Number of contract years since purchase payment being withdrawn was made	Applicable withdrawal charge per- centage
5 years 6 years or more	1 0

Withdrawals are deemed to be from purchase payments on a first in, first out basis. The Early Withdrawal Charge will be deducted from the amount paid. Applicants state that there will be no Early Withdrawal Charge on the first withdrawal of each contract year on amounts up to the Free Withdrawal Amount, *i.e.*, 15% of purchase payments.

10. The Early Withdrawal Charge will be used to pay sales commissions and other promotional or distribution expenses associated with the marketing of the Amended Contracts. Applicants state that the Early Withdrawal Charge may not generate sufficient revenues to pay the cost of distributing the Amended Contracts. To the extent that the Early Withdrawal Charge is insufficient to cover all sales and distribution expenses, the deficiency will be met from Northbrook's general account, which may include profits derived from the mortality and expense risk charge.

11. Shares of the Portfolios are sold to the Variable Account at net asset value. The Fund pays its investment adviser a monthly fee for managing its investments and business affairs. Each Portfolio bears certain expenses.

12. A daily charge equal to an effective annual rate of 1.25% of the net assets in the Variable Account will be deducted to compensate Northbrook for bearing certain mortality and expense risks under the Contracts. Of that amount, approximately 0.85% is for mortality risks and approximately 0.40% is for the expense risk.

13. With respect to the amended Contracts, Northbrook intends to deduct an amount which will vary depending on the death benefit option elected by the owner. If the owner elects the Standard Death Benefit, Northbrook intends to deduct a mortality and expense risk charge equal on an annual basis to 1.25% of the daily net assets of the Variable Account. If the owner elects the Enhanced Death Benefit, the mortality and expense risk charge will be equal on an annual basis to 1.38% of the daily net assets of the Variable Account. Of that amount, approximately 0.98% (0.85% for the Standard Death Benefit and 0.13% for the Enhanced Death Benefit) is for mortality risks and approximately 0.40% is for the expense risk. Only owners who elect the

Enhanced Death Benefit will be assessed the 0.13% increase in the mortality risk charge.

14. Applicants represent that the level of the mortality and expense risk charges is guaranteed not to increase under the Contracts and the Amended Contracts. The mortality risk arises from Northbrook's guarantee to cover all death benefits and to make income payments in accordance with the income payment tables, thereby relieving the annuitants of the risk of outliving funds accumulated for retirement. The expense risk assumed by Northbrook is the risk that Northbrook's actual administrative costs will exceed the amount recovered through the administrative expense and contract maintenance charges. If the mortality or expense risk charges are insufficient to cover the actual costs, Applicants state that Northbrook will bear the loss. To the extent that the charges are in excess of actual costs, Applicants state that Northbrook, at its discretion, may use the excess to offset losses when the charges are not sufficient to cover expenses.

## Applicants' Legal Analysis

1. Section 6(c) of the 1940 Act authorizes the Commission to grant an exemption from any provision, rule or regulation of the 1940 Act to the extent that it is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act. Sections 26(a)(2)(C) and 27(c)(2) of the 1940 Act, in relevant part, prohibit a registered unit investment trust, its depositor or principal underwriter, from selling periodic payment plan certificates unless the proceeds of all payments, other than sales loads, are deposited with a qualified bank and held under arrangements which prohibit any payment to the depositor or principal underwriter except a reasonable fee, as the Commission may prescribe, for performing bookkeeping and other administrative duties normally performed by the bank itself.

2. Pursuant to Section 6(c), Applicants request that the Commission amend the Order to grant exemptions from Sections 26(a)(2)(C) and 27(c)(2) of the 1940 Act to the extent necessary to permit Northbrook to deduct mortality and expense risk charge of 1.38% from the assets of the Variable Account in connection with the issuance of the Amended Contracts for which the Enhanced Death Benefit option has been elected.

3. Applicants represent that the 1.25% mortality and expense risk

charge for the Standard Death Benefit is reasonable in relation to the risks assumed by Northbrook under the Amended Contracts and reasonable in amount as determined by industry practice with respect to comparable annuity products. Applicants state that this representation is based upon their analysis of publicly available information about comparable industry products, taking into consideration such factors as current charge levels and benefits provided, the existence of expense charge guarantees and guaranteed annuity rates. Northbrook represents that it will maintain at its home office, a memorandum, available to the Commission, setting forth in detail the products analyzed in the course of, and the methodology and results of, its comparative review.

4. Applicants represent that the mortality risk charge of 0.13% for the Enhanced Death Benefit is reasonable in relation to the risks assumed by Northbrook under the Amended Contracts. Applicants state that in making this determination, Northbrook conducted a large number of trials at various issue ages to determine the expected cost of the Enhanced Death Benefit. Hypothetical asset returns were projected using generally accepted actuarial simulation methods. For each asset return pattern generated, hypothetical accumulated values were calculated by applying the projected asset returns to the initial value in a hypothetical account. Each accumulated value so calculated was then compared to the amount of the Enhanced Death Benefit payable in the event of the hypothetical owners' death during the year in question. By analyzing the results of several such simulations, Applicants state that Northbrook was able to determine actuarially the level cost of providing the Enhanced Death Benefit. Based on this analysis, Northbrook determined that a mortality risk charge of 0.13% was reasonable for providing the Enhanced Death Benefit. Northbrook represents that the basis for this determination will be set forth in a memorandum which will be maintained at its home office and will be available to the Commission upon request.

5. Applicants acknowledge that the Early Withdrawal Charge may be insufficient to cover all costs relating to the distribution of the Amended Contracts. Applicants also acknowledge that, if a profit is realized from the mortality and expense risk charge, all or a portion of such profit may be available to pay distribution expenses not reimbursed by the Early Withdrawal Charge. Northbrook represents that there is a reasonable likelihood that the