Best's Rating Report

North American Company
for Life and Health Insurance
Since 1886

We're Here for Life®

Chicago, Illinois

A+

Sammons Financial Group

NORTH AMERICAN COMPANY FOR LIFE AND HEALTH INSURANCE

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AMB#: 06827 **NAIC#: 66974**

BEST'S RATING

Based on our opinion of the consolidated Financial Strength of the life/health members of Sammons Financial Group, which operate under a group structure, this group member is assigned a Best's Rating of A+ (Superior). The company is assigned the Financial Size Category of Class XII which is the Financial Size Category of the parent.

RATING RATIONALE

The following text is derived from the report of Midland National Life Insurance Company.

Rating Rationale: The group rating of Midland National Life Insurance Company (Midland National) and North American Company for Life and Health Insurance (NACOLAH), jointly referred to as the Sammons Financial Group (SFG), reflects their diverse business profiles, formidable marketing presence in the fixed-indexed annuity segment, well-integrated annuity administration capabilities, strong net premium growth, positive overall statutory and GAAP operating results, adequate levels of risk-adjusted capitalization, and well-defined asset/liability management and investment hedging strategies. The rating also reflects the strong financial backing of their parent organization, Sammons Enterprises, Inc. (SEI). Partially offsetting these positive factors are the challenges related to potential market conduct and regulatory risks surrounding fixed-indexed annuity products, significant exposure to interest-sensitive liabilities, exposure to below investment grade bonds and mortgage-backed securities, potential asset/liability mismatch and portfolio hedging risks, and a limited availability of reinsurance capacity in the marketplace.

Midland National and NACOLAH are integral life insurance members of SEI, which is a privately held diversified holding company with interests in life insurance and non-insurance industries. Another affiliated member is SFG Reinsurance Company, a special purpose financial captive insurer. SFG is a leading provider of fixed-indexed annuities while continuing to offer a wide array of life insurance products as well as traditional fixed - deferred and immediate annuities, and variable annuities. A.M. Best notes that SFG has further broadened its business profile through the acquisition of the Clarica Life Insurance Company U.S., adding an active Bank Owned Life Insurance (BOLI) business and further diversifying its distribution channels. Through its diverse multiple distribution channels, niche marketing strategies, and competitive product designs for its target markets of middle-income and affluent customers, SFG has developed and sustained profitable annuity businesses despite the challenging interest rate environment. SFG has experienced generally strong premium growth over the past several years driven primarily by strong sales of its fixed-indexed and other fixed annuity products while also growing its ordinary life insurance and corporate market sales. Steadily increasing GAAP and statutory operating earnings demonstrates the strong competitive advantages combined with favorable persistency, effective expense controls, active spread management, and reinsurance activity. SFG maintains an adequate level of risk-adjusted capitalization for its current business and

investment risks enhanced by its overall profitable statutory operating results, high quality fixed-income portfolio, and significant capital contributions made by SEI to support acquisition and business growth strategies. A.M. Best notes that asset/liability management is an integral strategy of SFG's investment philosophy, which supports its annuity businesses and related liabilities by periodically re-balancing its bond portfolio in order to manage the impact of interest rate changes as well as the duration risks of underlying assets and interest-sensitive liabilities. In addition, SFG employs hedging instruments, in conjunction with an external investment manager, to mitigate exposure to equity risk in its fixed-indexed annuity products and reduce earnings volatility.

SFG has significantly increased its interest-sensitive liabilities over the past several years largely through growth in its fixed-indexed and other fixed annuity products. A.M. Best believes that some fixed-indexed annuity writers may be exposed to market conduct and regulatory risks due to the product's complex design, non-registered status, long-term surrender charges, and high commission structure. However, A.M. Best notes that SFG's diverse business profile and integrated risk model, including hedging programs, strong asset/liability management, and active market conduct and compliance programs partially mitigate these concerns. However, A.M. Best remains cautious over the potential financial impact of the evolving market conditions for this product, including increased competition, heightened regulatory scrutiny, and potential changes in product design and pricing trends. While the group's risk-adjusted capitalization remains adequate, A.M. Best believes the company may be challenged to enhance its risk-adjusted capitalization going forward, as the continuing interest-sensitive annuity growth supported by fixed income investment portfolio could be vulnerable to heightened market volatility and reinvestment risks. A.M. Best also believes that the increased growth of its annuity business may further exacerbate the risk of operating leverage and higher demand on its capital resources. In response, SFG has reinsured a portion of its fixed annuity portfolio while offering annuities with market value adjustments and long surrender charges. Additionally, while SFG strives to maintain a conservative investment portfolio, it is exposed to a high level of below investment grade bonds relative to statutory adjusted capital and surplus. Although reduced, the remaining level of below investment grade bonds exposes the company to potential capital losses. However, A.M. Best notes that the company has implemented strategies to further reduce its below investment grade bond exposure through opportunistic sales. Within its bond portfolio, SFG maintains a high portion of the portfolio in mortgage-backed and collateralized mortgage obligation (CMO) securities. A.M. Best believes that these securities are highly vulnerable to rising interest rates and could lead to prepayment and extension risks as well as an asset liability mismatch position. In addition, A.M. Best notes that the group maintains a significant portion in inverse floater CMO tranches that may be vulnerable to extension risk under a rising interest rate scenario while adding more interest rate risk to the company's overall risk profile. However, A.M. Best also notes that these holdings have been successfully managed internally through a floating rate/inverse floater pairing strategy.

Best's Rating: A+ g **Outlook: Stable**

KEY FINANCIAL INDICATORS ($000)

Year	Assets	Total Capital Capital Surplus Funds	Condit'l Reserve Funds	Net Premiums Written	Net Invest Income	Net Income
2000	1,796,008	235,670	20,238	231,889	127,919	49,388
2001	2,196,454	205,163	17,801	449,963	122,958	15,800
2002	3,015,522	214,825	8,993	1,068,717	149,029	-37,629
2003	3,830,878	305,842	11,461	766,324	216,489	-23,938
2004	4,568,701	401,281	20,330	580,297	311,120	55,255
2005	5,103,273	432,732	29,202	563,312	293,119	41,003

BUSINESS REVIEW

North American Company for Life and Health Insurance (NACOLAH) is a stock life insurance company wholly owned by Sammons Financial Group, Inc., a downstream life insurance holding company of Sammons Enterprises, Inc. (SEI). SEI is a privately held diversified holding company with principal subsidiaries operating in a variety of industries that include life insurance and annuity business, industrial equipment sales and leasing, and a resort and spa. SEI is among the largest privately held organizations operating in the United States with total assets of $30.0 billion supported by $2.4 billion of stockholders' equity at December 31, 2005.

NACOLAH is an integral member of Sammons Financial Group. Other life insurance members of the group include Midland National Life Insurance Company (Midland National), the group's prominent life insurance member; and SFG Reinsurance Company (SFG Re). SFG Re was formed in 2005 and is a direct wholly-owned subsidiary of Midland National. SFG Re is domiciled in the state of South Carolina and holds a certificate of authority as a special purpose financial captive insurer. In addition to its life insurance members, Sammons Financial Group also owns Sammons Securities Company, LLC (SSC), which provides a platform for growth through investment services. Additionally, the group's annuity sales division, based in Des Moines, Iowa, is a leading underwriter of fixed and variable annuity products. This division is responsible for production, product development, management and operations as it relates to annuities for Midland National and NACOLAH.

In late 2004, the company announced its decision to cease its marketing and new business operations in New York, placing North American Company for Life & Health Insurance of New York (NANY) in run-off status. In 2006, NACOLAH sold NANY's common stock to the third party.

NACOLAH markets an array of individual life insurance products with significant accumulation components to a middle- and upper-income market. NACOLAH markets its life insurance products through its traditional distribution channels including brokerage general agents (BGAs) and independent marketing organizations. Additionally, NACOLAH has fully integrated Clarica-US' independent marketing distribution, providing greater sales opportunities and coverage of its target markets. A.M. Best notes that during 2005 this distribution channel produced approximately three-fifths of new sales for NACOLAH. Also, since its acquisition by SEI, NACOLAH has been leveraging the Sammons Financial Group's leading presence in the fixed and fixed-indexed annuity (FIA) markets. Sammons Financial Group's centralized annuity operation has provided NACO-

LAH the opportunity to develop and market a portfolio of FIA and fixed annuities in a cost effective manner, and has been the primary reason for the significant increase in both individual and group annuity production in recent years. The majority of the annuities are marketed through national annuity marketing organizations and annuity brokerage agencies. The company also has begun to leverage the expertise of Sammons Financial Group to enter the corporate market segment (i.e. COLI/BOLI).

Historically, NACOLAH accomplished its market initiatives primarily from a range of term life insurance products available in 10-to 30-year durations and to a lesser extent with a basic universal life product that de-emphasized inside cash build up and concentrated on providing relatively large amounts of death protection at a low cost. Due to changes in the reinsurance marketplace, management's unwillingness to continue to participate in the continual downward pressure on term life insurance returns, to capitalize on marketing opportunities related to the acquisition of Clarica-US, and to improve and sustain profitable growth, the company implemented a strategic plan shifting its product mix from term life to universal life products. As part of the plan, the company introduced a new series of universal life products offering features that provide a blend of benefits including guaranteed death benefits, double death benefits in early years, return of premium guarantees and rolling targets. A.M. Best notes that, in 2005, UL sales represented over seventy-five percent of total ordinary life sales.

Going forward, the company plans to continue to emphasize UL products while controlling annuity production. The company has implemented strategies to sustain ordinary life sales growth including re-entering the term life market segment with a repriced and fully underwritten product array as well as introducing fixed-indexed universal life insurance and a UL product which avoids significant AG38 reserve issues. In addition, the company plans to continue to increase its integrated marketing and BGA distribution channels.

To reduce costs, management has consolidated numerous administrative functions to eliminate redundancies in NACOLAH and Midland National. These efforts have included the integration of the data center, policy-owner services, accounting and finance, corporate actuarial, legal, compliance and information systems functions into one organization. The individual identities of the two organizations have been preserved with two executive offices, in Chicago, Illinois and Sioux Falls, South Dakota, respectively. Each of the organizations has separate sales and marketing, product development, underwriting and new business units, while annuity administration and marketing has been centralized in West Des Moines, Iowa.

EARNINGS

NACOLAH's overall statutory operating performance has fluctuated over the past several years. The company's ordinary life insurance segment has been impacted by increased general insurance and marketing expenses associated with ordinary life new business growth, deficiency reserves related to Regulation XXX on its term life insurance business, and unfavorable mortality experience. NACOLAH's individual and group annuity segments have been profitable, enhanced by favorable persistency and active spread management that has mitigated somewhat the expense strains associated with the significant increase in new annuity deposits. In 2005, for the second consecutive year, the company reported an overall statutory operating gain with the majority of earnings generated by its annuity segments. Earnings in 2005 were driven by increased net investment income — excluding the impact of the income from its derivative instruments — improving persistency, active spread management and surrender charges. The company's ordinary life segment also contributed to its solid 2005 operating performance. Life segment earnings were driven by increased premium activity from its higher margin universal life products, cost control initiatives and improved persistency. To further improve its overall operating performance going forward, NACOLAH plans to continue to emphasize its universal life and traditional whole life product portfolios while introducing new term life products with improved profitability. Additionally, the company plans to maintain consistent annuity sales production while leveraging the expertise of the Sammons Financial Group to offer products into the corporate markets. Furthermore, the company plans to continue its expense control initiatives and is exploring securitization of its term life block of business, which is subject to Regulation XXX reserving.

After exceeding $1 billion in net premium and deposits in 2002 due primarily to increased annuity production, NACOLAH's overall net premium trends have declined over the past three years. This resulted from management's decision to control new annuity production. However, NACOLAH's ordinary life net premiums have been increasing over the past several years, enhanced by strong sales of its universal life products and improved persistency.

CAPITALIZATION

NACOLAH remains an integral member of the Sammons Financial Group and enjoys full financial backing of its ultimate parent company, SEI. Despite fluctuating statutory operating performance and the need to fund significant annuity growth over the past several years, the company's stand-alone risk-adjusted capitalization remains sound. NACOLAH's capital position is supported by a high quality fixed-income portfolio and capital contributions made by SEI to fund the company's business growth strategy.

The company's statutory capital and surplus trends have been increasing over the past several years due primarily to capital contributions made by the parent and, more recently, retained earnings. The increase in capital and surplus during 2005 was attributable to solid earnings, increased unrealized investment gains and a decrease in non-admitted assets that more than offset dividends to stockholders and an increase in the minimum pension liability.

INVESTMENTS AND LIQUIDITY

NACOLAH's invested assets have increased significantly over the past several years, reflecting the substantial premium growth associated with its FIA products as well as reinvestment opportunities. NACOLAH's invested assets consist primarily of high quality bonds that represent more than nine-tenths of the portfolio at year-end 2005. The company's remaining investments comprise preferred and common stocks, contract loans, cash and short-term securities, limited partnerships, and index options purchased to hedge liability risk associated with its FIA reserves. While the company continues to emphasize investing in high-quality fixed-income securities to ensure

safety of principal and liquidity, it maintains diversification among various asset classes through periodic rebalancing of the investment portfolio as opportunities arise. This approach is more important as the company's exposure to interest-sensitive liabilities has significantly increased in recent years.

The bond portfolio is comprised almost entirely of investment grade securities with almost two-fifths in private placements that are well diversified across industry sectors and managed in conjunction with its external investment manager. The total bond portfolio is well-diversified among corporate issues, special revenue, and U.S. Government debt. While the majority of the bond portfolio is investment grade, A.M. Best notes that the company has experienced investment losses over the past several years due to the challenging credit environment and the stretch for higher yielding assets to support its business growth in a time of low interest rates. A.M. Best notes that NACOLAH continues to maintain a moderate level of below investment grade (BIG) bonds relative to adjusted statutory capital and surplus. As such, A.M. Best believes the company remains vulnerable to additional capital losses from its remaining BIG bonds. In response, NACOLAH plans to reduce its exposure to BIG bonds through opportunistic sales.

NACOLAH maintains approximately three-tenths of its bond portfolio in mortgage-backed securities and collateralized mortgage obligations (CMOs) that, coupled with its large and expanding block of interest-sensitive liabilities, exposes the company to prepayment and extension risks. However, the exposure to these risks is mitigated somewhat as the majority of the mortgage-backed securities and CMOs are represented primarily by CMO-sequentials, CMO-PACs and commercial mortgage-backed securities that tend to be less sensitive to fluctuations in interest rates. Additionally, the interest rate risk is further mitigated by the increased production of new annuity business with surrender protection and market value adjustment (MVA) features. Although the majority of the company's mortgage-backed securities and CMOs is in less interest-sensitive tranches, A.M. Best notes that a portion of these securities is in more risky CMO-inverse floaters and CMO-Z tranches that exposes the company to extension and mismatch risks. A.M. Best believes that these holdings have been successfully managed internally through a floating rate/inverse floater pairing strategy and by only purchasing Z-bonds that are fully extended and represent the final cash flows for a mortgage security. Management further mitigates the risks by closely monitoring these securities and actively managing asset/liability durations.

The majority of the preferred stock portfolio is in investment grade debt that exhibits solid credit characteristics. The majority of the return comes from dividends. The common stock portfolio consists almost entirely of its investment in its wholly-owned subsidiaries, NANY (sold in 2006) and NACOLAH Ventures, LLC. The company's other invested assets (Schedule BA) consist entirely of limited partnerships with underlying asset characteristics of mortgage loans, fixed-income securities, common stocks and real estate.

The company employs an investment hedging strategy, in conjunction with its external investment manager, using over-the-counter index call options to mitigate exposure to equity risk in its FIA products. Securities lending programs also supplement the overall investment yield of the bond portfolio and provide additional liquidity.

Asset/liability management (ALM) remains an integral part of the company's investment philosophy and supports the company's increased levels of annuity sales and other related liabilities. The strategy provides the company's management with detailed information on profitability, portfolio performance, disintermediation risk, and management of asset and liability option portfolios.

OFFICERS

Chairman of the Board and Chief Executive Officer, Michael M. Masterson; President and Chief Operating Officer, Ronald H. Ridlehuber; Chief Financial Officer, Diane J. Buckley; Senior Vice President and Chief Information Officer, Gary J. Gaspar; Senior Vice President and Chief Marketing Officer, Garth A. Garlock; Senior Vice President, Secretary and General Counsel, Stephen P. Horvat, Jr.; Senior Vice President and Treasurer, Thomas M. Meyer; Senior Vice President and Actuary, Donald J. Iverson; Senior Vice Presidents, John J. Craig II, Esfandyar E. Dinshaw (Annuity Division), Ron G. Ottenbacher (Corporate Markets), Brian P. Rohr (Organizational Development), Robert R. Tekolste (Annuity Division); Vice President and Actuary, David Bergstrom; Vice President and Medical Director, Norma E. Davis; Vice Presidents, Mary Bahna-Nolan (Product and Risk Management), Curtis C. Foody (Information Systems), C. Michael Haley (Human Resources), Gary W. Helder (Administration), Barbara A. Murray (Business Systems), Joseph E. Paul (Corporate Markets).

DIRECTORS

Roland C. Baker, Willard Bunn III, John J. Craig II, Gary J. Gaspar, William D. Heinz, Robert W. Korba, Michael M. Masterson, Ronald H. Ridlehuber, David E. Sams, Jr.

TERRITORY

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Balance Sheet
Assets ($000)

	12/31/2005
*Total bonds	$4,599,668
*Total preferred stocks	72,561
*Total common stocks	81,551
Contract loans	72,312
Cash & short-term inv	12,820
Prems and consids due	18,138
Accrued invest income	45,951
Other assets	200,272
Assets	$5,103,273

Liabilities ($000)

Net policy reserves	$3,687,241
Policy claims	30,747
Deposit type contracts	43,296
Interest maint reserve	937
Comm taxes expenses	38,411
Borrowed money	700,379
Asset val reserve	29,202
Other liabilities	140,329
Total Liabilities	$4,670,541
Common stock	2,500
Paid in & contrib surpl	256,676
Unassigned surplus	173,557
Total	$5,103,273

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

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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+ .Very 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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Vulnerable Best's Ratings

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

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