



GEORGE DALE
Commissioner of Insurance
State Fire Marshal

LEE HARRELL
Deputy Commissioner of Insurance

STATE OF MISSISSIPPI
Mississippi Insurance Department

501 N. West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079
(601) 359-3569
<http://www.doi.state.ms.us>

March 26, 2007

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Richard J. Hale, President
Blue Cross & Blue Shield of Mississippi,
A Mutual Insurance Company
Post Office Box 1043
Jackson, MS 39206

RE: Report of Examination as of December 31, 2005

Dear Mr. Hale:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

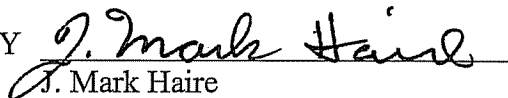
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

GEORGE DALE
COMMISSIONER OF INSURANCE

BY


J. Mark Haire
Special Assistant Attorney General

GD/JMH/bs
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF
BLUE CROSS & BLUE SHIELD OF MISSISSIPPI,
A MUTUAL INSURANCE COMPANY**

CAUSE NO. 06-5371

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

II.

That Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, is a Mississippi-domiciled company licensed to write Accident and Health coverages.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, and appointed Mitch Rayborn, Examiner-In-Charge, to conduct said examination.

IV.

That on or about December 19, 2006, the draft Report of Examination concerning Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, for the period of January 1, 2003 through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Mitch Rayborn.

V.

That on or about January 26, 2007, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's rebuttal in writing on or about February 23, 2007, with no objections to the draft report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with

modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

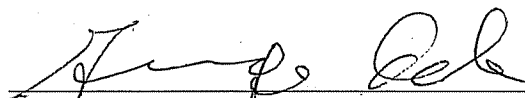
IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

SO ORDERED, this the 26th day of March 2007.

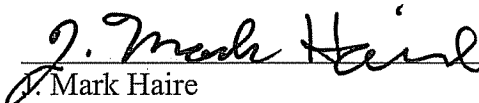


GEORGE DALE
COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 26th day of March 2007, to:

**Mr. Richard J. Hale, President
Blue Cross & Blue Shield of Mississippi,
A Mutual Insurance Company
Post Office Box 1043
Jackson, MS 39206**



J. Mark Haire
Special Assistant Attorney General

J. Mark Haire
Special Assistant Attorney General
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 2065



Mississippi Insurance Department

Report of Examination

of

**BLUE CROSS & BLUE SHIELD OF MISSISSIPPI,
A MUTUAL INSURANCE COMPANY**

**3545 Lakeland Drive
Flowood, Mississippi 39232**

As of December 31, 2005


**NAIC Group Code 1126
NAIC Company Code 60111
NAIC ETS No. MS029-C23**

STATE OF MISSISSIPPI
COUNTY OF HINDS

Mitch Rayborn, CFE, FLMI, being duly sworn, states as follows:

1. I have authority to represent the Commissioner of Insurance of the State of Mississippi in the examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have prepared the examination work papers and examination report, and the examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company as of December 31, 2005, was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

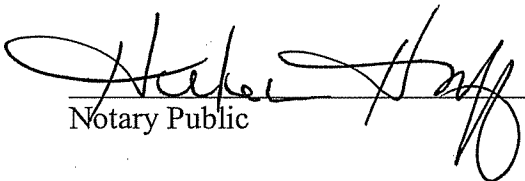
The affidavit says nothing further.



Mitch Rayborn, CFE, FLMI
Examiner

Subscribed and sworn before me this 6th day of March, 2007.

(SEAL)



Notary Public

Notary Public State of Mississippi At Large
My Commission Expires: December 31, 2008
Bonded Thru Heiden, Brock & Associates, Inc.

My commission expires _____.

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December 4, 2006

Honorable George Dale
Commissioner of Insurance
Mississippi Insurance Department
501 North West Street
1001 Woolfolk Building (39201)
Post Office Box 79
Jackson, Mississippi 39205-0079

Dear Commissioner Dale:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2005, of the affairs and financial condition of:

BLUE CROSS & BLUE SHIELD OF MISSISSIPPI,
A MUTUAL INSURANCE COMPANY
COMPANY LICENSE # 7700147
NAIC COMPANY CODE 60111
3545 Lakeland Drive
Flowood, Mississippi 39232

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Flowood, Mississippi, at the statutory home office of the Company. The report of examination is herewith submitted.

INTRODUCTION

This examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company's (BCBSMS or Company) operations and financial condition from January 1, 2003 through December 31, 2005, including material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

For purposes of this examination report, the examination period is defined as January 1, 2003 through December 31, 2005, and the examination date is defined as December 31, 2005. The Company was previously examined by the MID as of December 31, 2002.

SCOPE OF EXAMINATION

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

This examination was conducted in accordance with procedures recommended by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*.

Reporting in the comments and recommendations section of this report was by exception; therefore, items that were tested and deemed acceptable by the examiners without material change receive little or no comment.

HISTORY OF THE COMPANY

On November 13, 1947, the Company was formed under the laws of the State of Mississippi as Mississippi Hospital and Medical Service; for the primary purpose of engaging in the business of a hospital and surgical service corporation. The following items include the amendments to the Company's Articles of Incorporation that were deemed noteworthy for examination purposes.

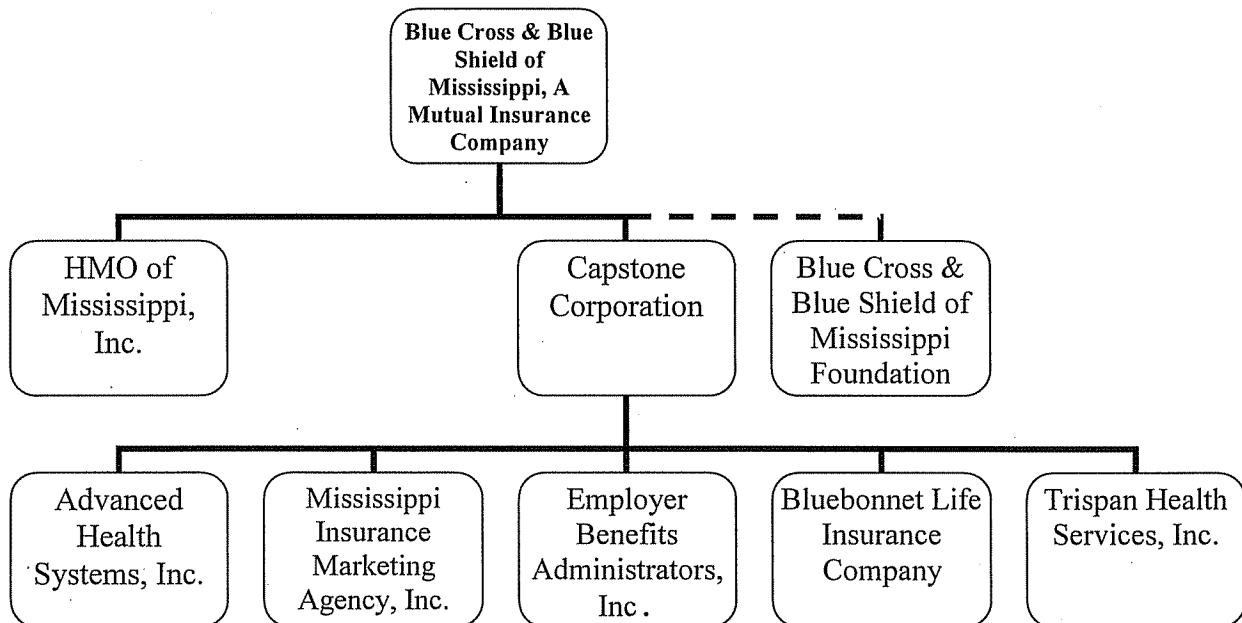
- On October 21, 1948, the Company was converted to a non-profit hospital, medical and surgical service membership corporation with a perpetual existence.
- On March 30, 1973, the Company changed its name from Mississippi Hospital and Medical Service to Blue Cross & Blue Shield of Mississippi, Inc.
- On January 1, 1996, the Company converted from a non-profit membership corporation to a mutual insurance company, and the name of the Company was changed to its current title, Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company.

HOLDING COMPANY STRUCTURE

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company filed Holding Company Registration Statements with the MID in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. The statements and applicable amendments that were filed during the examination period were reviewed, and it appeared that any changes and material transactions between the Company and its subsidiaries were reported.

Organizational Chart

The following chart depicts the Company's organizational structure at December 31, 2005. A brief description of the Company's subsidiaries, including their principal activities, follows the organizational chart.



HMO OF MISSISSIPPI, INC.: This company, a wholly owned subsidiary of BCBSMS, was incorporated on June 21, 1995, under the laws of the State of Mississippi, as a health maintenance organization whose products are included within BCBSMS's managed care offerings.

CAPSTONE CORPORATION: This company, a wholly owned subsidiary of BCBSMS, was incorporated on November 2, 1984, under the laws of the State of Mississippi, as a for-profit holding company for the interests of BCBSMS.

BLUE CROSS & BLUE SHIELD OF MISSISSIPPI FOUNDATION: This company, a non-profit corporation, is a philanthropic affiliate of BCBSMS. It is a private, charitable foundation operated exclusively to fund and support 501(c)(3) organizations and programs that positively impact the health of Mississippians.

ADVANCED HEALTH SYSTEMS, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on December 14, 1984, under the laws of the State of Mississippi, as Automated Health Systems, Inc. with its business being the facilitation of electronic submission of claims by providers. The company's name was changed to Advanced Health Systems, Inc., and, in 1994, its business purposes were expanded to include utilization management, managed care services for clients, employers and groups; the development and maintenance of provider networks; providing health care provider management and consulting; and providing computerized information management.

MISSISSIPPI INSURANCE MARKETING AGENCY, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 19, 1986, under the laws of the State of Mississippi. The primary purpose of this company was that of a general insurance agency, which included the selling and brokerage of insurance coverage and the administration of claims and other services.

EMPLOYER BENEFITS ADMINISTRATORS, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on September 18, 1986, under the laws of the State of Mississippi, as a third party administrator for self-insured, partially insured and insured employee benefit plans.

BLUEBONNET LIFE INSURANCE COMPANY (BBL): This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on June 11, 1984, under the laws of the State of Louisiana, as a life and accident and health insurance company. On October 13, 1989, Capstone Corporation acquired the Company and moved its domicile to Mississippi effective at the close of business March 31, 1997. The principal activity of this company was to provide life, cancer, and disability insurance coverage.

TRISPAN HEALTH SERVICES, INC.: This company, a wholly owned subsidiary of Capstone Corporation, was incorporated on April 21, 2005, under the laws of the State of Mississippi. The primary purpose of this company was to execute contracts related to federal and/or state government health care programs.

Related Party Transactions

Tax Sharing Agreement with Affiliates:

The Company filed consolidated federal and state income tax returns with its affiliates. Income taxes were allocated to the subsidiaries based on their proportionate share of income, deductions, and credits that were reflected within the consolidated tax returns filed by the Company.

Service Agreement with Capstone Corporation:

The Company entered into a Service Agreement on January 1, 1985, with Capstone Corporation. Under the terms of this agreement, BCBSMS agreed to provide business services as requested to Capstone Corporation. These services included accounting, printing, mailing, payroll, purchasing, legal, and other such services as Capstone Corporation and/or any subsidiary may request. In return for provided services, BCBSMS received as compensation a prorated portion of the employee's salary that performed such services.

Property Lease with Capstone Corporation:

The Company entered into a Property Lease Agreement on January 1, 1985, with Capstone Corporation. This agreement provided for Capstone Corporation and its subsidiaries to lease certain office space, furnishings, and/or automobiles from BCBSMS.

MANAGEMENT AND CONTROL

Ownership

The Company is a mutual insurance company and is owned by its policyholders. No dividends were paid to policyholders during the examination period. Additionally, the Company has available lines of credit with commercial banks totaling \$10,000,000. Amounts drawn under these agreements will bear interest at no more than the related banks' prime rate and will be due on demand. No amounts were borrowed under these agreements during the examination period.

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors (Board). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2005, were as follows:

Name and Place of Residence

Principal Occupation

Arthur Claiborne Kelly, Chairman
Starkville, Mississippi

Administrator/Chief Executive Officer,
Oktibbeha County Hospital

Robert Mark Ledbetter, Vice Chairman
Tupelo, Mississippi

Vice President and General Manager,
WTVA, Inc.

Carol Puckett Daily
Jackson, Mississippi

President, The Everyday Gourmet, Inc.

James Herbert Finley
Morton, Mississippi

President and Chief Executive Officer, Craft-Co
Enterprises, Inc.

Richard John Hale
Madison, Mississippi

President and Chief Executive Officer - Blue
Cross & Blue Shield of Mississippi

Robin Young McCormick
West Point, Mississippi

Partner, Watkins, Ward and Stafford, CPAs,
PLLC

Ralph Brooks Vance, M.D.
Jackson, Mississippi

Professor, University of Mississippi Medical
School

Officers

The following officers were duly elected by the Board and held the following offices:

Richard John Hale

President and Chief Executive Officer

Mary Carol Pigott

Chief Operating Officer

Jeffery Thomas Leber

Chief Financial Officer

Robert Clark Williams

Corporate Secretary

Thomas Carroll Fenter, M.D.

Corporate Medical Advisor

Linda Jean Kasperek

Corporate Vice President, Service Operations

George Nolan Mansour

Corporate Vice President, Products and Pricing

John Hamiter Proctor, III

Corporate Vice President, Human Resources,
Legal and Audit

Bryan Arthur Lagg

Vice President, Customer Operations and Strategy

William Vandy Morris, III

Vice President, Government Programs

Ronald Scott Stringer

Vice President, Technology and Development

Committees

The following directors served on the Company's Finance Committee:

James Herbert Finley, Chairman

Carol Puckett Daily

Robert Mark Ledbetter

Robin Young McCormick

The following directors served on the Company's Governance and Organization Committee:

Robert Mark Ledbetter, Chairman
Richard John Hale
Arthur Claiborne Kelly
Ralph Brooks Vance, M.D.

The following directors served on the Company's Public Accountability Committee:

Carol Puckett Daily, Chairman
James Herbert Finley
Robin Young McCormick
Ralph Brooks Vance, M.D.

Conflict of Interest

The Company maintained a policy whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was a conflict, or would likely be a conflict, with the official duties of such persons. Written statements were signed annually by all officers and members of the Board.

CORPORATE RECORDS

The minutes of the meetings of the policyholders and Board, prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Company's investment transactions and actions of the Company's officers.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained a comprehensive corporate insurance program. This program included commercial general liability, and commercial property, as well as other policies, as deemed appropriate by the Company's management. The Company maintained a financial institution bond with a \$2,000,000 aggregate limit of liability, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

During the review of these policies, it was noted that the financial institution bond in place at December 31, 2005, contained an exclusion regarding "loss resulting solely from any violation of any law regulating insurance companies, or of any rule or regulation made pursuant to any such law." It is recommended that the Company obtain fidelity coverage that does not exclude violations relating to the laws or regulation of insurance companies.

OFFICERS', EMPLOYEES' AND AGENTS' WELFARE

The Company provided a health and welfare program for its officers and employees. It appears that adequate and/or reasonable provisions were made within the financial statements for the Company's obligations under such plans. The following is a brief description of the plans offered.

Non-Contributory Retirement Program for Certain Employees: This program is a qualified, defined benefit pension plan for all employees who meet eligibility requirements. The program has a beneficial interest in the Blue Cross & Blue Shield National Retirement Trust. Contributions to the program are made by the Company upon determination of any applicable amount by the program's actuary.

Retirement Benefit Restoration Program: This program is a non-contributory, non-qualified, defined benefit retirement plan for key executives as designated by the Company's Governance and Organization Committee. Benefits under this program are based on years of service and the participant's history of earnings.

The Company also established an irrevocable Rabbi Trust for the benefit of executives in which BancorpSouth Bank serves as Trustee and the Company pays all administrative and Trustee's fees expenses.

Deferred Compensation Plan: The Company sponsored a contributory, tax-favored savings program (401K) for all eligible employees where the Company matched 100% of each employee's contribution, up to 3% of their salary and 50% of each employee's contribution for 4% and 5% of their salary. The Company may also contribute discretionary amounts.

The Company also established an irrevocable Rabbi Trust for the benefit of officers and directors in which BancorpSouth Bank serves as Trustee and the Company pays all administrative and Trustee's fees expenses.

In addition, the Company offered life and health insurance benefits to retired employees. Employees are eligible for this coverage if they retire with at least 10 years of service.

TERRITORY AND PLAN OF OPERATION

The Company is the largest provider of health care coverage in the State of Mississippi. Its marketing system included its internal sales and independent agent sales forces, as well as products through the Mississippi Manufacturing Association, the Jackson Metro Chamber (ChamberPlus Program), and the Mississippi Farm Bureau Federation. Through these distribution channels, the company provided, either on an individual or group basis, insurance coverage for hospital, medical and prescription drug services, as well as Medicare supplement products.

In addition to its underwritten business operations, the Company provided administrative and claims processing services to self-funded plans, the State of Mississippi Health Care Program and other various programs. The Company has secured the State Health Plan's claims administrator contract through 2010.

Effective January 1, 2000, the Company began offering a Children's Health Insurance Program (CHIP) in response to a bid request from the State of Mississippi. This program is jointly funded by the federal and state governments and has the potential to cover 85,000 children in the State of Mississippi. The Company has secured the CHIP contract through 2009.

The Company segments its group business into three primary marketing groups: Small group (50 or fewer employees), large group (51 or more employees) and self-funded or administrative services contracts (groups with more than 100 employees). Marketing regions are defined as Northern/Central and Southern. In July 2000, the Company introduced Blue Care, an individual product for those under age 65. All plans are preferred provider organization (PPO) plans and include a physician co-pay, a prescription drug co-pay, a wellness benefit, along with a variety of deductible options.

In 2005, the Company implemented the *Healthy You! Wellness Benefits* program for the Company's underwritten business at no additional cost to policyholders. This program coincided with the Company's promotional campaign to facilitate health and wellness throughout Mississippi.

REINSURANCE

BCBSMS did not purchase reinsurance risk coverage for group health coverage that it sold. As the claims administrator for certain self-funded groups, BCBSMS assisted in placing reinsurance coverage with reinsurers that had a business association with BCBSMS.

ACCOUNTS AND RECORDS

The 2005 trial balance of the Company's accounts was reconciled to the balance sheet of the Company's statutory annual statement filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm.

The Company maintained its accounting records electronically through the utilization of an IBM model 2064-104 mainframe that was running the IBM z/OS operating system. The primary applications used during the examination period were CAS for claims processing, MABIL for membership, CARMS for billing, and WALKER for financial systems.

It was noted in the examination that the Company's Corporate Disaster Recovery Plan was not in conformance with the criteria established in Part 1, Section IV, Subsection B Number 4. g. of the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company evaluate its Corporate Disaster Recovery Plan to ensure it is complete and up to date as referenced in the aforementioned section of the NAIC *Financial Condition Examiners Handbook*.

It was noted that the Company did not report an Estimated Claims Processing Costs (ECPC) liability associated with Claims Unpaid for the Children's Health Insurance Program (CHIP) line of business. It is recommended that the Company include a provision for the ECPC for claims adjustment expenses associated with the CHIP line of business.

It was noted that the Company did not have an appraisal for the Service Support Center as of the examination date. It is recommended that the Company obtain an appraisal that supports the value reported on the 2005 annual statement.

It was noted that the Minimum Premium Agreement between the Company and Mississippi Bankers Association had expired. It is recommended that the Company execute a new agreement with Mississippi Bankers Association and a Schedule of Pledged Assets, pursuant to the new agreement.

FINANCIAL STATEMENTS

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2005, a Summary of Operations for year ended December 31, 2005, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2005, and a Reconciliation of Examination Adjustments to Surplus at December 31, 2005.

**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2005**

ASSETS

| | |
|---|------------------------------|
| Bonds | \$ 412,229,453 |
| Preferred stocks | 241,000 |
| Common stocks | 41,068,478 |
| Real estate: Property occupied by the Company | 30,087,180 |
| Cash, cash equivalents and short-term investments | 33,570,355 |
| Investment income due and accrued | 3,477,323 |
| Uncollected premiums in the course of collection | 21,153,716 |
| Amounts receivable relating to uninsured plans | 15,147,769 |
| Net deferred tax asset | 9,899,104 |
| Guaranty funds receivable or on deposit | 250,745 |
| Electronic data processing equipment and software | 1,782,688 |
| Receivable from parent, subsidiaries and affiliates | 440,285 |
| Aggregate write-in for other than invested assets | <u>9,897,081</u> |
| Total Assets | <u>\$ 579,245,177</u> |

LIABILITIES, SURPLUS AND OTHER FUNDS

| | |
|---|------------------------------|
| Contract claims: Accident and Health | \$ 98,248,519 |
| General expenses due or accrued | 49,585,692 |
| Taxes, licenses and fees due or accrued | 1,225,321 |
| Current federal and foreign income taxes | 1,213,210 |
| Amounts withheld or retained by company as agent or trustee | 3,835,423 |
| Remittances and items not allocated | 1,461,743 |
| Liability for benefits for employees and agents if not included above | 377,390 |
| Aggregate write-ins for liabilities | <u>52,658,925</u> |
| Total Liabilities | 208,606,223 |
| Unassigned funds (surplus) | <u>370,638,954</u> |
| Total Liabilities, Surplus and Other Funds | <u>\$ 579,245,177</u> |

**SUMMARY OF OPERATIONS
FOR YEAR ENDED DECEMBER 31, 2005**

| | |
|---|----------------------|
| Premiums and annuity considerations | \$ 955,104,237 |
| Net investment income | 20,561,103 |
| Aggregate write-ins for miscellaneous income | <u>(36,100)</u> |
| Total Income | <u>975,629,240</u> |
| Disability benefits and benefits under accident and health contract | <u>841,588,862</u> |
| Total policy benefits | 841,588,862 |
| Commissions on premiums and annuity considerations | 31,148,666 |
| General insurance expenses | 33,362,213 |
| Insurance taxes, licenses, and fees | <u>19,526,825</u> |
| Total expenses | <u>925,626,566</u> |
| Net gain (loss) from operations before federal income taxes | 50,002,674 |
| Less: Federal income taxes incurred | <u>9,786,847</u> |
| Net gain from operations after federal income taxes | 40,215,827 |
| Net realized capital gains or (losses) | <u>463,196</u> |
| Net income (loss) | <u>\$ 40,679,023</u> |

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2005**

| | 2003 | 2004 | 2005 |
|---|---------------|---------------|---------------|
| Capital and surplus, beginning of the year | \$179,488,039 | \$257,995,539 | \$327,854,538 |
| Net income | 69,879,243 | 69,637,001 | 40,679,023 |
| Change in net unrealized capital gains (losses) | 3,213,345 | 3,308,693 | 3,416,563 |
| Change in net deferred income tax | 112,514 | (9,334,683) | (8,591,825) |
| Change in non-admitted assets | 4,533,125 | 7,953,257 | 7,802,906 |
| Aggregate write-ins for gains and losses in surplus | 769,273 | (1,705,269) | (522,251) |
| Examination Adjustments | -0- | -0- | -0- |
| Capital and surplus, end of the year | \$257,995,539 | \$327,854,538 | \$370,638,954 |

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2005**

As a result of this examination, there have been no adjustments made to the admitted asset, liability, and surplus balances reported by the Company in the 2005 annual statement. The surplus reported by the Company of \$370,638,954 is accepted as reasonably stated for purposes of the balance sheet per the examination.

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct which included: advertising, agents' licensing, claims, complaints, and policy forms. No significant issues were noted.

COMMITMENTS AND CONTINGENT LIABILITIES

As of the examination date, the Company was named as a defendant in certain litigation that was still pending at the report date. The Company intends to contest these claims and believes that meritorious defenses exist. The ultimate outcome of this litigation could not be reasonably determined for examination purposes; however, management of the Company does not anticipate any significant losses or costs to result.

COMMENTS AND RECOMMENDATIONS

1. It was noted that the financial institution bond in place at December 31, 2005, contained an exclusion regarding “loss resulting solely from any violation of any law regulating insurance companies, or of any rule or regulation made pursuant to any such law.” It is recommended that the Company obtain fidelity coverage that does not exclude violations relating to the laws or regulation of insurance companies. (Page 7)

2. It was noted in the examination that the Company's Corporate Disaster Recovery Plan was not in conformance with the criteria established in Part 1, Section IV, Subsection B Number 4. g. of the NAIC *Financial Condition Examiners Handbook*. It is recommended that the Company evaluate its Corporate Disaster Recovery Plan to ensure it is complete and up to date as referenced in the aforementioned section of the NAIC *Financial Condition Examiners Handbook*. (Page 9)

3. It was noted that the Company did not report an Estimated Claims Processing Costs (ECPC) liability associated with Claims Unpaid for the Children’s Health Insurance Program (CHIP) line of business. It is recommended that the Company include a provision for the ECPC for claims adjustment expenses associated with the CHIP line of business. (Page 10)

4. It was noted that the Company did not have an appraisal for the Service Support Center as of the examination date. It is recommended that the Company obtain an appraisal that supports the value reported on the 2005 annual statement. (Page 10)

5. It was noted that the Minimum Premium Agreement between the Company and Mississippi Bankers Association had expired. It is recommended that the Company execute a new agreement with Mississippi Bankers Association and a Schedule of Pledged Assets, pursuant to the new agreement. (Page 10)

ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

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|----------------------------|---|
| Examiner: | Amy M. Deer |
| Automation: | J. Scott Joyner, AES, CISA |
| Field Examination Manager: | Joseph R. May, CPA, CMA, CFE, CIE, FAHM |
| Supervising Examiner: | Dale Miller, CPA, CFE |
| Examiner-in-charge: | Mitch Rayborn, CFE, FLMI |
| Examiner: | Kimberly D. Strong, CFE |
| Actuary: | Taylor-Walker and Associates, Inc. |

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,



Mitch Rayborn, CFE, FLMI
Examiner-in-charge