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# HEALTH ANNUAL STATEMENT

**FOR THE YEAR ENDING DECEMBER 31, 2003**

of the Condition and Affairs of the

# Blue Care Network of Michigan

NAIC Group Code..... 0572, 0572 (Current Period) (Prior Period) NAIC Company Code..... 95610 Employer's ID Number..... 38-2359234

Organized under the Laws of Michigan State of Domicile or Port of Entry Michigan Country of Domicile US

Licensed as Business Type Health Maintenance Organization

Is HMO Federally Qualified? Yes [ X ] No [ ]

Date Incorporated or Organized..... May 6, 1981 Date Commenced Business..... May 13, 1981

| | | |
|---|---|---|
| Statutory Home Office | 25925 Telegraph ..... Southfield ..... MI ..... 48086<br>*(Street and Number) (City or Town, State and Zip Code)* | |
| Main Administrative Office | 25925 Telegraph ..... Southfield ..... MI ..... 48086<br>*(Street and Number) (City or Town, State and Zip Code)* | 248-354-7450<br>*(Area Code) (Telephone Number)* |
| Mail Address | 25925 Telegraph MC BF355 ..... Southfield ..... MI ..... 48086<br>*(Street and Number or P. O. Box) (City or Town, State and Zip Code)* | |
| Primary Location of Books and Records | 25925 Telegraph ..... Southfield ..... MI ..... 48086<br>*(Street and Number) (City or Town, State and Zip Code)* | 248-593-3771<br>*(Area Code) (Telephone Number)* |
| Internet Website Address | www.bcbsm.com/bcn | |
| Statutory Statement Contact | Joseph Andraska<br>*(Name)* | 248-593-3775<br>*(Area Code) (Telephone Number) (Extension)* |
| | *jandraska@bcbsm.com*<br>*(E-Mail Address)* | *248-593-3961*<br>*(Fax Number)* |
| Policyowner Relations Contact | 25925 Telegraph ..... Southfield ..... MI ..... 48086<br>*(Street and Number) (City or Town, State and Zip Code)* | 800-662-6667<br>*(Area Code) (Telephone Number) (Extension)* |

## OFFICERS

President ..... Kevin Seitz Treasurer ..... Susan A. Kluge Secretary ..... Julie Swantek

## VICE PRESIDENTS

David R. Nelson Douglas R. Woll MD Jeanne Carlson

## DIRECTORS OR TRUSTEES

| | | | |
|---|---|---|---|
| Julie Angott | Mark R. Bartlett | William Black | Charles Burkett |
| Shauna Ryder Diggs MD | Frank Garrison | D. Bonta Hiscoe MD | Valeriah Ann Holmon |
| Gloria Klinge | Donald Oetman | Carmone Owens | Kevin Seitz |
| Gregory A. Sudderth | Diana L. Watson | Richard E. Whitmer | |

State of..... Michigan
County of..... Oakland

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.

| | | |
|---|---|---|
| Signature<br>Kevin Seitz<br>(Printed Name)<br>President & Chief Executive Officer | Signature<br>Julie Swantek<br>(Printed Name)<br>Secretary | Signature<br>Susan A. Kluge<br>(Printed Name)<br>Senior Vice President & Chief Financial Officer |

Subscribed and sworn to before me this

.....day of ....., 2004

.....

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

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

# ASSETS

| | Current Year 1 Assets | 2 Nonadmitted Assets | 3 Net Admitted Assets (Cols. 1 - 2) | Prior Year 4 Net Admitted Assets |
|---|---|---|---|---|
| 1. Bonds (Schedule D) | 40,683,046 | | 40,683,046 | 3,136,198 |
| 2. Stocks (Schedule D): | | | | |
| 2.1 Preferred stocks | | | 0 | |
| 2.2 Common stocks | 1,104,974 | | 1,104,974 | 770,974 |
| 3. Mortgage loans on real estate (Schedule B): | | | | |
| 3.1 First liens | | | 0 | |
| 3.2 Other than first liens | | | 0 | |
| 4. Real estate (Schedule A): | | | | |
| 4.1 Properties occupied by the company (less $.....5,052,052 encumbrances) | 715,971 | 34,388 | 681,583 | 903,727 |
| 4.2 Properties held for the production of income (less $.....0 encumbrances) | | | 0 | |
| 4.3 Properties held for sale (less $.....0 encumbrances) | | | 0 | |
| 5. Cash ($.....503,275, Sch. E-Part 1), cash equivalents ($.....21,191,299, Sch. E-Part 2) and short-term investments ($.....372,507,360 Sch. DA) | 394,201,934 | | 394,201,934 | 331,121,667 |
| 6. Contract loans (including $.....0 premium notes) | | | 0 | |
| 7. Other invested assets (Schedule BA) | 50,601,683 | | 50,601,683 | 47,813,064 |
| 8. Receivable for securities | | | 0 | |
| 9. Aggregate write-ins for invested assets | 40,761,935 | 0 | 40,761,935 | 16,401,788 |
| 10. Subtotals, cash and invested assets (Lines 1 to 9) | 528,069,543 | 34,388 | 528,035,155 | 400,147,418 |
| 11. Investment income due and accrued | 6,098,465 | | 6,098,465 | 4,688,778 |
| 12. Premiums and considerations: | | | | |
| 12.1 Uncollected premiums and agents' balances in course of collection | 3,675,265 | | 3,675,265 | 2,811,207 |
| 12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $.....0 earned but unbilled premiums) | | | 0 | |
| 12.3 Accrued retrospective premiums | | | 0 | |
| 13. Reinsurance: | | | | |
| 13.1 Amounts recoverable from reinsurers | | | 0 | |
| 13.2 Funds held by or deposited with reinsured companies | | | 0 | |
| 13.3 Other amounts receivable under reinsurance contracts | | | 0 | |
| 14. Amounts receivable relating to uninsured plans | | | 0 | |
| 15.1 Current federal and foreign income tax recoverable and interest thereon | | | 0 | |
| 15.2 Net deferred tax asset | | | 0 | |
| 16. Guaranty funds receivable or on deposit | | | 0 | |
| 17. Electronic data processing equipment and software | 4,983,348 | 4,488,735 | 494,613 | 616,803 |
| 18. Furniture and equipment, including health care delivery assets ($.....354,653) | 801,475 | 67,023 | 734,452 | 1,431,265 |
| 19. Net adjustment in assets and liabilities due to foreign exchange rates | | | 0 | |
| 20. Receivable from parent, subsidiaries and affiliates | 9,661,097 | 429,105 | 9,231,992 | 12,658,752 |
| 21. Health care ($.....4,122,431) and other amounts receivable | 5,744,292 | 299,918 | 5,444,374 | 4,671,434 |
| 22. Other assets nonadmitted | | | 0 | |
| 23. Aggregate write-ins for other than invested assets | 1,224,624 | 87,609 | 1,137,015 | 1,260,237 |
| 24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23) | 560,258,109 | 5,406,778 | 554,851,331 | 428,285,894 |
| 25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts | | | 0 | |
| 26. TOTALS (Lines 24 and 25) | 560,258,109 | 5,406,778 | 554,851,331 | 428,285,894 |

**DETAILS OF WRITE-INS**

| | | | | |
|---|---|---|---|---|
| 0901. Security Lending Collateral | 40,761,935 | | 40,761,935 | 16,401,788 |
| 0902. | | | 0 | |
| 0903. | | | 0 | |
| 0998. Summary of remaining write-ins for Line 9 from overflow page | 0 | 0 | 0 | 0 |
| 0999. Totals (Lines 0901 thru 0903 plus 0999) (Line 9 above) | 40,761,935 | 0 | 40,761,935 | 16,401,788 |
| 2301. Inventories | 1,137,015 | | 1,137,015 | 1,030,080 |
| 2302. Prepaid expenses | 77,328 | 77,328 | 0 | |
| 2303. Vehicle | 9,054 | 9,054 | 0 | |
| 2398. Summary of remaining write-ins for Line 23 from overflow page | 1,227 | 1,227 | 0 | 230,157 |
| 2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above) | 1,224,624 | 87,609 | 1,137,015 | 1,260,237 |

# LIABILITIES, CAPITAL AND SURPLUS

| | Current Period | | | Prior Year |
|---|---|---|---|---|
| | 1<br>Covered | 2<br>Uncovered | 3<br>Total | 4<br>Total |
| 1. Claims unpaid (less $.....0 reinsurance ceded) | 206,668,533 | | 206,668,533 | 192,416,590 |
| 2. Accrued medical incentive pool and bonus amounts | 40,229,789 | | 40,229,789 | 30,880,314 |
| 3. Unpaid claims adjustment expenses | 5,022,712 | | 5,022,712 | 1,843,008 |
| 4. Aggregate health policy reserves | 1,682,928 | | 1,682,928 | 1,145,698 |
| 5. Aggregate life policy reserves | | | 0 | |
| 6. Property/casualty unearned premium reserve | | | 0 | |
| 7. Aggregate health claim reserves | | | 0 | |
| 8. Premiums received in advance | 19,010,020 | | 19,010,020 | 27,116,354 |
| 9. General expenses due or accrued | 23,574,835 | | 23,574,835 | 16,320,997 |
| 10.1 Current federal and foreign income tax payable and interest thereon (including $.....0 on realized gains (losses)) | 276,250 | | 276,250 | |
| 10.2 Net deferred tax liability | | | 0 | |
| 11. Ceded reinsurance premiums payable | | | 0 | |
| 12. Amounts withheld or retained for the account of others | 1,905,054 | | 1,905,054 | 3,017,854 |
| 13. Remittances and items not allocated | 4,427 | | 4,427 | |
| 14. Borrowed money (including $.....0 current) and interest thereon $.....0 (including $.....0 current) | | | 0 | |
| 15. Amounts due to parent, subsidiaries and affiliates | 20,936,039 | | 20,936,039 | 7,960,051 |
| 16. Payable for securities | | | 0 | |
| 17. Funds held under reinsurance treaties with ($.....0 authorized reinsurers and $.....0 unauthorized reinsurers) | | | 0 | |
| 18. Reinsurance in unauthorized companies | | | 0 | |
| 19. Net adjustments in assets and liabilities due to foreign exchange rates | | | 0 | |
| 20. Liability for amounts held under uninsured accident and health plans | | | 0 | |
| 21. Aggregate write-ins for other liabilities (including $.....50,282,094 current) | 94,033,573 | 0 | 94,033,573 | 60,898,846 |
| 22. Total liabilities (Lines 1 to 21) | 413,344,160 | 0 | 413,344,160 | 341,599,712 |
| 23. Common capital stock | XXX | XXX | 50,000 | 50,000 |
| 24. Preferred capital stock | XXX | XXX | | |
| 25. Gross paid in and contributed surplus | XXX | XXX | 15,603,045 | 15,603,045 |
| 26. Surplus notes | XXX | XXX | | |
| 27. Aggregate write-ins for other than special surplus funds | XXX | XXX | 50,601,683 | 47,813,064 |
| 28. Unassigned funds (surplus) | XXX | XXX | 75,252,443 | 23,220,073 |
| 29. Less treasury stock at cost: | | | | |
| 29.1 .....0.000 shares common (value included in Line 23 $.....0) | XXX | XXX | | |
| 29.2 .....0.000 shares preferred (value included in Line 24 $.....0) | XXX | XXX | | |
| 30. Total capital and surplus (Lines 23 to 28 minus Line 29) | XXX | XXX | 141,507,171 | 86,686,182 |
| 31. Total liabilities, capital and surplus (Lines 22 and 30) | XXX | XXX | 554,851,331 | 428,285,894 |

**DETAILS OF WRITE-INS**

| | | | | |
|---|---|---|---|---|
| 2101. Accrued Post Retirement Benefits | 43,644,818 | | 43,644,818 | 38,178,430 |
| 2102. Accrued Pension | 106,661 | | 106,661 | 108,540 |
| 2103. Securtiy Lending Collateral | 40,761,935 | | 40,761,935 | 16,401,788 |
| 2198. Summary of remaining write-ins for Line 21 from overflow page | 9,520,159 | 0 | 9,520,159 | 6,210,088 |
| 2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above) | 94,033,573 | 0 | 94,033,573 | 60,898,846 |
| 2701. Equity In Affiliates | XXX | XXX | 50,601,683 | 47,813,064 |
| 2702. | XXX | XXX | | |
| 2703. | XXX | XXX | | |
| 2798. Summary of remaining write-ins for Line 27 from overflow page | XXX | XXX | 0 | 0 |
| 2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above) | XXX | XXX | 50,601,683 | 47,813,064 |

# STATEMENT OF REVENUE AND EXPENSES

| | Current Year 1 Uncovered | Current Year 2 Total | Prior Year 3 Total |
|---|---|---|---|
| 1. Member months | XXX | 5,898,716 | 6,280,413 |
| 2. Net premium income (including $.....0 non-health premium income) | XXX | 1,360,049,002 | 1,291,669,911 |
| 3. Change in unearned premium reserves and reserve for rate credits | XXX | (537,230) | (1,145,698) |
| 4. Fee-for-service (net of $.....15,959,958 medical expenses) | XXX | (7,027,696) | (5,032,019) |
| 5. Risk revenue | XXX | | |
| 6. Aggregate write-ins for other health care related revenues | XXX | 183,109 | 265,525 |
| 7. Aggregate write-ins for other non-health revenues | XXX | 0 | 0 |
| 8. Total revenues (Lines 2 to 7) | XXX | 1,352,667,185 | 1,285,757,719 |
| **Hospital and Medical:** | | | |
| 9. Hospital/medical benefits | | 712,250,743 | 704,708,837 |
| 10. Other professional services | | 39,798,674 | 47,874,162 |
| 11. Outside referrals | | 45,266,121 | 54,188,229 |
| 12. Emergency room and out-of-area | | 55,255,852 | 63,184,945 |
| 13. Prescription drugs | | 220,711,930 | 216,624,519 |
| 14. Aggregate write-ins for other hospital and medical | 0 | 1,956,570 | 45,006,092 |
| 15. Incentive pool, withhold adjustments and bonus amounts | | 23,253,184 | 18,638,956 |
| 16. Subtotal (Lines 9 to 15) | 0 | 1,098,493,074 | 1,150,225,740 |
| **Less:** | | | |
| 17. Net reinsurance recoveries | | | |
| 18. Total hospital and medical (Lines 16 minus 17) | 0 | 1,098,493,074 | 1,150,225,740 |
| 19. Non-health claims | | | |
| 20. Claims adjustment expenses | | 67,811,676 | 12,618,879 |
| 21. General administrative expenses | | 138,698,989 | 118,951,315 |
| 22. Increase in reserves for life and accident and health contracts including $.....0 increase in reserves for life only) | | | |
| 23. Total underwriting deductions (Lines 18 through 22) | 0 | 1,305,003,739 | 1,281,795,933 |
| 24. Net underwriting gain or (loss) (Lines 8 minus 23) | XXX | 47,663,446 | 3,961,786 |
| 25. Net investment income earned | | 5,706,851 | 7,850,193 |
| 26. Net realized capital gains or (losses) | | 36,254 | (1,302,544) |
| 27. Net investment gains or (losses) (Lines 25 plus 26) | 0 | 5,743,105 | 6,547,649 |
| 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 | 0 | 0 | 0 |
| 30. Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29) | XXX | 53,406,551 | 10,509,435 |
| 31. Federal and foreign income taxes incurred | XXX | 276,250 | |
| 32. Net income (loss) (Lines 30 minus 31) | XXX | 53,130,301 | 10,509,435 |

**DETAILS OF WRITE-INS**

| | | | |
|---|---|---|---|
| 0601. Pharmacy Revenue | XXX | 36,682 | 42,923 |
| 0602. Other Revenue | XXX | 146,427 | 222,602 |
| 0603. | XXX | | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | XXX | 0 | 0 |
| 0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above) | XXX | 183,109 | 265,525 |
| 0701. | XXX | | |
| 0702. | XXX | | |
| 0703. | XXX | | |
| 0798. Summary of remaining write-ins for Line 7 from overflow page | XXX | 0 | 0 |
| 0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above) | XXX | 0 | 0 |
| 1401. Other Medical Expense | | 2,996,547 | 39,717,930 |
| 1402. Occupancy, Depreciation and Amortization | | 1,288,410 | 2,625,653 |
| 1403. Net Stoploss Expense (recovery) | | (2,328,387) | 2,662,509 |
| 1498. Summary of remaining write-ins for Line 14 from overflow page | 0 | 0 | 0 |
| 1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above) | 0 | 1,956,570 | 45,006,092 |
| 2901. | | | |
| 2902. | | | |
| 2903. | | | |
| 2998. Summary of remaining write-ins for Line 29 from overflow page | 0 | 0 | 0 |
| 2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above) | 0 | 0 | 0 |

# STATEMENT OF REVENUE AND EXPENSES (Continued)

| CAPITAL AND SURPLUS ACCOUNT | 1<br>Current Year | 2<br>Prior Year |
|---|---|---|
| 33. Capital and surplus prior reporting period | 86,686,182 | 74,474,273 |
| **GAINS AND LOSSES TO CAPITAL & SURPLUS** | | |
| 34. Net income or (loss) from Line 32 | 53,130,301 | 10,509,435 |
| 35. Change in valuation basis of aggregate policy and claim reserves | | |
| 36. Net unrealized capital gains and losses | | |
| 37. Change in net unrealized foreign exchange capital gain or (loss) | | |
| 38. Change in net deferred income tax | | |
| 39. Change in nonadmitted assets | (1,097,931) | (965,844) |
| 40. Change in unauthorized 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 | 2,788,619 | 2,668,318 |
| 48. Net change in capital and surplus (Lines 34 to 47) | 54,820,989 | 12,211,909 |
| 49. Capital and surplus end of reporting period (Line 33 plus 48) | 141,507,171 | 86,686,182 |

**DETAILS OF WRITE-INS**

| | | |
|---|---|---|
| 4701. Change in Equity in Affiliates | 2,788,619 | 2,668,318 |
| 4702. | | |
| 4703. | | |
| 4798. Summary of remaining write-ins for Line 47 from overflow page | 0 | 0 |
| 4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above) | 2,788,619 | 2,668,318 |

# CASH FLOW

| | 1<br>Current Year | 2<br>Prior Year |
|---|---|---|
| **CASH FROM OPERATIONS** | | |
| 1. Premiums collected net of reinsurance | 1,351,078,610 | 1,293,327,281 |
| 2. Net investment income | 4,610,150 | 9,482,640 |
| 3. Miscellaneous income | 26,290,140 | 265,525 |
| 4. Total (Lines 1 through 3) | 1,381,978,900 | 1,303,075,446 |
| 5. Benefit and loss related payments | 1,074,891,656 | 1,196,548,792 |
| 6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts | | |
| 7. Commissions, expenses paid and aggregate write-ins for deductions | 196,077,123 | 116,097,179 |
| 8. Dividends paid to policyholders | | |
| 9. Federal and foreign income taxes paid (recovered) $.....0 net tax on capital gains (losses) | | |
| 10. Total (Lines 5 through 9) | 1,270,968,779 | 1,312,645,971 |
| 11. Net cash from operations (Line 4 minus Line 10) | 111,010,121 | (9,570,525) |
| **CASH FROM INVESTMENTS** | | |
| 12. Proceeds from investments sold, matured or repaid: | | |
| 12.1 Bonds | 46,854,406 | 23,468,407 |
| 12.2 Stocks | 153,477 | 457,039 |
| 12.3 Mortgage loans | | |
| 12.4 Real estate | | |
| 12.5 Other invested assets | | |
| 12.6 Net gains or (losses) on cash and short-term investments | 36,254 | 3,186 |
| 12.7 Miscellaneous proceeds | | |
| 12.8 Total investment proceeds (Lines 12.1 to 12.7) | 47,044,137 | 23,928,632 |
| 13. Cost of investments acquired (long-term only): | | |
| 13.1 Bonds | 84,401,254 | 14,385,047 |
| 13.2 Stocks | 487,477 | 789,981 |
| 13.3 Mortgage loans | | |
| 13.4 Real estate | 125,230 | 191,705 |
| 13.5 Other invested assets | | |
| 13.6 Miscellaneous applications | 24,360,147 | 4,028,450 |
| 13.7 Total investments acquired (Lines 13.1 to 13.6) | 109,374,108 | 19,395,183 |
| 14. Net increase (decrease) in policy loans and premium notes | | |
| 15. Net cash from investments (Line 12.8 minus Lines 13.7 and 14) | (62,329,971) | 4,533,449 |
| **CASH FROM FINANCING AND MISCELLANEOUS SOURCES** | | |
| 16. Cash provided (applied): | | |
| 16.1 Surplus notes, capital notes | | 0 |
| 16.2 Capital and paid in surplus, less treasury stock | | (0) |
| 16.3 Borrowed funds received | | |
| 16.4 Net deposits on deposit-type contracts and other insurance liabilities | | |
| 16.5 Dividends to stockholders | | |
| 16.6 Other cash provided (applied) | 14,400,117 | 10,327,323 |
| 17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6) | 14,400,117 | 10,327,323 |
| **RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS** | | |
| 18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17) | 63,080,267 | 5,290,246 |
| 19. Cash and short-term investments: | | |
| 19.1 Beginning of year | 331,121,667 | 325,831,421 |
| 19.2 End of year (Line 18 plus Line 19.1) | 394,201,934 | 331,121,667 |

# ANALYSIS OF OPERATION BY LINES OF BUSINESS (Gain and Loss Exhibit)

| | 1<br>Total | 2<br>Comprehensive (Hospital and Medical) | 3<br>Medicare Supplement | 4<br>Dental Only | 5<br>Vision Only | 6<br>Federal Employees Health Benefit Plans | 7<br>Title XVIII Medicare | 8<br>Title XIX Medicaid | 9<br>Stop Loss | 10<br>Disability Income | 11<br>Long-Term Care | 12<br>Other Health | 13<br>Other Non-Health |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Net premium income | 1,360,049,002 | 1,240,565,328 | 73,775,318 | | | 45,708,356 | | | | | | | |
| 2. Change in unearned premium reserves and reserve for rate credit | (537,230) | (537,230) | | | | | | | | | | | |
| 3. Fee-for-service (net of $.....0 medical expenses) | (7,027,696) | | | | | | | | | | | (7,027,696) | XXX |
| 4. Risk revenue | 0 | | | | | | | | | | | | XXX |
| 5. Aggregate write-ins for other health care related revenues | 183,109 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 183,109 | XXX |
| 6. Aggregate write-ins for other non-health care related revenues | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | 0 |
| 7. Total revenues (Lines 1 to 6) | 1,352,667,185 | 1,240,028,098 | 73,775,318 | 0 | 0 | 45,708,356 | 0 | 0 | 0 | 0 | 0 | (6,844,587) | 0 |
| 8. Hospital/medical benefits | 712,250,743 | 663,940,251 | 22,722,222 | | | 25,588,270 | | | | | | | XXX |
| 9. Other professional services | 39,798,674 | 34,940,691 | 3,507,716 | | | 1,350,267 | | | | | | | XXX |
| 10. Outside referrals | 45,266,121 | 41,321,217 | 2,352,383 | | | 1,592,521 | | | | | | | XXX |
| 11. Emergency room and out-of-area | 55,255,852 | 51,563,806 | 1,704,776 | | | 1,987,270 | | | | | | | XXX |
| 12. Prescription drugs | 220,711,930 | 180,335,844 | 33,407,803 | | | 6,968,283 | | | | | | | XXX |
| 13. Aggregate write-ins for other hospital and medical | 1,956,570 | 1,223,252 | 665,198 | 0 | 0 | 2,489 | 0 | 0 | 0 | 0 | 0 | 65,631 | XXX |
| 14. Incentive pool, withhold adjustments and bonus amounts | 23,253,184 | 22,390,263 | | | | 862,921 | | | | | | | XXX |
| 15. Subtotal (Lines 8 to 14) | 1,098,493,074 | 995,715,324 | 64,360,098 | 0 | 0 | 38,352,021 | 0 | 0 | 0 | 0 | 0 | 65,631 | XXX |
| 16. Net reinsurance recoveries | 0 | | | | | | | | | | | | XXX |
| 17. Total hospital and medical (Lines 15 minus 16) | 1,098,493,074 | 995,715,324 | 64,360,098 | 0 | 0 | 38,352,021 | 0 | 0 | 0 | 0 | 0 | 65,631 | XXX |
| 18. Non-health claims (net) | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 19. Claims adjustment expenses | 67,811,676 | 61,702,503 | 3,834,773 | | | 2,274,400 | | | | | | | |
| 20. General administrative expenses | 138,698,989 | 130,595,910 | 3,706,876 | | | 3,472,436 | | | | | | 923,767 | |
| 21. Increase in reserves for accident and health contracts | 0 | | | | | | | | | | | | XXX |
| 22. Increase in reserve for life contracts | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 23. Total underwriting deductions (Lines 17 to 22) | 1,305,003,739 | 1,188,013,737 | 71,901,747 | 0 | 0 | 44,098,857 | 0 | 0 | 0 | 0 | 0 | 989,398 | 0 |
| 24. Net underwriting gain or (loss) (Line 7 minus Line 23) | 47,663,446 | 52,014,361 | 1,873,571 | 0 | 0 | 1,609,499 | 0 | 0 | 0 | 0 | 0 | (7,833,985) | 0 |
| **DETAILS OF WRITE-INS** | | | | | | | | | | | | | |
| 0501. Pharmacy Revenue | 36,682 | | | | | | | | | | | 36,682 | XXX |
| 0502. Other Revenue | 146,427 | | | | | | | | | | | 146,427 | XXX |
| 0503. | 0 | | | | | | | | | | | | XXX |
| 0598. Summary of remaining write-ins for Line 5 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| 0599. Total (Lines 0501 thru 0503 plus 0598) (Line 5 above) | 183,109 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 183,109 | XXX |
| 0601. | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0602. | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0603. | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | 0 |
| 0699. Total (Lines 0601 thru 0603 plus 0698) (Line 6 above) | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | 0 |
| 1301. Other Medical Expense | 2,996,546 | 2,401,025 | 526,078 | | | 3,812 | | | | | | 65,631 | XXX |
| 1302. Occupancy and Depreciation | 1,288,411 | 1,052,416 | 234,356 | | | 1,639 | | | | | | | XXX |
| 1303. Net Stoploss expense (recoveries) | (2,328,387) | (2,230,189) | (95,236) | | | (2,962) | | | | | | | XXX |
| 1398. Summary of remaining write-ins for Line 13 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| 1399. Total (Lines 1301 thru 1303 plus 1398) (Line 13 above) | 1,956,570 | 1,223,252 | 665,198 | 0 | 0 | 2,489 | 0 | 0 | 0 | 0 | 0 | 65,631 | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 1 - PREMIUMS

| Line of Business | 1<br>Direct Business | 2<br>Reinsurance Assumed | 3<br>Reinsurance Ceded | 4<br>Net Premium Income (Cols. 1 + 2 - 3) |
|---|---|---|---|---|
| 1. Comprehensive (hospital and medical) | 1,240,565,328 | | | 1,240,565,328 |
| 2. Medicare supplement | 73,775,318 | | | 73,775,318 |
| 3. Dental only | | | | 0 |
| 4. Vision only | | | | 0 |
| 5. Federal employees health benefits plan | 45,708,356 | | | 45,708,356 |
| 6. Title XVIII - Medicare | | | | 0 |
| 7. Title XIX - Medicaid | | | | 0 |
| 8. Stop loss | | | | 0 |
| 9. Disability income | | | | 0 |
| 10. Long-term care | | | | 0 |
| 11. Other health | | | | 0 |
| 12. Health subtotal (Lines 1 through 11) | 1,360,049,002 | 0 | 0 | 1,360,049,002 |
| 13. Life | | | | 0 |
| 14. Property/casualty | | | | 0 |
| 15. Totals (Lines 12 to 14) | 1,360,049,002 | 0 | 0 | 1,360,049,002 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2 - CLAIMS INCURRED DURING THE YEAR

| | 1<br>Total | 2<br>Comprehensive (Hospital and Medical) | 3<br>Medicare Supplement | 4<br>Dental Only | 5<br>Vision Only | 6<br>Federal Employees Health Benefits Plan | 7<br>Title XVIII Medicare | 8<br>Title XIX Medicaid | 9<br>Stop Loss | 10<br>Disability Income | 11<br>Long-Term Care | 12<br>Other Health | 13<br>Other Non-Health |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Payments during the year: | | | | | | | | | | | | | |
| 1.1 Direct | 1,060,987,948 | 959,766,529 | 61,874,266 | | | 38,810,111 | 377,803 | 93,608 | | | | 65,631 | |
| 1.2 Reinsurance assumed | 0 | | | | | | | | | | | | |
| 1.3 Reinsurance ceded | 0 | | | | | | | | | | | | |
| 1.4 Net | 1,060,987,948 | 959,766,529 | 61,874,266 | 0 | 0 | 38,810,111 | 377,803 | 93,608 | 0 | 0 | 0 | 65,631 | 0 |
| 2. Paid medical incentive pools and bonuses | 13,903,708 | 13,242,904 | | | | 660,804 | | | | | | | |
| 3. Claim liability December 31, current year from Part 2A: | | | | | | | | | | | | | |
| 3.1 Direct | 206,668,532 | 190,737,305 | 10,132,070 | | | 5,799,157 | | | | | | | |
| 3.2 Reinsurance assumed | 0 | | | | | | | | | | | | |
| 3.3 Reinsurance ceded | 0 | | | | | | | | | | | | |
| 3.4 Net | 206,668,532 | 190,737,305 | 10,132,070 | 0 | 0 | 5,799,157 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4. Claim reserve December 31, current year from Part 2D: | | | | | | | | | | | | | |
| 4.1 Direct | 0 | | | | | | | | | | | | |
| 4.2 Reinsurance assumed | 0 | | | | | | | | | | | | |
| 4.3 Reinsurance ceded | 0 | | | | | | | | | | | | |
| 4.4 Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5. Accrued medical incentive pools and bonuses, current year | 40,229,789 | 38,736,869 | | | | 1,492,920 | | | | | | | |
| 6. Amounts recoverable from reinsurers December 31, current year | 0 | | | | | | | | | | | | |
| 7. Claim liability December 31, prior year from Part 2A: | | | | | | | | | | | | | |
| 7.1 Direct | 192,416,590 | 177,178,775 | 7,646,237 | | | 7,120,167 | 377,803 | 93,608 | | | | | |
| 7.2 Reinsurance assumed | 0 | | | | | | | | | | | | |
| 7.3 Reinsurance ceded | 0 | | | | | | | | | | | | |
| 7.4 Net | 192,416,590 | 177,178,775 | 7,646,237 | 0 | 0 | 7,120,167 | 377,803 | 93,608 | 0 | 0 | 0 | 0 | 0 |
| 8. Claim reserve December 31, prior year from Part 2D: | | | | | | | | | | | | | |
| 8.1 Direct | 0 | | | | | | | | | | | | |
| 8.2 Reinsurance assumed | 0 | | | | | | | | | | | | |
| 8.3 Reinsurance ceded | 0 | | | | | | | | | | | | |
| 8.4 Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9. Accrued medical incentive pools and bonuses, prior year | 30,880,314 | 29,589,511 | | | | 1,290,803 | | | | | | | |
| 10. Amounts recoverable from reinsurers December 31, prior year | 0 | | | | | | | | | | | | |
| 11. Incurred benefits: | | | | | | | | | | | | | |
| 11.1 Direct | 1,075,239,890 | 973,325,059 | 64,360,099 | 0 | 0 | 37,489,101 | 0 | 0 | 0 | 0 | 0 | 65,631 | 0 |
| 11.2 Reinsurance assumed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11.3 Reinsurance ceded | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11.4 Net | 1,075,239,890 | 973,325,059 | 64,360,099 | 0 | 0 | 37,489,101 | 0 | 0 | 0 | 0 | 0 | 65,631 | 0 |
| 12. Incurred medical incentive pools and bonuses | 23,253,183 | 22,390,262 | 0 | 0 | 0 | 862,921 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

# UNDERWRITING AND INVESTMENT EXHIBIT

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

| | 1<br>Total | 2<br>Comprehensive (Medical and Hospital) | 3<br>Medicare Supplement | 4<br>Dental Only | 5<br>Vision Only | 6<br>Federal Employees Health Benefits Plan | 7<br>Title XVIII Medicare | 8<br>Title XIX Medicaid | 9<br>Stop Loss | 10<br>Disability Income | 11<br>Long-Term Care | 12<br>Other Health | 13<br>Other Non-Health |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Reported in process of adjustment: | | | | | | | | | | | | | |
| 1.1 Direct | 22,510,557 | 20,783,051 | 909,332 | | | 818,174 | | | | | | | |
| 1.2 Reinsurance assumed | 0 | | | | | | | | | | | | |
| 1.3 Reinsurance ceded | 0 | | | | | | | | | | | | |
| 1.4 Net | 22,510,557 | 20,783,051 | 909,332 | 0 | 0 | 818,174 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Incurred but unreported: | | | | | | | | | | | | | |
| 2.1 Direct | 170,968,827 | 157,181,607 | 9,222,738 | | | 4,564,482 | | | | | | | |
| 2.2 Reinsurance assumed | 0 | | | | | | | | | | | | |
| 2.3 Reinsurance ceded | 0 | | | | | | | | | | | | |
| 2.4 Net | 170,968,827 | 157,181,607 | 9,222,738 | 0 | 0 | 4,564,482 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Amounts withheld from paid claims and capitations: | | | | | | | | | | | | | |
| 3.1 Direct | 13,189,148 | 12,772,647 | | | | 416,501 | | | | | | | |
| 3.2 Reinsurance assumed | 0 | | | | | | | | | | | | |
| 3.3 Reinsurance ceded | 0 | | | | | | | | | | | | |
| 3.4 Net | 13,189,148 | 12,772,647 | 0 | 0 | 0 | 416,501 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4. Totals: | | | | | | | | | | | | | |
| 4.1 Direct | 206,668,532 | 190,737,305 | 10,132,070 | 0 | 0 | 5,799,157 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.2 Reinsurance assumed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.3 Reinsurance ceded | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.4 Net | 206,668,532 | 190,737,305 | 10,132,070 | 0 | 0 | 5,799,157 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

# 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 | 6 |
|---|---|---|---|---|---|---|
| | 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 | Claims Incurred in Prior Years (Columns 1 + 3) | Estimated Claim Reserve and Claim Liability December 31 of Prior Year |
| 1. Comprehensive (hospital and medical) | 150,001,323 | 809,765,206 | 5,769,952 | 184,967,353 | 155,771,275 | 177,178,774 |
| 2. Medicare supplement | 9,088,793 | 52,785,473 | 470,601 | 9,661,469 | 9,559,394 | 7,646,237 |
| 3. Dental only | | | | | 0 | |
| 4. Vision only | | | | | 0 | |
| 5. Federal employees health benefits plan | 6,985,820 | 31,824,291 | 209,608 | 5,589,549 | 7,195,428 | 7,120,168 |
| 6. Title XVIII - Medicare | 377,803 | | | | 377,803 | 377,803 |
| 7. Title XIX - Medicaid | 93,608 | | | | 93,608 | 93,608 |
| 8. Other health | | 65,631 | | | 0 | |
| 9. Health subtotal (Lines 1 to 8) | 166,547,347 | 894,440,601 | 6,450,161 | 200,218,371 | 172,997,508 | 192,416,590 |
| 10. Other non-health | | | | | 0 | |
| 11. Medical incentive pools, accruals and disbursements | 15,732,245 | (1,828,537) | 6,296,841 | 33,932,948 | 22,029,086 | 30,880,314 |
| 12. Totals (Lines 9 to 11) | 182,279,592 | 892,612,064 | 12,747,002 | 234,151,319 | 195,026,594 | 223,296,904 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

| Year in Which Losses Were Incurred | Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 139,047 | 13,680 | 1,703 | 844 | 155,479 |
| 2. 1999 | 874,615 | 157,339 | 7,295 | 2,343 | 1,041,896 |
| 3. 2000 | XXX | 947,433 | 171,473 | 9,961 | 1,130,076 |
| 4. 2001 | XXX | XXX | 1,035,933 | 175,555 | 1,216,311 |
| 5. 2002 | XXX | XXX | XXX | 974,433 | 1,150,173 |
| 6. 2003 | XXX | XXX | XXX | XXX | 892,612 |

### SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

| Year in Which Losses Were Incurred | Sum of Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 148,480 | 14,584 | 2,032 | 844 | 155,479 |
| 2. 1999 | 1,056,464 | 162,901 | 11,721 | 2,817 | 1,041,896 |
| 3. 2000 | XXX | 1,157,349 | 207,029 | 14,884 | 1,130,164 |
| 4. 2001 | XXX | XXX | 1,219,590 | 203,551 | 1,217,248 |
| 5. 2002 | XXX | XXX | XXX | 1,133,457 | 1,161,893 |
| 6. 2003 | XXX | XXX | XXX | XXX | 1,126,764 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTA

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | 205 | | XXX | 205 | 0.0 | | | 205 | 0.0 |
| 2. 1999 | 1,100,666 | 1,041,896 | | 0.0 | 1,041,896 | 94.7 | | | 1,041,896 | 94.7 |
| 3. 2000 | 1,208,889 | 1,130,076 | | 0.0 | 1,130,076 | 93.5 | 88 | | 1,130,164 | 93.5 |
| 4. 2001 | 1,358,762 | 1,216,311 | 14,009 | 1.2 | 1,230,320 | 90.5 | 938 | 19 | 1,231,277 | 90.6 |
| 5. 2002 | 1,290,524 | 1,150,173 | 12,415 | 1.1 | 1,162,588 | 90.1 | 11,721 | 203 | 1,174,512 | 91.0 |
| 6. 2003 | 1,359,511 | 892,612 | 63,010 | 7.1 | 955,622 | 70.3 | 234,151 | 4,802 | 1,194,575 | 87.9 |
| 7. Total (Lines 1 through 6) | XXX | 5,431,273 | 89,434 | XXX | 5,520,707 | XXX | 246,898 | 5,024 | 5,772,629 | XXX |
| 8. Total (Lines 2 through 6) | 6,318,352 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

| Year in Which Losses Were Incurred | CUmulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 113,996 | 12,326 | 1,428 | 649 | 128,581 |
| 2. 1999 | 741,192 | 127,391 | 6,011 | 1,758 | 876,614 |
| 3. 2000 | XXX | 780,015 | 135,784 | 7,541 | 924,325 |
| 4. 2001 | XXX | XXX | 854,542 | 139,088 | 997,559 |
| 5. 2002 | XXX | XXX | XXX | 880,207 | 1,039,836 |
| 6. 2003 | XXX | XXX | XXX | XXX | 808,024 |

### SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 121,986 | 13,052 | 1,757 | 649 | 128,581 |
| 2. 1999 | 894,702 | 131,849 | 10,289 | 2,228 | 876,614 |
| 3. 2000 | XXX | 948,256 | 164,088 | 12,084 | 924,411 |
| 4. 2001 | XXX | XXX | 1,006,431 | 165,408 | 998,395 |
| 5. 2002 | XXX | XXX | XXX | 1,026,052 | 1,050,745 |
| 6. 2003 | XXX | XXX | XXX | XXX | 1,025,665 |

12.HM

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICA

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | 182 | | XXX | 182 | XXX | | | 182 | XXX |
| 2. 1999 | 937,949 | 876,614 | | 0.0 | 876,614 | 93.5 | | | 876,614 | 93.5 |
| 3. 2000 | 1,005,717 | 924,325 | | 0.0 | 924,325 | 91.9 | 86 | | 924,411 | 91.9 |
| 4. 2001 | 1,136,608 | 997,559 | 12,500 | 1.3 | 1,010,059 | 88.9 | 837 | 16 | 1,010,912 | 88.9 |
| 5. 2002 | 1,180,716 | 1,039,836 | 11,236 | 1.1 | 1,051,072 | 89.0 | 10,910 | 197 | 1,062,179 | 90.0 |
| 6. 2003 | 1,240,028 | 808,024 | 57,334 | 7.1 | 865,358 | 69.8 | 217,641 | 4,369 | 1,087,368 | 87.7 |
| 7. Total (Lines 1 through 6) | XXX | 4,646,540 | 81,070 | XXX | 4,727,610 | XXX | 229,474 | 4,582 | 4,961,666 | XXX |
| 8. Total (Lines 2 through 6) | 5,501,018 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

| Year in Which Losses Were Incurred | CUmulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 3,903 | 442 | (49) | 31 | 4,332 |
| 2. 1999 | 23,167 | 3,251 | 397 | 103 | 26,924 |
| 3. 2000 | XXX | 27,511 | 4,967 | 540 | 33,057 |
| 4. 2001 | XXX | XXX | 27,898 | 5,554 | 33,864 |
| 5. 2002 | XXX | XXX | XXX | 56,542 | 65,169 |
| 6. 2003 | XXX | XXX | XXX | XXX | 52,785 |

### SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 4,152 | 461 | (49) | 31 | 4,332 |
| 2. 1999 | 27,937 | 3,372 | 385 | 104 | 26,924 |
| 3. 2000 | XXX | 32,072 | 4,406 | 591 | 33,059 |
| 4. 2001 | XXX | XXX | 33,578 | 5,833 | 33,936 |
| 5. 2002 | XXX | XXX | XXX | 63,857 | 65,566 |
| 6. 2003 | XXX | XXX | XXX | XXX | 62,447 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMEN

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | 5 | | XXX | 5 | XXX | | | 5 | XXX |
| 2. 1999 | 27,436 | 26,924 | | 0.0 | 26,924 | 98.1 | | | 26,924 | 98.1 |
| 3. 2000 | 33,332 | 33,057 | | 0.0 | 33,057 | 99.2 | 2 | | 33,059 | 99.2 |
| 4. 2001 | 37,629 | 33,864 | 237 | 0.7 | 34,101 | 90.6 | 72 | 1 | 34,174 | 90.8 |
| 5. 2002 | 63,326 | 65,169 | 680 | 1.0 | 65,849 | 104.0 | 397 | 2 | 66,248 | 104.6 |
| 6. 2003 | 73,775 | 52,785 | 3,563 | 6.8 | 56,348 | 76.4 | 9,661 | 272 | 66,281 | 89.8 |
| 7. Total (Lines 1 through 6) | XXX | 211,804 | 4,480 | XXX | 216,284 | XXX | 10,132 | 275 | 226,691 | XXX |
| 8. Total (Lines 2 through 6) | 235,498 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - DENTAL ONLY

| Year in Which Losses Were Incurred | CUmulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | | | | | |
| 2. 1999 | 1,152 | 261 | | | 1,413 |
| 3. 2000 | XXX | | | | |
| 4. 2001 | XXX | XXX | | | |
| 5. 2002 | XXX | XXX | XXX | | |
| 6. 2003 | XXX | XXX | XXX | XXX | |

### SECTION B - INCURRED HEALTH CLAIMS - DENTAL ONLY

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | | | | | |
| 2. 1999 | 1,413 | 261 | | | 1,413 |
| 3. 2000 | XXX | | | | |
| 4. 2001 | XXX | XXX | | | |
| 5. 2002 | XXX | XXX | XXX | | |
| 6. 2003 | XXX | XXX | XXX | XXX | |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - DENTAL ONLY

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | | | XXX | 0 | XXX | | | 0 | XXX |
| 2. 1999 | 1,594 | 1,413 | | 0.0 | 1,413 | 88.6 | | | 1,413 | 88.6 |
| 3. 2000 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 4. 2001 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 5. 2002 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 6. 2003 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 7. Total (Lines 1 through 6) | XXX | 1,413 | 0 | XXX | 1,413 | XXX | 0 | 0 | 1,413 | XXX |
| 8. Total (Lines 2 through 6) | 1,594 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - VISION ONLY

NONE

| Year in Which Losses Were Incurred | CUmulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | | | | | |
| 2. 1999 | | | | | |
| 3. 2000 | XXX | | | | |
| 4. 2001 | XXX | XXX | | | |
| 5. 2002 | XXX | XXX | XXX | | |
| 6. 2003 | XXX | XXX | XXX | XXX | |

### SECTION B - INCURRED HEALTH CLAIMS - VISION ONLY

NONE

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | | | | | |
| 2. 1999 | | | | | |
| 3. 2000 | XXX | | | | |
| 4. 2001 | XXX | XXX | | | |
| 5. 2002 | XXX | XXX | XXX | | |
| 6. 2003 | XXX | XXX | XXX | XXX | |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - VISION ONLY

NONE

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | | | XXX | 0 | XXX | | | 0 | XXX |
| 2. 1999 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 3. 2000 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 4. 2001 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 5. 2002 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 6. 2003 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 7. Total (Lines 1 through 6) | XXX | 0 | 0 | XXX | 0 | XXX | 0 | 0 | 0 | XXX |
| 8. Total (Lines 2 through 6) | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

| Year in Which Losses Were Incurred | CUmulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 3,318 | 469 | 61 | 24 | 3,880 |
| 2. 1999 | 21,573 | 4,850 | 256 | 91 | 26,782 |
| 3. 2000 | XXX | 29,697 | 7,338 | 453 | 37,534 |
| 4. 2001 | XXX | XXX | 34,874 | 7,669 | 42,726 |
| 5. 2002 | XXX | XXX | XXX | 37,630 | 45,114 |
| 6. 2003 | XXX | XXX | XXX | XXX | 31,737 |

### SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 3,551 | 503 | 61 | 24 | 3,880 |
| 2. 1999 | 26,055 | 5,058 | 288 | 91 | 26,782 |
| 3. 2000 | XXX | 37,556 | 8,899 | 629 | 37,534 |
| 4. 2001 | XXX | XXX | 41,666 | 8,750 | 42,755 |
| 5. 2002 | XXX | XXX | XXX | 43,494 | 45,528 |
| 6. 2003 | XXX | XXX | XXX | XXX | 38,586 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIU

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | 8 | | XXX | 8 | XXX | | | 8 | XXX |
| 2. 1999 | 29,205 | 26,782 | | 0.0 | 26,782 | 91.7 | | | 26,782 | 91.7 |
| 3. 2000 | 39,579 | 37,534 | | 0.0 | 37,534 | 94.8 | | | 37,534 | 94.8 |
| 4. 2001 | 45,929 | 42,726 | 394 | 0.9 | 43,120 | 93.9 | 29 | 2 | 43,151 | 94.0 |
| 5. 2002 | 46,482 | 45,114 | 499 | 1.1 | 45,613 | 98.1 | 414 | 4 | 46,031 | 99.0 |
| 6. 2003 | 45,708 | 31,737 | 2,113 | 6.7 | 33,850 | 74.1 | 6,849 | 161 | 40,860 | 89.4 |
| 7. Total (Lines 1 through 6) | XXX | 183,901 | 3,006 | XXX | 186,907 | XXX | 7,292 | 167 | 194,366 | XXX |
| 8. Total (Lines 2 through 6) | 206,903 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

| Year in Which Losses Were Incurred | CUmulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 16,516 | 422 | 207 | 114 | 17,269 |
| 2. 1999 | 77,666 | 20,237 | 492 | 381 | 98,796 |
| 3. 2000 | XXX | 103,923 | 22,981 | 1,408 | 128,361 |
| 4. 2001 | XXX | XXX | 118,619 | 23,244 | 142,162 |
| 5. 2002 | XXX | XXX | XXX | | |
| 6. 2003 | XXX | XXX | XXX | XXX | |

### SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 17,383 | 546 | 207 | 114 | 17,269 |
| 2. 1999 | 94,304 | 21,002 | 617 | 384 | 98,796 |
| 3. 2000 | XXX | 132,795 | 29,086 | 1,467 | 128,361 |
| 4. 2001 | XXX | XXX | 137,915 | 23,560 | 142,162 |
| 5. 2002 | XXX | XXX | XXX | | |
| 6. 2003 | XXX | XXX | XXX | XXX | |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICAR

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | 10 | | XXX | 10 | XXX | | | 10 | XXX |
| 2. 1999 | 95,532 | 98,796 | | 0.0 | 98,796 | 103.4 | | | 98,796 | 103.4 |
| 3. 2000 | 123,679 | 128,361 | | 0.0 | 128,361 | 103.8 | | | 128,361 | 103.8 |
| 4. 2001 | 138,596 | 142,162 | 878 | 0.6 | 143,040 | 103.2 | | | 143,040 | 103.2 |
| 5. 2002 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 6. 2003 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 7. Total (Lines 1 through 6) | XXX | 369,329 | 878 | XXX | 370,207 | XXX | 0 | 0 | 370,207 | XXX |
| 8. Total (Lines 2 through 6) | 357,807 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

| Year in Which Losses Were Incurred | CUmulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 1,166 | 21 | 56 | 26 | 1,269 |
| 2. 1999 | 8,109 | 1,206 | 139 | 10 | 9,468 |
| 3. 2000 | XXX | 6,287 | 403 | 19 | 6,799 |
| 4. 2001 | XXX | XXX | | | |
| 5. 2002 | XXX | XXX | XXX | | |
| 6. 2003 | XXX | XXX | XXX | XXX | |

### SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 1,260 | 22 | 56 | 26 | 1,269 |
| 2. 1999 | 9,898 | 1,216 | 142 | 10 | 9,468 |
| 3. 2000 | XXX | 6,670 | 550 | 113 | 6,799 |
| 4. 2001 | XXX | XXX | | | |
| 5. 2002 | XXX | XXX | XXX | | |
| 6. 2003 | XXX | XXX | XXX | XXX | |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAI

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | | | XXX | 0 | XXX | | | 0 | XXX |
| 2. 1999 | 8,950 | 9,468 | | 0.0 | 9,468 | 105.8 | | | 9,468 | 105.8 |
| 3. 2000 | 6,582 | 6,799 | | 0.0 | 6,799 | 103.3 | | | 6,799 | 103.3 |
| 4. 2001 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 5. 2002 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 6. 2003 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 7. Total (Lines 1 through 6) | XXX | 16,267 | 0 | XXX | 16,267 | XXX | 0 | 0 | 16,267 | XXX |
| 8. Total (Lines 2 through 6) | 15,532 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - OTHER

| Year in Which Losses Were Incurred | CUmulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 148 | | | | 148 |
| 2. 1999 | 1,756 | 143 | | | 1,899 |
| 3. 2000 | XXX | | | | |
| 4. 2001 | XXX | XXX | | | |
| 5. 2002 | XXX | XXX | XXX | 54 | 54 |
| 6. 2003 | XXX | XXX | XXX | XXX | 66 |

### SECTION B - INCURRED HEALTH CLAIMS - OTHER

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>1999 | 2<br>2000 | 3<br>2001 | 4<br>2002 | 5<br>2003 |
| 1. Prior | 148 | | | | 148 |
| 2. 1999 | 2,155 | 143 | | | 1,899 |
| 3. 2000 | XXX | | | | |
| 4. 2001 | XXX | XXX | | | |
| 5. 2002 | XXX | XXX | XXX | 54 | 54 |
| 6. 2003 | XXX | XXX | XXX | XXX | 66 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHEI

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Prior to 1999 | XXX | | | XXX | 0 | XXX | | | 0 | XXX |
| 2. 1999 | | 1,899 | | 0.0 | 1,899 | 0.0 | | | 1,899 | 0.0 |
| 3. 2000 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 4. 2001 | | | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 5. 2002 | | 54 | | 0.0 | 54 | 0.0 | | | 54 | 0.0 |
| 6. 2003 | | 66 | | 0.0 | 66 | 0.0 | | | 66 | 0.0 |
| 7. Total (Lines 1 through 6) | XXX | 2,019 | 0 | XXX | 2,019 | XXX | 0 | 0 | 2,019 | XXX |
| 8. Total (Lines 2 through 6) | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

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

| | 1<br>Total | 2<br>Comprehensive (Hospital and Medical) | 3<br>Medicare Supplement | 4<br>Dental Only | 5<br>Vision Only | 6<br>Federal Employees Health Benefit Plan | 7<br>Title XVIII Medicare | 8<br>Title XIX Medicaid | 9<br>Stop Loss | 10<br>Disability Income | 11<br>Long-Term Care | 12<br>Other |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **POLICY RESERVE** | | | | | | | | | | | | |
| 1. Unearned premium reserves | 1,682,928 | 1,682,928 | | | | | | | | | | |
| 2. Additional policy reserves (a) | 0 | | | | | | | | | | | |
| 3. Reserve for future contingent benefits | 0 | | | | | | | | | | | |
| 4. Reserve for rate credits or experience rating refunds (including $.....0) for investment income | 0 | | | | | | | | | | | |
| 5. Aggregate write-ins for other policy reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6. Totals (gross) | 1,682,928 | 1,682,928 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7. Reinsurance ceded | 0 | | | | | | | | | | | |
| 8. Totals (net) (Page 3, Line 4) | 1,682,928 | 1,682,928 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **CLAIM RESERVE** | | | | | | | | | | | | |
| 9. Present value of amounts not yet due on claims | 0 | | | | | | | | | | | |
| 10. Reserve for future contingent benefits | 0 | | | | | | | | | | | |
| 11. Aggregate write-ins for other claim reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12. Totals (gross) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13. Reinsurance ceded | 0 | | | | | | | | | | | |
| 14. Totals (net) (Page 3, Line 7) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DETAILS OF WRITE-INS** | | | | | | | | | | | | |
| 0501. | 0 | | | | | | | | | | | |
| 0502. | 0 | | | | | | | | | | | |
| 0503. | 0 | | | | | | | | | | | |
| 0598. Summary of remaining write-ins for Line 5 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1101. | 0 | | | | | | | | | | | |
| 1102. | 0 | | | | | | | | | | | |
| 1103. | 0 | | | | | | | | | | | |
| 1198. Summary of remaining write-ins for Line 11 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(a) Includes $.....0 premium deficiency reserve.

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 3 - ANALYSIS OF EXPENSES

| | 1<br>Claim Adjustment Expenses | 2<br>General Administrative Expenses | 3<br>Investment Expenses | 4<br>Total |
|---|---|---|---|---|
| 1. Rent ($.....0 for occupancy of own building) | 2,479,728 | 2,749,033 | | 5,228,761 |
| 2. Salaries, wages and other benefits | 37,571,848 | 72,179,760 | 207,661 | 109,959,269 |
| 3. Commissions (less $.....0 ceded plus $.....0 assumed) | | 28,197,546 | | 28,197,546 |
| 4. Legal fees and expenses | | 3,562 | | 3,562 |
| 5. Certifications and accreditation fees | 17,912 | 548 | | 18,460 |
| 6. Auditing, actuarial and other consulting services | 427,965 | 3,048,033 | 25,838 | 3,501,836 |
| 7. Traveling expenses | 774,857 | 1,678,918 | 5,249 | 2,459,024 |
| 8. Marketing and advertising | 13,958 | 1,386,976 | | 1,400,934 |
| 9. Postage, express and telephone | 94,118 | 4,377,039 | 5,672 | 4,476,829 |
| 10. Printing and office supplies | 622,309 | 1,960,591 | 897 | 2,583,797 |
| 11. Occupancy, depreciation and amortization | 350,454 | 432,113 | 16,257 | 798,824 |
| 12. Equipment | 181,083 | 177,041 | | 358,124 |
| 13. Cost or depreciation of EDP equipment and software | 800,009 | 650,574 | | 1,450,583 |
| 14. Outsourced services including EDP, claims, and other services | 10,032,590 | 25,310,998 | 23,543 | 35,367,131 |
| 15. Boards, bureaus and association fees | 180,108 | 815,700 | 2,582 | 998,390 |
| 16. Insurance, except on real estate | 245,324 | 1,026,302 | 212 | 1,271,838 |
| 17. Collection and bank service charges | | 286,309 | | 286,309 |
| 18. Group service and administration fees | 11,219,102 | | | 11,219,102 |
| 19. Reimbursements by uninsured accident and health plans | | | | 0 |
| 20. Reimbursements from fiscal intermediaries | | | | 0 |
| 21. Real estate expenses | | | | 0 |
| 22. Real estate taxes | | | | 0 |
| 23. Taxes, licenses and fees: | | | | |
| 23.1 State and local insurance taxes | | | | 0 |
| 23.2 State premium taxes | | | | 0 |
| 23.3 Regulatory authority licenses and fees | 3,651 | 327,444 | | 331,095 |
| 23.4 Payroll taxes | 2,329,375 | 3,472,096 | | 5,801,471 |
| 23.5 Other (excluding federal income and real estate taxes) | | | | 0 |
| 24. Investment expenses not included elsewhere | | | | 0 |
| 25. Aggregate write-ins for expenses | 467,285 | (9,381,595) | 0 | (8,914,310) |
| 26. Total expenses incurred (Lines 1 to 25) | 67,811,676 | 138,698,989 | 287,911 | (a) 206,798,576 |
| 27. Less expenses unpaid December 31, current year | 5,022,712 | 23,574,835 | | 28,597,547 |
| 28. Add expenses unpaid December 31, prior year | 1,843,008 | 16,320,997 | | 18,164,005 |
| 29. Amounts receivable relating to uninsured accident and health plans, prior year | | | | 0 |
| 30. Amounts receivable relating to uninsured accident and health plans, current year | | | | 0 |
| 31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30) | 64,631,972 | 131,445,151 | 287,911 | 196,365,034 |

### DETAILS OF WRITE-INS

| | | | | |
|---|---|---|---|---|
| 2501. Other miscellaneous expenses | 654,034 | 2,450,783 | | 3,104,818 |
| 2502. Recoveries | (186,749) | (11,832,378) | | (12,019,127) |
| 2503. | | | | 0 |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | 0 | 0 | 0 | 0 |
| 2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above) | 467,285 | (9,381,595) | 0 | (8,914,310) |

(a) Includes management fees of $.....11,536,000 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) | |
| 1.1 | Bonds exempt from U.S. tax | (a) | |
| 1.2 | Other bonds (unaffiliated) | (a) 634,722 | 821,017 |
| 1.3 | Bonds of affiliates | (a) | |
| 2.1 | Preferred stocks (unaffiliated) | (b) | |
| 2.11 | Preferred stocks of affiliates | (b) | |
| 2.2 | Common stocks (unaffiliated) | | |
| 2.21 | Common stocks of affiliates | | |
| 3. | Mortgage loans | (c) | |
| 4. | Real estate | (d) | |
| 5. | Contract loans | | |
| 6. | Cash/short-term investments | (e) 3,950,690 | 5,173,745 |
| 7. | Derivative instruments | (f) | |
| 8. | Other invested assets | | |
| 9. | Aggregate write-ins for investment income | 0 | 0 |
| 10. | Total gross investment income | 4,585,412 | 5,994,762 |
| 11. | Investment expenses | | (g) 287,911 |
| 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) 0 |
| 15. | Aggregate write-ins for deductions from investment income | | 0 |
| 16. | Total deductions (Lines 11 through 15) | | 287,911 |
| 17. | Net investment income (Line 10 minus Line 16) | | 5,706,851 |

**DETAILS OF WRITE-INS**

| | | | |
|---|---|---|---|
| 0901. | | | |
| 0902. | | | |
| 0903. | | | |
| 0998. | Summary of remaining write-ins for Line 9 from overflow page | 0 | 0 |
| 0999. | Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above) | 0 | 0 |
| 1501. | | | |
| 1502. | | | |
| 1503. | | | |
| 1598. | Summary of remaining write-ins for Line 15 from overflow page | | 0 |
| 1599. | Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above) | | 0 |

(a) Includes $.....0 accrual of discount less $.....0 amortization of premium and less $.....144,747 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 $.....0 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 $.....0 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 $.....0 depreciation on real estate and $.....0 depreciation on other invested assets.

# EXHIBIT OF CAPITAL GAINS (LOSSES)

| | | 1<br>Realized Gain (Loss) on Sales or Maturity | 2<br>Other Realized Adjustments | 3<br>Increases (Decreases) by Adjustment | 4<br>Net Gain or (Loss) from Change in Difference Between Basis Book/ Adjusted Carrying and Admitted Values | 5<br>Total |
|---|---|---|---|---|---|---|
| 1. | U.S. government bonds | | | | | 0 |
| 1.1 | Bonds exempt from U.S. tax | | | | | 0 |
| 1.2 | Other bonds (unaffiliated) | 36,395 | | | | 36,395 |
| 1.3 | Bonds of affiliates | | | | | 0 |
| 2.1 | Preferred stocks (unaffiliated) | | | | | 0 |
| 2.11 | Preferred stocks of affiliates | | | | | 0 |
| 2.2 | Common stocks (unaffiliated) | | | | | 0 |
| 2.21 | Common stocks of affiliates | | | | | 0 |
| 3. | Mortgage loans | | | | | 0 |
| 4. | Real estate | | | | | 0 |
| 5. | Contract loans | | | | | 0 |
| 6. | Cash/short-term investments | (141) | | | | (141) |
| 7. | Derivative instruments | | | | | 0 |
| 8. | Other invested assets | | | | | 0 |
| 9. | Aggregate write-ins for capital gains (losses) | 0 | 0 | 0 | 0 | 0 |
| 10. | Total capital gains (losses) | 36,254 | 0 | 0 | 0 | 36,254 |

**DETAILS OF WRITE-INS**

| | | | | | | |
|---|---|---|---|---|---|---|
| 0901. | | | | | | 0 |
| 0902. | | | | | | 0 |
| 0903. | | | | | | 0 |
| 0998. | Summary of remaining write-ins for Line 9 from overflow page | 0 | 0 | 0 | 0 | 0 |
| 0999. | Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above) | 0 | 0 | 0 | 0 | 0 |

# EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS

| | 1<br>End of<br>Current Year | 2<br>End of<br>Prior Year | 3<br>Change for Year<br>(Increase) or<br>Decrease |
|---|---|---|---|
| 1. Summary of Items, Page 2, Lines 12 to 20, Column 2 | 5,319,170 | 2,161,922 | (3,157,248) |
| 2. Other nonadmitted assets: | | | |
| 2.1 Bills receivable | | | 0 |
| 2.2 Leasehold improvements | | | 0 |
| 2.3 Cash advanced to or in hands of officers and agents | | | 0 |
| 2.4 Loans on personal security, endorsed or not | | | 0 |
| 2.5 Commuted commissions | | | 0 |
| 3. Total (Lines 2.1 to 2.5) | 0 | 0 | 0 |
| 4. Aggregate write-ins for other than invested assets | 87,609 | 2,146,926 | 2,059,317 |
| 5. Total (Line 1 plus Lines 3 and 4) | 5,406,779 | 4,308,848 | (1,097,931) |

**DETAILS OF WRITE-INS**

| | | | |
|---|---|---|---|
| 0401. Prepaid expenses | 77,328 | 40,323 | (37,005) |
| 0402. Vehicle | 9,054 | 13,078 | 4,024 |
| 0403. Prepaid Pension | | 2,093,525 | 2,093,525 |
| 0498. Summary of remaining write-ins for Line 4 from overflow page | 1,227 | 0 | (1,227) |
| 0499. Totals (Lines 0401 thru 0403 plus 0498) (Line 4 above) | 87,609 | 2,146,926 | 2,059,317 |

# EXHIBIT 2 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

| Source of Enrollment | Total Members at End of | | | | | 6 |
|---|---|---|---|---|---|---|
| | 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 | Current Year<br>Member<br>Months |
| 1. Health maintenance organizations | 518,946 | 505,187 | 499,444 | 489,348 | 478,043 | 5,898,716 |
| 2. Provider service organizations | | | | | | |
| 3. Preferred provider organizations | | | | | | |
| 4. Point of service | | | | | | |
| 5. Indemnity only | | | | | | |
| 6. Aggregate write-ins for other lines of business | 0 | 0 | 0 | 0 | 0 | 0 |
| 7. Total | 518,946 | 505,187 | 499,444 | 489,348 | 478,043 | 5,898,716 |

**DETAILS OF WRITE-INS**

| | | | | | | |
|---|---|---|---|---|---|---|
| 0601. | | | | | | |
| 0602. | | | | | | |
| 0603. | | | | | | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 |
| 0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above) | 0 | 0 | 0 | 0 | 0 | 0 |

# NOTES TO FINANCIAL STATEMENTS

## BLUE CARE NETWORK OF MICHIGAN

### NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS
### YEARS ENDED DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The financial statements of Blue Care Network of Michigan ("BCN") are presented on the basis of accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Services ("OFIS").

The OFIS recognizes only statutory accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company.

Accounting practices and procedures as prescribed or permitted by the OFIS comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The more significant statutory accounting practices ("SAP"), that differ from GAAP, are as follows:

- The effects of reinsurance are netted against the corresponding assets, liabilities, income, or expenses.
- Certain assets, such as premiums over 90 days past due, goodwill, excess of book value over market value for securities, and prepaid expenses are "nonadmitted" and are charged against capital and surplus.
- Computer software applications are treated as nonadmitted assets and charged against capital and surplus.
- Changes in unrealized appreciation and depreciation in the value of common stocks are reflected as direct increases or decreases in capital and surplus.
- Classification of items in the statement of cash flows differ from GAAP.
- Investments in bonds are recorded at amortized cost.

A reconciliation of BCN's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of Michigan is shown below (in thousands):

| | 2003 | 2002 |
|---|---|---|
| Net Income, Michigan basis | $ 53,130 | $ 10,509 |
| **State Prescribed Practices:** | | |
| None | - | - |
| **State Permitted Practices:** | | |
| None | - | - |
| Net Income, NAIC SAP basis | $ 53,130 | $ 10,509 |
| Statutory Surplus, Michigan basis | 141,507 | 86,686 |
| **State Prescribed Practices:** | | |
| Cumulative effect of changes in permitted practice | | |
| Nonadmitted assets | (575) | (1,511) |
| **State Permitted Practices:** | | |
| Statutory Surplus, NAIC SAP basis | $ 140,932 | $ 85,175 |

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

The preparation of 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

Cash Equivalents - Cash Equivalents are carried at cost, which approximate fair market value, and are

# NOTES TO FINANCIAL STATEMENTS

comprised of short-term investments with initial maturities at date of acquisition of 365 days or less.

Investments - Realized gains and losses and declines in value judged to be other-than-temporary are reflected in investment income. The specific identification method is utilized to determine realized gains and losses.

Securities Lending - BCN enters into secured lending transactions and recognizes the collateral received and the corresponding liability to return the collateral. Security lending collateral is excluded from the managed care organization risk-based capital calculation. The amounts related to these activities are recorded in other invested assets and other liabilities in the statements of assets, liabilities, capital and surplus.

Inventories - Consist of pharmaceuticals stated at cost, on a first-in, first-out basis and are included in other assets.

Furniture, Equipment, Electronic Data Processing Equipment and Software are stated at cost. Depreciation is recorded by the straight-line method over the estimated useful lives of the assets. Depreciation expense for 2003 and 2002 was $2,079,000 and $3,880,000, respectively.

Claims Unpaid - The liability for incurred but unpaid and unreported medical and hospital claims is accrued in the period during which the services are provided, and includes actuarial estimates of services performed which have not been reported by providers to BCN. Such estimates are based on historical claims experience modified for current trends and changes in benefits provided. Revisions in actuarial estimates are reported in the period in which they arise. BCN has reinsured certain of its claims liabilities through an affiliated self-insured trust.

Revenue from subscribers is recognized ratably over the period of coverage. Premiums received in advance are recorded as a liability. Other revenues consist primarily of fee-for-service revenue, which are recognized as services are performed.

In addition, the company uses the following accounting policies:

(1) Short-term investments are stated at amortized cost.

(2) Bonds not backed by other loans are stated at amortized cost using the interest method.

(3) Common Stocks at market.

(4) Preferred Stocks – NOT APPLICABLE

(5) Mortgage loans on real estate – NOT APPLICABLE

(6) Loan-backed securities are stated at amortized cost.

(7) BCN records its investment in certain grantor trusts as an increase to other long-term invested assets and an increase to capital and surplus.

(8) Investments in joint ventures, partnerships and limited liability companies – NOT APPLICABLE

(9) Derivatives – NOT APPLICABLE

(10) The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 54, Individual and Group Accident and Health Contracts.

(11) The reserve for loss contracts and the related expense are recognized when it is probable that expected future health care costs, under a group of existing contracts, will exceed future premiums and reinsurance recoveries anticipated over the remaining term of the contract. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated. Any adjustments resulting therefrom are reflected in current operations. Estimates in reserves are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. Loss contract accruals would be included in aggregate claims reserves in the statutory basis statement of admitted assets, liabilities, capital and surplus.

2. Accounting Changes and Corrections of Errors

A. There were no changes in accounting principles or correction of errors.

B. Effective January 1, 2003, OFIS required that insurance companies domiciled in the State of Michigan prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual—Version effective January 1, 2001

# NOTES TO FINANCIAL STATEMENTS

(the "Manual") [as modified by OFIS]. Accordingly, the admitted assets, liabilities, and surplus of BCN as of December 31, 2003, and the results of its operations and its cash flow for the year then ended have been determined in accordance with the new accounting principles.

Accounting changes adopted to conform to the provisions of the Manual [, as modified,] are reported as changes in accounting principles. The cumulative effect of the changes in accounting principles has been reported as an adjustment of unassigned surplus at January 1, 2003. The cumulative effect is the difference between the amount of capital and surplus at January 1, 2003, and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. The adoption of the new accounting principles in the Manual [, as modified,] has the effect of reducing unassigned surplus at January 1, 2003 by $443,000.

3. Business Combinations and Goodwill – NOT APPLICABLE

4. Discontinued Operations – NOT APPLICABLE

5. Investments

   A. Mortgage Loans – NOT APPLICABLE

   B. Debt Restructuring – NOT APPLICABLE

   C. Reverse Mortgages – NOT APPLICABLE

   D. Loan-Backed Securities

   BCN used public market quotes for determining the market value of its loan-backed securities.

   E. Repurchase Agreements – NOT APPLICABLE

   F. Real Estate – NOT APPLICABLE

6. Joint Ventures, Partnerships and Limited Liability Companies – NOT APPLICABLE

7. Investment Income

   BCN excludes from surplus due and accrued income that is over 90 days past due. However, there was no investment income excluded at December 31, 2003 and 2002.

8. Derivative Instruments – NOT APPLICABLE

9. Income Taxes - BCN has been recognized by the Internal Revenue Service as an organization described under Internal Revenue Code Section 501(c)(4) as an organization exempt from tax under Section 501(a).

10. Information Concerning Parent, Subsidiaries and Affiliates

    BCN conducts business transactions with Blue Cross Blue Shield of Michigan ("BCBSM") and affiliates on a routine basis. BCN is a wholly owned subsidiary of BCBSM.

    Claims Processing - BCBSM processes certain hospital, hearing, and professional claims on behalf of BCN. BCN reimburses BCBSM at agreed upon rates for claims and pays an administrative fee for each claim processed. BCBSM charged BCN approximately $296,000 and $376,000 at December 31, 2003 and 2002, respectively, for such claims processing. BCBSM owed BCN $3,500 and $3,677,000 at December 31, 2003 and 2002, respectively.

    Administrative Cost Allocation - BCBSM provides and bills BCN for miscellaneous administrative support, including computer operations support. BCBSM also purchased services on behalf of BCN such as telephone services and bills BCN accordingly. BCBSM charged BCN $49,615,000 and $41,467,000 for 2003 and 2002, respectively. BCN owed BCBSM $16,139,000 and $3,820,000 at December 31, 2003 and 2002, respectively.

    Malpractice Trust - BCN has an agreement with an affiliated grantor trust to provide malpractice coverage. There were no expenses related to the malpractice trust in 2003 and 2002. BCN's equity investment in this trust was approximately 97% and 98% at December 31, 2003 and 2002, respectively. As of December 31, 2003 and 2002, the net equity of the trusts included in the statutory financial statements was approximately $41,456,000 and $38,139,000, respectively.

    Stop-Loss Trust – BCN has an agreement with an affiliated grantor trust to provide reinsurance and reduced deductibles for property, general liability, automobile, and fidelity insurance coverages. The stop-loss trust covers risks incurred in excess of a retention amount. BCN is self-insured for inpatient hospital claims up to $150,000 per member each calendar year (the "deductible") and has an agreement with an affiliated trust, Blue

# NOTES TO FINANCIAL STATEMENTS

Care Network Stop-Loss and Casualty Self-Insurance Trust to cover the claims incurred over the deductible.

At December 31, 2003 and 2002, BCN had receivables for known reinsurance recoveries on paid claims of approximately $525,000 and $863,000, respectively, from the stop-loss trust. In addition, at December 31, 2003 and 2002, BCN recorded as accounts receivable $14,759,000 and $13,484,000, respectively, of estimated recoverable amounts for potential claims exceeding the deductible based on actuarial estimates using historical recovery trends. BCN's equity investment in the stop-loss trust was approximately 99% at December 31, 2003 and 2002. As of December 31, 2003 and 2002, the net equity of the trusts included in the statutory financial statements was approximately $9,145,000 and $9,674,000, respectively. BCN owed the stop-loss trust $396,000 and $640,000 at December 31, 2003 and 2002, respectively, for premiums.

Reinsurance expenses related to the stop-loss trust amounted to approximately $4,802,000 and $7,873,000 in 2003 and 2002, respectively, and are recorded as medical and hospital expenses. Reinsurance recoveries recorded from the stop-loss trust totaled approximately $7,130,000 and $5,210,000 in 2003 and 2002, respectively, and are recorded as hospital and medical expenses.

Health Insurance - BCN purchases health insurance benefits for certain of its employees from BCBSM. Expenses were approximately $7,950,000 and $6,537,000 in 2003 and 2002, respectively. BCN owed premiums to BCBSM of $0 and $2,756,000 at December 31, 2003 and 2002, respectively. Additionally, BCBSM purchases health insurance for certain of its employees from BCN. The amounts billed by BCN for such insurance were approximately $9,142,000 and $9,109,000 in 2003 and 2002, respectively.

Capitated Health Care Program - BCN participated in the "Personal Plus" program, a capitated health care program sponsored by an affiliated company, Blue Care of Michigan, Inc. ("BCMI"). BCN receives monthly capitation from BCMI for subscribers in the BCN coverage area. BCN is responsible for collecting premiums and is at risk for all medical claims. Revenue derived through the Personal Plus program was approximately $3,083,000 and $1,882,000 in 2003 and 2002, respectively. BCN owed BCMI $32,000 and $21,000 at December 31, 2003 and 2002, respectively. BCMI owed BCN $6,000 and $0 at December 31, 2003 and 2002, respectively.

Point of Service/Blue Preferred Plus - BCN provides BCBSM with miscellaneous administrative support for certain products offered by BCBSM. BCBSM bears all risk associated with these products. Miscellaneous administrative expense incurred by BCN and subject to reimbursement from BCBSM related to these products totaled approximately $8,475,000 and $7,300,000 in 2003 and 2002, respectively. BCBSM owed BCN $5,644,000 and $8,289,000 at December 31, 2003 and 2002, respectively.

Blue Care of Michigan, Inc. - BCN provides BCMI with miscellaneous administrative support. Miscellaneous administrative expenses incurred by BCN and subject to reimbursement from BCMI totaled approximately $25,000 and $62,000 in 2003 and 2002, respectively. BCMI owed BCN $2,000 and $0 at December 31, 2003 and 2002, respectively.

BCN does not guarantee or undertake for the benefit of an affiliate a material contingent exposure of BCN's or any affiliated insurer's assets or liabilities.

BCN does not have management or service contracts or cost sharing arrangements, other than cost allocation arrangements, other than such arrangements described in these footnotes.

BCN is a nonprofit stock corporation and wholly owned subsidiary of BCBSM.

BCN does not own shares of an upstream intermediate or ultimate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company.

11. Debt – NOT APPLICABLE

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

A. Defined Benefit Plan

BCBSM sponsors a defined benefit pension plan covering all employees of BCN, who meet certain requirements of age and length of service. Benefits paid to retirees are based on age at retirement, years of credited service and highest monthly average earnings over 60 consecutive months. BCN provides for and contributes to the plans as determined by BCBSM, and BCN has no legal obligation to the plans.

Under the BCBSM amended retirement account plan, each participant has an account balance to which interest credits and earnings credits are added. Interest will be credited quarterly based on the prior August one-year Treasury bill rate. Annual earnings credits of 6 percent to 10 percent are credited to participants' account balances on a monthly basis and monthly 2 percent annual transition credits are made through 2008. Employees can elect to receive the lump-sum value of their account balance or monthly payments at

# NOTES TO FINANCIAL STATEMENTS

retirement or termination.

A summary of assets, obligations and assumptions of the Pension and Other Postretirement Benefit Plans at the plans' measurement date of September 30, 2003, and as allocated to BCN from BCBSM, are as follows at December 31, 2003 and 2002:

| (In Thousands) | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| (1) Change in benefit obligation | | | | |
| a. Benefits obligation at beginning of year | $ 73,090 | $61,025 | $37,437 | $29,584 |
| b. Service cost | 4,474 | 3,763 | 4,078 | 3,840 |
| c. Interest cost | 4,600 | 4,311 | 2,791 | 2,303 |
| d. Contribution by plan participants | - | - | (3,831) | - |
| e. Actuarial gain (loss) | 4,997 | 6,139 | 9,608 | 2,478 |
| f. Foreign currentcy exchange rate changes | - | | - | - |
| g. Benefits paid | (3,328) | (2,148) | (1,286) | (768) |
| h. Plan amendments | - | - | - | - |
| I. Business combinations, divestitures, curtailments, settlements and special termination benefits | - | | - | - |
| j. Benefits obligation at end of year | $ 83,833 | $73,090 | $48,797 | $37,437 |

| (In Thousands) | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| (2) Change in plan assets | | | | |
| a. Fair value of plan assets at beginning of year | $58,547 | $54,464 | $ - | $ - |
| b. Actual return on plan assets | 12,581 | (6,252) | - | - |
| c. Foreign currency exchange rate changes | - | - | - | - |
| d. Employer contribution | 11,391 | 12,391 | - | - |
| e. Plan participants' contributions | - | - | - | - |
| f. Benefits paid | (3,209) | (2,056) | - | - |
| g. Business combinations, divestitures, curtailments, settlements and special termination benefits | - | - | - | - |
| h. Fair value of plan assets at end of year | $79,310 | $58,547 | $ - | $ - |

| (In Thousands) | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| (3) Funded status | | | | |
| a. Unamortized prior service cost | $ (354) | $ (460) | $ 4,606 | $ 1,042 |
| b. Unrecognized net gain or (loss) | (15,180) | (16,029) | (9,757) | (301) |
| c. Remaining net obligation or net asset at initial date of application | (177) | (221) | - | - |
| d. (Prepaid non-admitted assets) or accrued liabilities | (11,220) | (2,195) | 43,645 | 38,179 |
| e. Intangible asset | | | | |

| (In Thousands) | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| (4) Benefit obligation for non vested employees | $ 4,938 | $ 3,209 | $ 17,908 | $ 19,303 |

| (In Thousands) | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| (5) Components of net periodic benefit cost | | | | |
| a. Service cost | $ 4,621 | $ 3,886 | $ 4,078 | $ 3,840 |
| b. Interest cost | 4,600 | 4,310 | 2,792 | 2,302 |
| c. Expected return on plan assets | (6,934) | (5,836) | | - |
| d. Amortization of unrecognized transition obligation or transition asset | 44 | (17) | | - |
| e. Amount of recognized gains and losses | - | - | | - |
| f. Amount of prior service cost recognized | 107 | 94 | (268) | (581) |
| g. Amount of gain or loss recognized due to a settlement or curtailment | 49 | (449) | 151 | 45 |
| h. Total net periodic benefit cost | $ 2,487 | $ 1,988 | $ 6,753 | $ 5,606 |

(6) A minimum pension liability adjustment – NOT APPLICABLE

# NOTES TO FINANCIAL STATEMENTS

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| (7) Assumptions as of Dec. 31 | | | | |
| a. Discount rate | 6.000% | 6.500% | 6.000% | 6.500% |
| b. Rate of compensation increase | 2.975-5.525% | 2.975-5.525% | | |
| c. Expected long-term rate of return on plan assets | 9.500% | 9.500% | | |

(8) BCN provides certain health care and selected other benefits to all employees and their dependents. Represented and nonrepresented employees who have ten years of service after age 45 and retire from active employment, or who become disabled and meet certain benefit and service requirements are eligible. This benefit is subject to revision at the discretion of the Board of Directors for nonrepresented employees and for represented employees, subject to collective bargaining agreements. These plans are noncontributory plans. Certain revisions to the nonrepresented employees' postretirement benefits, other than pensions, will take effect January 1, 2004. Nonrepresented employees retiring after December 31, 2003 may share in the cost of their health care premiums and have higher deductibles and co-payments depending on their eligibility status at December 31, 2003. Additionally, nonrepresented employees hired on or after January 1, 2004 are required to have 15 years of service after age 45 to be eligible for retiree health care benefits and selected other benefits.

On December 8, 2003 the Medicare Prescription Drug, Improvement and Modernization ("Act") of 2003 was signed into law. The Act provides a prescription drug benefit under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least equivalent to the Medicare Part D benefit. The ultimate financial impact that this new law will have on the Corporation's retiree health plan obligation is not yet known due to the fact that at this time specific authoritative guidance on the accounting for the federal subsidy is pending and when issued could require the Corporation to change previously reported information. Under the provisions of FASB Staff Position ("FSP") 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003", the Corporation has elected to defer recognition of the financial statement impact until authoritative guidance is issued.

BCN's postretirement health care plan is unfunded. For the year ended December 31, 2003, the health care trend rate on covered benefits is assumed to be 9.33%, ratably downgrading to 4.75% by 2008 and all years thereafter.

(9) 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 (in thousands):

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 1,342 | $ 1,075 |
| Effect on postretirement benefit obligaton | $ 7,894 | $ 6,375 |

B. Defined Contribution Plan – NOT APPLICABLE – see C below

C. Multiemployer Plans

BCN participates in a qualified, noncontributory defined contribution pension plan sponsored by BCBSM. The Plan is qualified under Section 401(k) of the Internal Revenue Code. Participating employees may elect to contribute to the Plan and BCN matches a portion of the employees' contributions. BCN's contributions were $1,676,000 and $1,590,000 in 2003 and 2002, respectively.

D. Consolidated/Holding Company Plans – NOT APPLICABLE

E. Postemployment Benefits and Compensated Absences – NOT APPLICABLE

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

(1) BCN has 500 shares authorized, 500 shares issued and 500 shares outstanding. All shares are Class A shares.

(2) BCN has no preferred stock outstanding.

(3) The Company's Articles of Incorporation state that no dividends shall be directly paid on any shares nor shall the shareholders be entitled to any portion of the earnings.

(4) The Company's Articles of Incorporation state that no dividends shall be directly paid on any shares nor

# NOTES TO FINANCIAL STATEMENTS

shall the shareholders be entitled to any portion of the earnings.

(5) There were no restrictions placed on the BCN's surplus, including for whom the surplus is being held.

(6) The total amount of advances to surplus not repaid – NOT APPLICABLE

(7) The amount of stock held by BCN for special purposes – NOT APPLICABLE

(8) Special surplus funds changes – NOT APPLICABLE

(9) The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

| | |
|---|---|
| a. unrealized gains and losses: | $ None |
| b. nonadmitted asset values: | $ 1,098,000 |
| c. separate account business: | $ None |
| d. asset valuation reserves: | $ None |
| e. provision for reinsurance: | $ None |

(10) Surplus debentures of similar obligations – NOT APPLICABLE

(11) Impact of any restatement due to quasi-reorganization – NOT APPLICABLE

(12) Effective dates of all quasi-reorganizations in the prior 10 years is/are – NOT APPLICABLE

14. Contingencies

A. Contingent Commitments – NOT APPLICABLE

B. Assessments – NOT APPLICABLE

C. Gain Contingencies – NOT APPLICABLE

D. All Other Contingencies

BCN and its affiliated physicians are parties to lawsuits incidental to the operations of the HMO. Management believes that the ultimate disposition of such contingencies will not have a material effect on the accompanying financial statements.

15. Leases

A. Lessee Operating Lease

(1) Lessees leasing arrangements

a. BCN has entered into certain cancelable land and building leases with BCBSM. Rent expense paid to BCBSM in 2003 and 2002 was approximately $2,588,000 and $3,382,000, respectively.

b. BCN also leases office buildings under operating leases with different unrelated parties. Rent expense under these leases was $3,729,000 and $3,589,000 in 2003 and 2002, respectively.

(2) Noncancelable leases

a. At December 31, 2003, the minimum aggregate rental commitments are as follows:

(Dollars in thousands)

| Year Ending December 31 | Operating Leases |
|---|---|
| 2004 | $ 3,761 |
| 2005 | 3,025 |
| 2006 | 2,991 |
| 2007 | 3,255 |
| 2008 | 3,335 |
| Total | $ 16,367 |

b. Noncancelable subleases – NOT APPLICABLE

# NOTES TO FINANCIAL STATEMENTS

(3) Sales-leaseback transactions – NOT APPLICABLE

B. Lessor Leases – NOT APPLICABLE

16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk – NOT APPLICABLE

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities – NOT APPLICABLE

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans – NOT APPLICABLE

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators – NOT APPLICABLE

20. September 11 Events – NOT APPLICABLE

21. Other Items

A. Extraordinary Items – NOT APPLICABLE

B. Troubled Debt Restructuring – NOT APPLICABLE

C. Other Disclosures

As a condition of licensure with the State of Michigan, BCN is required to maintain a minimum deposit of $1,000,000 in a segregated account. BCN maintains a $1,000,000 deposit for such purposes. These funds can only be used by BCN at the direction of the Insurance Commissioner of the State of Michigan. The funds are invested in a United States Treasury Money Market Fund. Interest on these funds accrues to BCN.

BCN is required by the OFIS to comply with certain regulatory risk-based capital ("RBC") requirements. At December 31, 2003 and December 31, 2002 BCN was in compliance with the RBC requirement.

D. Other Disclosures, Uncollectible Assets on Uninsured plans – NOT APPLICABLE

E. Noncash Transactions – NOT APPLICABLE

F. Business Interruption Insurance Recoveries – NOT APPLICABLE

22. Events Subsequent

Type 1

On October 2, 2003, BCN's Board of Directors approved the closure of two east region health centers no later than March 31, 2004 due to deteriorating financial results. The impacted employees were informed of their termination benefits in January 2004. BCN expects to incur one-time termination benefits of approximately $3,900,000 which were accrued for as of December 31, 2003.

23. Reinsurance – NOT APPLICABLE

24. Retrospectively Rated Contracts and Contracts Subject to Redetermination

A. BCN estimates accrued retrospective premium adjustments for its group health insurance business through a mathematical approach using an algorithm of the company's underwriting rules and experience rating practices.

B. The amount of net premiums written by BCN that are subject to retrospective rating features was $46 million and $47 million at December 31, 2003 and 2002 respectively, that represented 3.4% and 3.8% of the total net premiums written for commercial health for 2003 and 2002, respectively. No other net premiums written by BCN are subject to retrospective rating features.

25. Change in Incurred Losses and Loss Adjustment Expenses - Activity in the liabilities for claims and claims adjustment expenses payable is summarized as follows (in thousands):

# NOTES TO FINANCIAL STATEMENTS

| | 2003 | 2002 |
|---|---|---|
| BALANCE AT JANUARY 1 | $ 194,260 | $ 225,823 |
| Incurred related to: | | |
| Current year | 1,162,470 | 1,146,075 |
| Prior year | (19,419) | (1,870) |
| Total incurred | 1,143,051 | 1,144,205 |
| Paid related to: | | |
| Current year | 957,451 | 985,528 |
| Prior year | 168,169 | 190,240 |
| Total paid | 1,125,620 | 1,175,768 |
| BALANCE AT DECEMBER 31 | $ 211,691 | $ 194,260 |

Changes in actuarial estimates of claims unpaid reported as “incurred related to prior year” in the schedule above reflect revisions in estimates of medical cost trends and changes in claims processing patterns.

26. Intercompany Pooling Arrangements – NOT APPLICABLE

27. Structured Settlements – NOT APPLICABLE

28. Health Care Receivables –The office of Financial and Insurance Services for the State of Michigan has extended the transition period for SSAP 84 until January 1, 2004.

29. Participating Policies – NOT APPLICABLE

30. Premium Deficiency Reserves – BCN considers anticipated investment income when calculating its premium deficiency reserves, and as of December 31, 2003 and 2002 no reserve was required on any line of business.

31. Anticipated Salvage and Subrogation – NOT APPLICABLE

# SUMMARY INVESTMENT SCHEDULE

| Investment Categories | Gross Investment Holdings 1 Amount | 2 Percentage | Admitted Assets as Reported in the Annual Statement 3 Amount | 4 Percentage |
|---|---|---|---|---|
| 1. Bonds: | | | | |
| 1.1 U.S. treasury securities | | 0.0 | | 0.0 |
| 1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities): | | | | |
| 1.21 Issued by U.S. government agencies | | 0.0 | | 0.0 |
| 1.22 Issued by U.S. government sponsored agencies | | 0.0 | | 0.0 |
| 1.3 Foreign government (including Canada, excluding mortgage-backed securities) | | 0.0 | | 0.0 |
| 1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.: | | | | |
| 1.41 States, territories and possessions general obligations | | 0.0 | | 0.0 |
| 1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations | | 0.0 | | 0.0 |
| 1.43 Revenue and assessment obligations | 40,683,045 | 7.7 | 40,683,045 | 7.7 |
| 1.44 Industrial development and similar obligations | | 0.0 | | 0.0 |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | |
| 1.51 Pass-through securities: | | | | |
| 1.511 Guaranteed by GNMA | | 0.0 | | 0.0 |
| 1.512 Issued by FNMA and FHLMC | | 0.0 | | 0.0 |
| 1.513 Privately issued | | 0.0 | | 0.0 |
| 1.52 CMOs and REMICs: | | | | |
| 1.521 Issued by FNMA and FHLMC | | 0.0 | | 0.0 |
| 1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA or FHLMC | | 0.0 | | 0.0 |
| 1.523 All other privately issued | | 0.0 | | 0.0 |
| 2. Other debt and other fixed income securities (excluding short-term): | | | | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO) | | 0.0 | | 0.0 |
| 2.2 Unaffiliated foreign securities | | 0.0 | | 0.0 |
| 2.3 Affiliated securities | | 0.0 | | 0.0 |
| 3. Equity interests: | | | | |
| 3.1 Investments in mutual funds | 1,104,974 | 0.2 | 1,104,974 | 0.2 |
| 3.2 Preferred stocks: | | | | |
| 3.21 Affiliated | | 0.0 | | 0.0 |
| 3.22 Unaffiliated | | 0.0 | | 0.0 |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | |
| 3.31 Affiliated | | 0.0 | | 0.0 |
| 3.32 Unaffiliated | | 0.0 | | 0.0 |
| 3.4 Other equity securities: | | | | |
| 3.41 Affiliated | | 0.0 | | 0.0 |
| 3.42 Unaffiliated | | 0.0 | | 0.0 |
| 3.5 Other equity interests including tangible personal property under lease: | | | | |
| 3.51 Affiliated | | 0.0 | | 0.0 |
| 3.52 Unaffiliated | | 0.0 | | 0.0 |
| 4. Mortgage loans: | | | | |
| 4.1 Construction and land development | | 0.0 | | 0.0 |
| 4.2 Agricultural | | 0.0 | | 0.0 |
| 4.3 Single family residential properties | | 0.0 | | 0.0 |
| 4.4 Multifamily residential properties | | 0.0 | | 0.0 |
| 4.5 Commercial loans | | 0.0 | | 0.0 |
| 4.6 Mezzanine real estate loans | | 0.0 | | 0.0 |
| 5. Real estate investments: | | | | |
| 5.1 Property occupied by company | 681,583 | 0.1 | 681,583 | 0.1 |
| 5.2 Property held for production of income (includes $.....0 of property acquired in satisfaction of debt) | | 0.0 | | 0.0 |
| 5.3 Property held for sale ($.....0 including property acquired in satisfaction of debt) | | 0.0 | | 0.0 |
| 6. Policy loans | | 0.0 | | 0.0 |
| 7. Receivables for securities | | 0.0 | | 0.0 |
| 8. Cash and short-term investments | 394,201,934 | 74.7 | 394,201,934 | 74.7 |
| 9. Other invested assets | 91,363,618 | 17.3 | 91,363,618 | 17.3 |
| 10. Total invested assets | 528,035,155 | 100.0 | 528,035,155 | 100.0 |

# 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 [ X ] No [ ]

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 [ X ] No [ ] N/A [ ]

1.3 State regulating? Michigan

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [ X ]

2.2 If yes, date of change:
If not previously filed, furnish herewith a certified copy of the instrument as amended.

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 09/30/2000

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. 09/30/2000

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). 09/11/2001

3.4 By what department or departments? Office of Financial & Insurance Services

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 a 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 [ X ] No [ ]

4.22 renewals? Yes [ X ] No [ ]

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? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) Yes [ ] No [ X ]

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(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

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

# GENERAL INTERROGATORIES (continued)

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 location (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 Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator].

| 1<br>Affiliate Name | 2<br>Location (City, State) | 3<br>FRB | 4<br>OCC | 5<br>OTS | 6<br>FDIC | 7<br>SEC |
|---|---|---|---|---|---|---|
| | | | | | | |

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
Deloitte & Touche
600 Renniassance Center Detroit, Mi 48243-1895

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
David R. Nelson, FSA MAAA Chief Actuarial Officer
25925 Telegraph Mail code B839 Southfield, Mi 48086

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

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

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

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

11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [ ]

## BOARD OF DIRECTORS

12. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof? Yes [ X ] No [ ]

13. 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 [ ]

14. 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 which is in or is likely to conflict with the official duties of such person? Yes [ X ] No [ ]

## FINANCIAL

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

15.11 To directors or other officers .....0

15.12 To stockholders not officers .....0

15.13 Trustees, supreme or grand (Fraternal only) .....0

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

15.21 To directors or other officers .....0

15.22 To stockholders not officers .....0

15.23 Trustees, supreme or grand (Fraternal only) .....0

16.1 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 ]

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

16.21 Rented from others .....

16.22 Borrowed from others .....

16.23 Leased from others .....

16.24 Other .....

Disclose in the Notes to Financial the nature of each obligation.

17.1 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 ]

17.2 If answer is yes:

17.21 Amount paid as losses or risk adjustment .....

17.22 Amount paid as expenses .....

17.23 Other amounts paid .....

# GENERAL INTERROGATORIES (continued)

## INVESTMENT

18. List the following capital stock information for the reporting entity:

| Class | 1<br>Number of Shares Authorized | 2<br>Number of Shares Outstanding | 3<br>Par Value Per Share | 4<br>Redemption Price If Callable | 5<br>Is Dividend Rate Limited? | 6<br>Are Dividends Cumulative? |
|---|---|---|---|---|---|---|
| Preferred | | | | | Yes [ ] No [ ] | Yes [ ] No [ ] |
| Common | 500.000 | 500.000 | 100.00 | XXX | XXX XXX | XXX XXX |

19.1 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, except as shown by Schedule E-Part 3-Special Deposits? Yes [ ] No [ X ]

19.2 If no, give full and complete information relating thereto.
All securities are held under safe-keeping agreements with State Street Bank and Fidelity Investments Institutional Operations Company

20.1 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, except as shown on Schedule E-Part 3-Special Deposits, 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 16.1) Yes [ ] No [ X ]

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

20.21 Loaned to others
20.22 Subject to repurchase agreements
20.23 Subject to reverse repurchase agreements
20.24 Subject to dollar repurchase agreements
20.25 Subject to reverse dollar repurchase agreements
20.26 Pledged as collateral
20.27 Placed under option agreements
20.28 Letter stock or securities restricted as to sale
20.29 Other

20.3 For each category above, if any of these assets are held by others, identify by whom held:
20.31
20.32
20.33
20.34
20.35
20.36
20.37
20.38
20.39

For categories (20.21) and (20.23) above, and for any securities that were made available for use by another person during the period covered by this statement, attach a schedule as shown in the instructions to the annual statement.

20.4 For category (20.28) provide the following:

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

21.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [ X ]

21.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] N/A [ ]
If no, attach a description with this statement.

22.1 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 [ X ]

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

# GENERAL INTERROGATORIES (continued)

## INVESTMENT

23. Excluding items in Schedule E, 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 Part 1-General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [ X ] No [ ]

23.01 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 |
|---|---|
| State Street Bank | 801 Pennsylvania Kansas City, MO 64105 |
| Comerica Bank | P.o. Box 75000 Detroit, MI 48275-3462 |
| Fidelity Investments Institutional Operations Company | 100 Majellan Way KW2B Covington, KY 41015 |

23.02 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) |
|---|---|---|
| | | |

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year? Yes [ ] No [ X ]

23.04 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 |
|---|---|---|---|
| | | | |

23.05 Identify all investment advisors, brokers/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 |
|---|---|---|
| | | |

24.1 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 [ X ]

24.2 If yes, complete the following schedule:

| 1<br>CUSIP # | 2<br>Name of Mutual Fund | 3<br>Book/Adjusted Carrying Value |
|---|---|---|
| | | |
| 9999999. TOTAL | | 0 |

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

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

# GENERAL INTERROGATORIES (continued)

## OTHER

25.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? $.....265,000

25.2 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 |
|---|---|
| American Asscciation of Health Plans | 200,000 |
| Michigan Association of Health Plans | 65,000 |

26.1 Amount of payments for legal expenses, if any? $.....3,562

26.2 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 |
|---|---|
| E. R. Scales | 2,275 |

27.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? .....0

27.2 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 (continued)

## PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ ] No [ X ]

1.2 If yes, indicate premium earned on U.S. business only $.....0

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? $.....0

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. $.....0

1.5 Indicate total incurred claims on all Medicare Supplement insurance. $.....0

1.6 Individual policies:

Most current three years:

1.61 Total premium earned $.....0

1.62 Total incurred claims $.....0

1.63 Number of covered lives .....0

All years prior to most current three years:

1.64 Total premium earned $.....0

1.65 Total incurred claims $.....0

1.66 Number of covered lives .....0

1.7 Group policies:

Most current three years:

1.71 Total premium earned $.....0

1.72 Total incurred claims $.....0

1.73 Number of covered lives .....0

All years prior to most current three years:

1.74 Total premium earned $.....0

1.75 Total incurred claims $.....0

1.76 Number of covered lives .....0

2. Health test:

| | 1<br>Current Year | 2<br>Prior Year |
|---|---|---|
| 2.1 Premium Numerator | | |
| 2.2 Premium Denominator | | |
| 2.3 Premium Ratio (2.1/2.2) | 0.0 | 0.0 |
| 2.4 Reserve Numerator | | |
| 2.5 Reserve Denominator | | |
| 2.6 Reserve Ratio (2.4/2.5) | 0.0 | 0.0 |

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 [ X ]

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 departments been filed with the appropriate regulatory agency? Yes [ X ] 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 [ X ]

5.2 If no, explain:

BCN participates in the Blue Care Network Stoploss and Casualty Self-Insurnace Trust. Unlimited coverage with a $150,000 deductible. Expiration date of 12/31/03.

5.3 Maximum retained risk (see instructions):

5.31 Comprehensive medical $.....0

5.32 Medical only $.....0

5.33 Medicare supplement $.....0

5.34 Dental $.....0

5.35 Other limited benefit plan $.....0

5.36 Other $.....0

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-Mandated Cash Reserves, Hold Harmless provisions included in contracts with providers, and Stoploss Self-Insurance Coverage Maintained.

7.1 Does the reporting entity set up its claim liability for provider services on a service data base? Yes [ X ] 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 .....9,696

8.2 Number of providers at end of reporting year .....9,807

9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [ ] No [ X ]

9.2 If yes, direct premium earned:

9.21 Business with the rate guarantees between 15-36 months $.....0

9.22 Business with rate guarantees over 36 months $.....0

# GENERAL INTERROGATORIES (continued)

## PART 2 - HEALTH INTERROGATORIES (continued)

10.1 Does the reporting entity have Incentive Pool, Withhold and Bonus arrangements in its provider contracts? Yes [ X ] No [ ]

10.2 If yes:

10.21 Maximum amount payable bonuses $.....28,175,339

10.22 Amount actually paid for year bonuses $.....13,903,708

10.23 Maximum amount payable withholds $.....13,189,148

10.24 Amount actually paid for year withholds $.....8,256,816

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model, Yes [ ] No [ X ]

11.13 An Individual Practice Association (IPA), or Yes [ ] No [ X ]

11.14 A Mixed Model (combination of above)? Yes [ X ] No [ ]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements? Yes [ X ] No [ ]

11.3 If yes, show the name of the state requiring such net worth. Michigan

11.4 If yes, show the amount required. $.....54,380,471

11.5 Is this amount included as part of a contingency reserve in stockholder's equity? Yes [ ] No [ X ]

11.6 If the amount is calculated, show the calculation:
$1,359,511,772 Times 4% = $54,380,471
Premium revenue times 4%

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

| 1<br>Name of Service Area |
|---|
| Alcona County, MI. |
| Allegan County, MI. |
| Alpena County, MI. |
| Antrim County, MI. |
| Arenac County, MI. |
| Barry County, MI. |
| Bay County, MI. |
| Benzie County, MI. |
| Berrien County, MI. |
| Branch County, MI. |
| Calhoun County, MI. |
| Cass County, MI. |
| Charlevoix County, MI. |
| Cheboygan County, MI. |
| Clare County, MI. |
| Clinton County, MI. |
| Crawford County, MI. |
| Eaton County, MI. |
| Emmet County, MI. |
| Genessee County, MI. |
| Gladwin County, MI. |
| Grand Traverse County, MI. |
| Gratiot County, MI. |
| Hillsdale County, MI. |
| Huron County, MI. |
| Ingham County, MI. |
| Ionia County, MI. |
| Iosco County, MI. |
| Isabella County, MI. |
| Jackson County, MI. |
| Kalamazoo County, MI. |
| Kalkaska County, MI. |
| Kent County, MI. |
| Lapeer County, MI. |
| Leelanau County, MI. |
| Livingston County, MI. |
| Mackinac County, MI. |
| Macomb County, MI. |
| Manistee County, MI. |
| Mecosta County, MI. |
| Midland County, MI. |
| Monroe County, MI. |
| Montcalm County, MI. |
| Montmorency County, MI. |
| Muskegon County, MI. |
| Newaygo County, MI. |
| Oakland County, MI. |
| Oceana County, MI. |
| Ogemaw County, MI. |
| Osceola County, MI. |
| Oscoda County, MI. |
| Otsego County, MI. |
| Ottawa County, MI. |
| Presque County, MI. |
| Roscommon County, MI. |
| Saginaw County, MI. |
| Saint Joseph County, MI. |
| Shiawassee County, MI. |
| St. Clair County, MI. |
| Tuscola County, MI. |
| Van Buren County, MI. |
| Washtenaw County, MI. |

# GENERAL INTERROGATORIES (continued)

## PART 2 - HEALTH INTERROGATORIES (continued)

| |
|---|
| Wayne County, MI. |
| Wexford County, MI. |

# FIVE-YEAR HISTORICAL DATA

| | 1<br>2003 | 2<br>2002 | 3<br>2001 | 4<br>2000 | 5<br>1999 |
|---|---|---|---|---|---|
| **Balance Sheet Items (Pages 2 and 3)** | | | | | |
| 1. Total admitted assets (Page 2, Line 26) | 554,851,331 | 428,285,894 | 450,985,865 | 461,901,347 | 428,898,029 |
| 2. Total liabilities (Page 3, Line 22) | 413,344,160 | 341,599,712 | 376,511,592 | 390,297,977 | 336,610,480 |
| 3. Statutory surplus | 141,507,171 | 86,686,182 | 74,424,273 | 71,603,370 | 92,287,548 |
| 4. Total capital and surplus (Page 3, Line 30) | 141,507,171 | 86,686,182 | 74,474,273 | 71,603,370 | 92,287,548 |
| **Income Statement Items (Page 4)** | | | | | |
| 5. Total revenues (Line 8) | 1,352,667,185 | 1,285,757,719 | 1,356,921,878 | 1,211,291,169 | 1,110,682,200 |
| 6. Total medical and hospital expenses (Line 18) | 1,098,493,074 | 1,150,225,740 | 1,252,771,027 | 1,145,214,086 | 1,034,006,230 |
| 7. Total administrative expenses (Line 21) | 138,698,989 | 118,951,315 | 111,543,513 | 112,578,128 | 129,480,051 |
| 8. Net underwriting gain (loss) (Line 24) | 47,663,446 | 3,961,786 | (23,000,449) | (44,840,145) | (52,804,080) |
| 9. Net investment gain (loss) (Line 27) | 5,743,105 | 6,547,649 | 17,259,617 | 17,826,586 | 19,599,145 |
| 10. Total other income (Lines 28 plus 29) | | | | | |
| 11. Net income or (loss) (Line 32) | 53,130,301 | 10,509,435 | (5,740,832) | (27,013,559) | (33,204,935) |
| **Risk-Based Capital Analysis** | | | | | |
| 12. Total adjusted capital | 141,507,171 | 86,686,182 | 74,474,273 | 71,603,370 | 92,287,548 |
| 13. Authorized control level risk-based capital | 36,585,360 | 36,251,968 | 39,642,887 | 36,698,233 | 31,032,336 |
| **Enrollment (Exhibit 2)** | | | | | |
| 14. Total members at end of period (Column 5, Line 7) | 478,043 | 518,946 | 572,422 | 610,657 | 610,305 |
| 15. Total member months (Column 6, Line 7) | 5,898,716 | 6,280,413 | 7,020,584 | 7,218,459 | 7,215,410 |
| **Operating Percentage (Page 4)**<br>**(Item divided by Page 4, sum of Lines 2, 3, and 5)** | | | | | |
| 16. Premiums earned (Lines 2 plus 3) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 17. Total hospital and medical (Line 18) | 80.8 | 89.1 | 92.2 | 94.7 | 94.2 |
| 18. Total underwriting deductions (Line 23) | 96.0 | 99.3 | 101.6 | 103.9 | 105.8 |
| 19. Total underwriting gain (loss) (Line 24) | 3.5 | 0.3 | (1.7) | (3.7) | (4.8) |
| **Unpaid Claims Analysis (U&I Exhibit, Part 2B)** | | | | | |
| 20. Total claims incurred for prior years (Line 12, Col. 5) | 195,026,594 | 250,776,910 | 243,154,180 | 177,710,038 | 149,297,854 |
| 21. Estimated liability of unpaid claims - [prior year (Line 12, Col. 6)] | 223,296,904 | 256,989,508 | 232,764,022 | 191,281,539 | 170,937,227 |
| **Investments in Parent, Subsidiaries and Affiliates** | | | | | |
| 22. Affiliated bonds (Sch. D Summary, Line 25, Col. 1) | | | | | |
| 23. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1) | | | | | |
| 24. Affiliated common stocks (Sch D. Summary, Line 53, Col. 2) | | | | | |
| 25. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11) | | | | | |
| 26. Affiliated mortgage loans on real estate | | | | | |
| 27. All other affiliated | | | | | |
| 28. Total of above Lines 22 to 27 | 0 | 0 | 0 | 0 | 0 |

# SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

| Description | | 1<br>Book/Adjusted<br>Carrying Value | 2<br>Fair Value<br>(a) | 3<br>Actual Cost | 4<br>Par Value<br>of Bonds |
|---|---|---|---|---|---|
| **BONDS** | 1. United States | | | | |
| Governments | 2. Canada | | | | |
| (Including all obligations guaranteed | 3. Other Countries | | | | |
| by governments) | 4. Totals | 0 | 0 | 0 | 0 |
| | 5. United States | | | | |
| States, Territories and Possessions | 6. Canada | | | | |
| (Direct and guaranteed) | 7. Other Countries | | | | |
| | 8. Totals | 0 | 0 | 0 | 0 |
| Political Subdivisions of States, | 9. United States | | | | |
| Territories and Possessions | 10. Canada | | | | |
| (Direct and guaranteed) | 11. Other Countries | | | | |
| | 12. Totals | 0 | 0 | 0 | 0 |
| Special Revenue and Special Assessment | 13. United States | 40,683,045 | 40,683,045 | 40,711,122 | 39,916,774 |
| Obligations and all Non-guaranteed Obligations | 14. Canada | | | | |
| of Agencies and Authorities of Governments | 15. Other Countries | | | | |
| and their Political Subdivisions | 16. Totals | 40,683,045 | 40,683,045 | 40,711,122 | 39,916,774 |
| | 17. United States | | | | |
| Public Utilities | 18. Canada | | | | |
| (unaffiliated) | 19. Other Countries | | | | |
| | 20. Totals | 0 | 0 | 0 | 0 |
| Industrial and Miscellaneous and | 21. United States | | | | |
| Credit Tenant Loans | 22. Canada | | | | |
| (Unaffiliated) | 23. Other Countries | | | | |
| | 24. Totals | 0 | 0 | 0 | 0 |
| Parent, Subsidiaries and Affiliates | 25. Totals | | | | |
| | 26. **Total Bonds** | 40,683,045 | 40,683,045 | 40,711,122 | 39,916,774 |
| **PREFERRED STOCKS** | 27. United States | | | | |
| Public Utilities | 28. Canada | | | | |
| (Unaffiliated) | 29. Other Countries | | | | |
| | 30. Totals | 0 | 0 | 0 | |
| | 31 United States | | | | |
| Banks, Trust and Insurance Companies | 32. Canada | | | | |
| (Unaffiliated) | 33. Other Countries | | | | |
| | 34. Totals | 0 | 0 | 0 | |
| | 35. United States | | | | |
| Industrial and Miscellaneous | 36. Canada | | | | |
| (Unaffiliated) | 37. Other Countries | | | | |
| | 38. Totals | 0 | 0 | 0 | |
| Parent, Subsidiaries and Affiliates | 39. Totals | | | | |
| | 40. **Total Preferred Stocks** | 0 | 0 | 0 | |
| **COMMON STOCKS** | 41. United States | | | | |
| Public Utilities | 42. Canada | | | | |
| (Unaffiliated) | 43. Other Countries | | | | |
| | 44. Totals | 0 | 0 | 0 | |
| | 45. United States | | | | |
| Banks, Trust and Insurance Companies | 46. Canada | | | | |
| (Unaffiliated) | 47. Other Countries | | | | |
| | 48. Totals | 0 | 0 | 0 | |
| | 49. United States | 1,104,974 | 1,104,974 | 1,058,446 | |
| Industrial and Miscellaneous | 50. Canada | | | | |
| (Unaffiliated) | 51. Other Countries | | | | |
| | 52. Totals | 1,104,974 | 1,104,974 | 1,058,446 | |
| Parent, Subsidiaries and Affiliates | 53. Totals | | | | |
| | 54. **Total Common Stocks** | 1,104,974 | 1,104,974 | 1,058,446 | |
| | 55. **Total Stocks** | 1,104,974 | 1,104,974 | 1,058,446 | |
| | 56. **Total Bonds and Stocks** | 41,788,019 | 41,788,019 | 41,769,568 | |

(a) The aggregate value of bonds which are valued at other than actual fair value is $.....0.

# SCHEDULE D - VERIFICATION BETWEEN YEARS

| | | |
|---|---|---|
| 1. Book/adjusted carrying value of bonds and stocks, prior year | | 3,907,171 |
| 2. Cost of bonds and stocks acquired, Column 6, Part 3 | | 84,776,925 |
| 3. Increase (decrease) by adjustment: | | |
| 3.1 Column 16, Part 1 | (69,692) | |
| 3.2 Column 12, Part 2, Section 1 | | |
| 3.3 Column 10, Part 2, Section 2 | 182,895 | |
| 3.4 Column 10, Part 4 | (37,792) | 75,411 |
| 4. Total gain (loss), Column 14, Part 4 | | 36,395 |
| 5. Deduct consideration for bonds and stocks disposed of, Column 6, Part 4 | | 47,007,883 |
| 6. Foreign exchange adjustment: | | |
| 6.1 Column 17, Part 1 | | |
| 6.2 Column 13, Part 2, Section 1 | | |
| 6.3 Column 11, Part 2, Section 2 | | |
| 6.4 Column 11, Part 4 | | 0 |
| 7. Book/adjusted carrying value at end of current period | | 41,788,019 |
| 8. Total valuation allowance | | |
| 9. Subtotal (Lines 7 plus 8) | | 41,788,019 |
| 10. Total nonadmitted amounts | | |
| 11. Statement value of bonds and stocks, current period | | 41,788,019 |

# SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

| | 1 | 2 | Direct Business Only | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 3 | 4 | 5 | 6 | 7 | 8 |
| State, Etc. | Guaranty Fund (YES or NO) | Is Insurer Licensed? (YES or NO) | Accident & Health Premiums | Medicare Title XVIII | Medicaid Title XIX | Federal Employees Health Benefits Program Premiums | Life & Annuity Premiums and Deposit-Type Contract Funds | Property/ Casualty Premiums |
| 1. Alabama AL | NO | Invalid | | | | | | |
| 2. Alaska AK | NO | Invalid | | | | | | |
| 3. Arizona AZ | NO | Invalid | | | | | | |
| 4. Arkansas AR | NO | Invalid | | | | | | |
| 5. California CA | NO | Invalid | | | | | | |
| 6. Colorado CO | NO | Invalid | | | | | | |
| 7. Connecticut CT | NO | Invalid | | | | | | |
| 8. Delaware DE | NO | Invalid | | | | | | |
| 9. District of Columbia DC | NO | Invalid | | | | | | |
| 10. Florida FL | NO | Invalid | | | | | | |
| 11. Georgia GA | NO | Invalid | | | | | | |
| 12. Hawaii HI | NO | Invalid | | | | | | |
| 13. Idaho ID | NO | Invalid | | | | | | |
| 14. Illinois IL | NO | Invalid | | | | | | |
| 15. Indiana IN | NO | Invalid | | | | | | |
| 16. Iowa IA | NO | Invalid | | | | | | |
| 17. Kansas KS | NO | Invalid | | | | | | |
| 18. Kentucky KY | NO | Invalid | | | | | | |
| 19. Louisiana LA | NO | Invalid | | | | | | |
| 20. Maine ME | NO | Invalid | | | | | | |
| 21. Maryland MD | NO | Invalid | | | | | | |
| 22. Massachusetts MA | NO | Invalid | | | | | | |
| 23. Michigan MI | NO | YES | 1,314,340,646 | | | 45,708,356 | | |
| 24. Minnesota MN | NO | Invalid | | | | | | |
| 25. Mississippi MS | NO | Invalid | | | | | | |
| 26. Missouri MO | NO | Invalid | | | | | | |
| 27. Montana MT | NO | Invalid | | | | | | |
| 28. Nebraska NE | NO | Invalid | | | | | | |
| 29. Nevada NV | NO | Invalid | | | | | | |
| 30. New Hampshire NH | NO | Invalid | | | | | | |
| 31. New Jersey NJ | NO | Invalid | | | | | | |
| 32. New Mexico NM | NO | Invalid | | | | | | |
| 33. New York NY | NO | Invalid | | | | | | |
| 34. North Carolina NC | NO | Invalid | | | | | | |
| 35. North Dakota ND | NO | Invalid | | | | | | |
| 36. Ohio OH | NO | Invalid | | | | | | |
| 37. Oklahoma OK | NO | Invalid | | | | | | |
| 38. Oregon OR | NO | Invalid | | | | | | |
| 39. Pennsylvania PA | NO | Invalid | | | | | | |
| 40. Rhode Island RI | NO | Invalid | | | | | | |
| 41. South Carolina SC | NO | Invalid | | | | | | |
| 42. South Dakota SD | NO | Invalid | | | | | | |
| 43. Tennessee TN | NO | Invalid | | | | | | |
| 44. Texas TX | NO | Invalid | | | | | | |
| 45. Utah UT | NO | Invalid | | | | | | |
| 46. Vermont VT | NO | Invalid | | | | | | |
| 47. Virginia VA | NO | Invalid | | | | | | |
| 48. Washington WA | NO | Invalid | | | | | | |
| 49. West Virginia WV | NO | Invalid | | | | | | |
| 50. Wisconsin WI | NO | Invalid | | | | | | |
| 51. Wyoming WY | NO | Invalid | | | | | | |
| 52. American Samoa AS | NO | Invalid | | | | | | |
| 53. Guam GU | NO | Invalid | | | | | | |
| 54. Puerto Rico PR | NO | Invalid | | | | | | |
| 55. U.S. Virgin Islands VI | NO | Invalid | | | | | | |
| 56. Canada CN | NO | | | | | | | |
| 57. Aggregate Other alien OT | XXX | XXX | 0 | 0 | 0 | 0 | 0 | 0 |
| 58. Total (Direct Business) | XXX | (a) 1 | 1,314,340,646 | 0 | 0 | 45,708,356 | 0 | 0 |

**DETAILS OF WRITE-INS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 5701. | | | | | | | |
| 5702. | | | | | | | |
| 5703. | | | | | | | |
| 5798. Summary of remaining write-ins for line 57 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 |
| 5799. Total (Lines 5701 thru 5703 plus 5798) (Line 57 above) | 0 | 0 | 0 | 0 | 0 | 0 |

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

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

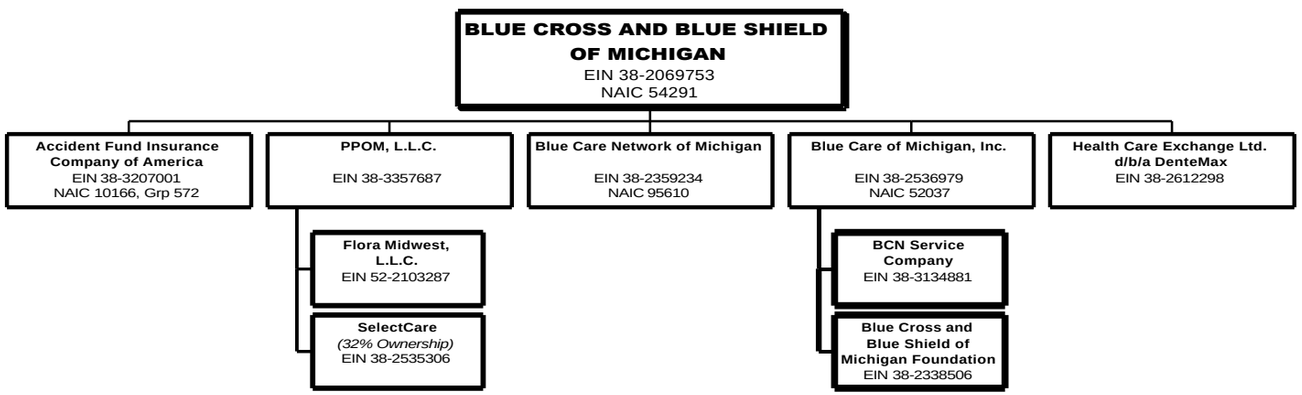
# SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 – ORGANIZATIONAL CHART

Blue Cross Blue Shield of Michigan

A nonprofit corporation and independent licensee of the Blue Cross and Blue Shield Association

## SUBSIDIARY & AFFILIATE ORGANIZATION CHART




Blue Care Network Medical Malpractice Self-Insurance Trust
EIN - N/A

Blue Care Network Stop- Loss and Casualty Self-Insurance Trust
EIN - N/A