

Best's Rating Report

SAGICOR LIFE INSURANCE COMPANY

Austin, Texas



A-

Ultimate Parent:
Sagicor Financial Corporation Limited
SAGICOR LIFE INSURANCE COMPANY

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Tampa, FL 33607

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AMB#: 006057

Ultimate Parent#: 088130

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NAIC#: 60445

FEIN#: 74-1915841

BEST'S CREDIT RATING

Best's Financial Strength Rating: A-

Outlook: Stable

Best's Financial Size Category: VII

RATING RATIONALE

Rating Rationale: The ratings of Sagicor Life Insurance Company (Sagicor Life Insurance) reflect the company's integral role within Sagicor Financial

Corporation (SFC), its continuing focus on growth in the U.S. marketplace through acquisitions and direct marketing of its life and annuity product portfolio, and its adequate level of risk-adjusted capitalization due mostly to capital contributions from its parent. The ratings acknowledge SFC's absolute and unconditional financial guarantees through a net worth maintenance agreement as well as its planned periodic surplus contributions as it seeks to develop and grow its life insurance-based middle market presence in the U.S. Partially offsetting these strengths are statutory net operating losses due to new business strain, a high proportion of surplus notes in its capital structure, exposure to collateralized mortgage obligations (CMOs) within the fixed income portfolio and its continuing involvement in the Federal Home Loan Bank (FHLB) program.

Sagicor Life Insurance's parent, SFC, has a strong competitive position in the financial services markets that it serves in the Caribbean. The group has operations in more than 22 countries, mainly in the Caribbean and Latin America. The group's acquisition of Sagicor Life Insurance represented a part of its diversification and expansion strategy in the U.S. market. Sagicor Life Insurance continues to seek growth through relatively small acquisitions evident by the acquisition of PEMCO Life Insurance

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Company in 2012 and through direct marketing of its life and annuity products. SFC is fully committed to supporting Sagicor Life Insurance's business growth strategy and maintaining adequate risk-based capitalization as evidenced by the net worth maintenance agreement and capital infusions.

While the company did show a post-tax operating profit in 2015, new business strain had produced a trend of negative post-tax operating results on a statutory basis over the prior several years. Sagicor Life Insurance has consistently operated profitably on an IFRS basis. Moreover, A.M. Best believes that statutory operating results will continue to be negatively impacted over the next few years by costs associated with further expansion into the U.S. life insurance market. Sagicor Life Insurance's earnings are highly sensitive to annuity growth, and the company relies on reinsurance to manage growth. It continues to enjoy parental support, mainly in the form of surplus notes, to maintain an adequate level of risk-adjusted capital in light of expansion expenses and the low interest rate environment.

Net premiums written have declined in the past few years as Sagicor Life Insurance strives to mitigate the effects of the prolonged low interest rate environment and spread compression on its statutory operating results and interest-sensitive fixed annuities portfolio. Within the company's fixed income portfolio, the exposure to CMOs remains high and may pose prepayment risk to its balance sheet. This risk is mitigated, however, since the majority of these CMOs are matched against short-term FHLB debt (maturities of 30 days or less) versus long-term policyholder liabilities. The amount of its FHLB program remains high relative to its capital and surplus funds. Given continued losses and the need for ongoing capital contributions, affiliated surplus notes constitute about half of its capital and surplus funds. In A.M. Best's opinion, this level of debt diminishes the quality of capital and could pressure the company's balance sheet strength going forward.

Key rating factors that could result in a negative rating action include a decreased level of strategic importance with SFC or a decline in risk-adjusted capital ratios.

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital		Net Premiums Written	Net Invest Income	Net Income
		Surplus Funds	Asset Valuation Reserve			
2012	1,099,904	60,088	5,704	148,820	41,117	-9,525
2013	1,176,198	75,827	7,879	87,407	46,228	1,122
2014	1,214,895	74,250	8,448	74,163	46,888	189
2015	1,193,811	82,131	6,096	80,831	43,385	6,299
2016	1,086,410	72,250	6,827	73,942	42,242	-27,705

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

BUSINESS PROFILE

Sagicor Life Insurance Company (Austin, TX) (Sagicor Life) is wholly owned by Bermuda-based Sagicor Financial Corporation Limited (SFC). SFC, a public company, is one of the dominant financial services companies in the Caribbean with operations in more than 22 countries, mainly the Caribbean and Latin America. Sagicor Life was a former subsidiary of Laurel Life Insurance Company (Laurel Life), a stock life insurance company domiciled in Texas. As of January 1, 2012, Laurel Life was merged into Sagicor Life Insurance as part of a downstream merger. As part of Sagicor Life's continued focus on acquisitions, PEMCO Life insurance Company was purchased by and merged into Sagicor Life in 2012.

Sagicor Life's growth strategy historically had consisted of acquisitions, reinsurance transactions, and organic annuity growth. While the company continues to look for strategic acquisitions and reinsurance transactions to complement growth, it has turned its attention to developing organic strength in recent years. The historical block of life products consisted of universal life, term and whole life products. These products were designed for particular purposes, including providing low-cost long-term coverage, cash accumulation, estate planning, and mortgage protection. The company brought to market several new term, universal life and whole life products featuring return of premium options as well as chronic illness benefits. Sagicor Life also developed a suite of indexed products (life and annuity) that features an innovative basket option for those policyholders looking for diversification without downside risk. Sagicor Life saw a spike in new business, especially annuity sales, as the industry experienced a flight to quality. The company has focused on balancing its sales between the product lines and managing capital levels through the low interest rate environment. Although the annuity production is being managed by adjusting crediting rates and face amounts accepted, surplus strain associated with annuity new business is also being reinsured with Guggenheim Life & Annuity Company and Heritage Life Insurance Company.

The annuity portfolio historically consisted of single premium and flexible premium deferred annuities with varying benefits and interest rate guarantees. More recently, the company developed several annuity products. A shorter-term (six-year) single premium deferred annuity was developed as well as a fixed indexed single premium deferred annuity and a single premium immediate annuity.

Sagicor Life markets its products through traditional agencies and financial institution general agencies as well as individually contracted personal producing general agents (PPGAs) and a small, but growing number of career agents. In addition to direct marketing and growth through acquisition of blocks of business, the company acts as a third-party administrator for other insurers. Sagicor Life maintains a policy administration system that is continually being enhanced and provides flexibility and efficiency for processing life insurance products and has enabled the company to pro-

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vide third-party administration services effectively to unaffiliated insurers.

Territory: The company is licensed in the District of Columbia, AL, AZ, AR, CA, CO, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WV, WI and WY. It is qualified or accredited for reinsurance in Maine and Vermont.

OPERATING PERFORMANCE

Operating Results: Prior to 2015, Sagicor Life had reported statutory operating losses as the company experienced new product launches, higher marketing and distribution costs and new business strain. In addition, net premiums written have been fluctuating as the company focuses more of its marketing efforts on life products.

The company offers a variety of life and annuity products in line with its new business plan supported by its diverse distribution platform. Both ordinary life and fixed annuity lines of business have been its core premium contributor over the last five years. Annuities continue to generate the majority of direct premium. However, in order to manage the capital strain associated with new annuity business growth, Sagicor Life entered into a coinsurance agreement with Guggenheim Life and Annuity effective February 2013 to reinsure a majority of new annuity sales. In 2015, Sagicor Life entered into a coinsurance agreement with Heritage Life Insurance Company to reinsure the new indexed annuity sales as part of its risk mitigation strategy, effectively addressing concentration risk within its reinsurance portfolio. Sagicor Life is actively managing the coinsurance percentage to manage its growth and associated capital strain.

Invested assets and investment income had grown from 2011 through 2014, but both declined in 2015 as a result of an affiliated reinsurance agreement executed in 2015 that contracted both sides of Sagicor Life's balance sheet.

Going forward, A.M. Best notes that Sagicor Life's operating results may continue to be impacted unfavorably due to its continuing focus on new product development and marketing which result in additional expenses, along with the customary reserve strain from new ordinary life business. In addition, net income may be impacted by required statutory accounting treatment for such items as hedging options and realized gains on investments which accounting does not follow the economic substance of these transactions. A.M. Best notes that the company's net income had also been positive in 2013 and 2014 aided by realized capital gains.

BALANCE SHEET STRENGTH

Capitalization: Sagicor Life Insurance Company's risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), has been steady over the past several years. A.M. Best notes that the relatively large proportion of surplus notes to statutory capital and surplus is a concern.

However, A.M. Best acknowledges that these surplus notes are held by the company's parent and also notes the positive aspects of capital contributions from the parent. New business growth and related statutory strain have attributed to the company's low risk-adjusted capitalization. In addition to explicit support, which includes capital contributions of over \$80 million in recent years, SFC has provided a net worth maintenance agreement to Sagicor Life Insurance. The capital support maintains an RBC ratio (company action level) of 300%.

As a result of the parent company's financial support, A.M. Best expects the company to sustain its risk-adjusted capitalization at an adequate level to support its new growth strategy while rejuvenating its internal business and operational infrastructure.

Liquidity: Sagicor Life Insurance Company's liquidity profile is favorable as a majority of its holdings are readily marketable. In addition, the company has access through the FHLB of Dallas to substantial borrowings, if the need arises. However, net cash from operations has been fluctuating in the most recent years reflecting both changes in premiums and benefit payments, with each impacted by the level of reinsurance transactions.

Investments: Over the past five years, both investment and insurance assets have grown consistently in line with the company's growth in premiums and capital and surplus funds. Sagicor Life maintains a diversified investment portfolio, primarily comprised of high credit quality fixed income securities, while its exposure to below-investment-grade bonds remains modest. The company's bond portfolio primarily consists of investment-grade government bonds, corporate issues and public utility bonds. Over time, the amount of NAIC class 2 bonds increased, reflecting a need for some higher returns given the extended low interest rate environment. The company maintains a portfolio of CMO's to support its participation in the Federal Home Loan Bank (FHLB) lending program, which provides the company with net investment income to support its operating performance, as well as a source for liquidity, if needed. The mortgage loans portfolio as a percentage of invested assets experienced a slight increase in 2015 but still maintains an overall declining trend over the past eight years, representing approximately 2.5% of total invested assets. The remainder of Sagicor Life Insurance's investment portfolio consists principally of policy loans and preferred and common stock holdings.

MANAGEMENT

Officers: Chairman of the Board, Stephen D. McNamara; Chief Executive Officer, Dodridge D. Miller; President and Chief Operating Officer, Bart F. Catmull; Chief Risk Officer, Tyler J. Denison; Senior Vice President and Chief Financial Officer, Shaun Williams; Senior Vice President and Chief Administrative Officer, Michael P. Stricker; Senior Vice President, Bernard R. Gaffney (Investments); Vice President, Secretary and General Counsel, Jim Golembiewski (Legal & Compliance); Vice Presidents,

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James Burke (Corporate Communications), Catherine Hauck (Human Resources), Laura Morrison (Independent Sales), Glen Pederson (Systems), Teri Townsend (Programming), James R. Weiskircher (Finance), Alycia Slyck (Actuarial Services).

Directors: J. Arthur Bethell, Todd M. Campbell, Monish K Dutt, William Lucie-Smith, Kendrick A. Marshall, Stephen McNamara, Dodridge D. Miller, Vikki Lynn Pryor, Ravi C. Rambarran, Peggy M. Rubin-Dittmore, John F. Shettle.

Balance Sheet Assets (\$000)

	YE 2016
Total bonds	\$ 922,968
Total preferred stocks	20,045
Total common stocks	5,982
Mortgage loans	27,995
Real estate	115
Contract loans	31,156
Cash & short-term invest	-388
Derivatives	27,616
Premis and consids due	7,539
Accrued invest income	12,422
Other assets	30,960
	<hr/>
Assets	\$1,086,410

Liabilities (\$000)

Net policy reserves	\$ 776,427
Policy claims	9,547
Deposit type contracts	39,602
Interest maint reserve	21,536
Comm taxes expenses	3,879
Borrowed money	134,309
Asset val reserve	6,827
Other liabilities	22,031
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Total Liabilities	\$1,014,159
Common stock	2,500
Surplus notes	43,055
Paid in & contrib surpl	137,726
Unassigned surplus	-111,031
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Total	\$1,086,410

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Why is this *Best's® Rating Report* important to you?

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899.

A Best's Financial Strength Rating (FSR) is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does 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. An FSR 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.

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