Sagicor Life Insurance Company

Statutory Financial Statements and Accompanying Information For the Years Ended December 31, 2006 and 2005

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

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

We have audited the accompanying statements of admitted assets, liabilities and capital and surplus (statutory basis) of Sagicor Life Insurance Company (the "Company", formerly known as American Founders Life Insurance Company) as of December 31, 2006 and 2005, and the related statements of operations (statutory basis), changes in capital and surplus (statutory basis), and cash flow (statutory basis) for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 1 to the 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, 2006 and 2005, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flow for the years then ended, on the basis of accounting described in Note 1.

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Our audit was conducted for the purpose of forming an opinion on the basic statutory basis financial statements taken as a whole. The accompanying Supplemental Schedule of Assets and Liabilities, Summary Investment Schedule and Investment Risks Interrogatories of the Company as of December 31, 2006 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 Supplemental Schedule of Assets and Liabilities, Summary Investment Schedule and Investment Risks Interrogatories 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 Supplemental Schedule of Assets and Liabilities, Summary Investment Schedule and Investment Risks Interrogatories 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, 2006 and for the year then ended. The Supplemental Schedule of Assets and Liabilities, Summary Investment Schedule and Investment Risks Interrogatories have been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

May 29, 2007

Sagicor Life Insurance Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis)
December 31, 2006 and 2005

(dollars in thousands, except par and share data)	**2006**	**2005**
Admitted Assets		
Cash and invested assets		
Bonds (fair value: 2006 - $406,190; 2005 - $427,655)	$ 409,625	$ 431,430
Preferred stock (fair value: 2006 - $7,298; 2005 - $5,496)	6,966	5,112
Common stock (cost: 2006 - $5,311; 2005 - $6,013)	5,311	6,013
Mortgage loans	21,646	17,254
Real estate	-	1,500
Contract loans	15,060	15,207
Cash and short-term investments	(19)	1,286
Other invested asset	1,500	5,000
Receivables for securities	941	-
Total cash and invested assets	461,030	482,802
Amounts due from reinsurers	5,971	5,693
Electronic data processing equipment	475	267
Current federal income tax recoverable	1,789	-
Net deferred tax asset	-	1,978
Premiums deferred and uncollected	3,668	4,132
Investment income due and accrued	4,147	4,515
Guaranty fund assessments	228	321
Due from affiliates	654	12
Other assets	1,479	1,672
Total admitted assets	$ 479,441	$ 501,392

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

Sagicor Life Insurance Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis) (Continued)
December 31, 2006 and 2005

(dollars in thousands, except par and share data)	2006	2005
Liabilities		
Policyholders' liabilities		
Aggregate reserves for life contracts	$ 299,154	$ 307,343
Accident and health reserves	412	414
Deposit-type contracts	12,695	12,150
Policy and contract claims	3,126	2,538
Dividends and coupons payable	165	168
Advanced premiums	171	198
Amounts payable on reinsurance	145	438
Interest maintenance reserve	3,334	4,097
Commissions payable	92	114
General expenses due or accrued	1,886	1,587
Taxes, licenses and fees due or accrued, excluding federal income taxes	821	805
Current federal income tax payable	-	269
Unearned investment income	210	222
Amounts withheld or retained by company	819	977
Amounts held for agents	228	271
Remittance and items not allocated	394	197
Borrowed money	118,369	123,719
Dividends to stockholders declared and unpaid	-	400
Asset valuation reserve	3,514	3,194
Payable for securities	-	12
Total liabilities	445,535	459,113
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	31,761	31,761
Unassigned (deficit) surplus	(355)	8,018
Total capital and surplus	33,906	42,279
Total liabilities and capital and surplus	$ 479,441	$ 501,392

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

Sagicor Life Insurance Company
Statements of Operations (Statutory Basis)
Years Ended December 31, 2006 and 2005

(dollars in thousands)	2006	2005
Revenue		
Premiums and annuity considerations	$ 15,224	$ 24,937
Consideration for supplementary contracts with life contingencies	511	131
Net investment income	17,365	17,847
Amortization of interest maintenance reserve	443	446
Commissions and expense allowances on reinsurance ceded	3,792	4,103
Reserve adjustments on reinsurance ceded	(4,160)	(2,908)
Miscellaneous income	805	823
Total revenues	33,980	45,379
Benefits and expenses		
Death benefits	11,516	10,709
Matured endowments	130	132
Annuity benefits	5,735	5,677
Disability benefits	103	115
Surrender benefits	18,080	17,516
Interest on policy and contract funds	430	463
Payments on supplementary contracts with life contingencies	406	394
Other benefits	(2)	16
Decrease in aggregate reserves for life and accident and health policies	(8,191)	(229)
Commission expenses	2,368	3,274
General insurance expenses	10,593	7,756
Taxes, licenses and fees	966	712
Modified coinsurance reserve adjustment	(6,656)	(4,652)
Increase in loading on deferred and uncollected premiums	(236)	(472)
Total benefits and expenses	35,242	41,411
Net (loss) gain from operations before policyholders' dividends, income taxes and realized capital gains (losses)	(1,262)	3,968
Dividends to policyholders	152	167
Net (loss) gain from operations before income taxes and realized capital gains (losses)	(1,414)	3,801
Federal income tax benefit	746	506
Net (loss) gain from operations before realized capital gains (losses)	(668)	4,307
Net realized capital (losses) gains, less capital gains tax (benefit) expense of $(291) and $259, excluding taxes of $(173) and $688 transferred to the IMR in 2006 and 2005, respectively	(540)	481
Net (loss) income	$ (1,208)	$ 4,788

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

Sagicor Life Insurance Company
Statements of Changes in Capital and Surplus (Statutory Basis)
Years Ended December 31, 2006 and 2005

(dollars in thousands)	Common Stock	Additional Contributed Surplus	Unassigned Surplus (Deficit)	Total Capital and Surplus
Balance, December 31, 2004	$ 2,500	$ 21,261	$ 7,068	$ 30,829
Net income	-	-	4,788	4,788
Change in net unrealized capital gains (losses) (Note 2)	-	-	(273)	(273)
Change in net deferred income taxes (Note 3)	-	-	(2,360)	(2,360)
Change in nonadmitted assets	-	-	2,016	2,016
Change in asset valuation reserve	-	-	(797)	(797)
Paid in surplus (Note 7)	-	10,500	-	10,500
Change in deferred ceding commission (Note 1)	-	-	(2,024)	(2,024)
Dividends to stockholder (Note 4)	-	-	(400)	(400)
Balance, December 31, 2005	2,500	31,761	8,018	42,279
Net loss	-	-	(1,208)	(1,208)
Change in net unrealized capital gains (losses) (Note 2)	-	-	352	352
Change in net deferred income taxes (Note 3)	-	-	(250)	(250)
Change in nonadmitted assets	-	-	(3,209)	(3,209)
Change in asset valuation reserve	-	-	(320)	(320)
Change in deferred ceding commission (Note 1)	-	-	(1,738)	(1,738)
Dividends to stockholder (Note 4)	-	-	(2,000)	(2,000)
Balance, December 31, 2006	$ 2,500	$ 31,761	$ (355)	$ 33,906

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

Sagicor Life Insurance Company
Statements of Cash Flow (Statutory Basis)
Years Ended December 31, 2006 and 2005

(dollars in thousands)	2006	2005
Cash from operations		
Premiums collected, net of reinsurance	$ 16,408	$ 25,850
Net investment income	18,831	19,296
Other income	4,596	4,926
Total income received	39,835	50,072
Benefits and loss related payments	40,074	37,514
Commissions, other expenses and taxes paid (excluding federal income taxes)	6,850	7,161
Dividends paid to policyholders	154	179
Federal income taxes paid (recovered), net of tax on capital gains (losses)	849	(1,250)
Total benefits and expenses paid	47,927	43,604
Net cash (used in) provided by operations	(8,092)	6,468
Cash from investments		
Proceeds from investments sold, matured or repaid		
Bonds	126,323	169,119
Stocks	3,000	2,827
Mortgage loans	1,485	2,604
Real estate	1,650	-
Other invested assets	3,500	-
Others	-	9
Total investment proceeds	135,958	174,559
Cost of investments acquired		
Bonds	(106,988)	(166,406)
Stocks	(4,006)	(1,740)
Mortgage loans	(5,624)	(11,192)
Real estate	(3)	-
Others	(953)	-
Total investments acquired	(117,574)	(179,338)
Net decrease in policy loans	147	578
Net cash provided by (used in) investments	18,531	(4,201)
Cash from financing and miscellaneous sources		
Borrowed funds	(5,350)	(12,522)
Dividends paid to stockholder	(2,400)	-
Deposit-type contract funds, net	546	(1,155)
Capital and paid-in surplus	-	10,500
Other cash applied	(4,540)	(1,782)
Net cash used in financing and miscellaneous sources	(11,744)	(4,959)
Net change in cash and short-term investments	(1,305)	(2,692)
Cash and short-term investments, beginning of year	1,286	3,978
Cash and short-term investments, end of year	$ (19)	$ 1,286

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

1. Summary of Significant Accounting Practices

Nature of Operations
Sagicor Life Insurance Company (the "Company", formerly known as American Founders Life Insurance Company) is a stock life insurance company organized under the laws of the State of Texas. Its operations consist of traditional life products, universal life products, annuity and pension contracts and related products. Although the Company is licensed in forty-two states and the District of Columbia, approximately 69% of the premiums on the Company's existing block of business are in Texas, California, Ohio, Georgia and Louisiana. The Company's products are sold through third-party marketing firms, financial institutions and general agents.

All of the issued and outstanding shares of the Company are owned by Laurel Life Insurance Company ("Laurel"), a Texas stock life insurance company, which was a wholly owned subsidiary of American Founders Financial Corporation ("AFFC"). On June 30, 2005, AFFC executed a definitive agreement to sell Laurel to Sagicor Financial Corporation ("SFC"), a Barbados-based financial services group for approximately $58,000 in cash. The Texas Department of Insurance ("TDI") approved the transaction on September 22, 2005 and the transaction closed on September 30, 2005. All outstanding shares of Laurel are now held by Sagicor USA, Inc. ("SUSA"), whose parent is SFC.

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

Basis of Presentation
The accompanying financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the TDI for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Texas Insurance Law. The National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Texas. The State of Texas has not adopted any prescribed or permitted practices that differ from SAP that needed to be applied by the Company. Prescribed statutory accounting practices are those practices mandated by the NAIC and individual states. In contrast, permitted statutory accounting practices are those practices for which a company has applied for and received specific permission from their state of domicile. As of December 31, 2006 and 2005, no permitted practices were utilized by the Company.

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

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

1. Summary of Significant Accounting Practices (Continued)

Investments

Bonds are stated at amortized cost in accordance with the NAIC Securities Valuation Office ("SVO"), except for those with a NAIC designation of 6, which are reported at the lower of cost or fair value, if available. Bonds not backed by other loans are stated at amortized cost using the interest method. Loan-backed bonds and structured securities are valued at amortized cost using the interest method, including anticipated prepayments. Prepayment assumptions are obtained from dealer surveys or internal estimates and are based on current interest rates and economic environment. The retrospective adjustment method is used to value all such securities except for interest-only securities that are valued using the prospective method. Bonds not backed by other loans are stated at amortized cost using the interest method. Realized gains and losses on sales of investments are determined on a specific identification method.

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

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

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

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

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

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

1. Summary of Significant Accounting Practices (Continued)

Investments (Continued)
Investments are evaluated periodically to determine whether any declines in fair value, below the cost basis, are other-than-temporary. If a decline in fair value is deemed to be other-than-temporary, the cost basis of the individual investments is written down to fair value which becomes the new cost basis. The amount of the write-down is included in the statutory statements of operations as a realized loss. Total write-downs included in realized loss were $507 and $113 for 2006 and 2005, respectively.

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

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

Recognition of Premium and Related Expenses
Acquisition costs such as commissions and other costs related to acquiring new business are charged to current operations as incurred. Premiums for traditional life policies are reported as earned when due, net of both reinsurance and the adjustment for due and deferred premiums. For flexible premium/universal life and annuity/investment contracts, premiums are reported as earned when collected. Accident and health premiums are earned pro rata over the terms of the policy. Premiums received in advance are recorded as policyholders' funds (other liabilities) until policies are issued.

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

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

1. Summary of Significant Accounting Practices (Continued)

Benefits and Aggregate Reserves for Life, Annuity and Accident and Health (Continued)
Life policy reserves are based on statutory mortality and interest requirements without consideration of withdrawals. The mortality table interest assumptions used on life policies currently being issued are the 1980 CSO Table, with 4% to 4.5% interest. Earlier mortality tables with interest rates from 2.5% to 6.5% are used on life policies previously issued. Approximately 25% of the life reserves are calculated on a net level reserve basis and 75% on a modified reserve basis, primarily Commissioner's Reserve Valuation Method ("CRVM"). The effect of the use of a modified reserve basis is to partially offset the effect of immediately expensing acquisition costs by providing a policy reserve increase in the first policy year, which is less than the reserve increase in renewal years. Annuity reserves are calculated using the Commissioner's Annuity Reserve Valuation Method ("CARVM") with 3.5% to 10% interest.

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

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

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

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

Depreciation
Property and equipment is depreciated over one to ten years using the straight-line method. Depreciation expense was approximately $470 and $394 for 2006 and 2005, respectively, and accumulated depreciation as of December 31, 2006 and 2005 was $2,748 and $2,411, respectively.

(dollars in thousands)

1. Summary of Significant Accounting Practices (Continued)

Depreciation (Continued)
A summary of property and equipment used in the business as of December 31, 2006 and 2005, is as follows:

	2006	2005	Estimated Useful Lives
Data processing equipment	$ 2,149	$ 1,743	1 - 7 years
Furniture and office equipment	358	254	2 - 5 years
Software and website	1,481	837	2 - 5 years
Leasehold improvements	525	480	6 - 10 years
	4,513	3,314	
Accumulated depreciation	2,748	2,411	
Net property and equipment	1,765	903	
Nonadmitted amounts	1,290	636	
Net of nonadmitted portion	$ 475	$ 267	

Nonadmitted Assets
Certain assets designated as "nonadmitted assets" have been excluded from the statements of admitted assets, liabilities and capital and surplus and the changes in these assets have been and are charged directly to unassigned surplus. The nonadmitted assets of the Company at December 31, 2006 and 2005 are as follows (excluding those related to invested assets):

	2006	2005
Prepaid expenses	$ 313	$ 332
Deferred tax asset	10,485	8,947
Agents' balances	90	205
Property and equipment	1,290	636
Due from affiliates	1,151	-
Total nonadmitted	$ 13,329	$ 10,120

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, 2006, the Company had an unamortized balance of $6,853. Amortization for the years ended December 31, 2006 and 2005 was approximately $1,738 and $2,024, respectively.

1. Summary of Significant Accounting Practices (Continued)

Federal Income Taxes
The results of the operations of the Company are included in the consolidated income tax return of Laurel Life Insurance Company (Note 3). The method of allocation is subject to written agreement and is based upon separate return calculations. Federal income taxes are based on current taxable income. The admission of gross deferred income taxes is subject to various limitations as specified by SAP. In addition, changes in deferred tax assets and liabilities are recognized as a separate component of gains and losses in unassigned surplus.

Statements of Cash Flow
The statements of cash flow are presented in the required statutory format. For the purpose of the statutory statements of cash flow, cash and short-term investments include cash on deposit and short-term, highly-liquid investments that are readily convertible to known amounts of cash.

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

Investments
Under GAAP, the Company's bond portfolio is reported in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and is reported at fair value as available for sale with changes in fair value reflected in other comprehensive income; such accounting treatment is not recognized under SAP.

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

Recognition of Premium and Policy Acquisition Cost
Under SAP, acquisition costs such as commissions and other costs related to acquiring new business are charged to current operations as incurred.

On a GAAP basis, these costs are deferred and amortized over (a) the premium-paying period or (b) estimated future profits of the related insurance product.

Statutory premiums for traditional life policies are reported as earned when due. For flexible premium/universal life and annuity/investment contracts, premiums are reported as earned when collected under SAP.

Under GAAP, premiums received in excess of policy charges on flexible premium/universal life policies and premiums for annuity/investment contracts are accounted for as adjustments to the policy account balances, rather than as revenue.

Benefits and Aggregate Reserves
Under SAP, benefits and expenses include death, annuity, disability, surrender and maturity benefits paid and change in policy reserves.

1. Summary of Significant Accounting Practices (Continued)

Benefits and Aggregate Reserves (Continued)
Under GAAP, benefits and expenses under flexible premium/universal life policies and annuity/investment contracts would only represent the excess of benefits paid over the policy account value.

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

Nonadmitted Assets
Certain assets designated as "nonadmitted", principally deferred income taxes in excess of certain limitations, property and equipment, prepaid expenses and others, are excluded from the balance sheets and are charged directly to surplus for statutory purposes. Under GAAP, such assets are included in the balance sheets, net of an appropriate valuation reserve.

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

Federal Income Taxes
Deferred federal income taxes are provided for the differences between statutory and tax basis of assets and liabilities. Deferred tax assets are limited to amounts that are expected to be realized within one year of the balance sheet date. The deferred tax asset, subject to certain adjustments, is limited to 10% of capital and surplus. Amounts in excess of the limitations are recorded as nonadmitted assets. Changes in the admitted deferred tax asset or liability are recorded directly to unassigned surplus, whereas under GAAP, the change in deferred income taxes is recorded to current operations. Under GAAP, state taxes are included in the computation of deferred taxes. A deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets considered not to be realizable.

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

(dollars in thousands)

1. Summary of Significant Accounting Practices (Continued)

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

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

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

2. Investments

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

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

Forty-three new loans, all of which are commercial, were made during the year ended December 31, 2005. The weighted average interest rate was 6.13% and they had a year-end balance of $11,075. The minimum and maximum interest rates on new loans were 5.37% and 7.00%, respectively. During 2005, the Company adjusted interest rates of outstanding loans as follows:

Range of Adjustment	Number of Mortgages	Year-End Balances
1.00 to 1.99% increase	6	$ 292

(dollars in thousands)

2. Investments (Continued)

Mortgage Loans (Continued)
The maximum percentage of any one loan to the value of security at the time of the loan, exclusive of insured, guaranteed or purchase money mortgages was 90% in 2006 and 2005. There were no taxes, assessments or any amounts advanced and not included in the mortgage loan total as of December 31, 2006 or 2005.

The Company held mortgages with interest more than 180 days past due with a recorded investment, excluding accrued interest, as of December 31, 2006 and 2005 of approximately $0 and $299, respectively. Total accrued interest due on these mortgages was approximately $0 and $13 as of December 31, 2006 and 2005, respectively.

Current year impaired loans with a related allowance for credit losses as of December 31, 2006 and 2005 was approximately $0 and $269, respectively. The related allowances for credit losses were approximately $0 and $100 as of December 31, 2006 and 2005, respectively. There were no impaired loans without an allowance for credit losses as of December 31, 2006 or 2005. Average recorded investment in impaired loans was approximately $0 and $299 as of December 31, 2006 and 2005, respectively. There was no interest income recognized (on a cash or accrual basis) during the period the loans were impaired for the years ended December 31, 2006 and 2005.

The allowance for credit losses was as follows for the years ended December 31, 2006 and 2005:

	2006	2005
Beginning balance	$ 251	$ 251
Additions charged to operations	-	-
Recoveries and writedown of amounts previously charged off	251	-
Ending balance	$ -	$ 251

Investment income due or accrued on mortgage loans 90 days past due of $2 has been excluded from investment income.

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

(dollars in thousands)

2. Investments (Continued)

Loan-Backed Securities

The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities prior to that date. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities are updated quarterly with information obtained from Bloomberg. The Company used Interactive Data Corporation and Bond Edge as the primary market value pricing sources for the bond assets. There have been no changes to methodologies (the Company continues to use the retrospective approach) during the years ended December 31, 2006 and 2005.

Bonds

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

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

	December 31, 2005			
	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government	$ 30,034	$ 145	$ (463)	$ 29,716
Political subdivisions	1,843	35	(4)	1,874
Public utilities	24,600	39	(452)	24,187
Special revenue	12,205	116	(237)	12,084
Corporate securities	133,923	1,557	(3,290)	132,190
Mortgage-backed securities	228,825	1,378	(2,599)	227,604
	$ 431,430	$ 3,270	$ (7,045)	$ 427,655

(dollars in thousands)

2. Investments (Continued)

Bonds (Continued)

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

The book/adjusted carrying value and fair value of bonds at December 31, 2006, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Final maturity date was used for mortgage-backed securities.

	Book/ Adjusted Carrying Value	Fair Value
Due in one year or less	$ 3,470	$ 3,501
Due after one year through five years	85,613	83,788
Due after five years through ten years	72,875	71,858
Due after ten years through twenty years	77,584	77,535
Due after twenty years	170,083	169,508
	$ 409,625	$ 406,190

Gross proceeds and realized gains and losses on bonds sold at the discretion of the Company for the years ended December 31, 2006 and 2005 were:

	2006	2005
Proceeds	$ 70,814	$ 86,671
Gross gains	$ 748	$ 2,527
Gross losses	$ (1,374)	$ (436)

Certain bonds and other investments with an aggregate amortized cost of $31,413 and $31,052 at December 31, 2006 and 2005, respectively, were on deposit with regulatory authorities in accordance with statutory requirements.

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

(dollars in thousands)

2. Investments (Continued)

Equity Investments

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

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

	December 31, 2005			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Unaffiliated preferred	$ 5,532	$ -	$ (420)	$ 5,112
Unaffiliated common	6,013	-	-	6,013
	$ 11,545	$ -	$ (420)	$ 11,125

Net realized gains (losses) on equity securities sold for the years ended December 31, 2006 and 2005 were approximately $(146) and $84, respectively.

Fair Value of Financial Instruments

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

	December 31, 2006		December 31, 2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Bonds	$ 409,625	$ 406,190	$ 431,430	$ 427,655
Preferred stock	$ 6,966	$ 7,298	$ 5,112	$ 5,496
Common stock	$ 5,311	$ 5,311	$ 6,013	$ 6,013
Mortgage loans	$ 21,646	$ 21,602	$ 17,254	$ 17,698
Real estate	$ -	$ -	$ 1,500	$ 1,500
Contract loans	$ 15,060	$ 15,060	$ 15,207	$ 15,207
Cash and short-term investments	$ (19)	$ (19)	$ 1,286	$ 1,286
Other invested assets	$ 1,500	$ 1,500	$ 5,000	$ 5,000
Receivables	$ 5,088	$ 5,088	$ 4,515	$ 4,515
Financial liabilities				
Insurance liabilities for investment contracts	$ 236,819	$ 229,755	$ 243,765	$ 235,889
Borrowed money	$ 118,369	$ 124,136	$ 123,719	$ 125,828

2. Investments (Continued)

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

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

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

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

Preferred Stock
Fair values of preferred stocks are based on quoted market prices.

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

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

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

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

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

(dollars in thousands)

2. Investments (Continued)

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

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

Net Investment Income
The components of net investment income earned by type of investment for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Bonds	$ 22,139	$ 21,819
Mortgage loans	1,314	1,163
Contract loans	865	901
Real estate	77	99
Short-term securities	120	110
Preferred and common stocks	684	589
Other invested asset	658	563
Gross investment income	25,857	25,244
Less investment expenses	(8,492)	(7,397)
	$ 17,365	$ 17,847

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

	2006	2005
Preferred stocks - unaffiliated, net of tax	$ 189	$ (273)
Mortgage loans, net of tax	163	-
	$ 352	$ (273)

2. Investments (Continued)

Net Investment Income (Continued)

Net realized investment gain (losses) consist of:

	2006	2005
U.S. Government bonds	$ (283)	$ (15)
Other bonds - unaffiliated	(1,042)	2,641
Preferred stock - unaffiliated	(147)	(38)
Common stock - unaffiliated	1	122
Real estate	147	-
Other	-	(3)
	(1,324)	2,707
Federal income tax benefit (expense)	291	(259)
IMR adjustment (includes taxes of $(173) and $688 for 2006 and 2005, respectively)	493	(1,967)
	$ (540)	$ 481

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

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

2. Investments (Continued)

Net Investment Income (Continued)

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2005 (in thousands, except for position data):

	Less Than 12 Months			12 Months or Longer			Total		
Description of Securities	# of Positions	Fair Value	Unrealized Loss	# of Positions	Fair Value	Unrealized Loss	# of Positions	Fair Value	Unrealized Loss
US Treasury Obligations	16	$ 18,649	$ (233)	10	$ 8,536	$ (234)	26	$ 27,185	$ (467)
Federal Agency MBS	71	85,536	(1,343)	46	39,737	(1,256)	117	125,273	(2,599)
Corporate Bonds	83	82,394	(1,942)	31	35,000	(2,037)	114	117,394	(3,979)
Subtotal, Debt Securities	170	186,579	(3,518)	87	83,273	(3,527)	257	269,852	(7,045)
Preferred Stock	6	4,018	(231)	2	549	(16)	8	4,567	(247)
Total temporarily impaired securities		$ 190,597	$ (3,749)		$ 83,822	$ (3,543)		$ 274,419	$ (7,292)

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

Less Than 12 Months

Potential losses are predominantly due to recent increases in U.S. Treasury yields and are not due to a deterioration in credit quality or impairment issues. Since June 30, 2003, 2-10 year U.S. Treasury yields increased 1.19% to 4.70% which has resulted in lower bond prices for many holdings. Bonds purchased in the prior year's lower interest rate environment showed year-end unrealized losses that are attributable to changes in overall yields and not any impairment issues.

12 Months or Longer

Approximately one-third of these unrealized losses occurred in federal agency mortgage-backed securities. Repayment of par value is not a main concern since these bonds all carry AAA credit ratings and have strong access to the capital markets. These particular potential losses relate to a combination of two factors: 1) an upward change in interest rates since the purchase date and 2) a change in expectations for the speed of mortgage principal payments due to refinancing activity. Prepayment expectations can lead to an increase or decrease in value; however, the ultimate repayment of principal is not in question, only the timing of these proceeds. Of the remaining potential losses over one year, 99% reside within investment grade bonds and the balance in non-investment grade securities.

(dollars in thousands)

3. Income Taxes

The provision (benefit) for incurred taxes on earnings for the year ended December 31, 2006 and 2005 is:

	2006	2005
Federal - operations	$ (891)	$ (506)
Adjustment for prior year taxes	145	-
Federal income tax benefit	(746)	(506)
Federal - capital gains tax	(463)	948
Net federal income tax (benefit) provision	$ (1,209)	$ 442

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

	2006		2005	
Provision at statutory rate	$ (495)	(35.0) %	$ 1,331	35.0 %
Dividends received deduction and tax-exempt interest, net of proration	(30)	(2.1) %	(22)	(0.6) %
Capital gains taxes	(463)	(32.8) %	948	25.0 %
Prior period deferred adjustment	29	2.1 %	546	14.3 %
	$ (959)	(67.8) %	$ 2,803	73.7 %
Federal income tax provision (benefit)	$ (1,209)	(85.5) %	$ 442	11.6 %
Change in net deferred income taxes	250	17.7 %	2,361	62.1 %
	$ (959)	(67.8) %	$ 2,803	73.7 %

(dollars in thousands)

3. Income Taxes (Continued)

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

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

	December 31, 2005	December 31, 2004	Change
Total deferred tax assets	$ 12,591	$ 14,907	$ 2,316
Total deferred tax liabilities	(1,666)	(1,769)	(103)
Net deferred tax asset	$ 10,925	$ 13,138	2,213
Deferred tax on change in unrealized gains			147
Change in net deferred tax			$ 2,360

The components of the net deferred tax asset as of December 31, 2006 and 2005 are as follows:

	2006	2005
Deferred tax assets		
Insurance liabilities	$ 2,797	$ 2,990
Investments	119	313
Deferred policy acquisition costs and ceding commission	3,263	3,791
Tax goodwill	531	673
Loss carryforwards	4,556	4,315
Other	732	509
Gross deferred tax assets	11,998	12,591
Deferred tax liabilities		
Deferred and uncollected premiums	1,284	1,446
Investments	207	206
Other	22	14
	1,513	1,666
Net deferred tax asset	10,485	10,925
Less nonadmitted asset	(10,485)	(8,947)
Net deferred tax asset	$ -	$ 1,978

3. Income Taxes (Continued)

At December 31, 2006, the Company had approximately $10,823 of operating loss carryforwards available for offset against further taxable income.

Deferred tax liabilities are not recognized for the Company's Policyholder Surplus account under the provisions of the Internal Revenue Code. As of December 31, 2006, the Company had a balance of $3,908. This amount could become taxable to the extent that future shareholder dividends are paid from this account.

The Company's federal income tax return was or will be consolidated with Laurel for the years ending December 31, 2006 and 2005. The method of allocation between the companies is subject to a written agreement. Intercompany tax balances are settled when estimated payments are due and when the return is filed.

4. Information Concerning Parent, Subsidiaries and Affiliates

The Company reported $1,173 and $6 as amounts due from Laurel as of December 31, 2006 and 2005, respectively, and $632 and $6 due from other affiliated companies as of December 31, 2006 and 2005, respectively. Of the amounts due from Laurel, $1,151 is an intercompany tax balance which has been nonadmitted pursuant to SSAP No. 10 - *Income Taxes*. The Company has a management and service agreement with Laurel whereby the Company provides all management, personnel, administrative services, and facilities necessary to operate at no cost to Laurel, and a similar agreement with SUSA, which reimburses the Company for actual expenses incurred by the Company in rendering these services. The Company also has a tax-sharing agreement with Laurel, as described in Note 3. SFC guaranteed to the Company the intercompany settlements with its affiliates at December 31, 2006.

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

5. Debt

Borrowed money consisted of advances from the FHLB as of December 31, 2006 and 2005 as follows (in thousands):

	2006	2005
Short-term advances, bearing interest at 5.22% to 5.24% for 2006 and 4.2% to 4.25% for 2005	$ 64,195	$ 66,950
Amortizing advances with balloon payments, bearing interest at rates from 6.41% to 7.299% in 2006 and 2005, maturing from 2010 to 2016	49,159	51,218
Fully amortizing advances, bearing interest at rates ranging from 6.19% to 7.484% in 2006 and 2005, maturing from 2006 to 2017	4,596	5,119
	117,950	123,287
Accrued interest on advances	419	432
Total borrowed money	$ 118,369	$ 123,719

The short-term advances were issued in December 2006 and are durationally matched against underlying investments with variable, or floating, interest rates. The long-term advances were originally issued between November 17, 1995 and November 7, 1997, and are matched against investments with comparable duration. Interest expense was approximately $7,306 and $6,372 for the years ended December 31, 2006 and 2005, respectively, and is included in investment expenses. Annual maturities as of December 31, 2006 for the next five years and thereafter are as follows:

2007	$ 66,942
2008	2,926
2009	3,119
2010	3,328
2011	3,344
Thereafter	38,291
	$ 117,950

The Company is required to maintain a custodial account at the FHLB in amounts comparable to its borrowings. As of December 31, 2006, assets with an admitted value of approximately $121,468 and a FHLB loan value of approximately $117,936 supporting the advances resided at the Company's FHLB custodial account.

(dollars in thousands)

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

The Company's eligible employees participate in a benefit plan under 401(k) of the Internal Revenue Code. Employees may contribute up to 17% (subject to certain ERISA limitations) of their eligible compensation to the plan on a pre-tax basis, and the Company may make discretionary matching contributions. The Company contributed approximately $89 and $79 to the plan in 2006 and 2005, respectively. At December 31, 2006, the fair value of plan assets was $2,094.

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

The Company has 4,000,000 shares of common stock authorized and 2,000,000 shares issued and outstanding as of December 31, 2006 and 2005. 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. Dividend of $2,000 was declared and paid in 2006. Dividend of $400 was declared in 2005 to be paid in 2006. The maximum dividend that may be paid in 2007 without prior approval from the Texas Department is $3,391.

On October 20, 2005, SFC made a capital contribution to Sagicor USA, who ultimately made a capital contribution to the Company of $10,500.

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

	2006	2005
Unrealized gains and losses	$ (129)	$ (671)
Nonadmitted asset values	$ (13,329)	$ (10,120)
Asset valuation reserves	$ (3,514)	$ (3,194)

The Company has no outstanding surplus debentures or similar obligations at December 31, 2006 and 2005. There have been no quasi reorganizations at December 31, 2006 and 2005.

At periodic intervals, the TDI routinely examines the Company's statutory financial statements as part of their legally prescribed oversight of the insurance industry. Based on these examinations, the regulators can direct the Company's statutory financial statements to be adjusted in accordance with their findings.

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

Risk-based capital ("RBC") rules have been adopted by the TDI. RBC rules evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The effect of RBC is an early warning tool to assist regulators in identifying weakly capitalized companies. At December 31, 2006 and 2005, the Company's RBC exceeds the required regulatory levels at which the Company must initiate action with regulatory authorities.

8. Contingencies

Assessments

The Company is subject to assessments from the guaranty fund associations established by the various states in which it does business. Assessments are made by the associations to cover the insurance obligations of insolvent or rehabilitated insurance companies. In most states, guaranty fund assessments can be recovered through a reduction in future premium and other state taxes payable. Based on information available from the National Organization of Life and Health Insurance Guaranty Association, the Company accrued an approximate $481 and $575 liability at December 31, 2006 and 2005, respectively, for known insolvencies. A related asset for expected recoveries of approximately $228 and $321 as of December 31, 2006 and 2005, respectively, has been recorded. Assessments are expected to be paid and recoveries received over the next seven years and seventeen years, respectively.

All Other Contingencies

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

(dollars in thousands)

9. Leases

The Company's principal operations are located in a leased facility in Scottsdale, Arizona. The lease is a noncancelable operating lease with an initial term of 10 years starting in 2003 and an option to extend for another five years at 90% of the then effective fair market rental rate. The Company also leases office space for sales and administrative operations in Oklahoma City, Oklahoma under a three-year lease that expires in 2009 and in Indianapolis, Indiana under a month-by-month lease. Total office rental expense for the years ended December 31, 2006 and 2005 was approximately $782 and $638, respectively. The Company also leases certain mail equipment under a 52-month operating lease that expires in 2010. Total rental expense for this equipment was approximately $69 and $50 for the years ended December 31, 2006 and 2005, respectively. Future minimum rental commitments under these leases as of December 31, 2006 are as follows:

2007	$ 928
2008	946
2009	955
2010	843
2011	820
Thereafter	478
	$ 4,970

10. Information about Financial Instruments with Concentrations of Credit Risk

Concentrations

The Company maintains a mortgage loan portfolio consisting of first lien residential and commercial mortgages. At December 31, 2006 and 2005, the Company had residential mortgages with carrying values of $695 and $940, respectively and commercial mortgages with carrying values of $20,951 and $16,314, respectively.

(dollars in thousands)

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

Concentrations (Continued)
At December 31, 2006 and 2005, approximately the following percentages of the Company's related mortgage loan portfolios were located in the following states:

	2006	2005
Residential		
Arizona	9%	7%
Florida	7%	5%
Louisiana	31%	26%
Massachusetts	27%	28%
New York	8%	6%
North Dakota	14%	14%
Texas	0%	12%
Commercial		
Alabama	5%	7%
Arizona	13%	18%
California	5%	8%
Florida	7%	7%
Minnesota	7%	1%
New Mexico	7%	7%
Ohio	6%	5%
South Dakota	7%	0%
Texas	7%	10%

No other state accounted for more than 5%.

(dollars in thousands)

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

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

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

In 2006 and 2005, approximately the following percentages of the Company's direct premiums were written in the following states:

	2006	2005
Texas	25%	25%
California	19%	13%
Ohio	13%	13%
Georgia	6%	2%
Louisiana	5%	4%
Colorado	4%	6%

No other state accounted for more than 5%.

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

11. Reinsurance

Analysis of Specific Reinsurance Agreements
The Company annually evaluates the financial condition of its reinsurers and believes it has appropriately spread reinsurance risks among a group of highly rated reinsurers. In the event the assuming reinsurance companies are unable to meet their obligations under the reinsurance agreements in force, the Company would continue to have primary liability to policyholders for benefits. On life insurance policies issued prior to October 24, 1990, the Company retains no more than $50 on any one life and generally retains up to $250 per risk on policies issued subsequently.

The Company has reinsurance agreements with both Allianz Life Insurance Company ("Allianz") and Union Fidelity Life Insurance Company ("UFL") under which the Company assumes certain blocks of business written by these entities. In connection with these agreements, the Company has separate automatic bulk yearly renewable term non-refund agreements under which the Company retrocedes 95% of the mortality risk on these policies back to Allianz and UFL. In addition, the Company has administrative service agreements with both of these entities to service these blocks of business. Future policy benefits assumed and ceded under these reinsurance agreements were $5,740 and $9, respectively, at December 31, 2006 and $6,257 and $10, respectively, at December 31, 2005.

The Company has reinsurance agreements with Washington National Life Insurance Company ("Washington National") and Conseco Life Insurance Company ("Conseco Life"). The policies written by Washington National were primarily interest-sensitive, single-premium, whole life policies, while the policies under the Conseco Life agreement were primarily universal and traditional life policies. Future policy benefits assumed related to the Washington National agreement totaled approximately $38,444 and $38,406 (excluding $57,009 and $60,543, respectively, of assumed modified coinsurance benefits) as of December 31, 2006 and 2005, respectively. Future policy benefits assumed related to the Conseco Life agreement totaled approximately $15,935 and $17,582 as of December 31, 2006 and 2005, 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 $92,059 and $101,083 as of December 2006 and 2005, respectively. The reinsurance agreements also provide for the Company to administer these two blocks of business. Administrative fee income from Washington National for 2006 and 2005 was approximately $64 and $64, respectively.

On August 16, 1999, the Company entered into a Master Reinsurance Agreement with Baltimore Life Insurance Company ("Baltimore Life") whereby the Company agreed to 100% coinsure a certain block of business written by Baltimore Life. In addition, an administrative service agreement was executed with Baltimore Life to service this block. The Company paid a ceding commission to Baltimore Life of $1,850 and future policy benefits of $4,500 were initially assumed under this agreement. Future policy benefits assumed related to this agreement were $5,354 and $5,248 at December 31, 2006 and 2005, respectively.

11. Reinsurance (Continued)

Analysis of Specific Reinsurance Agreements (Continued)
On December 31, 1999, the Company entered into a Master Reinsurance Agreement with Old Reliance Insurance Company ("Old Reliance") whereby the Company agreed to reinsure, on a 75% quota share basis, certain blocks of business written by Old Reliance. At inception, the Company paid a $2,400 ceding commission to Old Reliance and future policy benefits of $12,700 were assumed under this agreement. The Company also executed an administrative service agreement, whereby the Company is responsible for the administration on this block. On April 1, 2000, the Company entered into another reinsurance agreement with Old Reliance whereby the Company agreed to reinsure the remaining 25% quota share. The Company paid an $800 ceding commission to Old Reliance and assumed future policy benefits of approximately $4,200. Total future policy benefits assumed under the two agreements as of December 31, 2006 and 2005 were approximately $16,260 and $16,461, 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, 2006, the unamortized portion of the deferred ceding commission was $6,853. Amortization for the years ended December 31, 2006 and 2005, was approximately $1,738 and $2,024, respectively. Total future policy benefits (including Modco) ceded under these treaties were approximately $181,525 and $192,545 as of December 31, 2006 and 2005, 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 provide 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 obtains the necessary approvals. As of January 1, 2006, all of the approvals have 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 2006, $1,050 remained unamortized). The Company recognized goodwill amortization of $162 for the years ended December 31, 2006 and 2005. As of December 31, 2006 and 2005, the amount of coinsurance reserves assumed under these agreements were $0 and $86, respectively.

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 $22,536 and $21,707 as of December 31, 2006 and 2005, 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 $10,785 and $10,358 as of December 31, 2006 and 2005, respectively.

(dollars in thousands)

11. Reinsurance (Continued)

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

		2006		2005
Reinsurance assumed				
Face amount	$	572,689	$	660,591
Reserves	$	109,670	$	131,022
Modified coinsurance reserves	$	57,009	$	60,543
Premiums	$	9,826	$	12,700
Benefits	$	14,844	$	14,048
Reinsurance ceded				
Face amount	$	881,838	$	970,177
Reserves	$	257,954	$	275,543
Modified coinsurance reserves	$	35,631	$	37,839
Premiums	$	10,853	$	11,138
Benefits	$	20,904	$	17,403

12. Participating Policies

For the years ended December 31, 2006 and 2005, premiums under individual and group participating policies were $46, or less than .5% and $50, or less than .5%, respectively, of total individual and group premiums earned. The Company paid dividends in the amount of $152 and $167 in 2006 and 2005, respectively, to policyholders and did not allocate any additional income to such policyholders.

13. Reserves for Life Contracts and Deposit-Type Contracts

For ordinary traditional life policies, the Company waives deduction of deferred fractional premiums upon death of the insured and returns any portion of the final premium beyond the month of death. An extra reserve is calculated based on average reserve factors and is $406 and $412 as of December 31, 2006 and 2005, 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, 2006 and 2005, the Company had $2,952 and $2,959, 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 $41 and $68 at December 31, 2006 and 2005, respectively.

(dollars in thousands)

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

Tabular interest, tabular less actual reserve released, and tabular cost have been determined by formula as described in the Annual Statement Instructions.

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

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

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

	2005 Amount	% Total
Subject to discretionary withdrawal-with adjustment		
With market value adjustment	$ 4,703	1.3%
At book value less surrender	183,640	51.9%
Subtotal	188,343	53.2%
Subject to discretionary withdrawal-without adjustment-at book value (minimal or no charge or adjustment)	153,536	43.4%
Not subject to discretionary withdrawal provisions	12,143	3.4%
Subtotal	165,679	46.8%
Total annuity actuarial reserves and deposit liabilities (gross)	354,022	100.0%
Less Reinsurance	162,920	
Total annuity actuarial reserves and deposit liabilities (net)	$ 191,102	

(dollars in thousands)

15. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2006 and 2005, respectively, were as follows:

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

	2005		
	Gross	Net of Loading	Loading
Ordinary first year	$ 4	$ 3	$ 1
Industrial renewal	4	2	2
Ordinary renewal	5,857	4,135	1,722
Group renewal	5	4	1
Total	$ 5,870	$ 4,144	$ 1,726

16. Reconciliation to Statutory Filings

The Company is required to prepare and file annual financial statements ("Annual Statement") with insurance regulatory authorities. The 2006 audited results included herein contain adjustments not recorded by the Company in its Annual Statement. The Company overstated the 2006 current federal income tax recoverable by $1,151 as reported in the 2006 Annual Statement resulting in surplus as in regards to policyholders to be overstated by the equal amount in the 2006 Annual Statement. This overstatement was as a result of improper recognition of intercompany receivable from Laurel, as included in the current federal income tax recoverable at December 31, 2006, related to prior year tax payment made by the Company on behalf of Laurel. The Company did not make timely settlement with Laurel in accordance with SSAP No. 10 - *Income Taxes* which states that the intercompany balance shall be nonadmitted if recoverable is not settled within ninety days of the filing of a consolidated income tax return, or where a refund is due the reporting entity's parent, within ninety days of the receipt of such refund. The correction was made to the accompanying statutory financial statements for the year ended December 31, 2006.

(dollars in thousands)

16. Reconciliation to Statutory Filings (Continued)

The following is a reconciliation between the accompanying statutory financial statements and the Annual Statement filed with the insurance regulatory authorities as of December 31, 2006:

	Per Annual Statement	Current Year Adjustments	As Reported Herein
Current federal income tax recoverable	$ 2,940	$ (1,151)	$ 1,789
Total admitted assets	480,592	(1,151)	479,441
Change in nonadmitted assets	$ (2,058)	$ (1,151)	$ (3,209)
Unassigned surplus	796	(1,151)	(355)
Total capital and surplus	35,057	(1,151)	33,906

ACCOMPANYING INFORMATION

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities
Year Ended December 31, 2006

(dollars in thousands)

Investment income earned	
Government bonds	$ 3,141
Other bonds (unaffiliated)	18,998
Preferred stock (unaffiliated)	402
Common stock (unaffiliated)	282
Mortgage loans	1,314
Real estate	77
Contract loans	865
Cash/short-term investments	120
Other invested asset	658
Gross investment income	$ 25,857
Mortgage loans - book value	
Residential	$ 695
Commercial	20,951
Total mortgage loans	$ 21,646
Mortgage loans by standing - book value	
Good standing	$ 21,249
Good standing with restructured terms	$ 136
With overdue interest over 90 days, not in process of foreclosure	$ 261
In process of foreclosure	$ -
Bonds and short-term investments by class and anticipated maturity	
Bonds and short-term investments by anticipated maturity - statement value:	
Due within one year or less	$ 44,103
Over 1 year through 5 years	166,898
Over 5 years through 10 years	123,065
Over 10 years through 20 years	61,559
Over 20 years	15,066
Total by anticipated maturity	$ 410,691
Bonds and short-term investments by class - statement value	
Class 1	$ 354,998
Class 2	52,239
Class 3	1,348
Class 4	2,038
Class 5	68
Class 6	-
Total by class	$ 410,691

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

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities, (Continued)
Year Ended December 31, 2006

(dollars in thousands)

Total bonds and short-term investments publicly traded	$	409,698
Total bonds and short-term investments privately placed	$	993
Preferred stock - statement value	$	6,966
Common stock, unaffiliated - market value	$	5,311
Short-term investments - book value	$	1,066
Cash on deposit	$	(1,085)
Life insurance in force:		
Industrial	$	7,533
Ordinary	$	621,622
Group life	$	50,837
Amount of accidental death insurance in force under ordinary policies	$	84,260
Life insurance policies with disability provisions in force:		
Ordinary	$	210,588
Group	$	1,488
Supplementary contracts in force:		
Ordinary - not involving life contingencies:		
Amount on deposit	$	3,296
Income payable	$	2,041
Ordinary - involving life contingencies:		
Income payable	$	508
Annuities		
Ordinary		
Immediate - amount of income payable	$	207
Deferred - fully paid account balance	$	201,947
Deferred - not fully paid account balance	$	58,409
Group:		
Immediate - amount of income payable	$	18
Deferred - fully paid account balance	$	17,155
Deferred - not fully paid account balance	$	53,273

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

Sagicor Life Insurance Company
Supplemental Schedule of Assets and Liabilities, (Continued)
Year Ended December 31, 2006

(dollars in thousands)

Accident and health insurance - premiums in force	
Ordinary	$ 469
Group	$ 4
Deposit funds and dividend accumulations	
Deposit funds - account balance	$ 285
Dividend accumulation - account balance	$ 7,862
Claim payments 2006	
Group accident and health:	
2006	$ 1
2005	$ 3
Other accident and health	
2006	$ 15
2005	$ 8

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

Sagicor Life Insurance Company
Summary Investment Schedule
December 31, 2006

(dollars in thousands)	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Assets as Reported in the Annual Statement Amount	Admitted Assets as Reported in the Annual Statement Percentage
1. Bonds:				
U.S. Treasury securities	$ 1,246	0.3%	$ 1,246	0.3%
U.S. government agency obligations:				
Issued by U.S. government agencies	2,240	0.5%	2,240	0.5%
Issued by U.S. government sponsored agencies	20,943	4.5%	20,942	4.5%
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
U.S. states and territories general obligations	8,771	1.9%	8,771	1.9%
Political subdivisions of U.S. states territories and possessions general obligations	7,817	1.7%	7,817	1.7%
Revenue and assessment obligations	6,355	1.4%	6,355	1.4%
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Guaranteed by GNMA	6,335	1.4%	6,335	1.4%
Issued by FNMA and FHLMC	64,787	14.1%	64,787	14.1%
All other	8,813	1.9%	8,813	1.9%
Other mortgage-backed securities:				
Issued by GNMA, FNMA, FHLMC or VA	87,737	19.0%	87,737	19.0%
All other	55,883	12.1%	55,883	12.1%
2. Other debt securities (excluding short-term):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	138,500	30.0%	138,500	30.0%
Unaffiliated foreign securities	198	0.0%	199	0.0%
3. Equity interests:				
Investments in mutual funds	1,066	0.2%	1,066	0.2%
Preferred stocks:				
Unaffiliated	6,966	1.5%	6,966	1.5%
Publicly traded equity securities (excluding preferred stocks):				
Unaffiliated	5,311	1.2%	5,311	1.2%
4. Mortgage loans:				
Single family residential properties	695	0.2%	695	0.2%
Commercial loans	20,951	4.5%	20,951	4.5%
5. Real estate investments	-	0.0%	-	0.0%
6. Contract loans	15,060	3.3%	15,060	3.3%
7. Receivable for Securities	941	0.2%	941	0.2%
8. Cash and short-term investments	(1,085)	-0.2%	(1,085)	-0.2%
9. Other invested assets	1,500	0.3%	1,500	0.3%
10. Total invested assets	$ 461,030	100.0%	$ 461,030	100.0%

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

Sagicor Life Insurance Company
Investment Risks Interrogatories
December 31, 2006
(dollars in thousands)

1. Total admitted assets $ 479,441

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

Issuer	Description of Exposure		Book/ Adjusted Carrying Value	% of Admitted Assets
FHLB of Dallas	Common stock	$	5,311	1.1%
Mastr 2003-12 6A2	CMO	$	5,298	1.1%
Rast 2003-1A A1	CMO	$	5,113	1.1%
CMSI	CMO	$	3,650	0.8%
Goldman Sachs	Bond	$	3,365	0.7%
Washington Mutual	Bond	$	3,251	0.7%
CWHL 2003-14 A2	CMO	$	2,856	0.6%
Aegon NV	Bond	$	2,591	0.5%
Delmarva Power & Light	Bond	$	2,514	0.5%
Cottonwood	Mortgage	$	2,229	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.

Investment Category		Book/ Adjusted Carrying Value	% of Admitted Assets
Bonds:			
NAIC - Rated 1	$	354,997	74.0%
NAIC - Rated 2	$	52,239	10.9%
NAIC - Rated 3	$	1,348	0.3%
NAIC - Rated 4	$	2,038	0.4%
NAIC - Rated 5	$	68	0.0%
Preferred stocks:			
P/RP - 1	$	4,996	1.0%
P/RP - 2	$	1,532	0.3%
P/RP - 5	$	439	0.1%

4. 4.02 Total admitted assets held in foreign investments $ 198

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

(dollars in thousands)

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

Name of Issuer		Book/Adjusted Carrying Value	% of Admitted Assets
FHLB of Dallas	$	5,311	1.1%
Co Bank, ABC 144A	$	2,000	0.4%
Bac Cap Trust I	$	1,271	0.3%
Citigroup VIII	$	1,271	0.3%
Washington Mutual	$	640	0.1%
News Corp Fin II	$	603	0.1%
National Australia Bank	$	455	0.1%
Newell Fin. Tr	$	288	0.1%
Ford Motor Co.	$	253	0.1%
Village Road Show	$	186	0.0%

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

Type		Book/Adjusted Carrying Value	% of Admitted Assets
Commercial - Cottonwood, AZ	$	2,229	0.50%
Commercial - Gettysburg, SD	$	1,535	0.30%
Commercial - Prattville, AL	$	507	0.10%
Commercial - Minneapolis, MN	$	410	0.10%
Commercial - Shakopee, MN	$	387	0.10%
Commercial - Moorestown, NH	$	384	0.10%
Commercial - Provo, UT	$	381	0.10%
Commercial - Huntsville, AL	$	365	0.10%
Commercial - Ft. Myers, FL	$	329	0.10%
Commercial - Pocotella, ID	$	305	0.10%

Mortgage loans over 90 days past due	$ 261
Restructured mortgage loans	$ 136

(dollars in thousands)

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

	Residential		Commercial	
Loan-to-Value	1	2	1	2
Above 95%				
91% to 95%				
81% to 90%	$ 75	82.0 %		
71% to 80%	$ 14	71.0 %	$ 9,662	73.0 %
Below 70%	$ 607	37.0 %	$ 11,289	61.0 %

Note: Interrogatories 5 through 12, 14, 15 and 18 through 22, as well as certain parts of interrogatory 4, are not applicable.