Central United Life Insurance Company

Statutory-Basis Financial Statements as of and for the Years Ended December 31, 2008 and 2007, Supplemental Schedules as of and for the Year Ended December 31, 2008, and Independent Auditors' Report

CENTRAL UNITED LIFE INSURANCE COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Central United Life Insurance Company
Houston, Texas

We have audited the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus of Central United Life Insurance Company (the "Company") as of December 31, 2008 and 2007, and the related statutory-basis statements of income, changes in capital and surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Arkansas Insurance Department, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such statutory-basis financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Central United Life Insurance Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Our 2008 audit was conducted for the purpose of forming an opinion on the basic 2008 statutory-basis financial statements taken as a whole. The supplemental schedule of selected statutory-basis financial data, the supplemental schedule of investment risk interrogatories, and the supplemental summary investment schedule, as of and for the year ended December 31, 2008, are presented for purposes of additional analysis and are not a required part of the basic 2008 statutory-basis financial statements. These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2008 statutory-basis financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2008 statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors and management of the Company and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

May 27, 2009

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2008 AND 2007
(Amounts in thousands, except share and per-share data)

	2008	2007
ASSETS		
CASH AND INVESTED ASSETS:		
Bonds, at amortized cost (fair value of $142,489 and $196,311 in 2008 and 2007 respectively)	$ 138,368	$ 194,540
Common stocks, at fair value (cost of $11 and $11, in 2008 and 2007, respectively)	11	12
Investments in subsidiaries and affiliates	28,565	30,623
Contract loans	7,772	8,109
Real estate	10,633	10,905
Mortgage loans on real estate	1,590	1,632
Cash and short-term investments	78,130	29,387
Total cash and invested assets	265,069	275,208
DUE AND DEFERRED PREMIUMS—Net	2,106	3,209
INVESTMENT INCOME DUE AND ACCRUED	2,469	2,964
PROPERTY AND EQUIPMENT—at cost, net of accumulated depreciation of $138 and $1,847, in 2008 and 2007, respectively	98	59
RECOVERABLE FROM REINSURERS	188	460
FUNDS HELD BY REINSURER	47,076	47,023
RECEIVABLE FROM AFFILIATE	1,177	999
NET DEFERRED TAX ASSET	2,866	1,326
GOODWILL—Net	580	614
OTHER ASSETS	396	634
TOTAL	$ 322,025	$ 332,496
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Aggregate reserves:		
Life and annuities policies	$ 115,582	$ 119,351
Accident and health policies	121,451	130,889
Liability for deposit-type contracts	4,355	4,172
Liability for policy and contract claims:		
Life	1,343	1,408
Accident and health	32,886	32,494
Dividends payable to policyholders	347	378
Interest maintenance reserve	2,819	2,989
Commissions, expenses, taxes (other than income taxes), licenses, and other fees accrued	1,289	1,711
Current income tax payable	999	240
Asset valuation reserve	1,149	1,105
Due to affiliates	90	295
Other accrued liabilities	841	738
Total liabilities	283,151	295,770
CAPITAL AND SURPLUS:		
Cumulative Series E redeemable preferred stock; $10 par value, $100 stated value authorized, 100,000 shares; issued and outstanding, 20,000 shares in 2008 and 2007	200	200
Common stock, $0 par value, $25,000 stated value—authorized, 150 shares; issued and outstanding, 100 shares in 2008 and 2007	2,500	2,500
Paid-in and contributed surplus	9,955	9,955
Surplus note	15,000	15,000
Unassigned surplus	11,219	9,071
Total capital and surplus	38,874	36,726
TOTAL	$ 322,025	$ 332,496

See notes to statutory-basis financial statements.

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands)

	2008	2007
PREMIUM AND OTHER REVENUES:		
Premiums and annuity considerations	$ 92,552	$100,852
Net investment income	8,190	10,195
Commissions and expense allowances on reinsurance ceded	104	119
Amortization of interest maintenance reserve	739	929
Other income—net	2,355	2,796
Total premium and other revenues	103,940	114,891
BENEFITS AND EXPENSES:		
Benefits to life beneficiaries and annuitants	10,882	10,487
Benefits to accident and health policyholders	82,723	91,530
Increase (decrease) in reserves for policies and contracts	(18,297)	(20,014)
Commissions	9,350	9,942
General insurance expenses	13,157	14,393
Change in loading	(115)	(4)
Taxes, licenses, and fees	2,654	2,666
Total benefits and expenses	100,354	109,000
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS, FEDERAL INCOME TAX EXPENSE, AND NET REALIZED CAPITAL GAINS	3,586	5,891
DIVIDENDS TO POLICYHOLDERS	335	401
INCOME FROM OPERATIONS BEFORE FEDERAL INCOME TAX AND NET REALIZED CAPITAL GAINS	3,251	5,490
FEDERAL INCOME TAX EXPENSE	567	600
INCOME FROM OPERATIONS BEFORE NET REALIZED CAPITAL GAINS	2,684	4,890
NET REALIZED CAPITAL GAINS, Net of income tax of $293 in 2008 and $4 in 2007 and amounts transferred to the interest maintenance reserve of $568 in 2008 and $123 in 2007	-	8
NET INCOME	$ 2,684	$ 4,898

See notes to statutory-basis financial statements.

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands, except share data)

	Common Stock Amount	Cumulative Redeemable Preferred Stock Amount	Surplus Notes	Paid-In and Contributed Surplus	Unassigned Surplus	Total Capital and Surplus
BALANCE—January 1, 2007	$2,500	$200	$15,000	$ 9,955	$ 4,162	$31,817
Net income					4,898	4,898
Common stock dividends					(600)	(600)
Change in asset valuation reserve					(57)	(57)
Change in unrealized capital gains—net of tax					406	406
Change in nonadmitted assets					761	761
Change in net deferred tax					(499)	(499)
BALANCE—December 31, 2007	2,500	200	15,000	9,955	9,071	36,726
Net income					2,684	2,684
Common stock dividends					(400)	(400)
Change in asset valuation reserve					(44)	(44)
Change in unrealized capital gains (loss)—net of tax					(1,009)	(1,009)
Change in nonadmitted assets					426	426
Change in net deferred tax					491	491
BALANCE—December 31, 2008	$2,500	$200	$15,000	$ 9,955	$11,219	$38,874

See notes to statutory-basis financial statements.

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands)

	2008	2007
CASH FROM OPERATIONS:		
Premiums collected—net of reinsurance	$ 94,121	$ 99,993
Net investment income	9,005	10,890
Miscellaneous income	8,323	2,796
Benefit and loss-related payments	(93,436)	(104,207)
Commissions, expenses, and taxes paid	(25,640)	(26,340)
Policyholder dividends	(366)	(395)
Federal income taxes paid	(100)	(206)
Net cash used in operations	(8,093)	(17,469)
CASH FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	67,843	50,965
Mortgage loans	42	119
Total investment proceeds	67,885	51,084
Cost of investments acquired:		
Bonds	(10,830)	(29,298)
Real estate	(29)	(120)
Total cost of investments acquired		
	(10,859)	(29,418)
Net decrease in contract loans		
	338	368
Net cash provided by investments		
	57,364	22,034
CASH FROM FINANCING AND MISCELLANEOUS SOURCES:		
Net deposits (payments) on deposit-type contract funds		
Other	143	(150)
Dividends paid to stockholders	(271)	(912)
	(400)	(800)
Net cash used in financing and miscellaneous sources		
	(528)	(1,862)
NET INCREASE IN CASH AND SHORT-TERM INVESTMENTS		
	48,743	2,703
CASH AND SHORT-TERM INVESTMENTS:		
Beginning of year		
	29,387	26,684
End of year		
	$ 78,130	$ 29,387

See notes to statutory-basis financial statements.

1. ORGANIZATION AND OPERATIONS

Effective May 15, 2006, Central United Life Insurance Company (the "Company") is domiciled in the state of Arkansas and was previously domiciled in Texas. The Company operates as a life, accident, and health insurance company. The Company is wholly owned by Harris Insurance Holding, Inc. ("HIHI"), a Delaware insurance holding company. The Company is licensed in 41 states. The Company acquires blocks of life and accident and health insurance from other insurance companies and markets individual life and accident and health insurance. Approximately 8% and 9%, of direct business was written in the state of Arkansas for the years ended December 31, 2008 and 2007, respectively. Direct business written in Mississippi, South Carolina, Texas, Oklahoma and Louisiana, accounted for 14%, 11%, 10%, 5% and 5%, respectively, of total direct premiums written for the year ended December 31, 2008. No other state accounted for 5% or more of direct premiums written in 2008 and 2007.

The Company owns 51.01% or 313,567 Class B shares of Manhattan Insurance Group, Inc. ("MIG") at December 31, 2008 and 2007. MIG is an insurance holdings company which owns 100% of the Manhattan Life Insurance Company ("MLIC"). The Company purchased an additional 45,176 Class B shares of MIG in March 2009 and now owns 358,743 shares or 58.36%.

On December 31, 2004, the Company purchased all the outstanding shares of Investors Consolidated Insurance Company ("ICIC"), a New Hampshire corporation and an affiliate, which was previously owned by MIG. The purchase price of $6.2 million consisted of $5.7 million in cash and a note payable of $0.5 million. The transaction was accounted for as a statutory purchase. The purchase resulted in goodwill in the amount of approximately $0.9 million for the Company.

In addition to MIG and ICIC, the Company has a wholly owned subsidiary, Worksite Solutions, Inc. ("Worksite").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying statutory-basis financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Arkansas Insurance Department (AID), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States (GAAP). The more significant variances from GAAP are:

- The costs of acquiring and renewing business are expensed when incurred. Under GAAP, acquisition costs related to traditional life insurance and certain long-duration accident and health insurance, to the extent recoverable from future policy revenues, would be deferred and amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves; for universal life insurance and investment products, to the extent recoverable from future gross profits, deferred policy acquisition costs are amortized generally in proportion to the present value of expected gross profits from surrender charges and investment, mortality, and expense margins.

- Certain assets designated as "nonadmitted," principally agents' balances, furniture and equipment, unsecured loans or cash advances to officers or agents, Company's stock as collateral for loans, nonbankable checks, and trade names and other intangible assets, and other assets not specifically identified as an admitted asset are excluded from the accompanying statutory-basis financial statements and are charged directly to unassigned surplus. Under GAAP, such assets are reflected on the balance sheet, net of valuation allowances, if any.

- Investments in bonds are reported at amortized cost or market value based on their National Association of Insurance Commissioners' (NAIC) rating; under GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed maturity investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of shareholders' equity for those designated as available-for-sale.

- All single class and multiclass mortgage-backed and asset-backed securities are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using the retrospective method. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under GAAP, all securities purchased or retained, that represents beneficial interests in securitized assets, other than high-credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other than temporary, the cost basis of the security is written down to fair value based on the discounted cash flows. If high credit quality securities are adjusted, the retrospective method is used.

- The common stock of the Company's subsidiaries are carried at their statutory equity and are not consolidated with the accounts and operations of the Company, as required under GAAP.

- Investments in real estate are reported net of related obligations. Real estate owned and occupied by the Company is included in investments rather than reported as an operating asset as required under GAAP, and investment income and operating expenses include rent for the Company's occupancy of the property. Changes between depreciated cost and admitted asset investment amounts are reported as direct adjustments to unassigned surplus rather than to operations, as required under GAAP.

- Valuation allowances, if necessary, are established for mortgage loans based on the difference between the net value of the collateral, determined as the fair value of the collateral less estimated costs to obtain and sell and the recorded investment in the mortgage loan. Under GAAP, such allowances are based on the present value of expected future cash flows discounted at the loan's effective interest rate or, if foreclosure is probable, on the estimated fair value of the collateral.

- The initial valuation allowance and subsequent changes in the allowance for mortgage loans as a result of a temporary impairment are charged or credited directly to unassigned surplus, rather than being included in operations as required under GAAP.

- The asset valuation reserve (AVR) provides a valuation allowance for invested assets. The AVR is determined by an NAIC-prescribed formula with changes in the AVR balance reflected as direct adjustments to unassigned surplus; AVR is not recognized for GAAP.

- The interest maintenance reserve (IMR) is maintained as prescribed by the NAIC for the purpose of deferring realized capital gains and losses on sales of fixed income investments, principally bonds and mortgage loans, attributable to changes in the general level of interest rates and such realized gains and losses are amortized over the remaining period to maturity, based on groupings of individual securities. Realized capital gains and losses are reported in operations net of federal income tax and transfers to the IMR. Under GAAP, realized capital gains and losses would be reported in the statement of operations on a pretax basis in the period that the assets giving rise to the gains or losses are sold.

- Deferred tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus (2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the financial statement date or 10% of capital and surplus excluding any net deferred tax assets, electronic data processing equipment (EDP) and operating software, and any net positive goodwill, plus (3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are nonadmitted. Changes in deferred taxes are recorded as direct adjustments to unassigned surplus. Deferred taxes do not include amounts for state taxes. Under GAAP, state taxes are included in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable.

- No statement of comprehensive income or its components are presented in the corresponding statutory-basis financial statements.

- Premiums and considerations received for universal life and annuity policies with mortality or morbidity risk, except for guaranteed interest and group annuity contracts, are reflected as revenue, and benefits incurred represent the total of death benefits paid and the change in policy reserves. Premiums received for annuity policies without mortality or morbidity risk and for guaranteed interest and group annuity contracts are recorded using deposit accounting and credited directly to an appropriate policy reserve account, without recognizing premium income. Under GAAP, premiums received in excess of policy charges would not be recognized as premium revenue, and benefits would represent the excess of benefits paid over the policy account value and interest credited to the policy account values.

- Certain policy reserves are calculated based on statutorily required interest and mortality assumptions rather than the estimated expected experience or actual account balances as required under GAAP.

- Policyholder dividends are recognized when declared rather than over the term of the related policies.

- Cash and short-term investments in the statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding captions of cash and cash equivalents include cash balances and investments with initial maturities of three months or less.

- A liability for reinsurance balances has been provided for unsecured policy reserves ceded to reinsurers unauthorized to assume such business. Changes to those amounts are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to operations.

- Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related policy reserves rather than as assets, as required under GAAP. Commissions allowed by reinsurers on business ceded are reported as revenue when received rather than being deferred and amortized as required under GAAP.

- Surplus notes are reported as a component of capital and surplus rather than liabilities, as required under GAAP.

The following is a description of the Company's principal accounting policies and practices:

Investments—Bonds, preferred stocks, common stocks, and short-term investments are stated at values prescribed by the NAIC, as follows:

- Bonds not backed by other loans are principally stated at amortized cost using the scientific method.

- Single class and multi-class mortgage-backed or asset-backed securities are valued at amortized cost using the scientific method including anticipated prepayments. Prepayment assumptions are obtained from dealer surveys or internal estimates and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities.

- Common stocks are reported at market value as determined by the SVO and the related net unrealized capital gains (losses) are reported in unassigned surplus net of deferred federal income taxes.

- Included in investments in subsidiaries and affiliates is goodwill in ICIC of $526,000 at December 31, 2008 and $616,000 at December 31, 2007.

- Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

- Bond and other loan interest is credited to revenue as it accrues. Dividends on preferred and common stocks are credited to income on ex-dividend dates. Due and accrued income, if applicable, are excluded from investment income on bonds, stocks, and other loans where the collection of interest is uncertain. There was no interest excluded from investment income at December 31, 2008 or 2007.

- The Company uses the grouped method of amortization for interest related gains and losses arising from the sale of bonds which have been transferred to the IMR.

- Net realized gains and losses on investments are determined on a specific identification basis. If it is determined that a decline in fair value of investment securities is other than temporary, the cost basis of the security is written down to fair value based on current market values or discounted cash flows, as appropriate.

- Contract loans are reported at unpaid principal balances.

- Mortgage loans are reported at unpaid principal balances, less allowance for impairment. A mortgage loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage agreement. When management determines foreclosure is probable and the impairment is deemed other than temporary, the mortgage loan is written down and a realized loss is recognized. The Company did not originate any new loans during 2007 or 2008. The maximum percentage of any one loan to the value of the collateral at the time of the loan, exclusive of insured, guaranteed, or purchased money mortgages, was 90%. Hazard insurance is required on all properties covered by mortgage loans at least equal to the excess of the loan over the maximum loan, which would be permitted by law on the loans. As of December 31, 2008, there were no taxes, assessments, or other amounts advanced by the Company on mortgage loans outstanding. There are no prior liens on any mortgage loan owned.

- Land is reported at cost. Real estate occupied by the Company and real estate held for the production of income are reported at depreciated cost, net of related obligations. Real estate that the Company has the intent to sell is reported at the lower of depreciated cost or fair value, net of related obligations. Depreciation is calculated on a straight-line basis over the estimated useful lives of the properties.

Subsidiaries—The Company's investments in insurance and noninsurance subsidiaries are carried at the respective statutory-basis net worth of the subsidiaries. The net change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses.

Premiums—Life, accident, and health premiums are recognized as revenue when due. Premiums for annuity policies with mortality and morbidity risk, except for guaranteed interest and group annuity contracts, are also recognized as revenue when due. There were no premiums received for annuity policies without mortality risk.

Reserve Basis—Policy reserves are based on statutory mortality and interest requirements without consideration of withdrawals. Policy reserves are computed principally on the basis of the 1958, 1980, and 2001 CSO mortality tables with assumed rates of interest from 2.5% to 6.0%.

Approximately 20% of the reserves are calculated on a net level reserve basis and 80% on a Commissions Reserve Valuation Method (CRVM) reserve basis. The effect of the use of a modified reserve basis is to partially offset the effect of immediately expensing acquisition costs by providing a policy reserve increase in the first policy year, which is less than the reserve increase in renewal years. The Company waives deductions or deferred fractional premium upon the death of the insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserve. Substandard reserves are determined by computing the regular mean reserve for the plan of the rated age and holding in addition to one half of the extra substandard premium.

The aggregate reserve for accident and health policies consists of active life reserves and present values of amounts not yet due on disability claims. Active life reserves consist of unearned premium reserves computed for all accident and health policies, and additional reserves computed for all noncancelable and guaranteed renewable policies. Unearned premium reserves are computed using the daily pro-rata method. Additional reserves are primarily mid-terminal reserves computed using the two-year full preliminary term valuation method. The present value of amounts not yet due for disability claims is calculated using the 1964 Commissioners Disability Table with an interest assumption of 3% to 6.0% prior to 1994, and using the 1985 CIDA with an interest assumption of 4.5% or 5% after 1994.

Liability for Policy and Contract Claims—The liability for policy and contract claims is based upon the estimated liability for claims reported to the Company plus claims incurred but not reported. Although considerable variability is inherent in such estimates, in the opinion of management the reserves for policy and contract claims are sufficient in the aggregate under the terms of its policies for all unpaid claims at December 31, 2008 and 2007.

Participating Policies—The Company maintains both participating and nonparticipating life insurance policies. Participating business represented approximately 0.3% and 0.7% of the life insurance in force at December 31, 2008 and 2007. Dividends to participating policyholders are determined annually and are payable only upon declaration of an equitable current dividend plus a provision for such dividend to be paid in the following year by the board of directors.

Assumption Reinsurance Transactions—The Company values assets acquired at the date of acquisition at their market values and the reserves are established according to the statutory requirements based on the benefits of the individual policies reinsured. If the liabilities exceed the assets received, the difference represents goodwill that must be amortized into operations using the interest method over the life of the policies, but for a period not to exceed 10 years. If the assets exceed the liabilities, the Company records a deferred liability and amortizes the amount into operations using the interest method over the expected life of the business but not to exceed 10 years.

Guaranty Fund and Other Assessments—The Company may be required to record a liability for guaranty fund and other assessments after an insolvency of an insurer in the states where the Company is licensed to write business has occurred.

Use of Estimates—The preparation of statutory-basis financial statements requires management to make estimates and assumptions that affect the amounts reported in the statutory-basis financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. The estimates susceptible to significant change are those used in determining the liability for aggregate reserves for future policy benefits and claims. Although some variability is inherent in these estimates, management believes the amounts provided are adequate.

3. RESTRICTED ASSETS

In accordance with the terms of certain coinsurance and assumption reinsurance agreements, the Company is required to maintain funds in custodial accounts. Such funds are restricted as to withdrawal, unless approved by written authorization from both the Company and the ceding companies. Such restricted funds may be used to service the respective assumed blocks of business. No restrictions are placed on the types of investments to be made with the funds. At December 31, 2008 and 2007, the admitted asset value of investments held in the custodial accounts totaled $47.1 million and $47.0 million, respectively.

Bonds with an admitted asset value of $8.5 million and $9.0 million as of December 31, 2008 and 2007, respectively, were held on deposit with state insurance departments to satisfy regulatory requirements.

4. INVESTMENTS

The amortized cost and estimated fair value of investments in bonds at December 31, 2008 and 2007 are as follows (amounts in thousands):

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 89,688	$ 8,115	$ (102)	$ 97,701
Industrial/miscellaneous	43,288	204	(4,171)	39,321
Mortgage-backed securities	5,392	75	-	5,467
Total fixed maturity securities	$ 138,368	$ 8,394	$ (4,273)	$ 142,489

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 138,194	$ 2,532	$ (262)	$ 140,464
Industrial/miscellaneous	49,397	680	(1,193)	48,884
Mortgage-backed securities	6,949	33	(19)	6,963
Total fixed maturity securities	$ 194,540	$ 3,245	$ (1,474)	$ 196,311

The following tables at December 31, 2008 and 2007 show investments with gross unrealized losses and their fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (amounts in thousands):

	Less than Twelve Months		Twelve Months or Greater		Total	
2008	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 3,897	$ (102)	$ -	$ -	$ 3,897	$ (102)
Industrial/miscellaneous	8,905	(1,022)	18,897	(3,149)	27,802	(4,171)
Mortgage-backed securities	-	-	-	-	-	-
Total fixed maturity securities	$ 12,802	$ (1,124)	$ 18,897	$ (3,149)	$ 31,699	$ (4,273)

2007	Less than Twelve Months Fair Value	Less than Twelve Months Unrealized Losses	Twelve Months or Greater Fair Value	Twelve Months or Greater Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 5,500	$ (35)	$ 26,522	$ (227)	$ 32,022	$ (262)
Industrial/miscellaneous	-	-	24,804	(1,193)	24,804	(1,193)
Mortgage-backed securities	-	-	5,032	(19)	5,032	(19)
Total fixed maturity securities	$ 5,500	$ (35)	$ 56,358	$ (1,439)	$ 61,858	$ (1,474)

At December 31, 2008, 99.1% of the Company's investment portfolio was rated investment grade. Due to the Company's investment policy of investing in high-quality securities with the intention of holding these securities until the stated maturity, the portfolio does have exposure to interest rate risk. Interest rate risk is the risk that funds are invested today at a market interest rate and in the future interest rates rise causing the current market price on that investment to be lower. This risk is not a significant factor relative to the Company's buy and hold portfolio since the original intention was to receive the stated interest rate and principal at maturity to match liability requirements of policyholders. Also, the Company takes steps to manage these risks. For example, the Company purchases the type of mortgage-backed securities that have more predictable cash flow patterns. The above temporary declines in fair value are primarily due to interest rate risk. Of the debt securities reporting temporary declines in fair value as of December 31, 2008, 12.3% or $3.9 million are U.S. Treasury securities and obligations of U.S. government corporations and agencies, while 83.1% or $26.4 million, are investment-grade securities. The remaining 4.6% or $1.4 million are non-investment grade bonds. The Company currently expects to receive all principal and interest payments on these securities in accordance with their stated terms. The Company continually monitors pertinent information as noted above to ensure expected returns in order to pay future policyholder obligations.

The amortized cost and estimated fair value of bonds at December 31, 2008, by contractual maturity, are as follows (amounts in thousands):

	Amortized Cost	Fair Value
Due within 1 year	$ 8,970	$ 9,039
Due after 1 year through 5 years	47,008	47,621
Due after 5 years through 10 years	56,575	58,626
Due after 10 years	20,423	21,736
Mortgage-backed securities	5,392	5,467
	$ 138,368	$ 142,489

Expected maturities will differ from contractual maturity because issuers may have the right to call or prepay obligations with or without penalties.

Unrealized gains and losses on investments in unaffiliated common stock are reported as direct adjustments to unassigned surplus and do not affect operations. The cost and estimated fair value of investments in unaffiliated common stock at December 31, 2008 and 2007, are as follows (amounts in thousands):

	2008			
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Common stock	$ 11	$ -	$ -	$ 11

	2007			
	Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Common stock	$ 11	$ 1	$ -	$ 12

Components of realized capital gains and losses as of December 31, 2008 and 2007 are as follows (amounts in thousands):

	2008		
	Gross Gains	**Gross Losses**	**Net Gains (Losses)**
Bonds	$ 861	$ -	$ 861
Total	$ 861	$ -	861
Federal income tax expense			(293)
Transfer to interest maintenance reserve of $861, net of taxes of $293			(568)
Net realized capital gain			$ -

	2007		
	Gross Gains	**Gross Losses**	**Net Gains (Losses)**
Bonds	$ 214	$ (15)	$ 199
Total	$ 214	$ (15)	199
Federal income tax expense			(68)
Transfer to interest maintenance reserve of $187, net of taxes of $64			(123)
Net realized capital gain			$ 8

Proceeds from sales of bonds, excluding maturities and redemptions, during 2008 and 2007, were $13.0 million and $7.4 million, respectively.

The Company maintains investments in money market accounts with a major bank, which exceed the federally insured limit. The Company thoroughly investigates its depositories and has experienced no losses with respect thereto.

There were no mortgage loan impairments in 2008 or 2007.

Major categories of the Company's net investment income for the years ended December 31, 2008 and 2007 are summarized as follows (amounts in thousands):

	2008	2007
Investment income:		
Bonds	$ 8,064	$ 10,406
Mortgage loans	96	97
Real estate*	1,914	1,919
Contract loans	480	413
Short-term investments and cash	1,451	1,312
Other	169	12
Total investment income	12,174	14,159
Investment expenses:		
Investment expenses	2,196	1,996
Interest on surplus note	1,152	1,443
Depreciation on real estate	301	300
Investment taxes on real estate	335	225
Total investment expenses	3,984	3,964
Net investment income	$ 8,190	$ 10,195

*The income and expense for the occupancy of Company-owned property was $0.6 million for 2008 and 2007.

5. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

A summary of the Company's investments in subsidiaries as of December 31, 2008 and 2007 are as follows (amounts in thousands):

	2008		2007	
	Cost	Carrying Value	Cost	Carrying Value
Worksite Solutions, Inc.	$ 150	$ 320	$ 150	$ 360
ICIC	5,577	7,426	5,577	7,261
MIG	13,898	20,819	13,898	23,002
	$ 19,625	$ 28,565	$ 19,625	$ 30,623

The change in the unrealized appreciation of investments in subsidiaries has been booked to unassigned surplus as a component of change in unrealized capital gains and does not affect net income.

The following is summarized financial information of ICIC, Worksite Solutions, and MIG of and for the years ended December 31, 2008 and 2007:

	ICIC		Worksite Solutions		MIG	
	2008	2007	2008	2007	2008	2007
Admitted assets	$ 15,761	$ 15,606	$388	$417	$377,540	$384,701
Liabilities	8,861	8,961	68	56	336,538	339,605
Surplus	6,900	6,645	320	361	41,002	45,096
Net income	210	482	24	50	47	434

6. PREMIUMS AND OTHER CONSIDERATIONS DEFERRED AND UNCOLLECTED

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2008 and 2007, are as follows (amounts in thousands):

	2008			2007		
	Gross	Loading	Net	Gross	Loading	Net
Ordinary new business	$ 112	$ (7)	$ 105	$ 463	$ (26)	$ 437
Ordinary renewal	1,305	(377)	928	1,598	(473)	1,125
Total	$ 1,417	$ (384)	$ 1,033	$ 2,061	$ (499)	$ 1,562

7. PROPERTY AND EQUIPMENT

The Company's property and equipment at December 31, 2008 and 2007 are as follows (amounts in thousands):

	2008	2007
Furniture and fixtures	$ 39	$ 857
Data processing equipment	107	1,105
Leasehold improvements	381	334
Artwork	970	964
Other	6	6
	1,503	3,266
Less accumulated depreciation	(138)	(1,847)
Property and equipment before amout nonadmitted	1,365	1,419
Less nonadmitted assets	(1,267)	(1,360)
Property and equipment	$ 98	$ 59

Depreciation expense for the years ended December 31, 2008 and 2007 was $0.3 million and $0.2 million for each period presented.

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

- *Bonds and Stocks*—The fair values for bonds and stocks are based on market values prescribed by the SVO; however, for certain securities, the NAIC does not provide a market value and the Company uses quoted market value where available.

- *Mortgage Loans on Real Estate* - The carrying amounts reported approximate their fair values.

- *Contract Loans*—Contract loans are an integral part of the life insurance policies which the Company has in force and, in the Company's opinion, cannot be valued separately. Contract loans are stated at their aggregate unpaid balance.

- *Cash and Short-Term Investments*—The carrying amounts reported approximate their fair values.

- *Annuity Contract Reserves* Fair values of the Company's liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities) are stated at the account value which represents the amount payable by the Company upon demand.

- *Surplus Note* -The carrying amounts reported approximate the fair value.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2008 and 2007, are as follows (amounts in thousands):

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Bonds	$138,368	$142,489	$194,540	$196,311
Common stocks	11	11	12	12
Mortgage loans on real estate	1,590	1,590	1,632	1,632
Cash and short-term investments	78,130	78,130	29,387	29,387
Liabilities—annuities and supplementary contracts	13,475	13,475	13,947	13,947
Surplus surplus note	15,000	15,000	15,000	15,000

9. LIFE AND ANNUITY ACTUARIAL RESERVES

At December 31, 2008 and 2007, the Company's annuity reserves and deposit fund liabilities that are subject to discretionary withdrawal (with adjustment), subject to discretionary withdrawal (without adjustment), and not subject to discretionary withdrawal provisions are summarized as follows (amounts in thousands):

	2008		2007	
	Amount	Percent	Amount	Percent
Subject to discretionary withdrawal:				
With market value adjustment	$ -	0.0 %	$ -	0.0 %
At book value less current surrender charge of 5% or more	-		-	
At market value	-		-	
Total with adjustment or at market value	-		-	
At book value without adjustment (with minimal or no charge or adjustment)	12,577	76.2 %	12,489	74.3 %
Not subject to discretionary withdrawal	3,920	23.8 %	4,314	25.7 %
Total annuity reserves and deposit fund liabilities before reinsurance	16,497	100.0 %	16,803	100.0 %
Less reinsurance ceded	(212)		(217)	
Total annuity reserves and deposit fund liabilities	$ 16,285		$ 16,586	

10. FEDERAL INCOME TAXES

The Company files a consolidated income tax return with its parent, HIHI. The Company is subject to federal income taxation as a life insurance company under the Internal Revenue Code of 1986 (IRC). Life insurance companies are taxed at corporate rates on taxable income.

In 2004, the consolidated group entered into a tax allocation agreement which was approved by the board of directors and the Texas Department of Insurance. As a result of the redomestication, this tax allocation agreement has been approved by the AID on June 20, 2007. Under the written agreement, the parent company collects from or refunds to the respective subsidiaries the amount of taxes or benefits determined based on the portion of consolidated taxable income generated by the member joining in the return. The taxes so apportioned cannot exceed the tax liability that would have arisen if a member had filed a separate return. Under a special provision of the agreement, the Company cannot reimburse any other nonlife member for the use of any nonlife net operating losses without the specific permission of the AID.

The components of the net deferred tax asset and the change in net deferred income taxes at December 31, 2008 and 2007, are as follows (amounts in thousands):

	2008	2007
Deferred tax assets:		
Policy reserves	$ 4,151	$ 4,467
Deferred policy acquisition costs	4,791	5,126
Real estate, furniture and equipment	385	554
Other	236	378
Total deferred tax assets	9,563	10,525
Nonadmitted deferred tax assets	-	-
Admitted deferred tax assets	9,563	10,525
Deferred tax liabilities:		
Unrealized capital gains	2,353	3,402
Policy reserves	3,837	5,090
Other	507	707
Total deferred tax liabilities	6,697	9,199
Net admitted deferred tax asset	$ 2,866	$ 1,326

	2008	2007	Change
Deferred tax assets	$ 9,563	$ 10,525	$ (962)
Deferred tax liabilities	6,697	9,199	(2,502)
Net deferred tax asset	$ 2,866	$ 1,326	1,540
Tax effect of change in unrealized gains			1,049
Total change in net deferred income tax			$ 491

At December 31, 2008, the Company had no net operating loss carryforward. The Company has an AMT carryforward of $0.4 million.

The provisions for incurred taxes on earnings for the years ended December 31, 2008 and 2007, are as follows (amounts in thousands):

	2008	2007
Current income tax expense	$ 567	$ 600
Current income tax expense on capital gains	293	68
Change in net deferred tax (benefit)	(491)	499
Total tax expense incurred	$ 369	$ 1,167

The Company's income tax expense and change in deferred taxes differs from its amount obtained by applying the federal statutory rate of 34% to net gain (loss) from operations after dividends to policyholders for the following reasons:

	2008	2007
Expected income tax expense at applicable rate	$ 1,105	$ 1,867
Capital gains tax	293	68
Prior taxes and other amounts	(1,029)	(768)
Total income tax expense incurred	$ 369	$ 1,167

Under the Life Insurance Company Act of 1959, life insurance companies were required to maintain a policyholders' surplus account containing the accumulated portion of current income that had not been subjected to income tax in the year earned. The Deficit Reduction Act of 1984 required that no future amounts be added after 1983 to the policyholders' surplus account and that any future distributions to shareholders from the account would become subject to income tax at the general corporate income tax rate then in effect. During 2004, the American Jobs Creation Act of 2004 (AJCA) was enacted. The AJCA provides, in part, that distributions from policyholders' surplus accounts during 2005 and 2006 will not be taxed. The Company distributed the entire balance of its policyholders' surplus account to its parent during 2006. As a result of the dividend there is no need to setup any current or deferred income taxes since the policyholders' surplus account is $0.

11. RELATED-PARTY TRANSACTIONS

Effective January 1, 1999, the Company began providing certain administrative services to subsidiaries and affiliated companies. The services performed were pursuant to intercompany service agreements and include policy administration, marketing, accounting, and data processing services. Amounts received pursuant to these service agreements were $4.0 and $3.8 million for 2008 and 2007, respectively. The Company had receivables from affiliates primarily related to amounts due under the intercompany service agreement.

12. CAPITAL AND SURPLUS

Under the laws of the State of Arkansas, the Company must maintain minimum statutory capital and surplus of $750,000. Accordingly, a portion of the Company's surplus is unavailable for distribution to its stockholders. Additionally, statutory regulations generally will not allow the payment of dividends in any one year to exceed the greater of statutory net gain from operations or 10% of statutory surplus for the preceding year.

Life and health insurance companies are subject to certain risk-based capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life and health insurance company is to be determined based on the various risk factors related to it. At December 31, 2008 and 2007, the Company met the minimum RBC requirements.

On May 22, 2003, the Company issued a surplus note to InCapS Funding I, Ltd. for $15 million which is due May 23, 2033, and was approved by the TDI. The interest rate for this surplus note is London InterBank Offered Rate (LIBOR) plus 4.10%. On the date of issuance, the LIBOR rate was 1.28%. Any payment of principle and interest is subject to prior approval by AID. During 2008 and 2007 the Company paid $1.2 million and $1.4 million in interest, respectively, which was approved by the AID.

The portion of unassigned surplus increased or (reduced) by each item below as of December 31, 2008 and 2007 is as follows (amounts in thousands):

	2008	2007
Net unrealized gains—net of deferred tax	$ 6,587	$ 7,596
Nonadmitted asset values	(1,534)	(1,960)
Asset valuation reserve	(1,149)	(1,105)

13. EMPLOYEE BENEFIT PLAN

All full-time employees of the Company over the age of 18 are eligible to participate in the Manhattan Insurance Group 401(k) Plan, a qualified defined contribution plan, after the completion of three months of service with the Company. Employees who elect to participate may contribute from 1% to 20% of their base pay. Effective January 1, 2001, the Company's contribution was based on the safe harbor matching formula provisions of the IRC, which is a rate of 25% on the first 4% of employee contributions.

14. COMMITMENTS AND CONTINGENCIES

In February 2003, the Company implemented an administrative change in connection with adjudicating radiation and chemotherapy benefits under certain cancer policies. The Company began requesting its policyholders to submit Explanation of Benefits (EOB) forms from their primary insurance carriers in order to determine and pay the policyholder the amount actually charged for the covered treatments in accordance with policy terms. The Company is a defendant in various lawsuits arising from this change in claims payment practice and is vigorously defending itself in connection with these cases. Although the ultimate outcome of this litigation cannot presently be determined, the Company believes that the resolution of these lawsuits will not have a material effect on its statutory-basis financial position, results of operations, or capital and surplus.

This Company is a defendant in various lawsuits arising in the normal course of business and is defending the cases vigorously. The Company believes that the total amounts that would ultimately have to be paid arising from these lawsuits would have no material effect on its statutory-basis financial position, results of operations, or capital and surplus.

From time to time, assessments are levied on the Company by the guaranty associations of the states in which the Company is licensed to write business. Such assessments are made primarily to cover the losses of policyholders of insolvent or rehabilitated insurers. In some states, these assessments can be recovered through a reduction in future premium taxes. However, the economy and other factors have recently caused the number and size of insurance company failures to increase. Based on information currently available, management believes that it is probable that these failures will result in future assessments. However, the amounts of such assessments are not presently determinable, and accordingly, no provision has been reflected in the accompanying statutory-basis financial statements for such assessments.

The Company leases office space, automobiles, and equipment under various operating leases. Total lease expense during 2008 and 2007 under such agreements was approximately $0.5 million and $0.7 million, respectively, and is included in general insurance expenses.

Future minimum rental payments under noncancelable leases as of December 31, 2008, are as follows (amounts in thousands):

Years Ending December 31	
2009	$ 445
2010	356
2011	322
2012	174
2013 and after	30
	$ 1,327

15. REINSURANCE

The Company is engaged in various types of reinsurance transactions, including both assumed and ceded risks. Risks are ceded based on management's evaluation, and cessions of business are approved by the board of directors. All ceded insurance transactions are accomplished by fully executed agreements with reinsurance companies. Life insurance agreements are ceded on a yearly renewable term, coinsurance, modified coinsurance, and co-modified coinsurance basis. The Company's maximum life retention varies from $50,000 to $400,000. Health reinsurance is ceded on a coinsurance basis or a stop-loss basis. The Company's maximum retention is approximately $1,000 per monthly benefit on disability insurance and approximately $75,000 to $100,000 per individual on major medical insurance.

Following is information for the years ended December 31, 2008 and 2007 related to premiums ceded and assumed and the related benefits (amounts in thousands):

	2008		
	Life and Annuities	Accident and Health	Total
Premiums ceded	$ 1,133	$ 192	$ 1,325
Premiums assumed	$ 2,677	$ 26,501	$ 29,178
Benefits ceded	$ 299	$ 793	$ 1,092
Benefits assumed	$ 2,407	$ 21,552	$ 23,959

	2007		
	Life and Annuities	Accident and Health	Total
Premiums ceded	$ 993	$ 248	$ 1,241
Premiums assumed	$ 2,202	$ 35,821	$ 38,023
Benefits ceded	$ 1,281	$ 949	$ 2,230
Benefits assumed	$ 2,119	$ 36,590	$ 38,709

For the years ended December 31, 2008 and 2007, the Company ceded life insurance in force of $408.2 million and $235.0 million, respectively. As of December 31, 2008 and 2007, respectively, the Company had $0.2 million and $0.5 million in recoverables from reinsurers. Amounts deducted from the policy liability reserves in connection with reinsurance ceded were $3.1 million and $3.7 million for accident and health and $1.2 million and $0.8 million for life at December 31, 2008 and 2007, respectively. The Company is liable for insurance ceded to other companies in the event such companies are unable to meet their obligations under reinsurance agreements. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company has various coinsurance agreements with funds held provisions that are secured by investment balances in trusts. The aggregate funds held balances at December 31, 2008 and 2007 was $47.1 million and $47.0 million, respectively, which is included in funds held by reinsurer in the statutory-basis financial statements.

The Company entered into a 100% coinsurance agreement with MLIC to assume risk on certain Latin American policies issued on or after January 1, 2007. Total premiums assumed during 2008 and 2007 were $1.1 million and $0.5 million. Total commissions and expense during 2008 and 2007 were $0.5 million and $0.6 million in 2007. As of December 31, 2008 the Company owed MLIC $0.1 million for the commissions and expense allowances and had reserves of $0.2 million.

The Company entered into a 50% retrocession agreement with MLIC on the policies noted above that returned 50% of all risk retained by the Company, after cession of risk to its third party reinsurers, to the MLIC effective January 1, 2007. Total premiums ceded during 2008 and 2007 were $0.2 million and $0.1 million. Total commissions and expenses during 2008 and 2007 were $0.1 million. As of December 31, 2008 the Company recorded an asset for $19,622 for the commissions and expense allowances due from MLIC and a reserve credit of $0.2 million.

In 2008 the Company entered into an assumption reinsurance transaction with the Office of the Ohio Insurance Liquidator whereby the Company agreed to assume blocks of accident and health business issued by Colonial Insurance Company. As a result of the assumption of the Colonial block, the Company received approximately $5.8 million of cash and posted $5.8 million of reserves, along with $0.05 million of goodwill.

16. LIABILITY FOR UNPAID ACCIDENT AND HEALTH CLAIMS

Activity in the liability for unpaid accident and health claims as of December 31, 2008 and 2007 is summarized as follows (amounts in thousands):

	2008	2007
Net balance—January 1	$ 43,918	$ 47,974
Increase in liability due to the Colonial acquisition	2,715	-
Incurred related to:		
Current year	85,139	90,948
Prior year	(2,622)	(1,766)
Total incurred	82,517	89,182
Paid related to:		
Current year	54,606	62,038
Prior year	28,242	31,200
Total paid	82,848	93,238
Net balance—December 31	$ 46,302	$ 43,918

The claim liability represents accident and health policy and contract claims and the claim reserve portion of the aggregate reserve for accident and health policies. The claim liability is established based on case basis estimates and estimates of incurred but unreported claims based on historical experience. Actual experience will vary from the Company's estimates due to volatility in both the amount of future payments on known existing claims and in the number of claims, which become known after the financial statement date. This volatility is due to the nature of personal health, changes in the Company's underwriting standards, and to overall economic and societal conditions and will result in redundancies or deficiencies in the liability for unpaid claims. The foregoing reconciliation reflects a redundancy in 2008 and 2007 of $2.6 million and $1.8 million, respectively. The changes in those reserves were primarily the result of differences in actual and assumed morbidity assumptions.

17. RECONCILIATION TO ANNUAL STATEMENTS

The following are reconciliations of amounts previously reported to state regulatory authorities in the 2008 and 2007 Annual Statement to those reported in the accompanying statutory-basis financial statements (amounts in thousands):

	2008	2007
Admitted assets as reported in the Company's Annual Statement	$321,381	$332,548
Current income tax recoverable	-	(52)
Change in investment in subsidiaries and affiliates	447	-
Change in net deferred tax asset	197	-
Admitted assets as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$322,025	$332,496
Liabilities as reported in the Company's Annual Statement	$283,291	$295,530
Change in current income tax payable	(140)	240
Liabilities as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$283,151	$295,770
Capital and surplus as reported in the Company's Annual Statement	$ 38,090	$ 37,018
Adjustment for current income taxes	140	(292)
Change in investment in subsidiaries and affiliates — net of tax	644	-
Capital and surplus as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$ 38,874	$ 36,726
Statutory net income as reported in the Company's Annual Statement	$ 2,252	$ 5,190
Adjustment for current income taxes	432	(292)
Net income as reported in the accompanying statutory-basis statements of operations	$ 2,684	$ 4,898

* * * * * *

SUPPLEMENTAL SCHEDULES

(See Independent Auditors' Report)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008
(Amounts in thousands)

Investment income earned:	
Government bonds	$ 5,167
Other bonds (unaffiliated)	2,897
Preferred stocks (unaffiliated)	-
Common stocks (unaffiliated)	-
Mortgage loans	96
Real estate	1,914
Premium notes, policy loans, and liens	480
Short-term investments	1,446
Cash on hand	5
Other invested assets	-
Other investment	169
Gross investment income	$ 12,174
Mortgage loans—book value:	
Farm mortgages	$ -
Residential mortgages	1,577
Commercial mortgages	13
Total mortgage loans	$ 1,590
Mortgage loans by standing—book value—good standing	$ 1,590
Bonds and short-term investments by maturity statement value:	
Due within one year or less	$ 88,854
Over 1 year through 5 years	50,055
Over 5 years through 10 years	60,190
Over 10 years through 20 years	10,068
Over 20 years	8,903
Total by maturity	$218,070

(Continued)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008 (Amounts in thousands)

Bonds and short-term investments by class—statement value:	
Class 1	$ 207,564
Class 2	8,473
Class 3	1,038
Class 4	-
Class 5	995
Total by class	$ 218,070
Total bonds publicly traded	$ 216,070
Total bonds privately placed	$ 2,000
Preferred stocks —statement value	$ -
Common stocks —market value	$ 11
Subsidiaries' and affiliates common stock—book value	$ 28,565
Short-term investments—book value	$ 79,702
Cash on deposit (overdraft)	$ (1,572)
Life insurance in force	
Ordinary	$ 738,486
Group	$ 4,112
Amount of accidental death insurance in force under ordinary policies	$ 25,070
Insurance policies with disability provision in force—ordinary	$ 131,879
Supplementary contracts in force— ordinary—not involving life contingencies:	
Amount on deposit	$ -
Income payable	$ 36
Ordinary—involving life contingencies—income payable	$ 177

(Continued)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008
(Amounts in thousands)

Annuities:	
Ordinary:	
Immediate—amount of income payable	$ 187
Deferred—fully paid account balance	$ 3,369
Deferred—not fully paid—account balance	$ 6,515
Accident and health insurance—premiums in force:	
Ordinary	$ 80,166
Group	$ 4,269
Deposit funds and dividend accumulations:	
Deposit funds—account balance	$ 1,337
Dividend accumulations—account balance	$ 1,473
Claim payments in 2008—accident and health:	
2008	$ 54,606
2007	$ 24,108
2006	$ 1,040
2005	$ 218
2004	$ 252

(Concluded)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF INVESTMENT RISK INTERROGATORIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Investment Risk Interrogatories

1. The Company's total admitted assets for the year ended December 31, 2008 are $322,025,000.

2. Following are the 10 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:

	Investment Category/Issuer	Amount	Percentage of Total Admitted Assets
2.01	Manhattan Insurance Group, Inc.— common stock	$20,818,740	6.5%
2.02	Investors Consolidated Ins. Co. — common stock	7,425,902	2.3
2.03	CML Realty Corp- Real Estate	5,009,394	1.5
2.04	General Electric Co.	2,050,750	0.6
2.05	JP Morgan Chase & Co.	2,002,209	0.6
2.06	Principal Financial Group	1,999,793	0.6
2.07	Goldman Sachs	1,498,092	0.5
2.08	Merrill Lynch	1,353,812	0.4
2.09	St. Louis County	1,315,000	0.4
2.10	Residential Mortgage Loan-1190	1,208,668	0.4

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

	Bonds			Preferred Stocks		
3.01	NAIC-1	$207,563,470	64.6%	P/PSF-1	$	%
3.02	NAIC-2	8,473,212	2.6	P/PSF-2		-
3.03	NAIC-3	1,037,816	0.3	P/PSF-3		-
3.04	NAIC-4		-	P/PSF-4		-
3.05	NAIC-5	995,831	0.3	P/PSF-5		-
3.06	NAIC-6		-	P/PSF-6		-

(Continued)

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?		Yes [X] No [ ]
4.02	Total admitted assets held in foreign investments.	$1,784,479	0.5%
4.03	Foreign-currency denominated investments.		
4.04	Insurance liabilities denominated in that same foreign currency		

If response to 4.01 above is yes, responses are not required for interrogatories 5–10.

5. Aggregate foreign investment exposure categorized by NAIC sovereign ratings:

5.01	Countries rated NAIC-1	$	0.0%
5.02	Countries rated NAIC-2		0.0%
5.03	Countries rated NAIC-3 or below		0.0%
		$	0.0%

6. Two largest foreign investment exposures to a single country, categorized by the county's NAIC sovereign rating:

6.01	Countries rated NAIC-1		
	Country: ______	$	0.0%
	Country: ______		0.0%
6.02	Countries rated NAIC-2		
	Country: ______		0.0%
	Country: ______		0.0%
6.03	Countries rated NAIC-3 or below:		
	Country: ______		0.0%
	Country: ______		0.0%
		$	0.0%

7. Aggregate unhedged foreign currency exposure:

$ -	- %

8. Aggregate unhedged foreign currency exposure, categorized by NAIC sovereign rating:

8.01	Countries rated NAIC-1	$	0 %
8.02	Countries rated NAIC-2		
8.03	Countries rated NAIC-3 or below		
		$	0 %

(Continued)

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

9.01 Countries rated NAIC-1	$	0 %
Country: ______________		
Country: ______________		
9.02 Countries rated NAIC-2		
Country: ______________		
Country: ______________		
9.03 Countries rated NAIC-3 or below:		
Country: ______________		
Country: ______________		
	$	0 %

10. Ten largest non-sovereign (i.e., non-governmental) foreign issues:

10.01 NAIC rating	$
10.02 NAIC rating	
10.03 NAIC rating	
10.04 NAIC rating	
10.05 NAIC rating	
10.06 NAIC rating	
10.07 NAIC rating	
10.08 NAIC rating	
10.09 NAIC rating	
10.10 NAIC rating	

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01	Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets		Yes [X] No [ ]
	If response to 11.01 above is yes, detail is not required for the remainder of interrogatory 11.		
11.02	Total admitted assets held in Canadian investments	$	%
11.03	Canadian-currency-denominated investments		
11.04	Canadian-denominated insurance liabilities		
11.05	Unhedged Canadian currency exposure		

12. None.

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

(Continued)

14. The Company's admitted assets held in the largest 10 equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the *SVO Practices and Procedures Manual* as exempt or Class 1) at December 31, 2008 are:

	Investment Category/Issuers		
14.01	Manhattan Insurance Group, Inc.	$ 20,818,740	6.5%
14.02	Investors Consolidated Ins. Co.	7,425,902	2.3
14.03	Worksite Solutions	320,029	0.1
14.04	Prosperity Bancshares, Inc.	10,564	0.0

15. Assets held in nonaffiliated, privately placed equities are less than 2.5% of the reporting entities total admitted assets.

16. Assets held in general partnership interests are less than 2.5% of the reporting entity's total admitted assets.

17. Mortgage loans reported in Schedule B are less than 2.5% of the reporting entity's total admitted assets.

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

		Residential		Commercial		Agricultural	
	Loan-to-Value	Residential Amount	Percentage of Total Admitted Assets	Commercial Amount	Percentage of Total Admitted Assets	Amount	Percentage of Total Admitted Assets
18.01	Above 95%	$ -	0 %	$ -	0 %	$ -	0 %
18.02	91% to 95%						
18.03	81% to 90%	1,576,336	0.5%				
18.04	71% to 80%						
18.05	Below 70%	-	0.0%	13,498	0.0%		

		Amount	Percentage of Total Admitted Assets
18.06	Construction loans	$ -	0 %
18.07	Mortgage loans over 90 days past due		
18.08	Mortgage loans in the process of foreclosure		
18.09	Mortgage loans foreclosed		
18.10	Restructured mortgage loans		

(Continued)

19. Assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A are less than 2.5% of the reporting entity's total admitted assets.

20. The Company's total admitted assets subject to the following types of agreements as of:

		At Year-End		Unaudited At End of Each Quarter		
		Amount	Percentage of Total Admitted Assets	1st Quarter Amount	2nd Quarter Amount	3rd Quarter Amount
20.01	Securities lending (do not include assets held as collateral for such transactions)	$ -	0 %	$ -	$ -	$ -
20.02	Repurchase agreements					
20.03	Reverse repurchase agreements					
20.04	Dollar repurchase agreements					
20.05	Dollar reverse repurchase agreements					
		$ -	0 %	$ -	$ -	$ -

21. Warrants not attached to other financial instruments, options, caps, and floors at December 31, 2008:

		Owned		Written	
21.01	Hedging	$ -	0 %	$ -	0 %
21.02	Income generation				
21.03	Other				

22. The Company's potential exposure for collars, swaps, and forwards as of:

		At Year-End		Unaudited At End of Each Quarter		
		Amount	Percentage of Total Admitted Assets	1st Quarter Amount	2nd Quarter Amount	3rd Quarter Amount
22.01	Hedging	$ -	0 %	$ -	$ -	$ -
22.02	Income generation					
22.03	Replications					
22.04	Other					
		$ -	0 %	$ -	$ -	$ -

(Continued)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

	Gross Investment Holdings*		Admitted Assets	
Investment Categories	**Amount**	**Percentage of Total Invested Assets**	**Amount**	**Percentage of Total Admitted Assets**
Bonds:				
U.S. treasury securities	$ 14,692,787	5.6%	$ 14,692,787	5.6%
U.S. government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. government agencies	2,003,930	0.8%	2,003,930	0.8%
Issued by U.S. government-sponsored agencies	72,990,056	27.5%	72,990,056	27.5%
Foreign government (including Canada, excluding mortgage-backed securities)				
Securities issued by states, territories and possessions, and political subdivisions in the United States:				
State, territory, and possessions general obligations				
Political subdivisions of states, territories and possessions, and political subdivisions general obligations				
Revenue and assessment obligations	2,000,453	0.8%	2,000,453	0.8%
Industrial development and similar obligations	1,365,000	0.5%	1,365,000	0.5%
Mortgage-backed securities (including residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	451	0.0%	451	0.0%
Issued or guaranteed by FNMA and FHLMC				
All other				
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	5,392,279	2.0%	5,392,279	2.0%
Issued by non-U.S. Government issuers and collateralized by mortgage-backed secu issued or guaranteed by agencies shown in Line 1.521				
All other				
Other debt and other fixed income securities (excluding short-terms):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	36,338,956	13.7%	36,338,956	13.7%
Unaffiliated foreign securities	3,583,865	1.3%	3,583,865	1.3%
Affiliated securities				
Equity interests:				
Investments in mutual funds				
Preferred stocks:				
Affiliated				
Unaffiliated				
Publicly traded equity securities (excluding preferred stocks):				
Affiliated				
Unaffiliated				
Other equity securities:				
Affiliated	28,564,671	10.8%	28,564,671	10.8%
Unaffiliated	10,566	0.0%	10,566	0.0%
Other equity interests including tangible personal property under lease:				
Affiliated				
Unaffiliated				
Mortgage loans:				
Construction and land development				
Agricultural				
Single family residential properties	1,576,336	0.6%	1,576,336	0.6%
Multifamily residential properties				
Commercial loans	13,498	0.0%	13,498	0.0%
Mezzanine real estate loans				
Real estate investments:				
Property occupied by company	5,623,565	2.1%	5,623,565	2.1%
Property held for production of income (includes $0 of property acquired in satisfaction of debt)	5,009,394	1.9%	5,009,394	1.9%
Property held for sale ($0 including property acquired in satisfaction of debt)				
Contract loans	7,771,744	2.9%	7,771,744	2.9%
Receivables for securities				
Cash, cash equivalents and short-term investments	78,130,800	29.5%	78,130,800	29.5%
Other invested assets				
Total invested assets	$265,068,351	100.0 %	$265,068,351	100.0 %

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