CERTIFICATION

January 6, 2012

I, Bruce R. Ramge, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of

Report of Examination of Financial Condition

The Medico Insurance Company

Omaha, Nebraska

as of

December 31, 2010

Now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.

DEPARTMENT OF INSURANCE STATE OF NEBRASKA SEAL

Bruce R. Ramge

DIRECTOR OF INSURANCE

MEDICO INSURANCE COMPANY

1515 South 75th Street

Omaha, Nebraska 68124

Report of Association

Financial Condition Examination

as of December 31, 2010

States Participating

Nebraska

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Omaha, Nebraska
December 2, 2011

Honorable Joseph Torti, III
Chair, Financial Condition (E) Committee, NAIC
Superintendent of Insurance & Banking
Rhode Island Division of Insurance
1511 Pontiac Avenue, Bldg. #69-2
Cranston, RI 02920

Honorable John M. Huff
Chair, Midwestern Zone
Director of Insurance
Missouri Department of Insurance
301 W. High Street, Suite 530
Jefferson City, MO 65101

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
Lincoln, NE 68508

Dear Sirs:

Pursuant to your instructions and authorizations, and in accordance with statutory requirements, an Association Examination has been conducted of the financial condition and business affairs of the

MEDICO INSURANCE COMPANY
1515 South 75th Street
Omaha, Nebraska 68124

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2007, under the Association Plan, with examiners from the State of Nebraska, representing Midwestern Zone, NAIC. The current financial condition examination covers the intervening period to the close of business on December 31, 2010, and includes such 2011 transactions as were considered pertinent. Examiners from the State of Nebraska, representing the Midwestern Zone, NAIC participated in this examination and assisted in the preparation of this report. The Southeastern and Western Zones, NAIC, were also invited to participate in the current examination, but waived such participation.

SCOPE OF EXAMINATION

The examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook and Section 44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by The Ewbank Group, P.C., the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2009 and 2010. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

DESCRIPTION OF COMPANY

HISTORY

Medico Insurance Company, formerly Mutual Protective Insurance Company and originally Central Catholic Casualty Company, was incorporated under the laws of the State of Nebraska on April 26, 1930, as a mutual assessment health and accident association and commenced business as such on that same date. In 1941, the principal office of Central Catholic Casualty Company was moved from Columbus, Nebraska to Omaha, Nebraska. By amendment to the Articles of Incorporation on May 20, 1946, the plan of operation was changed from that of a mutual assessment association to a mutual legal reserve casualty company.

Under the terms of a bulk reinsurance agreement effective July 31, 1951, Central Catholic Casualty Company took over all of the assets and assumed all of the liabilities of the Clergy Casualty Company of America, a Nebraska corporation having its Home Office located in Omaha, Nebraska.

By amendment to the Articles of Incorporation on March 14, 1952, the name of the Company was changed from Central Catholic Casualty Company to Central Catholic Insurance Company. On February 15, 1957, the Articles of Incorporation were again amended to change the name to Mutual Protective Insurance Company.

The Company amended its Articles of Incorporation and By-Laws to authorize the writing of life insurance business. The Articles of Incorporation were adopted by the Board of Directors on March 26, 2003, tentatively approved by the Nebraska Department of Insurance on May 7, 2003, approved by the shareholders on May 9, 2003, and received final approval from the Department of Insurance on May 14, 2003. The By-Laws were approved by unanimous vote of the Board of Directors on May 9, 2003 and became effective immediately.

Prior to this, the Company was authorized to write only accident and health insurance. Under the current provisions of its charter and in conformity with Nebraska Statutes, the Company is presently authorized to write life insurance and accident and health insurance.

The Company, on August 4, 2005, amended its Articles of Incorporation and By-Laws to reorganize to form a stock insurance company and change its name to Medico Insurance Company. The Nebraska Department of Insurance approved the Company's application to reorganize to form a stock insurance company, an intermediary stock holding company (Medico Holdings, Inc.), a mutual insurance holding company (Medico Mutual Insurance Holding Company), and to change its name to Medico Insurance Company on September 19, 2005. The reorganization and name change became effective on January 1, 2006.

On September 28th, 2007, Medico Insurance Company and Ability Resources, Inc. completed a transaction through which the Company sold its long term care insurance block and its subsidiary Medico Life Insurance Company to Ability Resources, Inc. The sale of the subsidiary was approved by the Nebraska Department of Insurance of September 26th, 2007.

MANAGEMENT AND CONTROL

Holding Company

The Company, a wholly-owned insurance subsidiary of Medico Holdings, Inc., is a member of an insurance holding company system as defined by Nebraska Statutes. Following is an organizational listing flowing from the "Ultimate Controlling Person" as reported in the 2010 Annual Statement. Subsidiaries are indicated by indentations.

Medico Mutual Insurance Holding Company
- Medico Holdings, Inc.
  - Medico Insurance Company
    - 7802-2, LLC
    - 144th Street Associates 2, LLC
    - MLIC Investment Properties, LLC

Shareholders

Article IV of the Company's Amended Articles of Incorporation states that, "the total number of shares which the Corporation has authority to issue is 50,000 shares of common stock, each having a par value of $100 per share." At the current date, Company records indicate that 50,000 shares are issued and outstanding for a paid up capital of $5,000,000, and that all are owned by Medico Holdings, Inc.

Article VI of the Company's Amended Articles of Incorporation and Article II of the By-Laws state that the, "annual meeting shall be held on the second Friday of May." The purpose of this meeting is the election of Directors and for the transaction of such other business as may come before the meeting.

Board of Directors

The Articles of Incorporation and By-Laws state that the Company shall be managed by a Board of not less than five (5) nor more than nine (9) elected from the members. The By-Laws state that Directors shall be elected for terms of one year. Directors serving the Company at December 31, 2010 were as follows:

Name and Residence	**Principal Occupation**
William R. Berryman Omaha, Nebraska	Senior Vice President, Morgan Stanley Inc.
Timothy J. Hall Omaha, Nebraska	President, Chief Executive Officer, and Chief Operating Officer of the Company
Timothy J. Hoffman Omaha, Nebraska	Retired President and Chief Executive Officer Hoffman & Assoc.
Terrance A. Hogan Valley, Nebraska	Founder and Owner of Bear Properties, Inc.
Michael A. Kelley Omaha, Nebraska	Partner in Law Firm of Kelley & Lehan
Darla L. Lyon Pierre, South Dakota	President of The Lyon Group
Douglas C. Kuncl Omaha, Nebraska	Retired Chief Financial Officer of Catholic Charities Foundation and Fiscal Officer of Family Connections, Inc.
Evert R. Peacock Omaha, Nebraska	Retired Senior Vice President, Secretary, and Director of Financial Services of the Company

Directors were compensated at the rate of $4,000 per month throughout 2010, with the exception.of Michael Kelley who was compensated at $8,500 per month.

Officers

The Officers of the Company are elected by the Board of Directors and their terms are also established by the Directors. The Officers shall be a Chairman of the Board, Chief Executive Officer, President, Chief Financial Officer, Secretary, Treasurer, and such number of Vice-Presidents as the Board of Directors determine.

Officers elected and serving the Company at December 31, 2010, were as follows:

Name	Office
Michael A. Kelly	Chairman of the Board
Timothy J. Hall	President, Chief Executive Officer
Patricia M. Keaimes	Chief Financial Officer, Vice President, and Treasurer
Michael J. Leahy	Vice President, General Counsel, and Secretary
Jill M. Burns	Chief Actuary
Desiree L. Buckley	Vice President & Director of Compliance
Richard M. Woodward	Vice President

Committees

The following committees were appointed by the Board of Directors and serving at December 31, 2010:

Investment Committee

William R. Berryman	Patricia M. Keaimes
Douglas C. Kuncl	Evert R. Peacock
Timothy J. Hall	Timothy J. Hoffman

Compensation Committee

Timothy J. Hall	Michael A. Kelly
Terrance A. Hogan	

Compliance/Audit Committee

Timothy J. Hall	Timothy J. Hoffman
Patricia M. Keairnes	Evert R. Peacock
Darla L. Lyon	Douglas C. Kuncl

MANAGEMENT AND SERVICES AGREEMENTS

The Company had a management agreement in relation to the Company's 51% owned subsidiary, 144th Street Associates 2, LLC. 144th Street Associates 2, LLC was managed by a real estate management company controlled by PJ Morgan, who owns the other 49%. The agreement with PJ Morgan's real estate management company was to expire on August 1, 2012, and requires a monthly fee of $400. On September 30, 2011, the Company sold its share of 144th Street Associates 2, LLC for $872,100, which resulted in a $192,456 realized loss.

As a part of the sale of the Company's long term care block of business to Ability Resources Inc., the Company and Ability Insurance Company (Ability) entered into a Transition Services Agreement, effective September 28, 2007, whereby the Company continued to provided all administrative services related to the block.

The Company and Ability entered into an annually renewed Services Agreement, the most recent version reviewed by the examiners was effective November 1, 2010 through October 31, 2011. The Company and Ability desired that the Company continue to perform certain administrative services with respect to the policies, including, but not limited to accounting, actuarial, compliance, agency services, etc. Costs for these services are based on hourly charges for certain services such as accounting, coupled with an agreed upon monthly charge for providing actuarial services and a receptionist. Payments shall be made monthly within 30 days of receiving an invoice from the Company.

The Company also entered into a Non-LTC Administrative Services Agreement, whereby Ability Insurance Company provides certain services to the Company related to the on-going administration of non-LTC policies, which have not been novated, and thus are being 100% reinsured to the Company.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact the business of insurance in the District of Columbia and all states of the United States with the exception of Connecticut, New Jersey, and New York.

Agency production is under the direction of Bill Jetter, Chief Marketing Officer for the Company. Mr. Jetter's responsibilities include the contracting and supervision of all Field Marketing Organizations (FMOs). The Company has worked over time with a core group of organizations, and has recently developed partnerships with several additional operations with both a national presence and nationally dispersed FMOs, representing a growing base of over 9,000 agents. These FMOs operate independently without any exclusivity.

The Company's objective is to be an innovative "niche" company, focused on the senior market of the life and health industry. The Company offers a variety of Medicare Supplement products, Dental/Vision/Hearing, Recovery Care, Cancer, and Final Expense products, which are primarily sold to individuals 50 years of age and older.

REINSURANCE

Assumed

The Company continues as administrator and "reinsurer" under a Long Term Care Proportional Share Reinsurance Contract for the long term care business written through the Florida Combined Insurance Agency as agent for Blue Cross and Blue Shield of Florida, Inc. (BC/BSFL). Under the original agreement, the Company underwrote and administered the business while assuming 60% of the liability under scheduled forms. The Company received an administrative fee of 12.2% of first year premiums and 6.5% in subsequent years. Effective July 1, 2001, at the request of BC/BSFL, a Stipulation of Termination, Recapture and Release was executed. BC/BSFL recaptured all existing liabilities under the reinsurance agreement, with the exception of claims incurred prior to July 1, 2001, which were retained by the Company. It was further agreed, that the Company would continue all administrative responsibilities for existing policies for a period of eight years, and will receive 8% of the total annual premium received for policies issued during the period of the reinsurance agreement. A recapture fee of $400,000 was also paid by BC/BSFL.

A limited amount of assumed Knights of Columbus business remains in run-off since cancellation of the contracts on May 31, 1967.

Immediately prior to the stock sale transaction of Medico Life Insurance Company, now Ability Insurance Company (Ability), to Ability Resources, Inc., the Company entered into a definitive agreement dated September 28, 2007 to purchase Medico Life Insurance Company's non-long term care business, which includes Medicare supplement, short term care, final expense, and other health and life business. The agreement was initially recorded as a 100% indemnity reinsurance agreement.

As part of this agreement, the Company and Ability have undertaken a joint novation program to novate all non-long term care policies from Ability to the Company. This novation process was expected to occur over a period of two years, but is still ongoing as of the date of this report. In conjunction with this agreement, the Company and Ability entered into a 100% quota share reinsurance agreement, also effective September 28, 2007. This purpose of this agreement is for the Company to assume 100% of the liability for policies which have not been novated, and to ensure the liability related to policyholders who decline to novate their policies is transferred to the Company. Statistics outlining the progress of the novation process for the Non-Long Term Care Policies as of September 30, 2011 are as follows:

	Non-LTC Notices Mailed	Non-LTC Policies Novated	% Novated
Alaska	30	30	100.0%
Alabama	108	108	100.0%
Arkansas	33	33	100.0%
Arizona	152	152	100.0%
California	568	175	30.8%
Colorado	1031	517	50.1%
District of Columbia	2	2	100.0%
Delaware	5	5	100.0%
Florida	577	577	100.0%
Georgia	134	120	89.6%
Hawaii	3	3	100.0%
Iowa	1001	1001	100.0%
Idaho	51	51	100.0%
Illinois	479	479	100.0%
Indiana	922	922	100.0%
Kansas	1104	916	83.0%
Kentucky	82	82	100.0%
Louisiana	81	81	100.0%

	Non-LTC Notices Mailed	Non-LTC Policies Novated	% Novated
Maryland	16	16	100.0%
Minnesota	900	380	42.2%
Missouri	360	258	71.7%
Mississippi	83	83	100.0%
Montana	371	371	100.0%
North Carolina	934	790	84.6%
North Dakota	62	62	100.0%
Nebraska	1799	1585	88.1%
New Mexico	40	40	100.0%
Nevada	62	62	100.0%
Ohio	786	786	100.0%
Oklahoma	335	335	100.0%
Oregon	213	183	85.9%
Pennsylvania	64	64	100.0%
South Carolina	107	107	100.0%
South Dakota	307	307	100.0%
Tennessee	175	175	100.0%
Texas	596	596	100.0%
Utah	22	22	100.0%
Virginia	93	49	52.7%
Washington	229	93	40.6%
Wisconsin	1987	1065	53.6%
West Virginia	13	13	100.0%
Wyoming	83	83	100.0%
Totals:	16,000	12,779	79.9%

The 16,000 Non-LTC policyholders notified of the novation constitute 79.8% of the original total of 20,058 Non-LTC policies. Of those notified 12,779, or 79.9% have permanently novated (either actively, passively, or without consent). State specific limitations and requirements for novations have resulted in delays in notifying policyholders, thus the discrepancy between notifications sent and total policyholders

In coordination with the Company assuming all of Ability's non-long term care business, the Company, Ability, and the applicable reinsurers entered into an assignment of reinsurance on life and annuity reinsurance that was currently running off to replace Ability with the Company as the reinsured.

Ceded

The Company has an automatic Medicare Supplement Reinsurance Agreement whereby 90% of the business in force as of April 1, 2000, or issued on or after that date, is ceded to General & Cologne Life Re of America (GCL). Two years after the effective date of this agreement, the remaining reserves for claims incurred prior to the effective date, will be assumed by GCL who will be liable from that point forward for its quota share percentage of the reserves. Ceding commissions, ranging from 23% to 35% are graded by policy form, duration and state. An experience account is calculated quarterly to determine profit sharing based on statutory pre-tax reinsurance profits. At the end of any period during which a profit sharing payment is earned and paid the experience account is reduced to zero. Negative experience will create a new account balance and be carried forward. The Company also receives an expense allowance for the administration of this business equal to 3.5% of earned premium for Medicare Select Plans and 1.5% for all other plans. In addition, GCL pays the Company $5.63 (90% of $6.25) per insured per month plus an additional $72.00 (90% of $80.00) per issued policy.

Long term care policy form 201 and supplemental coverage issued on or after September 1, 2001, was ceded to GCL under a 90% Quota Share Agreement. Automatic cessions included risks having not more than one policy in force with benefits not to exceed $300 per day. Facultative limits extended to risks having more than one long term care policy in force providing daily benefits to $300. The agreement was unlimited in duration and the Company retained not less than 10% of the total original liability. Underwriting, maintenance and claim allowances were scheduled by issue age and duration. In the event such allowances exceeded the reinsurance premium due, they were deferred at interest. Effective December 31, 2004 both treaties with GCL were terminated for policies issued after December 31, 2004. GCL will continue to be liable for in-force policies reinsured under the reinsurance agreement until the termination or expiry of such policies, provided reinsurance premiums continue to be paid when due.

Effective April 1, 2008, the Company entered into a Medicare Supplement Reinsurance Agreement with RGA Reinsurance Company (RGA). The reinsurance agreement is a 50% quota share whereby the Company cedes 50% of liabilities associated with Medicare Supplement Policy forms MSA 10 and 11. Effective June 1, 2010, the Company began writing two new Medicare Supplement plans pursuant to the Medicare Improvements for Patients and Providers Act. Though initially these two additional plans were included via amendment to the business reinsured under this agreement, the agreement was later terminated for new business (the new Medicare Supplement Plans), effective May 31, 2010. Existing policies as of May 31, 2010 are currently in runoff.

Effective December 1, 2009, the Company entered into an automatic coinsurance reinsurance agreement with RGA to reinsure liabilities associated with the Company's Short Term Recovery Care product, including survivorship and inflation protection riders. Under the terms of the contract, RGA assumes a 40% quota share of the Company's contractual liability in regard to all benefits provided for under the terms of the reinsured policy benefits, including riders.

Effective January 1, 2007, the Company entered into recapture agreements with participating reinsurers (American Long Term Reinsurance Group and American United Life) under Long Term Care Proportional Share Reinsurance Contracts. Effective June 30, 2007, the

Company entered into a recapture agreement with GCL under a Long Term Care Proportional Share Reinsurance Contract. These agreements release the reinsurers of all liabilities and obligations under the reinsurance agreement in return for agreed upon considerations. If any state approves a rate increase in excess of 10% that is effective before July 31, 2011 on any policies the liability for which was reinsured under the reinsurance agreement, Ability shall make a one-time payment equal to the effective rate increase percentage approved by each state, less 10%, multiplied by the reinsurers pro rata share of the annualized premium for the policies in force for which the rate increase was approved.

Immediately prior to the stock sale transaction of Ability to Ability Resources, Inc. and after the recapture agreements discussed above, the Company entered into a definitive agreement dated September 28, 2007 to sell 100% of its long term care business to Ability. As part of this agreement, the Company and Ability have undertaken a joint novation program to novate all long term care policies from the Company, to Ability. This novation process was expected to occur over a period of two years, but is still ongoing as of the date of this report. In conjunction with this agreement, the Company and Ability entered into a 100% quota share reinsurance agreement, also effective September 28, 2007. This purpose of this agreement is to cede 100% of the liability for policies which have not been novated, and to ensure the liability related to policyholders who decline to novate their policies is transferred to Ability. Statistics outlining the progress of the novation process for the Long Term Care Policies as of September 30, 2011 are as follows:

	LTC Notices Mailed	Total LTC Policies Novated	% Novated
Alaska	8	8	100.0%
Alabama	417	417	100.0%
Arkansas	300	300	100.0%
Arizona	1233	1233	100.0%
California	584	347	59.4%
Colorado	582	554	95.0%
District of Columbia	1	1	100.0%
Georgia	224	208	92.9%
Hawaii	163	163	100.0%
Iowa	6397	6397	100.0%
Idaho	1292	1292	100.0%
Illinois	1015	1015	100.0%
Indiana	217	217	100.0%
Kansas	2084	2010	96.4%
Kentucky	554	554	100.0%
Louisiana	112	112	100.0%
Maryland	13	13	100.0%
Minnesota	1540	1101	71.5%
Missouri	1486	1414	95.2%
Mississippi	256	256	100.0%
Montana	3076	3076	100.0%
North Carolina	25	23	92.0%
North Dakota	659	659	100.0%
Nebraska	4910	4665	95.0%
New Mexico	30	30	100.0%
Nevada	168	168	100.0%
Ohio	625	625	100.0%
Oklahoma	381	381	100.0%
Oregon	2974	2830	95.2%
Pennsylvania	127	127	100.0%
South Carolina	101	101	100.0%
South Dakota	2322	2322	100.0%
Tennessee	628	628	100.0%
Texas	554	554	100.0%
Utah	82	82	100.0%
Virginia	303	218	71.9%
Washington	3325	2172	65.3%

	LTC Notices Mailed	Total LTC Policies Novated	% Novated
Wisconsin	780	533	68.3%
West Virginia	1	1	100.0%
Wyoming	495	495	100.0%
Totals:	40,044	37,302	93.2%

The 40,044 LTC policyholders notified of the novation constitute 90.6% of the original total of 44,209 LTC policies. Of those notified, 33,302 or 93.2% have novated (either actively, passively, or without consent). State specific limitations and requirements for novations have resulted in delays in notifying policyholders, thus the discrepancy between notifications sent and total policyholders

General

All contracts were reviewed and each was found to have an appropriate insolvency clause.

All reinsurance was placed with authorized carriers.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company for the period under review:

	2008	2009	2010
Admitted assets	$117,815,637	$113,108,848	$102,627,357
Aggregate life reserves	51,775,478	48,528,444	45,042,712
Aggregate A&H reserves	8,952,094	9,097,317	9,168,028
Total liabilities	72,287,907	68,439,866	65,721,578
Capital and surplus	45,527,730	44,668,982	36,905,780
Premiums earned	15,539,487	18,582,683	26,721,747
Net investment income	3,964,156	4,298,492	3,490,306
Disability benefits	9,278,475	11,089,573	18,070,453
Increase in aggregate reserves	(3,326,358)	(3,101,811)	(3,415,021)
Net income	(5,081,829)	(3,971,986)	(5,340,424)

Life insurance in force*	104,354	95,495	87,026
A&H premiums in force	49,129,627	45,159,886	41,945,762

* - (000 omitted)

MORTALITY EXPERIENCE

The ratios of actual mortality to tabular cost for the Company's Ordinary Life business, as developed from copies of filed annual statements for the period under review, are shown below:

	Tabular Cost	Death Claims Less Reserves Released	Ratio
2008	$3,982,448	$3,818,086	95.9%
2009	3,631,455	3,626,935	99.9
2010	3,338,306	3,613,872	108.3

ACCIDENT AND HEALTH UNDERWRITING EXPERIENCE

The ratios of expenses incurred to premiums earned for the Company's individual accident and health business, as developed from copies of the filed annual statements for the period under review, were as follows:

	2008	2009	2010
Guaranteed Renewable:			
Incurred claims	76.9%	76.4%	70.9%
Cost containment expenses	1.0	2.4	2.4
Increase in policy reserves	1.1	(1.8)	(1.4)
Commissions	(33.8)	(23.9)	(1.3)
General insurance expenses	59.3	73.9	53.2
Taxes, licenses and fees	26.3	19.1	11.0
Total expenses incurred	51.8	69.0	63.0
Gain or (loss) from underwriting	(30.9)%	(46.1)%	(34.9)%
Non-renewable for Stated Reasons Only:			
Incurred claims	106.7%	86.4%	100%
Cost containment expenses	0.1	0.5	0.7
Increase in policy reserves	2.3	0.0	0.0
Commissions	9.6	10.0	9.3

		2008	2009	2010
	General insurance expenses	4.0	13.8	14.7
	Taxes, licenses and fees	1.7	2.7	2.4
	Total expenses incurred	15.4	26.6	26.4
	Gain or (loss) from underwriting	(24.4)%	(13.5)%	(27.0)%

		2008	**2009**	**2010**
Total:				
	Incurred claims	79.7%	76.3%	78.5%
	Cost containment expenses	0.9	2.1	2.0
	Increase in policy reserves	1.2	(1.3)	(0.7)
	Commissions	(28.1)	(16.2)	3.4
	General insurance expenses	52.4	63.1	43.3
	Taxes, licenses and fees	23.2	15.7	8.4
	Total expenses incurred	47.4	62.7	55.0
	Gain or (loss) from underwriting	(29.3)%	(39.8)%	(34.8)%

MEDICARE SUPPLEMENT INSURANCE EXPERIENCE

The ratio of incurred claims to earned premiums for Nebraska business as taken from the Company's Medicare Supplement Insurance Experience Exhibit for the three-year examination period is shown in the following schedule:

	2008	**2009**	**2010**
Individual Policies:			
Issued prior to last three years	68.9%	79.4%	64.1%
Group Policies:			
None			

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying statement of income, reflects the financial condition of the Company at December 31, 2010, and its transactions for the year 2010 as determined through this examination. A reconciliation of the surplus account for the three-year period under review is also included. Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

FINANCIAL STATEMENT
DECEMBER 31, 2010

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 84,026,734		$ 84,026,734
Preferred stocks	2,341,295		2,341,295
Common stocks	289,800		289,800
Cash and short-term investments	3,556,661		3,556,661
Contract Loans	574,945	$ 3,302	571,643
Other invested assets	5,589,780		5,589,780
Subtotal, cash and invested assets	$ 96,379,215	$ 3,302	$ 96,375,913
Investment income due and accrued	654,488		654,488
Uncollected premiums and agents' balances in the course of collection	(3,123,285)	564,298	(3,687,583)
Deferred premiums and agents' balances booked but deferred and not yet due	617,896		617,896
Reinsurance:			
Amounts recoverable	2,622,639		2,622,639
Other amounts receivable	780,315		780,315
Amounts receivable relating to uninsured plans	5,464		5,464
Current federal income tax recoverable	21,148		21,148
Net deferred tax asset	21,095,644	16,950,216	4,145,428
Guaranty funds receivable	14,584		14,584
EDP equipment	139,244	110,517	28,727
Furniture and equipment	350,598	350,598	
Aggregate write-ins for other than invested assets:			
Cash value of corporate owned life insurance	1,048,269		1,048,269
Accounts receivable	6,730	6,661	69
Prepaid expenses	413,328	413,328	
Outstanding loans	42,750	42,750	
Negative interest maintenance reserve	35,781	35,781	
Automobile	21,875	21,875	
Returned items	1,588	1,588	
Totals	$121,128,272	$18,500,915	$102,627,357

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate life reserves	$ 45,042,712
Aggregate A&H reserves	9,168,028
Contract claims - life	531,392
Contract claims – A&H	3,149,990
Provision for policyholders' dividends apportioned for payment	379,029
Provision for policyholders' dividends not yet apportioned	1,078,686
Premiums received in advance	753,197
Other amounts payable on reinsurance ceded	12,242
Commissions to agents due or accrued	605,985
Commissions and expense allowances payable on reinsurance assumed	177
General expenses due or accrued	831,394
Taxes, licenses, & fees due or accrued	(135,191)
Unearned investment income	20,964
Amounts withheld by Company as agent or trustee	1,388,906
Amounts held for agents' account	38,142
Remittances & items not allocated	453,893
Asset valuation reserve	842,236
Drafts outstanding	737,663
Liability for amounts held under uninsured plans	5,685
Aggregate write-ins:	
Uncashed drafts & checks pending escheatment	153,877
Other liabilities	662,571
Total liabilities	$ 65,721,578
Common capital stock	$ 5,000,000
Aggregate write-ins for special surplus funds	2,179,669
Unassigned funds (surplus)	29,726,111
Surplus as regards policyholders	$ 36,905,780
Total liabilities, surplus and other funds	$102,627,357

SUMMARY OF OPERATIONS – 2010

Premiums and annuity considerations	$ 26,721,747
Net investment income	3,490,306
Amortization of Interest Maintenance Reserve	579,466
Commissions and expense allowance on reinsurance ceded	8,644,320
Miscellaneous income	42,424
Total	$39,478,262
Death benefits	$ 6,588,182
Annuity benefits	242,280
Disability benefits and benefits under accident and health contracts	18,070,453
Surrender benefits and withdrawals for life contracts	519,233
Increase in aggregate reserves for life & accident and health contracts	(3,415,021)
Subtotal	$22,005,127
Commissions on premiums and annuity considerations	9,188,128
Commissions and expenses allowances on reinsurance assumed	353,268
General insurance expenses	12,056,851
Insurance taxes, licenses, and fees	2,023,670
Increase in loading on deferred and uncollected premiums	(10,413)
Total	$45,616,631
Net gain before dividends to policyholders and federal income taxes	$ (6,138,370)
Dividends to policyholders	1,318,508
Net gain before federal income taxes	$ (7,456,878)
Federal income taxes incurred	(1,995,899)
Net gain after federal income taxes and before realized capital gains	$ (5,460,978)
Net realized capital gains	120,554
Net income	$ (5,340,424)

CAPITAL AND SURPLUS ACCOUNT

	2008	2009	2010
Capital and surplus, beginning	$ 49,306,058	$ 45,527,730	$44,668,982
Net income	$ (5,081,829)	$ (3,971,986)	$ (5,340,424)
Change in net unrealized capital gains or (losses)	1,118,382	(517,239)	(106,228)
Change in net deferred income tax	19,237,159	(8,681,294)	2,465,707
Change in non-admitted assets	(19,921,908)	12,309,531	(4,364,696)
Change in reserve on account of change in valuation bases			
Change in asset valuation reserve	869,868	2,240	(417,561)
Net change for the year	$ (3,778,328)	$ (858,748)	$ (7,763,203)
Capital and surplus, ending	$45,527,730	$44,668,982	$36,905,780

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

No changes were made affecting the Company's unassigned funds (surplus) account as a result of this examination.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Recommendations contained in the last previous report of examination are reflected below together with the remedial actions taken by the Company:

1. **Collateral Loans** – It is recommended that the Company disclose its relationship with PJ Morgan & Associates as it related to the promissory loan agreement and the partnership in 144th Street Associates 2, LLC in the notes to the financial statements in compliance with Statements of Statutory Accounting Principles #48, paragraph 15. It is also recommended the Company report this amount under the "Other Invested Assets" caption on the asset page in the financial statements and in Schedule BA.

   Company Action: The Company has complied

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There were no comments or recommendations made as a result of this examination:

SUBSEQUENT EVENTS

Pursuant to a recommendation made in the actuarial review performed as part of the Company's annual independent audit, the Company began to implement a formal premium deficiency reserve testing process. The Company's preliminary calculation as of June 30, 2011, resulted in a premium deficiency reserve of $2,896,485. As a result the Company established a premium deficiency reserve as of September 30, 2011 in the amount of $2,608,811.

The Company entered into a 50% quota share reinsurance agreement with Gen Re life Corporation. The reinsurance agreement covers any policy of the Company classified Medicare Supplement insurance policies. The reinsurance agreement has a continuous term, and became effective July 1, 2011. This contract replaces a previous agreement with RGA, which was terminated for new business, effective June 1, 2010 and left the Company without reinsurance on primary line of business, Medicare Supplement, for a period of 13 months.

SUMMARY

No comments or recommendations were made as a result of this examination.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Officers and employees of the Company is hereby acknowledged. In addition to the undersigned, Financial Examiners Skyler E. Lawyer, CFE, and Andrea Szwanek, CFE; Actuarial Examiner, Daniel E. Eckstein, ASA, CIE; Information Systems Examiners, Earnest Collins, CFE, CISA, and Gary Evans, CFE; and Reinsurance Specialist Annie Elliott, CFE, all with the Nebraska Department of Insurance participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

Todd K. Wegner

Tadd K. Wegner, CFE
Supervisory Examiner
Nebraska Department of Insurance
Representing Midwestern Zone, NAIC

State of Nebraska,

County of Lancaster,

Todd K. Wegner, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Medico Insurance Company

2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Medico Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Todd K. Wegner
Examiner-in-Charge's Signature

Subscribed and sworn before me by Todd K. Wegner on this 2nd day of December, 2011.

(SEAL) GENERAL NOTARY - State of Nebraska
SUSAN D. WILLIAMS
My Comm. Exp. Sept. 16, 2013

Susan D. Williams
Notary Public

My commission expires 9/16/2013 [date].