Sagicor Life Insurance Company

Statutory Financial Statements and Accompanying Information

For the Years Ended December 31, 2007 and 2006

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors and Shareholder of
Sagicor Life Insurance Company

We have audited the accompanying statements of admitted assets, liabilities and capital and surplus (statutory basis) of Sagicor Life Insurance Company (the "Company", formally known as American Founders Life Insurance Company) as of December 31, 2007 and 2006, and the related statements of operations (statutory basis), changes in capital and surplus (statutory basis), and cash flows (statutory basis) 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 more fully in Note 1 to the financial statements, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

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 of the Company as of December 31, 2007 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. Such information has been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

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This report is intended solely for the information and use of the board of directors and the management of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

May 29, 2008

Sagicor Life Insurance Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis)
December 31, 2007 and 2006

(dollars in thousands, except par and share data)	**2007**	**2006**
Admitted Assets		
Cash and invested assets		
Bonds (fair value: 2007 - $422,339; 2006 - $406,190)	$ 425,685	$ 409,625
Preferred stock (fair value: 2007 - $9,733; 2006 - $7,298)	10,643	6,966
Common stock (cost: 2007 - $5,157; 2006 - $5,311)	5,157	5,311
Mortgage loans	27,069	21,646
Contract loans	34,383	15,060
Cash and short-term investments	7,731	(19)
Other invested asset	2,500	1,500
Receivables for securities	190	941
Total cash and invested assets	513,358	461,030
Amounts due from reinsurers	4,846	5,971
Electronic data processing equipment	576	475
Current federal income tax recoverable	358	1,789
Premiums deferred and uncollected	2,412	3,668
Investment income due and accrued	4,803	4,147
Guaranty fund assessments	213	228
Due from affiliates	79	654
Other assets	1,281	1,479
Total admitted assets	$ 527,926	$ 479,441

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

Sagicor Life Insurance Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis) (Continued)
December 31, 2007 and 2006

(dollars in thousands, except par and share data)	**2007**	**2006**
Liabilities		
Policyholders' liabilities		
Aggregate reserves for life contracts	$ 344,698	$ 299,154
Accident and health reserves	384	412
Deposit-type contracts	12,053	12,695
Policy and contract claims	3,024	3,126
Dividends and coupons payable	159	165
Advanced premiums	155	171
Amounts payable on reinsurance	3,756	145
Interest maintenance reserve	3,765	3,334
Commissions payable	71	92
General expenses due or accrued	2,138	1,886
Taxes, licenses and fees due or accrued, excluding federal income taxes	838	821
Unearned investment income	208	210
Amounts withheld or retained by company	662	819
Amounts held for agents	178	228
Remittance and items not allocated	151	394
Borrowed money	116,423	118,369
Asset valuation reserve	4,121	3,514
Total liabilities	492,784	445,535
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
Additional contributed surplus	40,071	31,761
Unassigned deficit	(7,429)	(355)
Total capital and surplus	35,142	33,906
Total liabilities and capital and surplus	$ 527,926	$ 479,441

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

Sagicor Life Insurance Company
Statements of Operations (Statutory Basis)
Years Ended December 31, 2007 and 2006

(dollars in thousands)	2007	2006
Revenue		
Premiums and annuity considerations	$ 11,673	$ 15,224
Consideration for supplementary contracts with life contingencies	447	511
Net investment income	16,679	17,365
Amortization of interest maintenance reserve	432	443
Commissions and expense allowances on reinsurance ceded	4,019	3,792
Reserve adjustments on reinsurance ceded	(2,042)	(4,160)
Miscellaneous income	680	805
Total revenues	31,888	33,980
Benefits and expenses		
Death benefits	9,054	11,516
Matured endowments	101	130
Annuity benefits	4,942	5,735
Disability benefits	85	103
Surrender benefits	20,233	18,080
Interest on policy and contract funds	485	430
Payments on supplementary contracts with life contingencies	344	406
Other benefits	(16)	(2)
Decrease in aggregate reserves for life and accident and health policies	(11,187)	(8,191)
Commission expenses	1,881	2,368
General insurance expenses	13,228	10,593
Taxes, licenses and fees	971	966
Modified coinsurance reserve adjustment	(3,268)	(6,656)
Increase in loading on deferred and uncollected premiums	(566)	(236)
Total benefits and expenses	36,287	35,242
Net loss from operations before policyholders' dividends, income taxes and realized capital gains (losses)	(4,399)	(1,262)
Dividends to policyholders	150	152
Net loss from operations before income taxes and realized capital gains (losses)	(4,549)	(1,414)
Federal income tax benefit	861	746
Net loss from operations before realized capital gains (losses)	(3,688)	(668)
Net realized capital gains (losses), less capital gains tax expense (benefit) of $89 and $(291), excluding tax expense (benefit) of $542 and $(173) transferred to the IMR in 2007 and 2006, respectively	165	(540)
Net loss	$ (3,523)	$ (1,208)

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

Sagicor Life Insurance Company
Statements of Changes in Capital and Surplus (Statutory Basis)
Years Ended December 31, 2007 and 2006

(dollars in thousands)	Common Stock	Additional Contributed Surplus	Unassigned Deficit	Total Capital and Surplus
Balance, December 31, 2005	$ 2,500	$ 31,761	$ 8,018	$ 42,279
Net loss	-	-	(1,208)	(1,208)
Change in net unrealized capital gains (losses) (Note 2)	-	-	352	352
Change in net deferred income taxes (Note 3)	-	-	(250)	(250)
Change in nonadmitted assets	-	-	(3,209)	(3,209)
Change in asset valuation reserve	-	-	(320)	(320)
Change in deferred ceding commission (Note 1)	-	-	(1,738)	(1,738)
Dividends to stockholder (Note 4)	-	-	(2,000)	(2,000)
Balance, December 31, 2006	$ 2,500	$ 31,761	$ (355)	$ 33,906
Net loss	-	-	(3,523)	(3,523)
Change in net unrealized capital gains (losses) (Note 2)	-	-	(9)	(9)
Change in net deferred income taxes (Note 3)	-	-	966	966
Change in nonadmitted assets	-	-	(952)	(952)
Change in asset valuation reserve	-	-	(607)	(607)
Change in deferred ceding commission (Note 1)	-	-	(2,199)	(2,199)
Paid in surplus (Note 7)	-	8,310	-	8,310
Dividends to stockholder (Note 4)	-	-	(750)	(750)
Balance, December 31, 2007	$ 2,500	$ 40,071	$ (7,429)	$ 35,142

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

Sagicor Life Insurance Company
Statements of Cash Flow (Statutory Basis)
Years Ended December 31, 2007 and 2006

(dollars in thousands)	2007	2006
Cash from operations		
Premiums collected, net of reinsurance	$ 13,927	$ 16,408
Net investment income	17,671	18,831
Other income	4,699	4,596
Total income received	36,297	39,835
Benefits and loss related payments	36,793	40,074
Commissions, other expenses and taxes paid (excluding federal income taxes)	12,564	6,850
Dividends paid to policyholders	156	154
Federal income taxes paid (recovered), net of tax on capital gains (losses)	(1,661)	849
Total benefits and expenses paid	47,852	47,927
Net cash used in operations	(11,555)	(8,092)
Cash from investments		
Proceeds from investments sold, matured or repaid		
Bonds	99,256	126,323
Stocks	3,973	3,000
Mortgage loans	965	1,485
Real estate	-	1,650
Other invested assets	-	3,500
Others	751	-
Total investment proceeds	104,945	135,958
Cost of investments acquired		
Bonds	(76,183)	(106,988)
Stocks	(7,001)	(4,006)
Mortgage loans	(6,384)	(5,624)
Real estate	-	(3)
Other invested assets	(1,000)	-
Others	-	(953)
Total investments acquired	(90,568)	(117,574)
Net decrease in policy loans	288	147
Net cash provided by investments	14,665	18,531
Cash from financing and miscellaneous sources		
Paid in surplus	8,310	-
Borrowed funds	(1,946)	(5,350)
Dividends paid to stockholder	(750)	(2,400)
Deposit-type contract funds, net	(642)	546
Other cash applied	(332)	(4,540)
Net cash provided by (used in) financing and miscellaneous sources	4,640	(11,744)
Net change in cash and short-term investments	7,750	(1,305)
Cash and short-term investments, beginning of year	(19)	1,286
Cash and short-term investments, end of year	$ 7,731	$ (19)

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

1. Summary of Significant Accounting Practices

Nature of Operations

Sagicor Life Insurance Company (the "Company", formerly known as American Founders Life Insurance 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 69% of the premiums on the Company's existing block of business are in Texas, California, Ohio, Georgia and Louisiana. 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"). SUSA is 100% owned by Sagicor Financial Corporation ("SFC"), a Barbados-based financial services group.

On March 9, 2006, the Company received approval from the Texas Department of Insurance ("TDI") to change its name to Sagicor Life Insurance Company. Formerly, the Company was known as American Founders Life Insurance Company. All jurisdictions in which the Company does business approved the name change, which became official on September 1, 2006.

Basis of Presentation

The accompanying financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the 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. As of December 31, 2007 and 2006, no permitted practices were utilized by the Company.

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.

Accounting Policies

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

1. Summary of Significant Accounting Practices (Continued)

Investments

Bonds are stated at amortized cost in accordance with the NAIC Securities Valuation Office ("SVO"), 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 are stated at amortized cost using the interest method. Loan-backed bonds and structured securities 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. Bonds not backed by other loans are stated at amortized cost using the interest 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 book value. Those with NAIC designations of low-quality, lowest-quality, and in or near default are recorded at the lower of book value or fair value. 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 equity method.

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. Impairments on mortgage loans that are considered to be other-than-temporary, including those for foreclosed loans, are recognized as realized loss.

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.

Investments in real estate are stated at the lower of cost or net realizable value. Foreclosed property is valued at the lower of carrying value or net realizable value.

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. Provisions made for impairment are recorded as realized investment losses when declines in fair value are determined to be other than temporary. The Company recognizes interest income on impaired loans upon receipt.

1. Summary of Significant Accounting Practices (Continued)

Investments (Continued)
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 the individual investments is written down to fair value which becomes the new cost basis. The amount of the write-down is included in the statutory statements of operations as a realized loss. Total write-downs included in realized loss were $29 and $507 for 2007 and 2006, respectively.

Asset Valuation and Interest Maintenance Reserves
In accordance with SAP, the Company provides for possible future investment losses through the asset valuation reserve ("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 interest maintenance reserve ("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 recognize 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 are recorded as policyholders' funds (other liabilities) until policies are issued.

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.

1. Summary of Significant Accounting Practices (Continued)

Benefits and Aggregate Reserves for Life, Annuity and Accident and Health (Continued)
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 ALB, 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 10% interest.

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 $724 and $470 for 2007 and 2006, respectively, and accumulated depreciation as of December 31, 2007 and 2006 was $3,446 and $2,748, respectively.

(dollars in thousands)

1. Summary of Significant Accounting Practices (Continued)

Depreciation (Continued)
A summary of property and equipment used in the business as of December 31, 2007 and 2006 is as follows:

	2007	2006	Estimated Useful Lives
Data processing equipment	$ 2,487	$ 2,149	1 - 7 years
Furniture and office equipment	634	358	2 - 5 years
Software and website	2,590	1,481	2 - 5 years
Leasehold improvements	806	525	6 - 10 years
	6,517	4,513	
Accumulated depreciation	3,446	2,748	
Net property and equipment	3,071	1,765	
Nonadmitted amounts	2,495	1,290	
Net admitted portion	$ 576	$ 475	

Nonadmitted Assets
Certain assets designated as "nonadmitted 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 nonadmitted assets of the Company at December 31, 2007 and 2006 are as follows (excluding those related to invested assets):

	2007	2006
Prepaid expenses	$ 295	$ 313
Deferred tax asset	11,456	10,485
Agents' balances	34	90
Property and equipment	2,495	1,290
Due from affiliates	-	1,151
Total nonadmitted	$ 14,280	$ 13,329

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, 2007 and 2006, the unamortized ceding commission was $4,654, and $6,853, respectively. Amortization for the years ended December 31, 2007 and 2006 was $2,199 and $1,738, respectively.

1. Summary of Significant Accounting Practices (Continued)

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 3). 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. In addition, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in unassigned surplus.

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, highly-liquid investments that are readily convertible to known amounts of cash.

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 Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in 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.

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.

1. Summary of Significant Accounting Practices (Continued)

Benefits and Aggregate Reserves (Continued)
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.

Nonadmitted Assets
Certain assets designated as "nonadmitted", principally deferred income taxes in excess of certain limitations, property and equipment, prepaid expenses and others, 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 an appropriate valuation reserve.

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 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. The deferred tax asset, subject to certain adjustments, is limited to 10% of capital and surplus. Amounts in excess of the limitations are recorded as nonadmitted assets. 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.

(dollars in thousands)

1. Summary of Significant Accounting Practices (Continued)

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.

2. Investments

Mortgage Loans
Fifty new loans, all of which are commercial, were made during the year ended December 31, 2007. The weighted average interest rate was 6.43% and they had a year-end balance of $6,341. The minimum and maximum interest rates on new loans were 6.26% and 7.05%, respectively. During 2007, the Company adjusted interest rates of outstanding loans as follows:

Range of Adjustment	Number of Mortgages	Year-End Balances
.25 to .99% decrease	1	$ 71
.25 to .99% increase	3	$ 128

Thirty-six new loans, all of which are commercial, were made during the year ended December 31, 2006. The weighted average interest rate was 6.53% and they had a year-end balance of $5,584. The minimum and maximum interest rates on new loans were 6.16% and 6.94%, respectively. During 2006, the Company adjusted interest rates of outstanding loans as follows:

Range of Adjustment	Number of Mortgages	Year-End Balances
1.00 to 1.99% increase	4	$ 211

(dollars in thousands)

2. Investments (Continued)

Mortgage Loans (Continued)
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 2007 and 2006. There were no taxes, assessments or any amounts advanced and not included in the mortgage loan total as of December 31, 2007 or 2006.

The Company held mortgages with interest more than 180 days past due with a recorded investment, excluding accrued interest, as of December 31, 2007 and 2006 of approximately $258 and $0, respectively. Total accrued interest due on these mortgages was approximately $18 and $0 as of December 31, 2007 and 2006, respectively. On January 31, 2008 the past due mortgage of $258 was paid off and the Company received all amounts due.

There were no impaired loans with a related allowance for credit losses as of December 31, 2007 or 2006. There were no impaired loans without an allowance for credit losses as of December 31, 2007 or 2006. Average recorded investment in impaired loans was approximately $0 as of December 31, 2007 and 2006. There was no interest income recognized (on a cash or accrual basis) during the period the loans were impaired for the years ended December 31, 2007 and 2006.

The allowance for credit losses was as follows for the years ended December 31, 2007 and 2006:

	2007	2006
Beginning balance	$ -	$ 251
Additions charged to operations	-	-
Recoveries and writedown of amounts previously charged off	-	251
Ending balance	$ -	$ -

Investment income due or accrued on mortgage loans 90 days past due of $14 has been excluded from investment income.

Real Estate
On June 6, 2006, the Company disposed of real estate in Montgomery County, Texas that had been classified as property held for sale. The sale resulted in the Company realizing a capital gain of $147, which is included, net of capital gains tax, in Net Realized Capital Gains (Losses) on the Statement of Operations.

(dollars in thousands)

2. Investments (Continued)

Loan-Backed 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 Corporation 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, 2007 and 2006.

Bonds

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

	December 31, 2007			
	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government	$ 24,817	$ 297	$ (85)	$ 25,029
States, territories and possessions	8,660	107	(98)	8,669
Political subdivisions	12,832	16	(484)	12,364
Public utilities	20,499	76	(310)	20,265
Special revenue	5,928	36	(32)	5,932
Corporate securities	130,270	2,315	(3,344)	129,241
Mortgage-backed securities	222,679	1,127	(2,967)	220,839
	$ 425,685	$ 3,974	$ (7,320)	$ 422,339

	December 31, 2006			
	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government	$ 24,429	$ 108	$ (420)	$ 24,117
States, territories and possessions	8,771	101	(203)	8,669
Political subdivisions	7,817	19	(219)	7,617
Public utilities	22,437	174	(498)	22,113
Special revenue	6,355	46	(84)	6,317
Corporate securities	116,261	2,299	(3,068)	115,492
Mortgage-backed securities	223,555	1,146	(2,836)	221,865
	$ 409,625	$ 3,893	$ (7,328)	$ 406,190

(dollars in thousands)

2. Investments (Continued)

Bonds (Continued)
Fair values are based upon market prices determined by the Securities Valuation Office of the NAIC for securities traded in the public marketplace, or analytically determined values using bid or closing prices for securities not traded in the public marketplace.

The book/adjusted carrying value and fair value of bonds at December 31, 2007, 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.

	Book/ Adjusted Carrying Value	Fair Value
Due in one year or less	$ 15,615	$ 15,575
Due after one year through five years	73,493	73,144
Due after five years through ten years	92,296	91,328
Due after ten years through twenty years	55,123	54,554
Due after twenty years	189,158	187,738
	$ 425,685	$ 422,339

Gross proceeds and realized gains and losses on bonds sold at the discretion of the Company for the years ended December 31, 2007 and 2006 were:

	2007	2006
Proceeds	$ 56,265	$ 70,814
Gross gains	$ 1,835	$ 748
Gross losses	$ (450)	$ (1,374)

Certain bonds and other investments with an aggregate amortized cost of $31,735 and $31,413 at December 31, 2007 and 2006, 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 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.

(dollars in thousands)

2. Investments (Continued)

Sub-prime Mortgage Related Risk Exposure
Residential mortgage-backed securities (RMBS) are a major asset class for the Company's bond portfolios. RMBS are either issued by a U.S. Government agency or by a private company if the loan balance exceeds the Agency maximum (about $425 depending upon the local market) or borrower credit quality. 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.

	Market	Gain/(Loss)	% of RMBS	% of Bonds
Agency	164,595	(327)	73%	38%
Alt A	19,482	(657)	9%	5%
Whole Loan	39,616	(991)	18%	9%
Sub-Prime	-	0	0%	0%
RMBS	223,693			

The Company owns little exposure to sub-prime mortgages, and further does not own any commercial mortgage backed securities, collateralized debt obligations, structured investment vehicles or equity investments with direct sub-prime exposure. The two primary sub-prime exposures are through Alt-A residential mortgage backed bonds and three corporate bonds with significant sub-prime risk.

There are $19,482 of Alt-A mortgages. The Alt-A bonds are the most senior classes of each CMO and rated either Aaa or Aa1. The Company reviews monthly delinquency and foreclosure data for every Alt-A collateral pool owned and the level of credit support relative to borrower credit statistics. For example, if all foreclosures and reorganizations plus 60+ delinquencies went through forced sales at 65% of appraised value the Company estimates that only 10% or less of the credit support/subordination for each Alt-A collateral pool would be consumed. Delinquencies and foreclosures are certain to rise but forced sales are not the typical resolution and so the Alt-A weighted average 67% loan to value (LTV) and 8% credit support appear to be sufficient at the present time to support the principal repayment of the investment.

2. Investments (Continued)

Sub-prime Mortgage Related Risk Exposure (Continued)
The Company also has several other investments in corporate bonds that have significant exposure to sub-prime risk and the Company continues to monitor their values closely. The following summarizes that exposure:

a. Actual cost – $3,718
b. Book adjusted carrying value – $3,712
c. Fair value - $3,097
d. Other-than-temporary losses recognized to date – $0

The credit worthiness of the major bond insurance companies has been in question due to their guaranteeing the performance of collateralized bonds obligations (CBO) whose underlying collateral pool is comprised of sub-prime mortgage debt. These potential losses appear to be greater than the capital available at many of these insurers. The Company does not directly own the debt of any bond insurers. Bond insurers traditionally guarantee the performance of municipal bonds. Municipalities can use the bond insurer's AAA ratings to lower their own borrowing cost while the insurer gets a fee for guaranteeing the creditworthiness of a sector with a near zero default rate. With this capital backing this guarantee now impaired, municipal bond prices have reflected the creditworthiness of the underlying issue and not the AAA rating of its insurer. The Company owns $27,422 of taxable municipals and the majority carry an insurer guarantee. While the bond insurance rating was part of the purchase decision, it was never the sole factor and the issuer's underlying rating was an important part of the process. A majority have an underlying investment grade credit rating.

(dollars in thousands)

2. Investments (Continued)

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, 2007			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Unaffiliated preferred	$ 10,784	$ -	$ (141)	$ 10,643
Unaffiliated common	5,157	-	-	5,157
	$ 15,941	$ -	$ (141)	$ 15,800

	December 31, 2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Unaffiliated preferred	$ 7,095	$ -	$ (129)	$ 6,966
Unaffiliated common	5,311	-	-	5,311
	$ 12,406	$ -	$ (129)	$ 12,277

Net realized gains (losses) on equity securities sold for the years ended December 31, 2007 and 2006 were approximately $508 and $(146), respectively.

Fair Value of Financial Instruments

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Bonds	$ 425,685	$ 422,339	$ 409,625	$ 406,190
Preferred stock	$ 10,643	$ 9,733	$ 6,966	$ 7,298
Common stock	$ 5,157	$ 5,157	$ 5,311	$ 5,311
Mortgage loans	$ 27,069	$ 27,461	$ 21,646	$ 21,602
Contract loans	$ 34,383	$ 34,383	$ 15,060	$ 15,060
Cash and short-term investments	$ 7,731	$ 7,731	$ (19)	$ (19)
Other invested assets	$ 2,500	$ 2,500	$ 1,500	$ 1,500
Receivables	$ 4,993	$ 4,993	$ 5,088	$ 5,088
Financial liabilities				
Insurance liabilities for investment contracts	$ 276,923	$ 268,434	$ 236,819	$ 229,755
Borrowed money	$ 116,423	$ 118,376	$ 118,369	$ 124,136

2. Investments (Continued)

Fair Value of Financial Instruments (Continued)
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 non-financial 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 quoted market prices.

Common Stock
The carrying value of unaffiliated common stock, which consists of Federal Home Loan Bank ("FHLB"), is carried at cost. Because FHLB shares are not publicly traded, the market 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.

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.

(dollars in thousands)

2. Investments (Continued)

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.

Net Investment Income
The components of net investment income earned by type of investment for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Bonds	$ 20,623	$ 22,139
Mortgage loans	1,561	1,314
Contract loans	827	865
Real estate	-	77
Short-term securities	112	120
Preferred and common stocks	950	684
Other invested asset	573	658
Gross investment income	24,646	25,857
Less investment expenses	(7,967)	(8,492)
	$ 16,679	$ 17,365

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

	2007	2006
Preferred stocks - unaffiliated, net of tax	$ (9)	$ 189
Mortgage loans, net of tax	-	163
	$ (9)	$ 352

2. Investments (Continued)

Net Investment Income (Continued)

Net realized investment gains (losses) consist of:

	2007	2006
U.S. Government bonds	$ (103)	$ (283)
Other bonds - unaffiliated	1,398	(1,042)
Preferred stock - unaffiliated	535	(147)
Common stock - unaffiliated	(27)	1
Real estate	-	147
	1,803	(1,324)
Federal income tax benefit (expense)	(89)	291
IMR adjustment (includes taxes of $542 and $(173) for 2007 and 2006, respectively)	(1,549)	493
	$ 165	$ (540)

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007 (in thousands, except for position data):

	Less Than 12 Months			12 Months or Longer			Total		
Description of Securities	# of Positions	Fair Value	Unrealized Loss	# of Positions	Fair Value	Unrealized Loss	# of Positions	Fair Value	Unrealized Loss
US Government Obligations	-	$ -	$ -	5	$ 2,728	$ (30)	5	$ 2,728	$ (30)
Loan Backed Securities	44	49,427	(580)	102	99,887	(2,499)	146	149,314	(3,079)
Corporate Bonds	29	26,895	(1,496)	58	70,935	(2,715)	87	97,830	(4,211)
Subtotal, Debt Securities	73	76,322	(2,076)	165	173,550	(5,244)	238	249,872	(7,320)
Preferred Stock	5	3,411	(785)	2	2,196	(345)	7	5,607	(1,130)
Total temporarily impaired securities		$ 79,733	$ (2,861)		$ 175,746	$ (5,589)		$ 255,479	$ (8,450)

2. Investments (Continued)

Net Investment Income (Continued)

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2006 (in thousands, except for position data):

	Less Than 12 Months			12 Months or Longer			Total		
Description of Securities	**# of Positions**	**Fair Value**	**Unrealized Loss**	**# of Positions**	**Fair Value**	**Unrealized Loss**	**# of Positions**	**Fair Value**	**Unrealized Loss**
US Government Obligations	2	$ 1,318	$ (5)	19	$ 18,533	$ (415)	21	$ 19,851	$ (420)
Loan Backed Securities	44	48,699	(365)	99	88,493	(2,471)	143	137,192	(2,836)
Corporate Bonds	37	42,957	(587)	72	75,579	(3,485)	109	118,536	(4,072)
Subtotal, Debt Securities	83	92,974	(957)	190	182,605	(6,371)	273	275,579	(7,328)
Preferred Stock	2	2,514	(28)	2	587	(16)	4	3,101	(44)
Total temporarily impaired securities		$ 95,488	$ (985)		$ 183,192	$ (6,387)		$ 278,680	$ (7,372)

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. The Company believes that it will collect all amounts contractually due and has the intent and the ability to hold these securities until recovery.

Less Than 12 Months

Unrealized losses are primarily attributable to wider credit yields throughout the entire investment grade bond universe. During 2007, yields for the Merrill Lynch Corporate and Mortgage Master indices respectively increased by approximately .80% and .90% versus their comparable U.S. Treasury Bond rates. A change in overall bond market risk premiums may lead to unrealized losses for those securities purchased in a prior year's lower credit yield environment.

12 Months or Longer

Nearly half of these losses reside within mortgage-backed securities (MBS). The MBS unrealized losses relate to a combination of an upward change in U.S. Treasury and mortgage credit yields since the purchase date. Our MBS are a combination of U.S. Agency and non-Agency bonds. Over 80% of the MBS bonds carry AAA ratings and none are rated below AA. There have been no credit rating downgrades within our mortgage bond holdings. Of the remaining potential losses over one year, 99% reside within investment grade bonds and the balance in non-investment grade securities.

(dollars in thousands)

3. Income Taxes

The benefit for incurred taxes on earnings for the year ended December 31, 2007 and 2006 is:

	2007	2006
Federal - operations	$ (989)	$ (891)
Adjustment for prior year taxes	128	145
Federal income tax benefit	(861)	(746)
Federal - capital gains tax	631	(463)
Net federal income tax benefit	$ (230)	$ (1,209)

The benefit for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before taxes, as follows:

	2007		2006	
Provision at statutory rate	$ (1,592)	(35.0) %	$ (495)	(35.0) %
Dividends received deduction and tax-exempt interest, net of proration	(14)	(0.3) %	(30)	(2.1) %
Capital gains taxes	631	13.9 %	(463)	(32.8) %
Prior period deferred adjustment	128	2.8 %	29	2.1 %
Expiration of NOL	249	5.5 %	-	0.0 %
Other	(598)	(13.2) %	-	0.0 %
	$ (1,196)	(26.3) %	$ (959)	(67.8) %
Federal income tax provision (benefit)	$ (230)	(5.1) %	$ (1,209)	(85.5) %
Change in net deferred income taxes	(966)	(21.2) %	250	17.7 %
	$ (1,196)	(26.3) %	$ (959)	(67.8) %

(dollars in thousands)

3. Income Taxes (Continued)

The change in net deferred income taxes is comprised of the following:

	December 31, 2007	December 31, 2006	Change
Total deferred tax assets	$ 12,804	$ 11,998	$ (806)
Total deferred tax liabilities	(1,348)	(1,513)	(165)
Net deferred tax asset	$ 11,456	$ 10,485	(971)
Deferred tax on change in unrealized gains			5
Change in net deferred tax			$ (966)

	December 31, 2006	December 31, 2005	Change
Total deferred tax assets	$ 11,998	$ 12,591	$ 593
Total deferred tax liabilities	(1,513)	(1,666)	(153)
Net deferred tax asset	$ 10,485	$ 10,925	440
Deferred tax on change in unrealized gains			(190)
Change in net deferred tax			$ 250

The components of the net deferred tax asset as of December 31, 2007 and 2006 are as follows:

	2007	2006
Deferred tax assets		
Insurance liabilities	$ 2,745	$ 2,797
Investments	123	119
Deferred policy acquisition costs and ceding commission	4,037	3,263
Tax goodwill	389	531
Loss carryforwards	4,378	4,556
Other	1,132	732
Gross deferred tax assets	12,804	11,998
Deferred tax liabilities		
Deferred and uncollected premiums	844	1,284
Investments	280	207
Other	224	22
	1,348	1,513
Net deferred tax asset	11,456	10,485
Less nonadmitted asset	(11,456)	(10,485)
Net deferred tax asset	$ -	$ -

3. Income Taxes (Continued)

At December 31, 2007, the Company had approximately $10,715 of operating loss carryforwards available for offset against further taxable income.

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, 2007, the Company had a balance of $1,508. This amount could become taxable to the extent that future shareholder dividends are paid from this account.

The Company's federal income tax return was or will be consolidated with Laurel for the years ending December 31, 2007 and 2006. The method of allocation between the companies is subject to a written agreement. Intercompany tax balances are settled when estimated payments are due and when the return is filed.

4. Information Concerning Parent, Subsidiaries and Affiliates

The Company reported $0 and $1,173 as amounts due from Laurel as of December 31, 2007 and 2006, respectively, and $79 and $632 due from other affiliated companies as of December 31, 2007 and 2006, respectively. Of the amounts due from Laurel as of December 31, 2006, $1,151 is an intercompany tax balance which has been nonadmitted pursuant to SSAP No. 10 – *Income Taxes*. 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 also has a tax-sharing agreement with Laurel, as described in Note 3. SFC guaranteed to the Company the intercompany settlements with its affiliates at December 31, 2006.

The Company paid a $750 common dividend to Laurel on April 16, 2007. The Company paid a $2,000 common dividend to Laurel on September 28, 2006. As of December 31, 2005, the Company declared a dividend of $400 that was paid to Laurel on March 15, 2006.

5. Debt

Borrowed money consisted of advances from the FHLB as of December 31, 2007 and 2006 as follows (in thousands):

	2007	2006
Short-term advances, bearing interest at 4.29% to 4.37% for 2007 and 5.22% to 5.24% for 2006	$ 64,987	$ 64,195
Amortizing advances with balloon payments, bearing interest at rates from 6.41% to 7.299% in 2007 and 2006 maturing from 2010 to 2016	46,952	49,159
Fully amortizing advances, bearing interest at rates ranging from 6.19% to 7.484% in 2007 and 2006, maturing from 2007 to 2017	4,055	4,596
	115,994	117,950
Accrued interest on advances	429	419
Total borrowed money	$ 116,423	$ 118,369

The short-term advances were issued in December 2007 and are durationally matched against 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 $6,933 and $7,306 for the years ended December 31, 2007 and 2006, respectively, and is included in investment expenses. Annual maturities as of December 31, 2007 for the next five years and thereafter are as follows:

2008	$ 67,913
2009	3,119
2010	3,327
2011	3,344
2012	6,903
Thereafter	31,388
	$ 115,994

The Company is required to maintain a custodial account at the FHLB in amounts comparable to its borrowings. As of December 31, 2007, assets with an admitted value of approximately $120,872 and a FHLB loan value of approximately $122,533 supporting the advances resided at the Company's FHLB custodial account.

(dollars in thousands)

6. 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 $141 and $89 to the plan in 2007 and 2006, respectively. At December 31, 2007, the fair value of plan assets was $2,458.

7. 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, 2007 and 2006. 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. Dividends of $750 and $2,000 were declared and paid in 2007 and 2006, respectively. In addition a dividend of $400 was declared in 2005 and paid in 2006. The maximum dividend that may be paid in 2008 without prior approval from the Texas Department is $3,514.

On December 7, 2007, Laurel made a capital contribution of $8,310 to the Company.

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

		2007		2006
Unrealized gains and losses	$	(142)	$	(129)
Nonadmitted asset values	$	(14,280)	$	(13,329)
Asset valuation reserves	$	(4,121)	$	(3,514)

The Company has no outstanding surplus debentures or similar obligations at December 31, 2007 and 2006. There have been no quasi reorganizations at December 31, 2007 and 2006.

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.

7. Capital and Surplus, Shareholder's Dividend Restrictions, and Regulatory Requirements (Continued)

Risk-based capital ("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, 2007 and 2006, 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.

8. 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 $459 and $481 liability at December 31, 2007 and 2006, respectively, for known insolvencies. A related asset for expected recoveries of approximately $213 and $228 as of December 31, 2007 and 2006, respectively, has been recorded. Assessments are expected to be paid and recoveries received over the next seven years and seventeen years, respectively.

All Other Contingencies

The Company is a defendant in lawsuits which have arisen out of the normal course of business and which are in various stages of litigation. These suits arose primarily from policyholder disputes. The Company has established claim liabilities for the amounts of benefits management feels are potentially payable.

(dollars in thousands)

9. Leases

The Company's principal operations are located in a leased facility in Scottsdale, Arizona. The lease is a noncancelable operating lease with an initial term of 10 years starting in 2002 and an option to extend for another five years at 90% of the then effective fair market rental rate. The Company also leases office space for sales and administrative operations in Oklahoma City, Oklahoma under a three-year lease that expires in 2009 and in Tampa, Florida under a five year lease that expires in 2012. Total office rental expense for the years ended December 31, 2007 and 2006 was approximately $936 and $782, respectively. The Company also leases certain mail equipment under a 52-month operating lease that expires in 2010. Total rental expense for this equipment was approximately $128 and $69 for the years ended December 31, 2007 and 2006, respectively. Future minimum rental commitments under these leases as of December 31, 2007 are as follows:

2008	$ 1,446
2009	1,470
2010	1,373
2011	1,366
2012	945
	$ 6,600

10. 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, 2007 and 2006, the Company had residential mortgages with carrying values of $530 and $695, respectively and commercial mortgages with carrying values of $26,539 and $20,951, respectively.

(dollars in thousands)

10. Information about Financial Instruments with Concentrations of Credit Risk (Continued)

Concentrations (Continued)
At December 31, 2007 and 2006, approximately the following percentages of the Company's related mortgage loan portfolios were located in the following states:

	2007	2006
Residential		
Arizona	11%	9%
Florida	8%	7%
Louisiana	26%	31%
Massachusetts	34%	27%
New York	10%	8%
North Dakota	9%	14%
Commercial		
Alabama	4%	5%
Arizona	11%	13%
California	4%	5%
Florida	11%	7%
Minnesota	10%	7%
New Mexico	5%	7%
Ohio	8%	6%
South Dakota	1%	7%
Texas	6%	7%

No other state accounted for more than 5%.

(dollars in thousands)

10. Information about Financial Instruments with Concentrations of Credit Risk (Continued)

Concentrations (Continued)

Other investment positions in securities of a single issuer that have an aggregate statutory carrying value at December 31, 2007 (amortized cost) in excess of $3,514, approximately 10% of statutory capital and surplus, are as follows:

	2007 Statutory Carrying Value
FHLMC 3227 PR	$ 5,624
FNMA FN 57812 ARM	5,417
FNMA FN 796487	5,324
MASTR 2003-11 2A10	5,310
FHLMC 2006-111 FD	5,289
FHLB OF DALLAS	5,158
RAST 2003-A6 B1	4,962
FHLMC 2982 NC	4,490
FHLMC 2005-48 FH	4,372
FNMA FN 80313 ARM	4,059
FHLMC 2984 FK	3,966
FHLMC 2690 FJ	3,711
FNMA 256371	3,536

Other investment positions in securities of a single issuer that have an aggregate statutory carrying value at December 31, 2006 (amortized cost) in excess of $3,391 million, 10% of statutory capital and surplus, are as follows:

	2006 Statutory Carrying Value
FNMA #57753	$ 6,465
FNMA #796483	5,694
FHLB of Dallas	5,311
MASTR 2003-11 2A10	5,298
RAST 2002-A1 A5	5,113
FHLMC 3219 HX	4,807
FNMA 80206 ARM POOL	4,798
FNMA 255770	4,024
FHLMC 2690 FJ	3,765
FNMA 255582	3,725
CMSI	3,650
FGLMC G08122	3,605
FHLMC 2802	3,552
FNMA 2003-21 XG	3,458

(dollars in thousands)

10. Information about Financial Instruments with Concentrations of Credit Risk (Continued)

Concentrations (Continued)
In 2007 and 2006, approximately the following percentages of the Company's direct premiums were written in the following states:

	2007	2006
Texas	25%	25%
California	25%	19%
Ohio	8%	13%
Georgia	6%	6%
Louisiana	5%	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.

11. 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. 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 prior to October 24, 1990, the Company retains no more than $50 on any one life and generally retains up to $250 per risk on policies issued subsequently.

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 blocks of business written by these entities. In connection with these agreements, the Company has separate automatic bulk yearly renewable term non-refund agreements under which the Company retrocedes 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 $4,929 and $8, respectively, at December 31, 2007 and $5,740 and $9, respectively, at December 31, 2006.

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. The Washington National treaty was amended effective December 31, 2007 to convert the portion of business previously assumed under modified coinsurance to coinsurance. There was no change to the risk reinsured or the underlying profitability of this block from this amendment. Future policy benefits assumed related to the Washington National agreement totaled approximately $94,109 and $38,444 (excluding $0 and $57,009, respectively, of assumed modified coinsurance benefits) as of December 31, 2007 and 2006, respectively. Future policy benefits assumed related to the Conseco Life agreement totaled approximately $14,390 and $15,935 as of December 31, 2007 and 2006, 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 $79,166 and $92,059 as of December 2007 and 2006, respectively. The reinsurance agreements also provide for the Company to administer these two blocks of business. Administrative fee income from Washington National for 2007 and 2006 was approximately $53 and $64, respectively.

On August 16, 1999, the Company entered into a Master Reinsurance Agreement with Baltimore Life Insurance Company ("Baltimore Life") whereby the Company agreed to 100% coinsure a certain block of business written by Baltimore Life. In addition, an administrative service agreement was executed with Baltimore Life to service this block. The Company paid a ceding commission to Baltimore Life of $1,850 and future policy benefits of $4,500 were initially assumed under this agreement. Future policy benefits assumed related to this agreement were $5,451 and $5,354 at December 31, 2007 and 2006, respectively.

11. Reinsurance (Continued)

Analysis of Specific Reinsurance Agreements (Continued)
On December 31, 1999, the Company entered into a Master Reinsurance Agreement with Old Reliance Insurance Company ("Old Reliance") whereby the Company agreed to reinsure, on a 75% quota share basis, certain blocks of business written by Old Reliance. At inception, the Company paid a $2,400 ceding commission to Old Reliance and future policy benefits of $12,700 were assumed under this agreement. The Company also executed an administrative service agreement, whereby the Company is responsible for the administration on this block. On April 1, 2000, the Company entered into another reinsurance agreement with Old Reliance whereby the Company agreed to reinsure the remaining 25% quota share. The Company paid an $800 ceding commission to Old Reliance and assumed future policy benefits of approximately $4,200. Total future policy benefits assumed under the two agreements as of December 31, 2007 and 2006 were approximately $15,856 and $16,260, 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. In accordance with SAP, the ceding commission received was initially recorded as an addition to capital and surplus (net of income taxes), and will be amortized into income over the remaining life of the business as the profits emerge. As of December 31, 2007, the unamortized portion of the deferred ceding commission was $4,654. Amortization for the years ended December 31, 2007 and 2006, was approximately $2,199 and $1,738, respectively. Total future policy benefits (including Modco) ceded under these treaties were approximately $171,639 and $181,525 as of December 31, 2007 and 2006, 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 2007, $888 remained unamortized). The Company recognized goodwill amortization of $162 for the years ended December 31, 2007 and 2006.

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 $23,455 and $22,536 as of December 31, 2007 and 2006, respectively. The Company paid a ceding commission to GTL of $7,400 under this agreement. 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 $11,239 and $10,785 as of December 31, 2007 and 2006, respectively.

(dollars in thousands)

11. Reinsurance (Continued)

Analysis of Specific Reinsurance Agreements (Continued)
An analysis of the impact of reinsurance on the Company's operations is as follows:

		2007		2006
Reinsurance assumed				
Face amount	$	526,840	$	572,689
Reserves	$	162,735	$	109,670
Modified coinsurance reserves	$	-	$	57,009
Premiums	$	8,706	$	9,826
Benefits	$	8,880	$	14,844
Reinsurance ceded				
Face amount	$	845,943	$	881,838
Reserves	$	235,986	$	257,954
Modified coinsurance reserves	$	35,440	$	35,631
Premiums	$	11,205	$	10,853
Benefits	$	17,581	$	20,904

12. Participating Policies

For the years ended December 31, 2007 and 2006, premiums under individual and group participating policies were $44, or less than .5% and $46, or less than .5%, respectively, of total individual and group premiums earned. The Company paid dividends in the amount of $150 and $152 in 2007 and 2006, respectively, to policyholders and did not allocate any additional income to such policyholders.

13. 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 $415 and $406 as of December 31, 2007 and 2006, 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, 2007 and 2006, the Company had $36,661 and $2,952, 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 $809 and $41 at December 31, 2007 and 2006, respectively.

(dollars in thousands)

13. Reserves for Life Contracts and Deposit-Type Contracts (Continued)

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.

Ordinary life reserves increased $56,703 effective December 31, 2007 from the conversion of a block of business, assumed from Washington National Life, from modified coinsurance to coinsurance (see Note 11).

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

	2007 Amount	% Total
Subject to discretionary withdrawal - with adjustment		
With market value adjustment	$ 5,734	1.9%
At book value less surrender	111,524	36.4%
Subtotal	117,258	38.3%
Subject to discretionary withdrawal - without adjustment - at book value (minimal or no charge or adjustment)	177,010	57.9%
Not subject to discretionary withdrawal provisions	11,614	3.8%
Subtotal	188,624	61.7%
Total annuity actuarial reserves and deposit liabilities (gross)	305,882	100.0%
Less Reinsurance	129,569	
Total annuity actuarial reserves and deposit liabilities (net)	$ 176,313	

	2006 Amount	% Total
Subject to discretionary withdrawal - with adjustment		
With market value adjustment	$ 6,087	1.8%
At book value less surrender	145,053	43.5%
Subtotal	151,140	45.3%
Subject to discretionary withdrawal - without adjustment - at book value (minimal or no charge or adjustment)	170,014	50.9%
Not subject to discretionary withdrawal provisions	12,730	3.8%
Subtotal	182,744	54.7%
Total annuity actuarial reserves and deposit liabilities (gross)	333,884	100.0%
Less Reinsurance	148,333	
Total annuity actuarial reserves and deposit liabilities (net)	$ 185,551	

(dollars in thousands)

15. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2007 and 2006, respectively, were as follows:

	2007		
	Gross	**Net of Loading**	**Loading**
Ordinary first year	$ (7)	$ (7)	$ -
Industrial renewal	2	1	1
Ordinary renewal	3,350	2,428	922
Group renewal	4	3	1
Total	$ 3,349	$ 2,425	$ 924

	2006		
	Gross	**Net of Loading**	**Loading**
Ordinary first year	$ 2	$ 2	$ -
Industrial renewal	3	1	2
Ordinary renewal	5,168	3,681	1,487
Group renewal	-	(1)	1
Total	$ 5,173	$ 3,683	$ 1,490

ACCOMPANYING INFORMATION

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
Year Ended December 31, 2007

(dollars in thousands)

Investment income earned		
Government bonds	$	1,769
Other bonds (unaffiliated)		18,854
Preferred stock (unaffiliated)		671
Common stock (unaffiliated)		279
Mortgage loans		1,561
Contract loans		827
Cash/short-term investments		112
Other invested asset		573
Gross investment income	$	24,646
Mortgage loans - book value		
Residential	$	530
Commercial		26,539
Total mortgage loans	$	27,069
Mortgage loans by standing - book value		
Good standing	$	26,708
Good standing with restructured terms	$	103
With overdue interest over 90 days, not in process of foreclosure	$	258
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	$	64,683
Over 1 year through 5 years		138,899
Over 5 years through 10 years		141,552
Over 10 years through 20 years		65,836
Over 20 years		17,618
Total by anticipated maturity	$	428,588
Bonds and short-term investments by class - statement value		
Class 1	$	359,402
Class 2		64,355
Class 3		2,403
Class 4		2,398
Class 5		-
Class 6		30
Total by class	$	428,588

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

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities (Continued)
Year Ended December 31, 2007

(dollars in thousands)

Total bonds and short-term investments publicly traded	$ 427,712
Total bonds and short-term investments privately placed	$ 866
Preferred stock - statement value	$ 10,682
Common stock, unaffiliated - market value	$ 5,158
Short-term investments - book value	$ 2,903
Cash on deposit	$ 4,828
Life insurance in force:	
Industrial	$ 7,220
Ordinary	$ 588,361
Group life	$ 46,682
Amount of accidental death insurance in force under ordinary policies	$ 76,652
Life insurance policies with disability provisions in force:	
Ordinary	$ 193,249
Group	$ 1,574
Supplementary contracts in force:	
Ordinary - not involving life contingencies:	
Amount on deposit	$ 2,715
Income payable	$ 1,827
Ordinary - involving life contingencies:	
Income payable	$ 508
Annuities	
Ordinary	
Immediate - amount of income payable	$ 126
Deferred - fully paid account balance	$ 188,238
Deferred - not fully paid account balance	$ 52,766
Group:	
Immediate - amount of income payable	$ 15
Deferred - fully paid account balance	$ 14,976
Deferred - not fully paid account balance	$ 43,864

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

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities (Continued)
Year Ended December 31, 2007

(dollars in thousands)

Accident and health insurance - premiums in force	
Ordinary	$ 415
Group	$ 4
Deposit funds and dividend accumulations	
Deposit funds - account balance	$ 118
Dividend accumulation - account balance	$ 7,927
Claim payments 2006	
Group accident and health:	
2007	$ -
2006	$ 1
Other accident and health	
2007	$ 18
2006	$ 15

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

Sagicor Life Insurance Company
Summary Investment Schedule
December 31, 2007

(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	$ 1,154	0.2%	$ 1,154	0.2%
U.S. government agency obligations:				
Issued by U.S. government agencies	1,759	0.3%	1,759	0.3%
Issued by U.S. government sponsored agencies	20,583	4.0%	20,583	4.0%
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
U.S. states and territories general obligations	8,660	1.7%	8,660	1.7%
Political subdivisions of U.S. states territories and possessions general obligations	12,832	2.5%	12,832	2.5%
Revenue and assessment obligations	5,929	1.2%	5,929	1.2%
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Guaranteed by GNMA	3,220	0.6%	3,220	0.6%
Issued by FNMA and FHLMC	80,407	15.7%	80,407	15.7%
All other	1,271	0.2%	1,271	0.2%
Other mortgage-backed securities:				
Issued by GNMA, FNMA, FHLMC or VA	72,611	14.1%	72,611	14.1%
All other	52,940	10.3%	52,940	10.3%
2. Other debt securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	160,616	31.3%	160,616	31.3%
Unaffiliated foreign securities	3,703	0.7%	3,703	0.7%
3. Equity interests:				
Investments in mutual funds	2,903	0.6%	2,903	0.6%
Preferred stocks:				
Unaffiliated	10,643	2.1%	10,643	2.1%
Publicly traded equity securities (excluding preferred stocks):				
Unaffiliated	5,158	1.0%	5,158	1.0%
4. Mortgage loans:				
Single family residential properties	530	0.1%	530	0.1%
Commercial loans	26,538	5.2%	26,538	5.2%
5. Real estate investments	-	0.0%	-	0.0%
6. Contract loans	34,383	6.7%	34,383	6.7%
7. Receivable for Securities	190	0.0%	190	0.0%
8. Cash and short-term investments	4,828	0.9%	4,828	0.9%
9. Other invested assets	2,500	0.5%	2,500	0.5%
10. Total invested assets	$ 513,358	100.0%	$ 513,358	100.0%

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

Sagicor Life Insurance Company
Investment Risks Interrogatories
December 31, 2007
(dollars in thousands)

1. Total admitted assets $ 527,926

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.

Issuer	Description of Exposure		Book/ Adjusted Carrying Value	% of Admitted Assets
Mastr 2003-12 6A2	CMO	$	5,310	1.0%
FHLB of Dallas	Common stock	$	5,158	1.0%
Rast 2003-1A A1	CMO	$	4,962	0.9%
CMSI 2004-8 1A4	CMO	$	3,380	0.6%
Washington Mutual	Bond	$	3,199	0.6%
Goldman Sachs	Bond	$	2,860	0.5%
CWHL 2003-14 A2	CMO	$	2,752	0.5%
Aegon NV	Bond	$	2,595	0.5%
Delmarva Power & Light	Bond	$	2,231	0.4%
Cottonwood	Mortgage	$	2,205	0.4%

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

Investment Category		Book/ Adjusted Carrying Value	% of Admitted Assets
Bonds:			
NAIC - Rated 1	$	359,402	68.1%
NAIC - Rated 2	$	64,355	12.2%
NAIC - Rated 3	$	2,403	0.5%
NAIC - Rated 4	$	2,398	0.5%
NAIC - Rated 5	$	-	0.0%
NAIC - Rated 6	$	30	0.0%
Preferred stocks:			
P/RP - 1	$	6,543	1.2%
P/RP - 2	$	3,678	0.7%

4. 4.02 Total admitted assets held in foreign investments $ 3,703

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

(dollars in thousands)

13. State the 10 largest exposures of equity interests to a single issuer and percentage of admitted assets:

Name of Issuer		Book/Adjusted Carrying Value	% of Admitted Assets
FHLB of Dallas	$	5,158	1.0%
Co Bank, ABC 144A	$	2,000	0.4%
Bac Cap Trust I	$	1,271	0.2%
Citigroup VIII	$	1,271	0.2%
Wells Fargo	$	1,015	0.2%
Comcast	$	1,000	0.2%
Wachovia Cap	$	987	0.2%
News Corp Fin	$	646	0.1%
Washington Mutual	$	589	0.1%
Bunge Ltd	$	549	0.1%

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

Type		Book/Adjusted Carrying Value	% of Admitted Assets
Commercial - Cottonwood, AZ	$	2,205	0.4%
Commercial - Gettysburg, SD	$	1,405	0.3%
Commercial - Prattville, AL	$	479	0.1%
Commercial - Minneapolis, MN	$	403	0.1%
Commercial - Shakopee, MN	$	380	0.1%
Commercial - Moorestown, NH	$	377	0.1%
Commercial - Provo, UT	$	373	0.1%
Commercial - Huntsville, AL	$	354	0.1%
Commercial - Elk River, MN	$	339	0.1%
Commercial - Ft. Myers, FL	$	319	0.1%

Mortgage loans over 90 days past due	$ 258
Restructured mortgage loans	$ 103

(dollars in thousands)

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:

	Residential		Commercial	
Loan-to-Value	1	2	1	2
Above 95%				
91% to 95%				
81% to 90%	$ -	- %		
71% to 80%	$ 71	- %	$ 8,011	1.5 %
Below 70%	$ 459	0.1 %	$ 18,527	3.5 %

Note: Interrogatories 5 through 12, 14, 15 and 18 through 23, as well as certain parts of interrogatory 4, are not applicable.