

Sentinel Security Life Insurance Company

STATUTORY FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT AND OTHER LEGAL AND REGULATORY INFORMATION

For the Years Ended December 31, 2013 and 2012



Larson

certified public accountants

SENTINEL SECURITY LIFE INSURANCE COMPANY

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Independent Auditor's Report

The Board of Directors

Sentinel Security Life Insurance Company:

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of **Sentinel Security Life Insurance Company** (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus of **Sentinel Security Life Insurance Company** as of December 31, 2013 and 2012, and the related statutory statements of income, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions prescribed or permitted by the State of Utah Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the statutory financial statements, the financial statements are prepared by the Company on the basis of the financial reporting provisions prescribed or permitted by the State of Utah Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Utah.

The effects on the financial statements of the variances between these statutory accounting practices described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Principles” paragraph, the statutory financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of **Sentinel Security Life Insurance Company** as of December 31, 2013 and 2012, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of **Sentinel Security Life Insurance Company** as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with the financial reporting provisions prescribed or permitted by the State of Utah Insurance Department described in Note 1.

Lauson & Company PC

Salt Lake City, Utah
April 25, 2014

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,
Liabilities, and Capital and Surplus
December 31, 2013 and 2012

ADMITTED ASSETS

	2013	2012
Investments:		
Bonds	\$ 367,191,498	\$ 343,905,676
Preferred stocks	6,907,321	6,609,401
Common stocks	237,877	2,823,269
Mortgage loans	1,628,444	2,017,579
Real estate:		
Properties occupied by the Company	5,190,950	141,475
Properties held for the production of income	-	1,860,551
Properties held for sale	411,563	-
Cash and short-term investments	13,262,418	19,236,447
Policy loans	1,324,839	1,238,189
Other invested assets	83,911	-
Receivables for securities	28,545	809,757
Total investments	396,267,366	378,642,344
Receivables:		
Accrued investment income	1,242,878	953,804
Uncollected premiums	26,313	45,802
Deferred and uncollected life premiums, net of loading of \$1,635,946 and \$1,477,018 for 2013 and 2012, respectively	2,910,524	2,753,205
Reinsurance recoverable	211,366	4,936
Federal income tax recoverable	286,500	344,448
Total receivables	4,677,581	4,102,195
Other admitted assets:		
Net deferred tax asset	2,338,651	2,059,854
Guaranty funds receivable or on deposit	40,998	-
Data processing equipment, net of accumulated depreciation of \$536,231 and \$332,239 for 2013 and 2012, respectively	113,368	49,961
Other amounts receivable	283,536	82,554
Aggregate write-ins for other invested assets	9	(3)
Total other admitted assets	2,776,562	2,192,366
Total admitted assets	\$ 403,721,509	\$ 384,936,905

The accompanying notes to statutory financial statements are an integral part of these statements.

LIABILITIES AND CAPITAL AND SURPLUS

	<u>2013</u>	<u>2012</u>
Liabilities:		
Policy and contract liabilities:		
Life reserves	\$ 111,931,278	\$ 105,394,491
A&H reserves	161,052	166,745
Liability for deposit-type contracts	8,245,641	343,792
Contract claims	1,228,607	1,700,285
Provision for policyholders' dividends and coupons payable	20,700	19,700
Total policy and contract liabilities	<u>121,587,278</u>	<u>107,625,013</u>
Other liabilities:		
Premiums received in advance	49,906	81,906
Surrender values on canceled contracts	-	166,185
Interest maintenance reserve	1,109,723	350,250
Commissions to agents due or accrued	144,824	64,181
General expenses due or accrued	924,904	829,318
Taxes, licenses, and fees due or accrued	59,882	473,801
Unearned investment income	32,065	27,586
Amounts withheld or retained by company as agent	382,998	208,992
Remittances and items not allocated	638,487	1,135,637
Asset valuation reserve	2,494,855	1,796,902
Funds held under reinsurance treaties	252,282,725	251,114,232
Funds held under coinsurance	8,783,157	567,457
Payable for securities	-	811,499
Total other liabilities	<u>266,903,526</u>	<u>257,627,946</u>
Total liabilities	<u>388,490,804</u>	<u>365,252,959</u>
Capital and surplus:		
Common stock, \$4 and \$7 par value; 10,000,000 and 500,000 shares authorized; 359,526 and 359,526 issued, and 295,136 and 290,598 outstanding as of December 31, 2013 and 2012, respectively	1,438,104	2,516,685
Paid-in surplus	1,279,810	201,229
Unassigned surplus	13,770,562	18,382,247
Treasury stock at cost - 64,390 and 68,829 shares in 2013 and 2012, respectively	(1,257,771)	(1,416,215)
Total capital and surplus	<u>15,230,705</u>	<u>19,683,946</u>
Total liabilities and capital and surplus	<u>\$ 403,721,509</u>	<u>\$ 384,936,905</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Income
For the Years Ended December 31, 2013 and 2012

	2013	2012
Income:		
Premium and other considerations	\$ 17,097,388	\$ 70,283,200
Net investment income	5,830,409	4,512,831
Amortization of interest maintenance reserve	188,966	36,139
Commissions and expense allowances on reinsurance ceded	24,803,247	23,883,757
Charges and fees for deposit-type contracts	2,140	-
Other income	8,942	1,986
Total income	47,931,092	98,717,913
Benefits and expenses:		
Benefits to policyholders:		
Death benefits	3,108,673	2,918,508
Matured endowments	83,229	528
Annuity benefits	1,181,707	252,127
Disability benefits	4,063,680	4,184,261
Coupon benefits	720	699
Surrender benefits	1,835,581	981,299
Increase and adjustments on contract or deposit-type contract funds	(209,571)	7,735
Increase in policy reserves	6,531,096	57,271,145
Total benefits to policyholders	16,595,115	65,616,302
Commissions	23,412,553	23,411,319
General and administrative expenses	10,419,424	8,983,113
Insurance taxes, licenses and fees	864,515	612,346
Increase in loading	158,928	87,755
Total benefits and expenses	51,450,535	98,710,835
Net (loss) gain from operations before dividends, federal income taxes and realized capital gains (losses)	(3,519,443)	7,078
Dividends to policyholders	(20,985)	(18,032)
Provision for income taxes	601,872	(37,576)
Net (loss) gain from operations before realized capital gains (losses)	(2,938,556)	(48,530)
Realized capital gains (losses), less capital gains tax (benefit) of \$556,425 and \$267,219 for 2013 and 2012, respectively	129,989	334,353
Net (loss) income	\$ (2,808,567)	\$ 285,823

The accompanying notes to statutory financial statements are an integral part of these statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Changes in Capital and Surplus
For the Years Ended December 31, 2013 and 2012

	<u>Common Stock</u>	<u>Paid-in Surplus</u>	<u>Unassigned Surplus</u>	<u>Treasury Stock</u>	<u>Total Capital and Surplus</u>
Balance at January 1, 2012	\$ 2,516,685	\$ 201,229	\$ 15,857,320	\$ (1,373,867)	\$ 17,201,367
Net income	-	-	285,823	-	285,823
Change in net unrealized capital gains (losses)	-	-	78,289	-	78,289
Change in net deferred tax assets	-	-	(169,478)	-	(169,478)
Change in non-admitted assets	-	-	3,074,342	-	3,074,342
Change in asset valuation reserve	-	-	(385,428)	-	(385,428)
Dividends to shareholders	-	-	(466,315)	-	(466,315)
Change in treasury stock	-	-	-	(42,348)	(42,348)
Change in accounting estimate	-	-	94,623	-	94,623
Other changes in surplus	-	-	13,071	-	13,071
Balance at December 31, 2012	2,516,685	201,229	18,382,247	(1,416,215)	19,683,946
Net loss	-	-	(2,808,567)	-	(2,808,567)
Change in net unrealized capital gains (losses)	-	-	184,596	-	184,596
Change in net deferred tax assets	-	-	1,517,448	-	1,517,448
Change in non-admitted assets	-	-	(2,471,194)	-	(2,471,194)
Change in asset valuation reserve	-	-	(697,953)	-	(697,953)
Dividends to shareholders	-	-	(464,632)	-	(464,632)
Change in treasury stock	-	-	-	158,444	158,444
Change in accounting estimate	-	-	109,207	-	109,207
Other changes in surplus	-	-	19,410	-	19,410
Change in common stock par value	(1,078,581)	1,078,581	-	-	-
Balance at December 31, 2013	\$ 1,438,104	\$ 1,279,810	\$ 13,770,562	\$ (1,257,771)	\$ 15,230,705

The accompanying notes to statutory financial statements are an integral part of these statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Premiums received, net of reinsurance	\$ 16,834,625	\$ 71,942,180
Investment income received	4,785,716	3,725,096
Other income	24,814,329	23,885,743
Claims and benefits paid	(10,908,314)	(7,217,734)
Commissions and other expenses paid	(35,070,766)	(34,622,519)
Dividends to policyholders paid	(19,985)	(19,032)
Federal income taxes recovered (paid)	659,820	(372,396)
	1,095,425	57,321,338
Cash flows from investing activities:		
Proceeds from sales of bonds	115,394,661	60,414,266
Proceeds from sales of stocks	3,674,897	4,404,930
Proceeds from mortgage loan collections	389,135	97,568
Other proceeds	781,212	811,499
Payments for purchases of bonds	(129,795,317)	(329,776,342)
Payments for purchases of stocks	(1,211,066)	(2,606,870)
Payments for real estate	(3,664,428)	(1,860,551)
Other invested assets	(250,000)	-
Other applications	(811,499)	(801,922)
Net increase in policy loans	(86,650)	(96,095)
	(15,579,055)	(269,413,517)
Cash flows from financing and miscellaneous sources:		
Proceeds from deposit-type contracts	7,901,849	50,068
Capital and paid in surplus, less treasury stock	158,444	(42,348)
Payments of dividends	(464,632)	(466,315)
Other cash applied	913,940	171,945,240
	8,509,601	171,486,645
Net (decrease) increase in cash	(5,974,029)	(40,605,534)
Cash and short-term investments at beginning of year, before nonadmitted cash	19,248,125	59,853,659
Cash and short-term investments at end of year, before nonadmitted cash	13,274,096	19,248,125
Less nonadmit portion of cash	(11,678)	(11,678)
Cash and short-term investments at end of year, admitted	\$ 13,262,418	\$ 19,236,447

The accompanying notes to statutory financial statements are an integral part of these statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Sentinel Security Life Insurance Company (the Company) is a Utah domestic stock life insurance company operated in accordance with the Utah Insurance Code. The Company is a member of an Insurance Company Holding System as defined in the Utah Insurance Code.

The Company's original principal lines of business consist of individual ordinary whole life and term life insurance. Over the last four years the Company began selling the following products, in order of release, Medicare supplement plans (2010), fixed annuity products (2011), hospital indemnity plans (2012), and a fixed index annuity product (2013). The Company writes its insurance under a general agency plan. All general agents, associate general agents, and special agents contract directly with the Company as independent contractors.

Basis of Presentation

The accompanying statutory financial statements of the Company are presented on the basis of accounting practices prescribed or permitted by the State of Utah Insurance Department. Such practices vary in some respects from accounting principles generally accepted in the United States of America (U.S. GAAP) used by general business enterprises. The more significant variances from U.S. GAAP are as follows:

a. *Investments:*

Investments in bonds are reported at amortized cost or fair value based on their National Association of Insurance Commissioners (NAIC) rating as described below in valuation of investments, unrealized gains or losses are credited or charged directly to surplus; for U.S. GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of surplus for those designated as available-for-sale.

All single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (Continued)

a. *Investments (Continued):*

For U.S. GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the discounted fair value. If high credit quality securities are adjusted, the retrospective method is used.

Investments in real estate are reported net of related obligations, if any, rather than on a gross basis. Changes between cost and admitted asset investment amounts are credited or charged directly to unassigned surplus rather than to a separate surplus account.

Valuation allowances, if necessary, are established for mortgage loans based on the difference between the unpaid loan balance and the estimated fair value of the underlying real estate when such loans are determined to be in default as to the scheduled payments. Under U.S. GAAP, valuation allowances would be established when the Company determined it is probable that it will be unable to collect all amounts (both principal and interest) due according to the contractual terms of the loan agreement. Such allowances are based on the present value of expected future cash flows discounted at the loan's effective interest rate or, if foreclosure is probable, on the estimated fair value of the underlying real estate, less estimated cost to sell.

b. *Nonadmitted Assets:*

Certain assets designated as "nonadmitted," principally furniture and equipment, agents' debit balances, and other assets not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual are excluded from the accompanying statement of admitted assets, liabilities and capital and surplus and are charged directly to unassigned surplus. Under U.S. GAAP, such assets are included in the balance sheet.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

c. *Policy Acquisition Costs:*

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable. Under U.S. GAAP, such costs, to the extent recoverable, would be deferred and amortized over the effective period of the related insurance policies.

d. *Deferred Income Taxes:*

Deferred tax assets are limited to 1) the amount of federal income taxes paid in the prior three years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the two subsequent calendar years, subject to a valuation allowance for deferred tax assets not realizable, plus 2) the lesser of the remaining gross deferred tax assets expected to be realized within three years of the balance sheet date or 15% of surplus excluding any net deferred tax assets, EDP equipment and operating software, plus 3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Deferred taxes do not include amounts for state income taxes. Under U.S. GAAP, state income taxes are included in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable.

e. *Guaranty Fund and Other Assessments:*

A liability for guaranty fund and other assessments (net of certain offsets depending on state rules) is accrued after an insolvency has occurred regardless of whether the assessment is based on premiums written before or after the insolvency. Under U.S. GAAP, the assessment recognized is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

f. *Statements of Cash Flow:*

Cash and short-term investments in the statements of cash flow represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

g. *Interest Maintenance Reserve:*

Interest rate related realized capital gains (net of losses) are reported as a liability (Interest Maintenance Reserve) and amortized to the maturity date of the instrument sold or called. Under U.S. GAAP, the realized capital gains (net or losses) are recorded in the income statement in the year incurred instead of being amortized over the remaining life of the instrument sold or called.

h. *Asset Valuation Reserve:*

An Asset Valuation Reserve is set up to establish a reserve to offset potential credit-related investment losses on all invested asset categories. Under U.S. GAAP such losses are recognized in the income statement when incurred.

i. *Benefit Reserves:*

Certain policy reserves are calculated based on statutorily required interest and mortality assumptions rather than on estimated expected experience or actual account balance as would be required under U.S. GAAP.

j. *Reinsurance:*

Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under U.S. GAAP.

k. *Comprehensive Income:*

On a statutory basis, the Company does not report comprehensive income, as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 220, *Comprehensive Income*, for U.S. GAAP basis financial statements.

The effects of the foregoing variances from U.S. GAAP on the accompanying statutory-basis financial statements have not been determined, but are presumed to be material.

The State of Utah Insurance Department recognizes only statutory accounting practices prescribed or permitted by the State of Utah for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Utah Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Utah.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Valuations of Investments

Investments are stated at valuation rates prescribed by, or deemed acceptable to, the NAIC. Bonds not backed by other loans are stated at amortized cost using the interest method, and equity security values approximate fair values, unless otherwise prescribed by the NAIC. Under NAIC guidelines, when market value rates are not available for bonds, fair value is determined by the Company. Realized gains or losses on the sale of bonds are determined based on the specific amortized cost of the investments sold and are included in net income. Realized gains or losses on the sale of equity securities are based on the specific-identification method and are included in net income. Unrealized gains and losses from revaluation of equity securities are reflected in unassigned surplus. Mortgage loans are stated at aggregate carrying cost less accrued interest. The Company reviews its investment portfolio for reductions in fair value below cost that, in the opinion of the Company, represent a permanent or other-than temporary impairment (OTTI). Declines in fair value of investments deemed to be OTTI or permanent are accounted for as a realized loss. Subsequent recoveries in fair value of equity securities are reflected as unrealized gains and are included as a component of surplus. The Company realized OTTI impairments of **\$102,259** and \$145,774 for the year ended December 31, 2013 and 2012, respectively.

When investments are being recorded at fair value, the Company categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Fair Values of Financial Instruments

The fair value of bonds, preferred and common stock, and mortgage loans, including the methods and assumptions used to estimate such amounts are described above. Other financial instruments include cash and short-term investments. The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Such estimates and assumptions could change in the future, as more information becomes known which could impact the amounts reported and disclosed herein. The most significant estimates included in the financials are 1) management's estimate of the reserves for aggregate policy reserves and 2) management's estimate of fair values of investments.

Benefit Reserves

The liability for life policyholder reserves is based on various standard industry mortality tables assuming interest rates varying from 3% to 6% and valuation methods that will provide, in the aggregate, reserves that are greater than or equal to the minimum or guaranteed policy cash values or the amounts required by the Utah Insurance Department. The Company waives deduction of deferred fractional premiums upon death of insureds and returns any portion of the final premium beyond the date of death. Surrender values are not in excess of the legally computed reserves. Additional reserves are established when the net premiums exceed the gross premiums on any insurance in force.

Substandard lives are charged an extra premium plus the regular gross premium for the true age. Mean reserves are determined by calculating the regular mean reserve to the plan at the related age and holding one-half for the extra premium charge for the year.

As of December 31, 2013 and 2012, the Company had **155** and 141 policies in force for which the gross premiums are less than the net premium according to the standard valuation set by the State of Utah. The gross premiums for these policies were **\$11,869** and \$11,530 less than net premiums for 2013 and 2012, respectively. Given the small number of policies where the net premiums exceed the gross premium the Company has not established a deficiency reserve.

Tabular interest, tabular less actual reserves released, and tabular cost have been determined by formula. Tabular interest on funds not involving life contingencies is calculated as one-hundredth of the product of such valuation rate of interest held at the beginning and end of the year of valuation.

The liabilities related to policyholder funds left on deposit with the Company generally are equal to fund balances less applicable surrender charges.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flow, the Company considers all highly liquid debt instruments with maturity of one year or less to be cash equivalents. Therefore, short-term investments and cash on deposit are considered to be cash equivalents.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of temporary cash investments, fixed maturity securities and mortgage loans.

Premiums and Expenses

Life insurance premiums are recognized when revenue is due or deferred. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. Deferred and uncollected life insurance premiums as of December 31 were as follows:

	2013		2012	
	Gross	Net of Loading	Gross	Net of Loading
Ordinary new business	\$ 946,171	\$ 276,494	\$ 783,163	\$ 221,240
Ordinary renewal	3,080,900	2,114,631	2,846,700	1,931,605
Total	\$ 4,027,071	\$ 2,391,125	\$ 3,629,863	\$ 2,152,845

Furniture and Equipment

Amounts expended for furniture and fixtures are charged to surplus, net of accumulated depreciation, for statutory financial reporting. Data processing equipment is carried at cost, net of accumulated depreciation.

Depreciation of data processing equipment and furniture and fixtures is provided over the estimated useful lives of the assets on the straight-line method. The useful lives for data processing equipment are between three and five years. The useful lives for furniture and fixtures are between five and seven years. Depreciation expense for the years ended December 31, 2013 and 2012 totaled **\$328,468** and \$240,674, respectively. Maintenance and repairs that do not materially extend the useful lives are charged to earnings as incurred.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance

Reinsurance premiums and benefits paid or provided are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Net Investment Income

Net investment income primarily represents interest and dividends received or accrued on bonds. It also includes amortization of any purchase premium or discount using the interest method, adjusted prospectively for any change in estimated yield-to-maturity. Net investment income is reduced by direct and allocated investment expenses.

New NAIC Pronouncements

During December of 2012, the NAIC finalized and issued SSAP No. 61, *Life, Deposit-Type and Accident and Health Reinsurance*, which incorporates the concept of a certified reinsurer. According to this guidance, a certified reinsurer is an assuming insurance entity that does not meet the requirements to be considered an authorized reinsurer in the domestic state of the ceding insurance entity, but has been certified by such state and is required to provide collateral as security for its reinsurance obligations incurred under contracts entered into or renewed on or after the effective date of certification. If a reinsurer meets the requirements to be a certified reinsurer and has satisfied the specified securitization requirements prescribe by the state, the ceding company may take reserve credits on the business ceded. The guidance related to certified reinsurers is applicable only to cedants domiciled in states that have enacted/promulgated the certified reinsurer collateral framework and only for their cessions to reinsurers certified under that domestic law/rule, shall be effective for all reporting periods beginning on or after December 31, 2012. The Company does not believe that the adoption of these changes will have any material impact to the Company's financial statement.

On January 1, 2013, SSAP No. 104, *Share-Based Payments*, became effective. According to the guidance, "this statement provides statutory accounting principles for transactions in which an entity exchanges its equity instruments to employees in share-based payment transactions. This statement does not provide statutory accounting principles for employee share ownership plans, those transactions are addressed in SSAP No. 12—*Employee Stock Ownership Plans*." "The objective of accounting for transactions under share-based payment arrangements with employees is to recognize in the financial statements the employee services received in exchange for equity instruments issued or liabilities incurred and the related cost to the entity as those services are consumed. This statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee stock ownership plans."

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New NAIC Pronouncements (Continued)

In November 2013, the Company adopted an Equity Incentive Plan; this Equity Incentive Plan is subject to the accounting principles contained in SSAP No. 104 and SSAP No. 12.

2. ACCOUNTING CHANGES

In 2012, the Company adjusted its calculation for admitted deferred tax assets due to the adoption of Statements of Statutory Accounting Principle (SSAP) No. 101, Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10. As of January 1, 2012, the cumulative effect of the change in admitted deferred tax assets was \$94,623. If SSAP No. 101 had been adopted in 2011, line 18.2, net deferred tax asset, would have been \$1,418,788 increasing assets and surplus by \$94,623. There would have been no impact on 2011 net income.

These changes have been recorded as a cumulative effective of changes in accounting principles increasing the Company's policyholders' surplus directly in 2012 by \$94,623.

For 2013, the Company changed the way it classifies certain annuity considerations. Fixed annuity considerations received for contracts that do not include riders containing any mortality or morbidity risk have been reclassified from premiums to deposit-type consideration. This change is consistent with SSAP No. 52, *Deposit-Type Contracts*, requiring contracts without any mortality or morbidity risk be recorded directly to a policy reserve account.

There was no effect to net income, surplus, total assets, or total liabilities as a result of this change. The change was for classification purposes only.

The reclassification effect of this change resulted in \$8,100,567 of net annuity considerations and \$7,700,651 of related reserves from premium being reclassified to the liability for deposit-type contracts. The net difference from above (change in liability deposit-type contracts) of \$218,935 was reclassified from line 19 of the Summary of Operations to Line 17 of the Summary of Operations.

During 2013, the Company changed the depreciation method relating to furniture and fixtures, from an accelerated method to the straight-line method. This change was made to bring consistency to the depreciation method used for all depreciable assets. The beginning surplus for 2013 was increased by \$109,207 and beginning accumulated depreciation accounts decreased by \$109,207 for the adjustments to the prior depreciation.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS

Bonds and stocks at December 31, 2013, are summarized as follows:

	<u>Cost or Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Book Value</u>
Bonds:			
Government bonds	\$ 16,859,784	\$ 15,452,947	\$ (1,406,837)
Residential mortgage- backed securities	105,189,590	112,307,033	7,117,443
Commerical mortgage- backed securities	41,761,017	42,543,973	782,956
Other loan-backed and structured securities	36,530,684	37,762,537	1,231,853
Hybrid Securities	3,537,070	3,431,876	(105,194)
Industrial and miscellaneous bonds	163,313,353	167,614,121	4,300,768
Total bonds	<u>\$ 367,191,498</u>	<u>\$ 379,112,487</u>	<u>\$ 11,920,989</u>
Stocks:			
Preferred stocks	\$ 6,907,321	\$ 6,591,032	\$ (316,289)
Common stocks	158,097	237,877	79,780
Total stocks	<u>\$ 7,065,418</u>	<u>\$ 6,828,909</u>	<u>\$ (236,509)</u>

Bonds and stocks at December 31, 2012, are summarized as follows:

	<u>Cost or Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Book Value</u>
Bonds:			
Government bonds	\$ 4,940,330	\$ 5,423,966	\$ 483,636
Hybrid Securities	5,881,107	4,576,310	(1,304,797)
Industrial and miscellaneous bonds	333,084,239	352,168,348	19,084,109
Total bonds	<u>\$ 343,905,676</u>	<u>\$ 362,168,624</u>	<u>\$ 18,262,948</u>
Stocks:			
Preferred stocks	\$ 6,609,401	\$ 7,165,950	\$ 556,549
Common stocks	2,855,672	2,823,269	(32,403)
Total stocks	<u>\$ 9,465,073</u>	<u>\$ 9,989,219</u>	<u>\$ 524,146</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

Assets measured at fair value are as follows:

Assets Measured at Fair Value				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013:				
Stocks:				
Common	\$ 237,877	\$ 237,877	\$ -	\$ -
Total	\$ 237,877	\$ 237,877	\$ -	\$ -

Assets Measured at Fair Value				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012:				
Stocks:				
Common stock	\$ 2,823,269	\$ 2,823,269	\$ -	\$ -
Perpetual preferred	102,761	102,761	-	-
Total	\$ 2,926,030	\$ 2,926,030	\$ -	\$ -

On a quarterly basis, the Company reviews its investment portfolio for securities in an unrealized loss position for other-than temporary impairments. This review for potential impairment is performed on a specific identification basis and requires significant management judgment related to a number of qualitative and quantitative factors including the severity of the impairment, the duration of the impairment, recent trends and expected market performance. Management believes that the Company's unrealized losses on individual securities at December 31, 2013 and 2012 represent a temporary decline in market value.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

The following tables summarize those investments that, as of December 31, 2013 and 2012, were in an unrealized loss position for which other-than-temporary declines in value have not been recognized:

(\$ In Thousands)

	Less Than 12 Months			12 Months or More			Total Unrealized Losses
	Number Of Issues	Fair Value	Unrealized Losses	Number Of Issues	Fair Value	Unrealized Losses	
At December 31, 2013							
Fixed income securities:							
U.S. government and agencies	16	\$ 4,662	\$ (580)	5	\$ 838	\$ (152)	\$ (731)
Industrial and miscellaneous	71	40,714	(1,858)	8	3,412	(312)	(2,170)
Hybrid	5	892	(26)	8	1,801	(119)	(145)
Mortgage-backed securities	69	47,518	(2,257)	8	4,442	(251)	(2,507)
Total fixed income securities	161	93,786	(4,721)	29	10,492	(833)	(5,553)
Equity securities:							
Common stock - industrial & misc	-	-	-	2	92	(34)	(34)
Preferred stock - industrial & misc	13	2,960	(244)	10	904	(99)	(343)
Total fixed income and equity securities	174	\$ 96,745	\$ (4,965)	41	\$ 11,489	\$ (966)	\$ (5,931)
Investment grade fixed income securities	161	\$ 93,786	\$ (4,721)	29	\$ 10,492	\$ (833)	\$ (5,553)
Below investment grade fixed income securities	-	-	-	-	-	-	-
Total fixed income securities	161	\$ 93,786	\$ (4,721)	29	\$ 10,492	\$ (833)	\$ (5,553)

(\$ In Thousands)

	Less Than 12 Months			12 Months or More			Total Unrealized Losses
	Number Of Issues	Fair Value	Unrealized Losses	Number Of Issues	Fair Value	Unrealized Losses	
At December 31, 2012							
Fixed income securities:							
U.S. government and agencies	5	\$ 954	\$ (26)	-	\$ -	\$ -	\$ (26)
Industrial and miscellaneous	15	7,305	(605)	4	447	(589)	(1,194)
Hybrid	13	1,494	(1,229)	1	36	(164)	(1,393)
Mortgage-backed securities	21	20,383	(203)	-	-	-	(203)
Total fixed income securities	54	30,136	(2,062)	5	483	(753)	(2,816)
Common stock - industrial & misc	-	-	-	7	2,037	(323)	(323)
Preferred stock - industrial & misc	-	-	-	10	936	(170)	(170)
Total fixed income and equity securities	54	\$ 30,136	\$ (2,062)	22	\$ 3,456	\$ (1,247)	\$ (3,309)
Investment grade fixed income securities	54	\$ 30,136	\$ (2,062)	5	\$ 483	\$ (753)	\$ (2,816)
Below investment grade fixed income securities	-	-	-	-	-	-	-
Total fixed income securities	54	\$ 30,136	\$ (2,062)	5	\$ 483	\$ (753)	\$ (2,816)

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

Maturities of bonds are as follows:

	Admitted Asset Value
2014	\$ 31,662,103
2015-2018	146,724,148
2019-2023	116,949,075
2024-2033	40,651,767
After 2033	31,204,405
Total by maturity	\$ 367,191,498

Sources of realized capital gains (losses) for the year ended December 31, 2013 and 2012 are summarized as follows:

	2013	2012
Bonds:		
Gross gains from sales	\$ 2,141,872	\$ 380,344
Gross losses from sales	(332,695)	(237,203)
Preferred stock:		
Gross gains from sales	2,400	-
Gross losses from sales	(207,500)	(110)
OTTI impairments	(102,259)	-
Common stock:		
Gross gains from sales	487,072	822,537
Gross losses from sales	(354,037)	(179,628)
Amount transferred to IMR net of tax	(948,439)	(184,368)
Capital gains (tax) benefit	(556,425)	(267,219)
Net capital gains (losses)	\$ 129,989	\$ 334,353

At December 31, 2013 and 2012, bonds with an admitted asset value of **\$2,546,444** and \$2,892,167 were on deposit with state insurance departments to satisfy regulatory requirements.

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

Cash and Short-Term Investments

Cash and short-term investments consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents:		
Checking accounts	\$ 2,078,551	\$ 6,359,290
Money market funds	9,647,569	3,832,501
Short-term investments	<u>1,536,298</u>	<u>9,044,656</u>
Total cash and cash equivalents	<u>\$ 13,262,418</u>	<u>\$ 19,236,447</u>

Concentration of Credit Risk

The Company maintains several bank accounts at the same institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at this institution exceeded federally insured limits. The amount in excess of FDIC limits totaled **\$4,289,476** and \$0 as of December 31, 2013 and 2012, respectively.

The Company maintains non-interest bearing accounts. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC). From December 31, 2010 through December 31, 2012, all noninterest bearing transaction accounts are fully insured by the FDIC regardless of the balance of the account and the ownership capacity of the fund. This was an extension of FDIC's Temporary Liquidity Guarantee Program which was effective on December 31, 2009. Therefore, deposits in these accounts are 100% insured by the FDIC as of December 31, 2012. Effective January 1, 2013, non-interest bearing accounts are no longer fully insured and are insured up to \$250,000 FDIC limits.

The Company invests in money market funds that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. As of December 31, 2013 and 2012 the Company held **\$11,183,867** and \$12,877,157 in money market funds, respectively.

Mortgage Loans

The Company's investments in mortgage loans principally involve commercial and residential real estate located in the state of Utah and Wyoming. Such investments consist of first mortgage liens on completed income-producing properties. Mortgage loans at December 31, 2013 and 2012 totaled **\$1,628,444** and \$2,017,579 respectively. As of December 31, 2013 and 2012, the Company has one mortgage with interest more than 180 days past due in the amount of **\$101,212** and \$102,577, respectively. Total interest due on mortgages with interest more than 180 days past due totaled **\$13,339** and \$9,498 respectively.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

Real estate

The components of the Company's real estate are summarized as follows:

	2013	2012
Occupied by the Company:		
Land	\$ 364,100	\$ 68,444
Properties occupied by the Company	4,883,828	615,783
Accumulated depreciation	(56,978)	(542,752)
Net real estate occupied by the Company	5,190,950	141,475
For the production of income:		
Land	-	364,100
Buildings	-	1,496,451
Accumulated depreciation	-	-
Net real estate held for the production of income	-	1,860,551
Properties held for sale:		
Land	68,444	-
Buildings	879,504	-
Accumulated depreciation	(536,385)	-
Net real estate held for sale	411,563	-
Net real estate	\$ 5,602,513	\$ 2,002,026

4. CONTINGENT LIABILITIES

The Company is subject to assessments for its proportionate share of liabilities of insolvent insurers in the states where the Company operates which have guarantee association statutes. A provision for estimated future assessments has not been recorded in the accompanying statutory financial statements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

5. CAPITAL AND SURPLUS

Life insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life insurance company is to be determined based on the various risk factors related to it. At December 31, 2013 and 2012, the Company meets the RBC requirements.

The payment of dividends by the Company to shareholders is limited and can only be made from earned profits unless prior approval is received from the Utah Insurance Commissioner. The maximum amount of dividends that may be paid by life insurance companies without prior approval of the Utah Insurance Commissioner is also subject to restrictions relating to statutory surplus and net income. The Company paid ordinary dividends to its stockholders on April 1, 2013 and 2012, of **\$464,632** and \$466,315, respectively.

The portion of unassigned funds (surplus) represented or (reduced) by cumulative unrealized gains and (losses) in 2013 and 2012 was **\$(86,309)** and \$(270,904), respectively. The portion of unassigned funds (surplus) represented or (reduced) by nonadmitted asset values in 2013 and 2012 was **\$(4,684,036)** and \$(2,212,842), respectively.

6. EMPLOYEE BENEFITS

The Company has a noncontributory master profit sharing and trust plan that qualifies under Section 401(a) of the Internal Revenue Code and is therefore exempt from income taxes. All eligible Company employees may participate in the plan after completing three months of service. The Company's annual contribution is 10% of the eligible participants' compensation as defined, but only to the extent net profits exceed \$50,000 in the taxable year of contribution. Contributions are made to participants in the same percentage that the individual participant's compensation bears to the total compensation of all participants for the plan year. All contributions to the plan are made to an independent trustee for investment and administration. The contributions become partially vested after two years and fully vested after six years of service. The Company's cost of the plan was **\$274,722** and \$154,973 for 2013 and 2012, respectively. As of December 31, 2013 and 2012, the fair value of the plan assets was **\$2,804,405** and \$2,077,712 respectively.

The Company's health, long-term disability, dental, and group life plans cover substantially all of its employees and qualified employee dependents. The Company makes contributions to these plans sufficient to provide for benefit payments required under the plans.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

6. **EMPLOYEE BENEFITS (Continued)**

The Company also has a deferred compensation plan for certain management employees. Management employees are awarded deferred compensation credits at the discretion of the deferred compensation committee, which are not earned until credited to the participant on the first day of each month during the period the award of benefits is in effect. Plan participants elect the manner in which future benefits will be paid for retirement, disability, termination of employment or death. In the event of plan termination by the Company, all deferred compensation benefits will be paid to participants.

Additions to the deferred compensation liability are charged to surplus in the year deferred compensation credits are earned and are shown as other surplus changes in the statement of changes in capital and surplus. As of December 31, 2013 and 2012, the Company did not have a balance in its deferred compensation plan.

In 2013, the Compensation Committee approved an equity incentive plan for the Company. The incentive plan is designed to allow the Company to compensate employee performance through stock compensation by a committee designated by the Board of Directors. The stock compensation can be administered in the following ways: (i) options to purchase shares of common stock in the form of Incentive Stock Options or Nonqualified Stock Options (which may include Performance Options), (ii) stock appreciation rights (SARs) in the form of Tandem SARs or Free Standing SARs or (iii) stock awards in the form of unrestricted stock awards, restricted stock, restricted stock units or performance stock units.

In November 2013, the committee approved restricted stock awards for employee performance in the amount \$198,000. The employees receiving the restricted stock awards were compensated with Company treasury stock. In accordance SSAP No. 104, the stock was valued at the fair market value on the grant date.

7. **RELATED PARTIES**

The Company owns a 75% interest in Secure Marketing Partners LLC (SMP). In accordance with SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*, the Company carries SMP at its U.S. GAAP equity balance which is recorded as the other invested asset on the statement of admitted assets, liabilities, and capital and surplus. The Company has a shared services agreement with its affiliate where SMP reimburses the Company on a monthly basis for rent, services, and salaries. At December 31, 2013, SMP owed the Company \$232,854 for the aforementioned items.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

8. NET INVESTMENT INCOME

Net investment income is comprised of the following:

	<u>2013</u>	<u>2012</u>
Interest:		
Bonds	\$ 6,066,266	\$ 4,434,765
Preferred stocks	276,281	328,751
Common stocks	21,233	145,703
Mortgage loans	118,539	138,064
Real estate	113,195	57,027
Policy loans	85,015	77,517
Cash and short-term investments	6,595	991
Aggregate write-ins for investment income	23,359	128,528
Total	6,710,483	5,311,346
Less:		
Allocated expenses:		
Depreciation	63,941	14,979
Investment taxes, licenses and fees	37,146	62,388
Investment expenses	778,987	721,148
Net investment income	\$ 5,830,409	\$ 4,512,831

9. REINSURANCE

The Company has no assumed reinsurance contracts.

Reinsurance Ceded

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The ceded reinsurance agreements provide the Company with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. Amounts payable or recoverable for reinsurance on policy and contract liabilities are not subject to periodic or maximum limits.

Reinsurance ceded has reduced premiums by **\$155,880,588** and \$285,851,727, and contract liabilities and consideration received for deposit type contracts by **\$437,253,594** and \$296,771,517 for the years ended December 31, 2013 and 2012, respectively. During 2013 and 2012, the Company did not write off to operations any reinsurance balances.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

9. REINSURANCE (Continued)

At December 31, 2013 and 2012, the effect of the coinsurance agreements described above on premiums and reserves is as follows:

	<u>2013</u>	<u>2012</u>
Premiums:		
Gross	\$ 172,977,976	\$ 356,134,930
Ceded	(155,880,588)	(285,851,727)
Net premiums	<u>\$ 17,097,388</u>	<u>\$ 70,283,203</u>
Deposit type contracts:		
Deposits received	\$ 38,527,555	\$ -
Ceded	(30,802,603)	-
Net deposit type contracts	<u>\$ 7,724,952</u>	<u>\$ -</u>
Net due and deferred:		
Gross due and deferred		
Gross	\$ 4,027,071	\$ 3,629,863
Ceded	-	-
Net	<u>4,027,071</u>	<u>3,629,863</u>
Loading		
Gross	(1,635,946)	(1,477,018)
Ceded	-	-
Net	<u>(1,635,946)</u>	<u>(1,477,018)</u>
Net due and deferred		
Gross	2,391,125	2,152,845
Ceded	-	-
Net	<u>\$ 2,391,125</u>	<u>\$ 2,152,845</u>
Aggregate reserves - life:		
Gross	\$ 516,973,248	\$ 400,668,578
Ceded	(405,041,970)	(295,274,087)
Net	<u>\$ 111,931,278</u>	<u>\$ 105,394,491</u>
Aggregate reserves - accident and health:		
Gross	\$ 1,570,073	\$ 1,664,175
Ceded	(1,409,021)	(1,497,430)
Net	<u>\$ 161,052</u>	<u>\$ 166,745</u>
Claims payable:		
Gross	\$ 5,796,395	\$ 10,464,638
Ceded	(4,567,788)	(8,764,353)
Net	<u>\$ 1,228,607</u>	<u>\$ 1,700,285</u>
Claims:		
Gross	\$ 49,356,157	\$ 46,190,646
Ceded	(40,918,868)	(38,835,222)
Net	<u>\$ 8,437,289</u>	<u>\$ 7,355,424</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

9. REINSURANCE (Continued)

Neither the Company, nor any of its related parties control, either directly or indirectly, any reinsurers with which the Company conducts business. No policies issued by the Company have been reinsured with a foreign company which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance. The Company does not have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel the agreement. At December 31, 2013 and 2012, there are no reinsurance agreements in effect such that the amount of losses paid or accrued exceed the total direct premium collected.

10. FEDERAL INCOME TAXES

The Company is taxed as a small life insurer in accordance with provisions of the Internal Revenue Code. Under these provisions, taxable income is computed on a modified statutory accounting basis reduced by a 60% small life company exclusion.

The Company is subject to state premium taxes and, accordingly, is exempt from state income taxes.

The components of the net deferred tax asset (liability) at December 31 are as follows:

	12/31/2013		
	(1)	(2)	(3)
	Ordinary	Capital	(Col 1+2) Total
(a) Gross deferred tax assets	\$ 4,477,243	\$ 64,113	\$ 4,541,356
(b) Statutory valuation allowance adjustments	-	-	-
(c) Adjusted gross deferred tax assets (1a - 1b)	4,477,243	64,113	4,541,356
(d) Deferred tax assets nonadmitted	<u>1,379,607</u>	<u>-</u>	<u>1,379,607</u>
(e) Subtotal net admitted deferred tax asset (1c - 1d)	3,097,636	64,113	3,161,749
(f) Deferred tax liabilities	<u>823,098</u>	<u>-</u>	<u>823,098</u>
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u><u>\$ 2,274,538</u></u>	<u><u>\$ 64,113</u></u>	<u><u>\$ 2,338,651</u></u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

10. FEDERAL INCOME TAXES (Continued)

	12/31/2012		
	(4) Ordinary	(5) Capital	(6) (Col 4+5) Total
(a) Gross deferred tax assets	\$ 2,802,936	\$ 140,956	\$ 2,943,892
(b) Statutory valuation allowance adjustments	-	-	-
(c) Adjusted gross deferred tax assets (1a - 1b)	2,802,936	140,956	2,943,892
(d) Deferred tax assets nonadmitted	-	140,956	140,956
(e) Subtotal net admitted deferred tax asset (1c - 1d)	2,802,936	-	2,802,936
(f) Deferred tax liabilities	743,082	-	743,082
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u>\$ 2,059,854</u>	<u>\$ -</u>	<u>\$ 2,059,854</u>

	Change		
	(7) Ordinary	(8) Capital	(9) (Col 7+8) Total
(a) Gross deferred tax assets	\$ 1,674,307	\$ (76,843)	\$ 1,597,464
(b) Statutory valuation allowance adjustments	-	-	-
(c) Adjusted gross deferred tax assets (1a - 1b)	1,674,307	(76,843)	1,597,464
(d) Deferred tax assets nonadmitted	1,379,607	(140,956)	1,238,651
(e) Subtotal net admitted deferred tax asset (1c - 1d)	294,700	64,113	358,813
(f) Deferred tax liabilities	80,016	-	80,016
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u>\$ 214,684</u>	<u>\$ 64,113</u>	<u>\$ 278,797</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

10. FEDERAL INCOME TAXES (Continued)

The admission calculation components per SSAP No. 101, *Income Taxes* are as follows:

	12/31/2013		
	(1)	(2)	(3)
	Ordinary	Capital	(Col 1+2) Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 357,735	\$ 64,113	\$ 421,848
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	1,916,803	-	1,916,803
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,916,803	-	1,916,803
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	1,916,803
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	823,098	-	823,098
(d) Deferred tax assets admitted as a result of application of SSAP No. 101 Total (2(a) + 2(b) + 2(c))	\$ 3,097,636	\$ 64,113	\$ 3,161,749
	12/31/2012		
	(4)	(5)	(6)
	Ordinary	Capital	(Col 4+5) Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 314,505	\$ 139,447	\$ 453,952
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	1,685,759	-	1,685,759
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,685,759	-	1,685,759
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	2,356,630
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	663,225	-	663,225
(d) Deferred tax assets admitted as a result of application of SSAP No. 101 Total (2(a) + 2(b) + 2(c))	\$ 2,663,489	\$ 139,447	\$ 2,802,936

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

10. FEDERAL INCOME TAXES (Continued)

The change in admission calculation components per SSAP No. 101, *Income Taxes* are as follows:

	Change		
	(7) Ordinary	(8) Capital	(9) (Col 7+8) Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 43,230	\$ (75,334)	\$ (32,104)
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	231,044	-	231,044
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	(1,685,759)	-	(1,685,759)
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	(439,827)
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	159,873	-	159,873
(d) Deferred tax assets admitted as a result of application of SSAP No. 101 Total (2(a) + 2(b) + 2(c))	<u>\$ 434,147</u>	<u>\$ (75,334)</u>	<u>\$ 358,813</u>

The ratio percentage and the adjusted capital and surplus used to determine the recovery period and the threshold limitation at December 31, 2013 and 2012 are as follows:

	2013	2012
(a) Ratio percentage used to determine recovery period and threshold limitation amount	<u>359%</u>	<u>669%</u>
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2 (b) 2 above	<u>\$ 12,778,686</u>	<u>\$ 15,710,865</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

10. FEDERAL INCOME TAXES (Continued)

The impact on the deferred tax calculation from the Company's tax planning strategies is as follows:

12/31/2013		12/31/2012		Change	
(1)	(2)	(3)	(4)	(5)	(6)
Ordinary	Capital	Ordinary	Capital	(Col 1-3) Ordinary	(Col 2-4) Capital

Impact of tax-planning strategies

- (a) Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character as a percentage.
Note 9A1(c)

1. Adjusted gross DTAs amount from Note 9A1(c)	<u>\$ 4,477,243</u>	<u>\$ 64,113</u>	<u>\$ 2,802,936</u>	<u>\$ 140,956</u>	<u>\$ 1,674,307</u>	<u>\$ (76,843)</u>
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
3. Net admitted adjusted gross DTAs amount from Note 9A1(e)	<u>\$ 3,097,636</u>	<u>\$ 64,113</u>	<u>\$ 2,802,936</u>	<u>\$ -</u>	<u>\$ 294,700</u>	<u>\$ 64,113</u>
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>

- (b) Does the Company's tax-planning strategies include the use of reinsurance? Yes No

There are no deferred tax liabilities the Company has not recognized as of December 31, 2013 and 2012.

Current income taxes incurred consist of the following major components:

	(1) 12/31/2013	(2) 12/31/2012	(3) (Col 1-2) Change
1. Current income tax:			
(a) Federal	\$ -	\$ 304,795	\$ (304,795)
(b) Foreign	-	-	-
(c) Subtotal	-	304,795	(304,795)
(d) Federal income tax on net capital gains	(556,425)	(267,219)	(289,206)
(e) Utilization of operating loss carry-forwards	-	-	-
(f) Other	(45,447)	-	(45,447)
(g) Federal and foreign income taxes incurred	\$ (601,872)	\$ 37,576	\$ (639,448)

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

10. FEDERAL INCOME TAXES (Continued)

Deferred income taxes incurred consist of the following major components:

	(1) 12/31/2013	(2) 12/31/2012	(3) (Col 1-2) Change
2. Deferred tax assets:			
(a) Ordinary:			
(1) Discounting on unpaid losses	\$ -	\$ -	\$ -
(2) Unearned premium reserve	-	-	-
(3) Policyholder reserves	1,314,867	1,262,578	52,289
(4) Investments	-	-	-
(5) Deferred acquisition costs	1,071,709	1,016,927	54,782
(6) Policyholder dividends accrual	-	-	-
(7) Fixed assets	8,785	-	8,785
(8) Compensation and benefit accruals	-	-	-
(9) Pension accrual	-	-	-
(10) Nonadmitted assets	-	-	-
(11) Net operating loss carryforward	-	-	-
(12) Tax credit carry-forward	1,407,213	-	1,407,213
(13) Other (including <5% total of ordinary tax assets)	674,670	523,431	151,239
(99) Subtotal	4,477,244	2,802,936	1,674,308
(b) Statutory valuation allowance adjustment	-	-	-
(c) Nonadmitted	1,379,607	-	1,379,607
(d) Admitted ordinary deferred tax assets (2a99-2b-2c)	3,097,637	2,802,936	294,701
(e) Capital:			
(1) Investments	64,112	92,107	(27,995)
(2) Net capital loss carry-forward	-	-	-
(3) Real estate	-	1,509	(1,509)
(4) Other (including items <5% of total capital tax assets)	-	47,340	(47,340)
(99) Subtotal	64,112	140,956	(76,844)
(f) Statutory valuation allowance adjustment	-	-	-
(g) Nonadmitted	-	140,956	(140,956)
(h) Admitted capital deferred tax assets (2e99-2f-2g)	64,112	-	64,112
(i) Admitted deferred tax assets (2d + 2h)	3,161,749	2,802,936	358,813
3. Deferred tax liabilities:			
(a) Ordinary:			
(1) Investments	-	-	-
(2) Fixed assets	-	-	-
(3) Deferred and uncollected premium	812,983	731,967	81,016
(4) Policyholder reserves	-	-	-
(5) Other (including items <5% of total ordinary tax liabilities)	10,115	11,115	(1,000)
(99) Subtotal	823,098	743,082	80,016
(b) Capital:			
(1) Investments	-	-	-
(2) Real estate	-	-	-
(3) Other (including items <5% of total capital tax liabilities)	-	-	-
(99) Subtotal	-	-	-
(c) Deferred tax liabilities (3a99 + 3b99)	823,098	743,082	80,016
4. Net deferred tax assets/(liabilities) (2i - 3c)	\$ 2,338,651	\$ 2,059,854	\$ 278,797

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

10. FEDERAL INCOME TAXES (Continued)

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	2013	Effective Tax Rate
Provision computed at statutory rate	\$ (1,203,746)	34.00 %
Tax exempt income deduction	(159,584)	4.51 %
Dividends received deduction	(139,641)	3.94 %
Section 832 interest and dividends	-	0.00 %
AMT tax credit	-	0.00 %
Change in statutory valuation adjustment	-	0.00 %
Amortization of IMR	(64,248)	1.81 %
Other	(72,519)	2.05 %
	<u>\$ (1,639,738)</u>	<u>46.31 %</u>
Total	<u>\$ (1,639,738)</u>	<u>46.31 %</u>
Federal and foreign income taxes incurred	\$ (601,872)	17.00 %
Federal income tax on net capital gains (losses)	556,425	(15.72)%
Change in net deferred income taxes	(1,594,291)	45.03 %
	<u>\$ (1,639,738)</u>	<u>46.31 %</u>
Total statutory income taxes	<u>\$ (1,639,738)</u>	<u>46.31 %</u>

As of December 31, 2013 and 2012, the Company had a net operating loss (NOL) in the amount of \$1,416,171 and \$0, respectively. The NOL is set to expire in 2033.

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

	Total
2012	\$ 286,500
2011	135,348
	<u>421,848</u>
Total	<u>\$ 421,848</u>

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

The Company's federal income tax return is not consolidated with any other entities.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

10. FEDERAL INCOME TAXES (Continued)

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), replaced by Accounting Standard Codification (ASC) 740, *Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (FAS 109), also replaced by Accounting Standard Codification (ASC) 740, *Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. As of December 31, 2013 and 2012 the Company has not adopted the provisions of ASC 740 because it is not required by the accounting practices prescribed or permitted by the State of Utah Department of Insurance. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740.

Prior to 1984, the Company was allowed certain special deductions for federal income tax reporting purposes that were required to be accumulated in a "policyholders' surplus account" (PSA). In the event that those amounts are distributed to shareholders, or the balance of the account exceeds certain limitations prescribed by the Internal Revenue code, the excess amounts would be subject to income tax at current rates. Income taxes also would be payable at current rates if the Company ceases to qualify as a life insurance company for tax reporting purposes, or if the income tax deferral status of the PSA is modified by future tax legislation. Management does not intend to take actions nor does management expect any events to occur that would cause income taxes to become payable on the PSA balance. Accordingly, the Company has not accrued income taxes on the PSA balance of **\$1,220,000** at December 31, 2013 and 2012. However, if such taxes were assessed the amount of the taxes payable would be approximately \$415,000. No deferred tax liabilities are recognized related to the PSA.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

11. PARTICIPATING POLICIES

At December 31, 2013 and 2012, participating policies account for less than 1% of total insurance, respectively. Total dividends for 2013 and 2012 were **\$20,985** and \$18,032, respectively.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 25, 2014, the date the financial statements were available to be issued.

On March 26, 2014, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Ability Insurance Company (lender) in the amount of \$10,000,000. The scheduled maturity date of the loan is April 1, 2025. Subject to the approval of the Insurance Commissioner of the State of Utah the Company will pay interest thereon, quarterly, in arrears on July 1, October 1, January 1, and April 1 each year commencing July 1, 2014 at the rate of 7.5% annum.

13. DIRECT PREMIUM WRITTEN/PRODUCED BY THIRD PARTY ADMINISTRATOR

The aggregate amount of direct premiums written through managing general agents or third party administrators as of December 31, 2013 and 2012 was:

Name and Address Managing General Agent Or Third Part Administrator	FEIN#	Exclusive Contract	Type of Business Written	Type of Activity Granted	Total Direct Prem Written/ Produced By
For the year ended December 31, 2013:					
American Insurance Administrators LLC 2536 Countryside Blvd., Suite 430 Clearwater, FL 33763	26-1193300	No	Medicare Supplement	C,CA,,P,U	<u><u>\$ 51,660,776</u></u>
For the year ended December 31, 2012:					
American Insurance Administrators LLC 2536 Countryside Blvd., Suite 430 Clearwater, FL 33763	26-1193300	No	Medicare Supplement	C,CA,,P,U	<u><u>\$ 53,919,852</u></u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

14. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has increased (decreased) by approximately **\$(27,400)** and \$(16,897) during the years ended December 31, 2013 and 2012, respectively.

	2013	2012
Balance at January 1	\$ 973,954	\$ 522,639
Incurred, related to:		
Current year	4,090,252	4,199,791
Prior years	(27,400)	(16,897)
Total incurred	4,062,852	4,182,894
Paid, related to:		
Current year	3,523,654	3,230,039
Prior years	995,592	501,540
Total paid	4,519,246	3,731,579
Balance at December 31	\$ 517,560	\$ 973,954

15. RECONCILIATION WITH ANNUAL STATEMENT

The reconciliation to the annual statement for the year ended December 31, 2012 is as follows:

	2012			
	Assets	Liabilities	Capital and Surplus	Net Income (Loss)
Balance per annual statement	\$ 384,936,905	\$ 365,252,959	\$ 19,683,946	\$ (34,607)
Reverse prior period audit adjustment - tax provision	-	-	-	320,430
Balance per audit	\$ 384,936,905	\$ 365,252,959	\$ 19,683,946	\$ 285,823

OTHER LEGAL AND REGULATORY INFORMATION



**INDEPENDENT AUDITOR'S REPORT ON OTHER LEGAL
AND REGULATORY INFORMATION**

The Board of Directors
Sentinel Security Life Insurance Company

Report on Other Legal and Regulatory Requirements

Our audit was made for the purpose of forming an opinion on the statutory financial statements taken as a whole. The selected financial data, the investment risks interrogatories, and the summary investment schedules are presented for purposes of additional analysis and are not a required part of the statutory financial statements, but are required as other legal and regulatory information by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual. This information is presented in a format consistent with the Annual Statement filed by **Sentinel Security Life Insurance Company** with the State of Utah Insurance Department. Such information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

Larson & Company PC

Salt Lake City, Utah
April 25, 2014

SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data
December 31, 2013

	Totals
Investment income earned:	
Bonds	\$ 6,066,266
Preferred stocks	276,281
Common stocks	21,233
Mortgage loans	118,539
Real estate	113,195
Policy loans	85,015
Cash and short-term investments	6,595
Aggregate write-ins for investment income	23,359
Gross investment income	\$ 6,710,483
Real estate owned:	
Book value less encumbrances	\$ 5,602,513
Mortgage loans - statement value	
Residential	\$ 570,912
Commercial mortgages	\$ 1,057,532
Mortgage loans by standing - statement value	
Good standing	\$ 1,527,232
Interest overdue more than 90 days, but not in foreclosure	\$ 101,212
Bonds by maturity and class:	
Bonds by maturity - statement value	Book
Due within one year	\$ 31,662,103
Over 1 through 5 years	146,724,148
Over 5 through 10 years	116,949,075
Over 10 through 20 years	40,651,767
Over 20 years	31,204,405
Total by maturity	\$ 367,191,498
Bonds by class - statement value	
Class 1	\$ 228,664,631
Class 2	123,970,293
Class 3	13,606,634
Class 4	949,940
Class 5	-
Class 6	-
Total by class	\$ 367,191,498

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data (Continued)

December 31, 2013

	Totals
Total bonds publicly traded	\$ 363,175,337
Total bonds privately placed	\$ 4,016,161
Preferred stocks (statement value)	\$ 6,907,321
Common stocks (market value)	\$ 237,877
Short-term investments (statement value)	\$ 1,536,298
Cash and cash equivalents on deposit:	
Checking accounts	\$ 2,078,551
Short-term investments	1,536,298
Money market funds	9,647,569
Total cash and cash equivalents on deposit	\$ 13,262,418
Life insurance in force:	
Ordinary	\$ 187,502,785
Amount of accidental death insurance in-force under ordinary policies	\$ 345,000
Life insurance policies with disability provisions in-force under ordinary policies	\$ 1,714,000
Supplementary contracts in force:	
Ordinary - not involving life contingencies:	
Amount on deposit	\$ 24,301
Annuities - ordinary:	
Immediate amount of income payable	\$ -
Deferred fully paid account balance	\$ 505,831,444
Accident and health in force:	
Ordinary	\$ 49,825,033
Deposit funds and dividend accumulations:	
Dividend accumulations account balance	\$ 277,208
Claim payments in 2013:	
Other accident and health benefits incurred in year ended December 31:	
2012	\$ 995,592
2013	3,523,654
Total	\$ 4,519,246

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2013

1. Reporting entity's total admitted assets as reported on Page 2 of the annual statement.

\$ 403,721,509

2. Ten largest exposures to a single issue/borrower/investment:

1	2	3	4	
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets	
2.01	Morgan Stanley	Corporate Bond	\$ 8,091,605	2.0%
2.02	Dominos Pizza	CMO	\$ 4,864,806	1.2%
2.03	Orix Corp	Corporate Bond	\$ 4,248,271	1.1%
2.04	Astoria Financial Corp	Corporate Bond	\$ 4,000,000	1.0%
2.05	Blue Wing Asset Vehicle	CMO	\$ 3,734,662	0.9%
2.06	American Int'l Group	Corporate Bond	\$ 3,456,466	0.9%
2.07	Ascian Financie	Corporate Bond	\$ 3,052,088	0.8%
2.08	Zions Bankcorp	Corporate Bond	\$ 3,017,067	0.7%
2.09	Telecom IT Cap	Corporate Bond	\$ 3,009,783	0.7%
2.10	Health Care REIT Inc	Corporate Bond	\$ 3,002,779	0.7%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating:

	1	2
3.01 NAIC - 1	\$ 228,664,624	56.6%
3.02 NAIC - 2	\$ 123,970,291	30.7%
3.03 NAIC - 3	\$ 13,606,635	3.4%
3.04 NAIC - 4	\$ 949,948	0.2%
3.05 NAIC - 5	\$ -	0.0%
3.06 NAIC - 6	\$ -	0.0%
	3	4
3.07 P/PSF - 1	\$ 2,500,000	0.6%
3.08 P/PSF - 2	\$ 2,503,719	0.6%
3.09 P/PSF - 3	\$ 1,903,600	0.5%
3.10 P/PSF - 4	\$ -	0.0%
3.11 P/PSF - 5	\$ -	0.0%
3.12 P/PSF - 6	\$ -	0.0%

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

4.02 Total admitted assets held in foreign investments	\$ -	0.0%
4.03 Foreign-currency-denominated investments	\$ -	0.0%
4.04 Insurance liabilities denominated in that same foreign currency	\$ -	0.0%

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2013

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC – 1	\$ -	0.0%
5.02	Countries rated NAIC – 2	\$ -	0.0%
5.03	Countries rated NAIC – 3 or below	\$ -	0.0%

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

		1	2
Countries rated NAIC – 1:			
6.01	Country: Great Britain	\$ -	0.0%
6.02	Country: Australia	\$ -	0.0%
Countries rated NAIC - 2:			
6.03	Country:	\$ -	0.0%
6.04	Country:	\$ -	0.0%
Countries rated NAIC - 3 or below:			
6.05	Country:	\$ -	0.0%
6.06	Country:	\$ -	0.0%

7. Aggregate unhedged foreign currency exposure: \$ - 0.0%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating: Not Applicable

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating: Not Applicable

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1	2	3	4
	Issuer	NAIC Rating		
10.01			\$ -	0.0%
10.02			\$ -	0.0%
10.03			\$ -	0.0%
10.04			\$ -	0.0%
10.05			\$ -	0.0%
10.06			\$ -	0.0%
10.07			\$ -	0.0%
10.08			\$ -	0.0%
10.09			\$ -	0.0%
10.10			\$ -	0.0%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the Reporting entity's total admitted assets? Yes [X] No []

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2013

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entities total admitted? Yes [X] No []

If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

	1	2	3
	Issuer		
13.02	Tortoise Energy	\$ 2,500,000	0.6%
13.03	Duke Realty Corp	\$ 603,600	0.1%
13.04	Royal Bank of Scotland	\$ 600,000	0.1%
13.05	PNC Financial Services	\$ 598,804	0.1%
13.06	Bank of New York Mellon	\$ 501,875	0.1%
13.07	Vornado Realty	\$ 400,000	0.1%
13.08	Metlife Inc Series B 6.5%	\$ 303,040	0.1%
13.09	Endurance Specialty Holdings	\$ 200,000	0.0%
13.10	Wachovia Pref'd Funding Corp	\$ 200,000	0.0%
13.11	Prudential PLC 6.75%	\$ 200,000	0.0%

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgages loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Not Applicable

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2013

19 Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the Reporting entity's total admitted assets? Yes [X] No []

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-End	
		1	2
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	\$ -	0.0%
20.02	Repurchase agreements	\$ -	0.0%
20.03	Reverse repurchase agreements	\$ -	0.0%
20.04	Dollar repurchase agreements	\$ -	0.0%
20.05	Dollar reverse repurchase agreements	\$ -	0.0%

		At End of Each Quarter		
		1st Quarter	2nd Quarter	3rd Quarter
		3	4	5
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	\$ -	\$ -	\$ -
20.02	Repurchase agreements	\$ -	\$ -	\$ -
20.03	Reverse repurchase agreements	\$ -	\$ -	\$ -
20.04	Dollar repurchase agreements	\$ -	\$ -	\$ -
20.05	Dollar reverse repurchase	\$ -	\$ -	\$ -

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned	
21.01	Hedging	\$ -	0.0%
21.02	Income generation	\$ -	0.0%
21.03	Other	\$ -	0.0%

		Written	
21.01	Hedging	\$ -	0.0%
21.02	Income generation	\$ -	0.0%
21.03	Other	\$ -	0.0%

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SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2013

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, sw aps, and forward:

		At Year-End	
		1	2
22.01	Hedging	\$ -	0.0%
22.02	Income generation	\$ -	0.0%
22.03	Replications	\$ -	0.0%
22.04	Other	\$ -	0.0%

		At End of Each Quarter		
		1st Quarter	2nd Quarter	3rd Quarter
		3	4	5
22.01	Hedging	\$ -	\$ -	\$ -
22.02	Income generation	\$ -	\$ -	\$ -
22.03	Replications	\$ -	\$ -	\$ -
22.04	Other	\$ -	\$ -	\$ -

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

		At Year-End	
		1	2
23.01	Hedging	\$ -	0.0%
23.02	Income generation	\$ -	0.0%
23.03	Replications	\$ -	0.0%
23.04	Other	\$ -	0.0%

		At End of Each Quarter		
		1st Quarter	2nd Quarter	3rd Quarter
		3	4	5
23.01	Hedging	\$ -	\$ -	\$ -
23.02	Income generation	\$ -	\$ -	\$ -
23.03	Replications	\$ -	\$ -	\$ -
23.04	Other	\$ -	\$ -	\$ -

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SENTINEL SECURITY LIFE INSURANCE COMPANY

Summary Investment Schedule December 31, 2013

	Gross Investment Holding*		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
1 Bonds:						
1.1 US Treasury Securities	\$ 803,331	0.20%	\$ 803,331	\$ -	\$ 803,331	0.20%
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):						
1.21 Issued by US Government Agencies	2,408,297	0.61%	2,408,297	-	2,408,297	0.61%
1.22 Issued by US Government-sponsored agencies	145,429	0.04%	145,429	-	145,429	0.04%
1.3 Foreign Government (including Canada, excluding mortgage-backed securities)	-	0.00%	-	-	-	0.00%
1.4 Securities issued by states, territories and possessions and political subdivisions in the United States:						
1.41 States, territories and possessions general obligations	2,650,611	0.67%	2,650,611	-	2,650,611	0.67%
1.42 Political subdivisions of states, terr. and possessions and political subdivisions general obligations	266,424	0.07%	266,424	-	266,424	0.07%
1.43 Revenue and assessment obligations	4,284,723	1.08%	4,284,723	-	4,284,723	1.08%
1.44 Industrial development bonds and similar obligations	-	0.00%	-	-	-	0.00%
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	-	0.00%	-	-	-	0.00%
1.512 Issued or guaranteed by FNMA and FHLMC	-	0.00%	-	-	-	0.00%
1.513 All other	128,115,614	32.33%	128,115,614	-	128,115,614	32.33%
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	1,948,999	0.49%	1,948,999	-	1,948,999	0.49%
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	2,644,261	0.67%	2,644,261	-	2,644,261	0.67%
1.523 All other	4,232,425	1.07%	4,232,425	-	4,232,425	1.07%
2 Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	219,207,796	55.32%	219,207,796	-	219,207,796	55.32%
2.2 Unaffiliated foreign securities	483,588	0.12%	483,588	-	483,588	0.12%
2.3 Affiliated securities	-	0.00%	-	-	-	0.00%

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SENTINEL SECURITY LIFE INSURANCE COMPANY
Summary Investment Schedule
December 31, 2013

3 Equity interests:						
3.1 Investments in mutual funds	-	0.00%	-	-	-	0.00%
3.2 Preferred stocks:						
3.21 Affiliated	-	0.00%	-	-	-	0.00%
3.22 Unaffiliated	6,907,321	1.74%	6,907,321	-	6,907,321	1.74%
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	-	0.00%	-	-	-	0.00%
3.32 Unaffiliated	237,877	0.06%	237,877	-	237,877	0.06%
3.4 Other equity securities:						
3.41 Affiliated	-	0.00%	-	-	-	0.00%
3.42 Unaffiliated	-	0.00%	-	-	-	0.00%
3.5 Other equity interests including tangible personal property under leases:						
3.51 Affiliated	-	0.00%	-	-	-	0.00%
3.52 Unaffiliated	-	0.00%	-	-	-	0.00%
4 Mortgage loans:						
4.1 Construction and land development	-	0.00%	-	-	-	0.00%
4.2 Agricultural	-	0.00%	-	-	-	0.00%
4.3 Single family residential properties	570,912	0.14%	570,912	-	570,912	0.14%
4.4 Multifamily residential properties	-	0.00%	-	-	-	0.00%
4.5 Commercial loans	1,057,532	0.27%	1,057,532	-	1,057,532	0.27%
4.6 Mezzanine real estate loans	-	0.00%	-	-	-	0.00%
5 Real Estate Investments:						
5.1 Property occupied by company	5,190,950	1.31%	5,190,950	-	5,190,950	1.31%
5.2 Property held for production of income (including \$ of property acquired in satisfaction of debt)	-	0.00%	-	-	-	0.00%
5.3 Property held for sale (including \$..... property acquired in satisfaction of debt)	411,563	0.10%	411,563	-	411,563	0.10%
6 Contract Loans	1,324,839	0.33%	1,324,839	-	1,324,839	0.33%
7 Derivatives	-	0.00%	-	-	-	0.00%
8 Receivables for securities	28,545	0.01%	28,545	-	28,545	0.01%
9 Securities lending	-	0.00%	-	-	-	0.00%
10 Cash, cash equivalents and short-term investments	13,274,096	3.35%	13,262,418	-	13,262,418	3.35%
11 Other Invested Assets	83,911	0.02%	83,911	-	83,911	0.02%
12 Total Invested Assets	\$ 396,279,044	100.00%	\$ 396,267,366	\$ -	\$ 396,267,366	100.00%

* Gross Investment Holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual

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