Best's Rating Report

EVERY DAY MATTERS.
BANNER. WILLIAM PENN.

Banner Home Office
3275 Bennett Creek Avenue
Frederick, Maryland 21704

William Penn Home Office
100 Quentin Roosevelt Boulevard
Garden City, New York 11530

Financial Strength Rating
A.M. BEST
A+ Superior

A+

Ultimate Parent:
Legal & General Group Plc
BANNER LIFE INSURANCE COMPANY

3275 Bennett Creek Avenue
Frederick, MD 21704
Web: www.lgamerica.com

Tel: 301-279-4800 **Fax: 301-279-4178**
AMB#: 006468 **NAIC#: 94250**
Ultimate Parent#: 086120 **FEIN#: 52-1236145**

BEST'S CREDIT RATING

Best's Financial Strength Rating: A+ **Outlook**: Stable
Best's Financial Size Category: IX

RATING RATIONALE

The following text is derived from A.M. Best's Credit Report on Legal & General America Group (AMB# 069539).

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 rating also reflects 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 supported by reserve securitizations and financial support from L&G, when needed, and a high quality investment portfolio. Partially offsetting these strengths are LGA's limited business profile, ongoing overall statutory earnings volatility resulting primarily from Regulation XXX reserving requirements, the challenging environment for funding Regulation XXX reserves, and its 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 fourth 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. In order to finance Regulation XXX reserve requirements, LGA has successfully raised in excess of $6 billion through a variety of securitization transactions to fund statutory Regulation XXX reserve requirements associated with its term life business. In addition, L&G has provided capital when needed and has begun to utilize its own balance sheet strength to internally finance LGA's Regulation XXX reserves.

LGA's business profile is heavily concentrated in the highly competitive and commoditized term life market. To lessen this business concentration risk somewhat and further diversify earnings, LGA has extended its expertise into the universal life market although LGA has been challenged somewhat to meaningfully grow this segment. 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. However, unfavorable market conditions made it more difficult to obtain capital-efficient financing for its Regulation XXX reserving needs. Starting in 2010, LGA's new term life production has been fully funded utilizing the balance sheet of its parent. 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 been reducing its allocations to cash and U.S. government asset classes while increasing its allocations to high yield and non-144A private placement bonds and direct commercial mortgage loans. 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. Risk-adjusted capitalization is not expected to be impacted materially.

A.M. Best believes positive rating movement for LGA is unlikely over the near to medium term. Key rating factors that could result in a negative rating action include a significant and sustained decline in consolidated stand-alone risk-adjusted capitalization as measured by BCAR, operating performance that does not meet A.M. Best's expectations over a sustained period, a deterioration in A.M. Best's view of LGA's strategic importance to L&G, or a downgrade of L&G's rating by A.M. Best.

KEY FINANCIAL INDICATORS ($000)

Year	Assets	Total Capital Capital Surplus Funds	Capital Asset Valuation Reserve	Net Premiums Written	Net Invest Income	Net Income
2009	1,414,139	311,310	984	206,161	73,207	101,261
2010	1,918,463	675,476	2,351	81,445	55,410	26,689
2011	1,524,030	252,704	2,385	119,457	104,724	55,835
2012	1,703,819	459,000	3,079	96,007	64,894	-17,861
2013	1,687,688	450,036	6,260	324,123	75,258	-44,032

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

BUSINESS PROFILE

The following text is derived from A.M. Best's Credit Report on Legal & General America Group (AMB# 069539).

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 and universal life markets. Based on new business annualized premium, LGA ranks in the top quartile for total all ordinary life products and 4th 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.

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 high net worth 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). Through its relationship with NAILBA, LGA life insurance products are sold primarily through licensed brokerage firms. In 2013, LGA generated total statutory first year direct ordinary life premium of $161.6 million, an increase over the previous year of approximately 10% reflecting further improvements in market share. 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-, and 30-years offered at finely discerned preferred risk classes. The term life product portfolio also includes Life Value Term 20 and Life Value Term 30 products with both having level death benefits and coverage to age 95. Initial premiums are lower than traditional level term life insurance products. Premiums increase annually during the term period and are guaranteed. To mitigate its business concentration risk in the term life market and to capitalize on its underwriting and investment expertise as well as its leverage in the brokerage distribution channel, LGA has expanded its insurance product portfolio to include universal life products. The universal life products are designed to target death benefit sales and avoid sales based on financial arbitrage in the premium-financing market. LGA's "Life Choice UL" product is a flexible premium plan that provides lifetime guaranteed coverage with provisions for guaranteed cash values. "Life Choice UL" benefits include: a lifetime guarantee that allows the policyholder the option to pay a level premium to guarantee the coverage for an entire lifetime; short pay guarantee that allows the policyholder the ability to design a premium payment schedule over a select number of years to guarantee lifetime coverage; and a guaranteed cash value option whereby the lifetime premium not only guarantees coverage but cash value to the policy. In 2013, LGA's universal life segment represented 6.5% of total annualized premium, a sharp decline from the previous year. This decline was due primarily to re-pricing of the product to reflect the current low interest rate environment. Going forward, the group is considering adding long-term care and critical illness riders.

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. Banner Life and William Penn-NY maintain separate offices in Frederick, Maryland, and Garden City, New York, respectively, but share the same data and administrative systems. This allows both companies to benefit from the significant investment in technology and to mitigate the risks of operating in a single location. In addition, all functions have been consolidated at the senior management level.

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

OPERATING PERFORMANCE

The following text is derived from A.M. Best's Credit Report on Legal & General America Group (AMB# 069539).

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.

Over the past two years, LGA has incurred consolidated statutory net operating losses. These losses were triggered primarily due to surplus strain related to Regulation XXX reserve requirements and statutory expense strains associated with growth in new business production. LGA's consolidated statutory net operating gains in 2011 were favorably impacted by a decrease in reserves resulting from surplus relief transactions. LGA's 2010 consolidated statutory net operating gain was impacted by a decrease in premium income which was due to an overall increase in premiums ceded through its reinsurance activities. In 2009, the consolidated statutory net operating gain was impacted primarily by a decrease in reserves due to surplus relief transactions and a change from the 2001 CSO Mortality Table (single class) to the 2001 CSO Preferred Class Structured Mortality Table, which resulted in a decrease in life policy reserves.

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. On a U.S. GAAP basis LGA consolidated net income was $167 million in 2013, an increase over the $88 million of net income recorded the previous year.

BALANCE SHEET STRENGTH

The following text is derived from A.M. Best's Credit Report on Legal & General America Group (AMB# 069539).

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. Since 2006, 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 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 the current year, LGA's total consolidated statutory capital decreased modestly as a $68.8 million dividend paid to its parent was not quite offset by in force business profits and reinsurance reserve financing supporting new business growth. In the previous year, LGA's total 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. In 2010, LGA's capital increased significantly impacted principally by capital contributions made to Banner Life as part of the novation of the FBARC reinsurance agreement to LGAS. Separate LGAS 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.

On an IFRS basis, LGA's consolidated shareholder's equity remained positive at year-end 2013. On a U.S. GAAP basis, LGA consolidated shareholders' equity was $1.4 billion in 2013.

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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 virtually all 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 planned increase in illiquid assets resulting from its implementation of its strategic asset allocation strategy that will increase the group's exposure to high yield long-term and non-144A private placement bonds as well as direct commercial mortgage loans.

The following text is derived from A.M. Best's Credit Report on Legal & General America Group (AMB# 069539).

Investments: LGA continues to maintain a high quality investment portfolio. A.M. Best's notes that LGA's total invested assets have fluctuated in recent years primarily due to the effects of reinsurance activity. In 2013, consolidated invested assets declined modestly. Currently, LGA's invested assets are predominantly long-term bonds that represented slightly less than ninety-five percent of total invested assets. The company's remaining invested assets are comprised of contract loans, short-term securities, cash balances and direct commercial mortgage loans. 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.

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 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.

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 was almost entirely investment grade. The majority of LGA's investment grade long-term bonds were in NAIC class 1 holdings. The group held slightly more than fifteen percent of its total long-term bonds in private placements that were well-diversified across asset classes. A.M. Best notes that LGA's exposure to below investment grade bonds (BIGs) relative to total capital increased at year-end as a direct result of the implementation of its strategic asset allocation strategy. Despite this increase, LGA's level of BIGs relative to total capital remains manageable and below industry averages. LGA's consolidated long-term bond portfolio is currently in a net unrealized gain position. LGA's long-term bond portfolio is invested primarily in publicly traded corporate obligations. A.M. Best also notes that LGA's exposure to structured securities is minimal, representing less than fifteen 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.

MANAGEMENT

Officers: President and Chief Executive Officer, James D. Atkins; Senior Vice President, Treasurer and Chief Financial Officer, Gene R. Gilbertson; Senior Vice Presidents, Frank T. Gencarelli (Sales and Marketing), Sharon P. Jenkins (Underwriting); Vice President and Chief Risk Officer, Amy Butler; Vice President, Secretary and General Counsel, Bryan R. Newcombe; Vice Presidents and Medical Directors, Martin L. Engman, M.D., Richard Knee, M.D., David Williams, M.D.; Vice Presidents, Grant Andrew (New Market Development), Ross W. Baker (Corporate Tax), Randy W. Binger (Information Systems and Services), Patrick M. Bowen (Senior Account Manager), Barbara A. Esau (Human Resources), Eric W. Lester (Administrative

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Services), Andrew D. Love (Finance), Michael J. Moriarty (Corporate Actuary), Stephen C. Robinson (Senior Account Manager).

Directors: James D. Atkins (Chairman), Michael M. Cassell, Barbara A. Esau, Frank T. Gencarelli, Gene R. Gilbertson, Sharon P. Jenkins, John P. Murrin, Thomas W. Walsh.

Balance Sheet
Assets ($000)

	12/31/2013
Total bonds	$1,094,029
Total common stocks	195,894
Contract loans	27,042
Cash & short-term inv	39,772
Net deferred tax asset	58,700
Prems and consids due	219,584
Accrued invest income	10,531
Other assets	11,252
Tot assets w/o sep accts	1,656,805
Separate account bus	30,884
Assets	$1,687,688

Liabilities ($000)

Net policy reserves	$ 441,524
Policy claims	24,147
Deposit type contracts	7,513
Interest maint reserve	46,717
Comm taxes expenses	16,565
Asset val reserve	6,260
Funds held reinsurance	478,109
Funds held coinsur	145,634
Other liabilities	40,298
Tot liab w/o sep accts	1,206,768
Separate account bus	30,884
Total Liabilities	$1,237,652
Common stock	2,800
Preferred stock	665
Paid in & contrib surpl	913,105
Unassigned surplus	-466,533
Total	$1,687,688

Best's Rating Report

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

A Best's Rating Report from the A.M. Best Company showcases the **opinion** from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders, as well as its relative credit risk.

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

A Best's Financial Strength Rating is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.

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. The 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.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information.

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