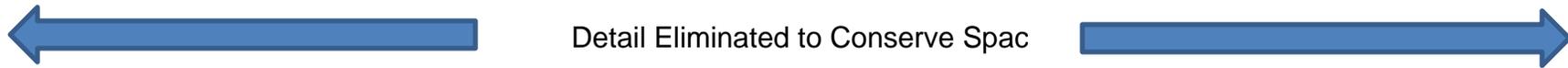
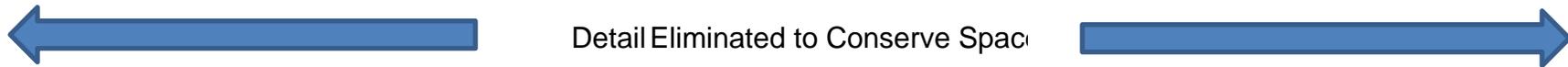


Overview of the NAIC Health Risk-Based Capital Report



Negative values can sometimes appear in the value column or RBC Subtotal column of this report. These negative values are retained to facilitate crosschecking amounts reported in the annual statement against amounts reported in the RBC filing. However, when a negative number appears in the value column, it will be converted to zero before determining the RBC Requirement. For example, a negative \$10,000 for RBC Col (1), Line (28) will produce a zero (\$0 times 0.003) in Column (2), RBC Requirement, rather than a negative \$30,000 times 0.003).



Fixed Income Assets XR007 AND XR008

The RBC requirement for fixed income assets is largely driven by the default risk on those assets. There are two major subcategories: Bonds and Miscellaneous. Bonds

Bonds (XR007)

The bond factors for investment grade bonds (NAIC Designation A-2.C) are based on cash flow modeling. Each bond of a portfolio was annually tested for default (based on a "roll of the dice") where the default probability varied by (s)-03 Tc 0.ey9.9 (deave95169.8 (t)5.6 ((dea(bog))TJ 0 Tc 0 T4.09665 0 Td [(d)3.5 ()])TJ -0.001

The book/adjusted carrying value of all bonds should be reported in Column (2) or (3). The bonds are split into two or more different risk classifications. These risk classifications are based on the NAIC Designation Category as defined and permitted in the Purposes and Procedures Manual of the Investment Analysis Office. The subtotal of Columns (1), (2), and (3) will be calculated in Column (4). The RBC requirement will be automatically calculated in (5).

Miscellaneous Fixed Income Assets (XR008)

The factor for cash is 0.3 percent. It is recognized that there is a small risk related to possible insolvency of the bank if cash deposits are held. This factor is based on the original unaffiliated NAIC 01 bond risk factor prior to the increased granularity of the NAIC Designation Category and reflects the short-term nature of this risk. The required risk-based capital for cash will not be less than zero, even if the company's cash position is negative.

The Short-Term Investments to be included in this section are those short-term investments not reported elsewhere in the formula. The 0.3 percent factor is equal to the factor for cash. The amount reported in Line (35) reflects the total from Schedule DA: Short-Term Investments (Line (63)), less the short-term bonds (Line (734)). (The short-term bonds reported in Line (34) should equal Schedule DA, Part 1, Column 7, Line 2509999999).

Mortgage loans (reported on Schedule B) and Derivatives (reported

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FIXED INCOME ASSETS - BONDS

	(1) Long-Term Bonds Schedule I Part 1 Book/Adjusted Carrying Value	(2) Short-Term Investments Schedule DA, Part 1 Book/Adjusted Carrying Value	(3) Cash Equivalents Schedule Part 2 Book/Adjusted Carryin Value	(4) Subtotal C(1) + C(2) + C(3)	Factor	(5) RBC Requirement
	<u>L(3) thru (26) = Sch D Pt 1F</u>	<u>L(3) thru (26) = Sch DA Pt 1F</u>	<u>L(3) thru (26) = Sch E Pt 2F</u>			
	Annual Statement Source					
BONDS						
(1) NAIC 1.A - U.S. Government - Full Faith and Credit, U.S. Government Obligations, and NAIC Money Market Fund List (Refer to A/S Instructions)	C(1) = Sch D, Pt 1, C11, L0109999999 C(2) = Sch DA, Pt 1, C7, L0109999999 C(3) = Sch E, Pt 2, C7, L0109999999 + L8209999999					0.000
(2) NAIC Designation Category 1.A Bonds	C(1)=Footnote Amt 1 L000001A - L(1) C(2)=Footnote Amt 1 L000001A - L(1) C(3)=Footnote Amt 1 L000001A - SCE, Pt2, C7 L0109999999					0.003
(3) NAIC Designation Category 1.B Bonds	Footnote Amt 2 L000001A					0.005
(4) NAIC Designation Category 1.C Bonds	Footnote Amt 3 L000001A					0.008
(5) NAIC Designation Category 1.D Bonds	Footnote Amt 4 L000001A					0.011
(6) NAIC Designation Category 1.E Bonds	Footnote Amt 5 L000001A					0.014
(7) NAIC Designation Category 1.F Bonds	Footnote Amt 6 L000001A					0.016
(8) NAIC Designation Category 1.G Bonds	Footnote Amt 7 L000001A					0.019
(9) Total NAIC 01 Bonds	Sum of Lines (1) through (8)					
(10) NAIC Designation Category 2.A Bonds	Footnote Amt 1 L000001B					0.022
(11) NAIC Designation Category 2.B Bonds	Footnote Amt 2 L000001B					0.025
(12) NAIC Designation Category 2.C Bonds	Footnote Amt 3 L000001B					0.031
(13) Total NAIC 02 Bonds	Sum of Lines (10) through (12)					
(14) NAIC Designation Category 3.A Bonds	Footnote Amt 1 L000001C					0.069
(15) NAIC Designation Category 3.B Bonds	Footnote Amt 2 L000001C					0.076
(16) NAIC Designation Category 3.C Bonds	Footnote Amt 3 L000001C					0.083
(17) Total NAIC 03 Bonds	Sum of Lines (14) through (16)					

FIXED INCOME ASSETS - MISCELLANEOUS

(1)

(2)



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