

Estimated RBC impact from the RMBS Initiative

The following is an estimate of the impact of the 2009 RMBS Initiative on Risk-Based Capital. This estimate is based on approximately 96% of the expected annual statement filings. As of year end 2009, the total value of the insurance industry's RMBS holdings and the estimated Risk-Based Capital (RBC)¹ charge is as follows:

Par Value	\$177,829,936,146
Book Adjusted Carrying Value (BACV)	\$150,501,333,355

Estimated RBC charge	Before Covariance	After Covariance
Prior Guidance	\$10,835,612,885	\$ 8,352,382,882
New Guidance	\$ 3,507,929,685	\$ 2,951,662,486
Difference	\$ 7,327,683,200	\$ 5,400,720,396

Breaking down the industry's holdings by NAIC Designation yields the following:

NAIC	Prior Guidance		New Guidance	
1	\$ 73,027,885,000	48.5%	\$103,884,451,104	69.0%
2	13,324,764,699	8.9	14,044,660,586	9.3
3	10,461,490,058	7.0	14,194,126,830	9.4
4	13,674,416,977	9.1	12,932,962,344	8.6
5	30,403,265,144	20.2	4,604,270,283	3.1
6	9,609,541,477	6.4	840,862,208	0.6
	\$150,501,333,355		\$150,501,333,355	

The improvement in NAIC Designations, in particular, from NAIC 5 and NAIC 6 to NAIC 1 is not surprising. A more detailed analysis shows that, of the differential in risk-based capital, roughly 70%, or \$5,120,350,315, is related to securities where the lower carrying value is due either to an Other Than Temporary Impairment (OTTI) write-down or a lower fair value. The total of these revaluations was \$15,049,804,875. The revaluations were substantial in comparison with the size of those holdings which had a BACV of \$55,217,980,902 prior to the revaluations. Therefore a significant contributor to the reduction in the RBC charge is the fact that the book adjusted carrying value (BACV) of the holdings was lower. Assuming an average RBC factor of 25%, the lower base on its own would have resulted in a \$3.5 billion change in total Risk-Based Capital. Surplus and capital of those companies was also lower, reflecting those revaluations.

As was expected, since a significant aspect of the new process was to compare the PIMCO expected value² with the carrying value, these revaluations also had a significant impact on the mapping to NAIC Designations. Focusing on just those line items with a revaluation, the "before and after" was:

¹ Company Action level

² Net present value of expected payments of principal and interest.

NAIC	Prior Guidance		New Guidance	
1	\$ 4,001,758,709	10.2%	\$22,261,563,524	56.9%
2	2,772,550,107	7.1	3,242,532,808	8.3
3	2,419,559,500	6.2	4,702,266,746	12.0
4	5,371,058,245	13.7	6,107,485,557	15.6
5	17,697,287,796	45.3	2,022,387,455	5.2
6	6,846,907,955	17.5	772,886,222	2.0
	\$39,109,122,312		\$39,109,122,312	

It is notable that, while there was a significant shift upward in NAIC Designations, there were still significant holdings after these revaluations with NAIC Designations below NAIC 1 or 2.

An analysis of the securities where a revaluation was not reported shows that the BACV of these holdings represented the bulk of the reporting industry's holdings (\$111,392,211,043, or 74%). Of these, 9% saw a "downgrade" in NAIC Designation and an increase in risk-based capital (\$352,623,586). On the other hand, 28% did benefit from an improvement in the NAIC designation that resulted in a decrease (\$2,559,956,469). Significantly, the majority of this group of holdings (63%) saw no change in the NAIC Designation.

NAIC	Prior Guidance		New Guidance	
1	\$ 69,026,096,291	62.0%	\$ 89,853,424,092	80.7%
2	10,552,214,592	9.5	9,321,138,378	8.4
3	8,041,930,558	7.2	5,494,538,257	4.9
4	8,303,358,732	7.5	4,122,973,642	3.7
5	12,705,977,348	11.4	2,038,674,877	1.8
6	2,762,633,522	2.5	561,461,797	0.5
	\$111,392,211,043		\$111,392,211,043	

As would be expected, the improvement in NAIC designation was substantially less for those holdings that did not experience a revaluation than for those that did. There was some improvement for those where a revaluation did not occur. This reflected the same dynamic, as, on average, the BACV price was approximately 7% below the PIMCO expected value.

Summary: The 2009 RMBS Initiative resulted in a mapping of NAIC Designations that shifted a significant portion of the industry's holdings from lower levels (NAIC 5 and NAIC 6) to a higher level (NAIC 1). This was appropriate for those specific holdings as the shift reflected their more conservative valuations in the insurer's balance sheets. In particular, the shift was more dramatic for those holdings where insurers took an OTTI write-down or fair value reduction in 2009. The lower Risk-Based Capital was driven by the higher designations, and lower RBC factors, as well as the lower BACV. While Risk-Based Capital was lower, insurers also reflected lower Surplus and Capital in relation to those revaluations.