Sagicor Life Insurance Company

Statutory Financial Statements and Accompanying Information
December 31, 2009 and 2008

Sagicor Life Insurance Company
Index
December 31, 2009 and 2008

Page(s)

Report of Independent Auditors 1–2

Financial Statements

Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis) 3–4

Statements of Operations (Statutory Basis) 5

Statements of Changes in Capital and Surplus (Statutory Basis) 6

Statements of Cash Flow (Statutory Basis) 7

Notes to Statutory Financial Statements 8–43

Accompanying information

Supplemental Schedule of Assets and Liabilities 44–46

Summary Investment Schedule 47

Investment Risks Interrogatories 48–49

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071
Telephone (213) 356 6000
Facsimile (813) 637 4444

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, 2009 and 2008, 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, 2009 and 2008, and the results of its operations and its cash flow for the years then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the statutory financial statements, during 2009, the Company adopted a new accounting guidance related to other-than-temporary impairments for loan-backed and structured securities and a new accounting guidance related to deferred income taxes.

PRICEWATERHOUSECOOPERS

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, 2009 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.

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, 2010

Sagicor Life Insurance Company
Statements of Admitted Assets,Li abilities and Capital and Surplus
(Statutory Basis)
December 31, 2009 and 2008

(dollars in thousands, except par and share data)	2009	2008
Admitted assets		
Cash and invested assets		
Bonds (fair value: 2009 - $563,278; 2008 - $403,196)	$ 557,443	$ 435,958
Preferred stock (fair value: 2009 - $7,852; 2008 - $8,643)	8,364	11,705
Common stock (cost: 2009 - $5,442; 2008 - $5,514)	5,442	5,514
Mortgage loans	27,439	28,902
Real estate held for sale	446	-
Contract loans	31,309	32,909
Cash and short-term investments	23,567	7,303
Other invested asset	5,265	2,599
Receivables for securities	153	-
Total cash and invested assets	659,428	524,890
Amounts due from reinsurers	4,186	4,866
Electronic data processing equipment	388	563
Current federal income tax recoverable	160	360
Premiums deferred, premiums uncollected and agents' balances	2,283	2,194
Investment income due and accrued	8,652	4,381
Guaranty fund assessments	324	324
Due from affiliates	540	-
Other assets	733	1,201
Total admitted assets	$ 676,694	$ 538,779

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

Sagicor Life Insurance Company
Statements of Admitted Assets,Li abilities and Capital and Surplus (Statutory Basis)
December 31, 2009 and 2008

(dollars in thousands, except par and share data)	2009	2008
Liabilities		
Policyholders' liabilities		
Aggregate reserves for life contracts	$ 484,073	$ 359,475
Accident and health reserves	299	344
Deposit-type contracts	13,318	13,301
Policy and contract claims	3,966	3,549
Dividends and coupons payable	143	147
Advanced premiums	129	193
Amounts payable on reinsurance	1,017	1,649
Interest maintenance reserve	7,893	2,700
Commissions payable	71	72
General expenses due or accrued	1,073	1,413
Taxes, licenses and fees due or accrued, excluding federal income taxes	1,528	1,171
Unearned investment income	193	200
Amounts withheld or retained by company	412	334
Amounts held for agents	269	209
Remittance and items not allocated	606	628
Borrowed money	121,652	120,690
Asset valuation reserve	1,361	2,873
Reinsurance in unauthorized companies	48	-
Due to affiliates	-	566
Payable for securities	-	77
Total liabilities	638,051	509,591
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	91,359	58,128
Unassigned deficit	(55,216)	(31,440)
Total capital and surplus	38,643	29,188
Total liabilities and capital and surplus	$ 676,694	$ 538,779

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, 2009 and 2008

(dollars in thousands)	2009	2008
Revenue		
Premiums and annuity considerations	$ 152,565	$ 33,518
Consideration for supplementary contracts with life contingencies	391	263
Net investment income	27,558	20,355
Amortization of interest maintenance reserve	372	264
Commissions and expense allowances on reinsurance ceded	3,160	3,642
Reserve adjustments on reinsurance ceded	(3,056)	(1,944)
Miscellaneous income	492	521
Total revenues	181,482	56,619
Benefits and expenses		
Death benefits	11,764	11,321
Matured endowments	58	71
Annuity benefits	6,545	5,852
Disability benefits	71	37
Surrender benefits	20,048	18,174
Interest on policy and contract funds	478	580
Payments on supplementary contracts with life contingencies	416	388
Other benefits	(3)	7
Increase in aggregate reserves for life and accident and health policies	124,553	14,737
Commission expenses	12,486	4,379
General insurance expenses	19,993	16,967
Taxes, licenses and fees	2,076	1,461
Increase (Decrease) in loading on deferred and uncollected premiums	336	(37)
Total benefits and expenses	198,821	73,937
Net loss from operations before policyholders' dividends, income taxes and realized capital gains (losses)	(17,339)	(17,318)
Dividends to policyholders	144	143
Net loss from operations before income taxes and realized capital gains (losses)	(17,483)	(17,461)
Federal income tax expense	(146)	(1,597)
Net loss from operations before realized capital gains (losses)	(17,629)	(19,058)
Net realized capital gains (losses), excluding gains (losses) transferred to the IMR, less capital gains (losses) tax expense (benefit) of $(3,302) and $(1,167), excluding tax expense (benefit) of $2,997 and $(432) transferred to the IMR in 2009 and 2008, respectively	(6,132)	(2,168)
Net loss	$ (23,761)	$ (21,226)

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, 2009 and 2008

(dollars in thousands)	Common Stock	Additional Contributed Surplus	Unassigned Deficit	Total Capital and Surplus
Balance, at 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, at December 31, 2008	$ 2,500	$ 58,128	$ (31,440)	$ 29,188
Net loss	-	-	(23,761)	(23,761)
Change in net unrealized capital gains (losses) (Note 2)	-	-	131	131
Change in net deferred income taxes (Note 3)	-	-	6,078	6,078
Change in nonadmitted assets	-	-	(6,222)	(6,222)
Change in unauthorized reinsurance liability	-	-	(48)	(48)
Change in asset valuation reserve	-	-	1,513	1,513
Change in deferred ceding commission (Note 1)	-	-	(1,467)	(1,467)
Paid in surplus (Note 7)	-	33,231	-	33,231
Balance, at December 31, 2009	$ 2,500	$ 91,359	$ (55,216)	$ 38,643

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, 2009 and 2008

(dollars in thousands)	2009	2008
Cash from operations		
Premiums collected, net of reinsurance	$ 152,316	$ 34,225
Net investment income	23,070	21,428
Other income	3,652	4,163
Total income received	179,038	59,816
Benefits and loss related payments	43,066	39,561
Commissions, other expenses and taxes paid (excluding federal income taxes)	33,999	22,676
Dividends paid to policyholders	148	154
Federal income taxes paid (recovered)	(360)	-
Total benefits and expenses paid	76,853	62,391
Net cash provided (used) in operations	102,185	(2,575)
Cash from investments		
Proceeds from investments sold, matured or repaid		
Bonds	262,361	116,208
Stocks	4,164	4,019
Mortgage loans	874	2,488
Others	-	267
Total investment proceeds	267,399	122,982
Cost of investments acquired		
Bonds	(383,253)	(130,779)
Stocks	(1,992)	(6,890)
Mortgage loans	(19)	(4,304)
Other invested assets	-	(400)
Others	(2,637)	-
Total investments acquired	(387,901)	(142,373)
Net decrease in policy loans	1,599	1,475
Net cash provided by (used in) investments	(118,903)	(17,916)
Cash from financing and miscellaneous sources		
Paid in surplus	32,700	17,430
Borrowed funds	962	4,267
Deposit-type contract funds, net	17	1,248
Other cash applied	(697)	(2,882)
Net cash provided by (used in) financing and miscellaneous sources	32,982	20,063
Net change in cash and short-term investments	16,264	(428)
Cash and short-term investments		
Beginning of year	7,303	7,731
End of year	$ 23,567	$ 7,303

Note: Supplemental disclosure of cash flow information for non-cash transactions:		
Real estate acquired in satisfaction of mortgage loans	440	-
Paid in surplus contributed as part of long-term incentive plan	531	627

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 52% of the premiums on the Company's existing block of business are in Texas, California, Washington, Florida and Ohio. The Company's products are sold through third-party marketing firms, financial institutions and general agents.

All of the issued and outstanding shares of the Company are owned by Laurel Life Insurance Company ("Laurel"), a Texas stock life insurance company,w hich 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 Texas Department of Insurance ("TDI") for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Texas Insurance Law. The National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("SAP") has been adopted as a component of prescribed or permitted practices by the State of Texas. The State of Texas has not adopted any prescribed or permitted practices that differ from SAP that needed to be applied by the Company. Prescribed statutory accounting practices are those practices mandated by the NAIC and individual states. In contrast,pe rmitted 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, 2009 and 2008, 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:

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 with a NAIC designation of 1 to 5 are stated at amortized cost using the interest method. Loan-backed bonds and structured securities with a NAIC designation of 1 to 5 are valued at amortized cost using the interest method, including anticipated prepayments. Prepayment assumptions are obtained from dealer surveys or internal estimates and are based on current interest rates and economic environment. The retrospective adjustment method is used to value all such securities except for interest-only securities that are valued using the prospective method. Realized gains and losses on sales of investments are determined on a specific identification method.

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

Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge are considered effective hedges and reported in a manner consistent with the hedged asset or liability ("hedge accounting"). Changes in carrying value or cash flow of derivatives that qualify for hedge accounting are recorded consistently with how the changes in the carrying value or cash flow of the hedged asset or liability are recorded. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge ("ineffective hedges") are accounted for at fair value and the changes in fair value are recorded as unrealized gains or unrealized losses.

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.

Real estate acquired in satisfaction of debt is classified as real estate held for sale and is stated at the lower of depreciated historical cost or fair 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. Changes between amortized cost and admitted and admitted asset bond amounts, and changes in unrealized gains and losses on preferred and common stocks, are not included in the statement of operations, but are credited or charged directly to capital and surplus. The Company recognizes interest income on impaired loans upon receipt.

Investments are evaluated periodically to determine whether any declines in fair value, below the cost basis, are other-than-temporary. If a decline in fair value is deemed to be other-than-temporary, the cost basis of a bond not backed by other loans is written down to fair value which becomes the new cost basis and the amount of the write down is recognized as a realized loss. In determining the impairments for loan-backed securities, a review of default rate, credit support and other key assumptions was made on the security level. Where it was determined that less than 100% of contractual cash flows would be received, the impairment was measured by discounting the projected cash flows and comparing that discounted cash flows to the amortized cost basis of the securities in accordance with SSAP No. 43 – *Revised Loan-backed and Structured Securities* (SSAP 43R). The amount of the write-down is included in the statutory statements of operations as a realized loss.

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

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

For OTTI that was attributable to an intent to sell or a lack of intent and ability to hold a security to recovery, the Company bifurcates the OTTI into separate credit-related and interest-related components, when both were present. The credit-related OTTI was transferred to the Interest Maintenance Reserve (IMR). SSAP 43R prohibits a Company from subsequently changing the above assertions ("intent to sell" or "inability to hold to recovery") for particular securities that had previously been designated as such, even if facts and circumstances change in a subsequent period. As a result, any subsequent declines in fair value must be recognized as OTTI for securities for which the Company has previously applied these assertions.

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

The Company recognized pre-tax realized loss on other-than-temporary declines in its investments of $6,682 and $3,087 for 2009 and 2008, respectively and reflected the OTTI in the calculation of AVR as they were all determined to be credit related.

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

In addition, the Company has established an IMR in accordance with SAP. This reserve amortizes the realized gain or loss on the sale of bonds resulting from changes in the general level of interest rates over the period from the date of sale to the securities' scheduled maturity date,ra ther 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,ne t of both reinsurance and the adjustment for due and deferred premiums. For flexible premium/universal life and annuity/investment contracts,pr emiums are reported as earned when collected. Accident and health premiums are earned pro rata over the terms of the policy. Premiums received in advance on policies issued are recorded as liabilities and are not considered premium income until due. Premiums received on policies not yet issued are recorded as premium suspense liabilities and classified as remittances and items not allocated.

Benefits and Aggregate Reserves for Life, Annuity and Accident and Health
Benefits and expenses include the death,a nnuity, disability,s urrender and maturity benefits paid and the change in policy reserves.

Life, annuity and accident and health benefit reserves are developed by actuarial methods,an d are determined based on published tables using statutorily specified interest rates, estimates of mortality and valuation methods. These will provide,i n the aggregate, reserves that are greater than or equal to the minimum or guaranteed policy cash values or the amounts required by the TDI. Surrender values on policies do not exceed the corresponding benefit reserves. Additional reserves are established when the results of cash flow testing under various interest rate scenarios indicate the need for such reserves.

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

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,f or 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,th e 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 $1,264 and $1,147 for 2009 and 2008,re spectively,an d accumulated depreciation as of December 31, 2009 and 2008 was $6,222 and $4,795, respectively.

A summary of property and equipment used in the business as of December 31, 2009 and 2008 is as follows:

(dollars in thousands)	2009	2008	Estimated Useful Lives
Data processing equipment	$ 2,798	$ 2,780	1 - 7 years
Furniture and office equipment	1,229	1,220	2 - 5 years
Software and website	3,882	3,351	2 - 5 years
Leasehold improvements	1,402	1,317	5 - 10 years
	9,311	8,668	
Accumulated depreciation	6,222	4,795	
Net property and equipment	3,089	3,873	
Nonadmitted amounts	2,701	3,310	
Net admitted portion	$ 388	$ 563	

Nonadmitted Assets

Certain assets designated as "nonadmitted assets" have been excluded from the statements of admitted assets,l iabilities 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, 2009 and 2008 are as follows (excluding those related to invested assets):

(dollars in thousands)	2009	2008
Prepaid expenses	$ 620	$ 672
Deferred tax asset	25,782	19,774
Agents' balances	636	393
Property and equipment	2,701	3,310
Receivables from parent, subsidiaries and affiliates	632	-
Total nonadmitted	$ 30,371	$ 24,149

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, 2009 and 2008, the unamortized ceding commission was $1,502 and $2,969, respectively. Amortization for the years ended December 31, 2009 and 2008 was $1,467 and $1,685, respectively.

Federal Income Taxes

The results of the operations of the Company are included in the consolidated income tax return of Laurel Life Insurance Company (Note 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 (Note 3). 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 FASB Accounting Standards Codification (ASC) No. 320, *Investments - Debt and Equity Securities,* and is reported at fair value as available for sale with changes in fair value reflected in Other Comprehensive Income; such accounting treatment is not recognized under SAP.

Impairments
Under SAP, credit and non-credit related OTTI debt securities are recognized as realized loss in the statement of operations. For GAAP, non-credit related OTTI is recorded in other comprehensive income when the company does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. Realized losses on impairments of investments may differ due to differences between GAAP and SAP OTTI accounting principles.

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

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

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

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

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

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

Nonadmitted Assets
Certain assets designated as "nonadmitted", principally deferred income taxes in excess of certain limitations, property and equipment, prepaid expenses, agents' balances and intercompany receivables subject to certain limitations, are excluded from the balance sheets and are charged directly to surplus for statutory purposes. Under GAAP, such assets are included in the balance sheets, net of 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 15% and 10% of capital and surplus at December 31, 2009 and 2008,re spectively. These provisions were expanded for qualifying entities by SSAP 10R and effective December 31, 2009 as further explained in the Recently Adopted Accounting Pronouncements below. 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,p olicyholder dividends are recognized over the term of the related policies,w hereas under SAP,po licyholder 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,p urchase 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,a n acquisition is recorded at fair value at the date of acquisition,an d 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.

Reclassifications
The 2009 audited statutory financial statements contain certain reclassifications from annual financial statements (Annual Statement) filed with insurance regulatory authorities. Additionally, certain prior year amounts have been reclassified in order to conform to current year presentation. Such reclassifications had no effects on the overall statutory net income or capital and surplus.

Recently Adopted Accounting Pronouncements

SSAP 43R

In the third quarter of 2009, the Company adopted Statement of Statutory Accounting Principles No. 43R (Revised) – "*Loan-backed and Structured Securities*" ("SSAP 43R"). Pursuant to SSAP 43R, if the fair value of a loan-backed or structured security was less than its amortized cost basis at the balance sheet date, an entity should have assessed whether the impairment was other-than temporary. When an impairment was present, SSAP 43R required the recognition of credit-related other-than temporary impairment (OTTI) for securities when the projected discounted cash flows for a particular security were less than the security's amortized cost. When a credit-related OTTI was present, the amount of OTTI recognized as a realized loss was equal to the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected. Prior to the third quarter of 2009, securities were written down for OTTI to fair value.

SSAP 43R required application to existing and new investments held by a reporting entity on or after September 30, 2009. For loan-backed and structured securities held at the beginning of the interim period of adoption (July 1, 2009) that the Company continued to hold as of September 30, 2009, if the Company did not intend to sell the security, and had the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the Company recognized the cumulative effect of initially applying this revised statement as an adjustment to the opening balance of unassigned surplus (deficit) with a corresponding adjustment to applicable financial statement elements. The cumulative effect on unassigned surplus (deficit) was calculated by comparing the present value of the cash flows expected to be collected with the corresponding amortized cost basis of the loan-backed and structured security at the date of adoption. The Company did not have any recognized cumulative effect to the opening balance of unassigned surplus (deficit) as a result of the adoption.

SSAP 10R

The Company adopted Statement of Statutory Accounting Principle No. 10R, "*Income Taxes – Revised, A Temporary Replacement of SSAP No. 10*" ("SSAP 10R") effective for the reporting period of December 31, 2009. SSAP 10R modifies two components of the admission calculation that may be utilized by certain reporting entities subject to Risk-Based Capital ("RBC") requirements that meet certain RBC thresholds: a) an up to three year reversal period for temporary differences instead of one year and b) 15% capital and surplus limit instead of 10%. Gross Deferred Tax Assets ("DTAs") are also subject to reduction by a valuation allowance if it is more likely than not that some portion or all of the gross DTAs will not be realized. The increased amount in admitted DTA is separately reported in the Statutory Statement of Operations and the Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus. This guidance is effective for annual 2009 and interim and annual 2010 financial statements and the implementation of SSAP 10R is accounted for as a change in accounting principle in accordance with SSAP No. 3 "*Accounting Changes and Corrections of Errors*". Adoption of SSAP 10R did not have a material effect to the capital and surplus as of December 31, 2009.

SSAP 9

SSAP No. 9 "Subsequent Events" was amended to adopt ASC 855 - Subsequent Events. Changes adopted as a result of ASC 855are effective for the years ended on or after December 31, 2009. The adoption of the changes in SSAP 9 had no material impact on the Company's statutory financial statements.

SSAP 99

The NAIC issued SSAP No. 99 "Accounting for Certain Securities Subsequent to an "Other-Than-Temporary Impairment", which provides guidance for accounting treatment of premium and discount for a debt security subsequent to other-than-temporary-impairment recognition. This guidance was effective January 1, 2009 with early adoption permitted. The Company adopted this guidance effective January 1, 2009 with prospective application and did not have a material impact on the Company's financial statements.

2. Investments

Mortgage Loans

No new loans were made during the year ended December 31, 2009. During 2009, the Company adjusted interest rates of outstanding loans as follows:

Range of Adjustment	Number of Mortgages		Year-End Balances
2.00 to 2.60% decrease	5	$	267

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

The Company's mortgage loans are collateralized by a variety of commercial real estate properties located throughout the United States. The maximum percentage of any one loan to the value of security at the time of the loan,ex clusive of insured, guaranteed or purchase money mortgages was 90% in 2009 and 2008. There were no taxes,as sessments or any amounts advanced and not included in the mortgage loan total as of December 31, 2009 or 2008.

The Company held no mortgages loans with interest more than 180 days past due as of December 31, 2009 or 2008.

There were no impaired loans or related allowance for credit losses as of December 31, 2009 or 2008. Average recorded investment in impaired loans was $0 as of December 31, 2009 and 2008.

No investment income due or accrued on mortgage loans 90 days past due has been excluded from investment income as of December 31, 2009 or 2008.

The Company restructured four mortgage loans during 2009. The book value of the restructured loans totaled $816 as of December 31, 2009. The Company restructured four mortgage loans during 2008. The book value of restructured loans totaled $559 as of December 31, 2008.

Real Estate
The Company had five mortgage loans foreclosed in 2009. The properties acquired in satisfaction of debt were recorded at estimated fair value of the date of foreclosure. As a result a realized loss on mortgages in the amount of $170 was recognized in 2009.

Loan-Backed Securities
The Company has elected to use the book value as of January 1,19 94 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, 2009 and 2008. Loan-backed securities are stated at amortized cost, except for those with a NAIC designation of 6. Loan-backed securities with a NAIC 6 rating are carried at the lower of amortized cost or fair value, with unrealized losses charged directly to unassigned surplus.Lo an-backed securities that have not been filed and have not received a rating in over one year from the Securities Valuation Office (SVO) receive a 6* rating and are carried at zero with the unrealized loss charged directly to unassigned surplus. Residential mortgage backed securities (RMBS) with an initial designation of 6 may be reported in bonds with a higher final designation, if a higher rating is indicated under the NAIC guidance for rating RMBS for the calculation of risk-based capital and reflect a "Z*" suffix to indicate they are rated in this manner.

Bonds

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

	December 31, 2009			
(dollars in thousands)	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government	$ 34,214	$ 309	$ (258)	$ 34,265
All other government	5,741	-	(120)	5,622
States, territories and possessions	20,525	151	(429)	20,246
Political subdivisions	20,915	83	(1,049)	19,949
Special revenue	3,727	-	(302)	3,425
Corporate securities	306,116	10,754	(3,925)	312,944
Mortgage-backed securities	166,205	4,973	(4,351)	166,828
	$ 557,443	$ 16,269	$ (10,433)	$ 563,279

	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

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

The book/adjusted carrying value and fair value of bonds at December 31, 2009,b y contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Final maturity date was used for mortgage-backed securities.

(dollars in thousands)	**Book/ Adjusted Carrying Value**	**Fair Value**
Due in one year or less	$ 8,391	$ 8,437
Due after one year through five years	80,729	83,425
Due after five years through ten years	178,964	183,392
Due after ten years through twenty years	113,530	112,429
Due after twenty years	175,828	175,595
	$ 557,443	$ 563,278

Gross proceeds and realized gains and losses on bonds sold at the discretion of the Company for the years ended December 31, 2009 and 2008 were:

(dollars in thousands)	**2009**	**2008**
Proceeds	$ 185,953	$ 54,270
Gross gains	11,682	1,653
Gross losses	(4,905)	(2,200)

Certain bonds and other investments with an aggregate amortized cost of $32,302 and $31,670 at December 31, 2009 and 2008, respectively,w ere 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.

Pursuant to Statutory Accounting Principles No. 43R (Revised) – "*Loan-backed and Structured Securities*" ("SSAP 43R"), if the fair value of a loan-backed or structured security was less than its amortized cost basis at the balance sheet date, an entity should assessed whether the impairment was other-than temporary. When an impairment was present, SSAP 43R required the recognition of credit-related other-than temporary impairment (OTTI) when the projected discounted cash flows for a particular security were less than the security's amortized cost. When a credit-related OTTI was present, the amount of OTTI equaled to the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected.T he credit-related OTTI was reflected in the calculation of the AVR. The rollforward of the amount related to credit losses recognized in earnings were as follows:

Beginning balance of credit losses on loan-backed securities	$ -
Additions not previously recognized	6,417
Reduction for securities sold subsequent to impairment	-
Ending balance of credit losses as of December 31, 2009	$ 6,417

All loan-backed and structured securities with a recognized OTTI in 2009 were classified on the following basis of OTTI:

	Amortized cost basis before OTTI	OTTI recognized in loss: Interest	OTTI recognized in loss: Non-interest	Fair value
Intent to sell	$ -	$ -	$ -	$ -
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Present value of cash flows expected to be collected is less than the amortized cost basis of the security	13,215	-	6,417	6,125
Total	$ 13,215	$ -	$ 6,417	$ 6,125

At December 31, 2009 the Company held the following loan-backed securities for which it had recognized credit-related OTTI:

(dollars in thousands)

CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period	Present Value of Projected Cash Flows	Recognized Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value
76112FAE1	$ 1,032	$ 162	$ 870	$ 162	$ 474
07387UCU3	1,096	203	893	203	778
021460AC4	623	131	492	131	248
126694X29	686	428	258	428	282
12544RBZ0	755	368	387	368	373
93934FGK2	2,137	411	1,726	411	681
12668AMZ5	1,223	649	574	649	562
05953YBD2	1,541	593	948	593	432
55274QAD7	1,439	1,379	60	1,379	679
45660NRB3	1,183	1,155	28	1,155	606
36298NAW4	1,269	1,155	114	1,155	883
76110WMB9	231	164	67	164	127
	$ 13,215	$ 6,798	$ 6,417	$ 6,798	$ 6,125

At December 31, 2009 the Company did not have securities with a credit-related OTTI recognized in earnings but for which an associated interest-related decline has not been recognized in earnings as a realized loss.

Sub-prime Mortgage Related Risk Exposure

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 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.

(dollars in thousands)	**Market**	**Unrealized Gain/(Loss)**	**% of RMBS**	**% of Bonds**
Agency	145,893	3,217	83%	26%
Alt A	24,607	(3,812)	14%	4%
Whole Loan	4,518	506	3%	1%
Sub-Prime				
RMBS	175,018			

Sagicor Life owns approximately $29 million on Non agency MBS of which 84% are prime whole loans and 16% is Alt-A and no exposure to sub-prime mortgages. We do not own any collateralized debt obligations, structured investment vehicles or equity investments with direct sub-prime exposure. Our primary exposures are through Alt-A residential mortgage backed bonds.

The Company also has two investments in corporate bonds that have 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 – $3,494

c. Fair value – $3,335

d. Other-than-temporary losses recognized to date – $-0-

Equity Investments

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

(dollars in thousands)	December 31, 2009			
	Cost/ Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Unaffiliated preferred	$ 8,364	$ -	$ (512)	$ 7,852
Unaffiliated common	5,442	-	-	5,442
	$ 13,806	$ -	$ (512)	$ 13,294

	December 31, 2008			
	Cost/ Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Unaffiliated preferred	$ 11,705	$ -	$ (3,062)	$ 8,643
Unaffiliated common	5,514	-	-	5,514
	$ 17,219	$ -	$ (3,062)	$ 14,157

Net realized gains (losses) on equity securities sold for the years ended December 31, 2009 and 2008 were approximately ($1,241) and $(1,022), respectively. In addition, the Company recognized impairment (losses) on equity securities of $0 and ($572) for the years ended December 31, 2009 and 2008, respectively.

Fair Value of Financial Instruments

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

	December 31, 2009		December 31, 2008	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Bonds	$ 557,443	$ 563,278	$ 435,958	$ 403,196
Preferred stock	8,364	7,852	11,705	8,643
Common stock	5,442	5,442	5,514	5,514
Mortgage loans	27,439	27,527	28,902	28,802
Contract loans	31,309	31,309	32,909	32,909
Cash and short-term investments	23,567	23,567	7,303	7,303
Other invested assets	5,265	5,265	2,599	2,599
Receivables	4,186	4,186	4,866	4,866
Financial liabilities				
Insurance liabilities for investment contracts	$ 421,081	$ 402,428	$ 297,333	$ 282,751
Borrowed money	121,652	128,815	120,690	132,118

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,de aler 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,th e 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,a nd 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.

Insurance Liabilities for Investment Contracts
Insurance liabilities for investment contracts include universal life,s ingle 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,s upplementary 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.

ASC 820 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 FASB Accounting Standards Codification (ASC) No. 820," 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 observable. Financial securities with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. 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
ASC 820 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.

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.

Real Estate Held for Sale
The fair value recorded as of December 31, 2009 was $446 as the properties were written down and currently held for sale. The Company received appraisal reports for these properties in 2009. The inputs of the fair value measurements in the appraisal reports include judgments about market condition and assumptions tied to economic factors.

The following table presents information about financial instruments measured at fair value and indicates the level of the fair value measurement on the levels of the inputs used as of December 31, 2009 and 2008. Bonds and preferred stocks with NAIC designation of 6 are valued at the lower of cost or fair value, which are measured on a non-recurring basis. Real estate held for sale is stated at the lower of depreciated cost of fair value. Common stocks in unaffiliated entity are measured at fair value on a recurring basis.

(dollars in thousands)	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Non-recurring				
Bonds	$ -	$ 1,951	$ -	$ 1,951
Real estate held for sale	-	-	446	446
Total non-recurring	-	1,951	446	2,397
Recurring				
Common stocks	-	-	5,442	5,442
Total	$ -	$ 1,951	$ 5,888	$ 7,839

(dollars in thousands)	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Non-recurring				
Bonds	$ -	$ 213	$ -	$ 213
Preferred stocks	-	67	-	$ 67
Total non-recurring	-	280	-	280
Recurring				
Common stocks	-	-	5,514	5,514
Total	$ -	$ 280	$ 5,514	$ 5,794

The following table presents changes during 2009 and 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 2009 and 2008 related to the Level 3 financial instruments that remained in the balance sheet at December 31, 2009 and 2008:

(dollars in thousands)	December 31, 2009					
	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	$ 5,514	-	-	(72)	-	$ 5,442
Real estate held for sale	-	-	-	446	-	446
	$ -	-	-	446	-	$ 446

(dollars in thousands)	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
	$ 5,158	-	-	356	-	$ 5,514

Net Investment Income

The components of net investment income earned by type of investment for the years ended December 31, 2009 and 2008 are as follows:

(dollars in thousands)	2009	2008
Bonds	$ 25,693	$ 21,595
Mortgage loans	1,737	1,768
Contract loans	1,626	1,684
Short-term securities	(1)	78
Preferred and common stocks	669	992
Other invested asset	2,707	457
Gross investment income	32,431	26,574
Less: Investment expenses	(4,873)	(6,219)
	$ 27,558	$ 20,355

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

(dollars in thousands)	2009	2008
Other bonds - unaffiliated, net of tax	$ (65)	$ (415)
Preferred stocks - unaffiliated, net of tax	-	92
Other invested assets, net of tax	196	(196)
	$ 131	$ (519)

Net realized investment gains (losses) consist of:

(dollars in thousands)	2009	2008
U.S. Government bonds	$ 218	$ (23)
Other bonds - unaffiliated	355	(2,966)
Preferred stock - unaffiliated	(1,188)	(1,684)
Common stock - unaffiliated	(52)	90
Mortgage loans	(170)	15
Other	(35)	-
	(872)	(4,568)
Federal income tax benefit (expense)	3,302	1,168
IMR adjustment (includes taxes of $2,997 and $(432) for 2009 and 2008, respectively)	(8,562)	1,232
	$ (6,132)	$ (2,168)

Impairment losses included in realized gains and losses above, for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Bonds	6,682	2,514
Preferred stocks	-	573
	6,682	3,087

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, 2009 (in thousands, except for position data):

(dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
Description of Securities	# of positions	Fair Value	Unreal Loss	# of positions	Fair Value	Unreal Loss	# of positions	Fair Value	Unreal Loss
U.S. Government	8	$ 23,126	$ (236)	3	$ 617	$ (22)	11	$ 23,743	$ (258)
Other Government	2	5,622	(120)	-	-	-	2	5,622	(120)
Loan Backed Securities	60	16,157	(249)	45	32,432	(4,101)	105	48,589	(4,350)
Corporate Bonds	72	113,908	(3,265)	20	18,954	(2,440)	92	132,862	(5,705)
Subtotal Debt Securities	142	158,813	(3,870)	68	52,003	(6,564)	210	210,816	(10,434)
Preferred Stock	-	-	-	9	6,452	(1,205)	9	6,452	(1,205)
Total Temporarily Impaired Securities	142	$ 158,813	$ (3,870)	77	$ 58,455	$ (7,769)	219	$ 217,268	$ (11,639)

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 31,2 008 (in thousands, except for position data):

(dollars in thousands)	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)

The Company generally considers a number of factors in determining whether the impairment is other than temporary. These include,bu t 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,an d 7) the financial strength, liquidity,a nd 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,th e investment performance, collateral position and continued viability of the issuer are significant measures considered.

Less Than 12 Months
Unrealized losses primarily attributable to higher Treasury yields. During 2009, the 10 to 30 year Treasury yields increased 160 to 200 basis points, which lead to unrealized losses for those securities purchased in the lower credit yield environment of late 2008 and early 2009. Additionally some isolated changes in credit quality impacted fair values.

12 Months or Longer
Over half of these losses reside within mortgage-backed securities (MBS) where losses relate to a higher risk premium and deteriorating loan pool, characteristics that are monitored for other-than-temporary-impairment. In addition, isolated issues such as bank preferred stocks had credit profiles that have not yet fully recovered from the recession. The present value of cash flows for the mortgage backed securities exceeded the amortized cost as of December 31st, 2009 and the Company has the intent and the ability to hold these securities to recovery.

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

In 2009 the Company provided the Texas Department of Insurance (TDI) with required notice regarding initial hedging transactions to exposures of our equity indexed policies and its compliance with the applicable sections of the Texas Insurance Code, relative to a derivative use plan. Subsequently the TDI was provided with the Company's Investment Plan, including the derivative use plan, approved by the Board of Directors.

The hedging transactions are accounted for as call options originally valued at the premium paid and adjusted to fair value for statement value carrying purposes.T o minimize potential counterparty risk from the purchase customized contracts from broker dealers, the company may transact only with banks and brokers carrying an unsecured debt rating of at least A or P-1 by either Standard and Poor's or Moody's. The customized options did not meet the criteria of an effective hedge as of and for the year ended December 31, 2009 and are accounted for at fair value based on stock price, strike price, time to expiration, interest rates and volatility of the Black-Sholes option pricing formula and Monte-Carlo simulation based on 3-year returns of three market indexes (Hang Seng, Russell 2000, and Euro Stoxx 50). Unrealized gains and losses resulting from changes in the estimated fair value of the call options are recorded as unrealized gain or losses.

3. Income Taxes

The application of SSAP No. 10R requires a company to evaluate the recoverability of deferred tax assets and to establish a valuation allowance if necessary to reduce the deferred tax asset to an amount which is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) the timing of their reversal; (4) taxable income in prior carry back years as well as projected taxable earnings exclusive of reversing temporary differences and carry forwards; (5) the length of time that carryovers can be utilized; (6) unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused although the realization is not assured.

In accordance with the requirements established in SSAP 10R, the Company assessed its ability to realize the deferred tax assets of $25,782 and concluded $25,782 valuation allowance was required to reduce the deferred tax asset at December 31, 2009 to an amount the Company believes is more likely than not to be realized. The change in valuation allowance is included in change in non-admitted asset in the statement of changes in capital and surplus.

As required by SSAP 10R the DTAs and DTLs are segregated as attributable to Ordinary Income or Capital Gains.

(dollars in thousands)	Ordinary	Capital	Total
Balance at December 31. 2009			
Gross DTA	$ 26,496	$ 299	$ 26,795
Gross DTL	1,013	-	1,013
Net DTA	25,483	299	25,782
Balance at December 31. 2008			
Gross DTA	$ 18,962	$ 2,098	$ 21,060
Gross DTL	1,286	-	1,286
Net DTA	17,676	2,098	19,774

The Company has not elected to admit DTAs pursuant to paragraph 10e of SSAP No. 10R in 2009 and such election was not available in 2008.

The benefit for incurred taxes on earnings for the year ended December 31, 2009 and 2008 is:

(dollars in thousands)	**2009**	**2008**
Federal - operations	$ 305	$ 1,599
Adjustment for prior year taxes	(159)	(2)
Federal income tax expense	146	1,597
Federal - capital gains (losses) tax benefit	(305)	(1,599)
Net federal income tax benefit	$ (159)	$ (2)

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:

(dollars in thousands)	**2009**		**2008**	
Provision at statutory rate	$ (6,119)	(35.0)%	$ (6,111)	(35.0)%
Dividends received deduction and tax-exempt interest, net of proration	(20)	(0.1)%	(14)	(0.1)%
Capital gains (losses) tax expense (benefit)	(305)	(1.7)%	(1,599)	(9.2)%
Prior period deferred adjustment	(159)	(0.9)%	(2)	(0.0)%
Expiration of NOL	320	1.8%	320	1.8%
Other	45	0.2 %	(635)	(3.6)%
	(6,238)	(35.7)%	(8,041)	(46.1)%
Federal income tax provision (benefit)	(160)	(0.9)%	(2)	(0.0)%
Change in net deferred income taxes	(6,078)	(34.8)%	(8,039)	(46.1)%
	$ (6,238)	(35.7)%	$ (8,041)	(46.1)%

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

(dollars in thousands)	**December 31, 2009**	**December 31, 2008**	**Change**
Total deferred tax assets	$ 26,795	$ 21,060	$ (5,735)
Total deferred tax liabilities	(1,013)	(1,286)	(273)
Net deferred tax asset	$ 25,782	$ 19,774	(6,008)
Deferred tax on change in unrealized gains			(71)
Change in net deferred tax			$ (6,079)

	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)

The components of the net deferred tax asset as of December 31, 2009 and 2008 are as follows:

(dollars in thousands)	2009	2008
Deferred tax assets		
Insurance liabilities	$ 4,547	$ 4,093
Investments	366	509
Deferred policy acquisition costs and ceding commission	4,628	3,659
Tax goodwill	105	247
Loss carryforwards	13,308	11,023
Other	1,808	1,529
Bonds	1,923	-
Stocks	110	-
Gross deferred tax assets	26,795	21,060
Deferred tax liabilities		
Deferred and uncollected premiums	799	715
Investments	26	317
Other	188	254
	1,013	1,286
Net deferred tax asset	25,782	19,774
Less: Nonadmitted asset	(25,782)	(19,774)
Net deferred tax asset	$ -	$ -

At December 31, 2009, the Company had approximately $38,000 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, 2009,t he 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, 2009 and 2008. 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 and now part of ASC 740 – Income Taxes. This interpretation is not applicable to statutory financial statements. However, the FIN 48 disclosure requirements are relevant to statutory financial statements. The Company had no material contingent tax liabilities at December 31, 2009.

4. Information Concerning Parent, Subsidiaries and Affiliates

The Company reported $540 as the net amount due from affiliates as of December 31, 2009 and $565 as the net amount due to affiliates as of December 31, 2008. The Company has a management and service agreement with Laurel whereby the Company provides all management, personnel,ad ministrative services,an d facilities necessary to operate at no cost to Laurel,an d 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 agreements require settlement within 90 days.

The Company had no dividends declared or paid in 2009 or 2008.

5. Debt

Borrowed money consisted of advances from the FHLB as of December 31, 2009 and 2008 as follows (in thousands):

(dollars in thousands)	2009	2008
Short-term advances, bearing interest at 0.09% for 2009 and 0.68% for 2008	$ 76,420	$ 72,322
Amortizing advances with balloon payments, bearing interest at rates from 6.41% to 7.30% in 2009 and 2008 maturing from 2012 to 2017	42,052	44,587
Fully amortizing advances, bearing interest at rates ranging from 6.19% to 7.48% in 2009 and 2008, maturing from 2010 to 2016	2,910	3,495
	121,382	120,404
Accrued interest on advances	270	286
Total borrowed money	$ 121,652	$ 120,690

The short-term advances were issued in December 2009 and are supported by underlying investments with variable,or floating,int erest rates. The long-term advances were originally issued between November 17,1 995 and November 7, 1997, and are matched against investments with comparable duration. Interest expense was approximately $3,574 and $5,059 for the years ended December 31, 2009 and 2008, respectively,an d is included in investment expenses. Annual maturities as of December 31, 2009 for the next five years and thereafter are as follows:

(dollars in thousands)	
2010	$ 79,747
2011	3,344
2012	6,903
2013	3,436
2014	3,676
Thereafter	24,276
	$ 121,382

The Company is required to maintain a custodial account at the FHLB in amounts comparable to its borrowings. As of December 31, 2009, assets with an admitted value of approximately $122,252 supporting the advances resided at the Company's FHLB custodial account.

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 $112 and $248 to the plan in 2009 and 2008, respectively. At December 31, 2009, the fair value of plan assets was $3,522.

Certain of the Company's Senior Executives participate in a plan sponsored by its ultimate parent, Sagicor Financial Corporation. The Company does not have any legal obligations for benefits under the plan. The Company recognized $514 in 2009 and $627 in 2008 for expenses related to granting restricted stock and stock options. The allocation of the expense was based on specifically identifying the employees participating in the plan and the value of the restricted stock and stock options vested in 2008 and 2009.

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, 2009 and 2008. 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,ne t gain from operations for dividend purposes is interpreted by the Texas Department to exclude both realized capital gains and losses. The maximum dividend that may be paid in 2010 without prior approval from the Texas Department is $3,864.

Total capital contributions were received from Laurel in the amount of $33,231 and $18,056 during 2009 and 2008, respectively. An additional cash capital contribution of $8,650 was received in February 2010.

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

(dollars in thousands)	2009	2008
Unrealized gains and losses	$ (855)	$ (940)
Nonadmitted asset values	(30,371)	(24,149)
Asset valuation reserves	(1,360)	(2,873)
Reinsurance in unauthorized companies	(48)	-

The Company has no outstanding surplus debentures or similar obligations at December 31, 2009 and 2008. There have been no quasi reorganizations at December 31, 2009 and 2008.

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, 2009 and 2008, 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).

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,g uaranty 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 $609 and $574 liability at December 31, 2009 and 2008, respectively, for known insolvencies. A related premium tax credits recoverable of approximately $324 and $324 as of December 31, 2009 and 2008, respectively,ha s been recorded. Assessments are expected to be paid and recoveries received over the next five years or greater. The Company may receive premium tax credits in certain states for guaranty fund assessments. These credits are generally utilized over five years.

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.

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 two-year lease that expires in 2011 and in Tampa,Flor ida under a five year lease that expires in 2012. Total office rental expense for the years ended December 31, 2009 and 2008 was approximately $1,219 and $1,129,re spectively. The Company also leases certain mail equipment under various operating leases expires in 2015. Total rental expense for this equipment was approximately $205 and $167 for the years ended December 31, 2009 and 2008, respectively. Future minimum rental commitments under these leases as of December 31, 2009 are as follows:

(dollars in thousands)

2010	$	1,544
2011		1,551
2012		1,095
2013		84
2014		49
2015		3
	$	4,326

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, 2009 and 2008, the Company had residential mortgages with carrying values of $304 and $408, respectively and commercial mortgages with carrying values of $27,135 and $28,494,re spectively.

At December 31, 2009 and 2008, approximately the following percentages of the Company's related mortgage loan portfolios were located in the following states:

	2009	2008
Residential		
Arizona	18%	14%
Louisiana	32%	29%
Massachusetts	45%	39%
New York	0%	14%
North Dakota	5%	4%
Commercial		
Arizona	9%	9%
Florida	8%	9%
Minnesota	10%	10%
New Mexico	6%	5%
Ohio	7%	7%
Texas	6%	6%

No other state accounted for more than 5%.

Other investment positions in securities of a single issuer that have an aggregate statutory carrying value at December 31, 2009 (amortized cost) in excess of $3,864, approximately 10% of statutory capital and surplus,ar e as follows:

(dollars in thousands)	**2009 Statutory Carrying Value**
GNMA I POOL	6,846
PETROLEUM CO TRINIDAD & TABAGO	5,536
GNMA I POOL #782664	5,359
US TREASURY NOTE	5,303
FNMA 2005-73 FD	5,047
GNMA I POOL	4,952
GNMA 2003-110 HB	4,883
FNMA # 796483	4,760
FHLMC 3219 HX	4,142
FNMA 2007-B1 BE	4,035
FNMA 2006-120 GF	4,034
FED FARM CREDIT	3,999
FMR LLC	3,994
POLAR TANKERS INC	3,959

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:

(dollars in thousands)	**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

In 2009 and 2008, approximately the following percentages of the Company's direct premiums were written in the following states:

	2009	**2008**
Texas	17%	10%
California	12%	11%
Washington	9%	1%
Florida	8%	5%
Ohio	6%	8%
Arizona	4%	8%
Indiana	4%	7%
Colorado	2%	5%
Nebraska	1%	5%
South Dakota	0%	8%

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 with the exception of Washington National Life Insurance Company and Scottish Re Life Corporation whose agreements have the right of offset and trust in place, respectively,an d are further discussed in the paragraphs below. In the event the assuming reinsurance companies are unable to meet their obligations under the reinsurance agreements in force,the Company would continue to have primary liability to policyholders for benefits. On life insurance policies retention was $250 per life and was increased during 2009 to $500 per life for new business on certain policies.

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 retrocede 95% of the mortality risk on these policies back to Allianz and UFL. In addition,t he 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 $4,587 and $8, respectively, at December 31, 2009 and $4,759 and $8, respectively,at December 31, 2008.

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 $81,888 and $86,685 as of December 31, 2009 and 2008,re spectively. Future policy benefits assumed related to the Conseco Life agreement totaled approximately $9,970 and $13,519 as of December 31, 2009 and 2008, respectively.

The Company has reinsurance agreements with Washington National,w hereby 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 $62,768and $69,707 as of December 2009 and 2008, respectively. The reinsurance agreements also provide for the Company to administer these two blocks of business. Administrative fee income from Washington National for 2009 and 2008 was approximately $39 and $45,re spectively. 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% coinsures 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 $5,763 and $5,621 at December 31, 2009 and 2008, respectively.

On December 31,1 999,th e 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,w hereby 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, 2009 and 2008 were approximately $15,118 and $15,430,re spectively.

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, 2009, the unamortized portion of the deferred ceding commission was $1,502. Amortization for the years ended December 31, 2009 and 2008 was approximately $1,467 and $1,685, respectively. Total future policy benefits (including Modco) ceded under these treaties was approximately $149,105 and $159,753 as of December 31, 2009 and 2008, respectively. A trust agreement exists to support the reinsurance credit taken for the coinsurance treaty with future policy benefits of $116,936 and $124,907 at December 31, 2009 and 2008, respectively, and the assets held in the trust account had a fair value of $131,941 and $125,279 at December 31, 2009 and 2008, 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,t he 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 2009, $565 remained unamortized). The Company recognized goodwill amortization of $162 for the years ended December 31, 2009 and 2008.

On September 30,20 04,th e Company entered into a Master Reinsurance Agreement with Guarantee Trust Life Insurance Company ("GTL") whereby the Company 100% coinsured a block of ordinary life insurance from GTL. Future policy benefits assumed under this reinsurance agreement were $24,362 and $23,919 as of December 31, 2009 and 2008,re spectively. 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 $11,556 and $11,439 as of December 31, 2009 and 2008,re spectively.

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

(dollars in thousands)		2009		2008
Reinsurance assumed				
Face amount	$	442,369	$	483,427
Reserves		146,216		154,315
Premiums		7,013		7,747
Benefits		12,971		14,344
Reinsurance ceded				
Face amount	$	927,111	$	955,518
Reserves		203,364		217,613
Modified coinsurance reserves		32,169		34,846
Premiums		8,719		9,261
Benefits		19,305		19,461

12. Participating Policies

For the years ended December 31, 2009 and 2008,p remiums under individual and group participating policies were $31,or less than .1% and $40, or less than .2%, respectively, of total individual and group premiums earned. The Company paid dividends in the amount of $144 and $143 in 2009 and 2008,re spectively,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,t he 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 $363 and $385 as of December 31, 2009 and 2008, 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,on e-half (1/2) of the extra premium charged for the year.

As of December 31, 2009 and 2008,the Company had $334,476 and $67,904,re spectively,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 $5,700 and $4,169 at December 31, 2009 and 2008, respectively.

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

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

The Company did not report any other increases in reserves for 2009 or 2008.

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

(dollars in thousands)	2009 Amount	% Total
Subject to discretionary withdrawal - with adjustment		
With market value adjustment	$ 83,104	22.8%
At book value less surrender	91,088	25.0%
	174,192	47.8%
Subject to discretionary withdrawal - without adjustment - at book value (minimal or no charge or adjustment)	178,599	49.0%
Not subject to discretionary withdrawal provisions	11,986	3.2%
	190,585	52.2%
Total annuity actuarial reserves and deposit liabilities (gross)	364,777	100.0%
Less: Reinsurance	106,267	
Total annuity actuarial reserves and deposit liabilities (net)	$ 258,510	

	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%
	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%
	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	

15. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2009 and 2008, respectively, were as follows:

(dollars in thousands)	2009		
	Gross	Net of Loading	Loading
Ordinary first year	$ 457	$ 211	$ 246
Industrial renewal	1	-	1
Ordinary renewal	3,057	2,081	976
Group renewal	4	4	-
	$ 3,519	$ 2,296	$ 1,223

	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
	$ 2,945	$ 2,058	$ 887

Accompanying Information

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2009

(dollars in thousands)

Investment income earned	
Government bonds	$ 1,049
Other bonds (unaffiliated)	24,644
Preferred stock (unaffiliated)	655
Common stock (unaffiliated)	14
Mortgage loans	1,737
Contract loans	1,626
Cash/short-term investments	(1)
Other invested asset	2,707
Gross investment income	32,431
Mortgage loans - book value	
Residential	304
Commercial	27,135
Total mortgage loans	27,439
Mortgage loans by standing - book value	
Good standing	26,156
Good standing with restructured terms	1,111
With overdue interest over 90 days, not in process of foreclosure	172
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	67,584
Over 1 year through 5 years	133,742
Over 5 years through 10 years	200,860
Over 10 years through 20 years	141,422
Over 20 years	33,345
Total by anticipated maturity	576,953
Bonds and short-term investments by class - statement value	
Class 1	375,292
Class 2	188,472
Class 3	6,969
Class 4	3,229
Class 5	2,060
Class 6	931
Total by class	$ 576,953

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

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2009

(dollars in thousands)

Total bonds and short-term investments publicly traded	$ 574,169
Total bonds and short-term investments privately placed	2,784
Preferred stock - statement value	8,364
Common stock, unaffiliated - market value	5,442
Short-term investments - book value	19,510
Cash on deposit	4,057
Life insurance in force	
Industrial	6,462
Ordinary	796,436
Group life	33,200
Amount of accidental death insurance in force under ordinary policies	65,927
Life insurance policies with disability provisions in force	
Ordinary	181,318
Group	1,279
Supplementary contracts in force	
Ordinary - not involving life contingencies	
Amount on deposit	2,943
Income payable	1,602
Ordinary - involving life contingencies	
Income payable	454
Annuities	
Ordinary	
Immediate - amount of income payable	179
Deferred - fully paid account balance	233,490
Deferred - not fully paid account balance	63,892
Group	
Immediate - amount of income payable	12
Deferred - fully paid account balance	12,800
Deferred - not fully paid account balance	$ 38,550

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

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2009

(dollars in thousands)

Accident and health insurance - premiums in force	
Ordinary	$ 290
Group	3
Deposit funds and dividend accumulations	
Deposit funds - account balance	70
Dividend accumulation - account balance	7,712
Claim payments 2009	
Group accident and health	
2009	-
2008	-
Other accident and health	
2009	2
2008	$ 5

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

Sagicor Life Insurance Company
Summary Investment Schedule
Year Ended December 31, 2009

(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	$ 5,760	0.9%	$ 5,760	0.9%
U.S. government agency obligations				
Issued by U.S. government agencies	995	0.2%	995	0.2%
Issued by U.S. government sponsored agencies	11,609	1.8%	11,609	1.8%
Non-U.S. government	5,741	0.9%	5,741	0.9%
Securities issued by states, territories, and possessions and political subdivisions in the U.S.				
U.S. states and territories general obligations	20,525	3.1%	20,525	3.1%
Political subdivisions of U.S. states territories and possessions general obligations	20,915	3.2%	20,915	3.2%
Revenue and assessment obligations	3,727	0.6%	3,727	0.6%
Mortgage-backed securities (includes residential and commercial MBS)				
Pass-through securities				
Guaranteed by GNMA	20,587	3.1%	20,587	3.1%
Issued by FNMA and FHLMC	77,748	11.8%	77,748	11.8%
All other	1,156	0.2%	1,156	0.2%
Other mortgage-backed securities				
Issued by GNMA, FNMA, FHLMC or VA	40,774	6.2%	40,774	6.2%
All other	35,365	5.4%	35,365	5.4%
2. **Other debt securities (excluding short-term)**				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	304,341	46.2%	304,341	46.2%
Unaffiliated foreign securities	8,200	1.2%	8,200	1.2%
3. **Equity interests**				
Investments in mutual funds	19,510	3.0%	19,510	3.0%
Preferred stocks				
Unaffiliated	8,364	1.3%	8,364	1.3%
Publicly traded equity securities (excluding preferred stocks)				
Unaffiliated	5,442	0.8%	5,442	0.8%
4. **Mortgage loans**				
Single family residential properties	304	0.0%	304	0.0%
Commercial loans	27,135	4.1%	27,135	4.1%
5. **Real estate investments**	446	0.1%	446	0.1%
6. **Contract loans**	31,309	4.7%	31,309	4.7%
7. **Receivable for Securities**	153	0.0%	153	0.0%
8. **Cash and short-term investments**	4,057	0.6%	4,057	0.6%
9. **Other invested assets**	5,265	0.8%	5,265	0.8%
Total invested assets	$ 659,428	100.0%	$ 659,428	100.0%

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

Sagicor Life Insurance Company
Investment Risks Interrogatories
Year Ended December 31, 2009

1. Total admitted assets as reported in the audited statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2009 $ 676,694

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

(dollars in thousands)

Issuer	Description of Exposure		Book/ Adjusted Carrying Value	% of Admitted Assets
Aim Prime Money Market Fund	MMF	$	19,510	2.9%
Berkshire Hathaway Inc	BOND		5,552	0.8%
Republic of Trinidad & Tobago	BOND		5,536	0.8%
FHLB of Dallas	COMMON STOCK		5,442	0.8%
Loews Corp	BOND		5,285	0.8%
Allegheny Energy Inc	Bond		4,400	0.7%
FMR LLC	BOND		3,994	0.6%
Conoco Phillips	BOND		3,959	0.6%
General Electric Co	BOND		3,951	0.6%
Bank of America Corp	BOND		3,646	0.5%

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

(dollars in thousands)

Investment Category		Book/ Adjusted Carrying Value	% of Admitted Assets
Bonds			
NAIC - Rated 1	$	375,292	55.5%
NAIC - Rated 2		188,472	27.9%
NAIC - Rated 3		6,969	1.0%
NAIC - Rated 4		3,229	0.5%
NAIC - Rated 5		2,060	0.3%
NAIC - Rated 6		931	0.1%
Preferred stocks			
P/RP - 1	$	2,987	0.4%
P/RP - 2		1,639	0.2%
P/RP - 3		3,671	0.5%
P/RP - 6		67	0.0%

4. 4.02 Total admitted assets held in foreign investments $ 13,941

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

Sagicor Life Insurance Company
Investment Risks Interrogatories
Year Ended December 31, 2009

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

(dollars in thousands) Type	Book/Adjusted Carrying Value	% of Admitted Assets
Commercial - Cottonwood, AZ	$ 2,126	0.3%
Commercial - Prattville, AL	477	0.1%
Commercial - Minneapolis, MN	386	0.1%
Commercial - Shakopee, MN	364	0.1%
Commercial - Moorestown, NJ	360	0.1%
Commercial - Provo, UT	355	0.1%
Commercial - Elk River, MN	331	0.0%
Commercial - Huntsville, AL	329	0.0%
Commercial - Ft. Myers, FL	297	0.0%
Commercial - Pocatello, ID	287	0.0%

Mortgage loans over 90 days past due	$ 172
Mortgage loans foreclosed	440
Restructured mortgage loans	1,111

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

(dollars in thousands)	Residential		Commercial	
Loan-to-Value	1	2	1	2
Above 95%	$ -	- %	$ 464	0.1%
91% to 95%	-	- %	2,126	0.3%
81% to 90%	-	- %	-	- %
71% to 80%	64	- %	3,453	0.5%
Below 70%	240	- %	21,092	3.1%

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

(dollars in thousands) Type	Statement Value	% of Admitted Assets
Owned Options - Hedging	$ 2,365	0.3%

Note: Interrogatories 5 through 15, 18 through 20 and 22 through 23,as well as certain parts of interrogatory 4, are not applicable.