Sagicor Life Insurance Company

Statutory Financial Statements and Accompanying Information

For the Years Ended December 31, 2008 and 2007

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 statutory statements of admitted assets, liabilities and capital and surplus (statutory basis) of Sagicor Life Insurance Company (the "Company") as of December 31, 2008 and 2007, and the related statements of operations (statutory basis), changes in capital and surplus (statutory basis), and cash flow (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, 2008 and 2007, and the results of its operations and its cash flow 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, 2008 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 28, 2009

Sagicor Life Insurance Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis)
December 31, 2008 and 2007

(dollars in thousands, except par and share data)	**2008**	**2007**
Admitted Assets		
Cash and invested assets		
Bonds (fair value: 2008 - $403,196; 2007 - $422,339)	$ 435,958	$ 425,685
Preferred stock (fair value: 2008 - $8,643; 2007 - $9,733)	11,705	10,643
Common stock (cost: 2008 - $5,514; 2007 - $5,157)	5,514	5,157
Mortgage loans	28,902	27,069
Contract loans	32,909	34,383
Cash and short-term investments	7,303	7,731
Other invested asset	2,599	2,500
Receivables for securities	-	190
Total cash and invested assets	524,890	513,358
Amounts due from reinsurers	4,866	4,846
Electronic data processing equipment	563	576
Current federal income tax recoverable	360	358
Premiums deferred, premiums uncollected and agents' balances	2,194	2,412
Investment income due and accrued	4,381	4,803
Guaranty fund assessments	324	213
Due from affiliates	-	79
Other assets	1,201	1,281
Total admitted assets	$ 538,779	$ 527,926

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, 2008 and 2007

(dollars in thousands, except par and share data)	2008	2007
Liabilities		
Policyholders' liabilities		
Aggregate reserves for life contracts	$ 359,475	$ 344,698
Accident and health reserves	344	384
Deposit-type contracts	13,301	12,053
Policy and contract claims	3,549	3,024
Dividends and coupons payable	147	159
Advanced premiums	193	155
Amounts payable on reinsurance	1,649	3,756
Interest maintenance reserve	2,700	3,765
Commissions payable	72	71
General expenses due or accrued	1,413	2,138
Taxes, licenses and fees due or accrued, excluding federal income taxes	1,171	838
Unearned investment income	200	208
Amounts withheld or retained by company	334	662
Amounts held for agents	209	178
Remittance and items not allocated	628	151
Borrowed money	120,690	116,423
Asset valuation reserve	2,873	4,121
Due to affiliates	566	-
Payable for Securities	77	-
Total liabilities	509,591	492,784
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	58,128	40,071
Unassigned deficit	(31,440)	(7,429)
Total capital and surplus	29,188	35,142
Total liabilities and capital and surplus	$ 538,779	$ 527,926

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, 2008 and 2007

(dollars in thousands)	2008	2007
Revenue		
Premiums and annuity considerations	$ 33,518	$ 11,673
Consideration for supplementary contracts with life contingencies	263	447
Net investment income	20,355	16,679
Amortization of interest maintenance reserve	264	432
Commissions and expense allowances on reinsurance ceded	3,642	4,019
Reserve adjustments on reinsurance ceded	(1,944)	(2,042)
Miscellaneous income	521	680
Total revenues	56,619	31,888
Benefits and expenses		
Death benefits	11,321	9,054
Matured endowments	71	101
Annuity benefits	5,852	4,942
Disability benefits	37	85
Surrender benefits	18,174	20,233
Interest on policy and contract funds	580	485
Payments on supplementary contracts with life contingencies	388	344
Other benefits	7	(16)
Increase (Decrease) in aggregate reserves for life and accident and health policies	14,737	(11,187)
Commission expenses	4,379	1,881
General insurance expenses	16,967	13,228
Taxes, licenses and fees	1,461	971
Modified coinsurance reserve adjustment assumed	-	(3,268)
Increase in loading on deferred and uncollected premiums	(37)	(566)
Total benefits and expenses	73,937	36,287
Net loss from operations before policyholders' dividends, income taxes and realized capital gains (losses)	(17,318)	(4,399)
Dividends to policyholders	143	150
Net loss from operations before income taxes and realized capital gains (losses)	(17,461)	(4,549)
Federal income tax benefit (expense)	(1,597)	861
Net loss from operations before realized capital gains (losses)	(19,058)	(3,688)
Net realized capital gains (losses), excluding gains (losses) transferred to the IMR, less capital gains tax expense (benefit) of $(1,167) and $89, excluding tax expense (benefit) of $(432) and $542 transferred to the IMR in 2008 and 2007, respectively	(2,168)	165
Net loss	$ (21,226)	$ (3,523)

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, 2008 and 2007

(dollars in thousands)	Common Stock	Additional Contributed Surplus	Unassigned Deficit	Total Capital and Surplus
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
Net loss	-	-	(21,226)	(21,226)
Change in net unrealized capital gains (losses) (Note 2)	-	-	(519)	(519)
Change in net deferred income taxes (Note 3)	-	-	8,039	8,039
Change in nonadmitted assets	-	-	(9,868)	(9,868)
Change in asset valuation reserve	-	-	1,248	1,248
Change in deferred ceding commission (Note 1)	-	-	(1,685)	(1,685)
Paid in surplus (Note 7)	-	18,057	-	18,057
Balance, December 31, 2008	$ 2,500	$ 58,128	$ (31,440)	$ 29,188

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, 2008 and 2007

(dollars in thousands)	2008	2007
Cash from operations		
Premiums collected, net of reinsurance	$ 34,225	$ 13,927
Net investment income	21,428	17,671
Other income	4,163	4,699
Total income received	59,816	36,297
Benefits and loss related payments	39,561	36,793
Commissions, other expenses and taxes paid (excluding federal income taxes)	23,303	12,564
Dividends paid to policyholders	154	156
Federal income taxes paid (recovered), net of tax on capital gains (losses)	-	(1,661)
Total benefits and expenses paid	63,018	47,852
Net cash used in operations	(3,202)	(11,555)
Cash from investments		
Proceeds from investments sold, matured or repaid		
Bonds	116,208	99,256
Stocks	4,019	3,973
Mortgage loans	2,488	965
Others	267	751
Total investment proceeds	122,982	104,945
Cost of investments acquired		
Bonds	(130,779)	(76,183)
Stocks	(6,890)	(7,001)
Mortgage loans	(4,304)	(6,384)
Other invested assets	(400)	(1,000)
Total investments acquired	(142,373)	(90,568)
Net decrease in policy loans	1,475	288
Net cash provided by investments	(17,916)	14,665
Cash from financing and miscellaneous sources		
Paid in surplus	18,057	8,310
Borrowed funds	4,267	(1,946)
Dividends paid to stockholder	-	(750)
Deposit-type contract funds, net	1,248	(642)
Other cash applied	(2,882)	(332)
Net cash provided by (used in) financing and miscellaneous sources	20,690	4,640
Net change in cash and short-term investments	(428)	7,750
Cash and short-term investments, beginning of year	7,731	(19)
Cash and short-term investments, end of year	$ 7,303	$ 7,731

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") 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 67% of the premiums on the Company's existing block of business are in California, Texas, Arizona, Ohio, South Dakota, Indiana, Colorado, Florida and Nebraska. 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.

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, 2008 and 2007, 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 $3,087 and $29 for 2008 and 2007, 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 $1,147 and $724 for 2008 and 2007, respectively, and accumulated depreciation as of December 31, 2008 and 2007 was $4,795 and $3,446, 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, 2008 and 2007 is as follows:

	2008	2007	Estimated Useful Lives
Data processing equipment	$ 2,780	$ 2,487	1 - 7 years
Furniture and office equipment	1,220	634	2 - 5 years
Software and website	3,351	2,590	2 - 5 years
Leasehold improvements	1,317	806	5 - 10 years
	8,668	6,517	
Accumulated depreciation	4,795	3,446	
Net property and equipment	3,873	3,071	
Nonadmitted amounts	3,310	2,495	
Net admitted portion	$ 563	$ 576	

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, 2008 and 2007 are as follows (excluding those related to invested assets):

	2008	2007
Prepaid expenses	$ 672	$ 295
Deferred tax asset	19,774	11,456
Agents' balances	393	34
Property and equipment	3,310	2,495
Total nonadmitted	$ 24,149	$ 14,280

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, 2008 and 2007, the unamortized ceding commission was $2,969 and $4,654, respectively. Amortization for the years ended December 31, 2008 and 2007 was $1,685 and $2,199, 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 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 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 agents' balances, 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.

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.

(dollars in thousands)

1. Summary of Significant Accounting Practices (Continued)

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
Forty-seven new loans, all of which are commercial, were made during the year ended December 31, 2008. The weighted average interest rate was 6.44% and they had a year-end balance of $4,268. The minimum and maximum interest rates on new loans were 6.00% and 6.95%, respectively. During 2008, the Company adjusted interest rates of outstanding loans as follows:

Range of Adjustment	Number of Mortgages	Year-End Balances
1.94 to 2.00% decrease	3	$ 155

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

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 2008 and 2007. There were no taxes, assessments or any amounts advanced and not included in the mortgage loan total as of December 31, 2008 or 2007.

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

2. Investments (Continued)

Mortgage Loans (Continued)
There were no impaired loans with a related allowance for credit losses as of December 31, 2008 or 2007. There were no impaired loans without an allowance for credit losses as of December 31, 2008 or 2007. Average recorded investment in impaired loans was approximately $0 as of December 31, 2008 and 2007. 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, 2008 and 2007.

The Company had no allowance for credit losses in 2008 or 2007.

Investment income due or accrued on mortgage loans 90 days past due of $0 and $14 has been excluded from investment income as of December 31, 2008 and 2007, respectively.

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 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, 2008 and 2007.

(dollars in thousands)

2. Investments (Continued)

Bonds

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

	December 31, 2008			
	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government	$ 11,396	$ 269	$ (48)	$ 11,617
States, territories and possessions	8,550	80	(283)	8,347
Political subdivisions	13,469	30	(945)	12,554
Public utilities	38,835	561	(3,261)	36,135
Special revenue	5,902	14	(183)	5,733
Corporate securities	137,587	1,617	(15,854)	123,350
Mortgage-backed securities	220,219	2,490	(17,249)	205,460
	$ 435,958	$ 5,061	$ (37,823)	$ 403,196

	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

Fair values are based upon market prices determined by the Securities Valuation Office of the NAIC for securities traded in the public marketplace, or other pricing sources such as IDP.

(dollars in thousands)

2. Investments (Continued)

Bonds (Continued)

The book/adjusted carrying value and fair value of bonds at December 31, 2008, 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	$ 7,244	$ 7,172
Due after one year through five years	54,068	51,012
Due after five years through ten years	128,379	116,884
Due after ten years through twenty years	49,966	47,611
Due after twenty years	196,301	180,517
	$ 435,958	$ 403,196

Gross proceeds and realized gains and losses on bonds sold at the discretion of the Company for the years ended December 31, 2008 and 2007 were:

	2008	2007
Proceeds	$ 54,270	$ 56,265
Gross gains	$ 1,653	$ 1,835
Gross losses	$ (2,200)	$ (450)

Certain bonds and other investments with an aggregate amortized cost of $31,670 and $31,735 at December 31, 2008 and 2007, 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	Unrealized Gain/(Loss)	% of RMBS	% of Bonds
Agency	164,656	773	78%	40%
Alt A	12,927	(5,305)	6%	3%
Whole Loan	32,431	(9,969)	16%	8%
Sub-Prime	-	-	0%	0%
RMBS	210,014			

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 two corporate bonds with significant sub-prime risk.

There are $12,927 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 two 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 – $3,488
b. Book adjusted carrying value – $3,492
c. Fair value – $2,815
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 $27,920 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, 2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Unaffiliated preferred	$ 11,705	$ -	$ -	$ 11,705
Unaffiliated common	5,514	-	-	5,514
	$ 17,219	$ -	$ -	$ 17,219

	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

Net realized gains (losses) on equity securities sold for the years ended December 31, 2008 and 2007 were approximately ($1,022) and $508, respectively. In addition, the Company recognized impairment (losses) on equity securities of ($572) and $0 for the years ended December 31, 2008 and 2007, respectively.

Fair Value of Financial Instruments

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

	December 31, 2008		December 31, 2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Bonds	$ 435,958	$ 403,196	$ 425,685	$ 422,339
Preferred stock	$ 11,705	$ 8,643	$ 10,643	$ 9,733
Common stock	$ 5,514	$ 5,514	$ 5,157	$ 5,157
Mortgage loans	$ 28,902	$ 28,802	$ 27,069	$ 27,461
Contract loans	$ 32,909	$ 32,909	$ 34,383	$ 34,383
Cash and short-term investments	$ 7,303	$ 7,303	$ 7,731	$ 7,731
Other invested assets	$ 2,599	$ 2,599	$ 2,500	$ 2,500
Receivables	$ 4,866	$ 4,866	$ 4,993	$ 4,993
Financial liabilities				
Insurance liabilities for investment contracts	$ 297,333	$ 282,751	$ 276,923	$ 268,434
Borrowed money	$ 120,690	$ 132,118	$ 116,423	$ 118,376

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 external pricing sources such as IDP.

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.

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.

SFAS 157 Disclosures
Effective January 1, 2008, the Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on hierarchy defined by Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements", which specifies measurement and disclosure standards related to asset and liabilities measured at fair value. The Company measures at fair value certain bonds (specifically, bonds with NAIC ratings of 6), common stocks and preferred stocks.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. 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. An other-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
SFAS 157 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 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 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.

(dollars in thousands)

2. Investments (Continued)

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.

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:

	Level 1	Level 2	Level 3	Total
Nonrecurring				
Bonds	-	213	-	213
Preferred Stocks	-	67	-	67
Total Nonrecurring	-	280	-	280
Recurring				
Common Stocks	-	-	5,514	5,514
Total	-	280	5,514	5,794

The following table presents changes during 2008 in Level 3 financial instruments measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in income during 2008 related to the Level 3 financial instruments that remained in the balance sheet at December 31, 2008:

	Beginning of Year	Gains (Losses) included in Inc Stmt	Gains (Losses) included in Surplus	Purchases (Sales) Net	Transfers In (Out)	End of Year
Common Stocks	5,158	-	-	356	-	5,514

(dollars in thousands)

2. Investments (Continued)

Net Investment Income

The components of net investment income earned by type of investment for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Bonds	$ 21,595	$ 20,623
Mortgage loans	1,768	1,561
Contract loans	1,684	827
Short-term securities	78	112
Preferred and common stocks	992	950
Other invested asset	457	573
Gross investment income	26,574	24,646
Less investment expenses	(6,219)	(7,967)
	$ 20,355	$ 16,679

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

	2008	2007
Other bonds - unaffiliated, net of tax	$ (415)	$ -
Preferred stocks - unaffiliated, net of tax	92	(9)
Other invested assets, net of tax	(196)	-
	$ (519)	$ (9)

2. Investments (Continued)

Net Investment Income (Continued)

Net realized investment gains (losses) consist of:

	2008	2007
U.S. Government bonds	$ (23)	$ (103)
Other bonds - unaffiliated	(2,966)	1,398
Preferred stock - unaffiliated	(1,684)	535
Common stock - unaffiliated	90	(27)
Mortgage loans	15	-
	(4,568)	1,803
Federal income tax benefit (expense)	1,168	(89)
IMR adjustment (includes taxes of $(432) and $542 for 2008 and 2007, respectively)	1,232	(1,549)
	$ (2,168)	$ 165

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, 2008 (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	7	$ 2,125	$ (15)	4	$ 958	$ (33)	11	$ 3,083	$ (48)
Loan Backed Securities	67	59,844	(6,588)	60	47,515	(10,661)	127	107,359	(17,249)
Corporate Bonds	104	96,152	(11,604)	41	40,309	(8,922)	145	136,461	(20,526)
Subtotal, Debt Securities	178	158,121	(18,207)	105	88,782	(19,616)	283	246,903	(37,823)
Preferred Stock	9	4,922	(1,935)	4	3,382	(1,146)	13	8,304	(3,081)
Total temporarily impaired securities		$ 163,043	$ (20,142)		$ 92,164	$ (20,762)		$ 255,207	$ (40,904)

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, 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	(2,459)	146	149,314	(3,070)
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	$ (5,569)		$ 255,479	$ (8,450)

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 2008, yields for the Merrill Lynch Corporate Bond index increased by approximately 385 basis points 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

Approximately half of these losses reside within mortgage-backed securities (MBS). These losses relate to a higher risk premium demanded by fixed-income investors in late 2008. This is illustrated in the wider yield of the Merrill Lynch Corporate Bond index. In addition, non-agency mortgage investors demanded significantly wider yields for this asset class. The majority of our non-agency mortgage bonds are rated AA or higher.

(dollars in thousands)

3. Income Taxes

The benefit for incurred taxes on earnings for the year ended December 31, 2008 and 2007 is:

	2008	2007
Federal - operations	$ 1,599	$ (989)
Adjustment for prior year taxes	(2)	128
Federal income tax expense (benefit)	1,597	(861)
Federal - capital gains (losses) tax expense (benefit)	(1,599)	631
Net federal income tax expense (benefit)	$ (2)	$ (230)

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:

	2008		2007	
Provision at statutory rate	$ (6,111)	(35.0) %	$ (1,592)	(35.0) %
Dividends received deduction and tax-exempt interest, net of proration	(14)	(0.1) %	(14)	(0.3) %
Capital gains (losses) tax expense (benefit)	(1,599)	(9.2) %	631	13.9 %
Prior period deferred adjustment	(2)	(0.0) %	128	2.8 %
Expiration of NOL	320	1.8 %	249	5.5 %
Other	(635)	(3.6) %	(598)	(13.2) %
	$ (8,041)	(46.1) %	$ (1,196)	(26.3) %
Federal income tax provision (benefit)	$ (2)	(0.0) %	$ (230)	(5.1) %
Change in net deferred income taxes	(8,039)	(46.1) %	(966)	(21.2) %
	$ (8,041)	(46.1) %	$ (1,196)	(26.3) %

(dollars in thousands)

3. Income Taxes (Continued)

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

	December 31, 2008	December 31, 2007	Change
Total deferred tax assets	$ 21,060	$ 12,804	$ (8,256)
Total deferred tax liabilities	(1,286)	(1,348)	(62)
Net deferred tax asset	$ 19,774	$ 11,456	(8,318)
Deferred tax on change in unrealized gains			279
Change in net deferred tax			$ (8,039)

	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)

The components of the net deferred tax asset as of December 31, 2008 and 2007 are as follows:

	2008	2007
Deferred tax assets		
Insurance liabilities	$ 4,093	$ 2,745
Investments	509	123
Deferred policy acquisition costs and ceding commission	3,659	4,037
Tax goodwill	247	389
Loss carryforwards	11,023	4,378
Other	1,529	1,132
Gross deferred tax assets	21,060	12,804
Deferred tax liabilities		
Deferred and uncollected premiums	715	844
Investments	317	280
Other	254	224
	1,286	1,348
Net deferred tax asset	19,774	11,456
Less nonadmitted asset	(19,774)	(11,456)
Net deferred tax asset	$ -	$ -

3. Income Taxes (Continued)

At December 31, 2008, the Company had approximately $25,490 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, 2008, the Company had a balance of $1,508 in its policyholder surplus account. 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 ended December 31, 2008 and 2007. The method of allocation between the companies is subject to a written agreement. 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 filing the tax return or 90 days from receipt of the funds from the IRS.

In July 2006, the FASB issued FASB interpretation ('FIN") No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109. This interpretation is not applicable to statutory financial statements. However, the FIN 48 disclosure requirements are relevant to statutory financial statements. The Company had no material contingent tax liabilities at December 31, 2008.

4. Information Concerning Parent, Subsidiaries and Affiliates

The Company reported $565 as the net amount due to affiliates as of December 31, 2008 and $79 as the net amount due from affiliates as of December 31, 2007. 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. The terms of management and services agreement requires settlement within 30 days. However, on April 28, 2009 the Company filed with the TDI an amended agreement to change the settlement from monthly to quarterly.

The Company paid a $750 common dividend to Laurel on April 16, 2007. No dividends have been declared or paid in 2008.

5. **Debt**

Borrowed money consisted of advances from the FHLB as of December 31, 2008 and 2007 as follows (in thousands):

	2008	2007
Short-term advances, bearing interest at 0.68% for 2008 and 4.29% to 4.37% for 2007	$ 72,322	$ 64,987
Amortizing advances with balloon payments, bearing interest at rates from 6.41% to 7.30% in 2008 and 2007 maturing from 2010 to 2016	44,587	46,952
Fully amortizing advances, bearing interest at rates ranging from 6.19% to 7.48% in 2008 and 2007, maturing from 2007 to 2017	3,495	4,055
	120,404	115,994
Accrued interest on advances	286	429
Total borrowed money	$ 120,690	$ 116,423

The short-term advances were issued in December 2008 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 $5,059 and $6,933 for the years ended December 31, 2008 and 2007, respectively, and is included in investment expenses. Annual maturities as of December 31, 2008 for the next five years and thereafter are as follows:

2009	$ 75,441
2010	3,328
2011	3,344
2012	6,903
2013	3,436
Thereafter	27,952
	$ 120,404

The Company is required to maintain a custodial account at the FHLB in amounts comparable to its borrowings. As of December 31, 2008, assets with an admitted value of approximately $122,402 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 $248 and $141 to the plan in 2008 and 2007, respectively. At December 31, 2008, the fair value of plan assets was $3,032.

In 2008 certain of the Company's Senior Executives participated 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 $627 in expenses related to granting restricted stock and stock options. The allocation of expenses was based on specifically identifying the employees participating in the plan and the value of the restricted stock and stock options vested at March 31, 2008.

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, 2008 and 2007. 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 $0 and $750 were declared and paid in 2008 and 2007, respectively. The maximum dividend that may be paid in 2009 without prior approval from the Texas Department is $2,919.

On December 7, 2007, Laurel made a capital contribution of $8,310 to the Company. Additional capital contributions totaling $18,057 were made during 2008.

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

	2008	2007
Unrealized gains and losses	$ (940)	$ (142)
Nonadmitted asset values	$ (24,149)	$ (14,280)
Asset valuation reserves	$ (2,873)	$ (4,121)

The Company has no outstanding surplus debentures or similar obligations at December 31, 2008 and 2007. There have been no quasi reorganizations at December 31, 2008 and 2007.

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

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 completed its most current examination of the Company's statutory basis financial statements as of December 31, 2007, in a report dated April 23, 2009, and disclosed no significant findings.

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, 2008 and 2007, 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). On March 31, 2009 the Company received a capital contribution of $5,000 pursuant to the terms of the original guarantee.

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 $574 and $459 liability at December 31, 2008 and 2007, respectively, for known insolvencies. A related asset for expected recoveries of approximately $324 and $213 as of December 31, 2008 and 2007, 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, 2008 and 2007 was approximately $1,129 and $936, 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 $167 and $128 for the years ended December 31, 2008 and 2007, respectively. Future minimum rental commitments under these leases as of December 31, 2008 are as follows:

2009	$ 1,488
2010	1,373
2011	1,366
2012	945
	$ 5,172

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, 2008 and 2007, the Company had residential mortgages with carrying values of $408 and $530, respectively and commercial mortgages with carrying values of $28,494 and $26,539, respectively.

(dollars in thousands)

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

Concentrations (Continued)
At December 31, 2008 and 2007, approximately the following percentages of the Company's related mortgage loan portfolios were located in the following states:

	2008	2007
Residential		
Arizona	14%	11%
Florida	0%	8%
Louisiana	29%	26%
Massachusetts	39%	34%
New York	14%	10%
North Dakota	4%	9%
Commercial		
Arizona	9%	11%
Florida	9%	11%
Minnesota	10%	10%
New Mexico	5%	5%
Ohio	7%	8%
Texas	6%	6%

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, 2008 (amortized cost) in excess of $2,919, approximately 10% of statutory capital and surplus, are as follows:

	2008 Statutory Carrying Value
FHLMC 3227 PR	$ 5,619
FHLB OF DALLAS	5,514
MASTR 2003-11 2A10	5,314
FNMA FN 796487	5,113
FHLMC 2006-111 FD	4,847
CMSI 2005-4-1A1	4,792
RAST 2003-A6 B1	4,731
FHLMC 2982 NC	4,567
FNMA FN 57767 ARM	4,414
FHLMC 2005-48 FH	4,272
FHLMC 2984 FK	3,763
FHLMC 2690 FJ	3,698
FHLMC 3192 CF	3,524
FNMA FN 80313 ARM	3,476
FNMA 2003-21 XG	3,465
FHLMC 2698 FV	3,341
FNMA 255770	3,148
FHLMC 2802 WF	3,147
BAFC 2003-3 1A33	2,978
FGLMC G08122	2,935

(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

In 2008 and 2007, approximately the following percentages of the Company's direct premiums were written in the following states:

	2008	2007
California	11%	25%
Texas	10%	25%
Arizona	8%	4%
Ohio	8%	8%
South Dakota	8%	0%
Indiana	7%	2%
Colorado	5%	2%
Florida	5%	1%
Nebraska	5%	1%

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 $4,759 and $8, respectively, at December 31, 2008 and $4,929 and $8, respectively, at December 31, 2007.

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 $86,685 and $94,109 as of December 31, 2008 and 2007, respectively. Future policy benefits assumed related to the Conseco Life agreement totaled approximately $13,519 and $14,390 as of December 31, 2008 and 2007, 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 $69,707 and $79,166 as of December 2008 and 2007, respectively. The reinsurance agreements also provide for the Company to administer these two blocks of business. Administrative fee income from Washington National for 2008 and 2007 was approximately $45 and $53, respectively. Per agreement, a right of offset exists for amounts due under the assumed and ceded reinsurance agreements with Washington National.

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 $5,621 and $5,451 at December 31, 2008 and 2007, 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, 2008 and 2007 were approximately $15,430 and $15,856, 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, 2008, the unamortized portion of the deferred ceding commission was $2,969. Amortization for the years ended December 31, 2008 and 2007, was approximately $1,685 and $2,199, respectively. Total future policy benefits (including Modco) ceded under these treaties were approximately $159,753 and $171,639 as of December 31, 2008 and 2007, respectively. A trust agreement exists to support the reinsurance credit taken for the coinsurance treaty. As of December 31, 2008 the assets held in the trust account had a fair value of $125,279.

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 2008, $727 remained unamortized). The Company recognized goodwill amortization of $162 for the years ended December 31, 2008 and 2007.

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 $23,919 and $23,455 as of December 31, 2008 and 2007, 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 $11,439 and $11,239 as of December 31, 2008 and 2007, 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:

	2008	2007
Reinsurance assumed		
Face amount	$ 483,427	$ 526,840
Reserves	$ 154,315	$ 162,735
Premiums	$ 7,747	$ 8,706
Benefits	$ 14,344	$ 8,880
Reinsurance ceded		
Face amount	$ 955,518	$ 845,943
Reserves	$ 217,613	$ 235,986
Modified coinsurance reserves	$ 34,846	$ 35,440
Premiums	$ 9,261	$ 11,205
Benefits	$ 19,461	$ 17,581

12. Participating Policies

For the years ended December 31, 2008 and 2007, premiums under individual and group participating policies were $40, or less than .2% and $44, or less than .5%, respectively, of total individual and group premiums earned. The Company paid dividends in the amount of $143 and $150 in 2008 and 2007, 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 $385 and $415 as of December 31, 2008 and 2007, 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, 2008 and 2007, the Company had $67,904 and $36,661, 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 $4,169 and $809 at December 31, 2008 and 2007, 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

	2008 Amount	% Total
Subject to discretionary withdrawal - with adjustment		
With market value adjustment	$ 4,426	1.5%
At book value less surrender	83,054	29.0%
Subtotal	87,480	30.5%
Subject to discretionary withdrawal - without adjustment - at book value (minimal or no charge or adjustment)	186,812	65.3%
Not subject to discretionary withdrawal provisions	11,907	4.2%
Subtotal	198,719	69.5%
Total annuity actuarial reserves and deposit liabilities (gross)	286,199	100.0%
Less Reinsurance	107,510	
Total annuity actuarial reserves and deposit liabilities (net)	$ 178,689	

	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	

(dollars in thousands)

15. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2008 and 2007, respectively, were as follows:

	2008		
	Gross	Net of Loading	Loading
Ordinary first year	$ (15)	$ (15)	$ -
Industrial renewal	2	1	1
Ordinary renewal	2,953	2,068	885
Group renewal	5	4	1
Total	$ 2,945	$ 2,058	$ 887

	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

ACCOMPANYING INFORMATION

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
Year Ended December 31, 2008

(dollars in thousands)

Investment income earned		
Government bonds	$	966
Other bonds (unaffiliated)		20,629
Preferred stock (unaffiliated)		832
Common stock (unaffiliated)		160
Mortgage loans		1,768
Contract loans		1,684
Cash/short-term investments		78
Other invested asset		457
Gross investment income	$	26,574
Mortgage loans - book value		
Residential	$	408
Commercial		28,494
Total mortgage loans	$	28,902
Mortgage loans by standing - book value		
Good standing	$	28,278
Good standing with restructured terms	$	624
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	$	65,720
Over 1 year through 5 years		136,312
Over 5 years through 10 years		161,888
Over 10 years through 20 years		59,727
Over 20 years		19,764
Total by anticipated maturity	$	443,411
Bonds and short-term investments by class - statement value		
Class 1	$	307,378
Class 2		125,032
Class 3		5,438
Class 4		3,634
Class 5		1,716
Class 6		213
Total by class	$	443,411

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, 2008

(dollars in thousands)

Total bonds and short-term investments publicly traded	$	439,879
Total bonds and short-term investments privately placed	$	3,532
Preferred stock - statement value	$	11,705
Common stock, unaffiliated - market value	$	5,514
Short-term investments - book value	$	7,452
Cash on deposit	$	(149)
Life insurance in force:		
Industrial	$	6,826
Ordinary	$	646,524
Group life	$	40,800
Amount of accidental death insurance in force under ordinary policies	$	71,931
Life insurance policies with disability provisions in force:		
Ordinary	$	193,323
Group	$	1,514
Supplementary contracts in force:		
Ordinary - not involving life contingencies:		
Amount on deposit	$	2,902
Income payable	$	1,727
Ordinary - involving life contingencies:		
Income payable	$	448
Annuities		
Ordinary		
Immediate - amount of income payable	$	125
Deferred - fully paid account balance	$	166,114
Deferred - not fully paid account balance	$	54,364
Group:		
Immediate - amount of income payable	$	15
Deferred - fully paid account balance	$	12,881
Deferred - not fully paid account balance	$	39,230

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities (Continued)
Year Ended December 31, 2008

(dollars in thousands)

Accident and health insurance - premiums in force		
Ordinary	$	340
Group	$	3
Deposit funds and dividend accumulations		
Deposit funds - account balance	$	85
Dividend accumulation - account balance	$	7,762
Claim payments 2008		
Group accident and health:		
2008	$	-
2007	$	-
Other accident and health		
2008	$	5
2007	$	18

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

Sagicor Life Insurance Company
Summary Investment Schedule
December 31, 2008

(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	$ 1,190	0.2%	$ 1,190	0.2%
U.S. government agency obligations:				
Issued by U.S. government agencies	1,193	0.2%	1,193	0.2%
Issued by U.S. government sponsored agencies	10,967	2.1%	10,967	2.1%
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
U.S. states and territories general obligations	8,550	1.6%	8,550	1.6%
Political subdivisions of U.S. states territories and possessions general obligations	13,468	2.6%	13,468	2.6%
Revenue and assessment obligations	5,902	1.1%	5,902	1.1%
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Guaranteed by GNMA	3,662	0.7%	3,662	0.7%
Issued by FNMA and FHLMC	86,005	16.4%	86,005	16.4%
All other	1,271	0.2%	1,271	0.2%
Other mortgage-backed securities:				
Issued by GNMA, FNMA, FHLMC or VA	62,569	11.9%	62,569	11.9%
All other	50,143	9.6%	50,143	9.6%
2. Other debt securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	190,839	36.4%	190,839	36.4%
Unaffiliated foreign securities	200	0.4%	200	0.4%
3. Equity interests:				
Investments in mutual funds	7,453	1.4%	7,453	1.4%
Preferred stocks:				
Unaffiliated	11,705	2.2%	11,705	2.2%
Publicly traded equity securities (excluding preferred stocks):				
Unaffiliated	5,514	1.1%	5,514	1.1%
4. Mortgage loans:				
Single family residential properties	408	0.0%	408	0.0%
Commercial loans	28,493	5.4%	28,493	5.4%
5. Real estate investments	-	0.0%	-	0.0%
6. Contract loans	32,908	6.3%	32,908	6.3%
7. Receivable for Securities	-	0.0%	-	0.0%
8. Cash and short-term investments	(149)	-0.3%	(149)	-0.3%
9. Other invested assets	2,599	0.5%	2,599	0.5%
10. Total invested assets	$ 524,890	100.0%	$ 524,890	100.0%

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

Sagicor Life Insurance Company
Investment Risks Interrogatories
December 31, 2008
(dollars in thousands)

1. Total admitted assets as reported in the audited statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2008 $ 538,779

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
FHLB of Dallas	Common stock	$	5,514	1.0%
Mastr 2003-11 2A10	CMO	$	5,314	1.0%
CMSI 2004-8 1A4	CMO	$	4,792	0.9%
RAST 2003-A6 B1	CMO	$	4,731	0.9%
Goldman Sachs	Bond	$	2,855	0.5%
Aegon NV	Bond	$	2,813	0.5%
Wmalt 2005-10	CMO	$	2,314	0.4%
JPM Chase	Bond	$	2,284	0.4%
Citi Group Inc	Bond	$	2,262	0.4%
Nationwide Financial Services	Bond	$	2,208	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	$	307,378	57.1%
NAIC - Rated 2	$	125,032	23.2%
NAIC - Rated 3	$	5,438	1.0%
NAIC - Rated 4	$	3,634	0.7%
NAIC - Rated 5	$	1,716	0.3%
NAIC - Rated 6	$	213	0.0%
Preferred stocks:			
P/RP - 1	$	5,245	1.0%
P/RP - 2	$	5,196	1.0%
P/RP - 3	$	1,197	0.2%
P/RP - 6	$	67	0.0%

4. 4.02 Total admitted assets held in foreign investments $ 200

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	$ 5,514	1.0%
Co Bank, ABC 144A	$ 2,000	0.4%
Bac Cap Trust I	$ 1,271	0.2%
Citigroup VIII	$ 1,271	0.2%
Bunge Ltd	$ 1,016	0.2%
Comcast	$ 1,000	0.2%
Wachovia Cap	$ 987	0.2%
Citigroup	$ 962	0.2%
Affiliated Managers Group	$ 904	0.2%
Bank of America	$ 850	0.2%

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	$ 2,179	0.4%
Commercial - Prattville, AL	$ 488	0.1%
Commercial - Minneapolis, MN	$ 395	0.1%
Commercial - Shakopee, MN	$ 372	0.1%
Commercial - Moorestown, NH	$ 369	0.1%
Commercial - Provo, UT	$ 364	0.1%
Commercial - Huntsville, AL	$ 342	0.1%
Commercial - Elk River, MN	$ 332	0.1%
Commercial - Ft. Myers, FL	$ 308	0.1%
Commercial - Pocatello, ID	$ 293	0.1%

Mortgage loans over 90 days past due	$ 0
Restructured mortgage loans	$ 624

(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%	$ 68	- %	$ 8,255	1.5 %
Below 70%	$ 340	0.1 %	$ 20,239	3.8 %

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