

# Sentinel Security Life Insurance Company

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

*For the Years Ended December 31, 2014 and 2013*



# 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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  
May 11, 2015

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,  
Liabilities, and Capital and Surplus  
As of December 31, 2014 and 2013

| <u>ADMITTED ASSETS</u>  | <u>2014</u>           | <u>2013</u>           |
|---|-----------------------|-----------------------|
| <b>Investments:</b>   |                       |                       |
| Bonds   | \$ 425,389,012        | \$ 367,191,498        |
| Preferred stocks  | 8,558,877             | 6,907,321             |
| Common stocks   | 238,913               | 237,877               |
| Mortgage loans  | 5,834,435             | 1,628,444             |
| <b>Real estate:</b>   |                       |                       |
| Properties occupied by the Company  | 5,096,959             | 5,190,950             |
| Properties held for sale  | 551,070               | 411,563               |
| Cash and short-term investments   | 25,390,309            | 13,262,418            |
| Policy loans  | 1,361,260             | 1,324,839             |
| Other invested assets   | 585,566               | 83,911                |
| Receivables for securities  | -                     | 28,545                |
| <b>Total investments</b>  | <b>473,006,401</b>    | <b>396,267,366</b>    |
| <b>Receivables:</b>   |                       |                       |
| Accrued investment income   | 1,573,479             | 1,242,878             |
| Uncollected premiums and agent balances   | 31,307                | 26,313                |
| Deferred and uncollected life premiums, net<br>of loading of \$1,649,818 and \$1,635,946<br>for 2014 and 2013, respectively | 3,400,658             | 2,910,524             |
| Reinsurance recoverable   | 35,292                | 211,366               |
| Federal income tax recoverable  | -                     | 286,500               |
| <b>Total receivables</b>  | <b>5,040,736</b>      | <b>4,677,581</b>      |
| <b>Other admitted assets:</b>   |                       |                       |
| Net deferred tax asset  | 950,983               | 2,338,651             |
| Guaranty funds receivable or on deposit   | 40,662                | 40,998                |
| Data processing equipment, net of<br>accumulated depreciation of \$905,090 and<br>\$536,231 for 2014 and 2013, respectively | 208,061               | 113,368               |
| Other amounts receivable  | 250,939               | 283,536               |
| Aggregate write-ins for other invested assets   | -                     | 9                     |
| <b>Total other admitted assets</b>  | <b>1,450,645</b>      | <b>2,776,562</b>      |
| <b>Total admitted assets</b>  | <b>\$ 479,497,782</b> | <b>\$ 403,721,509</b> |

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,  
Liabilities, and Capital and Surplus (Continued)  
As of December 31, 2014 and 2013

| <u>LIABILITIES AND CAPITAL AND SURPLUS</u>   | <u>2014</u>           | <u>2013</u>           |
|--|-----------------------|-----------------------|
| <b>Liabilities:</b>  |                       |                       |
| <b>Policy and contract liabilities:</b>  |                       |                       |
| Aggregate reserve for life contracts   | \$ 132,962,521        | \$ 111,931,278        |
| Aggregate reserve for A&H contracts  | 148,863               | 161,052               |
| Liability for deposit-type contracts   | 43,903,406            | 8,245,641             |
| Contract claims  | 1,331,918             | 1,228,607             |
| Provision for policyholders' dividends and coupons payable   | 20,900                | 20,700                |
| <b>Total policy and contract liabilities</b>   | <b>178,367,608</b>    | <b>121,587,278</b>    |
| <b>Other liabilities:</b>  |                       |                       |
| Premiums received in advance   | 69,810                | 49,906                |
| Interest maintenance reserve   | 1,202,386             | 1,109,723             |
| Commissions to agents due or accrued   | 75,566                | 144,824               |
| General expenses due or accrued  | 848,811               | 924,904               |
| Taxes, licenses, and fees due or accrued   | 30,000                | 59,882                |
| Unearned investment income   | 29,609                | 32,065                |
| Amounts withheld or retained by company as agent   | 361,335               | 382,998               |
| Remittances and items not allocated  | 2,601,211             | 638,487               |
| Asset valuation reserve  | 3,358,829             | 2,494,855             |
| Funds held under reinsurance treaties  | 256,023,695           | 252,282,725           |
| Funds held under coinsurance   | 4,336,709             | 8,783,157             |
| Payable for securities   | 6,471,309             | -                     |
| <b>Total other liabilities</b>   | <b>275,409,270</b>    | <b>266,903,526</b>    |
| <b>Total liabilities</b>   | <b>453,776,878</b>    | <b>388,490,804</b>    |
| <b>Capital and surplus:</b>  |                       |                       |
| Common stock, \$8 and \$4 par value; 10,000,000 and 10,000,000 shares authorized; 359,526 and 359,526 issued, and 303,136 and 295,136 outstanding as of December 31, 2014 and 2013, respectively | 2,876,211             | 1,438,104             |
| Paid-in surplus  | 1,279,810             | 1,279,810             |
| Unassigned surplus   | 7,822,618             | 13,770,562            |
| Treasury stock at cost - 64,389 and 64,390 shares in 2014 and 2013, respectively   | (1,257,735)           | (1,257,771)           |
| Surplus notes  | 15,000,000            | -                     |
| <b>Total capital and surplus</b>   | <b>25,720,904</b>     | <b>15,230,705</b>     |
| <b>Total liabilities and capital and surplus</b>   | <b>\$ 479,497,782</b> | <b>\$ 403,721,509</b> |

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Income  
For the Years Ended December 31, 2014 and 2013

|   | 2014                  | 2013                  |
|---|-----------------------|-----------------------|
| <b>Income:</b>  |                       |                       |
| Premium and other considerations  | \$ 31,558,775         | \$ 17,097,388         |
| Net investment income   | 6,242,002             | 5,830,409             |
| Amortization of interest maintenance reserve  | 281,387               | 188,966               |
| Commissions and expense allowances on reinsurance ceded   | 21,408,821            | 24,803,247            |
| Charges and fees for deposit-type contracts   | 30,365                | 2,140                 |
| Other income  | 7,386                 | 8,942                 |
| <b>Total income</b>   | <b>59,528,736</b>     | <b>47,931,092</b>     |
| <b>Benefits and expenses:</b>   |                       |                       |
| <b>Benefits to policyholders:</b>   |                       |                       |
| Death benefits  | 3,439,642             | 3,108,673             |
| Matured endowments  | 6,383                 | 83,229                |
| Annuity benefits  | 1,743,294             | 1,181,707             |
| Disability benefits   | 3,374,005             | 4,063,680             |
| Coupon benefits   | 1,056                 | 720                   |
| Surrender benefits  | 1,677,346             | 1,835,581             |
| Increase and adjustments on contract or deposit-type contract funds   | (1,373,735)           | (209,571)             |
| Increase in policy reserves   | 21,019,052            | 6,531,096             |
| <b>Total benefits to policyholders</b>  | <b>29,887,043</b>     | <b>16,595,115</b>     |
| <b>Commissions</b>  | <b>21,480,611</b>     | <b>23,412,553</b>     |
| <b>General and administrative expenses</b>  | <b>9,289,794</b>      | <b>10,419,424</b>     |
| <b>Insurance taxes, licenses and fees</b>   | <b>1,102,940</b>      | <b>864,515</b>        |
| <b>Interest on surplus notes</b>  | <b>562,500</b>        | <b>-</b>              |
| <b>Increase in loading</b>  | <b>13,872</b>         | <b>158,928</b>        |
| <b>Total benefits and expenses</b>  | <b>62,336,760</b>     | <b>51,450,535</b>     |
| <b>Net gain (loss) from operations before dividends, federal income taxes and realized capital gains (losses)</b>                   | <b>(2,808,024)</b>    | <b>(3,519,443)</b>    |
| Dividends to policyholders  | (18,240)              | (20,985)              |
| Provision for income taxes  | 807,334               | 601,872               |
| <b>Net gain (loss) from operations before realized capital gains (losses)</b>   | <b>(2,018,930)</b>    | <b>(2,938,556)</b>    |
| <b>Realized capital gains (losses), less capital gains tax (benefit) of \$208,735 and \$556,425 for 2014 and 2013, respectively</b> | <b>405,184</b>        | <b>129,989</b>        |
| <b>Net income (loss)</b>  | <b>\$ (1,613,746)</b> | <b>\$ (2,808,567)</b> |

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, 2014 and 2013

|   | Common<br>Stock     | Paid-in<br>Surplus  | Unassigned<br>Surplus | Treasury<br>Stock     | Surplus Notes        | Total Capital<br>and Surplus |
|---|---------------------|---------------------|-----------------------|-----------------------|----------------------|------------------------------|
| <b>Balance at January 1, 2013</b>               | \$ 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           | -                     | -                     | -                    | -                            |
| <b>Balance at December 31, 2013</b>             | <b>1,438,104</b>    | <b>1,279,810</b>    | <b>13,770,562</b>     | <b>(1,257,771)</b>    | <b>-</b>             | <b>15,230,705</b>            |
| Net loss  | -                   | -                   | (1,613,746)           | -                     | -                    | (1,613,746)                  |
| Change in net unrealized capital gains (losses) | -                   | -                   | (1,397,453)           | -                     | -                    | (1,397,453)                  |
| Change in net deferred tax assets               | -                   | -                   | 808,595               | -                     | -                    | 808,595                      |
| Change in non-admitted assets                   | -                   | -                   | (1,274,852)           | -                     | -                    | (1,274,852)                  |
| Change in asset valuation reserve               | -                   | -                   | (863,971)             | -                     | -                    | (863,971)                    |
| Change in treasury stock                        | -                   | -                   | -                     | 36                    | -                    | 36                           |
| Increase in surplus notes                       | -                   | -                   | -                     | -                     | 15,000,000           | 15,000,000                   |
| Change in accounting principle                  | -                   | -                   | (180,518)             | -                     | -                    | (180,518)                    |
| Other changes in surplus                        | -                   | -                   | 12,108                | -                     | -                    | 12,108                       |
| Change in common stock par value                | 1,438,107           | -                   | (1,438,107)           | -                     | -                    | -                            |
| <b>Balance at December 31, 2014</b>             | <b>\$ 2,876,211</b> | <b>\$ 1,279,810</b> | <b>\$ 7,822,618</b>   | <b>\$ (1,257,735)</b> | <b>\$ 15,000,000</b> | <b>\$ 25,720,904</b>         |

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, 2014 and 2013

|  | 2014                 | 2013                 |
|--|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>                                   |                      |                      |
| Premiums received, net of reinsurance  | \$ 31,655,291        | \$ 16,834,625        |
| Investment income received   | 537,651              | 4,785,716            |
| Other income   | 21,446,572           | 24,814,329           |
| Claims and benefits paid   | (8,588,404)          | (10,908,314)         |
| Commissions and other expenses paid  | (32,534,649)         | (35,070,766)         |
| Dividends to policyholders paid  | (18,240)             | (19,985)             |
| Federal income taxes recovered   | 1,077,788            | 659,820              |
|  | <b>13,576,009</b>    | <b>1,095,425</b>     |
| <b>Net cash provided by operating activities</b>                               |                      |                      |
| <b>Cash flows from investing activities:</b>                                   |                      |                      |
| Proceeds from sales of bonds   | 94,640,769           | 115,394,661          |
| Proceeds from sales of stocks  | 5,200,679            | 3,674,897            |
| Proceeds from mortgage loan collections  | 166,108              | 389,135              |
| Proceeds from real estate  | 1,014,783            | -                    |
| Other proceeds   | 6,499,854            | 781,212              |
| Payments for purchases of bonds  | (147,296,959)        | (129,795,317)        |
| Payments for purchases of stocks   | (6,870,355)          | (1,211,066)          |
| Payments for mortgage loans funded   | (4,372,098)          | -                    |
| Payments for real estate   | (656,116)            | (3,664,428)          |
| Other invested assets  | (1,914,632)          | (250,000)            |
| Other applications   | -                    | (811,499)            |
| Net increase in policy loans   | (36,421)             | (86,650)             |
|  | <b>(53,624,388)</b>  | <b>(15,579,055)</b>  |
| <b>Net cash used by investing activities</b>                                   |                      |                      |
| <b>Cash flows from financing and miscellaneous sources:</b>                    |                      |                      |
| Proceeds from surplus note   | 15,000,000           | -                    |
| Proceeds from deposit-type contracts   | 35,657,745           | 7,901,849            |
| Capital and paid in surplus, less treasury stock                               | 36                   | 158,444              |
| Payments of dividends  | -                    | (464,632)            |
| Other cash applied   | 1,506,811            | 913,940              |
|  | <b>52,164,592</b>    | <b>8,509,601</b>     |
| <b>Net cash provided by financing and miscellaneous sources</b>                |                      |                      |
| <b>Net increase (decrease) in cash</b>   | <b>12,116,213</b>    | <b>(5,974,029)</b>   |
| Cash and short-term investments at beginning of year, before nonadmitted cash  | 13,274,096           | 19,248,125           |
| <b>Cash and short-term investments at end of year, before nonadmitted cash</b> | <b>25,390,309</b>    | <b>13,274,096</b>    |
| <b>Less nonadmit portion of cash</b>   | <b>-</b>             | <b>(11,678)</b>      |
| <b>Cash and short-term investments at end of year, admitted</b>                | <b>\$ 25,390,309</b> | <b>\$ 13,262,418</b> |

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization

**Sentinel Security Life Insurance Company** (the Company) is a Utah domestic stock life insurance company operates in accordance with 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  
For the Years Ended December 31, 2014 and 2013

## 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  
For the Years Ended December 31, 2014 and 2013

## 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 Flows:*

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  
For the Years Ended December 31, 2014 and 2013

## 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 of 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  
For the Years Ended December 31, 2014 and 2013

## 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 **\$14,520** and \$102,259 for the year ended December 31, 2014 and 2013, 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  
For the Years Ended December 31, 2014 and 2013

## 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, 2014 and 2013, the Company had **163** and 155 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 **\$15,209** and \$11,869 less than net premiums for 2014 and 2013, 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  
For the Years Ended December 31, 2014 and 2013

## 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:

|                       | <u>2014</u>                |                            | <u>2013</u>                |                            |
|-----------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|                       | <u>Gross</u>               | <u>Net of Loading</u>      | <u>Gross</u>               | <u>Net of Loading</u>      |
| Ordinary new business | \$ 850,321                 | \$ 245,308                 | \$ 946,171                 | \$ 276,494                 |
| Ordinary renewal      | <u>3,484,903</u>           | <u>2,440,098</u>           | <u>3,080,900</u>           | <u>2,114,631</u>           |
| <b>Total</b>          | <b><u>\$ 4,335,224</u></b> | <b><u>\$ 2,685,406</u></b> | <b><u>\$ 4,027,071</u></b> | <b><u>\$ 2,391,125</u></b> |

### 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, 2014 and 2013 totaled **\$426,925** and \$328,468, 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  
For the Years Ended December 31, 2014 and 2013

## 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

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."

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

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.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 2. ACCOUNTING CHANGES (Continued)

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.

During 2014, the Company contracted with The Conning Group to begin accounting for its bonds, preferred stocks and common stocks. As a result, classification changes between bonds and preferred stocks were made to certain hybrid securities. This caused changes to amortization and accretion, interest due and accrued, and the cash flows of investments. The Company benefits from The Conning Group's ability to receive daily updates on securities' cash flows, interest due and accrued, principle payments, sink schedules, and fair market values. Prior to this change, the Company's investment software only allowed quarterly cash flow updates. This change will bring overall consistency to the accounting of the Company's investments. As a result of these changes, surplus as of December 31, 2014 decreased by \$180,518.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 3. INVESTMENTS

Bonds and stocks at December 31, 2014, are summarized as follows:

|  | <u>Cost or Adjusted<br/>Carrying Value</u> | <u>Fair Value</u>     | <u>Excess of Fair<br/>Value Over<br/>Book Value</u> |
|--|--|-----------------------|---|
| <b>Bonds:</b>                                  |  |                       |   |
| Government bonds                               | \$ 19,133,572                              | \$ 19,636,963         | \$ 503,391  |
| Residential mortgage-<br>backed securities     | 108,088,391                                | 116,303,235           | 8,214,844   |
| Commercial mortgage-<br>backed securities      | 26,188,896                                 | 27,457,846            | 1,268,950   |
| Other loan-backed and<br>structured securities | 91,761,784                                 | 91,987,782            | 225,998   |
| Hybrid Securities                              | 7,267,943                                  | 7,242,897             | (25,046)  |
| Industrial and<br>miscellaneous bonds          | 172,948,426                                | 178,658,483           | 5,710,057   |
| <b>Total bonds</b>                             | <u>\$ 425,389,012</u>                      | <u>\$ 441,287,206</u> | <u>\$ 15,898,194</u>                                |
| <b>Stocks:</b>                                 |  |                       |   |
| Preferred stocks                               | \$ 8,558,877                               | \$ 8,729,190          | \$ 170,313  |
| Common stocks                                  | 238,913                                    | 238,913               | -   |
| <b>Total stocks</b>                            | <u>\$ 8,797,790</u>                        | <u>\$ 8,968,103</u>   | <u>\$ 170,313</u>                                   |

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

|  | <u>Cost or Adjusted<br/>Carrying Value</u> | <u>Fair Value</u>     | <u>Excess of Fair<br/>Value Over<br/>Book Value</u> |
|--|--|-----------------------|---|
| <b>Bonds:</b>                                  |  |                       |   |
| Government bonds                               | \$ 16,859,784                              | \$ 15,452,947         | \$ (1,406,837)                                      |
| Residential mortgage-<br>backed securities     | 105,189,590                                | 112,307,033           | 7,117,443   |
| Commercial mortgage-<br>backed securities      | 41,761,017                                 | 42,543,973            | 782,956   |
| Other loan-backed and<br>structured securities | 36,530,684                                 | 37,762,537            | 1,231,853   |
| Hybrid Securities                              | 3,537,070                                  | 3,431,876             | (105,194)   |
| Industrial and<br>miscellaneous bonds          | 163,313,353                                | 167,614,121           | 4,300,768   |
| <b>Total bonds</b>                             | <u>\$ 367,191,498</u>                      | <u>\$ 379,112,487</u> | <u>\$ 11,920,989</u>                                |
| <b>Stocks:</b>                                 |  |                       |   |
| Preferred stocks                               | \$ 6,907,321                               | \$ 6,591,032          | \$ (316,289)  |
| Common stocks                                  | 237,877                                    | 237,877               | -   |
| <b>Total stocks</b>                            | <u>\$ 7,145,198</u>                        | <u>\$ 6,828,909</u>   | <u>\$ (316,289)</u>                                 |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

### 3. INVESTMENTS (Continued)

Assets measured at fair value are as follows:

| Assets Measured at Fair Value |                   |  |   |  |
|-------------------------------|-------------------|--|---|--|
|                               | Fair Value        | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>December 31, 2014:</b>     |                   |  |   |  |
| <b>Stocks:</b>                |                   |  |   |  |
| Common                        | \$ 238,913        | \$ 238,913   | \$ -  | \$ -   |
| Perpetual preferred           | 585,482           | 585,482  | -   | -  |
| <b>Total</b>                  | <b>\$ 824,395</b> | <b>\$ 824,395</b>  | <b>\$ -</b>   | <b>\$ -</b>  |

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

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, 2014 and 2013 represent a temporary decline in market value.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 3. INVESTMENTS (Continued)

The following tables summarize those investments that, as of December 31, 2014 and 2013, 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<br>Unrealized<br>Losses |
|--|------------------------|-------------------|----------------------|------------------------|-----------------|----------------------|-------------------------------|
|  | Number<br>Of<br>Issues | Fair<br>Value     | Unrealized<br>Losses | Number<br>Of<br>Issues | Fair<br>Value   | Unrealized<br>Losses |                               |
| At December 31, 2014                         |                        |                   |                      |                        |                 |                      |                               |
| <b>Bonds:</b>                                |                        |                   |                      |                        |                 |                      |                               |
| U.S. government and agencies                 | 27                     | \$ 7,838          | \$ (416)             | 1                      | \$ 265          | \$ (32)              | \$ (448)                      |
| Industrial and miscellaneous                 | 57                     | 38,202            | (1,357)              | 1                      | 735             | (15)                 | (1,372)                       |
| Hybrid                                       | 4                      | 3,537             | (126)                | -                      | -               | -                    | (126)                         |
| Mortgage-backed securities                   | 79                     | 79,953            | (1,586)              | 4                      | 4,356           | (45)                 | (1,631)                       |
| <b>Total bonds</b>                           | <b>167</b>             | <b>129,530</b>    | <b>(3,485)</b>       | <b>6</b>               | <b>5,356</b>    | <b>(92)</b>          | <b>(3,577)</b>                |
| <b>Equity securities:</b>                    |                        |                   |                      |                        |                 |                      |                               |
| Common stock - industrial & misc.            | -                      | -                 | -                    | 2                      | 91              | (36)                 | (36)                          |
| Preferred stock - industrial & misc.         | 2                      | 599               | (8)                  | -                      | -               | -                    | (8)                           |
| <b>Total bonds<br/>and equity securities</b> | <b>169</b>             | <b>\$ 130,129</b> | <b>\$ (3,493)</b>    | <b>8</b>               | <b>\$ 5,447</b> | <b>\$ (128)</b>      | <b>\$ (3,621)</b>             |
| Investment grade bonds                       | 167                    | \$ 129,530        | \$ (3,485)           | 6                      | \$ 5,356        | \$ (92)              | \$ (3,577)                    |
| Below investment grade bonds                 | -                      | -                 | -                    | -                      | -               | -                    | -                             |
| <b>Total bonds</b>                           | <b>167</b>             | <b>\$ 129,530</b> | <b>\$ (3,485)</b>    | <b>6</b>               | <b>\$ 5,356</b> | <b>\$ (92)</b>       | <b>\$ (3,577)</b>             |

(\$ In Thousands)

|  | Less Than 12 Months    |                  |                      | 12 Months or More      |                  |                      | Total<br>Unrealized<br>Losses |
|--|------------------------|------------------|----------------------|------------------------|------------------|----------------------|-------------------------------|
|  | Number<br>Of<br>Issues | Fair<br>Value    | Unrealized<br>Losses | Number<br>Of<br>Issues | Fair<br>Value    | Unrealized<br>Losses |                               |
| At December 31, 2013                         |                        |                  |                      |                        |                  |                      |                               |
| <b>Bonds:</b>                                |                        |                  |                      |                        |                  |                      |                               |
| 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)                       |
| <b>Total bonds</b>                           | <b>161</b>             | <b>93,786</b>    | <b>(4,721)</b>       | <b>29</b>              | <b>10,492</b>    | <b>(833)</b>         | <b>(5,553)</b>                |
| Common stock - industrial & misc.            | -                      | -                | -                    | 2                      | 92               | (34)                 | (34)                          |
| Preferred stock - industrial & misc.         | 13                     | 2,960            | (244)                | 10                     | 904              | (99)                 | (343)                         |
| <b>Total bonds<br/>and equity securities</b> | <b>174</b>             | <b>\$ 96,745</b> | <b>\$ (4,965)</b>    | <b>41</b>              | <b>\$ 11,489</b> | <b>\$ (966)</b>      | <b>\$ (5,931)</b>             |
| Investment grade bonds                       | 161                    | \$ 93,786        | \$ (4,721)           | 29                     | \$ 10,492        | \$ (833)             | \$ (5,553)                    |
| Below investment grade bonds                 | -                      | -                | -                    | -                      | -                | -                    | -                             |
| <b>Total bonds</b>                           | <b>161</b>             | <b>\$ 93,786</b> | <b>\$ (4,721)</b>    | <b>29</b>              | <b>\$ 10,492</b> | <b>\$ (833)</b>      | <b>\$ (5,553)</b>             |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

### 3. INVESTMENTS (Continued)

Maturities of bonds are as follows:

|                          | <b>Admitted Asset<br/>Value</b> |
|--------------------------|---------------------------------|
| 2015                     | \$ 8,885,999                    |
| 2016-2019                | 129,453,890                     |
| 2020-2024                | 114,701,145                     |
| 2025-2034                | 98,649,009                      |
| After 2034               | 73,698,969                      |
| <b>Total by maturity</b> | <b>\$ 425,389,012</b>           |

Sources of realized capital gains (losses) for the year ended December 31, 2014 and 2013 are summarized as follows:

|   | <b>2014</b>       | <b>2013</b>  |
|---|-------------------|--------------|
| <b>Bonds:</b>                                   |                   |              |
| Gross gains from sales                          | \$ 751,372        | \$ 2,141,872 |
| Gross losses from sales                         | (54,601)          | (332,695)    |
| <b>Preferred stock:</b>                         |                   |              |
| Gross gains from sales                          | -                 | 2,400        |
| Gross losses from sales                         | (3,600)           | (207,500)    |
| OTTI impairments                                | (14,520)          | (102,259)    |
| <b>Common stock:</b>                            |                   |              |
| Gross gains from sales                          | -                 | 487,072      |
| Gross losses from sales                         | -                 | (354,037)    |
| <b>Amount transferred to IMR<br/>net of tax</b> | <b>(374,050)</b>  | (948,439)    |
| <b>Capital gains (tax) benefit</b>              | <b>(401,424)</b>  | (556,425)    |
| <b>Net capital gains (losses)</b>               | <b>\$ 405,184</b> | \$ 129,989   |

At December 31, 2014 and 2013, bonds with an admitted asset value of **\$2,565,506** and \$2,546,444 were on deposit with state insurance departments to satisfy regulatory requirements.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 3. INVESTMENTS (Continued)

### Cash and Short-Term Investments

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

|  | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| <b>Cash and cash equivalents:</b>      |                      |                      |
| Checking accounts                      | \$ 4,648,478         | \$ 2,078,551         |
| Money market funds                     | 8,719,606            | 9,647,569            |
| Short-term investments                 | <u>12,022,225</u>    | <u>1,536,298</u>     |
| <b>Total cash and cash equivalents</b> | <u>\$ 25,390,309</u> | <u>\$ 13,262,418</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 **\$6,774,534** and \$4,289,476 as of December 31, 2014 and 2013, respectively.

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, 2014 and 2013 the Company held **\$20,741,831** and \$11,183,867 in money market funds, respectively.

### Mortgage Loans

In 2013, 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. In 2014, the Company participated in four joint commercial mortgages with Advantage Capital Management and issued one new residential mortgage loan. The new residential mortgage loan had an interest rate of 6 percent and the participated joint commercial mortgages had a minimum rate of 8 percent and a maximum rate of 12 percent.

Mortgage loans at December 31, 2014 and 2013 totaled **\$5,834,435** and \$1,628,444 respectively. As of December 31, 2014 and 2013, the Company has one mortgage with interest more than 180 days past due in the amount of **\$0** and \$101,212, respectively. Total interest due on mortgages with interest more than 180 days past due totaled **\$0** and \$13,339 respectively.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 3. INVESTMENTS (Continued)

### Real estate

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

|  | <u>2014</u>                | <u>2013</u>         |
|--|----------------------------|---------------------|
| <b>Occupied by the Company:</b>                    |                            |                     |
| Land   | \$ 364,100                 | \$ 364,100          |
| Properties occupied by the Company                 | 4,887,663                  | 4,883,828           |
| Accumulated depreciation                           | <u>(154,804)</u>           | <u>(56,978)</u>     |
| <b>Net real estate occupied<br/>by the Company</b> | <u><b>5,096,959</b></u>    | <u>5,190,950</u>    |
| <b>Properties held for sale:</b>                   |                            |                     |
| Land   | -                          | 68,444              |
| Buildings  | 551,070                    | 879,504             |
| Accumulated depreciation                           | <u>-</u>                   | <u>(536,385)</u>    |
| <b>Net real estate held for sale</b>               | <u><b>551,070</b></u>      | <u>411,563</u>      |
| <b>Net real estate</b>                             | <u><b>\$ 5,648,029</b></u> | <u>\$ 5,602,513</u> |

## 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.

## 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, 2014 and 2013, 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 of \$464,632. The Company did not pay an ordinary dividend in 2014.



# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 5. CAPITAL AND SURPLUS (Continued)

The portion of unassigned funds (surplus) represented or (reduced) by cumulative unrealized gains and (losses) in 2014 and 2013 was **\$(835,860)** and \$(86,309), respectively. The portion of unassigned funds (surplus) represented or (reduced) by nonadmitted asset values in 2014 and 2013 was **\$(5,958,880)** and \$(4,684,036), respectively.

## 6. EMPLOYEE BENEFIT

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 **\$267,954** and \$274,722 for 2014 and 2013, respectively. As of December 31, 2014 and 2013, the fair value of the plan assets was **\$1,599,321** and \$2,804,405 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.

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, 2014 and 2013, the Company did not have a balance in its deferred compensation plan.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 6. EMPLOYEE BENEFITS (Continued)

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) and a 100% interest in Secure Administrative Solutions LLC (SAS). In accordance with SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*, the Company carries SMP and SAS at its U.S. GAAP equity balance which is recorded as other invested asset on the statement of admitted assets, liabilities, and capital and surplus. The Company has a shared services agreement with its affiliates where SMP and SAS reimburse the Company on a monthly basis for rent, services, and salaries.

At December 31, 2014 and 2013, SMP owed the Company **\$209,120** and \$232,854, respectively, for the aforementioned items.

At December 31, 2014, the Company owed SAS \$440 for services performed during the year.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 8. NET INVESTMENT INCOME

Net investment income is comprised of the following:

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| <b>Interest:</b>                          |                     |                     |
| Bonds                                     | \$ 6,644,902        | \$ 6,066,266        |
| Preferred stocks                          | 437,938             | 276,281             |
| Common stocks                             | 6,544               | 21,233              |
| Mortgage loans                            | 87,340              | 118,539             |
| Real estate                               | 159,368             | 113,195             |
| Policy loans                              | 90,331              | 85,015              |
| Cash and short-term investments           | 198,193             | 6,595               |
| Other invested assets                     | 6,313               | -                   |
| Aggregate write-ins for investment income | -                   | 23,359              |
| <b>Total</b>                              | <b>7,630,929</b>    | <b>6,710,483</b>    |
| <b>Less:</b>                              |                     |                     |
| <b>Allocated expenses:</b>                |                     |                     |
| Depreciation                              | 97,826              | 63,941              |
| Investment taxes, licenses and fees       | 67,136              | 37,146              |
| Investment expenses                       | 1,223,965           | 778,987             |
| <b>Net investment income</b>              | <b>\$ 6,242,002</b> | <b>\$ 5,830,409</b> |

## 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 **\$136,964,174** and \$155,880,588, and contract liabilities and consideration received for deposit type contracts by **\$617,768,057** and \$437,253,594 for the years ended December 31, 2014 and 2013, respectively. During 2014 and 2013, the Company did not write off to operations any reinsurance balances.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 9. REINSURANCE (Continued)

At December 31, 2014 and 2013, the effect of the coinsurance agreements described above on premiums and reserves is as follows:

|  | 2014           | 2013           |
|--|----------------|----------------|
| <b>Premiums:</b>                                 |                |                |
| Gross  | \$ 168,522,949 | \$ 172,977,976 |
| Ceded  | (136,964,174)  | (155,880,588)  |
| <b>Net premiums</b>                              | \$ 31,558,775  | \$ 17,097,388  |
| <b>Deposit type contracts:</b>                   |                |                |
| Deposits received                                | \$ 158,417,281 | \$ 38,527,555  |
| Ceded  | (115,710,728)  | (30,802,603)   |
| <b>Net deposit type contracts</b>                | \$ 42,706,553  | \$ 7,724,952   |
| <b>Net due and deferred:</b>                     |                |                |
| Gross due and deferred                           |                |                |
| Gross  | \$ 4,335,225   | \$ 4,027,071   |
| Ceded  | -              | -              |
| <b>Net</b>                                       | 4,335,225      | 4,027,071      |
| Loading  |                |                |
| Gross  | (1,649,819)    | (1,635,946)    |
| Ceded  | -              | -              |
| <b>Net</b>                                       | (1,649,819)    | (1,635,946)    |
| Net due and deferred                             |                |                |
| Gross  | 2,685,406      | 2,391,125      |
| Ceded  | -              | -              |
| <b>Net</b>                                       | \$ 2,685,406   | \$ 2,391,125   |
| <b>Aggregate reserves - life:</b>                |                |                |
| Gross  | \$ 633,715,809 | \$ 516,973,248 |
| Ceded  | (500,753,288)  | (405,041,970)  |
| <b>Net</b>                                       | \$ 132,962,521 | \$ 111,931,278 |
| <b>Aggregate reserves - accident and health:</b> |                |                |
| Gross  | \$ 1,452,904   | \$ 1,570,073   |
| Ceded  | (1,304,041)    | (1,409,021)    |
| <b>Net</b>                                       | \$ 148,863     | \$ 161,052     |
| <b>Claims payable:</b>                           |                |                |
| Gross  | \$ 5,251,159   | \$ 5,796,395   |
| Ceded  | (3,919,241)    | (4,567,788)    |
| <b>Net</b>                                       | \$ 1,331,918   | \$ 1,228,607   |
| <b>Claims:</b>                                   |                |                |
| Gross  | \$ 45,365,210  | \$ 49,356,157  |
| Ceded  | (36,801,886)   | (40,918,868)   |
| <b>Net</b>                                       | \$ 8,563,324   | \$ 8,437,289   |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 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, 2014 and 2013, 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:

|   | 12/31/2014          |                     |                    |
|---|---------------------|---------------------|--------------------|
|   | (1)                 | (2)                 | (3)                |
|   | Ordinary            | Capital             | (Col 1+2)<br>Total |
| (a) Gross deferred tax assets   | \$ 5,688,828        | \$ 318,960          | \$ 6,007,788       |
| (b) Statutory valuation allowance adjustments   | -                   | 159,480             | 159,480            |
| (c) <b>Adjusted gross deferred tax assets<br/>(1a - 1b)</b>                           | <b>5,688,828</b>    | <b>159,480</b>      | <b>5,848,308</b>   |
| (d) Deferred tax assets nonadmitted   | <b>3,575,870</b>    | -                   | <b>3,575,870</b>   |
| (e) <b>Subtotal net admitted deferred tax asset<br/>(1c - 1d)</b>                     | <b>2,112,958</b>    | <b>159,480</b>      | <b>2,272,438</b>   |
| (f) Deferred tax liabilities  | <b>916,486</b>      | <b>404,969</b>      | <b>1,321,455</b>   |
| (g) <b>Net admitted deferred tax asset/(net<br/>deferred tax liability) (1e - 1f)</b> | <b>\$ 1,196,472</b> | <b>\$ (245,489)</b> | <b>\$ 950,983</b>  |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 10. FEDERAL INCOME TAXES (Continued)

|   | 12/31/2013          |                    |                               |
|---|---------------------|--------------------|-------------------------------|
|   | (4)<br><br>Ordinary | (5)<br><br>Capital | (6)<br><br>(Col 4+5)<br>Total |
| (a) Gross deferred tax assets   | \$ 4,477,243        | \$ 64,113          | \$ 4,541,356                  |
| (b) Statutory valuation allowance adjustments   | -                   | -                  | -                             |
| (c) <b>Adjusted gross deferred tax assets<br/>(1a - 1b)</b>                           | 4,477,243           | 64,113             | 4,541,356                     |
| (d) Deferred tax assets nonadmitted   | 1,379,607           | -                  | 1,379,607                     |
| (e) <b>Subtotal net admitted deferred tax asset<br/>(1c - 1d)</b>                     | 3,097,636           | 64,113             | 3,161,749                     |
| (f) Deferred tax liabilities  | 823,098             | -                  | 823,098                       |
| (g) <b>Net admitted deferred tax asset/(net<br/>deferred tax liability) (1e - 1f)</b> | <u>\$ 2,274,538</u> | <u>\$ 64,113</u>   | <u>\$ 2,338,651</u>           |

|   | Change                |                     |                               |
|---|-----------------------|---------------------|-------------------------------|
|   | (7)<br><br>Ordinary   | (8)<br><br>Capital  | (9)<br><br>(Col 7+8)<br>Total |
| (a) Gross deferred tax assets   | \$ 1,211,585          | \$ 254,847          | \$ 1,466,432                  |
| (b) Statutory valuation allowance adjustments   | -                     | 159,480             | 159,480                       |
| (c) <b>Adjusted gross deferred tax assets<br/>(1a - 1b)</b>                           | 1,211,585             | 95,367              | 1,306,952                     |
| (d) Deferred tax assets nonadmitted   | 2,196,263             | -                   | 2,196,263                     |
| (e) <b>Subtotal net admitted deferred tax asset<br/>(1c - 1d)</b>                     | (984,678)             | 95,367              | (889,311)                     |
| (f) Deferred tax liabilities  | 93,388                | 404,969             | 498,357                       |
| (g) <b>Net admitted deferred tax asset/(net<br/>deferred tax liability) (1e - 1f)</b> | <u>\$ (1,078,066)</u> | <u>\$ (309,602)</u> | <u>\$ (1,387,668)</u>         |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 10. FEDERAL INCOME TAXES (Continued)

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

|  |  | 12/31/2014          |                   |                     |
|--|--|---------------------|-------------------|---------------------|
|  |  | (1)                 | (2)               | (3)                 |
|  |  | Ordinary            | Capital           | (Col 1+2)<br>Total  |
| <b>Admission Calculation Components SSAP No. 101</b> |  |                     |                   |                     |
| (a)  | Federal income taxes paid in prior years recoverable through loss carrybacks   | \$ 26,331           | \$ -              | \$ 26,331           |
| (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) | 1,170,140           | -                 | 1,170,140           |
| (1)  | Adjusted gross deferred tax assets expected to be realized following the balance sheet date  | 1,170,140           | -                 | 1,170,140           |
| (2)  | Adjusted gross deferred tax assets allowed per limitation threshold  | XXX                 | XXX               | 3,689,915           |
| (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   | 916,486             | 159,480           | 1,075,966           |
| (d)  | <b>Deferred tax assets admitted as a result of application of SSAP No. 101</b><br><b>Total (2(a) + 2(b) + 2(c))</b>  | <b>\$ 2,112,957</b> | <b>\$ 159,480</b> | <b>\$ 2,272,437</b> |
|  |  | 12/31/2013          |                   |                     |
|  |  | (4)                 | (5)               | (6)                 |
|  |  | Ordinary            | Capital           | (Col 4+5)<br>Total  |
| <b>Admission Calculation Components SSAP No. 101</b> |  |                     |                   |                     |
| (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) | 1,967,026           | -                 | 1,967,026           |
| (1)  | Adjusted gross deferred tax assets expected to be realized following the balance sheet date  | 1,967,026           | -                 | 1,967,026           |
| (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)  | <b>Deferred tax assets admitted as a result of application of SSAP No. 101</b><br><b>Total (2(a) + 2(b) + 2(c))</b>  | <b>\$ 3,147,859</b> | <b>\$ 64,113</b>  | <b>\$ 3,211,972</b> |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 10. FEDERAL INCOME TAXES (Continued)

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

|  | Change                |                    |                               |
|--|-----------------------|--------------------|-------------------------------|
|  | (7)<br><br>Ordinary   | (8)<br><br>Capital | (9)<br><br>(Col 7+8)<br>Total |
| <b>Admission Calculation Components SSAP No. 101</b>   |                       |                    |                               |
| (a) Federal income taxes paid in prior years recoverable through loss carrybacks   | \$ (331,404)          | \$ (64,113)        | \$ (395,517)                  |
| (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) | (796,886)             | -                  | (796,886)                     |
| (1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date  | (1,967,026)           | -                  | (1,967,026)                   |
| (2) Adjusted gross deferred tax assets allowed per limitation threshold  | XXX                   | XXX                | 1,773,112                     |
| (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   | 93,388                | 159,480            | 252,868                       |
| (d) <b>Deferred tax assets admitted as a result of application of SSAP No. 101</b>   |                       |                    |                               |
| <b>Total (2(a) + 2(b) + 2(c))</b>  | <u>\$ (1,034,902)</u> | <u>\$ 95,367</u>   | <u>\$ (939,535)</u>           |

The ratio percentage and the adjusted capital and surplus used to determine the recovery period and the threshold limitation at December 31, 2014 and 2013 are as follows:

|  | 2014                 | 2013                 |
|--|----------------------|----------------------|
| (a) Ratio percentage used to determine recovery period and threshold limitation amount                                 | <u>658%</u>          | <u>359%</u>          |
| (b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2 (b) 2 above | <u>\$ 24,599,434</u> | <u>\$ 12,778,686</u> |



# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 10. FEDERAL INCOME TAXES (Continued)

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

| 12/31/2014 |         | 12/31/2013 |         | Change                |                      |
|------------|---------|------------|---------|-----------------------|----------------------|
| (1)        | (2)     | (3)        | (4)     | (5)                   | (6)                  |
| Ordinary   | Capital | Ordinary   | Capital | (Col 1-3)<br>Ordinary | (Col 2-4)<br>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>\$ 5,688,828</u> | <u>\$ 159,480</u> | <u>\$ 4,477,243</u> | <u>\$ 64,113</u> | <u>\$ 1,211,585</u> | <u>\$ 95,367</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>\$ 2,112,958</u> | <u>\$ 159,480</u> | <u>\$ 3,097,636</u> | <u>\$ 64,113</u> | <u>\$ (984,678)</u> | <u>\$ 95,367</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, 2014 and 2013.

Current income taxes incurred consist of the following major components:

|  | (1)<br>12/31/2014          | (2)<br>12/31/2013          | (3)<br>(Col 1-2)<br>Change |
|--|----------------------------|----------------------------|----------------------------|
| <b>1. Current income tax:</b>                        |                            |                            |                            |
| (a) Federal  | \$ -                       | \$ -                       | \$ -                       |
| (b) Foreign  | -                          | -                          | -                          |
| (c) <b>Subtotal</b>                                  | -                          | -                          | -                          |
| (d) Federal income tax on net capital gains          | <b>(401,424)</b>           | (556,425)                  | 155,001                    |
| (e) Utilization of operating loss carry-forwards     | <b>(388,054)</b>           | -                          | (388,054)                  |
| (f) Other  | <b>(17,856)</b>            | (45,447)                   | 27,591                     |
| (g) <b>Federal and foreign income taxes incurred</b> | <b><u>\$ (807,334)</u></b> | <b><u>\$ (601,872)</u></b> | <b><u>\$ (205,462)</u></b> |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 10. FEDERAL INCOME TAXES (Continued)

Deferred income taxes incurred consist of the following major components:

|   | (1)               | (2)                 | (3)                   |
|---|-------------------|---------------------|-----------------------|
|   | 12/31/2014        | 12/31/2013          | (Col 1-2)<br>Change   |
| 2. Deferred tax assets:   |                   |                     |                       |
| (a) Ordinary:   |                   |                     |                       |
| (1) Discounting on unpaid losses                                  | \$ -              | \$ -                | \$ -                  |
| (2) Unearned premium reserve                                      | -                 | -                   | -                     |
| (3) Policyholder reserves   | 2,111,072         | 1,314,867           | 796,205               |
| (4) Investments   | -                 | -                   | -                     |
| (5) Deferred acquisition costs                                    | 1,060,432         | 1,071,709           | (11,277)              |
| (6) Policyholder dividends accrual                                | -                 | -                   | -                     |
| (7) Fixed assets  | -                 | 8,785               | (8,785)               |
| (8) Compensation and benefit accruals                             | -                 | -                   | -                     |
| (9) Pension accrual   | -                 | -                   | -                     |
| (10) Nonadmitted assets   | 250,322           | -                   | 250,322               |
| (11) Net operating loss carryforward                              | 867,805           | -                   | 867,805               |
| (12) Tax credit carry-forward                                     | 1,320,975         | 1,407,213           | (86,238)              |
| (13) Other (including <5% total of ordinary tax assets)           | 78,222            | 674,670             | (596,448)             |
| <b>(99) Subtotal</b>  | <b>5,688,828</b>  | <b>4,477,244</b>    | <b>1,211,584</b>      |
| (b) Statutory valuation allowance adjustment                      | -                 | -                   | -                     |
| (c) Nonadmitted   | <b>3,575,870</b>  | 1,379,607           | 2,196,263             |
| (d) <b>Admitted ordinary deferred tax assets (2a99-2b-2c)</b>     | <b>2,112,958</b>  | 3,097,637           | (984,679)             |
| (e) Capital:  |                   |                     |                       |
| (1) Investments   | 284,192           | 29,344              | 254,848               |
| (2) Net capital loss carry-forward                                | -                 | -                   | -                     |
| (3) Real estate   | -                 | -                   | -                     |
| (4) Other (including items <5% of total capital tax assets)       | 34,768            | 34,768              | -                     |
| <b>(99) Subtotal</b>  | <b>318,960</b>    | 64,112              | 254,848               |
| (f) Statutory valuation allowance adjustment                      | 159,480           | -                   | 159,480               |
| (g) Nonadmitted   | -                 | -                   | -                     |
| (h) <b>Admitted capital deferred tax assets (2e99-2f-2g)</b>      | <b>159,480</b>    | 64,112              | 95,368                |
| (i) <b>Admitted deferred tax assets (2d + 2h)</b>                 | <b>2,272,438</b>  | 3,161,749           | (889,311)             |
| 3. Deferred tax liabilities:                                      |                   |                     |                       |
| (a) Ordinary:   |                   |                     |                       |
| (1) Investments   | -                 | -                   | -                     |
| (2) Fixed assets  | 404,969           | -                   | 404,969               |
| (3) Deferred and uncollected premium                              | 913,038           | 812,983             | 100,055               |
| (4) Policyholder reserves   | -                 | -                   | -                     |
| (5) Other (including items <5% of total ordinary tax liabilities) | 3,448             | 10,115              | (6,667)               |
| <b>(99) Subtotal</b>  | <b>1,321,455</b>  | 823,098             | 498,357               |
| (b) Capital:  |                   |                     |                       |
| (1) Investments   | -                 | -                   | -                     |
| (2) Real estate   | -                 | -                   | -                     |
| (3) Other (including items <5% of total capital tax liabilities)  | -                 | -                   | -                     |
| <b>(99) Subtotal</b>  | <b>-</b>          | <b>-</b>            | <b>-</b>              |
| (c) <b>Deferred tax liabilities (3a99 + 3b99)</b>                 | <b>1,321,455</b>  | 823,098             | 498,357               |
| 4. <b>Net deferred tax assets/(liabilities) (2i - 3c)</b>         | <b>\$ 950,983</b> | <b>\$ 2,338,651</b> | <b>\$ (1,387,668)</b> |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 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:

|  | <b>2014</b>           | <b>Effective<br/>Tax Rate</b> |
|--|-----------------------|-------------------------------|
| Provision computed at statutory rate             | \$ (786,480)          | 34.00 %                       |
| Tax exempt income deduction                      | (92,707)              | 4.01 %                        |
| Change in statutory valuation adjustment         | 17,384                | (0.75)%                       |
| Amortization of IMR                              | (95,672)              | 4.14 %                        |
| Meals and entertainment                          | 15,137                | (0.65)%                       |
| True-up of prior year differences                | (521,301)             | 22.54 %                       |
| Other  | 14,589                | (0.63)%                       |
| <b>Total</b>                                     | <b>\$ (1,449,050)</b> | <b>62.64 %</b>                |
| Federal and foreign income taxes incurred        | \$ (807,334)          | 34.90 %                       |
| Federal income tax on net capital gains (losses) | 405,184               | (17.52)%                      |
| Change in net deferred income taxes              | (1,046,900)           | 45.26 %                       |
| <b>Total statutory income taxes</b>              | <b>\$ (1,449,050)</b> | <b>62.64 %</b>                |

As of December 31, 2014, the Company has net operating loss (NOL) carryovers in the amount of \$2,552,367. The NOLs are set to expire in the following order:

| <u>Tax Year</u>                                  | <u>Amount</u>       | <u>Expiration</u> |
|--|---------------------|-------------------|
| 2014   | \$ 741,346          | 12/31/2034        |
| 2013   | 1,811,021           | 12/31/2033        |
| <b>Total net operating loss<br/>carryforward</b> | <b>\$ 2,552,367</b> |                   |

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:

|              |                  |  |
|--------------|------------------|--|
| 2012         | \$ 26,331        |  |
| <b>Total</b> | <b>\$ 26,331</b> |  |

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  
For the Years Ended December 31, 2014 and 2013

## 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, 2014 and 2013 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. Currently, the 2011, 2012 and 2013 tax years are open and subject to examination by the taxing authorities.

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, 2014 and 2013. 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.

## 11. PARTICIPATING POLICIES

At December 31, 2014 and 2013, participating policies account for less than 1% of total insurance, respectively. Total dividends for 2014 and 2013 were **\$18,240** and \$20,985, respectively.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 12. SURPLUS NOTE

During 2014, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Ability Insurance Company (lender) in the amount of \$15,000,000. The scheduled maturity date of the loan is December 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 March 1, June 1, September 1, and December 1 each year commencing March 1, 2014 at the rate of 7% annum. As of December 31, 2014 the Utah Insurance Department had approved \$500,000 in interest payments. At December 31, 2014, the Company had accrued \$62,500 in accrued interest on the surplus note.

## 13. SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through May 11, 2015, the date the financial statements were available to be issued.

## 14. 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, 2014 and 2013 was:

| Name and Address<br>Managing General Agent<br>Or Third Part Administrator                          | FEIN#      | Exclusive<br>Contract | Type of<br>Business<br>Written | Type of<br>Activity<br>Granted | Total Direct<br>Prem Written/<br>Produced By |
|--|------------|-----------------------|--------------------------------|--------------------------------|--|
| <b>For the year ended December 31, 2014:</b>   |            |                       |                                |                                |  |
| American Insurance Administrators LLC<br>2536 Countryside Blvd., Suite 430<br>Clearwater, FL 33763 | 26-1193300 | No                    | Medicare<br>Supplement         | C,CA,P,U                       | <u>\$ 43,749,702</u>                         |
| <b>For the year ended December 31, 2013:</b>   |            |                       |                                |                                |  |
| American Insurance Administrators LLC<br>2536 Countryside Blvd., Suite 430<br>Clearwater, FL 33763 | 26-1193300 | No                    | Medicare<br>Supplement         | C,CA,P,U                       | <u>\$ 51,660,776</u>                         |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2014 and 2013

## 15. 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 **\$(86,374)** and \$(27,400) during the years ended December 31, 2014 and 2013, respectively.

|                               | <u>2014</u>              | <u>2013</u>              |
|-------------------------------|--------------------------|--------------------------|
| <b>Balance at January 1</b>   | <b>\$ 517,560</b>        | <b>\$ 973,954</b>        |
| <b>Incurred, related to:</b>  |                          |                          |
| Current year                  | 3,459,093                | 4,090,252                |
| Prior years                   | <u>(86,374)</u>          | <u>(27,400)</u>          |
| <b>Total incurred</b>         | <b><u>3,372,719</u></b>  | <b><u>4,062,852</u></b>  |
| <b>Paid, related to:</b>      |                          |                          |
| Current year                  | 3,012,096                | 3,523,654                |
| Prior years                   | <u>418,383</u>           | <u>995,592</u>           |
| <b>Total paid</b>             | <b><u>3,430,479</u></b>  | <b><u>4,519,246</u></b>  |
| <b>Balance at December 31</b> | <b><u>\$ 459,800</u></b> | <b><u>\$ 517,560</u></b> |

## **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***

We have audited the statutory financial statements of **Sentinel Security Life Insurance Company** as of and for the year ended December 31, 2014, and our report thereon dated May 11, 2015, which expressed an unmodified opinion on those statutory financial statements, appears on pages 2-3. The schedules of selected financial data, investment risks interrogatories, and summary investment schedule 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 required 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.

*Larson & Company PC*

Salt Lake City, Utah  
May 11, 2015



# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Schedule of Selected Financial Data

December 31, 2014

|  | <b>Totals</b>         |
|--|-----------------------|
| <b>Investment income earned:</b>                           |                       |
| Bonds  | \$ 6,644,902          |
| Preferred stocks   | 437,938               |
| Common stocks  | 6,544                 |
| Mortgage loans   | 87,340                |
| Real estate  | 159,368               |
| Policy loans   | 90,331                |
| Cash and short-term investments                            | 198,193               |
| Other invested assets                                      | 6,313                 |
| <b>Gross investment income</b>                             | <b>\$ 7,630,929</b>   |
| <b>Real estate owned:</b>                                  |                       |
| Book value less encumbrances                               | <b>\$ 5,648,029</b>   |
| <b>Mortgage loans - statement value</b>                    |                       |
| Residential  | <b>\$ 840,863</b>     |
| Commercial mortgages                                       | <b>\$ 4,993,572</b>   |
| <b>Mortgage loans by standing - statement value</b>        |                       |
| Good standing  | <b>\$ 5,834,435</b>   |
| Interest overdue more than 90 days, but not in foreclosure | <b>\$ -</b>           |
| <b>Bonds by maturity and class:</b>                        |                       |
| <b>Bonds by maturity - statement value</b>                 | <b>Book</b>           |
| Due within one year  | \$ 8,885,999          |
| Over 1 through 5 years                                     | 129,453,890           |
| Over 5 through 10 years                                    | 114,701,145           |
| Over 10 through 20 years                                   | 98,649,009            |
| Over 20 years  | 73,698,969            |
| <b>Total by maturity</b>                                   | <b>\$ 425,389,012</b> |
| <b>Bonds by class - statement value</b>                    |                       |
| Class 1  | \$ 280,677,776        |
| Class 2  | 125,182,767           |
| Class 3  | 11,263,305            |
| Class 4  | 6,293,818             |
| Class 5  | 493,745               |
| Class 6  | 1,477,601             |
| <b>Total by class</b>                                      | <b>\$ 425,389,012</b> |

See independent auditor's report on other legal and regulatory information

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data (Continued)

December 31, 2014

|  | <b>Totals</b>  |
|--|----------------|
| <b>Total bonds publicly traded</b>   | \$ 285,582,007 |
| <b>Total bonds privately placed</b>  | \$ 139,807,005 |
| <b>Preferred stocks (statement value)</b>  | \$ 8,558,877   |
| <b>Common stocks (market value)</b>  | \$ 238,913     |
| <b>Short-term investments (statement value)</b>  | \$ 12,022,225  |
| <b>Cash and cash equivalents on deposit:</b>   |                |
| Checking accounts  | \$ 4,648,478   |
| Money market funds   | 8,719,606      |
| <b>Total cash and cash equivalents on deposit</b>  | \$ 13,368,084  |
| <b>Life insurance in force:</b>  |                |
| Ordinary   | \$ 199,187,664 |
| <b>Amount of accidental death insurance in-force under ordinary policies</b>               | \$ 366,000     |
| <b>Life insurance policies with disability provisions in-force under ordinary policies</b> | \$ 1,807,000   |
| <b>Supplementary contracts in force:</b>   |                |
| <b>Ordinary - not involving life contingencies:</b>  |                |
| Amount on deposit  | \$ 28,862      |
| <b>Annuities - ordinary:</b>   |                |
| Immediate amount of income payable   | \$ -           |
| Deferred fully paid account balance  | \$ 479,956,298 |
| <b>Accident and health in force:</b>   |                |
| Ordinary   | \$ 40,375,871  |
| <b>Deposit funds and dividend accumulations:</b>   |                |
| Dividend accumulations account balance   | \$ 277,208     |
| <b>Claim payments in 2014:</b>   |                |
| Other accident and health benefits incurred in year ended December 31:                     |                |
| Prior Years  | \$ 418,383     |
| Current Year   | 3,012,096      |
| <b>Total</b>   | \$ 3,430,479   |

See independent auditor's report on other legal and regulatory information

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories

December 31, 2014

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

\$ 479,497,782

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   | Country Wide            | \$ 22,590,130 | 4.7%                                |
| 2.02   | JP Morgan Chase         | \$ 18,239,688 | 3.8%                                |
| 2.03   | RFMSI                   | \$ 10,034,921 | 2.1%                                |
| 2.04   | RAST                    | \$ 7,573,595  | 1.6%                                |
| 2.05   | Morgan Stanley          | \$ 7,304,799  | 1.5%                                |
| 2.06   | Bank of America         | \$ 6,981,555  | 1.5%                                |
| 2.07   | Washington Mutual       | \$ 6,877,824  | 1.4%                                |
| 2.08   | MLMI                    | \$ 5,958,067  | 1.2%                                |
| 2.09   | CD                      | \$ 5,124,536  | 1.1%                                |
| 2.10   | Government Properties   | \$ 4,962,931  | 1.0%                                |

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  | \$ 301,419,604 | 62.9% |
| 3.02 NAIC - 2  | \$ 125,182,767 | 26.1% |
| 3.03 NAIC - 3  | \$ 11,263,305  | 2.3%  |
| 3.04 NAIC - 4  | \$ 6,293,818   | 1.3%  |
| 3.05 NAIC - 5  | \$ 493,746     | 0.1%  |
| 3.06 NAIC - 6  | \$ 1,477,601   | 0.3%  |
|                | 3              | 4     |
| 3.07 P/PSF - 1 | \$ 2,626,275   | 0.5%  |
| 3.08 P/PSF - 2 | \$ 2,529,600   | 0.5%  |
| 3.09 P/PSF - 3 | \$ 2,617,520   | 0.5%  |
| 3.10 P/PSF - 4 | \$ 785,480     | 0.2%  |
| 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 [ ] No [X]

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               | \$ 97,865,084 | 20.4% |
| 4.03 Foreign-currency-denominated investments                        | \$ -          | 0.0%  |
| 4.04 Insurance liabilities denominated in that same foreign currency | \$ -          | 0.0%  |

See independent auditor's report on other legal and regulatory information

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories (Continued)

December 31, 2014

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

|      |                                   | 1             | 2     |
|------|-----------------------------------|---------------|-------|
| 5.01 | Countries rated NAIC – 1          | \$ 96,043,018 | 20.0% |
| 5.02 | Countries rated NAIC – 2          | \$ 558,244    | 0.1%  |
| 5.03 | Countries rated NAIC – 3 or below | \$ 1,263,821  | 0.3%  |

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

|   |                         | 1             | 2     |
|---|-------------------------|---------------|-------|
| <b>Countries rated NAIC – 1:</b>          |                         |               |       |
| 6.01                                      | Country: Cayman Islands | \$ 61,724,029 | 12.9% |
| 6.02                                      | Country: Netherlands    | \$ 7,307,890  | 1.5%  |
| <b>Countries rated NAIC - 2:</b>          |                         |               |       |
| 6.03                                      | Country: Brazil         | \$ 306,917    | 0.1%  |
| 6.04                                      | Country: South Africa   | \$ 251,327    | 0.1%  |
| <b>Countries rated NAIC - 3 or below:</b> |                         |               |       |
| 6.05                                      | Country: Barbados       | \$ 1,263,821  | 0.3%  |
| 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  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  No

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

See independent auditor's report on other legal and regulatory information

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories (Continued)

December 31, 2014

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 [ ] No [ X ]

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 | 0.5% |
| 13.03 ING Groep NV           | \$ 611,040   | 0.1% |
| 13.04 Royal Bank of Scotland | \$ 590,360   | 0.1% |
| 13.05 Corts                  | \$ 526,275   | 0.1% |
| 13.06 Aegon NV               | \$ 501,560   | 0.1% |
| 13.07 Morgan Stanley         | \$ 406,480   | 0.1% |
| 13.08 Telephone Data Systems | \$ 400,000   | 0.1% |
| 13.09 MetLife Inc.           | \$ 303,040   | 0.1% |
| 13.10 PLC Capital            | \$ 200,000   | 0.0% |
| 13.11 Prudential Financial   | \$ 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 (Continued)

December 31, 2014

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<br>(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% |

See independent auditor's report on other legal and regulatory information

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories (Continued)

December 31, 2014

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

|       |                   | 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             | \$                     | -           | \$          | - |

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Summary Investment Schedule  
December 31, 2014

|   | Gross Investment Holding* |            | Admitted Assets as Reported<br>in the Annual Statement |   |                               |            |
|---|---------------------------|------------|--|---|-------------------------------|------------|
|   | 1                         | 2          | 3  | 4   | 5                             | 6          |
|   | Amount                    | Percentage | Amount   | Securities<br>Lending<br>Reinvested<br>Collateral<br>Amount | Total<br>(Col. 3+4)<br>Amount | Percentage |
| <b>1 Bonds:</b>   |                           |            |  |   |                               |            |
| 1.1 US Treasury Securities  | \$ 827,338                | 0.17%      | \$ 827,338   | \$ -  | \$ 827,338                    | 0.17%      |
| 1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):  |                           |            |  |   |                               |            |
| 1.21 Issued by US Government Agencies   | -                         | 0.00%      | -  | -   | -                             | 0.00%      |
| 1.22 Issued by US Government-sponsored agencies   | 260,408                   | 0.06%      | 260,408  | -   | 260,408                       | 0.06%      |
| 1.3 Non-U.S. Government (including Canada, excluding mortgage-backed securities)  | 297,270                   | 0.06%      | 297,270  | -   | 297,270                       | 0.06%      |
| 1.4 Securities issued by states, territories and possessions and political subdivisions in the United States:                                     |                           |            |  |   |                               |            |
| 1.41 States, territories and possessions general obligations  | -                         | 0.00%      | -  | -   | -                             | 0.00%      |
| 1.42 Political subdivisions of states, terr. and possessions and political subdivisions general obligations                                       | 2,342,762                 | 0.50%      | 2,342,762  | -   | 2,342,762                     | 0.50%      |
| 1.43 Revenue and assessment obligations   | 8,490,234                 | 1.79%      | 8,490,234  | -   | 8,490,234                     | 1.79%      |
| 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   | -                         | 0.00%      | -  | -   | -                             | 0.00%      |
| 1.52 CMOs and REMICs:   |                           |            |  |   |                               |            |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA   | 6,915,561                 | 1.46%      | 6,915,561  | -   | 6,915,561                     | 1.46%      |
| 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 | -                         | 0.00%      | -  | -   | -                             | 0.00%      |
| 1.523 All other   | 226,039,069               | 47.79%     | 226,039,069  | -   | 226,039,069                   | 47.79%     |
| <b>2 Other debt and other fixed income securities (excluding short term):</b>   |                           |            |  |   |                               |            |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)  | 140,889,825               | 29.79%     | 140,889,825  | -   | 140,889,825                   | 29.79%     |
| 2.2 Unaffiliated foreign securities   | 39,326,545                | 8.31%      | 39,326,545   | -   | 39,326,545                    | 8.31%      |
| 2.3 Affiliated securities   | -                         | 0.00%      | -  | -   | -                             | 0.00%      |

See independent auditor's report on other legal and regulatory information



# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Summary Investment Schedule (Continued)

December 31, 2014

|  |                              |                       |                              |                    |                              |                       |
|--|------------------------------|-----------------------|------------------------------|--------------------|------------------------------|-----------------------|
| <b>3 Equity interests:</b>   |                              |                       |                              |                    |                              |                       |
| 3.1 Investments in mutual funds  | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| 3.2 Preferred stocks:  |                              |                       |                              |                    |                              |                       |
| 3.21 Affiliated  | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| 3.22 Unaffiliated  | 8,558,877                    | 1.81%                 | 8,558,877                    | -                  | 8,558,877                    | 1.81%                 |
| 3.3 Publicly traded equity securities<br>(excluding preferred stocks):   |                              |                       |                              |                    |                              |                       |
| 3.31 Affiliated  | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| 3.32 Unaffiliated  | 238,913                      | 0.05%                 | 238,913                      | -                  | 238,913                      | 0.05%                 |
| 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<br>personal property under leases:                                   |                              |                       |                              |                    |                              |                       |
| 3.51 Affiliated  | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| 3.52 Unaffiliated  | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| <b>4 Mortgage loans:</b>   |                              |                       |                              |                    |                              |                       |
| 4.1 Construction and land development  | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| 4.2 Agricultural   | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| 4.3 Single family residential properties   | 840,863                      | 0.18%                 | 840,863                      | -                  | 840,863                      | 0.18%                 |
| 4.4 Multifamily residential properties   | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| 4.5 Commercial loans   | 4,993,572                    | 1.06%                 | 4,993,572                    | -                  | 4,993,572                    | 1.06%                 |
| 4.6 Mezzanine real estate loans  | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| <b>5 Real Estate Investments:</b>  |                              |                       |                              |                    |                              |                       |
| 5.1 Property occupied by company   | 5,096,959                    | 1.08%                 | 5,096,959                    | -                  | 5,096,959                    | 1.08%                 |
| 5.2 Property held for production of income<br>(including \$ ..... of property acquired in<br>satisfaction of debt) | -                            | 0.00%                 | -                            | -                  | -                            | 0.00%                 |
| 5.3 Property held for sale (including \$.....<br>property acquired in satisfaction of debt)                        | 551,070                      | 0.12%                 | 551,070                      | -                  | 551,070                      | 0.12%                 |
| <b>6 Contract Loans</b>  | <b>1,361,260</b>             | <b>0.29%</b>          | <b>1,361,260</b>             | <b>-</b>           | <b>1,361,260</b>             | <b>0.29%</b>          |
| <b>7 Derivatives</b>   | <b>-</b>                     | <b>0.00%</b>          | <b>-</b>                     | <b>-</b>           | <b>-</b>                     | <b>0.00%</b>          |
| <b>8 Receivables for securities</b>  | <b>-</b>                     | <b>0.00%</b>          | <b>-</b>                     | <b>-</b>           | <b>-</b>                     | <b>0.00%</b>          |
| <b>9 Securities lending</b>  | <b>-</b>                     | <b>0.00%</b>          | <b>-</b>                     | <b>-</b>           | <b>-</b>                     | <b>0.00%</b>          |
| <b>10 Cash, cash equivalents and<br/>short-term investments</b>  | <b>25,390,309</b>            | <b>5.37%</b>          | <b>25,390,309</b>            | <b>-</b>           | <b>25,390,309</b>            | <b>5.37%</b>          |
| <b>11 Other Invested Assets</b>  | <b>585,566</b>               | <b>0.12%</b>          | <b>585,566</b>               | <b>-</b>           | <b>585,566</b>               | <b>0.12%</b>          |
| <b>12 Total Invested Assets</b>  | <b><u>\$ 473,006,401</u></b> | <b><u>100.00%</u></b> | <b><u>\$ 473,006,401</u></b> | <b><u>\$ -</u></b> | <b><u>\$ 473,006,401</u></b> | <b><u>100.00%</u></b> |

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

See independent auditor's report on other  
legal and regulatory information