



# ANNUAL STATEMENT

For the Year Ended December 31, 2008  
of the Condition and Affairs of the

## UnitedHealthcare of Arkansas, Inc.

NAIC Group Code.....0707, 0707 (Current Period) (Prior Period) NAIC Company Code..... 95446 Employer's ID Number..... 63-1036819

Organized under the Laws of Arkansas State of Domicile or Port of Entry Arkansas Country of Domicile US

Licensed as Business Type.....Health Maintenance Organization Is HMO Federally Qualified? Yes [ ] No [X]

Incorporated/Organized..... September 27, 1990 Commenced Business..... April 1, 1992

Statutory Home Office 1401 Capitol Ave. 3rd Floor, Ste 375..... Little Rock ..... AR ..... 72205  
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 1401 Capitol Ave. 3rd Floor, Ste 375..... Little Rock ..... AR ..... 72205 501-664-7700  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 10 Cadillac Drive, Suite 200..... Brentwood ..... TN ..... 37027  
(Street and Number or P. O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 10 Cadillac Drive, Suite 200..... Brentwood ..... TN ..... 37027 615-372-3622  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Web Site Address www.uhc.com

Statutory Statement Contact Shawne Marie Costello 952-936-1216  
(Name) (Area Code) (Telephone Number) (Extension)  
Shawne\_M\_Costello@uhc.com 952-936-1370  
(E-Mail Address) (Fax Number)

### OFFICERS

Name	Title	Name	Title
1. Garland Greever Scott III	Chairman/President/CEO	2. Juanita Bolland Luis	Assistant Secretary
3. Nyle Brent Cottingham	VP/Regulatory Controller/Assistant Treasurer		

### OTHER

Robert Worth Oberrender	Treasurer	Mary Lynn Stanislav	Secretary
Timothy Gilbert Caron	Assistant Secretary		

### DIRECTORS OR TRUSTEES

Garland Greever Scott III	Daniel Laurence Ohman
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State of Tennessee  
County of Williamson

State of Minnesota  
County of Hennepin

State of Minnesota  
County of Hennepin

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions* and *Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

_____ (Signature) Garland Greever Scott III _____ 1. (Printed Name) Chairman/President/CEO _____ (Title)	_____ (Signature) Juanita Bolland Luis _____ 2. (Printed Name) Assistant Secretary _____ (Title)	_____ (Signature) Nyle Brent Cottingham _____ 3. (Printed Name) VP/Regulatory Controller/Assistant Treasurer _____ (Title)
---	---	---

Subscribed and sworn to before me

This \_\_\_\_\_ day of \_\_\_\_\_

Subscribed and sworn to before me

This \_\_\_\_\_ day of \_\_\_\_\_

Subscribed and sworn to before me

This \_\_\_\_\_ day of \_\_\_\_\_

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Signature)

a. Is this an original filing?

Yes [X] No [ ]

- b. If no
1. State the amendment number
  2. Date filed
  3. Number of pages attached

**ASSETS**

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D).....	301,096		301,096	301,336
2. Stocks (Schedule D):				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....			0	
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....3,799,758, Sch. E-Part 1), cash equivalents (\$.....0, Sch. E-Part 2) and short-term investments (\$.....3,857,768, Sch. DA).....	7,805,584	148,058	7,657,526	9,683,764
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets (Schedule BA).....			0	
8. Receivables for securities.....			0	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	8,106,680	148,058	7,958,622	9,985,100
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	1,260		1,260	1,246
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection.....	98,234		98,234	56,034
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....			0	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....			0	
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....			0	
16.1 Current federal and foreign income tax recoverable and interest thereon.....			0	129,582
16.2 Net deferred tax asset.....	277,961		277,961	63,394
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....			0	
19. Furniture and equipment, including health care delivery assets (\$.....0).....			0	
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	157,097		157,097	
22. Health care (\$.....34,222) and other amounts receivable.....	41,053	6,831	34,222	
23. Aggregate write-ins for other than invested assets.....	291,517	0	291,517	233,281
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	8,973,802	154,889	8,818,913	10,468,637
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	8,973,802	154,889	8,818,913	10,468,637

**DETAILS OF WRITE-INS**

0901.....			0	
0902.....			0	
0903.....			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Prepaid Taxes.....	291,517		291,517	233,281
2302.....			0	
2303.....			0	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	291,517	0	291,517	233,281

**LIABILITIES, CAPITAL AND SURPLUS**

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....0 reinsurance ceded).....	2,354,063		2,354,063	2,284,842
2. Accrued medical incentive pool and bonus amounts.....			0	
3. Unpaid claims adjustment expenses.....	43,558		43,558	36,738
4. Aggregate health policy reserves.....	554,203		554,203	175,122
5. Aggregate life policy reserves.....			0	
6. Property/casualty unearned premium reserve.....			0	
7. Aggregate health claim reserves.....	55,739		55,739	74,745
8. Premiums received in advance.....	280,931		280,931	411,958
9. General expenses due or accrued.....	145,728		145,728	139,808
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....	516,788		516,788	
10.2 Net deferred tax liability.....			0	
11. Ceded reinsurance premiums payable.....	1,588		1,588	
12. Amounts withheld or retained for the account of others.....			0	11,865
13. Remittances and items not allocated.....	123		123	
14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current).....			0	
15. Amounts due to parent, subsidiaries and affiliates.....			0	277,785
16. Payable for securities.....			0	
17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			0	
18. Reinsurance in unauthorized companies.....			0	
19. Net adjustments in assets and liabilities due to foreign exchange rates.....			0	
20. Liability for amounts held under uninsured plans.....	59,311		59,311	205,226
21. Aggregate write-ins for other liabilities (including \$.....0 current).....	2,225	0	2,225	0
22. Total liabilities (Lines 1 to 21).....	4,014,257	0	4,014,257	3,618,089
23. Aggregate write-ins for special surplus funds.....	XXX	XXX	0	0
24. Common capital stock.....	XXX	XXX	100,000	100,000
25. Preferred capital stock.....	XXX	XXX		
26. Gross paid in and contributed surplus.....	XXX	XXX	5,470,954	5,470,954
27. Surplus notes.....	XXX	XXX		
28. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	0	0
29. Unassigned funds (surplus).....	XXX	XXX	(766,298)	1,279,594
30. Less treasury stock at cost:				
30.1 .....0.000 shares common (value included in Line 24 \$.....0).....	XXX	XXX		
30.2 .....0.000 shares preferred (value included in Line 25 \$.....0).....	XXX	XXX		
31. Total capital and surplus (Lines 23 to 29 minus Line 30).....	XXX	XXX	4,804,656	6,850,548
32. Total liabilities, capital and surplus (Lines 22 and 31).....	XXX	XXX	8,818,913	10,468,637

**DETAILS OF WRITE-INS**

2101. Unclaimed Property.....	2,225		2,225	
2102. ....			0	
2103. ....			0	
2198. Summary of remaining write-ins for Line 21 from overflow page.....	0	0	0	0
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....	2,225	0	2,225	0
2301. ....	XXX	XXX		
2302. ....	XXX	XXX		
2303. ....	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	XXX	XXX	0	0
2801. ....	XXX	XXX		
2802. ....	XXX	XXX		
2803. ....	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page.....	XXX	XXX	0	0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....	XXX	XXX	0	0

**STATEMENT OF REVENUE AND EXPENSES**

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX	49,974	67,679
2. Net premium income (including \$.....0 non-health premium income).....	XXX	19,968,482	23,898,283
3. Change in unearned premium reserves and reserve for rate credits.....	XXX	(35,162)	(47,047)
4. Fee-for-service (net of \$.....0 medical expenses).....	XXX		
5. Risk revenue.....	XXX		
6. Aggregate write-ins for other health care related revenues.....	XXX	0	0
7. Aggregate write-ins for other non-health revenues.....	XXX	0	0
8. Total revenues (Lines 2 to 7).....	XXX	19,933,320	23,851,236
<b>Hospital and Medical:</b>			
9. Hospital/medical benefits.....		13,023,180	12,877,535
10. Other professional services.....		111,463	15,182
11. Outside referrals.....			
12. Emergency room and out-of-area.....			
13. Prescription drugs.....		2,215,954	2,591,143
14. Aggregate write-ins for other hospital and medical.....	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts.....			
16. Subtotal (Lines 9 to 15).....	0	15,350,597	15,483,860
<b>Less:</b>			
17. Net reinsurance recoveries.....			
18. Total hospital and medical (Lines 16 minus 17).....	0	15,350,597	15,483,860
19. Non-health claims (net).....			
20. Claims adjustment expenses, including \$....39,597 cost containment expenses.....		476,718	585,250
21. General administrative expenses.....		2,831,921	3,744,795
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....		388,350	62,100
23. Total underwriting deductions (Lines 18 through 22).....	0	19,047,586	19,876,005
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX	885,734	3,975,231
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		194,118	579,980
26. Net realized capital gains or (losses) less capital gains tax of \$.....0.....			7,581
27. Net investment gains or (losses) (Lines 25 plus 26).....	0	194,118	587,561
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)].....			
29. Aggregate write-ins for other income or expenses.....	0	106	0
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX	1,079,958	4,562,792
31. Federal and foreign income taxes incurred.....	XXX	550,346	1,699,965
32. Net income (loss) (Lines 30 minus 31).....	XXX	529,612	2,862,827

**DETAILS OF WRITE-INS**

0601. ....	XXX		
0602. ....	XXX		
0603. ....	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	XXX	0	0
0701. ....	XXX		
0702. ....	XXX		
0703. ....	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	XXX	0	0
1401. ....			
1402. ....			
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	0	0
2901. Other Revenue.....		106	
2902. ....			
2903. ....			
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0	106	0

**STATEMENT OF REVENUE AND EXPENSES (Continued)**

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	6,850,548	7,891,662
34. Net income or (loss) from Line 32.....	529,612	2,862,827
35. Change in valuation basis of aggregate policy and claim reserves.....		
36. Change in net unrealized capital gains and (losses) less capital gains tax of \$.....0.....		
37. Change in net unrealized foreign exchange capital gain or (loss).....		
38. Change in net deferred income tax.....	214,567	106,950
39. Change in nonadmitted assets.....	(120,591)	(10,891)
40. Change in unauthorized reinsurance.....		
41. Change in treasury stock.....		
42. Change in surplus notes.....		
43. Cumulative effect of changes in accounting principles.....		
44. Capital changes:		
44.1 Paid in.....		
44.2 Transferred from surplus (Stock Dividend).....		
44.3 Transferred to surplus.....		
45. Surplus adjustments:		
45.1 Paid in.....		
45.2 Transferred to capital (Stock Dividend).....		
45.3 Transferred from capital.....		
46. Dividends to stockholders.....	(2,855,000)	(4,000,000)
47. Aggregate write-ins for gains or (losses) in surplus.....	185,520	0
48. Net change in capital and surplus (Lines 34 to 47).....	(2,045,892)	(1,041,114)
49. Capital and surplus end of reporting period (Line 33 plus 48).....	4,804,656	6,850,548

**DETAILS OF WRITE-INS**

4701. Corrections subsequent to issuance of the 2007 annual statement.....	185,520	
4702. ....		
4703. ....		
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	185,520	0

## CASH FLOW

	1 Current Year	2 Prior Year
<b>CASH FROM OPERATIONS</b>		
1. Premiums collected net of reinsurance.....	19,752,413	23,680,159
2. Net investment income.....	194,344	599,384
3. Miscellaneous income.....		
4. Total (Lines 1 through 3).....	19,946,757	24,279,543
5. Benefit and loss related payments.....	15,309,753	16,079,014
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	3,497,329	4,467,538
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	(96,024)	1,749,051
10. Total (Lines 5 through 9).....	18,711,058	22,295,603
11. Net cash from operations (Line 4 minus Line 10).....	1,235,699	1,983,940
<b>CASH FROM INVESTMENTS</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....		300,000
12.2 Stocks.....		
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....		
12.7 Miscellaneous proceeds.....		
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	0	300,000
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....		301,430
13.2 Stocks.....		
13.3 Mortgage loans.....		
13.4 Real estate.....		
13.5 Other invested assets.....		
13.6 Miscellaneous applications.....		
13.7 Total investments acquired (Lines 13.1 to 13.6).....	0	301,430
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 minus Line 14).....	0	(1,430)
<b>CASH FROM FINANCING AND MISCELLANEOUS SOURCES</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		
16.3 Borrowed funds.....		
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....	2,855,000	4,000,000
16.6 Other cash provided (applied).....	(406,937)	357,914
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	(3,261,937)	(3,642,086)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	(2,026,238)	(1,659,576)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	9,683,764	11,343,340
19.2 End of year (Line 18 plus Line 19.1).....	7,657,526	9,683,764

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001 .....		
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## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 1 - PREMIUMS

	1	2	3	4
Line of Business	Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
1. Comprehensive (hospital and medical).....	15,121,622		15,333	15,106,289
2. Medicare supplement.....				0
3. Dental only.....				0
4. Vision only.....				0
5. Federal employees health benefits plan.....				0
6. Title XVIII - Medicare.....	4,867,299		5,107	4,862,192
7. Title XIX - Medicaid.....				0
8. Other health.....				0
9. Health subtotal (Lines 1 through 8).....	19,988,921	0	20,440	19,968,481
10. Life.....				0
11. Property/casualty.....				0
12. Totals (Lines 9 to 11).....	19,988,921	0	20,440	19,968,481

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2 - CLAIMS INCURRED DURING THE YEAR**

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct.....	15,309,751	11,106,791					4,202,960			
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	15,309,751	11,106,791	0	0	0	0	4,202,960	0	0	0
2. Paid medical incentive pools and bonuses.....	0									
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct.....	2,354,063	1,294,166					1,059,897			
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	2,354,063	1,294,166	0	0	0	0	1,059,897	0	0	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct.....	55,739	49,655					6,084			
4.2 Reinsurance assumed.....	0									
4.3 Reinsurance ceded.....	0									
4.4 Net.....	55,739	49,655	0	0	0	0	6,084	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	0									
6. Net healthcare receivables (a).....	9,369	(3,948)					13,317			
7. Amounts recoverable from reinsurers December 31, current year.....	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct.....	2,284,843	1,595,670					689,173			
8.2 Reinsurance assumed.....	0									
8.3 Reinsurance ceded.....	0									
8.4 Net.....	2,284,843	1,595,670	0	0	0	0	689,173	0	0	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct.....	74,745	60,987					13,758			
9.2 Reinsurance assumed.....	0									
9.3 Reinsurance ceded.....	0									
9.4 Net.....	74,745	60,987	0	0	0	0	13,758	0	0	0
10. Accrued medical incentive pools and bonuses, prior year.....	0									
11. Amounts recoverable from reinsurers December 31, prior year.....	0									
12. Incurred benefits:										
12.1 Direct.....	15,350,596	10,797,903	0	0	0	0	4,552,693	0	0	0
12.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0	0
12.4 Net.....	15,350,596	10,797,903	0	0	0	0	4,552,693	0	0	0
13. Incurred medical incentive pools and bonuses.....	0	0	0	0	0	0	0	0	0	0

(a) Excludes \$.00 loans or advances to providers not yet expensed.

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR**

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Reported in process of adjustment:										
1.1 Direct.....	545,002	405,457					139,545			
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	545,002	405,457	0	0	0	0	139,545	0	0	0
2. Incurred but unreported:										
2.1 Direct.....	1,809,061	888,709					920,352			
2.2 Reinsurance assumed.....	0									
2.3 Reinsurance ceded.....	0									
2.4 Net.....	1,809,061	888,709	0	0	0	0	920,352	0	0	0
3. Amounts withheld from paid claims and capitations:										
3.1 Direct.....	0									
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	0	0	0	0	0	0	0	0	0	0
4. Totals:										
4.1 Direct.....	2,354,063	1,294,166	0	0	0	0	1,059,897	0	0	0
4.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0	0
4.4 Net.....	2,354,063	1,294,166	0	0	0	0	1,059,897	0	0	0

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5  Claims Incurred in Prior Years (Columns 1 + 3)	6  Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1  On Claims Incurred Prior to January 1 of Current Year	2  On Claims Incurred During the Year	3  On Claims Unpaid December 31 of Prior Year	4  On Claims Incurred During the Year		
1. Comprehensive (hospital and medical).....	1,201,663	9,905,128	116,121	1,227,699	1,317,784	1,656,656
2. Medicare supplement.....					0	
3. Dental only.....					0	
4. Vision only.....					0	
5. Federal employees health benefits plan.....					0	
6. Title XVIII - Medicare.....	525,815	3,677,144	9,046	1,056,936	534,861	702,931
7. Title XIX - Medicaid.....					0	
8. Other health.....					0	
9. Health subtotal (Lines 1 to 8).....	1,727,478	13,582,272	125,167	2,284,635	1,852,645	2,359,587
10. Healthcare receivables (a).....	(162)	41,215			(162)	31,683
11. Other non-health.....					0	
12. Medical incentive pools and bonus amounts.....					0	
13. Totals (Lines 9 - 10 + 11 + 12).....	1,727,640	13,541,057	125,167	2,284,635	1,852,807	2,327,904

(a) Excludes \$.....0 loans or advances to providers not yet expensed.

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS**  
(000 Omitted)

**SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	6,825	6,664	6,664	6,664	6,664
2. 2004.....	36,327	40,988	40,497	40,497	40,497
3. 2005.....	.XXX	32,141	35,615	35,632	35,632
4. 2006.....	.XXX	.XXX	18,841	20,706	20,730
5. 2007.....	.XXX	.XXX	.XXX	14,197	15,901
6. 2008.....	.XXX	.XXX	.XXX	.XXX	13,582

**SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	6,891	6,664	6,664	6,664	6,664
2. 2004.....	42,065	41,159	40,497	40,497	40,497
3. 2005.....	.XXX	36,496	35,689	35,632	35,632
4. 2006.....	.XXX	.XXX	21,714	20,821	20,730
5. 2007.....	.XXX	.XXX	.XXX	16,442	16,024
6. 2008.....	.XXX	.XXX	.XXX	.XXX	15,870

**SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL**

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expense	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....	60,217	40,497	1,586	3.9	42,083	69.9			42,083	69.9
2. 2005.....	49,204	35,632	1,168	3.3	36,800	74.8			36,800	74.8
3. 2006.....	30,691	20,730	667	3.2	21,397	69.7			21,397	69.7
4. 2007.....	23,875	15,901	594	3.7	16,495	69.1	123		16,618	69.6
5. 2008.....	19,954	13,582	470	3.5	14,052	70.4	2,287	44	16,383	82.1

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**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS**  
 (000 Omitted)

**SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	6,825	6,664	66,664	6,664	6,664
2. 2004.....	36,327	40,988	40,509	40,509	40,509
3. 2005.....	.XXX	32,022	35,415	35,428	35,428
4. 2006.....	.XXX	.XXX	17,369	18,843	18,827
5. 2007.....	.XXX	.XXX	.XXX	12,452	13,669
6. 2008.....	.XXX	.XXX	.XXX	.XXX	9,905

**SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	6,891	6,664	6,664	6,664	6,664
2. 2004.....	42,065	41,159	40,509	40,509	40,509
3. 2005.....	.XXX	36,376	35,469	35,428	35,428
4. 2006.....	.XXX	.XXX	19,480	18,923	18,827
5. 2007.....	.XXX	.XXX	.XXX	14,028	13,737
6. 2008.....	.XXX	.XXX	.XXX	.XXX	11,181

**SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL**

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....	60,190	40,509	1,586	3.9	42,095	69.9			42,095	69.9
2. 2005.....	48,686	35,428	1,157	3.3	36,585	75.1			36,585	75.1
3. 2006.....	27,638	18,827	652	3.5	19,479	70.5			19,479	70.5
4. 2007.....	20,144	13,669	471	3.4	14,140	70.2	68		14,208	70.5
5. 2008.....	15,116	9,905	468	4.7	10,373	68.6	1,275	18	11,666	77.2

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**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS**  
 (000 Omitted)

**SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

**SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

**SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT**

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....				0.0	0	0.0			0	0.0
2. 2005.....				0.0	0	0.0			0	0.0
3. 2006.....				0.0	0	0.0			0	0.0
4. 2007.....				0.0	0	0.0			0	0.0
5. 2008.....				0.0	0	0.0			0	0.0

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS**  
 (000 Omitted)

**SECTION A - PAID HEALTH CLAIMS - DENTAL ONLY**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

**SECTION B - INCURRED HEALTH CLAIMS - DENTAL ONLY**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

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**SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - DENTAL ONLY**

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....				0.0	0	0.0			0	0.0
2. 2005.....				0.0	0	0.0			0	0.0
3. 2006.....				0.0	0	0.0			0	0.0
4. 2007.....				0.0	0	0.0			0	0.0
5. 2008.....				0.0	0	0.0			0	0.0

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS**  
 (000 Omitted)

**SECTION A - PAID HEALTH CLAIMS - VISION ONLY**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

**SECTION B - INCURRED HEALTH CLAIMS - VISION ONLY**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

**SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - VISION ONLY**

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....				0.0	0	0.0			0	0.0
2. 2005.....				0.0	0	0.0			0	0.0
3. 2006.....				0.0	0	0.0			0	0.0
4. 2007.....				0.0	0	0.0			0	0.0
5. 2008.....				0.0	0	0.0			0	0.0

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**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS**  
 (000 Omitted)

**SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

**SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

**SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM**

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....				0.0	0	0.0			0	0.0
2. 2005.....				0.0	0	0.0			0	0.0
3. 2006.....				0.0	0	0.0			0	0.0
4. 2007.....				0.0	0	0.0			0	0.0
5. 2008.....				0.0	0	0.0			0	0.0

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS**  
 (000 Omitted)

**SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....					
2. 2004.....			(11)	(11)	(11)
3. 2005.....	.XXX	120	.201	.204	.204
4. 2006.....	.XXX	.XXX	1,472	1,864	1,903
5. 2007.....	.XXX	.XXX	.XXX	1,745	2,232
6. 2008.....	.XXX	.XXX	.XXX	.XXX	3,677

**SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....					
2. 2004.....			(11)	(11)	(11)
3. 2005.....	.XXX	120	.220	.204	.204
4. 2006.....	.XXX	.XXX	2,234	1,898	1,903
5. 2007.....	.XXX	.XXX	.XXX	2,414	2,286
6. 2008.....	.XXX	.XXX	.XXX	.XXX	4,689

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**SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE**

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....	.27	(11)		0.0	(11)	(40.7)			(11)	(40.7)
2. 2005.....	.518	.204	.11	.54	.215	.41.5			.215	.41.5
3. 2006.....	3,053	1,903	.60	3.2	1,963	64.3			1,963	64.3
4. 2007.....	3,732	2,235	.115	5.1	2,350	63.0	.54		2,404	64.4
5. 2008.....	4,837	3,677	.9	0.2	3,686	76.2	1,012	.25	4,723	97.6

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

#### SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....	.XXX				
4. 2006.....	.XXX	.XXX			
5. 2007.....	.XXX	.XXX	.XXX		
6. 2008.....	.XXX	.XXX	.XXX	.XXX	

#### SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....	.XXX				
4. 2006.....	.XXX	.XXX			
5. 2007.....	.XXX	.XXX	.XXX		
6. 2008.....	.XXX	.XXX	.XXX	.XXX	

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#### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....				0.0	0	0.0			0	0.0
2. 2005.....				0.0	0	0.0			0	0.0
3. 2006.....				0.0	0	0.0			0	0.0
4. 2007.....				0.0	0	0.0			0	0.0
5. 2008.....				0.0	0	0.0			0	0.0

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS**  
 (000 Omitted)

**SECTION A - PAID HEALTH CLAIMS - OTHER**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

**SECTION B - INCURRED HEALTH CLAIMS - OTHER**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	<b>NONE</b>				
2. 2004.....					
3. 2005.....		.XXX			
4. 2006.....		.XXX	.XXX		
5. 2007.....		.XXX	.XXX	.XXX	
6. 2008.....		.XXX	.XXX	.XXX	.XXX

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**SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER**

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....				0.0	0	0.0			0	0.0
2. 2005.....				0.0	0	0.0			0	0.0
3. 2006.....				0.0	0	0.0			0	0.0
4. 2007.....				0.0	0	0.0			0	0.0
5. 2008.....				0.0	0	0.0			0	0.0

**NONE**

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY**

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
<b>POLICY RESERVE</b>									
1. Unearned premium reserves.....	9,020	9,020							
2. Additional policy reserves (a).....	539,000						539,000		
3. Reserve for future contingent benefits.....	0								
4. Reserve for rate credits or experience rating refunds (including \$.....0) for investment income.....	6,184						6,184		
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	554,204	9,020	0	0	0	0	545,184	0	0
7. Reinsurance ceded.....	0								
8. Totals (net) (Page 3, Line 4).....	554,204	9,020	0	0	0	0	545,184	0	0
<b>CLAIM RESERVE</b>									
9. Present value of amounts not yet due on claims.....	0								
10. Reserve for future contingent benefits.....	55,739	49,655					6,084		
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	55,739	49,655	0	0	0	0	6,084	0	0
13. Reinsurance ceded.....	0								
14. Totals (net) (Page 3, Line 7).....	55,739	49,655	0	0	0	0	6,084	0	0
<b>DETAILS OF WRITE-INS</b>									
0501. ....	0								
0502. ....	0								
0503. ....	0								
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0
1101. ....	0								
1102. ....	0								
1103. ....	0								
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0

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(a) Includes \$.....539,000 premium deficiency reserve.

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 3 - ANALYSIS OF EXPENSES**

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$.....0 for occupancy of own building).....	127	1,828	11,406		13,361
2. Salaries, wages and other benefits.....	20,128	208,835	1,081,248		1,310,211
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			612,819		612,819
4. Legal fees and expenses.....	3,467	55,185	80,525		139,177
5. Certifications and accreditation fees.....					0
6. Auditing, actuarial and other consulting services.....	1,442	21,275	202,035		224,752
7. Traveling expenses.....	508	5,589	27,362		33,459
8. Marketing and advertising.....	3,001	24,063	108,745		135,809
9. Postage, express and telephone.....	1,540	21,096	100,223		122,859
10. Printing and office supplies.....	171	2,531	10,577		13,279
11. Occupancy, depreciation and amortization.....	100	1,419	8,185		9,704
12. Equipment.....	18	268	1,776		2,062
13. Cost or depreciation of EDP equipment and software.....	2,101	33,145	133,178		168,424
14. Outsourced services including EDP, claims, and other services.....	113	1,837	723		2,673
15. Boards, bureaus and association fees.....	31	364	1,741		2,136
16. Insurance, except on real estate.....	1,679	26,325	87,327		115,331
17. Collection and bank service charges.....	122	1,953	50,873		52,948
18. Group service and administration fees.....					0
19. Reimbursements by uninsured plans.....					0
20. Reimbursements from fiscal intermediaries.....					0
21. Real estate expenses.....					0
22. Real estate taxes.....					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....					0
23.2 State premium taxes.....			(33,392)		(33,392)
23.3 Regulator authority licenses and fees.....	16	259	12,380		12,655
23.4 Payroll taxes.....	985	12,860	60,199		74,044
23.5 Other (excluding federal income and real estate taxes).....			94,980		94,980
24. Investment expenses not included elsewhere.....				3,894	3,894
25. Aggregate write-ins for expenses.....	4,048	18,289	179,011	0	201,348
26. Total expenses incurred (Lines 1 to 25).....	39,597	437,121	2,831,921	3,894	(a).....3,312,533
27. Less expenses unpaid December 31, current year.....		43,558	145,729		189,287
28. Add expenses unpaid December 31, prior year.....		36,738	139,808		176,546
29. Amounts receivable relating to uninsured plans, prior year.....					0
30. Amounts receivable relating to uninsured plans, current year.....					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	39,597	430,301	2,826,000	3,894	3,299,792

**DETAILS OF WRITE-INS**

2501. Other Miscellaneous.....	4,048	18,289	179,011		201,348
2502. ....					0
2503. ....					0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0	0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	4,048	18,289	179,011	0	201,348

(a) Includes management fees of \$.....2,394,515 to affiliates and \$.....0 to non-affiliates.

## EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....14,009	.....14,022
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....	.....
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....	.....
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....	.....
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....183,990	.....183,990
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....0	.....0
10. Total gross investment income.....	.....197,999	.....198,012
11. Investment expenses.....	.....	(g).....3,894
12. Investment taxes, licenses and fees, excluding federal income taxes.....	.....	(g).....
13. Interest expense.....	.....	(h).....
14. Depreciation on real estate and other invested assets.....	.....	(i).....0
15. Aggregate write-ins for deductions from investment income.....	.....	.....0
16. Total deductions (Lines 11 through 15).....	.....	.....3,894
17. Net investment income (Line 10 minus Line 16).....	.....	.....194,118

### DETAILS OF WRITE-INS

0901. ....		
0902. ....		
0903. ....		
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0
1501. ....		
1502. ....		
1503. ....		
1598. Summary of remaining write-ins for Line 15 from overflow page.....	.....0	.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....	.....0	.....0

- (a) Includes \$.....0 accrual of discount less \$.....241 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.
- (c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.
- (e) Includes \$.....80,050 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.
- (g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.
- (h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.
- (i) Includes \$.....0 depreciation on real estate and \$.....0 depreciation on other invested assets.

## EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. government bonds.....			.....0		
1.1 Bonds exempt from U.S. tax.....			.....0		
1.2 Other bonds (unaffiliated).....			.....0		
1.3 Bonds of affiliates.....			.....0		
2.1 Preferred stocks (unaffiliated).....			.....0		
2.11 Preferred stocks of affiliates.....			.....0		
2.2 Common stocks (unaffiliated).....			.....0		
2.21 Common stocks of affiliates.....			.....0		
3. Mortgage loans.....			.....0		
4. Real estate.....			.....0		
5. Contract loans.....			.....0		
6. Cash, cash equivalents and short-term investments.....			.....0		
7. Derivative instruments.....			.....0		
8. Other invested assets.....			.....0		
9. Aggregate write-ins for capital gains (losses).....	.....0	.....0	.....0	.....0	.....0
10. Total capital gains (losses).....	.....0	.....0	.....0	.....0	.....0

NONE

### DETAILS OF WRITE-INS

0901. ....		
0902. ....		
0903. ....		
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0

**EXHIBIT OF NONADMITTED ASSETS**

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			.0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			.0
2.2 Common stocks.....			.0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			.0
3.2 Other than first liens.....			.0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			.0
4.2 Properties held for the production of income.....			.0
4.3 Properties held for sale.....			.0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....	148,058		(148,058)
6. Contract loans.....			.0
7. Other invested assets (Schedule BA).....			.0
8. Receivables for securities.....			.0
9. Aggregate write-ins for invested assets.....	.0	.0	.0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	148,058	.0	(148,058)
11. Title plants (for Title insurers only).....			.0
12. Investment income due and accrued.....			.0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection.....			.0
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			.0
13.3 Accrued retrospective premiums.....			.0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers.....			.0
14.2 Funds held by or deposited with reinsured companies.....			.0
14.3 Other amounts receivable under reinsurance contracts.....			.0
15. Amounts receivable relating to uninsured plans.....			.0
16.1 Current federal and foreign income tax recoverable and interest thereon.....			.0
16.2 Net deferred tax asset.....			.0
17. Guaranty funds receivable or on deposit.....			.0
18. Electronic data processing equipment and software.....			.0
19. Furniture and equipment, including health care delivery assets.....			.0
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0
21. Receivables from parent, subsidiaries and affiliates.....			.0
22. Health care and other amounts receivable.....	6,831	31,683	24,852
23. Aggregate write-ins for other than invested assets.....	.0	2,614	2,614
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	154,889	34,297	(120,592)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.0
26. TOTALS (Lines 24 and 25).....	154,889	34,297	(120,592)

**DETAILS OF WRITE-INS**

0901.....			.0
0902.....			.0
0903.....			.0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.0	.0	.0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.0	.0	.0
2301. Prepaid Commissions.....		2,614	2,614
2302.....			.0
2303.....			.0
2398. Summary of remaining write-ins for Line 23 from overflow page.....	.0	.0	.0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	.0	2,614	2,614

**EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY**

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....	4,910	4,425	4,287	4,060	3,714	49,974
2. Provider service organizations.....						
3. Preferred provider organizations.....						
4. Point of service.....						
5. Indemnity only.....						
6. Aggregate write-ins for other lines of business.....	0	0	0	0	0	0
7. Total.....	4,910	4,425	4,287	4,060	3,714	49,974

**DETAILS OF WRITE-INS**

0601. ....						
0602. ....						
0603. ....						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	0	0	0	0	0	0

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Operation** — UnitedHealthcare of Arkansas, Inc. (the “Company”), a for-profit health maintenance organization (HMO), offers its enrollees a variety of managed care programs and products through contractual arrangements with health care providers. The Company is a wholly owned subsidiary of UnitedHealthcare, Inc. (UHC). UHC is a wholly owned subsidiary of United HealthCare Services, Inc. (UHS), an HMO management corporation that provides services to the Company under the terms of a management agreement. UHS is a wholly owned subsidiary of UnitedHealthGroup Incorporated (UnitedHealth Group). The Company has entered into contracts with physicians, hospitals, and other health care providers pursuant to which such providers deliver medical care to its enrollees primarily on a modified fee-for-service or capitated basis. The Company was incorporated on September 27, 1990, and in December 1991 received its certificate of authority to operate as an HMO in the state of Arkansas.

The Company offers the Evercare product in the state of Arkansas. Evercare offers complete, individualized care planning and care benefits for aging, disabled, and chronically ill individuals. Evercare offers these long-term care services in nursing homes, community-based settings, and private homes.

The Company serves as a plan sponsor offering Medicare Advantage and Medicare Part D prescription drug insurance coverage under a contract with the Center for Medicare and Medicaid Services (CMS). Under the Medicare Part D program, there are six separate elements of payment received by the Company during the plan year; these payment elements are: CMS premium, member premium, low-income premium subsidy, catastrophic reinsurance subsidy, low-income member cost sharing subsidy, and CMS risk share.

The Company’s membership continues to decline as more members are electing to transition to another affiliated entity for the provision of health care services. The Company expects this trend to continue throughout 2009. This resulted in a 24% reduction to membership.

**Basis of Presentation** — The Company prepares its financial statements on the basis of accounting practices prescribed or permitted by the Arkansas Insurance Department (the “Department”). These practices differ from accounting principles generally accepted in the United States of America (generally accepted accounting principles) as certain assets including certain aged premium and health care receivables are considered nonadmitted assets for statutory purposes and are excluded from the statutory basis statements of admitted assets, liabilities, and capital and surplus and outstanding checks are required to be presented as negative cash in the statutory basis statements of admitted assets, liabilities, and capital and surplus as opposed to being reflected as other liabilities under generally accepted accounting principles.

The change in nonadmitted assets has been reflected in accumulated surplus in the accompanying statutory basis financial statements. Under generally accepted accounting principles, these amounts would be included in total assets in the statements of admitted assets, liabilities, and capital and surplus. In addition, certain debt investments that would be shown at market value under generally accepted accounting principles are presented at amortized cost in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
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The Department recognizes only statutory accounting practices prescribed or permitted by the state of Arkansas for determining and reporting the financial condition and results of operations of an HMO and for determining its solvency under Arkansas insurance law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures manual (NAIC SAP) has been adopted with modifications as a component of prescribed or permitted practices by the state of Arkansas. No significant differences exist between the statutory practices prescribed or permitted by the state of Arkansas and those prescribed or permitted by the NAIC SAP which would materially affect the statutory basis capital and surplus.

**Use of Estimates** — These statutory basis financial statements include certain amounts that are based on the Company's best estimates and judgments. These estimates require the Company to apply complex assumptions and judgments often because the Company must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to total hospital and medical expenses and claims unpaid. The Company adjusts these estimates each period as more current information becomes available. The impact of any changes in estimates is included in the determination of income in the period in which the estimate is adjusted.

**Cash, Cash Equivalents, and Short-term Investments** — Cash, cash equivalents, and short-term investments represent cash held by the Company in disbursement accounts, money market instruments, commercial paper, and bonds with a maturity of three months or less at the time of purchase. Claims and other payments are made from the disbursement accounts daily. Cash equivalents are reported at cost or amortized cost depending on the nature of the underlying security, which approximates market value. Cash overdrafts are a result of timing differences in funding disbursement accounts for claims payments.

Short-term investments also consist of the Company's share of an investment pool sponsored and administered by UHS for the benefit of the Company, which is a UHS-owned health plan. The investment pool consists principally of investments with original maturities of less than one year, with the average life of the individual investments being less than 60 days. The Company's share of the pool represents an undivided ownership interest in the pool and is immediately convertible to cash at no cost or penalty. The investments within the pool have an individual fund number to track those investments owned by the Company. The pool is primarily invested in governmental obligations, commercial paper, certificates of deposit, and short-term agency notes and are recorded at cost, which approximates market value. Interest income from the pool accrues daily to participating members based upon ownership percentage.

The Department has determined that the Company's investments in the investment pool administered by UHS be considered as investment in 'one person' and is to be limited to no more than 5% of the Company's total admitted assets, pursuant to ACA 23-63-805(1)(A), unless the Commissioner authorizes the Company to exceed the statutory limit. The Company requested permission to exceed the statutory limit and the Department has agreed to allow the Company to invest up to 20% of the Company's total admitted assets in the UHS investment pool. Investments that exceed the 20% statutory limit are nonadmitted assets and are reflected in accumulated surplus in the accompanying statutory basis financial statements.

**Bonds and Short-term Investments** — Bonds and short-term investments include money market funds, commercial paper, corporate bonds, government obligations and municipal securities and are stated at amortized cost if they meet NAIC designation of one or two and are stated at the lower of amortized cost or market value if they meet an NAIC designation of three or higher. Amortization of bond premium or

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
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discount is calculated using the constant-yield interest method. Bonds and short-term investments are valued and reported using market prices published by the NAIC Securities Valuation Office (“SVO”) in accordance with the NAIC Valuations of Securities manual prepared by the SVO or external pricing service if NAIC values are not available.

Corporate bonds and government obligations include mortgage-backed securities, which are valued using the retrospective adjustment methodology. Prepayment assumptions for the determination of the amortized cost of mortgage-backed securities are based on a three-month constant prepayment rate history. The Company’s investment policy limits investments in non-agency residential mortgage-backed securities, including home equity and subprime mortgages, to 10% of total cash and invested assets, and total investments in mortgage-backed securities to 30% of total cash and invested assets. As of December 31, 2008, these investment holdings have NAIC credit ratings of one and two.

The Company continually monitors the difference between the cost and estimated fair value of its investments. If any of the Company’s investments experience a decline in value that the Company believes is other than temporary, the Company records a realized loss in net realized capital gains (losses) less capital gains tax in the statutory basis statements of operations. The new cost basis is not changed for subsequent recoveries in fair value. The prospective adjustment method is utilized for mortgage-backed securities for periods subsequent to the loss recognition. No such losses were incurred during the years ended December 31, 2008 or December 31, 2007.

***Hospital and Medical Expenses and Claims Unpaid and Aggregate Health Policy Reserves*** —

Hospital and medical expenses and corresponding liabilities include claims paid, claims processed but not yet paid, estimates for claims received but not yet processed, and estimates for the costs of health care services enrollees have received, but for which claims have not yet been submitted.

The estimates for incurred but not yet reported claims are developed using actuarial methods based upon historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. The Company did not change actuarial methods during the years ended December 31, 2008 and 2007. Management believes the amount of claims unpaid is adequate to cover the Company’s liability for unpaid claims as of December 31, 2008; however, actual claim payments may differ from those established estimates. Adjustments to claims unpaid estimates are reflected in operating results in the period in which the change in estimate is identified.

***Liability for Amounts Held Under Uninsured Plans*** — Liabilities for amounts held under uninsured plans represents the cost reimbursement under the Medicare Part D program for the Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidy. The Company is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Amounts received for these subsidies are not reflected as premium income, but rather are accounted for as deposits, with the related liability recorded in amounts held under uninsured plans in the statutory basis statements of admitted assets, liabilities, and capital and surplus. Related cash flows are presented within operating expenses paid within cash provided by operations in the statutory basis statements of cash flows.

***Income Taxes*** — Statutory accounting requires an amount to be recorded for deferred taxes on temporary differences between the financial reporting and tax bases of assets and liabilities, subject to

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
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limitations on deferred tax assets. The Company's operations are included in the consolidated federal income tax return of UnitedHealth Group. Federal income taxes are paid to or refunded by UnitedHealth Group pursuant to the terms of a tax-sharing agreement, approved by the Board of Directors, under which taxes approximate the amount that would have been computed on a separate company basis. Income taxes incurred in the current and prior years will be available for recoupment by the Company only in the event of future net losses of consolidated UnitedHealth Group. The Company receives a benefit at the federal rate in the current year for current taxable losses incurred in that year to the extent losses can be utilized in the consolidated federal income tax return of UnitedHealth Group (see Note 9). UnitedHealth Group currently files income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. The U.S. Internal Revenue Service (IRS) has completed exams on UnitedHealth Group's consolidated income tax returns for fiscal years 2007 and prior. UnitedHealth Group's 2008 tax return is under advance review by the IRS under its Compliance Assurance Program (CAP). With the exception of a few states, UnitedHealth Group is no longer subject to income tax examinations prior to 2002 in major state and foreign jurisdictions. The Company does not believe any adjustments that may result from these examinations will be material to the Company.

**Claims Adjustment Expense** — Claims adjustment expenses (CAE) as defined by Statement of Statutory Accounting Principles (SSAP) No. 85, *Claim Adjustment Expenses, Amendments to SSAP No. 55 — Unpaid Claims, Losses, and Loss Adjustment Expenses*, are those costs expected to be incurred in connection with the adjustment and recording of accident and health claims. Pursuant to the terms of the management agreement (see Note 10), the Company pays a management fee to UHS in exchange for administrative and management services. A detailed review of UHS's and the Company's administrative expenses is performed to determine the allocation between CAE and general administrative expenses in accordance with SSAP No. 85. It is the responsibility of UHS to pay claims adjustment expenses in the event the Company ceases operations. The Company has recorded an estimate of unpaid claims adjustment expenses associated with incurred but unpaid claims. Management believes the amount of the liability for unpaid claims adjustment expenses at December 31, 2008 and 2007, is adequate to cover the Company's cost for the adjustment and recording of unpaid claims; however, actual expenses may differ immaterially from those established estimates. The method used for determining CAE is periodically reviewed and updated, and any adjustments are reflected in accompanying statutory basis statements of admitted assets, liabilities and capital surplus and the statutory basis statements of operations in the period in which the change in methodology is identified.

**Premiums** — Net premium income is recognized in the period in which enrollees are entitled to receive health care services. Premiums received prior to the period of service are recorded as premiums received in advance in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

Net premium income includes the Medicare Advantage CMS premium, and the CMS premium, member premium, and low-income premium subsidy for the Company's insurance risk coverage under the Medicare Part D program. Net premium income is recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. The Company estimates retrospective premiums adjustments based on guidelines determined by CMS.

The Company also has an arrangement with CMS for certain Medicare products whereby periodic changes in member risk factor adjustment scores, for certain diagnoses codes, result in changes to its Medicare revenues. The Company recognizes such changes when the amounts become determinable and supportable, and collectability is reasonably assured. The estimated risk adjusted payments due to the

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
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Company at December 31, 2008 and 2007, were \$78,000 and \$23,000, respectively, and are recorded as premium receivables in the statutory statement of admitted assets, liabilities, and capital and surplus. The Company recognized \$30,000 and \$43,000 for changes in Medicare risk factor estimates for the years ended December 31, 2008 and 2007, respectively, which are recorded as Medicare revenues within the statutory statement of operations.

The Company recorded \$4,868,000 and \$3,776,000 of net premium income during 2008 and 2007 respectively, for the CMS premium, the member premium, and the low-income premium subsidy for the Company's insurance risk coverage under the Medicare Part D program. Net premium income is recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. The Company has estimated accrued retrospective premiums based on guidelines determined by CMS. The Company records premium payments received in advance of the applicable service period as aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus.

**Reinsurance Ceded** — The Company has an insolvency-only reinsurance agreement. Reinsurance premiums paid were deducted from premium income in the accompanying statutory basis financial statements.

**Medical Risk Share** — The Company has settlements with CMS that is based on whether the ultimate per-member, per-month benefit costs of any Medicare Part D regional plan varies more than two and one half (2.5) percentage points above or below the level estimated in the original bid submitted by the Company and approved by CMS. The estimated risk share adjustment of \$30,000 and \$43,000 in 2008 and 2007 respectively, is recorded as an adjustment to premium income in the statutory basis statements of operations and aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities and capital and surplus.

**Health Care Receivables** — Health care receivables consist of pharmacy rebate receivables estimated based on the most currently available data from the Company's claims processing systems and from data provided by the Company's unaffiliated pharmaceutical benefit managers and affiliated pharmaceutical benefit manager, Rx Solutions, Inc. Pharmacy rebate receivables are considered nonadmitted assets for statutory purposes if they do not meet the criteria established in SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*. Accordingly, the Company has excluded the receivables that do not meet the SSAP No. 84 criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus. (see Note 27)

**Premium Deficiency Reserves** — Premium deficiency reserves and the related expense, as defined by SSAP No. 54, *Individual and Group Accident and Health Contracts*, as well as actuarial practice guidelines, are recognized when it is probable that expected future health care expenses, claim adjustment expenses, and administration costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries considered over the remaining lives of the contracts. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated, and any adjustments are reflected in increase (decrease) in reserves for life and accident and health contracts in the accompanying statutory basis statements of operations in the period in which the change in estimate is identified. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 54 (see Note 29).

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
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***Vulnerability due to Certain Concentrations*** — The Company is subject to substantial federal and state government regulation, including licensing and other requirements relating to the offering of the Company's existing products in new markets and offerings of new products, both of which may restrict the Company's ability to expand its business. The Company had two customers that accounted for approximately 0% and 69% of total premium receivables at December 31, 2008 and 2007, respectively. The Company had one customer that accounted for approximately 20% and 21% of total premium revenue at December 31, 2008 and 2007, respectively.

Net premium income from members and CMS related to Medicare Advantage and the Medicare Part D program as a percentage of total net premium income are 24.4 % and 15.8 % for the years ending December 31, 2008 and 2007, respectively.

***Reclassifications*** — Certain 2007 amounts in the accompanying statutory basis financial statements have been reclassified to conform to the 2008 presentation. Specifically, the 2007 statements have been reclassified to be consistent with the Company's annual statement presentation. Items that are less than five percent of total admitted assets or total liabilities and surplus, respectively, have been aggregated in the statutory basis financial statements and are noted as Other assets or Other liabilities. These reclassifications had no effect on statutory basis net income or total statutory basis capital and surplus as previously reported.

***Restricted Cash Reserves*** — The Department requires the Company to maintain a minimum regulatory deposit (currently \$300,000). This restricted cash reserve consists principally of government obligations and is stated at amortized cost. This reserve is included in bonds in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus. Interest earned on this reserve accrues to the Company.

***Minimum Capital and Surplus*** — Under the laws of the state of Arkansas, the Department requires the Company to maintain a minimum capital and surplus of \$100,000. The Company has approximately \$4,805,000 in capital and surplus, which is in compliance with the required amount as of December 31, 2008.

Risk-based capital (RBC) is a regulatory tool for measuring the minimum amount of capital appropriate for a managed care organization to support its overall business operations in consideration of its size and risk profile. The Company is in compliance with the required amount as of December 31, 2008.

***Recently Issued Accounting Standards***

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," (FAS 157). FAS 157 establishes a framework for measuring fair value. It does not require any new fair value measurements, but does require expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. GAAP pronouncements do not become part of Statutory Accounting Principles until and unless adopted by the NAIC. On adoption, the Company will evaluate the impact on its statutory basis financial statements.

In January 2009, the NAIC issued SSAP No. 98, *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment to SSAP No. 43 — Loan-backed and Structured Securities*

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
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(SSAP 98). SSAP 98 establishes statutory accounting principles for impairment analysis and subsequent valuation of loan-backed and structured securities. This statement is effective for quarterly and annual reporting periods beginning on or after January 1, 2009, with early adoption permitted and encouraged. A change resulting from the adoption of this statement shall be accounted for prospectively. No cumulative effect adjustments or application of the new guidance to prior events or periods are required, similar to a change in accounting estimate. The Company adopted SSAP 98 as of December 31, 2008. The Company has assessed the impact of SSAP 98 on its financial condition, results of operations and cash flows and has determined the result was not material to the statutory basis financial statements.

In September 2008, the NAIC issued SSAP No. 99, *Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment (SSAP 99)*. SSAP 99 establishes statutory accounting principles for the treatment of premium or discount applicable to certain securities subsequent to the recognition of an other-than-temporary impairment. This statement is effective for quarterly and annual reporting periods beginning on or after January 1, 2009, with early adoption permitted. The Company adopted SSAP 98 as of December 31, 2008. The Company has assessed the impact of SSAP 99 on its financial condition, results of operations and cash flows and has determined the result was not material to the statutory basis financial statements.

**2. ACCOUNTING CHANGES AND CORRECTIONS**

During 2008, the Company determined that it had understated general and administrative expenses by approximately \$173,000 and understated total hospital and medical expense by approximately \$113,000 for the year ended December 31, 2007. In addition, the federal income tax provision was overstated by approximately \$100,000 for the year ended December 31, 2007. The cumulative effect of this prior year error was corrected by the Company in accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*, and is reflected in the accompanying statutory basis statements of changes in capital and surplus for the year ended December 31, 2008.

**3. BUSINESS COMBINATIONS AND GOODWILL**

The Company was not party to a business combination during the years ended December 31, 2008 or 2007, and does not carry goodwill on its statutory basis statements of admitted assets, liabilities, and capital and surplus.

**4. DISCONTINUED OPERATIONS**

The Company did not discontinue any operations during the years ended December 31, 2008 or 2007.

**5. INVESTMENTS**

The Company has no mortgage loans, restructured debt, reverse mortgages, repurchase agreements, or investments in low-income housing tax credits. For purposes of calculating gross realized gains and losses on sales of investments, the amortized cost of each investment sold is used. There were no gross realized gains and losses on sales of investments for the years ended December 31, 2008 and December 31, 2007.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

As of December 31, 2008 and 2007, the amortized cost, fair value, and gross unrealized holding gains and losses of the Company's investments, excluding cash and cash equivalents of approximately \$3,800,000 and \$4,949,000, respectively, are as follows (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses < 1 year	Gross Unrealized Holding Losses > 1 year	Fair Value
U.S. government and agency	\$ 301	\$ 35	\$ -	\$ -	\$ 336
State and state agency	-	-	-	-	-
Municipalities and local agency	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Commercial paper	3,858	-	-	-	3,858
<b>Total</b>	<b>\$ 4,159</b>	<b>\$ 35</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,194</b>

2008					
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses < 1 year	Gross Unrealized Holding Losses > 1 year	Fair Value
Less than one year	\$ 3,858	\$ -	\$ -	\$ -	\$ 3,858
One to five years	301	35	-	-	336
Five to ten years	-	-	-	-	-
Over ten years	-	-	-	-	-
<b>Total</b>	<b>\$ 4,159</b>	<b>\$ 35</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,194</b>

2007					
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses < 1 year	Gross Unrealized Holding Losses > 1 year	Fair Value
U.S. government and agency	\$ 5,036	\$ 15	\$ -	\$ -	\$ 5,051
State and state agency	-	-	-	-	-
Municipalities and local agency	-	-	-	-	-
Corporate bonds	-	-	-	-	-
Commercial paper	-	-	-	-	-
<b>Total</b>	<b>\$ 5,036</b>	<b>\$ 15</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 5,051</b>

The tables above show the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position.

The unrealized losses on investments in U.S. government and agency obligations, municipalities and local agency obligations, and corporate obligations at December 31, 2008 and 2007, were mainly caused by interest rate increases and not on unfavorable changes in the credit ratings associated with these securities. The Company evaluates impairment at each reporting period for each of the securities whereby the fair value of the investment is less than its amortized cost. The contractual cash flows of the U.S. government and agency obligations are either guaranteed by the U.S. government or an agency of the U.S. government. It is expected that the securities would not be settled at a price less than the cost of the investment, as the Company has the ability to hold, and does not intend to sell the investment until

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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the unrealized loss is fully recovered. The Company evaluated the credit ratings of the municipalities and local agency obligations and corporate obligations, noting whether a significant deterioration since purchase or other factors which may indicate an other-than-temporary impairment, such as the length of time and extent to which market value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and our intent and ability to hold the investment for a sufficient time in order to enable recovery of our cost.

FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical assets in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

Fair values of short-term investments and bonds are based on quoted market prices, where applicable. The Company obtains one price for each security primarily from the NAIC SVO or an independent pricing service, which generally uses Level 1 or Level 2 inputs for the determination of fair value in accordance with FAS 157. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. As the Company is responsible for the determination of fair value, it performs quarterly analysis on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. As a result of these reviews, the Company has not historically adjusted the prices obtained from the pricing service.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the assets.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

The following table presents information about the fair value of the Company's financial assets at December 31, 2008, according to the valuation techniques the Company used to determine their fair values.

(in thousands)	2008			
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
U.S. government and agency	\$ 336	\$ -	\$ -	\$ 336
State and state agency	-	-	-	-
Municipalities and local agency	-	-	-	-
Corporate bonds	-	-	-	-
Commercial paper	3,858	-	-	3,858
Total	\$ 4,194	\$ -	\$ -	\$ 4,194

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

The estimated fair values of short-term investments and bonds (investments) are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of investments that do not trade on a regular basis in active markets are classified as Level 2.

**6. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES**

The Company has no investments in joint ventures, partnerships, or limited liability companies.

**7. INVESTMENT INCOME**

The Company has admitted all investment income due and accrued in the statutory basis statements of admitted assets, liabilities, and capital and surplus.

**8. DERIVATIVE INSTRUMENTS**

The Company has no derivative instruments.

**9. INCOME TAXES**

The federal income taxes incurred for the years ended December 31, are as follows (in thousands):

	2008	2007
Total current federal income tax provision	\$ 550	\$ 1,760

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, are as follows (in thousands):

	2008	2007	Change
Deferred tax assets:			
Unpaid losses and CAE	\$ 17	\$ 16	\$ 1
Unearned premiums	17	30	(13)
Other Insurance Reserves	189	0	189
Nonadmitted assets	54	12	42
Accrued expenses	0	0	0
Other	1	6	(5)
	<u>278</u>	<u>64</u>	<u>214</u>
Total deferred tax assets			
Nonadmitted deferred tax assets	<u>0</u>	<u>0</u>	<u>0</u>
Admitted deferred tax assets	<u>278</u>	<u>64</u>	<u>214</u>
Deferred tax liabilities - bond market discount accrued expenses	0	0 1	0 (1)
Total deferred tax liabilities	<u>0</u>	<u>1</u>	<u>(1)</u>
Net deferred tax asset	<u>\$ 278</u>	<u>\$ 63</u>	<u>\$ 215</u>

There are no unrecognized deferred tax liabilities.

The change in net deferred income tax for the years ended December 31, is comprised of the following (in thousands):

	2008	2007	Change
Change in deferred tax assets	\$ 214	\$ (21)	\$ 235
Change in deferred tax liabilities	<u>1</u>	<u>128</u>	<u>(127)</u>
Net deferred tax asset	<u>\$ 215</u>	<u>\$ 107</u>	<u>108</u>
Tax effect of unrealized gains (losses)			<u>0</u>
Change in net deferred income tax			<u>\$ 108</u>

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 35% to net income before federal income taxes. The significant items causing this difference are as follows (in thousands):

	2008	2007
Tax provision at the federal statutory rate	\$ 1,080	\$1,657
Tax-exempt interest	0	0
Tax effect of nonadmitted assets	121	(4)
Total	<u>\$ 1,201</u>	<u>\$1,653</u>
Current federal income tax provision	\$ 550	\$1,760
Change in net deferred income tax	(215)	(107)
Total statutory income taxes	<u>\$ 335</u>	<u>\$1,653</u>

At December 31, 2008 the Company had no net operating losses.

Federal income taxes payable of \$517,000 and federal taxes recoverable of \$130,000 as of December 31, 2008 and 2007, respectively are included in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. Federal income taxes paid (recovered), net of refunds was \$(96,000) and \$1,749,000 in 2008 and 2007, respectively.

Federal income taxes incurred of \$590,000 and \$1,692,000 for 2008 and 2007, respectively, is available for recoupment in the event of future net losses.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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**10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES**

Pursuant to the terms of a management agreement, UHS will provide management services to the Company, until terminated upon the written agreement of both parties, for a fee based on a percentage of net premium income and change in unearned premium reserves. Management fees under this arrangement totaled approximately \$2,395,000 and \$2,865,000 in 2008 and 2007, respectively, and are included in claims adjustment expenses and general administrative expenses in the accompanying statutory basis statements of operations. In addition, UHS pays, on the Company's behalf, certain expenses not covered within the scope of the management agreement. UHS is reimbursed for these expenses by the Company, which are included in general administrative expenses in the accompanying statutory basis statements of operations. Operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company. The Company has some premium payments that are received and some claim payments that are processed by an affiliated UnitedHealth Group entity. Both premiums and claims applicable to the Company are settled through the intercompany settlement process and any amounts outstanding are reflected in the related-party balances in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

The Company has some premium payments that are received and some claim payments that are processed by an affiliated UnitedHealth Group entity. Both premiums and claims applicable to the Company are settled at regular intervals throughout the month via the intercompany settlement process and any amounts outstanding are reflected in receivable from parent, subsidiaries and affiliates, or amounts due to parent, subsidiaries and affiliates in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

UHS contracts on behalf of the Company to provide administrative services related to pharmacy management and claims processing for its enrollees. Fees related to these agreements, which are calculated on a per-claim basis, of approximately \$2,000 and \$14,000 in 2008 and 2007, respectively, are included in general administrative expenses in the accompanying statutory basis statements of operations. Additionally, UHS collects rebates on certain pharmaceutical products and remits the rebates to the Company based on the Company's member utilization. Rebates related to these agreements of approximately \$346,000 and \$542,000 in 2008 and 2007, respectively, are included as a reduction of medical service expenses in the accompanying statutory basis statements of operations.

Effective January 1, 2007 the Company contracted with RxSolutions to provide administrative services related to pharmacy management and claims processing for its enrollees. Fees related to these agreements, which are calculated on a per-claim basis, of approximately \$20,000 and \$0 in 2008 and 2007, respectively, are included in general administrative expenses in the accompanying statutory basis statements of operations. Additionally, RxSolutions collects rebates on certain pharmaceutical products based on member utilization. Rebates related to these agreements of approximately \$96,000 and \$14,000 in 2008 and 2007, respectively, are included as a reduction of prescription drugs in the accompanying statutory basis statements of operations.

The Company has a contract with United Behavioral Health, a wholly owned subsidiary of UHS, to provide mental health and substance abuse services for its enrollees. Fees related to this agreement, which are calculated on a per-member per-month basis, of approximately \$316,000 and \$430,000 in 2008 and 2007, respectively, are included in medical services expenses in the accompanying statutory basis statements of operations.

**UnitedHealthcare of Arkansas, Inc.**  
**UNITED HEALTHCARE OF ARKANSAS, INC.****NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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The Company has an agreement with OPTUM, a division of UHS, to provide a 24-hour call-in service, called Care24, to its enrollees. Fees related to this agreement, which are calculated on a per member per month basis, of approximately \$43,000 and \$62,000 in 2008 and 2007, respectively, are included in medical services expenses in the accompanying statutory basis statements of operations.

The Company contracts with United Resource Network, a division of UHS, to provide access to a network of transplant providers for its enrollees. Fees related to this agreement, which are calculated on a per-member per-month basis, of approximately \$10,000 and \$13,000 in 2008 and 2007, respectively, are included in medical services expenses in the accompanying statutory basis statements of operations.

The Company has a contract with ACN Group, Inc., a wholly owned subsidiary of UHS, to provide chiropractic and physical therapy services for its enrollees. Fees related to this agreement, which are calculated on a per-member per-month basis, were approximately \$14,000 and \$21,000 in 2008 and 2007, respectively, and are included in medical services expenses in the accompanying statutory basis statements of operations.

The Company has a contract with Spectera, Inc., a wholly owned subsidiary of UHS, to provide administrative services related to vision benefit management and claims processing for its enrollees. Fees related to this agreement, which are calculated on a per member per month basis, were approximately \$4,000 and \$5,000 in 2008 and 2007, respectively, and are included in medical services expenses in the accompanying statutory basis statements of operations.

Beginning December 1, 1999, the Company entered into a \$3,000,000 subordinated revolving credit agreement with UHS at an interest rate of LIBOR plus a margin of 0.50%. The aggregate principal amount that may be outstanding at any time is the lesser of 3% of the Company's admitted assets or 25% of the Company's policyholder surplus as of the preceding December 31. The credit agreement is for a one-year term and automatically renews annually, unless terminated by either party. The agreement was renewed effective December 31, 2008. No amounts were outstanding under the line of credit as of December 31, 2008 or 2007. There was no interest paid under the line of credit in 2008 and 2007.

The Company has an insolvency-only reinsurance agreement with UnitedHealthcare Insurance Company (UHIC), a wholly owned subsidiary of UHIC Holdings, Inc. which is a wholly owned subsidiary of UHS, to provide insolvency protection for its enrollees. Reinsurance premiums, which are calculated on a percentage of member premium revenues, of approximately \$20,000 and \$24,000 in 2008 and 2007, respectively, are included as a reduction of premium revenues in the accompanying statutory basis statement of operations. Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company.

The Company reported approximately \$157,000 as a related-party receivable – net at December 31, 2008, and approximately \$278,000 as a related-party payable – net at December 31, 2007, as amounts due to and from parent, subsidiaries and affiliates, which are included in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The balances are generally settled within 90 days from the incurred date. Any balances due to the Company that are not settled within 90 days are considered nonadmitted assets.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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**11. DEBT**

The Company had no outstanding debt with third parties during 2008 or 2007.

**12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES, AND OTHER POSTRETIREMENT BENEFIT PLANS**

The Company has no retirement, deferred compensation, and other benefit plans, since all personnel are employees of UHS, which provides services to the Company under the terms of a management agreement (see Note 10).

**13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS, AND QUASI-REORGANIZATIONS**

The Company has 2,000 shares authorized, issued, and outstanding of \$50 par value common stock. The Company has no preferred stock outstanding.

Payment of dividends may be restricted by the Department and Arkansas law, which generally require that dividends be paid out of accumulated surplus.

The Company paid an extraordinary dividend to UHC of \$2,855,000 on August 28, 2008 which was approved by the Department.

The portion of accumulated surplus represented or reduced by the item below is as follows (in thousands):

	<b>2008</b>	<b>2007</b>
Nonadmitted assets values	<u>\$ 155</u>	<u>\$ 34</u>

The Company does not have any outstanding surplus notes.

**14. CONTINGENCIES**

Because of the nature of the business, the Company is routinely made party to a variety of legal actions related to the design and management of our service offerings. The Company records liabilities for estimates of probable costs resulting from these matters. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes, and claims related to disclosure of certain business practices. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect upon the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations of the Company.

The Company believes there are no assets that it considers to be impaired at December 31, 2007 or 2008.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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**15. LEASES**

According to the management agreement (see Note 10) between the Company and UHS, operating leases for the rental of office facilities and equipment are the responsibility of UHS. Fees associated with the agreement are included in the Company's management fee.

**16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK**

The Company does not hold any financial instruments with off-balance sheet risk or concentrations of credit risk.

**17. SALE, TRANSFER, AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES**

The Company did not participate in any transfer of receivables, financial assets, or wash sales.

**18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS**

Medicare Part D is a partially insured plan. The Company recorded \$59,000 and \$205,000 in 2008 and 2007 respectively, for deposits under the Medicare Part D program for the catastrophic reinsurance and low-income member cost sharing subsidies as described above in Summary of Significant Accounting Policies.

**19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD-PARTY ADMINISTRATORS**

The Company did not have any direct premiums written or produced by managing general agents or third-party administrators.

**20. OTHER ITEMS**

*Other Disclosures* — The Company elected to use rounding in reporting amounts in the statutory basis financial statements.

**21. EVENTS SUBSEQUENT**

There are no events subsequent to December 31, 2008, that require disclosure.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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**22. REINSURANCE**

*Unsecured Reinsurance Recoverable* — The Company does not have an unsecured aggregate reinsurance recovery receivable with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Company's policyholder surplus.

*Reinsurance Recoverable in Dispute* — The Company does not have a reinsurance recoverable balance that is being disputed by any individual reinsurer.

*Reinsurance Assumed and Ceded* — The Company does not have a provision in its reinsurance contract to return commission to the reinsurer in the event that the Company cancels its reinsurance policy.

*Uncollectible Reinsurance* — During 2008 and 2007, there were no uncollectible reinsurance recoverables.

*Commutation of Reinsurance* — The Company has an insolvency-only reinsurance agreement with UHIC to provide insolvency protection for its enrollees. There was no commutation of reinsurance in 2008 or 2007.

*Retroactive Reinsurance* — The Company did not have a retroactive reinsurance agreement in 2008 or 2007.

**23. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION**

The Company has Medicare business that is subject to a retrospective rating feature related to Part D premiums. The Company has estimated accrued retrospective premiums related to certain Part D premiums based on guidelines determined by CMS. The formula is tiered and based on the bid medical loss ratio. The amount of Part D earned premium subject to retrospective rating was approximately \$394,000 and \$346,000 representing 1.98% and 1.43% of total net premium income as of December 31, 2008 and 2007, respectively.

Estimated accrued retrospective premiums due to (from) the Company are recorded in uncollected premiums or aggregate health policy reserves on the statutory basis statements of admitted assets, liabilities, and capital and surplus and as an adjustment to change in unearned premium reserves and reserve for rate credits or net premium income on the statutory basis statements of operations.

The Company does not have any other retrospectively rated contracts or contracts subject to redetermination as of December 31, 2008 or 2007.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

**24. CHANGE IN INCURRED CLAIMS AND CLAIMS ADJUSTMENT EXPENSES**

Changes in estimates related to prior years' incurred claims are included in total hospital and medical expenses in the current year in the accompanying statutory basis statements of operations. The following tables disclose paid claims, incurred claims, and the balance in the claims unpaid liability for the years ended December 31, 2008 and 2007 (in thousands):

	2008		
	Current Year Incurred Claims	Prior Year Incurred Claims	Total
Beginning of year claim reserve	\$ -	\$ (2,360)	\$ (2,360)
Paid claims	13,582	1,727	15,309
End of year claim reserve	<u>2,285</u>	<u>125</u>	<u>2,410</u>
Incurred claims	<u>\$ 15,867</u>	<u>\$ (508)</u>	<u>\$ 15,359</u>

	2007		
	Current Year Incurred Claims	Prior Year Incurred Claims	Total
Beginning of year claim reserve	\$ -	\$ (2,946)	\$ (2,946)
Paid claims	14,197	1,882	16,079
End of year claim reserve	<u>2,245</u>	<u>115</u>	<u>2,360</u>
Incurred claims	<u>\$ 16,442</u>	<u>\$ (949)</u>	<u>\$ 15,493</u>

The liability for claims unpaid at December 31, 2008, exceeded actual claims incurred in 2008 related to prior years by approximately \$508,000. The primary drivers consist of favorable development as a result of ongoing analysis of loss development trends and changes to the provider settlement reserves.

The Company incurred claims adjustment expenses of approximately \$477,000 and \$585,000 in 2008 and 2007, respectively. These costs are included in the management service fees paid by the Company to UHS as a part of its management agreements (see Note 10). The following tables disclose paid claims adjustment expenses, incurred claims adjustment expenses, and the balance in the unpaid claim adjustment reserve, for the years ended December 31, 2008 and 2007 (in thousands):

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
Total claims adjustment expenses incurred	\$ 477	\$ 585
Less: current year unpaid claims adjustment expenses	(44)	(37)
Add: prior year unpaid claims adjustment expenses	<u>37</u>	<u>45</u>
Total claims adjustment expenses paid	<u>\$ 470</u>	<u>\$ 593</u>

**25. INTERCOMPANY POOLING ARRANGEMENTS**

The Company did not have any intercompany pooling arrangements in 2008 or 2007.

**26. STRUCTURED SETTLEMENTS**

The Company did not have any structured settlements in 2008 or 2007.

**27. HEALTH CARE RECEIVABLES**

Pharmaceutical rebates receivable are recorded when reasonable estimated or billed by the affiliated pharmaceutical benefit manager in accordance with pharmaceutical rebate contract provisions. Information used to support rebates billed to the manufacturer is based on utilization information gathered by the pharmaceutical benefit manager and adjusted for significant changes in pharmaceutical contract provisions.

The collection history of pharmacy rebates is summarized as :

Quarter	Estimated Pharmacy Rebates	Pharmacy Billed	Rebates Collected Within 90 Days of Invoicing/ Confirmation	Rebates Received Within 91 to 180 Days of Invoicing/ Confirmation	Rebates Received More than 181 Days of Invoicing/ Confirmation
12/31/2008	34,222	0	0	0	0
9/30/2008	33,907	34,779	33,491	0	0
6/30/2008	30,085	24,691	22,811	1,134	0
3/31/2008	27,790	33,370	20,697	12,153	520
12/31/2007	173,880	18,994	18,606	3,147	(2,759)
9/30/2007	164,291	144,287	141,381	2,678	228
6/30/2007	173,625	163,439	150,212	12,829	397
3/31/2007	174,829	162,735	77,947	82,574	2,214

Of the amount reported as healthcare and other receivables \$34,222 and \$0 relates to pharmaceutical rebate receivables as of December 31, 2008 and 2007, respectively.

**NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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**28. PARTICIPATING POLICIES**

The Company did not have any participating contracts in 2008 or 2007.

**29. PREMIUM DEFICIENCY RESERVES**

As of December 31, 2008 and 2007, the Company had a liability of \$539,000 and \$150,000, respectively, for premium deficiency reserves. Premium deficiency reserves are included in medical services payable in the statutory basis statements of admitted assets, liabilities, capital and surplus. The Company did consider anticipated investment income when calculating its premium deficiency reserves.

**30. ANTICIPATED SALVAGE AND SUBROGATION**

Due to the type of business being written, the Company has no salvage. As of December 31, 2008 and 2007, the Company had no specific accruals established for outstanding subrogation as it is considered as a component of the actuarial calculations used to develop the estimates of medical services payable.

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**GENERAL INTERROGATORIES**

**PART 1 - COMMON INTERROGATORIES**

**GENERAL**

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [ X ] No [ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [ ] No [ ] N/A [ X ]
- 1.3 State regulating? Arkansas

- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ X ] No [ ]
- 2.2 If yes, date of change: 12/31/2008

- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2008
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2005
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 03/22/2007
- 3.4 By what department or departments? Arkansas Insurance Department
- 3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments? Yes [ X ] No [ ] N/A [ ]
- 3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [ X ] No [ ] N/A [ ]

- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [ ] No [ X ]
- 4.12 renewals? Yes [ ] No [ X ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [ ] No [ X ]
- 4.22 renewals? Yes [ ] No [ X ]

- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [ X ]
- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Co. Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [ X ]
- 6.2 If yes, give full information:

- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [ X ]
- 7.2 If yes,
- 7.21 State the percentage of foreign control .....%
- 7.22 State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1 Nationality	2 Type of Entity

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [ X ]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ X ] No [ ]
- 8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
OptumHealth Bank, Inc.	Salt Lake City, Utah	NO	NO	No	YES	No

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
Deloitte & Touche LLP  
Minneapolis, MN
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?  
Allen J. Sorbo, President, Chief Executive Officer, and Chief Actuary of United HealthCare Insurance Company,  
an affiliate of UnitedHealthcare of Arkansas, Inc., Hartford, CT

- 11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [ X ]
- 11.11 Name of real estate holding company
- 11.12 Number of parcels involved .....
- 11.13 Total book/adjusted carrying value .....
- 11.2 If yes, provide explanation.

**GENERAL INTERROGATORIES**

**PART 1 - COMMON INTERROGATORIES**

12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

12.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

---

12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes [ ] No [ ]

12.3 Have there been any changes made to any of the trust indentures during the year?

Yes [ ] No [ ]

12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?

Yes [ ] No [ ] N/A [ ]

13.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

Yes [ X ] No [ ]

- a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- c. Compliance with applicable governmental laws, rules and regulations;
- d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- e. Accountability for adherence to the code.

13.11 If the response to 13.1 is No, please explain:

---

13.2 Has the code of ethics for senior managers been amended?

Yes [ ] No [ X ]

13.21 If the response to 13.2 is Yes, provide information related to amendment(s).

---

13.3 Have any provisions of the code of ethics been waived for any of the specified officers?

Yes [ ] No [ X ]

13.31 If the response to 13.3 is yes, provide the nature of any waiver(s).

---

**BOARD OF DIRECTORS**

14. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes [ X ] No [ ]

15. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes [ X ] No [ ]

16. Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes [ X ] No [ ]

**FINANCIAL**

17. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes [ ] No [ X ]

18.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

- 18.11 To directors or other officers \$.....0
- 18.12 To stockholders not officers \$.....0
- 18.13 Trustees, supreme or grand (Fraternal only) \$.....0

18.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

- 18.21 To directors or other officers \$.....0
- 18.22 To stockholders not officers \$.....0
- 18.23 Trustees, supreme or grand (Fraternal only) \$.....0

19.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes [ ] No [ X ]

19.2 If yes, state the amount thereof at December 31 of the current year:

- 19.21 Rented from others .....
- 19.22 Borrowed from others .....
- 19.23 Leased from others .....
- 19.24 Other .....

20.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes [ ] No [ X ]

20.2 If answer is yes:

- 20.21 Amount paid as losses or risk adjustment .....
- 20.22 Amount paid as expenses .....
- 20.23 Other amounts paid .....

21.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [ X ] No [ ]

21.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount.

\$.....157,097

**INVESTMENT**

22.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date (other than securities lending programs addressed in 22.3)?

Yes [ X ] No [ ]

22.2 If no, give full and complete information relating thereto.

---

22.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet (an alternative is to reference Note 16 where this information is also provided).

N/A

22.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions?

Yes [ ] No [ ]

22.5 If answer to 22.4 is yes, report amount of collateral.

---

22.6 If answer to 22.4 is no, report amount of collateral.

---

23.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3)

Yes [ X ] No [ ]

**GENERAL INTERROGATORIES**

**PART 1 - COMMON INTERROGATORIES**

- 23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Subject to repurchase agreements \$.....0
  - 23.22 Subject to reverse repurchase agreements \$.....0
  - 23.23 Subject to dollar repurchase agreements \$.....0
  - 23.24 Subject to reverse dollar repurchase agreements \$.....0
  - 23.25 Pledged as collateral \$.....0
  - 23.26 Placed under option agreements \$.....0
  - 23.27 Letter stock or securities restricted as to sale \$.....0
  - 23.28 On deposit with state or other regulatory body \$.....301,096
  - 23.29 Other \$.....0

23.3 For category (23.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

- 24.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]
- 24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] N/A [X]  
If no, attach a description with this statement.

- 25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [ ] No [X]
- 25.2 If yes, state the amount thereof at December 31 of the current year: .....

26. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No [ ]

26.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
State Street Bank	801 Pennsylvania, Kansas City, MO 64105

26.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year? Yes [ ] No [X]

26.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

26.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
0	Internally Managed	0

27.1 Does the reporting entity have any diversified mutual funds reported in Schedule D-Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])? Yes [ ] No [X]

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj. Carrying Value
27.2999. TOTAL		0

27.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from the above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	4 Date of Valuation

28. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds.....	4,306,922	4,341,616	34,694
28.2 Preferred stocks.....			0
28.3 Totals.....	4,306,922	4,341,616	34,694

28.4 Describe the sources or methods utilized in determining the fair values:

For those securities that had prices in the NAIC SVO ISIS database, those prices were used; for those securities that did not have prices in the NAIC SVO ISIS database, GAAP pricing was used. GAAP pricing was obtained from HUB which is an external data sources vendor. HUB utilizes various pricing sources.

- 29.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [X] No [ ]
- 29.2 If no, list exceptions:

**OTHER**

- 30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$.....0
- 30.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid

**GENERAL INTERROGATORIES**

**PART 1 - COMMON INTERROGATORIES**

- 31.1 Amount of payments for legal expenses, if any? \$.....56,057
- 31.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Mitchell, Williams, Selig, Gates, Woodyard, PLLC	

- 32.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$.....0
- 32.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid

**GENERAL INTERROGATORIES (continued)**

**PART 2 - HEALTH INTERROGATORIES**

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ ] No [X]
- 1.2 If yes, indicate premium earned on U.S. business only
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?
- 1.31 Reason for excluding

- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance.
- 1.6 Individual policies:  
 Most current three years:  
 1.61 Total premium earned  
 1.62 Total incurred claims  
 1.63 Number of covered lives  
 All years prior to most current three years:  
 1.64 Total premium earned  
 1.65 Total incurred claims  
 1.66 Number of covered lives
- 1.7 Group policies:  
 Most current three years:  
 1.71 Total premium earned  
 1.72 Total incurred claims  
 1.73 Number of covered lives  
 All years prior to most current three years:  
 1.74 Total premium earned  
 1.75 Total incurred claims  
 1.76 Number of covered lives

2. Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator.....	19,968,482	23,898,283
2.2 Premium Denominator.....	19,968,482	23,898,283
2.3 Premium Ratio (2.1/2.2).....	100.0	100.0
2.4 Reserve Numerator.....	2,964,006	2,534,709
2.5 Reserve Denominator.....	2,964,006	2,534,709
2.6 Reserve Ratio (2.4/2.5).....	100.0	100.0

- 3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, and if the earnings of the reporting entity permits? Yes [ ] No [X]
- 3.2 If yes, give particulars:

- 4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? Yes [X] No [ ]
- 4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? Yes [ ] No [X]
- 5.1 Does the reporting entity have stop-loss reinsurance? Yes [ ] No [X]
- 5.2 If no, explain:  
 Entity has insolvency only reinsurance agreement.

- 5.3 Maximum retained risk (see instructions):
- 5.31 Comprehensive medical \$.....0
- 5.32 Medical only \$.....0
- 5.33 Medicare supplement \$.....0
- 5.34 Dental and vision \$.....0
- 5.35 Other limited benefit plan \$.....0
- 5.36 Other \$.....0

- 6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:  
 Hold harmless clauses in provider agreements and continuation of coverage endorsements in reinsurance agreement.

- 7.1 Does the reporting entity set up its claim liability for provider services on a service date base? Yes [X] No [ ]
- 7.2 If no, give details:

- 8. Provide the following information regarding participating providers:
- 8.1 Number of providers at start of reporting year .....3,849
- 8.2 Number of providers at end of reporting year .....4,610

- 9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [ ] No [X]
- 9.2 If yes, direct premium earned:
- 9.21 Business with rate guarantees between 15-36 months
- 9.22 Business with rate guarantees over 36 months

- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts? Yes [ ] No [X]

- 10.2 If yes:
- 10.21 Maximum amount payable bonuses
- 10.22 Amount actually paid for year bonuses
- 10.23 Maximum amount payable withholds
- 10.24 Amount actually paid for year withholds

**GENERAL INTERROGATORIES (continued)**

**PART 2 - HEALTH INTERROGATORIES**

- 11.1 Is the reporting entity organized as:
- 11.12 A Medical Group/Staff Model, Yes [ ] No [X]
- 11.13 An Individual Practice Association (IPA), or Yes [ ] No [X]
- 11.14 A Mixed Model (combination of above)? Yes [ ] No [X]
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? Yes [X] No [ ]
- 11.3 If yes, show the name of the state requiring such net worth. Arkansas
- 11.4 If yes, show the amount required. \$.....1,983,470
- 11.5 Is this amount included as part of a contingency reserve in stockholder's equity? Yes [ ] No [X]
- 11.6 If the amount is calculated, show the calculation:  
NAIC RBC Model, 200% of Authorized Control Level

12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
Arkansas
Ashley
Benton
Bradley
Carroll
Chicot
Clay
Cleburne
Cleveland
Columbia
Conway
Craighead
Crawford
Crittenden
Cross
Dallas
Desha
Drew
Faulkner
Franklin
Fulton
Garland
Grant
Hempstead
Howard
Hot Springs
Izard
Jackson
Jefferson
Johnson
Lawrence
Lincoln
Little River
Logan
Lonoke
Madison
Miller
Montgomery
Ouachita
Perry
Pike
Polk
Poinsett
Pope
Prairie
Pulaski
Saline
Scott
Searcy
Sebastian
Sevier
Sharp
Van Buren
Washington
White
Woodruff
Yell

## FIVE-YEAR HISTORICAL DATA

	1 2008	2 2007	3 2006	4 2005	5 2004
<b>Balance Sheet Items (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 26).....	8,818,913	10,468,637	12,195,897	17,350,569	20,924,333
2. Total liabilities (Page 3, Line 22).....	4,014,258	3,618,089	4,304,235	5,325,780	6,933,073
3. Statutory surplus.....	1,983,470	2,323,390	2,844,648	3,666,986	3,994,658
4. Total capital and surplus (Page 3, Line 31).....	4,804,656	6,850,548	7,891,662	12,024,789	13,991,260
<b>Income Statement Items (Page 4)</b>					
5. Total revenues (Line 8).....	19,933,320	23,851,236	30,660,236	49,153,822	59,994,532
6. Total medical and hospital expenses (Line 18).....	15,350,597	15,483,860	20,266,604	35,409,745	40,547,352
7. Claims adjustment expenses (Line 20).....	476,718	585,250	712,067	1,168,079	1,586,253
8. Total administrative expenses (Line 21).....	2,831,921	3,744,795	4,650,001	7,362,542	8,879,705
9. Net underwriting gain (loss) (Line 24).....	885,734	3,975,231	5,002,014	5,185,456	9,031,444
10. Net investment gain (loss) (Line 27).....	194,118	587,561	855,174	931,590	1,402,052
11. Total other income (Lines 28 plus 29).....	106				
12. Net income or (loss) (Line 32).....	529,612	2,862,827	3,969,188	4,068,046	7,641,496
<b>Cash Flow (Page 6)</b>					
13. Net cash from operations (Line 11).....	1,235,699	1,983,940	2,546,552	3,051,730	
<b>Risk-Based Capital Analysis</b>					
14. Total adjusted capital.....	4,804,656	6,850,548	7,891,662	12,024,789	13,991,260
15. Authorized control level risk-based capital.....	991,735	1,161,695	1,422,324	1,833,493	1,997,329
<b>Enrollment (Exhibit 1)</b>					
16. Total members at end of period (Column 5, Line 7).....	3,714	4,910	6,720	13,944	17,859
17. Total member months (Column 6, Line 7).....	49,974	67,679	93,723	185,623	240,268
<b>Operating Percentage (Page 4)</b> <b>(Item divided by Page 4, sum of Lines 2, 3, and 5) x 100 .0</b>					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5).....	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Line 18 plus Line 19)....	77.0	64.9	66.1	72.0	67.6
20. Cost containment expenses.....	0.2	0.1	0.3	0.2	0.2
21. Other claims adjustment expenses.....	2.2	2.3	2.1	2.6	2.3
22. Total underwriting deductions (Line 23).....	95.6	83.3	83.7	89.5	84.9
23. Total underwriting gain (loss) (Line 24).....	4.4	16.7	16.3	10.5	15.1
<b>Unpaid Claims Analysis (U&amp;I Exhibit, Part 2B)</b>					
24. Total claims incurred for prior years (Line 13 Col. 5).....	1,852,807	1,996,493	3,056,674	4,666,842	6,891,399
25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	2,327,904	2,923,057	4,480,433	5,712,275	8,409,052
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
26. Affiliated bonds (Sch. D Summary, Line 25, Col. 1).....					
27. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1).....					
28. Affiliated common stocks (Sch D. Summary, Line 53, Col. 1).....					
29. Affiliated short-term investments (subtotal included in Sch. DA, Verification, Column 5, Line 10).....					
30. Affiliated mortgage loans on real estate.....					
31. All other affiliated.....					
32. Total of above Lines 26 to 31.....	0	0	0	0	0

**SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS**

Allocated by States and Territories

State, Etc.	1 Active Status	Direct Business Only							9 Deposit-Type Contracts
		2 Accident & Health Premiums	3 Medicare Title XVIII	4 Medicaid Title XIX	5 Federal Employees Health Benefits Program Premiums	6 Life & Annuity Premiums and Other Considerations	7 Property/Casualty Premiums	8 Total Columns 2 Through 7	
1. Alabama.....AL	N								0
2. Alaska.....AK	N								0
3. Arizona.....AZ	N								0
4. Arkansas.....AR	L	15,121,622	4,867,299					19,988,921	
5. California.....CA	N								0
6. Colorado.....CO	N								0
7. Connecticut.....CT	N								0
8. Delaware.....DE	N								0
9. District of Columbia.....DC	N								0
10. Florida.....FL	N								0
11. Georgia.....GA	N								0
12. Hawaii.....HI	N								0
13. Idaho.....ID	N								0
14. Illinois.....IL	N								0
15. Indiana.....IN	N								0
16. Iowa.....IA	N								0
17. Kansas.....KS	N								0
18. Kentucky.....KY	N								0
19. Louisiana.....LA	N								0
20. Maine.....ME	N								0
21. Maryland.....MD	N								0
22. Massachusetts.....MA	N								0
23. Michigan.....MI	N								0
24. Minnesota.....MN	N								0
25. Mississippi.....MS	N								0
26. Missouri.....MO	N								0
27. Montana.....MT	N								0
28. Nebraska.....NE	N								0
29. Nevada.....NV	N								0
30. New Hampshire.....NH	N								0
31. New Jersey.....NJ	N								0
32. New Mexico.....NM	N								0
33. New York.....NY	N								0
34. North Carolina.....NC	N								0
35. North Dakota.....ND	N								0
36. Ohio.....OH	N								0
37. Oklahoma.....OK	N								0
38. Oregon.....OR	N								0
39. Pennsylvania.....PA	N								0
40. Rhode Island.....RI	N								0
41. South Carolina.....SC	N								0
42. South Dakota.....SD	N								0
43. Tennessee.....TN	N								0
44. Texas.....TX	N								0
45. Utah.....UT	N								0
46. Vermont.....VT	N								0
47. Virginia.....VA	N								0
48. Washington.....WA	N								0
49. West Virginia.....WV	N								0
50. Wisconsin.....WI	N								0
51. Wyoming.....WY	N								0
52. American Samoa.....AS	N								0
53. Guam.....GU	N								0
54. Puerto Rico.....PR	N								0
55. U.S. Virgin Islands.....VI	N								0
56. Northern Mariana Islands.....MP	N								0
57. Canada.....CN	N								0
58. Aggregate Other alien.....OT	XXX	0	0	0	0	0	0	0	0
59. Subtotal.....XXX		15,121,622	4,867,299	0	0	0	0	19,988,921	0
60. Reporting entity contributions for Employee Benefit Plans.....XXX								0	
61. Total (Direct Business).....(a)	1	15,121,622	4,867,299	0	0	0	0	19,988,921	0

**DETAILS OF WRITE-INS**

5801. ....								0	
5802. ....								0	
5803. ....								0	
5898. Summary of remaining write-ins for line 58.....		0	0	0	0	0	0	0	0
5899. Total (Lines 5801 thru 5803 + 5898) (Line 58 above)....		0	0	0	0	0	0	0	0

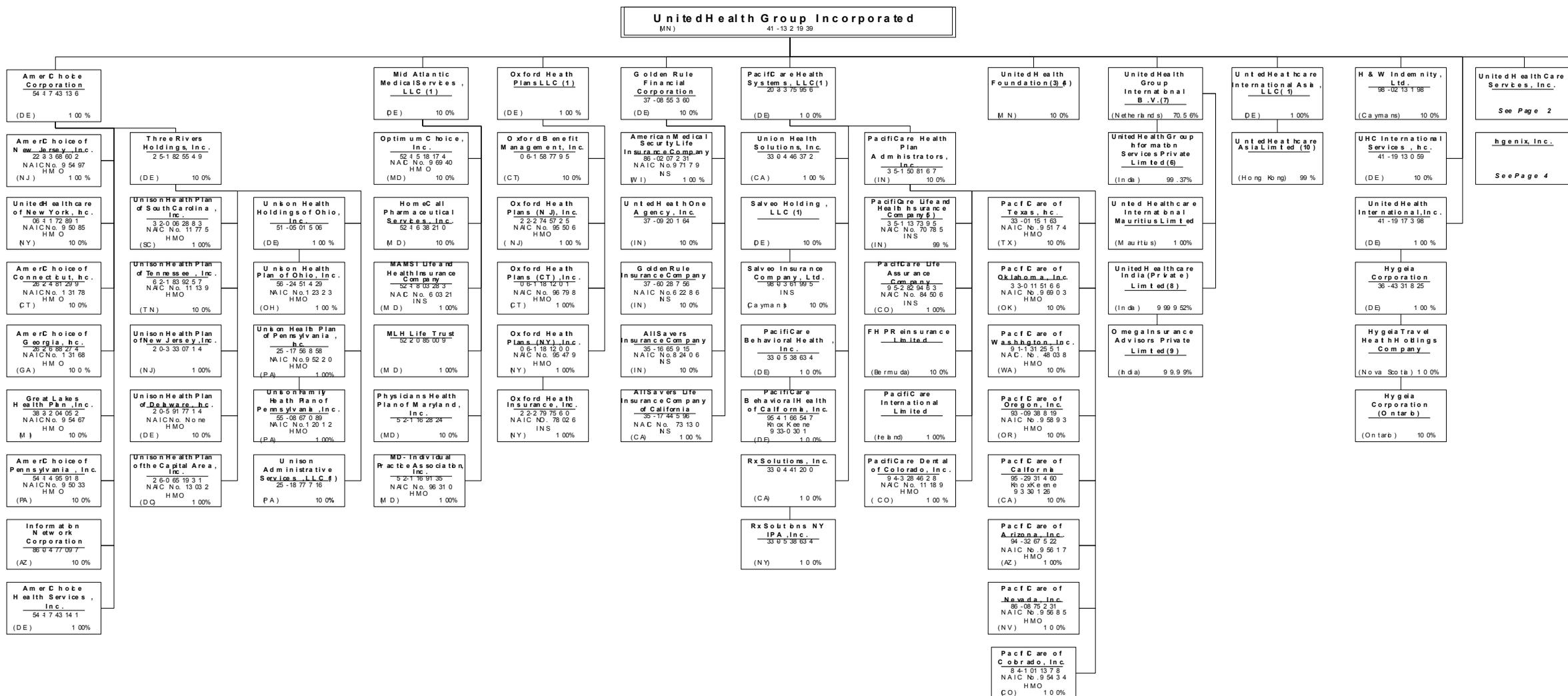
Explanation of basis of allocation by states, premiums by state, etc.

(a) Insert the number of L responses except for Canada and Other Alien.

# SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

## PART 1 - ORGANIZATIONAL CHART

38

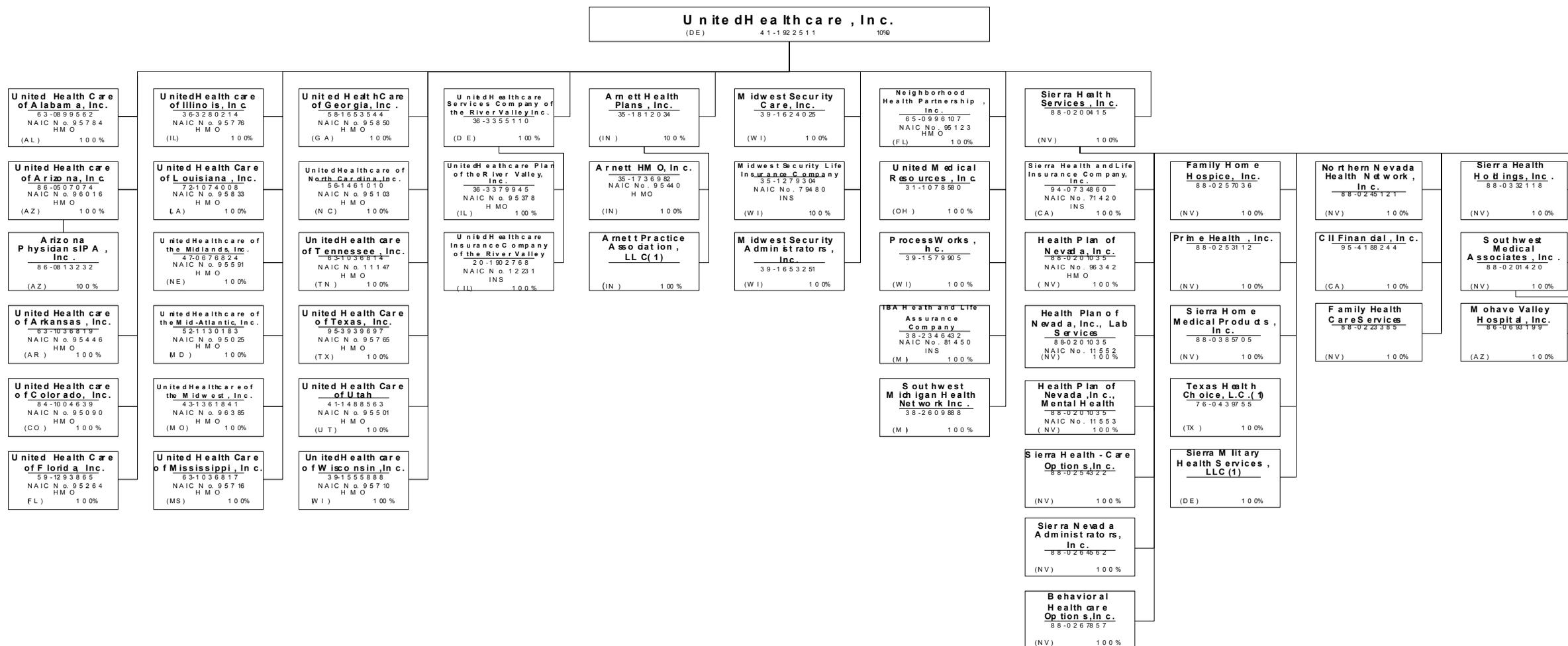




# SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

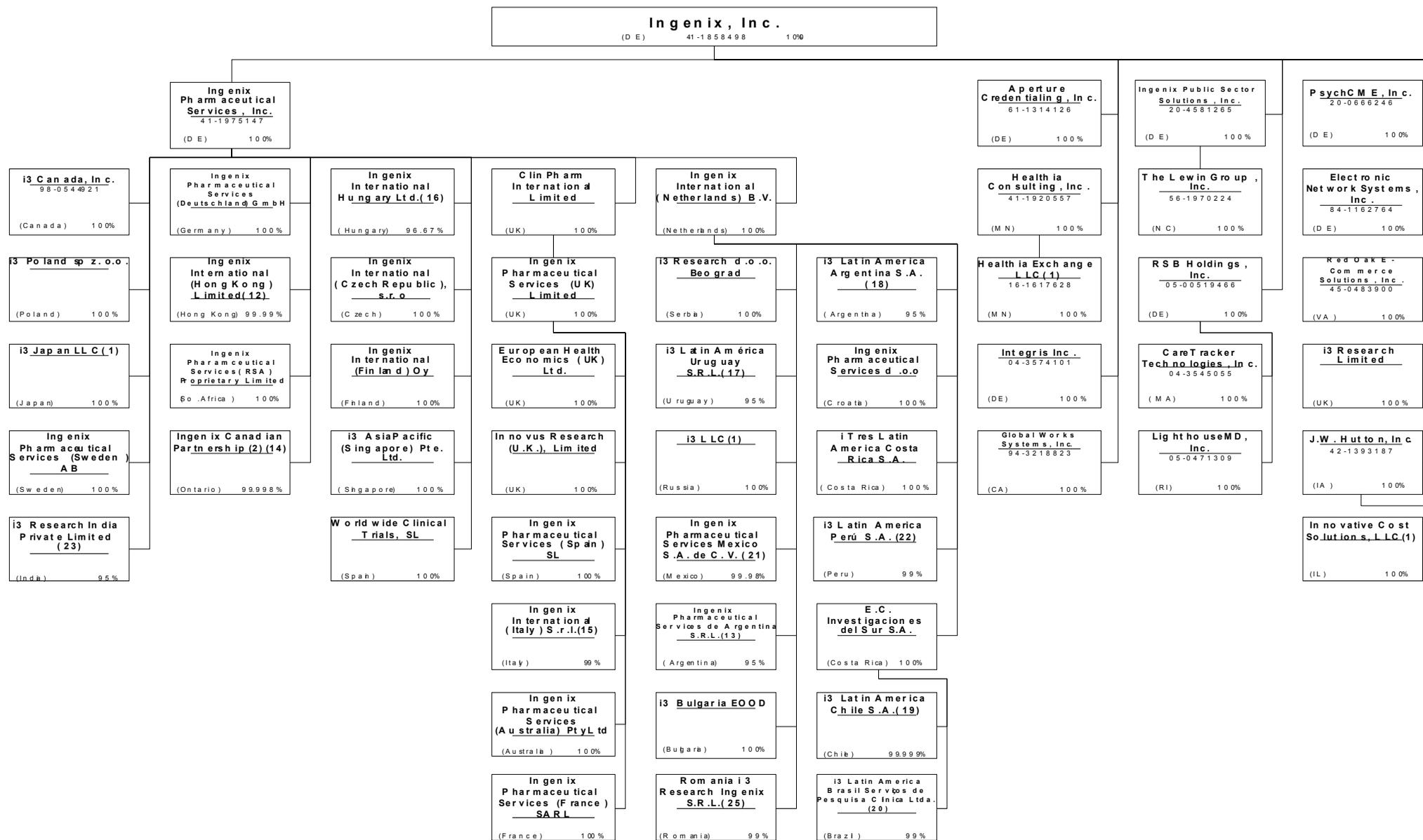
## PART 1 - ORGANIZATIONAL CHART

38.2



# SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

## PART 1 - ORGANIZATIONAL CHART



38.3

# SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

## PART 1 - ORGANIZATIONAL CHART

### Notes

All legal entities on the Organization Chart are Corporations unless otherwise indicated.

(1) Entity is a Limited Liability Company

(2) Entity is a Partnership

(3) Entity is a Non-Profit Corporation

(4) Control of the Foundation is based on sole membership, not the ownership of voting securities

(5) Pacificare Life and Health Insurance Company is 99% owned by Pacificare Health Plan Administrators, Inc. and 1% owned by Pacificare Health Systems, LLC

(6) United Health Group Information Services Private Limited is 99.37% owned by United Health Group International B.V.. The remaining 0.63% is owned by United Health International, Inc.

(7) United Health Group International B.V. is 70.56% owned by United Health Group Incorporated and 29.44% owned by United Health Care Services, Inc.

(8) United Healthcare India (Private) Limited is 99.9952% owned by United Health Group International B.V. and 0.0048% owned by United Health International, Inc.

(9) Omega Insurance Advisors Private Limited is 99.99% owned by United Healthcare India (Private) Limited and 0.01% owned by an individual shareholder

(10) United Healthcare Asia Limited is 99% owned by United Healthcare International Asia, LLC and 1% owned by United Health International, Inc.

(11) General partnership interests are held by United Health Care Services, Inc. (89.77%) and by United Healthcare, Inc. (10.23%). United Healthcare Services, Inc. also holds 100% of the limited partnership interests. When combining general and limited partner interests, United Healthcare Services, Inc. owns 94.18% and United Healthcare, Inc. owns 5.83%.

(12) Ingenix International (Hong Kong) Limited is 99.99% owned by Ingenix Pharmaceutical Services, Inc. and 0.01% owned by Ingenix, Inc.

(13) Ingenix Pharmaceutical Services de Argentina S.R.L. is 95% owned by Ingenix International (Netherlands) B.V. and 5% owned by Ingenix, Inc.

(14) Ingenix Canada Partnership is 99.998% owned by Ingenix Pharmaceutical Services, Inc. and 0.002% owned by Ingenix, Inc.

(15) Ingenix International (Italy) S.r.l. is 99% owned by Ingenix Pharmaceutical Services (UK) Limited and 1% owned by Ingenix Pharmaceutical Services, Inc.

(16) Ingenix International Hungary Ltd. is 96.67% owned by Ingenix Pharmaceutical Services, Inc. and 3.33% owned by Ingenix, Inc.

(17) i3 Latin America Uruguay S.R.L. is 95% owned by Ingenix International (Netherlands) B.V. and 5% owned by Ingenix Pharmaceutical Services, Inc.

(18) i3 Latin America Argentina S.A. is 95% owned by Ingenix International (Netherlands) B.V. and 5% owned by Ingenix Pharmaceutical Services, Inc.

(19) i3 Latin America Chile S.A. is 99.999% owned by E.C. Investigaciones del Sur S.A. and 0.001% owned by Ingenix Pharmaceutical Services, Inc.

(20) i3 Latin America Brasil Serviços de Pesquisa Clínica Ltda. is 99% owned by E.C. Investigaciones del Sur S.A. and 1% owned by Ingenix Pharmaceutical Services, Inc.

(21) Ingenix Pharmaceutical Services Mexico S.A. de C.V. is 99.98% owned by Ingenix International (Netherlands) B.V. and 2.36% owned by E.C. Investigaciones del Sur S.A.. The remaining 0.02% is owned by i3 Latin America Argentina S.A..

(22) i3 Latin America Perú S.A. is 99% owned by Ingenix International (Netherlands) B.V. and 1% owned by i3 Latin America Argentina S.A..

(23) i3 Research India Private Limited is 95% owned by Ingenix Pharmaceutical Services, Inc. and 5% owned by Ingenix, Inc.

(24) Limited partnership interest is held by UMR Holdings, Inc. (99%). General partnership interest is held by UMR, Inc. (1%).

(25) Romania i3 Research Ingenix S.R.L. is 99% owned by Ingenix International (Netherlands) B.V. and 1% owned by Ingenix Pharmaceutical Services (UK) Limited

(26) Dental Benefit Providers, Inc. is 99.999% owned by United Healthcare Services, Inc. and 0.001% owned by Pacific Dental Benefits, Inc.

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