

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON**

FILED

2012 OCT 22 12 12 PM '12
No. **12-0236**

In the Matter of the Proposed)
Acquisition of Control of:)
)
NORTH COAST LIFE INSURANCE)
COMPANY, a Washington domestic)
Insurer,)
)
By)
)
GOVERNMENT PERSONNEL MUTUAL)
LIFE INSURANCE COMPANY, a Texas)
Mutual life insurance company, Applicant)

Heather M. Smith
Patricia D. Peterson
Chief Hearing Officer

PRE-FILED TESTIMONY

PRE-FILED TESTIMONY OF:

Pamela A Hutchins
Senior Vice President and Chief Actuary,
Government Personnel Mutual Life Insurance Company

October 22, 2012

**TESTIMONY OF
PAMELA A HUTCHINS**

1. Identification and Background of Applicant and Persons Associated with Applicant.

Q. Ms. Hutchins, would you please state your name, state of residence and your principal occupation, for the record?

A. My name is Pamela A. Hutchins. I am a resident of San Antonio, Texas, and am the Senior Vice President and Chief Actuary for Government Personnel Mutual Life Insurance Company.

Q. Would you please give a brief summary of your background and career in the life insurance industry?

A. Well, I was actually born in Spokane, at Fairchild Air Force Base. I attended college at the University of Nebraska, and received a BS degree in 1973. I am a member of the American Academy of Actuaries, and received my FSA designation in 1979. I have been employed by GPM Life since 1973, and over the years have held various positions including Vice President/Valuation Actuary, and my present position as Senior Vice President and Chief Actuary of the company. I am also a member of GPM Life's Board of Directors.

Q. Tell us a little bit about Government Personnel Mutual Life Insurance Company, or "GPM Life."

A. Government Personnel Mutual Life Insurance Company is a Texas mutual life insurance company that was organized in 1934 by retired U.S. Army Colonel P.J. Hennessey, who believed there was a need for a company that would provide life insurance protection for qualified U.S. military service personnel, even if they should die as a result of war. Many policies in those days had a military war exclusion, which deprived the beneficiaries of service members of any recovery under life insurance policies held by them if they died in action. So GPM Life was originally conceived as a company that was specifically designed to serve the needs of military personnel. P.J. Hennessey, I might add, was the grandfather of Peter J. Hennessey III, who is the current Chairman of the Board, President and Chief Executive Officer of GPM Life. When P.J. Hennessey's wife, Blanche Hennessey, was elected President of GPM Life in 1938, she became the first woman in U.S. history to head a commercial insurance company.

Over the years, GPM Life has managed to survive a depression, major wars and foreign conflicts, to grow and prosper and rank among the strongest and most respected financial institutions in the nation. We now serve markets including (1) active duty military personnel; (2) retired military personnel; (3) federal civil service employees; and (4) civilian families. Our product offerings include participating whole life, universal life, term products and deferred and immediate annuities.

Q. GPM Life's most recent financial statements are provided as exhibits to the Form A, but would you please provide the Hearing Officer with some brief highlights of GPM Life's current financial position?

A. I'd be happy to. At the end of 2011, we had total admitted assets of \$834 million, and surplus of almost \$97 million. We had total individual life insurance in force of over \$4 billion and had a net gain from operation in 2011 of just under \$8.0 million. We reached a significant milestone in the past quarter, at the end of which we had total admitted assets of about \$839 million and over \$101 million in policyholder surplus. We are the largest mutual life insurer domiciled in the State of Texas. For many years, we have enjoyed an A- (Excellent) rating by A.M. Best & Co.

Q. Each of their biographical affidavits, like yours, have also been filed with the GPM Life's Form A statement and are part of the record in this hearing, but would you also provide the Hearing Officer with some information regarding the background and experience of some of the principal officers and directors of GPM Life?

A. Certainly. As I mentioned, our current Chairman of the Board, President and Chief Executive Officer is Peter J. Hennessey III, the grandson of the founder of the company. Mr. Hennessey graduated from the University of Texas in 1965 with a bachelor's degree in business administration, and has also received designations as a FLMI with the Life Office Management Association (in 1975) and as a CIU with the American College of Life Underwriters (in 1977). He has been employed at the company since graduating from college in 1965.

Peter J. Hennessey IV, Mr. Hennessey's son, is also continuing in the family tradition, and serves on the Board of Directors and currently holds the office of Senior Vice President, Operations, in the company. He joined the company in 1999 after his graduation in 1998 from the University of Texas with a BS degree.

Charles Alan Ferguson (who goes by "Alan") is Senior Vice President, General Counsel and Secretary of the company, and is also a member of its Board of Directors. He has both an undergraduate and a law degree from Southern Methodist University in Dallas, the latter obtained in 1965. Mr. Ferguson joined GPM Life in 1969, and has spent his entire career since then with the Company. He is a member of the State Bar of Texas.

Lourdes Mendoza is our Vice President and Treasurer, and also serves on the Board of Directors. She graduated from the University of Texas with a BBA in accounting in 1979, is a Certified Public Accountant, and has been with the company since 1982.

Three of the members of our Board of Directors are retired general officers of the military.

Q. To your knowledge, Ms. Hutchins, have you, or any of the persons who serve as executive officers or directors of GPM Life Insurance Company ever been convicted of a felony or other crime involving moral turpitude?

A. No.

Q. Do you know each of these persons to be competent and trustworthy?

A. Yes.

Q. In your judgment, do each of these individuals you have identified and whose biographical affidavits have been furnished by the company in connection with its Form A statement, and who will have roles in the future management and direction of the affairs of North Coast Life Insurance Company following the change of control and merger have sufficient insurance experience and background that will render the continued success and operation of North Coast probable?

A. Absolutely.

Q. Do you know these people to be of such competence, trustworthiness, experience and integrity and possessed of backgrounds in the life insurance industry that it would be in the interest of the policyholders of North Coast Life Insurance Company and the general public to permit the merger of North Coast with a wholly-owned subsidiary of GPM Life?

A. Yes. I think that these people and the management of GPM Life have the utmost competence and integrity and that the acquisition of control of North Coast by GPM Life and subsequent merger would result in their continued management of the business and operation of both companies and be in the best interest of the policyholders of North Coast and the general public.

2. Background and Description of the Proposed Acquisition of Control and Merger.

Q. Ms. Hutchins, please turn to the transactions that will result in the change of control and subsequent merger of North Coast, and result in North Coast becoming a wholly-owned subsidiary of GPM Life. Are you familiar with how the transactions have been structured and the terms of the various agreements that have been, or will be entered into among the parties thereto?

A. Yes, I have been directly involved in all of the steps leading to the structure and terms of the transaction, and am very familiar with them.

Q. Please provide the Judge with some background information. How did GPM Life's interest in North Coast come about?

A. Well, some time back in 2008, we were approached by Bob Shapiro of the Shapiro Network, Inc., in Milwaukee, Wisconsin, about providing reinsurance of an existing block of life insurance business issued by North Coast to help it reduce reserves to deal with the impact of a decrease in surplus resulting from asset downgrades caused by realized and unrealized capital losses incurred by North Coast in 2008. Mr. Shapiro's introduction resulted in discussions leading to GPM Life providing YRT and coinsurance of certain blocks of in-force policies of North Coast, that increased its statutory earnings for 2008 by \$913,000, before tax.

Q. Is this the same Robert Shapiro that acted as an intermediary between North Coast and GPM Life in connection with the ultimate acquisition of the Company by GPM Life that is the subject of this hearing?

A. Yes. Part of the initial discussions with Bob Shapiro in 2008 included information on some innovative internet work that North Coast was doing, and that GPM Life was interested in. North Coast was limited in how it could use the work it was doing because of having a limited number of state licenses, and it felt that GPM Life could make use of some of this work. Also, there was a recognition that there was a continuing issue with marginal surplus and excess expenses in North Coast that were difficult to overcome, resulting in the eventual need for some type of partnership or acquisition. I think initially North Coast hoped for more of a partnership versus an acquisition, but as GPM Life studied the situation, we felt that a full acquisition was the answer. Discussions about a possible acquisition of North Coast by GPM Life started during 2009.

Q. Did GPM Life develop any proposals for a possible acquisition of North Coast?

A. Yes. After some initial discussions, we sent North Coast a letter of intent in January, 2010, in which we proposed to acquire all of the outstanding common and preferred stock of North Coast held by the Ogdens and entities controlled by the Ogdens, at a price that we set tentatively in the range of \$7.50 per share. While this proposal was directed to the Ogdens, we did express a preference to acquire all of the outstanding shares of North Coast, and that the form of the transaction would involve either (1) purchasing all the shares held by the Ogdens; or (2) a tender offer by GPM Life for all of the outstanding shares of the Company; or (3) a statutory merger of the Company with an existing or new corporation, with North Coast being the surviving corporation. We also left the door open for a fourth option, which we hadn't really defined.

Q. So your preference was acquiring all of both the common and preferred shares of North Coast outstanding?

A. That was our original thought, and I think that is what the Ogdens were proposing to us; I think the idea of a tender offer actually came from Mr. Ogden.

Q. What made you decide to head in the direction of a proposal to redeem the preferred shares and then do a statutory merger?

A. Well, although we would acquire all of the shares held by the Ogdens and the other principal shareholders of North Coast, we could never get comfortable with the idea that there would still be some shareholders unwilling to sell or tender their shares, and the negotiations could get quite messy and out of control if we tried to head in that direction. We really didn't want to acquire a majority position in a company and have to deal with all the regulatory requirements imposed by reason of existence of minority shareholders, such as annual proxy statements, etc. And our outside counsel also advised us that the only way we could be sure that we would acquire all of the outstanding shares of North Coast would be through a statutory merger.

Q. But wouldn't you have to pay a different price to the preferred shareholders for their shares than the common shareholders if the preferred shares were also included in a merger?

A. Well, that's correct. And that posed a problem. As we conducted our due diligence, we also learned more about the terms and conditions under which the Class A preferred shares were issued, and discovered that, if they were to be cashed out in a merger transaction the preferred shareholders would receive \$12.50 per share, plus any accumulated dividends, whether or not they were declared. However, these shares were also redeemable by North Coast at a redemption price of \$10.00 per share, plus accumulated dividends. So, if the preferred shares were redeemed first, there would be an additional \$902,000 available to distribute to the common shareholders in the merger, which seemed more fair and likely to win their approval of the merger transaction. As it turns out, in a redemption the preferred shareholders will still stand to receive more than \$18 per share for their stock, which represents an 80+% gain over their initial purchase price of \$10.00 per share. After further investigation and discussion with the Ogdens, as well as internal discussions within GPM Life, we prepared a revised letter of intent dated October 5, 2010, in which we provided a "conceptual outline" for the proposed acquisition of North Coast by GPM Life, which would involve the redemption of all of the outstanding shares of preferred stock by North Coast, funded by GPM Life by subscribing for and purchasing all of the authorized but unissued shares of common stock of North Coast in an amount and at a price equal to the cost of redeeming the preferred shares, and then a statutory merger of a wholly-owned subsidiary of GPM Life with and into North Coast, with North Coast being the surviving entity.

Our proposal was subject to a number of conditions, including the completion of "due diligence," and our letter of intent included a "Due Diligence Checklist" that set forth a list of items that we requested that the Company provide us. We had hoped, at the time, that our due diligence could be completed by the middle of November, 2010, which, as it turned out, was wildly optimistic. In fact, we spent the better part of the next year and a half engaged in due diligence examination of the books and records of North Coast, discussions with management and North Coast's actuaries, and negotiations with the principal controlling shareholders over the valuation of North Coast, tax questions, and so on. It turned out to be a very complex project and consumed a considerable amount of my time and that of our management group.

A. What were the major issues?

Q. Well, we were pretty far apart on valuation issues, including tax issues, reserves, and valuation of intangibles, such as the company's systems and sales force, the valuation of business in force, what discount rates to use, and so on. We had many conversations with the management of North Coast over these matters, and, although we had made some progress, by early this year, we were pretty close to giving up. We had provided the sellers with drafts of the transactional documents, and they took some positions about the language that made us think that we were not going to be able to reach agreement; but, more than that, we remained far apart on an agreed price.

Q. But you did, in fact, reach an agreement?

A. Yes, in January of 2012 we decided to make one final run at the controlling shareholders in the form a communication directly from our Chairman and CEO Peter J. Hennessey III to the Ogdens, making it clear that we were making a final offer. By the end of the first week of February, we finally reached agreement on the price of \$7.66 per share of common stock, which is what we would pay for the subscription for all of the authorized and unissued shares of common stock of the North Coast, and the price we would pay common shareholders upon merger of North Coast with a wholly-owned subsidiary of GPM Life. We actually determined that, even if we purchased all of the remaining authorized but unissued shares of common stock of North Coast at that price, we would still fall a little short of fully funding the redemption of the preferred shares, so we agreed to purchase from North Coast a surplus debenture in the face amount of \$469,115, to make up the difference. We also specified that any additional costs in redeeming the preferred shares by reason of additional undeclared dividends accruing during 2012 would be funded by North Coast. The parties announced that they had reached an oral agreement in principle on those terms on February 7, 2012.

Q. What happened next?

A. The next few months were devoted to negotiating the final terms of the Common Stock and Surplus Debenture Subscription Agreement, the Plan and Agreement of Merger, the Shareholders' Agreement, and other documents; preparation of Board resolutions, and working on our Form A Statement to be filed with the Washington OIC. We finally executed the Subscription Agreement on or about May 7, 2012. The Merger Agreement and the Shareholders' Agreement will be signed at the time of the closing of the Subscription Agreement, which will occur on the day immediately preceding the date set for redemption of the preferred shares.

Q. In the meantime, had you kept the Washington OIC informed of where the parties were on the transaction?

A. Yes. We had first described our "conceptual outline" to Ron Pastuch and his staff in the Washington OIC during our visit to their offices in the fall of 2010. We also

provided periodic status reports to Mr. Odiorne and Mr. Pastuch from time to time over the next year and a half. After the deal was announced, we sat down with Mr. Odiorne and his staff in the Washington OIC in the spring of this year, and described the sequence of transactions and the various regulatory filings and approvals that would be required to complete the transaction. Our Form A Statement was prepared and dated June 1, 2012, and was acknowledged as filed with the OIC on June 6, 2012.

Q. This is a fairly complex acquisition; would you please summarize the key steps and regulatory approvals that will be necessary to complete the transaction?

A. Sure. After our meeting with the OIC in the spring, the Boards of Directors of North Coast and GPM Life adopted resolutions approving the terms of the acquisition, and we finalized and signed the Subscription Agreement. On March 15, 2012, we completed the incorporation of a wholly-owned subsidiary, a Washington corporation named "GPM Merger Corporation," for the sole purpose of merging with and into North Coast. The merger will take the form of what is called a "reverse triangular merger," whereby our wholly-owned subsidiary, GPM Merger Corporation, will merge with and into North Coast, and GPM Life will pay cash to the common shareholders of North Coast for their shares of common stock. At the time of the merger, we will have capitalized GPM Merger Corporation with \$2.0 million of capital and surplus. We filed our Form A Statement with the Washington OIC seeking approval of the change of control (by reason of GPM Life's acquisition of the all of the authorized but unissued shares of common stock in the subscription process) and the subsequent merger of North Coast and GPM Merger Corporation.

Under Washington law, North Coast has to have a solicitation permit issued by the OIC to allow the issuance and sale of the shares of common stock and surplus debenture by NCL to GPM Life. I believe that the solicitation permit was issued by the OIC on September 19, 2012, so that requirement has been completed. .

The redemption of the preferred shares might also be construed as constituting an "extraordinary dividend or distribution" under RCW 48.31B.030(2), and would require the Commissioner's approval of that distribution. We have had discussions with the OIC about the form of the application necessary for that approval. And the proposed merger would result in an amendment to North Coast's articles of incorporation to reduce the par value of the common stock from \$3.01 a share to \$1.67 per share, so the approval of the merger would also include approval of that amendment to the articles of incorporation brought about by reason of the merger. The common stock shareholders of North Coast will approve that amendment in the Special Meeting of Shareholders that will be convened to approve the merger. I might point out that, at that meeting over 92% of the common shares will be owned by GPM Life and the entities controlled by the Ogdens, and the Shareholders' Agreement guarantees that all of those shares will be voted for and in favor of the merger.

Q. What is the reason for the proposed reduction in the par value of the common stock that will result from the merger?

A. Well, it would be just a realignment of the North Coast's capital and surplus. After GPM Life acquires all the remaining authorized and unissued shares of common stock in the merger, and all of the preferred shares are redeemed using the funds paid by GPM Life in the Subscription Agreement, the balance sheet of North Coast would look a little lopsided: it would be "heavy" in capital, but "light" in surplus. At \$3.01 par value per share, capital would be over \$4.5 million, and surplus would effectively be impaired. In other words, it would have far more capital than it needs, and less surplus than it should have. This would balance out the two by reducing the capital, but increasing the surplus. The net result, in terms of the statutory net worth of North Coast, would remain the same.

Q. Please go on with a description of the sequence of events that will be necessary to complete the transactions.

A. The next step, if the Judge concludes that the evidence presented in our Form A and at this hearing complies with the requirements of law, will be the issuance of an order approving the change of control and the merger. On the fifth business day following a receipt of that order, North Coast will send out a Notice of Redemption to the holders of its Series A preferred stock, with instructions and forms for transmitting the shares to North Coast in exchange for the redemption price. The Notice of Redemption must set a Redemption date that is not fewer than 30, or more than 60 days from the date of the Notice, and, actually, will likely be 30 days.

Then, on the last business day immediately preceding the Redemption Date, the parties will have a Closing on the Subscription Agreement. At that Closing, the parties will first execute the Merger Agreement and the Shareholders' Agreement.

Q. Explain for the Judge what the purpose of the Shareholders' Agreement is.

A. When we close the Subscription Agreement, North Coast will issue shares of common stock to GPM Life that would result in it owning approximately 50.9% of the shares of common stock of North Coast. Under state law, it would take a two-thirds vote of common shareholders to approve the merger. The Ogdens and entities controlled by them will then own approximately 41.3% of the North Coast common shares outstanding, and, when combined with the shares owned by GPM Life, will then constitute approximately 92.2% of the outstanding shares of common stock of North Coast. The Shareholders' Agreement requires that the Ogdens vote their shares, along with GPM Life, for and in favor of the merger. This will insure that the proposal for the merger, and the related amendment to the articles of incorporation of North Coast as the surviving corporation will be approved at the Special Meeting of Shareholders of North Coast that will be held following the redemption of the preferred shares.

Q. In effect, the merger would be guaranteed to be approved by the statutorily required 2/3rds vote of the common shares outstanding, and would therefore be a certainty, is that right?

A. That is correct.

Q. What else will happen when the Subscription Agreement is closed?

North Coast will issue 763,017 shares of common stock to GPM Life, and a Surplus Debenture in the principal amount of \$469,115 to GPM Life, and GPM Life will deposit the Share Subscription Price and the Surplus Debenture Price with Washington Trust Bank, Spokane, which will act as the "Paying Agent" for the redemption of the Series A preferred stock. (The parties will have previously executed agreements with Sterling Bank to act in that capacity.) Any additional funds necessary to fund the redemption as a result of dividends on the preferred shares that have accrued during 2012 will be deposited with the Paying Agent by North Coast.

Q. And then the very next day following the closing of the Subscription Agreement is the "Redemption Date" specified for redemption of the shares of Class A Preferred Stock, is that right?

A. That's right, it will be the Redemption Date, and the Paying Agent will distribute cash in the amount of the redemption price to the holders of the Series A preferred shares who surrendered their shares. But all of the outstanding shares of Class A Preferred Stock will be cancelled, and thereafter represent only the right to receipt of the Redemption Price.

Q. So, if a preferred shareholder fails to send in the letter of transmittal and surrender the certificates representing the preferred shares owned by that shareholder, is he or she out of luck?

A. No; the Notice of Redemption actually cancels the preferred shares. They will not be entitled to receive any more dividends, and they will no longer have any voting rights. Certificates for the preferred stock will simply represent the right to receive the Redemption Price, and will be honored when the shares are tendered to North Coast. If any share certificates are not surrendered within 35 months from the Redemption Date, the Redemption Price for those shares would be returned by the Paying Agent to North Coast, and to the extent that they represent unclaimed funds, we will simply follow state laws and escheat those funds to the state.

Q. What else happens on that day?

A. The Board of Directors of North Coast will take appropriate action (whether by unanimous consent or otherwise) to elect three individuals designated by GPM Life to the Board of Directors of North Coast. At this point, GPM Life has now become the majority shareholder of North Coast.

Q. What is the next step?

A. Within 10 business days after the execution of the Merger Agreement (which happened at the Closing of the Subscription Agreement), the Board of Directors of North Coast will call a Special Meeting of the holders of common stock of North Coast to consider and act upon the proposed merger of GPM Merger Corporation with and into North Coast. North Coast will then send out the Notice of Meeting and proxy materials to be sent to North Coast common stockholders. The date of the Special Meeting will be consistent with the requirements of North Coast's bylaws and the laws of the State of Washington, which I believe requires 20 days' notice.

Q. And the approval of the merger by the common shareholders is guaranteed, is that right?

A. Yes. At the Special Meeting of Stockholders, the Controlling Shareholders (the Ogdens and entities they control) and GPM Life will, in accordance with the terms of the Shareholders' Agreement, each vote their common shares in favor of the merger, insuring its passage.

The merger will then become effective on the "Effective Date" thereof, which is the last day of the month during which the holders of 2/3rds of the outstanding shares of North Coast common stock approve the merger. On the Effective Date, the merger will be closed, and (1) the Articles of Merger will be signed and filed with the Washington OIC; (2) GPM Life will deposit the merger price (\$7.66 per share) with Washington Trust Bank, Spokane, Washington, which will act as the Exchange Agent; (3) the members of the Board of Directors of North Coast (other than those designated by GPM Life) will resign; (4) North Coast will provide the Exchange Agent with letters of transmittal to be sent to the holders of the common stock to surrender their shares and receive \$7.66 per share in payment therefor; and (5) the amendment to North Coast's articles of incorporation reducing the par value of the common shares (as I described earlier) will become effective. On that same day, GPM Life will take action to elect new members of the Board of Directors of North Coast which, in turn, will elect or appoint executive officers of the Company (some of whom will have been executive officers prior to the Effective Date).

Q. What if any of the common shareholders want to dissent to the merger?

A. If any shareholders have exercised their rights to dissent to the merger, they will have dissenters rights in accordance with the statutory procedures set forth in RCW Chapter 23.B.13, and those procedures will be followed.

Q. And the Surplus Debenture would be cancelled after the merger?

A. Correct. Following the Closing of the merger, GPM Life will return the Surplus Debenture to North Coast marked "cancelled," and convert the amount thereof to a contribution to the surplus of North Coast.

3. Financial Implications and Fairness of the Merger.

Q. So, at the end of these transactions, North Coast is now the survivor of the merger, operating as a wholly-owned subsidiary of GPM Life, and with new management and Board of Directors, is that right?

A. Basically, that is correct.

Q. From a financial perspective, does North Coast emerge as a stronger entity than it was before the merger?

A. Yes, it does. We prepared some pro forma financial information that is attached to our Form A as Exhibit I which demonstrates the effect of the subscription for the authorized and unissued common shares of North Coast and the issuance of the Surplus Debenture to fund the redemption of the preferred shares, as well as the effect of combining GPM Merger Corporation with North Coast in the merger, and have shown that, as though merger had occurred in 2011, as of December 31, 2011, instead of capital and surplus of \$5,658,700, North Coast would have had capital and surplus of \$7,658,683.

Q. Do you have any reason to believe that, after the acquisition of control by GPM Life and the merger, North Coast would not be able to satisfy the requirements for the issuance of a license or certificate of authority to write the line or lines of business for which it is presently licensed?

A. No.

Q. Do you believe that the effect of the acquisition of control of North Coast and the merger of North Coast with GPM Merger Corporation would substantially lessen competition in the State of Washington, or tend to create a monopoly therein?

A. No. During 2011, for example, GPM Life wrote a total of \$1,380,517 in life insurance premium in the State of Washington, and only \$5,200 in annuity considerations. We had an additional \$82,070 in accident and health premium in the state, for total premiums that year of \$1,467,787. In that same year, North Coast wrote \$302,000 in life insurance premium and collected \$3,214,759 in annuity considerations, and \$210,106 for deposit type contracts. Individually, neither GPM Life or North Coast represents a substantial share of the life insurance or annuity market in the State of Washington, and that is true also on a combined basis. I believe that we had some conversations on this topic with the staff of the OIC, and, unless I am mistaken, I believe that they were of the same opinion.

Q. Are you aware of any objection to the change of control or the proposed merger?

A. I am not. However, if any of the holders of common stock of the North Coast object to the merger, they may exercise dissenters rights as provided under the general corporation laws of Washington, and those rights will be set forth in detail in the proxy materials to be sent to the shareholders of North Coast.

Q. Do you think that there is any reason to believe that the financial condition of GPM Life, as the acquiring party in these transactions, is such as might jeopardize the financial stability of North Coast, or prejudice the interest of its policyholders?

A. Absolutely not. As we have seen, GPM Life has nearly as much in policyholders surplus as North Coast has in assets. We are very capable of providing financial support to North Coast, and our acquisition of North Coast will enhance its financial stability and advance the security of its policyholders.

Q. Does GPM Life have any plans or proposals to liquidate North Coast, sell its assets, consolidate or merge it with any other person, or make any other material change in its business or corporate structure or management that would be unfair or unreasonable to the policyholders of North Coast, or not in the public interest?

A. Other than the merger with GPM Merger Corporation, and electing new members of its Board of Directors after the change of control, we don't have any plans other than to help North Coast grow and prosper, free from the threat to its solvency posed by the growing accumulating, but undeclared preferred dividends that it has had to live with for the past 15 years or so. We will combine certain overhead functions with GPM Life operations so that North Coast can operate more efficiently. We think that our acquisition of North Coast is definitely in the public interest, because it will save North Coast from insolvency and help it to thrive.

Q. Will individuals currently serving as principal executive officers of North Coast Life remain in those positions after the proposed merger?

A. Other than electing a new Chairman of the Board, I don't expect that there would be any immediate changes. We'll need time to assess the strengths of those officers in place now.

Q. What are your plans for the future operation of North Coast, and its facilities in Spokane, Washington?

A. We plan to continue to provide support to North Coast to conduct its operations from its offices in Spokane, and continue to write new business as a wholly-owned subsidiary of GPM Life. We have no plans to place the Company in run-off, reinsure or sell its assets or properties, or discontinue its operations. In the short term, we plan to consolidate various overhead operations to achieve some economies of scale, such as 401K plan administration, payroll, management of the investment portfolio, choice of outside audit firm, and similar operations. These changes will ultimately have some effect on staffing at North Coast's operations in Spokane.

In the mid-term, we plan to administer the business on GPM Life's computer systems in San Antonio. That will require a conversion process that we expect to take at least three or four months after closing the merger. It would allow for remote access by North Coast personnel. In the long term, we expect to maintain an office in Spokane to take advantage of West coast hours for new business and customer service processes, and also to maintain a marketing presence. We expect systems support personnel will be needed as well. As we consolidate operations over the long term, there may be some reductions in staff in Spokane to achieve economies of scale, but we don't have any firm plans in that regard.

We expect in the near future to continue to allow North Coast to offer products similar to what North Coast is offering today. Our current plans are to file a universal life policy that eventually may replace the interest sensitive life policy being issued by North Coast today, but that will depend on acceptance by North Coast's field force. All current products will be reviewed, pricing assumptions updated, and changes made as needed. We have no immediate plans to add any other lines of business.

Q. Would you also say that the acquisition of control of North Coast by GPM Life is not likely to be hazardous or prejudicial to the insurance-buying public in the State of Washington?

A. I would absolutely agree with that.

Q. After completion of this acquisition and merger, will all rights and privileges of policyholders of North Coast remain the same as they are at this time?

A. Nothing will change; these policyholders will continue to enjoy all the rights and privileges as policyholders of North Coast as the survivor of the merger as they did prior to the change of control.

Q. Will any officer, director, member or subscriber of either GPM Life or North Coast, except as is expressly provided in the Plan and Agreement of Merger, receive any fee, commission or other compensation or valuable consideration whatsoever, for in any manner aiding, promoting or assisting in this proposed merger?

A. Well, certain officers and directors are shareholders of North Coast, and will receive cash in connection with the redemption of their preferred shares and for their common shares under the terms of the Subscription Agreement and Merger Agreement, but other than as provided therein, they will receive no other fee, commission or other compensation whatsoever in connection with the merger, and no officers or directors of GPM Life will receive any such compensation for aiding, promoting or assisting in the proposed merger.

Q. Do you believe that the proposed merger is fair, equitable, and consistent with law?

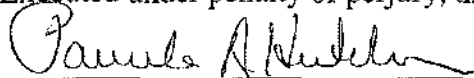
Q. Do you believe that the proposed merger is fair, equitable, and consistent with law?

A. Yes, I do. The common shareholders will receive the same price per share (\$7.66) that GPM Life paid to acquire its majority interest in the Company, so I think that they are being treated quite fairly. In fact, considering the alternative, if the Washington Insurance Commissioner had to commence insolvency proceedings against North Coast because of the enormous and growing undeclared preferred stock cumulative dividend liability, there would have been nothing left for the common shareholders, and very little for the holders of the preferred shares. By keeping North Coast viable as a going concern, we have enabled both preferred and common shareholders to realize some of that value. In my opinion, that's a win-win situation, however you look at it.

Q. Will the proposed merger as to North Coast and GPM Merger Corporation, the entities incorporated and domiciled in Washington, in all other respects be governed by, and will the parties fully comply with, the general laws of Washington relating to business corporations, as required by RCW 48.31.010?

A. Absolutely.

Executed under penalty of perjury, this ^{gph} 1 day of October, 2012.



Pamela A. Hutchins

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON**

In the Matter of the Proposed)	No. 12-0236
Acquisition of Control of:)	
)	
NORTH COAST LIFE INSURANCE)	
COMPANY, a Washington domestic)	
Insurer,)	PRE-FILED OPENING
)	STATEMENT
By)	
)	
GOVERNMENT PERSONNEL MUTUAL)	
LIFE INSURANCE COMPANY, a Texas)	
Mutual life insurance company, Applicant)	

PRE-FILED OPENING STATEMENT OF:

David D. Knoll
Thompson, Coe, Cousins & Irons, LLP
Representing Government Personnel Mutual Life Insurance Company

October 22, 2012

**OPENING STATEMENT
ON BEHALF OF
GOVERNMENT EMPLOYEES MUTUAL LIFE INSURANCE COMPANY**

Your Honor, my name is David Knoll, I am with the Texas law firm of Thompson, Coe, Cousins & Irons, LLP, and we represent Government Personnel Mutual Life Insurance Company, or "GPM Life," in these proceedings. We have also represented GPM Life in connection with the negotiation and preparation of the Common Stock and Surplus Debenture Subscription Agreement and the Plan and Agreement of Merger that are attached to GPM Life's Form A Statement as Exhibits A and B, and other related documents. Pamela A Hutchins, who is Senior Vice President and Chief Actuary for GPM Life, will provide more specific details about the history of GPM Life's interest in North Coast Life Insurance Company and the transactions that we are proposing in connection with the acquisition of control of North Coast by GPM Life. I would like to give you a general overview of why our proposal for the acquisition of control of North Coast has been structured as a two-step process.

By way of background, North Coast Life, is, as you know, a Washington-domiciled life insurance company based in Spokane, Washington. North Coast is under the control of C. Robert Ogden, members of his immediate family, and entities controlled by the Ogdens, who also control a substantial majority of the outstanding common stock of the Company. As of the end of last year, North Coast had total admitted assets of approximately \$135 million, and total capital and surplus of less than \$5.7 million. It is licensed to write life, accident and health insurance in 12 states, Guam and the Northern Mariana Islands. GPM Life, on the other hand, is a Texas mutual life insurance company which, as of the end of the second quarter of 2012, had total admitted assets of \$839 million and total policyholders' surplus in excess of \$101 million, and is licensed in 48 states, the District of Columbia and Guam.

As I noted in my cover letter transmitting GPM Life's Form A to the Washington Office of the Insurance Commissioner, for many years North Coast has struggled under a burden resulting from its issuance, in 1992, of 360,791 shares of Class "A" preferred stock, which entitled the holders thereof to receive a cumulative preferred annual dividend of \$1.00 per share, representing a 10% annual return on their initial investment. Within a few years after the Class A preferred shares were issued, North Coast became unable to pay the preferred stock dividends, and discontinued declaring them, which had the effect that North Coast did not have to post the accumulating value thereof on financial statements it filed with state insurance regulatory authorities. By the end of 2011, the total amount of accumulated, but undeclared, dividends on the Class A preferred shares was about \$2.8 million, which, if it were required to be reflected on North Coast's financial statements, would have rendered North Coast in an impaired financial condition.

GPM Life was first introduced to North Coast in 2008, when it agreed to provide reinsurance for two separate blocks of in-force life insurance on the North Coast's books, resulting in about \$929,000 in reserves ceded by North Coast to GPM Life. As GPM Life became more acquainted with North Coast, its management and its marketing organization, it

became convinced that there was considerable value in North Coast as a going concern that would be lost if it were to be forced into receivership and liquidation. It was evident that management of North Coast shared that view, and was receptive to ideas for recapitalizing and strengthening North Coast, to put it on a more secure future course. GPM Life saw an opportunity to provide that lifeline, and recognized that the preferred shareholder issue needed to be resolved to stop the hemorrhaging of unfunded liabilities created by the preferred stock dividend. But it was also convinced that it did not want to acquire a publicly traded entity with minority shareholders. In other words, the transaction would have to be structured in such a way that the existing common and preferred shareholders would be bought out, and North Coast would become a wholly-owned subsidiary of GPM Life. The only way of accomplishing that objective would be a statutory merger in which the common shareholders of North Coast would receive cash for their shares.


North Coast has always had the right to redeem the outstanding preferred stock shares at a price of \$10.00 per share, plus cumulative dividends thereon, whether or not declared. As of December 31, 2011, the total cost to redeem the preferred shares was \$6,313,825, an amount that was in excess of its capital and surplus on that date. Over a two-year period of negotiations and due diligence, the controlling shareholders of North Coast and GPM Life reached agreement on a plan whereby GPM Life would provide the funds to North Coast to resolve the cumulative undeclared dividend problem by enabling North Coast to redeem all of the outstanding preferred stock shares, and then GPM Life would complete the acquisition of North Coast by means of a statutory merger with a wholly-owned subsidiary of GPM Life, in which the common shareholders of North Coast would receive cash for their shares.

The total cost of GPM Life's acquisition of North Coast would be \$11,959,115, of which the first part, or \$6,313,825, would fund the redemption of the preferred stock shares, in return for which GPM Life would acquire all of the remaining authorized, but unissued, shares of common stock of North Coast at a subscription price of \$7.66 per share, and a surplus debenture issued by North Coast in the amount of \$469,115. The redemption price for undeclared dividends accumulating after December 31, 2011 would be funded by North Coast. The acquisition of these common shares would result in GPM Life owning approximately 50.9% of the outstanding common stock of North Coast, resulting in a "change of control" of North Coast. Then, the common shareholders (other than GPM Life) would receive cash for their shares, also at a price of \$7.66 per share, in a statutory merger of GPM Merger Corporation, a wholly-owned subsidiary of GPM Life, into North Coast, with North Coast being the surviving corporation, and a wholly-owned subsidiary of GPM Life. At the time of the merger, GPM Merger Corporation will have \$2,000,000 in cash (funded by GPM Life), which will then become part of the capital and surplus of North Coast following the merger. In addition, after the merger is completed, the surplus debenture will be cancelled, resulting in an additional contribution to the surplus of North Coast.

We are pleased to present this Form A statement to you for approval, and believe that the evidence you are about to receive in this hearing, together with the documents filed as exhibits to the Form A, will demonstrate forcefully that the acquisition of control of North Coast by GPM Life and the merger of GPM Merger Corporation with and into North Coast are in the best interests of the shareholders and policyholders of North Coast and in the public interest, and

meet all of the applicable requirements of law for approval by the Washington Insurance Commissioner.

Dated: October 22, 2012



David D. Knoll
Thompson, Coe, Cousins & Irons,
LLP

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF WASHINGTON**

In the Matter of the Proposed)	No. 12-0236
Acquisition of Control of:)	
)	
NORTH COAST LIFE INSURANCE)	
COMPANY, a Washington domestic)	
Insurer,)	PRE-FILED CLOSING
)	STATEMENT
By)	
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GOVERNMENT PERSONNEL MUTUAL)	
LIFE INSURANCE COMPANY, a Texas)	
Mutual life insurance company, Applicant)	

PRE-FILED CLOSING STATEMENT OF:

David D. Knoll
Thompson, Coc, Cousins & Irons, LLP
Representing Government Personnel Mutual Life Insurance Company

October 22, 2012

**CLOSING STATEMENT
ON BEHALF OF
GOVERNMENT PERSONNEL MUTUAL LIFE INSURANCE COMPANY**

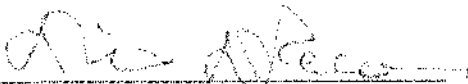
Your Honor, we have heard testimony today from Ms. Pam Hutchins, who is Senior Vice President, Chief Actuary and a member of the Board of Directors of Government Personnel Mutual Life Insurance Company, which is the "Applicant" in the Form A statement regarding the proposed acquisition of control of North Coast Life Insurance Company by Government Personnel Mutual Life Insurance Company. Ms. Hutchins has been intimately involved in the negotiations and details of this transaction, and has provided us with a unique insight into the background and details thereof. She has also presented testimony as to the experience, competency and trustworthiness of the individuals associated with the Applicant.

Ms. Hutchins also testified about the terms of the Subscription Agreement and the Merger Agreement, and, together with documents filed as Exhibits to GPM Life's Form A have established that these agreements have been properly approved by the Boards of Directors of the parties, have established that they are consistent with the requirements of applicable law, are fair and equitable, and are in the best interests of the policyholders of North Coast and insurance-buying public in the State of Washington. She has demonstrated that the transactions will result in a stronger North Coast, and overcome the principal obstacle to its growth, the dark and growing cloud of preferred shareholder cumulative dividends.

We believe that the evidence we have presented in connection with the Form A application and the testimony of Ms. Hutchins clearly establishes that the proposed acquisition of control of North Coast and merger of GPM Merger Corporation with and into North Coast satisfies the requirements of RCW 48.31B.015 and 48.31.010, and request that you enter an order approving these transactions, on behalf of the Commissioner.

Thank you.

Dated: October 22, 2012



David D. Knoll
Thompson, Coe, Cousins & Irons,
LLP