

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, 2019 and 2018



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, 2019 and 2018, and the related statutory statements of income, changes in capital and surplus, and cash flow for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Statutory Financial Statements

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

Auditor's Responsibility

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

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

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

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

As described in Note 1 of the statutory financial statements, **Sentinel Security Life Insurance Company** prepared these financial statements using accounting practices prescribed or permitted by the State of Utah Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Principles” paragraph, the statutory financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of **Sentinel Security Life Insurance Company** as of December 31, 2019 and 2018, 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, 2019 and 2018, 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.

A handwritten signature in black ink that reads "Larson & Company P.C." in a cursive script.

Salt Lake City, Utah
May 29, 2020

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,
Liabilities, and Capital and Surplus
As of December 31, 2019 and 2018

<u>ADMITTED ASSETS</u>		
	2019	2018
Invested assets:		
Bonds	\$ 404,334,371	\$ 764,895,958
Preferred stocks	6,088,577	3,634,677
Common stocks	1,854,316	4,015,843
Mortgage loans on real estate	74,030,594	258,488,294
Real estate:		
Properties occupied by the Company	4,878,160	4,989,175
Properties held for the production of income	2,977,117	-
Cash, cash equivalents and short-term investments	105,752,107	114,165,344
Contract loans	1,667,258	1,554,659
Derivatives	14,360,043	1,357,173
Other invested assets	16,924,768	84,009,544
Receivables for securities	22,967,195	-
Total invested assets	655,834,506	1,237,110,667
Other admitted assets:		
Investment income due and accrued	6,584,993	2,710,431
Uncollected premiums and agent balances	44,917	54,294
Deferred premiums and agents' balances	3,197,784	3,044,026
Amounts recoverable from reinsurers	447,733	3,849,280
Other amounts receivable under reinsurance contracts	11,887,807	-
Net deferred tax asset	5,707,881	4,241,840
Guaranty funds receivable or on deposit	186,877	205,153
Electronic data processing equipment and software, net	177,468	114,020
Receivables from parent, subsidiaries and affiliates	5,927,565	3,578,281
Other amounts receivable	368,357	260,673
Total other admitted assets	34,531,382	18,057,998
Total admitted assets	\$ 690,365,888	\$ 1,255,168,665

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>LIABILITIES AND CAPITAL AND SURPLUS</u>		
Liabilities:		
Aggregate reserve for life contracts, including \$80,844,115 of Modco reserves at December 31, 2019	\$ 288,601,475	\$ 163,804,713
Aggregate reserve for accident and health contracts	269,796	209,848
Liability for deposit-type contracts	99,712,065	74,429,351
Contract claims-life	972,314	803,436
Contract claims-accident and health	751,922	706,878
Provision for policyholders' dividends and coupons payable	27,000	27,000
Premiums and annuity considerations received in advance	94,485	104,218
Other amounts payable on reinsurance ceded	57,685,851	-
Interest maintenance reserve	2,647,160	1,541,363
Commissions to agents due or accrued	85,167	310,512
General expenses due or accrued	9,080,716	3,881,527
Taxes, licenses, and fees due or accrued	170,612	106,453
Current federal and foreign income taxes	1,710,117	9,290
Unearned investment income	2,700,924	9,825,599
Amounts withheld or retained by company as agent	669,042	3,686,483
Remittances and items not allocated	16,420,117	12,560,146
Asset valuation reserve	4,944,196	11,267,059
Funds held under reinsurance treaties	127,840,628	532,020,119
Payable to parent, subsidiaries and affiliates	890,534	727,500
Funds held under coinsurance	-	389,846,109
Derivatives	8,612,009	514,149
Payable for securities	10,164,863	9,194,521
Total liabilities	634,050,993	1,215,576,274
Capital and surplus:		
Common stock, \$8 and \$8 par value; 10,000,000 and 10,000,000 shares authorized; 605,289 and 605,289 issued, and 540,900 and 540,900 outstanding as of December 31, 2019 and 2018, respectively	4,842,259	4,842,259
Surplus notes	25,000,000	25,000,000
Paid-in surplus	13,313,760	9,313,760
Unassigned surplus	14,416,611	1,694,107
Treasury stock at cost - 64,389 and 64,389 shares in 2019 and 2018, respectively	(1,257,735)	(1,257,735)
Total capital and surplus	56,314,895	39,592,391
Total liabilities and capital and surplus	\$ 690,365,888	\$ 1,255,168,665

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, 2019 and 2018

	2019	2018
Income:		
Premiums and annuity considerations	\$ 59,971,366	\$ 50,109,731
Net investment income	45,373,423	12,322,790
Amortization of interest maintenance reserve	246,574	141,521
Commissions and expense allowances on reinsurance ceded	74,819,548	44,292,598
Reserve adjustments on reinsurance ceded	(1,958,960)	-
Charges and fees for deposit-type contracts	25,182	61,049
Other income	17,091	9,603
Total income	178,494,224	106,937,292
Benefits and expenses:		
Benefits to policyholders:		
Death benefits	3,919,024	3,804,724
Matured endowments	14,582	-
Annuity benefits	3,064,977	2,535,449
Disability benefits	5,267,485	4,550,744
Coupon benefits	824	299
Surrender benefits	4,542,114	2,489,019
Interests and adjustments on contract or deposit-type contract funds	3,410,853	2,203,339
Payment on supplementary contracts	18,415	5,131
Increase (decrease) in aggregate policy reserves	47,065,874	35,858,454
Total benefits to policyholders	67,304,148	51,447,159
Commissions on premiums and annuity considerations	46,340,895	32,708,499
Commissions and expense allowance on reinsurance assumed	338,925	187,591
General insurance expenses	20,831,782	18,087,624
Insurance taxes, licenses and fees	1,356,847	1,212,288
Increase (decrease) in loading	66,570	227,302
Funds held expense	26,258,054	-
Total benefits and expenses	162,497,221	103,870,463
Net gain (loss) from operations before dividends, federal income taxes and realized capital gains (losses)	15,997,003	3,066,829
Dividends to policyholders	11,596	22,918
Federal income taxes incurred	6,528,754	839,655
Net gain (loss) from operations before realized capital gains (losses)	9,456,653	2,204,256
Realized capital gains (losses), less capital gains tax (benefit) of \$162,486 and \$155,373 for 2019 and 2018, respectively	(741,112)	(361,393)
Net income	\$ 8,715,541	\$ 1,842,863

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, 2019 and 2018

	<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, 2018	\$ 4,842,259	\$ 9,313,760	\$ 6,539,007	\$ (1,257,735)	\$ 20,000,000	\$ 39,437,291
Net income	-	-	1,842,863	-	-	1,842,863
Change in net unrealized capital gains (losses)	-	-	(878,712)	-	-	(878,712)
Change in net deferred tax assets	-	-	2,456,182	-	-	2,456,182
Change in non-admitted assets	-	-	(5,109,508)	-	-	(5,109,508)
Change in asset valuation reserve	-	-	(3,095,568)	-	-	(3,095,568)
Increase in surplus notes	-	-	-	-	5,000,000	5,000,000
Change in surplus as a result of reinsurance	-	-	(60,157)	-	-	(60,157)
Balance at December 31, 2018	4,842,259	9,313,760	1,694,107	(1,257,735)	25,000,000	39,592,391
Net income	-	-	8,715,541	-	-	8,715,541
Change in net unrealized capital gains (losses)	-	-	(4,324,856)	-	-	(4,324,856)
Change in net deferred tax assets	-	-	2,351,748	-	-	2,351,748
Change in non-admitted assets	-	-	(282,636)	-	-	(282,636)
Change in asset valuation reserve	-	-	6,322,864	-	-	6,322,864
Change in surplus as a result of reinsurance	-	-	(60,157)	-	-	(60,157)
Paid-in capital	-	4,000,000	-	-	-	4,000,000
Balance at December 31, 2019	\$ 4,842,259	\$ 13,313,760	\$ 14,416,611	\$ (1,257,735)	\$ 25,000,000	\$ 56,314,895

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Cash Flow
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash flow from operating activities:		
Premiums collected net of reinsurance	\$ 60,123,517	\$ 49,597,077
Net investment income	27,099,404	15,196,070
Miscellaneous income	74,861,821	44,363,250
Benefits and loss related payments	116,923,426	(20,892,057)
Commissions and expenses paid	(95,269,413)	(52,117,209)
Dividends paid to policyholders	(11,596)	(18,918)
Federal income taxes recovered (paid)	(5,977,573)	(594,595)
Net cash flow from operating activities	177,749,586	35,533,618
Cash flow from investing activities:		
Proceeds from sales of bonds	624,507,810	272,875,527
Proceeds from sales of stocks	18,774,973	12,617,469
Proceeds from mortgage loan collections	293,113,957	54,628,022
Proceeds from real estate	-	885,523
Proceeds from other invested assets	118,774,328	45,636,353
Miscellaneous proceeds	970,345	-
Payments for purchases of bonds	(260,597,888)	(457,020,086)
Payments for purchases of stocks	(25,863,447)	(6,656,716)
Payments for mortgage loans	(108,576,583)	(248,401,810)
Payments for real estate	(2,977,117)	-
Payments for other invested assets	(52,095,447)	(92,175,058)
Miscellaneous applications	(35,970,065)	(16,491,562)
Net (increase) decrease in contract loans	(112,599)	(77,709)
Net cash flow from investing activities	569,948,267	(434,180,047)
Cash flow from financing and miscellaneous sources:		
Proceeds from surplus note	-	5,000,000
Capital and paid in surplus, less treasury stock	4,000,000	-
Net deposits on deposit-type contracts	25,282,714	15,439,737
Other cash provided	(785,393,804)	403,951,646
Net cash flow from financing and miscellaneous sources	(756,111,090)	424,391,383
Net change in cash, cash equivalents and short term investments	(8,413,237)	25,744,954
Cash, cash equivalents and short-term investments at beginning of year	114,165,344	88,420,390
Cash, cash equivalents and short-term investments at end of year	\$ 105,752,107	\$ 114,165,344

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, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

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

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

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Basis of Presentation

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

a. *Investments:*

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

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

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

The Company has a process in place to identify bonds that could potentially have an impairment that is other-than-temporary. The Company recognizes other-than-temporary impairment losses on bonds with unrealized losses when either of the following two conditions exists: the Company either (1) has the intent to sell the debt security or (2) is more likely than not to be required to sell the debt security before its anticipated recovery. Under U.S. GAAP, impairments due to credit losses are recorded through earnings for the difference between amortized cost and the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The remaining difference between the net present value and the fair value is recognized as a noncredit unrealized loss in OCI.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Basis of Presentation (Continued)

a. Investments (Continued):

For statutory reporting, impairments on securities other than loan-backed and structured securities due to credit losses are recorded as other-than-temporary impairments through earnings for the difference between amortized cost and fair value when a security is deemed impaired. For loan-backed and structured securities that are other-than-temporarily impaired, only the credit portion of the decline is recorded through earnings.

For mortgage backed securities, 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 present value of estimated future cash flows using the original effective interest rate inherent in the security. For U.S. GAAP, all securities purchased or retained that represent beneficial interests in securitized assets (i.e., all asset-backed securities, including collateralized mortgage obligations, collateralized bond obligations, collateralized debt obligations, collateralized loan obligations, and mortgage-backed securities) and other than high credit quality securities with fixed rates of interest are carried at fair value, and their rate of income recognition is adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that an other-than-temporary credit impairment has occurred, the security is written down through earnings to the present value of estimated future cash flows using the original effective interest rate inherent in the security, with any further noncredit impairment recorded in accumulated other comprehensive income to adjust the investment to its current fair value. This noncredit portion of impairment recorded for U.S. GAAP is not recognized under NAIC guidelines. High credit quality asset-backed securities with fixed rates of interest are also carried at fair value for U.S. GAAP, but if their estimated future cash flows change, the retrospective method is used.

Investments in real estate are reported net of related obligations, if any, rather than on a gross basis.

Valuation allowances, if necessary, are established for mortgage loans based on the difference between the unpaid loan balance and the estimated fair value of the underlying real estate when such loans are determined to be in default as to the scheduled payments. Under U.S. GAAP, valuation allowances would be established when the Company determined it is probable that it will be unable to collect all amounts (both principal and interest) due according to the contractual terms of the loan agreement.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Basis of Presentation (Continued)

a. *Investments (Continued):*

Such allowances are based on the present value of expected future cash flows discounted at the loan's effective interest rate or, if foreclosure is probable, on the estimated fair value of the underlying real estate, less estimated cost to sell.

b. *Nonadmitted Assets:*

Certain assets designated as "nonadmitted," principally furniture and equipment, agents' debit balances, receivables 90 days past due, and other assets not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual are excluded from the accompanying statement of admitted assets, liabilities and capital and surplus and are charged directly to unassigned surplus. Under U.S. GAAP, such assets are included in the balance sheet.

c. *Policy Acquisition Costs:*

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

d. *Deferred Income Taxes:*

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Basis of Presentation (Continued)

e. Guaranty Fund and Other Assessments:

A liability for guaranty fund and other assessments (net of certain offsets depending on state rules) is accrued when all of the following conditions are met; 1) An assessment has been imposed or information available prior to issuance of the statutory financial statements indicates that it is probable that an assessment will be imposed, 2) the event obligating an entity to pay an imposed or probable assessment has occurred on or before the date of the financial statements, and 3) the amount of the assessment can be reasonably estimated. Under U.S. GAAP, the assessment recognized is typically accrued when premiums are written because the assessment generally is based on prospective premium writings.

f. Electronic Data Processing (EDP) Equipment and Operating System Software:

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

g. Statements of Cash Flow:

Cash, cash equivalents 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 of losses) are recorded in the income statement in the year incurred instead of being amortized over the remaining life of the instrument sold or called.

i. Asset Valuation Reserve:

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Basis of Presentation (Continued)

j. *Benefit Reserves:*

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

k. *Reinsurance:*

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

l. *Comprehensive Income:*

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

m. *Surplus Notes:*

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

n. *Statutory Requirements*

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

o. *Annuity Contracts*

Contracts that have any mortality and morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts and amounts received under these contracts are reported as revenue for statutory reporting purposes, whereas under GAAP, for contracts, that do not subject the Company to significant risks arising from mortality or morbidity, the amounts received are reported as increases to policyholder account balances.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Basis of Presentation (Continued)

p. Unauthorized Reinsurer:

A liability is established when the reserves ceded to an unauthorized reinsurer exceed the eligible collateral supporting the reserves. Changes to these amounts are credited or charged directly to unassigned surplus. Under GAAP, no such liability is required.

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.

In December 1994, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 94-5, Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises. This statement requires insurance enterprises to make disclosures in their financial statements regarding the accounting methods used in their statutory basis financial statements that are permitted by state insurance departments rather than prescribed statutory accounting practices. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. At December 31, 2019 and 2018, the Company had no permitted accounting practices.

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, 2019 and 2018

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

Risks and Uncertainties

Certain risks and uncertainties are inherent to the Company's day-to-day operations and to the process of preparing its statutory financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory financial statements.

Reinsurance – Indemnity reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Based on high rating of its reinsurers, management believes that any liability arising from this contingency would not be material to the Company's financial position.

Investments – The Company is exposed to risks that issuers of securities owned by the Company will default, or that interest rates will change and cause a decrease in the value of its investments. Management mitigates these risks by conservatively investing in high-grade securities and by matching maturities of its investments with the anticipated payouts of its liabilities.

External Factors – The Company is regulated by the state in which it is domiciled. Such regulations, among other things, limit the amount of dividends and impose restrictions on the amount and types of investments the Company can carry on its statutory statements of admitted assets, liabilities and capital and surplus.

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.

Single-class and multi-class mortgage-backed and asset-backed securities are valued at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions for single-class and multi-class mortgage-backed and asset-backed securities are obtained from internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all single class and multi-class mortgage-backed and asset-backed securities.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Valuations of Investments (Continued)

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.

Mortgage-backed securities are stated at amortized cost. All single-class and multi-class mortgage-backed/asset-backed securities (i.e., collateralized mortgage obligations) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discounts or amortization of premiums of such securities using either the retrospective or prospective methods. The retrospective adjustment method is used to value all such securities, except principal-only and interest-only securities and such securities with NAIC designations of 3 to 6, which are valued using the prospective method. Gains and losses on mortgage loans would be recorded through surplus.

Mortgage loans on real estate are reported at unpaid principal balances, less an allowance for impairments. A mortgage loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage agreement. When management determines foreclosure is probable and the impairment is other-than-temporary, the mortgage loan is written down and a realized loss is recognized. There were no write downs for the years ended December 31, 2019 and 2018.

The highest-quality or high-quality preferred stocks (NAIC designations 1 and 2), which have characteristics of debt securities, are valued at cost or amortized cost. All other preferred stocks (NAIC designations 3 to 6) are reported at the lower of cost, amortized cost, or fair value.

Common stocks are reported at market value as determined by the NAIC's Securities Valuation Office ("SVO") and the related net unrealized capital gains (losses) are reported in unassigned surplus net of any adjustment for federal income taxes.

Fair Values of Financial Instruments

The fair value of preferred, common stock, derivatives, and other invested assets including the methods and assumptions used to estimate such amounts are described Note 3. Other financial instruments include cash and short-term investments. The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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.

Short-term Investments

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition. These investments are carried at cost and adjusted, where appropriate, for amortization of premium or discount using the interest method.

Other Invested Assets

Other invested assets, which may include, but are not limited to, real estate joint venture investments, surplus debentures, and collateralized loans, are reported at book value.

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, 2019 and 2018 totaled **\$238,170** and \$208,123, respectively. Maintenance and repairs that do not materially extend the useful lives are charged to earnings as incurred.

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.

Aggregate Reserves and Liability for Deposit-Type Contracts

The liability for life policyholder reserves is based on various standard industry mortality tables using prescribed statutory valuation 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.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Aggregate Reserves and Liability for Deposit-Type Contracts (Continued)

Reserves for individual annuity contracts are computed primarily using the Commissioners' Annuity Reserve Valuation Method (CARVM).

Reserves for deposit-type contracts, which do not subject the reporting entity to any risks arising from policy holder mortality or morbidity, are equal to deposits received and interest credited to the benefit of contract holders, less fees and other charges assessed and surrenders or withdrawals that represent a return to the contract holders. The Company has determined that certain MYGA contracts without riders do not expose the Company to incremental loss related to mortality and classifies these contracts as deposit-type contracts using a CARVM reserve balance.

The reserve for policy and contract claims consists of case-basis estimates for reported claims and estimates for unreported claims based on past claims reporting experience. Management believes reserves for policy and contract claims are adequate to cover the ultimate liability. However, the ultimate claim costs may vary from the amounts presently provided. Policy and contract claims payable estimates are reviewed quarterly using a hindsight analysis of the prior booked claim reserves and future estimates are adjusted to reflect current conditions and claim trends. The resulting adjustments are reflected in the operating results in the year the revisions are made.

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, 2019 and 2018, the Company had **48** and 51 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 **\$2,624** and \$2,841 less than net premiums for 2019 and 2018, 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. 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.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Aggregate Reserves and Liability for Deposit-Type Contracts (Continued)

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 **\$75,234** as of December 31, 2019 and the prior year with a balance of \$78,533 as of December 31, 2018.

Contract Claims

Claim reserves include estimates for policy and contract claims reported and in the process of settlement, valued in accordance with the terms of the related policies and contracts. Claim reserves also include provisions for claims incurred and unreported based on industry statistics and on the Company's claims experience from prior periods. These liabilities are subject to the impact of future development of the claims experience and are adjusted as necessary by charges to current operations.

Interest Maintenance Reserve

The interest maintenance reserve ("IMR") captures, for all types of fixed-income investments, the realized capital gains and losses that result from changes in the overall level of interest rates and amortizes these capital gains and losses into income over the remaining life of the investment sold.

Asset Valuation Reserve

The AVR is a contingency reserve for possible credit losses on investments. It addresses specific risk areas and consists of two components – the default component and the equity component. The default component contains provisions for future credit-related losses on fixed income investments including corporate debt securities and mortgage loans. The equity and other invested asset component cover all other invested assets. This reserve could materially change from year to year based on recorded value of debt and equity investments.

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.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>2019</u>		<u>2018</u>	
	<u>Gross</u>	<u>Net of Loading</u>	<u>Gross</u>	<u>Net of Loading</u>
Ordinary new business	\$ 991,634	\$ 212,235	\$ 957,407	\$ 207,825
Ordinary renewal	4,175,873	3,022,234	4,000,216	2,883,330
Total	\$ 5,167,507	\$ 3,234,469	\$ 4,957,623	\$ 3,091,155

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.

Income Tax

Current income taxes incurred are charged to the statements of operations based on tax returns for the current year and tax contingencies for current and all prior years, to the extent not previously provided.

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. Among other provisions, the TCJA reduces the U.S. federal corporate tax rate to 21%. The Company has estimated its benefits from the income taxes in accordance with TCJA and guidance available as of the date the financial statements were issued. For certain items, the Company has been able to make reasonable estimates of the effects on deferred tax assets and liabilities, which is included as a component of unassigned surplus. Regarding other items for which reasonable estimates could not be made, the Company continues to account for such items based on provisions of the federal tax laws in effect prior to the enactment of the TCJA. Deferred tax assets and liabilities were remeasured and adjusted, at December 31, 2017, based on the new 21% rate, which is the rate at which the assets and liabilities are expected to reverse in subsequent years.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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

Income Tax (Continued)

Deferred tax assets (“DTAs”) and deferred tax liabilities (“DTLs”) are recognized for the future tax consequences attributable to differences between the statutory basis financial statement carrying amounts of existing assets and liabilities and their respective tax bases. DTAs and DTLs are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Income taxes are subjected to certain admissibility criteria as defined in SSAP 101 – Income Taxes. The effect of DTAs and DTLs of a change in tax rates is recognized in accumulated surplus (deficit) in the period that includes the enactment date.

Related Party Transactions

A transaction between related parties involving the exchange of assets or liabilities is classified as either an economic transaction or a non-economic transaction. An economic transaction is defined as an arm’s-length transaction which results in the transfer of risks and rewards of ownership and represents a consummated act thereof, i.e., “permanence.” Non-economic transactions between the Company and a related party insurance entity are recorded at the lower of existing book values or fair values at the date of the transaction. Non-economic transactions between the Company and related parties that are not insurance entities are recorded at the fair value at the date of the transaction; however, to the extent that the transaction results in a gain, an offsetting unrealized capital loss and liability is recorded to defer any impact on surplus. Economic transactions between the Company and other related parties are recorded at fair value at the date of the transaction. To the extent that the related parties are affiliates under control of the Company, the Company defers the effects of such transactions that result in gains or increases in surplus by recording an offsetting unrealized capital loss and liability. A transaction involving services between related parties is recorded at the amount charged and is generally subject to regulatory approval.

Accounting Presentation Changes

Prior to 2019, the Company netted its funds held investment expense against net investment income on the statement of income. For 2019, the funds held investment expense is shown as a separate line item and net investment is presented gross of funds investment income. There is no affect to net income or unassigned surplus as a result of this change in presentation.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS

Bonds and stocks at December 31, 2019, are summarized as follows:

	Cost or Adjusted Carrying Value	Fair Value	Excess of Fair Value Over Book Value
Bonds:			
Government bonds	\$ 34,731,477	\$ 36,090,845	\$ 1,359,368
Residential mortgage- backed securities	28,851,959	30,857,880	2,005,921
Commercial mortgage- backed securities	15,895,486	16,579,987	684,501
Other loan-backed and structured securities	140,650,172	139,654,682	(995,490)
Hybrid securities	201,198	209,508	8,310
Industrial and miscellaneous bonds	184,004,079	189,186,039	5,181,960
Total bonds	\$ 404,334,371	\$ 412,578,941	\$ 8,244,570
Stocks:			
Preferred stocks	\$ 6,088,577	\$ 6,232,611	\$ 144,034
Common stocks	8,854,363	1,854,316	(7,000,047)
Total stocks	\$ 14,942,940	\$ 8,086,927	\$ (6,856,013)

Bonds and stocks at December 31, 2018, are summarized as follows:

	Cost or Adjusted Carrying Value	Fair Value	Excess of Fair Value Over Book Value
Bonds:			
Government bonds	\$ 44,078,449	\$ 44,159,543	\$ 81,094
Residential mortgage- backed securities	35,844,845	38,998,027	3,153,182
Commercial mortgage- backed securities	66,834,810	67,114,581	279,771
Other loan-backed and structured securities	239,845,710	235,113,946	(4,731,764)
Hybrid securities	1,729,389	1,606,923	(122,466)
Industrial and miscellaneous bonds	376,562,755	367,095,344	(9,467,411)
Total bonds	\$ 764,895,958	\$ 754,088,364	\$ (10,807,594)
Stocks:			
Preferred stocks	\$ 3,634,677	\$ 3,327,854	\$ (306,823)
Common stocks	4,015,843	4,015,843	-
Total stocks	\$ 7,650,520	\$ 7,343,697	\$ (306,823)

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS (Continued)

While all available information is taken into account, it is difficult to predict the ultimate recoverable amount of a distressed security. The following table discloses unrealized investment losses by class of investment at December 31. The Company considers these investments to be temporarily impaired and expects a full recovery:

(\$ 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, 2019							
Bonds:							
U.S. government and agencies	12	\$ 3,911	\$ (7)	-	\$ -	\$ -	\$ (7)
Industrial and miscellaneous	72	10,361	(117)	15	6,259	(149)	(266)
Hybrid securities	-	-	-	-	-	-	-
Mortgage-backed securities	28	33,278	(479)	51	56,354	(2,076)	(2,555)
Total bonds	112	47,550	(603)	66	62,613	(2,225)	(2,828)
Common stock	-	-	-	-	-	-	-
Preferred stock	6	1,678	(134)	6	1,055	(213)	(347)
Derivatives (assets)	60	341	(137)	-	-	-	(137)
Derivatives (liabilities)	501	(8,571)	(4,857)	-	-	-	(4,857)
Total	679	40,998	(5,731)	72	63,668	(2,438)	(8,169)
Investment grade bonds	112	\$ 47,550	\$ (603)	66	\$ 62,613	\$ (2,225)	\$ (2,828)
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	112	\$ 47,550	\$ (603)	66	\$ 62,613	\$ (2,225)	\$ (2,828)

(\$ 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, 2018							
Bonds:							
U.S. government and agencies	8	\$ 10,238	\$ (125)	16	\$ 21,611	\$ (550)	\$ (675)
Industrial and miscellaneous	347	225,212	(6,168)	203	95,769	(4,578)	(10,746)
Hybrid securities	3	801	(71)	2	348	(53)	(124)
Mortgage-backed securities	139	167,493	(4,628)	34	53,484	(2,320)	(6,948)
Total bonds	497	403,744	(10,992)	255	171,212	(7,501)	(18,493)
Common stock	-	-	-	-	-	-	-
Preferred stock	5	1,555	(131)	2	1,055	(213)	(344)
Derivatives (assets)	356	809	(2,836)	-	-	-	(2,836)
Derivatives (liabilities)	5	(60)	(3)	-	-	-	(3)
Total	863	\$ 406,048	\$ (13,962)	257	\$ 172,267	\$ (7,714)	\$ (21,676)
Investment grade bonds	497	\$ 403,744	\$ (10,992)	255	\$ 171,212	\$ (7,501)	\$ (18,493)
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	497	\$ 403,744	\$ (10,992)	255	\$ 171,212	\$ (7,501)	\$ (18,493)

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS (Continued)

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, 2019 and 2018 represent a temporary decline in market value.

Maturities of bonds are as follows:

	Book Adjusted Carrying Value	Fair Value
One Year or Less	\$ 23,785,829	\$ 24,270,834
Over One Year Through Five Years	125,677,623	128,240,249
Over Five Years Through Ten Years	213,771,301	218,130,199
Over ten Years Through Twenty Years	28,554,839	29,137,086
Over 20 Years	12,544,779	12,800,573
Total by maturity	\$ 404,334,371	\$ 412,578,941

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS (Continued)

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

	<u>2019</u>	<u>2018</u>
Bonds:		
Gross gains from sales	\$ 1,753,203	\$ 2,172,578
Gross losses from sales	(399,096)	(1,361,428)
Preferred stock:		
Gross gains from sales	-	10,766
Gross losses from sales	(49,000)	(37,265)
Common stock:		
Gross gains from sales	42,157	24,382
Gross losses from sales	(42,156)	(40,230)
Other invested assets:		
Gross gains from sales	147	-
Gross losses from sales	(18,215)	-
Derivatives:		
Gain on sale of derivatives	2,289,225	624,024
Loss on sale of derivatives	(2,802,524)	(652,955)
Amount transferred to IMR net of tax	(1,352,367)	(945,892)
Capital gains (tax) benefit	(162,486)	(155,373)
Net capital gains (losses)	<u>\$ (741,112)</u>	<u>\$ (361,393)</u>

At December 31, 2019 and 2018, bonds with an admitted asset value of **\$2,879,231** and \$2,817,152 were on deposit with state insurance departments to satisfy regulatory requirements.

At December 31, 2019 and 2018, FHLB capital stock- Class B, not exclusively under the control of the reporting entity, totaled **\$1,520,100** and \$966,400, respectively.

Cash, Cash Equivalents and Short-Term Investments

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

	<u>2019</u>	<u>2018</u>
Cash, cash equivalents and short-term investments:		
Cash	\$ 91,153,660	\$ 16,384,334
Cash equivalents	7,845,949	83,635,431
Short-term investments	6,752,498	14,145,579
Total cash, cash equivalents and short-term investments	<u>\$ 105,752,107</u>	<u>\$ 114,165,344</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS (Continued)

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, 2019 and 2018, such amounts were in excess of the FDIC insurance limit of \$250,000. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on this balance due to the financial integrity of this institution.

The Company invests in money market mutual funds that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market mutual fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. As of December 31, 2019 and 2018 the Company held **\$7,845,949** and \$65,647,795 in money market mutual funds, respectively.

Mortgage Loans

In 2019, the Company participated in joint commercial mortgages with Asset Capital Management. The participated joint commercial mortgages had a minimum rate of 5.00 percent and a maximum rate of 8.00 percent. The participating mortgages had loan-to-values with a minimum of 5.69 percent and maximum of 79.4 percent (participating portion versus security value).

In 2018, the Company participated in eighteen joint commercial mortgages with Asset Capital Management. The participated joint commercial mortgages had a minimum rate of 4.75% percent and a maximum rate of 10.5 percent. The participating mortgages had loan-to-values with a minimum of 6.81% and maximum of 73.42% (participating portion versus security value).

Mortgage loans at December 31, 2019 and 2018 totaled **\$74,030,594** and \$258,488,294 respectively. As of December 31, 2019 and 2018, the Company had **\$0** and \$0, respectively of mortgage loans with interest more than 180 days past due. There are no contractual commitments made to extend credit to debtors owning receivables whose terms have been modified in troubled debt restructurings. The Company's policy is the accrue interest income on impaired loans, if any, to the extent deemed collectible and the loan continues to perform under its original or restructured contractual terms. Interest income on nonperforming loans would general be recognized on a cash basis.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS (Continued)

At December 31 NAIC 5* securities are summarized as follows:

	Number of 5* Securities	Aggregate BACV	Aggregate Fair Value
December 31, 2019:			
Preferred Stock	1	\$ 126,277	\$ 139,731
Total	1	\$ 126,277	\$ 139,731

	Number of 5* Securities	Aggregate BACV	Aggregate Fair Value
December 31, 2018:			
Preferred Stock	1	\$ 123,375	\$ 123,375
Total	1	\$ 123,375	\$ 123,375

Real Estate

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

	2019	2018
Occupied by the Company:		
Land	\$ 364,100	\$ 364,100
Properties occupied by the Company	5,246,401	5,246,401
Accumulated depreciation	(732,341)	(621,326)
Net real estate occupied by the Company	4,878,160	4,989,175
For the production of income:		
Buildings	2,977,117	-
Net real estate held for the production of income	2,977,117	-
Net real estate	\$ 7,855,277	\$ 4,989,175

Subprime Mortgage Related Risk Exposure

The Company had direct exposure to subprime mortgage related risk as of December 31, 2019 through investments in residential mortgage backed securities with underlying assets of subprime mortgages. The Company owned investments in numerous residential mortgage backed securities as of December 31, 2019 and 2018 representing approximately **1.67%** and 1.2%, respectively, of total invested assets.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS (Continued)

Subprime Mortgage Related Risk Exposure (Continued)

As of December 31, 2019, the Funds Withheld account, associated with Annuity Reinsurance Agreements, represented **\$10,755,351** of the **\$11,512,194** subprime investments or approximately **93.43%** of the exposure. As of December 31, 2018, the Funds Withheld account, associated with Annuity Reinsurance Agreements, represented **\$13,930,467** of the \$14,853,307 subprime investments or approximately 93.79% of the exposure.

Derivatives

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

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

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

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS (Continued)

Derivatives (Continued)

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

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

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

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

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

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

2. INVESTMENTS (Continued)

Derivatives (Continued)

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

Derivative instruments are carried at values consistent with the items being hedged. As of December 31, 2019 and 2018, options were carried at fair value.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used in estimating the fair market value disclosures for financial instruments:

Cash, cash equivalents, and short-term investments – the carrying amounts reported in the statutory basis balance sheet for these instruments approximate their fair values.

Investment securities – fair values are based on quoted market prices or dealer quotes.

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

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

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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 \$0 for the year ended December 31, 2019 and 2018, respectively.

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

Assets Measured at Fair Value				
	Fair Value	Level 1	Level 2	Level 3
December 31, 2019:				
Assets at fair value:				
Common	\$ 1,854,316	\$ 216	\$ -	\$ 1,854,100
Other invested assets	16,924,768	-	-	16,924,768
Derivatives	14,360,043	-	-	14,360,043
Bonds	12,927,206	-	-	12,927,206
Total assets at fair value	46,066,333	216	-	46,066,117
Liabilities at fair value:				
Derivatives	(8,612,009)	-	-	(8,612,009)
Total liabilities at fair value	(8,612,009)	-	-	(8,612,009)
Total	\$ 37,454,324	\$ 216	\$ -	\$ 37,454,108
Assets Measured at Fair Value				
	Fair Value	Level 1	Level 2	Level 3
December 31, 2018:				
Assets at fair value:				
Common	\$ 4,015,843	\$ 218	\$ -	\$ 4,015,625
Other invested assets	83,996,508	-	2,042,704	81,953,804
Derivatives	1,357,173	-	-	1,357,173
Bonds	808,980	-	808,980	-
Total assets at fair value	90,178,504	218	2,851,684	87,326,602
Liabilities at fair value:				
Derivatives	(514,149)	-	-	(514,149)
Total liabilities at fair value	(514,149)	-	-	(514,149)
Total	\$ 89,664,355	\$ 218	\$ 2,851,684	\$ 86,812,453

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

2019						
Type of financial instrument:	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 412,578,941	\$ 404,334,371	\$ -	\$ 332,072,700	\$ 80,506,241	\$ -
Preferred stock	6,232,611	6,088,577	3,232,611	-	3,000,000	-
Common stock	1,854,316	1,854,316	216	-	1,854,100	-
Mortgage loans	-	74,030,594	-	-	-	74,030,594
Real estate	-	7,855,277	-	-	-	7,855,277
Cash and cash equiv.	105,752,107	105,752,107	105,752,107	-	-	-
Contract loans	-	1,667,258	-	-	-	1,667,258
Derivatives assets	14,360,043	14,360,043	-	-	14,360,043	-
Other invested assets	16,924,768	16,924,768	-	-	16,924,768	-
Total	\$ 557,702,786	\$ 632,867,311	\$ 108,984,934	\$ 332,072,700	\$ 116,645,152	\$ 83,553,129

2018						
Type of financial instrument:	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 754,088,364	\$ 764,895,958	\$ -	\$ 680,544,128	\$ 73,544,236	\$ -
Preferred stock	3,327,854	3,634,677	3,327,852	-	2	-
Common stock	4,015,843	4,015,843	218	-	4,015,625	-
Mortgage loans	-	258,488,294	-	-	-	258,488,294
Real estate	-	4,989,175	-	-	-	4,989,175
Cash and cash equiv.	114,165,344	114,165,344	114,165,344	-	-	-
Contract loans	-	1,554,659	-	-	-	1,554,659
Derivatives assets	1,357,174	1,357,173	-	-	1,357,174	-
Other invested assets	83,996,508	84,009,544	-	2,042,704	81,953,804	-
Total	\$ 960,951,087	\$ 1,237,110,667	\$ 117,493,414	\$ 682,586,832	\$ 160,870,841	\$ 265,032,128

The explanation for the financial instrument not measured as of December 31, 2019 is as follows:

2019				
Type or class of financial instrument:	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Mortgage loans	\$ 74,030,594	Various	Various	Mortgage loans not actively traded
Real estate	\$ 7,855,277	n/a	n/a	Real estate is not actively being marketed for sale
Contract loans	\$ 1,667,258	n/a	n/a	Contract loans not actively traded

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The explanation for the financial instrument not measured as of December 31, 2018 is as follows:

Type or class of financial instrument:	2018			
	Carrying Value	Effective Interest Rate	Maturity Date	Explanation
Mortgage loans	\$ 258,488,294	Various	Various	Mortgage loans not actively traded
Real estate	\$ 4,989,175	n/a	n/a	Real estate is not actively being marketed for sale
Contract loans	\$ 1,554,659	n/a	n/a	Contract loans not actively traded

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

	Investment Class		
	Common Stock	Other Invested Assets	Derivatives
Beginning Balance, January 1, 2018	\$ 8,546,597	\$ -	\$ 555,076
Transfers into Level 3	-	35,228,704	-
Transfers out of Level 3	-	-	-
Total gains (losses) included in net income	(15,847)	-	(28,932)
Total gains (losses) included in surplus	(403,190)	814,730	(1,316,018)
Purchases	6,656,716	90,376,812	2,062,028
Issuances	-	-	-
Sales	(10,768,651)	(44,466,442)	(429,129)
Settlements	-	-	-
Ending Balance, December 31, 2018	4,015,625	81,953,804	843,025
Transfers into Level 3	250,000	2,094,024	-
Transfers out of Level 3	-	-	-
Total gains (losses) included in net income	-	(18,068)	(514,055)
Total gains (losses) included in surplus and funds held	(7,000,000)	528,026	1,682,868
Purchases	10,137,700	52,095,447	9,749,413
Issuances	-	-	-
Sales	(5,549,225)	(118,774,328)	(6,013,217)
Settlements	-	-	-
Amounts nonadmitted	-	(954,137)	-
Ending Balance, December 31, 2019	\$ 1,854,100	\$ 16,924,768	\$ 5,748,034

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

Fixed Income – Brokers

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

3. **FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

Fixed Income – Other Sources

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

Fixed Income – Purchase Price

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

Equities – Other Sources

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

Equities – Purchase Price

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

Preferred Equities – Brokers

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

Preferred Equities – Other Sources

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

Derivatives

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

4. CONTINGENT LIABILITIES

The Company is subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct and litigation related to regulatory activity. These nonclaims litigation matters are considered in general expense accruals. Legal and regulatory actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal and regulatory matters. A future adverse ruling by the courts in any of these pending cases could have a material adverse impact on the financial condition of the Company.

Based on management's best assessment at this time, the Company is adequately reserved for these cases as of December 31, 2019 and 2018.

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.

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, 2019 and 2018, 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 2019 and 2018.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

5. CAPITAL AND SURPLUS (Continued)

The portion of unassigned funds (surplus) represented or (reduced) by cumulative unrealized gains and (losses) in 2019 and 2018 was **(\$2,566,167)** and (\$878,712) respectively. The portion of unassigned funds (surplus) represented or (reduced) by nonadmitted asset values in 2019 and 2018 was **\$11,799,034** and \$11,516,398, respectively.

6. EMPLOYEE BENEFITS

For the years ended December 31, 2019 and 2018, the Company's employees are covered by a qualified defined contribution plan sponsored by the Company. The plan is a Safe Harbor Plan whereby the Company matches employees' contributions on a dollar-for-dollar basis on the initial 3% that the employee contributes and 50% on the next 2% that the employee contributes. The plan covers affiliates within the holding company structure. Total contributions for all members of the participating group was **\$1,494,513** and \$611,905 of employee compensation in 2019 and 2018, respectively. As of December 31, 2019 and 2018, the fair value of the plan assets for the group was **\$7,232,975** and \$5,084,982, 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.

7. RELATED PARTIES

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.

As of December 31, 2019 and 2018, SMP owed the Company **\$724,273** and \$1,092,401, respectively, for the shared services.

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.

As of December 31, 2019 and 2018, SAS owed the Company **\$7,623,646** and \$10,706,774, respectively, for the shared services. As of December 31, 2019 and 2018, the Company owed SAS **\$659,804** and \$321,491, respectively, for the TPA services performed during the year.

On April 3, 2017, the Utah Insurance Department – Captive Division approved the formation of Jazz Re, a wholly owned pure captive insurance company. In April of 2017, the company funded the captive with minimal capital requirements as required by the State of Utah. Jazz Re will reinsure selected blocks of annuities issued by the Company.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

7. RELATED PARTIES (Continued)

As of December 31, 2019 and 2018, Jazz Re owed the Company **\$773,236** and \$0 for amounts due to the Company under reinsurance agreements, respectively. As of December 31, 2019, the Company owed Jazz Re **\$300,000** and \$0, respectively, for amounts due related to contributed capital.

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

For the years ended December 31, 2019 and 2018, the Company paid ACM **\$1,927,804** and \$1,907,867, respectively, for the aforementioned services. The Company paid Ad West, **\$2,044,610** and \$2,374,695, respectively, for the years ended December 31, 2019 and 2018 in accordance with the services agreement.

As of December 31, 2019 and 2018, the Company owed **\$522,467** and \$357,175 respectively for services provided under the management and consulting agreements.

As of December 2019, the Company had a contribution receivable from its direct parent, Ad West, in the amount of \$4,000,000. See Note 17 for additional information.

The Company has a master contribution agreement with Secure Financial Services, LLC ("SFS"), an affiliate, whereby SFS is authorized to act as a commission factoring intermediary and collect assigned commission receivables on behalf of the Company. As of December 31, 2019 and 2018, the Company had a receivable (payable) with SFS of **\$68,067** and \$81,872, respectively.

The Company has investments in affiliated entities as of December 31, 2019 and 2018, which consist of:

	<u>2019</u>	<u>2018</u>
Bonds	\$ -	\$ 2,104,211
Common stock	\$ 250,000	\$ 3,270,884
Other invested assets	\$ 14,890,599	\$ 10,840,926

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

8. NET INVESTMENT INCOME

Net investment income is comprised of the following:

	<u>2019</u>	<u>2018</u>
Investment income:		
Bonds	\$ 30,717,341	\$ 11,235,875
Preferred stocks	330,349	286,278
Common stocks	280,209	281,274
Mortgage loans	11,118,290	3,407,675
Real estate	395,642	389,035
Policy loans	113,465	124,871
Cash and short-term investments	106	1,252
Derivative instruments	-	36,684
Other invested assets	<u>6,276,594</u>	<u>630,580</u>
Total	49,231,996	16,393,524
Less:		
Allocated expenses:		
Depreciation	111,015	114,727
Interest expense	1,649,999	1,476,164
Investment taxes, licenses and fees	55,904	44,755
Investment expenses	<u>2,041,655</u>	<u>2,435,088</u>
Net investment income	<u>\$ 45,373,423</u>	<u>\$ 12,322,790</u>

9. REINSURANCE

Reinsurance Ceded

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

Reinsurance ceded has reduced premiums by **\$446,529,006** and \$284,375,321, aggregate reserves and consideration received for deposit type contracts by **\$2,455,800,289** and \$1,858,942,355 for the years ended December 31, 2019 and 2018, respectively, and for accident and health contracts by **\$1,063,300** and \$1,114,110, respectively. During 2019 and 2018, 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, 2019 and 2018

9. REINSURANCE (Continued)

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

	2019	2018
Premiums:		
Gross	\$ 506,500,372	\$ 334,478,233
Ceded	(446,529,006)	(284,368,502)
Net premiums	\$ 59,971,366	\$ 50,109,731
Deposit type contracts:		
Deposits received	\$ 1,215,676,496	\$ 874,028,561
Ceded	(1,115,964,431)	(799,599,210)
Net deposit type contracts	\$ 99,712,065	\$ 74,429,351
Net due and deferred:		
Gross due and deferred:		
Gross	\$ 5,103,172	\$ 4,957,623
Ceded	-	-
Net gross due and deferred	5,103,172	4,957,623
Loading:		
Gross	(1,905,388)	(1,866,468)
Ceded	-	-
Net loading	(1,905,388)	(1,866,468)
Net due and deferred:		
Gross	3,197,785	3,091,156
Ceded	-	-
Net due and deferred	\$ 3,197,785	\$ 3,091,156
Aggregate reserves - life:		
Gross	\$ 1,628,437,333	\$ 1,223,147,859
Ceded	(1,339,835,858)	(1,059,343,145)
Net aggregate life reserves	\$ 288,601,475	\$ 163,804,714
Aggregate reserves - accident and health:		
Gross	\$ 1,333,095	\$ 1,343,958
Ceded	(1,063,300)	(1,134,110)
Net accident and health reserves	\$ 269,796	\$ 209,848
Claims payable:		
Gross	\$ 5,949,205	\$ 5,935,805
Ceded	(4,224,969)	(4,425,491)
Net claims payable	\$ 1,724,236	\$ 1,510,314
Claims:		
Gross	\$ 70,723,536	\$ 68,672,465
Ceded	(58,457,469)	(57,781,550)
Net claims	\$ 12,266,067	\$ 10,890,915

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
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9. REINSURANCE (Continued)

Of the amounts reinsured above, the Company has ceded amounts to unauthorized reinsurers. For each of the unauthorized reinsurers, the Company withholds funds due to the reinsurer through a funds held approach. The amounts ceded for aggregate reserves and consideration received for deposit type contracts by these entities as of December 31, 2019 and 2018, was **\$125,26,031** and \$536,157,165, respectively.

The Company also cedes amounts to two authorized affiliate reinsurers. The amounts ceded for aggregate reserves and consideration received for deposit type contracts by these two entities as of December 31, 2019 and 2018, was **\$1,944,507,943** and \$927,522,009, respectively.

The Company also cedes amounts to unaffiliated authorized reinsurers. The amounts ceded for aggregate reserves and consideration received for deposit type contracts by these entities as of December 31, 2019 and 2018, was **\$386,266,313** and \$395,263,181, respectively.

During the first quarter of 2019, the Company amended its reinsurance agreements with Haymarket Insurance Company ("HIC"), a related party. The Company and HIC amended the agreements to change from a funds held basis to a co-insurance basis. Upon approval from the respective departments of insurance, the funds held assets were transferred to HIC. The amendments to the reinsurance agreements have been approved by the respective insurance departments and made effective May 1, 2019.

Also during the first quarter of 2019, the Company filed for approval with the Utah Insurance Department to enter into two Novation and Amendment Agreements between the Company, Knighthood Annuity & Life Insurance Company, and Jazz Reinsurance Company (Jazz Re) for its Multi-Year Guaranteed Annuity (MYGA) policies and Summit Bonus Index Annuity products. As part of this filing, the Company also requested approval from the Utah Insurance Department to enter into an indemnity coinsurance agreement with Jazz Re for interest of the Company's aforementioned annuity policies and products. The Utah Insurance Department approved these filings on May 10, 2019.

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, 2019 and 2018, there are no reinsurance agreements in effect such that the amount of losses paid or accrued exceed the total direct premium collected.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

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:

		2019		
		(1)	(2)	(3)
		Ordinary	Capital	(Col 1+2) Total
(a)	Gross deferred tax assets	\$ 7,660,264	\$ 3,278,119	\$ 10,938,383
(b)	Statutory valuation allowance adjustments	-	21,475	21,475
(c)	Adjusted gross deferred tax assets (1a - 1b)	7,660,264	3,256,644	10,916,908
(d)	Deferred tax assets nonadmitted	3,256,645	-	3,256,645
(e)	Subtotal net admitted deferred tax asset (1c - 1d)	4,403,619	3,256,644	7,660,263
(f)	Deferred tax liabilities	1,952,384	-	1,952,384
(g)	Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	\$ 2,451,235	\$ 3,256,644	\$ 5,707,879

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

10. FEDERAL INCOME TAXES (Continued)

		2018		
		(4)	(5)	(6)
		Ordinary	Capital	(Col 4+5) Total
(a)	Gross deferred tax assets	\$ 7,567,208	\$ 23,679	\$ 7,590,887
(b)	Statutory valuation allowance adjustments	-	21,475	21,475
(c)	Adjusted gross deferred tax assets (1a - 1b)	7,567,208	2,204	7,569,412
(d)	Deferred tax assets nonadmitted	1,221,292	-	1,221,292
(e)	Subtotal net admitted deferred tax asset (1c - 1d)	6,345,916	2,204	6,348,120
(f)	Deferred tax liabilities	2,077,811	28,470	2,106,281
(g)	Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u>\$ 4,268,105</u>	<u>\$ (26,266)</u>	<u>\$ 4,241,839</u>
		Change		
		(7)	(8)	(9)
		Ordinary	Capital	(Col 7+8) Total
(a)	Gross deferred tax assets	\$ 93,056	\$ 3,254,440	\$ 3,347,496
(b)	Statutory valuation allowance adjustments	-	-	-
(c)	Adjusted gross deferred tax assets (1a - 1b)	93,056	3,254,440	3,347,496
(d)	Deferred tax assets nonadmitted	2,035,353	-	2,035,353
(e)	Subtotal net admitted deferred tax asset (1c - 1d)	(1,942,297)	3,254,440	1,312,143
(f)	Deferred tax liabilities	(125,427)	(28,470)	(153,897)
(g)	Net admitted deferred tax asset/(net deferred tax liability) (1e - 1f)	<u>\$ (1,816,870)</u>	<u>\$ 3,282,910</u>	<u>\$ 1,466,040</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

10. FEDERAL INCOME TAXES (Continued)

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

	2019		
	(1)	(2)	(3) (Col 1+2)
	Ordinary	Capital	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)	6,119,411	-	6,119,411
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	6,119,411	-	6,119,411
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	7,641,960
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	1,540,852	-	1,540,852
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	\$ 7,660,263	\$ -	\$ 7,660,263
	2018		
	(4)	(5)	(6) (Col 4+5)
	Ordinary	Capital	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)	4,268,105	-	4,268,105
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	4,268,105	-	4,268,105
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	5,382,467
(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	2,077,811	2,204	2,080,015
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	\$ 6,345,916	\$ 2,204	\$ 6,348,120

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

10. FEDERAL INCOME TAXES (Continued)

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

	Change		
	(7)	(8)	(9)
	Ordinary	Capital	(Col 7+8) Total
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)	1,851,306	-	1,851,306
(1) Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,851,306	-	1,851,306
(2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	2,259,494
(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	(536,959)	(2,204)	(539,163)
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	<u>\$ 1,314,347</u>	<u>\$ (2,204)</u>	<u>\$ 1,312,143</u>

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

	2019	2018
(a) Ratio percentage used to determine recovery period and threshold limitation amount	<u>637%</u>	<u>656%</u>
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2 (b) 2 above	<u>\$ 50,946,402</u>	<u>\$ 35,883,111</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

10. FEDERAL INCOME TAXES (Continued)

The impact on the deferred tax calculation at December 31, from the Company's tax planning strategies is as follows:

	2019		2018		Change	
	(1)	(2)	(3)	(4)	(5)	(6)
	Ordinary	Capital	Ordinary	Capital	(Col 1-3) Ordinary	(Col 2-4) Capital
Impact of tax-planning strategies						
(a) Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character as a percentage. Note 9A1(c)						
1. Adjusted gross DTAs amount from Note 9A1(c)	<u>7,660,264</u>	<u>3,256,644</u>	<u>7,567,208</u>	<u>2,204</u>	<u>93,056</u>	<u>3,254,440</u>
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
3. Net admitted adjusted gross DTAs amount from Note 9A1(e)	<u>4,403,619</u>	<u>3,256,644</u>	<u>6,345,916</u>	<u>2,204</u>	<u>(1,942,297)</u>	<u>3,254,440</u>
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
(b) Does the Company's tax-planning strategies include the use of reinsurance:			Yes		No	X

As of December 31, 2019 and 2018:

- (1) There are no temporary differences for which deferred tax liabilities are not recognized.
- (2) The cumulative amount of each type of temporary difference is zero.
- (3) The amount of unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration is zero.
- (4) The amount of the DTL for temporary differences, other than those in item (3) above, that is not recognized is zero.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

10. FEDERAL INCOME TAXES (Continued)

Current income taxes incurred for the year ended December 31, consist of the following major components:

	(1)	(2)	(3)
	2019	2018	(Col 1-2) Change
Current income tax:			
(a) Federal	\$ 5,320,342	\$ 1,185,269	\$ 4,135,073
(b) Foreign	-	-	-
(c) Subtotal	5,320,342	1,185,269	4,135,073
(d) Federal income tax on net capital gains	162,486	155,373	7,113
(e) Utilization of operating loss carry-forwards	(133,711)	(133,711)	-
(f) Other	1,342,123	(295,131)	1,637,254
(g) Federal and foreign income taxes incurred	\$ 6,691,240	\$ 911,800	\$ 5,779,440

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

10. FEDERAL INCOME TAXES (Continued)

Deferred income taxes at December 31 consist of the following major components:

	(1)	(2)	(3)
	2019	2018	(Col 1-2) Change
2. Deferred tax assets:			
(a) Ordinary:			
(1) Policyholder reserves	\$ 2,627,284	\$ 2,577,698	\$ 49,586
(2) Deferred acquisition costs	2,301,318	1,312,202	989,116
(3) Receivables - nonadmitted	1,287,841	2,109,472	(821,631)
(4) Net operating loss carryforward	23,216	156,927	(133,711)
(5) Tax credit carry-forward	1,347,946	1,347,946	-
(6) Other (including <5% total of ordinary tax assets)	72,659	62,963	9,696
(99) Subtotal	7,660,264	7,567,208	93,056
(b) Statutory valuation allowance adjustment	-	-	-
(c) Nonadmitted	3,256,645	1,221,292	2,035,353
(d) Admitted ordinary deferred tax assets (2a99-2b-2c)	4,403,619	6,345,916	(1,942,297)
(e) Capital:			
(1) Investments	1,088,646	2,205	1,086,441
(2) Net capital loss carry-forward	-	-	-
(3) Real estate	-	-	-
(4) Other (including items <5% of total capital tax assets)	2,189,473	21,474	2,167,999
(99) Subtotal	3,278,119	23,679	3,254,440
(f) Statutory valuation allowance adjustment	21,475	21,475	-
(g) Nonadmitted	-	-	-
(h) Admitted capital deferred tax assets (2e99-2f-2g)	3,256,644	2,204	3,254,440
(i) Admitted deferred tax assets (2d + 2h)	7,660,263	6,348,120	1,312,143
3. Deferred tax liabilities:			
(a) Ordinary:			
(1) Investments	-	-	-
(2) Fixed assets	111,231	74,241	36,990
(3) Deferred and uncollected premium	661,126	628,761	32,365
(4) Tax reform - reserve runoff	1,177,782	1,374,079	(196,297)
(5) Other (including items <5% of total ordinary tax liabilities)	2,245	730	1,515
(99) Subtotal	1,952,384	2,077,811	(125,427)
(b) Capital:			
(1) Investments	-	28,470	(28,470)
(2) Real estate	-	-	-
(3) Other (including items <5% of total capital tax liabilities)	-	-	-
(99) Subtotal	-	28,470	(28,470)
(c) Deferred tax liabilities (3a99 + 3b99)	1,952,384	2,106,281	(153,897)
4. Net deferred tax assets/(liabilities) (2i - 3c)	\$ 5,707,879	\$ 4,241,839	\$ 1,466,040

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

9. FEDERAL INCOME TAXES (Continued)

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

	2019	Effective Tax Rate
Provision computed at statutory rate	\$ 3,235,424	21.00 %
Tax exempt income deduction	(79,690)	(0.52)%
Dividends received deduction	(45,508)	(0.30)%
Section 832 interest and dividends	23,907	0.16 %
Disallowed travel and entertainment and expenses	10,964	0.07 %
IMR in operating income	232,218	1.51 %
Change in non admitted assets	821,632	5.33 %
Distribution of SAS & SMP	32,025	0.21 %
Prior year adjustments	(13,741)	(0.09)%
Other	59,058	0.38 %
Total	\$ 4,276,289	27.76 %
Federal and foreign income taxes incurred	\$ 6,528,754	42.38 %
Federal income tax on net capital gains (losses)	162,486	1.05 %
Change in net deferred income taxes	(2,414,951)	(15.67)%
Total statutory income taxes	\$ 4,276,289	27.76 %

As of December 31, 2019 and 2018, the Company had net operating loss (NOL) carryovers in the amount of **\$110,553** and \$747,272, respectively. The NOLs are set to expire in 2029.

The Company had alternative minimum tax credit carryover of **\$1,347,946** and \$1,347,946 as of December 31, 2019 and 2018, respectively.

At December 31, 2019, the Company had not incurred any Federal income taxes that were available for recoupment in the event of future net losses.

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

The Company's federal income tax return is consolidated with its wholly owned subsidiary Jazz Re.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

10. FEDERAL INCOME TAXES (Continued)

Accounting Standard Codification (ASC) 740, *Income Taxes*, 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, 2019 and 2018, 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 2016, 2017, and 2018 tax years are open and subject to examination by the taxing authorities.

Prior to 1984 and the Tax Act, 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. Therefore, the Company had not accrued income taxes on the PSA balance of \$1,220,000 at December 31, 2017. No deferred tax liabilities are recognized related to the PSA.

Under the provisions of the Tax Act, the Internal Revenue Code related to the PSA has been repealed. The Tax Act requires the Company to pay tax on its PSA over an eight-year period. Ordinary life insurance losses are not allowed to offset the PSA subject to tax. The ultimate tax that will be payable on this amount is \$256,200. For the years ended December 31, 2019 and 2018, **\$152,000** and \$152,500, respectively, of the PSA balance was included in taxable income.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

11. DEBT

The Company is a member of the Federal Home Loan Bank (FHLB) of Des Moines, Iowa. Through its membership, the Company has conducted business activity (borrowings) with the FHLB. It is part of the Company's strategy to utilize these funds to increase profitability. The Company has determined the actual/estimated maximum borrowing capacity as \$31,000,000. The Company calculated this amount in accordance with the limitations in the FHLB capital plan.

Aggregate totals as of December 31, are as follows:

	2019	2018
Membership Stock - Class A	\$ -	\$ -
Membership Stock - Class B	1,520,100	966,400
Activity Stock	-	-
Excess Stock	-	-
Total	\$ 1,520,100	\$ 966,400
Actual or estimated borrowing capacity as determined by insurer	\$ 31,000,000	\$ 31,000,000

12. PARTICIPATING POLICIES

At December 31, 2019 and 2018, participating policies account for less than 1% of total insurance, respectively. Total dividends for 2019 and 2018 were **\$11,596** and \$22,918, respectively.

13. 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 was 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. This note was paid in full on March 27, 2017.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

13. SURPLUS NOTE (Continued)

On March 27, 2017, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Bankers Life Insurance Company (lender) in the amount of \$15,000,000. The scheduled maturity date of the loan is December 31, 2031. Subject to the approval of the Insurance Commissioner of the State of Utah, the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1 each year commencing June 1, 2017 at the rate of 6.5% per annum. The proceeds for this surplus note were used to satisfy the obligation of the surplus note between Company and Ability Insurance Company. Effective August 10, 2018, Haymarket Insurance Company, an affiliate, acquired \$5,000,000 of this note with the remainder of the \$10,000,000 acquired June 14, 2019.

On September 25, 2017, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Knighthead Annuity & Life Insurance Company (lender) in the amount of \$5,000,000. The scheduled maturity date of the loan is July 31, 2032. Subject to the approval of the Insurance Commissioner of the State of Utah, the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1 each year commencing June 1, 2017 at the rate of 6.75% per annum.

On May 30, 2018, the Utah Insurance Department approved a contribution (surplus) note between the Company (issuer) and Knighthead Annuity & Life Insurance Company (lender) in the amount of \$5,000,000. The scheduled maturity date of the loan is July 31, 2032. Subject to the approval of the Insurance Commissioner of the State of Utah, the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1 each year commencing June 1, 2017 at the rate of 6.75% per annum.

Each payment of interest and principal on this note may be made only with the prior approval of the Commission of Insurance of the State of Utah and only to the extent the Company has sufficient surplus earning to make such payment. In addition, this note will rank first in line with respect to any subsequently issued surplus note or similarly subordinated claims and allows for the repayment, without penalty, anytime with 45 days advance notice to the lender.

Interest payments on the surplus notes as of December 31, 2019 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>
3/28/2017	6.50%	\$15,000,000	\$15,000,000	\$ 975,001	\$ 2,612,463	\$ -	12/31/2031
9/25/2017	6.75%	5,000,000	5,000,000	337,499	734,178	-	7/25/2032
5/30/2018	6.75%	5,000,000	5,000,000	337,499	327,330	-	7/25/2032
Totals		<u>\$25,000,000</u>	<u>\$25,000,000</u>	<u>\$ 1,649,999</u>	<u>\$ 3,673,971</u>	<u>\$ -</u>	

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

14. LEASES

The Company leases two automobiles with minimum lease terms of 6 months each. The lease expense for the automobiles for the years ended December 31, 2019 and 2018 was **\$15,533** and \$22,365, 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. The lease expired July 1, 2018.

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 **\$(42,703)** and \$(78,763) during the years ended December 31, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
Balance at January 1	<u>\$ 706,878</u>	<u>\$ 655,412</u>
Incurred, related to:		
Current year	5,310,188	4,629,508
Prior years	(42,703)	(78,763)
Total incurred	<u>5,267,485</u>	<u>4,550,745</u>
Paid, related to:		
Current year	4,560,997	3,924,009
Prior years	661,444	575,270
Total paid	<u>5,222,441</u>	<u>4,499,279</u>
Balance at December 31	<u>\$ 751,922</u>	<u>\$ 706,878</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

16. ANALYSIS OF ANNUITY ACTUARIAL RESERVES AND DEPOSIT –TYPE LIABILITIES WITH WITHDRAWAL CHARACTERISTICS

Analysis of annuity actuarial reserves and deposit type liabilities by withdrawal characteristics as of December 31 are as follows:

	<u>Total</u>	<u>% of Total</u>
December 31, 2019:		
Subject to discretionary withdrawal:		
With market value adjustment	\$ 2,462,036,852	88.0%
At book value less current surrender charge of 5% or more	47,838,795	1.7%
At fair value	-	0.0%
Total with market value adjustment or at fair value	2,509,875,647	89.7%
At book value without adjustment (minimal or no charge or adjustment)	283,731,831	10.1%
Not subject to discretionary withdrawal	4,839,521	0.2%
Total (gross: direct + assumed)	2,798,446,999	100.0%
Reinsurance Ceded	2,449,156,575	
Total (net)	\$ 349,290,424	
	<u>Total</u>	<u>% of Total</u>
December 31, 2018:		
Subject to discretionary withdrawal:		
With market value adjustment	\$ 1,851,572,443	93.3%
At book value less current surrender charge of 5% or more	30,064,886	1.5%
At fair value	-	0.0%
Total with market value adjustment or at fair value	1,881,637,329	94.8%
At book value without adjustment (minimal or no charge or adjustment)	97,246,827	4.9%
Not subject to discretionary withdrawal	5,213,027	0.3%
Total (gross: direct + assumed)	1,984,097,183	100.00%
Reinsurance Ceded	1,779,729,055	
Total (net)	\$ 204,368,128	

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements
For the Years Ended December 31, 2019 and 2018

17. **SUBSEQUENT EVENTS**

In preparing these statutory financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through May 29, 2020, the date the financial statements were available to be issued.

As December 31, 2019, the Company recorded a receivable, on approval from the State of Utah Insurance Department, from its parent, Ad West, in the amount of \$4,000,000 for additional paid-in capital. This amount is included on Line 23, Receivables from parent, subsidiaries, and affiliates on page 2 and Line 33, Gross paid-in and contributed surplus, on page 3 of the Company's Annual Statement. The Company received the \$4,000,000 on January 30, 2020. In accordance with SSAP No. 72, *Surplus and Quasi-Reorganizations*, the approved receivable has been treated as a Type I subsequent event in accordance with SSAP No. 9, Subsequent Events, and is considered an admitted asset.

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The subsequent COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of various industry business operations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration.

Since the Company had already prepared itself in the event of disruptions, such as a natural disaster or pandemic, the Company's business continuity plan allowed the Company to continue to operate without disruption by mobilizing its workforce and serve its policyholders virtually. Under the current conditions related to the pandemic the Company has been deemed an essential business and continues operate in accordance with its business continuity plan. As such, the Company believes that it will not be significantly impacted by the coronavirus pandemic.

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, 2019, and our report thereon dated May 29, 2020, 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.

A handwritten signature in black ink that reads "Larson & Company P.C.".

Salt Lake City, Utah
May 29, 2020

SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data

December 31, 2019

	Totals
Investment income earned:	
U.S. Government bonds	\$ 123,220
Other bonds	30,594,121
Preferred stocks	330,349
Common stocks	280,209
Mortgage loans	11,118,290
Real estate	395,642
Policy loans	113,465
Cash and short-term investments	106
Other invested assets	6,276,594
	<u>6,276,594</u>
Gross investment income	<u>\$ 49,231,996</u>
Real estate owned:	
Book value less encumbrances	<u>\$ 7,855,277</u>
Mortgage loans - book value	
Residential mortgages	\$ 2,900,000
Commercial mortgages	71,130,594
	<u>71,130,594</u>
Total mortgages loans	<u>\$ 74,030,594</u>
Mortgage loans by standing - statement value	
Good standing	<u>\$ 74,030,594</u>
Interest overdue more than 90 days, but not in foreclosure	<u>\$ -</u>
Other long-term invested assets	<u>\$ 16,924,768</u>
Bonds by maturity and class:	
Bonds by maturity - statement value	
Due within one year	\$ 23,785,829
Over 1 through 5 years	125,677,623
Over 5 through 10 years	213,771,301
Over 10 through 20 years	28,554,839
Over 20 years	12,544,779
	<u>12,544,779</u>
Total by maturity	<u>\$ 404,334,371</u>
Bonds by NAIC designation - statement value	
NAIC 1	\$ 221,520,346
NAIC 2	162,693,513
NAIC 3	17,500,341
NAIC 4	376,329
NAIC 5	1,753,857
NAIC 6	489,985
	<u>489,985</u>
Total by class	<u>\$ 404,334,371</u>

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data (Continued)

December 31, 2019

	Totals
Total bonds publicly traded	\$ 168,002,559
Total bonds privately placed	\$ 236,331,812
Preferred stocks (statement value)	\$ 6,088,577
Common stocks (market value)	\$ 1,854,316
Short-term investments (book value)	\$ 6,752,498
Cash and cash equivalents on deposit:	
Checking accounts	\$ 91,153,660
Short-term investments	6,752,498
Money market funds	7,845,949
Total cash and cash equivalents on deposit	\$ 105,752,107
Life insurance in force:	
Ordinary	\$ 243,812,804
Amount of accidental death insurance in-force under ordinary policies	\$ 25,302
Life insurance policies with disability provisions in-force under ordinary policies	\$ 1,563
Supplementary contracts in force:	
Ordinary - not involving life contingencies:	
Amount on deposit	\$ -
Income payable	\$ -
Annuities - ordinary:	
Immediate amount of income payable	\$ -
Deferred fully paid account balance	\$ -
Accident and health in force:	
Ordinary	\$ -
Deposit funds and dividend accumulations:	
Deposit funds - account balance	\$ 94,580,720
Dividend accumulations - account balance	\$ 265,389
Claim payments in 2019:	
Other accident and health benefits incurred in year ended December 31:	
Prior Years	\$ 661,444
Current Year	4,560,997
Total	\$ 5,222,441

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2019

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

\$ 690,365,888

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	0097@AA0	Bond	\$ 11,971,598	1.7%
2.02	406375AJ4	Bond	\$ 9,804,304	1.4%
2.03	35632#AA6	Bond	\$ 9,181,246	1.3%
2.04	30293@AA9	Bond	\$ 8,832,144	1.3%
2.05	SANCAPSP6	Common Stock	\$ 7,444,085	1.1%
2.06	01374TAJ1	Bond	\$ 7,002,077	1.0%
2.07	61034RAE2	Bond	\$ 5,747,501	0.8%
2.08	1645#AA1	Bond	\$ 5,554,070	0.8%
2.09	27685*AA3	Bond	\$ 5,432,051	0.8%
2.10	BLUEASHF6	Mortgage Loan	\$ 4,317,500	0.6%

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

	1	2
3.01 NAIC - 1	\$ 206,563,958	29.9%
3.02 NAIC - 2	\$ 169,195,588	24.5%
3.03 NAIC - 3	\$ 16,957,007	2.5%
3.04 NAIC - 4	\$ 101,329	0.0%
3.05 NAIC - 5	\$ 5,773,557	0.8%
3.06 NAIC - 6	\$ 12,495,428	1.8%
	3	4
3.07 P/RP - 1	\$ -	0.0%
3.08 P/RP - 2	\$ 1,843,100	0.3%
3.09 P/RP - 3	\$ 4,119,200	0.6%
3.10 P/RP - 4	\$ -	0.0%
3.11 P/RP - 5	\$ 126,275	0.0%
3.12 P/RP - 6	\$ -	0.0%

4. Assets held in foreign investments:

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

Yes [] No [X]

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

4.02 Total admitted assets held in foreign investments	\$ 19,285,885	2.8%
4.03 Foreign-currency-denominated investments	\$ -	0.0%
4.04 Insurance liabilities denominated in that same foreign currency	\$ -	0.0%

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

	1	2
5.01 Countries rated NAIC – 1	\$ 10,603,983	1.5%
5.02 Countries rated NAIC – 2	\$ 8,531,180	1.2%
5.03 Countries rated NAIC – 3 or below	\$ 150,722	0.0%

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2019

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: United Kingdom	\$ 4,700,974	0.7%
6.02	Country: France	\$ 2,672,152	0.4%
	Countries rated NAIC - 2:		
6.03	Country: Columbia	\$ 3,038,968	0.4%
6.04	Country: Peru	\$ 248,902	0.0%
	Countries rated NAIC - 3 or below:		
6.05	Country:	\$ -	0.0%
6.06	Country:	\$ -	0.0%
7.	Aggregate unhedged foreign currency exposure:	\$ -	0.0%

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

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

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

	1	2	3	4
	Issuer	NAIC Rating		
10.01	A03387922	1	\$ 1,941,018	0.3%
10.02	22533AA98	1	\$ 1,500,000	0.2%
10.03	G2765*AB0	1	\$ 1,000,000	0.1%
10.04	05964HAH8	1	\$ 1,000,000	0.1%
10.05	53944YAF0	1	\$ 999,525	0.1%
10.06	21685WDF1	1	\$ 988,605	0.1%
10.07	06739FJJ1	1	\$ 601,707	0.1%
10.08	767201AL0	1	\$ 567,174	0.1%
10.09	801050AC8	1	\$ 551,818	0.1%
10.10	89153VAL3	1	\$ 516,662	0.1%

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

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

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

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

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2019

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

13.01 Are assets held in equity interest less than 2.5% of the reporting entities total admitted?

Yes ☐ No ☒

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

	1	2	3
	Issuer		
13.02	SANCAPSP6	\$ 7,444,085	1.1%
13.03	ACAPEQU39	\$ 3,640,838	0.5%
13.04	ACAPJRL13	\$ 3,000,000	0.4%
13.05	FREEDOM3	\$ 1,708,546	0.2%
13.06	31340#100	\$ 1,520,100	0.2%
13.07	74913G105	\$ 719,200	0.1%
13.08	ELMPARKC2	\$ 657,658	0.1%
13.09	00206R300	\$ 625,000	0.1%
13.10	94988U730	\$ 408,200	0.1%
13.11	879433852	\$ 400,000	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 ☒ No ☐

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

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities:	\$ -	0.0%
	Largest 3 investments held in nonaffiliated, privately placed equities:		
14.03		\$ -	0.0%
14.04		\$ -	0.0%
14.05		\$ -	0.0%

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

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

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

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

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes ☐ No ☒

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

	1	2	3
	(Type (Residential, Commercial, Agricultural))		
16.02	Commercial	\$ 4,317,500	0.6%
16.03	Commercial	\$ 4,275,000	0.6%
16.04	Commercial	\$ 4,275,000	0.6%
16.05	Commercial	\$ 3,620,243	0.5%
16.06	Commercial	\$ 3,498,090	0.5%
16.07	Commercial	\$ 3,030,000	0.4%
16.08	Commercial	\$ 2,999,083	0.4%
16.09	Commercial	\$ 2,998,165	0.4%
16.10	Residential	\$ 2,900,000	0.4%
16.11	Commercial	\$ 2,858,051	0.4%

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2019

		Loans	
16.12	Construction loans	\$ 35,116,525	5.1%
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	Between 91% to 95%	\$ -	0.0%
17.03	Between 81% to 90%	\$ -	0.0%
17.04	Between 71% to 80%	\$ 2,900,000	0.4%
17.05	Below 70%	\$ -	0.0%
		Commercial	
		3	4
17.01	Above 95%	\$ -	0.0%
17.02	Between 91% to 95%	\$ -	0.0%
17.03	Between 81% to 90%	\$ -	0.0%
17.04	Between 71% to 80%	\$ 26,720,935	3.9%
17.05	Below 70%	\$ 44,409,659	6.4%
		Agriculture	
		5	6
17.01	Above 95%	\$ -	0.0%
17.02	Between 91% to 95%	\$ -	0.0%
17.03	Between 81% to 90%	\$ -	0.0%
17.04	Between 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 ☒ 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 ☒ No ☐

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories (Continued)

December 31, 2019

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, 2019

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

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

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

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

Summary Investment Schedule

December 31, 2019

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Summary Investment Schedule (Continued)

December 31, 2019

	Gross Investment Holding*		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
				Securities Lending Reinvested Collateral	Total (Col. 3+4)	
	Amount	Percentage	Amount	Amount	Amount	Percentage
6 Cash, cash equivalents, and short-term investments:						
6.01 Cash	91,153,660	13.879%	91,153,660	-	91,153,660	13.904%
6.02 Cash equivalents	7,845,949	1.195%	7,845,949	-	7,845,949	1.197%
6.03 Short- Unaffiliated	6,752,498	1.028%	6,752,498	-	6,752,498	1.030%
6.04 Total cash, cash equivalents, and short-term investments	105,752,107	16.101%	105,752,107	-	105,752,107	16.131%
7 Contract loans	1,667,258	0.254%	1,667,258	-	1,667,258	0.254%
8 Derivatives	14,360,043	2.186%	14,110,043	-	14,110,043	2.152%
9 Other invested assets	17,878,906	2.722%	16,924,768	-	16,924,768	2.582%
10 Receivables for securities	22,967,195	3.497%	22,967,195	-	22,967,195	3.503%
11 Securities lending	-	0.000%	-	-	-	0.000%
12 Other invested assets	-	0.000%	-	-	-	0.000%
13 Total invested assets	\$ 656,788,644	100.00%	\$ 655,584,506	\$ -	\$ 655,584,506	100.00%

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Other Legal and Regulatory Information
December 31, 2019

1. **NOTE BASIS OF PRESENTATION**

The accompanying schedules present selected statutory basis financial data as of December 31, 2019, and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and agrees to or is included in the amounts reported in the Company's 2019 Statutory Annual Statement as filed with the Utah Department of Insurance.