

TESTIMONY OF
TIM HILL
FINANCIAL ANALYST
NORTH DAKOTA INSURANCE DEPARTMENT

1. Mr. Hill, would you describe your employment and position with the Department and your prior employment? Also, give your qualifications for this position.

I have been employed with the Department for 11 years and have been the Financial Analyst all of that time. Prior to my current position I was an internal auditor with a savings and loan corporation and a life insurance company for almost 20 years. My education involves a Bachelors Degree in Math and Economics and Accounting course work. I have attained the designation of Certified Financial Examiner (CFE), Certified Internal Auditor (CIA), and Fellow, Life Management Institute, (FLMI) in Managerial Accounting.

2. Describe the nature of your job duties in general.

As Financial Analyst, I have the responsibility of reviewing the financial statements and related documents of various insurance companies and more specifically, all the domestic insurance companies of North Dakota.

3. Describe your job duties, Mr. Hill, as they relate to the transaction at issue.

As Financial Analyst, I make assessments of a Company's financial viability and solvency by reviewing trends, performing ratio analysis, studying the company's assets and asset mix, making assumptions about the liabilities, making risk assessments, reviewing holding company filings, addressing accounting issues, addressing compliance issues, etc.

4. Mr. Hill would you describe what is important to you in regard to the Form A transaction during your review?

When reviewing a Form A filing such as this, I try to determine if the Company's policyholders will be better off or no worse off than prior to this transaction. The financial strength of the acquiring party is critical but other things are considered as well, such as the management and competency of the acquirer, background information of the entity and its key personnel and how the market share within the state would be altered.

EXHIBIT

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5. Would you please describe the information that was reviewed relative to this transaction?

I have reviewed the Form A filing that was submitted along with various other documents that were accessed through the NAIC database in regard to the acquiring entity. The Form A consisted of the Stock Purchase Agreement; Pre-Acquisition Organizational Chart of Applicant; Pre-Acquisition Organizational Chart of Clarica; Post-Acquisition Organizational Chart of Applicant; List of Directors and Executive Officers of Applicant; List of Proposed Directors and Executive Officers of Insurer; Biographical Affidavits of Directors and Executive Officers of Applicant and Proposed Directors and Executive Officers; Audited Consolidated Financial Statements of Sammons Enterprise, Inc. and Midland National Life Insurance Company for five years ending December 31, 2001; Applicant's Unaudited Interim Financial Information as of September 30, 2002; Compiled financial statements for Charles A. Sammons 1987 Charitable Remainder Trust Number TWO as of September 30, 2002; Balance sheet for the estate of Charles A. Sammons for the years 1997- 2001; and Annual Reports to Shareholders of Clarica Life Insurance Company for the Years Ended December 31, 2001 and 2000.

A.M. Best's report for Midland National provided additional information. I also listened to the testimony given here today.

6. Would you discuss the results of your review of the Form A filing?

My analysis revealed that Midland National Life and Sammons Enterprise, Inc. are financially sound and viable entities. Best's rating service has assigned a rating to the Midland National of A+ and a S&P rating of AA.

Midland National has experienced good profitability over the years. Net income has been positive for at least five years. Capital and Surplus have increased considerably from \$323,007,000 in 1997 to \$485,574,000 as of September 30, 2002. Sammons Enterprise, Inc. is projected to inject ~~\$285~~²⁵²,000,000 into Midland National prior to the acquisition and the proceeds will be used to purchase Clarica Life, U.S.

Cost savings were mentioned in the Form A but it is difficult to get a measure of their impact. It appears that in the long run this transaction should benefit the policyholders of both insurance companies by reducing expenses of the merged company as compared to the expenses of individual companies in conducting their insurance operations.

The Risk Based Capital (RBC) Authorized Control Level percentage calculation for Clarica Life is projected to decrease after the acquisition. But this appears to be only temporary. Once the two companies merge it is anticipated that Clarica policyholders would be better off with a higher RBC level than previous to the merger. Both companies currently have adequate capital and surplus in regard to RBC. At year-end 2001, Midland National had an Authorized Control Level RBC of 655%. Clarica had an RBC of 465% at the same time.

7. Will the acquisition impact Clarica Life-U.S.'s ability to continue to write its lines of insurance?

The acquisition of Clarica Life-U.S. by Midland National Life Insurance Company should not hamper the ability of Clarica Life to continue to write its lines of insurance.

8. Will the transaction lessen competition?

It appears from the documents submitted that competition will not be lessened. In the North Dakota market, the combined market share of any one line of insurance of the two companies is under 5% of the total market.

9. What impact, if any, will the transaction have on Clarica-U.S.'s financial condition?

It appears as though the transaction will not be detrimental to the policyholders of Clarica Life-U.S. since the Company will eventually be merged with a stronger life company and become part of a large financially sound holding company. Indications are that the transaction should result in lower cost structure through economies of scale and cost synergies.

10. What plans for material change, if any, does Midland National Life have for Clarica-U.S.?

It appears from my review of the filing and the testimony heard here today, there is reason to believe that there will be a material change in Clarica's operation in the immediate future but these changes should be positive and done to benefit the policyholders of both organizations.

11. Are the proposed plans unfair to Clarica-U.S.'s financial condition or to its policyholders?

As discussed above, it does not appear that proposed plans will be unfair or detrimental to the financial condition of Clarica Life-U.S. or its policyholders but that is difficult to assess for the long term.

12. Is the competence and integrity of the Midland National Life management such that the new management will not pose a risk to Clarica's policyholders?

It appears from my review of the transaction, there is no reason to believe that the competence and integrity of the Midland Life management will pose a risk to Clarica Life's policyholders.

13. Is the transaction hazardous or prejudicial to the insurance buying public?

It does not appear to be. In fact, it appears that the combined company will be more competitive and stronger financially than separate individual companies and that should be good for the insurance buying public.

14. Do you have any other concerns about the proposed transaction and its impact on the Clarica Life-U.S.'s policyholders?

No, not at this time.

15. Have you formed any opinions, Mr. Hill, as they relate to this transaction and its potential impact on Clarica Life-U.S. policyholders?

Yes, I have.

16. Mr. Hill, what is your opinion as to whether or not the Commissioner should approve the proposed transaction?

It is my opinion, based on my analysis and from the testimony heard here today, there is no evidence upon which to find that this transaction will be harmful to Clarica Life-U.S. policyholders or otherwise does not satisfy our state legal requirements. I recommend the Commissioner approve this transaction.