

## 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 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 Evaluation (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup | <input checked="" type="checkbox"/> RBC Investment Risk & (E) Working Group |

<p style="text-align: right; margin: 0;"><b>DATE: <u>5/29/2025</u></b></p> <p><b>CONTACT PERSON:</b> <u>Maggie Chang</u></p> <p><b>TELEPHONE:</b> <u>816-783-8976</u></p> <p><b>EMAIL ADDRESS:</b> <u>mchang@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>RBC Investment Risk and Evaluation (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; margin: 0;"><b><u>FOR NAIC USE ONLY</u></b></p> <hr/> <p>Agenda Item # <u>2025-12-IRE</u></p> <p>Year <u>2026 or later</u></p> <hr/> <p style="text-align: center;"><b><u>DISPOSITION</u></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 checked="" 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)

Risk-Based Capital Investment Risk and Evaluation (E) Working Group met on February 11 and during 2025 Spring National Meeting to deliberate the merits of aligning RBC treatment for three types of funds that are identified by the NAIC Securities Valuation Office (SVO): 1) exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered fixed income-like funds; and 3) private bond funds. As a result of the discussions, NAIC Staff is directed to develop a formal RBC proposal for Life RBC formula. Proposal 2025-12-IRE is drafted in response to the Working Group's direction.

Note that the proposed changes to LR005 Unaffiliated Preferred and Common Stock page are predicated on the changes proposed to the Annual Statement Blanks Asset Valuation Reserve (AVR) instruction. The Working Group will need to sponsor the AVR instruction changes at NAIC Blanks (E) Working Group should the Proposal 2025-12-IRE be supported by the Working Group.

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**Additional Staff Comments:**

5/28/25 NAIC Staff had prepared a drafting notes memo that memorialized decision points in the proposal drafting process.

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

**Revised 2-2023**

**MEMORANDUM**

**TO:** Risk-Based Capital Investment Risk and Evaluation (E) Working Group members and interested parties

**FROM:** NAIC Staff

**DATE:** May 28, 2025

**RE:** Drafting Notes – Proposal 2025-12-IRE SVO-identified funds alignment project

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**Background**

Risk-Based Capital Investment Risk and Evaluation (E) Working Group met on February 11 and during 2025 Spring National Meeting to deliberate the merits of aligning RBC treatment for three types of funds that are identified by the NAIC Securities Valuation Office (SVO): 1) exchange-traded funds (ETFs); 2) U.S. Securities and Exchange Commission (SEC)-registered fixed income-like funds; and 3) private bond funds. As a result of the discussion, NAIC Staff is directed to develop a formal RBC proposal for Life RBC formula. This memo memorializes the decision points when drafting the proposal.

**Staff drafting notes:**

- (1) As seen in summary below, there is no complete alignment among three types of funds in scope, with the following justifications:
- a) Classification, measurement convention and reporting of these fund types are under purview of other working groups. With the current reporting of SVO's Fixed Income-Like SEC-Registered Funds reported as stocks, grafting these funds into LR002 Bonds would be inappropriate.
  - b) NAIC Staff noted that funds in scope of SVO's Fixed Income-Like SEC-Registered Funds predominantly own bonds and/or preferred stocks. As such, grafting these funds into current LR005's preferred stock section would be justifiable, especially after considering the hybrid nature of these fixed income-like funds and the potential alignment that the proposed changes created.
  - c) Given the relatively more opaque structure of the private funds, complete alignment among all 3 types is not preferable.
  - d) Operational efficiencies (e.g. structure of the forecasting files, ease of maintenance) are also factored into the drafting consideration.
- (2) Upon review, the NAIC staff believe the Asset Concentration instructions for LR010 and LR011 could be further enhanced to provide the following guidance:
- a) Whether or not SVO identified ETFs and SVO's fixed income-like SEC-registered funds should be considered in LR010 Asset Concentration page or LR011 Common Stock Concentration page?
  - b) How would diversification status of the funds impact the asset concentration exposure ranking?

The proposed edits addressed the above questions and to the extent possible, aligned LR010 and LR011 instructions with Supplemental Investment Risk Interrogatory (SIRI) Line 2 and/or Line 13 instructions.

**Summary of key similarities/differences among the various types of SVO designated fund, should the proposal be adopted (yellow highlighted):**

	<b>SVO-identified Bond ETFs</b>	<b>SVO-identified Preferred Stock ETFs</b>	<b>SVO-identified Fixed Income-Like SEC-Registered Funds</b>	<b>SVO-identified Private Bond Funds</b>
Description	SEC registered	SEC registered	SEC registered	Non-SEC registered
Accounting Standard	SSAP 26	SSAP 32	SSAP 30	SSAP 48
Reporting Schedule	Schedule D –1 Bonds	Schedule D – 2- 1 Preferred Stock	Schedule D – 2 – 2 Common Stock	Schedule BA – Other Long-Term Assets
Measurement Convention	Fair Value unless Systematic Value elected	Fair Value	Fair Value	Equity Method
RBC Reporting	LR002	LR005	LR005	LR008
RBC Risk Component	C-1o	C-1o	C-1o	C-1o
RBC Charge Methodology	Driven by SVO Designation – 20 Designation Categories  Same as Bond charges	Driven by SVO Designation – 6 Designations  Unaffiliated Preferred Stock charges	Driven by SVO Designation – 6 Designations  Same as Unaffiliated Preferred Stock charges	Driven by SVO Designation – 6 Designations  Same as Unaffiliated Preferred Stock charges
Tax effect	0.168 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6	0.1575 for NAIC 1-5 0.21 for NAIC 6
AVR Component	Default Component	Default Component	Default Component	Equity Component
AVR factors	Bond AVR Factors	Preferred Stock AVR Factors	Same as Preferred Stock AVR Factors	Same as Preferred Stock AVR Factors
AVR Treatment for Realized Capital Gains/Losses	Depends on NAIC rating changes	Entirely	Entirely	Entirely

## UNAFFILIATED PREFERRED AND COMMON STOCK

LR005

### *Basis of Factors*

#### Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Starting with year-end 2004 RBC, the preferred stock factors were changed to be the same as for bonds. Starting (2026 tentatively), NAIC fixed income-like SEC registered funds designated by SVO are included in the preferred stock section.

#### Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Federal Home Loan Bank Stock has characteristics more like a fixed-income instrument rather than common stock. A 1.1% pre-tax factor was chosen. The factor for other unaffiliated common stock is based on studies conducted at two large life insurance companies. Both of these studies focused on well-diversified portfolios with characteristics similar to the Standard and Poor's 500 and indicate that a 30% pre-tax factor is needed to provide capital to cover approximately 95% of the greatest losses in common stock value over a two-year future period. This factor assumes capital losses are unrealized and not subject to favorable tax treatment at the time loss in fair value occurs.

Two adjustments are made to the 30% pre-tax factor to account for differences between the insurer's portfolio and the Standard and Poor's 500: first, the factor for publicly traded unaffiliated common stock is adjusted up or down by the weighted average beta of the insurer's portfolio subject to a maximum of 45% and a minimum of 22.5%; and second, a common stock concentration component is calculated, adding an additional requirement equal to 50% of the beta adjusted basic requirement for the five largest holdings of common stock in the insurer's portfolio.

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

#### Lines (1) through (6)

Column (1) amounts are from the Asset Valuation Reserve Default Component, Page 30, Column 1, Lines 10 through 15 of the annual statement. Since affiliated amounts are included for affiliated companies without an AVR in the Asset Valuation Reserve Default Component, Lines 10 through 15, these affiliated amounts should be deducted in Column (2). Affiliated companies with an AVR are reported on the Asset Valuation Reserve Default Component, Line 16 and should not be included in Column (2).

#### Line (7)

Column (1) should equal Annual Statement Assets, Page 2, Column 3, Line 2.1 less Asset Valuation Reserve Default Component, Column 1, Line 16 plus sum of Schedule D, Part 2, Section 2 Column 6, Line 5319999999, Line 5519999999 and Line 5719999999. Column (2) should equal Schedule D Summary by Country, Column 1, Line 22 less Asset Valuation Reserve Default Component, Column 1, Line 16.

#### Line (13)

Amount should reflect any non-admitted unaffiliated common stock that was included in Line (11) of this page.

#### Line (14)

Federal Home Loan Bank common stock reported on Schedule D, Part 2, Section 2 of the annual statement should be reflected on this line.

#### Line (16)

The pre-tax factor for other unaffiliated common stock should be equal to 30% adjusted in the case of publicly traded stock by the weighted average beta for the insurer's portfolio of common stock, subject to a minimum factor of 22.5% and a maximum factor of 45%. The calculation of the beta adjustment should follow the procedures laid out for the similar adjustment in the asset valuation reserve calculation. Insurers that choose not to calculate a beta for their portfolio should use the maximum factor of 45%.

Line (17)

~~Column (1) should equal Annual Statement Schedule D Summary by Country, Column 1, Line 25 29 less Schedule D Summary by Country, Column 1, Line 24 28 less line (13).~~

Lines (19) and (20)

To the extent that a modco or funds withheld transaction is backed by common stock included in Line (17) of the ceding company's RBC calculation, the ceding company's credit and assuming reinsurer's charge should include a beta adjustment that is calculated in a manner consistent with the Line (17) calculation of the ceding insurer.

## ASSET CONCENTRATION FACTOR

LR010

### *Basis of Factors*

The purpose of the asset concentration factor is to reflect the additional risk of high concentrations in single exposures (represented by an individual issuer of a security or a holder of a mortgage, etc.) The concentration factor doubles the risk-based capital pre-tax factor (with a maximum of 45% pre-tax) of the 10 largest asset exposures excluding various low-risk categories or categories that already have a maximum factor. Since the risk-based capital of the assets included in the concentration factor has already been counted once in the basic formula, the asset concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

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

The 10 largest asset exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The 10 largest exposures should exclude the following: affiliated and non-affiliated common stock, affiliated preferred stock, home office properties, policy loans, bonds for which AVR and RBC are zero, NAIC 1 A to 1.G bonds, NAIC 1 unaffiliated preferred stock, CM 1 Commercial and Farm Mortgages and any other asset categories with RBC factors less than 0.85% post-tax (this includes residential mortgages in good standing, insured or guaranteed mortgages, cash, certain cash equivalents and short-term investments) and SVO-identified exchange-traded funds (ETFs) and SVO designated fixed income-like SEC registered funds that are diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)]. For SVO-identified ETFs and SVO designated fixed income-like SEC registered funds that are not diversified within the meaning of the Investment Company Act of 1940, reporting entities are required to identify actual exposures (unless excluded categories as above) and aggregate those exposures with directly held investments to determine the 10 largest exposures.

In determining the assets subject to the concentration factor for both C-1o and C-1cs, the ceding company should exclude any asset whose performance inures primarily (>50%) to one reinsurer under modified coinsurance or funds withheld arrangements. The reinsurer should include 100% of such assets. Any asset where no one reinsurer receives more than 50% of its performance should remain with the ceding company.

Assets should be aggregated by issuer before determining the 10 largest exposures. Aggregations should be done separately for bonds including applicable Other Invested Assets with Underlying Characteristics of Bonds that are reported in Line 22 through 28 of Asset Valuation Reserve (AVR) Equity and Other Invested Asset Component table, and preferred stock (the first six digits of the CUSIP number can be used as a starting point) (please note that the same issuer may have more than one unique series of the first six digits of the CUSIP), mortgages and real estate. Investments held within SEC and foreign registered funds (open-end, closed end, unit investment trusts and ETFs) and non-registered funds such as Schedule BA funds in joint venture, partnerships or limited liability company structures (collectively "funds") that are not diversified within the meaning of the federal Investment Company Act of 1940 [Section 5(b) (1)] Securities held within Schedule BA joint ventures partnerships limited liability and other fund structures should be aggregated by issuer as if the securities underlying investments are held directly. Likewise, where joint venture real estate is mortgaged by the insurer, both the mortgage and the joint venture real estate should be considered as part of a single exposure. Tenant exposure is not included. For bonds and unaffiliated preferred stock, aggregations should be done first for classes 2 through 6. After the 10 largest issuer exposures are chosen, any NAIC 1 A to 1.G bonds or NAIC 1 unaffiliated preferred stock, from any of these issuers should be included before doubling the risk-based capital. For some companies, following the above steps may generate less than 10 "issuer" exposures. These companies should list all available exposures.

Replicated assets other than synthetically created indices should be included in the asset concentration calculation in the same manner as other assets.

The book/adjusted carrying value of each asset is listed in Column (2).

The RBC factor will correspond to the risk-based capital category of the asset reported previously in the formula before application of the size factor for bonds. Consistent with the aggregation noted above, applicable Other Invested Assets with Underlying Characteristics of Bonds receive the same RBC factor as bonds. To get the proper Asset Type for investments within the ‘Other Invested Assets with Underlying Characteristics of Bonds’ AVR category, use the NAIC Designation and NAIC Designation Modifier from the ‘NAIC Designation, NAIC Designation Modifier and SVO Administrative Symbol’ column as reported on Schedule BA – Part 1. The RBC filing software automatically allows for an overall 45% RBC cap.

Lines (17) through (22)

The Asset Concentration RBC Requirement for a particular property plus the Real Estate RBC Requirement for a particular property cannot exceed the book/adjusted carrying value of the property. Any properties exceeding the book/adjusted carrying value must be adjusted down to the book/adjusted carrying value in Column (6) of the Asset Concentration.

Line (18), Column (4) is calculated as Line (17), Column (2) multiplied by 0.1100 plus Line (18), Column (2) multiplied by 0.0925, but not greater than Line (17), Column (2).

Line (20), Column (4) is calculated as Line (19), Column (2) multiplied by 0.1100 plus Line (20), Column (2) multiplied by 0.0925, but not greater than Line (19), Column (2).

Line (22), Column (4) is calculated as Line (21), Column (2) multiplied by 0.1300 plus Line (22), Column (2) multiplied by 0.1125, but not greater than Line (21), Column (2).

Lines (23) through (54)

The Asset Concentration RBC Requirement for a particular mortgage plus the LR004 Mortgages RBC Requirement or LR009 Schedule BA Mortgages RBC Requirement for a particular mortgage cannot exceed 45% of the book/adjusted carrying value of the mortgage. Any mortgages exceeding 45% of the book/adjusted carrying value must be adjusted down in Column (6) of the Asset Concentration.

Line (32), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (31) plus Line (32))] less Line (32) or Line (31) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (34), Column (4) is calculated as the greater of 0.0140 multiplied by [(Line (33) plus Line (34))] less Line (34) or Line (33) multiplied by 0.0068.

Line (36), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (35) plus Line (36))] less Line (36) or Line (35) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (38), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (37) plus Line (38))] less Line (38) or Line (37) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (40), Column (4) is calculated as the greater of 0.0270 multiplied by [(Line (39) plus Line (40))] less Line (40) or Line (39) multiplied by 0.0068.

Line (42), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (41) plus Line (42))] less Line (42) or Line (41) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (43), Column (4) is calculated as Line (43) multiplied by the appropriate factor for the CM class to which the loan is assigned.

Line (52), Column (4) is calculated as the greater of 0.1800 multiplied by [(Line (51) plus Line (52))] less Line (52) or Line (51) multiplied by the appropriate factor for the CM class to which the loan is assigned.



Line (54), Column (4) is calculated as the greater of 0.2200 multiplied by [(Line (53) plus Line (54)) less Line (54) or Line (53) multiplied by the appropriate factor for the CM class to which the loan is assigned.

## COMMON STOCK CONCENTRATION FACTOR

LR011

### *Basis of Factors*

The purpose of the common stock concentration factor is to reflect the additional risk of high concentrations in a single exposure of common stock. The common stock concentration factor increases by 50% the risk-based capital factor for the five largest common stock exposures. The 50% increase was chosen by comparing the total variance of particular holdings of common stock to the portion of the variance that can be explained by movements of the overall stock market. The risk-based capital of the assets included in the unaffiliated common stock concentration factor has already been counted once in the basic formula; the common stock concentration factor only serves to add in the additional risk-based capital required. The calculation is completed on a consolidated basis; however, the common stock concentration factor is reduced by amounts already included in the concentration factors of subsidiaries to avoid double-counting.

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

The five largest common stock exposures should be developed by consolidating the assets of the parent with the assets of the company's insurance and investment subsidiaries. The concentration factor component on any asset already reflected in the subsidiary's RBC for the concentration factor should be deducted from Column (4). This consolidation process affects higher tiered companies only. Companies on the lowest tier of the organizational chart will prepare the asset concentration on a "stand alone" basis.

The five largest holdings should exclude common stock in the FHLB, ~~investment companies (mutual funds) and common trust funds, SEC and foreign registered funds (open-end, closed end, unit investment trusts and ETFs) and non-registered funds such as Schedule BA funds in joint venture, partnerships or limited liability company structures (collectively "funds")~~ that are diversified with the meaning of the Investment Company Act of 1940 [Section 5(b) (1)], and affiliated investments other than investments in non-insurance subsidiaries. For non-insurance subsidiaries, i.e., those with affiliate code 3 on LR044 (the portion of holding companies in excess of indirect subsidiaries) and those with affiliate code 9 (other subsidiaries), the total stock investment including both preferred and common stock should be used. For funds that are not diversified within the meaning of the Investment Company Act of 1940, reporting entities are required to identify actual common stock exposures and aggregate those exposures with directly held common stock to determine the 5 largest exposures. For example, if a reporting entity directly holds common stocks in Exxon Mobil and holds a non-diversified closed-end fund with common stock in Exxon Mobil, the reporting entity shall aggregate the directly held common stock investments with the common stock investments held in the closed-end funds to determine the aggregate exposure to Exxon Mobil.

Replicated assets in the nature of common stock other than synthetically created indices should be included in the common stock concentration calculation in the same manner as other investments in common stock.

Assets should be aggregated by issuer before determining the five largest exposures.

The book/adjusted carrying value of each asset is listed in Column (2).

## UNAFFILIATED PREFERRED AND COMMON STOCK

		(1)	(2)	(3)	(4)	(5)
	Annual Statement Source	Book / Adjusted Carrying Value	Less Affiliated Preferred Stock Without AVR	RBC Subtotal	Factor	RBC Requirement
<u>Unaffiliated Preferred Stock and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</u>						
(1) Preferred Stock Asset NAIC 1	AVR Default Component Column 1 Line 10	\$0	\$0	\$0 X	0.0039	= \$0
(2) Preferred Stock Asset NAIC 2	AVR Default Component Column 1 Line 11	\$0	\$0	\$0 X	0.0126	= \$0
(3) Preferred Stock Asset NAIC 3	AVR Default Component Column 1 Line 12	\$0	\$0	\$0 X	0.0446	= \$0
(4) Preferred Stock Asset NAIC 4	AVR Default Component Column 1 Line 13	\$0	\$0	\$0 X	0.0970	= \$0
(5) Preferred Stock Asset NAIC 5	AVR Default Component Column 1 Line 14	\$0	\$0	\$0 X	0.2231	= \$0
(6) Preferred Stock Asset NAIC 6	AVR Default Component Column 1 Line 15	\$0	\$0	\$0 X	0.300	= \$0
(7) Total Unaffiliated Preferred Stock <b>and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</b> (pre-MODCO/Funds Withheld) (Column (1) should equal Page 2 Column 3 Line 2.1 less Asset Valuation Reserve Default Component Column 1 Line 16 <b>plus Schedule D, Part 2, Section 2 Column 6, Line 5319999999 + Line 5519999999 + 5719999999</b> ) (Column (2) should equal Schedule D Summary by Country Column 1 Line 22 less Asset Valuation Reserve Default Component Column 1 Line 16.)	Sum of Lines (1) through (6)	\$0	\$0	\$0		\$0
(8) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					\$0
(9) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					\$0
(10) Total Unaffiliated Preferred Stock <b>and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</b> (including MODCO/Funds Withheld.)	Lines (7) - (8) + (9)					\$0
<u>Unaffiliated Common Stock, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</u>						
(11) Total Common Stock, <b>excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO</b>	AVR Equity Component Column 1 Line 17 <b>Schedule D-Summary-Column 1-Line 29</b>	\$0				
(12) Less Affiliated Common Stock	AVR Equity Component Column 1 Line 4+5+6+7+8+9+10+11+12+13+14+15+16 <b>Schedule D-Summary-Column 1-Line 28</b>	\$0				
(13) Less Non-Admitted Unaffiliated Common Stock included in Line (11)	Company Records	\$0				
(14) Less Federal Home Loan Bank Common Stock	AVR Equity Component Column 1 Line 3	\$0		\$0 X	0.011	= \$0
(15) Less Unaffiliated Private Common Stock	AVR Equity Component Column 1 Line 2	\$0		\$0 X	0.300	= \$0
(16) Net Other Unaffiliated Public Common Stock Total Admitted Unaffiliated Common Stock, <b>excluding NAIC Fixed Income-Like SEC Registered Funds</b>	Lines (11) - (12) - (13) - (14) - (15)	\$0		\$0 X	0.450 †	= \$0
(17) <b>Designated by SVO</b> (pre-MODCO/Funds Withheld) (Column 1 should equal Schedule D Summary by Country Column 1 Line 29 less Line 28 less Line (13))	Lines (14) + (15) + (16)	\$0		\$0		\$0
(18) Credit for Hedging	LR015 Hedged Asset Common Stock Schedule Column 10 Line (02999999)					\$0
(19) Reduction in RBC for MODCO/Funds Withheld Reinsurance Ceded Agreements	Company Records (enter a pre-tax amount)					\$0
(20) Increase in RBC for MODCO/Funds Withheld Reinsurance Assumed Agreements	Company Records (enter a pre-tax amount)					\$0
Total Admitted Unaffiliated Common Stock, <b>excluding NAIC Fixed Income-Like SEC Registered Funds</b>						
(21) <b>Designated by SVO</b> (including MODCO/Funds Withheld and Credit for Hedging.)	Lines (17) - (18) - (19) + (20)					\$0

† The factor for publicly traded common stock should equal 30 percent adjusted up or down by the weighted average beta for the publicly traded common stock portfolio subject to a minimum of 22.5 percent and a maximum of 45 percent in the same manner that the similar 13 percent factor for publicly traded common stock in the Asset Valuation Reserve (AVR) calculation is adjusted up or down. The rules for calculating the beta adjustment are set forth in the AVR section of the annual statement instructions.

### **ASSET VALUATION RESERVE**

This exhibit and its supporting calculations are designed to address the non-interest-related (default) and equity risks of the company's assets by calculating a basic contribution, a reserve objective and a maximum reserve amount and controlling the flow of the reserve from/into surplus. These instructions cover the Asset Valuation Reserve (AVR) for both the General Account Statement and the Separate Account Statement. If an AVR is required for investments in the Separate Accounts Statement, it is combined with the General Account AVR and accounted for in the General Accounts statement. Worksheets supporting the separate accounts portion of the reserve are included with the Separate Accounts Statement. The criteria for determining when an AVR is required for separate accounts are described in the Separate Accounts AVR Worksheet instructions.

Line 1            –     Reserve as of December 31, Prior Year

Enter amounts from Line 16 of the prior year's Reserve Calculation.

Line 2            –     Realized Capital Gains (Losses) Net of Taxes – General Account

Report all realized non-interest-related (default) and equity capital gains (losses) (which includes, but is not limited to, common stock, perpetual preferred stock, mandatory convertible preferred stock (regardless if redeemable or perpetual) and SVO-Identified Preferred Stock ETFs), net of capital gains tax, applicable to the assets in each component and sub-component. All realized capital gains (losses) transferred to the AVR are net of capital gains taxes thereon. Exclude all interest rate-related capital gains (losses) from the AVR.

Capital gains tax should be determined using the method developed by the company to allocate taxes used for statutory financial reporting purposes.

Report all realized capital gains (losses), net of capital gains tax, on each debt security (excluding asset-backed securities) whose NAIC/SVO designation at the end of the holding period is different from its NAIC/SVO designation at the beginning of the holding period by more than one NAIC designation shall be considered to reflect non-interest-related changes. Gains (losses) from those debt instruments shall be reported in the AVR. However, securities without more than one designation change shall be included in the AVR if it includes the following:

- Between the purchase and sale date there was an acute credit event (a known event that significantly negatively impacts the price of the security), that was not yet reflected in CRP ratings and/or the SVO feed at the time of the sale, where the resulting gain (loss) from the sale was predominantly credit related.

Determination of AVR gain (loss) on multiple lots of the same fixed income securities should follow the underlying accounting treatment in determining gain (loss). Thus, the designation, on a purchase lot basis, should be compared to the designation at the end of the holding period to determine IMR or AVR gain or (loss).

In accordance with *SSAP No. 26—Bonds*, securities with other-than-temporary impairment losses shall be recorded entirely to either AVR or IMR and not bifurcated between interest and non-interest components.

In accordance with *SSAP No. 43—Asset-Backed Securities*, for asset-backed securities only:

**DEFAULT COMPONENT –**  
**BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS**

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve amount for the bond, preferred stock, derivative instruments and mortgage loan sub-components of the default component of the AVR. Instructions apply to the general account and the separate accounts, if applicable.

Column 5 – Basic Contribution Factor

These factors, on average, will provide an amount that approximates expected annual losses.

Include: The reserve factor calculated for mortgage loans.

Column 7 – Reserve Objective Factor

These factors are set to provide an accumulation level estimated to cover, in the aggregate, about 85% of the distribution of losses for each asset category.

Include: The reserve factor calculated for mortgage loans.

Column 9 – Maximum Reserve Factor

These factors define the largest amount that may be accumulated in the AVR. They operate to limit the level of AVR in periods of unusual capital gains or when voluntary reserves are added to the AVR.

Include: The reserve factor calculated for mortgage loans.

Lines 1 through 7 – Long-Term Bonds

Report the book/adjusted carrying value of all bonds and other fixed income instruments owned in Columns 1 and 4. Categorize the bonds and other fixed income instruments into NAIC designations 1 through 6 as directed by the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, except that, exempt obligations should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 8 – Total Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion

“Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion” are securities acquired through the conversion of a portion of the company’s assets, on or after January 1, 1993, into securities for which the company does not obtain a rating from an NAIC recognized rating agency and for which there is no recourse liability.

For instructions for completing this line, refer to “Basic Contribution, Reserve Objective and Maximum Reserve Calculation for Unrated Mortgage-Backed/Asset-Backed Securities Acquired by Conversion.”

Line 9 – Total Long-Term Bonds

Column 1 should agree with Page 2, Line 1, Column 3 plus Schedule DL Part 1, Column 6, Line 2009999999.

Lines 10  
through 15

- Preferred Stocks and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Report the book/adjusted carrying value of all preferred stocks, mutual funds designated by SVO, unit investment trusts designated by SVO and closed-end funds designated by SVO (Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999 respectively, collectively “SVO-identified mutual funds, unit investment trusts and closed-end funds”), owned in Columns 1 and 4. Note that these SVO-identified mutual funds, unit investment trusts and closed-end funds predominantly hold bonds or preferred stocks and are captured in NAIC Fixed Income-Like SEC Registered Fund List maintained by the SVO. Categorize the preferred stocks and SVO-identified mutual funds, unit investment trusts and closed-end funds into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 16

- Affiliated Life Insurer with AVR

Report the book/adjusted carrying value of all preferred stocks owned in a controlled or affiliated company, or a subsidiary that is a life or fraternal insurance company that holds an AVR, in Columns 1 and 4. These companies are required to carry their own asset valuation reserve or an equivalent, and therefore the preferred stocks are not required to be included in the asset valuation reserve of an affiliated company.

Line 17

- Total Preferred Stocks and NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Column 1 should agree with Page 2, Line 2.1, Column 3 plus Schedule DL, Part 1, Column 6, Line 4509999999 plus Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999.

Lines 18  
through 24

- Short-Term Bonds

Report the book/adjusted carrying value of all short-term bonds and other short-term fixed-income investments (Schedule DA, Part 1 (Line 0509999999) and short-term bonds included on Schedule DL, Part 1, Line 9509999999 owned in Columns 1 and 4. Categorize the short-term bonds and other fixed-income instruments listed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* into NAIC designations 1 through 6 as directed by the Securities Valuation Office instructions, except that exempt obligations listed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Lines 26  
through 32

- Derivative Instruments

Report the book/adjusted carrying value exposure to counterparty credit risk associated with the use of derivative instruments, net of acceptable collateral, for all counterparties by each SVO designation, from Schedule DB, Part D, Section 1, Column 8. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9, and report the products by designation in Columns 6, 8 and 10, respectively.

Line 34

- Total

Column 6 must be reported on Page 29, Line 7, Column 1.

Column 8 must be reported on Page 29, Line 10, Column 1.

**EQUITY AND OTHER INVESTED ASSET COMPONENT –**  
**BASIC CONTRIBUTION, RESERVE OBJECTIVE AND MAXIMUM RESERVE CALCULATIONS**

This supporting form is used to calculate the basic contribution, reserve objective and maximum reserve targets for the common stock, real estate and other invested assets sub-components of the equity component of the AVR. Instructions apply to the general account and to the separate accounts, if applicable.

Column 5 – Basic Contribution Factor

These factors, on average, will provide an amount that approximates expected annual losses.

Include: The reserve factor calculated for mortgage loans.

Column 7 – Reserve Objective Factor

These factors are set to provide an accumulation level estimated to cover, in the aggregate, about 85% of the distribution of losses for each asset category.

Include: The reserve factor calculated for mortgage loans.

Column 9 – Maximum Reserve Factors

These factors define the largest amount that may be accumulated in the AVR. They operate to limit the level of AVR in periods of unusual capital gains or when voluntary reserves are added to the AVR.

Include: The reserve factor calculated for mortgage loans.

Line 1 – Unaffiliated Common Stocks – Public, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Report the book/adjusted carrying value of all publicly issued common stock, including mutual funds, unit investment trusts, closed-end funds and ETFs (reported as common stock) in unaffiliated companies in Columns 1 and 4. Exclude money market mutual funds appropriately reported on Schedule E, Part 2 and exclude mutual funds designated by SVO, unit investment trusts designated by SVO and closed-end funds designated by SVO (Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999 respectively, collectively “SVO-identified mutual funds, unit investment trusts and closed-end funds”). Note that these SVO-identified mutual funds, unit investment trusts and closed-end funds predominantly hold bonds or preferred stocks and are captured in NAIC Fixed Income-Like SEC Registered Fund List maintained by the SVO. - Multiply Column 4 by the reserve factor calculated for Columns 5, 7 and 9, and report the products in Columns 6, 8 and 10, respectively.

See Footnote (a) on the Annual Statement Blank for reference on the minimum and maximum reserve factors for Line 1, Column 7 and 9.

The reserve factor is equal to 15.8% times the company's weighted average portfolio beta. The weighted average portfolio beta is the market value weighted average of four (4) portfolio betas, one from the end of the prior year and the remaining from the first three (3) quarters of the current year. Calculation of this weighted average portfolio beta is illustrated in the following worksheet:

Line 15 – Subsidiary, Controlled or Affiliated Common Stocks – Certain Other Subsidiaries

Report the book/adjusted carrying value of all subsidiary, controlled or affiliated company common stocks owned that have been valued according to *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 16 – Subsidiary, Controlled or Affiliated Common Stocks – Other

Report that portion of the book/adjusted carrying value of all common stocks of all subsidiary, controlled or affiliated companies, that have not been included on Lines 4 through 15, in Columns 1 and 4. Multiply Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

Line 17 – Total Common Stocks, excluding NAIC Fixed Income-Like SEC Registered Funds Designated by SVO

Column 1 should agree with Page 2, Line 2.2, Column 3 plus Schedule DL, Part 1, Column 6, Line 5989999999 minus Schedule D, Part 2, Section 2, Lines 5319999999, 5519999999 and 5719999999. The Columns 6, 8 and 10 amounts, respectively, must be reported on the Asset Valuation Reserve Page, Lines 7, 10 and 9, respectively, Column 4.

Lines 18 through 20 – Real Estate

Categorize the real estate as indicated on Lines 18 through 20. Real estate reported in Schedule DL, Part 1, Line 9209999999 would also be included in this section. Report the sum of Columns 1, 2 and 3 in Column 4. Multiply the amount in Column 4 by the reserve factors provided in Columns 5, 7 and 9 and report the products in Columns 6, 8 and 10, respectively.

NOTE: Related party encumbrances are loans from the reporting entity and the amount reflected in Column 2 should be deducted in Column 2 in the corresponding section of the AVR worksheet. If the real estate entity to which the loan was made is not wholly owned by the reporting entity, the related party encumbrance amount reflected in Column 2 should be based on the reporting entity's ownership percentage. The amount of the third-party encumbrances without recourse to be reflected in Column 3 is limited to the extent that the maximum reserve (Column 6) should not exceed the sum of the book/adjusted carrying value (Column 1) plus related party encumbrances (Column 2) and third-party encumbrances with recourse which are included in Column 3.

Line 21 – Total Real Estate

The Columns 6, 8 and 10 amounts must be combined with Line 83, Columns 6, 8 and 10 amounts and reported on the Asset Valuation Reserve Page, Lines 7, 10 and 9, Column 5.

Lines 22 through 28 – Other Invested Assets with Underlying Characteristics of Bonds

Report the book/adjusted carrying value of all Schedule BA assets owned where the characteristics of the underlying investment are similar to bonds (Lines 0199999, 0299999, 0599999, 0699999, 0999999, 1099999, 1399999, and 1499999) that have been valued according to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* in Columns 1 and 4. Follow the SVO guidelines and categorize these assets into NAIC designations one through six as directed by the NAIC Securities Valuation Office instructions, except those exempt obligations (as listed in the AVR instructions for Line 2) which should be reported separately. Multiply the amount in Column 4 for each designation by the reserve factors provided in Columns 5, 7 and 9 and report the products by designation in Columns 6, 8 and 10, respectively.