Central United Life Insurance Company

Statutory-Basis Financial Statements as of
and for the Years Ended December 31, 2010 and
2009, Supplemental Schedules as of
and for the Year Ended December 31, 2010,
and Independent Auditors' Report

CENTRAL UNITED LIFE INSURANCE COMPANY

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Deloitte.

Deloitte & Touche LLP
JPMorgan Chase Tower
2200 Ross Avenue, Suite 1600
Dallas, TX 75201-6778
USA

Tel: +1 214 840 7000
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, 2010 and 2009, 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, 2010 and 2009, 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 2010 audit was conducted for the purpose of forming an opinion on the basic 2010 statutory-basis financial statements taken 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, 2010, are presented for purposes of additional analysis and are not a required part of the basic 2010 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 2010 statutory-basis financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2010 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, 2011

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2010 AND 2009
(Amounts in thousands, except share and per-share data)

	2010	2009
ASSETS		
CASH AND INVESTED ASSETS:		
Bonds — at amortized cost (fair value of $151,956 and $155,617 in 2010 and 2009, respectively)	$145,618	$151,717
Investments in subsidiaries and affiliates	50,634	52,688
Contract loans	6,897	7,467
Real estate	10,279	10,449
Mortgage loans on real estate	4,836	4,895
Cash and short-term investments	42,102	44,887
Total cash and invested assets	260,366	272,103
DUE AND DEFERRED PREMIUMS — Net	1,857	2,350
INVESTMENT INCOME DUE AND ACCRUED	1,624	2,125
PROPERTY AND EQUIPMENT — at cost — net of accumulated depreciation of $384 and $104, in 2010 and 2009, respectively	820	566
RECOVERABLE FROM REINSURERS	297	177
FUNDS HELD BY REINSURER	48,981	47,981
RECEIVABLE FROM AFFILIATE	1,811	1,239
NET DEFERRED TAX ASSET	5,297	5,282
GOODWILL — Net	569	682
OTHER ASSETS	150	732
TOTAL	$321,772	$333,237
LIABILITIES AND CAPITAL AND SURPLUS		
LIABILITIES:		
Aggregate reserves:		
Life and annuities policies	$113,344	$115,764
Accident and health policies	118,218	128,904
Liability for deposit-type contracts	3,354	3,145
Liability for policy and contract claims:		
Life	1,785	2,147
Accident and health	24,522	30,084
Dividends payable to policyholders	356	356
Interest maintenance reserve	3,425	2,797
Commissions, expenses, taxes (other than income taxes), licenses, and other fees accrued	977	1,278
Current income tax payable	522	1,057
Asset valuation reserve	1,008	945
Due to affiliates	13	135
Other accrued liabilities	914	796
Total liabilities	268,438	287,408
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 2010 and 2009, respectively	200	200
Common stock, $0 par value, $25,000 stated value — authorized, 150 shares; issued and outstanding, 100 shares in 2010 and 2009, respectively	2,500	2,500
Paid-in and contributed surplus	9,955	9,955
Surplus note	15,000	15,000
Unassigned surplus	25,679	18,174
Total capital and surplus	53,334	45,829
TOTAL	$321,772	$333,237

See notes to statutory-basis financial statements.

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in thousands)

	2010	2009
PREMIUM AND OTHER REVENUES:		
Premiums and annuity considerations	$ 102,553	$ 98,207
Net investment income	13,047	6,837
Commissions and expense allowances on reinsurance ceded	274	206
Amortization of interest maintenance reserve	810	735
Other income — net	2,558	2,570
Total premium and other revenues	119,242	108,555
BENEFITS AND EXPENSES:		
Benefits to life beneficiaries and annuitants	8,653	7,932
Benefits to accident and health policyholders	75,078	82,209
Decrease in reserves for policies and contracts	(13,448)	(18,226)
Interest expense	675	791
Commissions	12,660	11,658
General insurance expenses	18,940	14,714
Change in loading	9	(5)
Taxes, licenses, and fees	3,073	3,049
Total benefits and expenses	105,640	102,122
INCOME FROM OPERATIONS BEFORE DIVIDENDS TO POLICYHOLDERS, FEDERAL INCOME TAX EXPENSE, AND NET REALIZED CAPITAL GAINS	13,602	6,433
DIVIDENDS TO POLICYHOLDERS	387	388
INCOME FROM OPERATIONS BEFORE FEDERAL INCOME TAX AND NET REALIZED CAPITAL GAINS	13,215	6,045
FEDERAL INCOME TAX EXPENSE	2,287	1,073
INCOME FROM OPERATIONS BEFORE NET REALIZED CAPITAL GAINS	10,928	4,972
NET REALIZED CAPITAL GAINS (LOSSES) — Net of income tax of $740 in 2010 and $210 in 2009 and amounts transferred to the interest maintenance reserve of $1,438 in 2010 and $713 in 2009	4	(307)
NET INCOME	$ 10,932	$ 4,665

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, 2010 AND 2009 (Amounts in thousands, except share data)

	Common Capital Stock	Cumulative Redeemable Preferred Stock	Surplus Notes	Paid-In and Contributed Surplus	Unassigned Surplus	Total Capital and Surplus
BALANCE — January 1, 2009	$2,500	$200	$15,000	$9,955	$11,219	$38,874
Net income	-	-	-	-	4,665	4,665
Change in asset valuation reserve	-	-	-	-	204	204
Change in unrealized capital gains (loss)	-	-	-	-	4,160	4,160
Change in nonadmitted assets	-	-	-	-	(2,375)	(2,375)
Change in net deferred tax	-	-	-	-	301	301
BALANCE — December 31, 2009	2,500	200	15,000	9,955	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	$2,500	$200	$15,000	$9,955	$25,679	$53,334

See notes to statutory-basis financial statements.

CENTRAL UNITED LIFE INSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Amounts in thousands)

	2010	2009
CASH FROM OPERATIONS:		
Premiums collected — net of reinsurance	$ 102,968	$ 98,050
Net investment income	13,639	6,786
Miscellaneous income	2,832	2,796
Benefit and loss-related payments	(90,297)	(99,151)
Commissions, expenses, and taxes paid	(34,361)	(29,319)
Policyholder dividends	(387)	(380)
Federal income taxes paid	(3,562)	(1,225)
Disposals	(3,179)	
Acquisitions	4,085	31,548
Net cash (used in) provided by operations	(8,262)	9,105
CASH FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	46,272	38,473
Stocks	155	14
Mortgage loans	115	82
Total investment proceeds	46,542	38,569
Cost of investments acquired:		
Mortgage loans	-	(3,504)
Bonds	(38,459)	(51,312)
Real estate	(135)	(120)
Stocks	-	(24,578)
Total cost of investments acquired	(38,594)	(79,514)
Net decrease in contract loans	570	305
Net cash provided by (used in) investments	8,518	(40,640)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES:		
Net deposits on deposit-type contract funds	193	35
Other	(2,234)	(1,743)
Dividends paid to stockholders	(1,000)	-
Net cash used in financing and miscellaneous sources	(3,041)	(1,708)
NET DECREASE IN CASH AND SHORT-TERM INVESTMENTS	(2,785)	(33,243)
CASH AND SHORT-TERM INVESTMENTS:		
Beginning of year	44,887	78,130
End of year	$ 42,102	$ 44,887

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 7% of direct business was written in the state of Arkansas for the years ended December 31, 2010 and 2009. Direct business written in Mississippi, Texas, South Carolina, Oklahoma and Tennessee, accounted for 14%, 13%, 10%, 6.7% and 5%, respectively, of total direct premiums written for the year ended December 31, 2010. No other state accounted for 5% or more of direct premiums written in 2010 and 2009.

The Company owns 100% of the Manhattan Insurance Group, Inc. (MIG) at December 31, 2010 and 2009, respectively. MIG is an insurance holdings company which owns 100% of the Manhattan Life Insurance Company (MLIC). The Company purchased 45,176 Class B shares of MIG in March 2009 and the remaining outstanding shares in September 2009.

On December 7, 2010 the Company sold Worksite Solutions to HIHI for its capital and surplus of $154,535. The Company realized a gain on the sale of $4,535.

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, deferred tax assets, 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 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 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, 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 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 is adopting 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. 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, 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 and noninsurance subsidiaries are carried at the respective statutory-basis surplus of the subsidiaries. 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 $360,000 at December 31, 2010, and $450,000 at December 31, 2009. There is also $3.8 million and $4.2 million of goodwill related to the additional MIG acquisition at December 31, 2010 and 2009, of which $0.7 million and $2.2 million is non-admitted.

- 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 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, 2010 or 2009.

- 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 2010, however it did purchase a participation in a mortgage loan of $3.3 million from its affiliate, Manhattan Life Insurance Company in 2009, and made one loan in 2009 of $204,000. 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, 2010, 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, 2010 and 2009.

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, 2010 and 2009. 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, 2010 through May 27, 2011, which is the date the statutory financial statements were available to be issued.

New or Pending Accounting Standards —— Effective December 31, 2010, the Company adopted SSAP No. 5 – Revised, "Liabilities, Contingencies, and Impairments of Assets" (SSAP No. 5R), which adopts, with modification, Financial Accounting Standards Board (FASB) Interpretation Number 45 (FIN 45). The substantive revisions require entries to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, even if the likelihood of having to make payments under the guarantee is remote. The adoption of this accounting principle did not have a material impact on the Company's 2010 statutory-basis financial statements.

Effective December 31, 2010, the Company adopted SSAP No. 35 – "Revised, Guaranty Fund and Other Assessments" (SSAP No. 35R), which adopts, with modification, Accounting Standards Codification (ASC) 405-30 (ASC 405-30). The revisions modify the conditions required before recognizing liabilities for insurance-related assessments. Under the new guidance the liability is not recognized until the event obligating an entity to pay an imposed or probable assessment has occurred. This impacts the prospective premium-based guaranty fund assessments as the event that obligates the entity is the writing of, or becoming obligated to write or renew the premiums on which future assessments are to be based. The adoption of this accounting principle did not have a material impact on the Company's 2010 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, 2010 and 2009, the admitted asset value of investments held in the custodial accounts totaled $49.0 million and $48.0 million, respectively.

Bonds with an admitted asset value of $6.9 million and $8.1 million as of December 31, 2010 and 2009, 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, 2010 and 2009, are as follows (amounts in thousands):

	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 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

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 107,552	$ 3,732	$ (318)	$ 110,966
Industrial miscellaneous	41,385	1,244	(961)	41,668
Mortgage-backed securities	2,780	203	-	2,983
Total fixed maturity securities	$ 151,717	$ 5,179	$ (1,279)	$ 155,617

The following tables at December 31, 2010 and 2009, 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	
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/miscellaneous	-	-	6,776	(291)	6,776	(291)
Total fixed maturity securities	$ 5,669	$ (179)	$ 6,776	$ (291)	$ 12,445	$ (470)

2009	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	$22,769	$(318)	$ -	$ -	$22,769	$ (318)
Industrial/miscellaneous	996	(2)	7,428	(959)	8,424	(961)
Total fixed maturity securities	$23,765	$(320)	$7,428	$(959)	$31,193	$(1,279)

At December 31, 2010, 98.6% of the Company's investment portfolio was rated investment grade. Although the Company did experience turnover in bonds in 2010 and 2009, 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. 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 fluctuations. Of the debt securities reporting temporary declines in fair value as of December 31, 2010, 46% or $5.7 million are U.S. Treasury securities and obligations of U.S. government corporations and agencies, while another 40% or $5.0 million, are investment-grade securities. The remaining 14% or $1.8 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 Company did not record any other-than-temporary impairments during 2010 or 2009.

The amortized cost and estimated fair value of bonds at December 31, 2010, by contractual maturity, are as follows (amounts in thousands):

	Amortized Cost	Fair Value
Due within 1 year	$ 14,797	$ 14,935
Due after 1 year through 5 years	78,276	81,731
Due after 5 years through 10 years	37,694	39,504
Due after 10 years	13,119	13,894
Mortgage-backed securities	1,732	1,892
Total	$145,618	$151,956

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, 2010 and 2009, are as follows (amounts in thousands):

	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

	2009		
	Gross Gains	Gross Losses	Net Gains (Losses)
Bonds	$ 1,081	$ (468)	$ 613
Common stock	3	-	3
Total	$ 1,084	$ (468)	616
Federal income tax expense			(210)
Transfer to interest maintenance reserve of $1,081 — net of taxes of $368			(713)
Net realized capital loss			$ (307)

Proceeds from sales of bonds, excluding maturities and redemptions, during 2010 and 2009, were $30.0 million and $18.9 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 2010 or 2009. Approximately 35% of the Company's mortgage loan portfolio consists of residential mortgages in southeast Texas. The remaining 65% 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, 2010 and 2009, are summarized as follows (amounts in thousands):

	2010	2009
Investment income:		
Bonds	$ 5,675	$6,139
Common stock — affiliate	7,500	750
Mortgage loans	297	265
Real estate*	2,516	1,914
Contract loans	495	492
Short-term investments and cash	31	253
Other	31	26
Total investment income	16,545	9,839
Investment expenses:		
Investment expenses	2,919	2,363
Depreciation on real estate	305	304
Taxes on real estate investments	274	335
Total investment expenses	3,498	3,002
Net investment income	$ 13,047	$6,837

* The income and expense for the occupancy of Company-owned property was $1.0 million and $0.6 million for 2010 and 2009.

5. INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

A summary of the Company's investments in subsidiaries as of December 31, 2010 and 2009, is as follows (amounts in thousands):

	2010		2009	
	Cost	Carrying Value	Cost	Carrying Value
Worksite Solutions, Inc.	$ -	$ -	$ 150	$ 379
ICIC	5,577	7,610	5,577	8,620
MIG	36,214	43,024	36,214	43,689
	$41,791	$50,634	$41,941	$52,688

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, 2010 and 2009 (amounts in thousands):

	ICIC		Worksite Solutions		MIG	
	2010	2009	2010	2009	2010	2009
Admitted assets	$ 15,874	$ 16,010	$ -	$ 458	$ 344,059	$ 352,655
Liabilities	8,625	8,736	-	79	304,176	310,950
Surplus	7,249	7,274	-	379	39,883	41,705
Net income	114	206	-	23	89	51

6. PREMIUMS AND OTHER CONSIDERATIONS DEFERRED AND UNCOLLECTED

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2010 and 2009, are as follows (amounts in thousands):

	2010			2009		
	Gross	Loading	Net	Gross	Loading	Net
Ordinary new business	$ 20	$ (7)	$ 13	$ 20	$ (7)	$ 13
Ordinary renewal	1,247	(380)	867	1,252	(371)	881
Total	$ 1,267	$ (387)	$ 880	$ 1,272	$ (378)	$ 894

7. PROPERTY AND EQUIPMENT

The Company's property and equipment at December 31, 2010 and 2009, are as follows (amounts in thousands):

	2010	2009
Furniture and fixtures	$ 419	$ 57
Data processing equipment	1,138	650
Artwork	970	970
	2,527	1,677
Less accumulated depreciation	(384)	(104)
Property and equipment before amount nonadmitted	2,143	1,573
Less nonadmitted assets	(1,323)	(1,007)
Property and equipment	$ 820	$ 566

Depreciation expense for the years ended December 31, 2010 and 2009, was $0.3 million and $0.2 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 and Stocks — Fair values for bonds and preferred stock are based on quoted market prices, where available, which may differ from NAIC fair values. 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 — The carrying amounts reported approximate the fair value.

The carrying amounts and fair values of the Company's financial instruments at December 31, 2010 and 2009, are as follows (amounts in thousands):

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Bonds	$ 145,618	$ 151,956	$ 151,717	$ 155,617
Mortgage loans on real estate	4,836	5,076	4,895	5,194
Cash and short-term investments	42,102	42,102	44,887	44,887
Liabilities — annuities and supplementary contracts	12,388	12,388	12,942	12,942
Surplus — surplus note	15,000	15,000	15,000	15,000

9. LIFE AND ANNUITY ACTUARIAL RESERVES

At December 31, 2010 and 2009, 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):

	2010		2009	
	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)	$ 12,532	79.8 %	$ 12,717	79.2
Not subject to discretionary withdrawal	3,176	20.2	3,332	20.8
Total annuity reserves and deposit fund liabilities before reinsurance	15,708	100.0 %	16,049	100.0 %
Less reinsurance ceded	(204)		(208)	
Total annuity reserves and deposit fund liabilities	$ 15,504		$ 15,841	

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, 2010 and 2009, and the change in net deferred income taxes are as follows (amounts in thousands):

	2010	2009	Change
Total of all deferred tax assets (admitted and non admitted)	$ 7,884	$ 8,584	$ (700)
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	7,884	8,584	(700)
Total of all deferred tax liabilities	1,776	3,064	(1,288)
Net deferred tax asset	6,108	5,520	588
Deferred tax assets non admitted	811	238	573
Net admitted deferred tax assets	$ 5,297	$ 5,282	$ 15

The Company has elected to admit deferred tax assets pursuant to SSAP 10R, paragraph 10.e. for December 31, 2010 and 2009. 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):

	2010	2009	Change
10.a Federal Income Taxes recoverable through loss carryback	$ 2,568	$1,568	$ 1,000
10.b.i Adjusted Gross DTA expected to be realized in one year	-	1,079	(1,079)
10.b.ii. 10% adjusted statutory capital and surplus limit	4,415	3,116	1,299
Admitted pursuant to ¶10.b (lesser of i. or ii.)	-	1,079	(1,079)
10.c Remaining Adjusted Gross DTAs offsetting existing Gross DTLs	1,776	3,064	1,288
Total admitted pursuant to paragraphs 10.a. — 10.c.	$ 4,344	$5,711	$ (1,377)
10.e.i Additional Federal Income Taxes recoverable through loss carryback	5,297	-	5,297
10.e.ii.a Gross DTA expected to be realized in three years	$ -	$2,635	$ (2,635)
10.e.ii.b 15% adjusted statutory capital and surplus limit	6,623	4,674	1,949
Lessor of 10.e.ii. a or b	-	2,635	(2,635)
10.e.iii. Remaining additional Adjusted Gross DTAs offsetting existing Gross DTLs			
Total additional admitted from the use of paragraph 10.e.	$ 1,776	$2,635	$ (859)
Total admitted adjusted gross deferred tax assets	$ 7,073	$8,346	$ (1,273)

The Company's risk-based capital level used for the purposes of paragraph 10.d. is based on authorized control level of $8,035 and total adjusted capital of $54,520.

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 $1.8 million and $2.6 million at December 31, 2010 and 2009, respectively.

There was no impact from tax planning strategies on either the ordinary or the capital components of 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:

	2010	2009
Deferred tax assets:		
Policy reserves	$3,157	$3,490
Deferred policy acquisition costs	4,145	4,538
Real estate, furniture and equipment	314	233
Other	268	323
Total deferred tax assets	7,884	8,584
Nonadmitted deferred tax assets	(811)	(238)
Admitted deferred tax assets	7,073	8,346
Deferred tax liabilities:		
Policy reserves	1,328	2,582
Other	448	482
Total deferred tax liabilities	1,776	3,064
Net admitted deferred tax asset	$5,297	$5,282

	2010	2009	Change
Deferred tax assets	$7,884	$8,584	$ (700)
Deferred tax liabilities	1,776	3,064	(1,288)
Net deferred tax asset	$6,108	$5,520	588
Tax effect of change in unrealized gains			-
Total change in net deferred income tax			$ 588

At December 31, 2010, the Company had no net operating loss carryforward. The Company has an AMT carryforward of $0 million.

The provisions for incurred taxes on earnings for the years ended December 31, 2010 and 2009, are as follows (amounts in thousands):

	2010	2009
Current income tax expense	$2,287	$1,073
Current income tax expense on capital gains	740	210
Change in net deferred tax benefit	(588)	(301)
Total tax expense incurred	$2,439	$ 982

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:

	2010	2009
Expected income tax expense at applicable rate	$ 4,494	$2,055
Dividend income not taxable	(2,550)	
Capital gains tax	740	210
Small Life Company Deduction	-	(461)
Prior taxes and other amounts	(245)	(822)
Total income tax expense incurred	$ 2,439	$ 982

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 $3.1 million and $3.8 million for 2010 and 2009, 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, 2010 and 2009, 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 2010 and 2009 the Company paid $0.7 million and $0.8 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, 2010 and 2009, is as follows (amounts in thousands):

	2010	2009
Net unrealized gains	$ 7,252	$10,747
Nonadmitted asset values	(3,366)	(3,909)
Asset valuation reserve	(1,008)	(945)

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 2010 and 2009 under such agreements was approximately \$0.4 million and \$0.4 million, respectively, and is included in general insurance expenses.

Future minimum rental payments under noncancelable leases as of December 31, 2010, are as follows (amounts in thousands):

Years Ending December	
2011	$ 338
2012	194
2013	39
	$ 571

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, 2010 and 2009, related to premiums ceded and assumed and the related benefits (amounts in thousands):

	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

	2009		
	Life and Annuities	Accident and Health	Total
Premiums ceded	$ 1,398	$ 186	$ 1,584
Premiums assumed	$ 2,312	$ 28,413	$ 30,725
Benefits ceded	$ 1,100	$ 756	$ 1,856
Benefits assumed	$ 2,252	$ 40,496	$ 42,748

For the years ended December 31, 2010 and 2009, the Company ceded life insurance in force of $700.8 million and $492.5 million, respectively. As of December 31, 2010 and 2009, the Company had $0.3 million and $0.2 million in recoverables from reinsurers, respectively. Amounts deducted from the policy liability reserves in connection with reinsurance ceded were $3.0 million and $3.0 million for accident and health and $3.6 million and $2.7 million for life at December 31, 2010 and 2009, 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, 2010 and 2009, was $49.0 million and $48.0 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 2010 and 2009, were $2.4 million and $1.6 million, respectively. Total commissions and expense during 2010 and 2009 were $1.1 million and $0.9 million, respectively. As of December 31, 2010 and 2009, the Company was owed by MLIC $0.3 million and $0 million, respectively, for the commissions and expense allowances and had reserves of $3.7 million and $2.7 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 2010 and 2009 were $0.5 million and $0.3 million, respectively. Total commissions and expenses during 2010 and 2009 were $0.2 million and $0.2 million, respectively. As of December 31, 2010 and 2009, the Company recorded an asset for $0 and $0, respectively, for the commissions and expense allowances due from MLIC and a reserve credit of $0.8 million and $0.6 million, respectively.

In 2009, the Company entered into an assumption reinsurance transaction with EMC National Life Insurance Company. As a result of the assumption, the Company received approximately $30.4 million of cash and posted $30.6 million of reserves, along with $0.2 million of goodwill.

In 2009, the Company entered into an assumption reinsurance transaction with the Texas Guaranty Association. As a result of the assumption, the Company received approximately $1.1 million of cash and posted $1.0 million of reserves, along with $0.1 million of deferred income which was fully amortized in 2009.

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, 2010 and 2009, is summarized as follows (amounts in thousands):

	2010	2009
Net balance — January 1	$41,414	$46,302
Increase in liability due to acquisitions	1,692	5,948
Incurred related to:		
Current year	94,669	99,447
Prior year	(21,442)	(19,668)
Total incurred	73,227	79,779
Paid related to:		
Current year	63,024	68,373
Prior year	18,138	22,242
Total paid	81,162	90,615
Net balance — December 31	$35,171	$41,414

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 $21.4 million and $19.7 million that emerged during 2010 and 2009, 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 and 2009 Annual Statement to those reported in the accompanying statutory-basis financial statements (amounts in thousands):

	2010	2009
Admitted assets as reported in the Company's Annual Statement	$321,772	$332,629
Increase in net deferred tax asset	-	608
Admitted assets as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$321,772	$333,237
Liabilities as reported in the Company's Annual Statement	$267,917	$288,009
Increase in accident and health claim reserve	$ 788	
Decrease in current income tax payable	(267)	(601)
Liabilities as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$268,438	$287,408
Capital and surplus as reported in the Company's Annual Statement	$ 53,855	$ 44,620
Adjustment for current income taxes	267	601
Increase in accident and health claim reserve	(788)	
Adjustment for deferred income taxes	-	608
Capital and surplus as reported in the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus	$ 53,334	$ 45,829
Statutory net income as reported in the Company's Annual Statement	$ 12,055	$ 4,204
Increase in accident and health claim reserve	(788)	
Change in current income tax expense	(335)	461
Net income as reported in the accompanying statutory-basis statements of operations	$ 10,932	$ 4,665
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, 2010
(Amounts in thousands)

INVESTMENT INCOME EARNED:	
Government bonds	$ 3,514
Other bonds (unaffiliated)	2,161
Preferred stocks (unaffiliated)	
Common stocks (affiliated)	7,500
Mortgage loans	297
Real estate	2,516
Premium notes, policy loans, and liens	495
Short-term investments	31
Cash on hand	
Other invested assets	
Other	31
GROSS INVESTMENT INCOME	$ 16,545
MORTGAGE LOANS — Book value:	
Farm mortgages	$ -
Residential mortgages	1,629
Commercial mortgages	3,207
TOTAL MORTGAGE LOANS	$ 4,836
MORTGAGE LOANS BY STANDING — Book value — good standing	$ 4,836
BONDS AND SHORT-TERM INVESTMENTS BY MATURITY STATEMENT VALUE:	
Due within one year or less	$ 56,991
Over 1 year through 5 years	68,378
Over 5 years through 10 years	49,878
Over 10 years through 20 years	4,335
Over 20 years	8,103
TOTAL BY MATURITY	$ 187,685

(Continued)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010
(Amounts in thousands)

BONDS AND SHORT-TERM INVESTMENTS BY CLASS — Statement value:	
Class 1	$ 180,214
Class 2	5,467
Class 3	-
Class 4	2,004
Class 5	-
TOTAL BY CLASS	$ 187,685
TOTAL BONDS PUBLICLY TRADED	$ 184,671
TOTAL BONDS PRIVATELY PLACED	$ 3,014
PREFERRED STOCKS — Statement value	$ -
COMMON STOCKS — Market value	$ -
SUBSIDIARIES' AND AFFILIATES COMMON STOCK — Book value	$ 50,634
SHORT-TERM INVESTMENTS — Book value	$ 42,067
CASH ON DEPOSIT	$ 35
LIFE INSURANCE IN FORCE :	
Ordinary	$ 727,011
Group	$ 3,428
AMOUNT OF ACCIDENTAL DEATH INSURANCE IN FORCE UNDER ORDINARY POLICIES	$ 34,557
INSURANCE POLICIES WITH DISABILITY PROVISION IN FORCE — Ordinary	$ 107,785
SUPPLEMENTARY CONTRACTS IN FORCE — Ordinary — not involving life contingencies:	
Amount on deposit	$ 3
Income payable	$ 50
ORDINARY — Involving life contingencies — income payable	$ 352

(Continued)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED STATUTORY-BASIS FINANCIAL DATA
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010
(Amounts in thousands)

ANNUITIES — Ordinary:	
Immediate — amount of income payable	$ 32
Deferred — fully paid account balance	$ 3,106
Deferred — not fully paid — account balance	$ 5,178
ACCIDENT AND HEALTH INSURANCE — Premiums in force:	
Ordinary	$ 88,443
Group	$ 5,093
DEPOSIT FUNDS AND DIVIDEND ACCUMULATIONS:	
Deposit funds — account balance	$ 1,681
Dividend accumulations — account balance	$ 1,435
CLAIM PAYMENTS IN 2010 — Accident and health:	
2010	$ 57,103
2009	$ 20,088
2008	$ 975
2007	$ 261
2006	$ 243

(Concluded)

Investment Risks Interrogatories

1. The Company's total admitted assets for the year ended December 31, 2010, are $321,772,192.

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	$43,024,713	13.4 %
2.02	Investors Consolidated Ins. Co. — common stock	7,609,516	2.4
2.03	CML Realty Corp — Real Estate	4,834,697	1.5
2.04	General Electric Co.	4,037,661	1.3
2.05	Lake Success — mortgage loan	3,207,048	1.0
2.06	JP Morgan Chase & Co.	2,956,408	0.9
2.07	CitiGroup	2,113,733	0.7
2.08	Deere & Co.	2,049,852	0.6
2.09	American Express	2,027,593	0.6
2.10	Morgan Stanley	2,001,059	0.6

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

	Bonds			Preferred Stocks		
3.01	NAIC-1	$180,212,711	56.0 %	P/PSF-1	$	%
3.02	NAIC-2	5,467,220	1.7	P/PSF-2		
3.03	NAIC-3	-	-	P/PSF-3		
3.04	NAIC-4	2,004,431	0.6	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.	$2,263,659	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.

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

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

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

7. Aggregate unhedged foreign currency exposure:

	$	%

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

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

(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:		
	Country: ______________	$	%
	Country: ______________		
9.02	Countries rated NAIC-2:		
	Country: ______________		
	Country: ______________		
9.03	Countries rated NAIC-3 or below:		
	Country: ______________		
	Country: ______________	______	______
		$ ______	______ %

10. Ten largest non-sovereign (i.e., nongovernmental) 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, 2010, are:

Investment Category/Issuers

14.01	Manhattan Insurance Group, Inc.	$43,024,713	13.4 %
14.02	Investors Consolidated Ins. Co.	7,609,516	2.4

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%	$ -	- %	$ -	- %	$	%
18.02	91% to 95%	-	-	-	-		
18.03	81% to 90%	-	-	-	-		
18.04	71% to 80%	1,628,625	0.5	-	-		
18.05	Below 70%	-	-	3,207,048	1.0		

		Amount	Percentage of Total Admitted Assets
18.06	Construction loans	$	%
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)	$	%	$	$	$
20.02	Repurchase agreements					
20.03	Reverse repurchase agreements					
20.04	Dollar repurchase agreements					
20.05	Dollar reverse repurchase agreements					
		$	%	$	$	$

21. Warrants not attached to other financial instruments, options, caps, and floors at December 31, 2010:

		Owned		Written	
21.01	Hedging	$	%	$	%
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	$	%	$	$	$
22.02	Income generation					
22.03	Replications					
22.04	Other					
		$	%	$	$	$

(Continued)

23. The Company's potential exposure for futures contracts as of the following dates:

		At Year-End		Unaudited At End of Each Quarter		
		Amount	Percentage of Total Admitted Assets	1st Quarter Amount	2nd Quarter Amount	3rd Quarter Amount
23.01	Hedging	$	%	$	$	$
23.02	Income generation					
23.03	Replications					
23.04	Other					
		$	%	$	$	$

24. The 10 largest investments included in the Write-ins for Invested Assets category included on the Summary Investment Schedule at December 31, 2010, are:

	Amount	Percentage of Total Admitted Assets
24.01	$	%
24.02		
24.03		
24.04		
24.05		
24.06		
24.07		
24.08		
24.09		
24.10		

(Concluded)

CENTRAL UNITED LIFE INSURANCE COMPANY

SUPPLEMENTAL SUMMARY INVESTMENT SCHEDULE
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010

	Gross Investment Holdings*		Admitted Assets	
Investment Categories	Amount	Percentage of Total Invested Assets	Amount	Percentage of Total Admitted Assets
Bonds:				
U.S. treasury securities	$ 49,371,334	18.91 %	$ 49,371,334	18.96 %
U.S. government agency obligations (excluding mortgage-backed securities):				
Issued by U.S. government agencies	2,001,059	0.77	2,001,059	0.77
Issued by U.S. government-sponsored agencies	57,702,449	22.10	57,702,449	22.10
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	1,998,451	0.77	1,998,451	0.77
Industrial development and similar obligations	3,563,245	1.36	3,563,245	1.37
Mortgage-backed securities (including residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	308	0.00	308	0.00
Issued or guaranteed by FNMA and FHLMC				
All other				
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	1,731,858	0.66	1,731,858	0.67
Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities 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)	26,216,987	10.04	26,216,987	10.07
Unaffiliated foreign securities	3,032,297	1.16	3,032,297	1.16
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	51,306,319	19.65	50,634,229	19.45
Unaffiliated				
Other equity interests including tangible personal property under lease:				
Affiliated				
Unaffiliated				
Mortgage loans:				
Construction and land development				
Agricultural				
Single family residential properties	1,689,771	0.65	1,628,625	0.63
Multifamily residential properties	-	-	-	-
Commercial loans	3,207,048	1.23	3,207,048	1.23
Mezzanine real estate loans				
Real estate investments:				
Property occupied by company	5,444,700	2.09	5,444,700	2.09
Property held for production of income (includes $0 of property acquired in satisfaction of debt)	4,834,697	1.85	4,834,697	1.86
Property held for sale ($__________ including property acquired in satisfaction of debt)				
Contract loans	6,897,341	2.64	6,897,341	2.65
Receivables for securities	-	-	-	-
Cash, cash equivalents, and short-term investments	42,101,417	16.12	42,101,417	16.17
Other invested assets	-	-	-	-
Total invested assets	$261,099,281	100.00 %	$260,366,045	100.00 %

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