In the Matter of the Plan of Reorganization of SBLI USA MUTUAL LIFE INSURANCE COMPANY, INC. and the Proposed Acquisition of Control of SBLI USA MUTUAL LIFE INSURANCE COMPANY, INC. BY PROSPERITY LIFE INSURANCE GROUP, LLC	Supplemental Written Statement of Ronald Fry **Dated: September 4, 2014**

SUPPLEMENTAL WRITTEN STATEMENT OF RONALD FRY

I submit this supplemental written statement in response to the written submission of counsel to Howard Grossman, a policyholder of SBLI USA Mutual Life Insurance Company, Inc. (the "Company" or "SBLI USA") dated September 2, 2014 (the "Grossman Submission"). The paragraph numbers below correspond to paragraphs in the Grossman Submission, except paragraph 17 of this statement, which relates to paragraphs 17, 18 and 19 of Grossman's submission. I respectfully request that this supplemental statement be incorporated into the record of proceedings of the New York Department of Financial Services (the "Department") with regard to the plan of reorganization of SBLI USA to convert from a mutual insurer to a stock insurer (the "Plan").

10. The terms of the Plan were agreed to October 2013. In reference to Phoenix Companies, Inc. (NYSE:PNX) despite the improved share price, the price to book is still only 61.6%, as of market close 9/04/2014, as reported by SNL. That is coincidentally the mean of our Comparable Publicly Traded Companies Analysis conducted 11/21/2013.

11. The Company went through a rigorous process to identify a potential partner, and no other bidders with superior offers emerged. Even when the sponsored demutualization was publicly announced, and the Board of SBLI USA (the "Board") could still entertain any potential superior offer, no bidders stepped forward.

12. Our opinion is in accordance with customary investment banking practices and is current as of the date thereof, taking into account the most current information then available and the best estimates of management, with the assistance of third party advisors, including experts in the fields of tax, accounting and actuarial science.

13. We believe the Company is experiencing a temporary boost to its financials that is not sustainable should it continue to remain in run-off. A large component of this temporary boost is caused by the Company's cessation of writing new business. As we discussed with the Board, a life insurance company that stops selling new business will see an immediate reduction of expenses and a corresponding positive effect to income and surplus, but this effect is temporary. Life insurance commissions and related new policy expenses are burdensome to

life insurer reporting since, under statutory accounting practices, expenses are to be recognized immediately while revenues to be recognized only over time. A company that stops selling new policies, terminates its sales force and cuts other operating expenses will continue to benefit from earnings related to policies written in the past but will not be burdened with current commissions and new policy related expenses, thus resulting in a short term lift. Over time this improvement will erode, as the number of policies in force declines due to policy surrenders, lapses, maturities, and deaths resulting in a corresponding decline in company earnings. At some point reduced earnings on a shrunken policyholder base will no longer support fixed expenses. We note policy reserves of the Company have been decreasing since the decision was made by the Company to no longer issue new policies.

Also, as I mentioned in my verbal testimony, the transaction value as recognized by the market will not be seen based only on the $36 million of policyholder consideration but will also include all amounts paid by the buyer, including $4 million of expense reimbursement and resulting in a total deal value of $40 million from a market perspective. In our analysis we consider only the amount to be paid to policyholders, for fairness to the policyholder, but that is not the comparable deal value the market will use.

14. When we examined the Company's 2012 annual and first three quarterly financials of 2013 and noted the realized losses, the Company advised us it took the realization of capital losses based on the determination by its management, as supplemented by advice from third-party advisors, that it would be prudent to do so given the nature of the assets underlying such losses. In our analysis, we consider earnings-based analyses in a measured way, and not at all in the precedent transactions analysis. We caveat that no company in our various comparable or precedent transactions analyses was exactly the same as SBLI USA, and that we used the best comparisons available in a universe with few data points.

15. We do not adjust the values of the Company while leaving the values of the comparable universe unadjusted. There are non-admitted assets and unrealized gains at the Company; however there are also unrealized gains and non-admitted assets at the comparable companies and the companies noted in the precedent transactions analysis. We use comparable values, and do not adjust one and not the other. We note that unrealized gains in current insurance company portfolios are not unusual given the current low interest rate environment as compared to the interest rate environment when many investments in current insurance company portfolios were made.

16. The purportedly "solidly profitable" SBLI USA had net losses on a statutory basis in each of the last four years, and has net losses year to date in 2014 on a statutory accounting basis.

17. Our Comparable Publicly Traded Companies Analysis book value method does indicate a mean of $58.2 million and a median of $57.7 million. I stated in my testimony that this value includes the Comparable Publicly Traded Companies Analysis derived metric plus the Takeover Premium value of 24 percent. These median and mean values represent the theoretical market cap the Company would be expected to have if it were a public company, and what it could reasonably be expected to sell for in the then current market environment. Comparable Publicly Traded Companies Analysis determines the market cap, and then a takeover premium is added to determine the deal value in the theoretical sale. The range is between $27.5 million and $83.7 million, and none of the companies that are public in our life insurance comparables are identical to the Company. While the Company's surplus boost was caused by the cessation of sales, each of the comparable companies is weighed down by current sales commissions and expenses, as well as the cost of being a public company, including Sarbanes-Oxley compliance, most often estimated in the $1.0 to $2.0 million range for small capitalization companies. Even though the comparable companies had a positive average ROE of 4.2 percent, which exceeds SBLI's comparable ROE, none of the comparable companies traded above book value at that time. The average price to book value was 61.6 percent. Said another way, no fully operating company in the small life insurance space, with all the expense load of a selling, competing entity, was deemed by the public markets to be worth its statutory book value, and even when we add the theoretical sales premium from our Takeover Premiums Analysis, the mean and median are comparable to the market value of the deal, the $40 million paid by Prosperity Life Insurance Group, LLC and in the range of fairness to the policyholder, who will receive $36 million in the aggregate. In addition, unlike a public company that can be sold comparatively rapidly, the Company is a mutual that can only be sold in a demutualization transaction such as this, that is long and costly and would likely require the Company to resume selling new policies. In order to return to being a competitive entity, more cost will need to be incurred to rehire a sales team and restart marketing efforts, which will immediately create surplus strain on the Company. While we are aware of these facts in performing the analysis, we have no statistical method to apply a discount for the factual scenario faced by the Company. The truest way to determine value is to see what a buyer will pay, and in this case the highest competitive buyer to step forward after a thorough process is willing to pay $40 million, $36 million of which will go to policyholders.

    We also note the reference to only the book value analysis, which had the highest median and mean of the three components of Comparable Publicly Traded Companies Analysis, but in itself is only one third of the Comparable Publicly Traded Companies Analysis, and when the other two components, the multiples of 2013 estimated earnings and the multiples of 2014 estimated earnings are added in, the range expands to $6.7 million to $83.7 million, but the median and mean shift lower to $44.3 million and $36.4 million, which compares more favorably to the total deal value of $40.0 million and policyholder consideration of $36.0 million. We note in the opinion that each individual component is viewed as part of the whole, that we place no greater value on any one component than any other component in each individual analysis, and no greater weight on any single analysis among the various analyses.

18. We have addressed the stressed nature of the Company, and believe our mean of means and mean of medians approach is well-suited to the purposes of our valuation, rather than to arbitrarily point to the high end of the range. We did not adjust the Company for non-admitted assets in market based analyses, but neither did we adjust the comparable companies, as we deem one-sided adjustments to be without basis in our statistical analysis.

19. The estimated 2013 Earnings for SBLI USA used in our analysis were $2.9 million and the Company's actual earnings in 2013 were negative $2.2 million, which compares unfavorably. The estimated 2014 earnings for SBLI USA used in our analysis were $0.9 million, and year-to-date earnings in 2014 are negative $3.2 million. Estimates made by management were deemed to be reasonable and appropriate given information available to management at the time.

20. We took our data from 2013 Estimates, as noted above. Actual 2013 earnings from page 4 of the NAIC filings, Statement of Income indicates the Company lost $2.2 million, which would have had the effect of rendering any multiples of earnings analysis meaningless had we known that number at the time of the opinion. Any adjusted earnings number is inappropriate particularly when, such adjustments are applied only to the earnings of SBLI USA and not to the earnings of comparable companies. In addition, to exclude realized capital losses in the valuation analysis distorts the results.

21. In our review of our analyses, we include all points of analysis, and derive our conclusion from a review of all of the data, the medians of our statistical analyses and the mean of medians and mean of means of our analyses, supplemented by our non-statistical analyses. I described this process in my testimony, and in the opinion. Discussing earnings and returns adjusted for actual incurred losses is misleading. As an example, were we to exclude net realized losses from Phoenix Companies Inc. in 2013, the net income of negative $108.1 million shown on page 4 of the combined Phoenix Companies Life Insurance Group NAIC filing would have risen by $119.2 million, yielding a positive $11.1 million, and significantly changed the outcome of any analysis based on that new value. We do not arbitrarily adjust the target company's numbers, without likewise adjusting the comparable companies' numbers.

22. Each single component of our Comparable Publicly Traded Companies Analysis is shown after the effect of the applied Takeover Premiums Analysis value of 24 percent, which was the median 30-day takeover premium from our analysis of public companies acquired previously in the life and health sector. We use the median 30 day premium as it reduces the day to day share price fluctuation. Had

we been seeking to lower the value, we would have pointed to the much lower 90 day prior median of 18 percent. Instead we use the value we typically use in our valuations, the 30 day prior median value.

23. Our Precedent Transactions Analysis does point to a mean and median value of \$66.4 and \$73.0 million. This is one analysis of many, and most have subcomponents. We do not weigh this analysis to be greater or lesser in importance than any others, and run it through the mean of means and median of means to determine our range of fairness. We note here that this analysis usually has a subcomponent of earnings, but as the Company's earnings were negative in 2012, that analysis was rendered moot. Looking back on the data, had the Company had \$1.0 million of positive statutory earnings, we would have multiplied this number by the derived mean from the deal value to earnings metric of the precedent transactions listed (which was 14.2 times), and the resulting valuation would have been \$14.2 million dollars. This would have been used in the average and mean calculations with the book value subcomponent analysis, and which would have diluted the Precedent Transactions Analysis book value comparison greatly. Due to the negative earnings, we were prevented from any meaningful comparison, as a multiple of negative earnings is a negative value, and not meaningful. The other point is that the transactions involve companies not identical to the Company. Most of the companies sold in the comparable transaction universe had ongoing new policy sales, most had adequate ratings to serve their markets and be accepted by agents, and other non-similar factors, and above all most were not a mutual that would require lengthy demutualization and subsequent sale.

24. We agree that Discounted Cash Flow Analysis provides a theoretical value. We use accepted valuation techniques to provide a reasonable and defendable modeled output. We run multiple scenarios to test inputs, both market based and supplied by management, and which we believe to be reasonable and the best estimates available given the data available at the time. We state our assumptions in our supporting work, all of which meets the standard we set for ourselves as an independent advisor.

25. We reviewed the forecast provided by the Company to test the reasonability of the assumptions. Our weighted average cost of capital was determined formulaically, using a risk free rate of 3.5 percent (US Treasury yields for 20yr Treasuries at 11/19/13), a 100 percent weight of equity, a market risk premium using the 25 year average return of the S&P 500 at the time less the risk free rate, which was 11.7 percent less the 3.5 percent, a beta derived from the public betas of the comparable companies noted in that analysis, which was determined to be 0.77, a size premia of 7.1% from the Ibbotson 2013 size premium report for micro-cap risk. The mathematical solution using those inputs is 16.5 percent. We test the logic of that return by asking ourselves, if I were to hold the equity risk of SBLI USA in its then current condition, is it logical that I would demand a 16.5 percent% return, versus the 25 year S&P average return of 11.7 percent%,

or a risk premium of less than 5% percent to hold SBLI USA rather than hold the S&P 500. We believe our weighted average cost of capital used as a discount rate is reasonable, and further we applied scenarios running a discount rate from 12 percent to 20 percent to observe the outputs. There are other discounts we could apply using accepted valuation practices, but in the life insurance industry there are many cases where there are too few data points to support the analysis. We showed in our supporting material the disconnect between micro cap and small cap life insurance stock valuations as a percentage of book value, versus large cap and mid cap life insurance stocks. We note our size discount taken (7.1%) is mild compared to the actual measurable price to book values of micro cap stocks at 9/30/2013, which was 62.9 percent of book, compared to large cap life insurers which traded at 156.9 percent of book. That implies a discount of 60 percent. Said another way, a small public company in the life insurance space is assessed a 60% penalty by the markets because of its size relative to large cap companies, which have greater scale, ratings, distribution and capital resources. We could have used and supported the 60% discount that we derived from our analysis, but we are hesitant to use an analysis based on where the market is on any one day, thus using the Ibbotson derived discount, which is derived over a time series.

26. We agree our Embedded Value Analysis represents a theoretical value. The net losses mentioned were supplied by the Company, based on third party portfolio review and assumed to be the best estimates available to management at the time. An embedded value analysis is a methodology that adds a present value of in-force to an adjusted net worth of the target, and points to the current value attainable. No credit for unrealized gains is given for gains that may take time to cycle through the statements; likewise AVR and IMR are adjusted. The analysis is formulaic and we do not arbitrarily add or subtract items to improve/erode the valuation.

27. The projections provided included expense reductions already taken and planned, and were the best estimate of management at the time, and deemed by us to be reasonable.

28. The Company provided an in-force block analysis that was prepared with internal and external actuarial support. We used our discount rate of the available cash flows to arrive at the net present value of cash flows, which became part of the mathematical equation of the Embedded Value Analysis. We likewise derived the annual rate of decline from the Company's projections, and modeled it between negative 4.1 percent and negative 6.1 percent based on run-off projections. The cost of capital rate used implies the internal cost of capital to the Company to fund its liabilities, not the required return an investor would demand of SBLI USA, and the 6.0 percent we used is relatively standard.

I, Ronald Fry, affirm that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Ronald Fry
Senior Vice President and Partner,
Sherman & Company LLC