



# ANNUAL STATEMENT

For the Year Ended December 31, 2011  
of the Condition and Affairs of the

## USable Mutual Insurance Company

NAIC Group Code.....876, 876 (Current Period) (Prior Period) NAIC Company Code..... 83470 Employer's ID Number..... 71-0226428

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

Licensed as Business Type.....Life, Accident & Health Is HMO Federally Qualified? Yes [ ] No [ ]

Incorporated/Organized..... December 10, 1948 Commenced Business..... March 2, 1949

Statutory Home Office 601 S. Gaines..... Little Rock ..... AR ..... 72201  
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office 601 S. Gaines..... Little Rock ..... AR ..... 72201 501-378-2000  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 601 S. Gaines..... Little Rock ..... AR ..... 72201  
(Street and Number or P. O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records 601 S. Gaines..... Little Rock ..... AR ..... 72201 501-378-2000  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Web Site Address www.arkansasbluecross.com

Statutory Statement Contact Scott Bradley Winter 501-399-3951  
(Name) (Area Code) (Telephone Number) (Extension)  
sbwinter@arkbluecross.com 501-378-3258  
(E-Mail Address) (Fax Number)

### OFFICERS

Name	Title	Name	Title
1. Paul Mark White	Chief Executive Officer	2. James Lee Douglass	Secretary
3. Gray Donald Dillard	Treasurer	4. Michael Wayne Brown	Chief Operating Officer

### OTHER

Stephen William Abell	James Sterling Adamson Jr., MD
James Robert Bailey	Curtis Edwin Barnett
David Frank Bridges	Michael Wayne Brown
Richard Shelby Cooper	Ronald Walter DeBerry
David Franklin Greenwood, Jr.	Robert Franklin Griffin, MD
James Robert Heard III	Calvin Eugene Kellogg
Patrick Dennis O'Sullivan	Samuel Patterson Partin III
Karen Cox Raley	Kathy O'Dea Ryan
Joseph Steven Smith	Steven Aaron Spaulding
Toni Lairy Starks	

### DIRECTORS OR TRUSTEES

Carolyn Frazier Blakely PhD	Susan Glover Brittain	Robert Vincent Brothers	Mark William Greenway
Bradley Dean Jesson	James Virgil Kelley	Mahlon Ogden Maris MD	James Thomas May
Hayes Candour McClerkin	George Key Mitchell MD	Robert Daniel Nabholz	Marla Johnson Norris
Ben Edwin Owens	Robert Lee Shoptaw	Patty Fulbright Smith	Sherman Ellis Tate
Paul Mark White	James Leslie Wyatt PhD		

State of..... Arkansas  
County of..... Pulaski

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) Paul Mark White	_____ (Signature) James Lee Douglass	_____ (Signature) Gray Donald Dillard
1. (Printed Name) Chief Executive Officer	2. (Printed Name) Secretary	3. (Printed Name) Treasurer
_____ (Title)	_____ (Title)	_____ (Title)

Subscribed and sworn to before me  
This \_\_\_\_\_ day of \_\_\_\_\_ 2012

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).....	254,078,856		254,078,856	294,426,101
2. Stocks (Schedule D):				
2.1 Preferred stocks.....	278,852		278,852	367,642
2.2 Common stocks.....	301,971,074	17,742,874	284,228,200	293,704,743
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).....	25,746,907		25,746,907	26,425,504
4.2 Properties held for the production of income (less \$.....0 encumbrances).....	14,329,446		14,329,446	14,864,832
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....28,883,358, Sch. E-Part 1), cash equivalents (\$.....0, Sch. E-Part 2) and short-term investments (\$.....261,677,747, Sch. DA).....	290,561,105		290,561,105	203,533,563
6. Contract loans (including \$.....0 premium notes).....			0	
7. Derivatives (Schedule DB).....			0	
8. Other invested assets (Schedule BA).....	72,038,890		72,038,890	67,804,330
9. Receivables for securities.....	9,446,155		9,446,155	46,920
10. Securities lending reinvested collateral assets (Schedule DL).....			0	
11. Aggregate write-ins for invested assets.....	2,860,764	0	2,860,764	2,833,543
12. Subtotals, cash and invested assets (Lines 1 to 11).....	971,312,048	17,742,874	953,569,174	904,007,178
13. Title plants less \$.....0 charged off (for Title insurers only).....			0	
14. Investment income due and accrued.....	2,748,315		2,748,315	3,464,944
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in course of collection.....	98,343,770	296,320	98,047,450	87,894,873
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
15.3 Accrued retrospective premiums.....			0	
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers.....	2,133,960		2,133,960	1,622,181
16.2 Funds held by or deposited with reinsured companies.....			0	
16.3 Other amounts receivable under reinsurance contracts.....			0	
17. Amounts receivable relating to uninsured plans.....	37,087,506		37,087,506	31,046,232
18.1 Current federal and foreign income tax recoverable and interest thereon.....	19,650,041		19,650,041	10,941,074
18.2 Net deferred tax asset.....	82,879,212	82,879,212	0	
19. Guaranty funds receivable or on deposit.....	307,437		307,437	614,873
20. Electronic data processing equipment and software.....	13,366,437	5,260,463	8,105,974	6,961,139
21. Furniture and equipment, including health care delivery assets (\$.....0).....	9,744,968	9,744,968	0	
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
23. Receivables from parent, subsidiaries and affiliates.....	13,915,187		13,915,187	15,881,907
24. Health care (\$.....8,134,877) and other amounts receivable.....	39,447,368	6,556,836	32,890,532	27,119,661
25. Aggregate write-ins for other than invested assets.....	73,960,214	20,719,609	53,240,605	49,427,587
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25).....	1,364,896,463	143,200,282	1,221,696,181	1,138,981,649
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
28. TOTALS (Lines 26 and 27).....	1,364,896,463	143,200,282	1,221,696,181	1,138,981,649

## DETAILS OF WRITE-INS

1101. Deposits with National Accounts.....	2,860,764		2,860,764	2,833,543
1102.....			0	
1103.....			0	
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	2,860,764	0	2,860,764	2,833,543
2501. Supplemental Savings Plan.....	37,543,520		37,543,520	37,044,795
2502. Other Assets.....	15,697,085		15,697,085	12,382,792
2503. Other Nonadmitted Assets.....	20,719,609	20,719,609	0	
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	73,960,214	20,719,609	53,240,605	49,427,587

**LIABILITIES, CAPITAL AND SURPLUS**

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....3,259,110 reinsurance ceded).....	114,026,807		114,026,807	116,950,880
2. Accrued medical incentive pool and bonus amounts.....			0	39,993
3. Unpaid claims adjustment expenses.....	4,289,656		4,289,656	4,369,835
4. Aggregate health policy reserves, including the liability of \$.....3,959,682 for medical loss ratio rebate per the Public Health Service Act.....	127,687,641		127,687,641	104,928,168
5. Aggregate life policy reserves.....			0	
6. Property/casualty unearned premium reserve.....			0	
7. Aggregate health claim reserves.....			0	
8. Premiums received in advance.....	15,733,734		15,733,734	12,305,766
9. General expenses due or accrued.....	239,647,751		239,647,751	209,722,566
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....			0	
10.2 Net deferred tax liability.....	1,333,173		1,333,173	13,484,580
11. Ceded reinsurance premiums payable.....	3,019,116		3,019,116	2,977,091
12. Amounts withheld or retained for the account of others.....	47,554,083		47,554,083	45,766,758
13. Remittances and items not allocated.....	168,445		168,445	367,402
14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current).....			0	
15. Amounts due to parent, subsidiaries and affiliates.....	1,716,368		1,716,368	1,735,098
16. Derivatives.....			0	
17. Payable for securities.....			0	
18. Payable for securities lending.....			0	
19. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			0	
20. Reinsurance in unauthorized companies.....			0	
21. Net adjustments in assets and liabilities due to foreign exchange rates.....			0	
22. Liability for amounts held under uninsured plans.....	64,441,741		64,441,741	33,627,186
23. Aggregate write-ins for other liabilities (including \$.....0 current).....	20,419,281	0	20,419,281	20,659,460
24. Total liabilities (Lines 1 to 23).....	640,037,796	0	640,037,796	566,934,783
25. Aggregate write-ins for special surplus funds.....	XXX	XXX	0	0
26. Common capital stock.....	XXX	XXX		
27. Preferred capital stock.....	XXX	XXX		
28. Gross paid in and contributed surplus.....	XXX	XXX		
29. Surplus notes.....	XXX	XXX		
30. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	0	0
31. Unassigned funds (surplus).....	XXX	XXX	581,658,383	572,046,866
32. Less treasury stock at cost:				
32.1 .....0.000 shares common (value included in Line 26 \$.....0).....	XXX	XXX		
32.2 .....0.000 shares preferred (value included in Line 27 \$.....0).....	XXX	XXX		
33. Total capital and surplus (Lines 25 to 31 minus Line 32).....	XXX	XXX	581,658,383	572,046,866
34. Total liabilities, capital and surplus (Lines 24 and 33).....	XXX	XXX	1,221,696,179	1,138,981,649

**DETAILS OF WRITE-INS**

2301. Miscellaneous Liabilities.....	801,596		801,596	1,041,775
2302. Claims Payable for Self-Insured Plans.....			0	
2303. Deferred Gain on Capitalization of Joint Venture.....	19,617,685		19,617,685	19,617,685
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).....	20,419,281	0	20,419,281	20,659,460
2501. ....	XXX	XXX		
2502. ....	XXX	XXX		
2503. ....	XXX	XXX		
2598. Summary of remaining write-ins for Line 25 from overflow page.....	XXX	XXX	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	XXX	XXX	0	0
3001. ....	XXX	XXX		
3002. ....	XXX	XXX		
3003. ....	XXX	XXX		
3098. Summary of remaining write-ins for Line 30 from overflow page.....	XXX	XXX	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098) (Line 30 above).....	XXX	XXX	0	0

**STATEMENT OF REVENUE AND EXPENSES**

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX	5,189,218	5,093,797
2. Net premium income (including \$.....0 non-health premium income).....	XXX	1,273,205,582	1,213,714,171
3. Change in unearned premium reserves and reserve for rate credits.....	XXX	(10,947,922)	(15,779,865)
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	1,262,257,660	1,197,934,306
<b>Hospital and Medical:</b>			
9. Hospital/medical benefits.....		629,575,369	595,063,967
10. Other professional services.....			
11. Outside referrals.....			
12. Emergency room and out-of-area.....		145,055,423	125,696,495
13. Prescription drugs.....		199,426,187	201,632,518
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	974,056,979	922,392,980
<b>Less:</b>			
17. Net reinsurance recoveries.....		(49,349,564)	(48,425,631)
18. Total hospital and medical (Lines 16 minus 17).....0		1,023,406,543	970,818,611
19. Non-health claims (net).....			
20. Claims adjustment expenses, including \$.....(40,845,035) cost containment expenses.....		69,779,826	62,760,548
21. General administrative expenses.....		112,775,442	88,306,721
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....		7,707,487	5,857,668
23. Total underwriting deductions (Lines 18 through 22).....0		1,213,669,298	1,127,743,548
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX	48,588,362	70,190,758
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		11,707,137	11,967,496
26. Net realized capital gains or (losses) less capital gains tax of \$.....3,065,815.....		2,962,219	2,847,015
27. Net investment gains or (losses) (Lines 25 plus 26).....0		14,669,356	14,814,511
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		(824,077)	(3,465,085)
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	62,433,641	81,540,184
31. Federal and foreign income taxes incurred.....	XXX	15,985,591	18,197,370
32. Net income (loss) (Lines 30 minus 31).....	XXX	46,448,050	63,342,814

**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. Miscellaneous Income/Expense.....		(278,521)	(420,074)
2902. Regional Management Fees.....		(545,556)	(3,045,011)
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	(824,077)	(3,465,085)

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

<b>CAPITAL AND SURPLUS ACCOUNT</b>	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	572,046,869	482,504,368
34. Net income or (loss) from Line 32.....	46,448,050	63,342,814
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.....	(19,351,720)	28,774,571
37. Change in net unrealized foreign exchange capital gain or (loss).....	(1,116,352)	3,398,086
38. Change in net deferred income tax.....	5,704,566	7,096
39. Change in nonadmitted assets.....	(22,913,986)	(7,404,827)
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.....		
47. Aggregate write-ins for gains or (losses) in surplus.....	840,958	1,424,761
48. Net change in capital and surplus (Lines 34 to 47).....	9,611,516	89,542,501
49. Capital and surplus end of reporting period (Line 33 plus 48).....	581,658,385	572,046,869

**DETAILS OF WRITE-INS**

4701. Capital Lease Adjustment.....	840,958	1,424,761
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).....	840,958	1,424,761

## CASH FLOW

	1 Current Year	2 Prior Year
<b>CASH FROM OPERATIONS</b>		
1. Premiums collected net of reinsurance.....	1,266,561,974	1,197,223,423
2. Net investment income.....	9,297,946	14,674,439
3. Miscellaneous income.....		
4. Total (Lines 1 through 3).....	1,275,859,921	1,211,897,862
5. Benefit and loss related payments.....	1,026,882,388	969,762,172
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	137,460,801	111,921,348
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....2,109,812 tax on capital gains (losses).....	27,760,373	29,702,668
10. Total (Lines 5 through 9).....	1,192,103,562	1,111,386,188
11. Net cash from operations (Line 4 minus Line 10).....	83,756,359	100,511,674
<b>CASH FROM INVESTMENTS</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	138,814,823	40,596,127
12.2 Stocks.....	16,307,136	14,857,585
12.3 Mortgage loans.....		
12.4 Real estate.....	(2,128,669)	180,713
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).....	152,993,290	55,634,425
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	98,177,645	92,648,310
13.2 Stocks.....	19,097,699	14,569,688
13.3 Mortgage loans.....		
13.4 Real estate.....		441,647
13.5 Other invested assets.....	670,558	9,400,000
13.6 Miscellaneous applications.....	9,426,456	2,246,831
13.7 Total investments acquired (Lines 13.1 to 13.6).....	127,372,358	119,306,476
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).....	25,620,932	(63,672,051)
<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.....		
16.6 Other cash provided (applied).....	(22,349,750)	28,268,682
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	(22,349,750)	28,268,682
<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).....	87,027,541	65,108,305
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	203,533,562	138,425,257
19.2 End of year (Line 18 plus Line 19.1).....	290,561,103	203,533,562

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).....	575,231,564	91,301,078		666,532,642
2. Medicare supplement.....	214,752,243			214,752,243
3. Dental only.....	29,710,500		29,710,500	0
4. Vision only.....	674,820			674,820
5. Federal employees health benefits plan.....	233,558,287			233,558,287
6. Title XVIII - Medicare.....	102,304,639			102,304,639
7. Title XIX - Medicaid.....				0
8. Other health.....	55,850,974		468,023	55,382,951
9. Health subtotal (Lines 1 through 8).....	1,212,083,027	91,301,078	30,178,523	1,273,205,582
10. Life.....				0
11. Property/casualty.....				0
12. Totals (Lines 9 to 11).....	1,212,083,027	91,301,078	30,178,523	1,273,205,582

**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.....	983,242,802	466,892,029	164,901,657	22,766,835	472,269	206,651,314	76,980,323		44,578,375	
1.2 Reinsurance assumed.....	72,165,270	72,165,270								
1.3 Reinsurance ceded.....	22,783,273			22,766,835					16,438	
1.4 Net.....	1,032,624,799	539,057,299	164,901,657	0	472,269	206,651,314	76,980,323	0	44,561,937	0
2. Paid medical incentive pools and bonuses.....	0									
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct.....	108,798,414	57,680,066	17,780,150	1,651,000	29,357	17,621,000	12,304,173		1,732,668	
3.2 Reinsurance assumed.....	8,487,503	8,487,503								
3.3 Reinsurance ceded.....	3,259,110			1,651,000					1,608,110	
3.4 Net.....	114,026,807	66,167,569	17,780,150	0	29,357	17,621,000	12,304,173	0	124,558	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct.....	0									
4.2 Reinsurance assumed.....	0									
4.3 Reinsurance ceded.....	0									
4.4 Net.....	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	0									
6. Net healthcare receivables (a).....	6,294,182	6,294,182								
7. Amounts recoverable from reinsurers December 31, current year.....	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct.....	111,690,055	63,919,793	17,665,725	1,494,000	24,167	16,423,840	10,816,660		1,345,870	
8.2 Reinsurance assumed.....	7,984,176	7,984,176								
8.3 Reinsurance ceded.....	2,723,350			1,494,000					1,229,350	
8.4 Net.....	116,950,880	71,903,969	17,665,725	0	24,167	16,423,840	10,816,660	0	116,520	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct.....	0									
9.2 Reinsurance assumed.....	0									
9.3 Reinsurance ceded.....	0									
9.4 Net.....	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year.....	39,993	39,993								
11. Amounts recoverable from reinsurers December 31, prior year.....	0									
12. Incurred benefits:										
12.1 Direct.....	974,056,979	454,358,120	165,016,082	22,923,835	477,459	207,848,474	78,467,836	0	44,965,173	0
12.2 Reinsurance assumed.....	72,668,598	72,668,598	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	23,319,033	0	0	22,923,835	0	0	0	0	395,198	0
12.4 Net.....	1,023,406,544	527,026,718	165,016,082	0	477,459	207,848,474	78,467,836	0	44,569,975	0
13. Incurred medical incentive pools and bonuses.....	(39,993)	(39,993)	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.....	16,527,804	11,432,860	2,489,829			1,804,636	800,479			
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	16,527,804	11,432,860	2,489,829	0	0	1,804,636	800,479	0	0	0
2. Incurred but unreported:										
2.1 Direct.....	92,270,610	46,247,206	15,290,321	1,651,000	29,357	15,816,364	11,503,694		1,732,668	
2.2 Reinsurance assumed.....	8,487,503	8,487,503								
2.3 Reinsurance ceded.....	3,259,110			1,651,000					1,608,110	
2.4 Net.....	97,499,003	54,734,709	15,290,321	0	29,357	15,816,364	11,503,694	0	124,558	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.....	108,798,414	57,680,066	17,780,150	1,651,000	29,357	17,621,000	12,304,173	0	1,732,668	0
4.2 Reinsurance assumed.....	8,487,503	8,487,503	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	3,259,110	0	0	1,651,000	0	0	0	0	1,608,110	0
4.4 Net.....	114,026,807	66,167,569	17,780,150	0	29,357	17,621,000	12,304,173	0	124,558	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).....	55,100,477	469,442,447	457,456	64,059,113	55,557,933	70,409,969
2. Medicare supplement.....	15,994,022	148,907,635	(326,428)	18,106,578	15,667,594	17,665,725
3. Dental only.....	1,717,311	21,049,524	7,609	1,643,391	1,724,920	1,494,000
4. Vision only.....		472,269		29,357	0	24,167
5. Federal employees health benefits plan.....	15,066,463	191,584,851	182,509	17,438,491	15,248,972	16,423,840
6. Title XVIII - Medicare.....	7,899,493	69,080,830	64,978	12,239,195	7,964,471	10,816,660
7. Title XIX - Medicaid.....					0	
8. Other health.....		44,578,375		124,558	0	116,520
9. Health subtotal (Lines 1 to 8).....	95,777,766	945,115,931	386,124	113,640,683	96,163,890	116,950,881
10. Healthcare receivables (a).....	1,336,341	13,186,746			1,336,341	
11. Other non-health.....					0	
12. Medical incentive pools and bonus amounts.....					0	39,993
13. Totals (Lines 9 - 10 + 11 + 12).....	94,441,425	931,929,185	386,124	113,640,683	94,827,549	116,990,874

(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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	774,735	775,712			
2. 2007.....	740,925	820,422	821,933		
3. 2008.....	.XXX	810,721	897,012	897,488	
4. 2009.....	.XXX	.XXX	866,818	952,206	952,491
5. 2010.....	.XXX	.XXX	.XXX	892,021	987,401
6. 2011.....	.XXX	.XXX	.XXX	.XXX	945,230

**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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	785,439	785,448			
2. 2007.....	848,693	823,148	821,933		
3. 2008.....	.XXX	920,380	898,025	897,488	
4. 2009.....	.XXX	.XXX	980,505	951,424	952,491
5. 2010.....	.XXX	.XXX	.XXX	1,008,135	987,234
6. 2011.....	.XXX	.XXX	.XXX	.XXX	1,058,871

**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. 2007.....	981,829	821,933	38,024	4.6	859,957	87.6			859,957	87.6
2. 2008.....	1,070,657	897,488	37,435	4.2	934,923	87.3			934,923	87.3
3. 2009.....	1,148,300	952,490	35,562	3.7	988,052	86.0			988,052	86.0
4. 2010.....	1,213,713	987,172	34,501	3.5	1,021,673	84.2	387	16	1,022,076	84.2
5. 2011.....	1,273,206	945,230	46,099	4.9	991,329	77.9	113,640	4,275	1,109,244	87.1

12.GT

## 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	443,318	444,305			
2. 2007.....	404,599	455,149	456,248		
3. 2008.....	XXX	446,001	501,746	502,246	
4. 2009.....	XXX	XXX	476,328	526,176	526,419
5. 2010.....	XXX	XXX	XXX	441,830	496,687
6. 2011.....	XXX	XXX	XXX	XXX	469,442

#### 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	444,123	444,305			
2. 2007.....	473,127	457,992	456,248		
3. 2008.....	XXX	520,068	501,993	502,246	
4. 2009.....	XXX	XXX	554,998	525,881	526,419
5. 2010.....	XXX	XXX	XXX	511,615	496,763
6. 2011.....	XXX	XXX	XXX	XXX	533,502

#### 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. 2007.....	588,637	456,248	20,793	4.6	477,041	81.0			477,041	81.0
2. 2008.....	648,334	502,246	21,021	4.2	523,267	80.7			523,267	80.7
3. 2009.....	683,101	526,419	19,770	3.8	546,189	80.0			546,189	80.0
4. 2010.....	638,998	496,687	17,159	3.5	513,846	80.4	457	17	514,320	80.5
5. 2011.....	666,533	469,442	26,231	5.6	495,673	74.4	64,059	2,410	562,142	84.3

12.HM

## 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	144,184	144,174			
2. 2007.....	133,572	148,261	148,665		
3. 2008.....	XXX	136,550	151,881	151,832	
4. 2009.....	XXX	XXX	140,856	154,313	154,298
5. 2010.....	XXX	XXX	XXX	146,117	162,126
6. 2011.....	XXX	XXX	XXX	XXX	148,907

#### 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	144,272	144,174			
2. 2007.....	153,288	148,181	148,665		
3. 2008.....	XXX	154,986	152,201	151,832	
4. 2009.....	XXX	XXX	158,548	153,981	154,298
5. 2010.....	XXX	XXX	XXX	163,964	161,965
6. 2011.....	XXX	XXX	XXX	XXX	167,014

12.MS

#### 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. 2007.....	174,920	148,665	6,876	4.6	155,541	88.9			155,541	88.9
2. 2008.....	183,430	151,832	6,435	4.2	158,267	86.3			158,267	86.3
3. 2009.....	197,831	154,298	5,847	3.8	160,145	81.0			160,145	81.0
4. 2010.....	208,623	162,126	5,675	3.5	167,801	80.4	(326)	(12)	167,463	80.3
5. 2011.....	214,752	148,907	3,721	2.5	152,628	71.1	18,107	.681	171,416	79.8

## 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	14,475	14,475			
2. 2007.....	12,057	13,081	13,089		
3. 2008.....	XXX	14,697	15,812	15,822	
4. 2009.....	XXX	XXX	16,100	17,353	17,355
5. 2010.....	XXX	XXX	XXX	18,181	19,897
6. 2011.....	XXX	XXX	XXX	XXX	21,050

#### 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	14,481	14,475			
2. 2007.....	13,073	13,081	13,089		
3. 2008.....	XXX	16,130	15,829	15,822	
4. 2009.....	XXX	XXX	17,318	17,371	17,355
5. 2010.....	XXX	XXX	XXX	19,654	19,885
6. 2011.....	XXX	XXX	XXX	XXX	22,693

#### 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. 2007.....		13,089	621	4.7	13,710	0.0			13,710	0.0
2. 2008.....		15,822	692	4.4	16,514	0.0			16,514	0.0
3. 2009.....		17,355	669	3.9	18,024	0.0			18,024	0.0
4. 2010.....		19,897	707	3.6	20,604	0.0	8	.2	20,614	0.0
5. 2011.....		21,050	93	0.4	21,143	0.0	1,643	.62	22,848	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 - VISION ONLY

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....					
2. 2007.....					
3. 2008.....	XXX	294	294	294	
4. 2009.....	XXX	XXX	434	434	434
5. 2010.....	XXX	XXX	XXX	427	427
6. 2011.....	XXX	XXX	XXX	XXX	472

#### 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....					
2. 2007.....					
3. 2008.....	XXX	322	294	294	
4. 2009.....	XXX	XXX	457	434	434
5. 2010.....	XXX	XXX	XXX	452	427
6. 2011.....	XXX	XXX	XXX	XXX	502

12.VO

#### 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. 2007.....	402		16	0.0	16	4.0			16	4.0
2. 2008.....	470	294	14	4.8	308	65.5			308	65.5
3. 2009.....	565	434	18	4.1	452	80.0			452	80.0
4. 2010.....	615	427	17	4.0	444	72.2			444	72.2
5. 2011.....	675	472		0.0	472	69.9	29	1	502	74.4

## 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	172,758	172,758			
2. 2007.....	180,552	193,786	193,786		
3. 2008.....	XXX	185,082	199,182	199,182	
4. 2009.....	XXX	XXX	188,937	203,251	203,263
5. 2010.....	XXX	XXX	XXX	194,110	209,166
6. 2011.....	XXX	XXX	XXX	XXX	191,585

#### 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	172,827	172,758			
2. 2007.....	198,011	193,750	193,786		
3. 2008.....	XXX	200,474	199,611	199,182	
4. 2009.....	XXX	XXX	204,904	202,876	203,263
5. 2010.....	XXX	XXX	XXX	210,347	209,173
6. 2011.....	XXX	XXX	XXX	XXX	209,023

#### 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. 2007.....	208,882	193,786	9,295	4.8	203,081	97.2			203,081	97.2
2. 2008.....	208,162	199,182	8,724	4.4	207,906	99.9			207,906	99.9
3. 2009.....	218,118	203,262	7,843	3.9	211,105	96.8			211,105	96.8
4. 2010.....	237,923	209,166	7,539	3.6	216,705	91.1	183	.7	216,895	91.2
5. 2011.....	233,558	191,585	6,364	3.3	197,949	84.8	17,438	.656	216,043	92.5

## 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....					
2. 2007.....					
3. 2008.....	XXX	.600	.600	.615	
4. 2009.....	XXX	.XXX	2,874	9,390	9,433
5. 2010.....	XXX	.XXX	.XXX	43,516	51,373
6. 2011.....	XXX	.XXX	.XXX	.XXX	69,081

#### 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....					
2. 2007.....					
3. 2008.....	XXX	.601	.600	.615	
4. 2009.....	XXX	.XXX	2,879	9,592	9,433
5. 2010.....	XXX	.XXX	.XXX	54,147	51,295
6. 2011.....	XXX	.XXX	.XXX	.XXX	81,320

#### 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. 2007.....	353		.20	0.0	.20	5.7			.20	5.7
2. 2008.....	.750	.615	.28	.4.6	.643	.85.7			.643	.85.7
3. 2009.....	4,172	9,433	.119	.1.3	9,552	229.0			9,552	229.0
4. 2010.....	73,261	51,373	1,691	.3.3	53,064	.72.4	.65	.2	53,131	.72.5
5. 2011.....	102,305	69,081	2,689	.3.9	71,770	.70.2	12,239	.460	84,469	.82.6

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## 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	<b>NONE</b>				
2. 2007.....					
3. 2008.....	XXX				
4. 2009.....	XXX	XXX			
5. 2010.....	XXX	XXX	XXX		
6. 2011.....	XXX	XXX	XXX	XXX	

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

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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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	<b>NONE</b>				
2. 2007.....					
3. 2008.....	XXX				
4. 2009.....	XXX	XXX			
5. 2010.....	XXX	XXX	XXX		
6. 2011.....	XXX	XXX	XXX	XXX	

#### 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. 2007.....				.00	.00	.00			.00	.00
2. 2008.....				.00	.00	.00			.00	.00
3. 2009.....				.00	.00	.00			.00	.00
4. 2010.....				.00	.00	.00			.00	.00
5. 2011.....				.00	.00	.00			.00	.00

## 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....					
2. 2007.....	10,145	10,145	10,145		
3. 2008.....	XXX	27,497	27,497	27,497	
4. 2009.....	XXX	XXX	41,289	41,289	41,289
5. 2010.....	XXX	XXX	XXX	47,840	47,840
6. 2011.....	XXX	XXX	XXX	XXX	44,578

#### 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 2007	2 2008	3 2009	4 2010	5 2011
1. Prior.....	9,736	9,736			
2. 2007.....	11,194	10,144	10,145		
3. 2008.....	XXX	27,799	27,497	27,497	
4. 2009.....	XXX	XXX	41,401	41,289	41,289
5. 2010.....	XXX	XXX	XXX	47,956	47,840
6. 2011.....	XXX	XXX	XXX	XXX	44,703

#### 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. 2007.....	8,635	10,145	403	4.0	10,548	122.2			10,548	122.2
2. 2008.....	29,511	27,497	521	1.9	28,018	94.9			28,018	94.9
3. 2009.....	44,513	41,289	1,296	3.1	42,585	95.7			42,585	95.7
4. 2010.....	54,293	47,840	1,713	3.6	49,553	91.3			49,553	91.3
5. 2011.....	55,383	44,578	7,001	15.7	51,579	93.1	125	.5	51,709	93.4

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**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.....	16,197,332	15,740,650					452,379		4,303
2. Additional policy reserves (a).....	13,565,155	13,565,155							
3. Reserve for future contingent benefits.....	0								
4. Reserve for rate credits or experience rating refunds (including \$.....0) for investment income.....	97,925,154	3,959,682				93,965,472			
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	127,687,641	33,265,487	0	0	0	93,965,472	452,379	0	4,303
7. Reinsurance ceded.....	0								
8. Totals (net) (Page 3, Line 4).....	127,687,641	33,265,487	0	0	0	93,965,472	452,379	0	4,303
<b>CLAIM RESERVE</b>									
9. Present value of amounts not yet due on claims.....	0								
10. Reserve for future contingent benefits.....	0								
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0								
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0

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<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

(a) Includes \$.....0 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 (\$.....8,316,417 for occupancy of own building).....	107,592	1,074,003	2,727,943	8,316,417	12,225,955
2. Salaries, wages and other benefits.....	21,912,331	34,532,196	112,480,004		168,924,531
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			27,893,614		27,893,614
4. Legal fees and expenses.....			394,530		394,530
5. Certifications and accreditation fees.....	25,211				25,211
6. Auditing, actuarial and other consulting services.....	999,327	6,413	4,798,241		5,803,981
7. Traveling expenses.....	332,332	86,068	1,902,071		2,320,471
8. Marketing and advertising.....	67,177	218	1,008,996		1,076,391
9. Postage, express and telephone.....	719,139	5,754,496	6,688,112		13,161,747
10. Printing and office supplies.....	702,090	1,169,825	1,152,354		3,024,269
11. Occupancy, depreciation and amortization.....					0
12. Equipment.....	2,562,580	1,713,805	10,084,697		14,361,082
13. Cost or depreciation of EDP equipment and software.....	1,001,446	62,568	19,086,580		20,150,594
14. Outsourced services including EDP, claims, and other services.....	4,540,528	5,557,441	18,160,746	855,957	29,114,672
15. Boards, bureaus and association fees.....	99,704	2,960	2,231,601		2,334,265
16. Insurance, except on real estate.....	76,100	187,919	1,098,069		1,362,088
17. Collection and bank service charges.....			797,686		797,686
18. Group service and administration fees.....	(6,756,038)	54,781,493	2,360,315		50,385,770
19. Reimbursements by uninsured plans.....	(72,532,683)	(1,671,996)	(146,921,383)		(221,126,062)
20. Reimbursements from fiscal intermediaries.....		1,269,035	76		1,269,111
21. Real estate expenses.....	302,761	1,072,201	2,941,120	934,916	5,250,998
22. Real estate taxes.....	13,828	39,562	156,674	24,544	234,608
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....	2,461	94	42,901		45,456
23.2 State premium taxes.....			536,999		536,999
23.3 Regulatory authority licenses and fees.....	325	17	168,742		169,084
23.4 Payroll taxes.....	1,133,114	2,047,553	5,169,177		8,349,844
23.5 Other (excluding federal income and real estate taxes).....	14,467	73,464	5,540,882		5,628,813
24. Investment expenses not included elsewhere.....					0
25. Aggregate write-ins for expenses.....	3,831,170	2,865,529	32,274,695	0	38,971,394
26. Total expenses incurred (Lines 1 to 25).....	(40,845,038)	110,624,864	112,775,442	10,131,834	(a) 192,687,102
27. Less expenses unpaid December 31, current year.....		4,287,645	239,647,751		243,935,396
28. Add expenses unpaid December 31, prior year.....		4,369,835	209,722,566		214,092,401
29. Amounts receivable relating to uninsured plans, prior year.....			9,073,383		9,073,383
30. Amounts receivable relating to uninsured plans, current year.....			10,755,518		10,755,518
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	(40,845,038)	110,707,054	84,532,392	10,131,834	164,526,242

## DETAILS OF WRITE-INS

2501. Administrative Expenses Assumed.....	3,899,951	2,950,535	19,766,509		26,616,995
2502. Administrative Expenses Ceded.....	(137,224)	(3,405)	(2,164,243)		(2,304,872)
2503. HMOP ASA Agreement.....			(2,053,162)		(2,053,162)
2598. Summary of remaining write-ins for Line 25 from overflow page.....	68,443	(81,601)	16,725,591	0	16,712,433
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	3,831,170	2,865,529	32,274,695	0	38,971,394

(a) Includes management fees of \$.....0 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).....3,724,233	.....3,334,177
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....7,567,973	.....7,345,502
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....27,230	.....27,230
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....3,110,189	.....3,043,157
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....10,190,038	.....10,190,038
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....296,270	.....254,484
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....7,102	.....7,102
10. Total gross investment income.....	.....24,923,035	.....24,201,690
11. Investment expenses.....	.....	(g).....10,131,834
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).....2,362,719
15. Aggregate write-ins for deductions from investment income.....	.....	.....0
16. Total deductions (Lines 11 through 15).....	.....	.....12,494,553
17. Net investment income (Line 10 minus Line 16).....	.....	.....11,707,137

**DETAILS OF WRITE-INS**

0901. FEP Investment Service Charge.....	.....7,102	.....7,102
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).....	.....7,102	.....7,102
1501. ....	.....	.....
1502. ....	.....	.....
1503. ....	.....	.....
1598. Summary of remaining write-ins for Line 15 from overflow page.....	.....	.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....	.....	.....0

- (a) Includes \$.....417,150 accrual of discount less \$.....2,024,115 amortization of premium and less \$.....438,842 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 \$.....8,316,417 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.
- (e) Includes \$.....0 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 \$.....2,362,719 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.....	.....779,357	.....1,924,601	.....2,703,958	.....	.....(1,116,352)
1.2 Other bonds (unaffiliated).....	.....332,190	.....	.....332,190	.....	.....
1.3 Bonds of affiliates.....	.....	.....	.....0	.....	.....
2.1 Preferred stocks (unaffiliated).....	.....	.....	.....0	.....	.....
2.11 Preferred stocks of affiliates.....	.....	.....	.....0	.....	.....
2.2 Common stocks (unaffiliated).....	.....10,087,389	.....(7,095,504)	.....2,991,885	.....(19,351,720)	.....
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).....	.....11,198,937	.....(5,170,903)	.....6,028,033	.....(19,351,720)	.....(1,116,352)

**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	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0	.....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.....	17,742,874	18,872,556	1,129,682
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).....			.0
6. Contract loans.....			.0
7. Derivatives (Schedule DB).....			.0
8. Other invested assets (Schedule BA).....			.0
9. Receivables for securities.....			.0
10. Securities lending reinvested collateral assets (Schedule DL).....			.0
11. Aggregate write-ins for invested assets.....	.0	.0	.0
12. Subtotals, cash and invested assets (Lines 1 to 11).....	17,742,874	18,872,556	1,129,682
13. Title plants (for Title insurers only).....			.0
14. Investment income due and accrued.....			.0
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection.....	296,320	335,296	38,976
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			.0
15.3 Accrued retrospective premiums.....			.0
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers.....			.0
16.2 Funds held by or deposited with reinsured companies.....			.0
16.3 Other amounts receivable under reinsurance contracts.....			.0
17. Amounts receivable relating to uninsured plans.....			.0
18.1 Current federal and foreign income tax recoverable and interest thereon.....			.0
18.2 Net deferred tax asset.....	82,879,212	74,029,098	(8,850,114)
19. Guaranty funds receivable or on deposit.....			.0
20. Electronic data processing equipment and software.....	5,260,463	6,664,695	1,404,232
21. Furniture and equipment, including health care delivery assets.....	9,744,968	8,496,165	(1,248,803)
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0
23. Receivables from parent, subsidiaries and affiliates.....			.0
24. Health care and other amounts receivable.....	6,556,836	3,866,690	(2,690,146)
25. Aggregate write-ins for other than invested assets.....	20,719,609	8,021,796	(12,697,813)
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25).....	143,200,282	120,286,296	(22,913,986)
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.0
28. TOTALS (Lines 26 and 27).....	143,200,282	120,286,296	(22,913,986)

**DETAILS OF WRITE-INS**

1101. Deposits with National Accounts.....			.0
1102.....			.0
1103.....			.0
1198. Summary of remaining write-ins for Line 11 from overflow page.....	.0	.0	.0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	.0	.0	.0
2501. Federal Employee Program Receivable.....			.0
2502. Miscellaneous Receivable.....			.0
2503. Other Assets.....	20,719,609	8,021,796	(12,697,813)
2598. Summary of remaining write-ins for Line 25 from overflow page.....	.0	.0	.0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	20,719,609	8,021,796	(12,697,813)

## 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.....						
2. Provider service organizations.....						
3. Preferred provider organizations.....	292,602	297,316	297,784	298,773	298,934	3,570,948
4. Point of service.....						
5. Indemnity only.....	132,722	133,854	134,040	134,946	136,476	1,618,270
6. Aggregate write-ins for other lines of business.....	0	0	0	0	0	0
7. Total.....	425,324	431,170	431,824	433,719	435,410	5,189,218

### 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 FINANCIAL STATEMENTS****1. Summary of Significant Accounting Policies****A. Accounting Practices**

The financial statements of Arkansas Blue Cross and Blue Shield are presented on the basis of accounting practices prescribed or permitted by the Arkansas Insurance Department.

The Arkansas Insurance 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 insurance company, for determining its solvency under Arkansas Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual, version effective January 1, 2001, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the Arkansas Insurance Department.

For reporting periods ending on December 31, 2004 and later, Arkansas Blue Cross and Blue Shield is reporting its post-employment liabilities and expenses using accounting principles generally accepted in the United States of America. These principles are governed primarily by Financial Accounting Standard 106. This departure from statutory accounting principles was approved by the Arkansas Insurance Department in a letter dated December 30, 2004 in accordance with ACA Sec 23-61-108.

Arkansas Blue Cross and Blue Shield adopted Financial Accounting Standard 158 for its 2007 fiscal year end. FAS 158 improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. For postretirement benefit plans other than pension, the benefit obligation is the accumulated postretirement benefit obligation (APBO).

	State of Domicile - AR	2011	2010
NET INCOME			
(1) Arkansas Blue Cross and Blue Shield state basis (Page 4, Line 32, Columns 2 & 3)		46,448,050	63,342,812
(2) State Prescribed Practices that increase/(decrease) NAIC SAP:		0	0
(3) State Permitted Practices that increase/(decrease) NAIC SAP:		0	0
(4) NAIC SAP (1-2-3=4)		46,448,050	63,342,812
SURPLUS			
(5) Arkansas Blue Cross and Blue Shield state basis (Page 3, Line 33, Columns 3&4)		581,658,383	572,046,866
(6) State Prescribed Practices that increase/(decrease) NAIC SAP:			0
(7) State Permitted Practices that increase/(decrease) NAIC SAP:		63,800,000	51,414,000
(8) NAIC SAP (5-6-7=8)		645,458,383	623,446,866

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

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**C. Accounting Policy**

Health premiums are earned ratably over the terms of the related insurance and reinsurance contracts or policies. Expenses incurred in connection with acquiring new insurance business are charged to operations as incurred.

In addition, the company uses the following accounting policies:

- 1) Short-term investments are stated at amortized cost.
- 2) Bonds not backed by other loans are stated at amortized cost using the interest method.
- 3) Common Stocks are carried at market except that investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20% or more are carried on the equity basis.
- 4) Preferred stocks are carried at cost.
- 5) We have no mortgage loans.
- 6) We have no loan-backed securities.

**NOTES TO FINANCIAL STATEMENTS**

- 7) No change.
- 8) No change.
- 9) We have no derivatives.
- 10) We have no premium deficiency reserves.
- 11) No change.
- 12) No change.
- 13) No change.

**2. Accounting Changes and Corrections of Errors**

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of Arkansas. Effective January 1, 2001, the State of Arkansas adopted regulations requiring insurance companies domiciled in the State of Arkansas prepare their statutory basis financial statements in accordance with the NAIC *Accounting Practices and Procedures* manual – Version effective January 1, 2001 subject to any deviations prescribed or permitted by the State of Arkansas insurance commissioner.

A. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R*, effective December 31, 2007. The Statement requires recognition of the funded status of a defined benefit plan in the statement of admitted assets, liabilities and surplus as an asset or liability if the plan is overfunded or underfunded, respectively. Changes in the funded status of a plan are required to be recognized in the year in which the changes occur, and reported in the statement of operations and changes in surplus as a separate component of surplus for SAP purposes. Further, certain gains and losses that were not previously recognized in the financial statements are required to be reported in surplus for SAP purposes; and certain disclosure requirements were changed. These changes are effective for fiscal years ending after December 15, 2006, with no retroactive restatement of prior periods. SFAS No. 158 also requires companies to measure a plan's assets and obligations that determine its funded status as of the end of the employers's fiscal year instead of the November 30 early measurement date the Company currently uses. This change is effective for fiscal years ending after December 15, 2008. The Company will adopt the measurement date provisions in 2008.

B. The Company received approval from the Department to include the other postretirement benefit obligation in accordance with *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*, which requires accrual for non-vested employees. Statutory accounting practices prescribed by the NAIC and the Department require that other postretirement decreased surplus by approximately \$63.8 million and \$51.4 million for the years ended December 31, 2011 and 2010, respectively.

**3. Business Combinations and Goodwill**

The Company had no business combinations or goodwill as of December 31, 2011.

**4. Discontinued Operations**

The Company had no discontinued operations as of December 31, 2011.

**5. Investments**

- A. The Company has no mortgage loans at this time.
- B. The Company has no debt restructuring at this time.
- C. The Company has no reverse mortgages at this time.
- D. The Company has no loan-backed securities at this time.
- E. The Company has no repurchase agreements and/or security lending transactions at this time.
- F. N/A
- G. The Company has no investment in low-income housing tax credits.

**6. Joint Ventures, Partnerships, and Limited Liability Companies**

A. The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.

B. The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships and Limited Liability Companies during the statement periods.

**7. Investment Income**

All investment income due and accrued is included in investment income.

**8. Derivative Instruments**

- A) None.
- B) None.
- C) None.
- D) None.
- E) None.
- F) None.

**9. Income Taxes**

USAbLe Mutual Insurance Company files a consolidated federal income tax return with its other eligible domestic subsidiaries, USAbLe Corporation, Pinnacle Business Solutions, Inc. and Group Service Underwriters, Inc. The company is party to a federal income tax allocation agreement. Under the tax sharing agreement, the Company pays to or receives from each subsidiary the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return. Effectively, this results in the Company's annual income tax provision being computed, with adjustments, as if the Company filed a separate return.

**NOTES TO FINANCIAL STATEMENTS**

The method of allocation of consolidated tax liability between the companies has been approved by the required authorized officers. The method of allocation chosen is in accordance with Internal Revenue Service Regulation 1.1502-33(d) (2) (I) whereby profitable companies pay tax according to their separate return liabilities, and loss companies are credited with the tax benefit realized due to the utilization of their losses and investment tax credit. Intercompany tax balances are paid quarterly based on estimates and settled annually upon the completion of the consolidated tax return.

When available, the Company utilizes net operating loss carry forwards to offset taxable income under the terms of the tax sharing agreement. At December 31, 2011, the Company had \$0 of operating loss carry forwards.

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future losses:

	Ordinary	Capital	Total
2011	29,834,837	3,177,455	33,012,291
2010	20,046,907	698,082	20,744,989
2009	0	2,257,032	2,257,032

The components of current income tax expense are as follows:

	2011	2010
Federal	\$ 15,985,590	\$ 18,197,370
Foreign	\$ -	\$ -
Federal Income Tax on net capital gains	\$ 3,065,815	\$ 1,194,182
Utilization of capital loss carry-forwards		
Federal & Foreign income tax incurred	\$ 19,051,405	\$ 19,391,552

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	Dec 31, 2011	Effective Tax Rate
Provision computed at statutory rate	\$ 22,924,809	35.0%
Tax exempt income deduction	(334,899)	(0)
Dividends received deduction	(484,271)	-0.7%
Tax differentials on foreign earnings	0	0
Nondeductible expenses	554,600	0.8%
Tax Credits	(13,120,987)	-20.0%
Rate Differential	0	0.0%
Other	4,060,737	6.2%
Total	\$ 13,599,989	20.8%
Federal and foreign income taxes incurred	\$ 19,051,405	29.1%
Change in net deferred income taxes	(5,451,416)	-8.3%
Total statutory income taxes	\$ 13,599,989	20.8%

The components of the net deferred tax asset (liability) [at December 31] are as follows:

	December 31, 2011			December 31, 2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total of all deferred tax assets (admitted and nonadmitted)	100,412,581	12,682,404	113,094,985	87,062,233	11,871,040	98,933,273	13,350,348	811,364	14,161,712
Total of all deferred tax liabilities	392,097	31,156,848	31,548,944	457,386	37,931,370	38,388,756	(65,289)	(6,774,522)	(6,839,812)
Net deferred tax asset (liability)	100,020,485	(18,474,444)	81,546,041	86,604,847	(26,060,330)	60,544,517	13,415,638	7,585,886	21,001,524
Total deferred tax assets nonadmitted in accordance with SSAP No. 10, Income Taxes	82,879,212	0	82,879,212	74,029,098	0	74,029,098	8,850,114	0	8,850,114
Net admitted deferred tax asset/(liability)	17,141,273	(18,474,444)	(1,333,171)	12,575,749	(26,060,330)	(13,484,581)	4,565,524	7,585,886	12,151,410

The Company has elected to admit DTAs pursuant to paragraph 10.e. in the current year. This election is consistent with the prior year. The components of the calculation are as follows:

Admission Calculation Components:

SSAP No. 10R, Paragraphs 10a., 10b., and 10.c:

	December 31, 2011			December 31, 2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
SSAP No. 10R, Paragraph 10.a	13,552,978	0	13,552,978	8,305,641	0	8,305,641	5,247,337	0	5,247,337
SSAP No. 10R, Paragraph 10.b (the lesser of paragraph 10.b.i and 10.b.ii. below)	0	0	0	0	0	0	0	0	0
SSAP No. 10R, Paragraph 10.b.i.	0	0	0	0	0	0	0	0	0
SSAP No. 10R, Paragraph 10.b.ii.	0	0	0	0	0	0	0	0	0
SSAP No. 10R, Paragraph 10.c.	392,097	12,682,404	13,074,500	457,386	11,871,040	12,328,426	(65,289)	811,364	746,074
Total	13,945,074	12,682,404	26,627,478	8,763,027	11,871,040	20,634,067	5,182,047	811,364	5,933,411

**NOTES TO FINANCIAL STATEMENTS**

Admission Calculation Components:  
SSAP No. 10R, Paragraphs 10.e.:

	December 31, 2011			December 31, 2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
SSAP No. 10R, Paragraph 10.e.i.	17,141,273	0	17,141,273	12,575,749	0	12,575,749	4,565,524	0	4,565,524
SSAP No. 10R, Paragraph 10.e.ii. (the lesser of paragraph 10.e.ii.a and 10.e.ii.b. below)	0	0	0	0	0	0	0	0	0
SSAP No. 10R, Paragraph 10.e.ii.a	0	0	0	0	0	0	0	0	0
SSAP No. 10R, Paragraph 10.e.ii.b	0	0	0	0	0	0	0	0	0
SSAP No. 10R, Paragraph 10.e.iii.	392,097	12,682,404	13,074,500	457,386	11,871,040	12,328,426	(6,289)	811,364	746,074
Total	17,533,369	12,682,404	30,215,773	13,033,135	11,871,040	24,904,175	4,500,234	811,364	746,074

Used in SSAP No. 10R, Paragraph 10.d.

	December 31, 2011			December 31, 2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Total Adjusted Capital	XXXX	XXXX	572,046,866	XXXX	XXXX	482,504,370	XXXX	XXXX	89,542,496
Authorized Control Level	XXXX	XXXX	64,583,475	XXXX	XXXX	55,306,593	XXXX	XXXX	9,276,882

Increase in Admitted Deferred Tax Asset due to SSAP No. 10R, Paragraph 10.e.

	December 31, 2011			December 31, 2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted DTA under paragraph 10.a., 10.b., and 10.c.	13,945,074	12,682,404	26,627,478	8,763,027	11,871,040	20,634,067	5,182,047	811,364	5,993,411
Admitted DTA under paragraph 10.e	17,533,369	12,682,404	30,215,773	13,033,135	11,871,040	24,904,175	4,500,234	811,364	5,311,598
Increase	3,588,295	0	3,588,295	4,270,108	0	4,270,108	(681,813)	0	(681,813)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at [December 31] are as follows:

	December 31, 2011	December 31, 2010	Change
<b>Deferred Tax Assets:</b>			
(a) <b>Ordinary</b>			
Tax basis discount on unpaid losses	669,055	726,179	(57,124)
Adjustment for deferred acquisition costs	6,542,288	6,367,277	175,011
Accrued deferred compensation	19,849,871	18,746,567	1,103,304
Other Post Employment Benefits	62,537,304	52,090,502	10,446,801
Depreciable assets	4,113,405	7,921,766	(3,808,362)
Other	6,700,659	1,209,942	5,490,717
Total ordinary deferred tax assets	100,412,581	87,062,233	13,350,348
Total deferred ordinary tax assets non-admitted	82,879,212	74,029,098	8,850,114
Admitted ordinary deferred tax assets	17,533,369	13,033,135	4,500,234
(b) <b>Capital</b>			
Intangibles	3,232,468	3,326,559	(94,091)
Basis difference in partnership investments	1,100,040	1,820,257	(720,217)
Basis difference in partnership investments-LSV	-	-	-
Unrealized Gain/Loss on partnerships-LSV	-	-	-
Other than Temp Investment Impairments	6,095,156	4,457,531	1,637,626
Other	2,254,740	2,266,693	(11,954)
Total capital deferred tax assets	12,682,404	11,871,040	811,364
Total deferred capital tax assets non-admitted	-	-	-
Admitted capital deferred tax assets	12,682,404	11,871,040	811,364
<b>Total admitted deferred tax assets</b>	<b>30,215,773</b>	<b>24,904,175</b>	<b>5,311,598</b>
<b>Deferred Tax Liabilities:</b>			
(a) <b>Ordinary</b>			
Accrued dividends	81,530	104,992	(23,461)
Discount Amortization	310,566	352,394	(41,828)

**NOTES TO FINANCIAL STATEMENTS**

Total ordinary deferred tax liabilities	392,097	457,386	(65,289)
<b>(b) Capital</b>			
Unrealized Capital Gains	13,684,734	20,608,270	(6,923,536)
Basis difference in partnership investments-LSV	4,066,907	3,453,470	613,437
Unrealized Gain/Loss on partnerships-LSV	(679,540)	9,599	(689,139)
Basis diff in Unconsolidated Subs	13,903,723	13,608,956	294,768
Unrealized Gain/Loss on Unconsolid Subs	181,024	251,075	(70,051)
Total capital deferred tax liabilities	31,156,848	37,931,369	(6,774,522)
<b>Total deferred tax liabilities</b>	<b>31,548,944</b>	<b>38,388,755</b>	<b>(6,839,811)</b>
<b>Net admitted deferred tax asset/(liability)</b>	<b>(1,333,171)</b>	<b>(13,484,580)</b>	<b>12,151,408</b>

The change in net deferred income taxes is comprised of the following [at December 31]:

	December 31, 2011	December 31, 2010	Change
Total deferred tax assets	\$ 113,094,985	\$ 98,933,273	\$ 14,161,712
Total deferred tax liabilities	31,548,944	38,388,755	(6,839,811)
Net deferred tax asset (liability)	\$ 81,546,041	\$ 60,544,518	\$ 21,001,523
Tax effect of unreal gains (losses)-portfolio			(6,923,536)
Tax effect of unreal gains (losses)-other inv			(759,191)
Tax effect of unreal gains (losses)-SSP	235,837	(246,194)	(482,031)
Tax effect of unreal gains (losses)-FAS 158	22,011,150	14,625,800	(7,385,350)
Tax effect of transfer of subsidiary liability			-
Change in net deferred income tax			\$ 5,451,416

**10. Information Concerning Parent, Subsidiaries and Affiliates**

A. Arkansas Blue Cross Blue Shield owns 100% of USAbLe Corporation and Pinnacle Business Solutions, Inc, and owns 50% of HMO Partners, Inc and LSV Partners, LLC. On October 1, 2006, USAbLe Corporation, a wholly owned subsidiary of Arkansas Blue Cross and Blue Shield (ABCBS), sold its ownership interest in HMO Partners, Inc. and Life & Specialty Ventures, LLC to ABCBS. In November 2006, Ideal Medicare Services was dissolved. As of December 31, 2008, USAbLe Corporation owns 100% of AHIN, LLC, 50% of PCHMG, LLC, 50% of Medsite Health Mgmt, LLC, 50% of Southwest Health Link, LLC, 100% of Group Service Underwriters, and 2.7% of Health Intelligence. Novitas, LLC was dissolved in December 2011. Hot Springs Health Partners, LLC, Health Partners of Northwest Arkansas, LLC, and Fort Smith Health Partners, LLC were dissolved effective with the close of business on 12/31/04. On January 1, 2008, Life and Specialty Ventures, LLC became LSV Partners, LLC and a new Life and Specialty Ventures, LLC was formed. LSV Partners owns 100% of Florida Combined Life Insurance Company and 41.5% of Life and Specialty Ventures, LLC. On August 22, 2007, Arkansas Blue Cross Blue Shield invested \$3.7 million in B.P. Informatics LLC, a Delaware LLC. Additional capital contributions made in 2009, 2010, and 2011 totaling \$2,070,558 in B.P. Informatics, LLC brought the percentage ownership to 19.085%. On March 31, 2009, ABCBS invested \$10,000 in Shareware, LLC for percentage ownership of 12.5%. On January 1, 2010, Arkansas Blue Cross assumed the role of third party administrator of those employee health benefit plans that were formerly administered by its subsidiary, USAbLe Corporation. State laws in almost every state require that a third party administrator that administers health benefit plans that cover citizens of the state be registered with or be licensed by state regulatory authorities. Because of a concern that using a legal name that includes the Blue Cross® or Blue Shield® brands in these TPA filings would result in confusion with the local Blue Cross or Blue Shield Plan in those respective states, the Board of Directors recommended and the members of the company at their Annual Meeting on March 15, 2010 voted to approve an amendment to the Articles of Incorporation changing the legal name of the company to "USAbLe Mutual Insurance Company." The new name became effective on March 23, 2010 when the Arkansas Insurance Commissioner approved the amendment to the Articles of Incorporation.

B. N/A

C. N/A

D. At December 31, 2011 the Company reported the following amounts due from Affiliates:

HMO Partners, Inc.	6,693,890
USAbLe Life	(5,775)
USAbLe Corporation	10,140
AHIN, LLC	273,293
Life and Specialty Ventures	18,821
Pinnacle Business Solutions	6,404,710
Southwest Health Link	-
Blue & You Foundation	32,302

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**NOTES TO FINANCIAL STATEMENTS**


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PCHMG, LLC	481,136
Medsite Health Mgmt, LLC	6,670
Total	\$ 13,915,187

At December 31, 2011 the Company reported the following amounts due to Affiliates:

Southwest Health Link	604,184
USAbLe Life	566,361
USAbLe Corporation	140,866
Life and Specialty Ventures	-
Pinnacle Business Solutions	-
HMO Partners, Inc	40,003
Other	364,956
Total	\$ 1,716,368

- E. N/A  
 F. The Company and certain subsidiary affiliates, including unconsolidated subsidiaries, participate in a vendor payment system administered and maintained by the Company. Costs from this system as well as other costs, which have multi-company benefit, are allocated to the Company and its affiliates based on allocation formulas.

- G. N/A  
 H. N/A  
 I. N/A  
 I. N/A  
 J. N/A  
 K. N/A  
 L. N/A

#### 11. Debt

- A. As of December 31, 2011, the Company has no capital notes.  
 B. As of December 31, 2011, the Company's liability for borrowed money was zero (\$-0-).

#### 12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

##### A. Defined Benefit Plan

The Company no longer offers a defined benefit plan.

##### B. Defined Contribution Plan

The Company offers an optional 401(k) plan to all eligible employees. The employee has the option of deferring up to 50% of his or her salary. The Company matches the amount deferred by the employee based upon years of service from a minimum of 50% to a maximum of 100% of a 6% contribution.

Effective July 1, 1998 the plan was amended to establish a non-contributory, defined contribution portion of the plan known as 401(k) Plu\$. Employees are not required to participate in the original defined contribution plan in order to receive benefits under the 401(k) Plu\$ portion of the plan. Under the 401(k) Plu\$ the Company makes a contribution from 2% to 6% of the eligible compensation of all eligible employees. The determination of the percentage to be used in calculating the contribution is based upon annually established net income targets. At no time will the contribution be less than 2% nor more than 6%. For 2010, 6% was used to calculate the Company's contribution of \$6,120,125, and for 2011, 6% was used to calculate the contribution of \$6,330,298.

All funds under the 401(k) Plu\$ portions of the plan are held by an outside trustee.

##### C. Multi-employer Plans

The Company does not participate in multi-employer plans.

##### D. Consolidated/Holding Company Plans

The Company participates in a deferred compensation plan with its subsidiaries and affiliates.

##### E. Postemployment Benefits and Compensated Absences

##### F. N/A

#### Medical Indemnity and Life Plans

The Company provides unfunded medical indemnity and life insurance plans for eligible retirees and/or their spouses. The medical plan is available to all employees hired before January 1, 1995, who retire on or after age 55 with 15 or more years of service with the Company. For currently eligible retirees and individuals employed by the Company as of January 1, 1995, who retired before January 1, 1996, the entire cost of coverage is paid by the employer. For individuals employed by the Company before January 1, 1995, who retire after January 1, 1996, the cost of coverage to be funded by the Company will be limited. The maximum annual amount to be funded is based on the individual's years of service and marital status and will be adjusted annually by a fixed percentage.

The life insurance program covers the lives of retirees age 55 or older who are eligible for a pension benefit or become disabled. Life insurance amounts, which are based on the employee's basic annual earnings at retirement, range from \$20,000 for a minimum salary of \$10,000 to \$150,000 for a salary of \$75,000 or more. Benefits are reduced by 50% at age 65, 75% at age 70 and limited to \$5,000 at age 75 and beyond.

Following is a summary of amounts in accumulated other comprehensive income as of December 31, 2007 that have not yet been recognized in the consolidated statements of income as components of net periodic benefit cost (in thousands):

**NOTES TO FINANCIAL STATEMENTS**

Net actuarial loss	66,636
Prior service cost	( 7,480)

Following is a summary of the unfunded benefit obligation, employee postretirement benefit obligation and the weighted average assumptions used in the determination of the Company's net periodic postretirement benefit cost at December 31 (in thousands):

	<u>2011</u>
Unfunded benefit obligation	174,668
Employee postretirement benefits other than pension	174,668
Weighted average assumptions:	
Discount rate	4.31%
Expected return on plan assets	N/A
Rate of compensation increase	5.00%
Benefit cost	12,208
Employer contribution	3,771
Benefits paid	3,771

For the years ended December 31, 2011 and 2010, the plan did not assume an expected return on plan assets since the plan was unfunded. The health care cost trend rate used to measure the expected cost of benefits is assumed to be the following for each year:

December 31, 2011	6.00%
December 31, 2010	8.00%

Increasing the assumed health care cost trend rate by one percentage point for all future years results in the following effect in the aggregate of service and interest cost components of benefit cost and the accumulated postretirement benefit obligation for the current year ended:

	<u>% Incr</u>	<u>From</u>	<u>To</u>
Aggregate Service & Interest cost	1.67%	10,441,000	10,617,000
APBO	1.39%	174,665,000	177,085,000

Decreasing the assumed health care cost trend rate by one percentage point for all future years results in the following effect in the aggregate of service and interest cost components of benefit cost and the accumulated postretirement benefit obligation for the current year ended:

	<u>% Decr</u>	<u>From</u>	<u>To</u>
Aggregate Service & Interest cost	2.59%	10,441,000	10,172,000
APBO	3.29%	174,665,000	168,918,000

The following expected benefit payments by year, which reflect expected future service, as appropriate, are expected to be paid:

2012	3,376,000
2013	3,998,000
2014	4,678,000
2015	5,410,000
2016	6,100,000
2017 - 2021	39,316,000

Prior service costs and gains/losses are amortized on a straight-line basis over the average remaining service period of active participants. The estimated net actuarial loss and prior service credit that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are 5,012,000 and 1,185,000, respectively.

**Disability Medical Benefits Plan**

The Company provides certain disability medical benefits to all employees who are eligible for long-term disability insurance under the Company's long-term disability insurance program, which applies to employees that have been employed for at least 12 months and have been absent due to disability for a period of at least 180 days.

Any employee hired before January 1, 1995, who becomes disabled after age 55 and with 15 years of service with the Company shall be eligible for retiree coverage under the terms of the Company's retiree medical plan. Any employee who is hired after January 1, 1995, or is less than age 55 at the time of disability or has less than 15 years of service with the Company at the time of the disability is a participant under this long-term disability medical benefits plan. Employees who have 15 years of service with the Company at the time of disability shall be allowed to continue coverage under the Company's group health and dental plan. The employee will be required to pay the difference between the total premium and the disabled employee's premium allowance. The premium allowance is an annual allowance based on years of service up to 25, which is increased by 5% each year. Any employee on long-term disability shall be required to apply for Social Security disability and Medicare disability benefits. Both coverage under the Company's health plan and the allowance will end on the earlier of (1) the date the employee fails to pay the applicable premium, net of any allowance; (2) the date the employee is no longer disabled under the long-term disability insurance program; or (3) attainment of age 65.

Employees who have less than 15 years of service at the time of disability shall be allowed 36 months of health coverage, inclusive of any COBRA coverage. The Company will pay 100% of the single premium for such period. Coverage under this plan ends on the earlier of the end of the 36-month period or the date the employee is no longer disabled under the long-term disability insurance program.

Following is a summary of the employee postretirement benefit obligation and the weighted average assumptions used in the determination of the Company's net periodic postretirement benefit cost at December 31, 2007 (in thousands):

Employee postretirement benefits other than pension	4,157,000
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**NOTES TO FINANCIAL STATEMENTS**


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Weighted average assumptions:

Discount rate	4.31%
Rate of compensation increase	5.00%
Prior service cost	840,000

For the years ended December 31, 2011 and 2010, the plan did not assume an expected return on plan assets since the plan was unfunded. The health care cost trend rate used to measure the expected cost of benefits is assumed to be the following for each year:

December 31, 2011	6.00%
December 31, 2010	8.00%

Increasing the assumed health care cost trend rate by one percentage point for all future years results in the following effect in the aggregate of service and interest cost components of benefit cost and the accumulated postretirement benefit obligation for the current year ended:

	<u>% Incr</u>	<u>From</u>	<u>To</u>
Aggregate Service & Interest Cost	8.07%	169,000	183,000
APBO	8.51%	4,157,000	4,519,000

Decreasing the assumed health care cost trend rate by one percentage point for all future years results in the following effect in the aggregate of service and interest cost components of benefit cost and the accumulated postretirement benefit obligation for the current year ended:

	<u>% Incr</u>	<u>From</u>	<u>To</u>
Aggregate Service & Interest cost	7.33%	169,000	157,000
APBO	7.27%	4,157,000	3,848,000

The following expected benefit payments by year, which reflect expected future service, as appropriate, are expected to be paid:

2012	188,000
2013	204,000
2014	181,000
2015	142,000
2016	149,000
2017 - 2021	941,000

Prior service costs and gains/losses are amortized on a straight-line basis over the average remaining service period of active participants.

The estimated net actuarial loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is 198,000 and 195,000, respectively.

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

- 1) As of December 31, 2011, the Company had no common capital shares authorized, issued or outstanding.
- 2) The Company has no preferred stock outstanding.
- 3) The Company has no dividend restrictions.
- 4) As a Mutual Insurer, the Company can only pay dividends on participating policies and the Company does not issue participating policies.
- 5) The Company had no restrictions on its unassigned surplus.
- 6) As of December 31, 2011, no stock was held by the Company for special purposes such as employee stock options or conversion of preferred stock.
- 7) The Company does not have any advances to surplus.
- 8) N/A
- 9) The Company has no special surplus funds.
- 10) The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:
  - a. unrealized gains and losses: \$ 24,705,161
  - b. nonadmitted asset values: \$143,200,282
  - c. provision for reinsurance: \$ 0
- 11) The Company has no Surplus Notes as of December 31, 2011.
- 12) The Company was not involved in a quasi-reorganization.
- 13) The Company was not involved in a quasi-reorganization.

### 14. Contingencies

The Company is not aware of any contingent liabilities as of December 31, 2011.

In the normal course of business, the Company is involved in litigation from time to time with claimants and others, a number of these were pending at December 31, 2011. In the opinion of the Company, the ultimate liability, if any, has been adequately provided for in the financial statements, and any excess liability would not have a material adverse financial effect upon the Company.

### 15. Leases

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**NOTES TO FINANCIAL STATEMENTS**


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The Company has no material lease obligations at this time.

**16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

The Company does not have any off-balance sheet risk.

**17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

The Company has not been involved in any sale, transfer and servicing of financial assets and extinguishments of liabilities as December 31, 2011.

**Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans**

A.	ASO Plans	Uninsured Plans
	Net Reimbursement for Administrative expenses (including Administrative fees) in excess of actual expenses	\$ 893,561
	Other Income	0
	Net gain or (loss) from operations	\$ 893,561
	Total claim payment volume	\$ 198,428,651

**B. ASC Plans**

The gain from operations from Administrative Services Contract (ASC) uninsured plans was as follows during 2011:

		ASC Uninsured Plans
a.	Gross reimbursement for medical cost incurred	\$ 3,444,455,206
b.	Gross administrative fees accrued	\$ 202,544,171
c.	Other income or expenses	\$ 538,196
d.	Gross expenses incurred (claims and administrative)	\$ 3,633,029,029
e.	Total net gain or loss from operations	\$ 14,508,545

**C. The gain (loss) from operation for uninsured accident and health plans was as follows during 2011:**

	Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total
Net Reimbursement for Administrative expenses (including administrative fees) in excess of actual expenses	NONE	\$ 711,676	\$ 711,676
Other Income	NONE	NONE	NONE
Net gain or (loss) from operations	NONE	\$ 711,676	\$ 711,676

**19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

The Company does not currently have any direct premium written/produced by managing general agents/third party administrators.

**20. Fair Value Measurement**
**A.**
**1. Fair Value Measurements at Reporting Date**

	Description	Level 1	Level 2	Level 3	Total
a.	Assets at Fair Value				
	Common Stock	\$ 71,710,544	\$36,229,727	\$ 4,939,516	\$ 112,879,787
	Preferred Stock	\$278,852	-0-	-0-	\$ 278,852

## NOTES TO FINANCIAL STATEMENTS

Supplemental Savings Plan	\$ 37,543,520	-0-	-0-	\$ 37,543,520
Total Assets at Fair Value	\$109,532,916	\$36,229,727	\$4,939,516	\$150,702,159

2.	Gain/Losses Included in		
	<u>Balance at 1/1/2011</u>	<u>Net Income or Surplus</u>	<u>Purchases (Sales)</u>
	\$5,126,630	\$ -187,114	-0-
			<u>Balance at 12/31/11</u>
			\$4,939,516

3. The company does not have any transfers between levels of fair value measurement.

4. As of December 31, 2011, the reported fair value of the Company's equity investments in Level 2 common stock was \$36,229,727. Of these securities, \$34,911,415 are foreign common shares. To measure the fair value of each equity investment position, the Company used closing primary exchange trading prices in U.S. dollars at the end of trading 12/30/2011.

As of December 31, 2011, the reported fair value of the Company's investments in Level 3 common stock was \$4,939,516. The accounting method for each of these holdings was changed to the Equity Method and these assets will be carried at historical cost because the Company does not own in excess of 20% of all shares in either equity investment.

### 21. Other Items

- A. The Company had no extraordinary items as of December 31, 2011.
- B. The Company had no troubled debt restructuring as of December 31, 2011.
- C. The Company did not have any other disclosures covered by SSAP No. 1 in the 2011 Annual Statement.
- D. The Company has no uncollectible assets covered by SSAP No.6 as of December 31, 2011.
- E. The Company did not have any Business Interruption Insurance Recoveries as of December 31, 2011.
- F. The Company has no business interruption insurance recoveries.
- G. The Company does not engage in sub-prime residential mortgage lending nor does it have any material direct investments in collateralized debt obligations or debt securities that are directly backed by residential mortgages. The Company's exposure to sub-prime lending is limited to its ownership of the general obligation debt and/or equity securities of both governmental and commercial entities whose business activities include residential mortgage lending.

As of December 31, 2011, the Company held no debt securities described in the previous paragraph.

The market value of the Company's investment in the equity securities of commercial enterprises that engage in residential mortgage lending accumulates to \$1,208,053. This represents 1.12% of the Company's non related investments in equity securities of \$108,219,123.

- H. N/A
- I. N/A

### 22. Events Subsequent

There were no known events subsequent as of December 31, 2011.

### 23. Reinsurance

#### A. Ceded Reinsurance Report

##### Section 1

- 1. The Company had no non-affiliated reinsurers.
- 2. The Company had no reinsurer chartered outside the United States.

##### Section 2

- 1. The Company has no reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credits.
- 2. The Company has no reinsurance agreements in effect such that the amount of losses paid or accrued may result in a payment to the reinsurer of amounts that exceed the premium collected.

##### Section 3

- 1. The estimated reduction in surplus if the reinsurance agreement was terminated would be \$-0-.
- 2. No new agreements have been executed during 2011.

- B. The Company did not have any uncollectible reinsurance written off during the year.
- C. There was no commutation of reinsurance during the year.

### 24. Retrospectively Rated Contracts & Contracts Subject to Redetermination

The Company did not have any retrospectively rated contracts or contracts subject to redetermination.

### 25. Change in Incurred Claims and Claim Adjustment Expenses

The Company does not have any changes in the provision for incurred claim and claim adjustment expenses attributable to insured events of prior years.

### 26. Intercompany Pooling Arrangements

The Company did not have any intercompany pooling arrangements

### 27. Structured Settlements

**NOTES TO FINANCIAL STATEMENTS**

The Company did not have any structured settlements as of December 31, 2011.

**28. Health Care Receivable**

A. The Company, in accordance with SSAP No. 84, has estimated pharmaceutical rebate receivables recorded on its financial statements. In determining its estimate, the Company utilizes historical information relative to pharmaceutical rebates received as well as considering contractual changes in rebate amounts and changes in membership. While the Company records the total estimated pharmaceutical rebate receivable, it only admits as an asset the estimate for the last quarter of the reporting date. The detail of the estimated amounts on the financial statements and the related collections are as follows:

---Rebates collected within days of qtr---

Qtr	Est Rebates on F/S	Admitted	Invoiced	0-90	91-180	over 180
12/31/2011	13,365,037	8,795,203				
9/30/2011	10,484,353	6,945,826		869,784		
6/30/2011	9,398,269	5,344,413		1,185,006	3,658,473	18,236
3/31/2011	8,198,142	4,646,793		709,335	4,073,193	23,337
12/31/2010	8,228,898	4,603,869		928,007	3,486,154	15,346
9/30/2010	8,078,562	4,462,126		810,042	3,594,263	92,969
6/30/2010	8,010,452	4,123,450		1,039,803	231,842	3,091,646
3/31/2010	7,512,021	4,805,641		354,837	692,158	3,139,003
12/31/2009	9,445,163	4,791,612		1,902,001	217,952	2,538,312
9/30/2009	7,068,148	4,457,948		153,216	2,099,481	2,678,178
6/30/2009	5,336,153	3,501,386		1,898,056	242,572	2,612,288
3/31/2009	8,641,749	3,501,387		1,748,896	288,324	2,419,159

B. The company has no risk-sharing receivables.

**29. Participating Policies**

The Company did not have any participating policies.

**30. Premium Deficiency Reserves**

The Company did not have any premium deficiency reserves as of December 31, 2011.

**31. Salvage and Subrogation**

Anticipated Salvage and Subrogation included as a reduction to Loss Reserves and Loss Adjustment Reserves as reported in the Underwriting and Investment Exhibit and Page 3 – Liabilities, Capital and Surplus, Line1. This disclosure is presented by annual statement line of business. Amounts presented are as of December 31 of the prior year and December 31 of the year for which this annual statement is being filed.

Line of Business	Year Incurred	December 31 2011	December 31 2010
Accident and Health	2007	\$ 3,870	\$ 12,717
	2008	\$ 12,551	\$ 18,024
	2009	\$ 42,994	\$ 302,305
	2010	\$ 172,195	\$ 859,142
	2011	\$ 948,100	
Total		\$ 1,179,709	\$ 1,192,187

**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 [ X ] No [ ] N/A [ ]

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: 03/21/2011

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2010

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. 12/31/2010

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). 05/09/2007

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 [ ] No [ ] N/A [ X ]

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 [ ] No [ X ]

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

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
BKD, LLP Little Rock, Arkansas

10.1 Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation? Yes [ ] No [ X ]

10.2 If the response to 10.1 is yes, provide information related to this exemption:

10.3 Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation? Yes [ ] No [ X ]

10.4 If the response to 10.3 is yes, provide information related to this exemption:

10.5 Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws? Yes [ X ] No [ ] N/A [ ]

10.6 If the answer to 10.5 is no or n/a, please explain.

11. 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?  
Samuel P. Partin, Sr. Vice President - Actuary & Risk Management, Arkansas Blue Cross and Blue Shield Little Rock, Arkansas

12.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [ X ]

12.11 Name of real estate holding company

12.12 Number of parcels involved .....

12.13 Total book/adjusted carrying value .....

12.2 If yes, provide explanation.

**GENERAL INTERROGATORIES**

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

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

13.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [ ]

13.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [ ]

13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [X]

14.1 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.

14.11 If the response to 14.1 is no, please explain:

14.2 Has the code of ethics for senior managers been amended? Yes [ ] No [X]

14.21 If the response to 14.2 is yes, provide information related to amendment(s).

14.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [X]

14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance with a NAIC rating of 3 or below? Yes [ ] No [X]

15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

1 American Bankers Association (ABA) Routing Number	2 Issuing or Confirming Bank Name	3 Circumstances That Can Trigger the Letter of Credit	4 Amount

**PART 1 - COMMON INTERROGATORIES - BOARD OF DIRECTORS**

16. 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 [ ]

17. 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 [ ]

18. 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 [ ]

**PART 1 - COMMON INTERROGATORIES - FINANCIAL**

19. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes [ ] No [X]

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

- 20.11 To directors or other officers \$.....0
- 20.12 To stockholders not officers \$.....0
- 20.13 Trustees, supreme or grand (Fraternal only) \$.....0

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

- 20.21 To directors or other officers \$.....0
- 20.22 To stockholders not officers \$.....0
- 20.23 Trustees, supreme or grand (Fraternal only) \$.....0

21.1 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]

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

- 21.21 Rented from others .....
- 21.22 Borrowed from others .....
- 21.23 Leased from others .....
- 21.24 Other .....

22.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [X] No [ ]

22.2 If answer is yes:

- 22.21 Amount paid as losses or risk adjustment \$.....4,732,826
- 22.22 Amount paid as expenses \$.....0
- 22.23 Other amounts paid \$.....0

23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]

23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount. \$.....0

**PART 1 - COMMON INTERROGATORIES - INVESTMENT**

24.1 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 24.3)? Yes [X] No [ ]

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

24.3 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 17 where this information is also provided).

24.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [ ] No [ ] N/A [X]

24.5 If answer to 24.4 is yes, report amount of collateral for conforming programs. ....

24.6 If answer to 24.4 is no, report amount of collateral for other programs. ....

**PART 1 - COMMON INTERROGATORIES - INVESTMENT**

- 24.7 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes [ ] No [ ] N/A [X]
- 24.8 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [ ] No [ ] N/A [X]
- 24.9 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes [ ] No [ ] N/A [X]
- 25.1 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 21.1 and 24.3) Yes [ ] No [X]

- 25.2 If yes, state the amount thereof at December 31 of the current year:
- 25.21 Subject to repurchase agreements .....
- 25.22 Subject to reverse repurchase agreements .....
- 25.23 Subject to dollar repurchase agreements .....
- 25.24 Subject to reverse dollar repurchase agreements .....
- 25.25 Pledged as collateral .....
- 25.26 Placed under option agreements .....
- 25.27 Letter stock or securities restricted as to sale .....
- 25.28 On deposit with state or other regulatory body .....
- 25.29 Other .....

25.3 For category (25.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

- 26.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]
- 26.2 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.

- 27.1 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]
- 27.2 If yes, state the amount thereof at December 31 of the current year: .....

28. 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 1, III - General Examination Considerations, F. Outsourcing of Critical Functions Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No [ ]

28.01 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
US Bank Institutional Trust & Custody	PO Box 387, St. Louis, MO 63166-0387

28.02 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)

- 28.03 Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year? Yes [ ] No [X]

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

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

28.05 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
116359	Foundation Resource Management	401 W. Capitol, Suite 501, Little Rock, AR 72201

- 29.1 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 [X] No [ ]

29.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj. Carrying Value
88018T 10 1	Templeton Dragon Fund	1,318,310
29.2999. TOTAL		1,318,310

29.3 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
Templeton Dragon	Dairy Farm Intl Hldgs Ltd	187,200	06/30/2011
Templeton Dragon	Sinopec (China Petroleum & Chemical Corp)	101,510	06/30/2011
Templeton Dragon	CNOOC Ltd.	93,600	06/30/2011
Templeton Dragon	Petrochina Co. Ltd.	79,099	06/30/2011
Templeton Dragon	Yanzhou Coal Mining Co. Ltd	59,324	06/30/2011
Templeton Dragon	China Mobile Ltd	43,504	06/30/2011
Templeton Dragon	China Construction Bank Corp	40,868	06/30/2011
Templeton Dragon	TSMC (Taiwan Semiconductor Mfg Co Ltd)	39,549	06/30/2011
Templeton Dragon	China Shenhua Energy Co. Ltd. H	36,913	06/30/2011
Templeton Dragon	Cheung Kong Infrastructure Hldgs Ltd	32,958	06/30/2011

30. 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 (+)
30.1 Bonds.....	515,756,603	526,483,889	10,727,286
30.2 Preferred stocks.....	278,851	278,851	0
30.3 Totals.....	516,035,454	526,762,740	10,727,286

- 30.4 Describe the sources or methods utilized in determining the fair values:  
Fair value pricing obtained, where applicable from market prices provided by US Bank, Institutional Trust and Custody, custodian for investment assets, or, where applicable, from the N/

**PART 1 - COMMON INTERROGATORIES - INVESTMENT**

- 31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [ X ] No [ ]
- 31.2 If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [ X ] No [ ]
- 31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D.
- 
- 32.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [ X ] No [ ]
- 32.2 If no, list exceptions:
- 

**PART 1 - COMMON INTERROGATORIES - OTHER**

- 33.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$.....1,895,735
- 33.2 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
Blue Cross Blue Shield Association	1,533,741
Consortium Health Plans	272,477

- 34.1 Amount of payments for legal expenses, if any? \$.....394,530
- 34.2 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
Foley & Lardner LLP	273,412

- 35.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$.....361,731
- 35.2 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
Blue Cross Blue Shield Association	232,909

**GENERAL INTERROGATORIES (continued)**

**PART 2 - HEALTH INTERROGATORIES**

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ X ]    No [ ]
- 1.2 If yes, indicate premium earned on U.S. business only \$.....214,347,854
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$.....0
- 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. \$.....0
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$.....165,016,082
- 1.6 Individual policies:
  - Most current three years:
  - 1.61 Total premium earned \$.....34,456,110
  - 1.62 Total incurred claims \$.....27,122,021
  - 1.63 Number of covered lives .....24,708
  - All years prior to most current three years:
  - 1.64 Total premium earned \$.....179,891,744
  - 1.65 Total incurred claims \$.....137,894,061
  - 1.66 Number of covered lives .....79,744
- 1.7 Group policies:
  - Most current three years:
  - 1.71 Total premium earned \$.....0
  - 1.72 Total incurred claims \$.....0
  - 1.73 Number of covered lives .....0
  - All years prior to most current three years:
  - 1.74 Total premium earned \$.....0
  - 1.75 Total incurred claims \$.....0
  - 1.76 Number of covered lives .....0

2. Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator.....	1,273,205,582	1,213,714,171
2.2 Premium Denominator.....	1,273,205,582	1,213,714,171
2.3 Premium Ratio (2.1/2.2).....	100.0	100.0
2.4 Reserve Numerator.....	241,324,021	221,914,768
2.5 Reserve Denominator.....	241,714,448	221,919,041
2.6 Reserve Ratio (2.4/2.5).....	99.8	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:  
Sufficient Capital and Surplus, 50 plus year history of managing business without a stop loss reinsurance policy. Most of the Company's policies contain a \$2,000,000 lifetime maximum benefit level

- 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

- 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 .....13,571
  - 8.2 Number of providers at end of reporting year .....14,139

- 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. \$.....500,000
- 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:

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

1 Name of Service Area
Arkansas

- 13.1 Do you act as a custodian for health savings account? Yes [ ] No [X]
- 13.2 If yes, please provide the amount of custodial funds held as of the reporting date. .....
- 13.3 Do you act as an administrator for health savings accounts? Yes [ ] No [X]
- 13.4 If yes, please provide the balance of the funds administered as of the reporting date. .....

## FIVE-YEAR HISTORICAL DATA

	1 2011	2 2010	3 2009	4 2008	5 2007
<b>Balance Sheet Items (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 28).....	1,221,696,181	1,138,981,649	951,873,372	891,778,311	957,741,648
2. Total liabilities (Page 3, Line 24).....	640,037,796	566,934,783	469,369,004	428,381,528	446,410,184
3. Statutory surplus.....	500,000	500,000	500,000	500,000	500,000
4. Total capital and surplus (Page 3, Line 33).....	581,658,383	572,046,866	482,504,370	463,396,783	511,331,465
<b>Income Statement Items (Page 4)</b>					
5. Total revenues (Line 8).....	1,262,257,660	1,197,934,306	1,134,378,889	1,059,270,619	995,986,312
6. Total medical and hospital expenses (Line 18).....	1,023,406,543	970,818,611	948,688,954	888,868,874	837,626,941
7. Claims adjustment expenses (Line 20).....	69,779,826	62,760,548	35,978,955	38,212,884	38,142,540
8. Total administrative expenses (Line 21).....	112,775,442	88,306,721	131,434,276	107,563,886	105,064,734
9. Net underwriting gain (loss) (Line 24).....	48,588,362	70,190,758	18,276,704	31,242,777	14,895,686
10. Net investment gain (loss) (Line 27).....	14,669,356	14,814,511	18,851,930	12,039,017	30,727,689
11. Total other income (Lines 28 plus 29).....	(824,077)	(3,465,085)	(1,050,235)	(1,458,618)	(285,943)
12. Net income or (loss) (Line 32).....	46,448,050	63,342,814	24,050,768	22,192,047	28,278,642
<b>Cash Flow (Page 6)</b>					
13. Net cash from operations (Line 11).....	83,756,359	100,511,674	49,797,306	882,030	33,067,985
<b>Risk-Based Capital Analysis</b>					
14. Total adjusted capital.....	581,658,383	572,046,866	482,504,370	463,396,783	511,331,465
15. Authorized control level risk-based capital.....	65,001,055	64,550,621	55,306,593	57,150,730	59,431,915
<b>Enrollment (Exhibit 1)</b>					
16. Total members at end of period (Column 5, Line 7).....	435,410	425,324	414,618	416,197	413,480
17. Total member months (Column 6, Line 7).....	5,189,218	5,034,075	4,993,075	5,006,775	4,988,795
<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)	81.1	81.0	83.6	83.9	100.0
20. Cost containment expenses.....	(3.2)	(3.8)	0.6	1.1	1.8
21. Other claims adjustment expenses.....	8.8	9.1	2.5	2.5	2.0
22. Total underwriting deductions (Line 23).....	96.2	94.1	98.4	97.1	98.5
23. Total underwriting gain (loss) (Line 24).....	3.8	5.9	1.6	2.9	1.5
<b>Unpaid Claims Analysis (U&amp;I Exhibit, Part 2B)</b>					
24. Total claims incurred for prior years (Line 13 Col. 5).....	94,827,549	85,979,067	89,029,213	82,528,319	98,033,938
25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	116,990,874	115,829,599	112,306,570	108,658,126	104,348,590
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1).....					
27. Affiliated preferred stocks (Sch D. Summary, Line 18, Col. 1).....					
28. Affiliated common stocks (Sch D. Summary, Line 24, Col. 1).....	189,091,287	186,926,822	176,905,237	192,794,620	202,528,554
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.....	72,038,891	67,804,330	56,004,467	55,318,314	56,387,542
32. Total of above Lines 26 to 31.....	261,130,178	254,731,152	232,909,704	248,112,934	258,916,096

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors?

Yes [ ] No [ ]

If no, please explain:

**SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS**

Allocated by States and Territories

State, Etc.	1 Active Status	Direct Business Only							
		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	9 Deposit-Type Contracts
1. Alabama.....AL	N								0
2. Alaska.....AK	N								0
3. Arizona.....AZ	N								0
4. Arkansas.....AR	L	970,125,104	8,399,637		233,558,287		1,212,083,028		
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		970,125,104	8,399,637	0	233,558,287	0	1,212,083,028		0
60. Reporting entity contributions for Employee Benefit Plans.....XXX									0
61. Total (Direct Business).....(a)	1	970,125,104	8,399,637	0	233,558,287	0	1,212,083,028		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

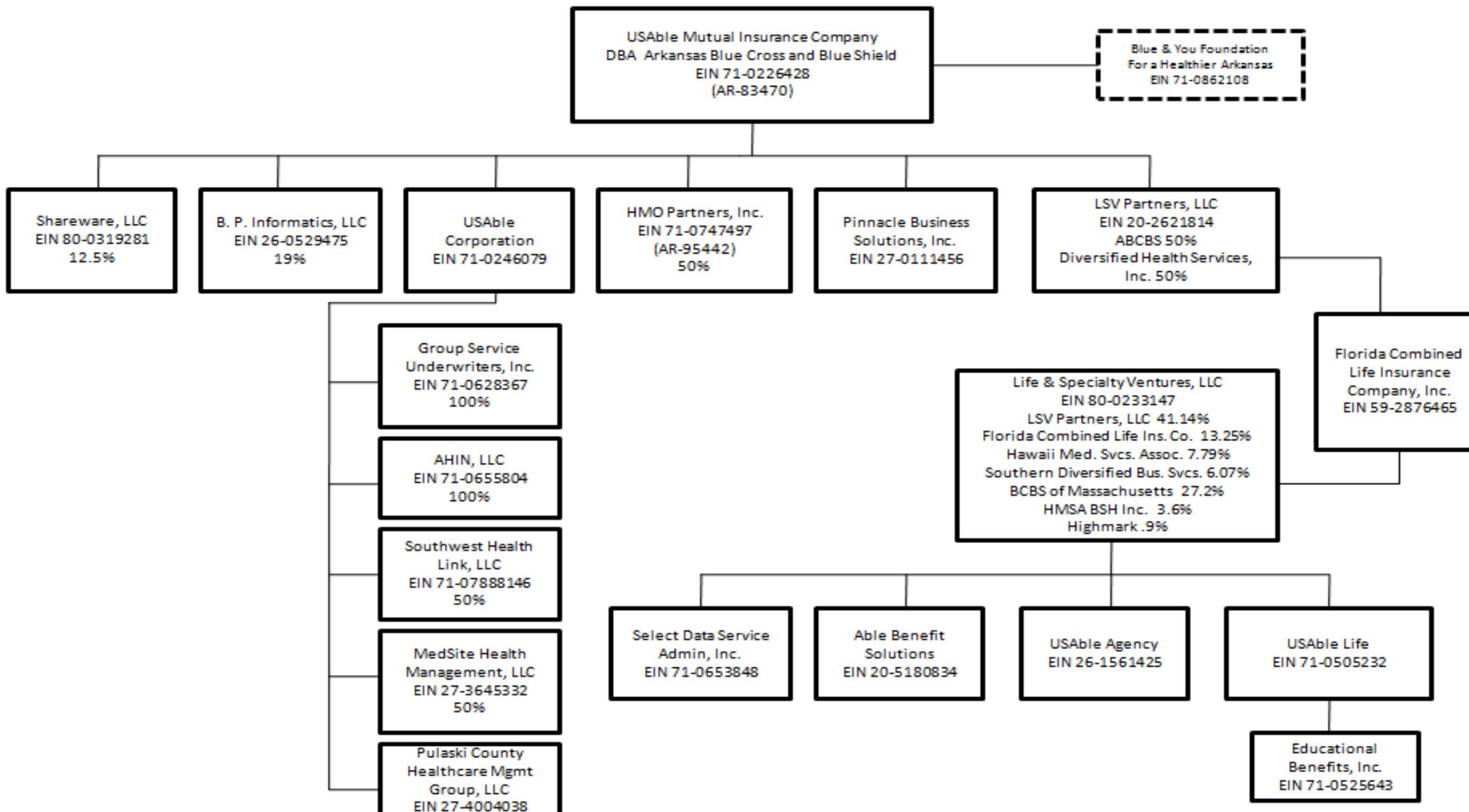
(L) - Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) - Registered - Non-domiciled RRGs; (Q) - Qualified - Qualified or Accredited Reinsurer; (E) - Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) - None of the above - Not allowed to write business in the state.

**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



**2011 ALPHABETICAL INDEX  
HEALTH ANNUAL STATEMENT BLANK**

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