

STATEMENTS OF FINANCIAL POSITION (Notes 1 and 2)

	Dec. 31, <u>2012</u>	Dec. 31, <u>2011</u>
<b>ASSETS:</b>		
Cash in checking account	\$ 604,696	\$ 238,992
Cash in money market fund	871,368	236,573
Certificates of deposit at market value (Note 3)	369,242	962,218
U. S. Treasury Notes at market value (Note 4)	409,836	1,216,450
U. S. Government Agency bonds at market value	0	2,174,734
Corporate bonds at market value (Note 5)	306,483	516,828
Accrued interest receivable on investments	3,338	17,439
Equipment – Cost	5,520	5,520
– Accumulated depreciation	<u>(5,520)</u>	<u>(5,520)</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,564,963</u></b>	<b><u>\$ 5,363,234</u></b>
<b>LIABILITIES:</b>		
Estimated claims payable (Note 6)	\$ 4,016,445	\$ 6,690,541
<b>TOTAL LIABILITIES</b>	<b><u>\$ 4,016,445</u></b>	<b><u>\$ 6,690,541</u></b>
<b>NET ASSETS:</b>		
<b>UNRESTRICTED NET ASSETS:</b>		
Class A net assets for general administration	\$ 245,515	\$ 243,075
Equipment net assets – Class A	<u>0</u>	<u>0</u>
Total Unrestricted Net Assets	<b><u>\$ 245,515</u></b>	<b><u>\$ 243,075</u></b>
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Classes B and C net assets for specific insurance company insolvencies (Exhibit A-1)	\$(22,627,662)	\$(18,419,341)
Contingency reserve for future obligations (Note 7)	<u>20,930,665</u>	<u>16,848,959</u>
Total Temporarily Restricted Net Assets	<b><u>\$ (1,696,997)</u></b>	<b><u>\$ (1,570,382)</u></b>
<b>TOTAL NET ASSETS (Note 8)</b>	<b><u>\$ (1,451,482)</u></b>	<b><u>\$ (1,327,307)</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,564,963</u></b>	<b><u>\$ 5,363,234</u></b>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS FOR SPECIFIC INSURANCE COMPANY INSOLVENCIES

	<u>12/31/12</u>	<u>12/31/11</u>
Class C 20 – Executive Life, California	\$ (7,927,100)	\$ (7,718,282)
Class C 25 – Midwest Life, Louisiana	0	873,189
Class C 30 – Andrew Jackson Life, Mississippi	(6,074)	(6,014)
Class C 37 – Kentucky Central Life, Kentucky	0	1,683,871
Class C 38 – Consumers United, Delaware	(167,361)	(165,705)
Class C 40 – American Integrity, Pennsylvania	0	2,238,938
Class C 41 – National Heritage Life, Delaware	0	36,950
Class C 54 – Centennial Life, Kansas	(114,394)	(113,143)
Class C 55 – Universe Life, Idaho	(320,466)	(317,076)
Class C 56 – Fidelity Bankers Life, Virginia	0	(652,403)
Class C 60 – First National Life Ins. Co. of America, MS (Thunor)	0	(230,381)
Class C 61 – International Financial Services Life, MO (Thunor)	0	(12,285)
Class C 63 – American Chambers Life, Ohio	(1,358,879)	(1,376,494)
Class C 65 – Reliance Insurance Co., Pennsylvania	0	(21,776)
Class B 66 – Legion & Villanova Insurance Cos., Pennsylvania	(6,475)	(6,297)
Class B 67 – London Pacific Life, North Carolina	(1,521,860)	(1,506,680)
Class B 68 – States General Life, Texas	0	(42,472)
Class B 69 – Benicorp Insurance, Indiana	(3,279,725)	(3,657,717)
Class B 70 – Lincoln Memorial Life, Texas	(4,413,154)	(4,606,121)
Class B 71 – Medical Saving Insurance, Indiana	(1,455,205)	(1,386,909)
Class B 72 – Penn Treaty Network Insurance, Pennsylvania	(132,543)	(101,765)
Class B 73 – Imerica Life & Health Insurance, Arkansas	(9,029)	(8,940)
Class B 74 – National States Insurance, Missouri	(572,965)	(390,279)
Class B 75 – Executive Life Insurance Co. of New York	(968,677)	(931,550)
Class B 76 – Standard Life Insurance Co. of Indiana	<u>(373,755)</u>	<u>0</u>
Total Classes B and C Net Assets for Specific Insurance Company Insolvencies	<u>\$(22,627,662)</u>	<u>\$(18,419,341)</u>

STATEMENTS OF ACTIVITIES (Notes 1 and 2)

	<u>Class A</u>	<u>Classes B &amp; C (Exh. B-1)</u>	<u>Total</u>	
			<u>2012</u>	<u>2011</u>
<b>REVENUES:</b>				
Estate distributions		\$ 771,121	\$ 771,121	\$ 2,042,719
Premiums received		472,920	472,920	1,004,143
Investment income – Net (Note 9)	\$ 2,440	33,585	36,025	80,572
<b>TOTAL REVENUES</b>	<b><u>\$ 2,440</u></b>	<b><u>\$ 1,277,626</u></b>	<b><u>\$ 1,280,066</u></b>	<b><u>\$ 3,127,434</u></b>
<b>EXPENSES:</b>				
Policyholder benefit claims		\$ 745,244	\$ 745,244	\$ 1,387,497
Assumption reinsurance		2,994,852	2,994,852	295,846
Assessments by NOLHGA for expenses	\$ 9,069	197,066	206,135	256,460
Administration & legal fees, & direct expenses	55,017	20,385	75,402	81,550
Dues to National (NOLHGA)	42,128		42,128	38,294
Meetings and travel expenses	4,978		4,978	5,004
Auditing and accounting fees	3,990		3,990	3,690
Computer services and expenses	2,428		2,428	1,085
Bookkeeping fees	1,926		1,926	576
Bank service charges	1,254		1,254	1,262
Printing	0		0	70
Class A general and administration expenses allocated to Classes B and C (Note 10)	<u>(120,790)</u>	<u>120,790</u>	<u>0</u>	<u>0</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 0</u></b>	<b><u>\$ 4,078,337</u></b>	<b><u>\$ 4,078,337</u></b>	<b><u>\$ 2,071,334</u></b>
<b>REVENUES OVER (UNDER) EXPENSES</b>	<b>\$ 2,440</b>	<b>\$(2,800,711)</b>	<b>\$(2,798,271)</b>	<b>\$ 1,056,100</b>
Decrease in estimated claims payable		<u>2,674,096</u>	<u>2,674,096</u>	<u>1,611,270</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 2,440</b>	<b>\$ (126,615)</b>	<b>\$ (124,175)</b>	<b>\$ 2,667,370</b>
<b>NET ASSETS – BEGINNING OF YEAR</b>	<b><u>243,075</u></b>	<b><u>(1,570,382)</u></b>	<b><u>(1,327,307)</u></b>	<b><u>(3,994,677)</u></b>
<b>NET ASSETS – END OF YEAR</b>	<b><u>\$ 245,515</u></b>	<b><u>\$(1,696,997)</u></b>	<b><u>\$(1,451,482)</u></b>	<b><u>\$(1,327,307)</u></b>

See accompanying notes to financial statements.

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/11</u>	<u>1/1 – 12/31/12</u>		<u>Balance</u> <u>12/31/12</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class C 20 – Executive Life, CA	\$(7,718,282)			
Interest expense		\$ (67,664)		
Assumption reinsurance			\$2,774,056	
Assessments by NOLHGA for expenses			6,256	
Administration & legal fees, & direct expenses			2,062	
Allocated general & administration expenses			12,219	
Estimated claims payable decrease			(2,653,439)	\$(7,927,100)
Class C25 – Midwest Life, LA	873,189			
Closed to contingency reserve - Annuities			873,189	0
Class C30 – Andrew Jackson Life, MS	(6,014)			
Interest expense		(60)		(6,074)
Class C37 - Kentucky Central Life	1,683,871			
Closed to contingency reserve - Life			1,582,839	
Closed to contingency reserve - Annuities			101,032	0
Class C38 - Consumers United, Delaware	(165,705)			
Estate distributions		269		
Interest expense		(1,663)		
Assessments by NOLHGA for expenses			34	
Administration & legal fees, & direct expenses			33	
Allocated general & administration expenses			195	(167,361)
Class C40 – American Integrity, PA	2,238,938			
Closed to contingency reserve - Health			2,238,938	0
Class C41 – National Heritage, DE	36,950			
Closed to contingency reserve - Life			2,069	
Closed to contingency reserve - Annuities			34,881	0
Class C54 – Centennial Life, KS	(113,143)			
Interest expense		(1,136)		
Administration & legal fees, & direct expenses			17	
Allocated general & administration expenses			98	(114,394)
Class C55 – Universe Life – ID	(317,076)			
Interest expense		(3,184)		
Assessments by NOLHGA for expenses			206	(320,466)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/11</u>	<u>1/1 – 12/31/12</u>		<u>Balance</u> <u>12/31/12</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class C56 – Fidelity Bankers Life, VA Closed to contingency reserve - Annuities	\$ (652,403)		\$(652,403)	\$ 0
Class C60 – First National Life Ins. Co. of America, MS (Thunor) Closed to contingency reserve - Life Closed to contingency reserve - Annuities	(230,381)		(69,114) (161,267)	0
Class C61 – International Financial Services Life, MO (Thunor) Closed to contingency reserve - Life	(12,285)		(12,285)	0
Class C63 – American Chambers Life, OH Estate distributions Interest expense Assessments by NOLHGA for expenses Administration & legal fees, & direct expenses Allocated general & administration expenses	(1,376,494)	\$ 32,955 (13,561)	1,322 66 391	(1,358,879)
Class C65 – Reliance Insurance Co., PA Closed to contingency reserve - Health	(21,776)		(21,776)	0
Class B66 – Legion & Villanova Insurance Cos., PA Interest expense Administration & legal fees, & direct expenses Allocated general & administration expenses	(6,297)	(63)	17 98	(6,475)
Class B67 – London Pacific Life, NC Interest expense Assessments by NOLHGA for expenses	(1,506,680)	(15,121)	59	(1,521,860)
Class B68 – States General Life, TX Closed to contingency reserve - Health	(42,472)		(42,472)	0
Class B69 – Benicorp Insurance, IN Estate distributions Interest expense Assessments by NOLHGA for expenses Administration & legal fees, & direct expenses Allocated general & administration expenses	(3,657,717)	420,784 (35,055)	5,441 332 1,964	(3,279,725)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/11</u>	<u>1/1 – 12/31/12</u>		<u>Balance</u> <u>12/31/12</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B70 - Lincoln Memorial Life, TX	\$(4,606,121)			
Estate distributions		\$ 317,004		
Premiums received		10,619		
Interest expense		(18,364)		
Policyholder benefit claims			\$ 400,000	
Assessments by NOLHGA for expenses			44,892	
Administration & legal fees, & direct expenses			7,487	
Allocated general & administration expenses			44,364	
Estimated claims payable decrease			(380,451)	\$(4,413,154)
Class B71 - Medical Savings Insurance, IN	(1,386,909)			
Interest expense		(13,765)		
Policyholder benefit claims			12,000	
Assessments by NOLHGA for expenses			37,734	
Administration & legal fees, & direct expenses			2,425	
Allocated general & administration expenses			14,372	
Estimated claims payable decrease			(12,000)	(1,455,205)
Class B72 – Penn Treaty Network Insurance, PA	(101,765)			
Interest expense		(1,174)		
Assessments by NOLHGA for expenses			17,783	
Administration & legal fees, & direct expenses			1,707	
Allocated general & administration expenses			10,114	(132,543)
Class B73 – Imerica Life & Health Insurance, AR	(8,940)			
Interest expense		(89)		(9,029)
Class B74 – National States Insurance, MO	(390,279)			
Premiums received		462,301		
Interest expense		(2,957)		
Assumption reinsurance			220,797	
Policyholder benefit claims			333,244	
Assessments by NOLHGA for expenses			66,706	
Administration & legal fees, & direct expenses			3,073	
Allocated general & administration expenses			18,210	(572,965)

(Continued)

CLASSES B AND C NET ASSETS – STATEMENTS OF ACTIVITIES

	<u>Balance</u> <u>12/31/11</u>	<u>1/1 – 12/31/12</u>		<u>Balance</u> <u>12/31/12</u>
		<u>Revenues</u>	<u>Expenses</u>	
Class B75 – Executive Life Insurance of New York	\$ (931,550)			
Interest expense		\$ (519)		
Assessments by NOLHGA for expenses			\$ 16,403	
Administration & legal fees, & direct expenses			2,918	
Allocated general & administration expenses			17,287	\$ (968,677)
Class B76 – Standard Life Insurance Co. of Indiana	0			
Interest expense		(6)		
Assessments by NOLHGA for expenses			230	
Administration & legal fees, & direct expenses			249	
Allocated general & administration expenses			1,476	
Estimated claims payable increase			371,794	(373,755)
Class B Contingency Reserve - Life	10,313,283			
Investment income		118,590		
Estate distribution - Closed insolvency C31		110		
Closed from Classes C37, C41, C60, C61			(1,503,509)	11,935,492
Class B Contingency Reserve – Annuities	4,874,211			
Investment income		50,877		
Closed from Classes C25, C37, C41, C56, C60			(195,432)	5,120,520
Class B Contingency Reserve – Health	1,661,465			
Investment income		38,498		
Closed from Classes C40, C65, C68			(2,174,690)	<u>3,874,653</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ (1,570,382)</u></b>	<b><u>\$1,277,626</u></b>	<b><u>\$1,404,241</u></b>	<b><u>\$ (1,696,997)</u></b>
Per Exhibit B:				
Total expenses			\$4,078,337	
Decrease in estimated claims payable			(2,674,096)	
			<u>\$1,404,241</u>	

STATEMENTS OF CASH FLOWS (Notes 1 and 2)

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets per Exhibit B	\$ (124,175)	\$ 2,667,370
Adjustments to reconcile increase (decrease) in net assets with net cash from (used for) operating activities:		
Realized net (gain) loss from sale of investments	(15,259)	24,856
Unrealized market (gain) loss on investments	21,345	(18,062)
Decrease in accrued interest receivable	14,102	10,512
Decrease in estimated claims payable	<u>(2,674,096)</u>	<u>(1,611,270)</u>
<b>NET CASH FROM (USED FOR) OPERATING ACTIVITIES</b>	<b><u>\$(2,778,083)</u></b>	<b><u>\$ 1,073,406</u></b>
<b>CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	\$ 4,030,960	\$ 1,290,000
Purchase of investments	<u>(252,378)</u>	<u>(2,455,488)</u>
<b>NET CASH FROM (USED FOR) INVESTING ACTIVITIES</b>	<b><u>\$ 3,778,582</u></b>	<b><u>\$(1,165,488)</u></b>
<b>CASH AND MONEY MARKET FUND:</b>		
Increase (decrease) during year	\$ 1,000,499	\$ ( 92,082)
Balance at beginning of year	<u>475,565</u>	<u>567,647</u>
Balance at end of year	<b><u>\$ 1,476,064</u></b>	<b><u>\$ 475,565</u></b>
 Balance at end of year:	 <u>12/31/12</u>	 <u>12/31/11</u>
Cash in checking account	\$ 604,696	\$ 238,992
Cash in money market fund	<u>871,368</u>	<u>236,573</u>
	<b><u>\$ 1,476,064</u></b>	<b><u>\$ 475,565</u></b>

See accompanying notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – ORGANIZATION

Nebraska Life and Health Insurance Guaranty Association is a nonprofit, unincorporated association organized and established by the Nebraska Life and Health Insurance Guaranty Act, Sections 44-2701 through 2720, R.S. Supp. 1975, which provides for the creation of an association of member insurers to enable the guaranty of payment of benefits and the continuance of coverage of life insurance policies, health insurance policies, annuity contracts and supplemental contracts. Any insurer licensed to issue life and health insurance policies, and annuity and supplemental contracts in the State of Nebraska is required to be a member.

Association members may be assessed for assessments as follows:

Class A – Assessments for administration expenses of the Association.

Class B – Assessments to cover insurance benefit claims and expenses of domestic (Nebraska) and foreign (other than Nebraska) insurance companies with policyholders in Nebraska that are declared insolvent by the State Department of Insurance.

Effective September 1, 2001, Class C assessments were eliminated by amendment of Nebraska Revised Statute Section 44-2708. Since September 1, 2001, both domestic and foreign insolvencies are funded by Class B assessments.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Separate accounts are maintained by type of assessments and by insurers. Investment income and gains or losses on investments are allocated to the respective accounts based on the average quarterly balances of each respective account. Accounts with average positive balances are credited with their allocable share of investment income, and accounts with average negative balances are charged with interest expense on their average deficit balance.

Class A general and administrative expenses are allocated to Class B and Class C insolvencies based on time spent by administrative personnel on the specific insolvencies.

Cash in the checking account and the cash in the money market fund are maintained at high-quality financial institutions. Management believes the Association is not exposed to any significant credit risk on the cash in the checking account and cash in the money market fund.

Investments in debt securities are measured at fair value in the statements of financial position. Unrealized gains or losses are included in the statements of activities. Fair value is based on quoted market prices.

Financial instruments that potentially expose the Association to concentrations of credit and market risk consist primarily of investments. The Association's investments do not represent significant concentrations of credit risk. Financial instruments are not held for trading purposes.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of equipment is capitalized and depreciated over five to seven years by the straight-line method.

The Association is a nonprofit, unincorporated entity of the State of Nebraska, and therefore, no income tax returns or return of organization exempt from income tax are required to be filed.

NOTE 3 – CERTIFICATES OF DEPOSIT OWNED AS OF DECEMBER 31, 2012:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
GE Money Bank, Draper, UT:					
9/29/11	\$ 90,000	\$ 89,100	\$ 93,442	8/12/16	1.850%
Johnson Bank, Racine, WI:					
10/05/10	90,000	89,235	91,875	9/24/14	1.500%
Parkway Bank & Trust, Harwood Heights, IL:					
10/05/10	90,000	89,910	90,790	9/9/13	1.500%
Sallie Mae Bank, Murray, UT:					
4/03/09	<u>90,000</u>	<u>89,550</u>	<u>93,135</u>	3/25/14	3.550%
	<u>\$360,000</u>	<u>\$357,795</u>	<u>\$369,242</u>		

NOTE 4 – U. S. TREASURY NOTES OWNED AS OF DECEMBER 31, 2012:

<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
U. S. Treasury Notes:					
4/01/10	\$100,000	\$100,234	\$101,648	11/30/13	2.000%
4/01/10	100,000	99,930	103,852	10/31/14	2.375%
10/01/10	100,000	99,922	102,430	8/31/15	1.250%
9/30/11	<u>100,000</u>	<u>100,109</u>	<u>101,906</u>	8/31/16	1.000%
	<u>\$400,000</u>	<u>\$400,195</u>	<u>\$409,836</u>		

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – CORPORATE BONDS OWNED AS OF DECEMBER 31, 2012:

	<u>Date Purchased</u>	<u>Quantity</u>	<u>Purchase Cost</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Colgate-Palmolive Co.:	12/14/10	\$100,000	\$ 95,822	\$102,167	11/01/15	1.375%
Microsoft Corp.:	12/8/10	100,000	99,814	100,435	9/27/13	.875%
Wal Mart Stores, Inc.:	5/26/10	<u>100,000</u>	<u>104,687</u>	<u>103,881</u>	5/15/14	3.200%
		<u>\$300,000</u>	<u>\$300,323</u>	<u>\$306,483</u>		

NOTE 6 – ESTIMATED CLAIMS PAYABLE AS OF DECEMBER 31, 2012 AND 2011:

<u>Insolvency</u>	<u>12/31/12</u>	<u>12/31/11</u>
Class C20 – Executive Life, CA	\$ 0	\$2,653,439
Class B70 – Lincoln Memorial Life, TX	2,506,651	2,887,102
Class B71 – Medical Savings Insurance, IN	38,000	50,000
Class B74 – National States Insurance, MO	200,000	200,000
Class B75 - Executive Life Insurance Co. of New York	900,000	900,000
Class B76 - Standard Life Insurance Co. of Indiana	<u>371,794</u>	<u>0</u>
	<u>\$4,016,445</u>	<u>\$6,690,541</u>

NOTE 7 – CONTINGENCY RESERVE FOR FUTURE OBLIGATIONS

On April 8, 1999, the Board of Directors approved that net asset balances held for certain settled insolvencies be transferred to a contingency reserve for future Class B obligations of the Nebraska Life and Health Insurance Guaranty Association.

Exhibit B-1 (Page 9) presents an accounting of the Class B contingency reserves for the year 2012. The net asset balances of the contingency reserves were as follows:

	<u>12/31/12</u>	<u>12/31/11</u>
Contingency reserve for future obligations – Life	\$11,935,492	\$10,313,283
Contingency reserve for future obligations – Annuities	5,120,520	4,874,211
Contingency reserve for future obligations – Health	<u>3,874,653</u>	<u>1,661,465</u>
	<u>\$20,930,665</u>	<u>\$16,848,959</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – TOTAL NET ASSETS

As shown on Exhibit A as of December 31, 2012, total assets were \$2,564,963 and total liabilities were \$4,016,445 which resulted in total net assets of a negative \$1,451,482. The excess of liabilities over assets will be covered by Class B assessments of member insurers licensed in the State of Nebraska.

NOTE 9 – INVESTMENT INCOME – NET

	<u>2012</u>	<u>2011</u>
Income received on money market funds	\$ 40	\$ 45
Interest earned on debt securities	45,544	91,499
Realized net gain (loss) from sale of debt securities	15,259	(24,856)
Unrealized market gain (loss)	(21,344)	18,062
Investment management fees	<u>(3,474)</u>	<u>(4,178)</u>
	<u>\$ 36,025</u>	<u>\$ 80,572</u>

NOTE 10 – CLASS A GENERAL AND ADMINISTRATIVE EXPENSES ALLOCATED TO CLASSES B AND C

Class A general and administrative expenses were allocated to Classes B and C insolvencies based on time spent by administrative personnel on the specific insolvencies. This procedure is in accordance with accounting guidelines recommended by the National Organization of Life and Health Insurance Guaranty Associations.

Time spent was determined by the administration and legal fees paid to the Cline, Williams Law Firm, who perform the administration of the Nebraska Life and Health Insurance Guaranty Association. The Cline, Williams Law Firm submits monthly billings for their services for each insolvency.