

Sentinel Security Life Insurance Company

STATUTORY FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the Years Ended December 31, 2012 and 2011



Larson

certified public accountants

SENTINEL SECURITY LIFE INSURANCE COMPANY

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Independent Auditors' Report

The Board of Directors
Sentinel Security Life Insurance Company:

Report on the Statutory Financial Statements

We have audited the accompanying statutory statements of admitted assets, liabilities, and surplus of **Sentinel Security Life Insurance Company** (the Company) as of December 31, 2012 and 2011, and the related statutory statements of income, changes in 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 financial statements in accordance with the financial reporting provisions prescribed or permitted by the Insurance Department of the State of Utah. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Principles" paragraph, the statutory financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of **Sentinel Security Life Insurance Company** as of December 31, 2012 and 2011, 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 surplus of **Sentinel Security Life Insurance Company** as of December 31, 2012 and 2011, 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 Insurance Department of the State of Utah described in Note 1.

Lauson & Company PC

Salt Lake City, Utah
April 15, 2013

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Admitted Assets,
Liabilities, and Capital and Surplus
December 31, 2012 and 2011

ADMITTED ASSETS

	2012	2011
Investments:		
Bonds	\$ 343,905,676	\$ 70,083,618
Preferred stocks	6,609,401	4,882,140
Common stocks	2,823,269	5,761,240
Mortgage loans	2,017,579	2,115,146
Real estate:		
Properties occupied by the Company	141,475	156,454
Properties held for the production of income	1,860,551	-
Cash and short-term investments	19,236,447	59,829,008
Policy loans	1,238,189	1,142,094
Receivables for securities	809,757	7,835
Total investments	378,642,344	143,977,535
Receivables:		
Accrued investment income	953,804	548,163
Uncollected premiums	45,802	35,261
Deferred and uncollected life premiums, net of loading of \$1,477,018 and \$1,389,263 for 2012 and 2011, respectively	2,753,205	1,861,113
Reinsurance recoverable	4,936	183,830
Federal income tax recoverable	344,448	144,976
Total receivables	4,102,195	2,773,343
Other admitted assets:		
Net deferred tax asset	2,059,854	1,324,165
Data processing equipment, net of accumulated depreciation of \$332,239 and \$108,810 for 2012 and 2011, respectively	49,961	30,925
Other amounts receivable	82,554	1,825
Aggregate write-ins for other invested assets	(3)	-
Total other admitted assets	2,192,366	1,356,915
Total admitted assets	\$ 384,936,905	\$ 148,107,793

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

LIABILITIES AND CAPITAL AND SURPLUS

	<u>2012</u>	<u>2011</u>
Liabilities:		
Policy and contract liabilities:		
Life reserves	\$ 105,394,491	\$ 48,138,081
A&H reserves	166,745	152,007
Policyholder dividend and coupon accumulations	343,792	293,724
Unpaid claims and other policyholder liabilities	<u>1,886,170</u>	<u>938,644</u>
Total policy and contract liabilities	<u>107,791,198</u>	<u>49,522,456</u>
Other liabilities:		
Premiums received in advance	81,906	97,140
Interest maintenance reserve	350,250	202,024
Commissions to agents due or accrued	64,181	1,608,003
Accounts payable	829,318	644,373
Accrued expenses	473,801	545,720
Unearned investment income	27,586	27,939
Other liabilities	208,992	213,091
Income taxes payable	-	135,348
Remittances and items not allocated	1,135,637	4,928,567
Asset valuation reserve	1,796,902	1,411,474
Funds held under reinsurance treaties	251,114,232	71,083,061
Funds held under coinsurance	567,457	487,228
Payable for securities	<u>811,499</u>	<u>-</u>
Total other liabilities	<u>257,461,761</u>	<u>81,383,968</u>
Total liabilities	<u>365,252,959</u>	<u>130,906,424</u>
Capital and surplus:		
Common stock, \$7 par value; 500,000 shares authorized; 359,526 and 359,526 issued, and 290,598 and 291,771 outstanding as of December 31, 2012 and 2011, respectively	2,516,685	2,516,685
Paid-in surplus	201,230	201,230
Unassigned surplus	18,382,246	15,857,320
Treasury stock at cost - 68,829 and 68,755 shares in 2012 and 2011, respectively	<u>(1,416,215)</u>	<u>(1,373,867)</u>
Total capital and surplus	<u>19,683,946</u>	<u>17,201,369</u>
Total liabilities and capital and surplus	<u>\$ 384,936,905</u>	<u>\$ 148,107,793</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Statutory Statements of Income
For the Years Ended December 31, 2012 and 2011

	2012	2011
Income:		
Premium and other considerations	\$ 70,283,200	\$ 29,278,847
Net investment income	4,512,831	2,956,025
Amortization of interest maintenance reserve	36,139	18,346
Commissions and expense allowances on reinsurance ceded	23,883,757	11,178,627
Other income	1,986	3,903
Total income	98,717,913	43,435,748
Benefits and expenses:		
Benefits to policyholders:		
Death benefits	2,918,508	3,141,392
Matured endowments	528	48,666
Annuity benefits	252,127	9,561
Disability benefits	4,184,261	2,736,822
Coupon benefits	699	646
Surrender benefits	981,299	478,510
Other benefits	7,735	(48)
Increase in policy reserves	57,271,145	18,140,342
Total benefits to policyholders	65,616,302	24,555,891
Commissions	23,411,319	13,958,449
General and administrative expenses	8,983,113	4,233,948
Insurance taxes, licenses and fees	612,346	486,095
Increase in loading	87,755	124,972
Total benefits and expenses	98,710,835	43,359,355
Net gain from operations before dividends, federal income taxes and realized capital gains	7,078	76,393
Dividends to policyholders	(18,032)	(19,270)
Provision for income taxes	(37,576)	(158,175)
Net (loss) gain from operations before realized capital gains (losses)	(48,530)	(101,052)
Realized capital gains (losses), less capital gains tax (benefit) of \$267,219 and \$25,658 for 2012 and 2011, respectively	334,353	(2,431)
Net income (loss)	\$ 285,823	\$ (103,483)

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, 2012 and 2011

	<u>Common Stock</u>	<u>Paid in Surplus</u>	<u>Unassigned Surplus</u>	<u>Treasury Stock</u>	<u>Total Capital and Surplus</u>
Balance at January 1, 2011	\$2,516,685	\$ 201,230	\$17,257,699	\$(1,340,153)	\$18,635,461
Net loss	-	-	(103,483)	-	(103,483)
Change in net unrealized capital gains (losses)	-	-	179,070	-	179,070
Change in net deferred tax assets	-	-	479,912	-	479,912
Change in non-admitted assets	-	-	(1,598,836)	-	(1,598,836)
Change in asset valuation reserve	-	-	107,312	-	107,312
Dividends to shareholders	-	-	(466,688)	-	(466,688)
Purchase of treasury stock	-	-	-	(33,714)	(33,714)
Other changes in surplus	-	-	2,335	-	2,335
Balance at December 31, 2011	2,516,685	201,230	15,857,320	(1,373,867)	17,201,369
Net income	-	-	285,823	-	285,823
Change in net unrealized capital gains (losses)	-	-	78,289	-	78,289
Change in net deferred tax assets	-	-	(169,478)	-	(169,478)
Change in non-admitted assets	-	-	3,074,341	-	3,074,341
Change in asset valuation reserve	-	-	(385,428)	-	(385,428)
Dividends to shareholders	-	-	(466,315)	-	(466,315)
Purchase of treasury stock	-	-	-	(42,348)	(42,348)
Change in accounting estimate	-	-	94,623	-	94,623
Other changes in surplus	-	-	13,071	-	13,071
Balance at December 31, 2012	<u>\$ 2,516,685</u>	<u>\$ 201,230</u>	<u>\$ 18,382,246</u>	<u>\$(1,416,215)</u>	<u>\$ 19,683,946</u>

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Premiums received, net of reinsurance	\$ 71,942,180	\$ 28,937,992
Investment income received	3,725,098	2,984,045
Other income	23,885,743	3,903
Claims and benefits paid	(7,217,734)	(5,954,250)
Commissions and other expenses paid	(34,622,519)	(7,825,057)
Dividends to policyholders paid	(19,032)	(19,270)
Federal income taxes recovered (paid)	(372,396)	207,741
	57,321,340	18,335,104
Cash flows from investing activities:		
Proceeds from sales of bonds	60,414,266	4,167,161
Proceeds from sales of stocks	4,404,930	897,624
Proceeds from mortgage loan collections	97,568	77,596
Other proceeds	811,499	-
Payments for purchases of bonds	(329,776,342)	(41,886,580)
Payments for purchases of stocks	(2,606,870)	(647,188)
Payments for real estate	(1,860,551)	-
Mortgage Loans	-	(600,000)
Other applications	(801,922)	-
Net increase in policy loans	(96,095)	(77,501)
	(269,413,517)	(38,068,888)
Cash flows from financing and miscellaneous sources:		
Proceeds from deposit-type contracts	50,068	16,609
Capital and paid in surplus, less treasury stock	(42,348)	-
Payments of dividends	(466,315)	(466,688)
Other cash applied	171,945,240	76,173,833
	171,486,645	75,723,754
Net (decrease) increase in cash	(40,605,532)	55,989,970
Cash and short-term investments at beginning of year, before nonadmitted cash	59,853,659	3,863,689
Cash and short-term investments at end of year, before nonadmitted cash	19,248,127	59,853,659
Less nonadmit portion of cash	(11,680)	(24,651)
Cash and short-term investments at end of year, admitted	\$ 19,236,447	\$ 59,829,008

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The Company's principal lines of business consist of individual ordinary whole life and term life insurance. In 2010, the Company began selling Medicare supplement plans. Then in 2011, the Company began selling a fixed annuity product. In 2012, the Company began selling a hospital indemnity plan. The Company writes its insurance under a general agency plan. All general agents, associate general agents, and special agents contract directly with the Company as independent contractors.

Basis of Presentation

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

a. *Investments:*

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

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

Basis of Presentation (Continued)

a. *Investments (Continued):*

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

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

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

b. *Nonadmitted Assets:*

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

c. *Policy Acquisition Costs:*

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

d. *Deferred Income Taxes:*

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

e. *Guaranty Fund and Other Assessments:*

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

f. *Statements of Cash Flow:*

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

g. *Interest Maintenance Reserve:*

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

h. *Asset Valuation Reserve:*

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

i. *Benefit reserves:*

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

j. *Reinsurance:*

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

k. *Comprehensive Income:*

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

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Valuations of Investments

Investments are stated at valuation rates prescribed by, or deemed acceptable to, the NAIC. Bonds not backed by other loans are stated at amortized cost using the interest method, and equity security values approximate fair values, unless otherwise prescribed by the NAIC. Under NAIC guidelines, when market value rates are not available for bonds, fair value is determined by the Company. Realized gains or losses on the sale of bonds are determined based on the specific amortized cost of the investments sold and are included in net income. Realized gains or losses on the sale of equity securities are based on the specific-identification method and are included in net income. Unrealized gains and losses from revaluation of equity securities are reflected in unassigned surplus. Mortgage loans are stated at aggregate carrying cost less accrued interest. The Company reviews its investment portfolio for reductions in fair value below cost that, in the opinion of the Company, represent a permanent or other-than temporary impairment (OTTI). Declines in fair value of investments deemed to be OTTI or permanent are accounted for as a realized loss. Subsequent recoveries in fair value of equity securities are reflected as unrealized gains and are included as a component of surplus. The Company realized OTTI impairments of **\$145,774** and \$0 for the year ended December 31, 2012 and 2011, respectively.

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

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

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

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

Fair Values of Financial Instruments

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Benefit Reserves

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

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

As of December 31, 2012 and 2011, the Company had **141** and 126 policies in force for which the gross premiums are less than the net premium according to the standard valuation set by the State of Utah. The gross premiums for these policies were **\$11,530** and \$7,806 less than net premiums for 2012 and 2011, respectively. Given the small number of policies where the net premiums exceed the gross premium the Company has not established a deficiency reserve.

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Premiums and Expenses

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

	2012		2011	
	Gross	Net of Loading	Gross	Net of Loading
Ordinary new business	\$ 783,163	\$ 221,240	\$ 746,809	\$ 202,893
Ordinary renewal	2,846,700	1,931,605	2,528,063	1,682,716
Total	\$ 3,629,863	\$ 2,152,845	\$ 3,274,872	\$ 1,885,609

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 less than three years. The useful lives for furniture and fixtures are between five and seven years. Depreciation expense for the years ended December 31, 2012 and 2011 totaled **\$240,674** and \$35,167, respectively. Maintenance and repairs that do not materially extend the useful lives are charged to earnings as incurred.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

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

Reinsurance

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

Net Investment Income

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

New NAIC Pronouncements

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

2. **ACCOUNTING CHANGES**

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS

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

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

Bonds and stocks at December 31, 2011, are summarized as follows:

	<u>Cost or Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Book Value</u>
Bonds:			
Government bonds	\$ 3,244,067	\$ 3,662,474	\$ 418,407
Hybrid Securities	8,173,099	8,117,732	(55,367)
Industrial and miscellaneous bonds	<u>58,666,452</u>	<u>60,350,899</u>	<u>1,684,447</u>
Total bonds	<u>\$ 70,083,618</u>	<u>\$ 72,131,105</u>	<u>\$ 2,047,487</u>
Stocks:			
Preferred stocks	\$ 4,882,140	\$ 4,630,820	(251,320)
Common stocks	<u>5,510,935</u>	<u>5,761,240</u>	<u>250,305</u>
Total stocks	<u>\$ 10,393,075</u>	<u>\$ 10,392,060</u>	<u>\$ (1,015)</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. 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, 2012 and 2011 represent a temporary decline in market value.

Assets measured at fair value are as follows:

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

Assets Measured at Fair Value				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011:				
Common stock	\$ 5,761,240	\$ 5,761,240	\$ -	\$ -
Hybrid securities	199,075	199,075	-	-
Perpetual preferred	366,700	366,700	-	-
Total	\$ 6,127,940	\$ 6,127,940	\$ -	\$ -

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

The following tables summarize those investments that, as of December 31, 2012 and 2011, were in an unrealized loss position for which other-than-temporary declines in value have not been recognized:

(\$ In Thousands)

	Less Than 12 Months		
	Number Of Issues	Fair Value	Unrealized Losses
At December 31, 2012			
Fixed income securities:			
U.S. government and agencies	5	\$ 954	\$ (26)
Industrial and miscellaneous	15	7,305	(605)
Hybrid	13	1,494	(1,229)
Mortgage-backed securities	21	20,383	(203)
	54	30,136	(2,062)
Total fixed income securities			
Equity securities:			
Common stock - industrial & misc	-	-	-
Preferred stock - industrial & misc	-	-	-
	54	\$ 30,136	\$ (2,062)
Total fixed income and equity securities			
Investment grade fixed income securities	54	\$ 30,136	\$ (2,062)
Below investment grade fixed income securities	-	-	-
	54	\$ 30,136	\$ (2,062)
Total fixed income securities			

(\$ In Thousands)

	Less Than 12 Months		
	Number Of Issues	Fair Value	Unrealized Losses
At December 31, 2011			
Fixed income securities:			
U.S. government and agencies	3	\$ 1,059	\$ (261)
U.S. special revenue and assessments	1	666	(55)
Industrial and miscellaneous	77	34,778	(2,321)
Hybrid	13	2,030	(80)
Mortgage-backed securities	1	210	(4)
	95	38,743	(2,721)
Total fixed income securities			
Common stock - industrial & misc	3	340	(43)
Preferred stock - industrial & misc	4	200	(109)
	102	\$ 39,282	\$ (2,874)
Total fixed income and equity securities			
Investment grade fixed income securities	92	\$ 38,742	\$ (2,720)
Below investment grade fixed income securities	3	1	(1)
	95	\$ 38,743	\$ (2,721)
Total fixed income securities			

12 Months or More				
Number Of Issues	Fair Value	Unrealized Losses		Total Unrealized Losses
-	\$ -	\$ -	\$ -	(26)
4	447	(589)		(1,194)
1	36	(164)		(1,393)
-	-	-		(203)
5	483	(753)		(2,816)
7	2,037	(323)		(323)
10	936	(170)		(170)
22	\$ 3,456	\$ (1,247)	\$	(3,309)
5	\$ 483	\$ (753)	\$	(2,816)
-	-	-		-
5	\$ 483	\$ (753)	\$	(2,816)

12 Months or More				
Number Of Issues	Fair Value	Unrealized Losses		Total Unrealized Losses
1	\$ -	\$ -	\$	(261)
5	1,710	(102)		(157)
14	5,018	(399)		(2,720)
8	1,836	(686)		(766)
-	-	-		(4)
28	8,564	(1,187)		(3,908)
11	2,835	(635)		(679)
14	1,795	(648)		(757)
53	\$ 13,194	\$ (2,470)	\$	(5,343)
27	\$ 8,491	\$ (1,187)	\$	(3,907)
1	73	-		(1)
28	\$ 8,564	\$ (1,187)	\$	(3,908)

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

Maturities of bonds are as follows:

	<u>Admitted Asset Value</u>	<u>Fair Value</u>
2013	\$ 200,000	\$ 202,233
2014-2017	110,141,203	115,425,065
2018-2022	54,987,942	57,956,568
2023-2032	17,849,298	18,824,066
After 2032	<u>160,727,233</u>	<u>169,760,692</u>
Total by maturity	<u>\$ 343,905,676</u>	<u>\$ 362,168,624</u>

Sources of realized capital gains (losses) for the year ended December 31, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Bonds:		
Gross gains from sales	\$ 380,344	\$ 122,372
Gross losses from sales	(237,203)	-
Preferred stock:		
Gross gains from sales	-	240
Gross losses from sales	(110)	-
Common stock:		
Gross gains from sales	822,537	25,856
Gross losses from sales	(179,628)	(73,002)
Amount transferred to IMR net of tax	(184,368)	(52,239)
Capital gains (tax) benefit	<u>(267,219)</u>	<u>(25,658)</u>
Net capital gains (losses)	<u>\$ 334,353</u>	<u>\$ (2,431)</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

At December 31, 2012 and 2011, bonds with an admitted asset value of **\$2,892,167** and \$2,858,849 were on deposit with state insurance departments to satisfy regulatory requirements.

Cash and Short-Term Investments

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

	<u>2012</u>	<u>2011</u>
Checking accounts	\$ 10,191,791	\$ 59,829,008
Short-term investments	<u>9,044,656</u>	<u>-</u>
Total cash and short-term investments	<u>\$ 19,236,447</u>	<u>\$ 59,829,008</u>

Concentration of Credit Risk

The Company maintains several bank accounts at the same institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at this institution exceeded federally insured limits. The amount in excess of FDIC limits totaled \$0 for the years ended December 31, 2012 and 2011, respectively.

The Company maintains non-interest bearing accounts. The accounts are insured by the Federal Deposit Insurance Corporation (FDIC). From December 31, 2010 through December 31, 2012, all noninterest bearing transaction accounts are fully insured by the FDIC regardless of the balance of the account and the ownership capacity of the fund. This was an extension of FDIC's Temporary Liquidity Guarantee Program which was effective on December 31, 2009. Therefore, deposits in these accounts are 100% insured by the FDIC as of December 31, 2012 and 2011. Effective January 1, 2013, non-interest bearing accounts are no longer fully insured and are insured up to \$250,000 FDIC limits.

The Company invests in money market funds that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. As of December 31, 2012 and 2011 the Company held **\$12,994,171** and \$50,168,877 in money market funds, respectively.

Mortgage Loans

The Company's investments in mortgage loans principally involve commercial and residential real estate located in the state of Utah and Wyoming. Such investments consist of first mortgage liens on completed income-producing properties. Mortgage loans at December 31, 2012 and 2011 totaled **\$2,017,579** and \$2,115,146 respectively. As of December 31, 2012 and 2011, the Company has one mortgage with interest more than 180 days past due in the amount of **\$102,577** and \$104,792, respectively. Total interest due on mortgages with interest more than 180 days past due totaled **\$9,498** and \$9,006, respectively.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

3. INVESTMENTS (Continued)

Real estate

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

	<u>2012</u>	<u>2011</u>
Occupied by the Company:		
Land	\$ 68,444	\$ 68,444
Properties occupied by the Company	615,783	615,783
Accumulated depreciation	<u>(542,752)</u>	<u>(527,773)</u>
Net real estate occupied by the Company	<u>141,475</u>	<u>156,454</u>
For the production of income:		
Buildings	<u>1,860,551</u>	<u>-</u>
Net real estate held for the production of income	<u>1,860,551</u>	<u>-</u>
Net real estate	<u>\$ 2,002,026</u>	<u>\$ 156,454</u>

4. CONTINGENT LIABILITIES

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

5. CAPITAL AND SURPLUS

Life insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life insurance company is to be determined based on the various risk factors related to it. At December 31, 2012 and 2011, the Company meets the RBC requirements.

The payment of dividends by the Company to shareholders is limited and can only be made from earned profits unless prior approval is received from the Utah Insurance Commissioner. The maximum amount of dividends that may be paid by life insurance companies without prior approval of the Utah Insurance Commissioner is also subject to restrictions relating to statutory surplus and net income. The Company paid ordinary dividends to its stockholders on April 1, 2012 and 2011, of **\$466,315** and \$466,688, respectively.

The portion of unassigned funds (surplus) represented or (reduced) by cumulative unrealized gains and (losses) in 2012 and 2011 was **\$(270,904)** and \$(349,500), respectively. The portion of unassigned funds (surplus) represented or (reduced) by nonadmitted asset values in 2012 and 2011 was **\$(2,212,842)** and \$(5,381,807), respectively.

6. EMPLOYEE BENEFITS

The Company has a noncontributory master profit sharing and trust plan that qualifies under Section 401(a) of the Internal Revenue Code and is therefore exempt from income taxes. All eligible Company employees may participate in the plan after completing three months of service. The Company's annual contribution is 10% of the eligible participants' compensation as defined, but only to the extent net profits exceed \$50,000 in the taxable year of contribution. Contributions are made to participants in the same percentage that the individual participant's compensation bears to the total compensation of all participants for the plan year. All contributions to the plan are made to an independent trustee for investment and administration. The contributions become partially vested after two years and fully vested after six years of service. The Company's cost of the plan was **\$154,973** and \$116,061 for 2012 and 2011, respectively. As of December 31, 2012 and 2011, the fair value of the plan assets was **\$2,077,712** and \$1,941,927 respectively.

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

6. EMPLOYEE BENEFITS (Continued)

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

Additions to the deferred compensation liability are charged to surplus in the year deferred compensation credits are earned and are shown as other surplus changes in the statement of changes in capital and surplus. As of December 31, 2012 and 2011, the Company did not have a balance in its deferred compensation plan.

7. NET INVESTMENT INCOME

Net investment income is comprised of the following:

	<u>2012</u>	<u>2011</u>
Interest:		
Bonds	\$ 4,434,765	\$ 2,186,247
Preferred stocks	328,751	327,931
Common stocks	145,703	178,578
Mortgage loans	138,064	109,392
Real estate	57,027	54,728
Policy loans	77,517	72,106
Cash and short-term investments	991	2,398
Aggregate write-ins for investment income	<u>128,528</u>	<u>245,375</u>
Total	5,311,346	3,176,755
Less:		
Allocated expenses:		
Depreciation	14,979	15,005
Investment taxes, licenses and fees	62,388	14,365
Investment expenses	<u>721,148</u>	<u>191,360</u>
Net investment income	<u>\$ 4,512,831</u>	<u>\$ 2,956,025</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

8. REINSURANCE

The Company has no assumed reinsurance contracts.

Reinsurance Ceded

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

Reinsurance ceded has reduced premiums by **\$285,851,727** and \$105,826,826, and contract liabilities by **\$296,771,517** and \$71,145,916 for the years ended December 31, 2012 and 2011, respectively. During 2012 and 2011, the Company did not write off to operations any reinsurance balances.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

8. REINSURANCE (Continued)

At December 31, 2012 and 2011, the effect of the coinsurance agreements described above on premiums and reserves is as follows:

	2012	2011
Premiums:		
Gross	\$ 356,134,929	\$ 135,105,671
Ceded	(285,851,727)	(105,826,826)
Net	\$ 70,283,202	\$ 29,278,845
Net due and deferred:		
Gross due and deferred		
Gross	\$ 3,629,863	\$ 3,274,872
Ceded	-	-
Net	3,629,863	3,274,872
Loading		
Gross	(1,477,018)	(1,389,263)
Ceded	-	-
Net	(1,477,018)	(1,389,263)
Net due and deferred		
Gross	2,152,845	1,885,609
Ceded	-	-
Net	\$ 2,152,845	\$ 1,885,609
Aggregate reserves - life:		
Gross	\$ 400,668,576	\$ 117,915,926
Ceded	(295,274,087)	(69,777,845)
Net	\$ 105,394,489	\$ 48,138,081
Aggregate reserves - accident and health:		
Gross	\$ 1,664,175	\$ 1,520,078
Ceded	(1,497,430)	(1,368,070)
Net	\$ 166,745	\$ 152,008
Claims payable:		
Gross	\$ 10,464,638	\$ 5,621,699
Ceded	(8,764,353)	(4,703,755)
Net	\$ 1,700,285	\$ 917,944
Claims:		
Gross	\$ 46,190,645	\$ 30,684,523
Ceded	(38,835,222)	(24,748,082)
Net	\$ 7,355,423	\$ 5,936,441

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

8. **REINSURANCE (Continued)**

Neither the Company, nor any of its related parties control, either directly or indirectly, any reinsurers with which the Company conducts business. No policies issued by the Company have been reinsured with a foreign company which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance. The Company does not have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel the agreement. At December 31, 2012 and 2011, there are no reinsurance agreements in effect such that the amount of losses paid or accrued exceed the total direct premium collected.

9. **FEDERAL INCOME TAXES**

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

9. FEDERAL INCOME TAXES (Continued)

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

	2012		
	Ordinary	Capital	Total
Total of gross deferred tax assets	\$ 2,802,936	\$ 140,956	\$ 2,943,892
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	2,802,936	140,956	2,943,892
Deferred tax assets nonadmitted	(140,956)	-	(140,956)
Net admitted deferred tax asset	2,661,980	140,956	2,802,936
Deferred tax liabilities	(743,082)	-	(743,082)
Net admitted deferred tax asset (liability)	\$ 1,918,898	\$ 140,956	\$ 2,059,854
	2011		
	Ordinary	Capital	Total
Total of gross deferred tax assets	\$ 3,666,903	\$ 8,382	\$ 3,675,285
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	3,666,903	8,382	3,675,285
Deferred tax assets nonadmitted	(1,046,123)	-	(1,046,123)
Net admitted deferred tax asset	2,620,780	8,382	2,629,162
Deferred tax liabilities	(1,304,998)	-	(1,304,998)
Net admitted deferred tax asset (liability)	\$ 1,315,782	\$ 8,382	\$ 1,324,164
	Change		
	Ordinary	Capital	Total
Total of gross deferred tax assets	\$ (863,967)	\$ 132,574	\$ (731,393)
Statutory valuation allowance	-	-	-
Adjusted gross deferred tax assets	(863,967)	132,574	(731,393)
Deferred tax assets nonadmitted	905,167	-	905,167
Net admitted deferred tax asset	41,200	132,574	173,774
Deferred tax liabilities	561,916	-	561,916
Net admitted deferred tax asset (liability)	\$ 603,116	\$ 132,574	\$ 735,690

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

9. FEDERAL INCOME TAXES (Continued)

The admission calculation components per SSAP No. 101, Income Taxes – a replacement of SSAP No. 10R and SSAP No. 10 are as follows:

	December 31, 2012		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 312,996	\$ 140,956	\$ 453,952
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	1,685,759	-	1,685,759
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,685,759	-	1,685,759
2. Adjusted gross deferred tax assets allowed per limitation threshold			2,356,630
(c) Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	663,225	-	663,225
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	\$ 2,661,980	\$ 140,956	\$ 2,802,936
	December 31, 2011		
	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)	1,324,165	-	1,324,165
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	1,324,165	-	1,324,165
2. Adjusted gross deferred tax assets allowed per limitation threshold			1,524,142
(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	1,293,405	11,593	1,304,998
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	\$ 2,617,570	\$ 11,593	\$ 2,629,163

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

9. FEDERAL INCOME TAXES (Continued)

The change in admission calculation components per SSAP No. 101, Income Taxes – a replacement of SSAP No. 10R and SSAP No. 10 are as follows:

	Change		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 101			
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	\$ 312,996	\$ 140,956	\$ 453,952
(b) Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation (the lesser of 2(b)1 and 2(b)2 below)	361,594	-	361,594
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	361,594	-	361,594
2. Adjusted gross deferred tax assets allowed per limitation threshold			832,488
(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	(630,180)	(11,593)	(641,773)
(d) Deferred tax assets admitted as a result of application of SSAP No. 101			
Total (2(a) + 2(b) + 2(c))	<u>\$ 44,410</u>	<u>\$ 129,363</u>	<u>\$ 173,773</u>

The ratio percentage and the adjusted capital and surplus used to determine the recovery period and the threshold limitation at December 31, 2012 and 2011 are as follows:

	2012	2011
(a) Ratio percentage used to determine recovery period and threshold limitation amount	<u>669%</u>	<u>1385%</u>
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2 (b) 2 above	<u>\$ 15,710,865</u>	<u>\$ 17,758,104</u>

There is no impact on the deferred tax calculation from the Company's tax planning strategies.

SENTINEL SECURITY LIFE INSURANCE COMPANY
Notes to Statutory Financial Statements

9. FEDERAL INCOME TAXES (Continued)

There are no deferred tax liabilities the Company has not recognized as of December 31, 2012 and 2011.

Current income taxes incurred consist of the following major components:

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Federal income taxes	\$ 37,576	\$ 158,175	\$ (120,599)
Foreign income taxes	-	-	-
Total federal income taxes	37,576	158,175	(120,599)
Federal income tax on net capital gains	267,219	25,658	241,561
Total federal income taxes incurred	<u>\$ 304,795</u>	<u>\$ 183,833</u>	<u>\$ 120,962</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

9. FEDERAL INCOME TAXES (Continued)

Deferred income taxes incurred consist of the following major components:

Deferred tax assets:	2012	2011	Change
Ordinary:			
Life reserves	\$ 1,262,578	\$ 1,166,049	\$ 96,529
Deferred acquisition costs	1,016,927	956,061	60,866
Policyholder dividends	6,698	7,038	(340)
Compensated absences	79,905	192,136	(112,231)
Unearned investment income	9,379	9,499	(120)
Loss adjustment expense reserve	8,277	4,442	3,835
Net operating loss carryforward	-	42,044	(42,044)
Nonadmitted assets	419,172	1,286,423	(867,251)
Subtotal	2,802,936	3,663,692	(860,756)
Statutory valuation allowance	-	-	-
Nonadmitted ordinary deferred tax assets	(140,956)	(1,046,123)	905,167
Admitted ordinary deferred tax assets	2,661,980	2,617,569	44,411
Capital:			
Investments	92,107	8,382	83,725
Depreciation of fixed assets	1,509	3,211	(1,702)
Other than temporary impairment	47,340	-	47,340
Subtotal	140,956	11,593	129,363
Statutory valuation allowance	-	-	-
Nonadmitted capital deferred tax assets	-	-	-
Admitted capital deferred tax assets	140,956	11,593	129,363
Admitted deferred tax assets	2,802,936	2,629,162	173,774
Deferred tax liabilities:			
Ordinary:			
Premiums due and deferred	731,967	644,767	87,200
Depreciation of fixed assets	-	-	-
Accrued dividend income	11,115	660,231	(649,116)
Subtotal	743,082	1,304,998	(561,916)
Capital:			
Investments	-	-	-
Subtotal	-	-	-
Deferred tax liabilities	743,082	1,304,998	(561,916)
Net admitted deferred tax asset (liability)	\$ 2,059,854	\$ 1,324,164	\$ 735,690

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

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:

	2012	Effective Tax Rate
Provision computed at statutory rate	\$ (3,724)	34.0 %
IMR amortization	12,288	(112.3)%
Small life insurance company deduction	(251,192)	2,295.7 %
Dividends received deduction	(76,069)	695.2 %
Net capital gains	267,219	(2,442.1)%
Prior year (over) under accrual of income tax	320,441	(2,928.5)%
Miscellaneous	77,006	(703.8)%
Total	\$ 345,969	(3,161.8)%
Federal and foreign income taxes incurred	\$ 37,576	(343.4)%
Federal income tax on net capital gains (losses)	267,219	(2,442.1)%
Change in net deferred income taxes	41,174	(376.3)%
Total statutory income taxes	\$ 345,969	(3,161.8)%

As of December 31, 2012 and 2011, the Company did not have a net operating loss carryforward to offset future taxable income.

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

2012	\$ 318,604
2011	135,348
Total	\$ 453,952

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

9. FEDERAL INCOME TAXES (Continued)

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), replaced by Accounting Standard Codification (ASC) 740, *Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (FAS 109), also replaced by Accounting Standard Codification (ASC) 740, *Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. As of December 31, 2012 and 2011 the Company has not adopted the provisions of ASC 740 because it is not required by the accounting practices prescribed or permitted by the State of Utah Department of Insurance. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to ASC 740.

Prior to 1984, the Company was allowed certain special deductions for federal income tax reporting purposes that were required to be accumulated in a "policyholders' surplus account" (PSA). In the event that those amounts are distributed to shareholders, or the balance of the account exceeds certain limitations prescribed by the Internal Revenue code, the excess amounts would be subject to income tax at current rates. Income taxes also would be payable at current rates if the Company ceases to qualify as a life insurance company for tax reporting purposes, or if the income tax deferral status of the PSA is modified by future tax legislation. Management does not intend to take actions nor does management expect any events to occur that would cause income taxes to become payable on the PSA balance. Accordingly, the Company has not accrued income taxes on the PSA balance of **\$1,220,000** at December 31, 2012 and 2011. However, if such taxes were assessed the amount of the taxes payable would be approximately \$415,000. No deferred tax liabilities are recognized related to the PSA.

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

10. PARTICIPATING POLICIES

At December 31, 2012 and 2011, participating policies account for less than 1% of total insurance, respectively. Total dividends for 2012 and 2011 were **\$18,032** and \$19,269, respectively.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 15, 2013, the date the financial statements were available to be issued.

12. DIRECT PREMIUM WRITTEN/PRODUCED BY THIRD PARTY ADMINISTRATOR

The aggregate amount of direct premiums written through managing general agents or third party administrators as of December 31, 2012 and 2011 was:

Name and Address Managing General Agent Or Third Part Administrator	FEIN#	Exclusive Contract	Type of Business Written	Type of Activity Granted	Total Direct Prem Written/ Produced By
For the year ended December 31, 2012:					
American Insurance Administrators LLC 2536 Countryside Blvd., Suite 430 Clearwater, FL 33763	26-1193300	No	Medicare Supplement	C,CA,,P,U	<u>\$ 53,919,852</u>
For the year ended December 31, 2011:					
American Insurance Administrators LLC 2536 Countryside Blvd., Suite 430 Clearwater, FL 33763	26-1193300	No	Medicare Supplement	C,CA,,P,U	<u>\$ 35,796,800</u>

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

13. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has increased (decreased) by approximately **\$(16,897)** and \$8,422 during the years ended December 31, 2012 and 2011, respectively.

	2012	2011
Balance at January 1	\$ 522,639	\$ 93,358
Incurred, related to:		
Current year	4,199,791	2,727,033
Prior years	(16,897)	8,422
Total incurred	4,182,894	2,735,455
Paid, related to:		
Current year	3,230,039	2,204,619
Prior years	501,540	101,555
Total paid	3,731,579	2,306,174
Balance at December 31	\$ 973,954	\$ 522,639

14. RECONCILIATION WITH ANNUAL STATEMENT

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

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

SENTINEL SECURITY LIFE INSURANCE COMPANY

Notes to Statutory Financial Statements

14. RECONCILIATION WITH ANNUAL STATEMENT (Continued)

The reconciliation to the annual statement for the year ended December 31, 2011 is as follows:

	2011			
	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
Balance per annual statement	\$ 148,292,865	\$ 130,771,071	\$ 17,521,794	\$ 216,947
Change in tax provision	(185,072)	135,353	(320,430)	(320,430)
Rounding	-	-	5	-
Balance per audit	<u>\$ 148,107,793</u>	<u>\$ 130,906,424</u>	<u>\$ 17,201,369</u>	<u>\$ (103,483)</u>

OTHER LEGAL AND REGULATORY INFORMATION



**INDEPENDENT AUDITORS' REPORT ON OTHER LEGAL
AND REGULATORY INFORMATION**

The Board of Directors
Sentinel Security Life Insurance Company

Report on Other Legal and Regulatory Requirements

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

Larson & Company PC

Salt Lake City, Utah
April 15, 2013

SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data
December 31, 2012

	Totals
Investment income earned:	
Bonds	\$ 4,434,765
Preferred stocks	328,751
Common stocks	145,703
Mortgage loans	138,064
Real estate	57,027
Policy loans	77,517
Cash and short-term investments	991
Aggregate write-ins for investment income	128,528
Gross investment income	\$ 5,311,346
Real estate owned:	
Book value less encumbrances	\$ 2,002,026
Mortgage loans - statement value	
Residential	\$ 586,491
Commercial mortgages	\$ 1,328,510
Mortgage loans by standing - statement value	
Good standing	\$ 1,915,001
Interest overdue more than 90 days, but not in foreclosure	\$ 102,578
Bonds by maturity and class:	
Bonds by maturity - statement value	Book
Due within one year	\$ 200,000
Over 1 through 5 years	110,141,203
Over 5 through 10 years	54,987,942
Over 10 through 20 years	17,849,298
Over 20 years	160,727,233
Total by maturity	\$ 343,905,676
Bonds by class - statement value	
Class 1	\$ 222,154,783
Class 2	111,909,894
Class 3	8,879,690
Class 4	761,309
Class 5	200,000
Class 6	-
Total by class	\$ 343,905,676

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Schedule of Selected Financial Data (Continued)

December 31, 2012

	Totals
Total bonds publicly traded	\$ 342,421,189
Total bonds privately placed	\$ 1,484,486
Preferred stocks (statement value)	\$ 6,609,401
Common stocks (market value)	\$ 2,823,269
Cash and cash equivalents on deposit:	
Checking accounts	\$ 10,191,791
Short-term investments	9,044,656
Total cash and cash equivalents on deposit	\$ 19,236,447
Life insurance in force:	
Ordinary	\$ 175,272,093
Amount of accidental death insurance in-force under ordinary policies	\$ 3,615,000
Life insurance policies with disability provisions in-force under ordinary policies	\$ 2,302,000
Supplementary contracts in force:	
Ordinary - not involving life contingencies:	
Amount on deposit	\$ 23,581
Annuities - ordinary:	
Immediate amount of income payable	\$ -
Deferred fully paid account balance	\$ 77,693,210
Deposit funds and dividend accumulations:	
Dividend accumulations account balance	\$ 276,265
Claim payments in 2012:	
Other accident and health benefits incurred in year ended December 31:	
2011	\$ 501,540
2012	3,230,039
Total	\$ 3,731,579

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories December 31, 2012

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

\$ 384,936,905

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	Dominos Pizza	CMO	\$ 4,941,701	1.3%
2.02	Orix Corp	Corporate Bond	\$ 4,247,770	1.1%
2.03	Telecom IT Cap	Corporate Bond	\$ 4,034,684	1.0%
2.04	Astoria Financial Corp	Corporate Bond	\$ 4,000,000	1.0%
2.05	Blue Wing Asset Vehicle	CMO	\$ 3,933,864	1.0%
2.06	Senior Housing Trust	Corporate Bond	\$ 3,481,769	0.9%
2.07	American Int'l Group	Corporate Bond	\$ 3,442,184	0.9%
2.08	Prologis LP	Corporate Bond	\$ 3,397,548	0.9%
2.09	SLM Corp	Corporate Bond	\$ 3,250,228	0.8%
2.10	Asciano Finance	Corporate Bond	\$ 3,060,603	0.8%

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

	1	2	
3.01	NAIC - 1	\$ 231,199,436	60.1%
3.02	NAIC - 2	\$ 111,909,894	29.1%
3.03	NAIC - 3	\$ 8,879,690	2.3%
3.04	NAIC - 4	\$ 761,309	0.2%
3.05	NAIC - 5	\$ 200,000	0.1%
3.06	NAIC - 6	\$ -	0.0%
	3	4	
3.07	P/PSF - 1	\$ -	0.0%
3.08	P/PSF - 2	\$ 4,903,040	1.3%
3.09	P/PSF - 3	\$ 1,603,600	0.4%
3.10	P/PSF - 4	\$ -	0.0%
3.11	P/PSF - 5	\$ -	0.0%
3.12	P/PSF - 6	\$ 102,761	0.0%

4. Assets held in foreign investments:

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

Yes [X] No []

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

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

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2012

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

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

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

		1		2
Countries rated NAIC – 1:				
6.01	Country: Great Britain	\$	-	0.0%
6.02	Country: Australia	\$	-	0.0%

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

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

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

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

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

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

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

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

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

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

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

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY
Investment Risks Interrogatories
December 31, 2012

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.

	<u>1</u>	<u>2</u>	<u>3</u>
	Issuer		
13.02	Tortoise Energy	\$ 2,500,000	0.6%
13.03	MS Global Infrastructure	\$ 961,749	0.2%
13.04	MSDW Mortgage SEC Trust	\$ 764,643	0.2%
13.05	Duke Realty Corp	\$ 603,600	0.2%
13.06	Royal Bank of Scotland	\$ 600,000	0.2%
13.07	Vornado Realty Trust	\$ 500,000	0.1%
13.08	MetLife Inc	\$ 303,040	0.1%
13.09	Invesco Global	\$ 285,665	0.1%
13.10	Endurance Specialty Holdings	\$ 200,000	0.1%
13.11	Wachovia Funding Corp	\$ 200,000	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.

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.

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

Not Applicable

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

18.01 Are assets held in real estate reported in less than 2.5% of the reporting entity's total admitted assets?

Yes No

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

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2012

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.

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%

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Investment Risks Interrogatories

December 31, 2012

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	\$	-	\$
				-

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 auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY

Summary Investment Schedule December 31, 2012

	Gross Investment Holding*		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	5
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
1 Bonds:						
1.1 US Treasury Securities	\$ 768,215	0.203%	\$ 768,215	\$ -	\$ 768,215	0.203%
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):						
1.21 Issued by US Government Agencies	-	0.000%	-	-	-	0.000%
1.22 Issued by US Government-sponsored agencies	140,788	0.037%	140,788	-	140,788	0.037%
1.3 Foreign Government (including Canada, excluding mortgage-backed securities)	-	0.000%	-	-	-	0.000%
1.4 Securities issued by states, territories and possessions and political subdivisions in the United States:						
1.41 States, territories and possessions general obligations	364,961	0.096%	364,961	-	364,961	0.096%
1.42 Political subdivisions of states, terr. and possessions and political subdivisions general obligations	474,257	0.125%	474,257	-	474,257	0.125%
1.43 Revenue and assessment obligations	2,235,461	0.590%	2,235,461	-	2,235,461	0.590%
1.44 Industrial development bonds and similar obligations	-	0.000%	-	-	-	0.000%
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	-	0.000%	-	-	-	0.000%
1.512 Issued or guaranteed by FNMA and FHLMC	-	0.000%	-	-	-	0.000%
1.513 All other	151,003,942	39.879%	151,003,942	-	151,003,942	39.880%
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	829,277	0.219%	829,277	-	829,277	0.219%
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	-	0.000%	-	-	-	0.000%
1.523 All other	-	0.000%	-	-	-	0.000%
2 Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	188,088,775	49.673%	188,088,775	-	188,088,775	49.675%
2.2 Unaffiliated foreign securities	-	0.000%	-	-	-	0.000%
2.3 Affiliated securities	-	0.000%	-	-	-	0.000%

See independent auditors' report on other legal and regulatory information

SENTINEL SECURITY LIFE INSURANCE COMPANY
 Summary Investment Schedule
 December 31, 2012

3 Equity interests:

3.1 Investments in mutual funds	-	0.000%	-	-	-	0.000%
3.2 Preferred stocks:						
3.21 Affiliated	-	0.000%	-	-	-	0.000%
3.22 Unaffiliated	6,609,401	1.745%	6,609,401	-	6,609,401	1.746%
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	-	0.000%	-	-	-	0.000%
3.32 Unaffiliated	2,823,269	0.746%	2,823,269	-	2,823,269	0.746%
3.4 Other equity securities:						
3.41 Affiliated	-	0.000%	-	-	-	0.000%
3.42 Unaffiliated	-	0.000%	-	-	-	0.000%
3.5 Other equity interests including tangible personal property under leases:						
3.51 Affiliated	-	0.000%	-	-	-	0.000%
3.52 Unaffiliated	-	0.000%	-	-	-	0.000%

4 Mortgage loans:

4.1 Construction and land development	-	0.000%	-	-	-	0.000%
4.2 Agricultural	-	0.000%	-	-	-	0.000%
4.3 Single family residential properties	586,492	0.155%	586,492	-	586,492	0.155%
4.4 Multifamily residential properties	-	0.000%	-	-	-	0.000%
4.5 Commercial loans	1,431,087	0.378%	1,431,087	-	1,431,087	0.378%
4.6 Mezzanine real estate loans	-	0.000%	-	-	-	0.000%

5 Real Estate Investments:

5.1 Property occupied by company	141,475	0.037%	141,475	-	141,475	0.037%
5.2 Property held for production of income (including \$ of property acquired in satisfaction of debt)	1,860,551	0.491%	1,860,551	-	1,860,551	0.491%
5.3 Property held for sale (including \$..... property acquired in satisfaction of debt)	-	0.000%	-	-	-	0.000%

6 Contract Loans

1,238,189	0.327%	1,238,189	-	1,238,189	0.327%
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7 Derivatives

-	0.000%	-	-	-	0.000%
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8 Receivables for securities

809,757	0.214%	809,757	-	809,757	0.214%
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9 Securities lending

-	0.000%	-	-	-	0.000%
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**10 Cash, cash equivalents and
 short-term investments**

19,248,125	5.083%	19,236,447	-	19,236,447	5.080%
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11 Other Invested Assets

-	0.000%	-	-	-	0.000%
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12 Total Invested Assets

<u>\$ 378,654,022</u>	<u>100.00%</u>	<u>\$ 378,642,344</u>	<u>\$ -</u>	<u>\$ 378,642,344</u>	<u>100.00%</u>
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* Gross Investment Holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual

See independent auditors' report on other
 legal and regulatory information