

## Amended Explanation Page

Amending Notes to include a subsequent event in Note 22, although immaterial.  
Amending Sch S Part 2 to shift information from Affiliate line to Non-Affiliate.  
Amending Sch S Part 3, prior reserve credit taken for Hannover didn't pull in correctly.



## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### A. Accounting Practices

The financial statements of Unity Financial Life Insurance Company (“the Company”) are presented on the basis of accounting practices prescribed or permitted by the Ohio Department of Insurance (the Department).

The Department recognizes only statutory accounting practices prescribed or permitted by the state of Ohio for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under Ohio Insurance Law. The National Association of Insurance Commissioners’ (NAIC) *Accounting Practices and Procedures* manual, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Ohio.

NET INCOME	STATE	2012	2011
State Basis (Page 4, Line 35, Columns 1&2)	OHIO	\$ 1,696,144	\$ 1,402,585
State Prescribed Practices that increase/decrease SAP	OHIO	0	0
State Permitted Practices that increase/decrease SAP	OHIO	0	0
NAIC SAP		\$ 1,696,144	\$ 1,402,585

SURPLUS	STATE	2012	2011
State Basis (Page 4, Line 35, Columns 1&2)	OHIO	\$ 10,970,516	\$10,785,163
State Prescribed Practices that increase/decrease SAP	OHIO	0	0
State Permitted Practices that increase/decrease SAP	OHIO	0	0
NAIC SAP		\$ 10,970,516	\$10,785,163

#### B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles 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 statement and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### C. Accounting Policies

Life premiums are recognized as income over the premium-paying period of the related policies. The Company does not write Annuity or Health premiums. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred.

In addition, the company uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the scientific method.
- (3) Common Stocks – Not Applicable.
- (4) Preferred Stocks – Not Applicable.
- (5) Mortgage Loans – Not Applicable.

## Notes to Financial Statements

- (6) Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair market value. The retrospective adjustment method is used to value all securities except for interest only securities or securities where the yield had become negative, which are valued using the prospective method.
- (7) Investments in subsidiaries, controlled and affiliated companies – Not Applicable.
- (8) Investments in joint ventures, partnerships and limited liability companies – Not Applicable.
- (9) Investments in derivatives – Not Applicable.
- (10) Premium Deficiency Calculation – Not Applicable.
- (11) Expense adjustments for accident and health contracts – Not Applicable.
- (12) The Company has not modified its capitalization policy from the prior period.
2. Accounting Changes and Correction of Errors – Not Applicable.
3. Business Combinations and Goodwill
- A. Statutory Purchase Method – Not Applicable.
- B. Statutory Mergers – Not Applicable.
- C. Assumption Reinsurance – Not Applicable.
- D. Impairment Loss – Not Applicable.
4. Discontinued Operations – Not Applicable.
5. Investments
- A. Mortgage Loans – Not Applicable.
- B. Debt Restructuring – Not Applicable
- C. Reverse Mortgages – Not Applicable
- D. Loan Backed Securities
- (1) Prepayment assumptions for mortgage-backed/loan backed and structured securities were obtained from broker dealer survey values.
- (2) The Company does not have any recognized securities with Other Than Temporary Impairments.
- (3) The Company does not have any recognized securities with Other Than Temporary Impairments to list by cusip.
- (4) Impaired Securities (Fair Value less than Cost or Amortized Cost)
- a. The aggregate amount of unrealized losses:
- |                        |      |
|------------------------|------|
| 1. Less than 12 months | \$ 0 |
| 2. 12 months or Longer | \$ 2 |
- b. The aggregate related fair value of securities with unrealized losses:
- |                        |        |
|------------------------|--------|
| 1. Less than 12 months | \$ 0   |
| 2. 12 months or Longer | \$ 137 |
- (5) For loan backed securities with an unrealized loss, management considers the size and duration of the loss, whether the security is backed by an agency of the United States government, general economic data, management's assessment of whether it has the ability and intent to hold the security and whether it is more than likely than not it will be required to sell the security before its anticipated recovery. Based upon management's review of the Company's loan backed securities using the aforementioned criteria and the relative insignificance of the unrealized loss position of those securities, the Company concluded that there are no Other Than Temporary Impaired loan backed securities as of December 31, 2012.
- E. Repurchase Agreements and/or Securities Lending Transactions – Not Applicable.
- F. Real Estate – Not Applicable.
- G. Investments in low-income housing tax credits – Not Applicable.
6. Joint Ventures, Partnerships, and Limited Liability Companies
- A. Joint Ventures, Partnerships and Limited Liability Companies – Not Applicable.

## Notes to Financial Statements

B. Impairment write downs – Not Applicable.

### 7. Investment Income

A. Due and accrued investment income on bonds over 90 days past due is excluded from income or where interest is uncertain.

B. No amounts were excluded for the year ended December 31, 2012.

### 8. Derivative Instruments – Not Applicable.

### 9. Income Taxes

A. 1. Components of Net Deferred Tax Asset/(Liability)

	2012			2011			Change		
	1 Ordinary	2 Capital	3 (Col 1+2) Total	4 Ordinary	5 Capital	6 (Col 4+5) Total	7 (Col 1-4) Ordinary	8 (Col 2-5) Capital	9 (Col 7+8) Total
a. Gross deferred tax assets	2,521,497		2,521,497	2,397,803		2,397,803	123,694		123,694
b. Statutory valuation allowance adjustment									
c. Adjusted gross deferred tax assets (1a-1b)	2,521,497		2,521,497	2,397,803		2,397,803	123,694		123,694
d. Deferred tax assets nonadmitted	576,225		576,225	1,120,876		1,120,876	(544,651)		(544,651)
e. Subtotal net admitted deferred tax asset (1c-1d)	1,945,272		1,945,272	1,276,927		1,276,927	668,345		668,345
f. Deferred tax liabilities	687,272		687,272	183,567		183,567	503,705		503,705
g. Net admitted deferred tax assets/(net deferred tax liability) (1e-1f)	1,258,000		1,258,000	1,093,360		1,093,360	164,640		164,640

### 2. Admission Calculation Components

	2012			2011			Change		
	1 Ordinary	2 Capital	3 (Col 1+2) Total	4 Ordinary	5 Capital	6 (Col 4+5) Total	7 (Col 1-4) Ordinary	8 (Col 2-5) Capital	9 (Col 7+8) Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks	893,340		893,340	1,052,621		1,052,621	(159,281)		(159,281)
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below:	364,660		364,660	40,739		40,739	323,921		323,921
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	364,660		364,660	40,739		40,739	323,921		323,921
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	1,443,652	XXX	XXX	1,451,585	XXX	XXX	
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	687,272		687,272	183,567		183,567	503,705		503,705
d. Deferred tax assets admitted as the result of application of SSAP 101.									
Total (2(a)+2(b)+2(c))	1,945,272		1,945,272	1,276,927		1,276,927	668,345		668,345

### 3. Other Admissibility Criteria

	2012	2011
a. Ratio percentage used to determine recovery period and threshold limitation amount	565%	617%
b. Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above	9,704,348	9,677,235

### 4. Impact of Tax Planning Strategies

	2012			2011			Change		
	1 Ordinary	2 Capital	3 (Col 1+2) Total	4 Ordinary	5 Capital	6 (Col 4+5) Total	7 (Col 1-4) Ordinary	8 (Col 2-5) Capital	9 (Col 7+8) Total
a. Adjusted gross DTAs (% of total adjusted gross DTAs)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
b. Net admitted adjusted gross DTAs (% of total net admitted adjusted gross DTAs)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

c. Does the company's tax planning strategies do not include the use of reinsurance.

B. Deferred Tax Liabilities Not Recognized – Not Applicable.

## Notes to Financial Statements

### C. Current and Deferred Income Taxes

#### 1. Current Income Tax

	1 2012	2 2011	3 (Col 1-2) Change
a. Federal	49,600	277,825	(153,749)
b. Foreign			
c. Subtotal	49,600	277,825	(153,749)
d. Federal income tax on net capital gains			
e. Utilization of capital loss carry-forwards			
f. Other			
g. Federal and Foreign income taxes incurred	49,600	277,825	(153,749)

#### 2. Deferred Tax Assets

	1 2012	2 2011	3 (Col 1-2) Change
a. Ordinary:			
1. Policyholder reserves/	573,321	547,253	26,068
2. Deferred acquisition costs	1,013,019	1,027,598	(14,579)
3. Fixed assets	201,569	121,983	79,586
4. Tax credit carry-forward	715,782	690,767	25,015
5. Other (including items <5% of total ordinary tax assets)	17,806	10,202	7,604
99. Subtotal	2,521,497	2,397,803	123,694
b. Statutory valuation allowance adjustment			
c. Nonadmitted	576,225	1,120,876	(544,651)
d. Admitted ordinary deferred tax assets (2a99-2b-2c)	1,945,272	1,276,927	668,345
e. Capital:			
1. Investments			
2. Other (including items <5% of total capital tax assets)			
99. Subtotal			
f. Statutory valuation allowance adjustment			
g. Nonadmitted			
h. Admitted capital deferred tax assets (2e99-2f-2g)			
i. Admitted deferred tax assets (2d+2h)	1,945,272	1,276,927	668,345

#### 3. Deferred Tax Liabilities

	1 2012	2 2011	3 (Col 1-2) Change
a. Ordinary:			
1. Investments	112,094	77,221	34,873
2. Fixed assets	89,977		89,977
3. Deferred and uncollected premium	375,355		375,355
5. Other (including items <5% of total ordinary tax assets)	109,846	106,346	3,500
99. Subtotal	687,272	183,567	503,705
b. Capital:			
1. Investments			
99. Subtotal			
c. Deferred tax liabilities (3a99+3b99)	687,272	183,567	503,705

#### 4. Net Deferred Tax Assets

Net Deferred Tax Assets (2i - 3c)	1,258,000	1,093,360	164,640
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### D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate

Among the more significant book to tax adjustments were the following:

	2012	
	Amount	Effective Tax Rate (%)
<b>Permanent Differences:</b>		
Provision computed at statutory rate	619,433	34.0
Amortization of interest maintenance reserve	(71,805)	(3.9)
Small company deduction	(364,407)	(20.0)
Other permanent differences	(140,293)	(7.7)
Other	(297,045)	(16.3)
Totals	(254,117)	(13.9)
Federal and foreign income taxes incurred	49,600	2.7
Realized capital gains (losses) tax	76,295	4.2
Change in net deferred income taxes	(380,012)	(20.9)
Total statutory income taxes	(254,117)	(13.9)

## Notes to Financial Statements

### E. Operating Loss and Tax Credit Carryforwards and Protective Tax Deposits

1. At December 31, 2012, the Company did not have any unused operating loss carryforwards available to offset against future taxable income.
2. The following is income tax expense for 2012 and 2011 that is available for recoupment in the event of future net losses:

Year	Amount
2012	124,076
2011	361,610
2010	407,654

3. The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

### F. Consolidated Federal Income Tax Return – Not Applicable.

### G. Federal or Foreign Federal Income Tax Loss Contingencies

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

## 10. Information Concerning Parent, Subsidiaries and Affiliates

A-F. The Company is a wholly owned subsidiary of Unity Financial Insurance Group, LLC, which is in turn owned by Hardy, LLC. In 2011, the Company incurred expenses of \$10,000 pursuant to a Service and Expense Allocation agreement with Unity Mutual Life Insurance Company, a former indirect shareholder.

G-L. Not Applicable.

## 11. Debt – Not Applicable.

## 12. Retirement Plans, Deferred Compensation, and Other Postretirement Benefits

A. Defined Benefit Plan – Not Applicable.

B. Defined Contribution Plan. The Company established a defined contribution plan for its eligible employees under Section 401(k) of the Internal Revenue Code as of January 1, 2002. Employees are eligible to participate in the Plan after four months of employment and are 100% vested after two years of employment. The Plan allows participating employees to contribute a portion of their salary, as defined, with tax deferred tax advantages to the participant. Participant contributions are matched 100% up to 6% of the participant's compensation. The Company's matching contributions were \$47,000 and \$73,000 for the years ended December 31, 2012 and 2011, respectively.

C. Multiemployer Plan – Not Applicable.

D. Consolidated/Holding Company Plans – Not Applicable.

E. Post Employment Benefits and Compensated Absences – Not Applicable.

F. Postretirement benefits – Not Applicable.

## 13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

- (1) The Company has 200 shares of common stock authorized, of which 153 shares are issued and outstanding. Par value of the shares is \$16,500.
- (2) The Company has no preferred stock outstanding.
- (3) Without prior approval of its domiciliary commissioner, dividends to shareholders are limited by the laws of the state of Ohio. A dividend cannot exceed the greater of 10% of surplus as of December 31 or the net income for the 12 month period ending December 31<sup>st</sup>. The maximum dividend payment for 2013 is approximately 1,616,000.
- (4) Ordinary dividends in the amount of \$775,000 were paid in 2012. The Company distributed non-admitted units of Unity Financial Insurance Group, LLC to its shareholder.
- (5) Within the limitations of (3) above, there are no restrictions placed on the portion of the Company profits that may be paid as ordinary dividends to stockholders.
- (6) There are no restrictions placed on unassigned surplus, including for whom the surplus is being held.

## Notes to Financial Statements

- (7) Mutual Reciprocals – Not Applicable.
- (8) There is no stock held by the Company for special purposes at December 31, 2012.
- (9) There were no changes in the balance of any special surplus funds from the prior year.
- (10) The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses is \$0 at December 31, 2012.
- (11) The Company has no surplus debentures or similar obligations.
- (12) There has been no restatement of prior year amounts due to prior quasi-reorganizations.
- (13) There have been no quasi-reorganizations in the prior 10 years.

### 14. Contingent Liabilities

- A. Contingent Commitments – Not Applicable.
- B. Assessments

The Company is not aware of any pending insolvency, which would result in a significant guaranty fund assessment against the Company.

- C. Gain Contingencies – Not Applicable.
- D. Claims related contractual obligations and bad faith losses stemming from lawsuits – None
- E. All Other Contingencies

Various other lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company. The Company does not have any assets that it considers to be impaired.

### 15. Leases

#### A. Lessee Operating Lease

- (1) The company leases office space in Cincinnati, OH under a lease that expires in March 2014. Rental expense under this lease for 2012 and 2011 was \$82,000 and \$71,000 respectively.
- (2) At December 31, 2012, the rental commitments for the above lease are as follows:

2013	\$92,000
2014	\$23,000

- (3) The Company has not engaged in any sale-leaseback transactions in 2012 and 2011.

#### B. Lessor Leases – Not Applicable.

### 16. Financial Instruments with Off-Balance Sheet Risk

- (1) The Company has no financial instruments with off-balance sheet risk.
- (2) The Company has no positions in derivative instruments.
- (3) The Company is not exposed to credit-related losses.
- (4) The Company is not required to put up collateral for any future contracts that are entered.

### 17. Sales Transfer and Servicing of Financial Assets and Extinguishments of Liabilities – Not Applicable.

### 18. Gain or Loss from Uninsured A&H Plans – Not Applicable.

### 19. Direct Premium Written by Managing General Agents/Third Party Administrators – Not Applicable.

### 20. Fair Value Measurements – Not Applicable.

### 21. Other Items

- A. Extraordinary Items – Not Applicable.
- B. Trouble Debit Restructuring – Not Applicable.
- C. Other Disclosures – Not Applicable.
- D. The Company had no admitted assets in accounts receivable for uninsured plans and amounts due from agents.
- E. Business Interruption Insurance Recoveries – Not Applicable.
- F. State Transferable Tax Credits – Not Applicable.

## Notes to Financial Statements

G. Subprime Mortgage Related Risk Exposure – Not Applicable.

H. Retained Assets – Not Applicable.

### 22. Events Subsequent

Effective January 1, 2013, the Company entered into an assumption reinsurance agreement, receiving from Pine Belt Life Insurance Company 100% of all single premium and paid up increasing benefit policies as of September 30, 2012. The initial cash transfer of \$3,458,200.62 occurred on January 2, 2013. An additional cash transfer representing the increase in reserves that occurred between September 30, 2012 and December 31, 2012 will be made as soon as the reserves have been computed. For a period of five years, as additional policies are paid in full, they will also be received from Pine Belt.

### 23. Reinsurance

#### A. Ceded Reinsurance Report

##### Section 1 – General Interrogatories

- (1) Are any of the reinsurers listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company? Yes ( ) No (X) If yes, give full details.
- (2) Have any policies of the Company been reinsured with a company chartered in a country other than the United States (excluding US Branches of such companies) which is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor, or an insured or any other person not primarily engaged in the insurance business. Yes ( ) No (X) If yes, give full details.

##### Section 2 – Ceded Reinsurance Report – Part A

- (1) Does the Company have any reinsurance agreements in effect under which the Reinsurer may unilaterally cancel any reinsurance for reasons other than for non-payment of premiums or other similar credits? Yes ( ) No (X)
  - a. If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the reporting entity to the reinsurer, and for which such obligation is not presently accrued? Where necessary, the Company may consider the current or anticipated experience of business reinsured in making this estimate. –\$0-.
  - b. What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability for those agreements in this statement? –\$0-
- (2) Does the Company have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies? Yes ( ) No (X) If yes, give full details.

##### Section 3 – Ceded Reinsurance Report – Part B

- (1) What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than nonpayment of premium or other similar credits that are reflected in Section 2 above) of termination of all reinsurance agreements by either party, as of the date of this statement? Where necessary the Company may consider the current or anticipated experience of the business reinsured in making this estimate. –\$0-
- (2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts which were in-force or which had existing reserves established by the Company as of the effective date of the agreement. Yes ( ) No (X) If yes, what is the amount of reinsurance credits, whether an asset or a reduction of liability, taken for such new agreements or amendments? –\$0-

#### B. Uncollectible Reinsurance

- (1) The Company has not written off any uncollectible reinsurance due from other companies in the current year.

C. Commutation of Ceded Reinsurance – Not Applicable.

D. Certified Reinsurer Downgraded or Status Subject to Revocation – Not Applicable.

24. Retrospectively Rated Contracts and Contracts Subject to Redetermination – Not Applicable.

25. Change in Incurred Losses and Loss Adjustment Expenses – Not Applicable.

26. Intercompany Pooling Managements – Not Applicable.

## Notes to Financial Statements

27. Structured Settlements – Not Applicable.

28. Health Care Receivables – Not Applicable.

29. Participating Policies – Not Applicable.

30. Premium Deficiency Reserves – Not Applicable.

31. Reserves for Life Contracts and Deposit Type Contracts

(1) The Company waives deduction of deferred fractional premiums upon death of insured and retains any portion of the final premium beyond the date of death. The Company holds reserves on mortality and interest bases and uses valuation methods consistent with the basic policies. Surrender values are not promised in excess of the legally computed reserves.

(2) Valuation of substandard policies – Not Applicable.

(3) The Company had \$5,544,000 of insurance in force for which the gross premium is less than the net according to the standard valuation set by the State of Ohio. This amount is 100 percent ceded.

(4) The tabular interest – Not Applicable.

(5) Tabular interest for page 7 – Not Applicable.

(6) Changes in reserves – Not Applicable.

32. Analysis of Annuity Actuarial Reserves and Deposit Liabilities –

The amount of deposit type contract funds without life or disability contingencies by withdrawal characteristics is 100% Not Subject to discretionary withdrawal in the amount of \$22,267. This amount is 100% Ceded with a Net of \$0.

33. Premiums and Annuity Considerations Deferred and Uncollected

A. Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2012 were as follows:

	Gross	Loading	Net of Loading
ii. Ordinary - First Year	76,872	48,402	28,470
iii. Ordinary - Renewal	606,731	286,423	320,308
v. Group Life	3,768,829	1,909,635	1,859,194
Total	4,452,432	2,244,460	2,207,972

34. Separate Accounts – Not Applicable.

35. Loss/Claim Adjustment Expense – Not Applicable.