

Best's Rating Report

SAGICOR LIFE INSURANCE COMPANY

Austin, Texas



A-

Ultimate Parent:
Sagicor Financial Corporation
SAGICOR LIFE INSURANCE COMPANY
Exec/Admin: 4343 North Scottsdale Road, Suite 300
Scottsdale, AZ 85251-3347
Web: www.sagicorlifeusa.com

Tel: 480-425-5100 Fax: 480-425-5127
AMB#: 06057 NAIC#: 60445
Ultimate Parent#: 88130 FEIN#: 74-1915841

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength 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 continuing focus on organic growth in the U.S. marketplace through life and annuity product portfolio, 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 challenges of executing its new business growth strategy, continuing net operating losses due to new business strain, its 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 as it continues to be supported by SFC through a net worth maintenance agreement.

Sagicor Life Insurance has reported mixed statutory net operating results over the last five years including increased losses in the past two years. The underlying trends of the net operating results have been inconsistent and continue to be impacted by new business strain 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 Financial Strength Rating: A-

Outlook: Negative

KEY FINANCIAL INDICATORS (\$000)

Year	Assets	Total Capital		Net Written Premiums	Net Invest Income	Net Income
		Capital Surplus	Condit'l Reserve			
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
2008	538,779	29,188	2,873	33,518	20,355	-21,226

BUSINESS REVIEW

Sagicor Life Insurance Company (SLIC) 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 (Sagicor) from their previous owner, Vesta Insurance Group, Inc. Barbados-based Sagicor, is one of the dominant financial services companies in the Caribbean with operations in more than 22 countries, mainly Latin America and the Caribbean.

SLIC'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. SLIC 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).

SLIC 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. SLIC 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. SLIC 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 (SLIC) has generally reported increased operating losses over a five year period, excluding 2005 when a \$4.3M gain was reported, including a \$19.0 million loss in 2008 and a \$3.8 million loss in the first quarter of 2009. Recent larger losses are primarily attributed to new business reserve strain, increased benefits to policyholders, high operating expenses and higher surrender activity. Overall net premiums have tripled in the most recent year end after decreasing in each of the previous four years primarily as a result of new product marketing initiatives. Previous year annual decreases in net premium written was primarily a result of a lack of growth in the ordinary life business combined with decreases in annuity premiums due to continuing low interest rates. Net operating gains in SLIC's life's individual annuity line of business have decreased consistently over the past five years including losses in 2008 and 2007 while net operating gains have also decreased in the ordinary life line with losses in the past three years.

Going forward, A.M. Best notes that SLIC's operating results may continue to be impacted unfavorably due to its continuing focus on new product development and marketing costs, reserve strain on new ordinary life business, and further enhancements to its distribution platform. SLIC 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 Company's (SLIC) 2008 risk-adjusted capitalization, as measured by A.M. Best Capital Adequacy Ratio, remains at an adequate level relative to its insurance and investment risks as a result of capital contributions from its ultimate parent, Sagicor Financial Corp (SFC), over the past five years including \$18.1 million in contributions in 2008. 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 Insurance Company (SLIC) maintains a diversified investment portfolio primarily comprised of high credit quality fixed income securities. SLIC has minimal exposure to below investment grade bonds and minimal subprime 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. SLIC'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 SLIC's investment portfolio consists principally of policy loans and common stock holdings in (FHLB).

OFFICERS

President and Chief Executive Officer, Kendrick A. Marshall; Chief Risk Officer, Tyler Denison; Senior Vice President and Chief Financial Officer, David Williams; Senior Vice Presidents, Bernard R. Gaffney (Investments), Michael P. Stricker (MIS); Vice Presidents, Catherine Hauck (Human Resources), Steven W. Mills (Administration), Anabel S. Thomas (Corporate Communications), James R. Weiskircher (Finance); Secretary, Sandra K. Osborne; Treasurer and Chief Operating Officer, Bart F. Catmull.

DIRECTORS

John A. Bethell, Todd M. Campbell, Christopher D. DeCaires, William Lucie-Smith, Kendrick A. Marshall, Stephen McNamara, Dodrige D. Miller, Ravi C. Rambarran, 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. It is qualified or accredited for reinsurance in Maine and Vermont.

Balance Sheet	
Assets (\$000)	
	12/31/2008
*Total bonds	\$435,958
*Total preferred stocks	11,705
*Total common stocks	5,514
Mortgage loans	28,902
Contract loans	32,909
Cash & short-term inv	7,303
Premis and consids due	2,194
Accrued invest income	4,381
Other assets	9,913
	<hr/>
Assets	\$538,779
Liabilities (\$000)	
Net policy reserves	\$359,819
Policy claims	3,549
Deposit type contracts	13,301
Interest maint reserve	2,700
Comm taxes expenses	2,656
Borrowed money	120,690
Asset val reserve	2,873
Other liabilities	4,005
	<hr/>
Total Liabilities	\$509,592
Common stock	2,500
Paid in & contrib surpl	58,128
Unassigned surplus	-31,440
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Total	\$538,779

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

Best's Rating Report

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. The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating 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. 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.

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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