

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, 2015 and 2014



SENTINEL SECURITY LIFE INSURANCE COMPANY

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Independent Auditor's Report

The Board of Directors
Sentinel Security Life Insurance Company:

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of **Sentinel Security Life Insurance Company** (the Company), which comprise the statutory statements of admitted assets, liabilities, and capital and surplus of **Sentinel Security Life Insurance Company** as of December 31, 2015 and 2014, 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 the financial reporting provisions prescribed or permitted by the State of Utah Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Principles" paragraph, the statutory financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of **Sentinel Security Life Insurance Company** as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

Lausen & Company PC

Salt Lake City, Utah
May 10, 2016

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,
Liabilities, and Capital and Surplus
As of December 31, 2015 and 2014

<u>ADMITTED ASSETS</u>	<u>2015</u>	<u>2014</u>
Invested assets:		
Bonds	\$ 422,675,998	\$ 425,389,012
Preferred stocks	8,743,857	8,558,877
Common stocks	1,408,367	238,913
Mortgage loans on real estate	25,437,966	5,834,435
Real estate:		
Properties occupied by the Company	5,052,897	5,096,959
Properties held for the production of income	550,765	551,070
Cash, cash equivalents and short-term investments	23,618,940	25,390,309
Contract loans	1,339,099	1,361,260
Other invested assets	342,262	585,566
Total invested assets	489,170,151	473,006,401
Other admitted assets:		
Investment income due and accrued	2,395,884	1,573,479
Uncollected premiums and agent balances	49,604	31,307
Deferred premiums and agents' balances, net of loading of \$1,616,459 and \$1,627,919 for 2015 and 2014, respectively	3,514,532	3,400,658
Amounts recoverable from reinsurers	41,952	35,292
Net deferred tax asset	2,319,120	950,983
Guaranty funds receivable or on deposit	81,751	40,662
Electronic data processing equipment and software, net of accumulated depreciation of \$276,169 and \$905,090 for 2015 and 2014, respectively	326,138	208,061
Receivables from parent, subsidiaries and affiliates	1,224,795	208,680
Other amounts receivable	85,468	42,259
Total other admitted assets	10,039,244	6,491,381
Total admitted assets	\$ 499,209,395	\$ 479,497,782

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, 2015 and 2014

<u>LIABILITIES AND CAPITAL AND SURPLUS</u>	<u>2015</u>	<u>2014</u>
Liabilities:		
Policy and contract liabilities:		
Aggregate reserve for life contracts	\$ 140,940,636	\$ 132,962,521
Aggregate reserve for A&H contracts	162,925	148,863
Liability for deposit-type contracts	41,963,835	43,903,406
Contract claims and contract liabilities	1,048,018	1,331,918
Provision for policyholders' dividends and coupons payable	23,500	20,900
Total policy and contract liabilities	184,138,914	178,367,608
Other liabilities:		
Premiums received in advance	75,247	69,810
Interest maintenance reserve	963,089	1,202,386
Commissions to agents due or accrued	60,666	75,566
General expenses due or accrued	2,515,906	689,641
Taxes, licenses, and fees due or accrued	54,260	30,000
Unearned investment income	31,321	29,609
Amounts withheld or retained by company as agent	316,474	361,335
Remittances and items not allocated	3,454,496	2,760,381
Asset valuation reserve	3,248,939	3,358,829
Funds held under reinsurance treaties	256,880,192	256,023,695
Funds held under coinsurance	4,751,157	4,336,709
Payable for securities	4,023,787	6,471,309
Total other liabilities	276,375,534	275,409,270
Total liabilities	460,514,448	453,776,878
Capital and surplus:		
Common stock, \$8 and \$8 par value; 10,000,000 and 10,000,000 shares authorized; 605,289 and 359,526 issued, and 540,900 and 303,136 outstanding as of December 31, 2015 and 2014, respectively	4,842,259	2,876,211
Surplus notes	15,000,000	15,000,000
Paid-in surplus	9,313,760	1,279,810
Unassigned surplus	10,796,663	7,822,618
Treasury stock at cost - 64,389 and 64,389 shares in 2015 and 2014, respectively	(1,257,735)	(1,257,735)
Total capital and surplus	38,694,947	25,720,904
Total liabilities and capital and surplus	\$ 499,209,395	\$ 479,497,782

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, 2015 and 2014

	2015	2014
Income:		
Premium and annuity considerations	\$ 23,572,786	\$ 31,558,775
Net investment income	11,632,635	5,679,502
Amortization of interest maintenance reserve	244,354	281,387
Commissions and expense allowances on reinsurance ceded	27,792,316	21,408,821
Charges and fees for deposit-type contracts	5,578	30,365
Other income	10,297	7,386
Total income	63,257,966	58,966,236
Benefits and expenses:		
Benefits to policyholders:		
Death benefits	3,287,855	3,439,642
Matured endowments	400	6,383
Annuity benefits	2,753,026	1,743,294
Disability benefits	2,972,431	3,374,005
Coupon benefits	2,886	1,056
Surrender benefits	2,504,294	1,677,346
Increase and adjustments on contract or deposit-type contract funds	5,197,747	(1,373,735)
Increase in policy reserves	7,992,179	21,019,052
Total benefits to policyholders	24,710,818	29,887,043
Commissions	26,166,112	21,480,611
Commissions and expense allowance on reinsurance assumed	59,997	-
General and administrative expenses	9,727,075	9,289,794
Insurance taxes, licenses and fees	963,807	1,102,940
Increase in loading	(15,382)	13,872
Total benefits and expenses	61,612,427	61,774,260
Net gain (loss) from operations before dividends, federal income taxes and realized capital gains (losses)	1,645,539	(2,808,024)
Dividends to policyholders	(32,437)	(18,240)
Provision for income taxes	105,382	807,334
Net gain (loss) from operations before realized capital gains (losses)	1,718,484	(2,018,930)
Realized capital gains (losses), less capital gains tax (benefit) of \$102,777 and \$208,735 for 2015 and 2014, respectively	199,507	405,184
Net income (loss)	\$ 1,917,991	\$ (1,613,746)

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, 2015 and 2014

	<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>
Balance at January 1, 2014	\$ 1,438,104	\$ 1,279,810	\$ 13,770,554	\$ (1,257,771)	\$ -	\$ 15,230,697
Net loss	-	-	(1,613,746)	-	-	(1,613,746)
Change in net unrealized capital gains (losses)	-	-	(1,397,453)	-	-	(1,397,453)
Change in net deferred tax assets	-	-	808,595	-	-	808,595
Change in non-admitted assets	-	-	(1,274,844)	-	-	(1,274,844)
Change in asset valuation reserve	-	-	(863,971)	-	-	(863,971)
Increase in surplus notes	-	-	-	-	15,000,000	15,000,000
Change in treasury stock	-	-	-	36	-	36
Other changes in surplus	-	-	12,108	-	-	12,108
Change in accounting estimate	-	-	(180,518)	-	-	(180,518)
Change in common stock par value	1,438,107	-	(1,438,107)	-	-	-
Balance at December 31, 2014	2,876,211	1,279,810	7,822,618	(1,257,735)	15,000,000	25,720,904
Net income	-	-	1,917,991	-	-	1,917,991
Change in net unrealized capital gains (losses)	-	-	(1,614,484)	-	-	(1,614,484)
Change in net deferred tax assets	-	-	(340,276)	-	-	(340,276)
Change in non-admitted assets	-	-	2,600,142	-	-	2,600,142
Change in asset valuation reserve	-	-	109,888	-	-	109,888
Change in surplus as a result of reinsurance	-	-	300,784	-	-	300,784
Issuance of common stock	1,966,048	8,033,950	-	-	-	9,999,998
Balance at December 31, 2015	\$ 4,842,259	\$ 9,313,760	\$ 10,796,663	\$ (1,257,735)	\$ 15,000,000	\$ 38,694,947

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flow from operating activities:		
Premiums collected net of reinsurance	\$ 22,937,321	\$ 31,655,291
Net investment income	9,297,958	537,651
Miscellaneous income	27,808,191	21,446,572
Claims and benefits paid	(17,008,601)	(8,588,404)
Commissions and expenses paid	(36,948,720)	(32,534,649)
Dividends paid to policyholders	(30,437)	(18,240)
Federal income taxes recovered	105,380	1,077,788
Net cash flow from operating activities	6,161,092	13,576,009
Cash flow from investing activities:		
Proceeds from sales of bonds	177,644,232	94,640,769
Proceeds from sales of stocks	2,571,090	5,200,679
Proceeds from mortgage loan collections	3,202,124	166,108
Proceeds from real estate	305	1,014,783
Other invested assets	6,358,856	6,499,854
Payments for purchases of bonds	(171,463,152)	(147,296,959)
Payments for purchases of stocks	(3,951,102)	(6,870,355)
Payments for mortgage loans	(22,799,289)	(4,372,098)
Payments for real estate	(64,493)	(656,116)
Other invested assets	(7,385,857)	(1,914,632)
Miscellaneous applications	(2,447,522)	-
Net increase (decrease) in contract loans	22,161	(36,421)
Net cash flow from investing activities	(18,312,647)	(53,624,388)
Cash flow from financing and miscellaneous sources:		
Proceeds from surplus note	-	15,000,000
Proceeds from deposit-type contracts	(1,939,551)	35,657,745
Capital and paid in surplus, less treasury stock	9,999,998	36
Payments of dividends	-	-
Other cash provided	2,319,739	1,506,811
Net cash flow from financing and miscellaneous sources	10,380,186	52,164,592
Net increase (decrease) in cash	(1,771,369)	12,116,213
Cash, cash equivalents and short-term investments at beginning of year	25,390,309	13,274,096
Cash, cash equivalents and short-term investments at end of year	\$ 23,618,940	\$ 25,390,309

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, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Sentinel Security Life Insurance Company (the Company) is a Utah domestic stock life insurance company operates in accordance with the Utah Insurance Code.

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

Basis of Presentation

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

a. *Investments:*

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

a. *Investments (Continued):*

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

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

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

b. *Nonadmitted Assets:*

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

c. *Policy Acquisition Costs:*

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

d. *Deferred Income Taxes:*

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

e. *Guaranty Fund and Other Assessments:*

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

f. *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.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

g. *Statements of Cash Flows:*

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

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.

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.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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.

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 \$14,520 for the year ended December 31, 2015 and 2014, respectively.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Valuations of Investments (Continued)

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

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

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

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

Fair Values of Financial Instruments

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

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.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2015 and 2014, the Company had **94** and 163 policies in force for which the gross premiums are less than the net premium according to the standard valuation set by the State of Utah. The gross premiums for these policies were **\$11,938** and \$15,209 less than net premiums for 2015 and 2014, respectively. Given the small number of policies where the net premiums exceed the gross premium the Company has not established a deficiency reserve.

Tabular interest, tabular less actual reserves released, and tabular cost have been determined by formula. 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 **\$90,061** as of December 31, 2015 and the prior year with a balance of \$92,408 as of December 31, 2014.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Premiums and Expenses

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

	<u>2015</u>		<u>2014</u>	
	<u>Gross</u>	<u>Net of Loading</u>	<u>Gross</u>	<u>Net of Loading</u>
Ordinary new business	\$ 802,607	\$ 232,109	\$ 850,321	\$ 245,308
Ordinary renewal	3,702,987	2,639,049	3,484,903	2,440,098
Total	\$ 4,505,594	\$ 2,871,158	\$ 4,335,224	\$ 2,685,406

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, 2015 and 2014 totaled **\$226,914** and \$426,925, respectively. Maintenance and repairs that do not materially extend the useful lives are charged to earnings as incurred.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance

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

Net Investment Income

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

2. ACCOUNTING CHANGES

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

There were no change in accounting principles as of and for the year ended December 31, 2015.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

3. INVESTMENTS

Bonds and stocks at December 31, 2015, are summarized as follows:

	Cost or Adjusted Carrying Value	Fair Value	Excess of Fair Value Over Book Value
Bonds:			
Government bonds	\$ 16,169,332	\$ 16,921,978	\$ 752,646
Residential mortgage- backed securities	96,974,867	104,129,496	7,154,629
Commercial mortgage- backed securities	23,279,123	23,612,789	333,666
Other loan-backed and structured securities	118,263,474	113,544,531	(4,718,943)
Hybrid securities	4,699,067	4,480,057	(219,010)
Industrial and miscellaneous bonds	163,290,135	161,898,777	(1,391,358)
Total bonds	\$ 422,675,998	\$ 424,587,628	\$ 1,911,630
Stocks:			
Preferred stocks	\$ 8,743,857	\$ 8,912,935	\$ 169,078
Common stocks	1,408,367	1,408,367	-
Total stocks	\$ 10,152,224	\$ 10,321,302	\$ 169,078

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

3. INVESTMENTS (Continued)

Assets measured at fair value are as follows:

Assets Measured at Fair Value				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015:				
Stocks:				
Common	\$ 1,408,367	\$ 1,408,367	\$ -	\$ -
Total	\$ 1,408,367	\$ 1,408,367	\$ -	\$ -
Assets Measured at Fair Value				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014:				
Stocks:				
Common	\$ 238,913	\$ 238,913	\$ -	\$ -
Perpetual preferred	585,482	585,482	-	-
Total	\$ 824,395	\$ 824,395	\$ -	\$ -

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

3. 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 is as follows:

2015						
Type of financial instrument:	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 424,587,628	\$ 422,675,998	\$ -	\$ 404,375,032	\$ 20,212,596	\$ -
Preferred stock	8,912,935	8,743,857	8,912,935	-	-	-
Common stock	1,408,367	1,408,367	184,255	-	1,224,112	-
Mortgage loans	-	25,437,966	-	-	-	25,437,966
Real estate	-	5,603,662	-	-	-	5,603,662
Other invested assets	342,262	342,262	-	-	342,262	-
Total	\$ 435,251,192	\$ 464,212,112	\$ 9,097,190	\$ 404,375,032	\$ 21,778,970	\$ 31,041,628

2014						
Type of financial instrument:	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 441,287,206	\$ 425,389,012	\$ -	\$ 417,034,065	\$ 24,253,141	\$ -
Preferred stock	8,729,190	8,558,877	8,729,190	-	-	-
Common stock	238,913	238,913	238,913	-	-	-
Mortgage loans	-	5,834,435	-	-	-	5,834,435
Real estate	-	5,648,029	-	-	-	5,648,029
Other invested assets	585,566	585,566	-	-	585,566	-
Total	\$ 450,840,875	\$ 446,254,832	\$ 8,968,103	\$ 417,034,065	\$ 24,838,707	\$ 11,482,464

The explanation for the financial instrument not measured as of December 31, 2015 is as follows:

2015				
Type or class of financial instrument:	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Mortgage loans	\$ 25,437,966	Various	Various	Mortgage loans not actively traded
Real estate	\$ 5,603,662	n/a	n/a	Real estate is not actively being marketed for sale

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

3. INVESTMENTS (Continued)

The explanation for the financial instrument not measured as of December 31, 2014 is as follows:

Type or class of financial instrument:	2014			
	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Mortgage loans	\$ 5,834,435	Various	Various	Mortgage loans not actively traded
Real estate	\$ 5,648,029	n/a	n/a	Real estate is not actively being marketed for sale

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, 2015 and 2014 represent a temporary decline in market value.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

3. INVESTMENTS (Continued)

The following tables summarize those investments that, as of December 31, 2015 and 2014, 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, 2015						
Bonds:							
U.S. government and agencies	5	\$ 4,793	\$ (36)	11	\$ 2,582	\$ (193)	\$ (229)
Industrial and miscellaneous	77	50,189	(2,169)	40	22,752	(2,490)	(4,659)
Hybrid securities	-	-	-	4	3,125	(234)	(234)
Mortgage-backed securities	64	67,672	(2,559)	51	45,927	(3,076)	(5,635)
Total bonds	146	122,654	(4,764)	106	74,386	(5,993)	(10,757)
Equity securities:							
Common stock - industrial and misc.	-	-	-	2	86	(40)	(40)
Preferred stock - industrial and misc.	1	123	(2)	1	204	(2)	(4)
Total bonds and equity securities	147	\$ 122,777	\$ (4,766)	109	\$ 74,676	\$ (6,035)	\$ (10,801)
Investment grade bonds	146	\$ 122,654	\$ (4,764)	106	\$ 74,386	\$ (5,993)	\$ (10,757)
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	146	\$ 122,654	\$ (4,764)	106	\$ 74,386	\$ (5,993)	\$ (10,757)

(\$ 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, 2014						
Bonds:							
U.S. government and agencies	27	\$ 7,838	\$ (416)	1	\$ 265	\$ (32)	\$ (448)
Industrial and miscellaneous	57	38,202	(1,357)	1	735	(15)	(1,372)
Hybrid securities	4	3,537	(126)	-	-	-	(126)
Mortgage-backed securities	79	79,953	(1,586)	4	4,356	(45)	(1,631)
Total bonds	167	129,530	(3,485)	6	5,356	(92)	(3,577)
Equity securities:							
Common stock - industrial and misc.	-	-	-	2	91	(36)	(36)
Preferred stock - industrial and misc.	2	599	(8)	-	-	-	(8)
Total bonds and equity securities	169	\$ 130,129	\$ (3,493)	8	\$ 5,447	\$ (128)	\$ (3,621)
Investment grade bonds	167	\$ 129,530	\$ (3,485)	6	\$ 5,356	\$ (92)	\$ (3,577)
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	167	\$ 129,530	\$ (3,485)	6	\$ 5,356	\$ (92)	\$ (3,577)

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

3. INVESTMENTS (Continued)

Maturities of bonds are as follows:

	Admitted Asset Value
2016	\$ 31,505,509
2017-2020	155,995,060
2021-2025	142,352,884
2026-2035	59,316,092
After 2035	33,506,453
Total by maturity	\$ 422,675,998

Sources of realized capital gains (losses) for the year ended December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Bonds:		
Gross gains from sales	\$ 1,873,152	\$ 751,372
Gross losses from sales	(1,880,047)	(54,601)
Other invested assets:		
Gross gains from sales	311,570	-
Gross losses from sales	(23,808)	-
Preferred stock:		
Gross gains from sales	17,600	-
Gross losses from sales	(3,040)	(3,600)
OTTI impairments	14,520	(14,520)
Real Estate:		
Gross gains from sales	-	502,007
Amount transferred to IMR net of tax	(5,058)	(374,050)
Capital gains (tax) benefit	(105,382)	(401,424)
Net capital gains (losses)	\$ 199,507	\$ 405,184

At December 31, 2015 and 2014, bonds with an admitted asset value of **\$2,604,384** and \$2,565,506 were on deposit with state insurance departments to satisfy regulatory requirements.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

3. INVESTMENTS (Continued)

Cash, Cash Equivalents and Short-Term Investments

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

	<u>2015</u>	<u>2014</u>
Cash, cash equivalents and short-term investments:		
Checking accounts	\$ 4,565,937	\$ 4,648,478
Money market funds	6,979,495	8,719,606
Short-term investments	<u>12,073,508</u>	<u>12,022,225</u>
Total cash, cash equivalents and short-term investments	<u>\$ 23,618,940</u>	<u>\$ 25,390,309</u>

Concentration of Credit Risk

The Company maintains several bank accounts at the same institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times for the years ended December 31, 2015 and 2014, 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 funds that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. As of December 31, 2015 and 2014 the Company held **\$14,302,851** and \$20,741,831 in money market funds, respectively.

Mortgage Loans

In 2015, The Company participated in sixteen 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 5% and maximum of 38% (participating portion versus security value).

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

Mortgage loans at December 31, 2015 and 2014 totaled **\$25,437,966** and \$5,834,435 respectively. As of December 31, 2015 and 2014, the Company did not have any mortgages with interest more than 180 days past due.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

3. INVESTMENTS (Continued)

Real Estate

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

	<u>2015</u>	<u>2014</u>
Occupied by the Company:		
Land	\$ 364,100	\$ 364,100
Properties occupied by the Company	4,966,261	4,887,663
Accumulated depreciation	<u>(277,464)</u>	<u>(154,804)</u>
Net real estate occupied by the Company	<u>5,052,897</u>	<u>5,096,959</u>
Properties held for the production of income:		
Land	-	68,444
Buildings	<u>550,765</u>	<u>482,626</u>
Net real estate held for the production of income	<u>550,765</u>	<u>551,070</u>
Net real estate	<u>\$ 5,603,662</u>	<u>\$ 5,648,029</u>

4. CONTINGENT LIABILITIES

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

5. CAPITAL AND SURPLUS

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

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.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

5. CAPITAL AND SURPLUS (Continued)

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, 2015 and 2014, 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 2015 or 2014.

The portion of unassigned funds (surplus) represented or (reduced) by cumulative unrealized gains and (losses) in 2015 and 2014 was **\$(3,098,245)** and \$(1,483,762), respectively. The portion of unassigned funds (surplus) represented or (reduced) by nonadmitted asset values in 2015 and 2014 was **\$(3,358,738)** and \$(5,958,880), respectively.

For the year ended December 31, 2015, the Company issued 237,764 shares of common stock at a price of \$10,000,000.

6. EMPLOYEE BENEFITS

The Company has a noncontributory master profit sharing and trust plan that qualifies under Section 401(a) of the Internal Revenue Code and is therefore exempt from income taxes. All eligible Company employees may participate in the plan after completing three months of service. The Company's annual contribution is for the years ended December 31, 2015 and 2014 is 6% and 10%, respectively, of the eligible participants' compensation as defined, but only to the extent net profits exceed \$50,000 in the taxable year of contribution. Contributions are made to participants in the same percentage that the individual participant's compensation bears to the total compensation of all participants for the plan year. All contributions to the plan are made to an independent trustee for investment and administration. The contributions become partially vested after two years and fully vested after six years of service. The Company's cost of the plan was **\$226,364** and \$267,954 for 2015 and 2014, respectively. As of December 31, 2015 and 2014, the fair value of the plan assets was **\$2,032,283** and \$1,599,321, respectively.

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

6. EMPLOYEE BENEFITS (Continued)

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

Additions to the deferred compensation liability are charged to surplus in the year deferred compensation credits are earned and are shown as other surplus changes in the statement of changes in capital and surplus. As of December 31, 2015 and 2014, the Company did not have a balance in its deferred compensation plan.

In 2013, the Compensation Committee approved an equity incentive plan for the Company. The incentive plan is designed to allow the Company to compensate employee performance through stock compensation by a committee designated by the Board of Directors. The stock compensation can be administered in the following ways: (i) options to purchase shares of common stock in the form of Incentive Stock Options or Nonqualified Stock Options (which may include Performance Options), (ii) stock appreciation rights (SARs) in the form of Tandem SARs or Free Standing SARs or (iii) stock awards in the form of unrestricted stock awards, restricted stock, restricted stock units or performance stock units. For the years ended December 31, 2015 and 2014, there was no stock compensation awarded by the Company.

7. RELATED PARTIES

The Company owns a 75% interest in Secure Marketing Partners, LLC (SMP) and a 100% interest in Secure Administrative Solutions, LLC (SAS). In accordance with SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*, the Company carries SMP and SAS at its U.S. GAAP equity balance which is recorded as other invested asset on the statement of admitted assets, liabilities, and capital and surplus. The Company has a shared services agreement with its affiliates where SMP and SAS reimburse the Company on a monthly basis for rent, services, and salaries.

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.

For the year ended December 31, 2015, the Company contributed to SAS and SMP amounts totaling **\$1,315,000** and **\$130,000**, respectively. Included in this was a noncash contribution of payables due to the Company being converted to contributed capital in the amounts of **\$785,000** and **\$130,000** for SAS and SMP, respectively.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

7. RELATED PARTIES (Continued)

For the year ended December 31, 2014, the Company contributed to SAS and SMP amounts totaling \$1,410,032 and \$236,413, respectively. Included in this was a noncash contribution of payables due to the Company being converted to contributed capital in the amounts of \$1,210,032 and \$236,413 for SAS and SMP, respectively.

As of December 31, 2015 and 2014, SMP owed the Company **\$474,828** and 209,120, respectively, for the shared services.

As of December 31, 2015 and 2014, SAS owed the Company **\$749,967** and \$0, respectively, for the shared serves. As of December 31, 2015 and 2014, the Company owed SAS **\$336,339** and \$440, respectively, for the TPA services performed during the year.

8. NET INVESTMENT INCOME

Net investment income is comprised of the following:

	2015	2014
Interest:		
Bonds	\$ 11,421,175	\$ 6,644,902
Preferred stocks	374,038	437,938
Common stocks	34,393	6,544
Mortgage loans	1,442,878	87,340
Real estate	424,533	159,368
Policy loans	86,721	90,331
Cash and short-term investments	93	198,193
Other invested assets	255,109	6,313
Aggregate write-ins for investment income	11,094	-
Total	14,050,034	7,630,929
Less:		
Allocated expenses:		
Depreciation	108,554	97,826
Interest expense	987,500	562,500
Investment taxes, licenses and fees	119,121	67,136
Investment expenses	1,202,224	1,223,965
Net investment income	\$ 11,632,635	\$ 5,679,502

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

9. REINSURANCE

The Company has one assumed reinsurance contract.

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 **\$283,095,773** and \$136,964,174, and aggregate reserves and consideration received for deposit type contracts by **\$941,326,982** and \$617,768,057 for the years ended December 31, 2015 and 2014, respectively. During 2015 and 2014, 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, 2015 and 2014

9. REINSURANCE (Continued)

At December 31, 2015 and 2014, the effect of the coinsurance agreements described above on premiums and reserves is as follows:

	2015	2014
Premiums:		
Gross	\$ 306,668,557	\$ 168,522,949
Ceded	(283,095,773)	(136,964,174)
Net premiums	\$ 23,572,784	\$ 31,558,775
Deposit type contracts:		
Deposits received	\$ 309,404,181	\$ 158,417,281
Ceded	(267,440,346)	(115,710,728)
Net deposit type contracts	\$ 41,963,835	\$ 42,706,553
Net due and deferred:		
Gross due and deferred		
Gross	\$ 4,505,594	\$ 4,335,225
Ceded	-	-
Net	4,505,594	4,335,225
Loading		
Gross	(1,634,437)	(1,649,819)
Ceded	-	-
Net	(1,634,437)	(1,649,819)
Net due and deferred		
Gross	2,871,157	2,685,406
Ceded	-	-
Net	\$ 2,871,157	\$ 2,685,406
Aggregate reserves - life:		
Gross	\$ 813,448,850	\$ 633,715,809
Ceded	(672,508,214)	(500,753,288)
Net	\$ 140,940,636	\$ 132,962,521
Aggregate reserves - accident and health:		
Gross	\$ 1,541,347	\$ 1,452,904
Ceded	(1,378,422)	(1,304,041)
Net	\$ 162,925	\$ 148,863
Claims payable:		
Gross	\$ 4,599,966	\$ 5,251,160
Ceded	(3,551,948)	(3,919,242)
Net	\$ 1,048,018	\$ 1,331,918
Claims:		
Gross	\$ 44,971,190	\$ 45,365,210
Ceded	(35,957,478)	(36,801,886)
Net	\$ 9,013,712	\$ 8,563,324

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

9. REINSURANCE (Continued)

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, 2015 and 2014, there are no reinsurance agreements in effect such that the amount of losses paid or accrued exceed the total direct premium collected.

10. FEDERAL INCOME TAXES

The Company is taxed as a 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:

	12/31/2015		
	(1)	(2)	(3)
	Ordinary	Capital	(Col 1+2) Total
(a) Gross deferred tax assets	\$ 4,986,345	\$ 1,094,965	\$ 6,081,310
(b) Statutory valuation allowance adjustments	-	723,896	723,896
(c) Adjusted gross deferred tax assets (1a - 1b)	4,986,345	371,069	5,357,414
(d) Deferred tax assets nonadmitted	1,867,459	-	1,867,459
(e) Subtotal net admitted deferred tax asset (1c - 1d)	3,118,886	371,069	3,489,955
(f) Deferred tax liabilities	950,610	220,225	1,170,835
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u>\$ 2,168,276</u>	<u>\$ 150,844</u>	<u>\$ 2,319,120</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

10. FEDERAL INCOME TAXES (Continued)

	12/31/2014		
	(4) Ordinary	(5) Capital	(6) (Col 4+5) Total
(a) Gross deferred tax assets	\$ 5,688,828	\$ 318,960	\$ 6,007,788
(b) Statutory valuation allowance adjustments	-	159,480	159,480
(c) Adjusted gross deferred tax assets (1a - 1b)	5,688,828	159,480	5,848,308
(d) Deferred tax assets nonadmitted	3,575,870	-	3,575,870
(e) Subtotal net admitted deferred tax asset (1c - 1d)	2,112,958	159,480	2,272,438
(f) Deferred tax liabilities	916,486	404,969	1,321,455
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u>\$ 1,196,472</u>	<u>\$ (245,489)</u>	<u>\$ 950,983</u>

	Change		
	(7) Ordinary	(8) Capital	(9) (Col 7+8) Total
(a) Gross deferred tax assets	\$ (702,483)	\$ 776,005	\$ 73,522
(b) Statutory valuation allowance adjustments	-	564,416	564,416
(c) Adjusted gross deferred tax assets (1a - 1b)	(702,483)	211,589	(490,894)
(d) Deferred tax assets nonadmitted	(1,708,411)	-	(1,708,411)
(e) Subtotal net admitted deferred tax asset (1c - 1d)	1,005,928	211,589	1,217,517
(f) Deferred tax liabilities	34,124	(184,744)	(150,620)
(g) Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u>\$ 971,804</u>	<u>\$ 396,333</u>	<u>\$ 1,368,137</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

10. FEDERAL INCOME TAXES (Continued)

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

		12/31/2015		
		(1)	(2)	(3)
		Ordinary	Capital	(Col 1+2) Total
Admission Calculation Components SSAP No. 101				
(a)	Federal income taxes paid in prior years recoverable through loss carrybacks	\$ -	\$ -	\$ -
(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)	2,319,120	-	2,319,120
(1)	Adjusted gross deferred tax assets expected to be realized following the balance sheet date	2,319,120	-	2,319,120
(2)	Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	5,397,683
(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	950,610	220,225	1,170,835
(d)	Deferred tax assets admitted as a result of application of SSAP No. 101			
	Total (2(a) + 2(b) + 2(c))	<u>\$ 3,269,730</u>	<u>\$ 220,225</u>	<u>\$ 3,489,955</u>
		12/31/2014		
		(4)	(5)	(6)
		Ordinary	Capital	(Col 4+5) Total
Admission Calculation Components SSAP No. 101				
(a)	Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 26,331	\$ -	\$ 26,331
(b)	Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	1,170,140	-	1,170,140
(1)	Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,170,140	-	1,170,140
(2)	Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	3,689,915
(c)	Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	916,486	159,480	1,075,966
(d)	Deferred tax assets admitted as a result of application of SSAP No. 101			
	Total (2(a) + 2(b) + 2(c))	<u>\$ 2,112,957</u>	<u>\$ 159,480</u>	<u>\$ 2,272,437</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

10. FEDERAL INCOME TAXES (Continued)

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

	Change		
	(7) Ordinary	(8) Capital	(9) (Col 7+8) Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ (26,331)	\$ -	\$ (26,331)
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	1,148,980	-	1,148,980
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,148,980	-	1,148,980
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	1,707,768
(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	34,124	60,745	94,869
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	<u>\$ 1,156,773</u>	<u>\$ 60,745</u>	<u>\$ 1,217,518</u>

The ratio percentage and the adjusted capital and surplus used to determine the recovery period and the threshold limitation at December 31, 2015 and 2014 are as follows:

	12/31/2015	12/31/2014
(a) Ratio percentage used to determine recovery period and threshold limitation amount	925%	658%
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2 (b) 2 above	<u>\$ 35,984,550</u>	<u>\$ 24,599,434</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

10. FEDERAL INCOME TAXES (Continued)

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

12/31/2015		12/31/2014		Change	
(1)	(2)	(3)	(4)	(5)	(6)
Ordinary	Capital	Ordinary	Capital	(Col 1-3) Ordinary	(Col 2-4) Capital

Impact of tax-planning strategies

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

1. Adjusted gross DTAs amount from Note 9A1(c)	4,986,345	371,069	5,688,828	159,480	(702,483)	211,589
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3. Net admitted adjusted gross DTAs amount from Note 9A1(e)	3,118,886	371,069	2,112,958	159,480	1,005,928	211,589
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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

There are no deferred tax liabilities the Company has not recognized as of December 31, 2015 and 2014.

Current income taxes incurred consist of the following major components:

	(1) 12/31/2015	(2) 12/31/2014	(3) (Col 1-2) Change
1. Current income tax:			
(a) Federal	\$ 1,888,006	\$ -	\$ 1,888,006
(b) Foreign	-	-	-
(c) Subtotal	1,888,006	-	1,888,006
(d) Federal income tax on net capital gains	(105,382)	(401,424)	296,042
(e) Utilization of operating loss carry-backs	(1,888,006)	(388,054)	(1,499,952)
(f) Other	-	(17,856)	17,856
(g) Federal and foreign income taxes incurred	\$ (105,382)	\$ (807,334)	\$ 701,952

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

10. FEDERAL INCOME TAXES (Continued)

Deferred income taxes incurred consist of the following major components:

	(1) 12/31/2015	(2) 12/31/2014	(3) (Col 1-2) Change
2. Deferred tax assets:			
(a) Ordinary:			
(1) Discounting on unpaid losses	\$ -	\$ -	\$ -
(2) Unearned premium reserve	-	-	-
(3) Policyholder reserves	1,186,376	2,111,072	(924,696)
(4) Investments	-	-	-
(5) Deferred acquisition costs	959,791	1,060,432	(100,641)
(6) Policyholder dividends accrual	-	-	-
(7) Fixed assets	-	-	-
(8) Compensation and benefit accruals	-	-	-
(9) Pension accrual	-	-	-
(10) Noadmitted assets	507,035	250,322	256,713
(11) Net operating loss carry-forward	784,656	867,805	(83,149)
(12) Tax credit carry-forward	1,320,975	1,320,975	-
(13) Other (including <5% total of ordinary tax assets)	227,512	78,222	149,290
(99) Subtotal	<u>4,986,345</u>	<u>5,688,828</u>	<u>(702,483)</u>
(b) Statutory valuation allowance adjustment	-	-	-
(c) Nonadmitted	<u>1,867,459</u>	<u>3,575,870</u>	<u>(1,708,411)</u>
(d) Admitted ordinary deferred tax assets (2a99-2b-2c)	<u>3,118,886</u>	<u>2,112,958</u>	<u>1,005,928</u>
(e) Capital:			
(1) Investments	1,060,197	284,192	776,005
(2) Net capital loss carry-forward	-	-	-
(3) Real estate	-	-	-
(4) Other (including items <5% of total capital tax assets)	34,768	34,768	-
(99) Subtotal	<u>1,094,965</u>	<u>318,960</u>	<u>776,005</u>
(f) Statutory valuation allowance adjustment	723,896	159,480	564,416
(g) Nonadmitted	<u>-</u>	<u>-</u>	<u>-</u>
(h) Admitted capital deferred tax assets (2e99-2f-2g)	<u>371,069</u>	<u>159,480</u>	<u>211,589</u>
(i) Admitted deferred tax assets (2d + 2h)	<u>3,489,955</u>	<u>2,272,438</u>	<u>1,217,517</u>
3. Deferred tax liabilities:			
(a) Ordinary:			
(1) Investments	-	-	-
(2) Fixed assets	220,225	404,969	(184,744)
(3) Deferred and uncollected premium	950,610	913,038	37,572
(4) Policyholder reserves	-	-	-
(5) Other (including items <5% of total ordinary tax liabilities)	-	3,448	(3,448)
(99) Subtotal	<u>1,170,835</u>	<u>1,321,455</u>	<u>(150,620)</u>
(b) Capital:			
(1) Investments	-	-	-
(2) Real estate	-	-	-
(3) Other (including items <5% of total capital tax liabilities)	-	-	-
(99) Subtotal	<u>-</u>	<u>-</u>	<u>-</u>
(c) Deferred tax liabilities (3a99 + 3b99)	<u>1,170,835</u>	<u>1,321,455</u>	<u>(150,620)</u>
3. Net deferred tax assets/(liabilities) (2i - 3c)	<u>\$ 2,319,120</u>	<u>\$ 950,983</u>	<u>\$ 1,368,137</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

10. FEDERAL INCOME TAXES (Continued)

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

	12/31/2015	Effective Tax Rate
Provision computed at statutory rate	\$ 615,692	34.00 %
Tax exempt income deduction	(91,376)	(5.05)%
Dividends received deduction	(8,543)	(0.47)%
Section 832 interest and dividends	72,451	4.00 %
Change in statutory valuation adjustment	(17,384)	(0.96)%
Amortization of IMR	(80,475)	(4.44)%
Meal and entertainment	9,562	0.53 %
True-up of prior year differences	291,266	16.08 %
Other	(221,946)	(12.26)%
Total	\$ 569,247	31.44 %
Federal and foreign income taxes incurred	\$ -	0.00 %
Federal income tax on net capital gains (losses)	-	0.00 %
Change in net deferred income taxes	569,247	31.44 %
Total statutory income taxes	\$ 569,247	31.44 %

As of December 31, 2015 and 2014, the Company had net operating loss (NOL) carryovers in the amount of **\$2,307,813** and \$4,195,819, respectively. For the year ended December 31, 2015, the Company utilized \$1,888,006 of the NOL carryover. The NOLs are set to expire in the following order:

Tax Year	Amount	Expiration
2014	\$ 2,307,813	12/31/2034
2013	-	12/31/2033
Total net operating loss carryforward	\$ 2,307,813	

The Company also has non-insurance net operating loss carryovers as of December 31, 2015 and 2014, of **\$2,969,665** and \$1,548,405, respectively.

The Company had alternative minimum tax credit carryover of \$1,320,975 as of December 31, 2015 and 2015.

There are no income taxes incurred in the current and prior years that are 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.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

10. FEDERAL INCOME TAXES (Continued)

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), replaced by Accounting Standard Codification (ASC) 740, *Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (FAS 109), also replaced by Accounting Standard Codification (ASC) 740, *Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. As of December 31, 2015 and 2014 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 2012, 2013, and 2014 tax years are open and subject to examination by the taxing authorities.

Prior to 1984, the Company was allowed certain special deductions for federal income tax reporting purposes that were required to be accumulated in a "policyholders' surplus account" (PSA). In the event that those amounts are distributed to shareholders, or the balance of the account exceeds certain limitations prescribed by the Internal Revenue code, the excess amounts would be subject to income tax at current rates. Income taxes also would be payable at current rates if the Company ceases to qualify as a life insurance company for tax reporting purposes, or if the income tax deferral status of the PSA is modified by future tax legislation. Management does not intend to take actions nor does management expect any events to occur that would cause income taxes to become payable on the PSA balance. Accordingly, the Company has not accrued income taxes on the PSA balance of **\$1,220,000** at December 31, 2015 and 2014. However, if such taxes were assessed the amount of the taxes payable would be approximately \$415,000. No deferred tax liabilities are recognized related to the PSA.

11. PARTICIPATING POLICIES

At December 31, 2015 and 2014, participating policies account for less than 1% of total insurance, respectively. Total dividends for 2015 and 2014 were **\$21,939** and \$18,240, respectively.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

12. SURPLUS NOTE

During 2014, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Ability Insurance Company (lender) in the amount of \$15,000,000. The scheduled maturity date of the loan is December 1, 2025. Subject to the approval of the Insurance Commissioner of the State of Utah the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1 each year commencing March 1, 2014 at the rate of 7% annum. At December 31, 2015 and 2014, the Company had accrued \$0 and \$62,500, respectively, in accrued interest on the surplus note.

Interest payments on the surplus note as of December 31, 2015 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%	\$ 15,000,000	\$ 15,000,000	\$ 1,025,000	\$ 1,525,000	\$ -	12/25/2025
Totals		<u>\$ 15,000,000</u>	<u>\$ 15,000,000</u>	<u>\$ 1,025,000</u>	<u>\$ 1,525,000</u>	<u>\$ -</u>	

13. 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, 2015 and 2014 was **\$33,673** and \$27,950, 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:

For the year ended:	<u>Amount</u>
2016	\$ 707,400
2017	707,400
2018	<u>353,700</u>
Total	<u>\$ 1,768,500</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

14. DIRECT PREMIUM WRITTEN/PRODUCED BY THIRD PARTY ADMINISTRATOR

The aggregate amount of direct premiums written through managing general agents or third party administrators as of December 31, 2015 and 2014 was:

Name and Address Managing General Agent Or Third Part Administrator	FEIN#	Exclusive Contract	Type of Business Written	Type of Activity Granted	Total Direct Prem Written/ Produced By
For the year ended December 31, 2015:					
Secure Administrative Solutions, LLC 1405 West 2200 South Salt Lake City, Utah 84119	46-4813559	No	Medicare Supplement	C,CA,P,U	<u><u>\$ 37,911,922</u></u>
			Traditional Life Insurance		<u><u>\$ 9,764,444</u></u>
			Life Annuities		<u><u>\$ 180,570,183</u></u>
			Deposit-Type Annuities		<u><u>\$ 148,234,755</u></u>
For the year ended December 31, 2014:					
American Insurance Administrators LLC 2536 Countryside Blvd., Suite 430 Clearwater, FL 33763	26-1193300	No	Medicare Supplement	C,CA,P,U	<u><u>\$ 43,749,702</u></u>

15. 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 **\$(104,208)** and \$(86,374) during the years ended December 31, 2015 and 2014, respectively.

	<u>2015</u>	<u>2014</u>
Balance at January 1	<u>\$ 459,800</u>	<u>\$ 517,560</u>
Incurred, related to:		
Current year	3,076,639	3,459,093
Prior years	<u>(104,208)</u>	<u>(86,374)</u>
Total incurred	<u>2,972,431</u>	<u>3,372,719</u>
Paid, related to:		
Current year	2,635,865	3,012,096
Prior years	<u>351,073</u>	<u>418,383</u>
Total paid	<u>2,986,938</u>	<u>3,430,479</u>
Balance at December 31	<u><u>\$ 445,293</u></u>	<u><u>\$ 459,800</u></u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2015 and 2014

16. SUBSEQUENT EVENTS

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 will purchase newly issued shares of the Company and Ad West will acquire 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 shall own all of the outstanding shares of the Company. The acquisition by StageCoach and Ad West of the Company will be effected pursuant to a two-stage process.

Stage One – StageCoach will purchase 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.

Stage Two – Ad West will acquire the remaining 295,137.95 shares via a shareholder approved merger transaction in accordance with Utah Code. Under the merger agreement, the Company shall merge 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 Company is now in the process of filing the notice of change in control with the states in which the Company does business. It is anticipated that the merger will be completed the first half of June 2016.

In preparing these statutory financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through May 10, 2016, the date the financial statements were available to be issued.

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, 2015, and our report thereon dated May 10, 2016, 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 PC

Salt Lake City, Utah
May 10, 2016

SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data

December 31, 2015

	Totals
Investment income earned:	
U.S. Government bonds	\$ 1,067,134
Other bonds	10,354,041
Preferred stocks	374,038
Common stocks	34,393
Mortgage loans	1,442,878
Real estate	424,533
Policy loans	86,721
Cash and short-term investments	93
Other invested assets	255,109
Commission advances	11,094
	\$ 14,050,034
Real estate owned:	
Book value less encumbrances	\$ 5,603,662
Mortgage loans - book value	
Residential mortgages	\$ 535,471
Commercial mortgages	24,902,495
	\$ 25,437,966
Mortgage loans by standing - statement value	
Good standing	\$ 25,437,966
Interest overdue more than 90 days, but not in foreclosure	\$ -
Other long-term invested assets	
	\$ 342,262
Bonds by maturity and class:	
Bonds by maturity - statement value	
Due within one year	\$ 31,505,509
Over 1 through 5 years	155,995,060
Over 5 through 10 years	142,352,884
Over 10 through 20 years	59,316,092
Over 20 years	33,506,453
	\$ 422,675,998
Bonds by NAIC designation - statement value	
NAIC 1	\$ 267,670,634
NAIC 2	131,580,154
NAIC 3	21,061,067
NAIC 4	2,114,143
NAIC 5	250,000
NAIC 6	-
	\$ 422,675,998

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data (Continued)

December 31, 2015

	Totals
Total bonds publicly traded	\$ 244,857,048
Total bonds privately placed	\$ 177,818,950
Preferred stocks (statement value)	\$ 8,743,857
Common stocks (market value)	\$ 1,408,367
Short-term investments (book value)	\$ 12,073,508
Cash and cash equivalents on deposit:	
Checking accounts	\$ 4,565,937
Money market funds	6,979,495
Total cash and cash equivalents on deposit	\$ 11,545,432
Life insurance in force:	
Ordinary	\$ 210,059,772
Amount of accidental death insurance in-force under ordinary policies	\$ 36,100
Life insurance policies with disability provisions in-force under ordinary policies	\$ 1,755
Supplementary contracts in force:	
Ordinary - not involving life contingencies:	
Amount on deposit	\$ -
Income payable	\$ 28,111
Annuities - ordinary:	
Immediate amount of income payable	\$ -
Deferred fully paid account balance	\$ 779,017,505
Accident and health in force:	
Ordinary	\$ 38,097,196
Deposit funds and dividend accumulations:	
Deposit funds - account balance	\$ 320,450,235
Dividend accumulations - account balance	\$ 279,277
Claim payments in 2015:	
Other accident and health benefits incurred in year ended December 31:	
Prior Years	\$ 351,073
Current Year	2,635,865
Total	\$ 2,986,938

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2015

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

\$ 499,209,395

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

1	2	3	4
Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Country Wide	\$ 18,255,491	3.7%
2.02	JP Morgan Chase	\$ 17,669,442	3.5%
2.03	RFMSI	\$ 8,147,454	1.6%
2.04	Ford Motor Credit	\$ 7,292,572	1.5%
2.05	GSFII	\$ 6,939,376	1.4%
2.06	BCAP	\$ 6,864,214	1.4%
2.07	BAFC	\$ 6,509,929	1.3%
2.08	RAST	\$ 6,410,302	1.3%
2.09	Bank of America	\$ 6,189,488	1.2%
2.10	WAMU	\$ 5,884,276	1.2%

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	\$ 283,056,432	56.7%
3.02	\$ 135,247,356	27.1%
3.03	\$ 21,061,068	4.2%
3.04	\$ 2,114,144	0.4%
3.05	\$ 250,000	0.1%
3.06	\$ -	0.0%
	3	4
3.07	\$ 2,626,275	0.5%
3.08	\$ 4,706,540	0.9%
3.09	\$ 1,211,040	0.2%
3.10	\$ 200,000	0.0%
3.11	\$ -	0.0%
3.12	\$ -	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	\$ 122,428,098	24.5%
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, 2015

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

		1	2
5.01	Countries rated NAIC – 1	\$ 119,547,820	23.9%
5.02	Countries rated NAIC – 2	\$ 1,542,636	0.3%
5.03	Countries rated NAIC – 3 or below	\$ 1,337,641	0.3%

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

		1	2
Countries rated NAIC – 1:			
6.01	Country: Cayman Islands	\$ 70,151,500	14.1%
6.02	Country: United Kingdom	\$ 9,828,278	2.0%
Countries rated NAIC - 2:			
6.03	Country: Brazil	\$ 605,131	0.1%
6.04	Country: Peru	\$ 490,391	0.1%
Countries rated NAIC - 3 or below:			
6.05	Country: Barbados	\$ 995,187	0.2%
6.06	Country: Saint Marten	\$ 342,454	0.1%

7. Aggregate unhedged foreign currency exposure:

\$ - 0.0%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

Not Applicable

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

Not Applicable

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

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

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

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

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

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

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

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2015

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

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

Yes [] No [X]

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

	1	2	3
	Issuer		
13.02	Tortoise Energy	\$ 2,500,000	0.5%
13.03	PDFNI	\$ 1,224,112	0.2%
13.04	Allstate Corp	\$ 1,086,200	0.2%
13.05	Qwest Corp	\$ 719,200	0.1%
13.06	ING Group	\$ 611,040	0.1%
13.07	Aegon	\$ 501,560	0.1%
13.08	Telephone Data Systems	\$ 400,000	0.1%
13.09	Vornado Realty Trust	\$ 400,000	0.1%
13.10	JP Morgan Chase & Co	\$ 357,280	0.1%
13.11	Corts Trust	\$ 326,275	0.1%

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

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

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

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

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

Yes [X] No []

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

16. Amounts and percentages of the reporting entity's total admitted assets held in 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 [X]

Yes [] No [X]

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

	1	2	3
	(Type (Residential, Commercial, Agricultural))		
16.02	Commercial	\$ 2,837,997	0.6%
16.03	Commercial	\$ 2,812,279	0.6%
16.04	Commercial	\$ 2,506,066	0.5%
16.05	Commercial	\$ 2,500,000	0.5%
16.06	Commercial	\$ 2,050,000	0.4%
16.07	Commercial	\$ 1,809,194	0.4%
16.08	Commercial	\$ 1,793,879	0.4%
16.09	Commercial	\$ 1,569,360	0.3%
16.10	Commercial	\$ 1,200,000	0.2%
16.11	Commercial	\$ 1,150,000	0.2%

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2015

		Loans	
16.12	Construction loans	\$	- 0.0%
16.13	Mortgage loans over 90 days past due	\$	- 0.0%
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%	\$	- 0.0%
		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%	\$	- 0.0%
17.05	Below 70%	\$	25,437,966 5.1%
		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.

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2015

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

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

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

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

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

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, 2015

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

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Summary Investment Schedule
December 31, 2015

	Gross Investment Holding*		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
1 Bonds:						
1.1 US Treasury Securities	\$ 867,853	0.18%	\$ 867,853	\$ -	\$ 867,853	0.18%
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	129,017	0.03%	129,017	-	129,017	0.03%
1.3 Non-U.S. Government (including Canada, excluding mortgage-backed securities)	1,713,785	0.35%	1,713,785	-	1,713,785	0.35%
1.4 Securities issued by states, territories and possessions and political subdivisions in the United States:						
1.41 States, territories and possessions general obligations	-	0.00%	-	-	-	0.00%
1.42 Political subdivisions of states, terr. and possessions and political subdivisions general obligations	1,650,734	0.34%	1,650,734	-	1,650,734	0.34%
1.43 Revenue and assessment obligations	11,530,712	2.36%	11,530,712	-	11,530,712	2.36%
1.44 Industrial development bonds and similar obligations	-	0.00%	-	-	-	0.00%
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	-	0.00%	-	-	-	0.00%
1.512 Issued or guaranteed by FNMA and FHLMC	-	0.00%	-	-	-	0.00%
1.513 All other	-	0.00%	-	-	-	0.00%
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	277,229	0.06%	277,229	-	277,229	0.06%
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	238,517,457	48.76%	238,517,457	-	238,517,457	48.76%
2 Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	129,572,180	26.49%	129,572,180	-	129,572,180	26.49%
2.2 Unaffiliated foreign securities	38,417,031	7.85%	38,417,031	-	38,417,031	7.85%
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, 2015

	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
3 Equity interests:						
3.1 Investments in mutual funds	-	0.00%	-	-	-	0.00%
3.2 Preferred stocks:						
3.21 Affiliated	-	0.00%	-	-	-	0.00%
3.22 Unaffiliated	8,743,857	1.79%	8,743,857	-	8,743,857	1.79%
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	-	0.00%	-	-	-	0.00%
3.32 Unaffiliated	184,255	0.04%	184,255	-	184,255	0.04%
3.4 Other equity securities:						
3.41 Affiliated	-	0.00%	-	-	-	0.00%
3.42 Unaffiliated	1,224,112	0.25%	1,224,112	-	1,224,112	0.25%
3.5 Other equity interests including tangible personal property under leases:						
3.51 Affiliated	-	0.00%	-	-	-	0.00%
3.52 Unaffiliated	-	0.00%	-	-	-	0.00%
4 Mortgage loans:						
4.1 Construction and land development	-	0.00%	-	-	-	0.00%
4.2 Agricultural	-	0.00%	-	-	-	0.00%
4.3 Single family residential properties	535,471	0.11%	535,471	-	535,471	0.11%
4.4 Multifamily residential properties	-	0.00%	-	-	-	0.00%
4.5 Commercial loans	24,902,495	5.09%	24,902,495	-	24,902,495	5.09%
4.6 Mezzanine real estate loans	-	0.00%	-	-	-	0.00%
5 Real Estate Investments:						
5.1 Property occupied by company	5,052,897	1.03%	5,052,897	-	5,052,897	1.03%
5.2 Property held for production of income (including \$ of property acquired in satisfaction of debt)	-	0.00%	-	-	-	0.00%
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)	550,765	0.11%	550,765	-	550,765	0.11%
6 Contract Loans	1,339,099	0.27%	1,339,099	-	1,339,099	0.27%
7 Derivatives	-	0.00%	-	-	-	0.00%
8 Receivables for securities	-	0.00%	-	-	-	0.00%
9 Securities lending	-	0.00%	-	-	-	0.00%
10 Cash, cash equivalents and short-term investments	23,618,940	4.83%	23,618,940	-	23,618,940	4.83%
11 Other Invested Assets	353,940	0.07%	342,262	-	342,262	0.07%
12 Total Invested Assets	<u>\$ 489,181,829</u>	<u>100.00%</u>	<u>\$ 489,170,151</u>	<u>\$ -</u>	<u>\$ 489,170,151</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