**Section 1103.EXHIBIT A Risk Category**

Risk Categories:

a) Morbidity

b) Mortality

c) Lapse

This is the risk that a policy will voluntarily terminate prior to the recoupment of a statutory surplus strain experienced at issue of the policy.

d) Credit Quality (C1)

This is the risk that invested assets supporting the reinsured business will decrease in value. The main hazards are that assets will default or that there will be a decrease in earning power. It excludes market value declines due to changes in interest rate.

e) Reinvestment (C3)

This is the risk that interest rates will fall and funds reinvested (coupon payments or monies received upon asset maturity or call) will, therefore, earn less than expected. If asset durations are less than liability durations, the mismatch will increase.

f) Disintermediation (C3)

This is the risk that interest rates rise and policy loans and surrenders increase or maturing contracts do not renew at anticipated rates of renewal. If asset durations are greater than the liability durations, the mismatch will increase. Policyholders will move their funds into new products offering higher rates. The company may have to sell assets at a loss to provide for these withdrawals.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Risk Category | | | a | b | c | d | e | f |
| Health Insurance – other than LTC/LTD | | | + | 0 | + | 0 | 0 | 0 |
| Health Insurance – LTC/LTD | | | + | 0 | + | + | + | 0 |
| Immediate Annuities | | | 0 | + | 0 | + | + | 0 |
| Single Premium Deferred Annuities | | | 0 | 0 | + | + | + | + |
| Flexible Premium Deferred Annuities | | | 0 | 0 | + | + | + | + |
| Guaranteed Interest Contracts | | | 0 | 0 | 0 | + | + | + |
| Other Annuity Deposit Business | | | 0 | 0 | + | + | + | + |
| Single Premium Whole Life | | | 0 | + | + | + | + | + |
| Traditional Non-Par Permanent | | | 0 | + | + | + | + | + |
| Traditional Non-Par Term | | | 0 | + | + | 0 | 0 | 0 |
| Traditional Par Permanent | | | 0 | + | + | + | + | + |
| Traditional Par Term | | | 0 | + | + | 0 | 0 | 0 |
| Adjustable Premium Permanent | | | 0 | + | + | + | + | + |
| Indeterminate Premium Permanent | | | 0 | + | + | + | + | + |
| Universal Life Flexible Premium | | | 0 | + | + | + | + | + |
| Universal Life Fixed Premium | | | 0 | + | + | + | + | + |
| Universal Life Fixed Premium | | | 0 | + | + | + | + | + |
| dump-in premiums allowed | | |  |  |  |  |  |  |
| + | = | Significant |  |  |  |  |  |  |
| 0 | = | Insignificant |  |  |  |  |  |  |
| LTC | = | Long-Term Care Insurance |  |  |  |  |  |  |
| LTD | = | Long-Term Disability Insurance |  |  |  |  |  |  |

(Source: Amended at 30 Ill. Reg. 7766, effective April 6, 2006)