

# Sentinel Security Life Insurance Company

---

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

*For the Years Ended December 31, 2017 and 2016*



# SENTINEL SECURITY LIFE INSURANCE COMPANY

## CONTENTS

	<u>Page</u>
<b>Independent Auditor's Report</b> .....	2-3
<b>Statutory Financial Statements:</b>	
Statements of Admitted Assets, Liabilities, and Capital and Surplus .....	4-5
Statements of Income .....	6
Statements of Changes in Capital and Surplus .....	7
Statements of Cash Flow .....	8
<b>Notes to Statutory Financial Statements</b> .....	9-47
<b>Other Legal and Regulatory Information:</b>	
Independent Auditor's Report on Other Legal and Regulatory Information.....	49
Schedule of Selected Financial Data.....	50-51
Investment Risk Interrogatories.....	52-57
Summary Investment Schedule .....	58-59



## 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, 2017 and 2016, and the related statutory statements of income, changes in capital and surplus, and cash flow 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 statutory financial statements in accordance with accounting practices 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 audits 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, **Sentinel Security Life Insurance Company** prepared these financial statements using accounting practices 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.

The effects on the financial statements of the variances between these statutory accounting practices 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, 2017 and 2016, or the results of its operations or its cash flow 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, 2017 and 2016, and the results of its operations and its cash flow 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.

*Larson & Company, P.C.*

Salt Lake City, Utah  
May 25, 2018

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,  
Liabilities, and Capital and Surplus  
As of December 31, 2017 and 2016

<u>ADMITTED ASSETS</u>	<u>2017</u>	<u>2016</u>
<b>Invested assets:</b>		
Bonds	\$ 574,555,203	\$ 462,264,471
Preferred stocks	5,451,337	5,437,375
Common stocks	8,858,374	2,185,899
Mortgage loans on real estate	64,547,188	40,783,774
<b>Real estate:</b>		
Properties occupied by the Company	5,103,902	4,966,691
Properties held for the production of income	885,523	1,300,000
Cash, cash equivalents and short-term investments	88,420,386	83,824,717
Contract loans	1,476,950	1,361,116
Derivatives	1,146,097	-
Other invested assets	36,605,567	123,508
<b>Total invested assets</b>	<b>787,050,527</b>	<b>602,247,551</b>
<b>Other admitted assets:</b>		
Investment income due and accrued	2,334,137	2,987,266
Uncollected premiums and agent balances	46,396	29,773
Deferred premiums and agents' balances, net of loading of \$1,611,563 and \$1,600,825 for 2017 and 2016, respectively	2,895,826	2,787,095
Amounts recoverable from reinsurers	444,896	90,218
Current federal income tax recoverable	235,770	-
Other amounts receivable under reinsurance contracts	-	1,745,100
Net deferred tax asset	2,987,301	3,518,296
Guaranty funds receivable or on deposit	206,832	79,006
Electronic data processing equipment and software, net of accumulated depreciation of \$642,822 and \$469,500 for 2017 and 2016, respectively	123,181	218,134
Receivables from parent, subsidiaries and affiliates	2,414,555	3,300,928
Other amounts receivable	136,745	137,854
<b>Total other admitted assets</b>	<b>11,825,639</b>	<b>14,893,670</b>
<b>Total admitted assets</b>	<b>\$ 798,876,166</b>	<b>\$ 617,141,221</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, 2017 and 2016

<u>LIABILITIES AND CAPITAL AND SURPLUS</u>	<u>2017</u>	<u>2016</u>
<b>Liabilities:</b>		
<b>Policy and contract liabilities:</b>		
Aggregate reserve for life contracts	\$ 129,641,138	\$ 139,889,198
Aggregate reserve for accident and health contracts	175,617	167,931
Liability for deposit-type contracts	58,989,614	44,818,657
Contract claims-life	1,064,218	5,489,269
Contract claims-accident and health	655,412	496,427
Provision for policyholders' dividends and coupons payable	23,500	23,500
<b>Total policy and contract liabilities</b>	<b>190,549,499</b>	<b>190,884,982</b>
<b>Other liabilities:</b>		
Premiums and annuity considerations received in advance	100,685	104,928
Interest maintenance reserve	736,993	607,479
Commissions to agents due or accrued	197,635	37,026
General expenses due or accrued	3,384,354	2,738,322
Taxes, licenses, and fees due or accrued	142,216	99,549
Current federal and foreign income taxes	-	204,742
Unearned investment income	53,205	48,369
Amounts withheld or retained by company as agent	406,006	331,134
Remittances and items not allocated	5,514,611	4,900,667
Asset valuation reserve	8,171,491	4,208,271
Funds held under reinsurance treaties	260,778,513	219,033,781
Funds held under coinsurance	263,337,645	153,088,286
Derivatives	591,022	-
Payable for securities	25,475,000	701,003
<b>Total other liabilities</b>	<b>568,889,376</b>	<b>386,103,557</b>
<b>Total liabilities</b>	<b>759,438,875</b>	<b>576,988,539</b>
<b>Capital and surplus:</b>		
Common stock, \$8 and \$8 par value; 10,000,000 and 10,000,000 shares authorized; 605,289 and 605,289 issued, and 540,900 and 540,900 outstanding as of December 31, 2017 and 2016, respectively	4,842,259	4,842,259
Surplus notes	20,000,000	15,000,000
Paid-in surplus	9,313,760	9,313,760
Unassigned surplus	6,539,007	12,254,398
Treasury stock at cost - 64,389 and 64,389 shares in 2017 and 2016, respectively	(1,257,735)	(1,257,735)
<b>Total capital and surplus</b>	<b>39,437,291</b>	<b>40,152,682</b>
<b>Total liabilities and capital and surplus</b>	<b>\$ 798,876,166</b>	<b>\$ 617,141,221</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, 2017 and 2016

	2017	2016
<b>Income:</b>		
Premiums and annuity considerations	\$ 28,813,812	\$ 21,236,334
Net investment income	10,664,168	10,277,701
Amortization of interest maintenance reserve	161,200	241,306
Commissions and expense allowances on reinsurance ceded	35,563,009	27,602,416
Charges and fees for deposit-type contracts	41,565	59,541
Other income	23,847	6,746
<b>Total income</b>	<b>75,267,601</b>	<b>59,424,044</b>
<b>Benefits and expenses:</b>		
<b>Benefits to policyholders:</b>		
Death benefits	3,907,730	3,404,425
Matured endowments	-	24,386
Annuity benefits	2,886,052	2,249,798
Disability benefits	3,918,561	3,124,018
Coupon benefits	106	1,949
Surrender benefits	2,747,573	12,573,514
Interests and adjustments on contract or deposit-type contract funds	(1,644,938)	(3,335,729)
Increase (decrease) in aggregate policy reserves	15,898,662	(1,046,432)
<b>Total benefits to policyholders</b>	<b>27,713,746</b>	<b>16,995,929</b>
<b>Commissions on premiums and annuity considerations</b>	<b>28,870,816</b>	<b>26,548,026</b>
<b>Commissions and expense allowance on reinsurance assumed</b>	<b>126,229</b>	<b>79,609</b>
<b>General insurance expenses</b>	<b>14,395,980</b>	<b>12,386,114</b>
<b>Insurance taxes, licenses and fees</b>	<b>1,101,071</b>	<b>756,327</b>
<b>Increase (decrease) in loading</b>	<b>25,985</b>	<b>(21,256)</b>
<b>Total benefits and expenses</b>	<b>72,233,827</b>	<b>56,744,749</b>
<b>Net gain (loss) from operations before dividends, federal income taxes and realized capital gains (losses)</b>	<b>3,033,774</b>	<b>2,679,295</b>
Dividends to policyholders	(29,874)	(12,883)
Federal income taxes incurred	(980,366)	(273,500)
<b>Net gain (loss) from operations before realized capital gains (losses)</b>	<b>2,023,534</b>	<b>2,392,912</b>
<b>Realized capital gains (losses), less capital gains tax (benefit) of \$897,479 and \$0 for 2017 and 2016, respectively</b>	<b>1,451,451</b>	<b>(4,867,138)</b>
<b>Net income (loss)</b>	<b>\$ 3,474,985</b>	<b>\$ (2,474,226)</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, 2017 and 2016

	<u>Common Stock</u>	<u>Paid-in Surplus</u>	<u>Unassigned Surplus</u>	<u>Treasury Stock</u>	<u>Surplus Notes</u>	<u>Total Capital and Surplus</u>
<b>Balance at January 1, 2016</b>	\$ 4,842,259	\$ 9,313,760	\$ 10,796,663	\$ (1,257,735)	\$ 15,000,000	\$ 38,694,947
Net loss	-	-	(2,474,226)	-	-	(2,474,226)
Change in net unrealized capital gains (losses)	-	-	3,454,037	-	-	3,454,037
Change in net deferred tax assets	-	-	(195,816)	-	-	(195,816)
Change in non-admitted assets	-	-	1,978,474	-	-	1,978,474
Change in asset valuation reserve	-	-	(959,332)	-	-	(959,332)
Dividends to shareholders	-	-	(285,244)	-	-	(285,244)
Change in surplus as a result of reinsurance	-	-	(60,158)	-	-	(60,158)
<b>Balance at December 31, 2016</b>	<b>4,842,259</b>	<b>9,313,760</b>	<b>12,254,398</b>	<b>(1,257,735)</b>	<b>15,000,000</b>	<b>40,152,682</b>
Net income	-	-	3,474,985	-	-	3,474,985
Change in net unrealized capital gains (losses)	-	-	843,438	-	-	843,438
Change in net deferred tax assets	-	-	(983,813)	-	-	(983,813)
Change in non-admitted assets	-	-	(5,026,624)	-	-	(5,026,624)
Change in asset valuation reserve	-	-	(3,963,220)	-	-	(3,963,220)
Increase in surplus notes	-	-	-	-	5,000,000	5,000,000
Change in surplus as a result of reinsurance	-	-	(60,157)	-	-	(60,157)
<b>Balance at December 31, 2017</b>	<b>\$ 4,842,259</b>	<b>\$ 9,313,760</b>	<b>\$ 6,539,007</b>	<b>\$ (1,257,735)</b>	<b>\$ 20,000,000</b>	<b>\$ 39,437,291</b>

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



# SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Cash Flow  
For the Years Ended December 31, 2017 and 2016

	2017	2016
<b>Cash flow from operating activities:</b>		
Premiums collected net of reinsurance	\$ 28,614,391	\$ 22,718,199
Net investment income	7,429,226	8,261,299
Miscellaneous income	35,628,421	27,668,703
Benefits and loss related payments	(42,574,864)	(13,152,949)
Commissions and expenses paid	(44,418,646)	(39,745,682)
Dividends paid to policyholders	(29,874)	(12,883)
Federal income taxes recovered (paid)	(1,420,878)	(68,758)
	<b>(16,772,224)</b>	5,667,929
<b>Net cash flow from operating activities</b>		
<b>Cash flow from investing activities:</b>		
Proceeds from sales of bonds	259,147,183	140,101,761
Proceeds from sales of stocks	29,129,419	3,515,802
Proceeds from mortgage loan collections	22,400,003	8,566,723
Proceeds from real estate	1,275,340	550,765
Other invested assets	3,471,059	(4,581,894)
Miscellaneous proceeds	24,774,001	-
Payments for purchases of bonds	(364,879,985)	(175,047,921)
Payments for purchases of stocks	(34,225,046)	(663,700)
Payments for mortgage loans	(46,161,516)	(23,912,529)
Payments for real estate	(1,141,147)	(1,596,790)
Other invested assets	(39,151,198)	(1,450,000)
Miscellaneous applications	(1,146,097)	(3,322,784)
Net (increase) decrease in contract loans	(115,834)	(22,017)
	<b>(146,623,818)</b>	(57,862,584)
<b>Net cash flow from investing activities</b>		
<b>Cash flow from financing and miscellaneous sources:</b>		
Proceeds from surplus note	5,000,000	-
Proceeds from deposit-type contracts	14,170,957	2,854,822
Dividends to stockholders	-	(285,243)
Other cash provided	148,820,754	109,830,853
	<b>167,991,711</b>	112,400,432
<b>Net cash flow from financing and miscellaneous sources</b>		
<b>Net increase (decrease) in cash</b>	<b>4,595,669</b>	<b>60,205,777</b>
Cash, cash equivalents and short-term investments at beginning of year	83,824,717	23,618,940
<b>Cash, cash equivalents and short-term investments at end of year</b>	<b>\$ 88,420,386</b>	<b>\$ 83,824,717</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, 2017 and 2016

## 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 six 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.

In the fourth quarter of 2015, a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer, of the Company, by the StageCoach LLC (StageCoach) and Advantage West LLC (Ad West) referred to collectively as "the Applicant", was filed with the Utah Insurance Department.

Upon approval from the State of Utah Insurance Department, StageCoach purchased newly issued shares of the Company and Ad West acquired all of the remaining outstanding capital stock in the Company via a merger transaction in accordance with Utah Code, such that subsequent to the aforementioned transactions, StageCoach and Ad West owned all of the outstanding shares of the Company. The acquisition by StageCoach and Ad West of the Company was effected pursuant to a two-stage process.

In Stage One, StageCoach purchased from the Company 245,760.63 newly issued shares of the Company in accordance with the terms of the Subscription Agreements. The purchase of the Stage One shares was completed in December of 2015.

In Stage Two, Ad West acquired the remaining 295,137.95 shares via a shareholder approved merger transaction in accordance with Utah Code. Under the merger agreement, the Company merged with StageCoach II, Inc., a wholly owned direct subsidiary of Ad West, with the Company surviving as the successor Company in the merger as a subsidiary of Ad West. Stage Two was approved at the Annual Stockholders' meeting on April 15, 2016 by a majority of the stockholders'. In connection with Stage Two, the Company filed amended Articles of Incorporation which were filed and approved by the Utah Insurance Department; and were subsequently filed with the Utah Division of Corporation and Commercial Code on April 25, 2016. Additionally the Articles of Incorporation were filed with the Utah Division of Corporation and Commercial Code on April 25, 2016. The merger was completed in June of 2016.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

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

### 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.

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.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

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

### Basis of Presentation (Continued)

#### a. *Investments (Continued):*

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.

#### 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.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

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

### Basis of Presentation (Continued)

e. *Guaranty Fund and Other Assessments:*

A liability for guaranty fund and other assessments (net of certain offsets depending on state rules) is accrued when all of the following conditions are met; 1) An assessment has been imposed or information available prior to issuance of the statutory financial statements indicates that it is probable that an assessment will be imposed, 2) the event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements, and 3) the amount of the assessment can be reasonably estimated. 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. *Electronic Data Processing (EDP) Equipment and Operating System Software:*

EDP equipment and operating system software are generally depreciating over a life not to exceed three years, which is generally shorter than their estimated useful life under U.S. GAAP. The aggregate amount of admitted data processing equipment and operating system software, net of accumulated depreciation, shall be limited to three percent of the Company's capital and surplus as required to be shown on the statutory balance sheet of the Company for its most recently filed statement with the domiciliary state commissioner adjusted to exclude any EDP equipment and operating system software, net deferred tax assets and net positive goodwill.

g. *Statements of Cash Flow:*

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

h. *Interest Maintenance Reserve:*

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

i. *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.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

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

### Basis of Presentation (Continued)

j. *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.

k. *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.

l. *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.

m. *Surplus Notes:*

Surplus notes are reported as a component of statutory surplus in the accompanying statutory financial statements. In financial statements prepared in conformity with U.S. GAAP, surplus notes would be accounted for as debt and included in liabilities.

n. *Statutory Requirements*

Statutory requirements indicate that statutory financial statements are to be prepared in a form and using the language and groupings substantially the same as the annual statement of the Company that is filed with the NAIC and the state regulatory authorities. Accordingly, the statutory financial statements are presented in a format consistent with the annual statement a licensed life insurance enterprise would file which differs from the presentation and disclosures of financial statements presented under U.S. GAAP.

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, 2017 and 2016

## 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 \$0 and \$272,274 for the year ended December 31, 2017 and 2016, 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.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

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

### Fair Values of Financial Instruments

The fair value of bonds, preferred and common stock, 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.

### 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 State of 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. Mean reserves are based on appropriate multiple of standard rates of mortality.

As of December 31, 2017 and 2016, the Company had **60** and 62 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 **\$10,544** and \$16,518 less than net premiums for 2017 and 2016, respectively. Given the small number of policies where the net premiums exceed the gross premium the Company has not established a deficiency reserve.



# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

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

### Benefit Reserves (Continued)

Tabular interest, tabular less actual reserves released, and tabular cost have been determined by formula. The tabular less actual reserve released has been determined by formula. For the determination of tabular interest on funds not involving life contingencies for each valuation rate of interest, the tabular interest is calculated as one hundredth of the product of such valuation rate of interest times the mean of the amount of funds subject to 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.

The reserve for the immediate payment of claims (IPC) for certain older policies remained in the current year with a balance of **\$81,727** as of December 31, 2017 and the prior year with a balance of \$84,196 as of December 31, 2016.

### 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>2017</u>		<u>2016</u>	
	<u>Gross</u>	<u>Net of Loading</u>	<u>Gross</u>	<u>Net of Loading</u>
Ordinary new business	\$ 690,446	\$ 150,107	\$ 691,012	\$ 158,349
Ordinary renewal	3,886,863	2,788,036	3,733,136	2,652,619
<b>Total</b>	<b>\$ 4,577,309</b>	<b>\$ 2,938,143</b>	<b>\$ 4,424,148</b>	<b>\$ 2,810,968</b>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

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

### 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, 2017 and 2016 totaled **\$239,544** and \$224,519, respectively. Maintenance and repairs that do not materially extend the useful lives are charged to earnings as incurred.

### 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.

### Accounting Changes

During the current year's annual statement preparation, the Company discovered a misplacement in the compiling and reporting of the end of guarantee period annuity contracts that were cashed out by the contract owner. During the last 30 days before the end of any Guarantee Period, the contract owner may choose to continue the contract for another Guarantee Period, apply the Contract Value to a Settlement Option or take a partial or full pay out of the contract value without Market Value Adjustment or Surrender Charges. The contracts that were cashed out were inadvertently reported as surrendered policies prior to this change in reporting. There is no impact from this change on the net income, surplus, total assets or total liabilities presented in the financial statements.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS

Bonds and stocks at December 31, 2017, are summarized as follows:

	<u>Cost or Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Book Value</u>
<b>Bonds:</b>			
Government bonds	\$ 41,559,667	\$ 42,580,400	\$ 1,020,733
Residential mortgage- backed securities	45,823,503	50,703,328	4,879,825
Commercial mortgage- backed securities	79,621,095	81,657,985	2,036,890
Other loan-backed and structured securities	204,199,325	209,390,367	5,191,042
Hybrid securities	1,596,184	1,628,422	32,238
Industrial and miscellaneous bonds	201,755,429	204,098,003	2,342,574
<b>Total bonds</b>	<b>\$ 574,555,203</b>	<b>\$ 590,058,505</b>	<b>\$ 15,503,302</b>
<b>Stocks:</b>			
Preferred stocks	\$ 5,451,337	\$ 5,520,837	\$ 69,500
Common stocks	8,858,374	8,858,374	-
<b>Total stocks</b>	<b>\$ 14,309,711</b>	<b>\$ 14,379,211</b>	<b>\$ 69,500</b>

Bonds and stocks at December 31, 2016, are summarized as follows:

	<u>Cost or Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Book Value</u>
<b>Bonds:</b>			
Government bonds	\$ 13,608,016	\$ 14,233,422	\$ 625,406
Residential mortgage- backed securities	64,603,271	70,029,578	5,426,307
Commercial mortgage- backed securities	58,571,502	57,767,023	(804,479)
Other loan-backed and structured securities	183,702,420	184,491,335	788,915
Hybrid securities	1,597,398	1,541,616	(55,782)
Industrial and miscellaneous bonds	140,181,864	141,292,817	1,110,953
<b>Total bonds</b>	<b>\$ 462,264,471</b>	<b>\$ 469,355,791</b>	<b>\$ 7,091,320</b>
<b>Stocks:</b>			
Preferred stocks	\$ 5,437,375	\$ 5,390,582	\$ (46,793)
Common stocks	2,185,899	2,185,899	-
<b>Total stocks</b>	<b>\$ 7,623,274</b>	<b>\$ 7,576,481</b>	<b>\$ (46,793)</b>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

Assets measured at fair value on a recurring basis are as follows:

Assets Measured at Fair Value				
	Fair Value	Level 1	Level 2	Level 3
<b>December 31, 2017:</b>				
<b>Assets at fair value:</b>				
Common	\$ 8,858,374	\$ 311,776	\$ -	\$ 8,546,598
Bonds	810,781	-	810,781	-
Derivatives	1,146,097	-	-	1,146,097
<b>Total assets at fair value</b>	<b>10,815,252</b>	<b>311,776</b>	<b>810,781</b>	<b>9,692,695</b>
<b>Liabilities at fair value:</b>				
Derivatives	(591,021)	-	-	(591,021)
<b>Total liabilities at fair value</b>	<b>(591,021)</b>	<b>-</b>	<b>-</b>	<b>(591,021)</b>
<b>Total</b>	<b>\$ 10,224,231</b>	<b>\$ 311,776</b>	<b>\$ 810,781</b>	<b>\$ 9,101,674</b>

Assets Measured at Fair Value				
	Fair Value	Level 1	Level 2	Level 3
<b>December 31, 2016:</b>				
<b>Assets at fair value:</b>				
Common	\$ 2,185,899	\$ 298,087	\$ -	\$ 1,887,812
<b>Total</b>	<b>\$ 2,185,899</b>	<b>\$ 298,087</b>	<b>\$ -</b>	<b>\$ 1,887,812</b>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

The aggregate fair value for all financial instruments and the level within the fair value hierarchy in which the fair value measurements in their entirety fall as of December 31 are as follows:

2017						
Type of financial instrument:	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 590,058,505	\$ 574,555,203	\$ -	\$ 527,100,551	\$ 62,957,954	\$ -
Preferred stock	5,520,837	5,451,337	5,394,560	-	126,277	-
Common stock	8,858,374	8,858,374	311,776	-	8,546,598	-
Mortgage loans	-	64,547,188	-	-	-	64,547,188
Real estate	-	5,989,425	-	-	-	5,989,425
Cash and cash equiv.	88,420,386	88,420,386	88,420,386	-	-	-
Contract loans	-	1,476,950	-	-	-	1,476,950
Derivatives assets	1,146,097	1,146,097	-	-	1,146,097	-
Other invested assets	36,605,567	36,605,567	-	-	36,605,567	-
<b>Total</b>	<b>\$ 730,609,766</b>	<b>\$ 787,050,527</b>	<b>\$ 94,126,722</b>	<b>\$ 527,100,551</b>	<b>\$ 109,382,493</b>	<b>\$ 72,013,563</b>

2016						
Type of financial instrument:	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 469,355,786	\$ 462,264,471	\$ -	\$ 451,707,792	\$ 17,647,994	\$ -
Preferred stock	5,390,582	5,437,375	5,390,582	-	-	-
Common stock	2,185,899	2,185,899	2,185,899	-	-	-
Mortgage loans	-	40,783,774	-	-	-	40,783,774
Real estate	-	6,266,691	-	-	-	6,266,691
Cash and cash equiv.	83,824,717	83,824,717	83,824,717	-	-	-
Contract loans	-	1,361,116	-	-	-	1,361,116
Other invested assets	123,508	123,508	-	-	123,508	-
<b>Total</b>	<b>\$ 560,880,492</b>	<b>\$ 602,247,551</b>	<b>\$ 91,401,198</b>	<b>\$ 451,707,792</b>	<b>\$ 17,771,502</b>	<b>\$ 48,411,581</b>

The explanation for the financial instrument not measured as of December 31, 2017 is as follows:

Type or class of financial instrument:	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Mortgage loans	\$ 64,547,188	Various	Various	Mortgage loans not actively traded
Real estate	\$ 5,989,425	n/a	n/a	Real estate is not actively being marketed for sale
Contract loans	\$ 1,476,950	n/a	n/a	Contract loans not actively traded

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

The explanation for the financial instrument not measured as of December 31, 2016 is as follows:

Type or class of financial instrument:	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Mortgage loans	\$ 40,783,774	Various	Various	Mortgage loans not actively traded
Real estate	\$ 6,266,691	n/a	n/a	Real estate is not actively being marketed for sale
Contract loans	\$ 1,361,116	n/a	n/a	Contract loans not actively traded

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, 2017 and 2016 represent a temporary decline in market value.

The fair value measurements in Level 3 of the fair value hierarchy are as follows:

	Investment Class		
	Common Stock	Derivatives (Assets)	Derivatives (Liabilities)
<b>Beginning Balance, January 1, 2016</b>	\$ 1,224,112	\$ -	\$ -
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Total gains (losses) included in net income	-	-	-
Total gains (losses) included in surplus	-	-	-
Purchases	663,700	-	-
Issuances	-	-	-
Sales	-	-	-
Settlements	-	-	-
<b>Ending Balance, December 31, 2016</b>	<b>1,887,812</b>	<b>-</b>	<b>-</b>
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Total gains (losses) included in net income	-	430,258	(288,133)
Total gains (losses) included in surplus	-	-	-
Purchases	6,658,786	930,219	(404,057)
Issuances	-	-	-
Sales	-	(214,380)	101,169
Settlements	-	-	-
<b>Ending Balance, December 31, 2017</b>	<b>\$ 8,546,598</b>	<b>\$ 1,146,097</b>	<b>\$ (591,021)</b>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

The Company utilizes a third party's methodology when market prices are not available in active (Level 1) or inactive market (Level 2). For Level 3 investments methodologies employed by the third party are as follows:

### *Fixed Income – Brokers*

Broker quotes passed through by Pricing Vendors (not used in their generic model) or received directly from other brokers are assigned a Level 3 since the broker inputs cannot be corroborated as observable.

### *Fixed Income – Other Sources*

When a price is not available from any of our third party external vendors and sufficient valuation information is available via Bloomberg or another source, securities are priced using Yieldbook Option Adjusted Spread ("OAS") analysis. When no information is available to use Yieldbook, the security will be benchmarked using a Barclay's Index based on credit sector and/or asset class.

### *Fixed Income – Purchase Price*

For securities purchased within the pricing month, and no pricing source is available, Levels will be assigned using the trade date. Securities purchased within five business days of the month end valuation are assigned a Level 2. Otherwise, they are assigned a Level 3.

### *Equities – Other Sources*

Securities traded on an exchange with a recent trade greater than 5 business days but less than 30 days would be assigned a Level 2. Securities not traded on an exchange but priced using observable inputs (evaluated price) would also be assigned a Level 2. When an equity security hasn't traded for 30 days and is currently listed on an exchange (e.g., OTC, etc.) it will be considered illiquid and assigned a Level 3. Securities priced via broker quotes which are non-binding will also be assigned a Level 3.

### *Equities – Purchase Price*

Equities purchased within five business days of the month end valuation are assigned a Level 2 otherwise, if not within five business days and there is no pricing source available the security is assigned a Level 3.

### *Preferred Equities – Brokers*

All broker quotes are assigned a Level 3. These brokers do not provide inputs and therefore are not observable and cannot be supported. Sources include Brokers, Bloomberg, etc.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

### *Preferred Equities – Other Sources*

When a price is not available from any of our third party external vendors and sufficient valuation information is available via Bloomberg or another source, securities are priced using Yieldbook Option Adjusted Spread analysis (sinking fund preferred). When no information is available to use Yieldbook, prior price will be used.

### *Derivatives*

For non-managed assets, Conning will obtain both the security price and FAS 157 Level for assets that are not priced by our third party external vendors either directly from the client or their respective third party asset manager.



# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

The following tables summarize those investments that, as of December 31, 2017 and 2016, were in an unrealized loss position for which other-than-temporary declines in value have not been recognized:

(\$ In Thousands)

	Less Than 12 Months			12 Months or More			Total Unrealized Losses
	Number Of Issues	Fair Value	Unrealized Losses	Number Of Issues	Fair Value	Unrealized Losses	
At December 31, 2017							
<b>Bonds:</b>							
U.S. government and agencies	15	\$ 24,496	\$ (126)	2	\$ 594	\$ (12)	\$ (138)
Industrial and miscellaneous	185	96,396	(774)	40	15,227	(1,153)	(1,928)
Hybrid securities	-	-	-	2	398	(3)	(3)
Mortgage-backed securities	26	56,961	(239)	25	26,384	(1,044)	(1,283)
<b>Total bonds</b>	<b>226</b>	<b>177,853</b>	<b>(1,139)</b>	<b>69</b>	<b>42,603</b>	<b>(2,212)</b>	<b>(3,352)</b>
<b>Equity securities:</b>							
Common stock - industrial and misc.	1	157	(9)	-	-	-	(9)
Preferred stock - industrial and misc.	2	-	-	5	-	(106)	(106)
<b>Total bonds and equity securities</b>	<b>229</b>	<b>\$ 178,010</b>	<b>\$ (1,148)</b>	<b>74</b>	<b>\$ 42,603</b>	<b>\$ (2,318)</b>	<b>\$ (3,467)</b>
Investment grade bonds	226	\$ 177,853	\$ (1,139)	69	\$ 42,603	\$ (2,212)	\$ (3,351)
Below investment grade bonds	-	-	-	-	-	-	-
<b>Total bonds</b>	<b>226</b>	<b>\$ 177,853</b>	<b>\$ (1,139)</b>	<b>69</b>	<b>\$ 42,603</b>	<b>\$ (2,212)</b>	<b>\$ (3,351)</b>

(\$ In Thousands)

	Less Than 12 Months			12 Months or More			Total Unrealized Losses
	Number Of Issues	Fair Value	Unrealized Losses	Number Of Issues	Fair Value	Unrealized Losses	
At December 31, 2016							
<b>Bonds:</b>							
U.S. government and agencies	5	\$ 3,076	\$ (122)	3	\$ 544	\$ (64)	\$ (186)
Industrial and miscellaneous	69	36,524	(1,128)	25	13,111	(806)	(1,934)
Hybrid securities	79	97,155	(2,595)	56	34,470	(992)	(3,587)
Mortgage-backed securities	-	-	-	3	1,291	(67)	(67)
<b>Total bonds</b>	<b>153</b>	<b>136,755</b>	<b>(3,845)</b>	<b>87</b>	<b>49,416</b>	<b>(1,929)</b>	<b>(5,774)</b>
<b>Equity securities:</b>							
Common stock - industrial and misc.	-	-	-	1	44	-	-
Preferred stock - industrial and misc.	7	2,902	(125)	-	-	-	(125)
<b>Total bonds and equity securities</b>	<b>160</b>	<b>\$ 139,657</b>	<b>\$ (3,970)</b>	<b>88</b>	<b>\$ 49,460</b>	<b>\$ (1,929)</b>	<b>\$ (5,899)</b>
Investment grade bonds	153	\$ 136,755	\$ (3,845)	87	\$ 49,416	\$ (1,929)	\$ (5,774)
Below investment grade bonds	-	-	-	-	-	-	-
<b>Total bonds</b>	<b>153</b>	<b>\$ 136,755</b>	<b>\$ (3,845)</b>	<b>87</b>	<b>\$ 49,416</b>	<b>\$ (1,929)</b>	<b>\$ (5,774)</b>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

Maturities of bonds are as follows:

	<b>Admitted Asset Value</b>
2018	\$ 20,505,885
2019-2023	157,100,691
2024-2028	344,476,130
2029-2038	33,286,593
After 2038	19,185,904
<b>Total by maturity</b>	<b>\$ 574,555,203</b>

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

	<b>2017</b>	<b>2016</b>
<b>Bonds:</b>		
Gross gains from sales	\$ 1,763,887	\$ 679,319
Gross losses from sales	(683,410)	(875,807)
<b>Other invested assets:</b>		
Gross gains from sales	-	-
Gross losses from sales	-	(4,506,202)
<b>Preferred stock:</b>		
Gross gains from sales	-	-
Gross losses from sales	(11,040)	(6,480)
OTTI impairments	-	-
<b>Common stock:</b>		
Gross gains from sales	1,554,496	-
Gross losses from sales	-	-
<b>Derivatives:</b>		
Gain on sale of derivatives	115,582	-
Loss on sale of derivatives	(75,210)	-
<b>Real Estate:</b>		
OTTI impairments	(24,660)	(272,274)
<b>Amount transferred to IMR net of tax</b>	<b>(290,715)</b>	114,306
<b>Capital gains (tax) benefit</b>	<b>(897,479)</b>	-
<b>Net capital gains (losses)</b>	<b>\$ 1,451,451</b>	<b>\$ (4,867,138)</b>

At December 31, 2017 and 2016, bonds with an admitted asset value of **\$2,789,694** and \$2,648,874 were on deposit with state insurance departments to satisfy regulatory requirements.

At December 31, 2017 and 2016, FHLB capital stock- Class B, not exclusively under the control of the reporting entity, totaled **\$742,300** and \$663,700, respectively.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

### Cash, Cash Equivalents and Short-Term Investments

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

	<u>2017</u>	<u>2016</u>
<b>Cash, cash equivalents and short-term investments:</b>		
Cash	\$ 6,142,937	\$ 4,888,807
Cash equivalents	82,277,449	1,660,338
Short-term investments	-	77,275,572
	<u>                    </u>	<u>                    </u>
<b>Total cash, cash equivalents and short-term investments</b>	<b>\$ 88,420,386</b>	<b>\$ 83,824,717</b>

### 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. At times for the years ended December 31, 2017 and 2016, such amounts were in excess of the FDIC insurance limit of \$250,000. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on this balance due to the financial integrity of this institution.

The Company invests in money market mutual funds that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market mutual 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, 2017 and 2016 the Company held **\$80,411,179** and \$34,874,963 in money market mutual funds, respectively.

### Mortgage Loans

In 2017, The Company participated in eighteen joint commercial mortgages with Asset Capital Management. The participated joint commercial mortgages had a minimum rate of 6.41% percent and a maximum rate of 15 percent. The participating mortgages had loan-to-values with a minimum of 14.55% and maximum of 80.0% (participating portion versus security value).

In 2016, The Company participated in fifteen joint commercial mortgages with Asset Capital Management. The participated joint commercial mortgages had a minimum rate of 8 percent and a maximum rate of 15 percent. The participating mortgages had loan-to-values with a minimum of 16.4% and maximum of 79.5% (participating portion versus security value).

Mortgage loans at December 31, 2017 and 2016 totaled **\$64,547,188** and \$40,783,774 respectively. As of December 31, 2017 and 2016, the Company had **\$650,000** and \$700,000, respectively of mortgage loans with interest more than 180 days past due.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

### Derivatives

On July 12, 2017, the Utah Insurance Department approved the Derivative Use Plan (“DUP”) of the Company, as required under Utah Insurance Code 31A-18-105. The Plan was filed in relation to the Company’s implementation of a hedge strategy designed to control the economic risk of loss due to changes in value, yield, price, cash flow or quantity of assets and liabilities that the Company has, or may acquire, and/or to mitigate the economic impact of any potential changes in the currency exchange rates or the degree of exposure as to the assets or liabilities denominated in a foreign currency. The Company adopted a position that considers certain derivative instruments to be a prudent component of its investment and risk management activities and established a plan that all derivative transactions entered into by, or on behalf of, the Company must be in compliance with.

#### *a. Discussion of the Market Risk, Credit Risk, and Cash Requirements of Derivatives:*

The Company uses derivatives to manage risks from changes in interest rates or foreign currency values, to alter interest rate or currency exposures arising from mismatches between assets and liabilities (including duration mismatches), to hedge against changes in the value of assets it anticipates acquiring and other anticipated transactions and commitments it plans on entering into and to replicate the investment performance of otherwise permissible investments. Insurance statutes restrict the Company’s use of derivatives for speculation purposes.

The Company, at inception, may designate derivatives as (1) hedge of the fair value of a recognized asset or liability or unrecognized firm commitment, (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid to a recognized asset or liability, or (3) a derivative that does not qualify for hedge accounting, including replications.

Most of the Company’s derivative arrangements with counterparties require the posting of collateral upon meeting certain net exposure thresholds. For derivatives related to securitization entities, there are no arrangements that require either party to provide collateral and the recourse of the derivatives counterparty is typically limited to the assets held by the securitization entity and there is no recourse to any entity other than the securitization entity.

The Company is also exposed to credit-related losses in the event of nonperformance by counterparties to derivative instruments. The Company manages counterparty risk by transacting with high-rated counterparties and uses collateral support where possible. The Company’s maximum credit exposure to derivative counterparties is limited to the sum of the net fair value of contracts with counterparties that exhibit a positive fair value of net collateral.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

### Derivatives (Continued)

#### *b. Description of the Company's Objectives for Using the Derivatives:*

The Company uses interest rate swaps, equity index options, equity return swaps, credit default swaps and/or financial futures for hedging. Interest rate swaps and financial futures are used to reduce market risks from changes in interest rates and to alter interest rate exposures arising from mismatches between assets and liabilities. Equity index options and equity return swaps are used to hedge the equity market risks that are part of some of the Company's annuity liabilities. Credit default swaps are used to manage the credit risk of bond investments by entering into agreements that protect against potential reductions in credit quality.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability or forecasted transaction that has been designated as a hedged item, states how the hedging instrument is expected to hedge the risks related to the hedged item and sets for the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness. The Company generally determines hedge effectiveness based on total changes in fair value of a derivative instrument.

The Company discontinues hedge accounting prospectively when: (i) it is determined that the derivatives is no longer effective in offsetting changes in the fair value of the cash flows of a hedge item, (ii) the derivative expires or is sold, terminated or exercised, (iii) the derivative is re-designed as a hedge instrument is no longer appropriate.

The Company designates and accounts for the follow as fair value hedges when they have met the effectiveness requirements of SSAP No. 86, *Accounting for Derivative Instruments and Hedging, Income Generation and Replication (Synthetic Asset) Transactions* ("SSAS No. 86"): (i) various types of interest rate swaps to convert fixed rate investments to floating rate investments, and (ii) other instruments to hedge various other fair value exposures of investments.

The Company also uses certain derivatives, including equity options and financial future and certain interest rate swaps for hedging that (i) do not meet or no longer meet the criteria of an effective hedge or (ii) meet the required hedge criteria but the Company has chosen not to apply hedge accounting. These derivatives are accounted for at fair value with the changes in fair value recorded in surplus as a realized gain (loss).

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 2. INVESTMENTS (Continued)

### Derivatives (Continued)

#### *c. Description of the Accounting Policies for Recognizing and Measuring Derivatives Used:*

Derivative instruments are carried at values consistent with the items being hedged. As of December 31, 2017, interest rate swaps that are qualifying for hedge accounting were carried at amortized cost while non-qualifying interest rate swaps, credit default swaps, options, equity return swaps and/or futures were carried at fair value. Realized investment gains and losses were reduced by amounts transferred to Interest Maintenance Reserves ("IMR") and are reflected as an element of net income, net tax. Any fees associated with swaps are held in surplus and the full fee amount will be recognized in income at the time of termination.

### Real Estate

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

	<u>2017</u>	<u>2016</u>
<b>Occupied by the Company:</b>		
Land	\$ 364,100	\$ 364,100
Properties occupied by the Company	5,246,401	4,990,777
Accumulated depreciation	<u>(506,599)</u>	<u>(388,186)</u>
<b>Net real estate occupied by the Company</b>	<u>5,103,902</u>	<u>4,966,691</u>
<b>Properties held for the production of income:</b>		
Buildings	<u>885,523</u>	<u>1,300,000</u>
<b>Net real estate held for the production of income</b>	<u>885,523</u>	<u>1,300,000</u>
<b>Net real estate</b>	<u>\$ 5,989,425</u>	<u>\$ 6,266,691</u>

## 3. CONTINGENT LIABILITIES

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 4. 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.

The State of Utah has adopted the NAIC RBC calculation to evaluate the minimum capital requirements for a life insurance company to support its overall business operations in consideration of its size and risk profile. The Company's RBC is calculated by applying factors to various asset, premium, and reserve items.

The RBC requirements provide for four different levels of regulatory attention depending on the ratio of the Company's total adjusted capital (TAC) to its authorized control level (ACL). The four regulatory attention levels (and the associated percentage of TAC to ACL) are defined as follows: (1) Company Action (200%), (2) Regulatory Action (150%), (3) Authorized Control Level (100%), and (4) Mandatory Control Levels (70%). As of December 31, 2017 and 2016, the Company maintained TAC in excess of 200% of ACL.

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 did not pay an ordinary dividend in 2017 or 2016.

The Company did pay an extraordinary dividend in 2016. Refer to Note 6 for additional information regarding the extraordinary dividend payment.

The portion of unassigned funds (surplus) represented or (reduced) by cumulative unrealized gains and (losses) in 2017 and 2016 was **\$843,438** and \$355,792 respectively. The portion of unassigned funds (surplus) represented or (reduced) by nonadmitted asset values in 2017 and 2016 was **\$6,406,890** and \$1,380,264, respectively.

## 5. EMPLOYEE BENEFITS

For the year ended December 31, 2016, the Company had 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 could participate in the plan after completing three months of service. The Company's annual contribution for the year ended December 31, 2016 was 6% of the eligible participants' compensation as defined, but only to the extent net profits exceed \$50,000 in the taxable year of contribution. Contributions were 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 \$226,364 in 2016. As of December 31, 2016, the fair value of the plan assets was \$3,213,145.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 5. EMPLOYEE BENEFITS (Continued)

For the year ended December 31, 2017, the Company's employees are covered by a qualified defined contribution plan sponsored by the Company. The plan is a Safe Harbor Plan whereby the Company matches employees' contributions on a dollar-for-dollar basis on the initial 3% that the employee contributes and 50% on the next 2% that the employee contributes. The plan covers affiliates within the holding company structure. Total contributions for all members of the participating group was \$240,526 of employee compensation in 2017. As of December 31, 2017, the fair value of the plan assets for the group was \$5,443,434.

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.

## 6. RELATED PARTIES

The Company owned 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 carried 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 had a shared services agreement with its affiliates where SMP and SAS reimbursed the Company on a monthly basis for rent, services, and salaries.

As of December 31, 2017 and 2016, SMP owed the Company **\$864,551** and 719,375, respectively, for the shared services.

For the year ended December 31, 2016, the Company contributed to SAS amounts totaling \$1,450,000. Included in this was a noncash contribution of payables due to the Company being converted to contributed capital in the amounts of \$1,450,000.

Beginning January 5, 2015, SAS began providing third party administrative (TPA) services to the Company in the form of new business processing, underwriting, billing and collection of premiums, commission payments to agents, and claims processing.



# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 6. RELATED PARTIES (Continued)

As of December 31, 2017 and 2016, SAS owed the Company **\$5,461,444** and \$992,346, respectively, for the shared services. As of December 31, 2017 and 2016, the Company owed SAS **\$355,728** and \$358,099, respectively, for the TPA services performed during the year.

On December 28, 2016 the Utah Department of Insurance Commissioner approved a two hundred eight five thousand two hundred and forty four dollar (\$285,244) extra ordinary dividend by the Company to its shareholder and parent company, Advantage West, LLC. This extraordinary payment was made by transferring two subsidiaries, Secure Administrative Solutions, LLC and Secure Marketing Partners, LLC at equity value. This transaction was completed as of September 30, 2016.

On April 3, 2017, the Utah Insurance Department – Captive Division approved the formation of Jazz Re, a wholly owned pure captive insurance company. In April of 2017, the company funded the captive with minimal capital requirements as required by the State of Utah. Jazz Re will reinsure selected blocks of annuities issued by the Company. For the year ended December 31, 2017, the Company had not ceded any annuity blocks to Jazz Re.

As of December 31, 2017, Jazz Re owed the Company \$19,843 for administration services.

The Company has a management and consulting services agreement with Advantage West LLC (“Ad West”), its parent, whereby Ad West provides the Company various services related to operations, compliance, financial, legal, investment, reinsurance, corporate office and capital management services. The Company has an asset management services agreement with Advantage Capital Management, LLC (“ACM”), an affiliate, whereby ACM provides the Company various investment management and advisory services.

As of December 31, 2017 and 2016, the Company owed **\$1,327,504** and \$97,785, respectively for services provided under the management and consulting agreements.

The Company has a master contribution agreement with Secure Financial Services, LLC (“SFS”), an affiliate, whereby SFS is authorized to act as a commission factoring intermediary and collect assigned commission receivables on behalf of the Company. As of December 31, 2017 and 2016, SFS owed the Company **\$170,312** and \$0, respectively.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 7. NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2017	2016
<b>Interest:</b>		
Bonds	\$ 12,368,641	\$ 11,052,362
Preferred stocks	322,159	420,085
Common stocks	28,043	31,033
Mortgage loans	3,430,863	1,841,813
Real estate	466,434	403,169
Policy loans	98,086	126,923
Cash and short-term investments	1,395	218
Derivative instruments	11,545	-
Other invested assets	52,807	8,150
Aggregate write-ins for investment income	(95,627)	35,706
<b>Total</b>	<b>16,684,346</b>	13,919,459
<b>Less:</b>		
<b>Allocated expenses:</b>		
Depreciation	118,413	110,722
Interest expense	1,061,814	1,050,000
Investment taxes, licenses and fees	44,875	45,147
Investment expenses	4,795,076	2,435,889
<b>Net investment income</b>	<b>\$ 10,664,168</b>	<b>\$ 10,277,701</b>

## 8. REINSURANCE

### 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 **\$203,715,616** and \$187,952,801, aggregate reserves and consideration received for deposit type contracts by **\$1,479,964,815** and \$1,265,715,352 for the years ended December 31, 2017 and 2016, respectively, and for accident and health contracts by **\$1,186,494** and \$1,249,262, respectively. During 2017 and 2016, 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, 2017 and 2016

## 8. REINSURANCE (Continued)

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

	2017	2016
<b>Premiums:</b>		
Gross	\$ 232,529,428	\$ 209,189,135
Ceded	(203,715,616)	(187,952,801)
<b>Net premiums</b>	<b>\$ 28,813,812</b>	<b>\$ 21,236,334</b>
 <b>Deposit type contracts:</b>		
Deposits received	\$ 703,579,321	\$ 536,576,015
Ceded	(644,589,707)	(491,757,358)
<b>Net deposit type contracts</b>	<b>\$ 58,989,614</b>	<b>\$ 44,818,657</b>
 <b>Net due and deferred:</b>		
<b>Gross due and deferred:</b>		
Gross	\$ 4,577,309	\$ 4,424,149
Ceded	-	-
<b>Net</b>	<b>4,577,309</b>	<b>4,424,149</b>
<b>Loading:</b>		
Gross	(1,639,166)	(1,613,181)
Ceded	-	-
<b>Net</b>	<b>(1,639,166)</b>	<b>(1,613,181)</b>
<b>Net due and deferred:</b>		
Gross	2,938,144	2,810,967
Ceded	-	-
<b>Net</b>	<b>\$ 2,938,144</b>	<b>\$ 2,810,967</b>
 <b>Aggregate reserves - life:</b>		
Gross	\$ 965,016,247	\$ 913,847,193
Ceded	(835,375,108)	(773,957,994)
<b>Net</b>	<b>\$ 129,641,138</b>	<b>\$ 139,889,199</b>
 <b>Aggregate reserves - accident and health:</b>		
Gross	\$ 1,362,109	\$ 1,417,192
Ceded	(1,186,494)	(1,249,262)
<b>Net</b>	<b>\$ 175,616</b>	<b>\$ 167,930</b>
 <b>Claims payable:</b>		
Gross	\$ 5,690,326	\$ 9,878,724
Ceded	(3,970,698)	(3,893,028)
<b>Net</b>	<b>\$ 1,719,628</b>	<b>\$ 5,985,696</b>
 <b>Claims:</b>		
Gross	\$ 57,140,291	\$ 50,047,439
Ceded	(46,427,948)	(41,244,812)
<b>Net</b>	<b>\$ 10,712,343</b>	<b>\$ 8,802,627</b>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 8. REINSURANCE (Continued)

Of the amounts reinsured above, the Company has ceded amounts to two unauthorized reinsurers. For each of the unauthorized reinsurers, the Company withholds funds due to the reinsurer through a funds held approach. The amounts ceded for aggregate reserves and consideration received for deposit type contracts by these two entities as of December 31, 2017 and 2016, was **\$236,233,237** and \$217,775,391, respectively.

The Company also cedes amounts to two authorized related party reinsurers. The amounts ceded for aggregate reserves and consideration received for deposit type contracts by these two entities as of December 31, 2017 and 2016, was **\$797,649,086** and \$659,184,538, respectively.

The Company also cedes amounts to authorized reinsurers. The amounts ceded for aggregate reserves and consideration received for deposit type contracts by these entities as of December 31, 2017 and 2016, was **\$446,082,516** and \$388,755,423, respectively.

The Company does not directly control 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, 2017 and 2016, there are no reinsurance agreements in effect such that the amount of losses paid or accrued exceed the total direct premium collected.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 9. FEDERAL INCOME TAXES

The Company is taxed as a life insurer in accordance with provisions of the Internal Revenue Code.

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:

	12/31/2017		
	(1)	(2)	(3) (Col 1+2)
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
(a) Gross deferred tax assets	\$ 3,817,250	\$ 78,652	\$ 3,895,902
(b) Statutory valuation allowance adjustments	<u>43,170</u>	<u>78,652</u>	<u>121,822</u>
(c) <b>Adjusted gross deferred tax assets (1a - 1b)</b>	<b>3,774,080</b>	-	<b>3,774,080</b>
(d) Deferred tax assets nonadmitted	<u>19,649</u>	-	<u>19,649</u>
(e) <b>Subtotal net admitted deferred tax asset (1c - 1d)</b>	<b>3,754,431</b>	-	<b>3,754,431</b>
(f) Deferred tax liabilities	<u>683,737</u>	<u>83,393</u>	<u>767,130</u>
(g) <b>Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)</b>	<u><u>\$ 3,070,694</u></u>	<u><u>\$ (83,393)</u></u>	<u><u>\$ 2,987,301</u></u>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 9. FEDERAL INCOME TAXES (Continued)

	12/31/2016		
	(4)	(5)	(6)
	Ordinary	Capital	(Col 4+5) Total
(a) Gross deferred tax assets	\$ 5,340,294	\$ 34,768	\$ 5,375,062
(b) Statutory valuation allowance adjustments	69,894	34,768	104,662
(c) <b>Adjusted gross deferred tax assets (1a - 1b)</b>	5,270,400	-	5,270,400
(d) Deferred tax assets nonadmitted	472,467	-	472,467
(e) <b>Subtotal net admitted deferred tax asset (1c - 1d)</b>	4,797,933	-	4,797,933
(f) Deferred tax liabilities	1,189,639	89,998	1,279,637
(g) <b>Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)</b>	<u>\$ 3,608,294</u>	<u>\$ (89,998)</u>	<u>\$ 3,518,296</u>
		<b>Change</b>	
	(7)	(8)	(9)
	Ordinary	Capital	(Col 7+8) Total
(a) Gross deferred tax assets	\$ (1,523,044)	\$ 43,884	\$ (1,479,160)
(b) Statutory valuation allowance adjustments	(26,724)	43,884	17,160
(c) <b>Adjusted gross deferred tax assets (1a - 1b)</b>	(1,496,320)	-	(1,496,320)
(d) Deferred tax assets nonadmitted	(452,818)	-	(452,818)
(e) <b>Subtotal net admitted deferred tax asset (1c - 1d)</b>	(1,043,502)	-	(1,043,502)
(f) Deferred tax liabilities	(505,902)	(6,605)	(512,507)
(g) <b>Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)</b>	<u>\$ (537,600)</u>	<u>\$ 6,605</u>	<u>\$ (530,995)</u>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 9. FEDERAL INCOME TAXES (Continued)

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

	12/31/2017		
	(1)	(2)	(3)
	Ordinary	Capital	(Col 1+2) Total
<b>Admission Calculation Components SSAP No. 101</b>			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -
(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 )	3,070,694	-	3,070,694
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	3,070,694	-	3,070,694
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	6,159,260
(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	683,737	-	683,737
(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>	<b>\$ 3,754,431</b>	<b>\$ -</b>	<b>\$ 3,754,431</b>
	12/31/2016		
	(4)	(5)	(6)
	Ordinary	Capital	(Col 4+5) Total
<b>Admission Calculation Components SSAP No. 101</b>			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 272,888	\$ -	\$ 272,888
(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 )	3,335,406	-	3,335,406
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	3,335,406	-	3,335,406
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	5,515,649
(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	1,189,639	-	1,189,639
(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>	<b>\$ 4,797,933</b>	<b>\$ -</b>	<b>\$ 4,797,933</b>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 9. FEDERAL INCOME TAXES (Continued)

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

	Change		
	(7)	(8)	(9)
	Ordinary	Capital	(Col 7+8) Total
<b>Admission Calculation Components SSAP No. 101</b>			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ (272,888)	\$ -	\$ (272,888)
(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 )	(264,712)	-	(264,712)
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	(264,712)	-	(264,712)
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	643,611
(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	(505,902)	-	(505,902)
(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>\$ (1,043,502)</u>	<u>\$ -</u>	<u>\$ (1,043,502)</u>

The ratio percentage and the adjusted capital and surplus used to determine the recovery period and the threshold limitation at December 31, 2017 and 2016 are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
(a) Ratio percentage used to determine recovery period and threshold limitation amount	<u>808%</u>	<u>963%</u>
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2 (b) 2 above	<u>\$ 41,061,731</u>	<u>\$ 36,770,992</u>



# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 9. FEDERAL INCOME TAXES (Continued)

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

	12/31/2017		12/31/2016		Change	
	(1)	(2)	(3)	(4)	(5)	(6)
	Ordinary	Capital	Ordinary	Capital	(Col 1-3) Ordinary	(Col 2-4) Capital
<b>Impact of tax-planning strategies</b>						
(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)	<b>3,774,080</b>	-	5,270,400	-	(1,496,320)	-
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	<b>0.00%</b>	<b>0.00%</b>	0.00%	0.00%	0.00%	0.00%
3. Net admitted adjusted gross DTAs amount from Note 9A1(e)	<b>3,754,431</b>	-	4,797,933	-	(1,043,502)	-
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	<b>0.00%</b>	<b>0.00%</b>	0.00%	0.00%	0.00%	0.00%
(b) Does the Company's tax-planning strategies include the use of reinsurance?			Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>

There are no deferred tax liabilities the Company has not recognized as of December 31, 2017 and 2016.

Current income taxes incurred consist of the following major components:

	(1)	(2)	(3)
	12/31/2017	12/31/2016	(Col 1-2) Change
1. <b>Current income tax:</b>			
(a) Federal	\$ 1,307,905	\$ 239,121	\$ 1,068,784
(b) Foreign	-	-	-
(c) <b>Subtotal</b>	<b>1,307,905</b>	239,121	1,068,784
(d) Federal income tax on net capital gains	<b>883,753</b>	-	883,753
(e) Utilization of operating loss carry-forwards	<b>(216,484)</b>	(1,185,990)	969,506
(f) Other	<b>(86,055)</b>	-	(86,055)
(g) <b>Federal and foreign income taxes incurred</b>	<b>\$ 1,889,119</b>	\$ (946,869)	\$ 2,835,988

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 9. FEDERAL INCOME TAXES (Continued)

Deferred income taxes incurred consist of the following major components:

	(1) 12/31/2017	(2) 12/31/2016	(3) (Col 1-2) Change
<b>2. Deferred tax assets:</b>			
(a) <b>Ordinary:</b>			
(1) Discounting on unpaid losses	\$ -	\$ -	\$ -
(2) Unearned premium reserve	-	-	-
(3) Policyholder reserves	714,208	1,137,178	(422,970)
(4) Investments	-	-	-
(5) Deferred acquisition costs	1,121,898	1,790,378	(668,480)
(6) Policyholder dividends accrual	-	-	-
(7) Fixed assets	-	-	-
(8) Compensation and benefit accruals	-	-	-
(9) Pension accrual	-	-	-
(10) Receivables - nonadmitted	272,741	308,651	(35,910)
(11) Net operating loss carryforward	290,638	623,015	(332,377)
(12) Tax credit carry-forward	1,347,946	1,347,946	-
(13) Other (including <5% total of ordinary tax assets)	69,819	133,126	(63,307)
<b>(99) Subtotal</b>	<b>3,817,250</b>	<b>5,340,294</b>	<b>(1,523,044)</b>
(b) Statutory valuation allowance adjustment	43,170	69,894	(26,724)
(c) Nonadmitted	19,649	472,467	(452,818)
<b>(d) Admitted ordinary deferred tax assets (2a99-2b-2c)</b>	<b>3,754,431</b>	<b>4,797,933</b>	<b>(1,043,502)</b>
(e) <b>Capital:</b>			
(1) Investments	-	-	-
(2) Net capital loss carry-forward	-	-	-
(3) Real estate	-	-	-
(4) Other (including items <5% of total capital tax assets)	78,652	34,768	43,884
<b>(99) Subtotal</b>	<b>78,652</b>	<b>34,768</b>	<b>43,884</b>
(f) Statutory valuation allowance adjustment	78,652	34,768	43,884
(g) Nonadmitted	-	-	-
<b>(h) Admitted capital deferred tax assets (2e99-2f-2g)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(i) Admitted deferred tax assets (2d + 2h)</b>	<b>3,754,431</b>	<b>4,797,933</b>	<b>(1,043,502)</b>
<b>3. Deferred tax liabilities:</b>			
(a) <b>Ordinary:</b>			
(1) Investments	-	-	-
(2) Fixed assets	86,421	261,638	(175,217)
(3) Deferred and uncollected premium	592,380	920,053	(327,673)
(4) Policyholder reserves	-	-	-
(5) Other (including items <5% of total ordinary tax liabilities)	4,936	7,948	(3,012)
<b>(99) Subtotal</b>	<b>683,737</b>	<b>1,189,639</b>	<b>(505,902)</b>
(b) <b>Capital:</b>			
(1) Investments	83,393	89,998	(6,605)
(2) Real estate	-	-	-
(3) Other (including items <5% of total capital tax liabilities)	-	-	-
<b>(99) Subtotal</b>	<b>83,393</b>	<b>89,998</b>	<b>(6,605)</b>
<b>(c) Deferred tax liabilities (3a99 + 3b99)</b>	<b>767,130</b>	<b>1,279,637</b>	<b>(512,507)</b>
<b>4. Net deferred tax assets/(liabilities) (2i - 3c)</b>	<b>\$ 2,987,301</b>	<b>\$ 3,518,296</b>	<b>\$ (530,995)</b>

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("Tax Act") was signed into law. The new law includes, among other items, a permanent reduction to the U.S. corporate income tax rate from 34 percent to 21 percent effective January 1, 2018. As a result, at December 31, 2017, we recognized an additional decrease of \$985,201 to surplus from revaluing the U.S. net deferred tax assets.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 9. 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>12/31/2017</b>	<b>Effective Tax Rate</b>
Provision computed at statutory rate	\$ 1,819,963	34.00 %
Tax exempt income deduction	(105,357)	(1.97)%
Dividends received deduction	(4,330)	(0.08)%
Section 832 interest and dividends	83,536	1.56 %
Disallowed travel and entertainment and expenses	1,679	0.03 %
Benefit of graduated rate schedule	-	0.00 %
IMR in operating income	44,035	0.82 %
Change in statutory valuation adjustment	(75,414)	(1.41)%
Change in tax rate	985,201	18.41 %
Prior year adjustments	53,497	1.00 %
Other	(28,256)	(0.53)%
<b>Total</b>	<b>\$ 2,774,554</b>	<b>51.83 %</b>
Federal and foreign income taxes incurred	\$ 1,005,367	18.78 %
Federal income tax on net capital gains (losses)	814,680	15.22 %
True-up of prior year differences	-	0.00 %
Change in net deferred income taxes	954,507	17.83 %
Other	-	0.00 %
<b>Total statutory income taxes</b>	<b>\$ 2,774,554</b>	<b>51.83 %</b>

As of December 31, 2017 and 2016, the Company had net operating loss (NOL) carryovers in the amount of **\$1,383,991** and \$1,832,398, respectively. The NOLs are set to expire in the following order:

<b>Tax Year</b>	<b>Amount</b>	<b>Expiration</b>
2013	\$ 166,089	2028
2014	1,217,902	2029
<b>Total net operating loss carryforward</b>	<b>\$ 1,383,991</b>	

The Company also has non-insurance net operating loss carryovers as of December 31, 2017 and 2016, of **\$316,264** and \$316,264, respectively.

The Company had alternative minimum tax credit carryover of **\$1,347,946** and \$1,347,946 as of December 31, 2017 and 2016, respectively.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 9. FEDERAL INCOME TAXES (Continued)

At December 31, 2017, the Company had not incurred any Federal income taxes that were available for recoupment in the event of future net losses.

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.

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, 2017 and 2016 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 2014, 2015, and 2016 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. The Company has not accrued income taxes on the PSA balance of **\$1,220,000** at December 31, 2017 and 2016. No deferred tax liabilities are recognized related to the PSA. Under the provisions of the Tax Act, the Internal Revenue Code related to the PSA has been repealed. The Tax Act requires the Company to pay tax on its PSA over an eight year period. Ordinary life insurance losses are not allowed to offset the PSA subject to tax. The ultimate tax that will be payable on this amount is \$256,200.

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 10. PARTICIPATING POLICIES

At December 31, 2017 and 2016, participating policies account for less than 1% of total insurance, respectively. Total dividends for 2017 and 2016 were **\$21,272** and \$16,095, respectively.

## 11. 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. At December 31, 2017 and 2016, the Company had accrued **\$0** and \$0, respectively, in accrued interest on the surplus note. This note was paid in full on March 27, 2017.

On March 27, 2017, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Bankers Life Insurance Company (lender) in the amount of \$15,000,000. The scheduled maturity date of the loan is December 31, 2031. 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 June 1, 2017 at the rate of 6.5% per annum. The proceeds for this surplus note were used to satisfy the obligation of the surplus note between Company and Ability Insurance Company.

On September 25, 2017, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Knighthead Annuity & Life Insurance Company (lender) in the amount of \$5,000,000. The scheduled maturity date of the loan is July 31, 2032. 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 June 1, 2017 at the rate of 6.75% per annum.

Interest payments on the surplus notes as of December 31, 2017 were as follows:

<u>Date Issued</u>	<u>Interest Rate</u>	<u>Par Value</u>	<u>Carrying Value of Note</u>	<u>Interest and/or Principal Paid During Current Year</u>	<u>Total Interest and/or Principal Paid</u>	<u>Unapproved Interest and/or Principal</u>	<u>Date of Maturity</u>
3/14/2014	7%	\$ -	\$ -	\$ 340,171	\$ 2,915,171	\$ -	3/28/2017
3/28/2017	6.5%	\$ 15,000,000	\$ 15,000,000	\$ 662,465	\$ 662,465	\$ -	12/31/2031
9/25/2017	6.75%	\$ 5,000,000	\$ 5,000,000	\$ 59,178	\$ 59,178	\$ -	7/25/2032
<b>Totals</b>		<u>\$ 20,000,000</u>	<u>\$ 20,000,000</u>	<u>\$ 1,061,814</u>	<u>\$ 3,636,814</u>	<u>\$ -</u>	

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 12. LEASES

The Company leases four automobiles with minimum lease terms of 6 months each. The lease expense for the automobiles for the years ended December 31, 2017 and 2016 was **\$33,707** and \$33,098, respectively.

The Company entered into a sales leaseback transaction on December 31, 2015. The sales price of the leaseback transaction was \$1,500,000. The lease has a 30 month term with a monthly payment of \$58,950.

Future minimum lease payments under the sales leaseback transaction is as follows:

<b>For the year ended:</b>	<u><b>Amount</b></u>
2018	<u>\$ 353,700</u>
<b>Total</b>	<u><u>\$ 353,700</u></u>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 13. DIRECT PREMIUM WRITTEN/PRODUCED BY THIRD PARTY ADMINISTRATOR

The aggregate amount of direct premiums written through managing general agents or third party administrators as of December 31, 2017 and 2016 was:

Name and Address Managing General Agent Or Third Part Administrator	FEIN#	Exclusive Contract	Type of Business Written	Type of Activity Granted	Total Direct Prem Written/ Produced By	
<b>For the year ended December 31, 2017:</b>						
Secure Administrative Solutions, LLC 1405 West 2200 South Salt Lake City, Utah 84119	46-4813559	No	Medicare Supplement	C,CA,P,U	<u>\$ 40,837,915</u>	
					Traditional Life Insurance	<u>\$ 10,246,864</u>
					Multi-year guarantee Annuities	<u>\$ 83,591,516</u>
					Deposit-Type Annuities	<u>\$ 176,846,578</u>
					Fixed Income Annuities	<u>\$ 97,376,028</u>
<b>For the year ended December 31, 2016:</b>						
Secure Administrative Solutions, LLC 1405 West 2200 South Salt Lake City, Utah 84119	46-4813559	No	Medicare Supplement	C,CA,P,U	<u>\$ 37,106,632</u>	
					Traditional Life Insurance	<u>\$ 10,057,561</u>
					Multi-year guarantee Annuities	<u>\$ 87,038,316</u>
					Deposit-Type Annuities	<u>\$ 228,726,639</u>
					Fixed Income Annuities	<u>\$ 74,949,834</u>

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements  
For the Years Ended December 31, 2017 and 2016

## 14. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES – ACCIDENT AND HEALTH CONTRACTS

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has increased (decreased) by approximately **\$(62,898)** and \$(87,359) during the years ended December 31, 2017 and 2016, respectively.

	2017	2016
<b>Balance at January 1</b>	<b>\$ 496,428</b>	\$ 445,293
<b>Incurred, related to:</b>		
Current year	3,981,459	3,211,377
Prior years	(62,898)	(87,359)
<b>Total incurred</b>	<b>3,918,561</b>	3,124,018
<b>Paid, related to:</b>		
Current year	3,326,769	2,716,158
Prior years	432,808	356,725
<b>Total paid</b>	<b>3,759,577</b>	3,072,883
<b>Balance at December 31</b>	<b>\$ 655,412</b>	\$ 496,428

## 15. SUBSEQUENT EVENTS

In preparing these statutory financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through May 25, 2018, the date the financial statements were available to be issued.

On February 1, 2018, the Company requested approval from the Utah Insurance Department for a \$5 million surplus note to be placed with Knighthead Annuity & Life Assurance Company (“KHA”), as agreed to according to the terms of the Purchase Agreement dated September 25, 2017 between the Company and KHA. The surplus note will carry a 6.75% per annum interest rate and mature in June of 2032.



## **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, 2017, and our report thereon dated May 25, 2017, which expressed an unmodified opinion on those statutory financial statements, appears on pages 2-3. Our audit was conducted for the purpose of forming an opinion on the statutory financial statements as a whole. 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, P.C.*

Salt Lake City, Utah  
May 25, 2018

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Schedule of Selected Financial Data

December 31, 2017

	<b>Totals</b>
<b>Investment income earned:</b>	
U.S. Government bonds	\$ 1,713,813
Other bonds	10,654,828
Preferred stocks	322,159
Common stocks	28,043
Mortgage loans	3,430,863
Real estate	466,434
Policy loans	98,086
Cash and short-term investments	1,395
Derivative instruments	11,545
Other invested assets	52,807
Commission advances	(95,627)
	<b>\$ 16,684,346</b>
<b>Real estate owned:</b>	
Book value less encumbrances	\$ 5,989,425
<b>Mortgage loans - book value</b>	
Residential mortgages	\$ 499,709
Commercial mortgages	64,047,479
<b>Total mortgages loans</b>	<b>\$ 64,547,187</b>
<b>Mortgage loans by standing - statement value</b>	
Good standing	\$ 63,897,188
Interest overdue more than 90 days, but not in foreclosure	\$ 650,000
<b>Other long-term invested assets</b>	<b>\$ 36,605,567</b>
<b>Bonds by maturity and class:</b>	
<b>Bonds by maturity - statement value</b>	
Due within one year	\$ 20,505,884
Over 1 through 5 years	157,100,691
Over 5 through 10 years	344,476,130
Over 10 through 20 years	33,286,593
Over 20 years	19,185,905
<b>Total by maturity</b>	<b>\$ 574,555,203</b>
<b>Bonds by NAIC designation - statement value</b>	
NAIC 1	\$ 308,629,298
NAIC 2	235,453,150
NAIC 3	15,864,702
NAIC 4	10,134,907
NAIC 5	3,977,587
NAIC 6	495,559
<b>Total by class</b>	<b>\$ 574,555,203</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, 2017

	<b>Totals</b>
<b>Total bonds publicly traded</b>	\$ 225,119,618
<b>Total bonds privately placed</b>	\$ 349,435,585
<b>Preferred stocks (statement value)</b>	\$ 5,451,337
<b>Common stocks (market value)</b>	\$ 8,858,374
<b>Short-term investments (book value)</b>	\$ -
<b>Cash and cash equivalents on deposit:</b>	
Checking accounts	\$ 6,142,937
Money market funds	82,277,449
<b>Total cash and cash equivalents on deposit</b>	\$ 88,420,386
<b>Life insurance in force:</b>	
Ordinary	\$ 216,289,997
<b>Amount of accidental death insurance in-force under ordinary policies</b>	\$ 25,417
<b>Life insurance policies with disability provisions in-force under ordinary policies</b>	\$ 312
<b>Supplementary contracts in force:</b>	
<b>Ordinary - not involving life contingencies:</b>	
Amount on deposit	\$ -
Income payable	\$ 4,366,367
<b>Annuities - ordinary:</b>	
Immediate amount of income payable	\$ -
Deferred fully paid account balance	\$ 95,606,195
<b>Accident and health in force:</b>	
Ordinary	\$ 42,976,332
<b>Deposit funds and dividend accumulations:</b>	
Deposit funds - account balance	\$ 55,738,958
Dividend accumulations - account balance	\$ -
<b>Claim payments in 2017:</b>	
Other accident and health benefits incurred in year ended December 31:	
Prior Years	\$ 432,808
Current Year	3,326,769
<b>Total</b>	\$ 3,759,577

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories

December 31, 2017

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

\$ 798,876,166

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	Knighthead Estate Fund LP	Other Invested Asset \$ 17,828,367	2.2%
2.02	Mountain View Funding	Long Term Bond \$ 15,500,000	1.9%
2.03	Catamaran CLO Ltd	Long Term Bond \$ 15,315,000	1.9%
2.04	633 West Wisconsin Ave	Mortgage \$ 14,530,000	1.8%
2.05	KCAP Financial Inc	Long Term Bond \$ 10,500,000	1.3%
2.06	Jamestown CLO Ltd	Long Term Bond \$ 7,986,200	1.0%
2.07	FDF Ltd	Long Term Bond \$ 7,800,861	1.0%
2.08	Wellfleet CLO Ltd	Long Term Bond \$ 7,000,000	0.9%
2.09	Monroe Capital MML CLO Ltd	Long Term Bond \$ 6,918,615	0.9%
2.10	SQN Marine	Other Invested Asset \$ 6,500,000	0.8%

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	\$ 308,629,298	38.6%
3.02 NAIC - 2	\$ 235,453,150	29.5%
3.03 NAIC - 3	\$ 15,864,702	2.0%
3.04 NAIC - 4	\$ 10,134,907	1.3%
3.05 NAIC - 5	\$ 3,977,587	0.5%
3.06 NAIC - 6	\$ 495,559	0.1%
	3	4
3.07 P/RP - 1	\$ 200,000	0.0%
3.08 P/RP - 2	\$ 4,005,860	0.5%
3.09 P/RP - 3	\$ 1,119,200	0.1%
3.10 P/RP - 4	\$ -	0.0%
3.11 P/RP - 5	\$ 126,277	0.0%
3.12 P/RP - 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	\$ 215,396,744	27.0%
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, 2017

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

		1	2
5.01	Countries rated NAIC – 1	\$ 213,771,646	26.8%
5.02	Countries rated NAIC – 2	\$ 788,012	0.1%
5.03	Countries rated NAIC – 3 or below	\$ 837,086	0.1%

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	\$ 171,001,073 <span style="color: red;">▼</span>	21.4%
6.02	Country: United Kingdom	\$ 7,102,668	0.9%
<b>Countries rated NAIC - 2:</b>			
6.03	Country: Peru	\$ 490,719	0.1%
6.04	Country: Mexico	\$ 297,292	0.0%
<b>Countries rated NAIC - 3 or below:</b>			
6.05	Country: Barbados	\$ 837,087	0.1%
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	Mountain View Funding	1	\$ 15,500,000	1.9%
10.02	Catamaran CLO Ltd	1	\$ 15,315,000	1.9%
10.03	Jamestown CLO Ltd	1	\$ 7,986,200	1.0%
10.04	FDL Ltd	1	\$ 7,800,861	1.0%
10.05	Wellfleet CLO Ltd	1	\$ 7,000,000	0.9%
10.06	Monrow Capital MML CLO Ltd	1	\$ 6,918,615	0.9%
10.07	STCR 2016-1A D	1	\$ 6,250,000	0.8%
10.08	ECLC 2017-2A D	1	\$ 4,975,000	0.6%
10.09	VIBR 2016-5A E	1	\$ 4,806,621	0.6%
10.10	GSFII 2016-1 B1	1	\$ 4,626,539	0.6%

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

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

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

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

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

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories (Continued)

December 31, 2017

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

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

1	2	3
<u>Issuer</u>		
13.02	Knighthead Real Estate Fund LP	\$ 16,852,622 2.1%
13.03	Freedom 3	\$ 3,309,302 0.4%
13.04	Sancus Capital Select	\$ 3,020,884 0.4%
13.05	PDFNI	\$ 1,224,112 0.2%
13.06	Knighthead Domestic Fund LP	\$ 975,745 0.1%
13.07	Federal Loan Home Bank of Des Moines	\$ 742,300 0.1%
13.08	Jazz Re	\$ 250,000 0.0%
13.09	Enbridge Inc	\$ 157,300 0.0%
13.10	Avaya Holdings Corp	\$ 157,475 0.0%
13.11		\$ - 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  No

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

1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$ 26,436,740 3.3%
<b>Largest 3 investments held in nonaffiliated, privately placed equities:</b>		
14.03	Schedule BA Asset - Knighthead Real Estate Fund LP	\$ 16,852,622 2.1%
14.04	Schedule D Part 2 Section 2 - Freedom 3 Feeder	\$ 3,309,302 0.4%
14.05	Schedule BA Asset - Knighthead Domestic Fund LP	\$ 975,745 0.1%

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  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 mortgage loans:

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

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

1	2	3
<u>(Type (Residential, Commercial, Agricultural))</u>		
16.02	Commercial	\$ 14,530,000 1.8%
16.03	Commercial	\$ 4,998,280 0.6%
16.04	Commercial	\$ 4,686,458 0.6%
16.05	Commercial	\$ 3,996,490 0.5%
16.06	Commercial	\$ 3,152,968 0.4%
16.07	Commercial	\$ 3,107,923 0.4%
16.08	Commercial	\$ 3,962,650 0.5%
16.09	Commercial	\$ 2,941,742 0.4%
16.10	Commercial	\$ 2,750,126 0.3%
16.11	Commercial	\$ 2,630,000 0.3%

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories (Continued)

December 31, 2017

		Loans	
16.12	Construction loans	\$ -	0.0%
16.13	Mortgage loans over 90 days past due	\$ 650,000	0.1%
16.14	Mortgage loans in the process of foreclosure	\$ -	0.0%
16.15	Mortgage loans foreclosed	\$ -	0.0%
16.16	Restructured mortgage loans	\$ -	0.0%

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

Loan-to-Value		Residential	
		1	2
17.01	Above 95%	\$ -	0.0%
17.02	Betw een 91% to 95%	\$ -	0.0%
17.03	Betw een 81% to 90%	\$ -	0.0%
17.04	Betw een 71% to 80%	\$ -	0.0%
17.05	Below 70%	\$ 499,709	0.1%
		Commercial	
		3	4
17.01	Above 95%	\$ -	0.0%
17.02	Betw een 91% to 95%	\$ -	0.0%
17.03	Betw een 81% to 90%	\$ -	0.0%
17.04	Betw een 71% to 80%	\$ 19,528,280	2.4%
17.05	Below 70%	\$ 44,519,199	5.6%
		Agriculture	
		5	6
17.01	Above 95%	\$ -	0.0%
17.02	Betw een 91% to 95%	\$ -	0.0%
17.03	Betw een 81% to 90%	\$ -	0.0%
17.04	Betw een 71% to 80%	\$ -	0.0%
17.05	Below 70%	\$ -	0.0%

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.

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.



# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories (Continued)

December 31, 2017

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

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

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

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

		Owned	
		1	2
21.01	Hedging	\$ -	0.0%
21.02	Income generation	\$ -	0.0%
21.03	Other	\$ -	0.0%
		Written	
		1	2
21.01	Hedging	\$ -	0.0%
21.02	Income generation	\$ -	0.0%
21.03	Other	\$ -	0.0%

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

		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	\$ -	\$ -	\$ -

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

## Investment Risks Interrogatories (Continued)

December 31, 2017

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	\$ -	\$ -	\$ -

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

# SENTINEL SECURITY LIFE INSURANCE COMPANY

Summary Investment Schedule  
December 31, 2017

	Gross Investment Holding*		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
<b>1 Bonds:</b>						
1.1 US Treasury Securities	\$ 2,224,199	0.28%	\$ 2,224,199	\$ -	\$ 2,224,199	0.28%
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	126,523	0.02%	126,523	-	126,523	0.02%
1.3 Non-U.S. Government (including Canada, excluding mortgage-backed securities)	3,654,903	0.46%	3,654,903	-	3,654,903	0.46%
1.4 Securities issued by states, territories and possessions and political subdivisions in the United States:						
1.41 States, territories and possessions general obligations	504,356	0.06%	504,356	-	504,356	0.06%
1.42 Political subdivisions of states, terr. and possessions and political subdivisions general obligations	1,158,749	0.15%	1,158,749	-	1,158,749	0.15%
1.43 Revenue and assessment obligations	10,128,418	1.29%	10,128,418	-	10,128,418	1.29%
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	23,491,674	2.98%	-	-	-	0.00%
1.513 All other	-	0.00%	23,491,674	-	23,491,674	2.98%
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	270,843	0.03%	270,843	-	270,843	0.03%
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	125,444,594	15.94%	125,444,594	-	125,444,594	15.94%
<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)	192,739,620	24.49%	192,739,620	-	192,739,620	24.49%
2.2 Unaffiliated foreign securities	214,811,322	27.29%	214,811,322	-	214,811,322	27.29%
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, 2017

	Gross Investment Holding*		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
<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	5,451,337	0.69%	5,451,337	-	5,451,337	0.69%
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	-	0.00%	-	-	-	0.00%
3.32 Unaffiliated	157,300	0.02%	157,300	-	157,300	0.02%
3.4 Other equity securities:						
3.41 Affiliated	250,000	0.03%	250,000	-	250,000	0.03%
3.42 Unaffiliated	8,451,073	1.07%	8,451,073	-	8,451,073	1.07%
3.5 Other equity interests including tangible personal property under leases:						
3.51 Affiliated	-	0.00%	-	-	-	0.00%
3.52 Unaffiliated	-	0.00%	-	-	-	0.00%
<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	499,710	0.06%	499,710	-	499,710	0.06%
4.4 Multifamily residential properties	-	0.00%	-	-	-	0.00%
4.5 Commercial loans	64,047,478	8.14%	64,047,478	-	64,047,478	8.14%
4.6 Mezzanine real estate loans	-	0.00%	-	-	-	0.00%
<b>5 Real estate investments:</b>						
5.1 Property occupied by company	5,103,902	0.65%	5,103,902	-	5,103,902	0.65%
5.2 Property held for production of income (including \$ ..... of property acquired in satisfaction of debt)	885,523	0.11%	885,523	-	885,523	0.11%
5.3 Property held for sale (including \$ ..... property acquired in satisfaction of debt)	-	0.00%	-	-	-	0.00%
<b>6 Contract loans</b>	1,476,950	0.19%	1,476,950	-	1,476,950	0.19%
<b>7 Derivatives</b>	1,146,096	0.15%	1,146,097	-	1,146,097	0.15%
<b>8 Receivables for securities</b>	-	0.00%	-	-	-	0.00%
<b>9 Securities lending</b>	-	0.00%	-	-	-	0.00%
<b>10 Cash, cash equivalents and short-term investments</b>	88,420,386	11.23%	88,420,386	-	88,420,386	11.23%
<b>11 Other invested assets</b>	36,617,249	4.65%	36,605,570	-	36,605,570	4.65%
<b>12 Total invested assets</b>	<u>\$ 787,062,205</u>	<u>100.00%</u>	<u>\$ 787,050,527</u>	<u>\$ -</u>	<u>\$ 787,050,527</u>	<u>100.00%</u>

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

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