

QUARTERLY STATEMENT

OF THE

LOVELACE HEALTH SYSTEM, INC.

OF

ALBUQUERQUE

IN THE STATE OF

NEW MEXICO

TO THE

INSURANCE DEPARTMENT

OF THE

STATE OF NEW MEXICO

**FOR THE QUARTER ENDED
March 31, 2017**

2017



95808201720100101

QUARTERLY STATEMENT

AS OF MARCH 31, 2017
OF THE CONDITION AND AFFAIRS OF THE

Lovelace Health System, Inc.

NAIC Group Code 0000 (Current Period) , 0000 (Prior Period) NAIC Company Code 95808 Employer's ID Number 85-0327237

Organized under the Laws of New Mexico State of Domicile or Port of Entry NM

Country of Domicile United States

Licensed as business type Life, Accident & Health [] Property/Casualty [] Hospital, Medical & Dental Service or Indemnity []
Dental Service Corporation [] Vision Service Corporation [] Health Maintenance Organization [X]
Other [] Is HMO Federally Qualified? Yes [X] No []

Incorporated/Organized October 29, 1984 Commenced Business March 1, 1985

Statutory Home Office 4101 Indian School Road NE Suite 405 , Albuquerque, NM US 87110
 (Street and Number) (City or Town, State, Country and Zip Code)

Main Administrative Office 4101 Indian School Road NE Suite 405
 (Street and Number) Albuquerque, NM US 87110 505-727-5683
 (City or Town, State, Country and Zip Code) (Area Code) (Telephone Number)

Mail Address 4101 Indian School Road NE Suite 405 , Albuquerque, NM US 87110
 (Street and Number or P.O. Box) (City or Town, State, Country and Zip Code)

Primary Location of Books and Records 4101 Indian School Road NE Suite 405 Albuquerque, NM US 87110 505-727-5190
 (Street and Number) (City or Town, State, Country and Zip Code) (Area Code) (Telephone Number)

Internet Website Address www.Lovelace.com

Statutory Statement Contact Doris Doney 615-296-3333
 (Name) (Area Code) (Telephone Number) (Extension)
Doris.Doney@ArdentHealth.com 615-296-6333
 (E-Mail Address) (Fax Number)

OFFICERS

Name	Title
1. <u>Ron Stern</u>	<u>President & CEO</u>
2. <u>Stephen Christopher Petrovich</u>	<u>Executive Vice President & Secretary</u>
3. <u>Clint Bradley Adams</u>	<u>Executive Vice President & Asst. Treasurer</u>

VICE-PRESIDENTS

Name	Title	Name	Title
<u>Ashley Morgan Crabtree</u>	<u>Vice President & Treasurer</u>	<u>Brian James Walton</u>	<u>Senior Vice President</u>

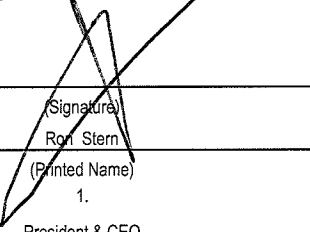
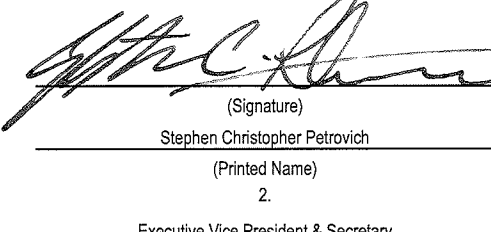
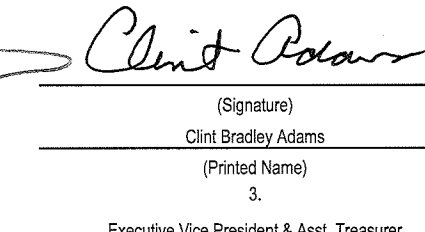
DIRECTORS OR TRUSTEES

<u>Clint Bradley Adams</u>	<u>Brian James Walton</u>	<u>Stephen Christopher Petrovich</u>

State of Tennessee

County of Davidson ss

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) <u>Ron Stern</u> (Printed Name) 1. President & CEO (Title)	(Signature) <u>Stephen Christopher Petrovich</u> (Printed Name) 2. Executive Vice President & Secretary (Title)	(Signature) <u>Clint Bradley Adams</u> (Printed Name) 3. Executive Vice President & Asst. Treasurer (Title)

Subscribed and sworn to before me this _____ day of _____, 2017

a. Is this an original filing? [X] Yes [] No

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

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds	300,236		300,236	300,413
2. Stocks:				
2.1 Preferred stocks				
2.2 Common stocks	6,375,734		6,375,734	6,315,909
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate:				
4.1 Properties occupied by the company (less \$ 0 encumbrances)				
4.2 Properties held for the production of income (less \$ 0 encumbrances)				
4.3 Properties held for sale (less \$ 0 encumbrances)				
5. Cash (\$ 22,620,767), cash equivalents (\$ 0), and short-term investments (\$ 0)	22,620,767		22,620,767	26,370,192
6. Contract loans (including \$ 0 premium notes)				
7. Derivatives				
8. Other invested assets	4,300,000		4,300,000	4,300,000
9. Receivables for securities				
10. Securities lending reinvested collateral assets				
11. Aggregate write-ins for invested assets				
12. Subtotals, cash and invested assets (Lines 1 to 11)	33,596,737		33,596,737	37,286,514
13. Title plants less \$ 0 charged off (for Title insurers only)				
14. Investment income due and accrued				
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection				
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ 0 earned but unbilled premiums)				
15.3 Accrued retrospective premiums (\$ 0) and contracts subject to redetermination (\$ 0)				
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers				
16.2 Funds held by or deposited with reinsured companies				
16.3 Other amounts receivable under reinsurance contracts				
17. Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon				
18.2 Net deferred tax asset	19,656,764	9,760,391	9,896,373	11,084,904
19. Guaranty funds receivable or on deposit				
20. Electronic data processing equipment and software	4,052,315	2,858,222	1,194,093	1,225,662
21. Furniture and equipment, including health care delivery assets (\$ 14,225,000)	27,698,290	1,601,500	26,096,790	28,110,434
22. Net adjustment in assets and liabilities due to foreign exchange rates				
23. Receivables from parent, subsidiaries and affiliates				533,248
24. Health care (\$ 70,213,784) and other amounts receivable	77,158,004	6,944,220	70,213,784	69,144,355
25. Aggregate write-ins for other than invested assets	4,117,953	4,117,953		
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	166,280,063	25,282,286	140,997,777	147,385,117
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28. Total (Lines 26 and 27)	166,280,063	25,282,286	140,997,777	147,385,117

DETAILS OF WRITE-IN LINES			
1101.			
1102.			
1103.			
1198. Summary of remaining write-ins for Line 11 from overflow page			
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)			
2501. Prepaid expenses	3,714,933	3,714,933	
2502. Other assets non-admitted	403,020	403,020	
2503.			
2598. Summary of remaining write-ins for Line 25 from overflow page			
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	4,117,953	4,117,953	

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ 0 reinsurance ceded)	2,781		2,781	63,209
2. Accrued medical incentive pool and bonus amounts				
3. Unpaid claims adjustment expenses				1,800
4. Aggregate health policy reserves, including the liability of \$ 0 for medical loss ratio rebate per the Public Health Service Act				
5. Aggregate life policy reserves				
6. Property/casualty unearned premium reserve				
7. Aggregate health claim reserves				
8. Premiums received in advance				
9. General expenses due or accrued	41,235,582		41,235,582	40,493,478
10.1 Current federal and foreign income tax payable and interest thereon (including \$ 0 on realized gains (losses))	5,964,435		5,964,435	
10.2 Net deferred tax liability				
11. Ceded reinsurance premiums payable				
12. Amounts withheld or retained for the account of others	7,215,083		7,215,083	6,830,177
13. Remittances and items not allocated				
14. Borrowed money (including \$ 0 current) and interest thereon \$ 0 (including \$ 0 current)				
15. Amounts due to parent, subsidiaries and affiliates	5,112,694		5,112,694	
16. Derivatives				
17. Payable for securities				
18. Payable for securities lending				
19. Funds held under reinsurance treaties (with \$ 0 authorized reinsurers, \$ 0 unauthorized reinsurers, and \$ 0 certified reinsurers)				
20. Reinsurance in unauthorized and certified (\$ 0) companies				
21. Net adjustments in assets and liabilities due to foreign exchange rates				
22. Liability for amounts held under uninsured plans				
23. Aggregate write-ins for other liabilities (including \$ 0 current)	6,824,822		6,824,822	7,458,786
24. Total liabilities (Lines 1 to 23)	66,355,397		66,355,397	54,847,450
25. Aggregate write-ins for special surplus funds	X X X	X X X		
26. Common capital stock	X X X	X X X	6,762	6,762
27. Preferred capital stock	X X X	X X X		
28. Gross paid in and contributed surplus	X X X	X X X	61,413,682	65,376,279
29. Surplus notes	X X X	X X X		
30. Aggregate write-ins for other than special surplus funds	X X X	X X X		
31. Unassigned funds (surplus)	X X X	X X X	13,221,936	27,154,626
32. Less treasury stock, at cost:				
32.1 0 shares common (value included in Line 26 \$ 0)	X X X	X X X		
32.2 0 shares preferred (value included in Line 27 \$ 0)	X X X	X X X		
33. Total capital and surplus (Lines 25 to 31 minus Line 32)	X X X	X X X	74,642,380	92,537,667
34. Total liabilities, capital and surplus (Lines 24 and 33)	X X X	X X X	140,997,777	147,385,117

DETAILS OF WRITE-IN LINES				
2301. Third party settlements	6,263,061		6,263,061	6,906,417
2302. Unclaimed checks	494,845		494,845	475,713
2303. Deferred revenue	58,435		58,435	68,174
2398. Summary of remaining write-ins for Line 23 from overflow page	8,481		8,481	8,482
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	6,824,822		6,824,822	7,458,786
2501.	X X X	X X X		
2502.	X X X	X X X		
2503.	X X X	X X X		
2598. Summary of remaining write-ins for Line 25 from overflow page	X X X	X X X		
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	X X X	X X X		
3001.	X X X	X X X		
3002.	X X X	X X X		
3003.	X X X	X X X		
3098. Summary of remaining write-ins for Line 30 from overflow page	X X X	X X X		
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)	X X X	X X X		

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year	Prior Year Ended
	To Date		To Date	December 31
	1 Uncovered	2 Total	3 Total	4 Total
1. Member Months	X X X			
2. Net premium income (including \$ 0 non-health premium income)	X X X			
3. Change in unearned premium reserves and reserve for rate credits	X X X			
4. Fee-for-service (net of \$ 123,365,220 medical expenses)	X X X	30,616,867	24,456,905	107,437,588
5. Risk revenue	X X X			
6. Aggregate write-ins for other health care related revenues	X X X			
7. Aggregate write-ins for other non-health revenues	X X X			
8. Total revenues (Lines 2 to 7)	X X X	30,616,867	24,456,905	107,437,588
Hospital and Medical:				
9. Hospital/medical benefits		(80,998)	(330,624)	(658,183)
10. Other professional services				
11. Outside referrals				
12. Emergency room and out-of-area				
13. Prescription drugs				
14. Aggregate write-ins for other hospital and medical				
15. Incentive pool, withhold adjustments and bonus amounts				
16. Subtotal (Lines 9 to 15)		(80,998)	(330,624)	(658,183)
Less:				
17. Net reinsurance recoveries				
18. Total hospital and medical (Lines 16 minus 17)		(80,998)	(330,624)	(658,183)
19. Non-health claims (net)				
20. Claims adjustment expenses, including \$ 0 cost containment expenses				
21. General administrative expenses		19,963,116	21,696,906	84,317,355
22. Increase in reserves for life and accident and health contracts (including \$ 0 increase in reserves for life only)				
23. Total underwriting deductions (Lines 18 through 22)		19,882,118	21,366,282	83,659,172
24. Net underwriting gain or (loss) (Lines 8 minus 23)	X X X	10,734,749	3,090,623	23,778,416
25. Net investment income earned		(19,513)	(71,207)	(128,744)
26. Net realized capital gains (losses) less capital gains tax of \$ 0				
27. Net investment gains (losses) (Lines 25 plus 26)		(19,513)	(71,207)	(128,744)
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		(29,549)	39,764	(80,364)
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	X X X	10,685,687	3,059,180	23,569,308
31. Federal and foreign income taxes incurred	X X X	6,315,362	2,851,689	8,181,443
32. Net income (loss) (Lines 30 minus 31)	X X X	4,370,325	207,491	15,387,865

DETAILS OF WRITE-IN LINES				
0601.	X X X			
0602.	X X X			
0603.	X X X			
0698. Summary of remaining write-ins for Line 06 from overflow page	X X X			
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 06 above)	X X X			
0701.	X X X			
0702.	X X X			
0703.	X X X			
0798. Summary of remaining write-ins for Line 07 from overflow page	X X X			
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 07 above)	X X X			
1401.				
1402.				
1403.				
1498. Summary of remaining write-ins for Line 14 from overflow page				
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)				
2901. Gain (loss) on sale of Pharmacy assets and operations- Note 21				(80,364)
2902. Gain (loss) on sale of fixed assets		(29,549)	39,764	
2903.				
2998. Summary of remaining write-ins for Line 29 from overflow page				
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)		(29,549)	39,764	(80,364)

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1	2	3
	Current Year To Date	Prior Year To Date	Prior Year Ended December 31
CAPITAL & SURPLUS ACCOUNT			
33. Capital and surplus prior reporting year	92,537,667	78,737,275	78,737,275
34. Net income or (loss) from Line 32	4,370,325	207,491	15,387,865
35. Change in valuation basis of aggregate policy and claim reserves			
36. Change in net unrealized capital gains (losses) less capital gains tax of \$ 0	59,825	58,640	218,258
37. Change in net unrealized foreign exchange capital gain or (loss)			
38. Change in net deferred income tax	2,647,739	1,632,179	1,355,089
39. Change in nonadmitted assets	(4,046,295)	1,146,681	(125,104)
40. Change in unauthorized and certified 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	(20,000,000)		
47. Aggregate write-ins for gains or (losses) in surplus	(926,881)		(3,035,716)
48. Net change in capital and surplus (Lines 34 to 47)	(17,895,287)	3,044,991	13,800,392
49. Capital and surplus end of reporting period (Line 33 plus 48)	74,642,380	81,782,266	92,537,667

DETAILS OF WRITE-IN LINES			
4701. Goodwill purchase adjustment excluded pursuant to NM Insurance Code Chapter 59A-8-2	(926,881)		(3,035,716)
4702.			
4703.			
4798. Summary of remaining write-ins for Line 47 from overflow page			
4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above)	(926,881)		(3,035,716)

CASH FLOW

	1	2	3
Cash from Operations	Current Year To Date	Prior Year To Date	Prior Year Ended December 31
1. Premiums collected net of reinsurance			
2. Net investment income	(19,336)	(71,207)	(128,566)
3. Miscellaneous income	32,216,874	25,877,767	112,961,173
4. Total (Lines 1 to 3)	32,197,538	25,806,560	112,832,607
5. Benefit and loss related payments	1,218,995	2,324,601	8,623,329
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts			
7. Commissions, expenses paid and aggregate write-ins for deductions	18,689,530	18,384,684	89,531,577
8. Dividends paid to policyholders			
9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)	350,927	2,851,689	8,181,443
10. Total (Lines 5 through 9)	20,259,452	23,560,974	106,336,349
11. Net cash from operations (Line 4 minus Line 10)	11,938,086	2,245,586	6,496,258
Cash from Investments			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds			
12.2 Stocks			
12.3 Mortgage loans			
12.4 Real estate			
12.5 Other invested assets			
12.6 Net gains (or losses) on cash, cash equivalents and short-term investments			
12.7 Miscellaneous proceeds			
12.8 Total investment proceeds (Lines 12.1 to 12.7)			
13. Cost of investments acquired (long-term only):			
13.1 Bonds			300,591
13.2 Stocks			
13.3 Mortgage loans			
13.4 Real estate			
13.5 Other invested assets			4,300,000
13.6 Miscellaneous applications			
13.7 Total investments acquired (Lines 13.1 to 13.6)			4,600,591
14. Net increase (or decrease) in contract loans and premium notes			
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)			(4,600,591)
Cash from Financing and Miscellaneous Sources			
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	20,000,000		
16.6 Other cash provided (applied)	4,312,489	1,081,800	(6,425,652)
17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	(15,687,511)	1,081,800	(6,425,652)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(3,749,425)	3,327,386	(4,529,985)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year	26,370,192	30,900,177	30,900,177
19.2 End of period (Line 18 plus Line 19.1)	22,620,767	34,227,563	26,370,192

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

20.0001	Goodwill purchase adjustment excluded pursuant to NM Insurance Code Chapter 59A-8-2	(926,881)	(3,035,716)
20.0002			
20.0003			

EXHIBIT OF PREMIUMS, ENROLLMENT AND UTILIZATION

	1 Total	Comprehensive (Hospital & Medical)		4 Medicare Supplement	5 Vision Only	6 Dental Only	7 Federal Employees Health Benefit Plan	8 Title XVIII Medicare	9 Title XIX Medicaid	10 Other
		2 Individual	3 Group							
Total Members at end of:										
1. Prior Year										
2. First Quarter										
3. Second Quarter										
4. Third Quarter										
5. Current Year										
6. Current Year Member Months										
Total Member Ambulatory Encounters for Period:										
7. Physician										
8. Non-Physician										
9. Totals										
10. Hospital Patient Days Incurred										
11. Number of Inpatient Admissions										
12. Health Premiums Written (a)										
13. Life Premiums Direct										
14. Property/Casualty Premiums Written										
15. Health Premiums Earned										
16. Property/Casualty Premiums Earned										
17. Amount Paid for Provision of Health Care Services	(20,570)	(75,386)					1,376	52,243	1,197	
18. Amount Incurred for Provision of Health Care Services	(80,998)	(80,998)								

(a) For health premiums written: amount of Medicare Title XVIII exempt from state taxes or fees \$ 0.

UNDERWRITING AND INVESTMENT EXHIBIT

ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid Year to Date			Liability End of Current Quarter		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability Dec. 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 Dec. 31 of Prior Year	4 On Claims Incurred During the Year			
1. Comprehensive (hospital and medical)	(75,386)		2,781		(72,605)	8,393	
2. Medicare Supplement							
3. Dental only							
4. Vision only							
5. Federal Employees Health Benefits Plan	1,376				1,376	1,376	
6. Title XVIII - Medicare	52,243				52,243	52,243	
7. Title XIX - Medicaid	1,197				1,197	1,197	
8. Other health							
9. Health subtotal (Lines 1 to 8)	(20,570)		2,781		(17,789)	63,209	
10. Health care receivables (a)							
11. Other non-health							
12. Medical incentive pools and bonus amounts							
13. Totals (Lines 9 - 10 + 11 + 12)	(20,570)		2,781		(17,789)	63,209	

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. Accounting Practices

The accompanying financial statements of Lovelace Health System, Inc. (the Company) have been prepared in accordance with the financial reporting provisions of the State of New Mexico Office of Superintendent of Insurance (OSI). These provisions (herein referred to as SAP) include the statutory accounting practices promulgated by the National Association of Insurance Commissioners (NAIC), as codified in the *Accounting Practices and Procedures Manual* and as supplemented by the "Annual Statement Instructions", except as modified by any special accounting practices prescribed or permitted by the state of New Mexico insurance laws and regulations that are applicable to the Company.

The state has adopted the following prescribed accounting practice that differs from that found in NAIC SAP: Goodwill arising from the purchase of a subsidiary, controlled or affiliated entity is written off directly to surplus in the year it originates. In NAIC SAP, goodwill amounts not to exceed 10% of an insurer's adjusted capital and surplus, as defined, may be admitted and all amounts of goodwill are amortized over periods not to exceed ten years. At March 31, 2017, the Company's goodwill amounts were as follows:

	(1) Generally Accepted Accounting Principles	(2) NAIC Statutory Accounting Practices	(3) New Mexico Prescribed Accounting Practices	[(2)-(3)] Variance Between New Mexico & NAIC
Heart Hospital of New Mexico acquisition, August 1, 2011	\$ 88,046,836	\$ 38,153,629	\$ 0	\$ 38,153,629
Roswell Hospital acquisition, February 1, 2012	<u>11,175,595</u>	<u>5,401,538</u>	<u>0</u>	<u>5,401,538</u>
Total	<u>\$ 99,222,431</u>	<u>\$ 43,555,167</u>	<u>\$ 0</u>	<u>\$ 43,555,167</u>
Non-admitted		<u>(35,532,457)</u>	<u>0</u>	<u>(35,532,457)</u>
Admitted		<u>\$ 8,022,710</u>	<u>\$ 0</u>	<u>\$ 8,022,710</u>

A reconciliation of the Company's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of New Mexico is shown below:

	State of Domicile	SSAP #	F/S Page	F/S Line #	March 31 2017	December 31 2016
NET INCOME						
(1) Lovelace Health System, Inc. Company state basis (Page 4, Line 32, Columns 2 & 3)	NM	XXX	XXX	XXX	\$ 4,370,325	\$ 15,387,865
(2) State Prescribed Practices that increase (decrease) NAIC SAP: Goodwill amortization, net of 35% tax	NM	68	4	21	1,336,231	6,085,046
(3) State Permitted Practices that increase (decrease) NAIC SAP	NM				<u>0</u>	<u>0</u>
(4) NAIC SAP.....(1 - 2 - 3 = 4)		XXX	XXX	XXX	<u>\$ 3,034,094</u>	<u>\$ 9,302,819</u>
					March 31 2017	December 31 2016
SURPLUS						
(5) Lovelace Health System, Inc. state basis (Page 3, Line 33, Columns 3 & 4)	NM	XXX	XXX	XXX	\$ 74,642,380	\$ 92,537,667
(6) State Prescribed Practices that increase (decrease) NAIC SAP: Goodwill, net	NM	68	2	4	(8,022,710)	(7,747,495)
(7) State Permitted Practices that increase (decrease) NAIC SAP	NM				<u>0</u>	<u>0</u>
(8) NAIC SAP.....(5 - 6 - 7 = 8)		XXX	XXX	XXX	<u>\$ 82,665,090</u>	<u>\$ 100,285,162</u>

b. Use of Estimates in the Preparation of the Financial Statements

No significant change

c. Accounting Policy

7. Investments in Subsidiaries, Controlled and Affiliated Entities

Investment in LHS Services, Inc.

On January 9, 2008, Lovelace Health System, Inc. ("LHS") invested \$3.0 million in the equity of LHS Services, Inc. ("LSI"), a non insurance affiliate, and entered into a \$9.6 million intercompany note receivable due from LSI. The equity contribution and loan by LHS were used to purchase a \$12.6 million bond issued by the New Mexico Hospital Equipment Loan Council ("NMHELC"). The bond was issued on behalf of LHS to fund the Lovelace Women's Hospital capital renovation project. The investment in LSI is carried at its GAAP equity and is reflected in common stocks in the balance sheet.

NOTES TO FINANCIAL STATEMENTS

On August 1, 2011, LHS made a loan of \$32.8 million to LSI and entered into a \$32.8 million intercompany note receivable due from LSI. The loan to LSI was used to purchase a bond of the same amount issued by the NMHELIC. The bond was issued on behalf of LHS to fund the purchase of the Heart Hospital's real estate and real property. (Refer to Note 21 for additional information regarding the divestiture of the Company's real estate on July 31, 2015.)

On December 20, 2012, LHS made a loan of approximately \$26.2 million to LSI and entered into a \$26.2 million intercompany note receivable due from LSI. The loan to LSI was used to purchase a bond of the same amount issued by the NMHELIC. The bond was issued on behalf of LHS to fund the purchase of the Roswell Hospital's real estate and real property. (Refer to Note 21 for additional information regarding the divestiture of the Company's real estate on July 31, 2015.)

Investment in LHS Services, Inc. - Continued

A summary of these transactions are as follows:

Industrial Revenue Bond ("IRB")	Date	Receivable from LSI	Payable for bond
Women's Hospital IRB	01/09/2008	\$0.9 million	\$1.2 million
Heart Hospital IRB	08/01/2011	\$7.9 million	\$10.0 million
Roswell Hospital IRB	12/20/2012	\$2.8 million	\$3.5 million

Below is a summary of the effect that these IRB transactions have on LHS' financial statements:

Balance Sheet Presentation:

	March 31 2017	December 31 2016
Due to/from Parents, Subsidiaries, and Affiliates ("PSA")		
Intercompany Note Loan Receivable	\$ 11,636,740	\$ 11,636,740
Intercompany Note Payable IRB	(14,636,740)	(14,636,740)
Net amount included in Receivable/Payable to PSA	\$ (3,000,000)	\$ (3,000,000)
Common Stocks:		
Investment in LSI	\$ 6,375,734	\$ 6,315,909

Income Statement Presentation:

	March 31 2017	December 31 2016
Interest Income on receivable from LSI	\$ 164,104	\$ 667,357
Interest expense on IRB bond	256,143	1,024,571
Net Interest expense in Net Investment Income	92,039	357,214
Federal income taxes incurred	(32,214)	(138,956)
Net of federal income taxes incurred	59,825	218,258
Change in unrealized gain on investment in LSI	59,825	218,258
Net impact to capital and surplus	\$ 0	\$ 0

d. Going Concern:

No significant change

2. Accounting Changes and Corrections of Errors

No significant change

3. Business Combinations and Goodwill

No significant change

4. Discontinued Operations

No significant change

5. Investments

a. Mortgage Loans: None

b. Debt Restructuring: None

c. Reverse Mortgages: None

d. Loan -Backed Securities: None

e. Repurchase Agreements: None

f. Real Estate:

1. Impairment Losses: None

2. Real estate sold or held for sale: See Note 21 regarding the divestiture ("sale") of the Company's real estate holdings to its parent through a common capital stock repurchase during 2015.

3. Changes to a plan of real estate sale: None

4. Retail land sales operations: None

5. Participating mortgage loan features: None

NOTES TO FINANCIAL STATEMENTS

- g. Investments in Low-Income Housing Tax Credits (LIHTC): None
- h. Restricted Assets: No significant change
- i. Working Capital Finance Investments: None
- j. Offsetting and Netting of Assets and Liabilities: None
- k. Structured Notes: None

6. Joint Ventures, Partnerships and Limited Liability Companies

No significant change

7. Investment Income

No significant change

8. Derivative Instruments

None

9. Income Taxes

- a. The components of the net DTA recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

1. Net Admitted Deferred Tax Asset (Liability) Summary

		3/31/2017		
		(1)	(2)	(3)
		Ordinary	Capital	(Col 1 + 2) Total
(a)	Gross Deferred Tax Assets	\$ 22,314,429	\$ 0	\$ 22,314,429
(b)	Statutory Valuation Allowance Adjustment	0	0	0
(c)	Adjusted Gross Deferred Tax Assets (1a-1b)	22,314,429	0	22,314,429
(d)	Deferred Tax Assets Nonadmitted	9,760,391	0	9,760,391
(e)	Subtotal Net Admitted Deferred Tax Assets (1c-d)	12,554,038	0	12,554,038
(f)	Deferred Tax Liabilities	2,657,665	0	2,657,665
(g)	Net Admitted Deferred Tax Asset/ (Net Deferred Tax Liability) (1e-1f)	\$ 9,896,373	\$ 0	\$ 9,896,373

		12/31/2016		
		(4)	(5)	(6)
		Ordinary	Capital	(Col 4 + 5) Total
(a)	Gross Deferred Tax Assets	\$ 20,226,118	\$ 0	\$ 20,226,118
(b)	Statutory Valuation Allowance Adjustment	0	0	0
(c)	Adjusted Gross Deferred Tax Assets (1a-1b)	20,226,118	0	20,226,118
(d)	Deferred Tax Assets Nonadmitted	5,924,121	0	5,924,121
(e)	Subtotal Net Admitted Deferred Tax Assets (1c-d)	14,301,997	0	14,301,997
(f)	Deferred Tax Liabilities	3,217,093	0	3,217,093
(g)	Net Admitted Deferred Tax Asset/ (Net Deferred Tax Liability) (1e-1f)	\$ 11,084,904	\$ 0	\$ 11,084,904

		Change		
		(7)	(8)	(9)
		(Col 1 - 4) Ordinary	(Col 2 - 5) Capital	(Col 7 + 8) Total
(a)	Gross Deferred Tax Assets	\$ 2,088,311	\$ 0	\$ 2,088,311
(b)	Statutory Valuation Allowance Adjustment	0	0	0
(c)	Adjusted Gross Deferred Tax Assets (1a-1b)	2,088,311	0	2,088,311
(d)	Deferred Tax Assets Nonadmitted	3,836,270	0	3,836,270
(e)	Subtotal Net Admitted Deferred Tax Assets (1c-d)	(1,747,959)	0	(1,747,959)
(f)	Deferred Tax Liabilities	(559,428)	0	(559,428)
(g)	Net Admitted Deferred Tax Asset/ (Net Deferred Tax Liability) (1e-1f)	\$ (1,188,531)	\$ 0	\$ (1,188,531)

NOTES TO FINANCIAL STATEMENTS

2. Admission Calculation Components SSAP No. 101

	3/31/2017		
	(1)	(2)	(3)
	Ordinary	Capital	(Col 1 + 2) Total
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	\$ 9,896,373	\$ 0	\$ 9,896,373
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding the Amount of Deferred Tax Assets from 2 (a) above) After Application of the Threshold Limitation. (the Lesser of 2(b)1 and 2(b)2 Below.)	0	0	0
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	0	0	0
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.	XXX	XXX	9,532,787
(c) Adjusted Gross Deferred Tax Assets (Excluding the Amount of Deferred Tax Assets from 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities.	2,657,665	0	2,657,665
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c))	<u>\$ 12,554,038</u>	<u>\$ 0</u>	<u>\$ 12,554,038</u>

	12/31/2016		
	(4)	(5)	(6)
	Ordinary	Capital	(Col 4 + 5) Total
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	\$ 10,279,269	\$ 0	\$ 10,279,269
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding the Amount of Deferred Tax Assets from 2 (a) above) After Application of the Threshold Limitation. (the Lesser of 2(b)1 and 2(b)2 Below.)	805,634	0	805,634
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	0	0	0
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.	XXX	XXX	12,034,065
(c) Adjusted Gross Deferred Tax Assets (Excluding the Amount of Deferred Tax Assets from 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities.	3,217,094	0	3,217,094
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c))	<u>\$ 14,301,997</u>	<u>\$ 0</u>	<u>\$ 14,301,997</u>

	Change		
	(7)	(8)	(9)
	(Col 1 - 4) Ordinary	(Col 2 - 5) Capital	(Col 7 + 8) Total
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	\$ (382,896)	\$ 0	\$ (382,896)
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding the Amount of Deferred Tax Assets from 2 (a) above) After Application of the Threshold Limitation. (the Lesser of 2(b)1 and 2(b)2 Below.)	(805,634)	0	(805,634)
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	0	0	0
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.	XXX	XXX	(2,501,278)
(c) Adjusted Gross Deferred Tax Assets (Excluding the Amount of Deferred Tax Assets from 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities.	(559,429)	0	(559,429)
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101. Total (2(a) + 2(b) + 2(c))	<u>\$ (1,747,959)</u>	<u>\$ 0</u>	<u>\$ (1,747,959)</u>

NOTES TO FINANCIAL STATEMENTS

3. ExDTA Threshold Limitation Components

	2017	2016
(a) Ratio Percentage Used to Determine Recovery Period and Threshold Limitation Amount.	906%	1139%
(b) Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation in 2 (b) 2 Above.	\$ 64,746,007	\$ 81,452,763

4. The Impact of Tax Planning Strategies

	3/31/2017	
	(1)	(2)
	Ordinary	Capital
(a) Determination Of Adjusted Gross Deferred Tax Assets and Net Admitted Deferred Tax Assets, By Tax Character, As A Percentage.		
1. Adjusted Gross DTAs Amount From Note 9A1(c)	\$ 22,314,429	\$ 0
2. Percentage of Adjusted Gross DTAs By Tax Character Attributable To The Impact of Tax Planning Strategies	0%	0%
3. Net Admitted Adjusted Gross DTAs Amount From 9A1(e)	\$ 12,554,038	\$ 0
4. Percentage of Net Admitted Adjusted Gross DTAs By Tax Character Admitted Because Of The Impact Of Tax Planning Strategies	0%	0%

	12/31/2016	
	(3)	(4)
	Ordinary	Capital
(a) Determination Of Adjusted Gross Deferred Tax Assets and Net Admitted Deferred Tax Assets, By Tax Character, As A Percentage.		
1. Adjusted Gross DTAs Amount From Note 9A1(c)	\$ 20,226,118	\$ 0
2. Percentage of Adjusted Gross DTAs By Tax Character Attributable To The Impact of Tax Planning Strategies	0%	0%
3. Net Admitted Adjusted Gross DTAs Amount From 9A1(e)	\$ 14,301,997	\$ 0
4. Percentage of Net Admitted Adjusted Gross DTAs By Tax Character Admitted Because Of The Impact Of Tax Planning Strategies	0%	0%

	Change	
	(5)	(6)
	(Col 1-3) Ordinary	(Col 2-4) Capital
(a) Determination Of Adjusted Gross Deferred Tax Assets and Net Admitted Deferred Tax Assets, By Tax Character, As A Percentage.		
1. Adjusted Gross DTAs Amount From Note 9A1(c)	\$ 2,088,311	\$ 0
2. Percentage of Adjusted Gross DTAs By Tax Character Attributable To The Impact of Tax Planning Strategies	0%	0%
3. Net Admitted Adjusted Gross DTAs Amount From 9A1(e)	\$ (1,747,959)	\$ 0
4. Percentage of Net Admitted Adjusted Gross DTAs By Tax Character Admitted Because Of The Impact Of Tax Planning Strategies	0%	0%

(b) The Company has no tax planning strategies that include the use of reinsurance.

- b. Deferred tax liabilities that are not recognized - There were no unrecognized DTLs as of March 31, 2017 or December 31, 2016.

NOTES TO FINANCIAL STATEMENTS

c. Current income taxes incurred consist of the following major components:

	(1) 3/31/2017	(2) 12/31/2016	(3) (Col 1 - 2) Change
1. Current Income Tax			
(a) Federal	\$ 6,315,362	\$ 8,181,443	\$ (1,866,081)
(b) Foreign	0	0	0
(c) Subtotal	6,315,362	8,181,443	(1,866,081)
(d) Federal income tax on net capital gains	0	0	0
(e) Utilization of capital loss carry-forwards	0	0	0
(f) Other - Prior period true-up adjustment	0	0	0
(g) Federal and foreign income taxes incurred	<u>\$ 6,315,362</u>	<u>\$ 8,181,443</u>	<u>\$ (1,866,081)</u>

	(1) 3/31/2017	(2) 12/31/2016	(3) (Col 1 - 2) Change
2. Deferred Tax Assets:			
(a) Ordinary			
(1) Discounting of unpaid losses	\$ 0	\$ 0	\$ 0
(2) Unearned premium reserve	0	0	0
(3) Policyholder reserves	0	0	0
(4) Investments	0	0	0
(5) Deferred acquisition costs	0	0	0
(6) Policyholder dividends accrual	0	0	0
(7) Fixed assets	6,558,137	5,477,637	1,080,500
(8) Compensation and benefits accrual	2,394,072	2,638,486	(244,414)
(9) Pension accrual	0	0	0
(10) Receivables--nonadmitted	2,430,477	2,370,929	59,548
(11) Net operating loss carry-forward	0	0	0
(12) Tax credit carry-forward	0	0	0
(13.1) Bad debts	0	3,876,155	(3,876,155)
(13.2) Intangibles	0	0	0
(13.3) Accrued expenses	7,437,730	4,394,877	3,042,853
(13.4) Prepaid expenses	1,159,170	1,325,026	(165,856)
(13.5) Trade receivables	2,193,786	0	2,193,786
(13.6) Other (including items <5% of total ordinary tax assets)	141,057	143,008	(1,951)
(99) Subtotal	<u>22,314,429</u>	<u>20,226,118</u>	<u>2,088,311</u>
(b) Statutory valuation allowance adjustment	0	0	0
(c) Nonadmitted	<u>9,760,391</u>	<u>5,924,121</u>	<u>3,836,270</u>
(d) Admitted ordinary deferred tax assets (2a99 - 2b - 2c)	<u>12,554,038</u>	<u>14,301,997</u>	<u>(1,747,959)</u>
(e) Capital:			
(1) Investments	0	0	0
(2) Net capital loss carry-forward	0	0	0
(3) Real estate	0	0	0
(4) Other (including items <5% of total capital tax assets)	0	0	0
(99) Subtotal	<u>0</u>	<u>0</u>	<u>0</u>
(f) Statutory valuation allowance adjustment	0	0	0
(g) Nonadmitted	<u>0</u>	<u>0</u>	<u>0</u>
(h) Admitted capital deferred tax assets (2e99 - 2f - 2g)	<u>0</u>	<u>0</u>	<u>0</u>
(i) Admitted deferred tax assets (2d + 2h)	<u>\$ 12,554,038</u>	<u>\$ 14,301,997</u>	<u>\$ (1,747,959)</u>

3. Deferred Tax Liabilities:

(a) Ordinary			
(1) Investments	0	0	0
(2) Fixed assets	0	0	0
(3) Deferred and uncollected premium	0	0	0
(4) Policyholder reserves	0	0	0
(5) Other (including items <5% of total ordinary tax assets)	2,657,665	3,217,093	(559,428)
(99) Subtotal	<u>2,657,665</u>	<u>3,217,093</u>	<u>(559,428)</u>
(b) Capital:			
(1) Investments	0	0	0
(2) Real estate	0	0	0
(3) Other (including items <5% of total capital tax assets)	0	0	0
(99) Subtotal	<u>0</u>	<u>0</u>	<u>0</u>
(c) Deferred tax liabilities (3a99 + 3b99)	<u>2,657,665</u>	<u>3,217,093</u>	<u>(559,428)</u>
4. Net deferred tax assets/liabilities (2i - 3c)	<u>\$ 9,896,373</u>	<u>\$ 11,084,904</u>	<u>\$ (1,188,531)</u>

NOTES TO FINANCIAL STATEMENTS

The change in net deferred income taxes is comprised of the following:

	(1)	(2)	(3)
	3/31/2017	12/31/2016	(Col 1 - 2) Change
Total adjusted gross deferred tax assets	\$ 22,314,429	\$ 20,226,118	\$ 2,088,311
Total deferred tax liabilities	2,657,665	3,217,093	(559,428)
Net deferred tax asset	<u>\$ 19,656,764</u>	<u>\$ 17,009,025</u>	2,647,739
Tax effect of change in unrealized gains (losses)			0
Change in net deferred income tax, Page 5, Line 38			<u>\$ 2,647,739</u>

5. Investment tax credits - not applicable.
 6. Benefits of operating loss carryforwards - not applicable.
 7. Adjustments for DTAs or DTLs for enacted changes in tax laws or rates - not applicable.
 8. Adjustments to gross DTAs because of a change in circumstances that causes a change in judgment - not applicable.
- d. Among the more significant book to tax adjustments were the following:

	3/31/2017	Effective Tax Rate
Provision computed at statutory rate	\$ 3,739,990	35.0%
Other permanent adjustments, net	(72,367)	-0.7%
Tax effect of change in nonadmitted assets		0.0%
Prior year true-up		0.0%
Work Opportunity Tax Credit		0.0%
Change in statutory valuation allowance		0.0%
Totals	<u>\$ 3,667,623</u>	<u>34.3%</u>

	3/31/2017	Effective Tax Rate
Federal and foreign income taxes incurred	\$ 6,315,362	59.1%
Current taxes on realized capital gains	0	0.0%
Total current taxes	6,315,362	59.1%
Change in statutory valuation allowance	0	0.0%
Change in net deferred income taxes	(2,647,739)	-24.8%
Total statutory income taxes	<u>\$ 3,667,623</u>	<u>34.3%</u>

- e. 1. Amount of net operating loss and tax credit carryforwards available to offset future taxable income:
- None
2. The amount of federal income taxes incurred and available for recoupment in the event of future net losses is:

Year	Amount
2017	\$ 6,315,362
2016	\$ 8,181,443

3. Aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Service Code:
- None

- f. Consolidated Federal Income Tax Return

Ardent Health Partners, LLC ("Ardent")'s directly wholly-owned domestic subsidiary companies entered into a Consolidated Federal Income Tax Agreement (the Agreement) effective as of January 1, 2003 and amended on August 5, 2015. The Agreement sets forth the method of allocation of federal income taxes for Ardent and its wholly-owned domestic subsidiaries, including insurance subsidiaries. The Agreement provides for immediate reimbursement to companies with net operating losses to the extent that their losses are used to reduce consolidated taxable income; while those companies with current taxable income as calculated under federal separate return provision, are liable for payments determined as if they had each filed a separate return. However, current credit is given for any foreign tax credit, operating loss or investment tax credit carryovers actually used in the current consolidated return.

NOTES TO FINANCIAL STATEMENTS

The Company is included in the consolidated United States federal income tax return filed by its parent company, AHS Legacy Holdings, Inc. In accordance with a tax sharing arrangement, the provision for federal income tax liability is computed as if the Company were filing a separate federal income tax return. Benefits for net operating losses and tax credits are carried forward to offset future taxable income on a separate company basis, except to the extent that the tax sharing agreement provides for the recoupment of tax payments made in a prior year. Pursuant to the agreement, the Company has a limited enforceable right to recoup federal income tax paid in prior years in the event of future net losses. The Company has the right to receive a payment from Ardent equal to the lesser of: 1) the refund of federal income tax that the Company would have been entitled to receive from a carryback claim filed as a separate company or 2) the actual reduction in federal income tax liability that results from the loss being included in the consolidated federal income tax return of Ardent.

The following entities are included in the abovementioned consolidated United States federal income tax return:

- AHS Legacy Holdings, Inc.
- AHS Legacy Acquisitions, Inc.
- AHS Legacy Operations, LLC
- AHS Louisiana Holdings, Inc.
- AHS Louisiana Hospitals, Inc.
- AHS Management Company, Inc.
- AHS New Mexico Holdings, Inc.
- AHS Summit Hospital LLC
- LHS Services, Inc.
- Southwest Medical Associates, Inc.
- AHS Newco 16, Inc.
- AHS Newco 19, Inc.
- BSA Harrington Physicians, Inc.
- BSA Physician Holding Company LLC
- BSA Physicians Group, Inc.
- Lovelace Health System, Inc.
- BSA Amarillo Diagnostic Clinic, Inc.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the positive and negative evidence from all sources including net operating loss carryback opportunities, historical operating results, prudent and feasible tax planning strategies and projections of future taxable income. Subsequently recognized tax benefit or expense relating to a valuation allowance for deferred tax assets are reported as an income tax benefit or expense in the statement of operations. Management did not consider a valuation allowance necessary at March 31, 2017 or December 31, 2016.

g. **Federal or Foreign Federal Income Tax Loss Contingencies**

The Company has no tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date. As of March 31, 2017, management considers the Company's open tax years to include returns filed for 2004 through 2016.

10. Information Concerning Parent, Subsidiaries and Affiliates

With approval of the NM OSI, the Company declared and paid an extraordinary dividend of \$20,000,000 to AHS Management Company, its parent, on March 30, 2017. There were no dividends declared or paid during 2016.

11. Debt

No significant change

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

No significant change

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

No significant change

14. Contingencies

No significant change

15. Leases

No significant change

16. Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk

No significant change

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

- a. No significant change
- b. No significant change
- c. No "wash sales"

NOTES TO FINANCIAL STATEMENTS

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

No significant change

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

No significant change

20. Fair Value Measurements

- a. Statement of Statutory Accounting Principles No. 100, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Statutory accounting principles establish a fair value hierarchy for inputs used in measuring fair value that gives the highest priority to observable inputs (Level 1) and the lowest priority to unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect management's assumptions about inputs market participants would use in pricing the asset or liability, developed on the basis of the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1: Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities and, as such, do not entail a significant degree of judgment.
- Level 2: Fair values are based on quoted prices in markets that are not active or models in which all significant inputs are observable either directly or indirectly.
- Level 3: Fair values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

1. Fair value measurements at reporting dates

At March 31, 2017 and December 31, 2016, the Company had no assets or liabilities measured at fair value on a recurring basis.

2. Rollforward of Level 3 items

The Company has no assets or liabilities measured at fair value in the Level 3 category.

3. Policy on transfers into and out of Level 3

At the end of each reporting period, the Company evaluates whether or not any event has occurred or circumstances have changed that cause an instrument to be transferred between fair value hierarchy levels. During 2017 and 2016, no transfers between levels were required.

4. Inputs and techniques used for Level 2 and Level 3 fair values

The Company has no assets or liabilities measured at fair value in the Level 2 and Level 3 categories.

- b. Other Fair Value Disclosures – not applicable.

- c. Aggregate Fair Values of Financial Instruments

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Fair Value			Not Practicable (Carrying Value)
			Level 1	Level 2	Level 3	
March 31, 2017						
Cash, cash equivalents and short-term investments	\$ 22,620,767	22,620,767	22,620,767	0	0	0
Bonds	300,000	300,236	0	300,000	0	0
Total Assets	<u>\$ 22,920,767</u>	<u>\$ 22,921,003</u>	<u>\$ 22,620,767</u>	<u>\$ 300,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
December 31, 2016						
Cash, cash equivalents and short-term investments	\$ 26,370,192	26,370,192	26,370,192	0	0	0
Bonds	300,000	300,413	0	300,000	0	0
Total Assets	<u>\$ 26,670,192</u>	<u>\$ 26,670,605</u>	<u>\$ 26,370,192</u>	<u>\$ 300,000</u>	<u>\$ 0</u>	<u>\$ 0</u>

- d. Assets for which it is not practicable to estimate fair value – None.

NOTES TO FINANCIAL STATEMENTS

21. Other Items

Sale of Health Plan Members: Effective May 31, 2014, the Company completed the sale of its remaining Health Plan members to Blue Cross Blue Shield of New Mexico, an affiliate of Health Care Service Corporation, and recognized a gain of approximately \$201.2 million. The Health Plan continues to operate during a run-off period, and incur costs associated with managing the disposition of retained assets and liabilities and the termination of certain contracts that will not be assumed by the buyer. This Company continues to operate its hospital, physician clinics and other acute care operations.

Divestiture of Real Estate: On July 31, 2015, the Company divested its total real estate holdings (land, land improvements, buildings, building improvements and fixed equipment) through a capital stock repurchase transaction with its parent, AHS New Mexico Holdings, Inc. The Company repurchased 12,938 shares of its common capital stock for a total price of approximately \$141.7 million, which represented the statutory net book value of the total real estate divested. As a result of this 2015 transaction, the real estate, any related liabilities, and the related common capital stock and additional paid in and contributed surplus were eliminated from the Statement of Assets and Liabilities, Capital and Surplus, and no gain or loss was recognized. This transaction was approved by the OSI.

As described in Note 1(c)(7), the IRB notes directly related to the divested real estate holdings were removed from the Company's accompanying Statement of Assets and Liabilities, Capital and Surplus as prescribed in NAIC SAP. The IRB notes payable which relate to equipment were retained on the Company's Statement of Assets and Liabilities, Capital and Surplus.

Real Estate Operating Lease: In connection with the divestiture of the Company's real estate identified above, the Company entered into a lease agreement on August 4, 2015 with Ventas, Inc. ("Ventas"), a real estate investment trust, to lease back the real estate for use in continued operations. The lease payments are recorded as an operating expense in the Company's accompanying Statement of Revenue and Expenses in accordance with NAIC SAP.

Ultimate Parent Acquisition: On August 4, 2015, the Company's ultimate parent, AHS Medical Holdings, LLC ("AHS"), was acquired by Ventas. Ventas retained all of the AHS real estate holdings and spun off the hospital operations of AHS to a separate entity, Ardent Health Partners, LLC ("AHP"), which is now the Company's ultimate parent. Concurrently, a controlled entity of Equity Group Investments ("EGI"), a private equity firm, acquired a majority stake in AHP, while Ventas retained a 9.9% interest, and AHS management retained a significant ownership stake.

22. Events Subsequent

In preparing the accompanying financial statements, management has evaluated subsequent events through May 15, 2017, which represents the date the financial statements were available to be issued.

On May 1, 2017, the Company entered a transaction to form a joint venture with University of New Mexico ("UNM") Medical Group. The Company received 51% ownership interest with UNM Medical Group receiving 49% ownership interest in the newly formed joint venture of LHS Rehab Hospital Operations. This transaction was approved by the NM OSI.

23. Reinsurance

None

24. Retrospectively Rated Contracts & Contracts Subject to Re-determination

No significant change

25. Change in Incurred Claims and Claim Adjustment Expenses

Reserves as of December 31, 2016 were approximately \$65,000. As of March 31, 2017, approximately \$62,000 has been paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now approximately \$3,000 as a result of re-estimation of unpaid claims and claim adjustment expenses. Therefore, there has no prior-year development since December 31, 2016 to March 31, 2017. The decrease is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

26. Intercompany Pooling Arrangements

No significant change

27. Structured Settlements

No significant change

28. Health Care Receivables

No significant change

29. Participating Policies

No significant change

30. Premium Deficiency Reserves

None

31. Anticipated Salvage and Subrogation

No significant change

GENERAL INTERROGATORIES

PART 1 – COMMON INTERROGATORIES

GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes No

1.2 If yes, has the report been filed with the domiciliary state? Yes No

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 No

2.2 If yes, date of change: _____

3.1 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 No

If yes, complete Schedule Y, Parts 1, and 1A.

3.2 Have there been any substantial changes in the organizational chart since the prior quarter end? Yes No

3.3 If the response to 3.2 is yes, provide a brief description of those changes.

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes No

4.2 If yes, provide the name of 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 Company Code	3 State of Domicile
.....
.....

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes No N/A
 If yes, attach an explanation.

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. _____ 09/30/2015 _____

6.2 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. _____ 09/30/2015 _____

6.3 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). _____ 06/28/2016 _____

6.4 By what department or departments?
 New Mexico Office of Superintendent of Insurance

6.5 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

6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes No N/A

7.1 Has this 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

GENERAL INTERROGATORIES

7.2 If yes, give full information

.....

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 below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), 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 FDIC	6 SEC
.....
.....

9.1 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?

- (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.

Yes [X] No []

9.11 If the response to 9.1 is No, please explain:

.....

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

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).

.....

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

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

.....

FINANCIAL

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

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ _____

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes [] No [X]

GENERAL INTERROGATORIES

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

.....

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: \$ _____

13. Amount of real estate and mortgages held in short-term investments: \$ _____

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes No

14.2 If yes, please complete the following:

	1	2
	Prior Year-End Book/Adjusted Carrying Value	Current Quarter Book/Adjusted Carrying Value
14.21 Bonds	\$ _____	\$ _____
14.22 Preferred Stock	\$ _____	\$ _____
14.23 Common Stock	\$ 6,315,909	\$ 6,375,734
14.24 Short-Term Investments	\$ _____	\$ _____
14.25 Mortgage Loans on Real Estate	\$ _____	\$ _____
14.26 All Other	\$ _____	\$ _____
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26)	\$ 6,315,909	\$ 6,375,734
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above	\$ _____	\$ _____

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes No

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?
 If no, attach a description with this statement. Yes No

16. For the reporting entity's security lending program, state the amount of the following as current statement date:

16.1 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2	\$ _____
16.2 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2	\$ _____
16.3 Total payable for securities lending reported on the liability page	\$ _____

17. 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 No

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

1 Name of Custodian(s)	2 Custodian Address
Century Bank	100 S. Federal Place Santa Fe, NM 87501

17.2 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)
.....
.....

17.3 Have there been any changes, including name changes, in the custodian(s) identified in 17.1 during the current quarter? Yes No

GENERAL INTERROGATORIES

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

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

17.5 Investment management - Identify all investment advisors, investment managers, broker/dealers. Including individuals that have the authority to make investments decisions on behalf of the reporting entity. For assets that are managed internally by employees of the reporting entity, note as such. ["..that have access to the investment accounts";"..handle securities"]

1 Name of Firm or Individual	2 Affiliation
.....
.....

17.5097 For those firms/individuals listed in the table for Question 17.5, do any firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") manage more than 10% of the reporting entity's assets? Yes [] No [X]

17.5098 For firms/individuals unaffiliated with the reporting entity (i.e., designated with a "U") listed in the table for Question 17.5, the total assets under management aggregate to more than 50% of the reporting entity's assets? Yes [] No [X]

17.6 For those firms or individuals listed in the table for 17.5 with an affiliation code of "A" (affiliated) or "U" (unaffiliated), provide the information for the table below.

1 Central Registration Depository Number	2 Name of Firm or Individual	3 Legal Entity Identifier (LEI)	4 Registered With	5 Investment Management Agreement (IMA) Filed
.....
.....

18.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Investment Analysis Office been followed? Yes [X] No []

18.2 If no, list exceptions:

.....

GENERAL INTERROGATORIES

PART 2 - HEALTH

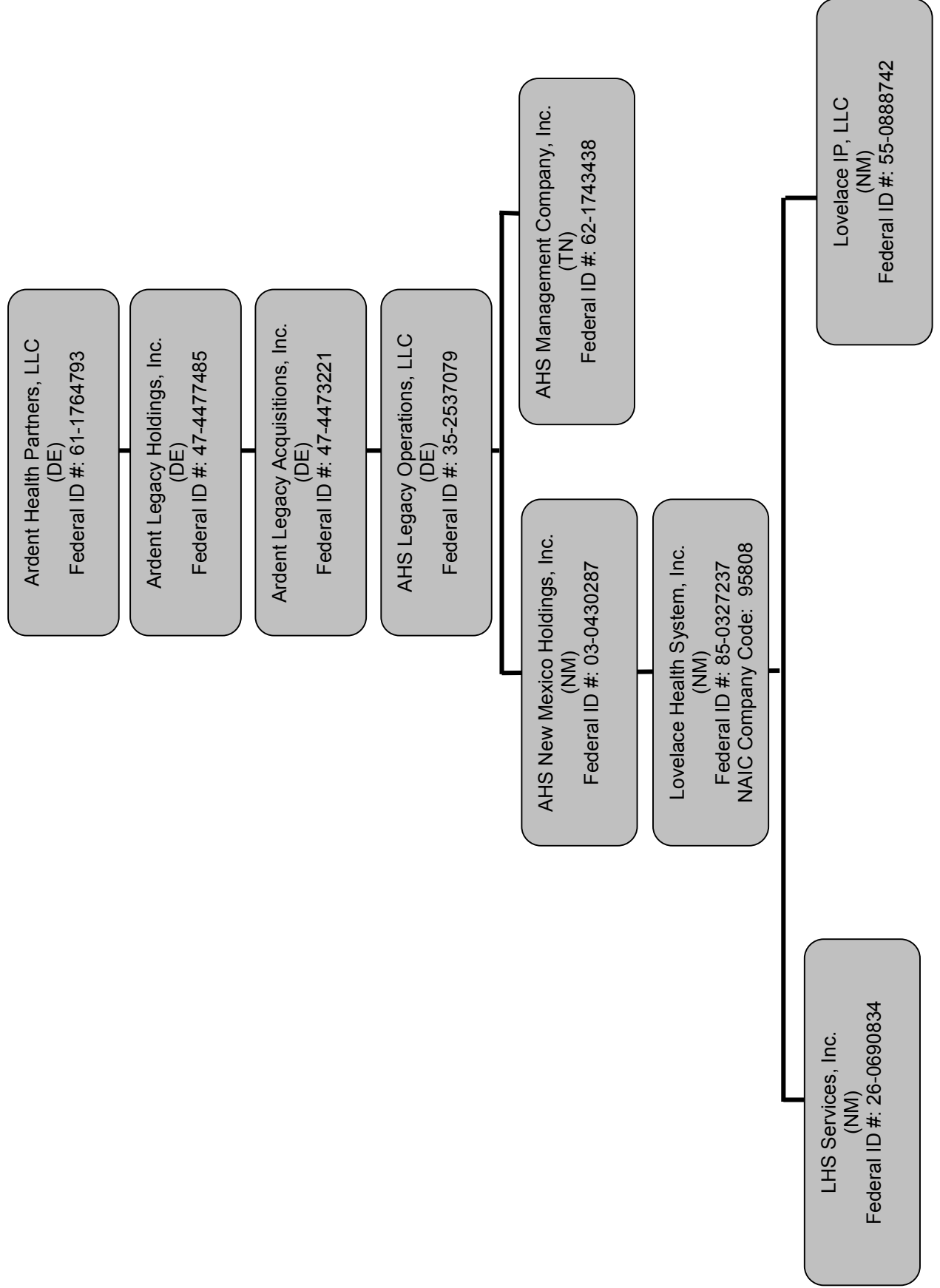
1. Operating Percentages:
- 1.1 A&H loss percent %
- 1.2 A&H cost containment percent %
- 1.3 A&H expense percent excluding cost containment expenses %
- 2.1 Do you act as a custodian for health savings accounts? Yes [] No [X]
- 2.2 If yes, please provide the amount of custodial funds held as of the reporting date. \$ _____
- 2.3 Do you act as an administrator for health savings accounts? Yes [] No [X]
- 2.4 If yes, please provide the balance of the funds administered as of the reporting date. \$ _____

NONE Schedule S

NONE Schedule T

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

PART 1 - ORGANIZATIONAL CHART



SCHEDULE Y

PART 1A - DETAIL OF INSURANCE HOLDING COMPANY SYSTEM

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Group Code	Group Name	NAIC Company Code	ID Number	Federal RSSD	CIK	Name of Securities Exchange if Publicly Traded (U.S. or International)	Names of Parent, Subsidiaries Or Affiliates	Domiciliary Location	Relationship to Reporting Entity	Directly Controlled by (Name of Entity / Person)	Type of Control (Ownership, Board, Management, Attorney-in-Fact, Influence, Other)	If Control is Ownership Provide Percentage	Ultimate Controlling Entity(ies)/Person(s)	Is an SCA Filing Required? (Y/N)	*
		0	55-088752			Lovelace IP, LLC	Lovelace IP, LLC	NM	DS	Lovelace Health Systems, Inc.	Ownership	33.3	Ardent Health Partners, LLC	N	
		0	26-0690334			LHS Services, Inc.	LHS Services, Inc.	NM	DS	Lovelace Health Systems, Inc.	Ownership	100.0	Ardent Health Partners, LLC	N	
	Ardent Health Services Group	95808	85-0329237			AHS New Mexico Holdings, Inc.	Lovelace Health Systems, Inc. AHS New Mexico Holdings, Inc.	NM	RE	AHS New Mexico Holdings, Inc.	Ownership	100.0	Ardent Health Partners, LLC	N	2
		0	03-0430287			AHS Legacy Operations, Inc.	AHS New Mexico Holdings, Inc.	NM	UDP	AHS Legacy Operations, LLC	Ownership	100.0	Ardent Health Partners, LLC	N	
		0	62-1743438			AHS Management Company, Inc.	AHS Management Company, Inc.	TN	UIP	AHS Legacy Operations, LLC	Ownership	100.0	Ardent Health Partners, LLC	N	
		0	35-2537079			Ardent Legacy Operations, LLC	Ardent Legacy Operations, Inc.	DE	UIP	Ardent Legacy Acquisitions, Inc.	Ownership	100.0	Ardent Health Partners, LLC	N	
		0	47-4473221			Ardent Legacy Holdings, Inc.	Ardent Legacy Acquisitions, Inc.	DE	UIP	Ardent Legacy Holdings, Inc.	Ownership	100.0	Ardent Health Partners, LLC	N	
		0	47-4477485			Ardent Health Partners, LLC	Ardent Legacy Holdings, Inc.	DE	UIP	EGI-AM Holdings, LLC	Ownership	100.0	Ardent Health Partners, LLC	N	
		0	61-1764793				Ardent Health Partners, LLC	DE	UIP		Ownership			N	1

Astentk	Explanation
1	Ultimate Parent.
2	Lovelace Health System, Inc. ("LHS") and its 100%-owned subsidiary, Lovelace Insurance Company ("LINC"), completed a statutory merger effective December 31, 2014 with LHS as the surviving entity. Therefore, LINC is not included on this schedule or on Schedule Y Part 1, in accordance with SSAP No. 68.

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

Response

1. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?

NO

Explanation:

Question 1: Not applicable.

Bar Code:



95808201736500101

OVERFLOW PAGE FOR WRITE-INS

Page 3 - Continuation

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
WRITE-INS AGGREGATED AT LINE 23 FOR OTHER LIABILITIES				
2304. Other liabilities	8,481		8,481	8,482
2397. Totals (Lines 2304 through 2396) (Page 3, Line 23)	8,481		8,481	8,482

SCHEDULE A - VERIFICATION**Real Estate**

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Current year change in encumbrances		
4. Total gain (loss) on disposals		
5. Deduct amounts received on disposals		
6. Total foreign exchange change in book/adjusted carrying value		
7. Deduct current year's other than temporary impairment recognized		
8. Deduct current year's depreciation		
9. Book/adjusted carrying value at the end of current period (Lines 1 + 2 + 3 + 4 - 5 + 6 - 7 - 8)		
10. Deduct total nonadmitted amounts		
11. Statement value at end of current period (Line 9 minus Line 10)		

NONE**SCHEDULE B - VERIFICATION****Mortgage Loans**

	1 Year To Date	2 Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year		
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and mortgage interest points and commitment fees		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest		
10. Deduct current year's other than temporary impairment recognized		
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9 - 10)		
12. Total valuation allowance		
13. Subtotal (Line 11 plus Line 12)		
14. Deduct total nonadmitted amounts		
15. Statement value at end of current period (Line 13 minus Line 14)		

NONE**SCHEDULE BA - VERIFICATION****Other Long-Term Invested Assets**

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year	4,300,000	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition		4,300,000
2.2 Additional investment made after acquisition		
3. Capitalized deferred interest and other		
4. Accrual of discount		
5. Unrealized valuation increase (decrease)		
6. Total gain (loss) on disposals		
7. Deduct amounts received on disposals		
8. Deduct amortization of premium and depreciation		
9. Total foreign exchange change in book/adjusted carrying value		
10. Deduct current year's other than temporary impairment recognized		
11. Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 + 6 - 7 - 8 + 9 - 10)	4,300,000	4,300,000
12. Deduct total nonadmitted amounts		
13. Statement value at end of current period (Line 11 minus Line 12)	4,300,000	4,300,000

SCHEDULE D - VERIFICATION**Bonds and Stocks**

	1 Year To Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	6,616,322	6,097,651
2. Cost of bonds and stocks acquired		300,709
3. Accrual of discount		
4. Unrealized valuation increase (decrease)	59,825	218,258
5. Total gain (loss) on disposals		
6. Deduct consideration for bonds and stocks disposed of		
7. Deduct amortization of premium	177	296
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)	6,675,970	6,616,322
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	6,675,970	6,616,322

SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity
During the Current Quarter for all Bonds and Preferred Stock by NAIC Designation

NAIC Designation	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. NAIC 1 (a)	300,413			(177)	300,236			300,413
2. NAIC 2 (a)								
3. NAIC 3 (a)								
4. NAIC 4 (a)								
5. NAIC 5 (a)								
6. NAIC 6 (a)								
7. Total Bonds	300,413			(177)	300,236			300,413
PREFERRED STOCK								
8. NAIC 1								
9. NAIC 2								
10. NAIC 3								
11. NAIC 4								
12. NAIC 5								
13. NAIC 6								
14. Total Preferred Stock								
15. Total Bonds & Preferred Stock	300,413			(177)	300,236			300,413

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated, short-term and cash-equivalent bonds by NAIC designation:

NAIC 1 \$ 0; NAIC 2 \$ 0; NAIC 3 \$ 0; NAIC 4 \$ 0; NAIC 5 \$ 0; NAIC 6 \$ 0

SCHEDULE DA - PART 1

Short-Term Investments

	1	2	3	4	5
	Book/Adjusted Carrying Value	Par Value	Actual Cost	Interest Collected Year To Date	Paid for Accrued Interest Year To Date
9199999					

NONE

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1	2
	Year To Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year		531,916
2. Cost of short-term investments acquired		531,063
3. Accrual of discount		1,021
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals		
6. Deduct consideration received on disposals		1,064,000
7. Deduct amortization of premium		
8. Total foreign exchange change in book/adjusted carrying value		
9. Deduct current year's other than temporary impairment recognized		
10. Book/adjusted carrying value at end of current period (Lines 1 + 2 + 3 + 4 + 5 - 6 - 7 + 8 - 9)		
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)		

- NONE Schedule DB - Part A and B Verification**
- NONE Schedule DB - Part C - Section 1**
- NONE Schedule DB - Part C - Section 2**
- NONE Schedule DB - Verification**
- NONE Schedule E Verification**
- NONE Schedule A - Part 2 and 3**
- NONE Schedule B - Part 2 and 3**
- NONE Schedule BA - Part 2 and 3**
- NONE Schedule D - Part 3**
- NONE Schedule D - Part 4**
- NONE Schedule DB - Part A - Section 1**
- NONE Schedule DB - Part B - Section 1**
- NONE Schedule DB - Part D - Section 1**
- NONE Schedule DB - Part D - Section 2**
- NONE Schedule DL - Part 1**
- NONE Schedule DL - Part 2**

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year
NONE							
8699999 Total Cash Equivalents							

FAULKNER MACKIE & COCHRAN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

One American Center
3100 West End Avenue, Suite 700
Nashville, Tennessee 37203-1372

Telephone: (615) 292-3011
Fax: (615) 269-9047
Website: www.fmccpa.com

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Lovelace Health System, Inc.
Albuquerque, New Mexico

Management is responsible for the accompanying prescribed "Quarterly Statement" reporting form of **Lovelace Health System, Inc.**, which includes the statutory basis statements of assets, liabilities, capital and surplus as of March 31, 2017 and December 31, 2016, and the related statutory basis statements of revenue and expenses and cash flow for the three months ended March 31, 2017 and 2016, and the year ended December 31, 2016, and the related statutory basis notes to the financial statements, general interrogatories, exhibits, schedules, and other pages. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the financial statements included in the accompanying prescribed form, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion or a conclusion, nor do we provide any form of assurance on the financial statements included in the accompanying prescribed form.

As discussed in Note 21, the Company sold all of its remaining Health Plan membership effective May 31, 2014, and continues to operate during a run-off period. In addition, the Company continues to operate its hospital, physician clinics and other acute care operations.

Other Matters

The financial statements and related information included in the accompanying prescribed form are intended to comply with the financial reporting provisions of the New Mexico Office of Superintendent of Insurance, and are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the Board of Directors and management of Lovelace Health System, Inc., and the state of New Mexico Office of Superintendent of Insurance, and is not intended to be, and should not be, used by anyone other than these specified parties.

Faulkner Mackie & Cochran, P.C.

May 15, 2017