

**ANNUAL STATEMENT**

**OF THE**

**BLUE CROSS & BLUE SHIELD OF RHODE ISLAND**

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**of PROVIDENCE COUNTY**

**in the state of RHODE ISLAND**

**TO THE**

**Insurance Department**

**OF THE**

**RHODE ISLAND**

**FOR THE YEAR ENDED**

**December 31, 2012**

**HEALTH**

**2012**



53473201220100100

# HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2012  
OF THE CONDITION AND AFFAIRS OF THE

## BLUE CROSS & BLUE SHIELD OF RHODE ISLAND

NAIC Group Code 0000 (Current Period) 0000 (Prior Period) NAIC Company Code 53473 Employer's ID Number 05-0158952

Organized under the Laws of STATE OF RHODE ISLAND, State of Domicile or Port of Entry RHODE ISLAND

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   
 Other  Is HMO Federally Qualified? Yes  No

Incorporated/Organized February 27, 1939 Commenced Business: September 1, 1939

Statutory Home Office 500 EXCHANGE STREET, PROVIDENCE, RI, US 02903  
 (Street and Number) (City or Town, State, Country and Zip Code)

Main Administrative Office 500 EXCHANGE STREET  
 (Street and Number)  
PROVIDENCE, RI, US 02903 401-459-1000  
 (City or Town, State, Country and Zip Code) (Area Code) (Telephone Number)

Mail Address 500 EXCHANGE STREET, PROVIDENCE, RI, US 02903  
 (Street and Number or P.O. Box) (City or Town, State, Country and Zip Code)

Primary Location of Books and Records 500 EXCHANGE STREET PROVIDENCE, RI, US 02903 401-459-1000  
 (Street and Number) (City or Town, State, Country and Zip Code) (Area Code) (Telephone Number)

Internet Website Address WWW.BCBSRI.COM

Statutory Statement Contact BRIAN M. O'MALLEY 401-459-1924  
 (Name) (Area Code) (Telephone Number) (Extension)  
BRIAN.O'MALLEY@BCBSRI.ORG 401-459-1198  
 (E-Mail Address) (Fax Number)

### OFFICERS

| Name                           | Title                                     |
|--------------------------------|---|
| 1. <u>PETER ANDRUSZKIEWICZ</u> | <u>PRESIDENT &amp; CEO</u>                |
| 2. <u>MICHELE B. LEDERBERG</u> | <u>EVP. &amp; GEN. COUNSEL</u>            |
| 3. <u>MICHAEL W. HUDSON #</u>  | <u>EXECUTIVE VICE PRESIDENT &amp; CFO</u> |

### VICE-PRESIDENTS

| Name                        | Title   | Name                               | Title  |
|-----------------------------|---|------------------------------------|--|
| <u>CHRISTOPHER G. BUSH</u>  | <u>V.P. - UNDERWRITING</u>                    | <u>JEREMY DUNCAN #</u>             | <u>V.P. - COMMUNICATIONS</u>                 |
| <u>JIM GALLAGHER #</u>      | <u>V.P. - PRODUCT DEVELOPMENT</u>             | <u>PAUL HANLON</u>                 | <u>SR.VP &amp; CHIEF INFORMATION OFFICER</u> |
| <u>MARC HUDAK #</u>         | <u>V.P. - CARE INNOVAT. &amp; INTEGRATION</u> | <u>AUGUSTINE A. MANOCCHIA M.D.</u> | <u>SR. V.P. &amp; CHIEF MEDICAL OFFICER</u>  |
| <u>SHANNA C. MARZILLI</u>   | <u>SVP &amp; CHIEF MARKETING OFFICER</u>      | <u>MONICA A. NERONHA</u>           | <u>V.P. - LEGAL SERVICES</u>                 |
| <u>BRIAN M. O'MALLEY</u>    | <u>V.P. - FINANCE</u>                         | <u>VISAEI RODRIGUEZ #</u>          | <u>CHIEF DIVERSITY OFFICER</u>               |
| <u>MARK D. WAGGONER</u>     | <u>SR. V.P. - NETWORK. &amp; CONTRACTING</u>  | <u>WILLIAM K. WRAY</u>             | <u>CHIEF OPERATING OFFICER</u>               |
| <u>ROBERT S. WOLFKIEL #</u> | <u>V.P. &amp; CHIEF SALES OFFICER</u>         |                                    |  |

### DIRECTORS OR TRUSTEES

|                           |                                  |                                |                            |
|---------------------------|----------------------------------|--------------------------------|----------------------------|
| <u>DENISE A. BARGE</u>    | <u>FREDRIC V. CHRISTIAN M.D.</u> | <u>JUDGE EDWARD C. CLIFTON</u> | <u>MEREDITH CURREN</u>     |
| <u>MICHAEL V. D'AMBRA</u> | <u>SCOTT DUHAMEL</u>             | <u>JAMES A. HARRINGTON #</u>   | <u>SAMUEL H. HAVENS</u>    |
| <u>PETER C. HAYES</u>     | <u>JUANA I. HORTON</u>           | <u>ELIZABETH LANGE M.D. #</u>  | <u>WARREN LICHT M.D. #</u> |
| <u>CHUCK LOCURTO</u>      | <u>JOHN P. MAGUIRE</u>           | <u>CAROL A. MUMFORD</u>        | <u>ROBERT G. NORTON</u>    |
| <u>ANNE E. POWERS</u>     | <u>RANDY A. WYROFSKY</u>         |                                |                            |

State of RHODE ISLAND  
 County of PROVIDENCE 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.

|  |  |   |
|--|--|---|
| <u>PETER ANDRUSZKIEWICZ</u><br>(Signature)<br>PETER ANDRUSZKIEWICZ<br>(Printed Name)<br>1.<br>PRESIDENT & CEO<br>(Title) | <u>MICHELE B. LEDERBERG</u><br>(Signature)<br>MICHELE B. LEDERBERG<br>(Printed Name)<br>2.<br>EVP. & GEN. COUNSEL<br>(Title) | <u>MICHAEL W. HUDSON</u><br>(Signature)<br>MICHAEL W. HUDSON<br>(Printed Name)<br>3.<br>EXECUTIVE VICE PRESIDENT & CFO<br>(Title) |
|--|--|---|

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2013

a. Is this an original filing?  Yes  No  
 b. If no: 1. State the amendment number \_\_\_\_\_  
 2. Date filed \_\_\_\_\_  
 3. Number of pages attached \_\_\_\_\_

## ASSETS

|  | Current Year |                    |                                   | Prior Year          |
|--|--------------|--------------------|-----------------------------------|---------------------|
|  | 1            | 2                  | 3                                 | 4                   |
|  | Assets       | Nonadmitted Assets | Net Admitted Assets (Cols. 1 - 2) | Net Admitted Assets |
| 1. Bonds (Schedule D)  | 294,668,202  |                    | 294,668,202                       | 340,433,807         |
| 2. Stocks (Schedule D):  |              |                    |                                   |                     |
| 2.1 Preferred stocks   | 292,774      |                    | 292,774                           | 428,890             |
| 2.2 Common stocks  | 55,978,303   |                    | 55,978,303                        | 41,097,963          |
| 3. Mortgage loans on real estate (Schedule B):   |              |                    |                                   |                     |
| 3.1 First liens  |              |                    |                                   |                     |
| 3.2 Other than first liens   |              |                    |                                   |                     |
| 4. Real estate (Schedule A):   |              |                    |                                   |                     |
| 4.1 Properties occupied by the company (less \$ 82,329,261 encumbrances)   | 32,375,550   |                    | 32,375,550                        | 32,057,832          |
| 4.2 Properties held for the production of income (less \$ 0 encumbrances)  |              |                    |                                   |                     |
| 4.3 Properties held for sale (less \$ 0 encumbrances)  |              |                    |                                   |                     |
| 5. Cash (\$ 15,694,039, Schedule E - Part 1), cash equivalents (\$ 825,861, Schedule E - Part 2), and short-term investments (\$ 5,272,224, Schedule DA) | 21,792,124   |                    | 21,792,124                        | 15,237,648          |
| 6. Contract loans (including \$ 0 premium notes)   |              |                    |                                   |                     |
| 7. Derivatives (Schedule DB)   |              |                    |                                   |                     |
| 8. Other invested assets (Schedule BA)   | 48,045,067   |                    | 48,045,067                        | 40,446,911          |
| 9. Receivables for securities  | 182,847      |                    | 182,847                           | 3,791,167           |
| 10. Securities lending reinvested collateral assets (Schedule DL)  |              |                    |                                   |                     |
| 11. Aggregate write-ins for invested assets  |              |                    |                                   |                     |
| 12. Subtotals, cash and invested assets (Lines 1 to 11)  | 453,334,867  |                    | 453,334,867                       | 473,494,218         |
| 13. Title plants less \$ 0 charged off (for Title insurers only)   |              |                    |                                   |                     |
| 14. Investment income due and accrued  | 2,209,173    |                    | 2,209,173                         | 2,973,871           |
| 15. Premiums and considerations:   |              |                    |                                   |                     |
| 15.1 Uncollected premiums and agents' balances in the course of collection   | 57,397,792   | 663,909            | 56,733,883                        | 40,871,664          |
| 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  | 1,916,243    | 327,725            | 1,588,518                         | 583,170             |
| 16. Reinsurance:   |              |                    |                                   |                     |
| 16.1 Amounts recoverable from reinsurers   | 484,268      |                    | 484,268                           | 617,081             |
| 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   | 19,458,657   |                    | 19,458,657                        | 18,578,382          |
| 18.1 Current federal and foreign income tax recoverable and interest thereon   |              |                    |                                   | 49,552              |
| 18.2 Net deferred tax asset  |              |                    |                                   | 24,343,161          |
| 19. Guaranty funds receivable or on deposit  |              |                    |                                   |                     |
| 20. Electronic data processing equipment and software  | 120,848,549  | 119,039,284        | 1,809,265                         | 3,987,139           |
| 21. Furniture and equipment, including health care delivery assets (\$ 0)  | 7,125,621    | 7,125,621          |                                   |                     |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates   |              |                    |                                   |                     |
| 23. Receivables from parent, subsidiaries and affiliates   | 394,314      |                    | 394,314                           | 237,374             |
| 24. Health care (\$ 21,108,375) and other amounts receivable   | 24,289,878   | 3,181,502          | 21,108,376                        | 19,505,941          |
| 25. Aggregate write-ins for other than invested assets   | 106,307,468  | 79,739,800         | 26,567,668                        | 20,218,066          |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)   | 793,766,830  | 210,077,841        | 583,688,989                       | 605,459,619         |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts  |              |                    |                                   |                     |
| 28. Total (Lines 26 and 27)  | 793,766,830  | 210,077,841        | 583,688,989                       | 605,459,619         |

| 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  | 79,731,290  | 79,731,290 |            |            |
| 2502. OTHER RECEIVABLES   | 15,490,274  |            | 15,490,274 | 9,511,380  |
| 2503. FEP UNPAID CLAIMS   | 8,909,000   |            | 8,909,000  | 7,268,000  |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | 2,176,904   | 8,510      | 2,168,394  | 3,438,686  |
| 2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)    | 106,307,468 | 79,739,800 | 26,567,668 | 20,218,066 |

NONE

## LIABILITIES, CAPITAL AND SURPLUS

|   | Current Year |                |             | Prior Year  |
|---|--------------|----------------|-------------|-------------|
|   | 1<br>Covered | 2<br>Uncovered | 3<br>Total  | 4<br>Total  |
| 1. Claims unpaid (less \$ 0 reinsurance ceded)  | 134,015,867  |                | 134,015,867 | 110,695,947 |
| 2. Accrued medical incentive pool and bonus amounts   | 1,242,400    |                | 1,242,400   | 1,154,604   |
| 3. Unpaid claims adjustment expenses  | 28,095,650   |                | 28,095,650  | 31,952,360  |
| 4. Aggregate health policy reserves, including the liability of \$ 0 for medical loss ratio rebate per the Public Health Services Act   | 25,503,732   |                | 25,503,732  | 3,017,661   |
| 5. Aggregate life policy reserves   |              |                |             |             |
| 6. Property/casualty unearned premium reserves  |              |                |             |             |
| 7. Aggregate health claim reserves  | 1,777,000    |                | 1,777,000   | 1,192,000   |
| 8. Premiums received in advance   | 16,710,450   |                | 16,710,450  | 23,849,592  |
| 9. General expenses due or accrued  | 34,176,802   |                | 34,176,802  | 40,349,243  |
| 10.1. Current federal and foreign income tax payable and interest thereon (including \$ 0 on realized gains (losses))                   | 233,415      |                | 233,415     |             |
| 10.2. Net deferred tax liability  |              |                |             |             |
| 11. Ceded reinsurance premiums payable  | 281,008      |                | 281,008     | 454,562     |
| 12. Amounts withheld or retained for the account of others  | 2,901,933    |                | 2,901,933   | 1,816,560   |
| 13. Remittances and items not allocated   | 1,378,889    |                | 1,378,889   | 2,039,580   |
| 14. Borrowed money (including \$ 35,000,000 current) and interest thereon \$ 24,605 (including \$ 24,605 current)                       | 35,024,605   |                | 35,024,605  | 20,018,276  |
| 15. Amounts due to parent, subsidiaries and affiliates  | 539,184      |                | 539,184     | 561,502     |
| 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  | 22,278,373   |                | 22,278,373  | 21,499,564  |
| 23. Aggregate write-ins for other liabilities (including \$ 16,570,238 current)   | 19,346,226   |                | 19,346,226  | 23,456,209  |
| 24. Total liabilities (Lines 1 to 23)   | 323,505,534  |                | 323,505,534 | 282,057,660 |
| 25. Aggregate write-ins for special surplus funds   | X X X        | X X X          |             | 21,135,944  |
| 26. Common capital stock  | X X X        | X X X          |             |             |
| 27. Preferred capital stock   | X X X        | X X X          |             |             |
| 28. Gross paid in and contributed surplus   | X X X        | X X X          |             |             |
| 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          | 260,183,455 | 302,266,015 |
| 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          | 260,183,455 | 323,401,959 |
| 34. Total liabilities, capital and surplus (Lines 24 and 33)  | X X X        | X X X          | 583,688,989 | 605,459,619 |

| DETAILS OF WRITE-IN LINES   |            |       |            |            |
|---|------------|-------|------------|------------|
| 2301. OTHER ACCOUNTS PAYABLE  | 10,450,424 |       | 10,450,424 | 11,319,544 |
| 2302. ACCRUED CAPITAL EXPENSES                                      | 4,899,099  |       | 4,899,099  | 3,935,759  |
| 2303. LIABILITY FOR DIRECT PAY PREMIUM ASSISTANCE PROGRAM           | 2,762,002  |       | 2,762,002  | 5,367,964  |
| 2398. Summary of remaining write-ins for Line 23 from overflow page | 1,234,701  |       | 1,234,701  | 2,832,942  |
| 2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)    | 19,346,226 |       | 19,346,226 | 23,456,209 |
| 2501. ADMITTED ADJUSTED GROSS DEFERRED TAX ASSET                    | X X X      | X X X |            | 21,135,944 |
| 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 |            | 21,135,944 |
| 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 |            |            |

NONE

## STATEMENT OF REVENUE AND EXPENSES

|   | Current Year   |               | Prior Year    |
|---|----------------|---------------|---------------|
|   | 1<br>Uncovered | 2<br>Total    | 3<br>Total    |
| 1. Member Months  | X X X          | 4,280,870     | 4,202,517     |
| 2. Net premium income (including \$ 0 non-health premium income)  | X X X          | 1,535,628,750 | 1,565,901,741 |
| 3. Change in unearned premium reserves and reserve for rate credits   | X X X          | 22,486,072    | 3,017,661     |
| 4. Fee-for-service (net of \$ 0 medical expenses)   | X X X          |               |               |
| 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          | 1,558,114,822 | 1,568,919,402 |
| <b>Hospital and Medical:</b>  |                |               |               |
| 9. Hospital/medical benefits  |                | 957,611,541   | 951,051,727   |
| 10. Other professional services   |                | 23,415,799    | 22,648,399    |
| 11. Outside referrals   |                |               |               |
| 12. Emergency room and out-of-area  |                | 157,660,836   | 141,876,078   |
| 13. Prescription drugs  |                | 192,416,629   | 179,597,909   |
| 14. Aggregate write-ins for other hospital and medical  |                | 41,896,746    | 43,720,272    |
| 15. Incentive pool, withhold adjustments and bonus amounts  |                | 1,802,457     | 201,604       |
| 16. Subtotal (Lines 9 to 15)  |                | 1,374,804,008 | 1,339,095,989 |
| <b>Less:</b>  |                |               |               |
| 17. Net reinsurance recoveries  |                |               |               |
| 18. Total hospital and medical (Lines 16 minus 17)  |                | 1,374,804,008 | 1,339,095,989 |
| 19. Non-health claims (net)   |                |               |               |
| 20. Claims adjustment expenses, including \$ 29,691,812 cost containment expenses   |                | 84,909,363    | 92,075,577    |
| 21. General administrative expenses   |                | 149,111,473   | 155,180,064   |
| 22. Increase in reserves for life and accident and health contracts (including \$ 0 increase in reserves for life only)       |                |               | (92,700,000)  |
| 23. Total underwriting deductions (Lines 18 through 22)   |                | 1,608,824,844 | 1,493,651,630 |
| 24. Net underwriting gain or (loss) (Lines 8 minus 23)  | X X X          | (50,710,022)  | 75,267,772    |
| 25. Net investment income earned (Exhibit of Net Investment Income, Line 17)  |                | 13,250,290    | 14,985,959    |
| 26. Net realized capital gains (losses) less capital gains tax of \$ 0  |                | 3,414,210     | (4,252,910)   |
| 27. Net investment gains (losses) (Lines 25 plus 26)  |                | 16,664,500    | 10,733,049    |
| 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  |                | (7,448,147)   | (13,299,153)  |
| 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          | (41,493,669)  | 72,701,668    |
| 31. Federal and foreign income taxes incurred   | X X X          | 42,780        | (7,239)       |
| 32. Net income (loss) (Lines 30 minus 31)   | X X X          | (41,536,449)  | 72,708,907    |

| 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. MENTAL HEALTH   |  |       | 41,896,746   |
| 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)    |  |       | 41,896,746   |
| 2901. GOOD HEALTH BENEFIT REVENUE                                   |  |       | 4,292,405    |
| 2902. INTEREST INCOME (NET OF PENALTIES)                            |  |       | 21,527       |
| 2903. OTHER INCOME (NOTE RECEIVABLE)                                |  |       | 6,167        |
| 2998. Summary of remaining write-ins for Line 29 from overflow page |  |       | (11,768,246) |
| 2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)    |  |       | (7,448,147)  |

## STATEMENT OF REVENUE AND EXPENSES (Continued)

|  | 1            | 2            |
|--|--------------|--------------|
|  | Current Year | Prior Year   |
| <b>CAPITAL &amp; SURPLUS ACCOUNT</b>   |              |              |
| 33. Capital and surplus prior reporting year                                       | 323,401,959  | 248,986,385  |
| 34. Net income or (loss) from Line 32  | (41,536,449) | 72,708,907   |
| 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 | 6,471,085    | (934,362)    |
| 37. Change in net unrealized foreign exchange capital gain or (loss)               |              |              |
| 38. Change in net deferred income tax  | (40,132,342) | (50,505,520) |
| 39. Change in nonadmitted assets   | 17,822,839   | 4,372,328    |
| 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  |              |              |
| 47. Aggregate write-ins for gains or (losses) in surplus                           | (5,843,637)  | 48,774,221   |
| 48. Net change in capital and surplus (Lines 34 to 47)                             | (63,218,504) | 74,415,574   |
| 49. Capital and surplus end of reporting year (Line 33 plus 48)                    | 260,183,455  | 323,401,959  |

| DETAILS OF WRITE-IN LINES   |             |            |
|---|-------------|------------|
| 4701. ADMITTED ADJUSTED GROSS DEFERRED TAX ASSET                    |             | 21,135,944 |
| 4702. PENSION COST SETTLEMENT                                       | (346,313)   | (641,211)  |
| 4703. CHANGE IN UNRECOGNIZED PRIOR SERVICE COST                     | (554,763)   | 1,911,575  |
| 4798. Summary of remaining write-ins for Line 47 from overflow page | (4,942,561) | 26,367,913 |
| 4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above)    | (5,843,637) | 48,774,221 |

## CASH FLOW

|  | 1             | 2             |
|--|---------------|---------------|
|  | Current Year  | Prior Year    |
| <b>Cash from Operations</b>  |               |               |
| 1. Premiums collected net of reinsurance   | 1,533,015,508 | 1,568,345,636 |
| 2. Net investment income   | 14,874,946    | 16,641,060    |
| 3. Miscellaneous income  | (10,054,109)  | (11,323,838)  |
| 4. Total (Lines 1 through 3)   | 1,537,836,345 | 1,573,662,858 |
| 5. Benefit and loss related payments   | 1,398,517,883 | 1,417,232,089 |
| 6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts                         |               |               |
| 7. Commissions, expenses paid and aggregate write-ins for deductions   | 155,283,914   | 154,805,628   |
| 8. Dividends paid to policyholders   |               |               |
| 9. Federal and foreign income taxes paid (recovered) net of \$ 0 tax on capital gains (losses)                 | (182,220)     | (13,851,385)  |
| 10. Total (Lines 5 through 9)  | 1,553,619,577 | 1,558,186,332 |
| 11. Net cash from operations (Line 4 minus Line 10)  | (15,783,232)  | 15,476,526    |
| <b>Cash from Investments</b>   |               |               |
| 12. Proceeds from investments sold, matured or repaid:   |               |               |
| 12.1 Bonds   | 173,986,599   | 143,932,746   |
| 12.2 Stocks  | 6,841,643     | 4,969,354     |
| 12.3 Mortgage loans  |               |               |
| 12.4 Real estate   |               |               |
| 12.5 Other invested assets   | 5,433,124     | 3,791,167     |
| 12.6 Net gains (or losses) on cash, cash equivalents and short-term investments                                |               |               |
| 12.7 Miscellaneous proceeds  | (2,772,591)   | (2,619,327)   |
| 12.8 Total investment proceeds (Lines 12.1 to 12.7)  | 183,488,775   | 150,073,940   |
| 13. Cost of investments acquired (long-term only):   |               |               |
| 13.1 Bonds   | 125,992,321   | 77,281,618    |
| 13.2 Stocks  | 15,881,714    | 32,666,846    |
| 13.3 Mortgage loans  |               |               |
| 13.4 Real estate   | 3,469         | 550,343       |
| 13.5 Other invested assets   | 11,938,758    | 40,374,992    |
| 13.6 Miscellaneous applications  | 24,035,763    | 22,690,880    |
| 13.7 Total investments acquired (Lines 13.1 to 13.6)   | 177,852,025   | 173,564,679   |
| 14. Net increase (decrease) in contract loans and premium notes  |               |               |
| 15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)  | 5,636,750     | (23,490,739)  |
| <b>Cash from Financing and Miscellaneous Sources</b>   |               |               |
| 16. Cash provided (applied):   |               |               |
| 16.1 Surplus notes, capital notes  |               |               |
| 16.2 Capital and paid in surplus, less treasury stock  |               |               |
| 16.3 Borrowed funds  | 15,006,329    | 20,018,276    |
| 16.4 Net deposits on deposit-type contracts and other insurance liabilities                                    |               |               |
| 16.5 Dividends to stockholders   |               |               |
| 16.6 Other cash provided (applied)   | 1,694,629     | (4,680,393)   |
| 17. Net cash from financing and miscellaneous sources (Lines 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6) | 16,700,958    | 15,337,883    |
| <b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>                                     |               |               |
| 18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)            | 6,554,476     | 7,323,670     |
| 19. Cash, cash equivalents and short-term investments:   |               |               |
| 19.1 Beginning of year   | 15,237,648    | 7,913,978     |
| 19.2 End of year (Line 18 plus Line 19.1)  | 21,792,124    | 15,237,648    |

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

|         |  |  |
|---------|--|--|
| 20.0001 |  |  |
| 20.0002 |  |  |
| 20.0003 |  |  |

### ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

|  | 1             | 2  | 3                      | 4              | 5              | 6  | 7                          | 8                        | 9               | 10                  |
|--|---------------|--|------------------------|----------------|----------------|--|----------------------------|--------------------------|-----------------|---------------------|
|  | Total         | Comprehensive<br>(Hospital &<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefit Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other<br>Health | Other<br>Non-Health |
| 1. Net premium income  | 1,535,628,750 | 968,153,344                              | 53,964,484             | 28,710,508     |                | 79,050,073                                     | 384,937,513                | 2,642                    | 20,810,186      |                     |
| 2. Change in unearned premium reserves and reserve for rate credit               | 22,486,072    |  |                        |                |                | 22,486,072                                     |                            |                          |                 |                     |
| 3. Fee-for-service (net of \$ 0 medical expenses)                                |               |  |                        |                |                |  |                            |                          |                 | X X X               |
| 4. Risk revenue  |               |  |                        |                |                |  |                            |                          |                 | X X X               |
| 5. Aggregate write-ins for other health care related revenues                    |               |  |                        |                |                |  |                            |                          |                 | X X X               |
| 6. Aggregate write-ins for other non-health care related revenues                |               | X X X                                    | X X X                  | X X X          | X X X          | X X X  | X X X                      | X X X                    | X X X           |                     |
| 7. Total revenues (Lines 1 to 6)   | 1,558,114,822 | 968,153,344                              | 53,964,484             | 28,710,508     |                | 101,536,145                                    | 384,937,513                | 2,642                    | 20,810,186      |                     |
| 8. Hospital/medical benefits   | 957,611,541   | 569,244,902                              | 44,998,287             |                |                | 69,911,373                                     | 272,120,287                | (171,166)                | 1,507,858       | X X X               |
| 9. Other professional services   | 23,415,799    |  |                        | 23,415,799     |                |  |                            |                          |                 | X X X               |
| 10. Outside referrals  |               |  |                        |                |                |  |                            |                          |                 | X X X               |
| 11. Emergency room and out-of-area   | 157,660,836   | 117,048,668                              |                        |                |                |  | 40,386,813                 | (22,898)                 | 248,253         | X X X               |
| 12. Prescription drugs   | 192,416,629   | 122,856,709                              |                        |                |                | 24,368,228                                     | 33,034,990                 | (5,052)                  | 12,161,754      | X X X               |
| 13. Aggregate write-ins for other hospital and medical                           | 41,896,746    | 35,499,760                               |                        |                |                |  | 6,396,986                  |                          |                 | X X X               |
| 14. Incentive pool, withhold adjustments and bonus amounts                       | 1,802,457     | 1,568,138                                |                        |                |                |  | 234,319                    |                          |                 | X X X               |
| 15. Subtotal (Lines 8 to 14)   | 1,374,804,008 | 846,218,177                              | 44,998,287             | 23,415,799     |                | 94,279,601                                     | 352,173,395                | (199,116)                | 13,917,865      | X X X               |
| 16. Net reinsurance recoveries   |               |  |                        |                |                |  |                            |                          |                 | X X X               |
| 17. Total hospital and medical (Lines 15 minus 16)                               | 1,374,804,008 | 846,218,177                              | 44,998,287             | 23,415,799     |                | 94,279,601                                     | 352,173,395                | (199,116)                | 13,917,865      | X X X               |
| 18. Non-health claims (net)  |               | X X X                                    | X X X                  | X X X          | X X X          | X X X  | X X X                      | X X X                    | X X X           |                     |
| 19. Claims adjustment expenses including \$ 29,691,812 cost containment expenses | 84,909,363    | 60,874,743                               | 3,273,241              | 1,117,318      |                | 3,490,789                                      | 15,295,292                 | 114,884                  | 743,096         |                     |
| 20. General administrative expenses  | 149,111,473   | 114,963,600                              | 4,889,455              | 1,669,011      |                | 3,460,204                                      | 22,847,580                 | 171,610                  | 1,110,013       |                     |
| 21. Increase in reserves for accident and health contracts                       |               |  |                        |                |                |  |                            |                          |                 | X X X               |
| 22. Increase in reserves for life contracts                                      |               | X X X                                    | X X X                  | X X X          | X X X          | X X X  | X X X                      | X X X                    | X X X           |                     |
| 23. Total underwriting deductions (Lines 17 to 22)                               | 1,608,824,844 | 1,022,056,520                            | 53,160,983             | 26,202,128     |                | 101,230,594                                    | 390,316,267                | 87,378                   | 15,770,974      |                     |
| 24. Net underwriting gain or (loss) (Line 7 minus Line 23)                       | (50,710,022)  | (53,903,176)                             | 803,501                | 2,508,380      |                | 305,551  | (5,378,754)                | (84,736)                 | 5,039,212       |                     |

| DETAILS OF WRITE-IN LINES   |            |            |       |       |       |       |           |       |       |       |
|---|------------|------------|-------|-------|-------|-------|-----------|-------|-------|-------|
| 0501.   |            |            |       |       |       |       |           |       |       | X X X |
| 0502.   |            |            |       |       |       |       |           |       |       | X X X |
| 0503.   |            |            |       |       |       |       |           |       |       | X X X |
| 0598. Summary of remaining write-ins for Line 05 from overflow page |            |            |       |       |       |       |           |       |       | X X X |
| 0599. Totals (Lines 0501 through 0503 plus 0598) (Line 05 above)    |            |            |       |       |       |       |           |       |       | X X X |
| 0601.   |            | X X X      | X X X | X X X | X X X | X X X | X X X     | X X X | X X X |       |
| 0602.   |            | X X X      | X X X | X X X | X X X | X X X | X X X     | X X X | X X X |       |
| 0603.   |            | X X X      | X X X | X X X | X X X | X X X | X X X     | X X X | X X X |       |
| 0698. Summary of remaining write-ins for Line 06 from overflow page |            | X X X      | X X X | X X X | X X X | X X X | X X X     | X X X | X X X |       |
| 0699. Totals (Lines 0601 through 0603 plus 0698) (Line 06 above)    |            | X X X      | X X X | X X X | X X X | X X X | X X X     | X X X | X X X |       |
| 1301. MENTAL HEALTH   | 41,896,746 | 35,499,760 |       |       |       |       | 6,396,986 |       |       | X X X |
| 1302.   |            |            |       |       |       |       |           |       |       | X X X |
| 1303.   |            |            |       |       |       |       |           |       |       | X X X |
| 1398. Summary of remaining write-ins for Line 13 from overflow page |            |            |       |       |       |       |           |       |       | X X X |
| 1399. Totals (Lines 1301 through 1303 plus 1398) (Line 13 above)    | 41,896,746 | 35,499,760 |       |       |       |       | 6,396,986 |       |       | X X X |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 1 – PREMIUMS**

| Line<br>of<br>Business                    | 1<br><br>Direct Business | 2<br><br>Reinsurance Assumed | 3<br><br>Reinsurance Ceded | 4<br><br>Net Premium Income<br>(Cols. 1 + 2 - 3) |
|---|--------------------------|------------------------------|----------------------------|--|
| 1. Comprehensive (hospital and medical)   | 968,181,698              |                              | 28,354                     | 968,153,344                                      |
| 2. Medicare Supplement                    | 53,964,484               |                              |                            | 53,964,484                                       |
| 3. Dental only                            | 28,710,508               |                              |                            | 28,710,508                                       |
| 4. Vision only                            |                          |                              |                            |  |
| 5. Federal Employees Health Benefits Plan | 101,536,145              |                              |                            | 101,536,145                                      |
| 6. Title XVIII – Medicare                 | 384,937,513              |                              |                            | 384,937,513                                      |
| 7. Title XIX – Medicaid                   | 2,642                    |                              |                            | 2,642  |
| 8. Other health                           | 24,772,659               |                              | 3,962,473                  | 20,810,186                                       |
| 9. Health subtotal (Lines 1 through 8)    | 1,562,105,649            |                              | 3,990,827                  | 1,558,114,822                                    |
| 10. Life                                  |                          |                              |                            |  |
| 11. Property/casualty                     |                          |                              |                            |  |
| 12. Totals (Lines 9 to 11)                | 1,562,105,649            |                              | 3,990,827                  | 1,558,114,822                                    |

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2 – CLAIMS INCURRED DURING THE YEAR

|  | 1             | 2  | 3                      | 4              | 5              | 6   | 7                          | 8                        | 9               | 10                  |
|--|---------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-----------------|---------------------|
|  | Total         | Comprehensive<br>(Hospital &<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other<br>Health | Other<br>Non-Health |
| 1. Payments during the year:                                     |               |  |                        |                |                |   |                            |                          |                 |                     |
| 1.1 Direct   | 1,378,484,096 | 849,123,083                              | 43,616,287             | 22,752,799     |                | 92,660,687                                      | 356,353,013                | 324,193                  | 13,654,034      |                     |
| 1.2 Reinsurance assumed  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 1.3 Reinsurance ceded  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 1.4 Net  | 1,378,484,096 | 849,123,083                              | 43,616,287             | 22,752,799     |                | 92,660,687                                      | 356,353,013                | 324,193                  | 13,654,034      |                     |
| 2. Paid medical incentive pools and bonuses                      | 1,714,661     | 1,388,876                                |                        |                |                |   | 325,785                    |                          |                 |                     |
| 3. Claim liability December 31, current year from Part 2A:       |               |  |                        |                |                |   |                            |                          |                 |                     |
| 3.1 Direct   | 134,015,867   | 83,672,043                               | 7,535,000              | 2,001,000      |                | 8,925,832                                       | 30,455,248                 | 129                      | 1,426,615       |                     |
| 3.2 Reinsurance assumed  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 3.3 Reinsurance ceded  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 3.4 Net  | 134,015,867   | 83,672,043                               | 7,535,000              | 2,001,000      |                | 8,925,832                                       | 30,455,248                 | 129                      | 1,426,615       |                     |
| 4. Claim reserve December 31, current year from Part 2D:         |               |  |                        |                |                |   |                            |                          |                 |                     |
| 4.1 Direct   | 1,777,000     | 1,777,000                                |                        |                |                |   |                            |                          |                 |                     |
| 4.2 Reinsurance assumed  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 4.3 Reinsurance ceded  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 4.4 Net  | 1,777,000     | 1,777,000                                |                        |                |                |   |                            |                          |                 |                     |
| 5. Accrued medical incentive pools and bonuses, current year     | 1,242,400     | 1,006,344                                |                        |                |                |   | 236,056                    |                          |                 |                     |
| 6. Net healthcare receivables (a)                                | 27,585,008    | 18,115,940                               |                        |                |                |   | 8,947,524                  | 521,544                  |                 |                     |
| 7. Amounts recoverable from reinsurers December 31, current year |               |  |                        |                |                |   |                            |                          |                 |                     |
| 8. Claim liability December 31, prior year from Part 2A:         |               |  |                        |                |                |   |                            |                          |                 |                     |
| 8.1 Direct   | 110,695,947   | 69,046,009                               | 6,153,000              | 1,338,000      |                | 7,306,918                                       | 25,687,343                 | 1,893                    | 1,162,784       |                     |
| 8.2 Reinsurance assumed  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 8.3 Reinsurance ceded  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 8.4 Net  | 110,695,947   | 69,046,009                               | 6,153,000              | 1,338,000      |                | 7,306,918                                       | 25,687,343                 | 1,893                    | 1,162,784       |                     |
| 9. Claim reserve December 31, prior year from Part 2D:           |               |  |                        |                |                |   |                            |                          |                 |                     |
| 9.1 Direct   | 1,192,000     | 1,192,000                                |                        |                |                |   |                            |                          |                 |                     |
| 9.2 Reinsurance assumed  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 9.3 Reinsurance ceded  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 9.4 Net  | 1,192,000     | 1,192,000                                |                        |                |                |   |                            |                          |                 |                     |
| 10. Accrued medical incentive pools and bonuses, prior year      | 1,154,604     | 935,705                                  |                        |                |                |   | 218,899                    |                          |                 |                     |
| 11. Amounts recoverable from reinsurers December 31, prior year  |               |  |                        |                |                |   |                            |                          |                 |                     |
| 12. Incurred benefits:   |               |  |                        |                |                |   |                            |                          |                 |                     |
| 12.1 Direct  | 1,374,804,008 | 846,218,177                              | 44,998,287             | 23,415,799     |                | 94,279,601                                      | 352,173,394                | (199,115)                | 13,917,865      |                     |
| 12.2 Reinsurance assumed   |               |  |                        |                |                |   |                            |                          |                 |                     |
| 12.3 Reinsurance ceded   |               |  |                        |                |                |   |                            |                          |                 |                     |
| 12.4 Net   | 1,374,804,008 | 846,218,177                              | 44,998,287             | 23,415,799     |                | 94,279,601                                      | 352,173,394                | (199,115)                | 13,917,865      |                     |
| 13. Incurred medical incentive pools and bonuses                 | 1,802,457     | 1,459,515                                |                        |                |                |   | 342,942                    |                          |                 |                     |

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

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2A – CLAIMS LIABILITY END OF CURRENT YEAR

|   | 1           | 2  | 3                      | 4              | 5              | 6   | 7                          | 8                        | 9               | 10                  |
|---|-------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-----------------|---------------------|
|   | Total       | Comprehensive<br>(Hospital &<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other<br>Health | Other<br>Non-Health |
| 1. Reported in Process of Adjustment:                 |             |  |                        |                |                |   |                            |                          |                 |                     |
| 1.1 Direct  | 45,012,706  | 30,289,363                               | 376,750                | 562,281        |                | 2,427,826                                       | 9,929,742                  | 129                      | 1,426,615       |                     |
| 1.2 Reinsurance assumed                               |             |  |                        |                |                |   |                            |                          |                 |                     |
| 1.3 Reinsurance ceded                                 |             |  |                        |                |                |   |                            |                          |                 |                     |
| 1.4 Net   | 45,012,706  | 30,289,363                               | 376,750                | 562,281        |                | 2,427,826                                       | 9,929,742                  | 129                      | 1,426,615       |                     |
| 2. Incurred but Unreported:                           |             |  |                        |                |                |   |                            |                          |                 |                     |
| 2.1 Direct  | 89,003,161  | 53,382,680                               | 7,158,250              | 1,438,719      |                | 6,498,006                                       | 20,525,506                 |                          |                 |                     |
| 2.2 Reinsurance assumed                               |             |  |                        |                |                |   |                            |                          |                 |                     |
| 2.3 Reinsurance ceded                                 |             |  |                        |                |                |   |                            |                          |                 |                     |
| 2.4 Net   | 89,003,161  | 53,382,680                               | 7,158,250              | 1,438,719      |                | 6,498,006                                       | 20,525,506                 |                          |                 |                     |
| 3. Amounts Withheld from Paid Claims and Capitations: |             |  |                        |                |                |   |                            |                          |                 |                     |
| 3.1 Direct  |             |  |                        |                |                |   |                            |                          |                 |                     |
| 3.2 Reinsurance assumed                               |             |  |                        |                |                |   |                            |                          |                 |                     |
| 3.3 Reinsurance ceded                                 |             |  |                        |                |                |   |                            |                          |                 |                     |
| 3.4 Net   |             |  |                        |                |                |   |                            |                          |                 |                     |
| 4. TOTALS:  |             |  |                        |                |                |   |                            |                          |                 |                     |
| 4.1 Direct  | 134,015,867 | 83,672,043                               | 7,535,000              | 2,001,000      |                | 8,925,832                                       | 30,455,248                 | 129                      | 1,426,615       |                     |
| 4.2 Reinsurance assumed                               |             |  |                        |                |                |   |                            |                          |                 |                     |
| 4.3 Reinsurance ceded                                 |             |  |                        |                |                |   |                            |                          |                 |                     |
| 4.4 Net   | 134,015,867 | 83,672,043                               | 7,535,000              | 2,001,000      |                | 8,925,832                                       | 30,455,248                 | 129                      | 1,426,615       |                     |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2B – ANALYSIS OF CLAIMS UNPAID – PRIOR YEAR-NET OF REINSURANCE**

| Line of Business                              | Claims Paid During the Year                                |   | Claim Reserve and Claim Liability December 31 of Current Year |   | 5<br>Claims Incurred in Prior Years<br>(Columns 1 + 3) | 6<br>Estimated Claim Reserve and Claim Liability December 31 of Prior Year |
|---|--|---|---|---|--|--|
|   | 1<br>On Claims Incurred Prior to January 1 of Current Year | 2<br>On Claims Incurred During the Year | 3<br>On Claims Unpaid December 31 of Prior Year               | 4<br>On Claims Incurred During the Year |  |  |
| 1. Comprehensive (hospital and medical)       | 80,306,232   | 768,609,910                             | 2,178,043   | 97,169,314                              | 82,484,275   | 83,929,382   |
| 2. Medicare Supplement                        | 6,258,687  | 37,498,852                              | 419   | 7,561,718                               | 6,259,106  | 6,321,389  |
| 3. Dental only                                | 1,398,535  | 21,354,264                              | 4,257   | 1,996,743                               | 1,402,792  | 1,338,000  |
| 4. Vision only                                |  |   |   |   |  |  |
| 5. Federal Employees Health Benefits Plan     | 7,465,442  | 85,195,245                              | 287,643   | 8,638,189                               | 7,753,085  | 7,306,918  |
| 6. Title XVIII – Medicare                     | 29,689,948   | 327,524,945                             | 988,387   | 33,924,375                              | 30,678,335   | 31,006,737   |
| 7. Title XIX – Medicaid                       | 331,907  |   | 159,866   |   | 491,773  | 169,344  |
| 8. Other health                               | 854,162  | 12,799,872                              | 135,218   | 1,291,397                               | 989,380  | 1,162,784  |
| 9. Health subtotal (Lines 1 through 8)        | 126,304,913  | 1,252,983,088                           | 3,753,833   | 150,581,736                             | 130,058,746  | 131,234,554  |
| 10. Health care receivables (a)               | 16,926,735   | 11,462,178                              | 2,227,518   | 16,315,184                              | 19,154,253   | 19,346,607   |
| 11. Other non-health                          |  |   |   |   |  |  |
| 12. Medical incentive pools and bonus amounts | 650,506  | 1,064,155                               |   | 1,242,400                               | 650,506  | 1,154,604  |
| 13. Totals (Lines 9 - 10 + 11 + 12)           | 110,028,684  | 1,242,585,065                           | 1,526,315   | 135,508,952                             | 111,554,999  | 113,042,551  |

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

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
**(000 Omitted)**  
**Hospital & Medical**

**Section A – Paid Health Claims**

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 937,610                     | 936,983   | 938,582   | 938,427   | 938,325   |
| 2. 2008                            | 831,316                     | 884,862   | 884,892   | 884,672   | 884,502   |
| 3. 2009                            | X X X                       | 802,429   | 848,695   | 848,453   | 848,195   |
| 4. 2010                            | X X X                       | X X X     | 791,064   | 837,053   | 837,065   |
| 5. 2011                            | X X X                       | X X X     | X X X     | 770,841   | 829,118   |
| 6. 2012                            | X X X                       | X X X     | X X X     | X X X     | 768,610   |

**Section B – Incurred Health Claims**

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008  | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 937,610  | 936,983   | 938,582   | 938,427   | 938,325   |
| 2. 2008                            | 831,316  | 884,862   | 884,892   | 884,672   | 884,502   |
| 3. 2009                            | X X X  | 802,429   | 848,695   | 848,453   | 848,195   |
| 4. 2010                            | X X X  | X X X     | 791,064   | 837,053   | 837,065   |
| 5. 2011                            | X X X  | X X X     | X X X     | 770,841   | 831,296   |
| 6. 2012                            | X X X  | X X X     | X X X     | X X X     | 865,779   |

**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment Expense Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|--|----------------------|----------------------|--|------------------------------|---|------------------------------|--------------------|--|---|-------------------------------|
| 1. 2008  | 1,079,152            | 884,502              |  |                              | 884,502   | 81.963                       |                    |  | 884,502   | 81.963                        |
| 2. 2009  | 1,025,508            | 848,195              |  |                              | 848,195   | 82.710                       |                    |  | 848,195   | 82.710                        |
| 3. 2010  | 994,471              | 837,065              |  |                              | 837,065   | 84.172                       |                    |  | 837,065   | 84.172                        |
| 4. 2011  | 984,903              | 829,118              | 27,314                                 | 3.294                        | 856,432   | 86.956                       | 2,178              | 379                                    | 858,989   | 87.216                        |
| 5. 2012  | 968,153              | 768,610              | 27,317                                 | 3.554                        | 795,927   | 82.211                       | 97,169             | 16,913                                 | 910,009   | 93.994                        |

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**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
**(000 Omitted)**  
**Medicare Supplement**

**Section A – Paid Health Claims**

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 39,552                      | 39,997    | 39,986    | 39,978    | 39,965    |
| 2. 2008                            | 34,758                      | 40,210    | 40,118    | 40,109    | 40,092    |
| 3. 2009                            | X X X                       | 38,660    | 34,284    | 34,439    | 34,412    |
| 4. 2010                            | X X X                       | X X X     | 39,131    | 43,553    | 43,562    |
| 5. 2011                            | X X X                       | X X X     | X X X     | 36,294    | 42,480    |
| 6. 2012                            | X X X                       | X X X     | X X X     | X X X     | 37,499    |

**Section B – Incurred Health Claims**

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008  | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 39,552   | 39,997    | 39,986    | 39,978    | 39,965    |
| 2. 2008                            | 34,758   | 40,210    | 40,118    | 40,109    | 40,092    |
| 3. 2009                            | X X X  | 38,660    | 32,284    | 34,439    | 34,412    |
| 4. 2010                            | X X X  | X X X     | 39,131    | 43,553    | 43,562    |
| 5. 2011                            | X X X  | X X X     | X X X     | 36,294    | 42,899    |
| 6. 2012                            | X X X  | X X X     | X X X     | X X X     | 45,061    |

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**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment Expense Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|--|----------------------|----------------------|--|------------------------------|---|------------------------------|--------------------|--|---|-------------------------------|
| 1. 2008  | 46,978               | 40,092               |  |                              | 40,092  | 85.342                       |                    |  | 40,092  | 85.342                        |
| 2. 2009  | 47,615               | 34,412               |  |                              | 34,412  | 72.271                       |                    |  | 34,412  | 72.271                        |
| 3. 2010  | 49,155               | 43,562               |  |                              | 43,562  | 88.622                       |                    |  | 43,562  | 88.622                        |
| 4. 2011  | 52,710               | 42,480               | 1,408                                  | 3.315                        | 43,888  | 83.263                       | 419                | 47                                     | 44,354  | 84.147                        |
| 5. 2012  | 53,964               | 37,499               | 1,408                                  | 3.755                        | 38,907  | 72.098                       | 7,562              | 845                                    | 47,314  | 87.677                        |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
**(000 Omitted)**  
**Dental Only**

**Section A – Paid Health Claims**

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 24,252                      | 24,265    | 24,263    | 24,263    | 24,263    |
| 2. 2008                            | 24,838                      | 26,711    | 26,724    | 26,723    | 26,723    |
| 3. 2009                            | X X X                       | 25,341    | 27,214    | 27,221    | 27,220    |
| 4. 2010                            | X X X                       | X X X     | 25,341    | 26,583    | 26,585    |
| 5. 2011                            | X X X                       | X X X     | X X X     | 21,387    | 22,784    |
| 6. 2012                            | X X X                       | X X X     | X X X     | X X X     | 21,354    |

**Section B – Incurred Health Claims**

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008  | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 24,252   | 24,265    | 24,263    | 24,263    | 24,263    |
| 2. 2008                            | 24,838   | 26,711    | 26,724    | 26,723    | 26,723    |
| 3. 2009                            | X X X  | 25,341    | 27,214    | 27,221    | 27,220    |
| 4. 2010                            | X X X  | X X X     | 25,341    | 26,583    | 26,585    |
| 5. 2011                            | X X X  | X X X     | X X X     | 21,387    | 22,788    |
| 6. 2012                            | X X X  | X X X     | X X X     | X X X     | 23,351    |

**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment Expense Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|--|----------------------|----------------------|--|------------------------------|---|------------------------------|--------------------|--|---|-------------------------------|
| 1. 2008  | 31,058               | 26,723               |  |                              | 26,723  | 86.042                       |                    |  | 26,723  | 86.042                        |
| 2. 2009  | 30,611               | 27,220               |  |                              | 27,220  | 88.922                       |                    |  | 27,220  | 88.922                        |
| 3. 2010  | 28,647               | 26,585               |  |                              | 26,585  | 92.802                       |                    |  | 26,585  | 92.802                        |
| 4. 2011  | 27,947               | 22,784               | 732                                    | 3.213                        | 23,516  | 84.145                       | 4                  | 1                                      | 23,521  | 84.163                        |
| 5. 2012  | 28,711               | 21,354               | 732                                    | 3.428                        | 22,086  | 76.925                       | 1,997              | 463                                    | 24,546  | 85.493                        |

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**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
 (000 Omitted)  
 Vision Only

**Section A – Paid Health Claims**

| Year in Which Losses<br>Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                       | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                              |                             |           |           |           |           |
| 2. 2008                               |                             |           |           |           |           |
| 3. 2009                               | XXX                         |           |           |           |           |
| 4. 2010                               | XXX                         | XXX       |           |           |           |
| 5. 2011                               | XXX                         | XXX       | XXX       |           |           |
| 6. 2012                               | XXX                         | XXX       | XXX       | XXX       |           |

**Section B – Incurred Health Claims**

| Year in Which Losses<br>Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses<br>Outstanding at End of Year |           |           |           |           |
|---------------------------------------|---|-----------|-----------|-----------|-----------|
|                                       | 1<br>2008   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                              |   |           |           |           |           |
| 2. 2008                               |   |           |           |           |           |
| 3. 2009                               | XXX   |           |           |           |           |
| 4. 2010                               | XXX   | XXX       |           |           |           |
| 5. 2011                               | XXX   | XXX       | XXX       |           |           |
| 6. 2012                               | XXX   | XXX       | XXX       | XXX       |           |

**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which<br>Premiums were Earned<br>and<br>Claims were Incurred | 1<br>Premiums<br>Earned | 2<br>Claims<br>Payments | 3<br>Claim<br>Adjustment<br>Expense<br>Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim<br>Adjustment<br>Expense<br>Payments<br>(Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims<br>Unpaid | 8<br>Unpaid<br>Claims<br>Adjustment<br>Expenses | 9<br>Total Claims<br>and Claims<br>Adjustment<br>Expense<br>Incurred<br>(Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|---|-------------------------|-------------------------|---|------------------------------|---|------------------------------|-----------------------|---|--|-------------------------------|
| 1. 2008   |                         |                         |   |                              |   |                              |                       |   |  |                               |
| 2. 2009   |                         |                         |   |                              |   |                              |                       |   |  |                               |
| 3. 2010   |                         |                         |   |                              |   |                              |                       |   |  |                               |
| 4. 2011   |                         |                         |   |                              |   |                              |                       |   |  |                               |
| 5. 2012   |                         |                         |   |                              |   |                              |                       |   |  |                               |

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**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
**(000 Omitted)**

**Fed Emp Health Benefits Plan**

**Section A – Paid Health Claims**

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 91,798                      | 91,710    | 91,714    | 91,715    | 91,685    |
| 2. 2008                            | 84,294                      | 90,734    | 90,766    | 90,759    | 90,795    |
| 3. 2009                            | X X X                       | 87,548    | 92,533    | 92,567    | 92,569    |
| 4. 2010                            | X X X                       | X X X     | 87,691    | 94,835    | 94,731    |
| 5. 2011                            | X X X                       | X X X     | X X X     | 86,814    | 86,710    |
| 6. 2012                            | X X X                       | X X X     | X X X     | X X X     | 85,195    |

**Section B – Incurred Health Claims**

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008  | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 91,798   | 91,710    | 91,714    | 91,715    | 91,685    |
| 2. 2008                            | 84,294   | 90,734    | 90,766    | 90,759    | 90,795    |
| 3. 2009                            | X X X  | 87,548    | 92,533    | 92,567    | 92,569    |
| 4. 2010                            | X X X  | X X X     | 87,691    | 94,835    | 94,731    |
| 5. 2011                            | X X X  | X X X     | X X X     | 86,814    | 86,998    |
| 6. 2012                            | X X X  | X X X     | X X X     | X X X     | 93,833    |

**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment Expense Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|--|----------------------|----------------------|--|------------------------------|---|------------------------------|--------------------|--|---|-------------------------------|
| 1. 2008  | 97,943               | 90,795               |  |                              | 90,795  | 92.702                       |                    |  | 90,795  | 92.702                        |
| 2. 2009  | 98,433               | 92,569               |  |                              | 92,569  | 94.043                       |                    |  | 92,569  | 94.043                        |
| 3. 2010  | 100,990              | 94,731               |  |                              | 94,731  | 93.802                       |                    |  | 94,731  | 93.802                        |
| 4. 2011  | 101,949              | 86,710               | 2,982                                  | 3.439                        | 89,692  | 87.977                       | 288                | 61                                     | 90,041  | 88.320                        |
| 5. 2012  | 101,536              | 85,195               | 2,982                                  | 3.500                        | 88,177  | 86.843                       | 8,638              | 1,827                                  | 98,642  | 97.150                        |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
**(000 Omitted)**  
**Title XVIII - Medicare**

**Section A – Paid Health Claims**

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 359,635                     | 359,729   | 359,704   | 359,667   | 359,607   |
| 2. 2008                            | 342,566                     | 365,858   | 366,222   | 366,151   | 366,136   |
| 3. 2009                            | X X X                       | 354,675   | 375,778   | 375,414   | 375,380   |
| 4. 2010                            | X X X                       | X X X     | 317,255   | 339,653   | 339,500   |
| 5. 2011                            | X X X                       | X X X     | X X X     | 323,949   | 346,962   |
| 6. 2012                            | X X X                       | X X X     | X X X     | X X X     | 327,525   |

**Section B – Incurred Health Claims**

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008  | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 359,635  | 359,729   | 359,704   | 359,667   | 359,607   |
| 2. 2008                            | 342,566  | 365,858   | 366,222   | 366,151   | 366,136   |
| 3. 2009                            | X X X  | 354,675   | 375,778   | 375,414   | 375,380   |
| 4. 2010                            | X X X  | X X X     | 317,255   | 339,653   | 339,500   |
| 5. 2011                            | X X X  | X X X     | X X X     | 323,949   | 347,950   |
| 6. 2012                            | X X X  | X X X     | X X X     | X X X     | 361,450   |

**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment Expense Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|--|----------------------|----------------------|--|------------------------------|---|------------------------------|--------------------|--|---|-------------------------------|
| 1. 2008  | 445,822              | 366,136              |  |                              | 366,136   | 82.126                       |                    |  | 366,136   | 82.126                        |
| 2. 2009  | 440,831              | 375,380              |  |                              | 375,380   | 85.153                       |                    |  | 375,380   | 85.153                        |
| 3. 2010  | 396,335              | 339,500              |  |                              | 339,500   | 85.660                       |                    |  | 339,500   | 85.660                        |
| 4. 2011  | 382,919              | 346,962              | 11,495                                 | 3.313                        | 358,457   | 93.612                       | 988                | 206                                    | 359,651   | 93.924                        |
| 5. 2012  | 384,938              | 327,525              | 11,485                                 | 3.507                        | 339,010   | 88.069                       | 33,925             | 7,071                                  | 380,006   | 98.719                        |

12XV

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
**(000 Omitted)**  
**Title XIX - Medicaid**

**Section A – Paid Health Claims**

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 30,528                      | 30,435    | 30,414    | 30,397    | 30,390    |
| 2. 2008                            | 34,322                      | 36,632    | 36,630    | 36,613    | 36,607    |
| 3. 2009                            | X X X                       | 37,979    | 41,662    | 41,689    | 41,675    |
| 4. 2010                            | X X X                       | X X X     | 36,632    | 37,571    | 37,557    |
| 5. 2011                            | X X X                       | X X X     | X X X     |           |           |
| 6. 2012                            | X X X                       | X X X     | X X X     | X X X     |           |

**Section B – Incurred Health Claims**

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008  | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 30,528   | 30,435    | 30,414    | 30,397    | 30,390    |
| 2. 2008                            | 34,322   | 36,632    | 36,630    | 36,613    | 36,607    |
| 3. 2009                            | X X X  | 37,979    | 41,662    | 41,689    | 41,675    |
| 4. 2010                            | X X X  | X X X     | 36,632    | 37,571    | 37,557    |
| 5. 2011                            | X X X  | X X X     | X X X     |           | 160       |
| 6. 2012                            | X X X  | X X X     | X X X     | X X X     |           |

**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment Expense Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|--|----------------------|----------------------|--|------------------------------|---|------------------------------|--------------------|--|---|-------------------------------|
| 1. 2008  | 41,221               | 36,607               |  |                              | 36,607  | 88.807                       |                    |  | 36,607  | 88.807                        |
| 2. 2009  | 43,879               | 41,675               |  |                              | 41,675  | 94.977                       |                    |  | 41,675  | 94.977                        |
| 3. 2010  | 42,312               | 37,557               |  |                              | 37,557  | 88.762                       |                    |  | 37,557  | 88.762                        |
| 4. 2011  | (228)                |                      | 21                                     |                              | 21  | (9.211)                      | 160                | 7                                      | 188   | (82.456)                      |
| 5. 2012  | 3                    |                      |  |                              |   |                              |                    |  |   |                               |

12 XI

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
**(000 Omitted)**  
**Other**

**Section A – Paid Health Claims**

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 11,269                      | 11,269    | 11,269    | 11,269    | 11,269    |
| 2. 2008                            | 9,577                       | 10,501    | 10,501    | 10,501    | 10,501    |
| 3. 2009                            | X X X                       | 11,349    | 11,928    | 11,928    | 11,928    |
| 4. 2010                            | X X X                       | X X X     | 14,331    | 15,351    | 15,351    |
| 5. 2011                            | X X X                       | X X X     | X X X     | 12,459    | 13,313    |
| 6. 2012                            | X X X                       | X X X     | X X X     | X X X     | 12,800    |

**Section B – Incurred Health Claims**

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008  | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 11,274   | 11,269    | 11,269    | 11,269    | 11,269    |
| 2. 2008                            | 10,445   | 10,515    | 10,501    | 10,501    | 10,501    |
| 3. 2009                            | X X X  | 12,902    | 11,928    | 11,928    | 11,928    |
| 4. 2010                            | X X X  | X X X     | 14,331    | 15,560    | 15,560    |
| 5. 2011                            | X X X  | X X X     | X X X     | 13,413    | 13,448    |
| 6. 2012                            | X X X  | X X X     | X X X     | X X X     | 14,091    |

**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment Expense Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|--|----------------------|----------------------|--|------------------------------|---|------------------------------|--------------------|--|---|-------------------------------|
| 1. 2008  | 12,991               | 10,501               |  |                              | 10,501  | 80.833                       |                    |  | 10,501  | 80.833                        |
| 2. 2009  | 15,014               | 11,928               |  |                              | 11,928  | 79.446                       |                    |  | 11,928  | 79.446                        |
| 3. 2010  | 17,979               | 15,351               |  |                              | 15,351  | 85.383                       |                    |  | 15,351  | 85.383                        |
| 4. 2011  | 18,719               | 13,313               | 439                                    | 3.298                        | 13,752  | 73.465                       | 135                | 26                                     | 13,913  | 74.326                        |
| 5. 2012  | 20,810               | 12,800               | 439                                    | 3.430                        | 13,239  | 63.618                       | 1,291              | 252                                    | 14,782  | 71.033                        |

1201

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C – DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS**  
**(000 Omitted)**  
**Grand Total**

**Section A – Paid Health Claims**

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008                   | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 1,494,644                   | 1,494,388 | 1,495,932 | 1,495,716 | 1,495,504 |
| 2. 2008                            | 1,361,671                   | 1,455,508 | 1,455,853 | 1,455,528 | 1,455,356 |
| 3. 2009                            | X X X                       | 1,357,981 | 1,432,094 | 1,431,711 | 1,431,379 |
| 4. 2010                            | X X X                       | X X X     | 1,311,445 | 1,394,599 | 1,394,351 |
| 5. 2011                            | X X X                       | X X X     | X X X     | 1,251,744 | 1,341,367 |
| 6. 2012                            | X X X                       | X X X     | X X X     | X X X     | 1,252,983 |

**Section B – Incurred Health Claims**

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2008  | 2<br>2009 | 3<br>2010 | 4<br>2011 | 5<br>2012 |
| 1. Prior                           | 1,494,649  | 1,494,388 | 1,495,932 | 1,495,716 | 1,495,504 |
| 2. 2008                            | 1,362,539  | 1,455,522 | 1,455,853 | 1,455,528 | 1,455,356 |
| 3. 2009                            | X X X  | 1,359,534 | 1,430,094 | 1,431,711 | 1,431,379 |
| 4. 2010                            | X X X  | X X X     | 1,311,445 | 1,394,808 | 1,394,560 |
| 5. 2011                            | X X X  | X X X     | X X X     | 1,252,698 | 1,345,539 |
| 6. 2012                            | X X X  | X X X     | X X X     | X X X     | 1,403,565 |

**Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio**

| Years in which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment Expense Payments | 4<br>(Col. 3 / 2)<br>Percent | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>(Col. 5 / 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>(Col. 9 / 1)<br>Percent |
|--|----------------------|----------------------|--|------------------------------|---|------------------------------|--------------------|--|---|-------------------------------|
| 1. 2008  | 1,755,165            | 1,455,356            |  |                              | 1,455,356   | 82.918                       |                    |  | 1,455,356   | 82.918                        |
| 2. 2009  | 1,701,891            | 1,431,379            |  |                              | 1,431,379   | 84.105                       |                    |  | 1,431,379   | 84.105                        |
| 3. 2010  | 1,629,889            | 1,394,351            |  |                              | 1,394,351   | 85.549                       |                    |  | 1,394,351   | 85.549                        |
| 4. 2011  | 1,568,919            | 1,341,367            | 44,391                                 | 3.309                        | 1,385,758   | 88.326                       | 4,172              | 727                                    | 1,390,657   | 88.638                        |
| 5. 2012  | 1,558,115            | 1,252,983            | 44,363                                 | 3.541                        | 1,297,346   | 83.264                       | 150,582            | 27,371                                 | 1,475,299   | 94.685                        |

12.GT

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2D – AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

|  | 1          | 2  | 3                      | 4              | 5              | 6   | 7                          | 8                        | 9     |
|--|------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-------|
|  | Total      | Comprehensive<br>(Hospital &<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other |
| 1. Unearned premium reserves   |            |  |                        |                |                |   |                            |                          |       |
| 2. Additional policy reserves (a)  |            |  |                        |                |                |   |                            |                          |       |
| 3. Reserve for future contingent benefits  |            |  |                        |                |                |   |                            |                          |       |
| 4. Reserve for rate credits or experience rating refunds (including<br>\$ 0 for investment income) |            |  |                        |                |                |   |                            |                          |       |
| 5. Aggregate write-ins for other policy reserves   | 25,503,733 | 25,503,733                               |                        |                |                |   |                            |                          |       |
| 6. Totals (gross)  | 25,503,733 | 25,503,733                               |                        |                |                |   |                            |                          |       |
| 7. Reinsurance ceded   |            |  |                        |                |                |   |                            |                          |       |
| 8. Totals (Net) (Page 3, Line 4)   | 25,503,733 | 25,503,733                               |                        |                |                |   |                            |                          |       |
| 9. Present value of amounts not yet due on claims  |            |  |                        |                |                |   |                            |                          |       |
| 10. Reserve for future contingent benefits   | 700,000    | 700,000                                  |                        |                |                |   |                            |                          |       |
| 11. Aggregate write-ins for other claim reserves   | 1,077,000  | 1,077,000                                |                        |                |                |   |                            |                          |       |
| 12. Totals (gross)   | 1,777,000  | 1,777,000                                |                        |                |                |   |                            |                          |       |
| 13. Reinsurance ceded  |            |  |                        |                |                |   |                            |                          |       |
| 14. Totals (Net) (Page 3, Line 7)  | 1,777,000  | 1,777,000                                |                        |                |                |   |                            |                          |       |

13

| DETAILS OF WRITE-IN LINES   |            |            |  |  |  |  |  |  |  |
|---|------------|------------|--|--|--|--|--|--|--|
| 0501. FEP UNEARNED PREMIUM RESERVE                                  | 25,503,733 | 25,503,733 |  |  |  |  |  |  |  |
| 0502.   |            |            |  |  |  |  |  |  |  |
| 0503.   |            |            |  |  |  |  |  |  |  |
| 0598. Summary of remaining write-ins for Line 05 from overflow page |            |            |  |  |  |  |  |  |  |
| 0599. Totals (Lines 0501 through 0503 plus 0598) (Line 05 above)    | 25,503,733 | 25,503,733 |  |  |  |  |  |  |  |
| 1101. MATERNITY   | 1,077,000  | 1,077,000  |  |  |  |  |  |  |  |
| 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)    | 1,077,000  | 1,077,000  |  |  |  |  |  |  |  |

(a) Includes \$ 0 premium deficiency reserve.

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 3 – ANALYSIS OF EXPENSES

|  | Claim Adjustment Expenses |                                 | 3                               | 4                   | 5               |
|--|---------------------------|---------------------------------|---------------------------------|---------------------|-----------------|
|  | 1                         | 2                               |                                 |                     |                 |
|  | Cost Containment Expenses | Other Claim Adjustment Expenses | General Administrative Expenses | Investment Expenses | Total           |
| 1. Rent (\$ 10,939,952 for occupancy of own building)                |                           | 3,983,997                       | 5,989,590                       |                     | 9,973,587       |
| 2. Salaries, wages and other benefits                                | 21,954,381                | 15,490,079                      | 58,637,637                      |                     | 96,082,097      |
| 3. Commissions (less \$ 0 ceded plus \$ 0 assumed)                   |                           |                                 | 15,556,889                      |                     | 15,556,889      |
| 4. Legal fees and expenses   |                           |                                 | 1,156,324                       |                     | 1,156,324       |
| 5. Certifications and accreditation fees                             |                           |                                 |                                 |                     |                 |
| 6. Auditing, actuarial and other consulting services                 | 652,168                   | 10,241,104                      | 14,473,039                      |                     | 25,366,311      |
| 7. Traveling expenses  | 109,921                   | 138,705                         | 862,948                         |                     | 1,111,574       |
| 8. Marketing and advertising   | 500                       | 9,052                           | 1,741,505                       |                     | 1,751,057       |
| 9. Postage, express and telephone                                    | 192,836                   | 936,615                         | 3,898,533                       |                     | 5,027,984       |
| 10. Printing and office supplies                                     | 100,325                   | 84,944                          | 838,712                         |                     | 1,023,981       |
| 11. Occupancy, depreciation and amortization                         | 272,181                   | 312,573                         | 1,403,746                       |                     | 1,988,500       |
| 12. Equipment  |                           |                                 |                                 |                     |                 |
| 13. Cost or depreciation of EDP equipment and software               | 2,023,039                 | 11,371,826                      | 9,304,591                       |                     | 22,699,456      |
| 14. Outsourced services including EDP, claims, and other services    | 12,501,750                | 28,075,757                      | 32,874,751                      |                     | 73,452,258      |
| 15. Boards, bureaus and association fees                             | 47,320                    | 64,411                          | 2,361,569                       |                     | 2,473,300       |
| 16. Insurance, except on real estate                                 |                           | 339                             | 1,113,349                       |                     | 1,113,688       |
| 17. Collection and bank service charges                              |                           | 28,236                          | 154                             |                     | 28,390          |
| 18. Group service and administration fees                            |                           |                                 | 3,531,735                       |                     | 3,531,735       |
| 19. Reimbursements by uninsured plans                                | (6,286,464)               | (12,867,202)                    | (28,600,523)                    |                     | (47,754,189)    |
| 20. Reimbursements from fiscal intermediaries                        |                           |                                 |                                 |                     |                 |
| 21. Real estate expenses   |                           |                                 |                                 | 7,904,520           | 7,904,520       |
| 22. Real estate taxes  |                           |                                 |                                 | 577,089             | 577,089         |
| 23. Taxes, licenses and fees:  |                           |                                 |                                 |                     |                 |
| 23.1 State and local insurance taxes                                 |                           |                                 |                                 |                     |                 |
| 23.2 State premium taxes   |                           |                                 | 20,509,415                      |                     | 20,509,415      |
| 23.3 Regulatory authority licenses and fees                          |                           |                                 |                                 |                     |                 |
| 23.4 Payroll taxes   | 1,329,321                 | 928,815                         | 3,472,278                       |                     | 5,730,414       |
| 23.5 Other (excluding federal income and real estate taxes)          |                           |                                 |                                 |                     |                 |
| 24. Investment expenses not included elsewhere                       |                           |                                 |                                 |                     |                 |
| 25. Aggregate write-ins for expenses                                 | (3,205,466)               | (3,581,700)                     | (14,769)                        | 750,933             | (6,051,002)     |
| 26. Total expenses incurred (Lines 1 to 25)                          | 29,691,812                | 55,217,551                      | 149,111,473                     | 9,232,542           | (a) 243,253,378 |
| 27. Less expenses unpaid December 31, current year                   | 9,221,330                 | 18,874,319                      | 34,176,802                      |                     | 62,272,451      |
| 28. Add expenses unpaid December 31, prior year                      | 9,036,924                 | 22,915,435                      | 40,349,244                      |                     | 72,301,603      |
| 29. Amounts receivable relating to uninsured plans, prior year       |                           |                                 |                                 |                     |                 |
| 30. Amounts receivable relating to uninsured plans, current year     |                           |                                 |                                 |                     |                 |
| 31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30) | 29,507,406                | 59,258,667                      | 155,283,915                     | 9,232,542           | 253,282,530     |

| DETAILS OF WRITE-IN LINES   |             |              |           |         |              |
|---|-------------|--------------|-----------|---------|--------------|
| 2501. ADMINISTRATIVE ALLOWANCES                                     | 476,726     | 958,822      | (254,196) |         | 1,181,352    |
| 2502. HEALTH & WELLNESS PURCHASED SERVICES                          |             |              | (362,594) |         | (362,594)    |
| 2503. HOME PLAN SERVICE CHARGE                                      |             | 8,590,859    |           |         | 8,590,859    |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | (3,682,192) | (13,131,381) | 602,021   | 750,933 | (15,460,619) |
| 2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)    | (3,205,466) | (3,581,700)  | (14,769)  | 750,933 | (6,051,002)  |

(a) Includes management fees of \$ 0 to affiliates and \$ 0 to non-affiliates.

### EXHIBIT OF NET INVESTMENT INCOME

|   | 1<br>Collected<br>During Year | 2<br>Earned<br>During Year |
|---|-------------------------------|----------------------------|
| 1. U.S. Government bonds  | (a) 5,150,171                 | 4,686,158                  |
| 1.1 Bonds exempt from U.S. tax  | (a)                           |                            |
| 1.2 Other bonds (unaffiliated)  | (a) 6,718,916                 | 6,418,212                  |
| 1.3 Bonds of affiliates   | (a)                           |                            |
| 2.1 Preferred stocks (unaffiliated)                                     | (b)                           |                            |
| 2.11 Preferred stocks of affiliates                                     | (b)                           |                            |
| 2.2 Common stocks (unaffiliated)  |                               | 867,609                    |
| 2.21 Common stocks of affiliates  |                               | 867,609                    |
| 3. Mortgage loans   | (c)                           |                            |
| 4. Real estate  | (d) 11,016,441                | 11,016,441                 |
| 5. Contract loans   |                               |                            |
| 6. Cash, cash equivalents and short-term investments                    | (e) 198,986                   | 198,986                    |
| 7. Derivative instruments   | (f)                           |                            |
| 8. Other invested assets  | 1,938,758                     | 1,938,758                  |
| 9. Aggregate write-ins for investment income                            |                               | (109,442)                  |
| 10. Total gross investment income                                       | 25,890,881                    | 25,016,722                 |
| 11. Investment expenses   |                               | (g) 9,308,089              |
| 12. Investment taxes, licenses and fees, excluding federal income taxes |                               | (g)                        |
| 13. Interest expense  |                               | (h)                        |
| 14. Depreciation on real estate and other invested assets               |                               | (i) 2,458,343              |
| 15. Aggregate write-ins for deductions from investment income           |                               |                            |
| 16. Total deductions (Lines 11 through 15)                              |                               | 11,766,432                 |
| 17. Net investment income (Line 10 minus Line 16)                       |                               | 13,250,290                 |

| DETAILS OF WRITE-IN LINES   |             |           |
|---|-------------|-----------|
| 0901. PROMPT PAY INTEREST   |             | (109,442) |
| 0902.   |             |           |
| 0903.   |             |           |
| 0998. Summary of remaining write-ins for Line 09 from overflow page |             |           |
| 0999. Totals (Lines 0901 through 0903) plus 0998 (Line 09 above)    |             | (109,442) |
| 1501.   | <b>NONE</b> |           |
| 1502.   |             |           |
| 1503.   |             |           |
| 1598. Summary of remaining write-ins for Line 15 from overflow page |             |           |
| 1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15 above)    |             |           |

- (a) Includes \$ 161,119 accrual of discount less \$ 1,021,077 amortization of premium and less \$ 370,810 paid for accrued interest on purchases.
- (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.
- (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (d) Includes \$ 11,016,441 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.
- (e) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.
- (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.
- (g) Includes \$ 9,308,089 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
- (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.
- (i) Includes \$ 2,458,343 depreciation on real estate and \$ 0 depreciation on other invested assets.

### EXHIBIT OF CAPITAL GAINS (LOSSES)

|  | 1<br>Realized<br>Gain (Loss)<br>on Sales or<br>Maturity | 2<br>Other<br>Realized<br>Adjustments | 3<br>Total Realized<br>Capital Gain (Loss)<br>(Columns 1 + 2) | 4<br>Change in Unrealized<br>Capital Gain (Loss) | 5<br>Change in Unrealized<br>Foreign Exchange<br>Capital Gain (Loss) |
|--|---|---------------------------------------|---|--|--|
| 1. U.S. Government bonds                             | 2,129,927   |                                       | 2,129,927   | (58,400)   |  |
| 1.1 Bonds exempt from U.S. tax                       |   |                                       |   |  |  |
| 1.2 Other bonds (unaffiliated)                       | 1,017,094   |                                       | 1,017,094   |  |  |
| 1.3 Bonds of affiliates                              |   |                                       |   |  |  |
| 2.1 Preferred stocks (unaffiliated)                  |   |                                       |   |  |  |
| 2.11 Preferred stocks of affiliates                  |   |                                       |   |  |  |
| 2.2 Common stocks (unaffiliated)                     | 1,363,458   | (1,117,554)                           | 245,904   | 5,450,873  |  |
| 2.21 Common stocks of affiliates                     |   |                                       |   |  |  |
| 3. Mortgage loans                                    |   |                                       |   |  |  |
| 4. Real estate                                       |   |                                       |   |  |  |
| 5. Contract loans                                    |   |                                       |   |  |  |
| 6. Cash, cash equivalents and short-term investments |   |                                       |   |  |  |
| 7. Derivative instruments                            |   |                                       |   |  |  |
| 8. Other invested assets                             | 21,285  |                                       | 21,285  | 1,078,612  |  |
| 9. Aggregate write-ins for capital gains (losses)    |   |                                       |   |  |  |
| 10. Total capital gains (losses)                     | 4,531,764   | (1,117,554)                           | 3,414,210   | 6,471,085  |  |

| DETAILS OF WRITE-IN LINES   |             |  |  |  |  |
|---|-------------|--|--|--|--|
| 0901.   | <b>NONE</b> |  |  |  |  |
| 0902.   |             |  |  |  |  |
| 0903.   |             |  |  |  |  |
| 0998. Summary of remaining write-ins for Line 09 from overflow page |             |  |  |  |  |
| 0999. Totals (Lines 0901 through 0903) plus 0998 (Line 09 above)    |             |  |  |  |  |

## EXHIBIT OF NONADMITTED ASSETS

|   | 1<br>Current Year<br>Total<br>Nonadmitted<br>Assets | 2<br>Prior Year<br>Total<br>Nonadmitted Assets | 3<br>Change in Total<br>Nonadmitted Assets<br>(Col. 2 - Col. 1) |
|---|---|--|---|
| 1. Bonds (Schedule D)   |   |  |   |
| 2. Stocks (Schedule D):   |   |  |   |
| 2.1 Preferred stocks  |   |  |   |
| 2.2 Common stocks   |   |  |   |
| 3. Mortgage loans on real estate (Schedule B):  |   |  |   |
| 3.1 First liens   |   |  |   |
| 3.2 Other than first liens  |   |  |   |
| 4. Real estate (Schedule A):  |   |  |   |
| 4.1 Properties occupied by the company  |   |  |   |
| 4.2 Properties held for the production of income  |   |  |   |
| 4.3 Properties held for sale  |   |  |   |
| 5. Cash (Schedule E - Part 1), cash equivalents (Schedule E - Part 2), and short-term investments (Schedule DA) |   |  |   |
| 6. Contract loans   |   |  |   |
| 7. Derivatives (Schedule DB)  |   |  |   |
| 8. Other invested assets (Schedule BA)  |   |  |   |
| 9. Receivables for securities   |   |  |   |
| 10. Securities lending reinvested collateral assets (Schedule DL)   |   |  |   |
| 11. Aggregate write-ins for invested assets   |   |  |   |
| 12. Subtotals, cash and invested assets (Lines 1 to 11)   |   |  |   |
| 13. Title plants (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                                      | 663,909   | 2,266,133                                      | 1,602,224   |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due                   |   |  |   |
| 15.3 Accrued retrospective premiums   | 327,725   | 327,725  |   |
| 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   |   | 15,789,181                                     | 15,789,181  |
| 19. Guaranty funds receivable or on deposit   |   |  |   |
| 20. Electronic data processing equipment and software   | 119,039,284   | 105,518,415                                    | (13,520,869)  |
| 21. Furniture and equipment, including health care delivery assets  | 7,125,621   | 8,110,092                                      | 984,471   |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates                                      |   |  |   |
| 23. Receivables from parent, subsidiaries and affiliates  |   |  |   |
| 24. Health care and other amounts receivable  | 3,181,502   | 2,568,840                                      | (612,662)   |
| 25. Aggregate write-ins for other than invested assets  | 79,739,800  | 93,320,294                                     | 13,580,494  |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)  | 210,077,841   | 227,900,680                                    | 17,822,839  |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts                                     |   |  |   |
| 28. Total (Lines 26 and 27)   | 210,077,841   | 227,900,680                                    | 17,822,839  |

| 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  | 79,731,290 | 93,311,784 | 13,580,494 |
| 2502. MISCELLANEOUS INVENTORY ITEMS                                 | 8,510      | 8,510      |            |
| 2503.   |            |            |            |
| 2598. Summary of remaining write-ins for Line 25 from overflow page |            |            |            |
| 2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)    | 79,739,800 | 93,320,294 | 13,580,494 |

**NONE**

### EXHIBIT 1 – ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

| Source of Enrollment                               | Total Members at End of |                       |                        |                       |                      | 6<br>Current Year<br>Member<br>Months |
|--|-------------------------|-----------------------|------------------------|-----------------------|----------------------|---------------------------------------|
|  | 1<br>Prior<br>Year      | 2<br>First<br>Quarter | 3<br>Second<br>Quarter | 4<br>Third<br>Quarter | 5<br>Current<br>Year |                                       |
| 1. Health Maintenance Organizations                |                         |                       |                        |                       |                      |                                       |
| 2. Provider Service Organizations                  |                         |                       |                        |                       |                      |                                       |
| 3. Preferred Provider Organizations                | 254,921                 | 250,097               | 250,069                | 250,776               | 247,629              | 2,988,200                             |
| 4. Point of Service                                |                         |                       |                        |                       |                      |                                       |
| 5. Indemnity Only                                  | 5,197                   | 5,001                 | 4,878                  | 4,458                 | 4,343                | 56,913                                |
| 6. Aggregate write-ins for other lines of business | 91,686                  | 102,533               | 103,840                | 103,731               | 103,366              | 1,235,757                             |
| 7. Total   | 351,804                 | 357,631               | 358,787                | 358,965               | 355,338              | 4,280,870                             |

| DETAILS OF WRITE-IN LINES   |        |         |         |         |         |           |
|---|--------|---------|---------|---------|---------|-----------|
| 0601. STOP LOSS   | 30,155 | 41,697  | 41,594  | 40,013  | 39,582  | 485,328   |
| 0602. DENTAL ONLY   | 28,035 | 27,584  | 28,934  | 28,496  | 28,405  | 339,533   |
| 0603. MEDICARE SUPPLEMENT   | 24,374 | 24,261  | 24,245  | 24,912  | 24,985  | 295,221   |
| 0698. Summary of remaining write-ins for Line 06 from overflow page | 9,122  | 8,991   | 9,067   | 10,310  | 10,394  | 115,675   |
| 0699. Totals (Lines 0601 through 0603 plus 0698) (Line 06 above)    | 91,686 | 102,533 | 103,840 | 103,731 | 103,366 | 1,235,757 |

## NOTES TO FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### A. Accounting Practices

- (1) The annual statement has been completed in accordance with the NAIC Accounting Practices and Procedures manual.
- (2) The Plan's 2012 annual statement excludes Administrative Service Contract (ASC) business from revenue, and medical and hospital claims. The ASC reimbursement has been classified as a reduction to claims adjustment and general administrative expenses.
- (3) Effective for 2006, the Plan obtained a permitted practice to recognize a liability for premium assistance for direct pay subscribers in addressing healthcare affordability. The liability at December 31, 2012 and 2011 was \$2,762,002 and \$5,367,964, respectively. The Plan has committed \$0 and \$4,500,000 for 2012 and 2011 respectively to premium assistance for Direct Pay subscribers and has recorded a charge for this amount in other expenses in the statutory statement of operations.

Also, effective for 2009, the Plan obtained a permitted practice to depreciate blue-transit software over 15 years instead of the prescribed 5 years. If the software were depreciated over 5 years the net loss would be increased by \$14,746,792 in 2012 and the net gain would be decreased by \$12,384,902 in 2011.

| <u>NET INCOME</u>   | State | <u>Dec 31, 2012</u>     | <u>Dec 31, 2011</u>     |
|---|-------|-------------------------|-------------------------|
| (1) The Plan's state basis (RI)   | RI    | \$(41,536,449)          | \$72,708,907            |
| (2) State prescribed practice that increase/(decrease) NAIC SAP         |       |                         |                         |
| (3) State permitted practice that increase/(decrease) NAIC SAP income   |       |                         |                         |
| - Depreciation of software  | RI    | (14,746,792)            | (12,384,902)            |
| - Premium Assistance Program  | RI    | <u>    -    </u>        | <u>4,500,000</u>        |
| (4) NAIC SAP  | RI    | \$(56,283,242)          | \$64,824,005            |
| <br><u>SURPLUS</u>  |       | <br><u>Dec 31, 2012</u> | <br><u>Dec 31, 2011</u> |
| (5) The Plan's state basis (RI)   | RI    | \$260,183,455           | \$323,401,959           |
| (6) State prescribed practice that increase/(decrease) NAIC SAP         |       |                         |                         |
| (7) State permitted practice that increase/(decrease) NAIC SAP reserves |       |                         |                         |
| - Premium Assistance Program  | RI    | <u>    -    </u>        | <u>4,500,000</u>        |
| (8) NAIC SAP  | RI    | \$260,183,455           | \$327,901,959           |

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

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

#### C. Accounting Policy

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the effective interest rate method.
- (3) Common stocks at fair market value except that investments in stocks of uncombined subsidiaries and affiliates in which the Plan has an interest of 20% or more are carried on the equity basis.
- (4) Preferred stock is stated at cost.
- (5) The Plan does not have mortgage loans on real estate.
- (6) Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair market value. The prospective adjustment method is used to value all securities except for interest only securities or securities where the yield had become negative. Also for US Treasury Inflationary Bonds (TIPS) a retrospective method is used.
- (7) The Plan has an investment in a non-insurance wholly owned subsidiary, Health and Wellness Institute, LLC. The carrying value is on a GAAP basis of \$2,199,870 in accordance with SSAP 88. The Plan also owns a portion of Blue International Solutions with a carrying value of \$1,299,059.
- (8) The Plan has minor ownership interests in partnerships and limited liability companies. The value of these interests are based on the underlying audited GAAP equity of the investee.
- (9) The Plan does not own derivative investments.

## NOTES TO FINANCIAL STATEMENTS

- (10) The Plan considers anticipated investment income as a factor in premium deficiency calculation.
- (11) Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.
- (12) The Plan has not modified its capitalization policy from the prior period.
- (13) The Plan's pharmacy benefit manager provides estimated pharmacy rebates on a quarterly basis.

### 2. Accounting Changes and Correction of Errors

There were no Accounting Changes and Correction of Errors in 2012.

### 3. Business Combinations and Goodwill

There were no Business Combinations and resulting Goodwill in 2012.

### 4. Discontinued Operations

The Plan did not incur discontinued operations for 2012.

### 5. Investments

- A. The Plan did not have any outstanding mortgage loans in 2012.
- B. The Plan did not have any debt restructuring in 2012.
- C. The Plan did not have any reverse mortgages in 2012.
- D. Loan-Backed Securities

- (1) The Plan utilizes the prospective method for loan backed securities. The Plan obtains the prepayment assumptions for mortgage-backed/asset-backed securities from the following hierarchy: Bloomberg median speed; if none, then 6 month historical CPR; if none, then YieldBook prepayment model that runs fixed rate MBS at 100% of the model and Hybrid Arms at 100% of MTB (Model to Balloon). CMBS are run at a 0% constant prepayment rate. If this information is not obtainable from one of these sources then analysts determine the cash flows to be used. The Plan utilizes the fair market value as published by the NAIC Valuation Securities Manual. If the rate is not published by the Securities Valuation Office (SVO), the security is carried at amortized value in accordance with NAIC guidelines.
- (2) The Plan did not recognize any other-than-temporary impairment (OTTI) for loan-backed securities.
- (3) The Plan did not recognize any OTTI for loan-backed securities.
- (4) Loan-backed securities with unrealized losses as of December 31, 2012:

#### Loan-Backed Securities

- a. The aggregate amount of unrealized losses:
- |                        |          |
|------------------------|----------|
| 1. Less than 12 Months | \$ 328   |
| 2. 12 Months or Longer | \$19,299 |
- b. The aggregate related fair value of securities with unrealized losses:
- |                        |           |
|------------------------|-----------|
| 1. Less than 12 Months | \$487,929 |
| 2. 12 Months or Longer | \$718,698 |

- (5) The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in the current period. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near term recovery prospects, the effects of changes in interest rates or credit spreads and the recovery period. As of December 31, 2012, the Plan does not consider loan-backed securities in an unrealized loss position to be other-than-temporarily impaired as reported in the table above.

## NOTES TO FINANCIAL STATEMENTS

### E. Repurchase Agreements

- 1) For repurchase agreements, the Plan ensures that the fair market value of the collateralized security is equal to or exceeds the amount under agreement to repurchase.
- 2) The Plan has investments pledged as collateral. The securities are US Treasury Bonds and Corporate Bonds with a carrying value of \$85,319,529.

F. The Plan does not hold real estate for investment purposes.

G. The Plan does not have any low-income housing tax credits.

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

The Plan does not have an investment interest in joint ventures, partnerships and limited liability companies that exceeds 10% of its admitted assets.

### 7. Investment Income

The Plan has not excluded from assigned funds (surplus) any investment income due and accrued.

### 8. Derivative Instruments

The Plan does not own any derivative instruments.

### 9. Income Taxes

SSAP 101 became effective from January 1, 2012 and included revised disclosure requirements. Calendar year 2011 data has been revised to follow the SSAP 101 disclosure requirements to allow for better comparison. In revising the calendar year 2011 information no amounts have been recalculate or changed.

A. The components of the net deferred tax asset/(liability) at December 31 are as follows:

| (1)                                   | 12/31/2012 |            |           | 12/31/2011 |         |           | Change     |           |            |
|---------------------------------------|------------|------------|-----------|------------|---------|-----------|------------|-----------|------------|
|                                       | Ordinary   | Capital    | Total     | Ordinary   | Capital | Total     | Ordinary   | Capital   | Total      |
|                                       | (000)      |            |           |            |         |           |            |           |            |
| (a) Gross deferred tax assets         | \$169,756  | \$ 15      | \$169,771 | \$154,624  | \$ 643  | \$155,266 | \$ 15,132  | \$ (628)  | \$ 14,405  |
| (b) Statutory valuation allow         | (167,771)  | (15)       | (167,786) | (114,859)  | (275)   | (115,134) | (52,912)   | 260       | (52,652)   |
| (c) Adjusted gross deferred tax       | \$ 1,985   | \$ 0       | \$ 1,985  | \$ 39,765  | \$ 367  | \$ 40,132 | \$(37,780) | \$ (367)  | \$(38,147) |
| (d) Deferred tax nonadmitted          | 0          | 0          | 0         | (15,422)   | (367)   | (15,789)  | 15,422     | 367       | 15,789     |
| (e) subtotal (net deferred tax asset) | \$ 1,985   | \$ 0       | \$ 1,985  | \$ 24,343  | \$ 0    | \$ 24,343 | \$(22,358) | \$ 0      | \$(22,358) |
| (f) deferred tax liabilities          | 0          | (1,985)    | (1,985)   | 0          | 0       | 0         | 0          | (1,985)   | (1,985)    |
| (g) Gross deferred tax liabilities    | \$ 1,985   | \$ (1,985) | \$ 0      | \$ 24,343  | \$ 0    | \$ 24,343 | \$(23,358) | \$(1,985) | \$(24,343) |

(2) Admission calculation components:

|   | 12/31/2012 |         |       | 12/31/2011 |         |          | Change     |         |            |
|---|------------|---------|-------|------------|---------|----------|------------|---------|------------|
|   | Ordinary   | Capital | Total | Ordinary   | Capital | Total    | Ordinary   | Capital | Total      |
|   | (000)      |         |       |            |         |          |            |         |            |
| (a) Admitted pursuant to 11.a. loss carrybacks)       | \$ 0       | \$ 0    | \$ 0  | \$ 0       | \$ 0    | \$ 0     | \$ 0       | \$ 0    | \$ 0       |
| (b) Admitted pursuant to 11.b. Realization per 11.b.i | \$ 0       | \$ 0    | \$ 0  | \$24,343   | \$ 0    | \$24,343 | \$(24,343) | \$ 0    | \$(24,343) |
| Limitation per 11.b.ii.                               | \$ N/A     | \$ N/A  | \$ 0  | \$ N/A     | \$ N/A  | \$ 0     | \$ N/A     | \$ N/A  | \$ 0       |
| (c) SSAP No. 10R, Parag 10.eii.a                      | \$ 0       | \$ 0    | \$ 0  | \$ 0       | \$ 0    | \$ 0     | \$ 0       | \$ 0    | \$ 0       |
| (d) SSAP No. 10R, Parag 10.eii.b                      | \$ 0       | \$ 0    | \$ 0  | \$24,343   | \$ 0    | \$24,343 | \$(24,343) | \$ 0    | \$(24,343) |

(3) Used in 11.b.

|  | 2012  | 2011        |
|--|-------|-------------|
| (a) Ratio percentage used to determine recovery Period and threshold limitation amount                               | 0.00% | 15.00%      |
| (b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above | \$0   | 275,793,287 |

(4) Impact of tax planning strategies (TPS) on adjusted gross DTAs and net admitted DTAs

|   | 12/31/2012 |         |       | 12/31/2011 |         |       | Change   |         |       |
|---|------------|---------|-------|------------|---------|-------|----------|---------|-------|
|   | Ordinary   | Capital | Total | Ordinary   | Capital | Total | Ordinary | Capital | Total |
| (a) Adjusted gross DTAs - percentage  | 0.00%      | 0.00%   | 0.00% | 0.00%      | 0.00%   | 0.00% | 0.00%    | 0.00%   | 0.00% |
| (b) Admitted gross DTAs -percentage   | 0.00%      | 0.00%   | 0.00% | 0.00%      | 0.00%   | 0.00% | 0.00%    | 0.00%   | 0.00% |
| (c) Does the Plan's tax planning strategies include the use of reinsurance? Yes ___ No <u>X</u> |            |         |       |            |         |       |          |         |       |

## NOTES TO FINANCIAL STATEMENTS

B. Temporary differences for which a DTL has not been established:

N/A

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

|  | <u>12/31/2012</u>    | <u>12/31/2011</u>      | <u>Change</u>          |
|--|----------------------|------------------------|------------------------|
| (1) Current Income Tax                         |                      |                        |                        |
| (a) Federal                                    | 42,780               | (7,239)                | 50,019                 |
| (b) Foreign                                    | <u>0</u>             | <u>0</u>               | <u>0</u>               |
| (c) Subtotal                                   | 42,780               | (7,239)                | 50,019                 |
| (d) Federal Income Tax on net capital gains    | 0                    | 0                      | 0                      |
| (e) Utilization of capital loss carry-forwards | 0                    | 0                      | 0                      |
| (f) Other                                      | <u>0</u>             | <u>0</u>               | <u>0</u>               |
| (g) Federal and foreign income taxes incurred  | <u>\$ 42,780</u>     | <u>\$ (7,239)</u>      | <u>\$ 50,019</u>       |
|  |                      |                        |                        |
| (2) Deferred Tax Assets                        |                      |                        |                        |
| a. Ordinary                                    | <u>12/31/2012</u>    | <u>12/31/2011</u>      | <u>Change</u>          |
| (1) Discount of unpaid losses                  | \$3,058,655          | \$2,915,080            | \$143,575              |
| (2) Unearned premium reserve                   | 0                    | 0                      | 0                      |
| (3) Policyholder reserves                      | 0                    | 0                      | 0                      |
| (4) Investments                                | 0                    | 0                      | 0                      |
| (5) Intangibles                                | 9,060,513            | 9,283,315              | (222,802)              |
| (6) Policyholder dividends accrual             | 0                    | 0                      | 0                      |
| (7) Fixed assets                               | 12,332,260           | 15,557,287             | (3,225,027)            |
| (8) Compensation and benefits accrual          | 10,296,186           | 12,706,241             | (2,410,055)            |
| (9) Pension accrual                            | 1,032,931            | 1,381,231              | (348,300)              |
| (10) Receivables - nonadmitted                 | 1,228,230            | 1,128,423              | 99,807                 |
| (11) Net operating loss carry-forward          | 53,184,109           | 31,640,163             | 21,543,946             |
| (12) Tax credit carry-forward                  | 70,940,000           | 70,897,220             | 42,780                 |
| (13) Other                                     | <u>8,623,182</u>     | <u>9,114,726</u>       | <u>(491,544)</u>       |
| (99) Subtotal – Gross ordinary DTAs            | \$ 169,756,066       | \$ 154,623,686         | \$ 15,132,380          |
| b. Statutory valuation allowance Adjustment    | \$(167,771,140)      | \$(114,858,654)        | \$(52,912,486)         |
| c. Nonadmitted                                 | <u>\$ 0</u>          | <u>\$ (15,421,871)</u> | <u>\$ 15,421,871</u>   |
| d. Admitted Ordinary Deferred Tax Assets       | <u>\$ 1,984,926</u>  | <u>\$ 24,343,161</u>   | <u>\$ (22,358,235)</u> |
| e. Capital                                     |                      |                        |                        |
| (1) Investments                                | \$ 0                 | \$ 627,971             | \$ (627,971)           |
| (2) Net capital loss carry-forward             | 14,823               | 14,823                 | 0                      |
| (3) Real estate                                | 0                    | 0                      | 0                      |
| (4) Other                                      | <u>0</u>             | <u>0</u>               | <u>0</u>               |
| (99) Subtotal - Capital DTAs                   | \$ 14,823            | \$ 642,794             | \$ (627,971)           |
| f. Statutory Valuation allowance Adjustment    | (14,823)             | (275,483)              | 260,660                |
| g. Nonadmitted                                 | <u>0</u>             | <u>(367,311)</u>       | <u>367,311</u>         |
| h. Admitted Capital Deferred Tax Assets        | <u>\$ 0</u>          | <u>\$ 0</u>            | <u>\$ 0</u>            |
| i. Admitted Deferred Tax asset                 | <u>\$ 1,984,926</u>  | <u>\$ 24,343,161</u>   | <u>\$ (22,358,235)</u> |
|  |                      |                        |                        |
| (3) Deferred Taxes Liabilities                 |                      |                        |                        |
| a. Ordinary                                    | <u>12/31/2012</u>    | <u>12/31/2011</u>      | <u>Change</u>          |
| (1) Investments                                | 0                    | 0                      | 0                      |
| (2) Fixed Assets                               | 0                    | 0                      | 0                      |
| (3) Deferred and Uncollected premiums          | 0                    | 0                      | 0                      |
| (4) Policyholder Reserves                      | 0                    | 0                      | 0                      |
| (5) Other                                      | <u>0</u>             | <u>0</u>               | <u>0</u>               |
| (99) Subtotal - Ordinary DTLs                  | <u>\$ 0</u>          | <u>\$ 0</u>            | <u>\$ 0</u>            |
| b. Capital                                     |                      |                        |                        |
| (1) Investments                                | (1,984,926)          | 0                      | (1,984,926)            |
| (2) Real estate                                | 0                    | 0                      | 0                      |
| (3) Other                                      | <u>0</u>             | <u>0</u>               | <u>0</u>               |
| (99) Subtotal – Capital DTLs                   | <u>\$(1,984,926)</u> | <u>\$ 0</u>            | <u>\$(1,984,926)</u>   |
| c. Net Deferred tax liabilities                | <u>\$(1,984,926)</u> | <u>\$ 0</u>            | <u>\$(1,984,926)</u>   |
| (4) Net deferred tax assets/liabilities        | <u>\$ 0</u>          | <u>\$24,343,161</u>    | <u>\$(24,343,161)</u>  |

D. Nature of significant reconciling items for income taxes incurred and change in DTAs and DTLs

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income taxes including realized capital gains/losses. The significant items causing this difference are as follows:

|   | <u>Amount</u>    | <u>Tax Effect</u> | <u>Effective Tax Rate</u> |
|---|------------------|-------------------|---------------------------|
| Income before Taxes (including all realized capital gains/losses) | \$(41,493,670)   | \$(14,522,784)    | 35.00%                    |
| Tax exempt interest   | 0                | 0                 | 0.00%                     |
| Contribution Carryforward   | 0                | 0                 | 0.00%                     |
| Net operating loss carryforward                                   | 0                | 0                 | 0.00%                     |
| Meals & Entertainment, Lobbying Exp, Etc                          | 1,078,876        | 377,607           | -0.91%                    |
| Statutory Valuation Allowance Adjustment                          | 150,433,789      | 52,651,826        | -126.89%                  |
| Change in non-admitted assets                                     | 1,758,426        | 615,449           | -1.48%                    |
| Other, Including Prior year True-up                               | <u>3,008,643</u> | <u>1,053,025</u>  | <u>-2.54%</u>             |

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**NOTES TO FINANCIAL STATEMENTS**


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|                                     |                      |                      |                |
|-------------------------------------|----------------------|----------------------|----------------|
| Total                               | <u>\$114,786,063</u> | <u>\$ 40,175,122</u> | <u>-96.82%</u> |
| Federal Income Taxes Incurred       |                      | \$ 42,780            | -0.10%         |
| Change in net deferred income taxes |                      | <u>40,132,343</u>    | <u>-96.72%</u> |
| Total statutory income taxes        |                      | <u>\$ 40,175,123</u> | <u>-96.82%</u> |

## E. Carryforwards, recoverable taxes, and IRC 6603 deposits

Plan has regular net operating loss carryforwards of \$151,954,598 expiring through calendar years 2030 to 2032.

Plan has alternative minimum tax loss carryforwards of \$125,852,005 expiring through calendar years 2030 to 2032.

Plan had capital loss carryforwards of \$42,351 expiring through calendar year 2015.

Plan has an AMT credit carryforwards of \$70,940,000 which does not expire.

Plan has a charitable contribution carryforward of \$9,098,769 expiring through the calendar years 2014 to 2017.

Income taxes, ordinary capital, available for recoupment in the event of future losses include:

The Plan has no income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses.

Deposits admitted under IRC 6603

N/A

## F. Income Tax loss contingencies

The Plan has not recorded any contingencies related to taxes.

## G. The Plan's federal income tax return is consolidated with the following entities:

The Plan does not join in the filing of a consolidated federal income tax return.

10. Information Concerning Parent, Subsidiaries and Affiliates

A. The Plan did not make any cash contributions during 2012 and 2011 to the Health & Wellness Institute, LLC (HWI).

B. See "A" above

C. See "A" above

D. At December 31, 2012 the Plan reported \$394,314 as amounts due from HWI. The terms of the agreement require these amounts to be invoiced on a quarterly basis and shall be due and payable by HWI within 30 from receipt of invoice.

E. Non-Applicable

F. Non-Applicable

G. Non-Applicable

H. Non-Applicable

I. Non-Applicable

J. Non-Applicable

K. Non-Applicable

L. The HWI is valued at \$2,199,870 based on GAAP equity method.

11. DebtMortgage on Building

(1) Date issued is January 14, 2008.

(2) Bank loan for corporate office building.

(3) The maximum loan amount is \$90,000,000.

(4) Carrying value of loan is \$82,329,261.

(5) The rate at which interest accrues is 30-day LIBOR plus an agreed upon spread (basis points).

(6) The effective interest rate is equivalent to the 30-day LIBOR plus an agreed upon spread (basis points).

(7) Office building structure.

(8) Interest paid year to date is \$4,910,064.

(9) Loan converted to fixed rate mortgage instrument in February 2010.

(10) Non-Applicable

(11) Non-Applicable

(12) Non-Applicable

(13) Non-Applicable

## NOTES TO FINANCIAL STATEMENTS

### Line of Credit

- (1) Date issued is January 2011.
- (2) Revolving line of credit.
- (3) The maximum available amount is \$40,000,000.
- (4) Carrying value of line of credit is \$35,000,000 plus accrued interest of \$24,605.
- (5) The rate at which interest accrues is 30-day LIBOR Advantage rate plus 150 basis points. In addition, interest accrues on the commitment amount less funds drawdown at twenty basis points.
- (6) The effective interest rate is equivalent to the 30-day LIBOR Advantage rate plus 150 basis points.
- (7) Marketable securities.
- (8) Interest paid year to date is \$224,592.
- (9) The repayment of accrued interest is payable monthly and the entire unpaid principal balance is due and payable along with unpaid interest upon maturity. The line of credit maturity date is less than one year.
- (10) Non-Applicable
- (11) Non-Applicable
- (12) Non-Applicable
- (13) Non-Applicable

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

#### Defined Benefit Plan

The Plan has a qualified defined benefit pension plan covering substantially all employees. Pension plan benefits are based on years of service and the employee's compensation during the highest three consecutive years of service.

The Plan's funding policy is to contribute amounts at least necessary to satisfy the requirements of the Pension Protection Act of 2006 (PPA). Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. However, effective January 1, 2011 the Plan was closed to new hires from participation. Assets of the pension plan consist of insurance company group annuity contracts, which invest in a diversified portfolio of fixed income and equity securities.

#### Supplemental Executive Retirement Plans (SERP)

The Supplemental Executive Retirement Plans ("SERP") are non-qualified defined benefit pension plans for certain executives as designated by the Board of Directors. Certain beneficiaries received distributions from the SERP of \$1,697,000 and \$1,519,000 for the calendar years ended December 31, 2012 and 2011, respectively.

#### Postretirement Benefit Plans

Eligible employees hired prior to January 1, 1992, who retire on or after attaining normal retirement age and who have rendered specific years of service under the provisions of the Blue Cross & Blue Shield of Rhode Island Retirement Plan are entitled to certain postretirement health care, medical coverage and life insurance benefits. The Plan may amend or change the postretirement benefits periodically. Effective January 1, 1993, except for those employees who have an exemption based on circumstances previously existing, these benefits are now subject to copayment provisions and other limitations. The Plan's postretirement benefits other than pensions are not funded. Approximately \$1,226,000 and \$1,151,000 of postretirement benefits were paid in 2012 and 2011, respectively.

The following tables set forth the funding status and amounts recognized in the Plan's Statutory Statements of Admitted Assets, Liabilities and Reserves at December 31, 2012 and 2011 for the Defined Benefit Plan, for the SERP and the Postretirement Benefit Plan:

(In Thousands)

Defined Benefit

## NOTES TO FINANCIAL STATEMENTS

|   | Plan             |                  | SERP           |                | Postretirement  |                 |
|---|------------------|------------------|----------------|----------------|-----------------|-----------------|
|   | 2012             | 2011             | 2012           | 2011           | 2012            | 2011            |
| Change in Projected Benefit Obligation:     |                  |                  |                |                |                 |                 |
| Projected benefit obligation                |                  |                  |                |                |                 |                 |
| at beginning of year                        | \$242,920        | \$253,462        | \$9,017        | \$9,568        | \$21,317        | \$22,334        |
| Service cost                                | 8,153            | 8,829            | 48             | 91             | 609             | 570             |
| Interest cost                               | 11,910           | 12,997           | 322            | 444            | 855             | 1,029           |
| Actuarial loss/(gain) due to assumptions    | 29,584           | 8,188            | 164            | (530)          | (1,183)         | (1,089)         |
| Settlements                                 | (32,592)         | (31,393)         | (962)          | 963            | 1,870           | (376)           |
| Benefit and administrative expenses paid    | (7,024)          | (9,163)          | (1,697)        | (1,519)        | (1,226)         | (1,151)         |
| Projected benefit obligation at end of year | <u>\$252,951</u> | <u>\$242,920</u> | <u>\$6,892</u> | <u>\$9,017</u> | <u>\$22,242</u> | <u>\$21,317</u> |

|   | (In Thousands)       |                  |              |              |                |              |
|---|----------------------|------------------|--------------|--------------|----------------|--------------|
|   | Defined Benefit Plan |                  | SERP         |              | Postretirement |              |
|   | 2012                 | 2011             | 2012         | 2011         | 2012           | 2011         |
| Change in Plan Assets:                    |                      |                  |              |              |                |              |
| Fair value of assets at beginning of year | \$216,346            | \$242,553        | \$ --        | \$ --        | \$ --          | \$ --        |
| Actual return on plan assets              | 49,918               | 2,890            | --           | --           | --             | --           |
| Settlements                               | (32,592)             | (31,393)         | --           | --           | --             | --           |
| Employer contributions                    | 10,938               | 11,459           | 1,697        | 1,519        | 1,226          | 1,151        |
| Benefit and administrative expenses paid  | (7,024)              | (9,163)          | (1,697)      | (1,519)      | (1,226)        | (1,151)      |
| Fair value of assets at end of year       | <u>\$237,586</u>     | <u>\$216,346</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u>   | <u>\$ --</u> |

|   |                  |                  |                  |                  |                   |                   |
|---|------------------|------------------|------------------|------------------|-------------------|-------------------|
| Funded Status:  |                  |                  |                  |                  |                   |                   |
| Projected benefit obligation  | \$(252,951)      | \$(242,920)      | \$(6,892)        | \$(9,017)        |                   |                   |
| Plan assets at fair value   | <u>237,586</u>   | <u>216,346</u>   | <u>--</u>        | <u>--</u>        |                   |                   |
| Plan assets in excess (shortfall)   |                  |                  |                  |                  |                   |                   |
| of projected benefit obligation   | (15,365)         | (26,574)         | (6,892)          | (9,017)          | (22,242)          | (21,317)          |
| Unrecognized net actuarial loss/(gain)  | 71,295           | 87,793           | 1,649            | 1,556            | 6,899             | 6,536             |
| Unrecognized prior service cost   | 2,155            | 2,377            | 24               | 51               | --                | --                |
| Contributions after measurement date  | --               | --               | 10               | 972              | (13,046)          | (14,058)          |
| Unrecognized net obligation at January 1, 2012 and 2011 being recognized over approximately 9 years | <u>306</u>       | <u>345</u>       | <u>1,501</u>     | <u>1,689</u>     | <u>328</u>        | <u>329</u>        |
| Prepaid (accrued) benefit cost  | <u>\$ 58,391</u> | <u>\$ 63,941</u> | <u>\$(3,708)</u> | <u>\$(4,749)</u> | <u>\$(28,061)</u> | <u>\$(28,510)</u> |
| Accumulated benefit obligation  | <u>\$232,995</u> | <u>\$219,250</u> | <u>\$6,411</u>   | <u>\$8,669</u>   |                   |                   |

Net periodic pension cost for 2012 and 2011 included the following components:

|                                | (In Thousands)       |                 |               |               |                |                 |
|--------------------------------|----------------------|-----------------|---------------|---------------|----------------|-----------------|
|                                | Defined Benefit Plan |                 | SERP          |               | Postretirement |                 |
|                                | 2012                 | 2011            | 2012          | 2011          | 2012           | 2011            |
| Service cost                   | \$ 8,153             | \$ 8,829        | \$ 48         | \$ 91         | \$ 609         | \$ 570          |
| Interest cost                  | 11,910               | 12,997          | 322           | 444           | 855            | 1,029           |
| Expected return on plan assets | (17,196)             | (18,934)        | --            | --            | --             | --              |
| Net amortization and deferral  | <u>4,434</u>         | <u>4,179</u>    | <u>286</u>    | <u>349</u>    | <u>(688)</u>   | <u>(503)</u>    |
| Net periodic pension cost      | <u>\$ 7,301</u>      | <u>\$ 7,071</u> | <u>\$ 656</u> | <u>\$ 884</u> | <u>\$ 776</u>  | <u>\$ 1,096</u> |

Actuarial assumptions used in the accounting at the measurement date were:

|                                | Defined Benefit Plan |       | SERP  |       | Postretirement |       |
|--------------------------------|----------------------|-------|-------|-------|----------------|-------|
|                                | 2012                 | 2011  | 2012  | 2011  | 2012           | 2011  |
| Weighted-average assumptions   |                      |       |       |       |                |       |
| Discount Rate                  | 4.00%                | 5.00% | 4.00% | 4.50% | 3.50%          | 4.50% |
| Rate of compensation increase  | 3.00%                | 3.50% | 3.00% | 3.50% | -              | -     |
| Expected return on plan assets | 7.50%                | 7.75% | -     | -     | -              | -     |

The Plan uses a September 30 measurement date.

The assumed annual rate of increase in the per capita cost of medical benefits is 10% in 2013 and is assumed to decrease through years 2020 and remain level at 5% thereafter

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

|  | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|--|-----------------------------|-----------------------------|
| a. Effect on total of service and interest cost components | \$ 171,300                  | \$ 114,900                  |

## NOTES TO FINANCIAL STATEMENTS

|  |             |             |
|--|-------------|-------------|
| b. Effect on postretirement benefit obligation | \$1,943,000 | \$1,679,200 |
|--|-------------|-------------|

Plan assets are to be managed to provide the greatest probability that the following long-term objectives for the qualified pension plan are met in a prudent manner.

- Ensure that there is adequate level of assets to support benefit obligations to participants and retirees over the life of the Plan, taking into consideration the nature and duration of Plan liabilities.
- Maintain liquidity in Plan assets sufficient to cover ongoing benefit payments.
- Manage volatility of investments results in order to achieve long-term Plan objectives and to minimize level and volatility of pension expenses.

It is recognized that the attainment of these objectives is, for any given time period, largely dictated by the returns available from the capital markets in which Plan assets are invested.

The asset allocation of Plan assets reflects the Plan's long-term return expectations and risk tolerance in meeting the financial objectives of the Plan. Plan assets should be adequately diversified by asset class, sector and industry to reduce the downside risk to total Plan results over short-term time periods, while providing opportunities for long-term appreciation.

The selection of an expected long-term rate of return for the plan assets represents a rate at which plan liabilities will be settled. This includes an approach that is applied consistently in accordance with standards of practice that is based on the distribution of plan assets. There are inherent risks in establishing assumptions in the development of an expected long term rate of return and based on historical performance the methodology adopted has been representative of actual results

The following table provides information as of December 31, 2012 and 2011 about the Plan's pension plan financial assets by asset category.

|                            | December 31, 2012 |                |            |                |
|----------------------------|-------------------|----------------|------------|----------------|
|                            | Level 1           | Level 2        | Level 3    | Total          |
| Mutual Funds               |                   |                |            |                |
| Equity Mutual Funds        | \$ --             | \$ 152,141,536 | --         | \$ 152,141,536 |
| Fixed Income Mutual Funds  | --                | 85,439,003     | --         | 85,439,003     |
| General Investment Account | --                | --             | 655,870    | 655,870        |
| Total Assets               | \$ --             | \$ 237,580,539 | \$ 655,870 | \$ 238,236,409 |

|                            | December 31, 2011 |                |              |                |
|----------------------------|-------------------|----------------|--------------|----------------|
|                            | Level 1           | Level 2        | Level 3      | Total          |
| Mutual Funds               |                   |                |              |                |
| Equity Mutual Funds        | \$ --             | \$ 147,012,975 | --           | \$ 147,012,975 |
| Fixed Income Mutual Funds  | --                | 82,735,611     | --           | 82,735,611     |
| General Investment Account | --                | --             | 3,115,768    | 3,115,768      |
| Total Assets               | \$ --             | \$ 229,748,586 | \$ 3,115,768 | \$ 232,864,354 |

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

| <u>Asset Category</u> | <u>Plan Assets</u> |             |
|-----------------------|--------------------|-------------|
|                       | <u>2012</u>        | <u>2011</u> |
| Equity Securities     | 61.90%             | 61.10%      |
| Debt Securities       | 25.40%             | 25.00%      |
| Other                 | 12.70%             | 13.90%      |
| Total                 | 100.00%            | 100.00%     |

## NOTES TO FINANCIAL STATEMENTS

The investment policy includes a periodic review of the pension plan's investment in the various asset classes. The current asset allocation target is 60% equities and 40% fixed income.

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

| Year        | <u>Pension Benefits</u> | <u>Postretirement Benefits*</u> |
|-------------|-------------------------|---------------------------------|
| 2013        | \$12,723,000            | \$1,658,000                     |
| 2014        | 13,189,000              | 1,665,000                       |
| 2015        | 12,605,000              | 1,715,000                       |
| 2016        | 13,411,000              | 1,739,000                       |
| 2017        | 13,411,000              | 1,783,000                       |
| 2018 - 2022 | 84,893,000              | 8,550,000                       |

\*excludes receivables for Medicare Part D subsidy

The Plan expects to contribute \$5,000,000 to its regular pension plan, \$1,944,000 to its SERP and \$1,658,000 to its postretirement benefits in 2013.

### Employee Savings Plan

Participant contributions to the Plan are derived from voluntary salary reduction agreements with the employer. The participant may, subject to the Internal Revenue Service (IRS) compensation deferral limits, contribute from 1% to 60% of his or her plan compensation, as defined, as a pre-tax basic contribution. The participant may then contribute a supplemental pre-tax contribution which, when combined with the participant's basic contribution, shall not exceed 60% of the participant's plan compensation, as defined. In addition, after-tax contributions up to 8% of the participant's plan compensation, as defined, may be made as long as total contributions do not exceed IRS guidelines. The employer contributes an amount equal to 50% of the participant's basic salary deferral contribution subject to a maximum of 6% of compensation.

Upon enrollment in the Plan, a participant may direct participant and employer contributions in 1% increments with a minimum contribution of 1% in any of the investment options. Participants may change their contribution percentage and investment selections in accordance with stated Plan requirements. Effective January 1, 2011, new associate hires will have an enhanced matching contribution plan. Participants that contribute on a pre-tax basis up to 6% an equal amount will be matched by the Plan. Total employer contributions to the 401(k) savings plan in 2012 and 2011 were approximately \$1,288,000 and \$1,782,000, respectively.

### Postemployment Benefits

The Plan provides for certain postemployment benefits including disability benefits for eligible employees. The Plan has recorded a liability for these benefits of approximately \$0 and \$530,000 at December 31, 2012 and 2011, respectively.

Impact of Medicare Modernization Act on Postretirement Benefits is no longer applicable as of 2010.

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

- 1) The Plan does not have any capital stock.
- 2) The Plan does not have any preferred stock.
- 3) The Plan does not have any dividend restrictions.
- 4) The Plan does not have any ordinary dividends.
- 5) The Plan does not have any dividends.
- 6) The Plan does not have any restrictions on unassigned funds.
- 7) The Plan does not have any advances to surplus unpaid.
- 8) The Plan does not have any conversion of preferred stock, employee stock options and stock purchase warrants.
- 9) The Plan did not have any changes to the balances of any special surplus funds from the prior period.

## NOTES TO FINANCIAL STATEMENTS

- 10) The portion of unassigned funds (surplus) represented was reduced by each of the following item:
- a) Nonadmitted assets - \$210,077,841
- 11) The Plan does not have any surplus notes.
- 12) The Plan did not have any quasi-reorganization in 2012.
- 13) The Plan did not have any quasi-reorganization in 2012.

### 14. Contingencies

#### A) Contingent Commitments

The Plan is a defendant in a number of legal proceedings arising in the normal course of business. Additionally, the Plan is a co-defendant in a group of class action lawsuits in federal court relating to allegations that the Plan has acted in conspiracy with other Blue Cross & Blue Shield plans in violation of antitrust laws. The Plan is also a co-defendant with several other Blue Cross & Blue Shield plans in a lawsuit from an out of state provider seeking higher reimbursement for services. The Plan is also awaiting judgment on a case against two providers who allege ERISA violations stemming from recoupments. While the Plan's ultimate liability in the disposition of these matters is presently difficult to estimate, it is management's belief that the outcome is not likely to have a material adverse effect on the Plan's financial position or results of operations, statutory reserves and risk based capital. It is possible that a court decision or settlement in favor of the plaintiffs in the above suits where the Plan is a co-defendant could have an unanticipated material adverse effect on the Plan's financial position, results of operations, statutory reserves and risk based capital.

- B) The Plan does not have any assessments.
- C) The Plan does not have any gain contingencies.
- D) The Plan did not have any claims related extra contractual obligation and bad faith losses stemming from lawsuits.
- E) All other contingencies see "A" above.

### 15. Leases

- A) 1) The Plan leases office space and ground lease under operating leases. Rent expense for operating leases in 2012 and 2011 was approximately \$181,783 and \$306,851, respectively.
- 2) The Plan is committed, under long-term noncancelable operating leases and installment purchase agreements to minimum payments as follows:

|                               | <u>Leases</u>       |
|-------------------------------|---------------------|
|                               | <u>Operating</u>    |
| 2013                          | \$ 941,683          |
| 2014                          | 953,251             |
| 2015                          | 964,819             |
| 2016                          | 976,387             |
| 2017                          | 987,955             |
| Less Interest                 | -                   |
| Total minimum future payments | <u>\$ 4,824,095</u> |

Certain rental commitments e.g. ground lease is a 97 year agreement through the year 2108 with two successive 75 year renewal options. Some of these renewals are subject to adjustments in future periods.

In June of 2003, the Plan entered into a long-term agreement with PSHS whereby, PSHS agreed to provide claims processing, information technology and membership administrative services. As stipulated in the contract, the services shall be provided at Plan facilities, however, certain functions may be provided outside of Rhode Island as well as offshore under the direction of PSHS staff. Services include operational services for technology and claims operations and business project services.

The agreement which is in effect through May 31, 2016, unless terminated earlier or extended in accordance with contract terms. The agreement calls for decreasing annual minimum commitments of \$45.0 million for calendar year 2012, and is subject to adjustments for changes in service levels, cost

## NOTES TO FINANCIAL STATEMENTS

management by the Plan and performance incentives for PSHS. The aggregate value of the contract is approximately \$656.0 million.

The contract provides for termination of the agreement between the parties based on events that may occur during the course of the contract. There are critical service levels that PSHS must meet on an ongoing basis. The Plan is obligated to reimburse PSHS for services performed in accordance with the contract. If the Plan terminates the agreement for convenience, the financial penalties are based on a sliding scale relating to the applicable month in which such termination was effective, ranging from approximately \$10.2 million as of December 31, 2012 to \$0 as of May 31, 2016.

3) The Plan is not involved in material sales – leaseback transactions.

### B)(1) Lessor Leases

a) The Plan entered into a lease agreement for the use of its Corporate Office building penthouse floor. The rental square footage leased is 10,356 square feet. The lease is 78 month duration commencing July 1, 2011 and terminating December 31, 2017. The arrangement is a triple net lease. A tenant allowance was provided to the lessee amounting to \$590,000. In addition, the lease calls for providing 15 parking spots at \$180.00 per month per space. Finally, the lessee is responsible for electricity usage for the specific rented space.

b) non-applicable

c) Future minimum lease payment receivables under noncancelable leasing arrangements as of December 31, 2012 are as follows:

| Years Ended<br><u>December 31</u> | <u>Operating Leases</u> |
|-----------------------------------|-------------------------|
| 2013                              | \$ 311,974              |
| 2014                              | 317,152                 |
| 2015                              | 322,331                 |
| 2016                              | 327,509                 |
| 2017                              | <u>331,392</u>          |
| Total                             | <u>\$ 1,610,358</u>     |

d) The Plan does not have contingent rentals.

(2) The Plan does not have leveraged leases

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

Twelve U.S. Treasury Notes with a combined par value of \$31,700,000 are pledged to satisfy Blue Cross Blue Shield Association membership standards for out-of-area provider claim settlements.

The Plan also has a \$500,000 par value U.S. Treasury Note that is on deposit with the Department of Labor as collateral for the Plan's run-out of the self-insured worker's compensation fund.

The Plan also has a \$546,000 par value U.S. Treasury Note that is on deposit with the Department of Human Services Office of Managed Care relating to the Plan's administration of the State of Rhode Island managed Medicaid program, RItE Care.

The Plan also has thirty-three Corporate/U.S. Treasury Bonds with a combined value of \$51,589,649 that is pledged with Citizens Bank as collateral for the line of credit.

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

The Plan did not have a sale, transfer and servicing of financial assets and extinguishments of liabilities.

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

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**NOTES TO FINANCIAL STATEMENTS**


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- A) The Plan is not an ASO Administrator for uninsured A&H Plans and the uninsured portion of partially insured plans.
- B) The Plan is an ASC Administrator for uninsured A&H Plans and the uninsured portion of partially insured plans.

The gain from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans was as follows during 2011:

|  | <u>ASC</u><br><u>Uninsured</u><br><u>Plans</u> | <u>Uninsured</u><br><u>Portion of</u><br><u>Partially</u><br><u>Insured Plans</u> | <u>Total</u><br><u>ASC</u> |
|--|--|---|----------------------------|
| a. Gross reimbursement for medical cost incurred | \$928,433,745                                  | - -   | \$928,433,745              |
| b. Gross administrative fees accrued             | <u>47,754,189</u>                              | - -   | <u>47,754,189</u>          |
| c. Total revenue                                 | 976,187,934                                    | - -   | 976,187,934                |
| d. Claims incurred                               | 928,433,745                                    | - -   | 928,433,745                |
| e. Variable cost                                 | <u>24,822,337</u>                              | - -   | <u>24,822,337</u>          |
| f. Contribution to fixed overhead                | 22,931,852                                     | - -   | 22,931,852                 |
| g. Total fixed overhead                          | <u>56,066,868</u>                              | - -   | <u>56,066,868</u>          |
| h. Total net gain or (loss) from operations      | <u>(33,135,016)</u>                            | - -   | <u>(33,135,016)</u>        |

- C) The Plan did not have a Medicare or similarly structured cost based reimbursement contract during 2012.

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

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

20. Fair Value Measurements

Included in various investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stock when carried at the lower of cost or market.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Plan estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

## NOTES TO FINANCIAL STATEMENTS

The Plan's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Plan's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following table provides information as of December 31, 2012 about the Plan's financial assets and liabilities measured at fair value on a recurring basis.

|                   | Level 1              | Level 2              | Level 3             | Total                |
|-------------------|----------------------|----------------------|---------------------|----------------------|
| Assets            |                      |                      |                     |                      |
| Bonds             | \$ --                | \$219,203,431        | \$ --               | \$219,203,431        |
| Equity securities | <u>\$ 41,135,444</u> | <u>\$ 12,336,723</u> | <u>\$ 2,798,910</u> | <u>\$ 56,271,077</u> |
| Total Assets      | <u>\$ 41,135,444</u> | <u>\$231,540,154</u> | <u>\$ 2,798,910</u> | <u>\$275,474,508</u> |

The fair value of the Plan's equity securities categorized as Level 1 is based on quoted market prices for identical securities traded in active markets that are readily and regularly available to the Plan.

The fair value of the Plan's equity securities classified as Level 3 consist of private placement stocks for three companies for which there are limited or no observable valuation inputs. The fair value of these Level 3 equities is based upon analytics derived by the respective companies for which a fair value per share is published in the Securities Valuation Office manual.

The following table presents the changes in our equity securities classified as Level 3 for the year-ended December 31, 2012.

|                | Beginning<br>Balance<br>1/1/2012 | Total gains<br>and (losses)<br>included in<br>Net Income | Total gains<br>and losses<br>included in<br>Surplus | Purchases      | Ending<br>Balance at<br>12/31/2012 |
|----------------|----------------------------------|--|---|----------------|------------------------------------|
| Assets         |                                  |  |   |                |                                    |
| Private Equity | <u>\$2,862,259</u>               | <u>(388,113)</u>   | <u>73,303</u>                                       | <u>251,461</u> | <u>\$2,798,910</u>                 |
| Total Assets   | <u>\$2,862,259</u>               | <u>(388,113)</u>   | <u>73,303</u>                                       | <u>251,461</u> | <u>\$2,798,910</u>                 |

There were unrealized gains of \$73,303 attributable to the change in net unrealized gains relating to assets still held.

### 21. Other Items

- A) The Plan does not have any extraordinary items.
- B) The Plan does not have any troubled debt restructuring.
- C) The Plan participates in the Federal Employee Health Benefits Program (FEHBP) with other Blue Cross Blue Shield Plans. This program includes a fully-insured experience-rated contract, commonly known as the Federal Employee Program (FEP), between the Office of Personnel Management (OPM) and BCBSA, which acts as an agent for the participating Blue Cross Blue Shield plans. In addition each participating plan, including the Plan, executes a contract with BCBSA which obligates each participating plan to underwrite FEP benefits in its service area. Premium rates are developed by BCBSA and negotiated with OPM annually. These rates determine the funds that will be available to the participating Blue Cross Blue Shield to provide

## NOTES TO FINANCIAL STATEMENTS

insurance to Federal employees that enroll with the Blue Cross Blue Shield FEP. The excess of gross premiums for the life of the program over the charges for the life of the program on an accrual basis is accounted for as a rate stabilization reserve (commonly referred to as the special reserve), as required by the contract between OPM and BCBSA. Each year, OPM also allocates a portion of the premiums to a contingency reserve which may be utilized by the participating plans in the event that annual premiums paid to the insurance carrier are insufficient or the rate stabilization reserve falls below certain levels prescribed by OPM. Premiums paid to the carrier and available to each participating Blue Cross Blue Shield plan, including the special reserve and contingency reserve, are held at the U.S. Treasury, including amounts unused from prior periods. Any premiums that remain in the rate stabilization reserve upon termination of the BCBSA contract after the claims run-out and reimbursement of the allowable administrative expenses would be returned to OPM for the benefit of the FEHBP. The FEP contract renews automatically each year unless written notice of termination is given by either party.

In accordance with the FEP contract, premium funds that exceed daily operating needs are held on behalf of the Plan in letter of credit accounts at the U.S. Treasury to provide funding for claims, administrative expenses, and other charges to the contract. The Plan, along with other Blue Cross Blue Shield plans who participate in the FEHBP contract, has an unrestricted right to draw funds held in the U.S. Treasury.

The Plan has recorded its allocable share of a special reserve fund held in the U.S. Treasury as an asset, with an equivalent amount recorded as a rate stabilization reserve. This amount is \$25,503,732 as of December 31, 2012, and is included in other current assets and other current liabilities in the accompanying consolidated balance sheets.

FEP represented approximately 45.0% of accounts receivable as of December 31, 2012. FEP represented approximately 6.5% of net revenue for the year ended December 31, 2012.

- D) The Plan has estimated uncollectible amounts for premium and retro contract balances of \$873,885 and \$2,609,070 at December 31, 2012 and 2011, respectively. The Plan has an estimated uncollectible amount for uninsured plans of \$3,226,555 and \$3,061,632 at December 31, 2012 and 2011, respectively.
- E) The Plan did not have any business interruption insurance recoveries in 2012.
- F) 1) The Plan did not have a state transferable tax credit in 2012.  
 2) The Plan did not have a state transferable tax credit in 2012.  
 3) The Plan did not any impairment losses for state transferable tax credits in 2012.  
 4) The Plan did not have a state transferable tax credit in 2012.
- G) Subprime Mortgage Related Risk Exposure  
 (1) The following is the Plan's narrative description of a subprime investment. A mortgage loan which has one or more of the following attributes: weak credit score (Fair Isaac Corporation), high debt-to-income-ratio, high loan-to-value ratio or undocumented income.  
 (2) Non-applicable  
 (3) Non-applicable  
 (4) Non-applicable
- H) Retained Assets is not applicable.

### 22. Events Subsequent

There are no subsequent events that occurred as of the March 1<sup>st</sup> 2013 filing date of the Plan's 2012 annual statement.

### 23. Reinsurance

#### A. Ceded Insurance Report

##### Section 1 – General Interrogatories

- (1) The Plan does not own or control any of the reinsurers listed on Schedule S.  
 (2) There are no policies issued by the Plan that are reinsured with a company chartered in a country other than the United States that is owned in excess of 10% or controlled directly or

## NOTES TO FINANCIAL STATEMENTS

indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business.

### Section 2 – Ceded Reinsurance Report – Part A

- (1) The Plan does not have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit.
- (2) The Plan does not have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies.

### Section 3 – Ceded Reinsurance Report – Part B

- (1) The estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment or other similar credits that are reflected in Section 2 above) of termination of all reinsurance agreements, by either party, is not applicable to the Plan since it does not cede its reinsurance.
- (2) The Plan has not executed or amended any existing agreements, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement.

B) The Plan did not experience a write-off for uncollectible reinsurance.

C) The Plan did not experience a commutation of ceded reinsurance.

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

- A) The Plan estimates accrued retrospective premium adjustments for its group health insurance business based on the Plan's underwriting policies, experience rating practices and claims reserve calculation.
- B) The Plan records accrued retrospective premium as an adjustment to earned premium.
- C) The amount of net premiums written by the Plan at December 31, 2012 that are subject to retrospective rating features was \$43,843,000, that represented 2.81% of the total net premiums written. No other net premiums written by the Plan are subject to retrospective rating features.
- D) The Plan has not recognized a liability for medical loss ratio rebate per the Public Health Services Act (PHSA). The Plan's Individual, Small Group Employer, Large Group Employer and Other Categories with rebates market segments were above the PHSA regulatory thresholds for the current year-to-date reporting period. As a result, there is no amount reflected on Page 3 Line 4 Aggregate health policy reserves for the medical loss ratio rebate.

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

Reserves as of December 31, 2011 were \$143,840,000. As of December 31, 2012, \$116,565,000 has been paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$1,835,000 as a result of re-estimation of unpaid claims and claim adjustment expenses principally on Comprehensive and Medicare lines of insurance. Therefore, there has been a \$1,044,000 favorable prior-year development since December 31, 2011 to December 31, 2012. 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. The Plan did not experience prior year claim development on retrospectively rated policies.

### 26. Intercompany Pooling Arrangements

The Plan is not part of any intercompany pooling arrangement.

### 27. Structured Settlements

Not Applicable for Health Insurance entities.

## NOTES TO FINANCIAL STATEMENTS

### 28. Health Care Receivables

#### A) Pharmaceutical Rebate Receivables

| Quarter  | <u>Estimated Pharmacy Rebates as Reported on Financial Statements</u> | <u>Pharmacy Rebates as Invoiced/Confirmed</u> | <u>Actual Rebates Collected Within 90 Days of Invoicing/Confirmation</u> | <u>Actual Rebates Collected Within 91 to 180 Days of Invoicing/Confirmation</u> | <u>Actual Rebates Collected More Than 180 Days After Invoicing/Confirmation</u> |
|----------|---|---|--|---|---|
| 12/31/12 | \$6,390,000   | \$ --   | \$ --  | \$ --   | \$ --   |
| 09/30/12 | 5,711,000   | 6,157,000                                     | --   | --  | --  |
| 06/30/12 | 5,970,000   | 5,711,000                                     | --   | 4,675,000   | --  |
| 03/31/12 | 6,150,000   | 6,036,000                                     | --   | 4,779,000   | 667,000   |
| 12/31/11 | \$6,000,000   | \$6,330,000                                   | \$ --  | \$5,564,000   | \$ 391,000  |
| 09/30/11 | 5,889,000   | 6,256,000                                     | --   | 5,351,000   | 574,000   |
| 06/30/11 | 5,322,000   | 6,122,000                                     | --   | 5,407,000   | 481,000   |
| 03/31/11 | 5,262,000   | 5,760,000                                     | --   | 5,378,000   | 176,000   |
| 12/31/10 | \$4,814,000   | \$5,955,000                                   | \$ --  | \$4,787,000   | \$1,087,000   |
| 09/30/10 | 4,873,000   | 5,472,000                                     | --   | 4,778,000   | 574,000   |
| 06/30/10 | 4,762,000   | 5,541,000                                     | --   | 4,714,000   | 812,000   |
| 03/31/10 | 5,945,000   | 5,321,000                                     | --   | 4,805,000   | 510,000   |

#### B) Risk Share Receivables

| Calendar Year | Evaluation Per Year-End | Risk Sharing Receivable as Estimated in the Prior Year | Risk Sharing Receivable as Estimated in the Current Year | Risk Sharing Receivable Billed | Risk Sharing Receivable Not Yet Billed | Actual Risk Sharing Amounts Received in Year Billed | Actual Risk Sharing Amounts Received First Year | Actual Risk Sharing Amounts Received Second Year | Actual Risk Sharing Amounts Received All Others |
|---------------|-------------------------|--|--|--------------------------------|--|---|---|--|---|
| 2012          | 2012                    | N/A  | \$ 2,758,213   | \$ 2,758,213                   | \$ --                                  | \$ 2,600,000  | \$ --   |  |   |
|               | 2013                    | N/A  | \$ --  | N/A                            | N/A                                    | N/A   | N/A   | N/A  | N/A   |
| 2011          | 2011                    | N/A  | \$ 2,758,213   | \$ 2,758,213                   | \$ --                                  | \$ 2,600,000  | \$ --   |  |   |
|               | 2012                    | N/A  | \$ --  | N/A                            | N/A                                    | N/A   | N/A   | N/A  | N/A   |
| 2010          | 2010                    | N/A  | \$ 5,023,857   | \$ 5,023,857                   | \$ --                                  | \$ 2,748,862  | \$1,100,000                                     |  |   |
|               | 2011                    | N/A  | \$ --  | N/A                            | N/A                                    | N/A   | N/A   | N/A  | N/A   |

### 29. Participating Policies

Participating policies do not apply to the Plan.

### 30. Premium Deficiency Reserves

The Plan did not record a statutory premium deficiency reserve (PDR) for the period ended December 31, 2012 and December 31, 2011.

### 31. Anticipated Salvage and Subrogation

The amount of undiscounted estimated salvage and subrogation recoverable, taken into account in determining the undiscounted unpaid losses as reported in the Underwriting and Investment Exhibit and Page 3 – Liabilities, Reserves and Special Funds, Line I for December 31, 2012 and 2011, was \$11,412,000 and \$11,714,000, respectively.

# GENERAL INTERROGATORIES

## PART 1 – COMMON INTERROGATORIES

### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [ ] No [X]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [ ] No [ ] N/A [X]
- 1.3 State Regulating? Rhode Island
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [X] No [ ]
- 2.2 If yes, date of change: 05/03/2012
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2009
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2009
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 05/17/2011
- 3.4 By what department or departments?  
 RHODE ISLAND DEPARTMENT OF BUSINESS REGULATION-INSURANCE DIVISION  
 .....  
 .....  
 .....
- 3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments? Yes [X] No [ ] N/A [ ]
- 3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [X] No [ ] N/A [ ]
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.11 sales of new business? Yes [ ] No [X]
- 4.12 renewals? Yes [ ] No [X]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? Yes [ ] No [X]
- 4.22 renewals? Yes [ ] No [X]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [X]
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

| 1<br>Name of Entity | 2<br>NAIC Company Code | 3<br>State of Domicile |
|---------------------|------------------------|------------------------|
| .....               | .....                  | .....                  |
| .....               | .....                  | .....                  |

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [X]

## GENERAL INTERROGATORIES

6.2 If yes, give full information:

.....  
 .....  
 .....

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [X]

7.2 If yes,

- 7.21 State the percentage of foreign control. \_\_\_\_\_ %
- 7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

| 1<br>Nationality | 2<br>Type of Entity |
|------------------|---------------------|
| .....            | .....               |

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

.....  
 .....  
 .....

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]

8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e., the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

| 1<br>Affiliate<br>Name | 2<br>Location<br>(City, State) | 3<br>FRB | 4<br>OCC | 5<br>FDIC | 6<br>SEC |
|------------------------|--------------------------------|----------|----------|-----------|----------|
| .....                  | .....                          | .....    | .....    | .....     | .....    |

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

PRICEWATERHOUSECOOPERS, LLP 185 ASYLUM STREET, SUITE 2400, HARTFORD, CT 06103  
 .....  
 .....

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

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

.....  
 .....  
 .....

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

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

.....  
 .....  
 .....

## GENERAL INTERROGATORIES

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

10.6 If the response to 10.5 is no or n/a, please explain:

.....  
 .....  
 .....

11. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

JOHN LYNCH, 500 EXCHANGE STREET, PROVIDENCE, RI 02903. ACTUARY IS EMPLOYED BY BLUECROSS & BLUE SHIELD OF RHODE ISLAND

.....  
 .....

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

12.11 Name of real estate holding company

\_\_\_\_\_

12.12 Number of parcels involved

\_\_\_\_\_

12.13 Total book/adjusted carrying value

\$ \_\_\_\_\_

12.2 If yes, provide explanation:

.....  
 .....  
 .....

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

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

.....  
 .....  
 .....

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

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

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

14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

- 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  No

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

.....  
 .....  
 .....

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

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

.....  
 .....  
 .....

## GENERAL INTERROGATORIES

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

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

.....  
 .....  
 .....

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance where the issuing or confirming bank is not on the SVO Bank List? Yes [ ] No [X]

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

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

## BOARD OF DIRECTORS

16. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate thereof? Yes [X] No [ ]

17. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]

18. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No [ ]

## FINANCIAL

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

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

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

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

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

21.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [X]

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

|                            |          |
|----------------------------|----------|
| 21.21 Rented from others   | \$ _____ |
| 21.22 Borrowed from others | \$ _____ |
| 21.23 Leased from others   | \$ _____ |
| 21.24 Other                | \$ _____ |

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

22.2 If answer is yes:

|  |          |
|--|----------|
| 22.21 Amount paid as losses or risk adjustment | \$ _____ |
| 22.22 Amount paid as expenses                  | \$ _____ |
| 22.23 Other amounts paid                       | \$ _____ |

## GENERAL INTERROGATORIES

- 23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes  No
- 23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$ \_\_\_\_\_

### INVESTMENT

- 24.01 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 24.03) Yes  No

24.02 If no, give full and complete information, relating thereto:  
 THE SECURITIES ARE HELD BY THE REPORTING ENTITY'S CUSTODIAN BANK, STATESTREET BANK  
 .....  
 .....

24.03 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided):  
 .....  
 .....

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

24.05 If answer to 24.04 is yes, report amount of collateral for conforming programs. \$ \_\_\_\_\_

24.06 If answer to 24.04 is no, report amount of collateral for other programs. \$ \_\_\_\_\_

- 24.07 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes  No  N/A

- 24.08 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes  No  N/A

- 24.09 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes  No  N/A

- 24.10 For the reporting entity's security lending program, state the amount of the following as of December 31 of the current year:
- 24.101 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 \$ \_\_\_\_\_
- 24.102 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 \$ \_\_\_\_\_
- 24.103 Total payable for securities lending reported on the liability page \$ \_\_\_\_\_

- 25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 21.1 and 24.03). Yes  No

- 25.2 If yes, state the amount thereof at December 31 of the current year:
- |  |       |  |                      |
|--|-------|--|----------------------|
|  | 25.21 | Subject to repurchase agreements                 | \$ <u>825,861</u>    |
|  | 25.22 | Subject to reverse repurchase agreements         | \$ _____             |
|  | 25.23 | Subject to dollar repurchase agreements          | \$ _____             |
|  | 25.24 | Subject to reverse dollar repurchase agreements  | \$ _____             |
|  | 25.25 | Pledged as collateral                            | \$ <u>85,319,529</u> |
|  | 25.26 | Placed under option agreements                   | \$ _____             |
|  | 25.27 | Letter stock or securities restricted as to sale | \$ _____             |
|  | 25.28 | On deposit with state or other regulatory body   | \$ _____             |
|  | 25.29 | Other  | \$ _____             |

25.3 For category (25.27) provide the following:

| 1<br>Nature of Restriction | 2<br>Description | 3<br>Amount |
|----------------------------|------------------|-------------|
| .....                      | .....            | .....       |
| .....                      | .....            | .....       |

## GENERAL INTERROGATORIES

26.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes  No

26.2 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  N/A

27.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes  No

27.2 If yes, state the amount thereof at December 31 of the current year. \$ \_\_\_\_\_

28. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes  No

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

| 1<br>Name of Custodian(s) | 2<br>Custodian's Address               |
|---------------------------|--|
| STATESTRET BANK & TRUST   | 200 CLARENDON STREET, BOSTON, MA 02111 |
|                           |  |

28.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

| 1<br>Name(s) | 2<br>Location(s) | 3<br>Complete Explanation(s) |
|--------------|------------------|------------------------------|
|              |                  |                              |
|              |                  |                              |

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

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

| 1<br>Old Custodian | 2<br>New Custodian | 3<br>Date of Change | 4<br>Reason |
|--------------------|--------------------|---------------------|-------------|
|                    |                    |                     |             |
|                    |                    |                     |             |

28.05 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

| 1<br>Central Registration Depository Number(s) | 2<br>Name                   | 3<br>Address                           |
|--|-----------------------------|--|
| 107423   | CONNING ASSET MANAGEMENT    | ONE FINANCIAL PLAZA HARTFORD, CT 06103 |
| 108254   | ADVISORY RESEARCH           | TWO PRUDENTIAL PLAZA 180 N. STETSON    |
| 108254   | ADVISORY RESEARCH           | SUITE 5500, CHICAGO, IL 60601          |
| 145923   | GLOBAL CURRENTS INVESTMENTS | 2 RIGHTER PARKWAY SUITE 100            |
| 145923   | GLOBAL CURRENT INVESTMENTS  | DELAWARE CORPORATE CENTER              |
| 145923   | GLOBAL CURRENT INVESTMENTS  | WILMINGTON, DE 19803                   |

29.1 Does the reporting entity have any diversified mutual funds reported in Schedule D – Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes  No

29.2 If yes, complete the following schedule:

| 1<br>CUSIP # | 2<br>Name of Mutual Fund | 3<br>Book/Adjusted Carrying Value |
|--------------|--------------------------|-----------------------------------|
|              |                          |                                   |
|              |                          |                                   |
| 29.2999      | TOTAL                    |                                   |

## GENERAL INTERROGATORIES

29.3 For each mutual fund listed in the table above, complete the following schedule:

| 1<br>Name of Mutual Fund<br>(from above table) | 2<br>Name of Significant Holding<br>of the Mutual Fund | 3<br>Amount of Mutual Fund's<br>Book/Adjusted Carrying Value<br>Attributable to the Holding | 4<br>Date of Valuation |
|--|--|---|------------------------|
|  |  |   |                        |
|  |  |   |                        |

30. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

|                       | 1<br>Statement (Admitted)<br>Value | 2<br>Fair Value | 3<br>Excess of Statement<br>over Fair Value (-),<br>or Fair Value over<br>Statement (+) |
|-----------------------|------------------------------------|-----------------|---|
| 30.1 Bonds            | 299,940,426                        | 317,465,287     | 17,824,861  |
| 30.2 Preferred stocks | 292,774                            | 292,774         |   |
| 30.3 Totals           | 300,233,200                        | 317,758,061     | 17,824,861  |

30.4 Describe the sources or methods utilized in determining the fair values:  
 PROVIDED BY RATING SOURCES UTILIZED BY THE CUSTODIAN, STATESTREET BANK, PRICING SOURCES INCLUDE IDC,  
 FUNDWEB AND BLOOMBERG.  
 .....  
 .....

31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [ X ] No [ ]

31.2 If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [ X ] No [ ]

31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:  
 .....  
 .....  
 .....

32.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [ X ] No [ ]

32.2 If no, list exceptions:  
 .....  
 .....

### OTHER

33.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$ 2,906,926

33.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

| 1<br>Name                          | 2<br>Amount Paid |
|------------------------------------|------------------|
| Blue Cross Blue Shield Association | \$ 1,542,405     |
|                                    | \$               |
|                                    | \$               |

34.1 Amount of payments for legal expenses, if any? \$ 1,074,300

## GENERAL INTERROGATORIES

34.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

| 1<br>Name | 2<br>Amount Paid |
|-----------|------------------|
| .....     | \$ .....         |
| .....     | \$ .....         |
| .....     | \$ .....         |

35.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?

\$ 923,207

35.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

| 1<br>Name | 2<br>Amount Paid |
|-----------|------------------|
| .....     | \$ .....         |
| .....     | \$ .....         |
| .....     | \$ .....         |

## GENERAL INTERROGATORIES PART 2 - HEALTH INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes  No
- 1.2 If yes, indicate premium earned on U.S. business only. \$ 53,964,484
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ \_\_\_\_\_
- 1.31 Reason for excluding  
.....  
.....  
.....
- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$ \_\_\_\_\_
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. \$ 44,998,286
- 1.6 Individual policies:
- Most current three years:
- 1.61 Total premium earned \$ 5,908,919
- 1.62 Total incurred claims \$ 5,150,860
- 1.63 Number of covered lives 2,629
- All years prior to most current three years:
- 1.64 Total premium earned \$ 34,575,041
- 1.65 Total incurred claims \$ 30,139,391
- 1.66 Number of covered lives 15,389
- 1.7 Group policies:
- Most current three years:
- 1.71 Total premium earned \$ 2,465,430
- 1.72 Total incurred claims \$ 1,775,486
- 1.73 Number of covered lives 1,017
- All years prior to most current three years:
- 1.74 Total premium earned \$ 11,015,094
- 1.75 Total incurred claims \$ 7,932,549
- 1.76 Number of covered lives 5,949

2. Health Test:

|                               | 1<br>Current Year       | 2<br>Prior Year         |
|-------------------------------|-------------------------|-------------------------|
| 2.1 Premium Numerator         | \$ <u>1,536,673,984</u> | \$ <u>1,565,901,741</u> |
| 2.2 Premium Denominator       | \$ <u>1,536,673,984</u> | \$ <u>1,565,901,741</u> |
| 2.3 Premium Ratio (2.1 / 2.2) | <u>1.000</u>            | <u>1.000</u>            |
| 2.4 Reserve Numerator         | \$ <u>142,951,063</u>   | \$ <u>113,042,551</u>   |
| 2.5 Reserve Denominator       | \$ <u>162,538,999</u>   | \$ <u>116,060,212</u>   |
| 2.6 Reserve Ratio (2.4 / 2.5) | <u>0.879</u>            | <u>0.974</u>            |

- 3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? Yes  No
- 3.2 If yes, give particulars:  
.....  
.....  
.....
- 4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? Yes  No
- 4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? Yes  No
- 5.1 Does the reporting entity have stop-loss reinsurance? Yes  No
- 5.2 If no, explain:  
THE COMPANY EVALUATES THE NEED FOR REINSURANCE BY REVIEWING THE LINES OF BUSINESS UNDERWRITTEN AND CONTRACTS IN FORCE. FOR CALENDAR YEAR 2012, THERE WAS NOT A NEED TO ENTER INTO A STOP-LOSS REINSURANCE AGREEMENT.  
.....  
.....

- 5.3 Maximum retained risk (see instructions)
- 5.31 Comprehensive Medical \$ \_\_\_\_\_
- 5.32 Medical Only \$ \_\_\_\_\_
- 5.33 Medicare Supplement \$ \_\_\_\_\_
- 5.34 Dental and vision \$ \_\_\_\_\_
- 5.35 Other Limited Benefit Plan \$ \_\_\_\_\_
- 5.36 Other \$ \_\_\_\_\_

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:  
STATE INSURANCE LAW MANDATES THE PLAN HAVE TOTAL RESERVES SUFFICIENT TO PAY CLAIMS AND ADMINISTRATIVE EXPENSES FOR NOT LESS THAN ONE MONTH. ALSO, THE PLAN HAS HOLD HARMLESS PROVISIONS IN ITS CONTRACTS WITH PARTICIPATING HOSPITALS AND PROVIDERS. IN ADDITION, THE PLAN HAS A CONTINUATION OF COVERAGE POLICY IN FORCE TO PROTECT SUBSCRIBERS AND THEIR DEPENDENTS AGAINST THE RISK OF INSOLVENCY.  
.....  
.....

## GENERAL INTERROGATORIES PART 2 - HEALTH INTERROGATORIES

- 7.1 Does the reporting entity set up its claim liability for provider services on a service date basis? Yes  No
- 7.2 If no, give details:  
 .....  
 .....  
 .....
8. Provide the following information regarding participating providers:
- |  |       |
|--|-------|
| 8.1 Number of providers at start of reporting year | 3,800 |
| 8.2 Number of providers at end of reporting year   | 3,855 |
- 9.1 Does the reporting entity have business subject to premium rate guarantees? Yes  No
- 9.2 If yes, direct premium earned:
- |   |  |
|---|--|
| 9.21 Business with rate guarantees between 15-36 months |  |
| 9.22 Business with rate guarantees over 36 months       |  |
- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts? Yes  No
- 10.2 If yes:
- |   |          |
|---|----------|
| 10.21 Maximum amount payable bonuses          | \$ _____ |
| 10.22 Amount actually paid for year bonuses   | \$ _____ |
| 10.23 Maximum amount payable withholds        | \$ _____ |
| 10.24 Amount actually paid for year withholds | \$ _____ |
- 11.1 Is the reporting entity organized as:
- |   |   |
|---|---|
| 11.12 A Medical Group/Staff Model,                  | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| 11.13 An Individual Practice Association (IPA), or, | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
| 11.14 A Mixed Model (combination of above)?         | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> |
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? Yes  No
- 11.3 If yes, show the name of the state requiring such net worth:  
 RHODE ISLAND  
 .....  
 .....
- 11.4 If yes, show the amount required. \$ 134,068,737
- 11.5 Is this amount included as part of a contingency reserve in stockholder's equity? Yes  No
- 11.6 If the amount is calculated, show the calculation:  
 TOTAL UNDERWRITING DEDUCTIONS PAGE 4 LINE 23 \$1,608,824,844 DIVIDED BY TWELVE (12) MONTHS TO DERIVE THE  
 MINIMUM NET WORTH OF \$134,068,737.  
 .....  
 .....

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

| 1                    |       |
|----------------------|-------|
| Name of Service Area |       |
| RHODE ISLAND         |       |
| .....                | ..... |
| .....                | ..... |

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

## FIVE – YEAR HISTORICAL DATA

|  | 1             | 2             | 3             | 4             | 5             |
|--|---------------|---------------|---------------|---------------|---------------|
|  | 2012          | 2011          | 2010          | 2009          | 2008          |
| <b>Balance Sheet (Pages 2 and 3)</b>   |               |               |               |               |               |
| 1. Total admitted assets (Page 2, Line 28)   | 583,688,989   | 605,459,619   | 606,811,906   | 678,811,789   | 710,342,300   |
| 2. Total liabilities (Page 3, Line 24)   | 323,505,534   | 282,057,660   | 357,825,521   | 380,090,428   | 298,024,531   |
| 3. Statutory surplus   | 134,068,737   | 124,470,969   | 140,971,579   | 152,466,148   | 142,363,654   |
| 4. Total capital and surplus (Page 3, Line 33)   | 260,183,455   | 323,401,959   | 248,986,385   | 298,721,361   | 412,317,769   |
| <b>Income Statement (Page 4)</b>   |               |               |               |               |               |
| 5. Total revenues (Line 8)   | 1,558,114,822 | 1,568,919,402 | 1,631,066,913 | 1,703,431,639 | 1,755,800,556 |
| 6. Total medical and hospital expenses (Line 18)   | 1,374,804,008 | 1,339,095,989 | 1,441,329,089 | 1,468,119,146 | 1,474,745,336 |
| 7. Claims adjustment expenses (Line 20)  | 84,909,363    | 92,075,577    | 88,526,853    | 89,814,615    | 77,527,212    |
| 8. Total administrative expenses (Line 21)   | 149,111,473   | 155,180,064   | 170,703,009   | 170,246,019   | 156,091,304   |
| 9. Net underwriting gain (loss) (Line 24)  | (50,710,022)  | 75,267,772    | (60,592,038)  | (126,162,141) | 47,436,704    |
| 10. Net investment gain (loss) (Line 27)   | 16,664,500    | 10,733,049    | 29,702,359    | 16,688,392    | 5,078,466     |
| 11. Total other income (Lines 28 plus 29)  | (7,448,147)   | (13,299,153)  | 9,666,943     | 4,417,521     | (2,300,079)   |
| 12. Net income or (loss) (Line 32)   | (41,536,449)  | 72,708,907    | (14,079,686)  | (99,944,419)  | 43,538,592    |
| <b>Cash Flow (Page 6)</b>  |               |               |               |               |               |
| 13. Net cash from operations (Line 11)   | (15,783,232)  | 15,476,526    | (36,992,190)  | (12,426,528)  | 31,811,770    |
| <b>Risk-Based Capital Analysis</b>   |               |               |               |               |               |
| 14. Total adjusted capital   | 260,183,455   | 323,401,959   | 248,986,385   | 298,721,361   | 412,317,769   |
| 15. Authorized control level risk-based capital  | 55,145,307    | 52,986,166    | 54,839,634    | 56,298,644    | 55,857,112    |
| <b>Enrollment (Exhibit 1)</b>  |               |               |               |               |               |
| 16. Total members at end of period (Column 5, Line 7)  | 355,338       | 351,804       | 353,931       | 383,164       | 499,151       |
| 17. Total members months (Column 6, Line 7)  | 4,280,870     | 4,202,517     | 4,451,995     | 4,649,054     | 5,979,122     |
| <b>Operating Percentage (Page 4)</b>   |               |               |               |               |               |
| (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100.0   |               |               |               |               |               |
| 18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)                                      | 100.0         | 100.0         | 100.0         | 100.0         | 100.0         |
| 19. Total hospital and medical plus other non-health<br>(Lines 18 plus Line 19)                        | 88.2          | 85.4          | 88.4          | 86.2          | 84.0          |
| 20. Cost containment expenses  | 1.9           | 1.6           | 1.6           | 1.3           | 1.1           |
| 21. Other claims adjustment expenses   | 3.5           | 4.2           | 3.8           | 4.0           | 3.3           |
| 22. Total underwriting deductions (Line 23)  | 103.3         | 95.2          | 103.7         | 107.4         | 97.3          |
| 23. Total underwriting gain (loss) (Line 24)   | (3.3)         | 4.8           | (3.7)         | (7.4)         | 2.7           |
| <b>Unpaid Claims Analysis</b>  |               |               |               |               |               |
| (U&I Exhibit, Part 2B)   |               |               |               |               |               |
| 24. Total claims incurred for prior years (Line 13, Col. 5)  | 111,554,999   | 113,600,091   | 134,920,896   | 116,502,593   | 129,572,186   |
| 25. Estimated liability of unpaid claims-[prior year (Line 13, Col. 6)]                                | 113,042,551   | 126,432,739   | 124,696,132   | 133,567,388   | 147,316,108   |
| <b>Investments In Parent, Subsidiaries and Affiliates</b>  |               |               |               |               |               |
| 26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)   |               |               |               |               |               |
| 27. Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)                                      |               |               |               |               |               |
| 28. Affiliated common stocks (Sch. D Summary, Line 24, Col. 1)   |               |               |               |               |               |
| 29. Affiliated short-term investments (subtotal<br>included in Sch. DA Verification, Col. 5, Line 10 ) |               |               |               |               |               |
| 30. Affiliated mortgage loans on real estate   |               |               |               |               |               |
| 31. All other affiliated   | 4,393,561     | 4,892,786     | 5,892,139     | 5,169,448     | 3,956,436     |
| 32. Total of above Lines 26 to 31  | 4,393,561     | 4,892,786     | 5,892,139     | 5,169,448     | 3,956,436     |
| 33. Total investment in parent included in Lines 26 to 31 above.                                       |               |               |               |               |               |

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

Yes [ ] No [X]

If no, please explain:

.....  
.....  
.....  
.....

## SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

### Allocated by States and Territories

| States, Etc.  | 1             | Direct Business Only       |                      |                    |  |  |                            |                           |                        |
|---|---------------|----------------------------|----------------------|--------------------|--|--|----------------------------|---------------------------|------------------------|
|   |               | 2                          | 3                    | 4                  | 5  | 6  | 7                          | 8                         | 9                      |
|   | Active Status | Accident & Health Premiums | Medicare Title XVIII | Medicaid Title XIX | Federal Employees Health Benefits Program Premiums | Life & Annuity Premiums & Other Considerations | Property/Casualty Premiums | Total Columns 2 Through 7 | Deposit-Type Contracts |
| 1. Alabama  | AL            | N                          |                      |                    |  |  |                            |                           |                        |
| 2. Alaska   | AK            | N                          |                      |                    |  |  |                            |                           |                        |
| 3. Arizona  | AZ            | N                          |                      |                    |  |  |                            |                           |                        |
| 4. Arkansas   | AR            | N                          |                      |                    |  |  |                            |                           |                        |
| 5. California   | CA            | N                          |                      |                    |  |  |                            |                           |                        |
| 6. Colorado   | CO            | N                          |                      |                    |  |  |                            |                           |                        |
| 7. Connecticut  | CT            | N                          |                      |                    |  |  |                            |                           |                        |
| 8. Delaware   | DE            | N                          |                      |                    |  |  |                            |                           |                        |
| 9. District of Columbia                                       | DC            | N                          |                      |                    |  |  |                            |                           |                        |
| 10. Florida   | FL            | N                          |                      |                    |  |  |                            |                           |                        |
| 11. Georgia   | GA            | N                          |                      |                    |  |  |                            |                           |                        |
| 12. Hawaii  | HI            | N                          |                      |                    |  |  |                            |                           |                        |
| 13. Idaho   | ID            | N                          |                      |                    |  |  |                            |                           |                        |
| 14. Illinois  | IL            | N                          |                      |                    |  |  |                            |                           |                        |
| 15. Indiana   | IN            | N                          |                      |                    |  |  |                            |                           |                        |
| 16. Iowa  | IA            | N                          |                      |                    |  |  |                            |                           |                        |
| 17. Kansas  | KS            | N                          |                      |                    |  |  |                            |                           |                        |
| 18. Kentucky  | KY            | N                          |                      |                    |  |  |                            |                           |                        |
| 19. Louisiana   | LA            | N                          |                      |                    |  |  |                            |                           |                        |
| 20. Maine   | ME            | N                          |                      |                    |  |  |                            |                           |                        |
| 21. Maryland  | MD            | N                          |                      |                    |  |  |                            |                           |                        |
| 22. Massachusetts   | MA            | N                          |                      |                    |  |  |                            |                           |                        |
| 23. Michigan  | MI            | N                          |                      |                    |  |  |                            |                           |                        |
| 24. Minnesota   | MN            | N                          |                      |                    |  |  |                            |                           |                        |
| 25. Mississippi   | MS            | N                          |                      |                    |  |  |                            |                           |                        |
| 26. Missouri  | MO            | N                          |                      |                    |  |  |                            |                           |                        |
| 27. Montana   | MT            | N                          |                      |                    |  |  |                            |                           |                        |
| 28. Nebraska  | NE            | N                          |                      |                    |  |  |                            |                           |                        |
| 29. Nevada  | NV            | N                          |                      |                    |  |  |                            |                           |                        |
| 30. New Hampshire   | NH            | N                          |                      |                    |  |  |                            |                           |                        |
| 31. New Jersey  | NJ            | N                          |                      |                    |  |  |                            |                           |                        |
| 32. New Mexico  | NM            | N                          |                      |                    |  |  |                            |                           |                        |
| 33. New York  | NY            | N                          |                      |                    |  |  |                            |                           |                        |
| 34. North Carolina  | NC            | N                          |                      |                    |  |  |                            |                           |                        |
| 35. North Dakota  | ND            | N                          |                      |                    |  |  |                            |                           |                        |
| 36. Ohio  | OH            | N                          |                      |                    |  |  |                            |                           |                        |
| 37. Oklahoma  | OK            | N                          |                      |                    |  |  |                            |                           |                        |
| 38. Oregon  | OR            | N                          |                      |                    |  |  |                            |                           |                        |
| 39. Pennsylvania  | PA            | N                          |                      |                    |  |  |                            |                           |                        |
| 40. Rhode Island  | RI            | L                          | 1,075,100,024        | 384,649,071        | 2,642  | 101,536,145                                    |                            | 1,561,287,882             |                        |
| 41. South Carolina  | SC            | N                          |                      |                    |  |  |                            |                           |                        |
| 42. South Dakota  | SD            | N                          |                      |                    |  |  |                            |                           |                        |
| 43. Tennessee   | TN            | N                          |                      |                    |  |  |                            |                           |                        |
| 44. Texas   | TX            | N                          |                      |                    |  |  |                            |                           |                        |
| 45. Utah  | UT            | N                          |                      |                    |  |  |                            |                           |                        |
| 46. Vermont   | VT            | N                          |                      |                    |  |  |                            |                           |                        |
| 47. Virginia  | VA            | N                          |                      |                    |  |  |                            |                           |                        |
| 48. Washington  | WA            | N                          |                      |                    |  |  |                            |                           |                        |
| 49. West Virginia   | WV            | N                          |                      |                    |  |  |                            |                           |                        |
| 50. Wisconsin   | WI            | N                          |                      |                    |  |  |                            |                           |                        |
| 51. Wyoming   | WY            | N                          |                      |                    |  |  |                            |                           |                        |
| 52. American Samoa  | AS            | N                          |                      |                    |  |  |                            |                           |                        |
| 53. Guam  | GU            | N                          |                      |                    |  |  |                            |                           |                        |
| 54. Puerto Rico   | PR            | N                          |                      |                    |  |  |                            |                           |                        |
| 55. U.S. Virgin Islands                                       | VI            | N                          |                      |                    |  |  |                            |                           |                        |
| 56. Northern Mariana Islands                                  | MP            | N                          |                      |                    |  |  |                            |                           |                        |
| 57. Canada  | CAN           | N                          |                      |                    |  |  |                            |                           |                        |
| 58. Aggregate other alien                                     | OT            | X X X                      |                      |                    |  |  |                            |                           |                        |
| 59. Subtotal  |               | X X X                      | 1,075,100,024        | 384,649,071        | 2,642  | 101,536,145                                    |                            | 1,561,287,882             |                        |
| 60. Reporting entity contributions for Employee Benefit Plans |               | X X X                      | 529,325              | 288,442            |  |  |                            | 817,767                   |                        |
| 61. Totals (Direct Business)                                  | (a) 1         |                            | 1,075,629,349        | 384,937,513        | 2,642  | 101,536,145                                    |                            | 1,562,105,649             |                        |

| DETAILS OF WRITE-INS   |  |       |  |  |  |  |  |  |  |
|--|--|-------|--|--|--|--|--|--|--|
| 58001.   |  | X X X |  |  |  |  |  |  |  |
| 58002.   |  | X X X |  |  |  |  |  |  |  |
| 58003.   |  | X X X |  |  |  |  |  |  |  |
| 58998. Summary of remaining write-ins for Line 58 from overflow page |  | X X X |  |  |  |  |  |  |  |
| 58999. Totals (Lines 58001 through 58003 plus 58998) (Line 58 above) |  | X X X |  |  |  |  |  |  |  |

NONE

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

**Explanation of basis of allocation by states, premiums by state, etc.**

ALL PREMIUMS ARE ALLOCATED TO RHODE ISLAND

(a) Insert the number of L responses except for Canada and Other Alien.

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

### PART 1 - ORGANIZATIONAL CHART

**Company Name**

BLUE CROSS & BLUE SHIELD OF RHODE ISLAND (Parent)

HEALTH & WELLNESS INSTITUTE (Subsidiary)

**OVERFLOW PAGE FOR WRITE-INS**

**Page 2 - Continuation**

|   | Current Year |                       |   | Prior Year             |
|---|--------------|-----------------------|---|------------------------|
|   | 1            | 2                     | 3                                       | 4                      |
| <b>REMAINING WRITE-INS AGGREGATED AT LINE 25<br/>FOR OTHER THAN INVESTED ASSETS</b> | Assets       | Nonadmitted<br>Assets | Net Admitted<br>Assets<br>(Cols. 1 - 2) | Net Admitted<br>Assets |
| 2504. PBM IMPLEMENTATION COST RECOVERY  | 1,773,615    |                       | 1,773,615                               |                        |
| 2505. COLLATERAL FUND HOME & HOST   | 394,779      |                       | 394,779                                 | 369,110                |
| 2506. PNS EQUIPMENT/BLUE CROSS MDSE INVENTORY                                       | 8,510        | 8,510                 |   |                        |
| 2507. HISTORIC PRESERVATION TAX CREDITS   |              |                       |   | 3,069,576              |
| 2597. Totals (Lines 2504 through 2596) (Page 2, Line 2598)                          | 2,176,904    | 8,510                 | 2,168,394                               | 3,438,686              |

**OVERFLOW PAGE FOR WRITE-INS**

**Page 3 - Continuation**

|  | Current Year |                |            | Prior Year |
|--|--------------|----------------|------------|------------|
|  | 1<br>Covered | 2<br>Uncovered | 3<br>Total | 4<br>Total |
| <b>WRITE-INS AGGREGATED AT LINE 23 FOR OTHER LIABILITIES</b> |              |                |            |            |
| 2304. FEP & MISCELLANEOUS CLAIMS PAYABLES                    | 1,081,708    |                | 1,081,708  | 1,920,269  |
| 2305. PAYABLE FOR ANNUAL EXPERIENCE ACCOUNTING               | 152,993      |                | 152,993    | 912,673    |
| 2397. Totals (Lines 2304 through 2396) (Page 3, Line 23)     | 1,234,701    |                | 1,234,701  | 2,832,942  |

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**OVERFLOW PAGE FOR WRITE-INS**


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**Page 4 - Continuation**

| WRITE-INS AGGREGATED AT LINE 29 FOR STATEMENT OF REVENUE AND EXPENSES | Current Year   |              | Prior Year   |
|---|----------------|--------------|--------------|
|   | 1<br>Uncovered | 2<br>Total   | 3<br>Total   |
| 2904. BLUECARD HOST REVENUE   |                |              | 4,380,781    |
| 2905. INCOME FROM HISTORIC TAX CREDITS                                |                |              | 790,742      |
| 2906. ELECTRONIC HEALTH RECORDS                                       |                |              | (305,450)    |
| 2907. RI COMMUNITY FOUNDATION   |                |              | (3,600,000)  |
| 2908. DEPOSIT (PREMIUM ASSISTANCE PROGRAM)                            |                |              | (4,500,000)  |
| 2909. INTEREST IRS  |                | (57,967)     | (106,828)    |
| 2910. INVESTMENT EXPENSE (PREMIUM ASSISTANCE PROGRAM)                 |                | (179,076)    | (140,878)    |
| 2911. EMR GRANT PROGRAM   |                | (181,819)    | (633,030)    |
| 2912. INTEREST EXPENSE LINE OF CREDIT                                 |                | (224,592)    | (151,047)    |
| 2913. BANK SERVICE CHARGES  |                | (320,684)    | (327,022)    |
| 2914. HEALTH INFORMATION EXCHANGE                                     |                | (1,617,978)  | (1,902,000)  |
| 2915. QUALIFIED PENSION SETTLEMENT                                    |                | (9,186,130)  | (11,345,818) |
| 2997. Totals (Lines 2901 through 2996) (Page 4, Line 2998)            |                | (11,768,246) | (17,840,550) |

**OVERFLOW PAGE FOR WRITE-INS**

**Page 5 - Continuation**

| WRITE-INS AGGREGATED AT LINE 47 FOR STATEMENT OF REVENUE AND EXPENSES | 1            | 2          |
|---|--------------|------------|
|   | Current Year | Prior Year |
| 4704. ADDITIONAL PENSION MINIMUM LIABILITY                            | (4,942,561)  | 26,367,913 |
| 4797. Totals (Lines 4701 through 4796) (Page 4, Line 4798)            | (4,942,561)  | 26,367,913 |

**OVERFLOW PAGE FOR WRITE-INS**

**Page 13 - Continuation**

|  | 1     | 2  | 3                      | 4              | 5              | 6   | 7                                   | 8                        | 9     |
|--|-------|--|------------------------|----------------|----------------|---|-------------------------------------|--------------------------|-------|
| <b>WRITE-INS AGGREGATED AT LINE 05 FOR<br/>UNDERWRITING AND INVESTMENT EXHIBIT</b> | Total | Comprehensive<br>(Hospital &<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other |
| 0597. Totals (Lines 0501 through 0596) (Page 13, Line 0598)                        |       |  |                        |                |                |   |                                     |                          |       |

|  | 1     | 2  | 3                      | 4              | 5              | 6   | 7                          | 8                        | 9     |
|--|-------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-------|
| <b>WRITE-INS AGGREGATED AT LINE 11 FOR<br/>UNDERWRITING AND INVESTMENT EXHIBIT</b> | Total | Comprehensive<br>(Hospital &<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other |
| 1197. Totals (Lines 1101 through 1196) (Page 13, Line 1198)                        |       |  |                        |                |                |   |                            |                          |       |

**OVERFLOW PAGE FOR WRITE-INS**

**Page 14 - Continuation**

|  | Claim Adjustment Expenses |                                 | 3                               | 4                   | 5            |
|--|---------------------------|---------------------------------|---------------------------------|---------------------|--------------|
|  | 1                         | 2                               |                                 |                     |              |
| <b>WRITE-INS AGGREGATED AT LINE 25 FOR UNDERWRITING AND INVESTMENT EXHIBIT</b> | Cost Containment Expenses | Other Claim Adjustment Expenses | General Administrative Expenses | Investment Expenses | Total        |
| 2504. AGENCY & PORTFOLIO MANAGEMENT FEES                                       |                           |                                 |                                 | 750,933             | 750,933      |
| 2505. ADMIN ALLOWANCE BLUE CARD HOST   |                           | (3,894,524)                     |                                 |                     | (3,894,524)  |
| 2506. PBM IMPLEMENTATION COSTS   |                           | (1,773,615)                     |                                 |                     | (1,773,615)  |
| 2507. MISCELLANEOUS  | (27,225)                  | 17,785                          | 602,021                         |                     | 592,581      |
| 2508. BLUECARD ADMIN FEE INCOME  | (3,654,967)               | (7,481,027)                     |                                 |                     | (11,135,994) |
| 2597. Totals (Lines 2501 through 2596) (Page 14, Line 2598)                    | (3,682,192)               | (13,131,381)                    | 602,021                         | 750,933             | (15,460,619) |

**OVERFLOW PAGE FOR WRITE-INS**

**Page 17 - Continuation**

|   | Total Members at End of |                       |                        |                       |                      | 6<br>Current Year<br>Member<br>Months |
|---|-------------------------|-----------------------|------------------------|-----------------------|----------------------|---------------------------------------|
|   | 1<br>Prior<br>Year      | 2<br>First<br>Quarter | 3<br>Second<br>Quarter | 4<br>Third<br>Quarter | 5<br>Current<br>Year |                                       |
| <b>WRITE-INS AGGREGATED AT LINE 06 FOR EXHIBIT 1</b>      |                         |                       |                        |                       |                      |                                       |
| 0604. MEDICARE PRESCRIPTION DRUG PLAN .....               | 8,985                   | 8,832                 | 8,906                  | 10,151                | 10,236               | 113,792                               |
| 0605. TEMPORARY HIGH RISK POOL .....                      | 137                     | 159                   | 161                    | 159                   | 158                  | 1,883                                 |
| 0697. Totals (Lines 0601 through 0697) (Page 17, Line 06) | 9,122                   | 8,991                 | 9,067                  | 10,310                | 10,394               | 115,675                               |

## ALPHABETICAL INDEX TO HEALTH ANNUAL STATEMENT

|  |      |   |      |
|--|------|---|------|
| Analysis of Operations By Lines of Business                      | 7    | Schedule D – Part 6 – Section 2   | E16  |
| Assets   | 2    | Schedule D – Summary By Country   | SI04 |
| Cash Flow  | 6    | Schedule D – Verification Between Years   | SI03 |
| Exhibit 1 – Enrollment By Product Type for Health Business Only  | 17   | Schedule DA – Part 1  | E17  |
| Exhibit 2 – Accident and Health Premiums Due and Unpaid          | 18   | Schedule DA – Verification Between Years  | SI10 |
| Exhibit 3 – Health Care Receivables                              | 19   | Schedule DB – Part A – Section 1  | E18  |
| Exhibit 4 – Claims Unpaid and Incentive Pool, Withhold and Bonus | 20   | Schedule DB – Part A – Section 2  | E19  |
| Exhibit 5 – Amounts Due From Parent, Subsidiaries and Affiliates | 21   | Schedule DB – Part A – Verification Between Years   | SI11 |
| Exhibit 6 – Amounts Due To Parent, Subsidiaries and Affiliates   | 22   | Schedule DB – Part B – Section 1  | E20  |
| Exhibit 7 – Part 1 – Summary of Transactions With Providers      | 23   | Schedule DB – Part B – Section 2  | E21  |
| Exhibit 7 – Part 2 – Summary of Transactions With Intermediaries | 23   | Schedule DB – Part B – Verification Between Years   | SI11 |
| Exhibit 8 – Furniture, Equipment and Supplies Owned              | 24   | Schedule DB – Part C – Section 1  | SI12 |
| Exhibit of Capital Gains (Losses)                                | 15   | Schedule DB – Part C – Section 2  | SI13 |
| Exhibit of Net Investment Income                                 | 15   | Schedule DB - Part D  | E22  |
| Exhibit of Nonadmitted Assets                                    | 16   | Schedule DB - Verification  | SI14 |
| Exhibit of Premiums, Enrollment and Utilization (State Page)     | 29   | Schedule DL - Part 1  | E23  |
| Five-Year Historical Data  | 28   | Schedule DL - Part 2  | E24  |
| General Interrogatories  | 26   | Schedule E – Part 1 – Cash  | E25  |
| Jurat Page   | 1    | Schedule E – Part 2 – Cash Equivalents  | E26  |
| Liabilities, Capital and Surplus                                 | 3    | Schedule E – Part 3 – Special Deposits  | E27  |
| Notes To Financial Statements                                    | 25   | Schedule E – Verification Between Years   | SI15 |
| Overflow Page For Write-ins                                      | 44   | Schedule S – Part 1 – Section 2   | 30   |
| Schedule A – Part 1  | E01  | Schedule S – Part 2   | 31   |
| Schedule A – Part 2  | E02  | Schedule S – Part 3 – Section 2   | 32   |
| Schedule A – Part 3  | E03  | Schedule S – Part 4   | 33   |
| Schedule A – Verification Between Years                          | SI02 | Schedule S – Part 5   | 34   |
| Schedule B – Part 1  | E04  | Schedule S – Part 6   | 36   |
| Schedule B – Part 2  | E05  | Schedule S – Part 7   | 37   |
| Schedule B – Part 3  | E06  | Schedule T – Part 2 – Interstate Compact  | 39   |
| Schedule B – Verification Between Years                          | SI02 | Schedule T – Premiums and Other Considerations  | 38   |
| Schedule BA – Part 1   | E07  | Schedule Y – Information Concerning Activities of Insurer Members<br>of a Holding Company Group | 40   |
| Schedule BA – Part 2   | E08  | Schedule Y - Part 1A - Detail of Insurance Holding Company System                               | 41   |
| Schedule BA – Part 3   | E09  | Schedule Y - Part 2 – Summary of Insurer's Transactions With Any Affiliates                     | 42   |
| Schedule BA – Verification Between Years                         | SI03 | Statement of Revenue and Expenses   | 4    |
| Schedule D – Part 1  | E10  | Summary Investment Schedule   | SI01 |
| Schedule D – Part 1A – Section 1                                 | SI05 | Supplemental Exhibits and Schedules Interrogatories   | 43   |
| Schedule D – Part 1A – Section 2                                 | SI08 | Underwriting and Investment Exhibit – Part 1  | 8    |
| Schedule D – Part 2 – Section 1                                  | E11  | Underwriting and Investment Exhibit – Part 2  | 9    |
| Schedule D – Part 2 – Section 2                                  | E12  | Underwriting and Investment Exhibit – Part 2A   | 10   |
| Schedule D – Part 3  | E13  | Underwriting and Investment Exhibit – Part 2B   | 11   |
| Schedule D – Part 4  | E14  | Underwriting and Investment Exhibit – Part 2C   | 12   |
| Schedule D – Part 5  | E15  | Underwriting and Investment Exhibit – Part 2D   | 13   |
| Schedule D – Part 6 – Section 1                                  | E16  | Underwriting and Investment Exhibit – Part 3  | 14   |