Central United Life Insurance Company

Statutory-Basis Financial Statements as of and
for the Years Ended December 31, 2011 and 2010,
Supplemental Schedules as of and for the
Year Ended December 31, 2011, and
Independent Auditors' Report

CENTRAL UNITED LIFE INSURANCE COMPANY

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Deloitte.

Deloitte & Touche LLP
2200 Ross Ave.
Suite 1600
Dallas, TX 75201
USA

Tel: +1 214 840 7000
Fax: +1 214 840 7050
www.deloitte.com

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, 2011 and 2010, and the related statutory-basis statements of operations, 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, 2011 and 2010, 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 2011 audit was conducted for the purpose of forming an opinion on the 2011 statutory-basis financial statements as a whole. The supplemental schedule of selected statutory-basis financial data, the supplemental schedule of investment risks interrogatories, and the supplemental summary investment schedule, as of and for the year ended December 31, 2011, are presented for purposes of additional analysis and are not a required part of the 2011 statutory-basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2011 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2011 statutory-basis financial statements 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 31, 2012

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2011 AND 2010

(Amounts in thousands, except share and per-share data)

	2011	2010
ASSETS		
CASH AND INVESTED ASSETS:		
Bonds — at amortized cost (fair value of $140,166 and $151,956 in 2011 and 2010, respectively)	$130,913	$145,618
Common stock — affiliated	51,231	50,634
Contract loans	6,462	6,897
Real estate	17,371	10,279
Mortgage loans on real estate	4,330	4,836
Cash and short-term investments	40,550	42,102
Total cash and invested assets	250,857	260,366
DUE AND DEFERRED PREMIUMS — Net	1,958	1,857
INVESTMENT INCOME DUE AND ACCRUED	1,593	1,624
PROPERTY AND EQUIPMENT — at cost — net of accumulated depreciation of $804 and $384, in 2011 and 2010, respectively	630	820
RECOVERABLE FROM REINSURERS	919	297
FUNDS HELD BY REINSURER	49,641	48,981
RECEIVABLE FROM AFFILIATES	998	1,811
NET DEFERRED TAX ASSET	5,212	5,297
GOODWILL — Net	456	569
OTHER ASSETS	189	150
TOTAL	$312,453	$321,772
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Aggregate reserves:		
Life and annuity policies	$110,766	$113,344
Accident and health policies	109,342	118,218
Liability for deposit-type contracts	3,402	3,354
Liability for policy and contract claims:		
Life	1,997	1,785
Accident and health	21,558	24,522
Dividends payable to policyholders	348	356
Interest maintenance reserve	3,756	3,425
Commissions, expenses, taxes (other than federal income taxes), licenses, and other fees accrued	1,663	977
Current federal income tax payable	959	522
Asset valuation reserve	1,137	1,008
Due to affiliates	-	13
Other accrued liabilities	960	914
Total liabilities	255,888	268,438
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 2011 and 2010, respectively	200	200
Common stock, $0 par value — $25,000 stated value — authorized, 150 shares; issued and outstanding, 100 shares in 2011 and 2010, respectively	2,500	2,500
Paid-in and contributed surplus	9,955	9,955
Surplus note	15,000	15,000
Unassigned surplus	28,910	25,679
Total capital and surplus	56,565	53,334
TOTAL	$312,453	$321,772

See notes to statutory-basis financial statements.

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands)

	2011	2010
PREMIUM AND OTHER REVENUES:		
Premiums and annuity considerations	$ 97,606	$ 102,553
Net investment income	9,324	13,047
Commissions and expense allowances on reinsurance ceded	246	274
Amortization of interest maintenance reserve	965	810
Other income — net	2,570	2,558
Total premium and other revenues	110,711	119,242
BENEFITS AND EXPENSES:		
Benefits to life beneficiaries and annuitants	8,620	8,653
Benefits to accident and health policyholders	71,658	75,078
Decrease in reserves for policies and contracts	(11,455)	(13,448)
Interest expense	669	675
Commissions	14,150	12,660
General insurance expenses	17,931	18,940
Change in loading	(38)	9
Taxes, licenses, and fees	3,707	3,073
Total benefits and expenses	105,242	105,640
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS, FEDERAL INCOME TAX EXPENSE, AND NET REALIZED CAPITAL GAINS	5,469	13,602
DIVIDENDS TO POLICYHOLDERS	368	387
INCOME FROM OPERATIONS BEFORE FEDERAL INCOME TAX AND NET REALIZED CAPITAL GAINS	5,101	13,215
FEDERAL INCOME TAX EXPENSE	1,201	2,287
INCOME FROM OPERATIONS BEFORE NET REALIZED CAPITAL GAINS	3,900	10,928
NET REALIZED CAPITAL GAINS — Net of income tax of $668 in 2011 and $740 in 2010 and amounts transferred to the interest maintenance reserve of $1,296 in 2011 and $1,438 in 2010	-	4
NET INCOME	$ 3,900	$ 10,932

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, 2011 AND 2010
(Amounts in thousands)

	Cumulative Redeemable Preferred Stock	Common Capital Stock	Paid-In and Contributed Surplus	Surplus Notes	Unassigned Surplus	Total Capital and Surplus
BALANCE — January 1, 2010	$200	$2,500	$9,955	$15,000	$18,174	$45,829
Net income					10,932	10,932
Common stock dividends					(1,000)	(1,000)
Change in asset valuation reserve					(63)	(63)
Change in unrealized capital gains (loss)					(3,495)	(3,495)
Change in nonadmitted assets					543	543
Change in net deferred tax					588	588
BALANCE — December 31, 2010	200	2,500	9,955	15,000	25,679	53,334
Net income					3,900	3,900
Common stock dividends					(750)	(750)
Change in asset valuation reserve					(129)	(129)
Change in unrealized capital gains (loss)					(75)	(75)
Change in nonadmitted assets					(1,063)	(1,063)
Change in net deferred tax					1,348	1,348
BALANCE — December 31, 2011	$200	$2,500	$9,955	$15,000	$28,910	$56,565

See notes to statutory-basis financial statements.

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands)

	2011	2010
CASH FROM OPERATIONS:		
Premiums collected — net of reinsurance	$ 97,442	$ 102,968
Net investment income	9,388	13,639
Miscellaneous income	2,816	2,832
Benefit and loss-related payments	(83,625)	(90,297)
Commissions, expenses, and taxes paid	(35,152)	(34,361)
Policyholder dividends	(376)	(387)
Federal income taxes paid	(1,432)	(3,562)
Disposals	-	(3,179)
Acquisitions	-	4,085
Net cash used in operations	(10,939)	(8,262)
CASH FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	38,686	46,272
Stocks	-	155
Mortgage loans	4,243	115
Total investment proceeds	42,929	46,542
Cost of investments acquired:		
Bonds	(22,227)	(38,459)
Real estate	(7,400)	(135)
Mortgage loans	(3,677)	-
Total cost of investments acquired	(33,304)	(38,594)
Net decrease in contract loans	435	570
Net cash provided by investments	10,060	8,518
CASH FROM FINANCING AND MISCELLANEOUS SOURCES:		
Net deposits on deposit-type contract funds	36	193
Other	41	(2,234)
Dividends paid to stockholders	(750)	(1,000)
Net cash used in financing and miscellaneous sources	(673)	(3,041)
NET DECREASE IN CASH AND SHORT-TERM INVESTMENTS	(1,552)	(2,785)
CASH AND SHORT-TERM INVESTMENTS:		
Beginning of year	42,102	44,887
End of year	$ 40,550	$ 42,102

See notes to statutory-basis financial statements.

1. ORGANIZATION AND OPERATIONS

Central United Life Insurance Company (the "Company") is domiciled in the State of Arkansas and operates as a life, accident, and health insurance company. The Company is wholly owned by Harris Insurance Holding, Inc. (HIHI), a Texas 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 5% of direct business was written in the State of Arkansas for the years ended December 31, 2011 and 2010. Direct business written in Mississippi, Texas, South Carolina, Oklahoma, Georgia, and Tennessee, accounted for 13%, 12%, 9%, 6%, 5%, and 5%, respectively, of total direct premiums written for the year ended December 31, 2011. No other state accounted for 5% or more of direct premiums written in 2011 and 2010.

The Company owns 100% of the common stock of Manhattan Insurance Group, Inc. (MIG) at December 31, 2011 and 2010, respectively. MIG is an insurance holdings company which owns 100% of the common stock of Manhattan Life Insurance Company (MLIC), which is domiciled in the State of New York. The Company also owns 100% of the common stock of Investors Consolidated Insurance Company (ICIC), which is domiciled in the State of New Hampshire. Additional information has been provided related to these investments in subsidiaries at Note 5.

On December 7, 2010, the Company sold Worksite Solutions to HIHI for its capital and surplus of $155 thousand. The Company realized a gain on the sale of $5 thousand.

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 State of Arkansas has adopted the National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP) as the basis of its statutory accounting practices. For the years ended December 31, 2011 and 2010, there are no significant differences between NAIC SAP and the accounting practices prescribed for life and health insurance companies domiciled in the State of Arkansas which are applicable to the Company. 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, deferred tax assets, furniture and equipment, unsecured loans or cash advances to officers or agents, Company's stock as collateral for loans, non-bankable 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 discounted estimated future cash flows. Under GAAP, all securities purchased or retained, that represent 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, adjusted for any unamortized goodwill, 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, with related obligations reported as liabilities, 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 while other-than-temporary impairments are recorded as realized losses in operations. Under GAAP, changes in the valuation allowance are included in operations.

- 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 an asset or liability required by statutory accounting to be recorded for deferred taxes related to temporary differences between the financial reporting and tax bases of assets and liabilities, subject to limitations on deferred tax assets. An amount reflecting the Company's estimate of deferred tax assets that will be realized within three years has been included in admitted deferred tax assets, as the Company has elected to admit deferred tax assets pursuant to paragraph 10.e of SSAP No. 10R — *Income Taxes — Revised, A Temporary Replacement of SSAP No. 10* ("SSAP No. 10R"). Amounts that will not be realized within three years are nonadmitted and are excluded through a charge against capital and surplus. Statutory accounting requires that a valuation allowance be established for deferred tax assets not realizable. In lieu of state income taxes, the company pays premium taxes. 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.

- Under NAIC SAP, a liability for reinsurance balances would be 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, 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.

- The Company's investments in insurance subsidiaries are carried at the respective statutory-basis surplus of the subsidiaries, adjusted for any unamortized goodwill. The net change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses.

- Included in investments in subsidiaries and affiliates is goodwill related to ICIC of $270 thousand at December 31, 2011, and $360 thousand at December 31, 2010. There is also $3.4 million and $3.8 million of goodwill related to the MIG acquisition at December 31, 2011 and 2010, respectively, of which $0.0 million and $0.7 million is non-admitted, respectively.

- 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 are credited to revenue as it accrues. Dividends on 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, 2011 or 2010.

- 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 originate one new loan during 2011, on June 28, 2011 which was repaid in full on December 2, 2011. 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, 2011, 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.

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 3.0% to 6.0% prior to 1994, and using the 1985 CIDA with an interest assumption of 4.5% or 5.0% 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, 2011 and 2010.

Participating Policies — The Company maintains both participating and nonparticipating life insurance policies. Participating business represented approximately 0.3% of the life insurance in force at

December 31, 2011 and 2010. 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.

Subsequent Events — We have evaluated subsequent events after the balance sheet date of December 31, 2011 through May 31, 2012, which is the date the statutory-basis financial statements were available to be issued.

New or Pending Accounting Standards — In August 2011, the NAIC issued SSAP No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No.10*, ("SSAP No. 101"). SSAP No. 101 establishes statutory accounting principles for current and deferred federal and foreign income taxes and current state income taxes. This newly issued statement supersedes SSAP No. 10R, *Income Taxes – Revised, A Temporary Replacement of SSAP No. 10*, and is effective for periods beginning on or after January 1, 2012. The adoption of SSAP No. 101 is not expected to have a material impact on the Company's statutory-basis financial statements.

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, 2011 and 2010, the admitted asset value of investments held in the custodial accounts totaled $49.6 million and $49.0 million, respectively.

Bonds with an admitted asset value of $6.8 million and $6.9 million as of December 31, 2011 and 2010, 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, 2011 and 2010, are as follows (amounts in thousands):

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 95,107	$ 8,297	$ -	$ 103,404
Industrial and miscellaneous	34,761	1,242	(391)	35,612
Mortgage-backed securities	1,045	105	-	1,150
Total fixed maturity securities	$ 130,913	$ 9,644	$ (391)	$ 140,166

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 100,856	$ 4,920	$ (179)	$ 105,597
Industrial and miscellaneous	43,030	1,728	(291)	44,467
Mortgage-backed securities	1,732	160	-	1,892
Total fixed maturity securities	$ 145,618	$ 6,808	$ (470)	$ 151,956

The following tables at December 31, 2011 and 2010, 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	
2011	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Industrial and miscellaneous	$3,298	$ (64)	$4,202	$(327)	$ 7,500	$(391)
Total fixed maturity securities	$3,298	$ (64)	$4,202	$(327)	$ 7,500	$(391)

	Less than Twelve Months		Twelve Months or Greater		Total	
2010	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	$5,669	$(179)	$ -	$ -	$ 5,669	$(179)
Industrial and miscellaneous			6,776	(291)	6,776	(291)
Total fixed maturity securities	$5,669	$(179)	$6,776	$(291)	$12,445	$(470)

At December 31, 2011, 99.2% of the Company's investment portfolio was rated investment grade. Although the Company did experience turnover in bonds in 2011 and 2010, the Company's general investment philosophy is to hold bonds for long-term investment. However, in response to changing market conditions, liquidity requirements, interest rate movements, and other investment factors, bonds may be sold prior to their maturity. Due to the Company's investment policy of investing in high quality securities with the intention of holding for long-term investment, 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 payments and principal at maturity to match liability requirements of policyholders. Also, the Company takes steps to manage these risks. The temporary declines in fair value within the table above are primarily due to interest rate fluctuations. Of the debt securities reporting temporary declines in fair value as of December 31, 2011, 90.3%, or $6.8 million, with unrealized losses of $0.1 million, are investment-grade securities. The remaining 9.7%, or $0.7 million, with unrealized losses of $0.3 million are related to below investment-grade securities. 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 Company did not record any other-than-temporary impairments during 2011 or 2010.

The amortized cost and estimated fair value of bonds at December 31, 2011, by contractual maturity, are as follows (amounts in thousands):

	Amortized Cost	Fair Value
Due within 1 year	$ 20,288	$ 20,472
Due after 1 year through 5 years	57,760	60,519
Due after 5 years through 10 years	39,905	43,601
Due after 10 years	11,915	14,424
Mortgage-backed securities	1,045	1,150
Total	$ 130,913	$ 140,166

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

Components of realized capital gains and losses as of December 31, 2011 and 2010, are as follows (amounts in thousands):

	2011		
	Gross Gains	Gross Losses	Net Gains (Losses)
Bonds	$ 1,986	$ (22)	$ 1,964
Total	$ 1,986	$ (22)	1,964
Federal income tax expense			(668)
Transfer to interest maintenance reserve of $1,964 — net of taxes of $668			(1,296)
Net realized capital gain			$ -

	2010		
	Gross Gains	Gross Losses	Net Gains (Losses)
Bonds	$ 2,178	$ -	$ 2,178
Common stock	4		4
Total	$ 2,182	$ -	2,182
Federal income tax expense			(740)
Transfer to interest maintenance reserve of $2,178 — net of taxes of $740			(1,438)
Net realized capital gain			$ 4

Proceeds from sales of bonds, excluding maturities and redemptions, during 2011 and 2010, were $24.1 million and $30.0 million, respectively.

The Company maintains investments in money market accounts with a variety of established financial institutions, 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 2011 or 2010. Approximately 27% of the Company's mortgage loan portfolio consists of residential mortgages in southeast Texas. The remaining 73% consists of a participation in a commercial office mortgage in the New England region.

Major categories of the Company's net investment income for the years ended December 31, 2011 and 2010, are summarized as follows (amounts in thousands):

	2011	2010
Investment income:		
Bonds	$ 5,134	$ 5,675
Common stock — affiliate	4,130	7,500
Mortgage loans	607	297
Real estate*	2,807	2,516
Contract loans	504	495
Short-term investments and cash	5	31
Other	78	31
Total investment income	13,265	16,545
Investment expenses:		
Investment expenses*	$ 3,255	$ 2,919
Depreciation on real estate	308	305
Taxes on real estate investments	378	274
Total investment expenses	3,941	3,498
Net investment income	$ 9,324	$ 13,047

*The income and expense for the occupancy of Company-owned property was $1.0 million for 2011 and 2010.

5. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

A summary of the Company's investments in subsidiaries as of December 31, 2011 and 2010, is as follows (amounts in thousands):

	2011		2010	
	Cost	Carrying Value	Cost	Carrying Value
ICIC	$ 5,577	$ 7,555	$ 5,577	$ 7,610
MIG	36,214	43,676	36,214	43,024
	$ 41,791	$ 51,231	$ 41,791	$ 50,634

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 and MIG, as of and for the years ended December 31, 2011 and 2010 (amounts in thousands):

	ICIC		MIG	
	2011	2010	2011	2010
Admitted assets	$15,542	$15,874	$330,903	$344,059
Liabilities	8,257	8,625	290,596	304,176
Surplus	7,285	7,249	40,307	39,883
Net income	156	114	3,978	89

6. PREMIUMS AND OTHER CONSIDERATIONS DEFERRED AND UNCOLLECTED

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2011 and 2010, are as follows (amounts in thousands):

	2011			2010		
	Gross	Loading	Net	Gross	Loading	Net
Ordinary new business	$ 19	$ (7)	$ 12	$ 20	$ (7)	$ 13
Ordinary renewal	1,192	(342)	850	1,247	(380)	867
Total	$1,211	$(349)	$862	$1,267	$(387)	$880

7. PROPERTY AND EQUIPMENT

The Company's property and equipment at December 31, 2011 and 2010, are as follows (amounts in thousands):

	2011	2010
Furniture and fixtures	$ 432	$ 419
Data processing equipment	1,285	1,138
Artwork	970	970
	2,687	2,527
Less accumulated depreciation	(804)	(384)
Property and equipment before amount nonadmitted	1,883	2,143
Less nonadmitted assets	(1,253)	(1,323)
Property and equipment	$ 630	$ 820

Depreciation expense for the years ended December 31, 2011 and 2010, was $0.4 million and $0.3 million.

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 — Fair values for bonds are based on quoted market prices, where available. For bonds not actively traded, fair values are estimated using values obtained from independent pricing services.

Mortgage Loans on Real Estate — The fair values for commercial and residential mortgages in good standing are estimated using discounted cash flow analysis using interest rates currently being offered for similar loans to borrowers with similar credit ratings in comparison with actual interest rates and maturity dates. Fair values for mortgages with potential loan losses are based on discounted cash flow analysis of the underlying properties.

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 — Fair value for the Company's surplus note is estimated based on current interest rate spread on similar instruments..

The carrying amounts and fair values of the Company's financial instruments at December 31, 2011 and 2010, are as follows (amounts in thousands):

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Bonds	$ 130,913	$ 140,166	$ 145,618	$ 151,956
Mortgage loans on real estate	4,330	4,595	4,836	5,076
Cash and short-term investments	40,550	40,550	42,102	42,102
Liabilities — annuities and supplementary contracts	11,708	11,708	12,388	12,388
Surplus — surplus note	15,000	15,000	15,000	15,000

Under NAIC SAP, investments carried at fair value at the statutory-basis financial statements are classified, for disclosure purposes, based on the hierarchy defined by SSAP No. 100, *Fair Value* (SSAP No.100). Fair value is a market-based measurement and should be based on the assumptions that market participants would make in pricing the asset in a current transaction between willing parties. SSAP No. 100 establishes a fair value hierarchy that distinguishes between market participant assumptions developed on market data obtained from sources independent of the Company and the Company's own assumptions about market participants based on best information available in the circumstances. The asset's classification in the hierarchy is based on the lowest level of input that is significant to its valuation. The levels of the fair value hierarchy are as follows:

Level 1 — Quoted prices for identical instruments in active markets

Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 — Instruments whose significant value drivers are unobservable.

The Company did not have financial assets measured and reported at fair value as of December 31, 2011.

9. LIFE AND ANNUITY ACTUARIAL RESERVES

At December 31, 2011 and 2010, 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):

	2011		2010	
	Amount	Percent	Amount	Percent
Subject to discretionary withdrawal:				
With market value adjustment	$ -	- %	$ -	- %
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)	$ 12,574	83.6 %	$ 12,532	79.8 %
Not subject to discretionary withdrawal	2,468	16.4	3,176	20.2
Total annuity reserves and deposit fund liabilities before reinsurance	15,042	100.0 %	15,708	100.0 %
Less reinsurance ceded	(200)		(204)	
Total annuity reserves and deposit fund liabilities	$ 14,842		$ 15,504	

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 AID. 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 at December 31, 2011 and 2010, and the change in net deferred income taxes are as follows (amounts in thousands):

	2011	2010	Change
Total of all deferred tax assets (admitted and non admitted)	$7,936	$7,884	$ 52
Statutory valuation allowance adjustment			
Adjusted gross deferred tax assets	7,936	7,884	52
Total of all deferred tax liabilities	480	1,776	(1,296)
Net deferred tax asset	7,456	6,108	1,348
Deferred tax assets non admitted	2,244	811	1,433
Net admitted deferred tax assets	$5,212	$5,297	$ (85)

The Company has elected to admit deferred tax assets pursuant to SSAP 10R, paragraph 10.e. for December 31, 2011 and 2010. The Company recorded an increase in admitted deferred tax assets as the result of its election to use the provisions of paragraph 10.e. as follows (amounts in thousands):

		2011	2010	Change
10.a	Federal income taxes recoverable through loss carryback	$ -	$2,568	$(2,568)
10.b.i	Adjusted gross DTA expected to be realized in one year	2,542	-	2,542
10.b.ii	10% adjusted statutory capital and surplus limit	4,592	4,415	177
	Admitted pursuant to 10.b (lessor of i. or ii.)	2,542	-	2,542
10.c	Remaining adjusted gross DTAs offsetting existing gross DTLs	480	1,776	(1,296)
	Total admitted pursuant to paragraphs 10.a.–10.c.	$3,022	$4,344	$(1,322)
10.e.i	Additional federal income taxes recoverable through loss carryback	$2,670	$5,297	(2,627)
10.e.ii.a	Gross DTA expected to be realized in three years	2,542	-	2,542
10.e.ii.b	15% adjusted statutory capital and surplus limit	6,888	6,623	265
	Lessor of 10.e.ii. a or b	2,542	-	2,542
10.e.iii.	Remaining additional adjusted gross DTAs offsetting existing gross DTLs	480		480
	Total additional admitted from the use of paragraph 10.e.	$2,670	$1,776	$ 894
	Total admitted adjusted gross deferred tax assets	$5,692	$7,073	$(1,381)

The Company's risk-based capital level used for the purposes of paragraph 10.d. is based on authorized control level of $7.7 million and total adjusted capital of $55.2 million.

The Company's deferred tax assets and liabilities are all ordinary in nature.

As a result of the application of paragraph 10.e. the Company had a special increase to surplus of $2.7 million and $1.8 million at December 31, 2011 and 2010, respectively.

There was no impact from tax planning strategies on the adjusted gross deferred tax assets and net admitted adjusted gross deferred tax assets.

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows (amounts in thousands):

	2011	2010
Deferred tax assets:		
Policy reserves	$ 2,787	$ 3,157
Deferred policy acquisition costs	4,357	4,145
Real estate, furniture and equipment	386	314
Other	406	268
Total deferred tax assets	7,936	7,884
Nonadmitted deferred tax assets	(2,244)	(811)
Admitted deferred tax assets	5,692	7,073
Deferred tax liabilities:		
Policy reserves	-	1,328
Other	480	448
Total deferred tax liabilities	480	1,776
Net admitted deferred tax asset	$ 5,212	$ 5,297

	2011	2010	Change
Deferred tax assets	$ 7,936	$ 7,884	$ 52
Deferred tax liabilities	480	1,776	(1,296)
Net deferred tax asset	$ 7,456	$ 6,108	1,348
Tax effect of change in unrealized gains			-
Total change in net deferred income tax			$ 1,348

At December 31, 2011, the Company had no net operating loss carryforward or AMT carryforward.

The provisions for incurred taxes on earnings for the years ended December 31, 2011 and 2010, are as follows (amounts in thousands):

	2011	2010
Current income tax expense	$ 1,201	$ 2,287
Current income tax expense on capital gains	668	740
Change in net deferred tax benefit	(1,348)	(588)
Total tax expense incurred	$ 521	$ 2,439

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

	2011	2010
Expected income tax expense at applicable rate	$ 1,734	$ 4,494
Dividend income not taxable	(1,404)	(2,550)
Capital gains tax	668	740
Prior taxes and other amounts	(477)	(245)
Total income tax expense incurred	$ 521	$ 2,439

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 $3.0 million and $3.1 million for 2011 and 2010, 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, 2011 and 2010, 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 Texas Department of Insurance. 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 both 2011 and 2010, the Company paid $0.7 million in interest, which was approved by the AID.

The portion of unassigned surplus increased or (reduced) by each item below as of December 31, 2011 and 2010, is as follows (amounts in thousands):

	2011	2010
Net unrealized gains	$ 9,440	$ 7,252
Nonadmitted asset values	(4,430)	(3,366)
Asset valuation reserve	(1,137)	(1,008)

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. The Company contributed $47 thousand during 2011 and 2010 with an administration fee of $13 thousand during 2011 and $8 thousand during 2010.

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.

The 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 2011 and 2010 under such agreements was approximately $0.4 million, and is included in general insurance expenses.

Future minimum rental payments under noncancelable leases as of December 31, 2011, are as follows (amounts in thousands):

Years Ending December 31	
2012	$ 286
2013	143
2014	123
2015	85
	$ 637

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 of risk, 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, 2011 and 2010, related to premiums ceded and assumed and the related benefits (amounts in thousands):

	2011		
	Life and Annuities	Accident and Health	Total
Premiums ceded	$ 1,831	$ 119	$ 1,950
Premiums assumed	$ 3,999	$ 13,409	$ 17,408
Benefits ceded	$ 1,579	$ 649	$ 2,228
Benefits assumed	$ 2,963	$ 9,020	$ 11,983

	2010		
	Life and Annuities	Accident and Health	Total
Premiums ceded	$ 1,757	$ 173	$ 1,930
Premiums assumed	$ 3,765	$ 23,993	$ 27,758
Benefits ceded	$ 346	$ 581	$ 927
Benefits assumed	$ 2,033	$ 11,695	$ 13,728

For the years ended December 31, 2011 and 2010, the Company ceded life insurance in force of $514.3 million and $700.8 million, respectively. As of December 31, 2011 and 2010, the Company had $0.9 million and $0.3 million in recoverables from reinsurers, respectively. Amounts deducted from the policy liability reserves in connection with reinsurance ceded were $2.6 million and $3.0 million for accident and health and $3.1 million and $3.6 million for life at December 31, 2011 and 2010, 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 balance at December 31, 2011 and 2010, was $49.6 million and $49.0 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 2011 and 2010, were $2.8 million and $2.4 million, respectively. Total commissions and expense during 2011 and 2010 were $1.0 million and $1.1 million, respectively. As of December 31, 2011 and 2010, the Company was owed by MLIC $0.4 million and $0.3 million, respectively, for the commissions and expense allowances and had reserves of $3.5 million and $3.7 million, respectively.

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 2011 and 2010 were $0.6 million and $0.5 million, respectively. Total commissions and expenses during 2011 and 2010 were $0.2 million and $0.2 million, respectively. As of December 31, 2011 and 2010, the Company did not have any amounts due from MLIC for commissions and expense allowances and recorded a reserve credit of $1.0 million and $0.8 million, respectively.

In 2010 the Company entered into an assumption reinsurance transaction with EMC National Life Insurance Company. As a result of the assumption, the Company received approximately $4.1 million of cash and posted $4.1 million of reserves.

In 2010 the Company ceded a block of business which it had assumed from EMC National Life Insurance Company in 2009 to Family Life Insurance Company (FLIC), an affiliate. The business ceded to FLIC was primarily Hawaii and Michigan business. As a result of ceding the business the Company paid cash of $3.2 million and transferred reserves of $3.2 million to FLIC.

16. LIABILITY FOR UNPAID ACCIDENT AND HEALTH CLAIMS

Activity in the liability for unpaid accident and health claims as of December 31, 2011 and 2010, is summarized as follows (amounts in thousands):

	2011	2010
Net balance — January 1	$ 35,171	$ 41,414
Increase in liability due to acquisitions	-	1,692
Incurred related to:		
Current year	81,840	94,669
Prior year	(10,132)	(21,442)
Total incurred	71,708	73,227
Paid related to:		
Current year	50,876	63,024
Prior year	23,688	18,138
Total paid	74,564	81,162
Net balance — December 31	$ 32,315	$ 35,171

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 redundancies in prior year reserves of $10.1 million and $21.4 million that emerged during 2011 and 2010, 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 2010 Annual Statement to those reported in the accompanying statutory-basis financial statements (amounts in thousands):

	2010
Admitted assets as reported in the Company's Annual Statement	$321,772
Admitted assets as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$321,772
Liabilities as reported in the Company's Annual Statement	$267,917
Increase in accident and health claim reserve	788
Decrease in current income tax payable	(267)
Liabilities as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$268,438
Capital and surplus as reported in the Company's Annual Statement	$ 53,855
Adjustment for current income taxes	267
Increase in accident and health claim reserve	(788)
Capital and surplus as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$ 53,334
Statutory net income as reported in the Company's Annual Statement	$ 12,055
Increase in accident and health claim reserve	(788)
Change in current income tax expense	(335)
Net income as reported in the accompanying statutory-basis statements of operations	$ 10,932
Net cash used in operating activities as reported in the Company's Annual Statement	$ (5,083)
Disposal of block of business	(3,179)
Net cash used in operating activities as reported in the accompanying statutory-basis statements of cash flows	$ (8,262)
Net cash used in financing and miscellaneous uses as reported in the Company's Annual Statement	$ (6,220)
Disposal of block of business	3,179
Net cash used in financing and miscellaneous uses as reported in the accompanying statutory-basis statements of cash flows	$ (3,041)

* * * * * *

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, 2011
(Amounts in thousands)

INVESTMENT INCOME EARNED:	
Government bonds	$ 3,139
Other bonds (unaffiliated)	1,995
Common stocks (affiliated)	4,130
Mortgage loans	607
Real estate	2,807
Premium notes, policy loans, and liens	504
Short-term investments	5
Other	78
GROSS INVESTMENT INCOME	$ 13,265
MORTGAGE LOANS — Book value:	
Residential mortgages	$ 1,178
Commercial mortgages	3,152
TOTAL MORTGAGE LOANS	$ 4,330
MORTGAGE LOANS BY STANDING — Book value — good standing	$ 4,330
BONDS AND SHORT-TERM INVESTMENTS BY MATURITY STATEMENT VALUE:	
Due within one year or less	$ 61,170
Over 1 year through 5 years	58,005
Over 5 years through 10 years	41,140
Over 10 years through 20 years	9,018
Over 20 years	2,184
TOTAL BY MATURITY	$ 171,517

(Continued)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011 (Amounts in thousands)

BONDS AND SHORT-TERM INVESTMENTS BY CLASS — Statement value:	
Class 1	$ 167,093
Class 2	3,426
Class 3	-
Class 4	998
Class 5	-
TOTAL BY CLASS	$ 171,517
TOTAL BONDS AND SHORT-TERM INVESTMENTS PUBLICLY TRADED	$ 168,513
TOTAL BONDS PRIVATELY PLACED	$ 3,004
SUBSIDIARIES' AND AFFILIATES' COMMON STOCK — Book value	$ 51,231
SHORT-TERM INVESTMENTS — Book value	$ 40,604
CASH ON DEPOSIT	$ (54)
LIFE INSURANCE IN FORCE:	
Ordinary	$ 938,515
Group	$ 3,183
AMOUNT OF ACCIDENTAL DEATH INSURANCE IN FORCE UNDER ORDINARY POLICIES	$ 31,654
INSURANCE POLICIES WITH DISABILITY PROVISION IN FORCE — Ordinary	$ 94,768
SUPPLEMENTARY CONTRACTS IN FORCE — Ordinary — not involving life contingencies:	
Amount on deposit	$ 3
Income payable	$ 50
ORDINARY — Involving life contingencies — income payable	$ 335

(Continued)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011
(Amounts in thousands)

ANNUITIES — Ordinary:	
Immediate — amount of income payable	$ 32
Deferred — fully paid account balance	$ 3,163
Deferred — not fully paid — account balance	$ 5,041
ACCIDENT AND HEALTH INSURANCE — Premiums in force:	
Ordinary	$ 84,360
Group	$ 7,280
DEPOSIT FUNDS AND DIVIDEND ACCUMULATIONS:	
Deposit funds — account balance	$ 1,703
Dividend accumulations — account balance	$ 1,430
CLAIM PAYMENTS IN 2011 — Accident and health:	
2011	$ 50,876
2010	$ 19,704
2009	$ 1,057
2008	$ 399
2007 and prior	$ 2,528

(Concluded)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF INVESTMENT RISKS INTERROGATORIES FOR THE YEAR ENDED DECEMBER 31, 2011

Investment Risks Interrogatories

1. The Company's total admitted assets for the year ended December 31, 2011, are $312,453,124.

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	$43,675,527	14.0 %
2.02	Investors Consolidated Ins. Co. — common stock	7,555,362	2.4
2.03	CML Realty Corp — Real Estate	4,755,474	1.5
2.04	General Electric Co.	4,014,855	1.3
2.05	Lake Success — mortgage loan	3,151,799	1.0
2.06	JP Morgan Chase & Co.	2,961,357	0.9
2.07	Deere & Co.	2,015,951	0.6
2.08	Principal Life	1,999,991	0.6
2.09	Goldman Sachs	1,499,103	0.5
2.10	Wells Fargo	1,496,699	0.5

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

	Bonds			Preferred Stocks		
3.01	NAIC-1	$167,092,330	53.5 %	P/PSF-1	$	%
3.02	NAIC-2	3,426,252	1.1	P/PSF-2		
3.03	NAIC-3	-	-	P/PSF-3		
3.04	NAIC-4	997,982	0.3	P/PSF-4		
3.05	NAIC-5			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.	$2,253,503	0.7 %
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.

Questions 5 through 10 are not applicable.

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

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

13. Assets held in equity interests are greater than 2.5% of the Company's total admitted assets. 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, 2011, are:

	Investment Category/Issuers		
14.01	Manhattan Insurance Group, Inc.	$43,675,527	14.0 %
14.02	Investors Consolidated Ins. Co.	7,555,362	2.4

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

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

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

Question 17 is not applicable.

18. 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.

Questions 19 through 23 are not applicable.

(Concluded)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

	Gross Investment Holdings*		Admitted Assets	
Investment Categories	**Amount**	**Percentage of Total Admitted Assets**	**Amount**	**Percentage of Total Admitted Assets**
Bonds:				
U.S. treasury securities	$ 60,264,629	24.02 %	$ 60,264,629	24.02 %
U.S. government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. government-sponsored agencies	34,842,604	13.89	34,842,604	13.89
Revenue and assessment obligations	943,827	0.38	943,827	0.38
Industrial development and similar obligations	15,000	0.01	15,000	0.01
Mortgage-backed securities (including residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	253	0.00	253	0.00
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	1,044,741	0.42	1,044,741	0.42
Other debt and other fixed income securities (excluding short-terms):				
Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	29,781,157	11.87	29,781,157	11.87
Unaffiliated foreign securities	4,020,677	1.60	4,020,677	1.60
Equity interests:				
Other equity securities:				
Affiliated	51,230,889	20.42	51,230,889	20.42
Mortgage loans:				
Single family residential properties	1,178,798	0.47	1,178,798	0.47
Commercial loans	3,151,799	1.26	3,151,799	1.26
Real estate investments:				
Property occupied by company	12,615,753	5.03	12,615,753	5.03
Property held for production of income (includes $0 of property acquired in satisfaction of debt)	4,755,474	1.90	4,755,474	1.90
Property held for sale ($0 including property acquired in satisfaction of debt)				
Contract loans	6,462,223	2.58	6,462,223	2.58
Cash, cash equivalents, and short-term investments	40,549,665	16.16	40,549,665	16.16
Total invested assets	$ 250,857,489	100.00 %	$ 250,857,489	100.00 %

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