

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF NORTH DAKOTA

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)
TESTIMONY OF JOHN J. CRAIG)
IN THE MATTER OF:)
FORM A STATEMENT OF)
MIDLAND NATIONAL LIFE)
INSURANCE COMPANY)
REGARDING THE)
ACQUISITION OF CONTROL OF)
CLARICA LIFE INSURANCE)
COMPANY-U.S.)
-----)

Hearing Date: December 3, 2002
Time: 9:00 a.m. CST
Location: Capitol Building
12th Floor, Public Service
Commission Conference Rm
Bismarck, North Dakota

TESTIMONY OF JOHN J. CRAIG

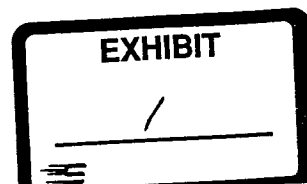
A. INTRODUCTION/DESCRIPTION OF WITNESS AND MANAGEMENT QUALIFICATIONS

1. Q: Please state your name for the record.

A: My name is John J. Craig.

2. Q: Please describe your professional qualifications and your position with the Midland National Life Insurance Company. (For ease of reference, Midland National Life Insurance Company will be referred to as "Midland," Sammons Financial Group, Inc. as "SFG," Sammons Enterprises, Inc. as "SEI," Clarica Life Insurance Company, the Canadian life insurance company, as "Clarica Canada," and Clarica Life Insurance Company- U.S. as "Clarica," and Clarica U.S., Inc., the U.S. holding company parent of Clarica, as "Clarica-U.S.")

A: I am presently President, Chief Operating Officer and a Director of Midland National Life Insurance Company. In addition to my position with Midland, I am also a Director and Senior Vice President for North American Company for Life and Health Insurance ("North American"), a life insurance company domiciled in Illinois and North American Company for Life and Health Insurance of New York ("North American New York"), a life insurance company domiciled in New York, both of which are sister companies to Midland.



3. **Q: Could you please provide us with a brief summary of your employment history for the ten years prior to your beginning employment with Midland?**

A: Prior to my current positions with Midland, North American and North American of New York, I have served as Executive Vice President, Chief Operating Officer, Senior Vice President and Chief Financial Officer for Midland, Treasurer of SFG, Senior Vice President, Chief Financial Officer and Treasurer for North American and North American of New York, and Director, Senior Vice President and Chief Financial Officer for Investors Life Insurance Company of Nebraska, a former subsidiary of Midland which was merged into Midland. Prior to joining Midland in October 1993, I was a Partner at Ernst & Young in Des Moines, Iowa from May 1972 to September 1993.

4. **Q: Mr. Craig, could you please describe the purpose of your being here today on behalf of the Applicant, Midland?**

A: Michael M. Masterson is a Director, Chairman of the Board and Chief Executive Officer of Midland. With Mr. Masterson's approval, I am here today to testify to the North Dakota Insurance Department to support Midland's qualifications for acquiring and assuming control of Clarica. In that regard, I am prepared to testify on the various aspects of the proposed Midland acquisition of Clarica (the "Proposed Transaction"). I am also here to offer my knowledge and experience on the organizational structure of the Sammons family of companies, the types of insurance products and services Midland offers, and the general financial condition of Midland and SEI, the ultimate parent corporation of Midland. I am also here to answer any questions I can about the Proposed Transaction that the Commissioner and Department may have.

5. **Q: Mr. Craig, can you please review the qualifications of the management team of Midland regarding their ability to manage a combined organization of Midland and Clarica?**

A: Midland's executive management team is made up of Michael Masterson, Tom Meyer, Steve Palmitier, Donald Iverson, Stephen Horvat and myself. Our biographical information is contained in the Form A filing. Together we have in excess of 90 years experience in management positions in the insurance industry, much of which has been with Midland and SEI. We are responsible for the performance of Midland's operations within the context of the SEI family of companies.

6. **Q: Have you reviewed the Form A that was filed by Midland with the Commissioner on November 8, 2002?**

A: Yes, I have.

B. DESCRIPTION OF MIDLAND'S STRUCTURE AND OPERATIONS

1. **Q: Could you please provide us with some information as to Midland's U.S. insurance operations?**

A: Midland is domiciled in Iowa and transacts business in 49 states in the United States, including North Dakota, as well as the District of Columbia, the Virgin Islands, Puerto Rico, and on U.S. military bases in Japan, Germany and Korea. It was formed in 1906 as Dakota Mutual Life Insurance Company, reorganized into a stock company in 1909 and changed its name to Midland in 1925.

2. **Q: What types of products and services does Midland provide to its clients?**

A: Midland sells a broad portfolio of individual life insurance and annuity products including universal life insurance, term life insurance, variable universal life insurance, variable annuities and fixed annuities including equity-indexed annuities. Midland generally markets its products to individuals and small business owners in the middle to upper income brackets through a field force of independent personal producing general agents. These producers focus on being financial advisors to their clients. Midland's annuity products are also marketed through a separate distribution system of independent general agents.

3. **Q: Mr. Craig, could you describe how Midland's insurance business is organized within the context of Sammons Enterprises Inc.?**

A: Yes. Midland is a wholly-owned subsidiary of SFG. SFG is the holding company for the insurance and financial service operations of SEI. Midland's executive offices are located in Sioux Falls, South Dakota and its principal office is in West Des Moines, Iowa. Life insurance sales are underwritten, issued, and administered from the executive offices in Sioux Falls. Midland's annuity business is issued and administered from its principal office in West Des Moines. With respect to annuities, our Des Moines office provides product development, issue and administrative services to its sister companies, North American and North American of New York. With respect to life insurance products, the Sioux Falls office provides post-issue administrative services to North American and North American of New York. These sister companies, however, have their own underwriting and issue functions separate from the activities in Sioux Falls. Midland's variable insurance products are distributed through Sammons Securities Company, LLC ("SSC"), a NASD registered broker dealer, which also is a subsidiary of SFG. SSC is located in Ann Arbor, Michigan.

4. **Q: Mr. Craig, please tell us a little bit about the overall structure and business of Sammons Enterprises, Inc.?**

A: SEI is a Delaware corporation that acts as a holding company for the various businesses shown in the Sammons organizational chart attached to the Form A. SEI

has several lines of businesses, including the three SFG life insurance companies, the Grove Park Inn in Ashville, North Carolina, Mountain Valley Water, Briggs Equipment, real estate holdings and investments, and various other enterprises. Insurance and related financial services are its primary focus accounting for 85-90% of SEI's operating revenues. With the acquisition of Clarica, that percentage will increase. The consolidated revenues for SEI as of December 31, 2001 exceeded \$1.3 billion. Total assets as of September 30, 2002 were approximately \$13.8 billion with most of that consisting of marketable securities and investments. SEI has only \$85 million of notes payable. It is one of the larger privately owned companies in the United States. As you can see, SEI is a financially strong company.

5. Q: If Sammons Enterprises is a privately held company, who owns it?

A: SEI is owned about 90% by the Charles A. Sammons Charitable Remainder Trust Number TWO, about 5% by Elaine Sammons, the widow of Charles A. Sammons, and about 5% by the Sammons Enterprises Employee Stock Ownership Plan, through its Trustee, Wells Fargo Bank.

6. Q: What is the Charles A. Sammons Charitable Remainder Trust Number TWO?

A: A charitable remainder trust is a tax efficient estate planning tool available to anyone holding assets that have experienced significant appreciation, such as stocks, real estate, or a business. It is generally established for the life of the donor (also trustor or grantor) and/or for the life of, or for a set term of years for, any beneficiaries and is irrevocable. In the case of SEI, its founder, Mr. Sammons, wanted to provide for the continuation of the company as well as provide for his family. He did this by establishing in his will a charitable remainder trust, which would provide income from his assets to his wife for the remainder of her life and, thereafter, provide that the stock of SEI and his other assets would be distributed to a charitable foundation, with the proviso that if the federal tax law allowed it, his SEI stock be given to the SEI Employee Stock Ownership Plan (ESOP). In 1997, a change in the federal tax law was adopted allowing the transfer of his stock to the ESOP upon Mrs. Sammons' death. At the time the stock is transferred to the ESOP, it is expected that the ESOP will own 100% of the issued and outstanding stock of SEI. The other assets of the estate will be distributed to a charitable foundation.

7. Q: Where are Midland's U.S. operations physically located?

A: Midland's operations are currently located in Iowa and South Dakota with approximately 450 employees in Sioux Falls and 200 employees located in West Des Moines, Iowa.

8. Q: Mr. Craig, how much business does Midland currently write in the U.S.?

A: For the twelve months ended December 31, 2001, Midland's insurance operations generated approximately \$1.75 billion in direct premium and annuity considerations.

9. **Q: What are Midland's capital and surplus and other financial strengths?**
A: As of September 30, 2002, Midland had approximately \$485 million in statutory capital and surplus. It has been rated A+ by A.M. Best for the past 22 years. It is rated AA by S&P.

10. **Q: Is Midland subject to insurance regulatory oversight in the U.S.?**
A: Yes. Midland's activities are regulated pursuant to the Iowa Insurance Code, which is administered by the Department of Insurance of the State of Iowa. The Iowa Department of Insurance requires the filing of annual and other reports on the financial condition of Midland, provides for periodic examinations of Midland's affairs, imposes restrictions on transactions with related parties, and sets forth requirements governing certain aspects of Midland's business, including policy reserves and investments.

C. **DESCRIPTION OF THE PROPOSED TRANSACTION**

1. **Q: Can you tell us about the Proposed Transaction?**

A: Midland intends to acquire control of Clarica-U.S., Clarica and three of its subsidiaries (Clarica Membership Services Inc., WSLIC Marketing Corporation and Western States Development Corporation) by purchasing all of the capital stock of Clarica-U.S. Under the terms of the Stock Purchase Agreement dated October 21, 2002 (the "SPA") between Midland and Clarica Canada, the Canadian life insurance parent of Clarica-U.S., Midland will acquire control of all of the assets and subsidiaries of Clarica-U.S., except for the "Excluded Assets." The Excluded Assets are the shares of stock of certain insurance company brokerage subsidiaries of Clarica and the mortgage loans identified in the SPA as the "Presidio Mortgage Loan." Following the completion of the proposed transaction, Clarica-U.S. will be a direct, wholly-owned subsidiary of Midland, and Clarica will be an indirect, wholly-owned subsidiary of Midland.

2. **Q: Mr. Craig, how will the transaction work?**

A: This is basically a stock-for-cash transaction. Under the SPA, Clarica Canada will receive approximately \$286 million for all of the outstanding common shares of Clarica-U.S., subject to adjustments reducing or increasing the Purchase Price at closing as provided in the Stock Purchase Agreement.

3. **Q: Could you articulate some of the reasons that motivated Midland to enter into the transaction?**

A: Midland is interested in acquiring Clarica because of its similar market and because it is a pioneer and established participant in the bank owned life insurance or BOLI business. Midland offers products and services that will compliment those offered by Clarica, such as variable universal life insurance, variable annuities and a variety of

other life insurance and fixed annuity products which can be marketed to Clarica customers.

4. **Q: Would it be fair to state that you believe that the combination of Midland and Clarica makes good strategic sense?**

A: Yes. Midland views Clarica as a significant and positive addition to the SEI family of insurance companies, with similar markets, products, culture and location. Clarica also has a significant market of BOLI business with community banks, which business Midland is not in today and would like to enter.

5. **Q: Are there significant differences between Midland's and Clarica's businesses? If so, please describe them.**

A: To a large extent, they overlap or are complementary, in terms of products, services and markets. Clarica has a long-established BOLI business which is new to Midland. Midland will rely on Clarica's capabilities to service and grow its BOLI business.

6. **Q: What are Midland's plans for the Clarica business following the acquisition?**

A: Immediately after closing, Clarica will continue its normal marketing and business activities, including its BOLI underwriting and sale operations. Midland intends to thoroughly analyze the current and planned business operations of Clarica so that Midland can develop a more detailed understanding of how Clarica transacts its business, how Clarica's business relates to Midland's business and how Clarica and Midland can continue to deliver quality levels of service to policyholders and customers on a combined basis. Midland plans to merge Clarica into Midland within approximately one year following the Closing.

7. **Q: What will happen to Clarica's management and employees?**

A: Right after the closing there will be no change in Clarica management, other than the replacement of two officers: Timothy Ash who will probably be replaced before closing when his brokerage companies are sold as assets excluded from the acquisition by Midland, and Ellen King, who is corporate secretary and a Sun Life employee. These two officers will be replaced by Tom Meyer and Steve Horvat. The directors of Clarica and Clarica-U.S. who are all Sun Life personnel, will be replaced by Midland's executive management as set forth in Exhibit E and F of the Form A. We will then take at least a month and probably longer to evaluate, observe and plan changes in the best interests of the business, policyholders and shareholders of Midland and Clarica. There undoubtedly will be some consolidations and relocations to achieve savings.

8. **Q: Has Midland considered how the employees of Clarica will be integrated into the structure of Midland?**

A: There are many fine people with Clarica that will be retained in some capacity, either because of the nature of their position, because of their skills and experience or simply

because the volume of Clarica's business to be processed cannot all be handled by Midland. We do expect some relocation of jobs to occur. As with any combination of similar companies, we also expect that certain positions at Clarica will be considered duplicative of those at Midland and vice versa and will have to be eliminated. There are stay bonuses and severance packages in place which Midland will have Clarica honor post-closing which Tom Meyer can discuss. Other employees of Clarica will be integrated into the framework at Midland while the responsibilities of other positions at Clarica will be combined with responsibilities of staff currently at Midland. This is something that needs to be done in order for an insurance company to stay competitive in this era of consolidation and after the difficulties that some insurance companies have experienced the past year. We are targeting 30 days after the closing of the Proposed Transaction to complete our evaluation of how to best allocate responsibilities to personnel within the Clarica and Midland organizations.

D. BENEFITS OF THE TRANSACTION

1. Q: How will the transaction affect Midland's position in the U.S. market?

A: I believe that the Midland group as a whole is well positioned to continue to successfully develop Clarica's businesses. It is growing increasingly difficult for the smaller players to compete effectively in today's marketplace and thus I anticipate the combination of the distribution networks, client base and marketing reach of both companies will provide the combined group with a better opportunity to grow and to succeed in this era of industry consolidation. Efficiencies and cost savings will be derived from combining offices and various functions, including, for example management, investment portfolio management, administration, information processing, and possibly other functions.

2. Q: Do you believe the Proposed Transaction will benefit policyholders of Clarica-U.S.?

A: Yes, I do. I know that the management team of Midland has demonstrated a commitment to providing our policyholders with excellent service. Midland is a charter member of IMSA and along with its sister life insurance companies renewed its certification from IMSA in 2001. Midland has excellent ratings and has shown that it is strong financially. In addition, as I mentioned before, this is a major acquisition for Midland and the management team at Midland will be devoting a substantial portion of their time and attention to a smooth integration of the two companies and maintaining and further developing Clarica's business. Because we cannot use the Clarica name beyond one year after closing, it is critical that we convince Clarica's customers that we want their business and can adequately service their needs. We look forward to bringing the same level of quality and commitment to the policyholders of Clarica that the management team has exhibited for its policyholders at Midland.

E. **STATUTORY STANDARDS**

1. **Q: Concerning the statutory standards set forth in the North Dakota Century Code relating to the acquisition of control of a North Dakota insurer, is there any reason to believe that after the transaction Clarica would not be able to satisfy the requirements for the issuance of a certificate of authority to write the lines of insurance for which it is presently licensed to write?**

A: No. I believe that Clarica will continue to satisfy the licensing standards of North Dakota and the other states in which it transacts business on an ongoing basis following the completion of the transaction. Clarica is adequately capitalized and operating properly at the present. I see no reason why its qualifications to be licensed would change because of the transaction. In fact, Clarica will be better capitalized after the transaction than it was before it because of a proposed reinsurance arrangement and the elimination of holding company debt, which Tom Meyer will discuss in greater detail.

2. **Q: Do you believe that the effect of the acquisition of control would be substantially to lessen competition in insurance in North Dakota or tend to create a monopoly therein?**

A: No. The transaction is not expected to substantially lessen competition in insurance in the State of North Dakota or tend to create a monopoly here. The most recent North Dakota combined market share data for the Midland and other SFG insurers and Clarica doing business here is relatively small -- below the 5% de minimus threshold. Secondly, you have Sun Life which is a much larger insurer than Midland selling a portion of its insurance business to a smaller insurer. If anything, the transaction furthers competition.

3. **Q: In your opinion, is the financial condition of Midland such as might jeopardize the financial stability of Clarica, or prejudice the interest of its policyholders?**

A: No. In fact, the financial condition of Clarica is expected to be strengthened as a result of this transaction. As of September 30, 2002, Midland had statutory capital and surplus of approximately \$485 million and a Risk Based Capital ratio (adjusted capital to authorized control level) of approximately 500%. It is receiving a \$250 million capital injection from SEI. It will be extremely sound in terms of its balance sheet. Consequently, I believe that Midland's acquisition of and combination with Clarica will not jeopardize the financial strength of Clarica or prejudice the interests of its policyholders.

4. **Q: Does Midland have any current plans or proposals to liquidate Clarica, to sell its assets or consolidate or merge it with any person, or to make any other material change in its businesses or corporate structure or management that are unfair or unreasonable to the policyholders of Clarica?**

A: Midland has no plans that are unfair or unreasonable to the policyholders. Midland has no present plans or proposals to liquidate Clarica, to sell its assets or consolidate or merge it with any person other than Midland. No changes in its business or corporate structure or management will be unfair or unreasonable to the policyholders of Clarica. As described in the Form A filing, Midland intends to appoint Midland executive officers as directors of Clarica and, after closing on a selective basis, as executive officers of Clarica. Midland does intend to make an assessment after the closing of the transaction to determine what specific strategies, methods and personnel will be used in order to integrate the two organizations and their businesses in a cost-effective manner.

5. **Q: Do you believe that the competence, experience and integrity of those persons who would control the operations of Clarica are such that it would not be in the interest of policyholders of Clarica and the public to permit the proposed acquisition of control of Clarica by Midland?**

A: No. I believe that the competence, experience and integrity of Midland, including its management team, have been demonstrated. Mr. Meyer, myself and the rest of the executive team have many years of experience in the insurance and financial services industries. Midland is licensed and in good standing in all U.S. jurisdictions in which Clarica is licensed and does business. Midland has been transacting the business of insurance since 1906 and, as such, is a well-established insurance organization. It has support available from North American, SFG and SEI, as well as the Clarica officers and personnel it will be retaining. Consequently, for these reasons and based upon all of the factors that I have mentioned earlier in my testimony, I believe that the competence, experience and integrity of the persons who would control the operations of Clarica are such that it would definitely be in the interest of policyholders of Clarica and the public to permit the proposed acquisition of control of Clarica by Midland.

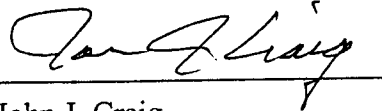
6. **Q: Do you believe the acquisition is likely to be hazardous or prejudicial to the insurance buying public?**

A: No. As I have stated and the testimony of Mr. Meyer will corroborate, Midland is an organization that has substantial resources available to it and has an experienced and professional management team. It is well rated, has a healthy RBC ratio, and has a good record of service to its policyholders. Consequently, I do not believe that the Proposed Transaction will be hazardous or prejudicial to the insurance buying public.

F. CONCLUSION

1. Q: Do you have anything further to add?

A: If given the opportunity, I look forward to working with the Department to successfully integrate these two fine insurance companies. Thank you for considering our Form A application.

A handwritten signature in cursive script, appearing to read "John J. Craig", is written above a horizontal line.

John J. Craig

Dated: November 27, 2002