

FINANCIAL STATEMENTS - STATUTORY BASIS
AND
INDEPENDENT AUDITORS' REPORT



UNIVERSAL FIDELITY LIFE INSURANCE COMPANY

December 31, 2017 and 2016

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Independent Auditors' Report

The Board of Directors
Universal Fidelity Life Insurance Company

We have audited the accompanying statutory financial statements of Universal Fidelity Life Insurance Company (the Company), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2017 and 2016, and the related statutory statements of operations, changes in capital and surplus and cash flows for the years then ended, 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 the financial reporting provisions prescribed or permitted by the Oklahoma Insurance Department. Management is also responsible for 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.

Auditors' Responsibility

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 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 auditors' judgment, including the assessment of the risk 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.

Other Locations

Belleville, IL • Carbondale, IL • Columbia, IL • Harrisburg, IL • Litchfield, IL • O'Fallon, IL • Marion, IL • Cape Girardeau, MO • St. Louis, MO • Milwaukee, WI

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note A2, the financial statements are prepared by Universal Fidelity Life Insurance Company on the basis of the financial reporting provisions prescribed or permitted by the Oklahoma Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma Insurance Department. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note A2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Universal Fidelity Life Insurance Company as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Universal Fidelity Life Insurance Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, on the basis of the financial reporting provisions prescribed or permitted by the Oklahoma Insurance Department as described in Note A2.

Kuhny, Eck & Braeckel LLP

Springfield, Illinois
May 29, 2018

Universal Fidelity Life Insurance Company

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND SURPLUS - STATUTORY BASIS

December 31

	<u>2017</u>	<u>2016</u>
ADMITTED ASSETS		
Cash and invested assets		
Bonds	\$ 1,889,172	\$ 2,651,831
Preferred stocks - cost	2,014,321	1,049,308
Common stocks - principally at market	210,105	64,500
Partnership interests	-	10,963
Real estate - at cost, less allowances for depreciation		
Property occupied by the Company	728,695	749,485
Properties held for the production of income	300,000	316,667
Policy loans	92,335	96,280
Cash, cash equivalents and short-term investments	<u>4,155,323</u>	<u>3,734,877</u>
Total cash and invested assets	9,389,951	8,673,911
Accrued investment income	19,866	17,302
Receivable on reinsurance	31,011	27,231
Premiums due and deferred	482,497	297,680
Funds held by reinsurer	2,332,302	3,060,741
Amounts due from third-party administration	760,572	610,102
Federal income taxes receivable	-	34,998
Guaranty funds receivable	19,029	-
Related party receivable	12,239	599
EDP equipment	81,131	65,061
Deferred tax asset	399,602	439,335
Other assets	<u>5,954</u>	<u>2,432</u>
Total admitted assets	<u>\$ 13,534,154</u>	<u>\$ 13,229,392</u>
LIABILITIES AND CAPITAL AND SURPLUS		
Insurance reserves and claims		
Life reserves	\$ 3,932,999	\$ 3,978,499
Accident and health claim and unearned premium reserves	1,061,475	1,248,021
Liability for deposit-type contracts	4,665	6,459
Life contract claims	122,246	103,452
Accident and health contract claims	1,602,439	1,569,685
Premiums received in advance	<u>3,279</u>	<u>18,781</u>
Total insurance reserves and claims	6,727,103	6,924,897
Pension benefit liability	12,000	19,200
Accrued expenses	1,078,686	974,785
Related party payable	379,857	13,247
Amounts payable on reinsurance	136,011	201,420
Federal income taxes payable	172,348	-
Interest maintenance reserve	52,568	96,874
Asset valuation reserve	<u>105,750</u>	<u>91,785</u>
Total liabilities	8,664,323	8,322,208
Capital and surplus		
Common stock, \$1 par value, 2,000,000 shares authorized; 1,017,756 shares issued, 805,724 and 1,017,756 shares outstanding at December 31, 2017 and 2016, respectively	1,017,756	1,017,756
Treasury stock, at cost (212,032 shares at December 31, 2017)	(1,250,000)	-
Unassigned surplus	4,722,575	3,889,428
Special surplus	<u>379,500</u>	<u>-</u>
Total capital and surplus	<u>4,869,831</u>	<u>4,907,184</u>
Total liabilities and capital and surplus	<u>\$ 13,534,154</u>	<u>\$ 13,229,392</u>

The accompanying notes are an integral part of these statements. 5

Universal Fidelity Life Insurance Company

STATEMENTS OF OPERATIONS - STATUTORY BASIS

Years ended December 31

	<u>2017</u>	<u>2016</u>
Premiums and other insurance income		
Life	\$ 990,728	\$ 678,935
Accident and health	<u>8,811,378</u>	<u>9,005,993</u>
Total premiums and other insurance income	9,802,106	9,684,928
Investment income, net	171,444	180,921
Allowance on reinsurance ceded	1,092,156	498,475
Amortization of interest maintenance reserve	25,124	24,176
Administration fees	8,068,510	6,570,996
Miscellaneous income	<u>1,754</u>	<u>2,589</u>
Total income	19,161,094	16,962,085
Benefits paid or provided		
Life benefits	569,492	246,790
Accident and health benefits	5,876,318	6,285,765
Surrender benefits	135,158	62,156
Refunds to members	2,055	1,772
Increase (decrease) in aggregate reserves for life, accident and health policies and contracts	<u>(232,046)</u>	<u>146,770</u>
Total benefits paid or provided	6,350,977	6,743,253
Selling, general and administrative expenses		
Commissions	3,961,600	3,161,024
General expenses	7,032,474	6,112,070
Taxes, licenses and fees	507,627	534,031
Increase in loading on due and deferred premiums	<u>93,265</u>	<u>20,315</u>
Total selling, general and administrative expenses	<u>11,594,966</u>	<u>9,827,440</u>
Income before federal income taxes and net realized capital losses	1,215,151	391,392
Federal income tax expense	<u>228,973</u>	<u>62,275</u>
Income before net realized capital losses	986,178	329,117
Net realized capital losses	<u>(7,567)</u>	<u>(7,793)</u>
Net income	<u>\$ 978,611</u>	<u>\$ 321,324</u>

The accompanying notes are an integral part of these statements.

Universal Fidelity Life Insurance Company

STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS - STATUTORY BASIS

Years ended December 31

	<u>Common Stock</u>	<u>Treasury Stock</u>	<u>Unassigned Surplus</u>	<u>Special Surplus</u>	<u>Total</u>
Balance as of January 1, 2016	\$ 1,017,756	\$ -	\$ 3,437,266	\$ -	\$ 4,455,022
Net income	-	-	321,324	-	321,324
Change in net unrealized capital losses	-	-	(25,269)	-	(25,269)
Change in net deferred income tax	-	-	(313,695)	-	(313,695)
Change in non-admitted assets	-	-	477,598	-	477,598
Change in asset valuation reserve	-	-	(7,796)	-	(7,796)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as of December 31, 2016	1,017,756	-	3,889,428	-	4,907,184
Net income	-	-	978,611	-	978,611
Change in net unrealized capital losses	-	-	49,999	-	49,999
Change in net deferred income tax	-	-	(33,744)	-	(33,744)
Change in non-admitted assets	-	-	(21,662)	-	(21,662)
Change in asset valuation reserve	-	-	(13,965)	-	(13,965)
Purchase of treasury stock	-	(1,250,000)	-	-	(1,250,000)
Correction of prior year errors	-	-	(126,092)	-	(126,092)
Gain on ceded reinsurance	-	-	-	379,500	379,500
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as of December 31, 2017	<u>\$ 1,017,756</u>	<u>\$ (1,250,000)</u>	<u>\$ 4,722,575</u>	<u>\$ 379,500</u>	<u>\$ 4,869,831</u>

The accompanying notes are an integral part of these statements.

Universal Fidelity Life Insurance Company

STATEMENTS OF CASH FLOWS - STATUTORY BASIS

Years ended December 31

	<u>2017</u>	<u>2016</u>
Cash from operating activities		
Premiums and other insurance income received	\$ 9,487,906	\$ 9,474,979
Investment income received, less investment expenses paid	201,065	231,363
Miscellaneous income received	8,896,681	6,909,476
Life, annuity, and accident and health benefits paid	(6,594,800)	(6,444,473)
Commissions and other expenses and taxes paid	(11,691,908)	(9,911,291)
Federal income taxes paid	(21,627)	-
Commissions and expense allowances on reinsurance ceded	<u>1,150,398</u>	<u>575,526</u>
Net cash provided by operating activities	1,427,715	835,580
Cash from investments		
Proceeds from investments matured and sold		
Bonds	980,376	2,029,241
Common stock	3,500	20,400
Preferred stock	1,064,598	-
Other invested assets	<u>15,403</u>	<u>9,561</u>
	2,063,877	2,059,202
Cost of investments acquired		
Bonds	(103,778)	(50,146)
Common stock	(147,675)	-
Preferred stock	<u>(2,165,499)</u>	<u>(355,496)</u>
	(2,416,952)	(405,642)
Policy loans - net	<u>3,945</u>	<u>4,175</u>
Net cash provided by (used in) investing activities	(349,130)	1,657,735
Cash from financing and miscellaneous sources		
Cash provided (applied)		
Repayment on note payable to Federal Home Loan Bank	-	(365,183)
Purchase of treasury stock	(1,250,000)	-
Other cash provided	<u>591,861</u>	<u>215,815</u>
Net cash used in financing and miscellaneous sources	<u>(658,139)</u>	<u>(149,368)</u>
Net increase in cash, cash equivalents and short-term investments	420,446	2,343,947
Cash, cash equivalents and short-term investments at beginning of year	<u>3,734,877</u>	<u>1,390,930</u>
Cash, cash equivalents and short-term investments at end of year	<u>\$ 4,155,323</u>	<u>\$ 3,734,877</u>

The accompanying notes are an integral part of these statements.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. *Organization*

Universal Fidelity Life Insurance Company (the Company) is domiciled in Oklahoma. The Company is authorized to conduct business in Arizona, Arkansas, Mississippi, Nebraska, New Mexico, Oklahoma, and Texas. Its business consists of selling life, annuity, and accident and health insurance, along with providing administrative services to various insurers.

2. *Basis of Presentation*

The Company presents its financial statements in accordance with Statutory Accounting Principles (SAP) prescribed or permitted by the Oklahoma Insurance Department (the Department). The Department has adopted as a component of prescribed or permitted practices the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual, without modification. These principles and practices differ from accounting principles generally accepted in the United States of America (GAAP).

The more significant differences between statutory accounting practices and GAAP are as follows:

For statutory purposes, investments in bonds are reported at amortized cost or, in certain instances, market value based on their NAIC rating. For GAAP, such fixed maturity investments are designated at purchase as held-to-maturity, trading, or available-for-sale. Fixed maturity investments designated as held-to-maturity are reported at amortized cost, and the remaining fixed maturity investments are reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of capital and surplus for those designated as available-for-sale.

For statutory purposes, all single class and multi-class mortgage-backed/asset-backed securities (e.g., CMOs) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. For GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., CMO, CBO, CDO, CLO, MBS, and ABS securities), other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If high credit quality securities are adjusted, the retrospective method is used.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

2. *Basis of Presentation - Continued*

Investments in wholly owned noninsurance subsidiaries are reported using the equity method, adjusted to a statutory reporting basis. Further, subsidiaries that are not audited are non-admitted under SAP. Under GAAP, such subsidiaries would be consolidated.

Preferred stock is reported at cost or amortized cost, and in certain instances, market value based on its NAIC rating. For GAAP purposes, preferred stock would be stated at fair value.

Deferred tax assets are limited to an amount determined utilizing a three-component admissibility calculation. The remaining deferred tax assets are non-admitted. In addition, the changes in deferred taxes are reported as a direct charge or credit to capital and surplus. In accordance with GAAP, 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 not realizable. Further, changes in deferred taxes are reported as income tax expense or benefit, or as a component of other comprehensive income, depending on the nature of the tax characteristics of temporary differences.

Under a formula prescribed by the NAIC, the Company defers in the Interest Maintenance Reserve (IMR) the portion of realized capital gains and losses on sales of fixed income investments, principally bonds, attributable to changes in the general level of interest rates and amortizes those deferrals over the remaining period to maturity. For statutory purposes, realized capital gains and losses are reported in income net of transfers to the IMR. Under GAAP, realized capital gains and losses would be reported in the statement of operations in the period that the asset giving rise to the gain or loss is sold.

For statutory purposes, declines in the estimated realizable value of investments are provided for through the establishment of a NAIC prescribed, formula-determined statutory Asset Valuation Reserve (AVR), with changes charged directly to surplus. For GAAP, declines in value are recognized in the statement of operations solely when such declines are judged to be other than temporary.

Certain assets designated as "non-admitted" have been charged directly to surplus for statutory purposes rather than being reported as assets for GAAP. Included as non-admitted assets are investments in affiliated common stock, prepaid expenses, certain receivables, certain deferred tax assets and other items that do not meet statutory criteria for admitted assets.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

2. *Basis of Presentation - Continued*

Reserves on traditional life and accident and health insurance products for statutory purposes are based on statutory mortality and morbidity rates and interest which may differ from GAAP reserves based on reasonable assumptions of expected mortality, morbidity, interest and withdrawals which include a provision for possible adverse deviation from such assumptions.

Reinsurance amounts are netted against the corresponding receivable or payable balances for statutory purposes rather than shown as gross amounts on the GAAP balance sheets.

The costs of acquiring and renewing business are charged to current operations as incurred for statutory purposes, rather than being deferred and amortized over the premium-paying period or in proportion to the present value of expected gross profit margins for GAAP.

Policyholder dividends are recognized in full when declared for statutory purposes rather than over the term of the related policies under GAAP.

The statements of cash flows do not include a reconciliation of net income to net cash from operations as would be included under GAAP.

The effects of the foregoing variances from GAAP on the accompanying statutory-basis financial statements have not been determined, but are presumed to be material.

3. *Use of Estimates*

The preparation of financial statements in conformity with SAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

4. *Cash, Cash Equivalents, and Short-Term Investments*

In connection with the preparation of the statutory statements of cash flows, the Company considers all highly liquid debt instruments purchased with maturities of 90 days or less, savings accounts, certificates of deposit with maturity dates within one year or less from the acquisition date, and certain money market mutual funds to be cash equivalents. The Company had no cash equivalents as of December 31, 2016. All other investments with maturities of one year or less at the time of acquisition are considered short-term investments. Short-term investments are stated at amortized cost. The Company has no short-term investments as of December 31, 2017.

5. *Investments*

Securities are valued in accordance with methods prescribed by the NAIC. Investments in bonds and mortgage and other asset-backed securities are reported principally at cost (unpaid principal balance), adjusted for amortization of premiums and accrual of discounts. Bonds are generally carried at amortized cost using the scientific method. Bonds assigned with an NAIC designation of 6 are carried at the lower of amortized cost or fair value. The Company reviews its prepayment assumptions on mortgage and other asset-backed securities periodically and adjusts amortization rates retrospectively when such assumptions are materially changed due to experience and/or expected future patterns. The Company's prepayment assumptions are determined from available market data and the Company's investment manager.

Unaffiliated common stocks are reported at fair value, as determined by the Securities Valuation Office (SVO) of the NAIC. Investments in common stock of affiliated subsidiaries are reported using the equity method. Subsidiaries that are not audited are non-admitted for SAP. The Company has non-admitted its wholly owned subsidiaries with a value of \$ 64,028 and \$ 19,811 at December 31, 2017 and 2016, respectively.

Preferred stocks are generally carried at cost with the exception of securities assigned with an NAIC designation of 4 - 6, which are carried at the lower of cost or fair value.

Policy loans are recorded at unpaid principal balance. These loans are secured by the death benefits provided under the life insurance contracts.

Investments in real estate, including properties occupied by the Company, are reported at cost less allowances for depreciation.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

5. *Investments - Continued*

Investments in limited partnerships are recorded at a value based on the underlying audited GAAP equity of the partnership. The original initial investment recorded at cost is adjusted for subsequent capital contributions, distributions received and the Company's share of the audited GAAP basis earnings or losses of the partnership after the date of acquisition. The undistributed earnings or losses of the partnership are recorded as unrealized gains and losses directly to capital and surplus.

The Asset Valuation Reserve (AVR) provides a reserve for losses from investments in bonds, preferred and common stocks, real estate, and other invested assets, with related increases or decreases being recorded directly to surplus. The Interest Maintenance Reserve (IMR) provides a reserve for realized capital gains and losses that result from changes in interest rates for certain fixed income securities and amortizes these capital gains and losses into income over the remaining life of the investments sold.

Realized capital gains and losses on investments are determined on the basis of specific identification of investments. Unrealized capital gains and losses on investments carried at fair value are recorded directly in unassigned surplus, with a comparable adjustment made to the AVR. The carrying amounts of all investments are reviewed on an ongoing basis for credit deterioration. If this review indicates a decline in market value that is other-than-temporary, the carrying amount of the investment is reduced to its estimated fair value, and a specific write down is taken. Such reductions in the carrying amounts are recognized as realized capital losses on investments.

Interest income is recognized on an accrual basis. The Company does not accrue interest on bonds in default. Further, income is not accrued when collection is uncertain. At December 31, 2017 and 2016, no amounts were excluded from investment income due or accrued with respect to this policy.

6. *Depreciation and Amortization*

Owned real estate is depreciated on a straight-line basis over the estimated useful lives of the property. Data processing equipment owned by the Company is carried at cost, less accumulated depreciation computed on a straight-line basis, over the estimated useful life of the equipment. The cost of furniture and fixtures, less accumulated depreciation is computed on a straight-line method (three to seven years).

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

7. *Non-Admitted Assets*

Non-admitted assets (principally affiliated common stock, agent balances, deferred taxes, prepaid expenses and certain affiliate receivables) are excluded from the statements of admitted assets, liabilities and surplus. Changes in non-admitted assets are reported as charges or credits directly to surplus.

8. *Reserves*

The reserves for life contracts, all developed by actuarial methods, are established and maintained on the basis of published mortality and morbidity tables using assumed interest rates and valuation methods that will provide, in the aggregate, reserves that are greater than the minimum valuation required by law or guaranteed policy cash values. Tabular interest, tabular less actual reserves released, and tabular cost have been determined by NAIC formula. Tabular interest on funds not involving life contingencies is the weighted average interest rate using the reserves at the beginning and ending of the year.

The Company waives deduction of deferred fractional premiums upon death of the insured and the Company returns the unearned portion of the final premium for periods beyond the date of death. Surrender values are not promised in excess of the legally computed reserves.

Additional premiums are charged for policies issued on substandard lives according to underwriting classification. If the extra premium is a permanent addition to the standard premium, the corresponding reserves held on such policies are calculated using the same interest rate as standard policies but employing mortality rates, which are multiples of standard mortality. If the extra premium is only a temporary addition to the standard premium, an additional reserve equal to one-half the extra premium charge for the year is added to the reserve calculated using standard mortality and interest assumptions. At December 31, 2017 and 2016, the Company had no insurance in force for which the gross premiums are less than the net premiums according to the standards of valuation set by the State of Oklahoma.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

8. *Reserves - Continued*

Policy reserves for accident and health insurance include claim reserves and unearned premium reserves. Claim reserves, including incurred but not reported claims, represent management's estimate of the ultimate liability associated with unpaid policy claims, based upon analysis of past experience. To the extent that the ultimate liability differs from the amounts recorded, such differences are reflected in operations when additional information becomes known.

Unearned premium reserves of Medicare supplement policies are determined using the daily pro rata method. Student accident policies consist of risks associated with football activities and non-football activities. Unearned premium reserves associated with football activities are determined on a monthly basis from August through December. Unearned premium reserves on non-football activities are determined on a monthly basis from August to July.

9. *Revenue Recognition and Acquisition Costs*

Premium income for contracts with mortality and morbidity risks is recorded when received, adjusted for advance premiums and premiums deferred and uncollected. Accident and health premiums are earned when received. Acquisition costs, such as commissions and other costs related to acquiring new business are charged to current operations as incurred.

10. *Policyholder Dividends*

The amount of dividends paid to policyholders is determined annually by the Company's Board of Directors. The aggregate amount of policyholders' dividends is related to actual interest, mortality, morbidity, and expense experience for the year and judgment as to the appropriate level of statutory surplus to be retained by the Company.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE A - ORGANIZATION AND ACCOUNTING POLICIES - Continued

11. Income Taxes

Deferred income taxes are recorded based on temporary differences using a balance sheet approach whereby statutory and tax basis balance sheets are compared.

Deferred tax assets are limited based on a three-component admissibility calculation. Under the first part of the admissibility calculation, deferred tax assets are admitted up to the amount of federal income tax paid in prior years that can be recovered through loss carry backs for existing temporary differences that reverse in a time frame not to exceed three years. Under the second part of the admissibility calculation, deferred tax admissibility is based on the pattern and timing of reversals of temporary differences subject to a ratio of current period adjusted capital and surplus and Authorized Control Level risk-based capital. Under the third part of the admissibility calculation, deferred tax admissibility is based on any remaining deferred tax assets set equal to any deferred tax liabilities. The remaining deferred tax assets are non-admitted.

12. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through May 29, 2018, which is the date the financial statements were available to be issued. Through May 29, 2018, no subsequent events required recognition or disclosure in the financial statements.

13. Accounting Changes

The National Association of Insurance Commissioners (NAIC) revised Statement of Statutory Accounting Principle No. 2R, *Cash, Cash Equivalents, Drafts, and Short-Term Investments* ("SSAP 2R"). This pronouncement is effective December 31, 2017 and is effective on a prospective basis. The revision adds the definition of cash equivalents as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition, with the exception of money market mutual funds. In prior years, money market mutual funds were classified as short-term investments. The revision did not affect the Company's results of operations, admitted assets, or liquidity.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - INVESTMENTS

At December 31, the carrying value and estimated market values of the Company's portfolio of bonds are as follows:

<u>2017</u>	Cost/ Amortized Cost	<u>Gross Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
Bonds				
U.S. government	\$ 757,640	\$ -	\$ (8,380)	\$ 749,260
Mortgage-backed securities	75,203	15,335	-	90,538
Industrial and miscellaneous	<u>1,056,329</u>	<u>69,359</u>	<u>(1,000)</u>	<u>1,124,688</u>
Total bonds	<u>\$ 1,889,172</u>	<u>\$ 84,694</u>	<u>\$ (9,380)</u>	<u>\$ 1,964,486</u>
Preferred stocks	<u>\$ 2,014,321</u>	<u>\$ 11,813</u>	<u>\$ (31,806)</u>	<u>\$ 1,994,328</u>
Common stocks	<u>\$ 211,875</u>	<u>\$ 2,650</u>	<u>\$ (4,420)</u>	<u>\$ 210,105</u>
<u>2016</u>				
Bonds				
U.S. government	\$ 653,245	\$ 727	\$ (3,794)	\$ 650,178
U.S. government agencies	597,606	-	(6,984)	590,622
Mortgage-backed securities	106,582	24,790	-	131,372
Industrial and miscellaneous	<u>1,294,398</u>	<u>80,258</u>	<u>(15,979)</u>	<u>1,358,677</u>
Total bonds	<u>\$ 2,651,831</u>	<u>\$ 105,775</u>	<u>\$ (26,757)</u>	<u>\$ 2,730,849</u>
Preferred stocks	<u>\$ 1,049,308</u>	<u>\$ 5,303</u>	<u>\$ (45,868)</u>	<u>\$ 1,008,743</u>
Common stocks	<u>\$ 64,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,500</u>
Other invested assets				
Partnership interest	<u>\$ 15,315</u>	<u>\$ -</u>	<u>\$ (4,352)</u>	<u>\$ 10,963</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - INVESTMENTS - Continued

The following investments have been in a continuous loss position for less than twelve months at December 31:

	2017		2016	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Bonds				
U.S. government	\$ 206,063	\$ (2,828)	\$ -	\$ -
Industrial and miscellaneous	-	-	108,204	(2,074)
Total bonds	<u>\$ 206,063</u>	<u>\$ (2,828)</u>	<u>\$ 108,204</u>	<u>\$ (2,074)</u>
Preferred stocks	\$ 806,054	\$ (26,437)	\$ 484,675	\$ (23,353)
Common stocks	92,400	(4,420)	-	-

The following investments have been in a continuous loss position for more than twelve months at December 31:

	2017		2016	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Bonds				
U.S. government	\$ 543,197	\$ (5,552)	\$ 544,345	\$ (3,794)
U.S. government agencies	-	-	590,622	(6,984)
Industrial and miscellaneous	99,000	(1,000)	161,095	(13,905)
Total bonds	<u>\$ 642,197</u>	<u>\$ (6,552)</u>	<u>\$ 1,296,062</u>	<u>\$ (24,683)</u>
Preferred stocks	\$ 372,567	\$ (5,369)	\$ 264,800	\$ (22,515)
Partnership interests	-	-	10,963	(4,352)

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - INVESTMENTS - Continued

The Company did not experience any other-than-temporary declines in the value on any investments during 2017 or 2016. The Company's decision to record an impairment loss is primarily based on whether the Company will recover the entire amortized cost basis of the security. Factors that are considered include the length of time the security's fair value has been below carrying value, the credit worthiness of the issuer, and the coupon and/or dividend payment history of the issuer. The Company also assesses whether it intends to sell, or it is more likely than not that it will be required to sell a security before recovery of its amortized cost basis less any current-period credit losses. For securities that are other-than-temporarily impaired, the security is adjusted to fair value and the resulting losses are recognized in realized gains (losses) in the statements of operations.

The carrying amount and fair value of bonds by contractual maturity at December 31, 2017, are shown below. Expected maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Carrying Value</u>	<u>Fair Value</u>
Due in one year or less	\$ 50,060	\$ 50,597
Due after one year through five years	871,385	882,098
Due after ten years	892,524	941,253
Mortgage-backed and other asset-backed securities	<u>75,203</u>	<u>90,538</u>
	<u>\$ 1,889,172</u>	<u>\$ 1,964,486</u>

The Company, as a member of the reconstituted Federal Home Loan Bank System administered by the Federal Housing Finance Board, is required to maintain an investment in capital stock of the Federal Home Loan Bank of Topeka (FHLB). The stock is recorded at a cost of \$ 64,200 and \$ 64,500 at December 31, 2017 and 2016, which approximates its fair value. The FHLB places restrictions on the transferability of the stock, and as a result, transactions occur with the FHLB at the stock's par value.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - INVESTMENTS - Continued

The Company's investment in FHLB capital stock is summarized below at December 31:

	<u>2017</u>	<u>2016</u>
Class A (membership stock)	\$ 13,400	\$ 13,800
Class B (activity)	<u>50,800</u>	<u>50,700</u>
Total FHLB capital stock	<u>\$ 64,200</u>	<u>\$ 64,500</u>

Major categories of net investment income for the years ended December 31 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Bonds	\$ 28,025	\$ 39,059
Other bonds	70,261	74,308
Preferred and common stocks (unaffiliated)	108,698	48,825
Preferred and common stocks (affiliated)	-	55,000
Real estate	95,505	95,505
Other	<u>5,856</u>	<u>5,431</u>
	308,345	318,128
Investment expenses	<u>(136,901)</u>	<u>(137,207)</u>
Net investment income	<u>\$ 171,444</u>	<u>\$ 180,921</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE B - INVESTMENTS - Continued

The major components of realized capital gains (losses) on investments reflected in operations and unrealized capital gains on investments reflected directly in surplus are summarized as follows as of December 31:

	Realized		Change in Unrealized	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Bonds	\$ 8,611	\$ -	\$ -	\$ -
Preferred stocks	(35,446)	-	-	-
Common stocks	-	-	45,647	(33,852)
Other assets	<u>88</u>	<u>(7,793)</u>	<u>4,352</u>	<u>8,583</u>
	(26,747)	(7,793)	49,999	(25,269)
Transferred to interest maintenance reserve	29,061	-	-	-
Tax on realized gains	<u>(9,881)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net realized and unrealized capital gains (losses)	<u>\$ (7,567)</u>	<u>\$ (7,793)</u>	<u>\$ 49,999</u>	<u>\$ (25,269)</u>

Proceeds from the sale and maturity of bonds were \$ 980,376 and \$ 2,029,241 in 2017 and 2016, respectively. The Company recognized realized gains from the sale of bonds of \$ 9,436 in 2017. The Company recognized realized losses from the sale of bonds \$ 825 in 2017. No gains or losses were recognized on bonds sold or matured in 2016.

Bonds having a carrying value of \$ 1,539,986 and \$ 1,325,060 and a fair value of \$ 1,547,973 and \$ 1,341,931 were on deposit with regulatory authorities in Oklahoma, New Mexico, and Louisiana in accordance with statutory requirements, as of December 31, 2017 and 2016, respectively.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE C - FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or liability as follows:

Level 1 - Valuation is based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuation is derived from inputs, other than quoted prices included in Level 1, which are observable for the asset or liability either directly or indirectly. Investments classified as Level 2 are generally valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The significant inputs used in this approach include interest rates, prepayment timing, yield spreads, maturities, credit losses and credit ratings of the securities.

Level 3 - Valuation is derived from unobservable inputs that are not corroborated by market data.

SSAP Statement No. 100, *Fair Value Measurements*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of admitted assets, liabilities and capital and surplus, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SSAP Statement No. 100 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. These fair value disclosures are not intended to represent the fair value of the Company.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE C - FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

1. *Bonds, Stocks and Partnership Interest*

Fair values of bonds, preferred stocks, common stocks and partnership interest as presented herein, are based on values published by the SVO, where available. The Company obtains fair values from pricing service companies where values are not provided by the SVO. In instances in which the Company believes fair values provided by pricing services are indicative of distressed prices, the Company applies a market yield to expected future cash flows to determine fair values.

2. *Policy Loans, Cash, Cash Equivalents, Short-Term Investments, and Accrued Investment Income*

Due to the short-term nature of these assets, the carrying amounts approximate their fair values.

3. *Liability For Deposit-Type Contracts*

The fair values for the Company's reserves and liabilities under investment-type insurance contracts (deferred annuity and other contracts that do not involve significant mortality risk) are estimated using surrender values.

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31:

	<u>Fair Value</u>	<u>Admitted Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2017</u>					
Common stocks	\$ 210,105	\$ 210,105	\$ 145,905	\$ 64,200	\$ -
<u>2016</u>					
Common stocks	\$ 64,500	\$ 64,500	\$ -	\$ 64,500	\$ -

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE C - FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The fair values for the Company's insurance contracts (insurance, annuity, and other policy contracts that involve significant mortality risk), other than investment-type contracts, are not required to be disclosed. However, the fair value of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts. The following sets forth a comparison of the estimated fair values and carrying amounts of the Company's financial instruments at December 31:

<u>2017</u>	<u>Fair Value</u>	<u>Admitted Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets					
Investments					
Bonds	\$ 1,964,486	\$ 1,889,172	\$ 819,367	\$ 1,145,119	\$ -
Preferred stocks	1,994,328	2,014,321	-	1,994,328	-
Policy loans	92,335	92,335	-	92,335	-
Cash, cash equivalents and short-term investments					
	4,155,323	4,155,323	4,155,323	-	-
Accrued investment income	19,866	19,866	-	19,866	-
Financial liabilities					
Deposit-type contracts	4,665	4,665	-	4,665	-
<u>2016</u>	<u>Fair Value</u>	<u>Admitted Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets					
Investments					
Bonds	\$ 2,730,849	\$ 2,651,831	\$ 1,346,676	\$ 1,384,173	\$ -
Preferred stocks	1,008,743	1,049,308	-	1,008,743	-
Partnership interest	10,963	10,963	-	10,963	-
Policy loans	96,280	96,280	-	96,280	-
Cash, cash equivalents and short-term investments					
	3,734,877	3,734,877	3,734,877	-	-
Accrued investment income	17,302	17,302	-	17,302	-
Financial liabilities					
Deposit-type contracts	6,459	6,459	-	6,459	-

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE D - REAL ESTATE

Real estate occupied by the Company consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 900,784	\$ 900,784
Less accumulated depreciation	<u>(172,089)</u>	<u>(151,299)</u>
Real estate occupied by Company, net	<u>\$ 728,695</u>	<u>\$ 749,485</u>

The Company recorded depreciation expense of \$ 20,790 and \$ 20,789 during 2017 and 2016, respectively.

Real estate held for the production of income consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 500,000	\$ 500,000
Less accumulated depreciation	<u>(200,000)</u>	<u>(183,333)</u>
Real estate held for the production of income, net	<u>\$ 300,000</u>	<u>\$ 316,667</u>

The Company recorded depreciation expense of \$ 16,667 and \$ 16,666 during 2017 and 2016, respectively.

NOTE E - PREMIUMS DUE AND DEFERRED

A reconciliation of gross premiums, loading, and net premium at December 31 is as follows:

<u>2017</u>	<u>Gross</u>	<u>Loading</u>	<u>Net</u>
Ordinary new business	\$ 223,756	\$ 157,161	\$ 66,595
Ordinary renewal	<u>468,178</u>	<u>52,276</u>	<u>415,902</u>
Totals	<u>\$ 691,934</u>	<u>\$ 209,437</u>	<u>\$ 482,497</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE E - PREMIUMS DUE AND DEFERRED - Continued

<u>2016</u>	<u>Gross</u>	<u>Loading</u>	<u>Net</u>
Ordinary new business	\$ 115,064	\$ 77,219	\$ 37,845
Ordinary renewal	<u>298,786</u>	<u>38,951</u>	<u>259,835</u>
Totals	<u>\$ 413,850</u>	<u>\$ 116,170</u>	<u>\$ 297,680</u>

NOTE F - INCOME TAXES

The Company is taxed for federal income taxes as a life insurance company. The main components of deferred tax amounts at December 31 are as follows:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2017</u>			
Total gross deferred tax assets	\$ 570,594	\$ 6,545	\$ 577,139
Total gross deferred tax liabilities	<u>(170,992)</u>	<u>(557)</u>	<u>(171,549)</u>
Net gross deferred tax assets	399,602	5,988	405,590
Non-admitted deferred tax assets	<u>-</u>	<u>(5,988)</u>	<u>(5,988)</u>
Net admitted deferred tax assets	<u>\$ 399,602</u>	<u>\$ -</u>	<u>\$ 399,602</u>
Change in non-admitted deferred tax assets			<u>\$ (5,988)</u>
<u>2016</u>			
Total gross deferred tax assets	\$ 666,777	\$ -	\$ 666,777
Total gross deferred tax liabilities	<u>(227,442)</u>	<u>-</u>	<u>(227,442)</u>
Net admitted deferred tax assets	<u>\$ 439,335</u>	<u>\$ -</u>	<u>\$ 439,335</u>
Change in non-admitted deferred tax assets			<u>\$ 298,526</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE F - INCOME TAXES - Continued

The net admitted deferred tax asset was determined using the guidance related to admissibility provided in the following paragraphs in SSAP 101 as of December 31:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
<u>2017</u>			
<u>Admissible under paragraph</u>			
11b. lesser of adjusted gross deferred tax assets			
i. Expected to be recognized within three years	\$ 408,837	\$ -	\$ 408,837
ii. Allowed per limitation threshold of 15% of surplus less deferred tax asset			739,656
11c. adjusted gross deferred tax assets offset against existing deferred tax liabilities	<u>161,757</u>	<u>557</u>	<u>162,314</u>
Total admitted deferred tax asset	<u>\$ 570,594</u>	<u>\$ 557</u>	<u>\$ 571,151</u>

<u>2016</u>			
<u>Admissible under paragraph</u>			
11a. ability to recoup previous taxes paid	\$ 72,276	\$ -	\$ 72,276
11b. lesser of adjusted gross deferred tax assets			
i. Expected to be recognized within three years	453,415	-	453,415
ii. Allowed per limitation threshold of 15% of surplus less deferred tax asset			672,443
11c. adjusted gross deferred tax assets offset against existing deferred tax liabilities	<u>141,086</u>	<u>-</u>	<u>141,086</u>
Total admitted deferred tax asset	<u>\$ 666,777</u>	<u>\$ -</u>	<u>\$ 666,777</u>

The Company is a risk-based capital reporting entity. As a risk-based capital reporting entity, the Company utilized the realization threshold limitation table for risk-based capital reporting entities to determine its limitation under paragraph 11.b. of SSAP 101.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE F - INCOME TAXES - Continued

At December 31, 2017 and 2016, the Company's adjusted capital, less deferred tax assets, was \$ 4,975,581 and \$ 4,427,015, respectively. The resulting authorized control level risk-based capital ratio, excluding deferred tax assets, was 754% and 1199%, respectively.

The main components of deferred tax amounts as of December 31, are as follows:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Deferred tax assets (liabilities)			
Deferred acquisition costs	\$ 267,365	\$ 513,469	\$ (246,104)
Discount of reserves	158,565	109,162	49,403
AMT credit carryforward	125,673	-	125,673
Deferred and uncollected premium	(111,627)	(124,732)	13,105
Other	<u>(34,386)</u>	<u>(58,564)</u>	<u>24,178</u>
 Total gross deferred tax assets	 405,590	 439,335	 (33,745)
Non-admitted deferred tax assets	<u>(5,988)</u>	<u>-</u>	<u>(5,988)</u>
 Admitted deferred tax assets	 <u>\$ 399,602</u>	 <u>\$ 439,335</u>	 <u>\$ (39,733)</u>

The Company has no unused operating loss carryforwards available to offset against future taxable income.

All of the Company's deferred tax assets are expected to be utilized based on the Company's projected net earnings and historical experience as it relates to the utilization of the above timing differences. Tax planning strategies did not further impact adjusted gross deferred tax assets or net admitted deferred tax assets.

Current income taxes incurred consist of the following major components:

	<u>2017</u>	<u>2016</u>
Federal income tax expense on operations	\$ 185,249	\$ 8,285
Prior years adjustment	<u>43,724</u>	<u>53,990</u>
 Current federal income tax expense	 <u>\$ 228,973</u>	 <u>\$ 62,275</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE F - INCOME TAXES - Continued

The Company's income taxes incurred and the change in its deferred tax assets and deferred tax liabilities is different from the result obtained by applying the federal statutory rate to its pretax net income due to the following significant reconciling items:

- the small life insurance company deduction
- the dividends received deduction
- nondeductible expenses
- adjustments made to prior year's tax calculation
- amendments of prior year returns

Effective January 1, 1984, life insurance companies are taxed under the Deficit Reduction Act of 1984 (the 1984 act). Prior to 1984, life insurance companies were taxed under the 1959 Act on the lesser of taxable investment income or gain from operations plus one-half any excess of gain from operations over taxable income. The one-half of the excess of the gain from operations was accumulated in a special memorandum tax account known as the "policyholders' surplus account" (PSA). Accumulations at December 31, 1983, were approximately \$ 1,477,000 for the Company.

Pursuant to the 1984 Act, the PSA was "frozen" at the December 31, 1983 amount, and accordingly, no further additions to the PSA will be made. Should the balance in the PSA exceed a prescribed maximum amount or should distributions to stockholders exceed certain stated maximum amounts, such excess would become subject to income taxes at rates then effective. The Company has paid the appropriate taxes related to the reduction in the PSA.

The Tax Cuts and Jobs Act was signed on December 22, 2017. The Act decreases the corporate income tax rate from 34% to 21% beginning in 2018. The Company has reevaluated its deferred tax assets as of December 31, 2017 due to the lower future tax rate.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE G - ELECTRONIC DATA PROCESSING EQUIPMENT AND OTHER EQUIPMENT

The balance of EDP equipment and other equipment as of December 31 is summarized as follows:

	<u>2017</u>	<u>2016</u>
EDP equipment	\$ 493,518	\$ 435,142
Furniture and fixtures	72,772	70,489
Less accumulated depreciation	<u>(485,159)</u>	<u>(440,570)</u>
Admitted EDP equipment and software, net	<u>\$ 81,131</u>	<u>\$ 65,061</u>

Depreciation expense was \$ 44,589 and \$ 43,930 during 2017 and 2016, respectively.

NOTE H - LIABILITY FOR UNPAID ACCIDENT AND HEALTH CLAIMS

Changes in the balances of the total liability for unpaid accident and health claims at December 31 were as follows:

	<u>2017</u>	<u>2016</u>
Liability for claims, beginning of year	\$ 1,569,685	\$ 1,418,514
Incurred claims related to		
Current year claims	6,216,318	6,376,765
Prior years' claims	<u>(340,000)</u>	<u>(91,000)</u>
Total incurred claims	5,876,318	6,285,765
Paid claims related to		
Current year claims	4,622,308	4,809,956
Prior years' claims	<u>1,221,256</u>	<u>1,324,638</u>
Total paid claims	<u>5,843,564</u>	<u>6,134,594</u>
Liability for claims, end of year	<u>\$ 1,602,439</u>	<u>\$ 1,569,685</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE H - LIABILITY FOR UNPAID ACCIDENT AND HEALTH CLAIMS - Continued

As a result of changes in estimates of insured events in prior years, the provision for policy and accident claims liability decreased by \$ 340,000 and \$ 91,000 in 2017 and 2016, respectively, due to favorable development on case-basis reserves and less than anticipated incurred but not reported claims.

NOTE I - BORROWED FUNDS

The Company entered into a line of credit with the FHLB during 2009. The line of credit bears variable interest, which is repriced daily based on FHLB's cost of funds. The line of credit matured in 2016.

NOTE J - CAPITAL AND SURPLUS

The Company has 500,000 shares of preferred stock authorized with no preferred shares issued. The preferred stock has a par value of \$ 1.00 per share.

The Company is required to maintain minimum surplus levels established by the Department. The Company is also subject to risk-based capital (RBC) requirements promulgated by the NAIC and adopted by the Department. The RBC standards establish uniform minimum capital requirements for insurance companies. The RBC formula applies various weighting factors to financial balances or various levels of activities based on the perceived degree of risk. As of December 31, 2017, the Company's surplus significantly exceeded the minimum levels required by the Department and RBC standards.

Dividends on Company stock are paid as declared by the Board of Directors. The Company may not pay dividends except from available surplus funds derived from realized net profits. In addition, the payment of an extra ordinary dividend whose fair market value, together with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of 10 percent of the Company's surplus as of the preceding December 31 or the net income, excluding capital gains, for the 12-month period ended the preceding December 31, requires approval of the Oklahoma Insurance Commissioner.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE K - POST RETIREMENT BENEFIT PLANS

On December 31, 2001, the Company implemented a trustee profit sharing plan covering substantially all of its full-time employees. Employees become eligible to participate after one year of continuous service and attaining the age of 21. In 2005, the Company revised the plan to make all contributions by the Company discretionary. The Company did not make contributions in 2017 and 2016. The plan contains a 401(k) feature, which provides for voluntary employee contributions of up to 15 percent of qualifying wages.

NOTE L - REINSURANCE

The Company utilizes various reinsurance agreements to reduce its exposure to large losses in all aspects of its insurance business. Such reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured. The Company evaluates the financial strength of potential reinsurers and continually monitors the financial condition of reinsurers.

The effect of reinsurance on premiums written and earned for December 31 are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$ 8,235,329	\$ 8,230,120	\$ 8,720,404	\$ 8,859,106
Assumed	6,257,563	6,447,269	4,708,362	4,786,391
Ceded	<u>(4,881,465)</u>	<u>(4,875,283)</u>	<u>(3,952,864)</u>	<u>(3,960,569)</u>
Net premium	<u>\$ 9,611,427</u>	<u>\$ 9,802,106</u>	<u>\$ 9,475,902</u>	<u>\$ 9,684,928</u>

The effect of reinsurance on benefits to policyholders for December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Direct	\$ 8,563,648	\$ 8,554,472
Assumed	3,529,708	2,776,570
Ceded	<u>(5,512,388)</u>	<u>(4,736,331)</u>
Net	<u>\$ 6,580,968</u>	<u>\$ 6,594,711</u>

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE M - CONCENTRATIONS

The Company maintains its cash and bank deposit accounts in various financial institutions which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on such accounts.

Revenues are concentrated in the life and accident and health insurance industry, which is highly competitive. Significant changes in the industry, regulatory requirements, customer requirements, or the emergence of competitive products could adversely affect operating results. During the years ended December 31, 2017 and 2016, revenue and receivables by customers with more than 10 percent of income or accounts receivable balances were as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Revenue</u>	<u>Receivable</u>	<u>Revenue</u>	<u>Receivable</u>
LifeShield National Insurance	\$ 4,017,047	\$ 483,167	\$ 2,665,209	\$ 370,323
Unified Life Insurance Co.	<u>4,286,408</u>	<u>2,257,115</u>	<u>4,918,278</u>	<u>3,162,177</u>
Total	<u>\$ 8,303,455</u>	<u>\$ 2,740,282</u>	<u>\$ 7,583,487</u>	<u>\$ 3,532,500</u>

The Company performs third party administration work for several companies. Revenue from two customers was 18% and 21% of total income as of December 31, 2017 and 2016, respectively.

NOTE N - LEASES

The Company has operating leases for equipment. Lease expense was \$ 52,369 and \$ 17,973 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, the minimum aggregate rental commitments are as follows for the two succeeding years:

2018	\$ 7,620
2019	2,443

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE O - RELATED PARTY TRANSACTIONS

The Company is the parent company of Universal Fidelity Administrators Corp. (UFAC), a wholly owned subsidiary. During the years ended December 31, 2017 and 2016, the Company received \$ 302,151 and \$ 359,965 for the processing of ERISA benefit plan administration in accordance with an administrative services agreement with UFAC. The Company received a \$ 55,000 dividend from UFAC during the year ended December 31, 2016.

As of December 31, 2017, the Company had a receivable of \$ 12,239 from affiliated entities and a payable of \$ 379,857 to affiliated entities. As of December 31, 2016, the Company had a receivable of \$ 599 from affiliated entities and a payable of \$ 13,247 to affiliated entities.

On April 16, 2015, an entity owned by two Company stockholders executed a promissory note with a credit limit of \$ 200,000 from the Company. The note matured on May 15, 2016, with interest at 5 percent. During the years ended December 31, 2017 and 2016, this entity also reimbursed the Company \$ 10,485 and \$ 338,226, respectively, for the salaries of two employees who perform work for the Company and the entity owned by two stockholders. This entity also reimbursed the Company \$ 54,000 during the years ended December 31, 2017 and 2016 for insurance administration, data processing, marketing, accounting and other services performed by the Company.

At December 31, 2017 and 2016, the Company owed \$ 209,350 and \$ 286,092, respectively, to this same entity for additional commissions. These commissions payable are included within accrued expenses on the statements of admitted assets, liabilities and capital and surplus - statutory basis. Additionally, during the years ended December 31, 2017 and 2016, the Company paid commissions of \$ 321,510 and \$ 216,184, respectively, to this entity. The Company also paid this entity \$ 90,700 during the year ended December 31, 2017 for marketing fees towards its Medicare Supplement line of business.

NOTE P - PARTICIPATING POLICIES

At December 31, 2017 and 2016, the Company had three percent of its policies participating. The Company pays dividends to eligible participating policies under a dividend formula approved by the Company. Dividends vary by age and duration. The total annual policy dividend is the unit dividend for the issue age and duration times the number of units in force. The amount of policyholder dividends was \$ 2,055 and \$ 1,772 for 2017 and 2016, respectively.

Universal Fidelity Life Insurance Company

NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2017 and 2016

NOTE Q - ANNUAL STATEMENT DIFFERENCES

The financial statements herein contain differences from the Company's 2017 filed Annual Statement. Adjustments were made to deferred tax assets, federal income taxes payable, accrued expenses, miscellaneous income, commission expense and federal income tax expense. The adjustments reduced the Company's 2017 reported net income by \$ 300,592 and reduced capital and surplus by \$ 439,726.

In addition, during the year ended December 31, 2017, the Company discovered errors in the reported amounts for miscellaneous income and commission expense in the 2016 and prior financial statements. In accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*, these items were corrected as a cumulative effect adjustment to beginning surplus. The adjustment resulted in a net decrease to surplus of \$ 126,092. The resulting differences between the audited financial statements and the Company's Annual Statement are detailed below.

	<u>Per Audited Financial Statements</u>	<u>As Filed Annual Statement</u>
Statement of Admitted Assets, Liabilities and Capital and Surplus		
Assets		
Deferred tax asset	\$ 399,602	\$ 538,737
Liabilities		
Accrued expenses	\$ 1,078,686	\$ 579,488
Federal income taxes payable	172,348	244,862
Capital and Surplus	\$ 4,869,831	\$ 5,435,649
Statement of operations		
Miscellaneous income	\$ 1,754	\$ 161,754
Commissions	3,961,600	3,748,493
Federal income tax expense	228,973	301,488

OTHER FINANCIAL INFORMATION



CPAs and
Management Consultants

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Independent Auditors' Report on Other Financial Information

The Board of Directors
Universal Fidelity Life Insurance Company

We have audited the statutory basis financial statements of Universal Fidelity Life Insurance Company as of and for the year ended December 31, 2017, and our report thereon dated May 29, 2018, which expressed an unmodified opinion on those statutory basis financial statements, appears on pages 3 and 4. Our audit was performed for the purpose of forming an opinion on the statutory basis financial statements as a whole. As explained in the sixth paragraph of our auditors' report on the statutory basis financial statements, these statutory basis financial statements do not purport to be presented in conformity with accounting principles generally accepted in the United States of America. The accompanying supplemental schedules of selected statutory basis financial data, investment risks interrogatories and summary investment schedule are presented to comply with the National Association of Insurance Commissioners' *Annual Statement Instructions and Accounting Practices and Procedures Manual* and are not a required part of the statutory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the statutory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory basis financial statements as a whole.

Kerber, Eck & Braeckel LLP

Springfield, Illinois
May 29, 2018

Other Locations

Belleville, IL • Carbondale, IL • Columbia, IL • Harrisburg, IL • Litchfield, IL • O'Fallon, IL • Marion, IL • Cape Girardeau, MO • St. Louis, MO • Milwaukee, WI

Universal Fidelity Life Insurance Company

SCHEDULE OF SELECTED STATUTORY
BASIS FINANCIAL DATA

December 31, 2017

Investment income earned	
U. S. Government bonds	\$ 28,025
Other bonds (unaffiliated)	70,261
Bonds of affiliates	-
Preferred stocks (unaffiliated)	100,998
Preferred stocks of affiliates	-
Common stocks (unaffiliated)	7,700
Common stocks of affiliates	-
Mortgage loans on real estate	-
Real estate	95,505
Contract loans	1,921
Cash, cash equivalents, and short-term investments	3,935
Other invested assets	-
Derivative instruments	-
Aggregate write-ins for investment income	-
	<hr/>
Total gross investment income	<u>\$ 308,345</u>
Real estate owned, at book value less encumbrances	\$ 1,028,695
Mortgage loans on real estate by collateral classification, at book value	
Farm mortgages	\$ -
Residential mortgages	-
Commercial mortgages	-
	<hr/>
Total mortgage loans on real estate	<u>\$ -</u>
Mortgage loans on real estate by standing, at book value	
Good standing	\$ -
Good standing with restructured terms	-
Interest overdue more than ninety days, not in foreclosure	-
Foreclosure in process	-
	<hr/>
Total mortgage loans on real estate	<u>\$ -</u>
Other long-term assets, at statement value	\$ -
Collateral loans	\$ -

Universal Fidelity Life Insurance Company

SCHEDULE OF SELECTED STATUTORY
BASIS FINANCIAL DATA - CONTINUED

December 31, 2017

Bonds and stocks of parents, subsidiaries and affiliates, at book value	
Bonds	\$ -
Preferred stocks	-
Common stocks	-
	<hr/>
Total bonds and stocks of parents, subsidiaries and affiliates	<u>\$ -</u>
Bonds and short-term investments by maturity, at statement value	
Due within one year or less	\$ 50,060
Over 1 year through 5 years	871,385
Over 5 years through 10 years	-
Over 10 years through 20 years	212,228
Over 20 years	755,499
	<hr/>
Total bonds and short-term investments	<u>\$ 1,889,172</u>
Bonds and short-term investments by class, at statement value	
Class 1	\$ 983,022
Class 2	906,150
Class 3	-
Class 4	-
Class 5	-
Class 6	-
	<hr/>
Total bonds and short-term investments	<u>\$ 1,889,172</u>
Bonds and short-term investments by trading category, at statement value	
Total bonds publicly traded	\$ 1,889,172
Total bonds privately placed	-
	<hr/>
Total bonds and short-term investments	<u>\$ 1,889,172</u>
Preferred stocks, at statement value	\$ 2,014,321
Common stocks, at market value	210,105
Short-term investments, at book value	-
Options, caps and floors owned, at statement value	-
Options, caps and floors written and in force, at statement value	-
Collars, swap and forward agreements open, at statement value	-
Futures contracts open, at current value	-
Cash on deposit	3,212,606

Universal Fidelity Life Insurance Company

SCHEDULE OF SELECTED STATUTORY
BASIS FINANCIAL DATA - CONTINUED

December 31, 2017

Life insurance in force	
Ordinary (\$ 35,663,000 less reinsurance ceded of \$ 13,306,000)	\$ 22,357,000
Amount of accidental death insurance in force under ordinary policies	1,697,000
Supplementary contracts in force	
Ordinary, not involving life contingencies	
Amount on deposit	-
Income payable	-
Ordinary, involving life contingencies - income payable	-
Annuities	
Ordinary	
Immediate - income payable	-
Deferred - fully paid (account balance)	-
Deferred - not fully paid (account balance)	-
Accident and health insurance (premiums in force)	
Ordinary	601,482
Group	1,122,364
Deposit funds and dividend accumulations (account balance)	
Deposit funds	-
Dividend accumulations	-
Claim payments for the year ended December 31, 2017	
by year in which losses were incurred	
Group accident and health	
2017	2,370,675
Prior	744,745
Other accident and health	
2017	2,251,633
Prior	476,511

Universal Fidelity Life Insurance Company

SCHEDULE OF INVESTMENT RISKS INTERROGATORIES

December 31, 2017

INVESTMENT RISK INTERROGATIVES

1. The Company's total admitted assets as reported on page two of its Annual Statement is \$ 13,673,289. (The audited total admitted assets is \$ 13,534,154).
2. Following are the ten largest exposures to a single issuer/borrower/investment, by investment category, excluding: (i) U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the *SVO Practices and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans:

<u>Investment Category/Issuer</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
a. KKR & Co, LP	\$ 324,428	2.37%
b. Investment Real Estate	300,000	2.19
c. Validus Holdings, LTD	281,598	2.06
d. Wells Fargo & Co	255,550	1.87
e. General Electric Company	219,833	1.61
f. Qwest Corporation	202,750	1.48
g. Axis Capital Holdings, LTD	198,488	1.45
h. Chimera Investment Corp	154,984	1.13
i. Stanley Black & Decker	154,917	1.13
j. Prudential Financial Inc.	154,889	1.13

3. The Company's total admitted assets held in bonds and preferred stock by NAIC rating:

<u>Bonds</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
1	\$ 983,022	7.19%
2	906,150	6.63
3	-	.00
4	-	.00
5	-	.00
6	-	.00

Universal Fidelity Life Insurance Company

SCHEDULE OF INVESTMENT RISKS INTERROGATORIES - CONTINUED

December 31, 2017

INVESTMENT RISK INTERROGATIVES - Continued

3. The Company's total admitted assets held in bonds and preferred stock by NAIC rating:

<u>Preferred Stocks</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
1	\$ 126,207	.92%
2	1,685,364	12.33
3	202,750	1.48
4	-	.00
5	-	.00
6	-	.00

4. At December 31, 2017, assets held in foreign investments are less than 2.5% of the Company's total admitted assets.

Interrogatories 5 through 10 are not applicable.

11. Assets held in Canadian investments are less than 2.5% of the Company's total admitted assets.

12. Assets held in investments with contractual sales restrictions are less than 2.5% of the Company's total admitted assets.

Universal Fidelity Life Insurance Company

SCHEDULE OF INVESTMENT RISKS INTERROGATORIES - CONTINUED

December 31, 2017

INVESTMENT RISK INTERROGATIVES - Continued

13. Assets held in equity interests are greater than 2.5% of the Company's total admitted assets. Following are the Company's ten largest equity interests:

<u>Issuer</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
a. KKR & Co, LP	\$ 324,428	2.37%
b. Validus Holdings, LTD	281,598	2.06
c. Chimera Investment Corp	247,384	1.81
d. Wells Fargo & Co	203,532	1.49
e. Qwest Corporation	202,750	1.48
f. Axis Capital Holdings, LTD	198,488	1.45
g. Stanley Black & Decker	154,917	1.13
h. Prudential Financial Inc.	154,889	1.13
i. Indexplus Trust	126,207	.92
j. Assured Guaranty	96,840	.71

14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of the Company's total admitted assets.

15. Assets held in general partnership interests are less than 2.5% of the Company's total admitted assets.

Interrogatories 16 through 17 are not applicable.

18. Assets held in one parcel or group of contiguous parcels of real estate are less than 2.5% of the Company's total admitted assets.

Interrogatories 19-23 are not applicable.

Universal Fidelity Life Insurance Company

SUMMARY INVESTMENT SCHEDULE

December 31, 2017

<u>Investment Categories</u>	<u>Gross Investment Holdings*</u>		<u>Admitted Assets as Reported in the Annual Statement</u>	
	<u>Amount</u>	<u>Percentage of Total Invested Assets</u>	<u>Amount</u>	<u>Percentage of Total Invested Assets</u>
Bonds				
U.S. Treasury securities	\$ 757,640	8.1 %	\$ 757,640	8.1 %
U.S. government agency obligations (excluding mortgage-backed securities)				
Issued by U.S. government agencies	-	-	-	-
Issued by U.S. government-sponsored agencies	-	-	-	-
Foreign government (including Canada, excluding mortgage-backed securities)	-	-	-	-
Securities issued by states, territories, and possessions and their political subdivisions in the U.S.				
State, territories and possessions - general obligations	-	-	-	-
Political subdivisions of states, territories and possessions - general obligations	-	-	-	-
Revenue and assessment obligations	-	-	-	-
Industrial development and similar obligations	-	-	-	-
Mortgage-backed securities (includes residential and commercial MBS)				
Pass-through securities				
Issued or guaranteed by GNMA	-	-	-	-
Issued or guaranteed by FNMA and FHLMC	75,203	0.8	75,203	0.8
All other	-	-	-	-
CMOs and REMICs				
Issued by GNMA, FNMA, FHLMC, or VA	-	-	-	-
Issued by non-US Government issuers and collateralized by mortgage-backed securities	-	-	-	-
All other	-	-	-	-
Other debt and other fixed income securities (excluding short term)				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	1,056,329	11.2	1,056,329	11.2
Unaffiliated foreign securities	-	-	-	-
Affiliated securities	-	-	-	-

Universal Fidelity Life Insurance Company

SUMMARY INVESTMENT SCHEDULE - CONTINUED

December 31, 2017

<u>Investment Categories</u>	<u>Gross Investment Holdings*</u>		<u>Admitted Assets as Reported in the Annual Statement</u>	
	<u>Amount</u>	<u>Percentage of Total Invested Assets</u>	<u>Amount</u>	<u>Percentage of Total Invested Assets</u>
Equity interests				
Investments in mutual funds	\$ -	- %	\$ -	- %
Preferred stocks				
Affiliated	-	-	-	-
Unaffiliated	2,014,321	21.5	2,014,321	21.5
Publicly traded equity securities (excluding preferred stocks)				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Other equity securities				
Affiliated	-	-	-	-
Unaffiliated	210,105	2.2	210,105	2.2
Other equity interests including tangible personal property under lease				
Affiliated	-	-	-	-
Unaffiliated	-	-	-	-
Mortgage loans				
Construction and land development	-	-	-	-
Agricultural	-	-	-	-
Single family residential properties	-	-	-	-
Multifamily residential properties	-	-	-	-
Commercial loans	-	-	-	-
Real estate investments				
Property occupied by company	728,695	7.8	728,695	7.8
Property held for production of income	300,000	3.2	300,000	3.2
Property held for sale	-	-	-	-
Contract loans	92,335	1.0	92,335	1.0
Receivables for securities	-	-	-	-
Cash, cash equivalents, and short-term investments	4,155,323	44.2	4,155,323	44.2
Other invested assets	-	-	-	-
Total invested assets	<u>\$ 9,389,951</u>	<u>100.0 %</u>	<u>\$ 9,389,951</u>	<u>100.0 %</u>

* Gross investment holding as valued in compliance with *NAIC Accounting Practices and Procedures Manual*.

Universal Fidelity Life Insurance Company

NOTE TO OTHER FINANCIAL INFORMATION

December 31, 2017

NOTE A - BASIS OF PRESENTATION

The accompanying schedules and interrogatories present selected statutory basis financial data as of December 31, 2017, and for the year then ended, for purposes of complying with the Annual Audited Financial Reports in the Annual Audited Report section of the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and agrees to or is included in the amounts reported in the Company's 2017 Statutory Annual Statement as filed with the Oklahoma Insurance Department.

Certain items required of the Annual Audited Financial Reports in the Annual Audited Report section of the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* have been omitted from the schedule presented herein as amounts are zero or items are not applicable.