



# HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2002  
of the Condition and Affairs of the

## Arkansas Blue Cross and Blue Shield, A Mutual Insurance Company

NAIC Group Code..... 0876,0876 (Current Period) (Prior Period)      NAIC Company Code..... 83470      Employer's ID Number..... 71-0226428

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

Licensed as Business Type Life, Accident & Health

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

Date Incorporated or Organized..... December 10, 1948      Date Commenced Business..... March 2, 1949

Statutory Home Office      601 S. Gaines ..... Little Rock ..... AR ..... 72201  
(Street and Number)      (City or Town, State and Zip Code)

Address of Main Administrative Office 601 S. Gaines ..... Little Rock ..... AR ..... 72201      501-378-2000  
(Street and Number)      (City or Town, State and Zip Code)      (Area Code) (Telephone Number)

Mail Address      601 S. Gaines ..... Little Rock ..... AR ..... 72201  
(Street and Number or P. O. Box)      (City or Town, State and Zip Code)

Primary Location of Books and Records 601 S. Gaines ..... Little Rock ..... AR ..... 72201      501-378-2000  
(Street and Number)      (City or Town, State and Zip Code)      (Area Code) (Telephone Number)

Internet Website Address      www.arkansasbluecross.com

Statement Contact      Steven James Short      501-378-2581  
(Name)      (Area Code) (Telephone Number) (Extension)  
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(E-Mail Address)      (Fax Number)

Policyowner Relations Contact      .....      .....      .....      .....  
(Street and Number)      (City or Town, State and Zip Code)      (Area Code) (Telephone Number) (Extension)

### OFFICERS

Chief Executive Officer ..... Robert Lee Shoptaw      Treasurer ..... Paul Mark White      Secretary ..... Robert Dudley Cabe

### VICE PRESIDENTS

Michel Wayne Brown	Robert Dudley Cabe	Charles Gleaton Clem	Richard Shelby Cooper
Ronald Walter DeBerry	James Lee Douglass	Regina Stewart Favors	James Robert Heard
Calvin Eugene Kellogg	Patrick Dennis O'Sullivan	Samuel Patterson Partin III	Steven James Short
Joseph Steven Smith	Paul Mark White		

### DIRECTORS OR TRUSTEES

Carolyn Frazier Blakely PhD	James Virgil Kelley	George Key Mitchell MD	Louis Lafayette Ramsay
Robert Vincent Brothers	Mahlon Ogden Maris MD	Robert Donald Malcom Munro	Robert Lee Shoptaw
Sybil Jordan Hampton EDD	James Thomas May	Ben Edwin Owens	Patty Fulbright Smith
Bradley Dean Jesson	Hayes Candour McClerkin	William Patton Phillips MD	

State of..... Arkansas  
County of..... Pulaski

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) Robert Lee Shoptaw (Printed Name) Chief Executive Officer	_____ (Signature) Robert Dudley Cabe (Printed Name) Secretary	_____ (Signature) Paul Mark White (Printed Name) Treasurer
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Subscribed and sworn to before me this

.....day of ....., 2003

- 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			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets	4 Net Admitted Assets
1. Bonds.....	200,788,644		200,788,644	156,347,265
2. Stocks:				
2.1 Preferred stocks.....	508,276		508,276	905,760
2.2 Common stocks.....	119,834,780		119,834,780	112,581,631
3. Mortgage loans on real estate:				
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 \$.0 encumbrances).....	10,805,083		(a) 10,805,083	10,968,839
4.2 Properties held for the production of income (less \$.0 encumbrances).....	8,062,865		8,062,865	8,456,029
4.3 Properties held for sale (less \$.0 encumbrances).....			0	
5. Cash (\$.....(7,947,772), Schedule E, Part 1) and short-term investments (\$.....43,643,408, Schedule DA, Part 2).....	35,695,636		35,695,636	48,149,685
6. Other long-term invested assets.....	600,000		600,000	600,000
7. Receivable for securities.....	2,441,095		2,441,095	1,027,168
8. Aggregate write-ins for invested assets.....	628,354	0	628,354	696,882
9. Subtotal cash and invested assets (Lines 1 to 8).....	379,364,733	0	379,364,733	339,733,259
10. Accident and health premiums due and unpaid.....	30,380,586	18,442	30,362,144	18,792,814
11. Health care receivables.....	6,624,481	3,119,781	3,504,700	7,485,969
12. Amounts recoverable from reinsurers.....			0	
13. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
14. Investment income due and accrued.....	3,951,633		3,951,633	3,256,706
15. Amounts due from parent, subsidiaries and affiliates.....	9,289,449		9,289,449	13,331,274
16. Amounts receivable relating to uninsured accident and health plans.....	5,696,648		5,696,648	4,409,533
17. Furniture and equipment.....	8,699,975	8,699,975	0	
18. Amounts due from agents.....			0	
19. Federal and foreign income tax recoverable and interest thereon (including \$.....13,586,218 net deferred tax asset).....	39,782,023	26,467,298	13,314,725	16,616,454
20. Electronic data processing equipment and software.....	10,259,122	5,510,317	4,748,805	5,086,692
21. Other nonadmitted assets.....			0	
22. Aggregate write-ins for other than invested assets.....	53,665,443	7,967,805	45,697,638	34,961,278
23. Total assets (Lines 9 plus 10 through 22).....	547,714,093	51,783,618	495,930,475	443,673,978

### DETAILS OF WRITE-INS

0801. Deposits with National Accounts.....	628,354		628,354	696,882
0802. ....			0	
0803. ....			0	
0898. Summary of remaining write-ins for Line 8 from overflow page.....	0	0	0	0
0899. Totals (Lines 0801 thru 0803 plus 0898) (Line 8 above).....	628,354	0	628,354	696,882
2201. Federal Employee Program Receivable.....	20,620,782		20,620,782	20,626,292
2202. Miscellaneous Receivable.....	15,914,180	151,262	15,762,918	9,268,156
2203. Other Assets.....	2,913,812		2,913,812	1,113,134
2298. Summary of remaining write-ins for Line 22 from overflow page.....	14,216,669	7,816,543	6,400,126	3,953,696
2299. Totals (Lines 2201 thru 2203 plus 2298) (Line 22 above).....	53,665,443	7,967,805	45,697,638	34,961,278

(a) \$.0 health care delivery assets included in Line 4.1, Column 3.

## LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....0 reinsurance ceded).....	104,431,202		104,431,202	127,762,284
2. Accrued medical incentive pool and bonus payments.....			0	338,402
3. Unpaid claims adjustment expenses.....	5,136,795		5,136,795	4,987,577
4. Aggregate policy reserves.....	43,706,741		43,706,741	29,538,529
5. Aggregate claim reserves.....			0	
6. Premiums received in advance.....	10,039,860		10,039,860	16,083,444
7. General expenses due or accrued.....	42,668,947		42,668,947	37,637,594
8. Federal and foreign income tax payable and interest thereon (including \$.....0 (on realized capital gains (losses)) (including \$.....3,550,095 net deferred tax liability).....	3,550,095		3,550,095	5,122,933
9. Amounts withheld or retained by company for the account of others.....	7,168,845		7,168,845	6,289,778
10. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current).....			0	
11. Amounts due to parent, subsidiaries and affiliates.....	16,599,088		16,599,088	9,417,496
12. Payable for securities.....			0	
13. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			0	
14. Reinsurance in unauthorized companies.....			0	
15. Net adjustments in assets and liabilities due to foreign exchange rates.....			0	
16. Liability for amounts held under uninsured accident and health plans.....	1,452,500		1,452,500	2,565,000
17. Aggregate write-ins for other liabilities (including \$.....0 current).....	1,593,139	0	1,593,139	1,681,620
18. Total liabilities (Lines 1 to 17).....	236,347,212	0	236,347,212	241,424,657
19. Common capital stock.....	XXX	XXX		
20. Preferred capital stock.....	XXX	XXX		
21. Gross paid in and contributed surplus.....	XXX	XXX		
22. Surplus notes.....	XXX	XXX		
23. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	0	0
24. Unassigned funds (surplus).....	XXX	XXX	259,583,264	202,249,321
25. Less treasury stock, at cost:				
25.1 .....0.000 shares common (value included in Line 19 \$.....0).....	XXX	XXX		
25.2 .....0.000 shares preferred (value included in Line 20 \$.....0).....	XXX	XXX		
26. Total capital and surplus (Lines 19 to 24 less Line 25).....	XXX	XXX	259,583,264	202,249,321
27. Total liabilities, capital and surplus (Lines 18 and 26).....	XXX	XXX	495,930,476	443,673,978

### DETAILS OF WRITE-INS

1701. Miscellaneous Liabilities.....	1,593,139		1,593,139	1,681,620
1702. ....			0	
1703. ....			0	
1798. Summary of remaining write-ins for Line 17 from overflow page.....	0	0	0	0
1799. Totals (Lines 1701 thru 1703 plus 1798) (Line 17 above).....	1,593,139	0	1,593,139	1,681,620
2301. ....	XXX	XXX		
2302. ....	XXX	XXX		
2303. ....	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	XXX	XXX	0	0

## STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	.XXX	5,215,273	5,485,032
2. Net premium income.....	.XXX	856,517,316	912,914,679
3. Change in unearned premium reserves and reserve for rate credits.....	.XXX	(13,842,778)	(3,161,537)
4. Fee-for-service (net of \$.....0 medical expenses).....	.XXX		
5. Risk revenue.....	.XXX		
6. Aggregate write-ins for other health care related revenues.....	.XXX	.0	.0
7. Total revenues (Lines 2 to 6).....	.XXX	842,674,538	909,753,142
<b>Medical and Hospital:</b>			
8. Hospital/medical benefits.....		469,574,572	581,935,075
9. Other professional services.....			
10. Outside referrals.....			
11. Emergency room and out-of-area.....			
12. Prescription drugs.....		85,538,096	
13. Aggregate write-ins for other medical and hospital.....	.0	.0	.0
14. Incentive pool and withhold adjustments.....			2,238,701
15. Subtotal (Lines 8 to 14).....	.0	555,112,668	584,173,776
<b>Less:</b>			
16. Net reinsurance recoveries.....		(74,955,514)	(170,782,138)
17. Total medical and hospital (Lines 15 minus 16).....	.0	630,068,182	754,955,914
18. Claims adjustment expenses.....		14,156,799	9,540,674
19. General administrative expenses.....		109,129,516	105,545,956
20. Increase in reserves for accident and health contracts.....		173,434	2,686,205
21. Total underwriting deductions (Lines 17 through 20).....	.0	753,527,931	872,728,749
22. Total underwriting gain or (loss) (Lines 7 minus 21).....	.XXX	89,146,607	37,024,393
23. Net investment income earned.....		14,157,139	13,153,480
24. Net realized capital gains or (losses).....		(1,867,191)	3,353,125
25. Net investment gains or (losses) (Lines 23 plus 24).....	.0	12,289,948	16,506,605
26. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)].....			
27. Aggregate write-ins for other income or expenses.....	.0	(20,348,376)	(2,907,822)
28. Net income or (loss) before federal income taxes (Lines 22 plus 25 plus 26 plus 27).....	.0	81,088,179	50,623,176
29. Federal and foreign income taxes incurred.....	.XXX	32,933,018	17,360,841
30. Net income (loss) (Lines 28 minus 29).....	.XXX	48,155,161	33,262,335

### DETAILS OF WRITE-INS

0601. ....	.XXX		
0602. ....	.XXX		
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	.0	.0
1301. ....			
1302. ....			
1303. ....			
1398. Summary of remaining write-ins for Line 13 from overflow page.....	.0	.0	.0
1399. Totals (Lines 1301 thru 1303 plus 1398) (Line 13 above).....	.0	.0	.0
2701. Miscellaneous Income.....		8,241,210	5,866,825
2702. Regional Management Fees.....		(28,589,586)	(8,774,647)
2703. ....			
2798. Summary of remaining write-ins for Line 27 from overflow page.....	.0	.0	.0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above).....	.0	(20,348,376)	(2,907,822)

**STATEMENT OF REVENUE AND EXPENSES (Continued)**

	1 Current Year	2 Prior Year
<b>CAPITAL &amp; SURPLUS ACCOUNT</b>		
31. Capital and surplus prior reporting year.....	202,249,323	158,364,297
<b>GAINS AND LOSSES TO CAPITAL AND SURPLUS</b>		
32. Net income or (loss) from Line 30.....	48,155,161	33,262,335
33. Change in valuation basis of aggregate policy and claim reserves.....		
34. Net unrealized capital gains and losses.....	5,672,038	4,211,763
35. Change in net unrealized foreign exchange capital gain or (loss).....		
36. Change in net deferred income tax.....	3,763,222	571,171
37. Change in nonadmitted assets.....	(1,185,368)	(28,032,287)
38. Change in unauthorized reinsurance.....		
39. Change in treasury stock.....		
40. Change in surplus notes.....		
41. Cumulative effect of changes in accounting principles.....		33,605,567
42. Capital Changes:		
42.1 Paid in.....		
42.2 Transferred from surplus (stock dividend).....		
42.3 Transferred to surplus.....		
43. Surplus adjustments:		
43.1 Paid in.....		
43.2 Transferred to capital (stock dividend).....		
43.3 Transferred from capital.....		
44. Dividends to stockholders.....		
45. Aggregate write-ins for gains or (losses) in surplus.....	928,888	266,477
46. Net change in capital and surplus (Lines 32 to 45).....	57,333,942	43,885,026
47. Capital and surplus end of reporting year (Line 31 plus 46).....	259,583,264	202,249,323

**DETAILS OF WRITE-INS**

4501. Unfunded Accumulated PBO.....		266,477
4502. Change in Subsidiary Equity.....	928,888	
4503. ....		
4598. Summary of remaining write-ins for Line 45 from overflow page.....	0	0
4599. Totals (Lines 4501 thru 4503 plus 4598) (Line 45 above).....	928,888	266,477

## CASH FLOW

	1 Current Year	2 Prior Year
<b>CASH FROM OPERATIONS</b>		
1. Premiums and revenues collected net of reinsurance.....	838,885,960	919,989,773
2. Claims and claims adjustment expenses.....	667,745,247	755,015,559
3. General administrative expenses paid.....	107,895,673	107,667,523
4. Other underwriting income (expenses).....	20,348,376	2,907,822
5. Cash from underwriting (Line 1 minus Line 2 minus Line 3 plus Line 4).....	83,593,416	60,214,513
6. Net Investment income.....	15,138,730	12,502,759
7. Other income (expenses).....	(18,792,646)	(14,425,054)
8. Federal and foreign income taxes (paid) recovered.....	(53,908,203)	(9,315,886)
9. Net cash from operations (Lines 5 to 8).....	26,031,297	48,976,332
<b>CASH FROM INVESTMENTS</b>		
10. Proceeds from investments sold, matured or repaid:		
10.1 Bonds.....	32,293,674	29,527,493
10.2 Stocks.....	3,702,748	6,253,665
10.3 Mortgage loans.....		
10.4 Real estate.....		
10.5 Other invested assets.....		
10.6 Net gains or (losses) on cash and short-term investments.....		
10.7 Miscellaneous proceeds.....	68,528	4,277
10.8 Total investment proceeds (Lines 10.1 to 10.7).....	36,064,950	35,785,435
11. Cost of investments acquired (long-term only):		
11.1 Bonds.....	78,746,260	71,540,753
11.2 Stocks.....	7,066,642	9,090,101
11.3 Mortgage loans.....		
11.4 Real estate.....	926,503	1,004,454
11.5 Other invested assets.....		
11.6 Miscellaneous applications.....		
11.7 Total investments acquired (Lines 11.1 to 11.6).....	86,739,405	81,635,308
12. Net cash from investments (Line 10.8 minus Line 11.7).....	(50,674,455)	(45,849,873)
<b>CASH FROM FINANCING AND MISCELLANEOUS SOURCES</b>		
13. Cash provided:		
13.1 Surplus notes, capital and surplus paid in.....		
13.2 Net transfers from affiliates.....	11,223,417	13,236,150
13.3 Borrowed funds received.....		
13.4 Other cash provided.....	5,198,223	3,929,704
13.5 Total (Lines 13.1 to 13.4).....	16,421,640	17,165,854
14. Cash applied:		
14.1 Dividends to stockholders paid.....		
14.2 Net transfers to affiliates.....	1,832,916	
14.3 Borrowed funds repaid.....		
14.4 Other applications.....	2,399,615	2,504,124
14.5 Total (Lines 14.1 to 14.4).....	4,232,531	2,504,124
15. Net cash from financing and miscellaneous sources (Line 13.5 minus Line 14.5).....	12,189,109	14,661,730
<b>RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS</b>		
16. Net change in cash and short-term investments (Line 9 plus Line 12 plus Line 15).....	(12,454,049)	17,788,189
17. Cash and short-term investments:		
17.1 Beginning of year.....	48,149,685	30,361,496
17.2 End of year (Line 16 plus Line 17.1).....	35,695,636	48,149,685



## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 1 - PREMIUMS

	1	2	3	4
Line of Business	Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
1. Comprehensive (medical and hospital).....	450,738,431	104,213,897		554,952,328
2. Medicare supplement.....	158,785,527			158,785,527
3. Dental only.....	9,713,389			9,713,389
4. Vision only.....				0
5. Federal employees health benefits plan premiums.....	132,351,378			132,351,378
6. Title XVIII - Medicare.....		714,693		714,693
7. Title XIX - Medicaid.....				0
8. Other.....				0
9. Totals.....	751,588,725	104,928,590	0	856,517,315

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2 - CLAIMS INCURRED DURING THE YEAR**

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Other
1. Payments during the year:									
1.1 Direct.....	562,313,327	312,812,690	120,199,941	7,550,263		121,750,433			
1.2 Reinsurance assumed.....	91,085,937	85,767,743					5,318,194		
1.3 Reinsurance ceded.....	0								
1.4 Net.....	653,399,264	398,580,433	120,199,941	7,550,263	0	121,750,433	5,318,194	0	0
2. Paid medical incentive pools and bonuses.....	338,402	338,402							
3. Claim liability December 31, current year from Part 2A:									
3.1 Direct.....	93,937,873	58,534,201	18,095,250	690,000		16,618,422			
3.2 Reinsurance assumed.....	10,493,329	10,493,329							
3.3 Reinsurance ceded.....	0								
3.4 Net.....	104,431,202	69,027,530	18,095,250	690,000	0	16,618,422	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
5. Accrued medical incentive pools and bonuses, current year.....	0								
6. Amounts recoverable from reinsurers December 31, current year.....	0								
7. Claim liability December 31, prior year from Part 2A:									
7.1 Direct.....	101,138,532	64,488,576	18,700,000	880,000		17,069,956			
7.2 Reinsurance assumed.....	26,623,752	20,463,752					6,160,000		
7.3 Reinsurance ceded.....	0								
7.4 Net.....	127,762,284	84,952,328	18,700,000	880,000	0	17,069,956	6,160,000	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
9. Accrued medical incentive pools and bonuses, prior year.....	338,402	338,402							
10. Amounts recoverable from reinsurers December 31, prior year.....	0								
11. Incurred benefits:									
11.1 Direct.....	555,112,668	306,858,315	119,595,191	7,360,263	0	121,298,899	0	0	0
11.2 Reinsurance assumed.....	74,955,514	75,797,320	0	0	0	0	(841,806)	0	0
11.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0
11.4 Net.....	630,068,182	382,655,635	119,595,191	7,360,263	0	121,298,899	(841,806)	0	0
12. Incurred medical incentive pools and bonuses.....	0	0	0	0	0	0	0	0	0

**UNDERWRITING AND INVESTMENT EXHIBIT**

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

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Other
1. Reported in process of adjustment:									
1.1 Direct.....	12,956,157	10,316,691	2,639,466						
1.2 Reinsurance assumed.....	614,819	614,819							
1.3 Reinsurance ceded.....	0								
1.4 Net.....	13,570,976	10,931,510	2,639,466	0	0	0	0	0	0
2. Incurred but unreported:									
2.1 Direct.....	80,981,716	48,217,510	15,455,784	690,000		16,618,422			
2.2 Reinsurance assumed.....	9,878,510	9,878,510							
2.3 Reinsurance ceded.....	0								
2.4 Net.....	90,860,226	58,096,020	15,455,784	690,000	0	16,618,422	0	0	0
3. Amounts withheld from paid claims and capitations:									
3.1 Direct.....	0								
3.2 Reinsurance assumed.....	0								
3.3 Reinsurance ceded.....	0								
3.4 Net.....	0	0	0	0	0	0	0	0	0
4. Totals:									
4.1 Direct.....	93,937,873	58,534,201	18,095,250	690,000	0	16,618,422	0	0	0
4.2 Reinsurance assumed.....	10,493,329	10,493,329	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0
4.4 Net.....	104,431,202	69,027,530	18,095,250	690,000	0	16,618,422	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 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year		
1. Comprehensive (medical and hospital).....	67,914,607	336,296,836	717,139	68,310,391	68,631,746	84,952,328
2. Medicare supplement.....	14,612,640	106,246,813	261,959	17,833,291	14,874,599	24,860,000
3. Dental only.....	731,383	5,724,958	4,661	685,339	736,044	880,000
4. Vision only.....					0	
5. Federal employees health benefits plan premiums.....	13,568,676	108,303,352	191,112	16,427,310	13,759,788	17,069,956
6. Title XVIII - Medicare.....					0	
7. Title XIX - Medicaid.....					0	
8. Other.....					0	
9. Subtotal.....	96,827,306	556,571,959	1,174,871	103,256,331	98,002,177	127,762,284
10. Medical incentive pools, accruals and disbursements.....					0	
11. Totals.....	96,827,306	556,571,959	1,174,871	103,256,331	98,002,177	127,762,284













**U & I Ex.-Pt.2C-Sn A-Paid Claims-Medicare  
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Medicare  
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Medicare  
NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Medicaid  
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Medicaid  
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Medicaid  
NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Other  
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Other  
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Other  
NONE**

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS**

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
<b>POLICY RESERVE</b>									
1. Unearned premium reserves.....	37,196,606	11,904,385				25,292,221			
2. Additional policy reserves (a).....	6,510,135	6,510,135							
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
6. Totals (gross).....	43,706,741	18,414,520	0	0	0	25,292,221	0	0	0
7. Reinsurance ceded.....	0								
8. Totals (net) (Page 3, Line 4).....	43,706,741	18,414,520	0	0	0	25,292,221	0	0	0
<b>CLAIM RESERVE</b>									
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
12. Totals (gross).....	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0								
14. Totals (net) (Page 3, Line 5).....	0	0	0	0	0	0	0	0	0
<b>DETAILS OF WRITE-INS</b>									
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
0599. Totals (Lines 0501 thru 0503 plus 0595) (Line 5 above).....	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
1199. Totals (Lines 1101 thru 1103 plus 11911) (Line 11 above).....	0	0	0	0	0	0	0	0	0

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

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 3 - ANALYSIS OF EXPENSES

	1 Claim Adjustment Expenses	2 General Administrative Expenses	3 Investment Expenses	4 Total
1. Rent (\$.....0 for occupancy of own building).....	12,638	4,416,028		4,428,666
2. Salaries, wages and other benefits.....	12,499,478	86,824,663	15,215	99,339,356
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....		13,062,384		13,062,384
4. Legal fees and expenses.....	158,912	238,262		397,174
5. Certifications and accreditation fees.....				0
6. Auditing, actuarial and other consulting services.....	80,929	1,170,896	11,978	1,263,803
7. Traveling expenses.....	109,483	2,383,485	(433)	2,492,535
8. Marketing and advertising.....	328	1,349,256		1,349,584
9. Postage, express and telephone.....	1,910,984	10,401,321	73	12,312,378
10. Printing and office supplies.....	486,148	4,190,405	1,756	4,678,309
11. Occupancy, depreciation and amortization.....				0
12. Equipment.....	1,668,181	12,417,848	17,896	14,103,925
13. Cost or depreciation of EDP equipment and software.....	341,379	2,403,195		2,744,574
14. Outsourced services including EDP, claims, and other services.....	1,141,703	8,404,996	181,736	9,728,435
15. Boards, bureaus and association fees.....		659,870		659,870
16. Insurance, except on real estate.....	65,843	657,869		723,712
17. Collection and bank service charges.....	110,328	331,098	67	441,493
18. Group service and administration fees.....	(706,264)	(15,174,262)		(15,880,526)
19. Reimbursements by uninsured accident and health plans.....	(187,242)	(1,413,670)		(1,600,912)
20. Reimbursements from fiscal intermediaries.....	(4,992,702)	(61,604,617)		(66,597,319)
21. Real estate expenses.....	429,029	2,356,764	764,505	3,550,298
22. Real estate taxes.....	22,589	107,783		130,372
23. Taxes, licenses and fees:				
23.1 State and local insurance taxes.....	36,685	2,758,759		2,795,444
23.2 State premium taxes.....		674,387		674,387
23.3 Regulatory authority licenses and fees.....	30	98,219		98,249
23.4 Payroll taxes.....	696,081	4,395,033		5,091,114
23.5 Other (excluding federal income and real estate taxes).....	1,232	46,459		47,691
24. Investment expenses not included elsewhere.....				0
25. Aggregate write-ins for expenses.....	271,025	27,973,087	0	28,244,112
26. Total expenses incurred (Lines 1 to 25).....	14,156,799	109,129,516	992,793	(a).....124,279,109
27. Add expenses unpaid December 31, prior year.....	4,987,577	36,719,933	917,661	42,625,171
28. Less expenses unpaid December 31, current year.....	5,158,789	39,240,891		44,399,680
29. Amounts receivable relating to uninsured accident and health plans, prior year.....		4,409,533		4,409,533
30. Amounts receivable relating to uninsured accident and health plans, current year.....		5,696,648		5,696,648
31. Total expenses paid (Lines 26 plus 27 minus 28 minus 29 plus 30).....	13,985,587	107,895,673	1,910,454	123,791,715

#### DETAILS OF WRITE-INS

2501. Administrative Expenses Assumed.....	1,465,042	11,061,056		12,526,098
2502. Contract Labor.....	937,390	12,529,181		13,466,571
2503. Medical Records.....		867,061		867,061
2598. Summary of remaining write-ins for Line 25 from overflow page.....	(2,131,407)	3,515,789	0	1,384,382
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	271,025	27,973,087	0	28,244,112

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

## EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....2,674,151	.....3,236,908
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....7,650,237	.....7,728,706
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....67,188	.....67,188
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....779,830	.....797,003
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....2,461,912	.....2,461,912
5. Contract loans.....	.....	.....
6. Cash/short-term investments.....	(e).....870,541	.....813,124
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....11,320	.....105,263
10. Total gross investment income.....	.....14,515,179	.....15,210,104
11. Investment expenses.....	.....	(g).....992,793
12. Investment taxes, licenses and fees, excluding federal income taxes.....	.....	(g).....
13. Interest expense.....	.....	(h).....60,172
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).....	.....	.....1,052,965
17. Net investment income (Line 10 minus Line 16).....	.....	.....14,157,139

### DETAILS OF WRITE-INS

0901. MMS Note.....		93,943
0902. FEP Investment Service Charge.....	11,320	11,320
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).....	11,320	105,263
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 \$.....184,884 accrual of discount less \$.....1,861,402 amortization of premium and less \$.....1,378,606 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 \$..... depreciation on real estate and \$.....0 depreciation on other invested assets.

## EXHIBIT OF CAPITAL GAINS (LOSSES)

	1	2	3	4 Net Gain or (Loss) from Change in Difference Between Basis Book/ Adjusted Carrying and Admitted Values	5 Total
	Realized Gain (Loss) on Sales or Maturity	Other Realized Adjustments	Increases (Decreases) by Adjustment		
1. U.S. government bonds.....					0
1.1 Bonds exempt from U.S. tax.....					0
1.2 Other bonds (unaffiliated).....	(15,397)				(15,397)
1.3 Bonds of affiliates.....					0
2.1 Preferred stocks (unaffiliated).....	23,016				23,016
2.11 Preferred stocks of affiliates.....					0
2.2 Common stocks (unaffiliated).....	(1,928,819)				(1,928,819)
2.21 Common stocks of affiliates.....					0
3. Mortgage loans.....					0
4. Real estate.....					0
5. Contract loans.....					0
6. Cash/short-term investments.....					0
7. Derivative instruments.....					0
8. Other invested assets.....					0
9. Aggregate write-ins for capital gains (losses).....	54,008	0	0	0	54,008
10. Total capital gains (losses).....	(1,867,191)	0	0	0	(1,867,191)

### DETAILS OF WRITE-INS

0901. Gain on Sale of Fixed Assets.....	54,008				54,008
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).....	54,008	0	0	0	54,008

**EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS**

	1 End of Current Year	2 End of Prior Year	3 Change for Year (Increase) or Decrease
1. Summary of Items, Page 2, Lines 10 to 16 and 19 to 20, Column 2.....	35,115,838	32,523,302	(2,592,536)
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.....	16,667,780	18,074,949	1,407,169
5. Total (Line 1 plus Lines 3 and 4).....	51,783,618	50,598,251	(1,185,367)

**DETAILS OF WRITE-INS**

0401. Prepaid Expenses.....	4,159,786	4,393,439	233,653
0402. Life Insurance Receivable.....	2,191,472	2,218,544	27,072
0403. Employee Travel Advance.....	52,166	56,702	4,536
0498. Summary of remaining write-ins for Line 4 from overflow page.....	10,264,356	11,406,264	1,141,908
0499. Totals (Lines 0401 thru 0403 plus 0498) (Line 4 above).....	16,667,780	18,074,949	1,407,169

**EXHIBIT 2 - ENROLLMENT BY PRODUCT TYPE**

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....						
2. Provider service organizations.....						
3. Preferred provider organizations.....	284,639	220,070	228,232	232,533	240,747	2,738,395
4. Point of service.....						
5. Indemnity only.....	169,758	157,900	153,345	155,261	153,176	1,872,835
6. Aggregate write-ins for other lines of business.....	.0	.0	.0	.0	.0	.0
7. Total.....	454,397	377,970	381,577	387,794	393,923	4,611,230

**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

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## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies

#### A. Accounting Practices

The financial statements of the company are presented on the basis of accounting practices prescribed or permitted by the Arkansas Insurance Department.

The Arkansas Insurance Department recognizes only statutory accounting practices prescribed or permitted by the state of Arkansas for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Arkansas Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual, version effective January 1, 2001, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of Arkansas.

#### 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

Health premiums are earned ratably over the terms of the related insurance and reinsurance contracts or policies. Expenses incurred in connection with acquiring new insurance business are charged to operations as incurred.

In addition, the company uses the following accounting policies:

Short-term investments are stated at amortized cost.

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

Common Stocks at market except that investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20% or more are carried on the equity basis.

Preferred stocks are stated at cost.

### 2. Accounting Changes and Corrections of Errors

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of Arkansas. Effective January 1, 2001, the State of Arkansas adopted regulations requiring insurance companies domiciled in the State of Arkansas prepare their statutory basis financial statements in accordance with the NAIC *Accounting Practices and Procedures* manual – Version effective January 1, 2001 subject to any deviations prescribed or permitted by the State of Arkansas insurance commissioner.

### 3. Business Combinations and Goodwill

The Company had no business combinations or goodwill as of December 31, 2002.

### 4. Discontinued Operations

The Company had no discontinued operations as of December 31, 2002.

### 5. Investments

- A. The Company has no mortgage loans at this time.
- B. The Company has no debt restructuring at this time.
- C. The Company has no reverse mortgages at this time.
- D. The Company has no loan-backed securities at this time.
- E. The Company has no repurchase agreements at this time.

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

- A. The Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.
- B. The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships and Limited Liability Companies during the statement periods.

### 7. Investment Income

All investment income due and accrued is included in investment income.

### 8. Derivative Instruments

The Company does not own any derivative instruments.

### 9. Income Taxes

Arkansas Blue Cross Blue Shield files a consolidated federal income tax return with its other eligible domestic subsidiaries as follow: US Able Corporation, US Able Life, First Pyramid Life Insurance Company, Ideal Medicare Services, Inc., Group Services Underwriters, and Educational Benefits, Inc. The Company is party to a federal income tax allocation agreement. Under the tax

## NOTES TO FINANCIAL STATEMENTS

sharing agreement, the Company pays to or receives from each subsidiary the amount, if any, by which the group's federal income tax liability was affected by virtue of inclusion of the subsidiary in the consolidated federal return. Effectively, this results in the Company's annual income tax provision being computed, with adjustments, as if the Company filed a separate return.

When available, the Company utilizes net operating loss carry forwards to offset taxable income under the terms of the tax sharing agreement. At December 31, 2002, the Company had \$0 of operating loss carry forwards.

The following are income taxes incurred in the current and prior year that will be available for recoupment in the event of future net losses:

2002	\$ 33,235,690
2001	\$ 19,482,758
2000	\$ 5,866,824

The components of current income tax expense are as follows:

	2001	2002
Federal	\$ 16,649,085	\$ 32,942,950
Foreign	(9,605)	(9,932)
Federal Income Tax on net capital gains	\$ 721,360	\$ -
Utilization of capital loss carry-forwards	-	-
Federal income tax incurred	\$ 17,360,840	\$ 32,933,018

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	December 31, 2002
Provision computed at statutory rate	\$ 28,380,864
Tax exempt income deduction	\$ 0
Dividends received deduction	\$ (163,123)
Tax differentials on foreign earnings	\$ 0
Nondeductible expense	\$ 212,801
Other	\$ 739,255
Total	\$ 29,169,797
Federal and foreign income taxes incurred	\$ 32,933,018
Change in net deferred income taxes	\$ (3,763,220)
Total statutory income taxes	\$ 29,169,798

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

	December 31, 2002	December 31, 2001
Total of all deferred tax asset (admitted and nonadmitted)	\$ 40,053,516	\$ 36,215,793
Total of all deferred tax liabilities	\$ 3,550,095	\$ 5,122,933
Net deferred tax asset (liability)	\$ 36,503,421	\$ 31,092,860
Total deferred tax assets nonadmitted in accordance with SSAP No. 10, Income Taxes	\$ 26,467,298	\$ 25,888,426
Net admitted deferred tax asset/(liability)	\$ 10,036,123	\$ 5,204,434
Increase (decrease) in deferred tax assets nonadmitted	\$ 578,872	

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31] are as follows:

	December 31, 2001	December 31, 2002
<b>Deferred Tax Assets:</b>		
Tax basis discount on unpaid losses	\$ 1,044,931	\$ 1,238,864
Adjustment for deferred acquisitions costs	3,255,615	2,607,942
Accrued deferred compensation	7,229,854	5,889,792
Other Post Employment Benefits	4,499,950	4,143,300
Basis difference in investments	2,996,390	3,402,763
Depreciation	5,558,250	5,999,723
Intangibles	12,301,514	12,413,857
Other	3,167,012	519,553
Credits	0	0
Total deferred tax assets	40,053,516	36,215,793
Total deferred tax assets non-admitted	26,467,298	25,888,426
Admitted deferred tax assets	13,586,219	10,327,367
<b>Deferred Tax Liabilities:</b>		
Unrealized Capital Gains	3,319,523	4,966,863
Accrued dividends	32,093	26,082
Other	198,479	129,988
Total deferred tax liabilities	3,550,095	5,122,933
Net admitted deferred tax asset/(liability)	10,036,123	5,204,434

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## NOTES TO FINANCIAL STATEMENTS

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The change in net deferred income taxes is comprised of the following [at December 31]:

	December 32, 2002	December 31, 2001	Change
Total deferred tax assets	\$ 40,053,516	\$ 36,215,793	\$3,837,723
Total deferred tax liabilities	3,550,095	5,122,933	(1,572,838)
Net deferred tax asset (liability)	\$ 36,503,421	\$ 31,092,860	\$5,410,560
Tax effect of unrealized gains (losses)			(1,647,340)
Change in net deferred income tax			\$3,763,220

The Company's federal Income Tax return is consolidated with the following entities:

First Pyramid Life  
 USAble Corporation  
 USAble Life  
 Educational Benefits, Inc.  
 Group Service Underwriters  
 Ideal Medicare Services, Inc.

The method of allocation of consolidated tax liability between the companies has been approved by the required authorized officers. The method of allocation chosen is in accordance with Internal Revenue Service Regulation 1.1502-33 (d) (2) (I) whereby profitable companies pay tax according to their separate return liabilities, and loss companies are credited with the tax benefit realized due to the utilization of their losses and investment tax credit. Intercompany tax balances are paid quarterly based on estimates and settled annually upon the completion of the consolidated tax return.

### 10. Information Concerning Parent, Subsidiaries and Affiliates

A. Arkansas Blue Cross Blue Shield owns 100% of Ideal Medicare Services and USAble Corporation. Through its holding company, USAble Corporation, it owns 100% of The First Pyramid Life Insurance Company of America, 79.8% of USAble Life, 61.4% of AHIN, LLC, and 50% of HMO Partners, Inc.

B. N/A

C. N/A

D. At December 31, 2002 the Company reported the following amounts due from Affiliates:

First Pyramid Life	\$ 23,270
Health Advantage	5,785,068
Ideal Medicare Services	21,138
USAble Life	864,051
USAble Corporation	2,398,567
AHIN, LLC	97,355
Total	\$ 9,289,449

At December 31, 2001 the Company reported the following amounts do to Affiliates:

First Pyramid Life	\$ 794,774
Health Advantage	1,478,445
USAble Corp	45,581
USAble Life	11,112
Hot Springs-Joint Venture	641,063
Fort Smith-Joint Venture	5,372,482
North West Fayetteville-Joint Venture	5,717,346
Texarkana-Joint Venture	2,412,518
AHIN, LLC	95,765
Total	\$16,599,088

E. N/A

F. The Company and certain subsidiary affiliates, including unconsolidated subsidiaries, participate in a vendor payment system administered and maintained by the Company. Costs from this system as well as other costs, which have multi-company benefit, are allocated to the Company and its affiliates based on allocation formulas.

G. N/A

H. N/A

I. N/A

J. N/A

### 11. Debt

A. As of December 31, 2002, the Company has no capital notes.

B. As of December 31, 2002, the Company's liability for borrowed money was zero (\$-0-).

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## NOTES TO FINANCIAL STATEMENTS

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

#### A. Defined Benefit Plan

The Company no longer offers a defined benefit plan.

#### B. Defined Contribution Plan

The Company offers an optional 401(k) plan to all eligible employees. To be eligible, an employee must have completed one year of employment with the Company. The employee has the option of deferring up to 15% of his or her salary. The Company matches the amount deferred by the employee based upon years of service from a minimum of 50% to a maximum of 100% of a 6% contribution.

Effective July 1, 1998 the plan was amended to establish a non-contributory, defined contribution portion of the plan known as 401(k) Plu\$. Employees are not required to participate in the original defined contribution plan in order to receive benefits under the 401(k) Plu\$ portion of the plan. Under the 401(k) Plu\$ the Company makes a contribution from 2% to 6% of the eligible compensation of all eligible employees. The determination of the percentage to be used in calculating the contribution is based upon annually established net income targets. At no time will the contribution be less than 2% nor more than 6%. For 2002, 8% has been used to calculate the Company's contribution of \$6,717,735.

All funds under the 401(k) Plu\$ portions of the plan are held by an outside trustee.

#### C. Multiemployer Plans

The Company does not participate in multiemployer plans.

#### D. Consolidated/Holding Company Plans

The Company participates in a deferred compensation plan with its subsidiaries and affiliates.

#### E. Postemployment Benefits and Compensated Absences

The Company provides unfunded medical indemnity and life insurance plans for eligible employees and/or their spouses. The medical plan is available to all employees who have 15 years of service and retire at age 55 or later, become disabled, or die while in active service. The plan is a PPO plan with an HMO option for those who retired before January 1, 1996. Current employees who retire with 15 years of service as of December 31, 1993, will receive an annual allowance based upon 1994 medical cost adjusted for the health care cost trend rate until retirement, after retirement a 5% inflation rate is applied. Current employees who retire with less than 15 years of service, as of December 31, 1993, will receive an annual allowance adjusted by a 5% inflation rate. The annual allowance is based upon years of service to a maximum of 25. The life insurance program covers the lives of retirees 55 or older who are eligible for a pension benefit or become disabled. Life insurance amounts are based on the employee's basic annual earnings at retirement. Postretirement benefit cost for the year ended December 31, 2002, was \$861,500; it included the expected cost of postretirement benefits for newly eligible or vested employees, interest costs, and gains and losses arising from the difference between actuarial assumptions and actual experience. Arkansas Blue Cross Blue Shield made contributions to the plan of \$752,000 in 2002 as claims were incurred.

At December 31, 2002, the unfunded postretirement benefit obligation for retirees and other fully eligible or vested plan participants was \$16,233,000. The estimated cost of the benefit obligation for active non-vested employees was \$35,168,000. The discount rate used in determining the accumulated postretirement benefit was 6.75% and the health care cost trend rate was 7%.

The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1 percentage point each year would increase the total postretirement benefit obligation as of December 31, 2002, by \$2,076,000 and the estimated eligibility cost and interest cost components of net periodic postretirement benefit cost for 2002 by \$196,000.

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

- 1) As of December 31, 2002, the Company had no common capital shares authorized, issued or outstanding.
- 2) The Company has no preferred stock outstanding.
- 3) The Company has no dividend restrictions.
- 4) As a Mutual Insurer, the Company can only pay dividends on participating policies and the Company does not issue participating policies.
- 5) The Company had no restrictions on its unassigned surplus.
- 6) The Company does not have any advances to surplus.
- 7) As of December 31, 2002, no stock was held by the Company for special purposes such as employee stock options or conversion of preferred stock.
- 8) The Company has no special surplus funds.
- 9) The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:
 

a.	unrealized gains and losses:	\$ 5,739,833
b.	nonadmitted asset values:	\$ 51,783,619
c.	provision for reinsurance:	\$ 0
- 10) The Company has no Surplus Notes as of December 31, 2002.
- 11) The Company was not involved in a quasi-reorganization.
- 12) The Company was not involved in a quasi-reorganization.

**NOTES TO FINANCIAL STATEMENTS**

**14. Contingencies**

The Company is not aware of any contingent liabilities as of December 31, 2002.

In the normal course of business, the Company is involved in litigation from time to time with claimants and others, a number of these were pending at December 31, 2002. In the opinion of the Company, the ultimate liability, if any, has been adequately provided for in the financial statements, and any excess liability would not have a material adverse financial effect upon the Company.

**15. Leases**

The Company has no material lease obligations at this time.

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

The Company does not have any off-balance sheet risk.

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

The Company has not been involved in any sale, transfer and servicing of financial assets and extinguishments of liabilities as of December 31, 2002.

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

The gain (loss) from operations for uninsured accident and health plans was as follows during 2001:

	Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total
Net Reimbursement for Administrative expenses (including administrative fees) in excess of actual expenses	NONE	\$ 923,157	\$ 926,157
Other Income	NONE	NONE	NONE
Net gain or (loss) from operations	NONE	\$ 926,157	\$ 926,157

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

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

**20. Other Items**

- A. The Company had no extraordinary items as of December 31, 2002.
- B. The Company had no troubled debt restructuring as of December 31, 2002.
- C. The Company did not record ASO membership in the 2002 Annual Statement.
- D. The Company has no uncollectible assets covered by SSAP No.6 as of December 31, 2002.
- E. The Company has no reinsurance agreements that have been accounted for as deposits.
- F. The Company has no Multiple Peril Crop Insurance.
- G. The Company has no mortgage loans.
- H. The Company, in accordance with SSAP No. 84, has estimated pharmaceutical rebate receivables recorded on its financial statements. In determining its estimate, the Company utilizes historical information relative to pharmaceutical rebates received as well as considering contractual changes in rebate amounts and changes in membership. While the Company records the total estimated pharmaceutical rebate receivable, it only admits as an asset the estimate for the last quarter of the reporting date. The detail of the estimated amounts on the financial statements and the related collections are as follows:

Qtr	Est Rebates on F/S	Admitted	Invoiced	---Rebates collected within days of qtr---		
				0-90	91-180	over180
12/31/02	\$3,869,580	\$749,800	-0-			
09/30/02	\$4,105,032	\$749,800	-0-			
06/30/02	\$3,927,449	\$735,980	-0-	\$13,819.31		
03/31/02	\$3,692,260	\$460,197	-0-		\$305,242.66	
12/31/01	\$3,705,370	\$331,682	-0-		502,227.95	
09/30/01	\$2,710,333	\$150,588	-0-		562,892.03	
06/30/01	\$2,463,132	\$164,646	-0-		600,793.94	
03/31/01	\$1,893,359	\$241,115	-0-		561,428.02	
Total				\$13,819.31	\$2,532,584.60	

- I. The Company did not recognize any losses related to the September 11 events.
- J. The Company did not recognize any impairment for investments in real estate nor did they engage in and retail land sales.

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## NOTES TO FINANCIAL STATEMENTS

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- K. The Company has no participating contracts.
- L. The Company has no premium deficiency reserves.
- M. The Company has no intercompany pooling arrangements.
- N. The Company has no goodwill resulting from assumption reinsurance.
- O. The Company has no noncash transactions.

**21. Events Subsequent**

There were no known events subsequent as of December 31, 2002.

**22. Reinsurance**

- A. The Company does not have any unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Company's policyholder surplus.
- B. The Company does not have any reinsurance recoverable that is in dispute.
- C. The Company does not have any return commission which would have been due if the Company had cancelled the reinsurance.
- D. The Company did not have any uncollectible reinsurance written off during the year.
- E. There was no commutation of reinsurance during the year.
- F. The Company does not have any retroactive reinsurance agreements.

**23. Retrospectively Rated Contracts & Contracts Subject to Redetermination**

The Company does not have any retrospectively rated contracts or contract subject to redetermination.

**24. Salvage and Subrogation**

Anticipated Salvage and Subrogation included as a reduction to Loss Reserves and Loss Adjustment Reserves as reported in the Underwriting and Investment Exhibit and Page 3 – Liabilities, Capital and Surplus, Line 1. This disclosure is presented by annual statement line of business. Amounts presented are as of December 31 of the prior year and December 31 of the year for which this annual statement is being filed.

Line of Business	Year Incurred	December 31 2001	December 31 2002
Accident and Health	1998	\$ 7,710	\$ 7,012
	1999	\$ 54,160	\$ 4,056
	2000	\$ 1,535,665	\$ 74,189
	2001	\$3,148,720	\$ 1,746,729
	2002		\$ 3,777,970
	Total	\$ 4,746,255	\$ 5,609,957

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

The Company does not have any changes in the provision for incurred claim and claim adjustment expenses attributable to insured events of prior years.

**26. Organization and Operation**

Arkansas Blue Cross and Blue Shield, A Mutual Insurance Company, is incorporated in Arkansas and is subject to regulation as a mutual insurance company by the Arkansas Insurance Department. Through its operating divisions and subsidiary, the Company is engaged in a variety of activities including providing hospitalization, health care, life, and accident and health coverage to subscribers, substantially all of whom are residents of the state of Arkansas; administrative services and claims processing for other Blue Cross and Blue Shield plans' subscribers, and for programs such as Medicare and the Federal Employee Health Benefits Program.

**27. Minimum Net Worth**

Under the laws of the State of Arkansas, the Companies domiciled state, the Plan is required to provide a minimum paid-in capital and surplus fund of \$500,000. The Plan is also required to maintain a minimum special surplus of not less than fifteen percent of the paid-in capital of \$75,000.

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....	69,423,057	18.3	69,423,057	18.3
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....	12,100,260	3.2	12,100,260	3.2
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....	1,271,018	0.3	1,271,018	0.3
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....	152,324	0.0	152,324	0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations..		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....	117,841,985	31.1	117,841,985	31.1
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.....		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....	508,276	0.1	508,276	0.1
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....	38,153,555	10.1	38,153,555	10.1
3.4 Other equity securities:				
3.41 Affiliated.....	81,681,225	21.5	81,681,225	21.5
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
5. Real estate investments:				
5.1 Property occupied by company.....	10,805,083	2.8	10,805,083	2.8
5.2 Property held for production of income (includes \$.....0 of property acquired in satisfaction of debt).....	8,062,865	2.1	8,062,865	2.1
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.....	2,441,095	0.6	2,441,095	0.6
8. Cash and short-term investments.....	35,695,636	9.4	35,695,636	9.4
9. Other invested assets.....	1,228,354	0.3	1,228,354	0.3
10. Total invested assets.....	379,364,733	100.0	379,364,733	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? Arkansas

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

2.2 If yes, date of change: 08/14/2002  
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. 12/31/2000

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. 12/31/2000

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). 07/03/2002

3.4 By what department or departments? Arkansas Insurance Department

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 [   ]    No [ X ]

4.22 renewals? Yes [   ]    No [ X ]

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

5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 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. .....0.000 %

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 Nationality	2 Type of Entity

## GENERAL INTERROGATORIES (continued)

8. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
Deloitte & Touche  
111 Center Street, Suite 1800, Little Rock, AR 72201
9. 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?  
Samuel P. Partin  
Vice President and Corporate Actuary , Little Rock, AR
10. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 10.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?  
N/A
- 10.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [ ]
- 10.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [ ]
- 10.4 If answer to (10.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [ ]

### BOARD OF DIRECTORS

11. 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 [ ]
12. 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 [ ]
13. 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

- 14.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 14.11 To directors or other officers \$.....0
- 14.12 To stockholders not officers \$.....0
- 14.13 Trustees, supreme or grand (Fraternal only) \$.....0
- 14.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 14.21 To directors or other officers \$.....0
- 14.22 To stockholders not officers \$.....0
- 14.23 Trustees, supreme or grand (Fraternal only) \$.....0
- 15.1 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 ]
- 15.2 If yes, state the amount thereof at December 31 of the current year:
- 15.21 Rented from others \$.....0
- 15.22 Borrowed from others \$.....0
- 15.23 Leased from others \$.....0
- 15.24 Other \$.....0
- Disclose in the Notes to Financial the nature of each obligation.
- 16.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [ X ] No [ ]
- 16.2 If answer is yes:
- 16.21 Amount paid as losses or risk adjustment \$.....0
- 16.22 Amount paid as expenses \$.....620,331
- 16.23 Other amounts paid \$.....0

## GENERAL INTERROGATORIES (continued)

### INVESTMENT

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

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

18.1 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 2-Special Deposits? Yes [ ]    No [ X ]

18.2 If no, give full and complete information relating thereto.

Regions Bank  
Little Rock, AR

19.1 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 2-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 15.1) Yes [ ]    No [ X ]

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

19.21 Loaned to others	\$.....0
19.22 Subject to repurchase agreements	\$.....0
19.23 Subject to reverse repurchase agreements	\$.....0
19.24 Subject to dollar repurchase agreements	\$.....0
19.25 Subject to reverse dollar repurchase agreements	\$.....0
19.26 Pledged as collateral	\$.....0
19.27 Placed under option agreements	\$.....0
19.28 Letter stock or securities restricted as to sale	\$.....0
19.29 Other	\$.....0

19.3 For each category above, if any of these assets are held by others, identify by whom held:

- 19.31 \_\_\_\_\_
- 19.32 \_\_\_\_\_
- 19.33 \_\_\_\_\_
- 19.34 \_\_\_\_\_
- 19.35 \_\_\_\_\_
- 19.36 \_\_\_\_\_
- 19.37 \_\_\_\_\_
- 19.38 \_\_\_\_\_
- 19.39 \_\_\_\_\_

For categories (19.21) and (19.23) 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.

19.4 For category (19.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

20.2 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.

21.1 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 ]

21.2 If yes, state the amount thereof at December 31 of the current year: \$.....0

22. 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 [ ]

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

1 Name of Custodian(s)	2 Custodian's Address
Regions Bank Trust Dept	Little Rock, AR

## GENERAL INTERROGATORIES (continued)

### INVESTMENT

22.02 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 Name(s)	2 Location(s)	3 Complete Explanation(s)

22.03 Have there been any changes, including name changes, in the custodian(s) identified in 22.01 during the current year? Yes [  ]    No [  ]

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

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

22.05 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 Central Registration Depository Number(s)	2 Name	3 Address
116359	Foundation Resource Management, Inc	Little Rock, AR

### OTHER

23.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any? \$.....727,129

23.2 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 Name	2 Amount Paid
Blue Cross Blue Shield Association	680,892

24.1 Amount of payments for legal expenses, if any? \$.....233,829

24.2 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 Name	2 Amount Paid

25.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$.....87,360

25.2 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 Name	2 Amount Paid
Sydney Probst	44,000
Blue Caucus	24,360

## GENERAL INTERROGATORIES (continued)

### PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
1.2 If yes, indicate premium earned on U.S. business only	\$.....158,785,527	
1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?	\$.....0	
1.31 Reason for excluding		
<hr/>		
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.	\$.....120,545,168	
1.6 Individual policies:		
Most current three years:		
1.61 Total premium earned	\$.....34,546,739	
1.62 Total incurred claims	\$.....25,911,357	
1.63 Number of covered lives	.....30,369	
All years prior to most current three years:		
1.64 Total premium earned	\$.....124,238,788	
1.65 Total incurred claims	\$.....94,633,811	
1.66 Number of covered lives	.....77,327	
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	
2.1 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 <input type="checkbox"/>	No <input checked="" type="checkbox"/>
2.2 If yes, give particulars:		
<hr/>		
3.1 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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
3.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
4.1 Does the reporting entity have stop-loss reinsurance?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
4.2 If no, explain:		
<u>Sufficient Capital and Surplus, 50 year history of managing business without a stop loss, \$2,000,000 lifetime maximum benefit level on most policies</u>		
<hr/>		
4.3 Maximum retained risk (see instructions):		
4.31 Comprehensive medical	\$.....0	
4.32 Medical only	\$.....0	
4.33 Medicare supplement	\$.....0	
4.34 Dental	\$.....0	
4.35 Other limited benefit plan	\$.....0	
4.36 Other	\$.....0	
5. 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:		
<u>Hold Harmless Arrangement</u>		
<hr/>		
6.1 Does the reporting entity set up its claim liability for provider services on a service data base?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
6.2 If no, give details:		
<hr/>		
7. Provide the following information regarding participating providers:		
7.1 Number of providers at start of reporting year	.....10,223	
7.2 Number of providers at end of reporting year	.....9,881	
8.1 Does the reporting entity have business subject to premium rate guarantees?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
8.2 If yes, direct premium earned:		
8.21 Business with the rate guarantees between 15-36 months	\$.....0	
8.22 Business with rate guarantees over 36 months	\$.....0	
9.1 Does the reporting entity have Bonus/withhold arrangements in its provider contracts?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
9.2 If yes:		
9.21 Maximum amount payable bonuses	\$.....0	
9.22 Amount actually paid for year bonuses	\$.....0	
9.23 Maximum amount payable withholds	\$.....0	
9.24 Amount actually paid for year withholds	\$.....0	
10. List service areas in which reporting entity is licensed to operate:		
<div style="text-align: center;">1</div> <div style="text-align: center;">Name of Service Area</div> <div style="text-align: center;">Arkansas Statewide</div>		

**FIVE-YEAR HISTORICAL DATA**

	1 2002	2 2001	3 2000	4 1999	5 1998
<b>Balance Sheet Items (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 23).....	495,930,475	443,673,978	367,231,067	345,235,818	292,981,273
2. Total liabilities (Page 3, Line 18).....	236,347,212	241,424,657	208,866,772	194,167,072	152,987,682
3. Statutory surplus.....	500,000	500,000	500,000	500,000	500,000
4. Total capital and surplus (Page 3, Line 26).....	259,583,264	202,249,321	158,364,297	151,068,746	139,993,592
<b>Income Statement Items (Page 4)</b>					
5. Total revenues (Line 7).....	842,674,538	909,753,142	770,846,195	668,241,391	576,178,614
6. Total medical and hospital expenses (Line 17).....	630,068,182	754,955,914	672,037,694	564,900,717	483,202,609
7. Total administrative expenses (Line 19).....	109,129,516	105,545,956	96,265,821	103,607,696	95,773,856
8. Net underwriting gain (loss) (Line 22).....	89,146,607	37,024,393	(2,479,003)	140,328	(6,059,968)
9. Net investment gain (loss) (Line 25).....	12,289,948	16,506,605	8,473,532	13,075,949	6,426,115
10. Total other income (Lines 26 plus 27).....	(20,348,376)	(2,907,822)	10,454,150	7,984,023	9,148,515
11. Net income or (loss) (Line 30).....	48,155,161	50,623,176	11,223,248	13,240,084	6,332,774
<b>Risk-Based Capital Analysis</b>					
12. Total adjusted capital.....	259,583,264	202,249,321	163,095,211	160,760,961	149,491,468
13. Authorized control level risk-based capital.....	30,105,146	35,624,729	33,975,081	24,464,531	24,890,886
<b>Enrollment (Exhibit 2)</b>					
14. Total members at end of period (Column 5, Line 7).....	393,923	454,397			
15. Total member months (Column 6, Line 7).....	4,611,230	5,485,032			
<b>Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5)</b>					
16. Premiums earned (Lines 2 plus 3).....	100.0	100.0	100.0	100.0	100.0
17. Total medical and hospital (Line 17).....	74.8	83.0			
18. Total underwriting deductions (Line 21).....	89.4	95.6			
19. Total underwriting gain (loss) (Line 22).....	10.6	4.1			
<b>Unpaid Claims Analysis (U&amp;I Exhibit, Part 2B)</b>					
20. Total claims incurred for prior years (Line 11, Col. 5).....	98,002,177	106,619,547			
21. Estimated liability of unpaid claims - prior year (Line 11, Col. 6)	127,762,284	122,107,552			

**FIVE-YEAR HISTORICAL DATA (Continued)**

	1 2002	2 2001	3 2000	4 1999	5 1998
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
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).....	81,681,225	71,799,635	65,940,433	66,325,081	69,261,273
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.....	81,681,225	71,799,635	65,940,433	66,325,081	69,261,273

## SCHEDULE D - SUMMARY BY COUNTRY

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

Description	1 Book/Adjusted Carrying Value	2 Fair Value (a)	3 Actual Cost	4 Par Value of Bonds	
<b>BONDS</b>					
Governments (Including all obligations guaranteed by governments)	1. United States.....	69,423,057	73,437,210	71,362,190	66,000,000
	2. Canada.....	1,271,019	1,360,598	1,272,365	1,250,000
	3. Other Countries.....				
	4. Totals.....	70,694,076	74,797,808	72,634,555	67,250,000
States, Territories and Possessions (Direct and guaranteed)	5. United States.....				
	6. Canada.....				
	7. Other Countries.....				
	8. Totals.....	0	0	0	0
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States.....	152,324	155,376	159,450	150,000
	10. Canada.....				
	11. Other Countries.....				
	12. Totals.....	152,324	155,376	159,450	150,000
Special Revenue and Special Assessment Obligations and all Non-guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	13. United States.....	12,100,260	12,742,972	12,086,992	12,086,000
	14. Canada.....				
	15. Other Countries.....				
	16. Totals.....	12,100,260	12,742,972	12,086,992	12,086,000
Public Utilities (unaffiliated)	17. United States.....	2,533,049	2,638,875	2,548,155	2,500,000
	18. Canada.....				
	19. Other Countries.....				
	20. Totals.....	2,533,049	2,638,875	2,548,155	2,500,000
Industrial and Miscellaneous and Credit Tenant Loans (Unaffiliated)	21. United States.....	98,504,104	103,104,376	99,695,307	96,886,000
	22. Canada.....	16,804,831	18,152,354	16,986,856	16,520,000
	23. Other Countries.....				
	24. Totals.....	115,308,935	121,256,730	116,682,163	113,406,000
Parent, Subsidiaries and Affiliates	25. Totals.....				
	26. <b>Total Bonds.....</b>	<b>200,788,644</b>	<b>211,591,761</b>	<b>204,111,315</b>	<b>195,392,000</b>
<b>PREFERRED STOCKS</b>					
Public Utilities (Unaffiliated)	27. United States.....				
	28. Canada.....				
	29. Other Countries.....				
	30. Totals.....	0	0	0	0
Banks, Trust and Insurance Companies (Unaffiliated)	31. United States.....				
	32. Canada.....				
	33. Other Countries.....				
	34. Totals.....	0	0	0	0
Industrial and Miscellaneous (Unaffiliated)	35. United States.....	508,275	509,816	796,850	
	36. Canada.....				
	37. Other Countries.....				
	38. Totals.....	508,275	509,816	796,850	
Parent, Subsidiaries and Affiliates	39. Totals.....				
	40. <b>Total Preferred Stocks.....</b>	<b>508,275</b>	<b>509,816</b>	<b>796,850</b>	
<b>COMMON STOCKS</b>					
Public Utilities (Unaffiliated)	41. United States.....				
	42. Canada.....				
	43. Other Countries.....				
	44. Totals.....	0	0	0	0
Banks, Trust and Insurance Companies (Unaffiliated)	45. United States.....				
	46. Canada.....				
	47. Other Countries.....				
	48. Totals.....	0	0	0	0
Industrial and Miscellaneous (Unaffiliated)	49. United States.....	32,830,316	32,830,314	24,465,038	
	50. Canada.....	5,323,240	5,323,241	3,793,505	
	51. Other Countries.....				
	52. Totals.....	38,153,556	38,153,555	28,258,543	
Parent, Subsidiaries and Affiliates	53. Totals.....	81,681,225	81,681,225	49,687,932	
	54. <b>Total Common Stocks.....</b>	<b>119,834,781</b>	<b>119,834,780</b>	<b>77,946,475</b>	
	55. <b>Total Stocks.....</b>	<b>120,343,056</b>	<b>120,344,596</b>	<b>78,743,325</b>	
	56. <b>Total Bonds and Stocks...</b>	<b>321,131,700</b>	<b>331,936,357</b>	<b>282,854,640</b>	

(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.....	269,834,657	6. Foreign exchange adjustment:
2. Cost of bonds and stocks acquired, Column 6, Part 3.....	85,812,902	6.1 Column 17, Part 1.....
3. Increase (decrease) by adjustment:		6.2 Column 13, Part 2, Section 1.....
3.1 Column 16, Part 1.....	(1,676,516)	6.3 Column 11, Part 2, Section 2.....
3.2 Column 12, Part 2, Section 1.....	(156,184)	6.4 Column 11, Part 4.....
3.3 Column 10, Part 2, Section 2.....	4,995,720	
3.4 Column 10, Part 4.....	238,742	7. Book/adjusted carrying value at end of current period.....
4. Total gain (loss), Column 14, Part 4.....	(1,921,199)	321,131,700
5. Deduct consideration for bonds and stocks disposed of, Column 6, Part 4...	35,996,422	8. Total valuation allowance.....
		321,131,700
		9. Subtotal (Lines 7 plus 8).....
		321,131,700
		10. Total nonadmitted amounts.....
		321,131,700
		11. Statement value of bonds and stocks, current period.....
		321,131,700

## SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

State, Etc.	1 Guaranty Fund (Yes or No)	2 Is Insurer Licensed? (Yes or No)	Direct Business Only			
			3 Premiums	4 Medicare Title XVIII	5 Medicaid Title XIX	6 Federal Employees Health Benefits Program Premiums
1. Alabama.....AL	no	no				
2. Alaska.....AK	no	no				
3. Arizona.....AZ	no	no				
4. Arkansas.....AR	yes	yes	621,193,623			130,395,102
5. California.....CA	no	no				
6. Colorado.....CO	no	no				
7. Connecticut.....CT	no	no				
8. Delaware.....DE	no	no				
9. District of Columbia.....DC	no	no				
10. Florida.....FL	no	no				
11. Georgia.....GA	no	no				
12. Hawaii.....HI	no	no				
13. Idaho.....ID	no	no				
14. Illinois.....IL	no	no				
15. Indiana.....IN	no	no				
16. Iowa.....IA	no	no				
17. Kansas.....KS	no	no				
18. Kentucky.....KY	no	no				
19. Louisiana.....LA	no	no				
20. Maine.....ME	no	no				
21. Maryland.....MD	no	no				
22. Massachusetts.....MA	no	no				
23. Michigan.....MI	no	no				
24. Minnesota.....MN	no	no				
25. Mississippi.....MS	no	no				
26. Missouri.....MO	no	no				
27. Montana.....MT	no	no				
28. Nebraska.....NE	no	no				
29. Nevada.....NV	no	no				
30. New Hampshire.....NH	no	no				
31. New Jersey.....NJ	no	no				
32. New Mexico.....NM	no	no				
33. New York.....NY	no	no				
34. North Carolina.....NC	no	no				
35. North Dakota.....ND	no	no				
36. Ohio.....OH	no	no				
37. Oklahoma.....OK	no	no				
38. Oregon.....OR	no	no				
39. Pennsylvania.....PA	no	no				
40. Rhode Island.....RI	no	no				
41. South Carolina.....SC	no	no				
42. South Dakota.....SD	no	no				
43. Tennessee.....TN	no	no				
44. Texas.....TX	no	no				
45. Utah.....UT	no	no				
46. Vermont.....VT	no	no				
47. Virginia.....VA	no	no				
48. Washington.....WA	no	no				
49. West Virginia.....WV	no	no				
50. Wisconsin.....WI	no	no				
51. Wyoming.....WY	no	no				
52. American Samoa.....AS	no	no				
53. Guam.....GU	no	no				
54. Puerto Rico.....PR	no	no				
55. U.S. Virgin Islands.....VI	no	no				
56. Canada.....CN	no	no				
57. Aggregate Other alien.....OT	XXX	XXX	0	0	0	0
58. Total (Direct Business)	XXX	(a) 1	621,193,623	0	0	130,395,102

**DETAILS OF WRITE-INS**

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

Explanation of basis of allocation by states, etc., of premiums and annuity considerations.

(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

