BEST'S RATING REPORT

EVERY DAY MATTERS.
BANNER. WILLIAM PENN.

LEGAL & GENERAL AMERICA GROUP

Domiciled: Maryland, United States

AMB #: 069539	NAIC #: N/A	FEIN #: N/A
Phone:	Fax:	Website:

Banner Life Ins Co	A+
William Penn Life Ins Co of NY	A+

Financial Strength Rating
A+ Superior

Best's Credit Rating Effective Date
December 06, 2019

Best's Country Risk Reports Utilized
United States - CRT - 1

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Information

Best's Credit Rating Methodology

Understanding Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

Financial data in this report: (i) includes data of affiliated entities that are not rating unit members where analytics benefit from inclusion; and/or (ii) excludes data of rating unit member entities if they operate in different segments or geographic areas than the Rating Unit generally. See list of companies for details of rating unit members and any such included and/or excluded entities.

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Legal & General America Group

AMB #: 069539
Associated Ultimate Parent: AMB # 086120 - Legal & General Group Plc

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A+	**aa-**
Superior	**Superior**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Very Strong**
Operating Performance	**Adequate**
Business Profile	**Favorable**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Legal & General America Group | AMB #: 069539

AMB #	Rating Unit Members	AMB #	Rating Unit Members
006468	Banner Life Ins Co	006734	William Penn Life Ins Co of NY

Rating Rationale

Balance Sheet Strength: Very Strong

- Legal & General America Group (LGA) maintains a very strong level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR).
- LGA's consolidated risk-adjusted capitalization is enhanced by a high quality fixed income investment portfolio.
- Legal & General Group, Plc. (L&G), has utilized its own balance sheet strength to internally finance LGA's Regulation XXX reserves associated with the term life business since 2010. AM Best believes LGA may be challenged to find suitable, cost-efficient financing and refinancing alternatives for funding its Regulation XXX reserves, should the parent's strategy change.

Operating Performance: Adequate

- Direct premiums have more than doubled the past five years driven by pension risk transfer deals.
- Positive 2018 earnings, had LGA realized gains from reinsurance business ceded, however, there has been volatility in prior years due to new business strain.
- LGA's mortality experience has generally been better than or in line with expectations, and its disciplined underwriting processes serve to partially mitigate the risk of adverse experience.

Business Profile: Favorable

- LGA maintains a strong competitive position in the term life market where it currently ranks eighth as measured by term life annualized new business premiums.
- LGA represents the strategically important U.S. operations of the L&G parent organization.
- LGA launched pension risk transfer business in 2015; nearly doubled direct premiums by 2018 year-end.

Enterprise Risk Management: Appropriate

- The company maintains a solid enterprise risk management program, experienced management team within its market and a designated chief risk officer.
- The company’s ERM processes are deemed to be adequate to support the company's risk profile. LGA’s participation in the parent’s ERM program is also viewed positively.
- LGA maintains a solid governance model and manages risk through the use of the Group Risk Committee, Group Internal Audit and CEO, who are all overseen by the board of directors.

Rating Lift/Drag

- LGA receives rating enhancement from its parent, L&G, reflecting strong affiliation and strategic importance with its parent.
- L&G has also demonstrated both implicit (strategic and financial) and explicit support to LGA.

Outlook

- The stable outlooks reflect a very strong balance sheet assessment and favorable business profile.

Rating Drivers

- Positive rating actions could be driven by an upgrade to Legal & General Group, Plc.
- A deterioration in AM Best's view of Legal & General America Group's strategic importance to Legal & General Group, Plc., or a downgrade of Legal & General Group, Plc.'s ratings by AM Best could lead to a downgrade.

Credit Analysis

Balance Sheet Strength

The company's balance sheet is assessed as very strong.

Balance Sheet Strength (Continued...)

Capitalization

LGA's consolidated risk-adjusted capitalization as measured by the Best's Capital Adequacy Ratio (BCAR) model is more than adequate to support its current business and investment risks. However, LGA's capital position can be somewhat volatile due to the uneven nature of the surplus relief provided by its approaches to funding the Regulation XXX reserve requirements associated with its core term life businesses. LGA also benefits from the financial strength of its ultimate parent, L&G, which has from time to time made capital contributions to Banner Life and William Penn - NY. Over a ten year period, L&G has made capital contributions in excess of $500 million. Neither Banner Life nor William Penn - NY have capital notes or other forms of debt in its capital structure. AM Best does not expect the re-allocation of assets on LGA's balance sheet as a result of the implementation of its strategic asset allocation strategy to have any material effect on the consolidated risk-adjusted capitalization of the group.

LGA's operating profile of focusing primarily on fully underwritten level premium term life business, generally results in significant statutory surplus strain due to new business expense strain and Regulation XXX reserving requirements. LGA has adopted a cost efficient and diversified approach to raising the surplus necessary to fund the reserve strain associated with its term life business. This approach minimizes the inherent credit risks associated with standard reinsurance. In order to maximize the cost benefit of the capital markets solution, LGA implements transactions when reserves are large enough to warrant the cost of the transaction. LGA's surplus is subject to additional strain in the form of unrealized losses on any special purpose captive reinsurer investment that is part of the solution because the reinsurer faces Regulation XXX strain and therefore recognizes significant anticipated losses in the early years of the treaty.

Total capital at 2018 year end is $736 million which has doubled from $369 million in 2014, related to strong business growth. Capitalization levels have fluctuated over the last few years due to parental dividends, capital infusions and reinsurance activities. Capital levels were significantly pressured during 2018 due to a $105 million dividend paid to the parent organization and new business strain resulting from the growth of the Pension Risk Transfer (PRT) business during the year. In 2017 there was a capital infusion of $300 million to allow LGA to do larger PRT deals and as a result they have seen continued growth in that line of business through 2019. In 2016, LGA experienced a large increase in capital due to the recapture of FBARC II, partially offset by a $90 million parental dividend.

LGA's net cash flow from operations has been positive in recent years. LGA is expected to continue to maintain positive cash flow from operations as reinsurers continue to pay experience refunds to the group. LGA maintains a strong liquidity position as over ninety percent of its long-term bonds are investment grade and currently in a net unrealized gain position. AM Best expects LGA's liquidity position to remain favorable going forward despite the increase in illiquid assets resulting from the implementation of its strategic asset allocation strategy that has increased the group's exposure to high yield long-term and private placement bonds as well as direct commercial mortgage loans.

Separate LGA reinsurance agreements have been established for each of Banner Life and William Penn-NY. These reinsurance agreements have been amended to incorporate a funds withheld component based on an agreed upon economic reserve. These treaties will pay experience refunds back to Banner Life and William Penn-NY, eliminating the hold back provisions that were incorporated in the FBARC treaties

Asset Liability Management - Investments

LGA continues to maintain a high quality investment portfolio. AM Best's notes that LGA's total invested assets have generally risen annually with over a five year CAGR of 16%.

In 2013, LGA began the implementation of its strategic asset allocation strategy whereby the group reduced its holdings of cash and U.S. government assets classes and increased its investments in more illiquid assets including high yield long-term bonds, non-144A private placements, and direct commercial mortgage loans. This strategy has led to higher portfolio yields and overall longer duration.

The high yield long-term bonds as well as the remainder of its private placement bond portfolios are managed by an affiliate, Legal and General Investment Management America Inc. while the direct commercial mortgage loan portfolios are managed externally. These external managers were approved by both LGA's Board of Directors and its Investment and Market Risk committees following due diligence process managed by an external consultant.

Consequently, the distribution of LGA's invested assets has shifted over the last few years, with the share in bonds declining to 75.7% in 2018 from 78% at the end of 2014 and the share in mortgage loans rising to 17.4% in 2018 from 12.6% in 2014. The company's remaining invested assets are comprised of contract loans, short-term securities, cash balances and common stock. The modest levels of separate account assets represent funds associated with variable life and variable annuity products and the funds held for the benefit of LGA's cash balance plan as well as select PRT transactions maintained in Separate Accounts.

Balance Sheet Strength (Continued...)

In 2018 LGA continues to have a diversified and strong credit quality portfolio with exposure to NAIC class 2 bonds at 35%, which is in line with industry averages but up from 25% in the prior year. In addition, AM Best notes that LGA's exposure to structured securities is minimal, representing less than ten percent of the total long-term bond portfolio. 2019 Mortgages of 19% are slightly higher than the industry average, although the proportion to total invested assets has declined in recent years. They continue to have strong liquidity and positive quality of capital providing growth opportunities. Asset/liability management (ALM) and cash flow analysis are integral parts of LGA's investment philosophy. These strategies provide management with detailed information on profitability and portfolio performance.

Operating Performance

LGA's consolidated statutory net operating results have historically been dampened by new business expense strains and Regulation XXX reserving requirements. LGA's strategy of funding the Regulation XXX portion of its term life reserves through a combination of capital market and reinsurance transactions has resulted in volatile statutory net operating and capital results as Banner Life and William Penn-NY both absorb the full strains of their new business production. LGA has adopted a cost efficient and diversified approach to raising the surplus necessary to fund the reserve and expense strains associated with its term life business. Statutory Accounting Principles requires that any net gain from reinsuring in force business has to be recorded directly through surplus – on a net of tax basis – with this benefit being amortized through net income in the future based on the emergence of profits on the business being reinsured.

LGA's earnings in 2018 were positively impacted by growth in its PRT business line with more than $844 million in direct premiums. PRT growth is expected to continue into 2019 and beyond. Additionally, term life experienced strong growth with $1.3 billion of direct premiums. Positive 2018 earnings, had LGA realized gains from reinsurance business ceded, however there has been volatility in prior years due to new business strain. In addition, LGA entered into the PRT arena and simultaneously entered into a 100% modified coinsurance agreement with Legal & General Assurance Society associated with the block of Pension Risk Transfer business. LGA expects to continue to manage surplus strain by developing capital through a combination of capital market and reinsurance transactions.

Business Profile

Banner Life Insurance Company (Banner Life) and its wholly-owned subsidiary, William Penn Life Insurance Company of New York (William Penn-NY), are the principal direct operating subsidiaries of Legal & General America, Inc. (LGA), an intermediate holding company. LGA is ultimately owned by Legal & General Group, Plc (L&G), a United Kingdom company founded in 1836 with a diverse business profile which includes pensions, accident, life, and general insurance. Banner Life and William Penn-NY operate predominantly in the individual term life market. Based on new business annualized premium, LGA ranks in the top quartile for all ordinary life products, and 8th in total term life. Products are distributed primarily through licensed brokerage firms. LGA, through Banner Life and William Penn-NY, is licensed to transact business in all 50 states and the District of Columbia.

LGA's operating profile focuses primarily on growing sales of its core guaranteed level premium term life insurance that typically results in significant statutory surplus strain due to Regulation XXX reserving requirements. In response to the effects of Regulation XXX reserving requirements, LGA has executed a large number of capital transactions in order to fund the peak of Regulation XXX reserves. LGA has created special purpose financial captives when needed for the purpose of reinsuring blocks of business (primarily term life) from Banner Life and William Penn-NY. Currently, there are two active special purpose financial captives with all of them being wholly owned subsidiaries of Banner Life. First British American Reinsurance Company II (FBARC II) is a U.S. domiciled (South Carolina) special purpose financial captive created for the purpose of reinsuring blocks of business from Banner Life and funding the term life reserves through a securitization. First British Vermont Reinsurance Company II (FBVRC II) is a Vermont domiciled special purpose financial captive reinsurance company. The entity was originally set up in 2007 as a Bermuda captive reinsurance company, First British Bermuda Reinsurance Company, Ltd. (FBBRC), which had obtained a 30-year LOC to collateralize Regulation XXX reserves. In 2011, FBBRC was re-domesticated to Vermont and renamed First British Vermont Reinsurance Company II. AM Best notes that since 2010, Regulation XXX reserve financing on new business issued has been funded internally through Legal & General Assurance Society Limited (LGAS).

Scope of Operations:

Banner Life and William Penn-NY market all of their products under the unified Legal & General America brand, leveraging the ultimate parent's brand name in the United Kingdom. LGA operates predominately in the term life insurance market and has been successful in achieving a major position in the affluent & mass affluent segment. LGA is focused primarily on fully underwritten level premium term life, targeting higher socio-economic groups. LGA markets its products through independent brokerage agencies and has a professional relationship with the National Association of Independent Life Brokerage Agencies (NAILBA). LGA remains the only life insurance entity

Business Profile (Continued...)

that distributes predominately through NAILBA member agencies, also referred to as Brokerage General Agencies (BGAs). For 2018, total ordinary life premium exceeded $1.3 billion and they continue to be positive in through 3Q19.

LGA's life insurance product portfolio includes renewable and convertible term life insurance to age 95 with guaranteed level premiums for 10-, 15-, 20-, 25-, and 30-years offered at finely discerned preferred risk classes. The term life product portfolio also includes a child rider to insure the children of policyholders, term riders that allow the addition of 10, 15 or 20 years of coverage to be added to a longer duration base plan, and A-List Term, a specialized individual term product purchased by sponsoring companies on behalf of more highly compensated employees to replace or supplement their group life insurance coverage. Due to the low interest rate environment, LGA suspended broad market sales of universal life in 2015. LGA is closely monitoring the permanent product market place and will reenter when conditions support pricing objectives.

In 2015, Banner entered the Pension Risk Transfer business by writing its first group annuity contract for $445 million with the US subsidiary of Royal Philips, providing retirement payments to approximately 14,000 of Philips' US retirees and other former employees. Banner added a second deal in early 2016 with the Diocese of Palm Beach for $65 million. Banner's PRT business leverages the expertise of Legal & General's UK Retirement division, a market leader in Great Britain with over 30 years experience. LGA's entry into the PRT business was recognized as an Industry Innovation Award-winner in 2015 by Chief Investment Officer magazine and continues to see strong growth into 2019.

LGA has invested in technology to drive down operating costs, allowing it to become a low-cost and more efficient provider of mortality risk products. This allows both companies to benefit from the significant investment in technology. LGA is also looking to expand their use of differentiated distribution channels such as BGAs/ Aggregators, and digital direct underwriting to amplify the impact of their switch to digitalization and newer technology. In addition, all functions have been consolidated at the senior management level.

Enterprise Risk Management

Legal & General America Group's (LGA) risk management process functions in alignment with the enterprise risk management (ERM) framework of its ultimate parent, Legal & General Group Plc. LGA monitors and manages its risk exposures through its risk governance framework which includes but is not limited to: risk appetite, risk policies, risk taking authorities and several risk/corporate governance committees. The Risk and Compliance Committee is comprised of senior management, the chief risk officer, the head of internal audit, and a compliance and fraud officer. This committee's primary role is to ensure that appropriate processes are in place across U.S. operations to identify, assess, monitor and control critical business and operational risks facing Legal & General America, Inc. and its operating subsidiaries. The Pricing Committee's primary role is to ensure that products issued through LGA are designed and priced based on required capital to deliver agreed upon profit metrics; and that all risks are identified - including insurance and financial risks as well as the associated operational risks including regulatory and legal risks, assessed, monitored and mitigated to within agreed risk appetites and capital limits. The Assumption Governance Committee's primary role is, no less than annually, to review, challenge and approve the non-economic assumptions to be used consistently throughout the organization. This includes consideration of and challenge to the robustness and rigor of the experience analysis, emerging experience and understanding implications across all reporting metrics and pricing. The Audit committee's chief responsibility is to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, risk management, the system of internal control, the audit process and the group's process for monitoring compliance with laws and regulations and the code of conduct. LGA's Asset and Liability Committee (ALCO) sets investment strategy in order to deliver risk-adjusted returns above the pricing and reserve liability bases, taking into account the nature of the liability cash flows and the strategic outlook and conditions of the investment markets. The primary role of the Complaint Committee is to review and determine appropriate recourse for complaints submitted to LGA via various state insurance departments and/or through an internal company escalation process. Finally, LGA's claims committee reviews and determines appropriate recourse for death claims received on policies that are still within their contestable period.

Emphasis is placed on the role each person plays in risk management. LGA subscribes to a "Three Lines of Defense" model recognizing that duties related to risk management and control are increasingly being split across multiple departments and divisions. The model provides an effective way to enhance communications on risk management and control by clarifying essential roles and duties. The first line of defense owns and manages the risk. Responsibilities for managing and reviewing risks and maintaining effective internal controls as part of day to day business activity are established. Controls are designed into systems and processes under the guidance of operations management. Under the second line of defense, responsibilities for oversight of the risks identified are established that include assisting in determining risk capacity; risk appetite; and policies and structures for managing risk. Risk management, compliance and controllership functions that monitor financial risks and financial reporting issues typically provide oversight of these risks. Finally, under the third line of defense, independent assurance on the overall effectiveness of the risk governance framework is provided and typically includes the internal and external auditors. Risk appetite statements and associated risk tolerance/limits for the company's top risks are reviewed on a quarterly basis, updated as necessary and included in the quarterly report to the risk and compliance committee.

Rating Lift/Drag

Historically, LGA has received one notch of ICR rating enhancement from its parent, Legal & General Group, Plc. (L&G). The recommendation is to extend the one notch of rating enhancement from the parent to LGA in the current rating cycle, assuming the ratings of L&G are affirmed. LGA maintains a strong affiliation with its parent and is strategically important to the UK operations, especially as related to Solvency II. LGA provides the parent the ability to penetrate the large U.S. life insurance market and also provides important diversification of business profile and earnings (L&G is more heavily concentrated in the asset accumulation segments).

L&G has also demonstrated both implicit (strategic and financial) and explicit support to LGA. The parent has contributed capital totaling $0.74 billion from (2012 - 2018) to LGA. LGA has also historically used the parent's balance sheet strength to complete reinsurance transactions related to its Regulation XXX reserve funding requirements. Furthermore, starting with new business written in 2010, L&G has been self-funding the Regulation XXX reserve requirements.

Financial Statements

Balance Sheet	6-Months 2019 USD (000)	%	Year End - December 31 2018 USD (000)	%	2017 USD (000)	%
Cash and Short Term Investments	223,845	4.0	224,639	4.1	292,059	5.9
Bonds	3,319,107	59.9	3,352,283	61.2	3,024,759	61.5
Preferred and Common Stock	23,853	0.4	20,453	0.4	...	...
Other Invested Assets	989,931	17.9	830,008	15.2	577,369	11.7
Total Cash and Invested Assets	4,556,736	82.2	4,427,383	80.8	3,894,187	79.2
Premium Balances	286,845	5.2	280,466	5.1	253,844	5.2
Net Deferred Tax Asset	71,714	1.3	109,393	2.0	112,387	2.3
Other Assets	75,521	1.4	93,399	1.7	58,263	1.2
Total General Account Assets	4,990,815	90.0	4,910,641	89.7	4,318,680	87.8
Separate Account Assets	553,508	10.0	566,148	10.3	600,087	12.2
Total Assets	5,544,323	100.0	5,476,789	100.0	4,918,767	100.0
Net Life Reserves	2,624,300	47.3	2,455,584	44.8	1,603,111	32.6
Net Accident & Health Reserves	4,068	0.1	2,915	0.1	746	...
Liability for Deposit Contracts	35,229	0.6	32,163	0.6	32,720	0.7
Asset Valuation Reserve	32,582	0.6	31,214	0.6	28,870	0.6
Other Liabilities	1,841,499	33.2	1,651,123	30.1	1,906,507	38.8
Total General Account Liabilities	4,537,679	81.8	4,172,999	76.2	3,571,954	72.6
Separate Account Liabilities	558,786	10.1	567,938	10.4	602,478	12.2
Total Liabilities	5,096,464	91.9	4,740,937	86.6	4,174,432	84.9
Capital Stock	4,034	0.1	4,034	0.1	4,034	0.1
Paid-In and Contributed Surplus	1,212,535	21.9	1,212,535	22.1	1,212,535	24.7
Unassigned Surplus	-768,712	-13.9	-480,718	-8.8	-472,234	-9.6
Total Capital and Surplus	447,858	8.1	735,852	13.4	744,335	15.1
Total Liabilities, Capital and Surplus	5,544,323	100.0	5,476,789	100.0	4,918,767	100.0

Source: BestLink® - Best's Financial Suite

Last Update
December 12, 2019

Identifiers
AMB #: 069539

This company is a data record that AM Best utilizes to represent the AM Best Consolidated financials for the Life, Annuity, and Accident business of AMB#: 086120 Legal & General Group Plc.

AMB#: 006468 Banner Life Insurance Company has been assigned as the AMB Group Lead for this consolidation and should be used to access name, address, or other contact information for this AM Best Consolidated Group.

Financial Data Presented

See LINK for details of the entities represented by the data presented in this report.

Legal & General America Group

Operations

Date Incorporated: September 21, 1981

Domiciled: Maryland, United States

Business Type: Life, Annuity, and Accident
Organization Type: Stock
Marketing Type: Broker

Best's Credit Ratings

Rating Relationship

This group represents an AM Best Rating Unit. In our opinion, companies under this Rating Unit have a Superior ability to meet their ongoing insurance obligations and a Superior ability to meet their ongoing senior financial obligations.

Best's Credit Rating Effective Date: December 06, 2019

Rating rationale and credit analysis can be found in the Best's Credit Report for AMB# 069539 - Legal & General America Group.

		Best's Credit Ratings	
AMB#	**Rating Unit Members**	**Financial Strength Rating**	**Long-Term Issuer Credit Rating**
006468	Banner Life Ins Co	A+	aa-
006734	William Penn Life Ins Co of NY	A+	aa-

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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