Atlantic Coast Life Insurance Company

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended December 31, 2017

Larson
CERTIFIED PUBLIC ACCOUNTANTS

ATLANTIC COAST LIFE INSURANCE COMPANY

CONTENTS

Larson
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Board of Directors
Atlantic Coast Life Insurance Company

We have audited the accompanying financial statements of **Atlantic Coast Life Insurance Company**, which comprise the balance sheet as of December 31, 2017, and the related statement of income, comprehensive income, changes in stockholder's equity, and cash flows for the year then ended December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Atlantic Coast Life Insurance Company** as of December 31, 2017, and the results of its operations and its cash flows for the year then ended December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

Larson & Company, P.C.

Salt Lake City, Utah
October 19, 2018

Larson & Company
9065 South 1300 East, Salt Lake City, Utah 84094
Main: (801) 313-1900 | Fax: (801) 313-1912
www.larsco.com

ATLANTIC COAST LIFE INSURANCE COMPANY

Balance Sheet

As of December 31, 2017

Assets	
Investments:	
Bonds available for sale, at estimated fair value,	$ 133,843,786
Bonds withheld for reinsurance, at estimated fair value	16,654,028
Common stock, at fair market value	5,660,880
Mortgage loans, amortized cost	24,201,195
Derivatives	185,451
Other invested assets	11,379,650
Other invested assets withheld for reinsurance, at estimated fair value	10,000,000
Short-term investments	2,249,999
Short-term investments withheld for reinsurance, at estimated fair value	203,053,079
Policy loans	663,531
Total investments	407,891,599
Cash and cash equivalents, at estimated fair value	9,411,891
Cash and cash equivalents withheld for reinsurance, at estimated fair value	24,203,164
Accrued investment income	2,349,283
Accrued investment income, withheld for reinsurance	613,585
Premiums, reinsurance, and other receivables, net of uncollectable agent balances	434,922,695
Deferred policy acquisition costs	5,361,872
Property and equipment, net	2,955,472
Value of business acquired (VOBA)	26,428,343
Other assets	24,099
Total assets	$ 914,162,003
Liabilities and Stockholder's Equity	
Liabilities:	
Future policy benefits	$ 293,762,078
Policyholder account balances	290,906,105
Other policy-related balances	654,748
Payables and accrued liabilities	9,606,011
Funds held under reinsurance treaties	258,717,701
Deferred income tax liability	4,848,443
Federal income taxes payable	446,934
Unearned investment income	33,631
Derivatives	65,660
Surplus notes payable	8,750,000
Total liabilities	867,791,311
Stockholder's equity:	
Common stock, $18.9328037 par value; 132,060, shares authorized; 300,000 issued, and outstanding as of December 31, 2017	2,500,001
Additional paid-in capital	40,335,499
Accumulated deficit	(64,049)
Accumulated other comprehensive income (loss), net of tax	3,599,241
Total stockholder's equity	46,370,692
Total liabilities and stockholder's equity	$ 914,162,003

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Statement of Income

For the Year Ended December 31, 2017

Revenues:		
Premiums revenue	$	77,076,363
Net investment income		11,600,182
Total		88,676,545
Net investment gains:		
Realized investment gains (losses)		(698,456)
Total net investment gains (losses)		(698,456)
Other revenues		26,817
Total revenues		88,004,906
Expenses:		
Policyholder benefits and claims and adjustments to policyholder accounts		72,647,731
Commission expense, net of ceding allowance of ($13,673,426)		(5,362,828)
Operating expenses, net of ceding allowance of ($1,394,121)		8,450,416
Taxes, licenses, and fees		692,459
Total expenses		76,427,778
Other expenses:		
Interest expense		650,000
Total other expenses		650,000
Net income (loss) before provision for income taxes		10,927,128
Income tax benefit (expense)		3,424,688
Net income (loss)	$	14,351,816

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Statement of Comprehensive Income
For the Year Ended December 31, 2017

Net income (loss)	$ 14,351,816
Other comprehensive income (loss):	
Unrealized investment gains (losses) arising during period	5,691,439
Less reclassification adjustment for (gains) losses included in net income	698,456
Other comprehensive income (loss) before income tax	6,389,895
Income tax expense (benefit) related to items of other comprehensive income (loss)	715,228
Other comprehensive income (loss) net of income tax	5,674,667
Total comprehensive income (loss)	$ 20,026,483

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2017

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholder's Equity
Balance at December 31, 2017	$ 660,230	$ 42,175,270	$ (13,973,103)	$ (2,518,188)	$ 26,344,209
Net income	-	-	14,351,816	-	14,351,816
Other comprehensive gain, net of income tax	-	-	-	5,674,667	5,674,667
Change in par value	1,839,771	(1,839,771)	-	-	-
Stranded tax effect reclass	-	-	(442,762)	442,762	-
Balance at December 31, 2017	$ 2,500,001	$ 40,335,499	$ (64,049)	$ 3,599,241	$ 46,370,692

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

ATLANTIC COAST LIFE INSURANCE COMPANY

Statement of Cash Flows
For the Year Ended December 31, 2017

Cash from operating activities:		
Net income (loss)	$	14,351,816
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation expense		170,649
Amortization of VOBA		1,016,095
Amortization of premiums and discounts associated with investments		(1,592,577)
(Gains) losses on investments		698,456
Change in assets and liabilities:		
Policy loans		(498,209)
Accrued investment income		(608,116)
Premiums, reinsurance, and other receivables		(234,195,437)
Deferred acquisition costs		(2,694,801)
Federal income taxes receivable		1,592,682
Related party receivables		75
Other assets		294,321
Future policy benefits		152,778,607
Policyholder account balances		103,833,103
Other policy-related balances		518,489
Payable and accrued liabilities		(40,652,607)
Deferred income tax liability		(5,400,474)
Federal income taxes payable		446,934
Unearned investment income		(1,703)
Other		(92,594)
Net cash used by operating activities		(10,035,291)
Cash from investing activities:		
Sales, maturities and repayments of:		
Bonds		266,359,788
Equity securities		15,871,341
Mortgage loans		17,745,339
Other invested assets		12,394,636
Derivatives		27,453
Purchases of:		
Bonds		(161,651,305)
Equity securities		(19,452,372)
Mortgage loans		(23,458,300)
Property and equipment		(108,450)
Other invested assets		(32,106,199)
Short-term investments, net		(205,689,078)
Derivatives		(107,554)
Net cash provided from investing activities		(130,174,701)
Cash flow from financing and miscellaneous activities:		
Funds held under reinsurance treaties		109,467,248
Net cash provided from financing activities		109,467,248
Change in cash and cash equivalents		(30,742,744)
Cash and cash equivalents, beginning of year		64,357,799
Cash and cash equivalents, end of year	$	33,615,055

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

1. ORGANIZATION

Atlantic Coast Life Insurance Company (the Company) was incorporated on February 4, 1925 and commenced writing business on March 1, 1925. On February 24, 2015, YBCO, LLC, the company's former parent, entered into a stock purchase agreement to sell the Company to Advantage South, LLC, a Delaware limited liability company. The transaction was approved by the South Carolina Department of Insurance (the Department) on May 21, 2015, and was closed June 5, 2015. As of December 31, 2017, the principal lines of business of the company were ordinary and group life insurance and ordinary annuities, which made up approximately 99% of the company's premiums. The company is domiciled in South Carolina and licensed in 24 other states.

During 2016, the Company began selling multi-year guaranty annuity (MYGA) products primarily through independent marketing organizations. The growth in this product line, along with the reinsurance activity in 2016, is the primary contributor to the growth in assets and liabilities on the balance sheet.

Advantage South, LLC is 61% owned by Advantage Capital Holdings, LLC, and was formed on January 23, 2015 to serve as an insurance holding company for the acquisition of the Company. Privately held Advantage Capital Holdings is a member of a group of affiliated companies with insurance operations.

The Company is subject to the broad administrative powers of the Department, which include, but are not limited to, limitation of dividends distributable and demands for additional capital and surplus.

Basis of Presentation

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The following are the Company's significant accounting policies with references to notes providing additional information on such policies and critical accounting estimates relating to such policies.

Use of Estimates

The preparation of financial statements requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the financial statements. In applying these policies and estimates, management makes subjective and complex judgments that frequently require assumptions about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to the Company's business and operations. Actual results could differ from estimates.

- Unpaid losses and loss expenses;
- Policy benefits for life and annuity contracts;
- Recoverability of deferred acquisition costs;
- Recoverability of deferred tax assets;
- Valuation and intangible assets; and
- Valuation of certain assets and derivative financial instruments that are measured using significant unobservable inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future Policy Benefit Liabilities and Policyholder Account Balances

The Company establishes liabilities for amounts payable under insurance policies. Generally, amounts are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with U.S. GAAP and applicable actuarial standards.

Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, disability incidence, investment returns, inflation, expenses and other contingent events as appropriate to the respective product type and geographical. These assumptions are established at the time the policy is issued and are intended to estimate the experience for the period the policy benefits are payable. Utilizing these assumptions, liabilities are established on a block of business basis.

For long duration insurance contracts, assumptions such as mortality, morbidity and interest rates are “locked in” upon the issuance of new business. However, significant adverse changes in experience on such contracts may require the establishment of premium deficiency reserves. Such reserves are determined based on the then current assumptions and do not include a provision for adverse deviation.

Premium deficiency reserves may also be established for short duration contracts to provide for expected future losses. These reserves are based on actuarial estimates of the amount of loss inherent in that period, including losses incurred for which claims have not been reported. The provisions for unreported claims are calculated using studies that measure the historical length of time between the incurred date of a claim and its eventual reporting to the Company.

The Company regularly reviews its estimates of liabilities for future policy benefits and compares them with its actual experience. Differences result in changes to the liability balances with related charges or credits to benefit expenses in the period in which the changes occur. Policyholder account balances relate to contract or contract features where the Company has no significant insurance risk. The Company issues directly certain annuity products with insurance risk. These annuities are accounted for as insurance liabilities.

The Company waives deduction of deferred fractional premiums upon death of insured and returns any portion of the final premium beyond the death date. Surrender values are not promised in excess of the legally computed reserves. The reserve for waiver of deferred fractional premiums upon death is determined, by line of business, using total net premium and a reserve factor over the average remaining premium paying period. Since all policies are monthly pay, there is no reserve for return of premium.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Policy-Related Balances

Other policy-related balances include policy and contract claims, unearned revenue liabilities, premiums received in advance, policyholder dividends due and unpaid, and policyholder dividends left on deposit. The liability for policy and contract claims generally relates to incurred but not reported death or accident and health claims, as well as claims which have been reported but not yet settled. The liability for these claims is based on the Company's estimated ultimate cost of settling all claims. The Company derives estimates for the development of incurred but not reported claims principally from analyses of historical patterns of claims by business line. The methods used to determine these estimates are continually reviewed. Adjustments resulting from this continuous review process and differences between estimates and payments for claims are recognized in policyholder benefits and claims expense in the period in which the estimates are changed or payments are made.

The Company accounts for the prepayment of premiums on its individual life as premium received in advance and applies the cash received to premiums when due.

Recognition of Premium Revenue and Related Expenses

Premiums related to group and ordinary life, and annuity policies are recognized as revenues when due from policyholders. Policyholder benefits and expenses are provided to recognize profits over the estimated lives of the insurance policies. When premiums are due over a significantly shorter period than the period over which benefits are provided, any excess profit is deferred and recognized into earnings in a constant relationship to insurance in-force or, for annuities, the amount of expected future policy benefit payments.

Deposits related to investment-type products are credited to PABs (policyholder account balances). Revenues from such contracts consist of fees for policy administration and surrender charges and are recorded in investment-type product policy fees in the period in which services are provided. Amounts that are charged to earnings include interest credited in excess of related PABs. Premiums, policy fees, policyholder benefits and expenses are presented net of reinsurance.

Uncollected life insurance premiums are included in the premiums, reinsurance, and other receivables account balance on the balance sheet.

Deferred life insurance premiums are included in the future policy benefits and policyholder account balances on the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Policy Acquisition Costs and Value of Business Acquired

The Company incurs significant costs in connection with acquiring new and renewal insurance business. Costs that are related directly to the successful acquisition or renewal of insurance contracts are capitalized as deferred acquisition costs (DAC).

Such costs include: (i) incremental direct costs of contract acquisition, such as commissions; (ii) the portion of an employee's total compensation and benefits related to time spent selling, underwriting or processing the issuance of new and renewal insurance business only with respect to actual policies acquired or renewed; (iii) other essential direct costs that would not have been incurred had a policy not been acquired or renewed; and (iv) in limited circumstances, the costs of direct-response advertising, the primary purpose of which is to elicit sales to customers who could be shown to have responded specifically to the advertising and that results in probable future benefits.

All other acquisition-related costs, including those related to general advertising and solicitation, market research, agent training, product development, unsuccessful sales and underwriting efforts, as well as all indirect costs, are expensed as incurred. DAC is amortized over the estimated lives of the related insurance contracts in proportion to the following:

- Non-participating and non-dividend-paying traditional contracts: Historic actual and expected future gross premiums.
- Non-participating whole life insurance: Historic actual and expected future gross premiums
- Participating, dividend-paying traditional contracts: Actual and expected future gross margins.
- Fixed deferred annuity contracts: Actual and expected future gross profits.

Value of business acquired is the present value of future estimated profits of the acquired business and is amortized similar to deferred acquisition costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reinsurance

For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Cessions under reinsurance agreements do not discharge the Company's obligations as the primary insurer. The Company reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. For reinsurance of existing in-force blocks of long-duration contracts that transfer significant insurance risk, the difference, if any, between the amounts paid (received), and the liabilities ceded related to the underlying contracts is considered the net cost of reinsurance at the inception of the reinsurance agreement.

Amounts currently recoverable under reinsurance agreements are included in premiums, reinsurance and other receivables and amounts currently payable are included in other liabilities. Assets and liabilities relating to reinsurance agreements with the same reinsurer may be recorded net on the balance sheet, if a right of offset exists within the reinsurance agreement. The Company has elected to report the reserve credits taken on future policy benefits and policyholder account balances as reinsurance recoverables on the balance sheets as assets. In the event that reinsurers do not meet their obligations to the Company under the terms of the reinsurance agreements, reinsurance recoverable balances could become uncollectible. In such instances, reinsurance recoverable balances are stated net of allowances for uncollectible reinsurance.

If the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the Company records the agreement using the deposit method of accounting. Deposits received are included in other liabilities and deposits made are included within premiums, reinsurance and other receivables. As amounts are paid or received, consistent with the underlying contracts, the deposit assets or liabilities are adjusted. Interest on such deposits is recorded as other revenues or other expenses, as appropriate. Periodically, the Company evaluates the adequacy of the expected payments or recoveries and adjusts the deposit asset or liability through other revenues or other expenses, as appropriate. Currently, no reinsurance agreements are accounted for using the deposit method of accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds Held Under Reinsurance Treaties

A provision in two of the Company's reinsurance treaties require all of the premium due the reinsurer not be paid but rather withheld by the Company. This is to enable the Company to reduce the provision for unauthorized reinsurance in its statutory statement or are withheld by the cedent to reduce a potential credit risk or to retain control over the investments. The reinsurer's assets are shown as funds held under reinsurance treaties in the liabilities section of the balance sheet. Although required for its statutory financial statements, the Company accounts for these funds in a consistent manner for U.S. GAAP.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents. Therefore, cash and cash equivalents include demand deposits, money market funds, and funds withheld for ceded reinsurance. The carrying amounts of these assets are stated at cost which approximates fair value.

Premiums, Reinsurance, and Other Receivables

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Investments

The Company has classified its bonds, short-term investments, equities and certain other invested assets as available for sale (excluding those that are accounted for using the cost of equity methods of accounting). All changes in the fair value are recorded in other comprehensive income in the balance sheet. The Company defines fair value as the price received to sell as asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of bonds is estimated using recently executed transactions, market price quotations from recognized data vendors, or prices provided by market makers.

Short-term investments comprise securities with a maturity greater than three months but less than one year from date of purchase.

Other invested assets consist primarily of investments in non-publicly traded companies, private placement equity and fixed maturity investments, financial instruments, collateral loans and other specialty asset classes. Non-publicly traded entities in which the Company has more than a minor interest, are accounted for using either the equity method or the fair value option. The remaining other invested assets are recorded based on valuation techniques depending on the nature of the individual assets. The valuation techniques used by the Company are generally commensurate with standard valuation techniques for each asset class.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

Mortgage loans are stated at the outstanding principal amount, adjusted for amortization in the premium and accrual of discount, less an allowance for potential future losses. A loan is considered impaired if it is probable that all contractual amounts due will not be collected. The allowance for potential future losses on mortgage loans maintained is adequate to absorb potential future credit losses. Management's periodic evaluation and assessment of the adequacy of the allowance is based on known and inherent risks in the portfolio, historical and industry data, current economic conditions and other relevant factors, along with specific risk related to specific loans.

Policy loans are carried at the outstanding principal amount.

Net Investment Income

Net investment income includes interest and dividend income, amortization of premium and discounts on fixed maturities, short-term and cash equivalent investments, interest on mortgage loans, real estate, contract loans and derivatives, and is net of investment expenses including depreciation on real estate and other invested assets and interest paid on a reinsurance asset transfer.

Investment income on mortgage-backed securities is initially based upon yield, cash flow, and prepayment assumptions at the date of purchase. Subsequent revisions in those assumptions are recorded using the retrospective method, except for adjustable rate residential mortgage-backed securities where the prospective method is used. Under the retrospective method, the amortized cost of the security is adjusted to the amount that would have existed had the revised assumptions been in place at the time of purchase. Under the prospective method, future cash flows are estimated and interest income is recognized going forward using the new effective yield to maturity. The adjustments to amortized cost under both methods are recorded as a charge or credit to net investment income. These results are based upon validations and comparisons to similar securities provided by third parties, such as rating agencies. Amounts due from, but not yet paid, are included on the balance sheet in accrued investment income.

Derivatives

On July 11, 2017, the South Carolina Department of Insurance approved the Derivative Use Plan ("DUP") of the Company, as required under South Carolina Insurance Code 38-12-300. The Plan was filed in relation to the Company's implementation of a hedge strategy designed to control the economic risk of loss due to changes in value, yield, price, cash flow or quantity of assets and liabilities that the Company has, or may acquire, and/or to mitigate the economic impact of any potential changes in the currency exchange rates or the degree of exposure as to the assets or liabilities denominated in a foreign currency. The Company adopted a position that considers certain derivative instruments to be a prudent component of its investment and risk management activities and established a plan that all derivative transactions entered into by, or on behalf of, the Company must be in compliance with.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivatives (Continued)

a. Discussion of the Market Risk, Credit Risk, and Cash Requirements of Derivatives:

The Company uses derivatives to manage risks from changes in interest rates or foreign currency values, to alter interest rate or currency exposures arising from mismatches between assets and liabilities (including duration mismatches), to hedge against changes in the value of assets it anticipates acquiring and other anticipated transactions and commitments it plans on entering into and to replicate the investment performance of otherwise permissible investments. Insurance statutes restrict the Company's use of derivatives for speculation purposes.

The Company, at inception, may designate derivatives as (1) hedge of the fair value of a recognized asset or liability or unrecognized firm commitment, (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid to a recognized asset or liability, or (3) a derivative that does not qualify for hedge accounting, including replications.

Most of the Company's derivative arrangements with counterparties require the posting of collateral upon meeting certain net exposure thresholds. For derivatives related to securitization entities, there are no arrangements that require either party to provide collateral and the recourse of the derivatives counterparty is typically limited to the assets held by the securitization entity and there is no recourse to any entity other than the securitization entity.

The Company is also exposed to credit-related losses in the event of nonperformance by counterparties to derivative instruments. The Company manages counterparty risk by transacting with high-rated counterparties and uses collateral support where possible. The Company's maximum credit exposure to derivative counterparties is limited to the sum of the net fair value of contracts with counterparties that exhibit a positive fair value of net collateral.

b. Description of the Company's Objectives for Using the Derivatives:

The Company uses interest rate swaps, equity index options, equity return swaps, credit default swaps and/or financial futures for hedging. Interest rate swaps and financial futures are used to reduce market risks from changes in interest rates and to alter interest rate exposures arising from mismatches between assets and liabilities. Equity index options and equity return swaps are used to hedge the equity market risks that are part of some of the Company's annuity liabilities. Credit default swaps are used to manage the credit risk of bond investments by entering into agreements that protect against potential reductions in credit quality.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivatives (Continued)

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability or forecasted transaction that has been designated as a hedged item, states how the hedging instrument is expected to hedge the risks related to the hedged item and sets for the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness. The Company generally determines hedge effectiveness based on total changes in fair value of a derivative instrument.

The Company discontinues hedge accounting prospectively when: (i) it is determined that the derivatives is no longer effective in offsetting changes in the fair value of the cash flows of a hedge item, (ii) the derivative expires or is sold, terminated or exercised, (iii) the derivative is re-designed as a hedge instrument is no longer appropriate.

The Company designates and accounts for the follow as fair value hedges when they have met the effectiveness requirements of FASB Accounting Standard Codification 815, *Derivatives and Hedging* (ASC 815): (i) various types of interest rate swaps to convert fixed rate investments to floating rate investments, and (ii) other instruments to hedge various other fair value exposures of investments.

The Company also uses certain derivatives, including equity options and financial future and certain interest rate swaps for hedging that (i) do not meet or no longer meet the criteria of an effective hedge or (ii) meet the required hedge criteria but the Company has chosen not to apply hedge accounting. These derivatives are accounted for at fair value with the changes in fair value recorded in surplus as a realized gain (loss).

c. Description of the Accounting Policies for Recognizing and Measuring Derivatives Used:

Derivative instruments are carried at values consistent with the items being hedged. As of December 31, 2017, interest rate swaps that are qualifying for hedge accounting were carried at amortized cost while non-qualifying interest rate swaps, credit default swaps, options, equity return swaps and/or futures were carried at fair value. Realized investment gains and losses are reflected as an element of net income, net tax. Any fees associated with swaps are held in surplus and the full fee amount will be recognized in income at the time of termination.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment is carried at cost, net of accumulated depreciation. Maintenance and repairs which do not materially extend the useful lives of furniture and equipment and minor replacements are charged to earnings as incurred.

Electronic data processing (EDP) equipment is depreciated on the straight-line basis over an estimated useful life of three to five years. Depreciation expense was $23,045 for the year ended December 31, 2017.

Furniture and fixtures are depreciated on the straight-line basis over a five to fifteen year period. Depreciation expense for furniture and fixtures was $1,430 for the year ended December 31, 2017.

Automobiles are depreciated on the straight-line basis over seven years. Depreciation expense was $18,834 for the year ended December 31, 2017.

Guarantee Assessments

The states in which the Company operates have guaranty fund laws under which insurers doing business in the state are required to fund policyholder liabilities of insolvent insurance companies. Generally, assessments are levied within the state, up to prescribed limits, on all insurers doing business in the state on the basis of the proportionate share of the premiums written by insurers doing business in that state in the lines of business in which the impaired, insolvent or failed insurer is engaged. Guarantee assessments of $6,426 for the year ended December 31, 2017 were expensed.

Policy and Contract Claims

The liability for life, accident, and health policyholder claims was estimated using past experience and other actuarial methods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company is classified as a "C" corporation under the Internal Revenue Code and as such they are subject to income taxes. Income taxes are provided for the tax effects of transactions presented in the financial statements. Deferred income taxes are calculated using the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are provided based on the difference between the financial reporting and tax reporting bases of assets and liabilities as measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse.

Deferred income tax expense or benefit is the result of changes in deferred income tax assets and liabilities. An allowance against deferred income tax assets is recorded in whole or in part when it is more likely than not that those deferred income tax assets will not be realized.

Net cash paid for federal income taxes was $1,965,000 for the year ended December 31, 2017.

The Company accounts for uncertain tax positions in accordance with certain provisions of FASB ASC 740. Management has determined that the Companies do not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Company's tax returns will not be challenged by the taxing authorities and that the Company will not be subject to additional tax, penalties, and interest as a result of such challenge. The Company's federal income tax returns from 2016 through 2014 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of temporary cash investments, fixed maturity securities, and receivables.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense was $81,443 for the year ended December 31, 2017.

Comprehensive Income

The Company presents comprehensive income in accordance with the standards established by the Comprehensive Income topic of FASB ASC 220. Comprehensive income consists of net income and net unrealized gains or losses on securities and is presented in the statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Continued)

In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220). The amendments in this Update allows for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects. Business entities should apply the amendments in ASU 2018-02 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance.

The Company has elected to early implement ASU 2018-02 and reclassify the stranded income tax effects, related to unrealized gains (losses), from the Tax Cuts and Jobs Act, from accumulated other comprehensive income to retained earnings as of and for the year ended December 31, 2017. The effects of the reclass are included in the Statements of Changes in Stockholder's Equity. There were no other income tax effects that resulted in reclassification.

3. INVESTED ASSETS ON DEPOSIT

At December 31, 2017, bonds with a fair market value of $2,414,790 were on deposit with state insurance departments to satisfy regulatory requirements.

4. INVESTMENTS

The cost/amortized cost and approximate fair values of investments are as follows:

	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
Bonds:				
Available-for-sale	$ 131,731,549	$ 2,862,096	$ (749,859)	$ 133,843,786
Withheld for reinsurance	15,585,381	1,146,613	(77,966)	16,654,028
Total bonds	147,316,930	4,008,709	(827,825)	150,497,814
Short-term:				
Short-term	2,249,999	-	-	2,249,999
Withheld for reinsurance	203,049,481	16,624	(13,026)	203,053,079
Total short term	205,299,480	16,624	(13,026)	205,303,078
Derivatives:				
Derivative assets	124,495	61,073	(117)	185,451
Derivative liabilities	(33,455)	56	(32,261)	(65,660)
Total derivatives	91,040	61,129	(32,378)	119,791
Common stock	4,363,864	1,297,016	-	5,660,880
Total	$ 357,071,314	$ 5,383,478	$ (873,229)	$ 361,581,563

Maturities of bonds are as follows as of December 31, 2017:

	Amortized Cost Basis	Fair Value
2018	$ 5,447,969	$ 5,565,602
2019-2023	37,743,177	38,558,132
2024-2028	99,903,748	102,060,881
2029-2038	3,084,044	3,150,635
After 2038	1,137,992	1,162,564
Total by maturity	$ 147,316,930	$ 150,497,814

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

4. INVESTMENTS (Continued)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various valuation approaches including a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

4. INVESTMENTS (Continued)

Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3.

The Company utilizes a third party's methodology when market prices are not available in active (Level 1) or inactive market (Level 2). For Level 3 investments methodologies employed by the third party are as follows:

Fixed Income – Brokers

Broker quotes passed through by Pricing Vendors (not used in their generic model) or received directly from other brokers are assigned a Level 3 since the broker inputs cannot be corroborated as observable.

Fixed Income – Other Sources

When a price is not available from any of our third party external vendors and sufficient valuation information is available via Bloomberg or another source, securities are priced using Yieldbook Option Adjusted Spread ("OAS") analysis. When no information is available to use Yieldbook, the security will be benchmarked using a Barclay's Index based on credit sector and/or asset class.

Fixed Income – Purchase Price

For securities purchased within the pricing month, and no pricing source is available, Levels will be assigned using the trade date. Securities purchased within five business days of the month end valuation are assigned a Level 2. Otherwise, they are assigned a Level 3.

Equities – Other Sources

Securities traded on an exchange with a recent trade greater than 5 business days but less than 30 days would be assigned a Level 2. Securities not traded on an exchange but priced using observable inputs (evaluated price) would also be assigned a Level 2. When an equity security hasn't traded for 30 days and is currently listed on an exchange (e.g., OTC, etc.) it will be considered illiquid and assigned a Level 3. Securities priced via broker quotes which are non-binding will also be assigned a Level 3.

Equities – Purchase Price

Equities purchased within five business days of the month end valuation are assigned a Level 2 otherwise, if not within five business days and there is no pricing source available the security is assigned a Level 3.

Derivatives

For non-managed assets, Conning will obtain both the security price and FAS 157 Level for assets that are not priced by our third party external vendors either directly from the client or their respective third party asset manager.

4. INVESTMENTS (Continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

The Company has categorized its assets and liabilities into the three-level fair value hierarchy based upon the priority of the inputs to the respective valuation technique.

The fair value measurements in Level 3 of the fair value hierarchy are as follows:

	Common Stock	Bonds	Derivatives (Assets)	Derivatives (Liabilities)
Beginning balance, January 1, 2017	$ 400,694	$ 966,341	$ -	$ -
Transfers into Level 3	-	109,537	-	-
Transfers out of Level 3	-	-	-	-
Total gains (losses) included in net income	896,323	(32,216)	11,436	(498)
Total gains (losses) included in surplus	-	-	60,959	(32,207)
Purchases	4,383,324	17,068,213	161,247	(53,693)
Issuances	-	-	-	-
Sales	(19,461)	(1,474,033)	(48,191)	20,738
Settlements	-	-	-	-
Ending balance, December 31, 2017	$ 5,660,880	$ 16,637,842	$ 185,451	$ (65,660)

Fair values for assets measured on a recurring basis as of December 31, 2017 are as follows:

	Assets Measured at Fair Value			
	Fair Value	Level 1	Level 2	Level 3
December 31, 2017:				
Assets				
Common stocks	$ 5,660,880	$ -	$ -	$ 5,660,880
Available-for-sale bonds	150,497,814	-	133,859,972	16,637,842
Short-term	205,303,078	-	205,303,078	-
Derivatives	185,451			185,451
Total	$ 361,647,223	$ -	$ 339,163,050	$ 22,484,173
Liabilities:				
Securities held under reinsurance treaties	$ 219,707,107	$ -	$ 219,707,107	$ -
Derivatives	65,660	-	-	65,660
Total	$ 219,772,767	$ -	$ 219,707,107	$ 65,660

4. INVESTMENTS (Continued)

On a quarterly basis, the Company reviews its investment portfolio for securities in an unrealized loss position for other-than-temporary impairment. This review for potential impairment is performed on a specific identification basis and requires significant management judgment related to a number of qualitative and quantitative factors including the severity of the impairment, the duration of the impairment, recent trends and expected market performance. Management believes that the majority of the Company's unrealized losses on individual securities at December 31, 2017 represent a temporary decline in market value.

As of December 31, 2017, the Company did not have any bonds and/or common stocks in an unrealized loss position for which other-than-temporary declines in value have not been recognized.

The following tables summarize those investments that, as of December 31, 2017, were in an unrealized loss position for which other-than-temporary declines in value have not been recognized:

($ In Thousands)	Less Than 12 Months			12 Months or More			
At December 31, 2017	Number Of Issues	Fair Value	Unrealized Losses	Number Of Issues	Fair Value	Unrealized Losses	Total Unrealized Losses
Bonds:							
Available-for sale	17	$ 11,396	$ 110	107	$ 29,662	$ 640	$ 750
Withheld for reinsurance	3	4,762	78	-	-	-	78
Total bonds	20	16,158	188	107	29,662	640	828
Short-term investments:							
Withheld for reinsurance	20	14,376	13	-	-	-	13
Total short-term	20	14,376	13	-	-	-	13
Derivatives:							
Derivative liabilities	21	(64)	(32)	-	-	-	(32)
Total derivatives	21	(64)	(32)	-	-	-	(32)
Total bonds, short-term and derivative investments	61	$ 30,470	$ 233	107	$ 29,662	$ 640	$ 873
Investment grade bonds	20	$ 16,158	$ 188	107	$ 29,662	$ 640	$ 828
Below investment grade bonds	-	-	-	-	-	-	-
Total bonds	20	$ 16,158	$ 188	107	$ 29,662	$ 640	$ 828

4. INVESTMENTS (Continued)

Realized capital gains (losses) for the year ended December 31, 2017 on investments consisted of the following:

Bonds:	
Gross gains	$ 742,714
Gross losses	(1,706,004)
Common stock:	
Gross gains	782,835
Gross losses	(2)
Short term investments:	
Gross gains	-
Gross losses	(528,937)
Derivatives:	
Gross gains	15,424
Gross losses	(4,486)
Net capital gains (loss)	$ (698,456)

Mortgage Loans

Mortgage loans at December 31, 2017 totaled $24,201,195. As of December 31, 2017 the Company had $0 of mortgage loans with interest more than 180 days past due.

5. NET INVESTMENT INCOME

For the year ended December 31, 2017 net investment income consisted of the following:

Investment income:	
Bonds	$ 10,699,631
Common stocks	66,975
Mortgage loans	2,577,502
Real estate	537,690
Policy loans	56,429
Cash and short-term investments	445,183
Other invested assets	2,622,509
Aggregate write-ins for investment income	13,180
Total	17,019,099
Less:	
Investment expenses	(5,418,917)
Net investment income	$ 11,600,182

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31, 2017:

Cash	$	7,073,547
Cash equivalents		26,541,508
Total cash and cash equivalents	$	33,615,055

7. CONCENTRATION OF CREDIT AND MARKET RISK

The Company maintains several bank accounts at the same institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times for the year ended December 31, 2017, such amounts were in excess of the FDIC insurance limit of $250,000. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on this balance due to the financial integrity of this institution.

The Company invests in money market funds that are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. As of December 31, 2017 the Company held $22,762,302 in money market funds.

The Company maintains accounts with brokerage firms. These accounts contain bonds, and common stocks. These investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

The Company's revenues and receivables are from customers located in more than 25 states. The majority of the Company's customers are located in the states of Alabama, Florida, North Carolina, South Carolina, Maryland, Tennessee, Texas, and Utah.

8. ACCRUED INVESTMENT INCOME RECEIVABLE

Accrued interest and other investment income receivable consisted of the following at December 31, 2017

Accrued investment income:

Bonds	$	1,265,492
Mortgage loans		979,278
Other invested assets		39,375
Cash equivalents		65,138
Total accrued investment income	$	2,349,283

9. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2017 is summarized in the following schedules:

Properties held for the production of income:	
Buildings	$ 3,191,226
Accumulated depreciation	(320,529)
Net properties held for the production of income	2,870,697
Other property and equipment:	
Data processing equipment	89,227
Furniture and fixtures	7,214
Automobiles	94,281
Accumulated depreciation	(105,947)
Net other property and equipment	84,775
Net property and equipment	$ 2,955,472

10. REINSURANCE

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. The ceded reinsurance agreements provide the Company with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. Amounts payable or recoverable for reinsurance on policy and contract liabilities are not subject to periodic or maximum limits.

For the year ended December 31, 2017 reinsurance ceded has reduced premiums by the following amounts:

Premiums:	
Gross premiums	$ 105,784,668
Ceded premiums	(28,708,305)
Net premiums	$ 77,076,363

The Company actively sells individual whole life insurance. The Company also maintains other blocks of insurance business; annuities, and accidental death. Life insurance, annuities, deposit funds and other related benefits were reinsured by Southland National Insurance Corporation, Converge Re II, and Haymarket Insurance Company. Policyholder reserves and claims liabilities are stated net of the deduction for reserves and claims applicable to reinsurance ceded to other companies. However, the Company is contingently liable for these amounts in the event such companies are unable to pay their portion of the claims.

For the year ended December 31, 2017, the Company did not write off to operations any reinsurance balances.

11. INCOME TAXES

Income taxes for the year ended December 31, 2017 consisted of the following:

Current:	
Federal	$ (2,418,547)
Total current income taxes	(2,418,547)
Deferred:	
Federal	5,843,235
Total deferred income taxes	5,843,235
Total tax benefit (expense)	$ 3,424,688

A reconciliation of income tax expense at the federal statutory rate to the Company's effective rate is as follows:

		Percentage
Computed income tax (benefit) expense at the statutory rate of 34%	$ (147,209)	34.0%
Meals and entertainment	2,029	0.0%
Small life insurance company deduction	(173,008)	-1.6%
Income/(expense) in surplus	84,950	0.8%
Other deferred adjustmnets	7,121	0.1%
Prior period true-ups	(197,151)	-1.8%
Change in tax rate	(3,001,420)	-27.5%
Total tax provision	$ (3,424,688)	4.0%

11. INCOME TAXES (Continued)

The temporary differences and carryforwards which give rise to the deferred tax assets (liabilities) as of December 31, 2017 consist of the following:

Deferred tax assets:	
Reserves and policyholder account balances	$ 1,068,520
Deferred acquisition costs	373,661
Accrued vacation	2,838
Other	1,231,732
Total deferred tax assets	2,676,751
Valuation allowance	-
Total adjusted deferred tax assets	2,676,751
Deferred tax liabilities:	
Uncollected premiums	107,958
Deferred acquisition costs	1,125,993
Value of business acquired (VOBA)	5,549,952
Unrealized capital gains (losses)	715,228
Fixed assets	6,648
Other	19,415
Total deferred tax liabilities	7,525,194
Net deferred tax assets (liabilities)	$ (4,848,443)

At December 31, 2017, the Company has federal alternative minimum tax (AMT) credit carryforwards of $0, which have no expiration date.

At December 31, 2017, the Company has a net operating loss carryforward (NOL) of $0.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“Tax Act”) was signed into law. The new law includes, among other items, a permanent reduction to the U.S. corporate income tax rate from 34 percent to 21 percent effective January 1, 2018. As a result, at December 31, 2017, we recognized an additional increase of $3,001,418 to net income from revaluing the U.S. net deferred tax assets.

12. EMPLOYEE BENEFITS

Defined Contribution Plans

For the year ended December 31, 2017, the Company's employees are covered by a qualified defined contribution plan sponsored by the Company. The plan is a Safe Harbor Plan whereby the Company matches employees' contributions on a dollar-for-dollar basis on the initial 3% that the employee contributes and 50% on the next 2% that the employee contributes. The plan covers affiliates within the holding company structure. Total contribution for all members of the participating group was $240,526 of employee compensation in 2017. As of December 31, 2017, the fair value of the plan assets for the group was $5,443,434.

The Company at one time provided certain health care and life insurance postretirement benefits for retired employees. Employees became eligible for these benefits if they were employed by the Company for over 20 years and if they reached retirement age while working for the Company.

Net postretirement benefits costs (recovery) for the years ended December 31, 2017 was $(1,274), and include the expected cost of such benefits for interest, cost, gains and losses arising from differences between actuarial assumptions and actual experience, and amortization of the transition obligation. The

Company made contributions of $3,421 in 2017, as claims were incurred.

The unfunded postretirement benefit obligation for retirees and other fully eligible plan participants at December 31, 2017 was $13,511. The discount rate is used in determining the accumulated postretirement obligation was 6.50%.

The Company's health, long-term disability, dental, and group life plans cover substantially all of its employees and qualified employee dependents. The Company makes contributions to these plans sufficient to provide for benefit payments required under the plans.

13. CONTINGENCIES

The Company is subject to assessments for its proportionate share of liabilities of insolvent insurers in the states where the Company operates which have guaranty company statutes. A provision for future assessments has not been recorded in the accompanying financial statements because they cannot be estimated

The Company is subject to litigation from the settlement of claims contested in the normal course of business. The losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated claims liabilities. No contingent liabilities have been established by the Company. There is no pending litigation as of December 31, 2017.

14. CAPITAL REQUIREMENTS

The State of South Carolina has adopted the National Company of Insurance Commissioners' (NAIC) risk-based capital (RBC) calculation to evaluate the minimum capital requirements for an insurance Company to support its overall business operations in consideration of its size and risk profile. The Company's risk-based capital is calculated by applying factors to various asset, premium, and reserve items.

The RBC requirements provide for four different levels of regulatory attention depending on the ratio of the Company's total adjusted capital (TAC) to its authorized control level (ACL). The four regulatory attention levels (and the associated percentage of TAC to ACL) are defined as follows: (1) Company Action (200%), (2) Regulatory Action (150%), (3) Authorized Control (100%), and (4) Mandatory Control Levels (70%). As of December 31, 2017, the Company maintained TAC in excess of 200% of ACL.

The payment of dividends by the Company to shareholders is limited and can only be made from earned profits unless prior approval is received from the South Carolina Insurance Commissioner. The maximum amount of dividends that may be paid by life insurance companies without prior approval of the South Carolina Insurance Commissioner is also subject to restrictions relating to statutory surplus and net income. The Company did not pay an ordinary dividend in 2017.

15. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES – ACCIDENT & HEALTH CONTRACTS

Reserves for incurred losses and loss adjustment expenses attributable to insured events of prior years has increased by approximately $1,050 for the year ended December 31, 2017.

Balance at January 1	$ 12,335
Incurred, related to:	
Current year	10,617
Prior years	1,050
Total incurred	11,667
Paid, related to:	
Current year	10,617
Prior years	1,050
Total paid	11,667
Balance at December 31	$ 12,335

Management believes that the liability for unpaid claims is adequate to cover the ultimate development of claims. The liability is continually reviewed and revised to reflect current conditions and claim trends and any resulting adjustments are reflected in operating results in the year made.

16. DIRECT PREMIUM WRITTEN/PRODUCED BY THIRD PARTY ADMINISTRATOR

The aggregate amount of direct premiums written through managing general agents or third party administrators for the year December 31, 2017 was:

Name and Address Managing General Agent Or Third Part Administrator	FEIN#	Exclusive Contract	Type of Business Written	Type of Activity Granted	Total Direct Prem Written/ Produced By
For the year ended December 31, 2017:					
Secure Administrative Solutions, LLC 1405 West 2200 South Salt Lake City, Utah 84119	46-4813559	No	Multi-year guarantee Annuities	C,CA,P,R,U	$ 69,929,053
			Fixed Income 5 year Annuities		$ 2,811,612
			Deposit-Type Annuities		$ 160,294,311
			Deposit Type 5 year Annuities		$ 2,158,723
			Traditional Life Insurance		$ 17,590,943
			Group Life Insurance		$ 12,907,104
			Individual Pre-need Annuities		$ 1,101,712
			Group Pre-need Annuities		$ 649,541
			Accident and Health		$ 94,330

17. VALUE OF BUSINESS ACQUIRED

The net amortization charged to income for the year ended December 31, 2017, for the value of business acquired was $1,016,095. The value of business acquired amortization is included in the general and administrative expenses on the income statement.

18. STATUTORY ACCOUNTING PRINCIPLES

The Company, which is domiciled in State of South Carolina, prepares its statutory financial statements in accordance with accounting principles and practices prescribed or permitted by the South Carolina Insurance Department, which U South Carolina recognizes for determining solvency under the South Carolina Insurance Law.

The following schedules reconcile the Company's statutory net income and statutory surplus and capital stock determined in accordance with accounting practices prescribed or permitted by the South Carolina Insurance Department with net earnings (loss) and equity on a U.S. GAAP basis as of and for the year ended December 31, 2017.

Statutory net income (loss) per the annual statement	$ 3,867,728
Adjustments:	
Future policy benefits and policyholder's account balances	2,415,131
Deferred policy acquisition costs	2,694,801
Deferred income taxes	5,843,235
Interest maintenance reserve	(391,782)
Realized gains (loss)	(361,192)
Ceding commission allowance	(200,884)
Valuation of business acquired amortization	(1,016,095)
Block transfer	1,500,874
GAAP net income (loss)	$ 14,351,816

18. STATUTORY ACCOUNTING PRINCIPLES (Continued)

	2017
Statutory capital and surplus as of December 31, prior year	$ 21,894,234
Adjustments:	
GAAP net (loss) income	14,351,816
Surplus note	(8,750,000)
Other comprehensive income	3,599,241
Investments	(296,327)
Asset valuation reserve	1,708,538
Nonadmitted assets	309,422
Interest maintenance reserve	2,914,392
Deferred acquisition costs	2,667,071
Future policy benefits and policyholder's account balances	(5,655,566)
Value of business acquired	(1,101,587)
Tax provision	(10,636,167)
Acquisition allocation of capital and surplus	28,546,021
Ceding commission allowance reclass	(2,930,396)
Other	(250,000)
GAAP capital and surplus as of December 31, current year	$ 46,370,692

19. SURPLUS NOTES PAYABLE

During 2015, the South Carolina Department of Insurance approved a contribution (surplus) note between the Company (issuer) and Ability Insurance Company (lender) in the amount of $3,750,000. The scheduled maturity date of the loan is May 1, 2030. Subject to the approval of the Insurance Commissioner of the State of South Carolina the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1, each year at the rate of 6.5% annum.

During 2017, the South Carolina Department of Insurance approved a contribution (surplus) note between the Company (issuer) and Sentinel Security Life Insurance Company (lender) in the amount of $2,700,000. The scheduled maturity date of the loan is May 1, 2030. Subject to the approval of the Insurance Commissioner of the State of South Carolina the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1, each year at the rate of 6.5% annum.

During 2017, the South Carolina Department of Insurance approved a contribution (surplus) note between the Company (issuer) and Eli Global (lender) in the amount of $2,300,000. The scheduled maturity date of the loan is May 1, 2030. Subject to the approval of the Insurance Commissioner of the State of South Carolina the Company will pay interest thereon, quarterly, in arrears on March 1, June 1, September 1, and December 1, each year at the rate of 6.5% annum.

19. SURPLUS NOTES PAYABLE (Continued)

Interest payments on the surplus note for the year ended December 31, 2017 were as follows:

Date Issued	Interest Rate	Par Value	Carrying Value of Note	Interest and/or Principal Paid During Current Year	Total Interest and/or Principal Paid	Unapproved Interest and/or Principal	Date of Maturity
6/5/2015	6.5%	$ 3,750,000	$ 3,750,000	$ 406,250	$ 1,170,226	$ 47,396	5/1/2030
6/5/2015	6.5%	2,700,000	2,700,000	131,625	131,625	-	5/1/2030
6/5/2015	6.5%	2,300,000	2,300,000	112,125	112,125	-	5/1/2030
Totals		$ 8,750,000	$ 8,750,000	$ 650,000	$ 1,413,976	$ 47,396	

20. RELATED PARTIES

Service Agreements

The Company is a party to service agreements with its affiliates that provide a broad range of services rendered. Services are requested by the recipient as deemed necessary for its operation. These agreements involve cost allocation arrangements, under which the recipient pays the provider for all expenses, direct and indirect, reasonably and equitably determined to be attributable to the services provided. There are also certain service arrangements with affiliates pursuant to which the provider, at the request of the recipient, renders specified services for a stated fee, including agreements for certain investment advisory services. Expenses incurred by the Company under these agreements totaled $4,975,572 as of December 31, 2017. The Company had balances of $0 due to affiliates under these agreements at December 31, 2017, which is recorded in general expenses due on the statutory statements of admitted assets, liabilities and capital and surplus.

Reinsurance Agreements

The Company has entered into a reinsurance agreement with Haymarket Insurance Company, an affiliated under common control, effective December 31, 2016.

Surplus Note

The Company has issued a $3,750,000 surplus note to Ability Insurance Company (an affiliate). The surplus note was issued May 1, 2015.

The Company has issued a $2,700,000 surplus note to Sentinel Security Life Insurance Company (an affiliate). The surplus note was issued September 1, 2017.

20. RELATED PARTIES (Continued)

Lease Agreement

The Company also has a sublease agreement with Secure Administrative Solutions (SAS), an affiliate, for use of their building space. The lease was effective January 1, 2016 and automatically renews on December 31, 2018 until SAS exercises the termination provisions as set out in the lease agreement. The monthly lease payments total $19,660. This is comprised of $17,666 for the space and $2,000 for the rental of furniture. Rental payments expected to be received in 2018 total $235,920.

21. SUBSEQUENT EVENTS

A recapture agreement has been entered into between the Company and Southland National Insurance Corporation (SNIC) as of April 30th to be executed May 31, 2018 for effectiveness as of April 1, 2018. Approximately $42.9 million required reserves will be recaptured.

The Company will enter into a closed block reinsurance contract with Converge Re II effective May 31, 2018. The form of reinsurance will be quota share coinsurance on a coinsurance funds withheld basis. The quota share will be 85% of reinsured liabilities with an initial transfer of $116 million required reserves liability.

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through October 19, 2018, the date the financial statements were available to be issued.