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Humana Reports Fourth Quarter 2011 Financial Results, Updates 2012 Financial Guidance

- 2012 EPS guidance raised to a range of \$7.50 to \$7.70
- Successful 2012 annual enrollment period results in increased full-year membership expectations for Medicare Advantage
- FY11 consolidated revenues grew 10 percent
- FY11 EPS of \$8.46, up 31 percent from prior year
- FY11 cash flows from operations of \$2.1 billion

LOUISVILLE, KY (February 6, 2012) – Humana Inc. (NYSE: HUM) today reported diluted earnings per common share (EPS) for the quarter ended December 31, 2011 (4Q11) of \$1.20, compared to \$0.63 per share for the quarter ended December 31, 2010 (4Q10). The year-over-year increase of \$0.57 per share was primarily due to expenses incurred in 4Q10 that did not recur in 4Q11 together with higher favorable medical claims reserves development in 4Q11 than in 4Q10. The 4Q10 expenses were due to reserves strengthening for the company’s closed block of long-term care business.

Comparison of operating results for the quarter is affected by the items noted below:

| Consolidated Results of Operations <i>(\$ in millions except EPS)</i> | 4Q11 Pretax Income | 4Q10 Pretax Income | 4Q11 EPS | 4Q10 EPS |
|---|-----------------------------------|--------------------------|-----------------|----------|
| GAAP | \$313 | \$174 | \$1.20 | \$0.63 |
| Reserve strengthening for long-term care business (closed book) (d) | - | 139 | - | 0.52 |
| Favorable prior-period medical claims reserve development (a) | (54) | (38) | (0.21) | (0.14) |
| Humana Foundation contribution | 35 | 35 | 0.13 | 0.13 |
| Non-GAAP (b) | \$294 | \$310 | \$1.12 | \$1.14 |

The year-over-year decline in the company’s fourth quarter consolidated results of operations on a non-GAAP^(b) basis primarily reflected the impact of lower earnings in the company’s Employer Group Segment, partially offset by higher earnings in the Retail and Health and Well-Being Services Segments.

For the year ended December 31, 2011 (FY11) the company reported \$8.46 in EPS compared to \$6.47 for the year ended December 31, 2010 (FY10). The FY11 improved results reflected a lower year-over-

year benefit ratio in the company's Retail Segment, higher average Medicare membership and higher earnings in the company's Health and Well-Being Services Segment.

Comparison of operating results for the full year is affected by the items noted below:

| Consolidated Results of Operations <i>(\$ in millions except EPS)</i> | FY11 Pretax Income | FY10 Pretax Income | FY11 EPS | FY10 EPS |
|---|-----------------------------------|--------------------------|-----------------|----------|
| GAAP | \$2,235 | \$1,749 | \$8.46 | \$6.47 |
| Favorable prior-year medical claims reserve development (a) | (205) | (231) | (0.77) | (0.86) |
| Write-down of certain deferred acquisition costs, or DAC (c) | - | 147 | - | 0.55 |
| Reserve strengthening for long-term care business (closed book) (d) | - | 139 | - | 0.52 |
| Humana Foundation contribution | 35 | 35 | 0.13 | 0.13 |
| Non-GAAP (b) | \$2,065 | \$1,839 | \$7.82 | \$6.81 |

The FY11 consolidated EPS on a non-GAAP (b) basis rose 15 percent from FY10, primarily reflecting similar year-over-year increases in earnings for the company's Retail and Health and Well-Being Services Segments more than offsetting lower earnings in the company's Employer Group Segment. Share-repurchase activity during FY11 also contributed to the year-over-year increase in EPS.

"Humana's ongoing operating discipline and attractive Medicare value proposition bode well for a future of favorable senior demographics and the growing need to rein in national health-care spending – especially in Medicare," said Michael B. McCallister, Humana's Chairman of the Board and Chief Executive Officer. "For 2012, we see further growth opportunities in Medicare and, more broadly, in our continuing expansion into adjacencies related to lifelong well-being."

The company now anticipates EPS for the year ending December 31, 2012 (FY12) in the range of \$7.50 to \$7.70 versus its previous estimate of \$7.40 to \$7.60. This increase in FY12 EPS guidance primarily reflects an approximately 40,000-member net increase to the company's previous expectation for Medicare Advantage membership based upon the recent annual election period for seniors.

Consolidated Highlights

Revenues – 4Q11 consolidated revenues were \$9.06 billion, an increase of 9 percent from \$8.28 billion in 4Q10, with total premiums and services revenue also up 9 percent compared to the prior year's quarter. The year-over-year increase in premiums and services revenue was primarily driven by an increase in the company's Retail and Health and Well-Being Services Segments partially offset by lower premiums and services revenue in the company's Employer Group Segment.

FY11 consolidated revenues increased 10 percent to \$36.83 billion from \$33.60 billion in FY10 with total premiums and services revenue also up 10 percent compared to the prior year's period, as a result of similar segment-level changes as those affecting the fourth quarter year-over-year change.

Benefit expenses – The 4Q11 consolidated benefit ratio (benefit expenses as a percent of premiums) of 81.8 percent decreased by 270 basis points from 84.5 percent for the prior year's quarter due primarily to a decline in the Retail Segment benefit ratio as described below.

The consolidated benefit ratio for FY11 of 82.1 percent decreased by 80 basis points from the FY10 consolidated benefit ratio of 82.9 percent primarily due to the decline in the benefit ratio for the Retail Segment.

The consolidated benefit ratio year-over-year comparisons were impacted as follows:

| Consolidated Benefit Ratio | 4Q11 | 4Q10 | FY11 | FY10 |
|---|--------------|--------|--------------|--------|
| GAAP | 81.8% | 84.5% | 82.1% | 82.9% |
| Favorable prior-period medical claims reserve development (a) | 0.6% | 0.4% | 0.6% | 0.7% |
| Reserve strengthening for long-term care business (closed book) (d) | - | (1.8%) | - | (0.4%) |
| Non-GAAP (b) | 82.4% | 83.1% | 82.7% | 83.2% |

Operating expenses – The consolidated operating cost ratio (operating costs as a percent of total revenues less investment income) of 17.7 percent for 4Q11 compares to 14.9 percent in 4Q10 primarily reflecting increases in this metric for the company's Retail and Employer Group Segments. A full year of operating expenses for Concentra Inc. (acquired in 4Q10) also contributed to the higher year-over-year ratio since this business carries a higher-than-average operating cost ratio.

The FY11 consolidated operating cost ratio of 14.8 percent increased 160 basis points from 13.2 percent for FY10 primarily due to the same factors impacting the fourth quarter year-over-year comparison together with those described as follows:

| Consolidated operating cost ratio | 4Q11 | 4Q10 | FY11 | FY10 |
|--|---------------|--------|---------------|--------|
| GAAP | 17.7% | 14.9% | 14.8% | 13.2% |
| Write-down of certain DAC (c) | - | - | - | (0.5%) |
| Humana Foundation contribution | (0.4%) | (0.4%) | (0.1%) | (0.1%) |
| Non-GAAP (b) | 17.3% | 14.5% | 14.7% | 12.6% |

Retail Segment Highlights

Pretax results:

- Retail Segment pretax income of \$326 million in 4Q11 compares to \$250 million in 4Q10. This increase was primarily due to increased average individual Medicare membership and a lower benefit ratio partially offset by a higher operating cost ratio.
- For FY11, pretax earnings for the Retail Segment of \$1.59 billion increased by \$298 million from FY10 pretax earnings of \$1.29 billion. Comparison of operating results for these periods was also affected by the items noted below:

| Retail Segment Results (\$ in millions) | 4Q11 Pretax Income | 4Q10 Pretax Income | FY11 Pretax Income | FY10 Pretax Income |
|---|---|--------------------------|---|--------------------------|
| GAAP | \$326 | \$250 | \$1,587 | \$1,289 |
| Write-down of certain DAC (c) | - | - | - | 147 |
| Favorable prior-period medical claims reserve development (a) | (43) | (34) | (147) | (198) |
| Non-GAAP (b) | \$283 | \$216 | \$1,440 | \$1,238 |

Enrollment:

- Individual Medicare Advantage membership was 1,640,300 at December 31, 2011, an increase of 179,600 members, or 12 percent from 1,460,700 at December 31, 2010 primarily due to a successful enrollment season associated with the 2011 plan year as well as age-in enrollment throughout the year. Year-end 2011 membership included approximately 12,100 members associated with the company's acquisition of MD Care on December 30, 2011.
- January 2012 individual Medicare Advantage membership approximated 1,813,000, up approximately 173,000 from December 31, 2011 reflecting higher-than-anticipated net membership additions from the recently completed 2012 annual election period.
- Membership in the company's individual stand-alone Prescription Drug Plans (PDPs) was 2,540,400 at December 31, 2011, up 870,100 or 52 percent compared to 1,670,300 at December 31, 2010. These increases resulted from higher gross sales primarily during the 2011 enrollment season, particularly for the company's innovative Humana-Walmart plan offering, supplemented by dual-eligible and age-in enrollments throughout the year.
- January 2012 individual stand-alone PDP membership grew to approximately 2,825,000, an increase of approximately 285,000 from December 31, 2011, in the range of the company's expectations.
- HumanaOne® medical membership increased to 433,600 at December 31, 2011, an increase of 61,300, or 16 percent, from 372,300 at December 31, 2010.
- Membership in individual specialty products^(e) of 782,500 at December 31, 2011 increased 53 percent from 510,000 at December 31, 2010 driven primarily by increased sales in dental offerings.

Premiums and services revenue:

- 4Q11 premiums and services revenue for the Retail Segment was \$5.31 billion, an increase of 13 percent from \$4.69 billion in 4Q10. The increase was primarily the result of 11 percent higher average Medicare Advantage membership year over year.

Benefit expenses:

- The 4Q11 benefit ratio for the Retail Segment was 79.0 percent, a decrease of 270 basis points from 81.7 percent in 4Q10. The year-over-year decrease in the benefit ratio is primarily due to continued progress with cost-reduction and outcome-enhancing strategies, including care coordination and disease management, combined with an increased percent of Retail membership from stand-alone PDPs that carry a lower benefit ratio. Favorable prior-period reserve development impacted the year-over-year comparison of the benefit ratio for this segment as follows:

| Retail Segment Benefit Ratio | 4Q11 | 4Q10 |
|---|--------------|-------------|
| GAAP | 79.0% | 81.7% |
| Favorable prior-period medical claims reserve development (a) | 0.8% | 0.7% |
| Non-GAAP (b) | 79.8% | 82.4% |

Operating costs:

- The Retail Segment's operating cost ratio of 14.7 percent in 4Q11 increased 190 basis points from 12.8 percent in 4Q10. The increase was primarily the result of expenses incurred in preparation for anticipated higher year-over-year Medicare membership additions associated with

the 2012 plan year together with a higher percentage of average membership in stand-alone PDP offerings that carry a higher operating cost ratio than other Medicare products.

Employer Group Segment Highlights

Pretax results:

- Employer Group Segment pretax loss of \$51 million in 4Q11 compares to a pretax income of \$29 million in 4Q10 due primarily to higher year-over-year benefit and operating cost ratios.
- For FY11, pretax earnings for the Employer Group Segment of \$242 million decreased by \$46 million versus FY10 pretax earnings of \$288 million. Favorable prior-period reserve development impacted the year-over-year comparisons of the pretax results for this segment as follows:

| Employer Group Segment Results <i>(\$ in millions)</i> | 4Q11 Pretax Loss | 4Q10 Pretax Income | FY11 Pretax Income | FY10 Pretax Income |
|--|---------------------------------|--------------------------|-----------------------------------|--------------------------|
| GAAP | (\$51) | \$29 | \$242 | \$288 |
| Favorable prior-period medical claims reserve development (a) | (10) | (4) | (52) | (33) |
| Non-GAAP (b) | (\$61) | \$25 | \$190 | \$255 |

Enrollment:

- Group Medicare Advantage membership was 318,200 at December 31, 2011, an increase of 16,900 members, or 6 percent, from 301,300 at December 31, 2010.
- January 2012 group Medicare Advantage membership approximated 386,000, up approximately 68,000 members from December 31, 2011.
- Group fully-insured commercial medical membership declined to 1,180,200 at December 31, 2011, a decrease of 72,000 or 6 percent, from 1,252,200 at December 31, 2010. This decline primarily reflected continued dedication to pricing discipline in a highly competitive environment for large group business partially offset by small group business membership gains. Approximately 56 percent of group fully-insured commercial medical membership was in small group accounts at December 31, 2011 versus 48 percent at December 31, 2010.
- Group administrative services only (ASO) commercial medical membership declined to 1,292,300 at December 31, 2011, a decrease of 161,300, or 11 percent, from 1,453,600 at December 31, 2010. This decline reflected a continuation of discipline in pricing services for self-funded accounts amid a highly competitive environment.
- Membership in Employer Group specialty products^(e) of 6,532,600 at December 31, 2011 remained essentially flat from 6,517,500 at December 31, 2010.

Premiums and services revenue:

- 4Q11 premiums and services revenue for the Employer Group Segment were \$2.30 billion, down approximately 2 percent from \$2.35 billion in 4Q10 primarily reflecting the impacts of reduced group commercial fully-insured membership and rebates associated with minimum medical loss ratio regulatory requirements which became effective in 2011. Rebates result in the recognition of lower premium revenues, as amounts are set aside for payments to commercial customers during the following year.

Benefit expenses:

- 4Q11 benefit ratio for the Employer Group Segment was 86.4 percent, an increase of 200 basis points, from 84.4 percent for 4Q10. The year-over-year increase in the benefit ratio primarily reflects rebates associated with minimum medical loss ratio regulatory requirements which became effective in 2011, together with a higher percentage of members in group Medicare Advantage plans (which carry a higher benefit ratio than commercial fully-insured accounts). These items were partially offset by the impact of prior-period reserve development, which impacted the year-over-year comparison of the benefit ratio for this segment as follows:

| Employer Group Segment Benefit Ratio | 4Q11 | 4Q10 |
|---|--------------|-------------|
| GAAP | 86.4% | 84.4% |
| Favorable prior-period medical claims reserve development (a) | 0.5% | 0.2% |
| Non-GAAP (b) | 86.9% | 84.6% |

Operating costs:

- The Employer Group Segment's operating cost ratio was 18.8 percent in 4Q11, an increase of 130 basis points from 17.5 percent in 4Q10 primarily reflecting the impact of lower premium revenues due to rebates associated with minimum medical loss ratio requirements which became effective in 2011.

Health and Well-Being Services Segment Highlights

Pretax results:

- Health and Well-Being Services Segment pretax income of \$85 million in 4Q11 increased 93 percent compared to \$44 million in 4Q10 reflecting growth in the company's pharmacy solutions business as well as the addition of the Concentra business acquired in December 2010.
- For FY11, pretax earnings for the Health and Well-Being Services Segment of \$353 million increased by \$134 million from FY10 pretax earnings of \$219 million, reflecting the same factors as those affecting the quarterly year-over-year comparisons.

Revenues:

- Revenues of \$2.90 billion in 4Q11 for the Health and Well-Being Services Segment increased 32 percent from \$2.20 billion in 4Q10. This increase was primarily due to growth in the company's pharmacy solutions business together with the addition of the Concentra business acquired in December 2010.

Operating costs:

- The Health and Well-Being Services Segment's operating cost ratio of 96.3 percent in 4Q11 decreased by 140 basis points from 97.7 percent in 4Q10 primarily due to scale efficiencies related to growth in the pharmacy solutions business.

Balance Sheet

- At December 31, 2011, the company had cash, cash equivalents, and investment securities of \$10.83 billion, up 8 percent from \$10.05 billion at December 31, 2010 reflecting higher balances associated with increased earnings for FY11 versus FY10.

- Parent company cash and investments of \$494 million at December 31, 2011 decreased \$140 million from \$634 million at September 30, 2011, primarily reflecting cash dividends to stockholders and acquisition activity during 4Q11. Cash and investments at the parent decreased \$59 million year over year compared to \$553 million held at the parent at December 31, 2010 as increased dividends from subsidiaries during FY11 were more than offset by share repurchases, cash dividends to stockholders and acquisition activity.
- Days in claims payable of 52.5 at December 31, 2011 decreased 1.7 days from 54.2 days at September 30, 2011 primarily due to a significant decline in unprocessed claims inventories. The days unprocessed claims on hand declined to 2.8 days at December 31, 2011 from 5.7 days at September 30, 2011.
- Debt-to-total capitalization at December 31, 2011 was 17.1 percent, down 40 basis points from 17.5 percent at September 30, 2011, and down 230 basis points compared to 19.4 percent at December 31, 2010 primarily driven by higher earnings for FY11 versus FY10.

Cash Flows from Operations

Cash flows used in operations for 4Q11 were \$1.80 billion compared to cash flows used in operations of \$47 million in 4Q10. The company also evaluates operating cash flows on a non-GAAP basis:

| Net cash from operating activities (in millions) | 4Q11 Cash Flows | 4Q10 Cash Flows |
|---|----------------------------|----------------------------|
| GAAP use of cash | (\$1,797) | (\$47) |
| Timing of premium payment from CMS (f) | 1,796 | - |
| Non-GAAP (b) use of cash | (\$1) | (\$47) |

The year-over-year increase in the non-GAAP ^(b) cash flows from operations is due to the effect on cash flows of changes in working capital accounts, including higher net income year over year.

FY11 cash flows from operations of \$2.08 billion compared to \$2.24 billion for FY10 primarily due to changes in working capital accounts partially offset by higher net income year over year.

Share Repurchase Program and Cash Dividend

- In April 2011, the company's Board of Directors replaced its previous share repurchase authorization with a new authorization for share repurchases of up to \$1 billion. During FY11, the company repurchased 6,755,400 of its outstanding shares at an average price per share of \$72.75. As of December 31, 2011, approximately \$561 million of the April 2011 share repurchase authorization was remaining, with an expiration date of June 30, 2013.
- In April 2011, the company's Board of Directors also initiated a quarterly cash dividend policy. A cash dividend payment of approximately \$41 million, or \$0.25 per share, for stockholders of record as of December 30, 2011, was paid on January 31, 2012. Stockholders received cash dividend payments of approximately \$82 million in 2011.

Footnotes

- (a) Actuarial standards require the use of assumptions based on moderately adverse experience, which generally results in favorable reserve development, or reserves that are considered redundant. When the Company recognizes a release of the redundancy, we disclose the amount that is not in the ordinary course of business.

- (b) The Company has included certain financial measures that are not in accordance with Generally Accepted Accounting Principles (GAAP) in its summary of financial results within this earnings press release. The company believes that these non-GAAP measures, when presented in conjunction with comparable GAAP measures, are useful to both management and its investors in analyzing the company's ongoing business and operating performance. Internally, management uses these non-GAAP financial measures as indicators of business performance, as well as for operational planning and decision making purposes. Non-GAAP financial measures should be considered in addition to, but not as a substitute for, or superior to, financial measures prepared in accordance with GAAP.
- (c) During the second quarter of 2010, the company recognized an impairment of deferred acquisition cost (DAC) assets associated with its Individual Major Medical line of business of \$147 million. The related DAC included amounts associated with commissions, underwriting and other policy issuance costs. Given then impending changes to this business associated with health insurance reform, a substantial portion of the DAC was determined to be not recoverable from future income.
- (d) During the fourth quarter of 2010, the company strengthened future policy benefit reserves related to our closed block of long-term care policies in the amount of \$139 million. This block of 35,000 policies was acquired in connection with our acquisition of KMG America in late 2007. No policies in this block have been sold since 2005.
- (e) The company provides a full range of insured specialty products including dental, vision and other supplemental health and financial protection products. Members included in these products may not be unique to each product since members have the ability to enroll in multiple products. Other supplemental benefits include life, disability, and fixed benefit products including cancer and critical illness policies.
- (f) Generally, when the first day of a month falls on a weekend or holiday, with the exception of January 1 (New Year's Day), the company receives this payment at the end of the previous month. Therefore, 4Q11 included two monthly Medicare payments compared to three monthly Medicare payments during 4Q10.

Conference Call & Virtual Slide Presentation

Humana will host a conference call, as well as a virtual slide presentation, at 9:00 a.m. eastern time today to discuss its financial results for the quarter and the company's expectations for future earnings. A live virtual presentation (audio with slides) may be accessed via Humana's Investor Relations page at www.humana.com. The company suggests web participants sign on at least 15 minutes in advance of the call. The company also suggests web participants visit the site well in advance of the call to run a system test and to download any free software needed to view the presentation.

All parties interested in the audio-only portion of the conference call are invited to dial 888-625-7430. No password is required. The company suggests participants dial in at least ten minutes in advance of the call. For those unable to participate in the live event, the virtual presentation archive may be accessed via the Historical Webcasts & Presentations section of the Investor Relations page at www.humana.com.

Cautionary Statement

This news release includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in investor presentations, press releases, Securities and Exchange Commission (SEC) filings, and in oral statements made by or with the approval of one of Humana's executive officers, the words or phrases like "expects," "anticipates," "intends," "likely will result," "estimates," "projects" or variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and assumptions, including, among other things, information set forth in the "Risk Factors" section of the company's SEC filings, a summary of which includes but is not limited to the following:

- Health insurance reform legislation, including The Patient Protection and Affordable Care Act and The Health Care and Education Reconciliation Act of 2010, could have a material adverse effect on Humana's results of operations, including restricting revenue, enrollment and premium growth in certain products and market segments, increasing the company's medical and administrative costs by, among other things, requiring a minimum benefit ratio on insured products (and particularly how the ratio may apply to Medicare plans), lowering the company's Medicare payment rates and increasing the company's expenses associated with a non-deductible federal premium tax; financial position, including the company's ability to maintain the value of its goodwill; and cash flows. In addition, if the new non-deductible federal premium tax is imposed as enacted, and if Humana is unable to adjust its business model to address this new tax, there can be no assurance that the non-deductible federal premium tax would not have a material adverse effect on the company's results of operations, financial position, and cash flows.

- If Humana does not design and price its products properly and competitively, if the premiums Humana charges are insufficient to cover the cost of health care services delivered to its members, or if its estimates of benefit expenses are inadequate, Humana's profitability could be materially adversely affected. Humana estimates the costs of its benefit expense payments, and designs and prices its products accordingly, using actuarial methods and assumptions based upon, among other relevant factors, claim payment patterns, medical cost inflation, and historical developments such as claim inventory levels and claim receipt patterns. These estimates, however, involve extensive judgment, and have considerable inherent variability that is extremely sensitive to payment patterns and medical cost trends.
- If Humana fails to effectively implement its operational and strategic initiatives, including its Medicare initiatives, the company's business may be materially adversely affected, which is of particular importance given the concentration of the company's revenues in the Medicare business.
- If Humana fails to properly maintain the integrity of its data, to strategically implement new information systems, to protect Humana's proprietary rights to its systems, or to defend against cyber-security attacks, the company's business may be materially adversely affected.
- Humana is involved in various legal actions and governmental and internal investigations, including without limitation, an ongoing internal investigation and litigation and government requests for information related to certain aspects of its Florida subsidiary operations, the outcome of any of which could result in substantial monetary damages, penalties, fines or other sanctions. Increased litigation or regulatory action and any related negative publicity could increase the company's cost of doing business.
- Humana's business activities are subject to substantial government regulation and related audits for compliance, including, among others, existing audits regarding Medicare risk adjustment data. New laws or regulations, or changes in existing laws or regulations or their manner of application, including the methodology that may be used by the government in implementing results of risk adjustment audits, could increase the company's cost of doing business and may adversely affect the company's business, profitability and financial condition. In addition, as a government contractor, Humana is exposed to additional risks that may adversely affect the company's business or the company's willingness to participate in government health care programs.
- Any failure to manage administrative costs could hamper Humana's profitability.
- Any failure by Humana to manage acquisitions and other significant transactions successfully may have a material adverse effect on its results of operations, financial position, and cash flows.
- If Humana fails to develop and maintain satisfactory relationships with the providers of care to its members, the company's business may be adversely affected.
- Humana's mail order pharmacy business is highly competitive and subjects it to regulations in addition to those the company faces with its core health benefits businesses.
- Changes in the prescription drug industry pricing benchmarks may adversely affect Humana's financial performance.
- If Humana does not continue to earn and retain purchase discounts and volume rebates from pharmaceutical manufacturers at current levels, Humana's gross margins may decline.
- Humana's ability to obtain funds from its subsidiaries is restricted by state insurance regulations.
- Downgrades in Humana's debt ratings, should they occur, may adversely affect its business, results of operations, and financial condition.
- Federal government contracts account for a substantial portion of Humana's revenue and earnings. A delay by Congress in raising the federal government's debt ceiling, should it occur, could lead to a reduction, suspension or cancellation of federal government spending that could, in turn, have a material adverse effect on Humana's business and profitability.
- Changes in economic conditions could adversely affect Humana's business and results of operations.
- The securities and credit markets may experience volatility and disruption, which may adversely affect Humana's business.
- Given the current economic climate, Humana's stock and the stock of other companies in the insurance industry may be increasingly subject to stock price and trading volume volatility.

In making forward-looking statements, Humana is not undertaking to address or update them in future filings or communications regarding its business or results. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed herein may or may not occur. There also may be other risks that the company is unable to predict at this time. Any of these risks and uncertainties may cause actual results to differ materially from the results discussed in the forward-looking statements.

Humana advises investors to read the following documents as filed by the company with the SEC for further discussion both of the risks it faces and its historical performance:

- Form 10-K for the year ended December 31, 2010;
- Form 10-Q for the quarters ended March 31, 2011, June 30, 2011, and September 30, 2011;
- Form 8-Ks filed during 2011 and 2012.

About Humana

Humana Inc., headquartered in Louisville, Kentucky, is a leading health care company that offers a wide range of insurance products and health and wellness services that incorporate an integrated approach to lifelong well-being. By leveraging the strengths of its core businesses, Humana believes it can better explore opportunities for existing and emerging adjacencies in health care that can further enhance wellness opportunities for the millions of people across the nation with whom the company has relationships.

More information regarding Humana is available to investors via the Investor Relations page of the company's web site at www.humana.com, including copies of:

- Annual reports to stockholders;
- Securities and Exchange Commission filings;
- Most recent investor conference presentations;
- Quarterly earnings news releases;
- Replays of most recent earnings release conference calls;
- Calendar of events (including upcoming earnings conference call dates and times, as well as planned interaction with research analysts and institutional investors);
- Corporate Governance information

Humana Inc. – Earnings Guidance Points as of February 6, 2012

| <i>(in accordance with Generally Accepted Accounting Principles)</i> | For the year ending December 31, 2012 <i>(see key assumptions below)</i> | Comments <i>(excludes impact of pending acquisitions)</i> |
|--|--|---|
| Diluted earnings per common share (EPS) | Full year 2012: \$7.50 to \$7.70 First quarter 2012: \$1.35 to \$1.45 | Excludes the impact of future share repurchases Anticipates weighted average shares outstanding of 167 million |
| Revenues | Consolidated revenues: \$38.75 billion to \$39.25 billion <u>Total revenues:</u> Retail Segment: \$24.25 billion to \$24.75 billion Employer Group Segment: \$10.50 billion to \$11.00 billion Health and Well-Being Services Segment: \$13.25 billion to \$13.75 billion Other Businesses: \$2.50 billion to \$2.75 billion | Includes expected investment income in the range of \$375 million to \$395 million Segment-level revenues include investment income and intersegment amounts that eliminate in consolidation |
| Ending medical membership versus prior year end | <u>Retail Segment:</u> Medicare Advantage: Up 185,000 to 195,000 Medicare stand-alone PDPs: Up 500,000 to 600,000 HumanaOne: Up approximately 45,000 Medicare supplement: Up 30,000 to 40,000 <u>Employer Group Segment:</u> Medicare Advantage: Up approximately 65,000 to 75,000 Commercial medical fully-insured: Up 50,000 to 60,000 Commercial medical ASO: Down 60,000 to 70,000 | |
| Benefit ratios | Retail Segment: 83.5% to 84.5% Employer Group Segment: 85.0% to 86.0% | Benefit expenses as a percent of premiums |
| Operating cost ratios | Consolidated: 14.25% to 14.75% Health & Well-Being Services Segment: 95.75% to 96.25% | Operating costs as a percent of total revenues excluding investment income Consolidated ratio assumes new TRICARE South Region contract will be accounted for on an ASO basis |
| Consolidated depreciation and amortization (cash flows statement) | \$320 million to \$340 million | Approximately \$40 million is expected to be included in benefits expense on the income statement |
| Consolidated interest expense | \$105 million to \$110 million | |

Humana Inc. – Earnings Guidance Points as of February 6, 2012

| <i>(in accordance with Generally Accepted Accounting Principles)</i> | For the year ending December 31, 2012 <i>(see key assumptions below)</i> | Comments <i>(excludes impact of pending acquisitions)</i> |
|--|--|--|
| Detailed pretax results and margins | Retail Segment: \$1.30 billion to \$1.35 billion; 5.3% to 5.5% pretax margin Employer Group Segment: \$125 million to \$175 million; 1.3% to 1.5% pretax margin Health and Well-Being Services Segment: \$425 million to \$475 million; 3.0% to 3.5% pretax margin | Segment-level pretax results and margins include the impact of investment income |
| Effective Tax Rate | 36.0% to 36.5% | |
| Cash flows from operations | \$1.8 billion to \$2.0 billion | |
| Capital expenditures | Approximately \$350 million | |

Humana Inc.
Statistical Schedules
And
Supplementary Information
4Q11 Earnings Release

Humana Inc.
Statistical Schedules and Supplementary Information
4Q11 Earnings Release

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Humana Inc.

Consolidated Statements of Income

In millions, except per common share results

| Three Months Ended December 31, | | | | |
|--|----------------|----------|------------------|----------------------|
| | 2011 | 2010 | Dollar Change | Percentage Change |
| Revenues: | | | | |
| Premiums | \$ 8,638 | \$ 8,039 | \$ 599 | 7.5% |
| Services | 325 | 161 | 164 | 101.9% |
| Investment income | 93 | 76 | 17 | 22.4% |
| Total revenues | 9,056 | 8,276 | 780 | 9.4% |
| Operating expenses: | | | | |
| Benefits | 7,062 | 6,789 | 273 | 4.0% |
| Operating costs | 1,585 | 1,224 | 361 | 29.5% |
| Depreciation and amortization | 69 | 62 | 7 | 11.3% |
| Total operating expenses | 8,716 | 8,075 | 641 | 7.9% |
| Income from operations | 340 | 201 | 139 | 69.2% |
| Interest expense | 27 | 27 | 0 | 0.0% |
| Income before income taxes | 313 | 174 | 139 | 79.9% |
| Provision for income taxes | 114 | 67 | 47 | 70.1% |
| Net income | \$ 199 | \$ 107 | \$ 92 | 86.0% |
| Basic earnings per common share | \$ 1.22 | \$ 0.64 | \$ 0.58 | 90.6% |
| Diluted earnings per common share | \$ 1.20 | \$ 0.63 | \$ 0.57 | 90.5% |
| Shares used in computing basic earnings per common share (000's) | 163,238 | 166,883 | | |
| Shares used in computing diluted earnings per common share (000's) | 165,632 | 169,303 | | |

Humana Inc.
Consolidated Statements of Income
In millions, except per common share results

| | Year Ended December 31, | | Dollar Change | Percentage Change |
|--|-------------------------|-----------------|------------------|----------------------|
| | 2011 | 2010 | | |
| Revenues: | | | | |
| Premiums | \$ 35,106 | \$ 32,712 | \$ 2,394 | 7.3% |
| Services | 1,360 | 555 | 805 | 145.0% |
| Investment income | 366 | 329 | 37 | 11.2% |
| Total revenues | 36,832 | 33,596 | 3,236 | 9.6% |
| Operating expenses: | | | | |
| Benefits | 28,823 | 27,117 | 1,706 | 6.3% |
| Operating costs | 5,395 | 4,380 | 1,015 | 23.2% |
| Depreciation and amortization | 270 | 245 | 25 | 10.2% |
| Total operating expenses | 34,488 | 31,742 | 2,746 | 8.7% |
| Income from operations | 2,344 | 1,854 | 490 | 26.4% |
| Interest expense | 109 | 105 | 4 | 3.8% |
| Income before income taxes | 2,235 | 1,749 | 486 | 27.8% |
| Provision for income taxes | 816 | 650 | 166 | 25.5% |
| Net income | \$ 1,419 | \$ 1,099 | \$ 320 | 29.1% |
| Basic earnings per common share | \$ 8.58 | \$ 6.55 | \$ 2.03 | 31.0% |
| Diluted earnings per common share | \$ 8.46 | \$ 6.47 | \$ 1.99 | 30.8% |
| Shares used in computing basic earnings per common share (000's) | 165,413 | 167,782 | | |
| Shares used in computing diluted earnings per common share (000's) | 167,827 | 169,798 | | |

Humana Inc.
4Q11 Segment Financial Information
In millions

| | Retail | Employer Group | Health and Well-Being Services | Other Businesses | Eliminations/ Corporate | Consolidated |
|--|---------------|-------------------|--------------------------------------|---------------------|----------------------------|---------------|
| Revenues - external customers | | | | | | |
| Premiums: | | | | | | |
| Medicare Advantage | \$ 4,454 | \$ 789 | \$ - | \$ - | \$ - | \$ 5,243 |
| Medicare stand-alone PDP | 580 | 2 | - | 57 | - | 639 |
| Total Medicare | 5,034 | 791 | - | 57 | - | 5,882 |
| Fully-insured | 233 | 1,181 | - | - | - | 1,414 |
| Specialty | 35 | 237 | - | - | - | 272 |
| Military services | - | - | - | 814 | - | 814 |
| Medicaid and other (A) | - | - | - | 256 | - | 256 |
| Total premiums | 5,302 | 2,209 | - | 1,127 | - | 8,638 |
| Services revenue: | | | | | | |
| Provider | - | - | 222 | - | - | 222 |
| ASO and other (B) | 4 | 87 | - | 9 | - | 100 |
| Pharmacy | - | - | 3 | - | - | 3 |
| Total services revenue | 4 | 87 | 225 | 9 | - | 325 |
| Total revenues - external customers | 5,306 | 2,296 | 225 | 1,136 | - | 8,963 |
| Intersegment revenues | | | | | | |
| Services | - | 4 | 2,185 | - | (2,189) | - |
| Products | - | - | 490 | - | (490) | - |
| Total intersegment revenues | - | 4 | 2,675 | - | (2,679) | - |
| Investment income | 19 | 12 | - | 14 | 48 | 93 |
| Total revenues | 5,325 | 2,312 | 2,900 | 1,150 | (2,631) | 9,056 |
| Operating expenses: | | | | | | |
| Benefits | 4,190 | 1,909 | - | 1,036 | (73) | 7,062 |
| Operating costs | 779 | 433 | 2,794 | 110 | (2,531) | 1,585 |
| Depreciation and amortization | 30 | 21 | 21 | 3 | (6) | 69 |
| Total operating expenses | 4,999 | 2,363 | 2,815 | 1,149 | (2,610) | 8,716 |
| Income from operations | 326 | (51) | 85 | 1 | (21) | 340 |
| Interest expense | - | - | - | - | 27 | 27 |
| Income (loss) before income taxes | \$ 326 | \$ (51) | \$ 85 | \$ 1 | \$ (48) | \$ 313 |
| Benefit ratio | 79.0% | 86.4% | | 91.9% | | 81.8% |
| Operating cost ratio | 14.7% | 18.8% | 96.3% | 9.7% | | 17.7% |

Humana Inc.
 FY11 Segment Financial Information
In millions

| | Retail | Employer Group | Health and Well-Being Services | Other Businesses | Eliminations/ Corporate | Consolidated |
|--|-----------------|-------------------|--------------------------------------|---------------------|----------------------------|-----------------|
| Revenues - external customers | | | | | | |
| Premiums: | | | | | | |
| Medicare Advantage | \$ 18,100 | \$ 3,152 | \$ - | \$ - | \$ - | \$ 21,252 |
| Medicare stand-alone PDP | 2,317 | 8 | - | 253 | - | 2,578 |
| Total Medicare | 20,417 | 3,160 | - | 253 | - | 23,830 |
| Fully-insured | 861 | 4,782 | - | - | - | 5,643 |
| Specialty | 124 | 935 | - | - | - | 1,059 |
| Military services | - | - | - | 3,616 | - | 3,616 |
| Medicaid and other (A) | - | - | - | 958 | - | 958 |
| Total premiums | 21,402 | 8,877 | - | 4,827 | - | 35,106 |
| Services revenue: | | | | | | |
| Provider | - | - | 892 | - | - | 892 |
| ASO and other (B) | 16 | 356 | - | 85 | - | 457 |
| Pharmacy | - | - | 11 | - | - | 11 |
| Total services revenue | 16 | 356 | 903 | 85 | - | 1,360 |
| Total revenues - external customers | 21,418 | 9,233 | 903 | 4,912 | - | 36,466 |
| Intersegment revenues | | | | | | |
| Services | - | 14 | 8,510 | - | (8,524) | - |
| Products | - | - | 1,820 | - | (1,820) | - |
| Total intersegment revenues | - | 14 | 10,330 | - | (10,344) | - |
| Investment income | 76 | 48 | - | 54 | 188 | 366 |
| Total revenues | 21,494 | 9,295 | 11,233 | 4,966 | (10,156) | 36,832 |
| Operating expenses: | | | | | | |
| Benefits | 17,383 | 7,318 | - | 4,411 | (289) | 28,823 |
| Operating costs | 2,405 | 1,650 | 10,798 | 461 | (9,919) | 5,395 |
| Depreciation and amortization | 119 | 85 | 82 | 10 | (26) | 270 |
| Total operating expenses | 19,907 | 9,053 | 10,880 | 4,882 | (10,234) | 34,488 |
| Income from operations | 1,587 | 242 | 353 | 84 | 78 | 2,344 |
| Interest expense | - | - | - | - | 109 | 109 |
| Income (loss) before income taxes | \$ 1,587 | \$ 242 | \$ 353 | \$ 84 | \$ (31) | \$ 2,235 |
| Benefit ratio | 81.2% | 82.4% | | 91.4% | | 82.1% |
| Operating cost ratio | 11.2% | 17.8% | 96.1% | 9.4% | | 14.8% |

Humana Inc.
4Q10 Segment Financial Information
In millions

| | Retail | Employer Group | Health and Well-Being Services | Other Businesses | Eliminations/ Corporate | Consolidated |
|--|---------------|-------------------|--------------------------------------|---------------------|----------------------------|---------------|
| Revenues - external customers | | | | | | |
| Premiums: | | | | | | |
| Medicare Advantage | \$ 4,024 | \$ 761 | \$ - | \$ - | \$ - | \$ 4,785 |
| Medicare stand-alone PDP | 447 | 2 | - | 13 | - | 462 |
| Total Medicare | 4,471 | 763 | - | 13 | - | 5,247 |
| Fully-insured | 194 | 1,264 | - | - | - | 1,458 |
| Specialty | 22 | 222 | - | - | - | 244 |
| Military services | - | - | - | 858 | - | 858 |
| Medicaid and other (A) | - | - | - | 232 | - | 232 |
| Total premiums | 4,687 | 2,249 | - | 1,103 | - | 8,039 |
| Services revenue: | | | | | | |
| Provider | - | - | 24 | - | - | 24 |
| ASO and other (B) | 3 | 101 | - | 33 | - | 137 |
| Pharmacy | - | - | - | - | - | - |
| Total services revenue | 3 | 101 | 24 | 33 | - | 161 |
| Total revenues - external customers | 4,690 | 2,350 | 24 | 1,136 | - | 8,200 |
| Intersegment revenues | | | | | | |
| Services | - | 3 | 1,819 | - | (1,822) | - |
| Products | - | - | 355 | - | (355) | - |
| Total intersegment revenues | - | 3 | 2,174 | - | (2,177) | - |
| Investment income | 18 | 10 | - | 11 | 37 | 76 |
| Total revenues | 4,708 | 2,363 | 2,198 | 1,147 | (2,140) | 8,276 |
| Operating expenses: | | | | | | |
| Benefits | 3,828 | 1,899 | - | 1,127 | (65) | 6,789 |
| Operating costs | 600 | 412 | 2,148 | 127 | (2,063) | 1,224 |
| Depreciation and amortization | 30 | 23 | 6 | 3 | - | 62 |
| Total operating expenses | 4,458 | 2,334 | 2,154 | 1,257 | (2,128) | 8,075 |
| Income from operations | 250 | 29 | 44 | (110) | (12) | 201 |
| Interest expense | - | - | - | - | 27 | 27 |
| Income (loss) before income taxes | \$ 250 | \$ 29 | \$ 44 | \$ (110) | \$ (39) | \$ 174 |
| Benefit ratio | 81.7% | 84.4% | | 102.2% | | 84.5% |
| Operating cost ratio | 12.8% | 17.5% | 97.7% | 11.2% | | 14.9% |

Humana Inc.
 FY10 Segment Financial Information
In millions

| | Retail | Employer Group | Health and Well-Being Services | Other Businesses | Eliminations/ Corporate | Consolidated |
|--|-----------------|-------------------|--------------------------------------|---------------------|----------------------------|-----------------|
| Revenues - external customers | | | | | | |
| Premiums: | | | | | | |
| Medicare Advantage | \$ 16,265 | \$ 3,021 | \$ - | \$ - | \$ - | \$ 19,286 |
| Medicare stand-alone PDP | 1,959 | 5 | - | 355 | - | 2,319 |
| Total Medicare | 18,224 | 3,026 | - | 355 | - | 21,605 |
| Fully-insured | 746 | 5,169 | - | - | - | 5,915 |
| Specialty | 82 | 885 | - | - | - | 967 |
| Military services | - | - | - | 3,462 | - | 3,462 |
| Medicaid and other (A) | - | - | - | 763 | - | 763 |
| Total premiums | 19,052 | 9,080 | - | 4,580 | - | 32,712 |
| Services revenue: | | | | | | |
| Provider | - | - | 34 | - | - | 34 |
| ASO and other (B) | 11 | 395 | - | 115 | - | 521 |
| Pharmacy | - | - | - | - | - | - |
| Total services revenue | 11 | 395 | 34 | 115 | - | 555 |
| Total revenues - external customers | 19,063 | 9,475 | 34 | 4,695 | - | 33,267 |
| Intersegment revenues | | | | | | |
| Services | - | 12 | 7,494 | - | (7,506) | - |
| Products | - | - | 1,292 | - | (1,292) | - |
| Total intersegment revenues | - | 12 | 8,786 | - | (8,798) | - |
| Investment income | 80 | 42 | - | 43 | 164 | 329 |
| Total revenues | 19,143 | 9,529 | 8,820 | 4,738 | (8,634) | 33,596 |
| Operating expenses: | | | | | | |
| Benefits | 15,624 | 7,486 | - | 4,253 | (246) | 27,117 |
| Operating costs | 2,113 | 1,662 | 8,575 | 475 | (8,445) | 4,380 |
| Depreciation and amortization | 117 | 93 | 26 | 12 | (3) | 245 |
| Total operating expenses | 17,854 | 9,241 | 8,601 | 4,740 | (8,694) | 31,742 |
| Income from operations | 1,289 | 288 | 219 | (2) | 60 | 1,854 |
| Interest expense | - | - | - | - | 105 | 105 |
| Income (loss) before income taxes | \$ 1,289 | \$ 288 | \$ 219 | \$ (2) | \$ (45) | \$ 1,749 |
| Benefit ratio | 82.0% | 82.4% | | 92.9% | | 82.9% |
| Operating cost ratio | 11.1% | 17.5% | 97.2% | 10.1% | | 13.2% |

Humana Inc.

Consolidated Balance Sheets

Dollars in millions, except share amounts

| | December 31, 2011 | December 31, 2010 | Sequential Change | |
|---|----------------------|----------------------|-------------------|--------------|
| | | | Dollar | Percent |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,377 | \$ 1,673 | | |
| Investment securities | 7,743 | 6,873 | | |
| Receivables, net | 1,034 | 959 | | |
| Other | 1,027 | 632 | | |
| Total current assets | 11,181 | 10,137 | \$ 1,044 | 10.3% |
| Property and equipment, net | 912 | 815 | | |
| Long-term investment securities | 1,710 | 1,500 | | |
| Goodwill | 2,740 | 2,568 | | |
| Other | 1,165 | 1,083 | | |
| Total assets | 17,708 | 16,103 | \$ 1,605 | 10.0% |
| Liabilities and Stockholders' Equity | | | | |
| Current liabilities: | | | | |
| Benefits payable | 3,754 | 3,469 | | |
| Trade accounts payable and accrued expenses | 1,783 | 1,681 | | |
| Book overdraft | 306 | 409 | | |
| Unearned revenues | 213 | 185 | | |
| Total current liabilities | 6,056 | 5,744 | \$ 312 | 5.4% |
| Long-term debt | 1,659 | 1,669 | | |
| Future policy benefits payable | 1,663 | 1,493 | | |
| Other long-term liabilities | 267 | 273 | | |
| Total liabilities | 9,645 | 9,179 | \$ 466 | 5.1% |
| Commitments and contingencies | | | | |
| Stockholders' equity: | | | | |
| Preferred stock, \$1 par; 10,000,000 shares authorized, none issued | - | - | | |
| Common stock, \$0.16 2/3 par; 300,000,000 shares authorized; 193,230,310 issued at December 31, 2011 | 32 | 32 | | |
| Capital in excess of par value | 1,938 | 1,737 | | |
| Retained earnings | 6,825 | 5,529 | | |
| Accumulated other comprehensive income | 303 | 120 | | |
| Treasury stock, at cost, 29,225,996 shares at December 31, 2011 | (1,035) | (494) | | |
| Total stockholders' equity | 8,063 | 6,924 | \$ 1,139 | 16.5% |
| Total liabilities and stockholders' equity | \$ 17,708 | \$ 16,103 | \$ 1,605 | 10.0% |
| Debt-to-total capitalization ratio | 17.1% | 19.4% | | |

Humana Inc.
Consolidated Statements of Cash Flows
Dollars in millions

| | | Three Months Ended December 31, | | | |
|--|-----------|---------------------------------|-----------------|------------------|----------------------|
| | | 2011 | 2010 | Dollar Change | Percentage Change |
| Cash flows from operating activities | | | | | |
| Net income | \$ | 199 | \$ 107 | | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | | 78 | 66 | | |
| Net realized capital (gains) losses | | (4) | 7 | | |
| Stock-based compensation | | 14 | 11 | | |
| Provision for (benefit from) deferred income taxes | | 10 | (83) | | |
| Changes in operating assets and liabilities excluding the effects of acquisitions: | | | | | |
| Receivables | | 2 | (42) | | |
| Other assets | | 22 | (39) | | |
| Benefits payable | | (143) | (258) | | |
| Other liabilities | | (198) | 201 | | |
| Unearned revenues | | (1,794) | (31) | | |
| Other | | 17 | 14 | | |
| Net cash used in operating activities | | (1,797) | (47) | (\$1,750) | nm |
| Cash flows from investing activities | | | | | |
| Acquisitions, net of cash acquired | | (212) | (822) | | |
| Purchases of property and equipment | | (120) | (70) | | |
| Purchases of investment securities | | (1,011) | (1,007) | | |
| Proceeds from maturities of investment securities | | 485 | 257 | | |
| Proceeds from sales of investment securities | | 634 | 714 | | |
| Change in securities lending collateral | | 9 | (18) | | |
| Net cash used in investing activities | | (215) | (946) | \$731 | -77.3% |
| Cash flows from financing activities | | | | | |
| Receipts from CMS contract deposits | | 382 | 437 | | |
| Withdrawals from CMS contract deposits | | (985) | (877) | | |
| Change in book overdraft | | 7 | 168 | | |
| Change in securities lending payable | | (11) | 18 | | |
| Excess tax benefit from stock-based compensation | | 3 | - | | |
| Dividends paid | | (41) | - | | |
| Proceeds from stock option exercises and other | | 15 | (3) | | |
| Net cash used in financing activities | | (630) | (257) | (\$373) | 145.1% |
| Decrease in cash and cash equivalents | | (2,642) | (1,250) | | |
| Cash and cash equivalents at beginning of period | | 4,019 | 2,923 | | |
| Cash and cash equivalents at end of period | \$ | 1,377 | \$ 1,673 | | |

Humana Inc.
Consolidated Statements of Cash Flows
Dollars in millions

| | Year Ended December 31, | | Dollar Change | Percentage Change |
|--|-------------------------|-----------------|------------------|----------------------|
| | 2011 | 2010 | | |
| Cash flows from operating activities | | | | |
| Net income | \$ 1,419 | \$ 1,099 | | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 303 | 263 | | |
| Net realized capital gains | (11) | (6) | | |
| Stock-based compensation | 67 | 63 | | |
| Provision for (benefit from) deferred income taxes | 22 | (199) | | |
| Changes in operating assets and liabilities excluding the effects of acquisitions: | | | | |
| Receivables | (75) | (27) | | |
| Other assets | (183) | 81 | | |
| Benefits payable | 256 | 247 | | |
| Other liabilities | 194 | 722 | | |
| Unearned revenues | 26 | (46) | | |
| Other | 61 | 45 | | |
| Net cash provided by operating activities | 2,079 | 2,242 | (\$163) | -7.3% |
| Cash flows from investing activities | | | | |
| Acquisitions, net of cash acquired | (226) | (833) | | |
| Purchases of property and equipment | (336) | (222) | | |
| Purchases of investment securities | (3,678) | (4,589) | | |
| Proceeds from maturities of investment securities | 1,569 | 1,750 | | |
| Proceeds from sales of investment securities | 1,259 | 2,012 | | |
| Change in securities lending collateral | 54 | 71 | | |
| Net cash used in investing activities | (1,358) | (1,811) | \$453 | -25.0% |
| Cash flows from financing activities | | | | |
| Receipts from CMS contract deposits | 2,517 | 1,757 | | |
| Withdrawals from CMS contract deposits | (2,895) | (1,994) | | |
| Change in book overdraft | (103) | 35 | | |
| Change in securities lending payable | (56) | (71) | | |
| Common stock repurchases | (541) | (108) | | |
| Excess tax benefit from stock-based compensation | 15 | 2 | | |
| Dividends paid | (82) | - | | |
| Proceeds from stock option exercises and other | 128 | 8 | | |
| Net cash used in financing activities | (1,017) | (371) | (\$646) | 174.1% |
| (Decrease) increase in cash and cash equivalents | (296) | 60 | | |
| Cash and cash equivalents at beginning of period | 1,673 | 1,613 | | |
| Cash and cash equivalents at end of period | \$ 1,377 | \$ 1,673 | | |

Humana Inc.

Key Income Statement Ratios and Segment Operating Results

Dollars in millions

| | Three Months Ended December 31, | | | | Year Ended December 31, | | | |
|---------------------------------------|---------------------------------|---------|------------|-------------------|-------------------------|---------|------------|-------------------|
| | 2011 | 2010 | Difference | Percentage Change | 2011 | 2010 | Difference | Percentage Change |
| Benefit ratio | | | | | | | | |
| Retail | 79.0% | 81.7% | -2.7% | | 81.2% | 82.0% | -0.8% | |
| Employer Group | 86.4% | 84.4% | 2.0% | | 82.4% | 82.4% | 0.0% | |
| Other Businesses | 91.9% | 102.2% | -10.3% | | 91.4% | 92.9% | -1.5% | |
| Consolidated | 81.8% | 84.5% | -2.7% | | 82.1% | 82.9% | -0.8% | |
| Operating cost ratio (C) | | | | | | | | |
| Retail | 14.7% | 12.8% | 1.9% | | 11.2% | 11.1% | 0.1% | |
| Employer Group | 18.8% | 17.5% | 1.3% | | 17.8% | 17.5% | 0.3% | |
| Health and Well-Being Services | 96.3% | 97.7% | -1.4% | | 96.1% | 97.2% | -1.1% | |
| Other Businesses | 9.7% | 11.2% | -1.5% | | 9.4% | 10.1% | -0.7% | |
| Consolidated | 17.7% | 14.9% | 2.8% | | 14.8% | 13.2% | 1.6% | |
| Detail of pretax income (loss) | | | | | | | | |
| Retail | \$326 | \$250 | \$76 | 30.4% | \$1,587 | \$1,289 | \$298 | 23.1% |
| Employer Group | (\$51) | \$29 | (\$80) | -275.9% | \$242 | \$288 | (\$46) | -16.0% |
| Health and Well-Being Services | \$85 | \$44 | \$41 | 93.2% | \$353 | \$219 | \$134 | 61.2% |
| Other Businesses | \$1 | (\$110) | \$111 | 100.9% | \$84 | (\$2) | \$86 | nm |
| Consolidated | \$313 | \$174 | \$139 | 79.9% | \$2,235 | \$1,749 | \$486 | 27.8% |

Humana Inc. Membership Detail

In thousands

| | Ending | Average | Ending | Year-over-year Change | | Ending | Sequential Change | |
|-----------------------------------|-------------------|-----------------|-------------------|-----------------------|--------------|--------------------|-------------------|--------------|
| | December 31, 2011 | 4Q11 | December 31, 2010 | Amount | Percent | September 30, 2011 | Amount | Percent |
| Medical Membership: | | | | | | | | |
| Retail | | | | | | | | |
| Medicare Advantage | 1,640.3 | 1,621.2 | 1,460.7 | 179.6 | 12.3% | 1,613.4 | 26.9 | 1.7% |
| Medicare stand-alone PDPs | 2,540.4 | 2,516.3 | 1,670.3 | 870.1 | 52.1% | 2,478.1 | 62.3 | 2.5% |
| Individual commercial | 433.6 | 430.1 | 372.3 | 61.3 | 16.5% | 424.0 | 9.6 | 2.3% |
| Medicare Supplement | 59.6 | 58.5 | 38.9 | 20.7 | 53.2% | 56.7 | 2.9 | 5.1% |
| Total Retail | 4,673.9 | 4,626.1 | 3,542.2 | 1,131.7 | 31.9% | 4,572.2 | 101.7 | 2.2% |
| Employer Group | | | | | | | | |
| Medicare Advantage | 290.6 | 289.9 | 273.1 | 17.5 | 6.4% | 287.9 | 2.7 | 0.9% |
| Medicare Advantage ASO | 27.6 | 27.6 | 28.2 | (0.6) | -2.1% | 27.6 | - | 0.0% |
| Medicare stand-alone PDPs | 4.2 | 4.2 | 2.4 | 1.8 | 75.0% | 4.2 | - | 0.0% |
| Fully-insured medical commercial | 1,180.2 | 1,178.3 | 1,252.2 | (72.0) | -5.7% | 1,181.3 | (1.1) | -0.1% |
| ASO commercial | 1,292.3 | 1,289.7 | 1,453.6 | (161.3) | -11.1% | 1,287.0 | 5.3 | 0.4% |
| Total Employer Group | 2,794.9 | 2,789.7 | 3,009.5 | (214.6) | -7.1% | 2,788.0 | 6.9 | 0.2% |
| Other Businesses | | | | | | | | |
| Military Services | 3,028.1 | 3,024.0 | 3,027.8 | 0.3 | 0.0% | 3,025.9 | 2.2 | 0.1% |
| Medicaid and other | 614.2 | 616.9 | 621.0 | (6.8) | -1.1% | 621.5 | (7.3) | -1.2% |
| LI-NET (D) | 73.5 | 73.9 | 86.1 | (12.6) | -14.6% | 74.6 | (1.1) | -1.5% |
| Total Other Businesses | 3,715.8 | 3,714.8 | 3,734.9 | (19.1) | -0.5% | 3,722.0 | (6.2) | -0.2% |
| Total Medical Membership | 11,184.6 | 11,130.6 | 10,286.6 | 898.0 | 8.7% | 11,082.2 | 102.4 | 0.9% |
| Specialty Membership: | | | | | | | | |
| Retail | | | | | | | | |
| Dental - fully-insured | 579.6 | 576.9 | 383.9 | 195.7 | 51.0% | 564.7 | 14.9 | 2.6% |
| Vision | 83.8 | 82.9 | 51.7 | 32.1 | 62.1% | 79.3 | 4.5 | 5.7% |
| Other supplemental benefits (E) | 119.1 | 116.5 | 74.4 | 44.7 | 60.1% | 111.6 | 7.5 | 6.7% |
| Total Retail | 782.5 | 776.3 | 510.0 | 272.5 | 53.4% | 755.6 | 26.9 | 3.6% |
| Employer Group | | | | | | | | |
| Dental - fully-insured | 2,283.9 | 2,278.1 | 2,254.5 | 29.4 | 1.3% | 2,259.5 | 24.4 | 1.1% |
| Dental - ASO | 869.9 | 869.4 | 1,242.3 | (372.4) | -30.0% | 876.9 | (7.0) | -0.8% |
| Vision | 2,329.6 | 2,308.8 | 2,134.7 | 194.9 | 9.1% | 2,272.8 | 56.8 | 2.5% |
| Other supplemental benefits (E) | 1,049.2 | 1,039.8 | 886.0 | 163.2 | 18.4% | 1,010.1 | 39.1 | 3.9% |
| Total Employer Group | 6,532.6 | 6,496.1 | 6,517.5 | 15.1 | 0.2% | 6,419.3 | 113.3 | 1.8% |
| Total Specialty Membership | 7,315.1 | 7,272.4 | 7,027.5 | 287.6 | 4.1% | 7,174.9 | 140.2 | 2.0% |

Humana Inc.

Premiums and Services Revenue Detail

Dollars in millions, except per member per month

| | Three Months Ended December 31, | | Dollar Change | Percentage Change | Per Member per Month (F) Three Months Ended December 31, | |
|---|---------------------------------|--------------|---------------|-------------------|---|-------|
| | 2011 | 2010 | | | 2011 | 2010 |
| Premiums and Services Revenue | | | | | | |
| Retail: | | | | | | |
| Medicare Advantage | \$ 4,454 | \$ 4,024 | \$ 430 | 10.7% | \$916 | \$918 |
| Medicare stand-alone PDPs | 580 | 447 | 133 | 29.8% | \$77 | \$89 |
| Individual commercial | 205 | 175 | 30 | 17.1% | \$159 | \$157 |
| Medicare Supplemental | 28 | 19 | 9 | 47.4% | \$160 | \$164 |
| Specialty | 35 | 22 | 13 | 59.1% | \$15 | \$15 |
| ASO & other services (B) | 4 | 3 | 1 | 33.3% | | |
| Total Retail | 5,306 | 4,690 | 616 | 13.1% | | |
| Employer Group: | | | | | | |
| Medicare Advantage | 789 | 761 | 28 | 3.7% | \$907 | \$927 |
| Medicare stand-alone PDPs | 2 | 2 | - | 0.0% | | |
| Fully-insured medical commercial | 1,181 | 1,264 | (83) | -6.6% | \$334 | \$337 |
| Specialty | 237 | 222 | 15 | 6.8% | \$14 | \$14 |
| ASO & other services (B) | 91 | 104 | (13) | -12.5% | | |
| Total Employer Group | 2,300 | 2,353 | (53) | -2.3% | | |
| Health and Well-Being Services: | | | | | | |
| Pharmacy solutions | 2,550 | 2,074 | 476 | 23.0% | | |
| Primary care services | 268 | 66 | 202 | 306.1% | | |
| Home care services | 29 | 14 | 15 | 107.1% | | |
| Integrated wellness services | 53 | 44 | 9 | 20.5% | | |
| Total Health and Well-Being Services | 2,900 | 2,198 | 702 | 31.9% | | |
| Other Businesses: | | | | | | |
| Military services (G) | 821 | 876 | (55) | -6.3% | \$157 | \$163 |
| L-NET (D) | 57 | 13 | 44 | 338.5% | \$257 | \$51 |
| Medicaid and other (H) | 258 | 247 | 11 | 4.5% | \$138 | \$125 |
| Total Other Businesses | 1,136 | 1,136 | - | 0.0% | | |

Humana Inc.

Premiums and Services Revenue Detail

Dollars in millions, except per member per month

| | Year Ended December 31, | | Dollar Change | Percentage Change | Per Member per Month (F) Year Ended December 31, | |
|---|-------------------------|---------------|---------------|-------------------|---|-------|
| | 2011 | 2010 | | | 2011 | 2010 |
| Premiums and Services Revenue | | | | | | |
| Retail: | | | | | | |
| Medicare Advantage | \$ 18,100 | \$ 16,265 | \$ 1,835 | 11.3% | \$939 | \$930 |
| Medicare stand-alone PDPs | 2,317 | 1,959 | 358 | 18.3% | \$80 | \$96 |
| Individual commercial | 757 | 676 | 81 | 12.0% | \$156 | \$152 |
| Medicare Supplemental | 104 | 70 | 34 | 48.6% | \$161 | \$162 |
| Specialty | 124 | 82 | 42 | 51.2% | \$15 | \$15 |
| ASO & other services (B) | 16 | 11 | 5 | 45.5% | | |
| Total Retail | 21,418 | 19,063 | 2,355 | 12.4% | | |
| Employer Group: | | | | | | |
| Medicare Advantage | 3,152 | 3,021 | 131 | 4.3% | \$923 | \$931 |
| Medicare stand-alone PDPs | 8 | 5 | 3 | 60.0% | | |
| Fully-insured medical commercial | 4,782 | 5,169 | (387) | -7.5% | \$338 | \$332 |
| Specialty | 935 | 885 | 50 | 5.6% | \$14 | \$14 |
| ASO & other services (B) | 370 | 407 | (37) | -9.1% | | |
| Total Employer Group | 9,247 | 9,487 | (240) | -2.5% | | |
| Health and Well-Being Services: | | | | | | |
| Pharmacy solutions | 9,897 | 8,410 | 1,487 | 17.7% | | |
| Primary care services | 1,065 | 191 | 874 | 457.6% | | |
| Home care services | 84 | 39 | 45 | 115.4% | | |
| Integrated wellness services | 187 | 180 | 7 | 3.9% | | |
| Total Health and Well-Being Services | 11,233 | 8,820 | 2,413 | 27.4% | | |
| Other Businesses: | | | | | | |
| Military services (G) | 3,690 | 3,547 | 143 | 4.0% | \$173 | \$164 |
| LH-NET (D) | 253 | 355 | (102) | -28.7% | \$247 | \$275 |
| Medicaid and other (H) | 969 | 793 | 176 | 22.2% | \$129 | \$129 |
| Total Other Businesses | 4,912 | 4,695 | 217 | 4.6% | | |

Humana Inc.
Medicare Summary

Premiums in millions

Membership in thousands

| | Three Months Ended December 31, | | Year-over-year Change | | Per Member per Month (F) Three Months Ended December 31, | |
|---------------------------|---------------------------------|-----------------|-----------------------|--------------|---|-------|
| | 2011 | 2010 | Amount | Percent | 2011 | 2010 |
| Premiums | | | | | | |
| Medicare Advantage | \$ 5,243 | \$ 4,785 | \$ 458 | 9.6% | \$914 | \$920 |
| Medicare stand-alone PDPs | 639 | 462 | 177 | 38.3% | \$82 | \$87 |
| Total Medicare | \$ 5,882 | \$ 5,247 | \$ 635 | 12.1% | | |

| | Year Ended December 31, | | Year-over-year Change | | Per Member per Month (F) Year Ended December 31, | |
|---------------------------|-------------------------|------------------|-----------------------|--------------|---|-------|
| | 2011 | 2010 | Amount | Percent | 2011 | 2010 |
| Premiums | | | | | | |
| Medicare Advantage | \$ 21,252 | \$ 19,286 | \$ 1,966 | 10.2% | \$937 | \$931 |
| Medicare stand-alone PDPs | 2,578 | 2,319 | 259 | 11.2% | \$86 | \$106 |
| Total Medicare | \$ 23,830 | \$ 21,605 | \$ 2,225 | 10.3% | | |

| | Ending | Ending | Year-over-year Change | |
|---------------------------------|-------------------|-------------------|-----------------------|--------------|
| | December 31, 2011 | December 31, 2010 | Amount | Percent |
| Fully-Insured Membership | | | | |
| Medicare Advantage | 1,930.9 | 1,733.8 | 197.1 | 11.4% |
| Medicare stand-alone PDPs | 2,618.1 | 1,758.8 | 859.3 | 48.9% |
| Total Medicare | 4,549.0 | 3,492.6 | 1,056.4 | 30.2% |

Humana Inc.
Investments

Dollars in millions

Investment Portfolio:

Cash & cash equivalents
Investment securities
Long-term investments
Total investment portfolio

Duration (I)

Average Credit Rating

Securities Lending Invested Collateral Portfolio:

Cash & cash equivalents
Asset-backed securities

Investment Portfolio Detail:

Cash and cash equivalents
U.S. Government and agency obligations
 U.S. Treasury and agency obligations
 U.S. Government residential mortgage-backed
 U.S. Government commercial mortgage-backed
 Total U.S. Government and agency obligations
Tax-exempt municipal securities
 Pre-refunded
 Insured
 Other
 Auction rate securities
 Total tax-exempt municipal securities
Residential mortgage-backed
 Prime residential mortgages
 Alt-A residential mortgages
 Sub-prime residential mortgages
 Total residential mortgage-backed
Commercial mortgage-backed
Asset-backed securities
Corporate securities
 Financial services
 Other
 Total corporate securities
Redeemable preferred stocks
Total investment portfolio

| Fair value | | |
|-----------------|-----------------|-----------------|
| 12/31/2011 | 9/30/2011 | 12/31/2010 |
| \$1,377 | \$4,019 | \$1,673 |
| 7,743 | 7,865 | 6,873 |
| 1,710 | 1,696 | 1,500 |
| \$10,830 | \$13,580 | \$10,046 |
| 3.94 | 3.10 | 3.96 |
| AA- | AA | AA |
| - | \$5 | \$25 |
| - | - | 25 |
| - | \$5 | \$50 |
| \$1,377 | \$4,019 | \$1,673 |
| 725 | 881 | 712 |
| 1,751 | 1,768 | 1,635 |
| 33 | 33 | 29 |
| 2,509 | 2,682 | 2,376 |
| 332 | 329 | 344 |
| 634 | 633 | 597 |
| 1,874 | 1,742 | 1,440 |
| 16 | 22 | 52 |
| 2,856 | 2,726 | 2,433 |
| 41 | 45 | 53 |
| 2 | 2 | 2 |
| 1 | 1 | 1 |
| 44 | 48 | 56 |
| 381 | 388 | 321 |
| 83 | 108 | 150 |
| 692 | 898 | 891 |
| 2,888 | 2,706 | 2,141 |
| 3,580 | 3,604 | 3,032 |
| - | 5 | 5 |
| \$10,830 | \$13,580 | \$10,046 |

Humana Inc.

Detail of Benefits Payable Balance and Year-to-Date Changes

Dollars in millions

| | December 31, 2011 | September 30, 2011 | December 31, 2010 |
|---|----------------------|-----------------------|----------------------|
| Detail of benefits payable | | | |
| IBNR and other benefits payable (J) | \$2,849 | \$2,822 | \$2,753 |
| Unprocessed claim inventories (K) | 280 | 419 | 374 |
| Processed claim inventories (L) | 119 | 94 | 65 |
| Payable to pharmacy benefit administrator (M) | 167 | 157 | 22 |
| Benefits payable, excluding military services | <u>3,415</u> | <u>3,492</u> | <u>3,214</u> |
| Military services benefits payable (N) | 339 | 376 | 255 |
| Total Benefits Payable | <u>\$3,754</u> | <u>\$3,868</u> | <u>\$3,469</u> |

| | Year Ended December 31, 2011 | Nine Months Ended September 30, 2011 | Year Ended December 31, 2010 |
|--|---------------------------------|---|---------------------------------|
| Year-to-date changes in benefits payable, excluding military services (O) | | | |
| Balances at January 1 | \$3,214 | \$3,214 | \$2,943 |
| Acquisitions | 29 | | |
| Incurred related to: | | | |
| Current year | 25,821 | 19,476 | 24,186 |
| Prior years (P) | (372) | (318) | (434) |
| Total incurred | <u>25,449</u> | <u>19,158</u> | <u>23,752</u> |
| Paid related to: | | | |
| Current year | (22,729) | (16,301) | (21,269) |
| Prior years | (2,548) | (2,579) | (2,212) |
| Total paid | <u>(25,277)</u> | <u>(18,880)</u> | <u>(23,481)</u> |
| Balances at end of period | <u>\$3,415</u> | <u>\$3,492</u> | <u>\$3,214</u> |

| | Year Ended December 31, 2011 | Nine Months Ended September 30, 2011 | Year Ended December 31, 2010 |
|---|---------------------------------|---|---------------------------------|
| Summary of Consolidated Benefit Expense: | | | |
| Total benefit expense incurred, per above | \$25,449 | \$19,158 | \$23,752 |
| Military services benefit expense | 3,247 | 2,512 | 3,059 |
| Future policy benefit expense (Q) | 127 | 91 | 306 |
| Consolidated Benefit Expense | <u>\$28,823</u> | <u>\$21,761</u> | <u>\$27,117</u> |

Humana Inc.
Benefits Payable Statistics (R)

Receipt Cycle Time (S)

| | 2011 | 2010 | Change | Percentage Change |
|---------------------|------|------|--------|-------------------|
| 1st Quarter Average | 13.8 | 13.8 | 0.0 | 0.0% |
| 2nd Quarter Average | 13.8 | 13.9 | (0.1) | -0.7% |
| 3rd Quarter Average | 13.6 | 13.9 | (0.3) | -2.2% |
| 4th Quarter Average | 14.0 | 13.6 | 0.4 | 2.9% |
| Full Year Average | 13.8 | 13.8 | 0.0 | 0.0% |
| | | | | |

Unprocessed Claims Inventories

| Date | Estimated Valuation (millions) | Claim Item Counts (000s) | Number of Days on Hand |
|-------------------|-----------------------------------|-----------------------------|---------------------------|
| 12/31/2009 | \$323 | 776 | 4.3 |
| 3/31/2010 | \$426 | 1,092 | 5.6 |
| 6/30/2010 | \$434 | 1,009 | 4.9 |
| 9/30/2010 | \$429 | 1,064 | 5.2 |
| 12/31/2010 | \$374 | 981 | 5.0 |
| 3/31/2011 | \$482 | 1,197 | 6.0 |
| 6/30/2011 | \$410 | 1,093 | 5.1 |
| 9/30/2011 | \$419 | 1,272 | 5.7 |
| 12/31/2011 | \$280 | 599 | 2.8 |

Humana Inc.
Benefits Payable Statistics (Continued) (R)

Days in Claims Payable (T)

| Quarter Ended | Days in Claims Payable (DCP) | Change Last 4 Quarters | Percentage Change | DCP Excluding Capitation | Change Last 4 Quarters | Percentage Change |
|-------------------|------------------------------|------------------------|-------------------|--------------------------|------------------------|-------------------|
| 12/31/2009 | 55.4 | (4.0) | -6.7% | 62.1 | (4.4) | -6.6% |
| 3/31/2010 | 54.2 | (0.4) | -0.7% | 60.8 | (0.1) | -0.2% |
| 6/30/2010 | 57.0 | 0.9 | 1.6% | 64.3 | 2.8 | 4.6% |
| 9/30/2010 | 57.8 | 1.6 | 2.8% | 64.5 | 1.8 | 2.9% |
| 12/31/2010 | 53.5 | (1.9) | -3.4% | 60.0 | (2.1) | -3.4% |
| 3/31/2011 | 55.5 | 1.3 | 2.4% | 61.8 | 1.0 | 1.6% |
| 6/30/2011 | 56.0 | (1.0) | -1.8% | 62.0 | (2.3) | -3.6% |
| 9/30/2011 | 54.2 | (3.6) | -6.2% | 59.5 | (5.0) | -7.8% |
| 12/31/2011 | 52.5 | (1.0) | -1.9% | 58.3 | (1.7) | -2.8% |

Year-to-Date Change in Days in Claims Payable (U)

DCP - beginning of period

Components of change in DCP:

Change in unprocessed claims inventories

Change in processed claims inventories

Change in pharmacy payment cutoff

All other

DCP - end of period

| | 2011 | 2010 |
|--|-------|-------|
| DCP - beginning of period | 53.5 | 55.4 |
| Change in unprocessed claims inventories | (2.3) | 0.8 |
| Change in processed claims inventories | 0.8 | 0.3 |
| Change in pharmacy payment cutoff | 0.6 | (2.9) |
| All other | (0.1) | (0.1) |
| DCP - end of period | 52.5 | 53.5 |

- (A) The Medicaid and other category includes the company's Medicaid business as well as the closed block of long-term care.
- (B) The ASO and other category is primarily comprised of ASO fees and other ancillary services fees.
- (C) The operating cost ratio is defined as operating costs as a percent of total revenues excluding investment income.
- (D) LI-NET is the CMS Limited Income Newly Eligible Transition program, operated by Humana, to provide Part D prescription drug coverage for all uncovered Full Duals and SSI-only beneficiaries on a retroactive basis and all uncovered LIS eligible beneficiaries on a current basis.
- (E) Other supplemental benefits include life, disability, and fixed benefit products including cancer and critical illness policies.
- (F) Computed based on average membership for the period (i.e., monthly ending membership during the period divided by the number of months in the period).
- (G) Military services revenues are generally not contracted on a per-member basis.
- (H) Includes premiums associated with Medicaid and the closed block of long-term care as well as services revenue.
- (I) Duration is the time-weighted average of the present value of the fixed income portfolio cash flows.
- (J) IBNR represents an estimate of benefit expenses payable for claims incurred but not reported (IBNR) at the balance sheet date. The level of IBNR is primarily impacted by membership levels, benefit claim trends and the receipt cycle time, which represents the length of time between when a claim is initially incurred and when the claim form is received (i.e. a shorter time span results in lower reserves for claims IBNR). Other benefits payable includes amounts payable to providers under capitation arrangements.
- (K) Unprocessed claim inventories represent the estimated valuation of claims received but not yet fully processed.
- (L) Processed claim inventories represent the estimated valuation of processed claims that are in the post-claim-adjudication process, which consists of administrative functions such as audit and check batching and handling.
- (M) The balance due to the company's pharmacy benefit administrator fluctuates as a result of the number of business days in the last payment cycle of the month. Payment cycles are every 8 days (8th, 16th, and 24th of month) and the last day of the month.
- (N) Military services benefits payable primarily consist of IBNR and to a lesser extent risk share payables to the Department of Defense and liabilities to subcontractors.
- (O) The table excludes activity associated with military services benefits payable, because the federal government bears a substantial portion of the risk associated with financing the cost of health benefits. More specifically, the risk-sharing provisions of the military services contracts with the federal government and with subcontractors effectively limit profits and losses when actual claim experience varies from the targeted claim amount negotiated annually. As a result of these contract provisions, the impact of changes in estimates for prior year military services benefits payable are substantially offset by the associated changes in estimates of revenue from health care services reimbursements. As such, any impact on the company's results of operations is reduced substantially, whether positive or negative.
- (P) Amounts incurred related to prior years vary from previously estimated liabilities as the claims ultimately are settled. Negative amounts reported for incurred related to prior years result from claims being ultimately settled for amounts less than originally estimated (favorable development). There were no changes in the approach used to determine the company's estimate of claim reserves during the quarter.
- (Q) Future policy benefit expense has a related liability classified as a long-term liability on the balance sheet.
- (R) Benefits reserves statistics represents fully-insured medical claims data and excludes military services claims data and specialty benefits.
- (S) The receipt cycle time measures the average length of time between when a claim was initially incurred and when the claim form was received. Receipt cycle time data for the company's largest claim processing platforms represent approximately 92% of the company's fully-insured medical claims volume. Pharmacy and specialty claims, including dental, vision and other supplemental benefits, are excluded from this measurement.
- (T) A common metric for monitoring benefits payable levels relative to the benefit expense is days in claims payable, or DCP, which represents the benefits payable at the end of the period divided by average benefit expenses per day in the quarterly period. Since the company has some providers under capitation payment arrangements (which do not require a benefits payable IBNR reserve), the company has also summarized this metric excluding capitation expense. In addition, this calculation excludes the impact of the company's military services and stand-alone PDP business.
- (U) DCP fluctuates due to a number of issues, the more significant of which are detailed in this rollforward. Growth in certain product lines can also impact DCP for the quarter since a provision for claims would not have been recorded for members that had not yet enrolled earlier in the quarter, yet those members would have a provision and corresponding reserve recorded upon enrollment later in the quarter. This analysis excludes the impact of military services and Medicare stand-alone PDPs upon DCP.