Best's Rating Report

North American Company
for Life and Health Insurance
Since 1886

We're Here for Life®

West Des Moines, Iowa

Financial Strength Rating
A.M. BEST
A+ Superior

A+

Sammons Financial Group

NORTH AMERICAN COMPANY FOR LIFE AND HEALTH INSURANCE

4601 Westown Parkway, Suite 300
West Des Moines, IA 50266
Web: www.nacolah.com

Tel: 605-373-2371 **Fax: 312-648-7761**
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 XIII 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, strong net premium growth, positive overall statutory and GAAP operating results, adequate levels of risk-adjusted capitalization, well-defined hedging strategies and adequate asset/liability management (ALM) and cash flow analysis techniques that support its interest-sensitive liabilities. 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, limited availability of reinsurance capacity in the marketplace, and the efforts needed to further enhance and refine its formal enterprise risk management (ERM) process.

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 among the leading providers 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 its acquisition of the Clarica Life Insurance Company U.S. in 2003, adding an active Corporate Markets business, primarily bank owned life insurance (BOLI), 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. Positive GAAP and statutory operating earnings demonstrate the strong competitive advantages combined with favorable persistency, effective expense controls, active spread management, and prudent reinsurance activity. SFG maintains adequate levels 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 capital contributions made by SEI to support acquisition and business growth strategies. A.M. Best notes that ALM is an integral strategy of SFG's investment philosophy supporting its annuity businesses and related liabilities 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 a 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 lower than previous years, 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. SFG's exposure to the residential subprime market is minimal. Finally, SFG continues to enhance and refine its formal ERM processes. A.M. Best believes that the company still has more work to do including expanding its ERM process throughout the organization.

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
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
2006	5,451,981	399,659	38,506	769,737	327,704	84,580
2007	6,637,313	387,652	50,567	1,114,656	342,699	2,370

BUSINESS REVIEW

North American Company for Life and Health Insurance (NACOLAH) is a stock life insurance company wholly-owned by Sammons Financial Group, Inc. (SFG), a downstream life insurance holding company of Sammons Enterprises, Inc. (SEI). SEI is a privately-held diversified holding company having principal subsidiaries operating in life insurance and annuity businesses as well as non-insurance activities, including industrial equipment sales and leasing, and a resort and spa. The operations of the non-insurance activities are substantially less in scope and significance in SEI's consolidated financial operations. The majority of the operations of SEI are conducted in the U.S. SEI is among the largest privately-held organizations operating in the U.S., with total assets of $36.1 billion, supported by $2.9 billion of stockholders' equity at December 31, 2007.

NACOLAH is a material contributor to the operations of SFG. Other life insurance members of the group include Midland National Life Insurance Company (Midland National), the group's most prominent life insurance member, and SFG Reinsurance Company (SFG Re). SFG Re, formed in 2005, is a direct wholly-owned subsidiary of Midland National. SFG Re, domiciled in the state of South Carolina, holds a certificate of authority as a special purpose financial captive insurer. In addition to its life insurance members, SFG also wholly-owns Sammons Securities, Inc. (SSI), providing a platform for growth through investment services. Additionally, the group's annuity division, based in Des Moines, Iowa, is a leading underwriter of fixed and variable annuity products. This division is responsible for marketing, product development, management and operations as it relates to annuities for Midland National and NACOLAH. In late 2004, SFG announced its decision to cease its marketing and new business operations in New York, placing a subsidiary, North American Company for Life and Health Insurance of New York (NANY) in run-off status. In 2006, NACOLAH sold NANY's common stock to a third party.

NACOLAH markets a full array of individual life insurance products including universal life, indexed universal life and term life to a middle- and upper-income market. NACOLAH markets its life insurance products primarily through its traditional distribution channels including managing general agents (MGAs) and independent mar-

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keting organizations (IMOs). NACOLAH has also fully integrated Clarica-US' independent agent distribution channel (Clarica-US was acquired by Midland National from Sun Life Financial Services of Canada in 2003), providing greater sales opportunities and coverage of its target markets. This distribution channel has produced approximately half of the new sales for NACOLAH over the past several years. Going forward, management plans to continue to expand its MGA and IMO relationships. Since its acquisition by SEI, NACOLAH has been leveraging SFG's leading presence in the fixed and fixed-indexed annuity (FIA) markets. SFG's centralized annuity operation has provided NACOLAH with 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 company has also begun to leverage the expertise of SFG to enter the corporate markets life insurance segment.

Historically, NACOLAH had accomplished its marketing initiatives primarily with a range of term life insurance products available in 10- to 30-year durations, and to a lesser extent, a basic universal life product that de-emphasized inside cash value 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. Supporting the strategic plan, management has introduced a new competitive series of universal life (UL), indexed universal life (IUL) and term life products focused on the needs of its target market. A.M. Best notes that UL sales represented the majority of total ordinary life sales in 2007. Going forward, NACOLAH plans to continue to emphasize UL and IUL products while controlling the growth in annuity production. In addition, the company plans to continue its efforts to increase the size of its MGA and IMO distribution networks.

To reduce costs, management has been consolidating numerous administrative functions to eliminate redundancies at both Midland National and NACOLAH. 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 Sioux Falls, South Dakota, and Chicago, Illinois, respectively. Supporting its on-going commitment to achieving operational efficiency, management began integrating Midland National and NACOLAH's life insurance processing in 2007, specifically focused on the agency, new business, underwriting, commission processing and claims functions.

EARNINGS

NACOLAH's overall statutory operating performance has been profitable over the past several years, primarily reflecting management's strategy of moving to higher margin life insurance products. NACOLAH's individual and group annuity segments have been generally profitable, enhanced by favorable persistency and active spread management that have somewhat mitigated the expense strains associated with the increase in new annuity deposits. Annuity earnings during the current year have been impacted by increased net investment income— (excluding the impact of the income from its derivative instruments)— improving persistency, active spread management and surrender charges. However, A.M. Best notes that current year earnings have been dampened primarily by the impact of expense strains from significantly higher annuity production.

The company's ordinary life segment's earnings have been profitable and increasing in recent years. Life segment earnings have been driven by 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 product portfolios and new term life products with improved profitability while leveraging the expertise of SFG to offer products into the corporate life insurance markets. The company also plans to control annuity sales production and is exploring reinsurance solutions to mitigate expense strains. Furthermore, the company plans to continue its expense control initiatives and the possible securitization of its term life block of business, which is subject to Regulation XXX reserving.

NACOLAH's overall net premium written trends have been increasing over the past several years resulting primarily from growth in new annuity production. NACOLAH's ordinary life net premium written has been relatively steady over the past several years, enhanced by sales of its universal life products and improved persistency.

NACOLAH's overall GAAP net earnings have been favorable over the past several years as a result of profitable earnings trends in both its ordinary life and annuity segments.

CAPITALIZATION

NACOLAH is an integral member of SFG and enjoys the full financial backing of its ultimate parent company, SEI. Despite fluctuating statutory operating performance trends 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 adjusted capital and surplus trends have fluctuated over the past several years, impacted favorably by capital contributions made by the parent when needed and retained earnings. However, A.M. Best notes that statutory adjusted capital and surplus levels have declined over that past two years due primarily to expense strains from increased annuity production and dividends paid to the parent which included $102 million in proceeds from the sale of NANY that more than offset the company's earnings in 2006.

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. NACOLAH's invested assets consist primarily of high quality bonds that represent more than ninety-five percent of total invested assets. The company's remaining investments are comprised of preferred and common stocks, contract loans, cash and short-term securities, limited partnerships, and index

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options purchased to hedge liability risk associated with its fixed indexed product 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 has become 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 more than one-fourth 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 NACOLAH continues to maintain an elevated and increasing level of below-investment-grade (BIG) bonds relative to statutory adjusted capital and surplus 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. As such, A.M. Best believes the company is vulnerable to capital losses from potential credit defaults within its BIG bond portfolio. In response, NACOLAH plans to reduce its exposure to BIG bonds through opportunistic sales. NACOLAH also maintains almost forty percent 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, expose 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 is 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 expose 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. Despite its significant allocation to structured investment products, A.M. Best notes that the company has minimal exposure to the residential sub-prime and Alt-A mortgage markets.

The majority of the preferred stock portfolio is in investment grade securities that exhibit solid credit characteristics, with the majority of the return coming from dividends. The common stock portfolio declined significantly in 2006 due to the sale of NANY. 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. Additionally, the company has recently begun to apply a dynamic hedging strategy to a portion of its indexed portfolio. A securities lending program - consisting of reverse repurchase and dollar-roll up transactions - also supplements the overall investment yield of the bond portfolio and enhances the company's asset/liability management (ALM) duration matching process.

ALM and cash flow analysis remain integral parts of the company's investment philosophy and support the company's increased levels of annuity sales and other related liabilities. These strategies provide 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, Steven C. Palmitier; Senior Vice President and Chief Financial Officer, John J. Craig II; 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 Actuary, Donald T. Lyons; Senior Vice Presidents, Esfandyar E. Dinshaw (Annuity Division), C. Michael Haley (Human Resources), Ron G. Ottenbacher (Corporate Markets), Cindy K. Reed (Annuity Marketing), Brian P. Rohr (Organizational Development), Robert R. Tekolste (Operations); Vice President and Chief Compliance Officer, Thomas Stavropoulos; Vice President and Actuary, David Bergstrom; Vice President and Medical Director, Norma E. Davis; Vice Presidents, Robert Buchanan (Underwriting & New Business), Curtis C. Foody (Information Systems), Rebecca L. Gioffredi (Annuity Administration), Gary W. Helder (Policy Administration), Melody R.J. Jensen (Associate General Counsel), Brent Mardis (Annuities), Ronald J. Markway (Annuity New Business & Agency), Barbara A. Murray (Business Systems), Joseph E. Paul (Corporate Markets), Timothy A. Reuer (Product Development), Paul Swenson (IT).

DIRECTORS

Roland C. Baker, Willard Bunn III, John J. Craig II, Esfandyar E. Dinshaw, William D. Heinz, Robert W. Korba, Michael M. Masterson, Steven C. Palmitier, David E. Sams, Jr.

TERRITORY

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Balance Sheet
Assets ($000)

	12/31/2007
*Total bonds	$6,186,344
*Total preferred stocks	57,494
*Total common stocks	5,226
Contract loans	78,398
Cash & short-term inv	6,597
Prems and consids due	18,537
Accrued invest income	59,827
Other assets	224,890
Assets	$6,637,313

Liabilities ($000)

Net policy reserves	$5,050,830
Policy claims	32,187
Deposit type contracts	104,351
Interest maint reserve	18,264
Comm taxes expenses	43,966
Borrowed money	811,778
Asset val reserve	50,567
Other liabilities	137,718
Total Liabilities	$6,249,661
Common stock	2,500
Paid in & contrib surpl	256,676
Unassigned surplus	128,477
Total	$6,637,313

*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. Best's Ratings represent the current and independent **opinion** of a company's financial strength and ability to meet obligations to policyholders. Best's Ratings are **not a warranty** of an insurer's current or future ability to meet obligations to policyholders, nor are they a recommendation of a specific policy form, contract, rate, or claim practice.

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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