceptable. In all cases the collateral held must be permitted investments in the state of domicile for the respective insurer.

Collateral included in General Interrogatories, Part 1, Line 22.5 of the annual statement should be included on Line (1).

Line (2)

Collateral from all other securities lending programs should be reported General Interrogatories, Part 1, Line 22.6 and included in Line (2).

Lines (3) through (11)

Noncontrolled assets are the amount of all assets not exclusively under the control of the company, or assets that have been sold or transferred subject to a put option contract currently in force. For Line (7) include assets pledged as collateral reported in the General Interrogatories Part 1 Line 23.25 other than assets related to the Federal Reserve's Term Asset Loan Facility (TALF).

Lines (13) through (20)

The off-balance sheet exposure for derivative instruments reported on Schedule DB, Part E, Section 1, Column 11, Lines 0199999 through 0799999 are brought into each individual SVO rating class.

Line (21)

Guarantees for affiliates include guarantees for the benefit of an affiliate that result in a material[†] contingent exposure of the company's assets to liability.

Line (23)

The exposure amount for long-term leases is the annual rental amount of all leases that could have a material[†] financial effect. If the rent expense is shared with affiliates, it should be allocated by company.

[†] The definition of "material" exposure or financial effect is the same as for annual statement disclosure requirements.

OFF-BALANCE SHEET ITEMS

		(1)	(2)	(3)	(4)
	<u>Annual Statement Source</u>	<u>Statement Value</u>	Less Noncontrolled Assets Funding Guaranteed Separate Accounts or Synthetic GIC's	<u>Subtotal</u>	<u>RBC Requirement</u>
<u>Noncontrolled Assets</u>					
(1)	Loaned to Others - Conforming Securities Lending Program	General Interrogatories Part 1 Line 22.5		X 0.002	=
(2)	Loaned to Others - Securities Lending Programs - Other	General Interrogatories Part 1 Line 22.6		X 0.013	=
(3)	Subject to Repurchase Agreements	General Interrogatories Part 1 Line 23.21		X 0.013	=
(4)	Subject to Reverse Repurchase Agreements	General Interrogatories Part 1 Line 23.22		X 0.013	=
(5)	Subject to Dollar Repurchase Agreements	General Interrogatories Part 1 Line 23.23		X 0.013	=
(6)	Subject to Reverse Dollar Repurchase Agreements	General Interrogatories Part 1 Line 23.24		X 0.013	=
(7)	Pledged as Collateral	General Interrogatories Part 1 Line 23.25 Company Records		X 0.013	=
(8)	Assets Placed Under Option Agreements	General Interrogatories Part 1 Line 23.26		X 0.013	=
(9)	Letter Stock or Other Securities Restricted	General Interrogatories Part 1 Line 23.27		X 0.013	=
(10)	On Deposit with State or Other Regulatory Body	General Interrogatories Part 1 Line 23.28		X 0.013	=
(11)	Other	General Interrogatories Part 1 Line 23.29		X 0.013	=
(12)	Total Noncontrolled Assets	Sum of Lines (1) through (11)			
<u>Derivative Instruments</u>					
(13)	Exchange Traded	Schedule DB Part E Section 1 Column 11, Line 0199999		X 0.004	=
(14)	Off-Balance Sheet Exposure Class 1	Schedule DB Part E Section 1 Column 11, Line 0299999		X 0.004	=
(15)	Off-Balance Sheet Exposure Class 2	Schedule DB Part E Section 1 Column 11, Line 0399999		X 0.013	=
(16)	Off-Balance Sheet Exposure Class 3	Schedule DB Part E Section 1 Column 11, Line 0499999		X 0.046	=
(17)	Off-Balance Sheet Exposure Class 4	Schedule DB Part E Section 1 Column 11, Line 0599999		X 0.100	=
(18)	Off-Balance Sheet Exposure Class 5	Schedule DB Part E Section 1 Column 11, Line 0699999		X 0.230	=
(19)	Off-Balance Sheet Exposure Class 6	Schedule DB Part E Section 1 Column 11, Line 0799999		X 0.300	=
(20)	Total Derivative Instruments Off-Balance Sheet Exposure	Sum of Lines (13) through (19)			
(21)	Guarantees for Affiliates	Notes to Financial Statements Number 10E		X 0.013	=
(22)	Contingent Liabilities	Notes to Financial Statements Number 14A1		X 0.013	=
(23)	Long Term Leases	Notes to Financial Statements Number 15A2a1		X 0.000	=
(24)	Total Off-Balance Sheet Items (pre-MODCO/Funds Withheld)	Lines (12) + (20) + (21) + (22) + (23)			
(25)	Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)			
(26)	Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)			
(27)	Total Off-Balance Sheet Items (including MODCO/Funds Withheld.)	Lines (24) - (25) + (26)			

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