Best's Rating Report

EVERY DAY MATTERS.
BANNER. WILLIAM PENN.

LEGAL & GENERAL AMERICA GROUP

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

Financial Strength
A M BEST
A+ Superior

Associated With:
Legal & General Group Plc

LEGAL & GENERAL AMERICA GROUP

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AMB#: 069539
Associated Ultimate Parent#: 086120

RATING RATIONALE

Rating Rationale: The ratings of Banner Life Insurance Company and its wholly owned subsidiary, William Penn Life Insurance Company of New York -- collectively referred to as the Legal and General America Group (LGA) -- reflect the strategic and financial benefits derived from its ultimate parent, Legal and General Group, Plc (L&G). The ratings also reflect LGA's strong competitive position in the term life market; positive operating performance on a U.S. GAAP and International Financial Reporting Standards (IFRS) basis and more than adequate risk-adjusted capitalization that has been bolstered by financial support from L&G, when needed; and good quality investment portfolio. Partially offsetting these strengths are LGA's limited business profile, ongoing statutory earnings volatility resulting primarily from Regulation XXX reserving requirements and the group's increased exposure to illiquid asset classes.

LGA represents the strategically important U.S. operations of L&G, a worldwide insurance organization and leading provider of risk, savings and investment management products headquartered in London, England. 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. L&G derives significant diversification benefits from LGA's mortality business, which acts as a natural hedge to the parent's asset accumulation businesses. Highly developed administrative and underwriting platforms, along with a variable cost distribution network strategy, support LGA's efficient expense structure and make it a low-cost manufacturer. LGA has been solidly profitable on a U.S. GAAP and IFRS basis, and consolidated stand-alone risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) is more than adequate to support its current insurance and investment risks. LGA's consolidated risk-adjusted capitalization is enhanced by a high quality fixed income investment portfolio that has avoided material investment losses since the financial crisis and is currently in a net unrealized gain position. Since 2010, L&G has utilized its own balance sheet strength to internally finance LGA's Regulation XXX reserves associated with the term life business.

LGA's business profile is heavily concentrated in the highly competitive and commoditized term life market. LGA's consolidated statutory net operating performance has fluctuated in recent years as new business reserve strains have been held until the periodic Regulation XXX reserve solutions have been completed. Additionally, A.M. Best expects LGA to continue to experience volatile statutory net operating results as the Regulation XXX transactions -- while having a positive impact on surplus -- do not eliminate the negative impact of the reserve strain on statutory operating performance. LGA's results are also subject to volatility from mortality experience as a result of its concentration in mortality risk. 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. Prior to 2010, LGA relied on capital market securitizations to fund Regulation XXX reserving needs. A.M. Best expects L&G to continue to fund LGA's expected new business production at least through the near term. However, should the parent's strategy to self-fund Regulation XXX reserve requirements change, A.M. Best believes LGA may be challenged to find suitable, cost-efficient financing and refinancing alternatives for funding its Regulation XXX reserves. LGA has recently implemented a strategic asset allocation program whereby the group has reduced its allocations to publicly issued investment grade bonds and U.S. government asset classes while increasing its allocations to non-144A private placement bonds, direct commercial mortgage loans, and a small allocation to high-yield bonds. The private placements and direct commercial mortgage loans are managed by outside asset managers. While these asset classes are expected to increase the overall yield of its invested asset portfolio and improve asset/liability duration matching, these asset classes are less liquid and expose the group to potential asset impairments should the global economic recovery stall or deteriorate. As expected, risk-adjusted capitalization was not materially impacted.

Positive rating actions could be driven by an upgrade to Legal & General Group Plc. A deterioration in A.M. Best's view of Legal & General America Group's (the company's rating unit) strategic importance to Legal & General Group Plc or a downgrade of Legal & General Group Plc's ratings by A.M. Best could lead to a downgrade.

RATING UNIT MEMBERS

Legal & General America Group (AMB# 069539):

AMB#	Company	Best's FSR
006468	Banner Life Ins Co	A+
006734	William Penn Life Ins Co of NY	A+

KEY FINANCIAL INDICATORS ($000)

Year	Assets	Total Capital Capital Surplus Funds	Asset Valuation Reserve	Net Premiums Written	Net Invest Income	Net Income
2011	2,474,491	252,704	5,633	168,625	158,944	54,564
2012	2,618,781	459,000	6,991	99,415	112,112	-31,230
2013	2,625,939	450,036	12,432	371,331	119,813	-59,242
2014	2,788,359	369,087	17,042	254,355	184,134	-89,021
2015	3,239,167	337,223	21,292	315,973	134,235	95,852

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

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. Prior to December 19, 2013, Legal & General Insurance Holdings, Ltd. (LGIH), an affiliate of LGA, owned two-thirds of the outstanding shares of the Class B common stock and all the preferred stock issued by Banner Life Insurance Company. On December 19, 2013, LGIH contributed all the Class B common and all the preferred stock issued to L&G. L&G contributed all the Class B common and all the preferred stock to LGA. 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.

Affiliations: 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 total of twenty separate capital transactions since 2000, raising approximately $10.0 billion of peak capital to finance these significant 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. A.M. 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. Prior to 1998, LGA's business was predominately permanent insurance (whole life and universal life) written through a wide variety of distribution systems to the lower and middle income marketplace. Since that time, LGA has 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 that distributes predominately through NAILBA member agencies, also referred to as Brokerage General Agencies (BGAs). In 2014, LGA generated total statutory first year direct ordinary life premium of $151.6 million. The majority of first year direct ordinary life premium was generated in its core term life segment enhanced by good relationships with its brokerage general agents.

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.

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. In addition, all functions have been consolidated at the senior management level.

OPERATING PERFORMANCE

Operating Results: 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. Appendix A-791 of the Statements of Statutory Accounting Principles (SAP) requires that any net gain from reinsuring in force business has to be recorded directly through surplus – on a net 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 recorded a net operating gain in 2015 after three years of incurring losses. In 2015, the Company entered into an agreement with Legal & General Assurance Society, an affiliate, to relieve 2015 new business reserve strain. In addition, on October 1, 2015, LGA entered into a Pension Risk Transfer agreement and simultaneously entered into a 100% modified coinsurance agreement with Legal & General Assurance Society associated with the block of Pension Risk Transfer business. Assets with corresponding reserves of $437 million generated by the transaction were transferred to the Separate Account of Banner. LGA expects to continue to manage surplus strain by developing capital through a combination of capital market and reinsurance transactions. This will create volatility in LGA's income statement and surplus.

LGA has consistently generated consolidated net income on an IFRS basis in each of the past several years. Gross premium revenue has also increased during the same period. LGA was ranked 8th in 2015 by ordinary life issued in the total term life market share, based upon LIMRA's fourth quarter 2015 individual life insurance sales results.

BALANCE SHEET STRENGTH

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. A.M. 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.

In 2015, LGA's consolidated statutory capital decreased about 9%, impacted by a change in net unrealized capital losses and a $80M dividend paid to its parent. In 2014, LGA's consolidated statutory capital decreased about 16%, impacted by a sizable net operating loss and another dividend paid to its parent, which offset inforce business profits and reinsurance reserve financing supporting new business growth. In 2013, LGA's consolidated statutory capital decreased slightly as in force business profits and reinsurance reserve financing supporting new business growth were offset by a net operating loss and a dividend to the parent. In 2012, LGA's consolidated statutory capital increased significantly primarily due to the increase in the carrying value of FBVRC and the favorable effects of reinsurance activity with an unaffiliated reinsurer. In 2011, LGA's capital decreased as net operating gains were more than offset by a $495 million dividend paid to the U.K. up-stream entity, Legal & General Insurance Holdings as a result of the dissolution and liquidation of FBARC.

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.

Liquidity: 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 ninety percent of its long-term bonds are investment grade and currently in a net unrealized gain position. A.M. 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 non-144A private placement bonds as well as direct commercial mortgage loans.

Investments: LGA continues to maintain a high quality investment portfolio. A.M. Best's notes that LGA's total invested assets have generally risen since 2011.

In 2013, LGA began the implementation of its strategic asset allocation strategy whereby the group will reduce its exposure to cash and U.S. government assets classes and increase its investments in more illiquid assets including high yield long-term bonds, non-144A private placements, and direct commercial mortgage loans. The re-allocation of the investment portfolio largely occurred in 2014 and is expected to be completed in 2015. This strategy is expected to increase yield for comparable credit quality and extend the overall asset duration of its total invested asset portfolio by approximately a year. The high yield long-term bond as well as the remainder of its non-144A private placement long-term bond portfolios will be managed by an affiliate, Legal and General Investment Management America Inc. The 144A private placement long-term bonds and direct commercial mortgage loan portfolios will be 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 72% in 2015 from 93% at the end of 2011 and the share in mortgage loans rising to 19.4% in 2015 from zero in 2012. 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.

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.

Investments - Bond Portfolio: LGA's long-term bond portfolio at year-end 2015 was largely investment grade. The majority of LGA's investment grade long-term bonds were in NAIC class 1 holdings. The group held slightly more than twenty-eight percent of its total long-term bonds in private placements that were well-diversified across asset classes. This represents an increase from a little more than sixteen percent in 2013 due to the implementation of the re-allocation program. This program also impacted LGA's exposure to below investment grade bonds (BIGs) relative to total capital, which increased in 2014 and in 2015 to a level above industry averages. Also, the share of the long-term bond portfolio invested primarily in publicly traded corporate obligations declined to 66%, about the industry average, from 83%.

Still, LGA's consolidated long-term bond portfolio is currently in a net unrealized gain position. A.M. Best also notes that LGA's exposure to structured securities is minimal, representing less than ten percent of the total long-term bond portfolio. The majority of LGA's mortgage-backed structured securities are invested in commercial mortgage-backed structured (CMBS) securities. The remainder of the mortgage-backed structured securities is invested principally in non-agency residential prime. LGA has no direct exposure to the residential subprime and Alt-A markets. LGA's CMBS portfolio is almost entirely invested in the highest-rated tranches, earlier vintages, and maintains a high degree of subordination. LGA has no credit default swaps, collateralized debt obligations or collateralized loan obligations.

Balance Sheet
Assets ($000)

	YE 2015
Total bonds	$1,701,187
Total common stocks	8,485
Mortgage loans	457,542
Contract loans	54,602
Cash & short-term invest	128,314
Net deferred tax asset	70,798
Prems and consids due	256,627
Accrued invest income	65,685
Other assets	26,181
Tot assets w/o sep accts	2,769,422
Separate account bus	469,744
Assets	$3,239,167

Liabilities ($000)

Net policy reserves	$ 615,182
Policy claims	44,433
Deposit type contracts	23,622
Payable on reins	469,036
Interest maint reserve	107,421
Comm taxes expenses	23,570
Asset val reserve	21,292
Funds held reinsurance	956,183
Funds held coinsur	159,362
Other liabilities	13,492
Tot liab w/o sep accts	2,433,592
Separate account bus	468,352
Total Liabilities	$2,901,944
Common stock	2,800
Preferred stock	665
Paid in & contrib surpl	913,105
Unassigned surplus	-579,347
Total	$3,239,167

Best's Rating Report

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