Sagicor Life Insurance Company

Statutory Financial Statements

As of and for the years ended December 31, 2010 and 2009

And Supplemental Schedules
As of and for the year ended December 31, 2010

Sagicor Life Insurance Company
Index
December 31, 2010 and 2009

Report of Independent Auditors

To Board of Directors and Shareholder of
Sagicor Life Insurance Company

We have audited the accompanying statutory statements of admitted assets, liabilities and capital and surplus of Sagicor Life Insurance Company (the "Company") as of December 31, 2010 and 2009, and the related statutory statements of operations, of changes in capital and surplus, and of cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended.

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows 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 new accounting guidance related to deferred income taxes.

Our audit was conducted for the purpose of forming an opinion on the basic statutory basis financial statements taken as a whole. The accompanying Supplemental Schedule of Assets and Liabilities, Summary Investment Schedule and Investment Risk Interrogatories (collectively, the "Schedules") of the Company as of December 31, 2010 and for the year then ended are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements. The effects on the Schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2010 and for the year then ended. The Schedules have been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

November 16, 2011

Sagicor Life Insurance Company
Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus
December 31, 2010 and 2009

(dollars in thousands, except par and share data)	**2010**	**2009**
Admitted Assets		
Cash and invested assets		
Bonds (fair value 2010 - $687,443; 2009 - $563,278)	$ 660,871	$ 557,443
Preferred stock (fair value 2010 - $7,636; 2009 - $7,852)	7,200	8,364
Common stock (cost 2010 - $5,294; 2009 - $5,442)	5,294	5,442
Mortgage loans	23,502	27,439
Real estate held for sale	719	446
Contract loans	29,064	31,309
Cash and short-term investments	26,391	23,567
Derivatives	8,676	2,365
Other invested asset	2,900	2,900
Receivables for securities	-	153
Total cash and invested assets	764,617	659,428
Amounts due from reinsurers	5,642	8,122
Electronic data processing equipment	785	388
Current federal income tax recoverable	-	160
Premiums deferred, premiums uncollected and agents' balances	2,225	2,283
Investment income due and accrued	10,290	8,652
Guaranty fund assessments	236	324
Due from affiliates	9,490	540
Other assets	661	733
Total admitted assets	$ 793,946	$ 680,630

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

Sagicor Life Insurance Company
Statutory Statements of Admitted Assets, Liabilities and Capital and Surplus
December 31, 2010 and 2009

(dollars in thousands, except par and share data)	2010	2009
Liabilities		
Policyholders' liabilities		
Aggregate reserves for life contracts	$ 581,639	$ 484,073
Accident and health reserves	267	299
Deposit-type contracts	16,136	13,318
Policy and contract claims	4,007	3,966
Dividends and coupons payable	138	143
Advanced premiums	163	129
Amounts payable on reinsurance	2,407	4,953
Interest maintenance reserve	8,934	7,893
General expenses due or accrued	1,570	1,073
Taxes, licenses and fees due or accrued, excluding federal income taxes	889	1,528
Other liabilities	662	993
Remittance and items not allocated	3,434	606
Borrowed money	119,341	121,652
Asset valuation reserve	3,647	1,361
Payable for securities	4,387	-
Total liabilities	747,621	641,987
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	120,620	91,359
Unassigned deficit	(76,795)	(55,216)
Total capital and surplus	46,325	38,643
Total liabilities and capital and surplus	$ 793,946	$ 680,630

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

Sagicor Life Insurance Company
Statutory Statements of Operations
Years Ended December 31, 2010 and 2009

(dollars in thousands)	2010	2009
Revenue		
Premiums and annuity considerations	$ 119,860	$ 152,565
Consideration for supplementary contracts with life contingencies	72	391
Net investment income	33,577	27,558
Amortization of interest maintenance reserve	818	372
Commissions and expense allowances on reinsurance ceded	2,913	3,160
Reserve adjustments on reinsurance ceded	(3,298)	(3,056)
Miscellaneous income	452	492
Total revenues	154,394	181,482
Benefits and expenses		
Death benefits	11,262	11,764
Matured endowments	70	58
Annuity benefits	7,582	6,545
Disability benefits	180	71
Surrender benefits	24,543	20,048
Interest on policy and contract funds	726	478
Payments on supplementary contracts with life contingencies	396	416
Other benefits	5	(3)
Increase in aggregate reserves for life and accident and health policies	94,936	124,553
Commission expenses	10,661	12,486
General insurance expenses	21,631	19,993
Taxes, licenses and fees	2,216	2,076
Increase (decrease) in loading on deferred and uncollected premiums	(508)	336
Total benefits and expenses	173,700	198,821
Net loss from operations before policyholders' dividends, income taxes and net realized capital loss	(19,306)	(17,339)
Dividends to policyholders	135	144
Net loss from operations before income taxes and net realized capital loss	(19,441)	(17,483)
Federal income tax (benefit) expense	(383)	146
Net loss from operations before realized capital losses	(19,058)	(17,629)
Net realized capital losses less tax benefits on capital losses of $617 and $3,302 (excluding taxes of $1,001 and $2,997 transferred to the IMR) in 2010 and 2009, respectively	(1,146)	(6,132)
Net loss	$ (20,204)	$ (23,761)

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

Sagicor Life Insurance Company
Statutory Statements of Changes in Capital and Surplus
Years Ended December 31, 2010 and 2009

(dollars in thousands)	Common Stock	Additional Contributed Surplus	Unassigned Deficit	Total Capital and Surplus
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 4)	-	-	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
Net loss	-	-	(20,204)	(20,204)
Change in net unrealized capital gains (losses) (Note 2)	-	-	1,616	1,616
Change in net deferred income taxes (Note 4)	-	-	7,360	7,360
Change in nonadmitted assets	-	-	(6,611)	(6,611)
Change in unauthorized reinsurance liability	-	-	48	48
Change in asset valuation reserve	-	-	(2,286)	(2,286)
Change in deferred ceding commission (Note 1)	-	-	(1,502)	(1,502)
Paid in surplus (Note 8)	-	29,261	-	29,261
Balance at December 31, 2010	$ 2,500	$ 120,620	$ (76,795)	$ 46,325

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

Sagicor Life Insurance Company
Statutory Statements of Cash Flow
Years Ended December 31, 2010 and 2009

(dollars in thousands)	2010	2009
Cash from operations		
Premiums collected, net of reinsurance	$ 120,532	$ 152,316
Net investment income	32,118	23,070
Other income	3,518	2,493
Total income received	156,168	177,879
Benefits and loss related payments	48,752	41,657
Commissions, other expenses and taxes paid (excluding federal income taxes)	34,058	33,999
Dividends paid to policyholders	140	148
Federal income taxes recovered	(160)	(360)
Total benefits and expenses paid	82,790	75,444
Net cash provided by operations	73,378	102,435
Cash from investments		
Proceeds from investments sold, matured or repaid		
Bonds	176,976	262,361
Stocks	4,211	4,164
Mortgage loans	3,409	874
Miscellaneous proceeds	4,539	-
Total investments proceeds	189,135	267,399
Cost of investments acquired		
Bonds	(279,201)	(383,253)
Stocks	(2,524)	(1,992)
Mortgage loans	(10)	(19)
Derivatives	(4,097)	(2,400)
Others	(31)	(237)
Total investments acquired	(285,863)	(387,901)
Net decrease in policy loans	2,245	1,599
Net cash used in investments	(94,483)	(118,903)
Cash from financing and miscellaneous sources		
Paid in surplus	17,433	32,700
Borrowed funds	(2,311)	962
Deposit-type contract fund, net	2,818	17
Other cash applied	5,989	(947)
Net cash provided by financing and miscellaneous sources	23,929	32,732
Net changes in cash and short-term investments	2,824	16,264
Cash and short-term investments		
Beginning of year	23,567	7,303
End of year	$ 26,391	$ 23,567
Supplemental disclosure of cash flow information for noncash transactions		
Capital contributed as intercompany receivable	$ 11,297	$ -
Real estate acquired in satisfaction of mortgage loans	242	440
Paid in surplus contributed as part of long-term incentive plan	531	531

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

1. Summary of Significant Accounting Practices

Nature of Operations

Sagicor Life Insurance Company (the "Company") is a stock life insurance company organized under the laws of the State of Texas. Its operations consist of traditional life products, universal life products, annuity and pension contracts and related products. Although the Company is licensed in forty-four states and the District of Columbia, approximately 47% of the 2010 premiums on the Company's existing block of business are in Texas, California, Alabama, 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, which is a wholly owned subsidiary of Sagicor USA, Inc. ("SUSA"). SUSA is a wholly owned subsidiary of Sagicor Financial Corporation ("SFC"), a Barbados-based financial services group.

Basis of Presentation

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

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with accounting practices prescribed or permitted by TDI requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

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

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

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

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

Derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge are considered effective hedges and reported in a manner consistent with the hedged asset or liability (“hedge accounting”). Changes in carrying value or cash flow of derivatives that qualify for hedge accounting are recorded consistently with how the changes in the carrying value or cash flow of the hedged asset or liability are recorded. Derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge (“ineffective hedges”) are accounted for at fair value and the changes in fair value are recorded as unrealized gains or unrealized losses. The Company's investment in derivative instruments did not meet the criteria of an effective hedge as of and for the years ended December 31, 2010 and 2009. See Note 2.

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

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

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 at the date of foreclosure. Fair value is determined by Member of Appraisal Institute ("MAI"). An opinion of the market value of a property is made by an MAI-certified appraiser. The MAI certification is granted by the Appraisal Institute to appraisers who are experienced in the valuation of commercial, industrial, residential and other types of properties.

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

Stated investment values reflect adjustments where appropriate to recognize impairments in value or regulatory mandated values. Investment income is recorded when earned. Realized gains and losses on the sale or maturity of investments are determined on the basis of specific identification. Aggregate unrealized capital gains and losses, when recognized, are credited or charged directly to unassigned surplus. 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 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 noncredit 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. Noncredit related OTTI was measured as the difference between amortized cost and fair value.

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

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

The Company recognized pre-tax realized loss on other-than-temporary declines in its investments of $1,650 and $6,682 for 2010 and 2009, respectively, and reflected the OTTI in the calculation of AVR as they were all determined to be credit related.

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

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

Recognition of Premium and Related Expenses
Acquisition costs such as commissions and other costs related to acquiring new business are charged to current operations as incurred. Premiums for traditional life policies are reported as earned when due, net of both reinsurance and the adjustment for due and deferred premiums. For flexible premium/universal life and annuity/investment contracts, premiums are reported as earned when collected. Accident and health premiums are earned pro rata over the terms of the policy. Premiums received in advance 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 Aggregate Reserves for Life, Annuity and Accident and Health
Benefits and expenses include the death, annuity, disability, surrender and maturity benefits paid and the change in policy reserves.

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

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

Additional reserves are established when the valuation net premiums computed according to state prescribed formulas using minimum valuation standard of mortality and rate of interest exceed the gross premiums charged to policyholders. The Company recorded additional reserves of $5,244, less ceded of $2,624 at December 31, 2010 and $5,700, less ceded of $3,417, at December 31, 2009, related to mortality reserves on ordinary life.

Reserves for the equity-indexed annuities are based on the 1983 Table A or Annuity 200 mortality tables with interest rates from 2.0% to 3.0%.

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

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

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

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

Depreciation
Property and equipment is depreciated over one to ten years using the straight-line method. Depreciation expense was approximately $1,315 and $1,264 for 2010 and 2009, respectively, and accumulated depreciation as of December 31, 2010 and 2009 was $7,332 and $6,222, respectively.

A summary of property and equipment used in the business as of December 31, 2010 and 2009 is as follows:

(dollars in thousands)	**2010**	**2009**	**Estimated Useful Lives**
Data processing equipment	$ 3,317	$ 2,798	1-7 years
Furniture and office equipment	1,297	1,229	2-5 years
Software and website	4,075	3,882	2-5 years
Leasehold improvements	1,404	1,402	5-10 years
	10,093	9,311	
Accumulated depreciation	7,332	6,222	
Net property and equipment	2,761	3,089	
Nonadmitted amounts	1,976	2,701	
Net admitted portion	$ 785	$ 388	

Non-admitted Assets
Certain assets designated as “non-admitted assets” have been excluded from the statements of admitted assets, liabilities and capital and surplus and the changes in these assets have been and are charged directly to unassigned surplus. The non-admitted assets of the Company at December 31, 2010 and 2009 are as follows (excluding those related to invested assets):

(dollars in thousands)	**2010**	**2009**
Prepaid expenses	$ 1,004	$ 620
Deferred tax asset	32,271	25,782
Agents' balances	294	636
Property and equipment	1,976	2,701
Receivables from parent, subsidiaries and affiliates	1,437	632
Total nonadmitted	$ 36,982	$ 30,371

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, 2010 and 2009, the unamortized ceding commission was $-0- and $1,502, respectively. Amortization for the years ended December 31, 2010 and 2009 was $1,502 and $1,467, respectively.

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

Reclassifications
Certain prior year amounts have been reclassified in order to conform to the current year presentation. Such reclassifications had no effect on statutory net income or capital and surplus as of and for the years ended December 31, 2010 and 2009.

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

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

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

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

Impairments of Investments in Debt Securities
Under SAP, credit related OTTI on debt securities, if any, is reflected in the calculation of AVR and interest related OTTI on debt securities is transferred to IMR. For GAAP, noncredit 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.

Non-admitted Assets
Certain assets designated as “non-admitted”, principally deferred income taxes in excess of certain limitations, property and equipment, prepaid expenses, agents’ balances and intercompany receivables subject to certain limitations, are excluded from the balance sheets and are charged directly to surplus for statutory purposes. Under GAAP, such assets are included in the balance sheets, net of 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 to15% of capital and surplus at December 31, 2010 and 2009. These provisions were expanded for qualifying entities by SSAP No. 10 - *Revised Income Taxes – Revised, A Temporary Replacement of SSAP No. 10* ("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 non-admitted assets. Changes in the admitted deferred tax asset or liability are recorded directly to unassigned surplus, whereas under GAAP, the change in deferred income taxes is recorded to current operations. Under GAAP, state taxes are included in the computation of deferred taxes. A deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets considered not to be realizable.

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

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

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

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

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

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

NAIC Valuation Procedures for all Loaned-Backed and Structured Securities

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

Accounting Changes in 2009

In 2009, the Company adopted the following changes in accounting principles:

SSAP 43R

In the third quarter of 2009, the Company adopted 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 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 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 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, 2010. During 2010, the Company adjusted interest rates of outstanding loans as follows:

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

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

The Company's mortgage loans are collateralized by a variety of commercial real estate properties located throughout the United States. The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured, guaranteed or purchase money mortgages was 90% in 2010 and 2009. There were no taxes, assessments or any amounts advanced and not included in the mortgage loan total as of December 31, 2010 or 2009.

The Company held no mortgages loans with interest more than 180 days past due as of December 31, 2010 or 2009.

The Company had four impaired loans without an allowance for credit losses as of December 31, 2010 with a year-end balance of $346. There were no impaired loans or related allowance for credit losses as of December 31, 2009. Average recorded investment in impaired loans was $173 and $0 as of December 31, 2010 and 2009, respectively.

No investment income due or accrued on mortgage loans 90 days past due has been excluded from investment income as of December 31, 2010 or 2009.

The Company restructured eight mortgage loans during 2010. The book value of the restructured loans totaled $1,039 as of December 31, 2010. The Company restructured four mortgage loans during 2009. The book value of restructured loans totaled $816 as of December 31, 2009.

Real Estate
The Company had 3 mortgage loans foreclosed in 2010. The properties acquired in satisfaction of debt were recorded at estimated fair value of the date of foreclosure. As a result a realized loss on mortgages in the amount of $137 was recognized in 2010.

Loan-Backed and Structured Securities
The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities prior to that date. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities are updated quarterly with information obtained from Bloomberg. The Company used Interactive Data Pricing and Reference Data, Inc. ("IDP") and Bond Edge as the primary market value pricing sources for the bond assets. There have been no changes to methodologies (the Company continues to use the retrospective approach) during the years ended December 31, 2010 and 2009. Loan-backed securities are stated at amortized cost, except for those with a NAIC designation of 6. Loan-backed securities with a NAIC 6 rating are carried at the lower of amortized cost or fair value, with unrealized losses charged directly to unassigned surplus. Loan-backed securities that have not been filed and have not received a rating in over one year from the Securities Valuation Office ("SVO") receive a 6* rating and are carried at zero with the unrealized loss charged directly to unassigned surplus. RMBS with an initial designation of 6 may be reported in bonds with a higher final designation, if a higher rating is indicated under the NAIC guidance for rating RMBS for the calculation of RBC and reflect a "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, 2010			
(dollars in thousands)	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government	$ 13,225	$ 377	$ (7)	$ 13,595
All other government	3,728	88	-	3,816
States, territories and possessions	23,679	430	(312)	23,797
Political subdivisions	27,529	190	(771)	26,948
Special revenue	-	-	-	-
Corporate securities	444,047	24,859	(3,105)	465,801
Mortgage-backed securities				
Government mortgage-backed securities	132,318	4,942	(99)	137,161
Corporate mortgage-backed securities	16,345	858	(878)	16,325
	$ 660,871	$ 31,744	$ (5,172)	$ 687,443

	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)	5,621
States, territories and possessions	20,525	151	(429)	20,247
Political subdivisions	20,915	83	(1,049)	19,949
Special revenue	3,727	-	(302)	3,425
Corporate securities	306,116	10,754	(3,925)	312,945
Mortgage-backed securities				
Government mortgage-backed securities	137,458	3,636	(242)	140,852
Corporate mortgage-backed securities	28,748	1,337	(4,108)	25,977
	$ 557,444	$ 16,270	$ (10,433)	$ 563,281

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, 2010, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Final maturity date was used for mortgage-backed securities.

(dollars in thousands)	**Book/ Adjusted Carrying Value**	**Fair Value**
Due in one year or less	$ 5,641	$ 6,083
Due after one year through five years	76,557	82,693
Due after five years through ten years	238,498	250,937
Due after ten years through twenty years	183,902	187,693
Due after twenty years	156,273	160,037
	$ 660,871	$ 687,443

Gross proceeds and realized gains and losses on bonds sold at the discretion of the Company for the years ended December 31, 2010 and 2009 were:

(dollars in thousands)	**2010**	**2009**
Proceeds	$ 102,326	$ 185,953
Gross gains	3,505	11,682
Gross losses	(1,275)	(4,905)

Certain bonds and other investments with an aggregate amortized cost of $31,515 and $32,302 at December 31, 2010 and 2009, respectively, were on deposit with regulatory authorities in accordance with statutory requirements.

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

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

	2010	2009
Beginning balance	$ 6,417	$ -
Additions previously recognized	266	6,417
Additions not previously recognized	1,223	-
Reduction for securities sold subsequent to impairment	(1,178)	-
Ending balance	$ 6,728	$ 6,417

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

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

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

(dollars in thousands) CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value
021460AC4	$ 552	$ 45	$ 507	$ 45	$ 33
05949QAX3	1,289	1,155	134	1,155	1,181
05953YBD2	1,551	369	1,182	369	495
06051GCS6	1,068	1,050	18	1,050	569
07387UCU3	1,086	187	899	187	263
12544RBZ0	672	198	474	198	327
12668AMZ5	1,195	227	968	227	291
1266994X29	580	209	371	209	214
45660NRB3	867	681	186	681	429
61748HDR9	875	770	105	770	646
76110WMB9	232	143	89	143	175
9393366Q1	503	494	9	494	388
93934FGK2	2,102	317	1,785	317	702
	$ 12,572	$ 5,845	$ 6,727	$ 5,845	$ 5,713

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

Sub-prime Mortgage Related Risk Exposure

RMBS are a 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 RMBS
Agency	$ 143,759	$ 5,089	90 %	21 %
Alt A	2,765	(178)	2 %	0 %
Whole Loan	13,560	158	8 %	2 %
Sub-Prime	-			
RMBS	$ 160,084			

The Company owns approximately $16 on non-agency mortgage-backed securities of which 83% are prime whole loans and 17% is Alt-A and no exposure to sub-prime mortgages. The Company does not own any collateralized debt obligations, structured investment vehicles or equity investments with direct sub-prime exposure. Our primary exposures are through Alt-A residential mortgage backed bonds. The Company has no corporate bonds that have exposure to sub-prime risk.

Equity Investments

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

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

(dollars in thousands)	December 31, 2010			
	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

Net realized gains (losses) on equity securities sold for the years ended December 31, 2010 and 2009 were approximately $376 and $(1,241), respectively. The Company recognized no impairment (losses) on equity securities for the years ended December 31, 2010 and 2009.

Net Investment Income
The components of net investment income earned by type of investment for the years ended December 31, 2010 and 2009 are as follows:

(dollars in thousands)	**2010**	**2009**
Bonds	$ 32,863	$ 25,693
Mortgage loans	1,677	1,737
Contract loans	1,425	1,626
Preferred and common stocks	561	669
Derivatives	-	-
Other invested asset	1,603	2,706
Gross investment income	38,129	32,431
Less: Investment expenses	(4,552)	(4,873)
	$ 33,577	$ 27,558

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)	**2010**	**2009**
Other bonds-unaffiliated, net of tax	$ 267	$ (65)
Change in derivatives, net of tax	1,349	-
Other invested assets, net of tax	-	196
	$ 1,616	$ 131

Net realized investment gains (losses) consist of:

(dollars in thousands)	**2010**	**2009**
U.S. Government bonds	$ 547	$ 218
Other bonds-unaffiliated	334	355
Preferred stock-unaffiliated	376	(1,188)
Common stock-unaffiliated	-	(52)
Mortgage loans	(298)	(170)
Other	137	(35)
	1,096	(872)
Federal income tax benefit (expense)	617	3,302
IMR adjustment (includes taxes of $1,001 and $2,997 for 2010 and 2009, respectively)	(2,860)	(8,562)
	$ (1,147)	$ (6,132)

Impairment losses included in realized gains and losses above, for the years ended December 31, 2010 and 2009 are as follows:

	2010	**2009**
Bonds	$ 1,489	$ 6,682
Mortgage loans	161	-
	$ 1,650	$ 6,682

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, 2010 (in thousands, except for position data):

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

The 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):

	Less Than 12 Months			12 Months or Longer			Total		
(dollars in thousands)	# of Positions	Fair Value	Unreal Loss	# of Positions	Fair Value	Unreal Loss	# of Positions	Fair Value	Unreal Loss
Description of securities									
U.S. government	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	(6,563)	210	210,816	(10,433)
Preferred stock	-	-	-	9	6,452	(1,205)	9	6,452	(1,205)
Total temporarily impaired securities	142	$ 158,813	$ (3,870)	77	$ 58,455	$ (7,768)	219	$ 217,268	$ (11,638)

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

Less Than 12 Months

Unrealized losses primarily are 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 31, 2010 and the Company has the intent and the ability to hold these securities to recovery.

Derivative Instruments

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

In 2009 the Company provided the 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. To 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 years ended December 31, 2010 and 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 returns of the applicable market. Gains and losses resulting from changes in the estimated fair value of the call options are recorded as unrealized gains or losses in statutory surplus. For 2010 the Company recorded realized gains of $137 on hedges which expired and $2,076 of unrealized gains in surplus based on the fair value movement.

3. Fair Value of Financial Instruments

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

	December 31, 2010		December 31, 2009	
(dollars in thousands)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets				
Bonds	$ 660,871	$ 687,443	$ 557,443	$ 563,278
Preferred stock	7,201	7,636	8,364	7,852
Common stock	5,294	5,294	5,442	5,442
Mortgage loans	23,502	24,468	27,439	27,527
Contract loans	29,065	29,065	31,309	31,309
Cash and short-term investments	26,391	26,391	23,567	23,567
Other invested assets	11,576	11,576	5,265	5,265
Receivables	3,666	3,666	4,186	4,186
Financial liabilities				
Insurance liabilities for investment contracts	$ 513,614	$ 489,235	$ 421,081	$ 402,428
Borrowed money	119,341	127,483	121,652	128,815

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

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

Cash and Short-Term Investments

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

Bonds

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

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

Common Stock
The carrying value of unaffiliated common stock, which consists of Federal Home Loan Bank ("FHLB"), is carried at cost. Because FHLB shares are not publicly traded, the market value of the stock is considered to be equivalent to cost due to the fact that the FHLB has historically redeemed the shares at original cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Real Estate Held for Sale
Mortgage loans foreclosed on and converted to real estate currently held for sale The Company received appraisal reports for these properties in 2010 and 2009. The inputs of the fair value measurements in the appraisal reports include judgments about market condition and assumptions tied to economic factors.

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

The following table presents information about financial instruments measured at fair value and indicates the level of the fair value measurement on the levels of the inputs used as of December 31, 2010 and 2009. Bonds and preferred stocks with NAIC designation of 6 are valued at the lower of cost or fair value. Real estate held for sale is stated at the lower of depreciated cost of fair value. Common stocks in unaffiliated entity are measured at fair value on a recurring basis.

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

(dollars in thousands)	**December 31, 2009**			
	Level 1	**Level 2**	**Level 3**	**Total**
Bonds	$ -	$ 1,951	$ -	$ 1,951
Real estate held for sale	-	-	446	446
Common stocks	-	-	5,442	5,442
Derivatives	-	-	2,366	2,366
	$ -	$ 1,951	$ 8,254	$ 10,205

The following table presents changes during 2010 and 2009 in Level 3 financial instruments measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in income during 2010 and 2009 related to the Level 3 financial instruments that remained in the balance sheet at December 31, 2010 and 2009:

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

(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
Real estate held for sale	$ -	$ -	$ -	$ 446	$ -	$ 446
Common stocks	5,514	-	-	(72)	-	5,442
Derivatives	-	(35)	-	2,401	-	2,366
	$ 5,514	$ (35)	$ -	$ 2,775	$ -	$ 8,254

4. Income Taxes

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

DTA/DTL Components

	2010			2009		
Description	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax assets	$ 33,669	$ -	$ 33,669	$ 26,496	$ 299	$ 26,795
Statutory valuation allowance adjustment (enter as "-")	(32,271)	-	(32,271)	(25,483)	(299)	(25,782)
Adjusted gross deferred tax assets	1,398	-	1,398	1,013	-	1,013
Gross deferred tax liabilities	(826)	(572)	(1,398)	(1,013)	-	(1,013)
Net deferred tax asset (liability) before admissibility test	572	(572)	-	-	-	-
Deferred tax assets nonadmitted	-	-	-	-	-	-
Net admitted deferred tax asset (liability)	$ 572	$ (572)	$ -	$ -	$ -	$ -

	Change		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 7,173	$ (299)	$ 6,874
Statutory valuation allowance adjustment (enter as "-")	(6,788)	299	(6,489)
Adjusted gross deferred tax assets	385	-	385
Gross deferred tax liabilities	187	(572)	(385)
Net deferred tax asset (liability) before admissibility test	572	(572)	-
Deferred tax assets nonadmitted	-	-	-
Net admitted deferred tax asset (liability)	$ 572	$ (572)	$ -

The Company has not elected to admit DTAs pursuant to paragraph 10.e. in either 2010 or 2009.

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

Description	2010 Ordinary	2010 Capital	2010 Total	2009 Ordinary	2009 Capital	2009 Total
With ¶ 10.e.	$ -	$ -	$ -	$ -	$ -	$ -
With ¶s 10.a.-c.	-	-	-	-	-	-
Increase attributable to application of ¶ 10.e.	$ -	$ -	$ -	$ -	$ -	$ -

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

Admission calculation components

Description	2010 Ordinary	2010 Capital	2010 Total	2009 Ordinary	2009 Capital	2009 Total
Admission calculation under ¶10.a.-¶10.c.						
Admitted pursuant to ¶10.a.	$ -	$ -	$ -	$ -	$ -	$ -
Admitted pursuant to ¶10.b.(lesser of i. or ii.)	-	-	-	-	-	-
¶10.b.i.	-	-	-	-	-	-
¶10.b.ii.	-	-	-	-	-	-
Admitted pursuant to ¶10.c.	-	-	-	-	-	-
Total admitted under ¶¶10.a.-10.c.	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-
Net admitted deferred tax asset (liability) under ¶10.a.-¶10.c.	$ -	$ -	$ -	$ -	$ -	$ -
Admission calculation under ¶10.e.i.-10.e.iii.	$ -	$ -	$ -	$ -	$ -	$ -
Admitted pursuant to ¶10.e.i.	-	-	-	-	-	-
Admitted pursuant to ¶10.e.ii. (lesser of a. or b.)	-	-	-	-	-	-
¶10.e.ii.a..	-	-	-	-	-	-
¶10.e.ii.b.	-	-	-	-	-	-
Admitted pursuant to ¶10.e.iii.	-	-	-	-	-	-
Total admitted under ¶10.e.i.-10.e.iii.	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-
Net admitted deferred tax asset (liability) under ¶10.e.	$ -	$ -	$ -	$ -	$ -	$ -
Used in ¶10.d.						
Total adjusted capital	$ -	$ -	$ -	$ -	$ -	$ -
Authorized control level	-	-	-	-	-	-
Adjusted capital/authorized control level	0 %	0 %	0 %	0 %	0 %	0 %

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

Impact of ¶10.e. on the following

Description	2010 Ordinary	2010 Capital	2010 Total	2009 Ordinary	2009 Capital	2009 Total
Admission calculation under ¶10.a.-¶10.c.						
Admitted DTAs	$ -	$ -	$ -	$ -	$ -	$ -
Admitted assets	-	-	-	-	-	-
Adjusted statutory surplus from most recently filed statement	-	-	-	-	-	-
Total adjusted capital from DTAs included above	0 %	0 %	0 %	0 %	0 %	0 %
Increases due to admission under ¶10.e.i.-10.e.iii.						
Admitted DTAs	-	-	-	-	-	-
Admitted assets	0 %	0 %	0 %	0 %	0 %	0 %
Statutory surplus	0 %	0 %	0 %	0 %	0 %	0 %

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

Description	2010 Ordinary	2010 Capital	2010 Total	2009 Ordinary	2009 Capital	2009 Total
Adjusted gross DTAs-amount	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted gross DTAs-percentage	0 %	0 %	0 %	0 %	0 %	0 %
Net admitted DTAs-amount	-	-	-	-	-	-
Net admitted DTAs-percentage	0 %	0 %	0 %	0 %	0 %	0 %

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

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

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

Deferred Tax Liabilities are not recognized for the Company's Policyholder Surplus account under the provisions of the Internal Revenue Code. As of December 31, 2010, the Company had a balance of $1,508 in policyholder surplus account. This amount could become taxable to the extent that future shareholder dividends are paid from this account.

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

Description	2010	2009
Current federal income tax expense	$ (383)	$ 305
Tax on capital gains (losses)	383	(305)
Other, including prior year underaccrual (overaccrual)	-	(159)
Federal income taxes incurred	$ -	$ (159)

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

DTAs resulting from book/tax differences in	**December 31, 2010**	**December 31, 2009**	**Change**
Ordinary			
Policyholder liabilities	$ 4,891	$ 4,547	$ 344
Investments	-	366	(366)
Deferred acquisition costs	5,445	4,628	817
Tax goodwill	0	105	(105)
Bonds	488	1,923	(1,435)
Stocks	110	110	-
Nonadmitted assets	1,150	946	204
Net operating loss carryforward	20,860	13,308	7,552
Other (separately disclose items >5%)	725	563	162
Gross ordinary DTAs	33,669	26,496	7,173
Statutory valuation adjustment - ordinary (-)	(32,271)	(25,483)	(6,788)
Nonadmitted ordinary DTAs (-)	-	-	-
Admitted ordinary DTAs	1,398	1,013	385
Capital			
Investments	-	-	-
Net capital loss carryforward	-	-	-
Real estate	-	-	-
Other (separately disclose items >5%)	-	-	-
Unrealized capital losses	-	299	(299)
Gross capital DTAs	-	299	(299)
Statutory valuation adjustment - capital (-)	-	(299)	299
Nonadmitted capital DTAs (-)	-	-	-
Admitted capital DTAs	-	-	-
Admitted DTAs	$ 1,398	$ 1,013	$ 385

DTLs resulting from book/tax differences in	**December 31, 2010**	**2009**	**Change**
Ordinary			
Investments	$ (11)	$ (26)	$ 15
Derivatives	-	-	-
Deferred and uncollected premiums	(779)	(799)	20
Tax goodwill	(36)	-	(36)
Other (separately disclose items >5%)	-	(188)	188
Ordinary DTLs	(826)	(1,013)	187
Capital			
Investments	-	-	-
Real estate	-	-	-
Other (separately disclose items >5%)	-	-	-
Unrealized capital gains	(572)	-	(572)
Capital DTLs	(572)	-	(572)
DTLs	(1,398)	(1,013)	(385)
Net deferred tax assets (liabilities)	$ -	$ -	$ -

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

	December 31, 2010	**2009**	**Change**
Total deferred tax assets	$ 33,669	$ 26,795	$ 6,874
Total deferred tax liabilities	(1,398)	(1,013)	(385)
Net deferred tax assets (liabilities)	32,271	25,782	6,489
Statutory valuation allowance adjustment (*see explanation below)	(32,271)	(25,782)	(6,489)
Net deferred tax assets (liabilities) after SVA	-	-	-
Tax effect of unrealized gains (losses)	572	(299)	871
Statutory valuation allowance adjustment allocated to unrealized (+)	-	-	-
Change in net deferred income tax [(charge) benefit]	$ 572	$ (299)	$ 871

In accordance with the requirements established in SSAP 10R, the Company assessed its ability to realize the deferred tax assets of $33,669 at December 31, 2010 and $26,795 at December 31, 2009 and concluded that a full valuation allowance was required at December 31, 2010 and 2009 to reduce the deferred tax asset to an amount the Company believes is more likely than not to be realized. The change in valuation allowance is included in the change in non-admitted asset in the statement of changes in capital and surplus.

Reconciliation of Federal Income Tax Rate to Actual Effective Rate

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows (in thousands):

Description	Amount	Tax Effect	Effective Tax Rate
Income before taxes	$ (19,441)	$ (6,804)	35.00 %
Capital gains (losses) tax expense (benefit)	1,095	383	(1.97)%
Dividends received deduction, net of proration	(100)	(35)	0.18 %
Expiration of NOL's	6	6	(0.03)%
Meals & entertainment	41	14	(0.07)%
Statutory valuation allowance adjustment	-	5,115	(26.31)%
Other, including prior year true-up	1,286	450	(2.32)%
	$ (17,113)	(871)	4.48 %
Federal income taxed incurred [expense (benefit)]		(383)	1.97 %
Tax on capital gains (losses)		383	(1.97)%
Change in net deferred income tax [charge (benefit)]		(871)	4.48 %
Total statutory income taxes		$ (871)	4.48 %

Carryforwards, Recoverable Taxes, and IRC §6603 Deposits

At December 31, 2010, the Company had net operating loss carryforwards expiring through the year 2030 of $59,598. At December 31, 2010, the Company had no capital loss carryforwards expiring through the year 2015. The Company had an Alternative Minimum Tax ("AMT") credit carryforward, which does not expire, in the amount of $344 at December 31, 2010.

The Company had tax benefit for 2008, 2009 and 2010 and therefore, had $0 income tax expense for 2008, 2009 and 2010 that is available for recoupment in the event of future net losses (in thousands).

Year	Ordinary	Capital	Total
2008	$ -	$ -	$ -
2009	-	-	-
2010	-	-	-
	$ -	$ -	$ -

There were no deposits admitted under IRC § 6603 as of December 31, 2010 and 2009.

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

Laurel Life Insurance Company

The method of allocation among companies is subject to a written agreement, approved by the Board of Directors, whereby allocation is based on separate return calculations. Intercompany tax payable balances are settled when estimated payments are due and when the return is filed. Intercompany tax receivable balances are settled within the later of 90 days from the filing the tax return or 90 days from receipt of funds from the IRS.

In July of 2006, the FASB issued FASB interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109 and now part of ASC 740 - Income Taxes. This interpretation is not applicable to statutory financial statements. However, the FIN 48 disclosure requirements are relevant to statutory financial statements. The Company had no material contingent tax liabilities at December 31, 2010 and 2009.

5. Information Concerning Parent, Subsidiaries and Affiliates

The Company reported $9,490 as the net amount due from affiliates as of December 31, 2010 and $540 as the net amount due from affiliates as of December 31, 2009. The Company has the right of offset with SFC and affiliates per executed agreement dated June 4, 2009. The Company received from its affiliates $9,069 in March 2011 and the remaining net amount due from affiliates was settled in June 2011. The Company has a management and service agreement with Laurel whereby the Company provides all management, personnel, administrative services, and facilities necessary to operate at no cost to Laurel, and similar agreements with SUSA and SFC, which reimburse the Company for actual expenses incurred by the Company in rendering these services. The Company paid $1,121 and received $3,375 during 2010 and paid $550 and received $3,248 during 2009 under the management and service agreements discussed above. The Company also has a tax-sharing agreement with Laurel, as described in Note 4. The terms of management and services agreements require settlement within 90 days.

The Company had no dividends declared or paid in 2010 or 2009.

6. Debt

Borrowed money consisted of advances from the FHLB as of December 31, 2010 and 2009 as follows (in thousands):

(dollars in thousands)	2010	2009
Short-term advances, bearing interest at rates ranging from 0.12% to 0.14% for 2010 and 0.09% for 2009	$ 77,460	$ 76,420
Amortizing advances with balloon payments, bearing interest at rates from 6.41% to 7.30% in 2010 and 2009 maturing from 2012 to 2017	39,334	42,052
Fully amortizing advances, bearing interest at rates ranging from 6.44% to 7.48% in 2010 and 2009, maturing from 2015 to 2016	2,301	2,910
	119,095	121,382
Accrued interest on advances	246	270
Total borrowed money	$ 119,341	$ 121,652

The short-term advances were issued in December 2009 and are supported by underlying investments with variable, or floating, interest rates. The long-term advances were originally issued between November 17, 1995 and November 7, 1997, and are matched against investments with comparable duration. Interest expense was approximately $3,172 and $3,574 for the years ended December 31, 2010 and 2009, respectively, and is included in investment expenses. Annual maturities as of December 31, 2010 for the next five years and thereafter are as follows:

(dollars in thousands)

2011	$	80,804
2012		6,903
2013		3,436
2014		3,676
2015		3,749
Thereafter		20,528
	$	119,096

The Company is required to maintain a custodial account at the FHLB in amounts comparable to its borrowings. As of December 31, 2010 and 2009, assets with an admitted value of approximately $119,605 and $122,252, respectively, supporting the advances resided at the Company's FHLB custodial account.

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

The Company's eligible employees participate in a benefit plan under 401(k) of the Internal Revenue Code. Employees may contribute up to 17% (subject to certain ERISA limitations) of their eligible compensation to the plan on a pre-tax basis, and the Company may make discretionary matching contributions. The Company contributed approximately $202 and $112 to the plan in 2010 and 2009, respectively. At December 31, 2010 and 2009, the fair value of plan assets was $4,706 and $3,522, respectively.

Certain of the Company's Senior Executives participate in a plan sponsored by its ultimate parent, Sagicor Financial Corporation. The Company does not have any legal obligations for benefits under the plan. The Company recognized $538 in 2010 and $514 in 2009 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.

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

The Company has 4,000,000 shares of common stock authorized and 2,000,000 shares issued and outstanding as of December 31, 2010 and 2009. The shares have a par value of $1.25 per share.

The Company's ability to pay dividends is restricted. The maximum dividend that may be paid (without prior approval from the Texas Department) in any 12-month period is the greater of (1) net gain from operations for the preceding calendar year or (2) 10% of capital and surplus at the end of the preceding calendar year. In general, net gain from operations for dividend purposes is interpreted by the Texas Department to exclude both realized capital gains and losses. The maximum dividend that may be paid in 2011 without prior approval from the Texas Department is $4,632.

Total capital contributions from Laurel amounted to $29,261 and $33,231 during 2010 and 2009, respectively, and $9,861 (net of non-admitted portion amounting to $1,436) was accrued in 2010 and $0 in 2009. As of the date of this report, total contributions received from Laurel amounted to $17,777. This amount includes the collection of the $9,861 accrued as of December 31, 2010 with the remaining balance representing additional capital required in 2011 to maintain the required RBC level.

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

(dollars in thousands)	2010	2009
Unrealized gains and losses	$ 1,714	$ (855)
Nonadmitted asset values	(35,042)	(30,371)
Asset valuation reserves	(3,647)	(1,360)
Reinsurance in unauthorized companies	-	(48)

The Company has no outstanding surplus debentures or similar obligations at December 31, 2010 and 2009. There have been no quasi reorganizations at December 31, 2010 and 2009.

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

RBC rules have been adopted by the TDI. RBC rules evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The effect of RBC is an early warning tool to assist regulators in identifying weakly capitalized companies. At December 31, 2010 and 2009, the Company's RBC exceeds the required regulatory levels at which the Company must initiate action with regulatory authorities.

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

9. Contingencies

Assessments

The Company is subject to assessments from the guaranty fund associations established by the various states in which it does business. Assessments are made by the associations to cover the insurance obligations of insolvent or rehabilitated insurance companies. In most states, guaranty fund assessments can be recovered through a reduction in future premium and other state taxes payable. Based on information available from the National Organization of Life and Health Insurance Guaranty Association, the Company accrued an approximate $544 and $609 liability at December 31, 2010 and 2009, respectively, for known insolvencies. A related premium tax credits recoverable of approximately $236 and $324 as of December 31, 2010 and 2009, respectively, has been recorded. Assessments are expected to be paid and recoveries received over the next five years or greater. The Company may receive premium tax credits in certain states for guaranty fund assessments. These credits are generally utilized over five years.

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.

10. Leases

The Company's principal operations are located in a leased facility in Scottsdale, Arizona. The lease is a non-cancelable operating lease with an initial term of 10 years starting in 2002. Effective June 1, 2011, the Company entered into an extension on the leased facility in Scottsdale, Arizona. 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, Florida under a five year lease that expires in 2012. Total office rental expense for the years ended December 31, 2010 and 2009 was approximately $1,304 and $1,219, respectively. On August 31, 2011, the Company entered into an extension on the leased facility in Tampa, Florida. The Company also leases certain mail equipment under various operating leases expires in 2015. Total rental expense for this equipment was approximately $173 and $205 for the years ended December 31, 2010 and 2009, respectively. Future minimum rental commitments under these leases as of December 31, 2010 are as follows:

(dollars in thousands)

2011	$ 1,395
2012	1,129
2013	1,065
2014	1,090
2015	1,116
2016	1,058
Thereafter	6,665
	$ 13,518

11. Information about Financial Instruments with Concentrations of Credit Risk

Concentrations

The Company maintains a mortgage loan portfolio consisting of first lien residential and commercial mortgages. At December 31, 2010 and 2009, the Company had residential mortgages with carrying values of $140 and $304, respectively, and commercial mortgages with carrying values of $23,362 and $27,135, respectively.

At December 31, 2010 and 2009, approximately the following percentages of the Company's related mortgage loan portfolios were located in the following states:

	2010	2009
Residential		
Arizona	37.00 %	18.00 %
Louisiana	50.00 %	32.00 %
Massachusetts	6.00 %	45.00 %
North Dakota	8.00 %	5.00 %
Commercial		
Arizona	2.00 %	9.00 %
Florida	8.00 %	8.00 %
Minnesota	11.00 %	10.00 %
New Mexico	6.00 %	6.00 %
Ohio	8.00 %	7.00 %
Texas	7.00 %	6.00 %

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, 2010 (amortized cost) in excess of $4,632, approximately 10% of statutory capital and surplus, are as follows:

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

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, are 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

In 2010 and 2009, approximately the following percentages of the Company's direct premiums were written in the following states:

	2010	**2009**
Texas	17 %	17 %
California	10 %	12 %
Alabama	7 %	1 %
Ohio	7 %	6 %
Florida	7 %	8 %
Arizona	5 %	4 %

No other state accounted for more than 5%.

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

12. Reinsurance

Analysis of Specific Reinsurance Agreements

The Company annually evaluates the financial condition of its reinsurers and believes it has appropriately spread reinsurance risks among a group of highly rated reinsurers with the exception of Washington National Life Insurance Company and Scottish Re Life Corporation whose agreements have the right of offset and trust in place, respectively, and are further discussed in the paragraphs below. In the event the assuming reinsurance companies are unable to meet their obligations under the reinsurance agreements in force, the Company would continue to have primary liability to policyholders for benefits. On life insurance policies, the maximum retention was previously $500,000 per life and remains unchanged during 2010 at $500,000 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 life and annuity blocks of business written by these entities. As of December 31, 2010 all the Union Fidelity policies had expired. In connection with these agreements, the Company has separate automatic bulk yearly renewable term nonrefund agreements under which the Company retrocede 95% of the mortality risk on these policies back to Allianz and UFL. In addition, the Company has administrative service agreements with both of these entities to service these blocks of business. Future policy benefits assumed and ceded under these reinsurance agreements were $4,465 and $8, respectively, at December 31, 2010 and $4,587 and $8, respectively, at December 31, 2009.

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 $77,731 and $81,888 as of December 31, 2010 and 2009, respectively. Future policy benefits assumed related to the Conseco Life agreement totaled approximately $8,725 and $9,970 as of December 31, 2010 and 2009, respectively.

The Company has reinsurance agreements with Washington National, whereby the Company, through two 100% coinsurance arrangements, cedes two blocks of single premium and flexible premium deferred annuities. Future policy benefits ceded under these agreements were approximately $56,649 and $62,768 as of December 2010 and 2009, respectively. The reinsurance agreements also provide for the Company to administer these two blocks of business. Administrative fee income from Washington National for 2010 and 2009 was approximately $35 and $39, respectively. The AM Best rating is B+ for Washington National. Per agreement, a right of offset exists for amounts due under the assumed and ceded reinsurance agreements with Washington National. The net exposure at December 31, 2010 and 2009 were $5,136 and $9,086, respectively.

On August 16, 1999, the Company entered into a Master Reinsurance Agreement with Baltimore Life Insurance Company ("Baltimore Life") whereby the Company agreed to 100% 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 $5,584 and $5,763 at December 31, 2010 and 2009, respectively.

On December 31, 1999, the Company entered into a Master Reinsurance Agreement with Old Reliance Insurance Company ("Old Reliance") whereby the Company agreed to reinsure, on a 75% quota share basis, certain blocks of business written by Old Reliance. At inception, the Company paid a $2,400 ceding commission to Old Reliance and future policy benefits of $12,700 were assumed under this agreement. The Company also executed an administrative service agreement, whereby the Company is responsible for the administration on this block. On April 1, 2000, the Company entered into another reinsurance agreement with Old Reliance whereby the Company agreed to reinsure the remaining 25% quota share. The Company paid an $800 ceding commission to Old Reliance and assumed future policy benefits of approximately $4,200. Total future policy benefits assumed under the two agreements as of December 31, 2010 and 2009 were approximately $14,788 and $15,118, respectively.

The Company cedes 62.5% of certain blocks of its business to Scottish Re Life Corporation ("Scottish Re") through coinsurance and modified coinsurance agreements effective October 1, 2002. In accordance with SAP, the ceding commission received was initially recorded as an addition to capital and surplus (net of income taxes), and will be amortized into income over the remaining life of the business as the profits emerge. As of December 31, 2010, the unamortized portion of the deferred ceding commission was $0. Amortization for the years ended December 31, 2010 and 2009 was approximately $1,502 and $1,467, respectively. Total future policy benefits (including Modco) ceded under these treaties was approximately $140,926 and $149,105 as of December 31, 2010 and 2009, respectively. The AM Best rating is NR-4 for Scottish Re. A trust agreement exists to support the reinsurance credit taken for the coinsurance treaty with net future policy benefits of $101,131and $106,661 at December 31, 2010 and 2009, respectively, and the assets held in the trust account had a fair value of $106,494 and $131,941 at December 31, 2010 and 2009, respectively.

On June 30, 2003, the Company entered into asset transfer and acquisition agreements with States General Life Insurance Company ("States General") and United International Life Insurance Company ("United International") that provided for the Company to assume the individual ordinary life policies and contracts of insurance of States General and United International initially through a 100% coinsurance arrangement to be replaced with an assumption reinsurance agreement as the Company obtained the necessary approvals. As of January 1, 2006, all of the approvals had been received; therefore, the entire block is now the direct business of the Company. The approximate amount of reserves assumed by the Company was $11,600 and a ceding commission of $1,060 was paid. This transaction resulted in goodwill of $1,615 (as of December 31 2010, $404 remained unamortized). The Company recognized goodwill amortization of $161 for the years ended December 31, 2010 and 2009.

On September 30, 2004, the Company entered into a Master Reinsurance Agreement with Guarantee Trust Life Insurance Company ("GTL") whereby the Company 100% coinsured a block of ordinary life insurance from GTL. Future policy benefits assumed under this reinsurance agreement were $24,586 and $24,362 as of December 31, 2010 and 2009, respectively. The Company paid a ceding commission to GTL of $7,400 under this agreement. Concurrently an agreement was completed to assign, to the Company, GTL's coinsurance ceded treaty with Hannover Life Reassurance Company of America. Future policy benefits ceded under this agreement were $11,713 and $11,556 as of December 31, 2010 and 2009, respectively.

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

(dollars in thousands)		**2010**		**2009**
Reinsurance assumed				
Face amount	$	405,090	$	442,369
Reserves		140,043		146,216
Premiums earned		6,370		7,013
Benefits		10,018		12,971
Reinsurance ceded				
Face amount	$	874,230	$	927,111
Reserves		188,299		203,364
Modified coinsurance reserves		30,544		32,169
Premiums earned		8,739		8,719
Benefits		14,604		19,305

13. Participating Policies

For the years ended December 31, 2010 and 2009, premiums under individual and group participating policies were $176, or less than .1% and $213, or less than .1%, respectively, of total individual and group premiums earned. The Company paid dividends in the amount of $135 and $144 in 2010 and 2009, respectively, to policyholders and did not allocate any additional income to such policyholders.

14. Reserves for Life Contracts and Deposit-Type Contracts

For ordinary traditional life policies, the Company waives deduction of deferred fractional premiums upon death of the insured and returns any portion of the final premium beyond the month of death. An extra reserve is calculated based on average reserve factors and is $625 and $363 as of December 31, 2010 and 2009, respectively. Surrender values are not promised in excess of the legally computed reserves.

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

As of December 31, 2010 and 2009, the Company had $318,047 and $334,476, respectively, of insurance in-force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of Texas. Reserves to cover the above insurance totaled approximately $5,224 and $5,700 at December 31, 2010 and 2009, respectively.

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

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

The Company did not have any other increases in reserves for 2010 or 2009.

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

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

	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	

16. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2010 and 2009, respectively, were as follows:

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

(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

17. Subsequent Events

Management has evaluated events subsequent to the balance sheet date through November 16, 2011, which is the date these financial statements were issued.

Effective June 1, 2011, the Company entered into an extension on the leased facility in Scottsdale, Arizona. On August 31, 2011, the Company entered into an extension on the leased facility in Tampa, Florida. See Note 10.

Supplemental Information

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2010

(dollars in thousands)

Investment income earned		
Government bonds	$	1,199
Other bonds (unaffiliated)		31,664
Preferred stock (unaffiliated)		541
Common stock (unaffiliated)		21
Mortgage loans		1,677
Contract loans		1,425
Cash/short-term investments		(3)
Other invested asset		1,605
Gross investment income		38,129
Mortgage loans-book value		
Residential		140
Commercial		23,362
Total mortgage loans		23,502
Mortgage loans by standing-book value		
Good standing		21,208
Good standing with restructured terms		1,922
With overdue interest over 90 days, not in process of foreclosure		26
In process of foreclosure		346
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		62,245
Over 1 year through 5 years		132,777
Over 5 years through 10 years		255,014
Over 10 years through 20 years		170,589
Over 20 years		48,879
Total by anticipated maturity		669,504
Bonds and short-term investments by class - statement value		
Class 1		362,436
Class 2		292,869
Class 3		9,870
Class 4		1,836
Class 5		624
Class 6		1,869
Total by class	$	669,504

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2010

(dollars in thousands)

Total bonds and short-term investments publicly traded	$ 668,103
Total bonds and short-term investments privately placed	1,401
Preferred stock - statement value	7,200
Common stock, unaffiliated - market value	5,294
Short-term investments-book value	8,633
Cash on deposit	17,758
Life insurance in force	
Industrial	6,195
Ordinary	835,968
Group life	30,284
Amount of accidental death insurance in force under ordinary policies	61,369
Life insurance policies with disability provisions in force	
Ordinary	172,469
Group	1,189
Supplementary contracts in force	
Ordinary-not involving life contingencies	
Amount on deposit	2,429
Income payable	1,528
Ordinary-involving life contingencies	
Income payable	430
Annuities	
Ordinary	
Immediate-amount of income payable	139
Deferred-fully paid account balance	302,685
Deferred-not fully paid account balance	38,131
Group	
Immediate-amount of income payable	7
Deferred-fully paid account balance	11,983
Deferred-not fully paid account balance	$ 30,619

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
December 31, 2010

(dollars in thousands)

Accident and health insurance - premiums in force	
Ordinary	$ 278
Group	2
Deposit funds and dividend accumulations	
Deposit funds-account balance	59
Dividend accumulation-account balance	7,715
Claim payments 2010	
Group accident and health	
2010	-
2009	-
Other accident and health	
2010	5
2009	$ 2

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

Sagicor Life Insurance Company
Summary Investment Schedule
Year Ended December 31, 2010

(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	$ 2,261	0.3 %	$ 2,261	0.3 %
U.S. government agency obligations				
Issued by U.S. government agencies	613	0.1 %	613	0.1 %
Issued by U.S. government sponsored agencies	9,336	1.2 %	9,336	1.2 %
Non U.S. government	3,728	0.5 %	3,728	0.5 %
Securities issued by states, territories, and possessions and political subdivisions in the U.S.				
U.S. states and territories general obligations	23,194	3.0 %	23,194	3.0 %
Political subdivisions of U.S. states territories and possessions general obligations	25,954	3.4 %	25,954	3.4 %
Revenue and assessment obligations	3,674	0.5 %	3,674	0.5 %
Mortgage-backed securities (includes residential and commercial MBS)				
Pass-through securities				
Guaranteed by GNMA	5,181	0.7 %	5,181	0.7 %
Issued by FNMA and FHLMC	53,988	7.1 %	53,988	7.1 %
All other		0.0 %		0.0 %
Other mortgage-backed securities				
Issued by GNMA, FNMA, FHLMC or VA	63,282	8.3 %	63,282	8.3 %
All other	23,836	3.1 %	23,836	3.1 %
2. **Other debt securities (excluding short-term)**				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	427,515	55.9 %	427,515	55.9 %
Unaffiliated foreign securities	18,309	2.4 %	18,309	2.4 %
3. **Equity interests**				
Investments in mutual funds	8,633	1.1 %	8,633	1.1 %
Preferred stocks				
Unaffiliated	7,200	0.9 %	7,200	0.9 %
Publicly traded equity securities (excluding preferred stocks)				
Unaffiliated	5,294	0.7 %	5,294	0.7 %
4. **Mortgage loans**				
Single family residential properties	140	0.0 %	140	0.0 %
Commercial loans	23,362	3.1 %	23,362	3.1 %
5. **Real estate investments**	719	0.1 %	719	0.1 %
6. **Contract loans**	29,064	3.8 %	29,064	3.8 %
7. **Receivable for Securities**		0.0 %		0.0 %
8. **Cash and short-term investments**	17,758	2.3 %	17,758	2.3 %
9. **Other invested assets**	11,576	1.5 %	11,576	1.5 %
Total invested assets	$ 764,617	100.0 %	$ 764,617	100.0 %

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

1. Total admitted assets as reported in the audited statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2010 $793,946

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

(dollars in thousands)

Issuer	**Description of Exposure**	**Book/ Adjusted Carrying Value**	**% of Admitted Assets**
Invesco Prime Money Market Fund	MMF	$ 8,633	1.1 %
Berkshire Hathaway	BOND	8,491	1.1 %
FHLB of Dallas	COMMON STOCK	5,294	0.7 %
Southern Union Company	BOND	4,515	0.6 %
Alleghany Energy	BOND	4,399	0.6 %
Ibledora SA	BOND	4,169	0.5 %
Fidelity Investments	BOND	3,980	0.5 %
Conoco Phillips	BOND	3,960	0.5 %
General Electric	BOND	3,956	0.5 %
American Electric Power	BOND	3,903	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	$ 362,436	45.6 %
NAIC - Rated 2	292,869	36.9 %
NAIC - Rated 3	9,870	1.2 %
NAIC - Rated 4	1,836	0.2 %
NAIC - Rated 5	624	0.1 %
NAIC - Rated 6	1,869	0.2 %
Preferred stocks		
P/RP - 1	$ 1,992	0.3 %
P/RP - 2	2,420	0.3 %
P/RP - 3	2,722	0.3 %
P/RP - 4	67	0.0 %

4. 4.02 Total admitted assets held in foreign investments $13,530

5. 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 - Prattville, AL	$ 466	0.1 %
Commercial - Minneapolis, MN	377	0.0 %
Commercial - Shakopee, MN	356	0.0 %
Commercial - Moorestown, NJ	351	0.0 %
Commercial - Provo, UT	346	0.0 %
Commercial - Elk River, MN	331	0.0 %
Commercial - Huntsville, AL	316	0.0 %
Commercial - Ft. Myers, FL	286	0.0 %
Commercial - Pocatello, ID	280	0.0 %
Commercial - Kansas City, MO	276	0.0 %

Mortgage loans over 90 days past due	$ 26
Mortgage loans in the process of foreclosure	346
Mortgage loans foreclosed	242
Restructured mortgage loans	1,922

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

(dollars in thousands)	**Residential**		**Commercial**	
Loan-to-Value	**1**	**2**	**1**	**2**
Above 95%	$ -	0.0 %	$ 448	0.1 %
91% to 95%	-	0.0 %	-	0.0 %
81% to 90%	-	0.0 %	-	0.0 %
71% to 80%	-	0.0 %	1,629	0.2 %
Below 70%	140	0.0 %	21,285	2.7 %

7. 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	$	8,676	1.1 %

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