Sagicor Life Insurance Company

(a wholly owned subsidiary of Sagicor USA, Inc.)

Statutory Financial Statements
As of and for the years ended December 31, 2011 and 2010

And Supplemental Schedules
As of and for the year ended December 31, 2011

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Report of Independent Auditors

To Board of Directors and Shareholder of
Sagicor Life Insurance Company

We have audited the accompanying statutory statements of admitted assets, liabilities and capital and surplus of Sagicor Life Insurance Company (the "Company") as of December 31, 2011 and 2010, and the related statutory statements of operations, of changes in capital and surplus, and of cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the statutory financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Texas Department of Insurance, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2011 and 2010, or the results of its operations or its cash flows for the years then ended.

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 the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

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Our audit was conducted for the purpose of forming an opinion on the basic statutory basis financial statements taken as a whole. The accompanying Supplemental Schedule of Assets and Liabilities, Summary Investment Schedule and Investment Risk Interrogatories (collectively, the "Schedules") o the Company as of December 31, 2011 and for the year then ended are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements. The effects on the Schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2011 and for the year then ended. The Schedules have been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

May 29, 2012

Sagicor Life Insurance Company
Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus
December 31, 2011 and 2010

(dollars in thousands, except par and share data)	2011	2010
Admitted Assets		
Cash and invested assets		
Bonds (fair value 2011 - $817,562; 2010 - $687,443)	$ 764,959	$ 660,871
Preferred stock (fair value 2011 - $8,151; 2010 - $7,636)	8,215	7,200
Common stock (cost 2011 - $6,204; 2010 - $5,294)	6,089	5,294
Mortgage loans	23,609	23,502
Real estate held for sale	1,057	719
Contract loans	29,145	29,064
Cash and short-term investments	8,278	26,391
Derivatives	5,478	8,676
Other invested asset	2,900	2,900
Total cash and invested assets	849,730	764,617
Amounts due from reinsurers	3,274	5,642
Electronic data processing equipment	735	785
Premiums deferred, premiums uncollected and agents' balances	2,334	2,225
Investment income due and accrued	10,637	10,290
Guaranty fund assessments	225	236
Due from affiliates	2,809	9,490
Other assets	297	661
Total admitted assets	$ 870,041	$ 793,946

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

Sagicor Life Insurance Company
Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus
December 31, 2011 and 2010

(dollars in thousands, except par and share data)	2011	2010
Liabilities		
Policyholders' liabilities		
Aggregate reserves for life contracts	$ 633,175	$ 581,639
Accident and health reserves	233	267
Deposit-type contracts	23,135	16,136
Policy and contract claims	5,980	4,007
Dividends and coupons payable	130	138
Advanced premiums	127	163
Amounts payable on reinsurance	1,666	2,407
Interest maintenance reserve	10,146	8,934
General expenses due or accrued	2,764	1,570
Taxes, licenses and fees due or accrued, excluding federal income taxes	913	889
Other liabilities	877	662
Remittance and items not allocated	3,679	3,434
Borrowed money	129,500	119,341
Asset valuation reserve	2,308	3,647
Payable for securities	2,628	4,387
Total liabilities	817,261	747,621
Capital and surplus		
Common stock, $1.25 par value; 4,000,000 shares authorized, 2,000,000 shares issued and outstanding	2,500	2,500
Surplus notes	4,175	-
Additional contributed surplus	129,759	120,620
Unassigned deficit	(83,654)	(76,795)
Total capital and surplus	52,780	46,325
Total liabilities and capital and surplus	$ 870,041	$ 793,946

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

Sagicor Life Insurance Company
Statutory Statements of Operations
Years Ended December 31, 2011 and 2010

(dollars in thousands)	2011	2010
Revenue		
Premiums and annuity considerations	$ 101,806	$ 119,860
Consideration for supplementary contracts with life contingencies	62	72
Net investment income	38,091	33,577
Amortization of interest maintenance reserve	1,584	818
Commissions and expense allowances on reinsurance ceded	1,426	2,913
Reserve adjustments on reinsurance ceded	(2,829)	(3,298)
Miscellaneous income	416	452
Total revenues	140,556	154,394
Benefits and expenses		
Death benefits	11,547	11,262
Matured endowments	64	70
Annuity benefits	12,822	7,582
Disability benefits	159	180
Surrender benefits	33,490	24,543
Interest on policy and contract funds	904	726
Payments on supplementary contracts with life contingencies	373	396
Other benefits	5	5
Increase in aggregate reserves for life and accident and health policies	51,501	94,936
Commission expenses	9,919	10,661
General insurance expenses	22,481	21,631
Taxes, licenses and fees	1,984	2,216
Increase (decrease) in loading on deferred and uncollected premiums	(237)	(508)
Total benefits and expenses	145,012	173,700
Net loss from operations before policyholders' dividends, income taxes and net realized capital loss	(4,456)	(19,306)
Dividends to policyholders	108	135
Net loss from operations before income taxes and net realized capital loss	(4,564)	(19,441)
Federal income tax (benefit) expense	(1,240)	(383)
Net loss from operations before realized capital losses	(3,324)	(19,058)
Net realized capital losses less tax benefits on capital losses of $266 and $617 (excluding taxes of $1,506 and $1,001 transferred to the IMR) in 2011 and 2010, respectively	(494)	(1,146)
Net loss	$ (3,818)	$ (20,204)

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

Sagicor Life Insurance Company
Statutory Statements of Changes in Capital and Surplus
Years Ended December 31, 2011 and 2010

(dollars in thousands)	Common Stock	Surplus Notes	Additional Contributed Surplus	Unassigned Deficit	Total Capital and Surplus
Balance at December 31, 2009	$ 2,500	$ -	$ 91,359	$ (55,216)	$ 38,643
Net loss	-	-	-	(20,204)	(20,204)
Change in net unrealized capital gains (losses) (Note 2)	-	-	-	1,616	1,616
Change in net deferred income taxes (Note 4)	-	-	-	871	871
Change in nonadmitted assets	-	-	-	(122)	(122)
Change in unauthorized reinsurance liability	-	-	-	48	48
Change in asset valuation reserve	-	-	-	(2,286)	(2,286)
Change in deferred ceding commission (Note 1)	-	-	-	(1,502)	(1,502)
Paid in surplus (Note 8)	-	-	29,261	-	29,261
Balance at December 31, 2010	2,500	-	120,620	(76,795)	46,325
Net loss	-	-	-	(3,818)	(3,818)
Change in net unrealized capital gains (losses) (Note 2)	-	-	-	(3,420)	(3,420)
Change in net deferred income taxes (Note 4)	-	-	-	(1,841)	(1,841)
Change in nonadmitted assets	-	-	-	882	882
Change in asset valuation reserve	-	-	-	1,338	1,338
Change in surplus notes	-	4,175	-	-	4,175
Paid in surplus (Note 8)	-	-	9,139	-	9,139
Balance at December 31, 2011	$ 2,500	$ 4,175	$ 129,759	$ (83,654)	$ 52,780

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

Sagicor Life Insurance Company
Statutory Statements of Cash Flow
Years Ended December 31, 2011 and 2010

(dollars in thousands)	2011	2010
Cash from operations		
Premiums collected, net of reinsurance	$ 101,949	$ 120,532
Net investment income	38,561	32,118
Other income	1,990	3,518
Total income received	142,500	156,168
Benefits and loss related payments	58,495	48,752
Commissions, other expenses and taxes paid (excluding federal income taxes)	32,821	34,058
Dividends paid to policyholders	117	140
Federal income taxes recovered	-	(160)
Total benefits and expenses paid	91,433	82,790
Net cash provided by operations	51,067	73,378
Cash from investments		
Proceeds from investments sold, matured or repaid		
Bonds	157,926	176,976
Stocks	2,963	4,211
Mortgage loans	1,096	3,409
Miscellaneous proceeds	-	4,539
Total investments proceeds	161,985	189,135
Cost of investments acquired		
Bonds	(259,932)	(279,201)
Stocks	(4,566)	(2,524)
Mortgage loans	(1,564)	(10)
Derivatives	(2,036)	(4,097)
Others	(35)	(31)
Miscellaneous applications	(1,758)	-
Total investments acquired	(269,891)	(285,863)
Net decrease in policy loans	(80)	2,245
Net cash used in investments	(107,986)	(94,483)
Cash from financing and miscellaneous sources		
Surplus notes	4,175	-
Paid in surplus	17,777	17,433
Borrowed funds	10,159	(2,311)
Deposit-type contract fund, net	6,999	2,818
Other cash applied	(304)	5,989
Net cash provided by financing and miscellaneous sources	38,806	23,929
Net changes in cash and short-term investments	(18,113)	2,824
Cash and short-term investments		
Beginning of year	26,391	23,567
End of year	$ 8,278	$ 26,391
Supplemental disclosure of cash flow information for noncash transactions		
Change in capital contributed as intercompany receivable	$ (8,957)	$ 11,297
Real estate acquired in satisfaction of mortgage loans	346	242
Paid in surplus contributed as part of long-term incentive plan	320	531
Bonds transferred from parent	(309)	-
Bond transferred to parent	779	-
Net accrued interest on bonds transferred to/from parent	5	-

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

1. Summary of Significant Accounting Practices

Nature of Operations

Sagicor Life Insurance Company (the "Company") is a stock life insurance company organized under the laws of the State of Texas. Its operations consist of traditional life products, universal life products, annuity and pension contracts and related products. Although the Company is licensed in forty-four states and the District of Columbia, approximately 46% of the 2011 premiums on the Company's existing block of business are in Missouri, Florida, California, Texas and Ohio. The Company's products are sold through third-party marketing firms, financial institutions and general agents.

All of the issued and outstanding shares of the Company are owned by Laurel Life Insurance Company ("Laurel"), a Texas stock life insurance company, which is a wholly owned subsidiary of Sagicor USA, Inc. ("SUSA") (see Note 17, Subsequent Events, for additional information). SUSA is a wholly owned subsidiary of Sagicor Financial Corporation ("SFC"), a Barbados-based financial services group.

Basis of Presentation

The accompanying financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance ("TDI") for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Texas Insurance Law. The National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("SAP") has been adopted as a component of prescribed or permitted practices by the State of Texas. The State of Texas has not adopted any prescribed or permitted practices that differ from SAP that needed to be applied by the Company. Prescribed statutory accounting practices are those practices mandated by the NAIC and individual states. In contrast, permitted statutory accounting practices are those practices for which a company has applied for and received specific permission from their state of domicile.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with accounting practices prescribed or permitted by TDI requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. 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. Actual results could differ from those estimates.

The most significant estimates susceptible to significant change are those used in determining the policyholder's liabilities for life contracts, deposit-type contracts and policy and contract claims and other than temporary impairment investments. Although considerable variability is inherent in these estimates, management believes that the liability is adequate and other than temporary impairments is reasonably determined. The estimates are continually reviewed and adjusted as necessary. Such adjustments are reflected in current operations.

Accounting Policies
The following is a summary of the significant accounting polices utilized by the Company in preparing the statutory financial statements:

Investments
Bonds are stated at amortized cost in accordance with the Statement of Statutory Accounting Principles ("SSAP") 26 - Bonds, *excluding Loan-backed and Structured Securities* ("SSAP 26"), and SSAP No. 43 - *Revised Loan-backed and Structured Securities* ("SSAP 43R"), except for those with a NAIC designation of 6, which are reported at the lower of cost or fair value, if available. Bonds not backed by other loans with an NAIC designation of 1 to 5 are stated at amortized cost using the interest method. Amortization of bond premium or discount are calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions are amortized to the call or maturity value/date which produces the lowest asset value (yield to worst). Amortization of premium or discount on bonds is included in net investment income. Fair value is based upon external pricing sources such as Interactive Data Corporation, Earnest Partners, Zazove Associates, and other sources primarily for private placements. Loan-backed bonds and structured securities are stated in accordance with SSAP 43R, with an NAIC designation of 1 to 5 are valued at amortized cost using the interest method, including anticipated prepayments. Prepayment assumptions are obtained from dealer surveys or internal estimates and are based on current interest rates and economic environment. The retrospective adjustment method is used to value all such securities except for interest-only securities that are valued using the prospective method. Realized gains and losses on sales of investments are determined on a specific identification method.

Preferred and common stocks are carried at values published by the NAIC Securities Valuation Office. Preferred stocks with NAIC designations of highest-quality, high-quality, and medium-quality are recorded at cost for perpetual and book value for redeemable preferred stocks. Those with NAIC designations of low-quality, lowest-quality, and in or near default are recorded at the lower of cost/book value or fair value based on the redemption characteristics. Distributions received not in excess of the undistributed accumulated earnings are recognized as investment income. Certain other invested assets primarily consist of investment in partnership and is accounted for using the audited equity method.

Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge are considered effective hedges and reported in a manner consistent with the hedged asset or liability (“hedge accounting”). Changes in carrying value or cash flow of derivatives that qualify for hedge accounting are recorded consistently with how the changes in the carrying value or cash flow of the hedged asset or liability are recorded. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge (“ineffective hedges”) are accounted for at fair value and the changes in fair value are recorded as unrealized gains or unrealized losses directly in surplus. The Company's investment in derivative instruments did not meet the criteria of an effective hedge as of and for the years ended December 31, 2011 and 2010. See Note 2.

Mortgage loans on real estate are stated at the lower of amortized unpaid principal balance or fair value of collateral, if impaired, with temporary impairments (or any changes thereof) recognized with a charge or credit to unrealized gain or loss in surplus. Impairments on mortgage loans that are considered to be other-than-temporary, including those for foreclosed loans, are recognized as realized loss.

A majority of the Company's mortgage loan investments are made via trusts, through which the Company takes a participating portion of several loans. Since the inaugural investment in 2004, the Company has recorded these investments as if they were individually issued mortgage loans. As part of the 2010 triennial TDI examination (see Note 8), the Company and the TDI discussed the accounting treatment for these investments. The TDI has notified the Company that it does not object to the current accounting or presentation for the 2011 and prior years' financial statements.

Contract loans, not in excess of the net cash surrender value of the related insurance policies, are stated at unpaid principal balances, plus accrued interest which is 90 days or more past due. All loan amounts in excess of the policy cash surrender value are considered non-admitted assets.

Real estate acquired in satisfaction of debt is classified as real estate held for sale and is stated at fair value at the date of foreclosure. Fair value is determined by Member of Appraisal Institute ("MAI"). An opinion of the market value of a property is made by an MAI-certified appraiser. The MAI certification is granted by the Appraisal Institute to appraisers who are experienced in the valuation of commercial, industrial, residential and other types of properties.

Short-term investments include investments with maturities of less than one year at the date of acquisition and recorded at cost, which approximates fair value.

Stated investment values reflect adjustments where appropriate to recognize impairments in value or regulatory mandated values. Investment income is recorded when earned. Realized gains and losses on the sale or maturity of investments are determined on the basis of specific identification. Aggregate unrealized capital gains and losses, when recognized, are credited or charged directly to unassigned surplus. The Company recognizes interest income on impaired loans upon receipt.

Investments are evaluated periodically to determine whether any declines in fair value, below the cost basis, are other-than-temporary. If a decline in fair value is deemed to be other-than-temporary, the cost basis of a bond not backed by other loans is written down to fair value which becomes the new cost basis and the amount of the write down is recognized as a realized loss. In determining the impairments for loan-backed securities, a review of default rate, credit support and other key assumptions was made on the security level. Where it was determined that less than 100% of contractual cash flows would be received, the impairment was measured by discounting the projected cash flows and comparing that discounted cash flows to the amortized cost basis of the securities in accordance with SSAP 43R. The amount of the write-down is included in the statutory statements of operations as a realized loss.

For loan-backed securities, a credit-related other-than temporary impairment ("OTTI") is considered to have occurred if present value of cash flows expected to be collected were less than the book value of the securities. If it was determined a credit-related OTTI had occurred, the cost basis of loan-backed and structured securities were written down to the present value of cash flows expected to be collected.

A non-credit related or interest related impairment was considered to be other-than-temporary when the Company intended to sell the investment, or its cash, working capital, or other requirements indicated that the Company would be required to sell the investment before a forecasted recovery occurred. Non-credit related OTTI was measured as the difference between amortized cost and fair value.

For OTTI that was attributable to an intent to sell or a lack of intent and ability to hold a security to recovery, the Company bifurcates the OTTI into separate credit-related and interest-related

components, when both were present. The credit-related OTTI was transferred to the Asset Valuation Reserve ("AVR"). SSAP 43R prohibits a Company from subsequently changing the above assertions (“intent to sell” or “inability to hold to recovery”) for particular securities that had previously been designated as such, even if facts and circumstances change in a subsequent period. As a result, any subsequent declines in fair value must be recognized as OTTI for securities for which the Company has previously applied these assertions.

In periods subsequent to the recognition of OTTI loss, the Company generally accretes the difference between the new cost basis and the cash flows expected to be collected, if applicable, as interest income over the remaining life of the security based on the amount and timing of future estimated cash flows.

The Company recognized pre-tax realized losses on other-than-temporary declines in its investments of $1,108 and $1,650 for 2011 and 2010, respectively, and reflected the OTTI in the calculation of AVR as they were all determined to be credit related.

Asset Valuation Reserve and Interest Maintenance Reserves ("IMR")
In accordance with SAP, the Company provides for possible future investment losses through the AVR. The AVR is based on a statutory formula as prescribed by the NAIC to provide a standardized reserve for realized and unrealized losses from default and/or equity risks associated with all invested assets, excluding cash, policy loans, premium notes, collateral loans and income receivables. Any changes in the reported amounts of AVR are charged directly to unassigned surplus rather than current income.

In addition, the Company has established an IMR in accordance with SAP. This reserve amortizes the realized gain or loss on the sale of bonds resulting from changes in the general level of interest rates over the period from the date of sale to the securities’ scheduled maturity date, rather than recognizing the entire realized gain or loss in the year the security is sold.

Recognition of Premium and Related Expenses
Acquisition costs such as commissions and other costs related to acquiring new business are charged to current operations as incurred. Premiums for traditional life policies are reported as earned when due, net of both reinsurance and the adjustment for due and deferred premiums. For flexible premium/universal life and annuity/investment contracts, premiums are reported as earned when collected. Accident and health premiums are earned pro rata over the terms of the policy. Premiums received in advance on policies issued are recorded as liabilities and are not considered premium income until due. Premiums received on policies not yet issued are recorded as premium suspense liabilities and classified as remittances and items not allocated.

Benefits and Aggregate Reserves for Life, Annuity and Accident and Health
Benefits and expenses include the death, annuity, disability, surrender and maturity benefits paid and the change in policy reserves.

Life, annuity and accident and health benefit reserves are developed by actuarial methods, and are determined based on published tables using statutorily specified interest rates, estimates of mortality and valuation methods. These 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 TDI. Surrender values on policies do not exceed the corresponding benefit reserves. Additional reserves are established when the results of cash flow testing under various interest rate scenarios indicate the need for such reserves.

Life policy reserves are based on statutory mortality and interest requirements without consideration of withdrawals. The mortality table and interest assumptions used on life policies currently being issued are the 2001 CSO Table, with 4% interest. Earlier mortality tables with interest rates from 2.5% to 6.5% are used on life policies previously issued. Approximately 25% of the life reserves are calculated on a net level reserve basis and 75% on a modified reserve basis, primarily Commissioner's Reserve Valuation Method ("CRVM"). The effect of the use of a modified reserve basis is to partially offset the effect of immediately expensing acquisition costs by providing a policy reserve increase in the first policy year, which is less than the reserve increase in renewal years. Annuity reserves are calculated using the Commissioner's Annuity Reserve Valuation Method ("CARVM") with 3.5% to 9.25% interest.

Additional reserves are established when the valuation net premiums computed according to state prescribed formulas using minimum valuation standard of mortality and rate of interest exceed the gross premiums charged to policyholders. The Company recorded additional reserves of $7,533, less ceded of $2,714 at December 31, 2011 and $5,244, less ceded of $2,624, at December 31, 2010, related to mortality reserves on ordinary life.

Reserves for the equity-indexed annuities are based on the 1983 Table A or Annuity 2000 mortality tables with interest rates from 4.25% to 5.0%.

The Company's policy reserves for its universal life insurance product with secondary guarantees ("ULSG"), which guarantee that insurance coverage will remain in force (subject to the payment of specified premiums or subject to a "shadow account" being positive), are actuarially computed using methods and assumptions in accordance with Actuarial Guideline 38 ("AG38"). Total reserves for ULSG policies reserved for under AG38 were $2,741 at December 31, 2011 and $443 at December 31, 2010.

Policy and Contract Claims
Policy and contract claims are based upon the net amount of risk for those claims that have been reported to the Company and an estimate, based upon prior experience, for those claims that are unreported as of the valuation date.

Policyholder Dividends
Dividends due and unpaid represent dividends payable to the policyholder in the current year but which have not been disbursed or otherwise applied at year-end. Dividends payable represent the estimated amount of all dividends either declared by the Company's Board of Directors prior to year-end which have not yet been paid or are amounts determined by specific terms of product contracts. Policyholder dividends are recognized as expense when declared or based on the specific terms of product contracts.

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

For modified coinsurance contracts, the reserves and related assets are not recorded by the assuming company.

Depreciation
Property and equipment is depreciated over one to ten years using the straight-line method. Depreciation expense was approximately $1,301 and $1,315 for 2011 and 2010, respectively, and accumulated depreciation as of December 31, 2011 and 2010 was $8,146 and $7,332, respectively.

A summary of property and equipment used in the business as of December 31, 2011 and 2010 is as follows:

(dollars in thousands)	2011	2010	Estimated Useful Lives
Data processing equipment	$ 3,336	$ 3,317	1-7 years
Furniture and office equipment	1,430	1,297	2-5 years
Software and website	5,264	4,075	2-5 years
Leasehold improvements	1,365	1,404	5-10 years
	11,395	10,093	
Accumulated depreciation	8,146	7,332	
Net property and equipment	3,249	2,761	
Nonadmitted amounts	2,514	1,976	
Net admitted portion	$ 735	$ 785	

Non-admitted Assets
Certain assets designated as “non-admitted assets” have been excluded from the statements of admitted assets, liabilities and capital and surplus and the changes in these assets have been and are charged directly to unassigned surplus. The non-admitted assets of the Company at December 31, 2011 and 2010 are as follows (excluding those related to invested assets):

(dollars in thousands)	2011	2010
Prepaid expenses and miscellaneous receivables	$ 982	$ 1,004
Agents' balances	305	294
Property and equipment	2,514	1,976
Receivables from parent, subsidiaries and affiliates	28	1,437
Total nonadmitted	$ 3,829	$ 4,711

Surplus Notes
Surplus notes issued by the Company that have been approved by TDI are reported as surplus. Costs of issuing surplus notes are charged to the statement of operations when incurred. Principal repayment that has been approved by TDI is reclassified from surplus to liabilities. Interest is recorded as a liability and expensed when payment of such interest has been approved by TDI. Interest that has not been approved by TDI is not accrued or recorded through the statement of operations and is not represented as an addition to the principal. See Note 8.

Deferred Ceding Commission
In accordance with SAP, a ceding commission received on a coinsurance reinsurance agreement is initially recorded as an addition to capital and surplus (net of income taxes). The ceding commission is then amortized into income over the remaining life of the business ceded as the profits emerge. As of December 31, 2011 and 2010, the unamortized ceding commission was $0 as the entire remaining amount deferred had been amortized during 2010. Amortization for the years ended December 31, 2011 and 2010 was $0 and $1,502, respectively.

Federal Income Taxes
The results of the operations of the Company are included in the consolidated income tax return of Laurel Life Insurance Company (Note 4). The method of allocation is subject to written agreement and is based upon separate return calculations. Federal income taxes are based on current taxable income. The admission of gross deferred income taxes is subject to various limitations as specified by SAP (Note 4). In addition, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in unassigned surplus.

Reclassifications
Certain prior year amounts have been reclassified in order to conform to the current year presentation. Such reclassification is related to amounts reported as non-admitted deferred tax asset that was reclassified as a valuation allowance. This reclassification had no effect on statutory net income or capital and surplus as of and for the year ended December 31, 2010.

Statements of Cash Flow
The statements of cash flow are presented in the required statutory format. For the purpose of the statutory statements of cash flow, cash and short-term investments include cash on deposit and short-term investments with original maturities of one year or less.

SAP to GAAP
These statutory basis financial statements vary in many respects from accounting principles generally accepted in the United States of America (“GAAP”). The most significant of these differences follow:

Investments
Under GAAP, the Company’s bond portfolio is reported in accordance with FASB Accounting Standards Codification ("ASC") No. 320, *Investments - Debt and Equity Securities,* and is reported at fair value as available for sale with changes in fair value reflected in Other Comprehensive Income; such accounting treatment is not recognized under SAP.

Securities with original maturity dates of less than one year from the date of purchase are designated as short-term investments and reported at amortized cost; under GAAP investments with original maturities of ninety days or less are classified as cash equivalents and those over ninety days are classified in accordance with ASC 320.

Impairments of Investments in Debt Securities
Under SAP, credit-related OTTI on debt securities, if any, is reflected in the calculation of AVR and interest related OTTI on debt securities is transferred to IMR. For GAAP, non-credit-related OTTI is recorded in other comprehensive income when the company does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. Realized losses on impairments of investments may differ due to differences between GAAP and SAP OTTI accounting principles.

Equity Indexed Options
Under SAP, derivative instruments that do not meet or no longer meet the criteria of an effective hedge are accounted for at fair value and the changes in fair value are recorded as unrealized gains and unrealized losses in surplus. Under GAAP, the changes in the fair value for derivative instruments that are ineffective hedges are recorded through profit and loss.

Asset Valuation and Interest Maintenance Reserves
No such reserves exist on a GAAP basis.

Recognition of Premium and Policy Acquisition Cost
Under SAP, acquisition costs such as commissions and other costs related to acquiring new business are charged to current operations as incurred. On a GAAP basis, these costs are deferred and amortized over (a) the premium-paying period or (b) estimated future profits of the related insurance product.

Statutory premiums for traditional life policies are reported as earned when due. For flexible premium/universal life and annuity/investment contracts, premiums are reported as earned when collected under SAP. Under GAAP, premiums received in excess of policy charges on flexible premium/universal life policies and premiums for annuity/investment contracts are accounted for as adjustments to the policy account balances, rather than as revenue.

Benefits and Aggregate Reserves
Under SAP, benefits and expenses include death, annuity, disability, surrender and maturity benefits paid and change in policy reserves. Under GAAP, benefits and expenses under flexible premium/universal life policies and annuity/investment contracts would only represent the excess of benefits paid over the policy account value.

Under SAP, aggregate reserves for life, annuity, accident and health are determined based on published tables using statutorily specified interest rates, estimates of mortality and valuation method. The majority of reserves for life contracts are calculated on a modified reserve basis, primarily CRVM. Annuity reserves are calculated by the CARVM. Under GAAP, reserves are estimated using methods that include assumptions, such as estimates of expected investment yields, mortality, termination and expenses applicable at the time the insurance contracts are made. GAAP does not specifically address valuation methods.

Non-admitted Assets
Certain assets designated as “non-admitted”, principally deferred income taxes in excess of certain limitations, property and equipment, prepaid expenses, agents’ balances and intercompany receivables subject to certain limitations, are excluded from the balance sheets and are charged directly to surplus for statutory purposes. Under GAAP, such assets are included in the balance sheets, net of appropriate valuation allowances.

Surplus Notes
Under SAP, surplus notes are classified as surplus and interest is not accrued or expensed until approval for payment of such interest has been granted by the commissioner of the state of domicile, whereas under GAAP, such notes are classified as liabilities and interest is accrued over the life of the surplus note, irrespective of the approval of interest and principal payments by the insurance commissioner.

Reinsurance
Under GAAP, balance sheet amounts related to ceded reinsurance are required to be shown gross on the financial statements; such amounts are reported on a net basis under SAP. For modified coinsurance contracts, the reserves and related assets are not recorded by the assuming company; whereas for GAAP, such amounts are shown gross in the balance sheets.

Federal Income Taxes
Deferred federal income taxes are provided for the differences between the statutory and tax basis of assets and liabilities. Deferred tax assets are limited to amounts that are expected to be realized within one year of the balance sheet date (could be three years if certain criteria are met). The deferred tax asset, subject to certain adjustments, is limited to 15% of capital and surplus at December 31, 2011 and 2010. These provisions were expanded for qualifying entities by SSAP No. 10 - Revised Income Taxes – Revised, A Temporary Replacement of SSAP No. 10 ("SSAP 10R") in 2009 and extended in 2010 to be effective through 2011 as further explained in the Recently Adopted Accounting Pronouncements below. Companies may choose not to admit the higher DTA; however, consideration of a valuation allowance is required for all companies. Changes in the admitted deferred tax asset or liability are recorded directly to unassigned surplus, whereas under GAAP, the change in deferred income taxes is recorded to current operations. Under GAAP, state 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 considered not to be realizable.

Policyholder Dividends
Under GAAP, policyholder dividends are recognized over the term of the related policies, whereas under SAP, policyholder dividends are recognized as expense when declared or based on the specific terms of product contracts.

Purchase Accounting
The effects of applying the purchase method of accounting for the acquisition of blocks of business under non-assumptive type reinsurance are not recognized under SAP. For assumptive type reinsurance transactions, purchase accounting is applied with any excess intangible cost capitalized and amortized over 10 years. For both types of acquisitions under GAAP, the excess intangible cost is capitalized and amortized as the profits are realized on the blocks.

Acquisitions and Mergers of Companies
For GAAP, an acquisition is recorded at fair value at the date of acquisition, and historical financial statements are not combined. Any excess purchase price is capitalized.

Statements of Cash Flow
The statements of cash flow are presented in the required statutory format. This format differs from the format specified by GAAP which requires a reconciliation of net income to net cash flow provided by operating activities.

Statement of Comprehensive Income
Under statutory, a statement of comprehensive income is not provided.

Recently Adopted Accounting Pronouncements
SSAP 43R
SSAP No. 43R *Loan-Backed and Structured Securities* ("SSAP 43R") was revised effective January 1, 2011 to require that gains and losses be bifurcated between IMR and AVR based on management's analysis, regardless of whether the gain or loss occurs due to a sale or a loss occurs due to OTTI. The Company adopted this guidance and bifurcated gains and losses due to sales or OTTI between IMR and AVR for the years ended December 31, 2011 and 2010.

In addition, revisions to the definition of loan-backed and structured securities has expanded the population of investments that are classified as loan-backed and structured securities, including but not limited to pass-through securities, lease-backed securities, equipment trust certificates and credit tenant loans. These changes did not have a material impact on the Company's statutory financial statements.

SSAP 5R
SSAP No. 5 *Liabilities, Contingencies and impairments of Assets* ("SSAP 5") was revised ("SSAP 5R") effective January 1, 2011 to adopt Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 460, *Guarantees*, with modifications. These revisions require entities to record a liability it has undertaken in issuing a guarantee, even if the likelihood of having to make a payment under the guarantee is remote. The Company has no guarantees in effect during the years ended December 31, 2011 and 2010.

SSAP 35R
SSAP No. 35 *Guaranty Fund and Other Assessments* ("SSAP 35") was revised ("SSAP 35R") effective January 1, 2011 to adopt the GAAP guidance in ASC 405-30 ("SOP 97-3") *Insurance-Related Assessments* with some modifications. The revised SSAP modifies the requirement for recognizing liabilities for insurance related assessments. Under the new guidance the liability is not recognized until the event obligating the entity to pay a probable or imposed assessment has occurred. This impacts prospective-premium based guaranty fund assessments as the event that obligates the entity is the writing of, or becoming obligated to write or renew the premiums on which future assessments are to be based. This new guidance did not have a material impact on the Company's statutory financial statements.

SSAP 10R and SSAP101
SSAP No 101- Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10 ("SSAP 101") effective January 1, 2012 was adopted in November 2011. The statement makes permanent several changes made in SSAP 10R which expired in 2011. In addition, it clarifies and limits the use of deferred federal income tax assets based on an insurer's Risk Based Capital ("RBC"). The change resulting from the modification of this statement is accounted for as a change in accounting principle. SSAP 10R was adopted by the Company for the reporting period of December 31, 2009 and did not have a material impact on the Company's statutory financial statements.

SSAP 101 increases the deferred tax asset ("DTA") admission when the RBC levels are over 300%. The Company's RBC level at December 31, 2011 is 300%, and the potentially admissible DTA using SSAP 101 is $5,278 (before consideration of valuation allowance). The Company will be adopting SSAP No. 101 effective January 1, 2012 and expects this adoption will not have a material effect on the statutory financial statements for the year ending December 31, 2012 as the Company currently has a valuation allowance on its deferred tax assets, prior to determining admissibility.

Accounting Changes in 2010
In 2010 the Company adopted the following pronouncements:

SSAP 100
In December 2009, the NAIC issued SSAP No. 100, *Fair Value Measurements* ("SSAP 100"), effective for financial statements for periods ending on or after December 31, 2010. This statement defines fair value, establishes a framework for measuring fair value but does not change existing guidance about whether an asset or liability is carried at fair value and expands disclosures about fair value measurements. The statement adopts U.S. GAAP guidance for calculating fair value with minor modifications. Statutory accounting principles rejected the U.S. GAAP concept of incorporating nonperformance risk in fair value measurement for availability. The Company adopted this guidance effective December 31, 2010 and the required disclosures are included in Note 3 - Fair Value of Financial Instruments.

NAIC Valuation Procedures for all Loan-Backed and Structured Securities
In December 2010, the NAIC expanded on its guidance for determining NAIC designations for all loan-backed and structured securities. The residential mortgage-backed securities ("RMBS") initiative, which began in 2009 to create a modeling and rating process for non-agency RMBS, was expanded to include commercial mortgage-backed securities ("CMBS"). As part of this initiative, all loan-backed and structured securities designations are to be determined using one of the following three methods: (i) modeling for RMBS and CMBS; (ii) derived from rating agency ratings or SVO ratings, where rated securities are not modeled and the rating is not stale; or (iii) the current 5*/6* rule. A security's carrying amount is based upon the initial NAIC Designation, which is determined using the security's amortized cost. A final NAIC designation is determined using the security's carrying amount. This final NAIC designation is applicable for all statutory accounting and reporting purposes, including establishing IMR, AVR, and Risk Based Capital ("RBC") except for establishing the appropriate carrying value. This guidance was effective for December 31, 2010. The Company does not have CMBS as of and for the years ended December 31, 2011 and 2010.

2. Investments

Mortgage Loans
No new loans were made during the year ended December 31, 2011, however the Company did acquire four loans during 2011 at the aggregate outstanding principal balance of $1,557. During 2011, the Company adjusted interest rates of outstanding loans as follows:

Range of Adjustment	Number of Mortgages	Year-End Balances
.12% to.13% decrease	2	$ 15

No new loans were made during the year ended December 31, 2010. During 2010, the Company adjusted interest rates of outstanding loans as follows:

Range of Adjustment	Number of Mortgages	Year-End Balances
0.03% to 4.38% decrease	4	$ 244

The Company's mortgage loans are collateralized by a variety of commercial real estate properties located throughout the United States. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured, guaranteed or purchase money mortgages was 90% in 2011 and 2010. There were no taxes, assessments or any amounts advanced and not included in the mortgage loan total as of December 31, 2011 and 2010.

The Company held no mortgages loans with interest more than 180 days past due as of December 31, 2011 and 2010.

The Company had one impaired loan without an allowance for credit losses as of December 31, 2011 with a year-end balance of $100. The Company had four impaired loans without an allowance for credit losses as of December 31, 2010 with a year-end balance of $346. Average recorded investment in impaired loans was $223 and $173 as of December 31, 2011 and 2010, respectively.

No investment income due or accrued on mortgage loans 90 days past due has been excluded from investment income as of December 31, 2011 or 2010.

The Company restructured seven mortgage loans during 2011. The book value of the restructured loans totaled $869 as of December 31, 2011. The Company restructured eight mortgage loans during 2010. The book value of the restructured loans totaled $1,039 as of December 31, 2010.

Real Estate
The Company had 4 mortgage loans foreclosed in 2011. The properties acquired in satisfaction of debt were recorded at estimated fair value of the date of foreclosure. No gain or loss was recognized in 2011 as the mortgages had previously been impaired during 2010. The Company had 3 mortgage loans foreclosed in 2010. The properties acquired in satisfaction of debt were recorded at estimated fair value of the date of foreclosure. As a result, a realized loss on mortgages in the amount of $137 was recognized in 2010.

Loan-Backed and Structured Securities
The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities prior to that date. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities are updated quarterly with information obtained from Bloomberg. The Company used Interactive Data Pricing and Reference Data, Inc. ("IDP") and Bond Edge as the primary market value pricing sources for the bond assets. There have been no changes to methodologies (the Company continues to use the retrospective approach) during the years ended December 31, 2011 and 2010. Loan-backed securities are stated at amortized cost, except for those with a NAIC designation of 6. Loan-backed securities with a NAIC 6 rating are carried at the lower of amortized cost or fair value, with unrealized losses charged directly to unassigned surplus. Loan-backed securities that have not been filed and have not received a rating in over one year from the Securities Valuation Office ("SVO") receive a 6* rating and are carried at zero with the unrealized loss charged directly to unassigned surplus. RMBS with an initial designation of 6 may be reported in bonds with a higher final designation, if a higher rating is indicated under the NAIC guidance for rating RMBS for the calculation of RBC and reflect a "FM" suffix to indicate they are rated in this manner.

Bonds

The book/adjusted carrying values and fair values of investments in bonds are as follows:

	December 31, 2011			
(dollars in thousands)	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government	$ 7,369	$ 487	$ (3)	$ 7,853
All other government	3,725	184	(21)	3,888
States, territories and possessions	29,957	2,790	(30)	32,717
Political subdivisions	24,521	1,535	(29)	26,027
Corporate securities	537,794	46,231	(4,049)	579,976
Hybrid securities	10,015	-	(87)	9,928
Mortgage-backed securities				
Government mortgage-backed securities	139,087	5,480	(179)	144,388
Corporate mortgage-backed securities	12,491	695	(401)	12,785
	$ 764,959	$ 57,402	$ (4,799)	$ 817,562

	December 31, 2010			
(dollars in thousands)	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government	$ 13,225	$ 377	$ (7)	$ 13,595
All other government	3,728	88	-	3,816
States, territories and possessions	23,679	430	(312)	23,797
Political subdivisions	27,529	190	(771)	26,948
Corporate securities	444,047	24,859	(3,105)	465,801
Mortgage-backed securities				
Government mortgage-backed securities	132,318	4,942	(99)	137,161
Corporate mortgage-backed securities	16,345	858	(878)	16,325
	$ 660,871	$ 31,744	$ (5,172)	$ 687,443

Fair values are based upon market prices determined by IDP for securities traded in the public marketplace, or other pricing sources.

The book/adjusted carrying value and fair value of bonds at December 31, 2011, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Final maturity date was used for mortgage-backed securities.

(dollars in thousands)	Book/ Adjusted Carrying Value	Fair Value
Due in one year or less	$ 7,974	$ 8,384
Due after one year through five years	97,879	104,024
Due after five years through ten years	259,156	276,476
Due after ten years through twenty years	228,877	250,274
Due after twenty years	171,073	178,404
	$ 764,959	$ 817,562

Gross proceeds and realized gains and losses on bonds sold at the discretion of the Company for the years ended December 31, 2011 and 2010 were:

(dollars in thousands)	2011	2010
Proceeds	$ 109,681	$ 102,326
Gross gains	5,245	3,505
Gross losses	(511)	(1,275)

Certain bonds and other investments with an aggregate amortized cost of $31,890 and $31,515 at December 31, 2011 and 2010, respectively, were on deposit with regulatory authorities in accordance with statutory requirements.

The mortgage-backed securities portfolio did not include any interest-only or inverse floating collateralized mortgage obligations ("CMOs"), nor any residual interests in CMOs. Management is of the opinion that the mortgage-backed securities owned by the Company have good liquidity in readily available markets and were substantially all rated NAIC 1 or 1FE.

Pursuant to SSAP 43R, if the fair value of a loan-backed or structured security was less than its amortized cost basis at the balance sheet date, an entity should assessed whether the impairment was other-than temporary. When an impairment was present, SSAP 43R required the recognition of credit-related OTTI when the projected discounted cash flows for a particular security were less than the security's amortized cost. When a credit-related OTTI was present, the amount of OTTI equaled to the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected. The credit-related OTTI was reflected in the calculation of the AVR. The roll-forward of the amount related to credit losses recognized in earnings were as follows:

	2011	2010
Beginning balance	$ 6,728	$ 6,417
Additions previously recognized	967	266
Additions not previously recognized	2	1,223
Reduction for securities sold subsequent to impairment	(507)	(1,178)
Ending balance	$ 7,190	$ 6,728

All loan-backed and structured securities with a recognized OTTI in 2011 were classified on the following basis of OTTI:

	Amortized cost basis before OTTI	OTTI recognized in loss		Fair value
		Interest	Non-interest	
Intent to sell	$ -	$ -	$ -	$ -
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Present value of cash flows expected to be collected is less than the amortized cost basis of the security	2,262	-	969	1,505
	$ 2,262	$ -	$ 969	$ 1,505

All loan-backed and structured securities with a recognized OTTI in 2010 were classified on the following basis of OTTI:

	Amortized cost basis before OTTI	OTTI recognized in loss		Fair value
		Interest	Non-interest	
Intent to sell	$ -	$ -	$ -	$ -
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Present value of cash flows expected to be collected is less than the amortized cost basis of the security	8,961	-	1,489	6,698
	$ 8,961	$ -	$ 1,489	$ 6,698

At December 31, 2011 the Company held the following loan-backed securities for which it had recognized credit-related OTTI:

(dollars in thousands) CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value
05949QAX3	758	624	134	624	583
05953YBD2	1,551	369	1,182	369	478
06051GCS6	952	934	18	934	879
07387UCU3	1,062	45	1,017	45	185
12544RBZ0	677	94	583	94	82
12668AMZ5	1,253	98	1,155	98	128
1266994X29	536	65	471	65	66
172973V89	230	228	2	228	228
45660NRB3	946	760	186	760	685
61748HDR9	862	627	235	627	522
76110WMB9	233	144	89	144	188
9393366Q1	366	357	9	357	273
93934FGK2	2,246	137	2,109	137	293
	$ 11,672	$ 4,482	$ 7,190	$ 4,482	$ 4,590

At December 31, 2010 the Company held the following loan-backed securities for which it had recognized credit-related OTTI:

(dollars in thousands) CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value
021460AC4	552	45	507	45	33
05949QAX3	1,289	1,155	134	1,155	1,181
05953YBD2	1,551	369	1,182	369	495
06051GCS6	1,068	1,050	18	1,050	569
07387UCU3	1,086	187	899	187	263
12544RBZ0	672	198	474	198	327
12668AMZ5	1,195	227	968	227	291
1266994X29	580	209	371	209	214
45660NRB3	867	681	186	681	429
61748HDR9	875	770	105	770	646
76110WMB9	232	143	89	143	175
9393366Q1	503	494	9	494	388
93934FGK2	2,103	317	1,786	317	702
	$ 12,573	$ 5,845	$ 6,728	$ 5,845	$ 5,713

At December 31, 2011 and 2010 the Company did not have securities with a credit-related OTTI recognized in earnings but for which an associated interest-related decline has not been recognized in earnings as a realized loss.

Sub-prime Mortgage Related Risk Exposure
RMBS are a significant asset class in the Company's bond portfolio. RMBS are either issued by a U.S. Government agency (Agency) or by a private company, if the loan balance exceeds the Agency maximum or the borrower credit quality is not within Agency guidelines. They fall into the following four major types:

- *U.S. Government Agency*. Composed of high credit quality borrowers with loan balances meeting the Agency limits. Principal is guaranteed by the government agency.
- *Whole Loan*. Borrowers with high credit scores and loan documentation but loan balances above the Agency ceiling.
- *Alt-A*. Borrowers with either less documentation or moderately lower credit quality then whole loan or Agency borrowers.
- *Sub-prime*. Low level of documentation or borrower credit quality.

(dollars in thousands)	Market	Unrealized Gain	% of RMBS	% of Bonds
Agency	$ 149,802	$ 5,708	92 %	19 %
Alt A	2,102	263	1 %	0 %
Whole Loan	10,684	32	7 %	1 %
Sub-Prime	-	-	0 %	0 %
RMBS	$ 162,588	$ 6,003	100 %	20 %

The Company owns $12,491 on non-Agency mortgage-backed securities of which 85% are prime whole loans and 15% are Alt-A, with no exposure to sub-prime mortgages. The Company does not own any collateralized debt obligations, structured investment vehicles or equity investments with direct sub-prime exposure. Our primary exposures are through Alt-A residential mortgage backed bonds. The Company has no corporate bonds that have exposure to sub-prime risk.

Equity Investments
The cost of investments in preferred and common stocks and gross unrealized gains and losses from those investments are as follows:

	December 31, 2011			
(dollars in thousands)	Cost/ Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Unaffiliated preferred	$ 8,215	$ 282	$ (346)	$ 8,151
Unaffiliated common	6,089	-	-	6,089
	$ 14,304	$ 282	$ (346)	$ 14,240

	December 31, 2010			
(dollars in thousands)	**Cost/ Carrying Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Unaffiliated preferred	$ 7,201	$ 636	$ (201)	$ 7,636
Unaffiliated common	5,294	-	-	5,294
	$ 12,495	$ 636	$ (201)	$ 12,930

Net realized gains (losses) on equity securities sold for the years ended December 31, 2011 and 2010 were approximately $320 and $376, respectively. The Company recognized no impairment (losses) on equity securities for the years ended December 31, 2011 and 2010.

Net Investment Income

The components of net investment income earned by type of investment for the years ended December 31, 2011 and 2010 are as follows:

(dollars in thousands)	**2011**	**2010**
Bonds	$ 38,648	$ 32,863
Mortgage loans	1,433	1,677
Contract loans	1,235	1,425
Preferred and common stocks	590	561
Other invested asset	571	1,603
Gross investment income	42,477	38,129
Less: Investment expenses	(4,386)	(4,552)
	$ 38,091	$ 33,577

The change in net unrealized gains (losses) which is recorded as a direct credit (charge) to unassigned surplus is comprised of the following:

(dollars in thousands)	**2011**	**2010**
Other bonds-unaffiliated, net of tax	$ (11)	$ 267
Common stocks-unaffiliated, net of tax	(74)	-
Change in derivatives, net of tax	(3,335)	1,349
	$ (3,420)	$ 1,616

Net realized investment gains (losses) consist of:

(dollars in thousands)	2011	2010
U.S. Government bonds	$ 152	$ 547
Other bonds-unaffiliated	3,230	334
Preferred stock-unaffiliated	323	376
Common stock-unaffiliated	(3)	-
Mortgage loans	(14)	(298)
Other	(147)	137
	3,541	1,096
Federal income tax benefit (expense)	266	617
IMR adjustment (includes taxes of $1,505 and $1,001 for 2011 and 2010, respectively)	(4,301)	(2,860)
	$ (494)	$ (1,147)

Impairment losses included in realized gains and losses above, for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Bonds	$ 1,051	$ 1,489
Mortgage loans	14	161
Other	43	-
	$ 1,108	$ 1,650

The following table shows the Company's gross unrealized losses and related fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2011 (in thousands, except for position data):

	Less Than 12 Months			12 Months or Longer			Total		
(dollars in thousands)	# of Positions	Fair Value	Unreal Loss	# of Positions	Fair Value	Unreal Loss	# of Positions	Fair Value	Unreal Loss
Description of securities									
U.S. government	1	$ 40	$ -	2	$ 235	$ (3)	3	$ 275	$ (3)
Other government	1	2,197	(21)	-	-	-	1	2,197	(21)
Loan backed securities	23	21,897	(198)	13	10,759	(381)	36	32,656	(579)
Corporate bonds	72	85,682	(3,221)	11	10,504	(975)	83	96,186	(4,196)
Subtotal debt securities	97	109,816	(3,440)	26	21,498	(1,359)	123	131,314	(4,799)
Preferred stock	2	1,231	(3)	3	3,093	(343)	5	4,324	(346)
Total temporarily impaired securities	99	$ 111,047	$ (3,443)	29	$ 24,591	$ (1,702)	128	$ 135,638	$ (5,145)

The following table shows the Company's gross unrealized losses and related fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2010 (in thousands, except for position data):

	Less Than 12 Months			12 Months or Longer			Total		
(dollars in thousands)	# of Positions	Fair Value	Unreal Loss	# of Positions	Fair Value	Unreal Loss	# of Positions	Fair Value	Unreal Loss
Description of securities									
U.S. government	3	$ 514	$ (2)	3	$ 816	$ (5)	6	$ 1,330	$ (7)
Other government	-	-	-	-	-	-	-	-	-
Loan backed securities	13	12,756	(142)	8	5,289	(834)	21	18,045	(976)
Corporate bonds	59	105,965	(3,241)	14	14,619	(947)	73	120,584	(4,188)
Subtotal debt securities	75	119,235	(3,385)	25	20,724	(1,786)	100	139,959	(5,171)
Preferred stock	2	1,747	(30)	3	3,480	(171)	5	5,227	(201)
Total temporarily impaired securities	77	$ 120,982	$ (3,415)	28	$ 24,204	$ (1,957)	105	$ 145,186	$ (5,372)

The Company generally considers a number of factors in determining whether the impairment is other than temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) the intent and ability of the Company to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position and continued viability of the issuer are significant measures considered.

Less Than 12 Months

Unrealized losses as of December 31, 2011 primarily are attributable to a combination of interest rate movements and individual credit quality changes. During 2011, market yields for the Merrill Lynch Corporate Master high grade index began the calendar year at 4.0%, ranged from 3.55%-4.25% and ended the year at 3.9%. Several bonds purchased during May-August 2011 ended 2011 at modest unrealized losses. In addition, some isolated changes within individual corporate bond yields led to a nominal amount of unrealized losses. These unrealized bond losses represented just .2% of bond balances. Credit markets have improved during early 2012. Approximately 85% of these unrealized losses are either at an unrealized gain or a smaller loss as of March 31, 2012.

Unrealized losses at December 31, 2010 are primarily attributable to higher Treasury yields. During 2009, the 10 to 30 year Treasury yields increased 160 to 200 basis points, which lead to unrealized losses for those securities purchased in the lower credit yield environment of late 2008 and early 2009. Additionally some isolated changes in credit quality impacted fair values.

12 Months or Longer

The majority of unrealized losses as of December 31, 2011 relate to individual company credit yields. They were purchased in 2011 during a period of unusually low U.S. Treasury yields. This low U.S. government yield in combination with a change in corporate credit spread resulted in an unrealized loss at year–end. The unrealized loss represented about .4% of bond balances. Credit market conditions have subsequently improved during early 2012 and about 25% of this unrealized loss has been reversed during the first quarter of 2012.

At December 31, 2010, over half of these losses reside within mortgage-backed securities ("MBS") where losses relate to a higher risk premium and deteriorating loan pool, characteristics that are monitored for other-than-temporary-impairment. In addition, isolated issues such as bank preferred stocks had credit profiles that have not yet fully recovered from the recession. The present value of cash flows for the mortgage backed securities exceeded the amortized cost as of December 31, 2010 and the Company has the intent and the ability to hold these securities to recovery.

Derivative Instruments

The Company purchases custom options (hedges) that are selected to materially replicate the policy benefits that are associated with the equity indexed components of certain of our products. These options are appropriate to reduce or minimized the risk of movements in the equity market (market risk). Credit risk that the Company has regarding the options is mitigated by ensuring that the counterparty is sufficiently capitalized.

The hedging transactions are accounted for as call options and are originally valued at the premium paid, with the statement carrying value carrying being adjusted to fair value. To minimize potential counterparty risk from the purchase of these customized contracts from broker dealers, the Company limits its transactions to only banks and brokers carrying an unsecured debt rating of at least A or P-1 by either Standard and Poor's or Moody's. The customized options did not meet the criteria of an effective hedge as of and for the years ended December 31, 2011 and 2010 and are accounted for at fair value based on stock price, strike price, time to expiration, interest rates and volatility of the Black-Sholes option pricing formula and Monte-Carlo simulation based on returns of the applicable market. Gains and losses resulting from changes in the estimated fair value of the call options are recorded as unrealized gains or losses in statutory surplus. During 2011 the Company recorded realized losses of $104 on hedges which expired and $5,130 of unrealized losses in surplus based upon the fair value movement. For 2010 the Company recorded realized gains of $137 on hedges which expired and $2,076 of unrealized gains in surplus based on the fair value movement.

3. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Company's financial instruments were as follows:

	December 31, 2011		December 31, 2010	
(dollars in thousands)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets				
Bonds	$ 764,959	$ 817,562	$ 660,871	$ 687,443
Preferred stock	8,215	8,151	7,201	7,636
Common stock	6,089	6,089	5,294	5,294
Mortgage loans	23,609	24,548	23,502	24,468
Contract loans	29,145	29,145	29,065	29,065
Cash and short-term investments	8,278	8,278	26,391	26,391
Derivatives	5,478	5,478	8,676	8,676
Other invested assets	2,900	2,900	2,900	2,900
Receivables	3,274	3,274	3,666	3,666
Financial liabilities				
Insurance liabilities for investment contracts	$ 575,999	$ 521,891	$ 513,614	$ 489,235
Borrowed money	129,500	136,579	119,341	127,483

The fair values presented represent management's best estimates and may not be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are not required to be disclosed. Therefore, the aggregate fair value amounts presented do not purport to represent the underlying fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Short-Term Investments
The carrying amounts for cash and short-term investments approximate fair value due to the highly liquid nature of the instruments.

Bonds
Fair values of bonds are based on quoted market prices, dealer quotes and prices obtained from independent pricing sources.

Preferred Stock
Fair values of preferred stocks are based on external pricing sources such as IDP.

Common Stock
The fair value of unaffiliated common stock other than Federal Home Loan Bank ("FHLB") is as published by the NAIC Securities Valuation Office. Because FHLB shares are not publicly traded, the fair value of the stock is considered to be equivalent to cost due to the fact that the FHLB has historically redeemed the shares at original cost.

Mortgage Loans
The fair value of mortgage loans is calculated by discounting scheduled cash flows through the estimated maturity using the current rates at which similar loans would be made to borrowers with similar credit and interest rate risks.

Contract Loans
Contract loans are carried at their unpaid principal amounts. It is not practical to estimate the fair value of contract loans as they have no stated maturity, and their rates are set at a spread related to policy liability amounts.

Derivatives
The Company calculates the fair value internally based on stock price, strike price, time to expiration, interest rates and volatility under the Black-Sholes option pricing formula and Monte-carlo simulation based on returns of the applicable markets or indices.

Other Invested Assets
The carrying value of certain other invested assets approximates fair value because existing rates of return approximate the current rates of return required on similar investments.

Receivables
The carrying amounts for receivables for securities and investment income due and accrued approximate fair value due to the short-term characteristics of these receivables.

Insurance Liabilities for Investment Contracts
Insurance liabilities for investment contracts include universal life, single premium and flexible premium deferred annuity contracts, supplementary contracts not having significant mortality risk and policyholder dividend accumulations. The fund value is used in determining the fair value of universal life and single premium and flexible premium deferred annuity contracts. Carrying amounts approximated fair value for immediate annuities, supplementary contracts and policyholder dividend accumulations.

Borrowed Money
Fair values for the advances from FHLB were calculated using interest rates in effect as of each year end with the other terms of the advances unchanged.

Fair Value Disclosures
In 2010 the NAIC adopted SSAP 100 – Fair Value Measurements. This statement required new disclosures for assets and liabilities that are measured at fair value. The disclosures created a fair value hierarchy that enables users of its financial statements to assess valuation techniques and the inputs used to develop those fair value measurements. The Company measures at fair value certain bonds (specifically, bonds with NAIC ratings of 6), common stocks, preferred stocks and derivatives.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observable. Financial securities with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Another-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Fair Value Hierarchy
SSAP 100 defines three levels based on observability of inputs available in the marketplace used to measure the fair values. Such levels are:

Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that the Company has the ability to access for identical assets or liabilities. Level 1 assets and liabilities include debt securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter market.

Level 2: Fair value measurements, based on inputs other than quoted prices included in Level 1 that are observable for the asset liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable at commonly quoted intervals. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments where value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. government and agency mortgage-backed securities, corporate debt securities, and residential mortgage-backed securities.

Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. Level 3 assets and liabilities include certain corporate debt securities where independent pricing information cannot be obtained for a significant portion of the underlying assets.

Bonds and Preferred Stocks
The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available the Company uses NAIC market values for bonds and preferred stocks with NAIC. When NAIC market values are not available, market values are obtained from third party pricing sources.

Common Stocks
The Company estimates the fair value of the common stock investment in the FHLB of Dallas at redemption value in accordance with the borrowing program and the stock is not traded in an active market. Other common stocks are carried at NAIC market values.

Real Estate Held for Sale
Mortgage loans foreclosed on and converted to real estate currently held for sale The Company received appraisal reports for these properties in 2011 and 2010. The inputs of the fair value measurements in the appraisal reports include judgments about market condition and assumptions tied to economic factors.

Derivatives
As more fully discussed under Note 2, the Company purchases custom options to hedge the interest liability generated on the equity-indexed components of certain of the Company's products as the applicable indices rise. These custom options are carried at fair value. The Company calculates the fair value internally based on stock price, strike price, time to expiration, interest rates and volatility under the Black-Sholes option pricing formula and Monte-carlo simulation based on returns of the applicable markets or indices.

The following table presents information about financial instruments measured at fair value and indicates the level of the fair value measurement on the levels of the inputs used as of December 31, 2011 and 2010. Bonds and preferred stocks with NAIC designation of 6 are valued at the lower of cost or fair value. Real estate held for sale is stated at the lower of depreciated cost of fair value. Common stocks in unaffiliated entities are measured at fair value on a recurring basis.

	December 31, 2011			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Bonds	$ -	$ 2,290	$ -	$ 2,290
Real estate held for sale	-	-	1,057	1,057
Common stocks	105	-	5,984	6,089
Derivatives	-	-	5,478	5,478
	$ 105	$ 2,290	$ 12,519	$ 14,914

	December 31, 2010			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
Bonds	$ -	$ 2,438	$ -	$ 2,438
Real estate held for sale	-	-	719	719
Common stocks	-	-	5,294	5,294
Derivatives	-	-	8,675	8,675
	$ -	$ 2,438	$ 14,688	$ 17,126

The following table presents changes during 2011 and 2010 in Level 3 financial instruments measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in income during 2011 and 2010 related to the Level 3 financial instruments that remained in the balance sheet at December 31, 2011 and 2010:

	December 31, 2011					
(dollars in thousands)	**Beginning of Year**	**Gains/(Losses) Included in Inc Stmt**	**Gains/(Losses) Included in Surplus**	**Purchases (Sales) Net**	**Transfers In (Out)**	**End of Year**
Real estate held for sale	$ 719	$ (43)	$ -	$ 381	$ -	$ 1,057
Common stocks	5,294	-	-	690	-	5,984
Derivatives	8,675	(103)	(5,130)	2,036	-	5,478
	$ 14,688	$ (146)	$ (5,130)	$ 3,107	$ -	$ 12,519

	December 31, 2010					
(dollars in thousands)	**Beginning of Year**	**Gains/(Losses) Included in Inc Stmt**	**Gains/(Losses) Included in Surplus**	**Purchases (Sales) Net**	**Transfers In (Out)**	**End of Year**
Real estate held for sale	$ 446	$ -	$ -	$ 273	$ -	$ 719
Common stocks	5,442	-	-	(148)	-	5,294
Derivatives	2,366	136	2,076	4,097	-	8,675
	$ 8,254	$ 136	$ 2,076	$ 4,222	$ -	$ 14,688

4. Income Taxes

The components of the net deferred tax assets ("DTA") and deferred tax liabilities ("DTL") at December 31 are as follows (in thousands):

DTA/DTL Components

	2011			2010		
Description	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Gross deferred tax assets	$ 34,928	$ 1,979	$ 36,907	$ 33,669	$ -	$ 33,669
Statutory valuation allowance adjustment (enter as "-")	(34,045)	(1,979)	(36,024)	(32,271)	-	(32,271)
Adjusted gross deferred tax assets	883	-	883	1,398	-	1,398
Gross deferred tax liabilities	(883)	-	(883)	(826)	(572)	(1,398)
Net deferred tax asset (liability) before admissibility test	-	-	-	572	(572)	-
Deferred tax assets nonadmitted	-	-	-	-	-	-
Net admitted deferred tax asset (liability)	$ -	$ -	$ -	$ 572	$ (572)	$ -

	Change		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	$ 1,259	$ 1,979	$ 3,238
Statutory valuation allowance adjustment (enter as "-")	(1,774)	(1,979)	(3,753)
Adjusted gross deferred tax assets	(515)	-	(515)
Gross deferred tax liabilities	(57)	572	515
Net deferred tax asset (liability) before admissibility test	(572)	572	-
Deferred tax assets nonadmitted	-	-	-
Net admitted deferred tax asset (liability)	$ (572)	$ 572	$ -

The Company has not elected to admit DTAs pursuant to paragraph 10.e. in either 2011 or 2010.

The Company recorded an increase in admitted adjusted gross DTAs as the result of the application of paragraph 10.e as follows (in thousands):

	2011			2010		
Description	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
With ¶ 10.e.	$ -	$ -	$ -	$ -	$ -	$ -
With ¶s 10.a.-c.	-	-	-	-	-	-
Increase attributable to application of ¶ 10.e.	$ -	$ -	$ -	$ -	$ -	$ -

	Change		
	Ordinary	**Capital**	**Total**
With ¶ 10.e.	$ -	$ -	$ -
With ¶s 10.a.-c.	-	-	-
Increase attributable to application of ¶ 10.e.	$ -	$ -	$ -

Admission calculation components

	2011			2010		
Description	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Admission calculation under ¶10.a.-¶10.c.						
Admitted pursuant to ¶10.a.	$ -	$ -	$ -	$ -	$ -	$ -
Admitted pursuant to ¶10.b.(lesser of i. or ii.)	-	-	-	-	-	-
¶10.b.i.	-	-	-	-	-	-
¶10.b.ii.	-	-	-	-	-	-
Admitted pursuant to ¶10.c.	-	-	-	-	-	-
Total admitted under ¶¶10.a.-10.c.	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-
Net admitted deferred tax asset (liability) under ¶10.a.-¶10.c.	$ -	$ -	$ -	$ -	$ -	$ -
Admission calculation under ¶10.e.i.-10.e.iii.	$ -	$ -	$ -	$ -	$ -	$ -
Admitted pursuant to ¶10.e.i.	-	-	-	-	-	-
Admitted pursuant to ¶10.e.ii. (lesser of a. or b.)	-	-	-	-	-	-
¶10.e.ii.a..	-	-	-	-	-	-
¶10.e.ii.b.	-	-	-	-	-	-
Admitted pursuant to ¶10.e.iii.	-	-	-	-	-	-
Total admitted under ¶10.e.i.-10.e.iii.	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-
Net admitted deferred tax asset (liability) under ¶10.e.	$ -	$ -	$ -	$ -	$ -	$ -
Used in ¶10.d.						
Total adjusted capital	$ -	$ -	$ -	$ -	$ -	$ -
Authorized control level	-	-	-	-	-	-
Adjusted capital/authorized control level	0 %	0 %	0 %	0 %	0 %	0 %

Description	Change Ordinary	Change Capital	Change Total
Admission calculation under ¶10.a.-¶10.c.			
Admitted pursuant to ¶10.a.	$ -	$ -	$ -
Admitted pursuant to ¶10.b.(lesser of i. or ii.)	-	-	-
¶10.b.i.	-	-	-
¶10.b.ii.	-	-	-
Admitted pursuant to ¶10.c.	-	-	-
Total admitted under ¶¶10.a.-10.c.	-	-	-
Deferred tax liabilities	-	-	-
Net admitted deferred tax asset (liability) under ¶10.a.-¶10.c.	$ -	$ -	$ -
Admission calculation under ¶10.e.i.-10.e.iii.			
Admitted pursuant to ¶10.e.i.	$ -	$ -	$ -
Admitted pursuant to ¶10.e.ii. (lesser of a. or b.)	-	-	-
¶10.e.ii.a..	-	-	-
¶10.e.ii.b.	-	-	-
Admitted pursuant to ¶10.e.iii.	-	-	-
Total admitted under ¶10.e.i.-10.e.iii.	-	-	-
Deferred tax liabilities	-	-	-
Net admitted deferred tax asset (liability) under ¶10.e.	$ -	$ -	$ -
Used in ¶10.d.			-
Total adjusted capital	$ -	$ -	$ -
Authorized control level			-
Adjusted capital/authorized control level	0 %	0 %	0 %

Impact of ¶10.e. on the following

Description	2011 Ordinary	2011 Capital	2011 Total	2010 Ordinary	2010 Capital	2010 Total
Admission calculation under ¶10.a.-¶10.c.						
Admitted DTAs	$ -	$ -	$ -	$ -	$ -	$ -
Admitted assets	-	-	-	-	-	-
Adjusted statutory surplus from most recently filed statement	-	-	-	-	-	-
Total adjusted capital from DTAs included above	0 %	0 %	0 %	0 %	0 %	0 %
Increases due to admission under ¶10.e.i.-10.e.iii.						
Admitted DTAs	-	-	-	-	-	-
Admitted assets	0 %	0 %	0 %	0 %	0 %	0 %
Statutory surplus	0 %	0 %	0 %	0 %	0 %	0 %

Impact of tax planning strategies on adjusted gross DTAs and net admitted DTAs

Description	2011 Ordinary	2011 Capital	2011 Total	2010 Ordinary	2010 Capital	2010 Total
Adjusted gross DTAs-amount	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted gross DTAs-percentage	0 %	0 %	0 %	0 %	0 %	0 %
Net admitted DTAs-amount	-	-	-	-	-	-
Net admitted DTAs-percentage	0 %	0 %	0 %	0 %	0 %	0 %

Description	Change Ordinary	Change Capital	Change Total
Admission calculation under ¶10.a.-¶10.c.			
Admitted DTAs	$ -	$ -	$ -
Admitted assets	-	-	-
Adjusted statutory surplus from most recently filed statement	-	-	-
Total adjusted capital from DTAs included above	0 %	0 %	0 %
Increases due to admission under ¶10.e.i.-10.e.iii.			
Admitted DTAs	$ -	$ -	$ -
Admitted assets	0 %	0 %	0 %
Statutory surplus	0 %	0 %	0 %

Impact of tax planning strategies on adjusted gross DTAs and net admitted DTAs

Description	Change Ordinary	Change Capital	Change Total
Adjusted gross DTAS-amount	$ -	$ -	$ -
Adjusted gross DTAs-percentage	0 %	0 %	0 %
Net admitted DTAs-amount	-	-	-
Net admitted DTAs-percentage	0 %	0 %	0 %

Deferred Tax Liabilities are not recognized for the Company's Policyholder Surplus account under the provisions of the Internal Revenue Code. As of December 31, 2011, the Company had a balance of $1,508 in policyholder surplus account. This amount could become taxable to the extent that future shareholder dividends are paid from this account.

Current income taxes incurred consist of the following major components (in thousands).

Description	2011	2010
Current federal income tax expense (benefit)	$ (1,240)	$ (383)
Tax on capital gains (losses)	1,240	383
Federal income taxes incurred	$ -	$ -

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows (in thousands):

DTAs resulting from book/tax differences in	December 31, 2011	December 31, 2010	Change
Ordinary			
Policyholder liabilities	$ 3,675	$ 4,891	$ (1,216)
Deferred acquisition costs	5,229	5,445	(216)
Nonadmitted assets	69	1,150	(1,081)
Net operating loss carryforward	23,797	20,860	2,937
Other (separately disclose items >5%)	2,158	725	1,433
Gross ordinary DTAs	34,928	33,071	1,857
Capital			
Investments	710	598	112
Unrealized capital losses	1,269	-	1,269
Gross capital DTAs	1,979	598	1,381
Gross deferred tax assets	36,907	33,669	3,238
Valuation allowance	(36,024)	(32,271)	(3,753)
Nonadmitted deferred tax assets	-	-	-
Admitted DTAs	$ 883	$ 1,398	$ (515)

DTLs resulting from book/tax differences in	December 31, 2011	December 31, 2010	Change
Ordinary			
Investments	-	(11)	11
Deferred and uncollected premiums	(817)	(779)	(38)
Tax goodwill	(65)	(36)	(29)
Other (separately disclose items >5%)	(1)	-	(1)
Ordinary DTLs	(883)	(826)	(57)
Capital			
Unrealized capital gains	-	(572)	572
Other (separately disclose items >5%)	-	-	-
Capital DTLs	-	(572)	572
DTLs	(883)	(1,398)	515
Net deferred tax assets (liabilities)	$ -	$ -	$ -

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of non-admitted assets as the Change in Non-admitted Assets is reported separately from the Change in Net Deferred Income Taxes in the surplus section of the Annual Statement (in thousands):

	December 31, 2011	December 31, 2010	Change
Total deferred tax assets	$ 36,907	$ 33,669	$ 3,238
Total deferred tax liabilities	(883)	(1,398)	515
Net deferred tax assets (liabilities)	36,024	32,271	3,753
Statutory valuation allowance adjustment	(36,024)	(32,271)	(3,753)
Net deferred tax assets (liabilities) after SVA	-	-	-
Tax effect of unrealized gains (losses)	(1,269)	572	(1,841)
Statutory valuation allowance allocated to unrealized	-	-	-
Change in net deferred income tax [(charge) benefit]	$ (1,269)	$ 572	$ (1,841)

In accordance with the requirements established in SSAP 10R, the Company assessed its ability to realize the deferred tax assets of $36,907 at December 31, 2011 and $33,669 at December 31, 2010 and concluded that a full valuation allowance was required at December 31, 2011 and 2010 to reduce the deferred tax asset to an amount the Company believes is more likely than not to be realized. The change in valuation allowance is included in the change in non-admitted asset in the statement of changes in capital and surplus.

Reconciliation of Federal Income Tax Rate to Actual Effective Rate

The provision for federal 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 (in thousands):

Description	Amount	Tax Effect	Effective Tax Rate
Income before taxes	$ (4,564)	$ (1,597)	35.00 %
Capital gains (losses) tax expense (benefit)	-	1,240	(27.17)%
IMR	(2,717)	(951)	20.84 %
Change in valuation allowance	-	3,753	(82.24)%
Prior year adjustment	(1,726)	(604)	13.23 %
	(9,007)	1,841	(40.34)%
Federal income taxed incurred [expense (benefit)]		(1,240)	27.17 %
Tax on capital gains (losses)		1,240	(27.17)%
Change in net deferred income tax [charge (benefit)]		1,841	(40.34)%
Total statutory income taxes		$ 1,841	(40.34)%

Carryforwards, Recoverable Taxes, and IRC §6603 Deposits

At December 31, 2011, the Company had net operating loss carryforwards expiring through the year 2030 of $67,991. At December 31, 2011, the Company had no capital loss carryforwards. The Company had an Alternative Minimum Tax ("AMT") credit carryforward, which does not expire, in the amount of $344 at December 31, 2011.

The Company had a tax benefit for 2009, 2010 and 2011 and therefore, had $0 income tax expense for 2009, 2010 and 2011 that is available for recoupment in the event of future net losses (in thousands).

Year	Ordinary	Capital	Total
2009	$ -	$ -	$ -
2010	-	-	-
2011	-	-	-
	$ -	$ -	$ -

There were no deposits admitted under IRC § 6603 as of December 31, 2011 and 2010.

The Company's federal income tax return is consolidated with the following entities:

Laurel Life Insurance Company
The method of allocation among companies is subject to a written agreement, approved by the Board of Directors, whereby allocation is based on separate return calculations. Intercompany tax payable balances are settled when estimated payments are due and when the return is filed. Intercompany tax receivable balances are settled within the later of 90 days from the filing the tax return or 90 days from receipt of funds from the IRS. This agreement was replaced effective January 1, 2012 by a new tax sharing agreement that the Company executed with Sagicor USA, Inc.

In July of 2006, the FASB issued FASB interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109 and now part of ASC 740 - Income Taxes. This interpretation is not applicable to statutory financial statements. However, the FIN 48 disclosure requirements are relevant to statutory financial statements. The Company records liabilities on uncertain tax positions under the principles of SSAP No. 5R. Interest and penalties for uncertain tax positions are recorded in federal income tax expense. The Company had no material contingent tax liabilities at December 31, 2011 and 2010.

5. Information Concerning Parent, Subsidiaries and Affiliates

The Company reported $2,809 as the net amount due from affiliates as of December 31, 2011 and $9,490 as the net amount due from affiliates as of December 31, 2010. The Company has the right of offset with SFC and affiliates per executed agreement dated June 4, 2009. The Company has a management and service agreement with Laurel whereby the Company provides all management, personnel, administrative services, and facilities necessary to operate at no cost to Laurel, and similar agreements with SUSA and SFC, which reimburse the Company for actual expenses incurred by the Company in rendering these services. The Company paid $769 and received $1,327 during 2011 and paid $1,121 and received $3,375 during 2010 under the management and service agreements discussed above. The Company also has a tax-sharing agreement with Laurel, as described in Note 4. The terms of management and services agreements require settlement within 90 days.

The Company had no dividends declared or paid in 2011 and 2010.

6. Debt

Borrowed money consisted of advances from the FHLB as of December 31, 2011 and 2010 as follows (in thousands):

(dollars in thousands)	**2011**	**2010**
Short-term advances, bearing interest at rates ranging from .10% to.12% for 2011 and 0.12% to 0.14% for 2010	$ 90,977	$ 77,460
Amortizing advances with balloon payments, bearing interest at rates from 6.41% to 7.29% in 2011 and 2010 maturing from 2012 to 2017	36,420	39,334
Fully amortizing advances, bearing interest at rates ranging from 6.44% to 7.48% in 2011 and 2010, maturing from 2015 to 2016	1,871	2,301
	129,268	119,095
Accrued interest on advances	232	246
Total borrowed money	$ 129,500	$ 119,341

The short-term advances were issued in December 2011 and are supported by underlying investments with variable, or floating, interest rates. The long-term advances were originally issued between November 17, 1995 and November 7, 1997, and are matched against investments with comparable duration. Interest expense was approximately $2,899 and $3,172 for the years ended December 31, 2011 and 2010, respectively, and is included in investment expenses. Annual maturities as of December 31, 2011 for the next five years and thereafter are as follows:

(dollars in thousands)	
2012	$ 97,879
2013	3,436
2014	3,676
2015	3,515
2016	15,935
Thereafter	4,827
	$ 129,268

The Company is required to maintain a custodial account at the FHLB in amounts comparable to its borrowings. As of December 31, 2011 and 2010, assets with an admitted value of approximately $129,268 and $119,095, respectively, supporting the advances resided at the Company's FHLB custodial account.

7. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

The Company's eligible employees participate in a benefit plan under 401(k) of the Internal Revenue Code. Employees may contribute up to 17% (subject to certain ERISA limitations) of their eligible compensation to the plan on a pre-tax basis, and the Company may make discretionary matching contributions. The Company contributed approximately $233 and $202 to the plan in 2011 and 2010, respectively. At December 31, 2011 and 2010, the fair value of plan assets was $4,963 and $4,706, respectively.

Certain of the Company's Senior Executives participate in a plan sponsored by its ultimate parent, Sagicor Financial Corporation. The Company does not have any legal obligations for benefits under the plan. The Company recognized $320 in 2011 and $538 in 2010 for expenses related to granting restricted stock and stock options. The allocation of the expense was based on specifically identifying the employees participating in the plan and the value of the restricted stock and stock options vested in 2011 and 2010.

8. Capital and Surplus, Shareholder's Dividend Restrictions, and Regulatory Requirements

The Company has 4,000,000 shares of common stock authorized and 2,000,000 shares issued and outstanding as of December 31, 2011 and 2010. The shares have a par value of $1.25 per share.

The Company's ability to pay dividends is restricted. The maximum dividend that may be paid (without prior approval from the Texas Department) in any 12-month period is the greater of (1) net gain from operations for the preceding calendar year or (2) 10% of capital and surplus at the end of the preceding calendar year. In general, net gain from operations for dividend purposes is interpreted by the Texas Department to exclude both realized capital gains and losses. The maximum dividend that may be paid in 2012 without prior approval from the Texas Department is $5,278.

Total capital contributions from Laurel amounted to $9,139 and $29,261 during 2011 and 2010, respectively, and $2,341 (net of non-admitted portion amounting to $0) was accrued in 2011 and $9,861 (net of non-admitted portion amounting to $1,436) was accrued in 2010. During the first quarter of 2012 a surplus note in the amount of $2,341 was issued to SUSA in exchange for the cash necessary to clear the amount accrued as of December 31, 2011.

The portion of unassigned deficit (surplus) represented or reduced by each item below is as follows:

(dollars in thousands)	**2011**	**2010**
Unrealized gains and losses	$ (3,547)	$ 1,714
Nonadmitted asset values	(3,829)	(4,711)
Asset valuation reserves	(2,308)	(3,647)

The Company has the following outstanding surplus debentures or similar obligations at December 31, 2011:

	Date Issued	Interest Rate	Par Value	Carrying Value	Interest Paid	Accrued Interest	Total Principal and Interest Paid Since Issue	Maturity Date
1	12/31/2011	Variable	4,175	4,175	-	-	-	12/31/2041

This surplus note was issued to SUSA in exchange for cash and was approved by the TDI on February 17, 2012. Repayment of the note is subject to the Company maintaining surplus in excess of $500, with interest accruing on a quarterly basis. The TDI has reserved the right to disapprove any payments of principal or interest based upon the Company's financial condition. The Company had no outstanding surplus debentures or similar obligations at December 31, 2010.

There have been no quasi reorganizations as of December 31, 2011 and 2010.

At periodic intervals, the TDI routinely examines the Company's statutory financial statements as part of their legally prescribed oversight of the insurance industry. Based on these examinations, the regulators can direct the Company's statutory financial statements to be adjusted in accordance with their findings. The TDI finalized its latest examination in October 2011 for the 2008 to 2010 period. As a result of the TDI examination, the Company reflected certain adjustments in the 2010 statutory financial statements. These adjustments had no material impact on the Company's capital and surplus at December 31, 2010.

RBC rules have been adopted by the TDI. RBC rules evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The effect of RBC is an early warning tool to assist regulators in identifying weakly capitalized companies. At December 31, 2011 and 2010, the Company's RBC exceeds the required regulatory levels at which the Company must initiate action with regulatory authorities.

In October 2007, SFC approved an unconditional guarantee to provide additional capital as needed for the Company to maintain a minimum statutory capital and surplus of $30,000 and a minimum RBC of 300% of Company Action Level. This guarantee was approved by the TDI in 2008 and provides the support the Company needs to implement its new business plan. On April 28, 2009, the Company filed with the TDI an amended guaranty agreement which changed the required timing of capital infusions from within 120 days of the end of the calendar year to within the subsequent quarter (i.e. within 90 days).

9. Contingencies

Assessments

The Company is subject to assessments from the guaranty fund associations established by the various states in which it does business. Assessments are made by the associations to cover the insurance obligations of insolvent or rehabilitated insurance companies. In most states, guaranty fund assessments can be recovered through a reduction in future premium and other state taxes payable. Based on information available from the National Organization of Life and Health Insurance Guaranty Association, the Company accrued an approximate $532 and $544 liability at December 31, 2011 and 2010, respectively, for known insolvencies. A related premium tax credits recoverable of approximately $225 and $236 as of December 31, 2011 and 2010, respectively, has been recorded. Assessments are expected to be paid and recoveries received over the next five years or greater. The Company may receive premium tax credits in certain states for guaranty fund assessments. These credits are generally utilized over five years.

Below is a reconciliation of the changes in the premium tax credits recoverable during 2011

(dollars in thousands)

Guaranty fund asset, 12/31/2010	$	236
Qualifing assessments paid		34
Credits utilized		(5)
Amounts charged off		(32)
Other		(8)
Guaranty fund asset, 12/31/2011	$	225

All other Contingencies

The Company at times may be a defendant in lawsuits which arise out of the normal course of business, primarily from policyholder disputes or employee matters. As of December 31, 2011, there were no pending lawsuits.

10. Leases

The Company's principal operations are located in a leased facility in Scottsdale, Arizona. The lease was a non-cancelable operating lease with an initial term of 10 years starting in 2002. Effective June 1, 2011, the Company entered into an extension on the leased facility until August 31, 2022. The Company also leased office space for sales and administrative operations in Tampa, Florida under a five year lease that expired in 2012. Effective August 31, 2011, the Company extended this lease until November 30, 2022. On October 10, 2011, the Company executed a new lease for a sales office in Plantation, Florida. The lease commences in February, 2012 and has a seventy-five month term expiring in April, 2018. Total office rental expense for the years ended December 31, 2011 and 2010 was approximately $1,321 and $1,304, respectively. The Company also leases certain mail equipment under various operating leases expiring in 2015 or earlier. Total rental expense for this equipment was approximately $199 and $173 for the years ended December 31, 2011 and 2010, respectively. Future minimum rental commitments under these leases as of December 31, 2011 are as follows:

(dollars in thousands)

2012	$	1,021
2013		1,196
2014		1,239
2015		1,278
2016		1,224
Thereafter		7,106
	$	13,064

11. Information about Financial Instruments with Concentrations of Credit Risk

Concentrations

The Company maintains a mortgage loan portfolio consisting of first lien residential and commercial mortgages. At December 31, 2011 and 2010, the Company had residential mortgages with carrying values of $109 and $140, respectively, and commercial mortgages with carrying values of $23,500 and $23,362, respectively.

At December 31, 2011 and 2010, approximately the following percentages of the Company's commercial mortgage loan portfolio were located in the following states:

	2011	2010
Florida	7 %	8 %
Minnesota	11 %	11 %
New Mexico	6 %	6 %
Ohio	7 %	8 %
Texas	5 %	7 %

No other state accounted for more than 5%.

Other investment positions in securities of a single issuer that have an aggregate statutory carrying value at December 31, 2011 (amortized cost) in excess of $5,278, approximately 10% of statutory capital and surplus, are as follows:

(dollars in thousands)		**2011 Statutory Carrying Value**
FHLMC 3219 HX	$	6,412
FHLB OF DALLAS		5,984

Other investment positions in securities of a single issuer that have an aggregate statutory carrying value at December 31, 2010 (amortized cost) in excess of $4,632, approximately 10% of statutory capital and surplus, are as follows:

(dollars in thousands)		**2010 Statutory Carrying Value**
FHLMC 3219 HX	$	8,763
FNMA 2005-73 FD		5,821
FHLB OF DALLAS		5,294

In 2011 and 2010, approximately the following percentages of the Company's direct premiums were written in the following states:

	2011	**2010**
Missouri	13 %	4 %
Florida	10 %	7 %
California	8 %	10 %
Texas	8 %	17 %
Ohio	7 %	7 %
Iowa	5 %	2 %
Indiana	5 %	4 %
Alabama	4 %	7 %
Arizona	3 %	5 %

No other state accounted for more than 5%.

The Company places its cash and temporary cash investments with highly rated financial institutions. At times, such cash and temporary investments may be in excess of Federal Deposit Insurance Corporation insurance limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

12. Reinsurance

Analysis of Specific Reinsurance Agreements

The Company annually evaluates the financial condition of its reinsurers and believes it has appropriately spread reinsurance risks among a group of highly rated reinsurers with the exception of Washington National Life Insurance Company and Scottish Re Life Corporation whose agreements have the right of offset and trust in place, respectively, and are further discussed in the paragraphs below. In the event the assuming reinsurance companies are unable to meet their obligations under the reinsurance agreements in force, the Company would continue to have primary liability to policyholders for benefits. On life insurance policies issued in 2010 or prior maximum retention is $500,000 per life, but it was reduced to $250,000 per life on new business issued in 2011 and prospectively.

The Company has reinsurance agreements with both Allianz Life Insurance Company ("Allianz") and Union Fidelity Life Insurance Company ("UFL") under which the Company assumes certain life and annuity blocks of business written by these entities. As of December 31, 2010 all the Union Fidelity policies had expired. In connection with these agreements, the Company has separate automatic bulk yearly renewable term nonrefund agreements under which the Company retrocede 95% of the mortality risk on these policies back to Allianz and UFL. In addition, the Company has administrative service agreements with both of these entities to service these blocks of business. Future policy benefits assumed and ceded under these reinsurance agreements were $4,322 and $8, respectively, at December 31, 2011 and $4,465 and $8, respectively, at December 31, 2010.

The Company has reinsurance agreements with Washington National Life Insurance Company ("Washington National") and Conseco Life Insurance Company ("Conseco Life"). The policies written by Washington National were primarily interest-sensitive, single-premium, whole life policies, while the policies under the Conseco Life agreement were primarily universal and traditional life policies. Future policy benefits assumed related to the Washington National agreement totaled approximately $74,188 and $77,731 as of December 31, 2011 and 2010, respectively. Future policy benefits assumed related to the Conseco Life agreement totaled approximately $7,622 and $8,725 as of December 31, 2011 and 2010, respectively.

The Company has reinsurance agreements with Washington National, whereby the Company, through two 100% coinsurance arrangements, cedes two blocks of single premium and flexible premium deferred annuities. Future policy benefits ceded under these agreements were approximately $53,238 and $56,649 as of December 2011 and 2010, respectively. The reinsurance agreements also provide for the Company to administer these two blocks of business. Administrative fee income from Washington National for 2011 and 2010 was approximately $32 and $35, respectively. The AM Best rating is B+ for Washington National. Per agreement, a right of offset exists for amounts due under the assumed and ceded reinsurance agreements with Washington National. The net exposure at December 31, 2011 and 2010 was $2,980 and $5,136, respectively.

The Company has a reinsurance agreement with Baltimore Life Insurance Company whereby the Company 100% coinsures a certain block of life insurance. Future policy benefits assumed related to this agreement were $5,481 and $5,584 at December 31, 2011 and 2010, respectively.

The Company has two reinsurance agreements with American Life & Security Corp (FKA Old Reliance Insurance Company) whereby the Company 100% coinsures certain blocks of life insurance. Total future policy benefits assumed under the two agreements as of December 31, 2011 and 2010 were approximately $14,226 and $14,788, respectively.

The Company cedes 62.5% of certain blocks of its business to Scottish Re Life Corporation ("Scottish Re") through coinsurance and modified coinsurance agreements effective October 1, 2002. Total future policy benefits (including Modco) ceded under these treaties was approximately $134,139 and $140,926 as of December 31, 2011 and 2010, respectively. The AM Best rating is NR for Scottish Re. A trust agreement exists to support the reinsurance credit taken for the coinsurance treaty with net future policy benefits of $95,820 and $101,131 at December 31, 2011 and 2010, respectively, and the assets held in the trust account had a fair value of $107,071 and $106,494 at December 31, 2011 and 2010, respectively.

On June 30, 2003, the Company entered into asset transfer and acquisition agreements with States General Life Insurance Company ("States General") and United International Life Insurance Company ("United International") that provided for the Company to assume the individual ordinary life policies and contracts of insurance of States General and United International initially through a 100% coinsurance arrangement to be replaced with an assumption reinsurance agreement as the Company obtained the necessary approvals. As of January 1, 2006, all of the approvals had been received; therefore, the entire block is now the direct business of the Company. The approximate amount of reserves assumed by the Company was $11,600 and a ceding commission of $1,060 was paid. This transaction resulted in goodwill of $1,615 (as of December 31 2011, $242 remained unamortized). The Company recognized goodwill amortization of $162 for the years ended December 31, 2011 and 2010.

On September 30, 2004, the Company entered into a Master Reinsurance Agreement with Guarantee Trust Life Insurance Company ("GTL") whereby the Company 100% coinsured a block of ordinary life insurance from GTL. Future policy benefits assumed under this reinsurance agreement were $24,127 and $24,586 as of December 31, 2011 and 2010, respectively. Concurrently an agreement was completed to assign, to the Company, GTL's coinsurance ceded treaty with Hannover Life Reassurance Company of America. Future policy benefits ceded under this agreement were $11,517 and $11,713 as of December 31, 2011 and 2010, respectively.

An analysis of the impact of reinsurance on the Company's operations is as follows:

(dollars in thousands)		**2011**		**2010**
Reinsurance assumed				
Face amount	$	370,140	$	405,090
Reserves		133,851		140,043
Premiums earned		5,442		6,370
Benefits		11,019		10,018
Reinsurance ceded				
Face amount	$	838,459	$	874,230
Reserves		179,519		188,299
Modified coinsurance reserves		29,327		30,544
Premiums earned		7,282		8,739
Benefits		13,649		14,604

13. Participating Policies

For the years ended December 31, 2011 and 2010, premiums under individual and group participating policies were $146, or less than .1% and $176, or less than .1%, respectively, of total individual and group premiums earned. The Company paid dividends in the amount of $108 and $135 in 2011 and 2010, respectively, to policyholders and did not allocate any additional income to such policyholders.

14. Reserves for Life Contracts and Deposit-Type Contracts

For ordinary traditional life policies, the Company waives deduction of deferred fractional premiums upon death of the insured and returns any portion of the final premium beyond the month of death. An extra reserve is calculated based on average reserve factors and is $332 and $625 as of December 31, 2011 and 2010, respectively. Surrender values are not promised in excess of the legally computed reserves.

Extra premiums are charged for substandard lives in addition to the regular gross premium for the true age. Mean reserves are determined by computing the regular mean reserve for the plan and true age and holding, in addition, one-half (1/2) of the extra premium charged for the year.

As of December 31, 2011 and 2010, the Company had $332,813 and $318,047, respectively, of insurance in-force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of Texas. Reserves to cover the above insurance totaled approximately $7,533 and $5,224 at December 31, 2011 and 2010, respectively.

Tabular Interest, Tabular less Actual Reserve released, and Tabular Cost have been determined by formula as described in the Annual Statement Instructions.

Tabular interest on funds not involving life contingencies was determined by formula as described in the Annual Statement Instructions.

The Company did not have any other increases in reserves for 2011 or 2010.

15. Analysis of Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

(dollars in thousands)	2011 Amount	% Total
Subject to discretionary withdrawal-with adjustment		
With market value adjustment	$ 152,243	34.5 %
At book value less surrender	126,600	28.7 %
	278,843	63.1 %
Subject to discretionary withdrawal-without adjustment-at book value (minimal or no charge or adjustment)	141,800	32.1 %
Not subject to discretionary withdrawal provisions	21,235	4.8 %
	163,035	36.9 %
Total annuity actuarial reserves and deposit liabilities (gross)	441,878	100.0 %
Less: Reinsurance	92,664	
Total annuity actuarial reserves and deposit liabilities (net)	$ 349,214	

(dollars in thousands)	2010 Amount	% Total
Subject to discretionary withdrawal-with adjustment		
With market value adjustment	$ 129,326	31.0 %
At book value less surrender	107,494	25.7 %
	236,820	56.7 %
Subject to discretionary withdrawal-without adjustment-at book value (minimal or no charge or adjustment)	165,676	39.7 %
Not subject to discretionary withdrawal provisions	14,842	3.6 %
	180,518	43.3 %
Total annuity actuarial reserves and deposit liabilities (gross)	417,338	100.0 %
Less: Reinsurance	98,190	
Total annuity actuarial reserves and deposit liabilities (net)	$ 319,148	

16. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2011 and 2010, respectively, were as follows:

	2011		
(dollars in thousands)	**Gross**	**Net of Loading**	**Loading**
Ordinary first year	$ 267	$ 204	$ 63
Industrial renewal	1	-	1
Ordinary renewal	2,537	2,123	414
Group renewal	-	-	-
	$ 2,805	$ 2,327	$ 478

	2010		
(dollars in thousands)	**Gross**	**Net of Loading**	**Loading**
Ordinary first year	$ 422	$ 140	$ 282
Industrial renewal	1	-	1
Ordinary renewal	2,517	2,085	432
Group renewal	4	4	-
	$ 2,944	$ 2,229	$ 715

17. Subsequent Events

Management has evaluated events subsequent to the balance sheet date through May 29, 2012, which is the report date these 2011 statutory financial statements were issued. There are no Type I subsequent events requiring disclosure.

The Company reported in its statutory financial statements the following Type II nonrecognized subsequent events:

On February 22, 2012, the Company entered into a stock purchase agreement to buy PEMCO Life Insurance Company ("PEMCO Life"), a Washington domiciled life insurance company, from PEMCO Mutual Insurance Company. The agreement is contingent upon regulatory approval which is expected to be received in 2012. The purchase price is $1.7 million plus the capital and surplus of PEMCO Life at closing. An estimate of the ultimate financial impact of the acquisition cannot be made at this time.

On February 28, 2012, the Company received approval from the TDI and completed a downstream merger of the Company and its parent, Laurel. The merger was effective January 1, 2012 and the Company is the surviving entity. The financial impact of the merger is not expected to be material.

Supplemental Information

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2011

(dollars in thousands)

Investment income earned		
Government bonds	$	465
Other bonds (unaffiliated)		38,183
Preferred stock (unaffiliated)		569
Common stock (unaffiliated)		21
Mortgage loans		1,433
Contract loans		1,235
Cash/short-term investments		1
Other invested asset		570
Gross investment income		42,477
Mortgage loans-book value		
Residential		109
Commercial		23,500
Total mortgage loans		23,609
Mortgage loans by standing-book value		
Good standing		20,846
Good standing with restructured terms		2,763
With overdue interest over 90 days, not in process of foreclosure		-
In process of foreclosure		-
Bonds and short-term investments by class and anticipated maturity		
Bonds and short-term investments by anticipated maturity - statement value		
Due within one year or less		74,786
Over 1 year through 5 years		155,185
Over 5 years through 10 years		280,263
Over 10 years through 20 years		208,440
Over 20 years		54,157
Total by anticipated maturity		772,831
Bonds and short-term investments by class - statement value		
Class 1		375,833
Class 2		380,620
Class 3		9,704
Class 4		2,441
Class 5		2,281
Class 6		1,952
Total by class	$	772,831

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2011

(dollars in thousands)

Total bonds and short-term investments publicly traded	$ 767,581
Total bonds and short-term investments privately placed	5,250
Preferred stock - statement value	8,215
Common stock, unaffiliated - market value	6,089
Short-term investments-book value	7,872
Cash on deposit	406
Life insurance in force	
Industrial	5,903
Ordinary	885,932
Group life	26,725
Amount of accidental death insurance in force under ordinary policies	56,245
Life insurance policies with disability provisions in force	
Ordinary	153,148
Group	354
Supplementary contracts in force	
Ordinary-not involving life contingencies	
Amount on deposit	2,625
Income payable	3,712
Ordinary-involving life contingencies	
Income payable	395
Annuities	
Ordinary	
Immediate-amount of income payable	118
Deferred-fully paid account balance	326,552
Deferred-not fully paid account balance	35,745
Group	
Immediate-amount of income payable	7
Deferred-fully paid account balance	11,527
Deferred-not fully paid account balance	$ 28,525

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2011

(dollars in thousands)

Accident and health insurance - premiums in force	
Ordinary	$ 235
Group	2
Deposit funds and dividend accumulations	
Deposit funds-account balance	70
Dividend accumulation-account balance	7,815
Claim payments 2011	
Group accident and health	
2011	-
2010	-
Other accident and health	
2011	-
2010	$ 5

See Report of Independent Auditors and Notes to Statutory Financial Statements.

Sagicor Life Insurance Company
Summary Investment Schedule
Year Ended December 31, 2011

(dollars in thousands)	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Assets as Reported in the Annual Statement Amount	Admitted Assets as Reported in the Annual Statement Percentage
1. **Bonds**				
U.S. treasury securities	$ 1,897	0.2 %	$ 1,897	0.2 %
U.S. government agency obligations				
Issued by U.S. government agencies	465	0.1 %	465	0.1 %
Issued by U.S. government sponsored agencies	3,726	0.4 %	3,726	0.4 %
Non U.S. government	3,725	0.4 %	3,725	0.4 %
Securities issued by states, territories, and possessions and political subdivisions in the U.S.				
Political subdivisions of U.S. states territories and possessions general obligations	24,521	2.9 %	24,521	2.9 %
Revenue and assessment obligations	29,957	3.5 %	29,957	3.5 %
Mortgage-backed securities (includes residential and commercial MBS)				
Pass-through securities				
Guaranteed by GNMA	4,521	0.5 %	4,521	0.5 %
Issued by FNMA and FHLMC	25,164	3.0 %	25,164	3.0 %
Other mortgage-backed securities				
Issued by GNMA, FNMA, FHLMC or VA	103,754	12.2 %	103,754	12.2 %
All other	19,420	2.3 %	19,420	2.3 %
2. **Other debt securities (excluding short-term)**				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	515,105	60.6 %	515,105	60.6 %
Unaffiliated foreign securities	32,704	3.8 %	32,704	3.8 %
3. **Equity interests**				
Investments in mutual funds	7,872	0.9 %	7,872	0.9 %
Preferred stocks				
Unaffiliated	8,215	1.0 %	8,215	1.0 %
Other equity securities				
Unaffiliated	6,089	0.7 %	6,089	0.7 %
4. **Mortgage loans**				
Single family residential properties	109	0.0 %	109	0.0 %
Commercial loans	23,500	2.8 %	23,500	2.8 %
5. **Real estate investments**	1,057	0.1 %	1,057	0.1 %
6. **Contract loans**	29,145	3.4 %	29,145	3.4 %
7. **Derivatives**	5,478	0.6 %	5,478	0.6 %
8. **Cash and short-term investments**	406	0.0 %	406	0.0 %
9. **Other invested assets**	2,900	0.3 %	2,900	0.3 %
Total invested assets	$ 849,730	100.0 %	$ 849,730	100.0 %

See Report of Independent Auditors and Notes to Statutory Financial Statements.

Sagicor Life Insurance Company
Investment Risks Interrogatories
Year Ended December 31, 2011

1. Total admitted assets as reported in the audited statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2011 $870,041

2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government securities, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, (ii) property occupied by the Company and (iii) policy loans.

(dollars in thousands)

Issuer	Description of Exposure	Book/ Adjusted Carrying Value	% of Admitted Assets
Invesco Prime Money Market Fund	MMF	7,872	0.9 %
First Energy	BOND	7,454	0.9 %
Pfizer Incorporated	BOND	6,079	0.7 %
Mid American Energy	BOND	6,058	0.7 %
Federal Home Loan Bank of Dallas	COMMON STOCK	5,984	0.7 %
Souther Union Company	BOND	4,466	0.5 %
Iberdola SA	BOND	4,290	0.5 %
Bank of America	BOND	4,126	0.5 %
Fidelity Investments	BOND	3,966	0.5 %
General Electric	BOND	3,961	0.5 %

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

(dollars in thousands)

Investment category	Book/ Adjusted Carrying Value	% of Admitted Assets
Bonds		
NAIC - Rated 1	$ 375,833	43.2 %
NAIC - Rated 2	380,619	43.7 %
NAIC - Rated 3	9,704	1.1 %
NAIC - Rated 4	2,441	0.3 %
NAIC - Rated 5	2,281	0.3 %
NAIC - Rated 6	1,952	0.2 %
Preferred stocks		
P/RP - 2	5,161	0.6 %
P/RP - 3	3,054	0.4 %

4. Assets held in foreign investments

	Book/Adjusted Carrying Value	% of Admitted Assets
Total admitted assets in foreign investments	$ 26,846	3.1 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating

Countries rated NAIC 1	$ 21,334	2.5 %
Countries rated NAIC 2	$ 5,512	0.6 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign rating

Countries rated NAIC 1:		
Country 1: Jersey	$ 4,439	0.5 %
Country 2: United Kingdom	$ 3,234	0.4 %
Countries rated NAIC 2:		
Country 1: Barbados	$ 2,217	0.3 %
Country 2: Aruba	$ 1,786	0.2 %

10. Ten largest non-sovereign foreign issues

(dollars in thousands)

Issuer	NAIC Rating	Book/ Adjusted Carrying Value	% of Admitted Assets
Carnival PLC	2FE	3,234	0.4 %
Credit Suisse Group	2FE	2,619	0.3 %
Legrand France SA	2FE	2,308	0.3 %
Telecom Italia Capital	2FE	2,166	0.2 %
Barrick Gold Corp	2FE	1,985	0.2 %
QBE Insurance Group	2FE	1,820	0.2 %
Aruba Airport Authority	2FE	1,786	0.2 %
Ingersoll-Rand Co	2FE	1,773	0.2 %
Telefonica Emisiones SAU	2FE	1,541	0.2 %
Deutsche Telekom Int Fin	2FE	1,345	0.2 %

16. State by type the 10 largest exposures to a single borrower and percentage of admitted assets

(dollars in thousands) Type	Book/Adjusted Carrying Value	% of Admitted Assets
Commercial - Madison Heights, MI	$ 592	0.1 %
Commercial - Tukwila, WA	530	0.1 %
Commercial - Prattville, AL	454	0.1 %
Commercial - Minneapolis, MN	367	0.0 %
Commercial - Shakopee, MN	347	0.0 %
Commercial - Moorestown, NJ	342	0.0 %
Commercial - Provo, UT	336	0.0 %
Commercial - Elk River, MN	324	0.0 %
Commercial - Huntsville, AL	301	0.0 %
Commercial - Pocatello, ID	273	0.0 %
Mortgage loans foreclosed		346
Restructured mortgage loans		2,763

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

(dollars in thousands)	Residential		Commercial	
Loan-to-Value	1	2	1	2
Above 95%	$ -	0.0%	$ 430	0.0%
91% to 95%	-	0.0%	-	0.0%
81% to 90%	-	0.0%	-	0.0%
71% to 80%	-	0.0%	536	0.1%
Below 70%	109	0.0%	22,534	2.6%

21. Amounts and percentages of the reporting entity's total admitted assets for options:

(dollars in thousands) Type	Statement Value	% of Admitted Assets
Owned Options - Hedging	$ 5,478	0.6 %

Note: Interrogatories 7 through 9, 11 through 15, 18 through 20 and 22 through 23 are not applicable.