CALCULATION OF TOTAL ADJUSTED CAPITAL
( Including Total Adjusted Capital Tax Sensitivity Test)

Basis of Factors

In determining the C–1 risk factors, availability of the AVR and voluntary investment reserves to absorb specific losses was not assumed. Therefore, the AVR is counted as capital for the purposes of the formula although it represents a liability and is not usable against general contingencies. The portion of the AVR that can be counted as capital is limited to the amount not utilized in asset adequacy testing in support of the Actuarial Opinion for reserves. Voluntary investment reserves were eliminated from Total Adjusted Capital for the 1997 risk-based capital formula.

The annual statement provision for future dividends can provide a general cushion against potentially adverse future experience. As a reflection of this possible cushion, 50 percent of the annual statement dividend liability is included. However, when a block is reinsured, such credit to Total Adjusted Capital will not be allowed to either company unless the company has total control over the dividend decision and the full benefit of a change in the dividend scale flows to the company. A factor of 25 percent of the dividend liability is used in sensitivity testing.

Subsidiary amounts other than the carrying value of Alien Insurance Subsidiaries – Other, are included as appropriate recognizing that this surplus is included within the surplus of the parent. The carrying value of Alien Insurance Subsidiaries – Other should be excluded from the surplus of the parent for purposes of computing Total Adjusted Capital. Property and casualty subsidiaries should subtract all non-tabular discounts from surplus to arrive at the adjusted surplus figure. This adjustment to surplus was phased in over a five-year period by subtracting 20 percent of the non-tabular discount the first year and an additional 20 percent each year thereafter. Beginning with the 1998 risk-based capital formula, the adjustment to surplus is 100 percent. The same adjustment is made to the surplus of a life company having ownership of a property and casualty subsidiary.

The laws of certain states allow insurers to issue a form of capital instrument called a “capital note.” A credit is allowed to Total Adjusted Capital for a capital note that satisfies all of the following conditions:

1. In a liquidation, the capital note ranks with surplus notes and is subordinate to the claims of policyholders, claimants and general creditors.
2. The form and content of the capital note was approved by the commissioner of the insurer’s state of domicile.
3. At the time of issuance of the capital note, the aggregate principal amount did not exceed 25 percent of the Total Adjusted Capital (including the aggregate principal amount of outstanding capital and surplus notes) as of the end of the immediately preceding calendar year less the aggregate principal amount of outstanding capital and surplus notes.
4. The term of the capital note is not less than five years.
5. At the time of issuance of the capital note:
   a) The total principal amount of capital notes maturing in any one year did not exceed 5 percent of Total Adjusted Capital (measured at the time of issuance); and
   b) The total principal amount of capital notes maturing in any three-year period did not exceed 12 percent of Total Adjusted Capital (measured at the time of issuance).
6. Payment of interest, dividend or principal of the capital note is deferred if it would have caused:
   a) The insurer’s Total Adjusted Capital to drop below its Company Action Level Risk-Based Capital; or
   b) The insurer’s Total Adjusted Capital to drop below 125 percent of its Company Action Level Risk-Based Capital, and there is a negative trend on the Trend Test.
   However, upon request by the insurer, the commissioner of the insurer’s state of domicile may approve such payment if, in the commissioner’s judgment, the financial condition of the insurer warrants it.
7. The commissioner of the insurer’s state of domicile may halt all payments on the capital note if the insurer’s Total Adjusted Capital drops below three times the principal amount of the capital and surplus notes the insurer has outstanding.
8. The capital note is treated as a liability in the computation of statutory surplus.
9. The insurer issuing the capital note is obligated to supply to the commissioner of the insurer’s state of domicile an informational filing in a manner approved by the commissioner at the same time the insurer files its annual statement, and at such other times as the commissioner determines necessary. The filing shall include and be based on the following guidelines:

a) The filing shall display the financial results of the criteria used to determine whether payments on the insurer’s capital notes need be approved by the commissioner or may be halted by the commissioner. Further, it shall specifically identify those results that either necessitate commissioner approval of the payment or give the commissioner the option to halt payment.

b) The insurer shall notify the Commissioner for informational purposes of each forthcoming payment under a capital note not less than ten business days prior to the date of payment, nor more than 30 business days prior to the date of payment.

c) Whenever an insurer declares its intention to exercise the option to call or redeem a capital note prior to the scheduled maturity, the Commissioner shall be notified within five business days following the declaration, and not less than 10 business days prior to the declared redemption date. The 10-day period should be measured from the date of the commissioner’s receipt of the notice.

The credit for a capital note is reduced as the note approaches maturity (as calculated on LR032 Capital Notes before Limitation). The aggregate credit for capital notes is limited so that the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-third of Total Adjusted Capital.

**Total Adjusted Capital is to be reduced by the amount of all XXX/AXXX reinsurance RBC shortfalls.**
Specific Instructions for Application of the Formula

Lines (3) and (4)
When reinsurance is involved (coinsurance, modified coinsurance, coinsurance with funds withheld, or any similar arrangement) the dividend liability credit included in Total Adjusted Capital by the ceding company should not be allowed in the event the ceding company cannot realize the financial benefits associated with a reduction in the dividend liability. At the same time, the reinsurer should not be allowed a credit to Total Adjusted Capital for any of the dividend liability, even if the direct writer cannot take the Total Adjusted Capital credit, unless the reinsurer can demonstrate control over the dividend decision of the direct writer.

A “no” answer to either of the following two questions eliminates the company's ability to take the dividend liability credit related to such reinsurance:

1. Does the company have "total control" over the dividend decision?
2. Does the full benefit of any future ability to change the dividend scale flow to the company? (In considering the answer to this question, the company should consider the retained and reinsured portions separately.)

Line (5)
Fair Value TAC Adjustment - In order to mitigate the effects of derivative accounting mismatches an adjustment to total adjusted capital is required when all of the following conditions exist:

- the bond is not carried at fair value,
- the bond is hedged with a credit derivative and RBC is being reduced for the hedge,
- the credit derivative is carried at fair value, and
- the bond has never been written-down pursuant to the recording of an other-than-temporary impairment.

When these conditions exist, the adjustment shall never be less than zero and shall be based on any unrealized gain of the credit derivative, determined as the lesser of 1 or 2 below:

1. Book/Adjusted Carrying Value of the credit derivative from Schedule DB minus the sum of the Prior Year and Current Year Initial Cost of the credit derivative from Schedule DB,
2. The reduction in RBC arising from the hedge.

This Fair Value TAC Adjustment shall be applied to basic and intermediate hedging relationships as described in the instructions to the Spreadsheet Computation of Risk Reduction. In the case of an intermediate hedging relationship any unrealized gain attributable to the index-based credit derivative shall be determined as required in “1.” above then allocated to the individual bonds named in the index-based credit derivative on the basis of their par values compared to the total par value represented by the index. Each allocated unrealized gain will then be used as “1.” above for purposes of determining the Fair Value TAC Adjustment for that bond and hedge within the intermediate hedging relationship.

Lines (6) through (8)
The source for subsidiary amounts should be reported from the subsidiaries’ annual statements. These amounts should be adjusted by percentage of ownership before entering. All U.S. life, property and casualty and investment subsidiaries should be included. An adjustment to reduce the Total Adjusted Capital for the carrying value of Alien Insurance Subsidiaries – Other should be made for the parent company on Line (8).

Lines (10.1) through (10.4)
These lines calculate the credit to Total Adjusted Capital for the insurer’s qualifying capital notes. The calculation on Line (10.2) limits the credit for capital notes so the total amount of capital and surplus notes included in Total Adjusted Capital is not more than one-half of Total Adjusted Capital from other sources. This is equivalent to a limit of one-third of Total Adjusted Capital from all sources, including the capital and surplus notes themselves.
Line 11
Line (11) should include all XXX/AXXX reinsurance RBC shortfalls as reported in LRXXX XXX/AXXX Captive Reinsurance Consolidated Exhibit Column (10) Line (10),
Columns 2 through 9 only need to be calculated for entities reinsuring Covered Policies (as defined in AG-48, excluding entities assuming only risks exempted per Section 3 of AG-48). For the purposes of the descriptions below, the term “Captive” is to mean the assuming insurer of non-exempt transactions as defined in AG-48. In the event that a Captive reinsurers non-Covered Policies or Covered Policies reinsured from a different ceding company, a proration of all Captive liabilities and assets shall be used, with the pro rata portion based upon the reserves ceded for the Covered Policies compared to total reserves assumed by the Captive.

**For Captives that file RBC Reports**

The following situations may exist:

1. For instances where the ceding company is already calculating and holding a C-0 charge because the Captive is an admitted subsidiary and:
   a. Use the RBC reports to fill in Columns 2 through 9 (as applicable). Is 100% owned by the ceding company: No need for additional RBC cushion, as the C-0 calculation will automatically adjust for any capital shortfall. In this instance, do not fill out a separate column for the Captive, as the RBC amount is already included in Column 1.

   b. For subsidiaries that are less than 100% owned, increase adjusted TAC by the C-0 charge (times .65 to tax effect and then times the .5 ACL factor) to the ceding company attributable to that Captive. (drafting note: intent had been to decrease Benchmark RBC, but ACL & Benchmark RBC formulas had already been locked down in RBC calculations: thus the decision to increase TAC in lieu of decreasing Benchmark RBC) Is not 100% owned by the ceding company: There may be a need for additional RBC cushion, as the C-0 calculation will only partially adjust for any capital shortfall. In this instance, fill out a separate column for the Captive, reducing the amount of Authorized Control Level RBC (Line 8) by 50 percent of the amount of the C-0 charge to the ceding company attributable to the Captive.

   b.c. For 100% owned subsidiaries, set TAC equal to the Benchmark RBC. The purpose of this is to zero out the shortfall since the captive’s TAC and RBC are reflected in the ceding company’s C-0.

2. For instances where the ceding company is not already calculating and holding a C-0 charge for the Captive:
   a. Use the RBC reports to fill in Columns 2 through 9 (as applicable).

For the situations described in 1.a. 1.b., and 2. above, the ceding company must adjust its Total Adjusted Capital and RBC values using the rules in 2.a. for the purposes of calculating RBC shortfall if, without prescribed or permitted practices from the NAIC Accounting Practices and Procedures Manual, the value of assets of the Captive that would not normally be admitted exceeds the difference between the statutory reserve held and the Required Level of Primary Security.

**For Captives that do not file RBC Reports**

The following situations may exist:
1. For instances where the ceding company is already calculating and holding a C-0 charge because the Captive is an admitted subsidiary and:

   a. Is 100% owned by the ceding company: No need for additional RBC cushion, as the C-0 calculation will automatically adjust for any capital shortfall. In this instance, do not fill out a separate column for the Captive, as the RBC amount is already included in Column 1.

   b. Is not 100% owned by the ceding company: There may be a need for additional RBC cushion, as the C-0 calculation will only partially adjust for any capital shortfall. In this instance, fill out a separate column for the Captive, reducing the amount of Authorized Control Level RBC (Line 8) by 50 percent of the amount of the C-0 charge to the ceding company attributable to the Captive.

For the situations described in 1.a. and 1.b. above, the ceding company must adjust its Total Adjusted Capital and RBC values using the rules in 2.a. below for the purposes of calculating RBC shortfall if, without prescribed or permitted practices from the NAIC Accounting Practices and Procedures Manual, the value of assets of the Captive that would not normally be admitted exceeds the difference between the statutory reserve held and the Required Level of Primary Security.

2. For instances where the ceding company is not already calculating and holding a C-0 charge for the Captive:

   a. If the Captive does not file RBC, but reports its financial condition to its regulator using U.S. Statutory Accounting: Calculate RBC using NAIC RBC instructions to determine Authorized Control Level and Total Adjusted Capital at the Captive, even though no RBC report is filed. In both the RBC and Total Adjusted Capital calculations, liabilities are to be based on the Required Level of Primary Security (adjusted VM-20 reserve) rather than statutory reserves. Assets backing Primary Security must meet the requirements of Primary Security as defined in AG 48, and Assets not backing Primary Security may not be considered assets unless they would be normally admitted on the balance sheet of the reporting entity without taking into account any prescribed or permitted practices. If the Captive does not file an NAIC Annual Statement Blank, the company will have to rely on company records rather than line items from the Statement Blank.

   b. If Captive does not file RBC and does not report its financial condition to its regulator using U.S. Statutory Accounting: Ceding company is to use company records to develop a pro forma statutory statement for the Captive, and use the NAIC RBC Instructions and paragraph 2.a. above to develop pro forma RBC values. In the calculation of Total Adjusted Capital (TAC) of the Captive, use the following:

      1) TAC = Adjusted Assets – Adjusted Liabilities + Other Adjustments; where,

      2) Adjusted Liabilities are calculated using the Required Level of Primary Security (adjusted VM-20 reserve);

      3) Adjusted Assets are calculated using the value of the Assets backing Primary Security (as used in AG-48 to determine the Required Level of Primary Security) and any additional assets held by the Captive that would normally be admitted on the balance sheet of the reporting entity without taking into account any prescribed or permitted practices. Asset values are to be determined according to statutory accounting procedures under the NAIC Accounting Practices and Procedures Manual as if such assets were held in the reporting entity’s general account. If the ceding company cannot determine the statutory accounting value of certain assets under the NAIC Accounting Practices and Procedures Manual after making a diligent effort to do so, the ceding company can report that asset using the value assigned to the asset for the purposes of reporting financial results to the regulator of the Captive. If there is a normal NAIC stat valuation reasonably available for an asset, then that value is to be used for the RBC shortfall calculation. Any asset should have a cost basis available for tax purposes – this value should be used for any captive asset that 1) would be a normally admitted asset if on the ceding company’s
books, 2) was acquired by the captive prior to 9/30/15, and 3) does not have a reasonably available NAIC stat valuation. Any asset acquired by a captive after 9/30/15 should be valued as if it were on the ceding company books, with a normal stat valuation if it would be a normally admitted asset if it were on the ceding company’s books and with a value of zero if it wouldn’t be a normally admitted asset. It is expected that for the vast majority of captives’ assets, normal NAIC stat valuations will be used for the RBC shortfall calculation. If monitoring reveals this to not be the case then these rules will be subject to revision.

4) Other Adjustments are those adjustments in the RBC Instructions (from Page LR033) made to Capital and Surplus to get Total Adjusted Capital.

Treatment of the Concentration Factor

The ceding company shall identify its 10 largest asset exposures & 5 largest common stock exposures consistent with LR010 & LR011 except without consolidating with subsidiaries.

For each captive, the C-1o & C-1cs concentration factor amounts shall be those associated with any holdings (pro-rated, if/as appropriate, per first paragraph of instructions for this exhibit) in issuers that are among the ceding company top 10 asset or top 5 common stock exposures. There are no additional concentration factor amounts for other issuers in a captive’s holdings.

The C-1o and C-1cs amounts to be included on lines (2) and (3) include concentration factors based on the instructions for LR010 and LR011. These concentration factor amounts are to be shown on lines (2.1) and (3.1). The captive “consolidated” concentration factor amounts calculated based on the preceding paragraph are to be entered on lines (2.2) & (3.2). Lines (2.3) and (3.3) will calculate new C-1o and C-1cs amounts which include only the concentration factor amounts related to the ceding company’s top 10 asset or top 5 common stock exposures and will equal line (2) – line (2.1) + line (2.2) or line (3) – line (3.1) + line (3.2), respectively.

Specific Instructions for Application of the Formula

For the purposes of this page, the term "Captives" refers to the assuming insurer of covered policies in non-exempt transactions as defined in AG 48.

Column 1: Ceding Company

Lines (1), (2), (3), (4), (5.1), (5.2), (5.3), (6.1) and (6.2): Take the values from the RBC forms for C-0, C-1o, C-1cs, C-2, C-3a, C-3b, C-3c, C-4a, and C-4b.

Lines (2.1), (2.2), (3.1) and (3.2) are used to eliminate double counting of the concentration factor within the captives. Lines (2.1) and (3.1) are to be zero for the ceding company.

Line (2.2) equals Line (2) minus Line (2.1). Line (3.2) equals Line (3) minus Line (3.1).

Line (7): Take the value from the RBC form for Total Adjusted Capital.

Line (8): Take the value from the RBC form for Authorized Control Level.

Line (9) and Line (10) are not applicable to the ceding company (N/A).

Line (11) is the Final Total Adjusted Capital of the Ceding Company, and reflects the RBC Cushion. It is Line (7) of Column (1) minus Line (10) of Column (10).

Columns 2 through 9: Pro Rata Portion of Captive Reinsurer

The amounts included in these columns are to be calculated in accordance with the Life RBC Forecasting and Instructions publication.

© 1993-2014 National Association of Insurance Commissioners
Workpapers needed to prepare these amounts should be retained and available for examination in accordance with record retention requirements of the domestic state laws or regulations.

RBC Cushion only needs to be calculated for entities reinsuring Covered Policies (as defined in AG 48, excluding entities assuming only risks exempted per Section 3 of AG 48).

Entities not meeting this definition should not be reported on this page.

Lines (1), (2), (3), (4), (5.1), (5.2), (5.3), (6.1), (6.2) and (7): Take the values from the RBC forms for C-0, C-1, C-2, C-3a, C-3b, C-3c, C-4a, C-4b, and Total Adjusted Capital.

Lines (2.1) and (3.1) are the C-1 concentration factors for the captive, calculated on a pro rata basis such that the sum of column 1 to 9 for lines (2.1) and (3.1) equals the consolidated C-1 concentration factor.

Line (2.2) is equal to Line (2) minus Line (2.1) Line (3.2) is equal to Line (3) minus Line (3.1). This eliminates the double counting of the concentration factor within the captives.

Line (9) is the Benchmark RBC level for setting RBC Shortfall. It is set equal to 300% of Authorized Control Level for each captive.

Line (10) is the RBC Shortfall of the captive. It is the difference between the Total Adjusted Capital and the Benchmark RBC level. It is Line (9) minus Line (7), floored at zero, for each captive.

Line (11) is the Final Total Adjusted Capital of the Ceding Company. It is not applicable to the captive.

Fill a separate column for each captive. In the event that the captive assumes business from more than one ceding company, or in the event that only a portion of the business at the captive is subject to the scope of AG 48, use a pro rata portion of the total C-0, C-1, C-2, C-3a, C-3b, C-3c, C-4a, and C-4b risks, as well as Total Adjusted Capital for Lines (1), (2), (4), (5.1), (5.2), (5.3), (6.1) and (6.2), and (7). Re-calculate the Authorized Control Level (Line 8) for the pro rata portion. Use reserves ceded by the ceding company and total reserves of the captive to determine pro rata amounts.

Column (10): Consolidated amounts

| Lines (1) through (7): Calculate the sum of columns (1) through (9). |
| Line (8): Calculate a consolidated Authorized Control Level using the normal RBC formula, using Line (3) as the C-1 risk in the formula. |
| Line (9) is not applicable to the consolidated RBC Total. |
| Line (10) column (10) is the sum of columns (2) through (9). |
| Line (11) is the Consolidated Authorized Control Level. It is equal to Line (8). |