

Best's Rating Report

SAGICOR LIFE INSURANCE COMPANY

Austin, Texas



A-

Ultimate Parent:
Sagicor Financial Corporation
SAGICOR LIFE
INSURANCE COMPANY

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AMB#: 06057

NAIC#: 60445

Ultimate Parent#: 88130

FEIN#: 74-1915841

BEST'S RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Rating of A- (Excellent). The company's Financial Size Category is Class VI.

RATING RATIONALE

Rating Rationale: The rating of Sagicor Life Insurance Company (Sagicor Life Insurance), reflects the company's integral role within the Barbados-based Sagicor Financial Corporation (SFC), its new business plan and marketing initiatives aimed at organic growth and its adequate level of risk-adjusted capitalization. The rating acknowledges 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 the life insurance markets in the U.S. Partially offsetting these strengths are the lack of Sagicor's solid name recognition in the U.S. life insurance market, challenges of executing its new business growth strategy, continuing net operating losses and strain on its statutory surplus funds as a result of its new business projections, large exposure to Collateralized Mortgage Obligations

(CMOs) within the fixed income portfolio and its continuing dependency on the Federal Home Loan Bank Program (FHLB) to enhance investment return and support operating liquidity.

Sagicor Life Insurance's parent, Barbados-based SFC, is one of the dominant financial services companies in the Caribbean. The group has operations in more than 22 countries, mainly Latin America and the Caribbean. The group's acquisition of Sagicor Life Insurance represents a part of its diversification and expansion strategy in the U.S. market. Sagicor Life Insurance continues to seek organic growth through implementation of its new business plan which includes direct marketing of its products while sustaining its current businesses through reinsurance and acquisition of books of business. SFC is fully committed to supporting Sagicor Life Insurance's new business growth strategy and maintaining adequate risk-based capitalization as evidenced by the net worth maintenance agreement. The company's current risk-based capitalization remains adequate relative to its investment and insurance risks.

Sagicor Life Insurance has reported mixed statutory net operating results over the last five years. The underlying trends of the net operating results have been inconsistent and continue to be impacted by lower premium income, reinsurance programs, annuity surrenders, and expenses incurred to develop and establish several marketing and distribution initiatives. A.M. Best notes that its forward looking statutory operating results will continue to be negatively impacted over the next few years by expenses on new business as the company expands into the US life insurance markets. Additionally, the increased exposure to interest sensitive fixed annuities in recent years could further challenge the company's statutory operating results as the low interest rate environment and spread compression persist going forward. Within the company's fixed income portfolio, the

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magnitude of and exposure to CMOs remain high and may pose prepayment risk to its balance sheet. In addition, its FHLB program remains high relative to its capital and surplus funds.

Best's Rating: A-

Outlook: Stable

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital				
		Capital Surplus	Condit'l Reserve	Net Funds	Net Written Premiums	Net Invest Income	Net Income
2002	624,530	30,683	2,621	41,196	26,581	-15,304
2003	636,407	35,670	2,533	40,264	17,711	4,722
2004	502,445	30,829	2,397	28,867	17,617	-1,529
2005	501,392	42,279	3,193	24,937	17,847	4,788
2006	479,441	33,906	3,514	15,224	17,365	-1,208
2007	527,926	35,142	4,121	11,673	16,679	-3,523

BUSINESS REVIEW

Sagicor Life Insurance Company (Sagicor Life Insurance), formerly American Founders Life Insurance Company, is a wholly owned subsidiary of Laurel Life Insurance Company (Laurel Life), a stock life insurance company domiciled in Texas. In October 2005, Sagicor Life Insurance and Laurel Life were acquired by Sagicor Financial Corporation (SFC) from their previous owner, Vesta Insurance Group, Inc. Barbados-based SFC, is one of the dominant financial services companies in the Caribbean with operations in more than 22 countries, mainly Latin America and the Caribbean.

Sagicor Life Insurance's growth strategy historically consisted of acquisitions, reinsurance transactions, and organic annuity growth. While the company continues to look for strategic acquisition and reinsurance transactions, 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. In 2006, the company began an aggressive program of product development. Since that time the company has brought to market several new term products featuring return of premium options and whole life products featuring return of premium options as well as chronic illness benefits. The Company has also developed a suite of indexed products (life and annuity) that feature an innovative basket option for those policyholders looking for diversification without downside risk.

The annuity portfolio historically consisted of single premium and flexible premium deferred annuities with varying benefits and interest rate guarantees. Sagicor Life Insurance developed a single premium annuity product with an initial five-year interest rate guarantee period and options to renew for subsequent five-year rate guarantees. Interest rate bonuses are credited to the initial five-year guarantee period on policies that persist through the end of the tenth policy year. This product gave the customer an improved perspective of yields throughout the life of their annuity policy with the option to enhance those yields through renewal elections and was marketed from 1999 to 2007. In 2006, the company also developed several annuity products in conjunction with the product development program noted above. A shorter term (6-year) single premium deferred annuity was developed as

well as a fixed indexed single premium deferred annuity (part of the index suite discuss above).

Sagicor Life Insurance has marketed its products through traditional agencies and financial institution general agencies through individually contracted personal producing general agents (PPGAs). 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 Insurance 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 provide third party administration services effectively to unaffiliated insurers. Sagicor Life Insurance currently provides third party administration services to unaffiliated companies, as well as coinsures life and annuity business in connection with administration services. The company anticipates continued technological improvements and growth through joint venture arrangements, including providing third party administrative services and related reinsurance.

EARNINGS

Sagicor Life Insurance Company (Sagicor Life) has reported mixed operating results over a five year period including a \$3.5 million loss in 2007 and a \$1.3 million loss in the first quarter of 2008. The losses are primarily attributed to lower net written premiums, increased benefits to policyholders, high operating expenses including new business strain and marketing initiatives and higher surrender activity. Overall net premiums have decreased in each of the past five years primarily as a result of annual decreases in annuity premiums due to continuing low interest rates and the company's shift in focusing to new product marketing and distribution. Net operating gains in Sagicor life's core individual annuity line of business have decreased consistently over the past five years including a loss in 2007 while net operating gains have been mixed in the core ordinary life line with increased losses in the past two years.

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 costs, changes in its administrative and system areas, and further enhancements to its distribution platform. Sagicor Life will continue to face challenges in its core business lines as it manages to transition from acquisition-based operations to an organic growth model while implementing a new business plan to penetrate the U.S. life insurance market.

CAPITALIZATION

Sagicor Life Insurance's 2007 risk-adjusted capitalization, as measured by A.M. Best Capital Adequacy Ratio, remains at an adequate level relative to its insurance and investment risks. Sagicor Life's capital has been enhanced by capital contributions from its ultimate parent, Sagicor Financial Corp (SFC), over the past five years including an \$8.3 million contribution in 2007. SFC has also provided an unconditional financial guarantee through a net worth maintenance agreement to Sagicor Life. As a result of the parent company 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.

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INVESTMENTS AND LIQUIDITY

Sagicor Life maintains a diversified investment portfolio primarily comprised of high credit quality fixed income securities. Sagicor Life has minimal exposure to below investment grade bonds and no sub-prime mortgage exposure. The company's bond portfolio primarily consists of investment-grade government bonds, corporate issues and public utility bonds. The investment portfolio has become more reliant on investment grade bonds as the company has written off many of their problem loans and has sold their major real estate position. The company maintains a portfolio of CMOs 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. Sagicor Life Insurance's mortgage portfolio has increased over the past three years as the company has looked for ways to diversify its asset base while increasing its yields. This increase has been focused on the commercial sector and has involved the company participating in pools of mortgage loans thereby reducing the company's exposure to any one loan and/or region. The remainder of Sagicor Life Insurance's investment portfolio consists principally of policy loans and common stock holdings in (FHLB).

OFFICERS

President and Chief Executive Officer, Kendrick A. Marshall; Senior Vice Presidents, Bernard R. Gaffney (Investments), Michael P. Stricker (MIS/Quality Assurance); Vice President and Secretary, Catherine Hauck; Vice President and Chief Actuary, William Aguayo; Vice Presidents, Sandra L. Clifford (Administration), Steven W. Mills, Anabel S. Thomas, James R. Weiskircher; Treasurer and Chief Operating Officer, Bart F. Catmull.

DIRECTORS

John A. Bethell, Todd M. Campbell, Bart F. Catmull, George J. Estock, Bernard R. Gaffney, William Lucie-Smith, Kendrick A. Marshall, Stephen McNamara, Dodridge D. Miller, Sandra Osborne, John F. Shettle, Beverly Sisson.

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, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WV, WI and WY. The company is an authorized reinsurer in CT, ME, RI, and VT.

Balance Sheet	
Assets (\$000)	12/31/2007
*Total bonds	\$425,685
*Total preferred stocks	10,643
*Total common stocks	5,158
Mortgage loans	27,069
Contract loans	34,383
Cash & short-term inv	7,731
Premis and consids due	2,412
Accrued invest income	4,803
Other assets	10,043
Assets	\$527,926
Liabilities (\$000)	
Net policy reserves	\$345,082
Policy claims	3,024
Deposit type contracts	12,053
Interest maint reserve	3,765
Comm taxes expenses	3,047
Borrowed money	116,423
Asset val reserve	4,121
Other liabilities	5,268
Total Liabilities	\$492,783
Common stock	2,500
Paid in & contrib surpl	40,071
Unassigned surplus	-7,429
Total	\$527,926

*Securities are reported on the bases prescribed by the National Association of Insurance Commissioners.

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

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

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. Best's Ratings represent the current and independent **opinion** of a company's financial strength and ability to meet obligations to policyholders. Best's Ratings are **not a warranty** of an insurer's current or future ability to meet obligations to policyholders, nor are they a recommendation of a specific policy form, contract, rate, or claim practice.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

Secure Best's Ratings

A++ and A+	.....	Superior
A and A-	.....	Excellent
B++ and B+	.....	Good

Vulnerable Best's Ratings

B and B-	.....	Fair
C++ and C+	.....	Marginal
C and C-	.....	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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