EXHIBIT

A

REPORT ON EXAMINATION OF

BLUECROSS BLUESHIELD OF TENNESSEE, INC.

CHATTANOOGA, TENNESSEE

AS OF

DECEMBER 31, 2005

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Chattanooga, Tennessee
November 19, 2007

Honorable Leslie A. Newman
Commissioner of Commerce
and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination has been made concerning the condition and affairs of

BLUECROSS BLUESHIELD OF TENNESSEE, INC.
801 PINE STREET
CHATTANOOGA, TENNESSEE 37402

hereinafter generally referred to as the Company, and a report thereon is submitted as follows:

SCOPE OF EXAMINATION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee to commence on August 7, 2006. The examination field work started on August 14, 2006, and was conducted by examiners from the State of Tennessee Department of Commerce and Insurance (TDCI).

The examination was conducted at the Company's office in Chattanooga, Tennessee where all books and records are located. The period covered by this examination is from January 1, 2001, to the close of business on December 31, 2005, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2005. The Company's financial condition and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amounts and potential impact on surplus. Additionally, an examination of the following items was made:

Company History	Charter and Bylaws	Management and Control
Corporate Records	Affiliated Companies	Fidelity Bond/Insurance
Employee Benefits	Territory	Plan of Operation
Loss Experience	Statutory Deposits	Commitments/Contingencies
Accounts and Records	Actuarial Review	Financial Statements

The previous examination of the Company was made as of December 31, 2000, and resulted in no changes to the Company's surplus account. It was recommended that the Company's custodial agreement be amended to:

- grant no authority to the custodian to borrow or pledge the assets of the Company
- reflect the standard of care of that of a bailee under Tennessee law
- be construed in accordance with the laws of Tennessee

The Company was directed to comply with Tenn. Comp. R. & Regs. ch.0780-1-46-.04, should it choose to hold its securities with a custodial bank by having such securities held pursuant to a qualified custodial agreement between the company and the custodial bank.

The Company's custodial agreement was amended effective June 10, 2003, to include the above recommendation and to comply with said directive.

COMPANY HISTORY

The Company was originally incorporated as the Tennessee Hospital Service Association under a charter dated September 10, 1945. It was organized under the authority, terms and provisions of Chapter 98 of the Public Acts of Tennessee of 1945, which governed the organization and conduct of non-profit hospital service corporations.

On June 9, 1949, the Company filed an amendment to its charter with the Secretary of State, State of Tennessee which added authority to provide medical expense indemnity benefits. This amendment had the effect of bringing the Company under Chapter 234 of the Public Acts of Tennessee of 1949. Provisions of the charter as amended were consistent with this latter statute and were approved by the Department of Insurance.

On November 29, 1968, the Company filed an amendment to its charter with the Secretary of State, State of Tennessee to have its name changed to Blue Cross-Blue Shield of Tennessee and later to Blue Cross and Blue Shield of Tennessee on April 8, 1974. On May 10, 1972, the Company filed an amendment with the Secretary of State, State of Tennessee to expand its services as follows:

> To establish and operate a dental service plan under the terms of Section 56-3051 through 56-3532 of the Tennessee Code Annotated, to provide a vision service plan under the terms of Section 56-3071 through 56-3731 of the Tennessee Code Annotated, and to furnish and to administer such other services and plans, either along or in conjunction with one or more governmental agencies or other organizations, as may from time to time become available, all on a voluntary, nonprofit basis, and thereby to promote more fully the health and welfare of the people of the State of Tennessee.

On February 23, 1981, the members approved an amendment to the charter, which redefined the composition of the Board of Trustees. The amendment became effective January 12, 1982. The bylaws were revised to incorporate the charter amendment effective September 1981. A charter amendment filed with the Secretary of State, State of Tennessee on May 29, 1985, changed the address of the principal office of the Company to Blue Cross Building, 801 Pine Street, Chattanooga, Tennessee, 37402.

Effective January 1, 1996, the Company entered into an agreement to affiliate/combine with Memphis Hospital Service and Surgical Association (MHSSA), Memphis, TN. Under the terms of the affiliation agreement, a holding company was formed for the purpose of serving as the sole member in the Company and in MHSSA. In connection with the affiliation, the Company changed its name to Chattanooga Hospital and Medical Service Association (CHMSA) and the holding company became BlueCross and BlueShield of Tennessee, Inc.

Effective January 1, 1999, the operations of MHSSA were merged into CHMSA and the separate existence of MHSSA was discontinued. CHMSA was renamed BlueCross BlueShield of Tennessee, Inc. (BCBST). Simultaneously, the upstream holding company, also named BlueCross BlueShield of Tennessee, Inc. was dissolved.

The Company is a mutual benefit nonprofit corporation engaged primarily in providing health care programs and financial service products to group and individual customers. Health care financing products consist of preferred provider organizations, health maintenance organizations and point of service products. The Company provides indemnity health insurance coverage on a fully-insured basis and provides administrative services for self-funded health care plans.

The Company's development, since the previous examination, is depicted in the following table:

Date	Enrolled Members	Total Revenues	Net Income	Admitted Assets	Surplus
12/31/01	775,332	1,256,230,873	40,279,441	997,176,723	614,087,633
12/31/02	824,451	1,446,449,749	96,718,506	1,006,777,830	602,542,170
12/31/03	847,594	1,574,372,998	111,839,284	1,068,400,018	648,369,406
12/31/04	955,890	1,868,659,511	148,468,963	1,258,538,098	787,241,783
12/31/05	1,078,730	2,175,059,310	147,606,482	1,452,508,830	907,948,194

CHARTER AND BYLAWS

Charter:

The Company's charter was amended and restated as of January 1, 1999. The main provisions of the Charter are as follows:

- The name of the Company is BlueCross BlueShield of Tennessee, Inc.
- The duration of the Company is perpetual.
- The street address of the principal office of the Company in the State of Tennessee is 801 Pine Street, Chattanooga, Tennessee 37402, County of Hamilton.
- The Company is not for profit.
- The Company is a mutual benefit Company.
- The Company is formed for the purpose of establishing, maintaining and operating a nonprofit hospital and medical service Company in accordance with the terms and provisions of Tenn. Code Ann. § 56-29-101 et. seq, as the same may be amended from time to time. In addition, the Company shall have and exercise all powers and authority necessary or convenient to carry on activities incidental to or associated with the purposes for which it is organized, and shall further possess all other powers and authority conferred upon companies generally under the Tennessee Nonprofit Company Act.
- A director of the Company shall not be personally liable to the Company for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company, (ii) for acts or omissions not in good faith, or which involve intentional misconduct or knowing violation of law, or (iii) for unlawful distributions under Tenn. Code Ann. § 48-58-304. If the Tennessee Nonprofit Company Act is amended after

approval of this article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of directors of the Company shall be eliminated or limited to the fullest extent permitted by the Tennessee Nonprofit Company Act, as so amended. Nothing in this paragraph shall relieve any director of any obligation imposed under Title 56 of the Tennessee Code Annotated.

All the general provisions and powers enumerated in the Company's charter are usual in nature and consistent with corporations of this type.

Bylaws:

The bylaws of the Company, dated April 8, 2005, are such as are generally found in corporations of this type. They are consistent with the charter and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the directors, committees and the officers. The bylaws may be altered, amended or repealed via a majority vote of the directors.

MANAGEMENT AND CONTROL

Board of Directors:

The administration and governance of the Company is vested in a Board of Directors which has charge, control and management of the business affairs, property and funds of the Company and which has the power and authority to do and perform all acts and functions consistent with its bylaws and applicable laws of the State of Tennessee and the United States.

The Company shall be managed by a Board of Directors composed of not less than 11 nor more than 17 members. The Board shall be at all times composed of the following groups: (1) administrators of hospitals which have contracted with the Company to render hospital service to the subscribers; (2) physicians, exclusive of group (1); and (3) the general public, exclusive of groups (1) and (2). Directors shall be selected so that at all times more than 50 percent of the members of the Board will be members of group (3), and the remaining positions of the Board shall be divided equally between members of groups (1) and (2).

At least four regular meetings of the Board of Directors shall be held during each calendar year. The annual meeting shall be held prior to the last day of April of each year, and the other regular meetings shall be held each year on dates to be fixed by the Board of Directors. At all meetings of the Board of Directors a majority of the Directors shall be necessary to constitute a quorum for the transaction of business, and the act of the majority of Directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. Directors may take any action that they are required or permitted to take by law, without a meeting, by written consent, setting forth the action so taken, signed by all persons entitled to vote thereon.

Directors will be elected by the Board of Directors at the annual meeting of the Board of Directors to replace Directors whose terms are expiring. The Executive and Governance Committee of the Board of Directors has the responsibility for the presentation of its slate of nominees for membership on the Board of Directors at the annual meeting. The slate of nominees shall include nominees to fill the position for all Directors whose terms shall expire at that annual meeting. Directors will be elected to serve for a term of three years. Mandatory retirement age for Board members shall be 70 years. Board members turning 70 during their terms may complete the remainder of their term but may not be renominated. Any Director may resign at any time by giving written notice to the Secretary of the Company. Directors may be removed from office at any time, with or without cause, by a majority vote of the Board of Directors. Vacancies on the Board of Directors caused by death, resignation, removal or any other cause will be filled by a Director nominated and elected in accordance with the procedure followed to replace a Director whose term has expired.

Directors may be compensated in an amount not to exceed that permitted by law. The Executive and Governance Committee shall consider what constitutes appropriate compensation and make a recommendation to the Board as to the amount and dates upon which each Board member shall be paid. In addition, the Directors of the Company may receive payment for particular services actually rendered, such as legal counsel, medical service, accounting or other required services, upon specific approval of the Board of Directors; provided, however, that no contract for equipment or supplies may be entered into between this Company and one or more Board members unless such contract is approved in accordance with the Company's Code of Conduct and Tenn. Code Ann. § 48-58-302.

At December 31, 2005, the following persons were serving as members of the Board of Directors:

Name	Address	Occupation
Hulet Chaney	Knoxville, TN	Retired (former CEO of TN Farmers Ins. Companies)
Gus Denton	Memphis, TN	Sec. of the Board Suntrust
Betty DeVinney	Kingsport, TN	Retired (former SVP Eastman Chemical)
J. D. Elliott	Madison, TN	The Memorial Foundation
DeWitt Ezell	Nashville, TN	Retired (former President of BellSouth)

John Germ	Soddy Daisy, TN	President of Campbell & Associates
Vicky Gregg	Chattanooga, TN	CEO and President of BCBST
Herbert Hilliard	Eads, TN	Exec. VP of First TN Bank
Bill Latimer	Union City, TN	Bill Latimer Investments
Lamar Partridge	Chattanooga, TN	President of Valley Capital Corp.
Gloria Ray	Knoxville, TN	President and CEO of KTSC
Paul Stanton	Johnson City, TN	President of East TN State University
William Walter	Columbia, TN	Administrator of Maury Regional Hospital
Byron Winsett	Memphis, TN	President of Utilities Equipment Company

Officers:

The officers of the Company shall be elected by the Board of Directors at the annual meeting and shall hold office for one year or until their death, removal, resignation or retirement. Vacancies may be filled at any time by the Board of Directors. The officers shall consist of a Chairman, a Vice Chairman, a Chief Executive Officer, a President, a Secretary and a Treasurer. The Secretary and Treasurer may be one person. The Board of Directors may also at its discretion appoint administrative officers in addition to those set forth above, upon the recommendation of the Chief Executive Officer. Such officers shall not be members of the Board of Directors, each of whom shall serve at the pleasure of the Chief Executive Officer.

The Chairman of the Board of Directors shall preside at all meetings of the Board of Directors and of the Executive and Governance Committee. The Vice Chairman, in the absence of the Chairman, shall perform the duties of the Chairman, and shall perform such other duties as may be prescribed by the Board of Directors. The Chief Executive Officer shall be responsible for the day-to-day management of the business of the Company and shall make a good faith effort to implement all policies and resolutions of the Board of Directors, shall have the general powers and duties of supervision and management of the Company which usually pertain to his office and shall perform such other duties as may from time to time be prescribed by the Board of Directors. The President shall have general supervision of the affairs of the Company, subject to the direction of the Board of Directors and the Chief Executive Officer. In the absence of the Chief Executive Officer, the President shall perform the duties of the Chief Executive Officer, and shall perform such other duties as may be prescribed by the Chief Executive Officer or the Board of Directors. The Secretary shall be the legal custodian of all the books and records of the Company, shall keep the minutes of the meetings of the Directors and shall prepare the annual reports of the Company. Any of such duties may be delegated by the Board of Directors to an Assistant Secretary or other officer or employee of the Company. The Treasurer shall be the legal custodian of all moneys of the Company and shall present at each annual meeting of the Directors a statement of the receipts and disbursements during the previous year. He shall be permitted to delegate the responsibilities of custody and reports to the Chief Financial Officer or to such other adequately bonded employee as Treasurer or the Board of Directors may designate. The Treasurer shall however, personally, annually procure and present the report of the auditors of the Company to the Board of Directors.

At December 31, 2005, the following persons had been duly elected to and were serving in the positions indicated:

Name	Office Held
DeWitt Ezell	Chairman
Lamar Partridge	Vice Chairman
Vicky Gregg	President and Chief Executive Officer
David Deal	Treasurer and Chief Financial Officer
Harold Cantrell, Jr.	Assistant Treasurer
Sheila Clemons	Secretary

Committees:

The Board of Directors may create, from time to time, standing or special committees, as it shall deem necessary or appropriate. Members of Committees may be Directors or other natural persons appointed in accordance with Tenn. Code Ann. § 48-58-206. No Committee shall have the authority to amend, alter, or repeal the Bylaws; elect, appoint or remove any member of any such Committee or any Director or any officer of the Company; amend the Charter, adopt a plan of merger or adopt a plan of consolidation with another Company; or amend, alter or repeal any resolution of the Board of Directors. At December 31, 2005, the standing committees of the Board of Directors and respective committee members were as follows:

- Executive and Governance Committee - This Committee has the Board of Directors authority to act between meetings of the Board and shall conduct nominating functions and manage governance issues.

  DeWitt Ezell
  Lamar Partridge
  Betty DeVinney
  Gus Denton
  Gloria Ray
  Herbert Hilliard

- Audit Committee - This Committee will assist the Board in fulfilling its duties by overseeing the Company's financial reporting and control activities, and the Compliance and Code of Conduct Programs.

  Betty DeVinney
  Herbert Hilliard
  Gloria Ray
  J. D. Elliott
  Lamar Partridge

Paul Stanton
Gus Denton

- Compensation Committee - Establishes and oversees the officers' compensation philosophy which includes the basic statement of strategy, policy and components of compensation and benefits, including applicable incentive programs and implementation of such programs and policies.

Gloria Ray
John Germ
Hulet Chaney
Betty DeVinney
Lamar Partridge
William Walter

- Government Relations Committee - This Committee shall oversee and establish policies related to the Company's government relations activities.

Herbert Hilliard
Hulet Chaney
J. D. Elliott
Paul Stanton
Byron Winsett
Bill Latimer

- Investment Committee - This Committee shall oversee and establish policies related to the Company's investment activities.

Gus Denton
John Germ
William Walter
Bill Latimer
Byron Winsett

Conflict of Interests:

All directors and officers of the Company are required to complete an Annual Conflict of Interest Statement. The examiners reviewed the statements signed by the Company's directors and officers, for the period under examination, without exception.

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the Board of Directors. The review of the minutes indicates that all investment transactions were approved by the Board of Directors.

AFFILIATED COMPANIES

The Company has established or acquired other subsidiaries as further detailed below:

1. Tennessee Health Foundation, Inc. (THF)

The Company created THF in 2003. THF is a public benefit corporation that promotes charitable activities. BCBST appoints the board of directors of THF, which has been granted a 501(c)(3) tax exemption by the Internal Revenue Service.

2. Southern Health Plan, Inc. (SHP)

SHP, doing business as BlueCross BlueShield of Tennessee Community Trust, is a Tennessee corporation organized on January 30, 1980 for the purpose of improving the quality of health care in Tennessee, primarily through contributions to other tax-exempt organizations. BCBST appoints the board of directors of SHP, which has been granted a 501(c)(4) tax exemption by the Internal Revenue Service.

3. GDRG, LLC

GDRG, formed in 2004, is a limited liability company whose primary purpose is to acquire, own, hold, maintain, operate, and develop real property. As of December 31, 2005, the Company owned a 99 percent interest in GDRG.

4. Security Care, Inc. (SCI)

SCI was incorporated in 2004 as a wholly owned subsidiary whose purpose was to bid on a Request for Proposal to manage Medicare's Chronic Care Improvement Program (CCIP).

5. RiverTrust Solutions, Inc. (RTS)

RTS was established by the Company in 2003 as a wholly owned subsidiary whose purpose was to become a Qualified Independent Contractor (QIC) able to bid on Medicare appeals workloads.

6. Capstone Government Solutions, LLC (Capstone)

Capstone was incorporated in 2004 as a joint venture between the Company and CIGNA Government Services, LLC for the purpose of bidding on and administering future Medicare fee-for-service contracts.

7. Shared Health, Inc. (SH)

The Company formed SH on April 28, 2005 as a health information technology company.

8. Gordian Health Solutions, Inc. (GHS)

GHS was acquired by the Company on August 5, 2005. GHS, in conjunction with its wholly owned subsidiaries, Continental Health Promotion, Inc. and Eris Survey Systems, Inc., mitigates the rising cost of health care by encouraging the formation of healthy lifestyle behaviors and providing case management for existing illnesses.

9. Volunteer State Health Plan, Inc. (VSHP)

VSHP was formed on July 11, 1996 as the Company's managed care organization. VSHP contracts with the State of Tennessee to provide services for TennCare^{SM} members.

10. Golden Security Insurance Company (GSIC)

GSIC, an inactive corporation organized on December 14, 1982, is licensed to provide health, term life, disability and other insurance coverage to its policyholders.

11. Southern Diversified Business Services, Inc. (SDBS)

SDBS is a wholly-owned subsidiary of the Company and acts as a holding company for GSIC, GISI, SH, and GHS.

An organizational chart is attached to this report on page 42.

FIDELITY BOND AND OTHER INSURANCE

The Company's major coverages and limits, as of December 31, 2005, are as follows:

Type or Class of Coverage	Limits
Fiduciary Liability	$5,000,000
Commercial Property	$250,000,000
Commercial General Liability	$2,000,000 general aggregate $1,000,000 each occurrence $1,000,000 personal and advertising injury $2,000,000 complete operations $1,000,000 fire damage $10,000 medical expenses $1,000,000 employee benefits liability
Automobile Liability	$1,000,000 combined single limit
Excess Liability – umbrella form	$50,000,000 each occurrence $50,000,000 aggregate
Workers' Compensation	$500,000 each accident $500,000 disease – each employee $500,000 disease – policy limit
Directors' and Officers' Liability	$40,000,000
Excess Indemnity	$10,000,000

The fidelity coverage is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook. All of the above insurance policies are written by companies licensed to write in Tennessee.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

Employees are entitled to the following benefits which were provided by the Company during the period of examination:

Insurance Benefits:

1. Term life insurance is provided on a non-contributory basis at an amount two times the employee's total compensation.
2. Health insurance is provided whereby the employee participates in the BlueCard PPO program and contributes a minimal amount of premium for individual, employee plus or family coverage. This program includes dental and vision benefits.
3. Workers' compensation is provided to all employees.
4. Short-term disability is provided to all employees on a non-contributory basis.
5. Long-term disability is provided to all employees on a non-contributory basis.

Retirement Plan:

All employees participate in the National Retirement Program after completing one year of participation service and attainment of age 21. The program administrator is the National Employee Benefits Committee of Blue Cross and Blue Shield Association in Chicago, Illinois. This program is funded solely by the employer. Vested rights in the program are earned after five years of service with service credited back to the first year. The employee will receive a lump sum benefit calculated as of the employee's termination of employment. The retirement benefit is calculated according to a specific formula, called the Defined Lump Sum Formula. The formula is the sum of: (1) total basic credits multiplied by final average salary, and (2) total excess credits (if any) multiplied by the amount of final average salary that exceeds 2/3 of the social security wage base in the year of termination.

Supplemental Executive Retirement Program:

The Company has a Supplemental Executive Retirement Program (SERP) for certain employees. The SERP provides benefits for employees whose benefits under the defined benefit pension plan are restricted by limitations of sections 401 (a)(17) and 415 of the Internal Revenue Code. The SERP is secured by the Grantor Trust ("Rabbi Trust").

Employee Retirement Savings Program:

The Company has a defined contribution retirement savings plan (BCBST 401 (k) Plan), pursuant to Section 401 (k) of the Internal Revenue Code, which covers substantially all employees. Effective January 1, 2005, participants may contribute up to 50 percent of their compensation as defined by the Plan. Prior to 2005, participants could contribute up to 20 percent of their compensation as defined by the Plan. The Company provides matching contributions based on a percentage of employee contributions.

TERRITORY

The Company is licensed in the State of Tennessee only and operates in all counties. The Company's territory is divided into six districts. Area offices are located in Kingsport, Knoxville, Chattanooga, Jackson and Nashville. The Certificate of Authority issued by the State of Tennessee was inspected and found to be in force both at the time of examination and inspection.

The Company services group and individual (direct pay) business in states other than Tennessee, including Georgia and Alabama. Direct pay individual contracts generating premiums in other states were written on other state residents who personally applied for coverage at the Company's home office, or were residents of Tennessee when coverage was written. Direct pay individual contracts generating premiums in other contiguous states were written on persons who personally applied for coverage at one of the Company's area offices, or on persons who were residents of the State of Tennessee when coverage was written. Direct pay individual premium generated in noncontiguous states apparently are remitted by persons who were residents of the State of Tennessee when coverage was written.

PLAN OF OPERATION

Funds received and disbursed by the Company are almost equally divided between underwritten programs and administrative programs. The major segments of these programs are discussed as follows under those appropriate headings.

Underwritten Programs:

The Company issues coverage on a non-group and group basis. Subscribers are enrolled by salaried sales and service representatives and by independent brokers. Each non-group subscriber is issued a contract. In the case of groups, the collection of premiums and the underwriting is on a group basis. In the event of removal from a group, provision is made for the subscriber to continue their contract on a pay direct basis.

The major phases of the Company's underwritten business are discussed in greater detail under the following subordinate headings:

1. <u>Hospital Service Benefits (Blue Cross Plan)</u>

The Company is approved annually as a Blue Cross Plan, having met the membership standards of the Blue Cross and Blue Shield Association, an association of independent BlueCross and BlueShield licensees, headquartered in Chicago, Illinois.

The Company contracts with certain hospitals to provide services to subscribers of the Plan, such participating hospitals having been approved by the TDCI pursuant to Tenn. Code Ann. § 56-29-116(a). The general welfare of society, not individual profit, is the stated objective of the Company, hence participating hospitals were not shareholders in the legal sense of the term and no dividends or profits were intended to be divided among them.

Working funds for the Company were provided originally by contributions from certain participating hospitals. Such contributions were non-interest bearing and repayable only out of funds legally available for this purpose as provided by statute. All such funds have since been returned to the contributing participating hospitals.

As initial contributions have been returned to contributing participating hospitals and no share in dividends or profits was intended by charter for the benefits of participating hospitals, the corporate charter was amended at the annual meeting in January, 1987, to officially remove participating hospitals as liable parties regarding the operation and financial liability of the Company.

Participating hospitals exist henceforward in terms of agreements to render service to subscribers at agreed levels of compensation. Since its inception, the Company has tried various plans of compensating participating hospitals for services rendered to subscribers.

Each Subscriber is issued a card identifying the person as a subscriber to the Company. Benefits, limited only as specified by the subscriber's contract, are paid by the Company directly to the hospital furnishing service.

Among the provisions of the subscribers' contracts there is authorization for service in hospitals other than participating hospitals. Subscribers' benefits are also paid to these non-participating hospitals. There are also equitable arrangements to protect the interest of subscribers in the event it becomes impossible to provide service.

The two general plans of coverage written are individual and family. There is no difference in provisions of the two plans except that family coverage provides benefits for eligible dependents as defined by contract terms.

2. Surgical and Medical Benefits (Blue Shield Plan)

The Company is approved annually as a Blue Shield Plan, having met the membership standards of the Blue Cross and Blue Shield Association, an association of independent BlueCross and BlueShield licensees, headquartered in Chicago, Illinois. Surgical and medical benefits are provided to subscribers according to their contract provisions and reflect indemnity schedules of payment according to "dollar schedules" in each subscriber's contract or under "usual, customary and reasonable" (UCR) claims payments which provide for full payment or a percentage of usual, customary reasonable charges of physicians for covered

Blue Shield Services, i.e., surgical, in-hospital medical visits, radiology, pathology, anesthesiology, and other physician's services.

3. <u>Group Major Medical Benefits</u>

Employer based groups, with more than five employees, are eligible for group major medical benefits. A group of 75 or more may be experience rated. Such benefits are customarily "umbrella" type coverage with $100 "corridor" deductible, for example, which must be satisfied by the subscriber each year, after which the typical medical plan pays 80 percent of covered charges up to a lifetime maximum benefit, such as $250,000 or $500,000. Eligible groups have the option of expanding lifetime maximum benefits to $1,000,000.

Variations by group according to contract specifications may exist regarding provision of Group Major Medical benefits; however, the basic concept as described applies in general to provision of these benefits.

4. <u>Comprehensive Benefits</u>

In response to market demands for products allowing cost sharing with members, comprehensive style benefit plans were introduced. Comprehensive business provides for payment of hospital, medical-surgical, office visits, drugs, etc. under one benefit arrangement. Benefits are provided to subscribers under UCR claims payments. A typical benefit plan provides coverage at 80 percent of UCR once a $100 deductible has been met. After $1,000 has been paid "out of pocket," 100 percent of UCR will be provided up to a lifetime maximum of $1,000,000.

This coverage is available to individual purchasers and groups of five or more. Groups of 75 or more may be experienced rated.

5. <u>Health Maintenance Organization</u>

Organized on December 13, 1983, the Tennessee Health Care Network, d/b/a HMOBlue, is a wholly owned subsidiary of the Company financing health care services to members under the concept of a Healthcare Maintenance Organization (HMO). HMOBlue is an individual practice (IPA) form of HMO developed by the Company which emphasizes preventive care and treatment.

Members are required to pay nominal copayments for office visits and emergency room care. Physicians are reimbursed by the HMO according to HMO arrangement, i.e., group or IPA mode.

HMOBlue ceased operations in June, 2004. HMOBlue assets, liabilities and members were transferred to BCBST. Articles of Dissolution for Tennessee Health Care Network were filed with the Tennessee Secretary of State on June 18, 2004, with Articles of Termination filed shortly thereafter, on August 18, 2004.

6. <u>Other Underwritten Programs</u>

a. <u>Blue Cross 65 – Complementary to Medicare</u>

This program provides supplemental benefits for persons 65 years of age and over who are covered under the Medicare Program (Title XVIII) of the United States Government. It pays the hospital deductibles and coinsurance not provided for by Medicare, the physician coinsurance, and other benefits according to contracts filed with and approved by the TDCI.

b. <u>State of Tennessee Employees Medical Care Program</u>

Recent contractual changes have been effected regarding the Company's agreement to administer medical care benefits for the employees of the State of Tennessee. Effective April 1, 1990, the Company entered into a Risk Sharing agreement option with the State of Tennessee for administration of medical care benefits for state employees.

c. Skilled Nursing Facility (SNF's) Benefits

The Skilled Nursing Facility Program provides convalescent and rehabilitative care on an inpatient basis. The facility is a less expensive form of inpatient care for the patient not in a critical condition but still unable to be discharged directly from a hospital. This skilled nursing care is provided by or under the supervision of a physician. The care to be provided cannot be minimal, custodial, or ambulatory and still be considered eligible for benefits.

Benefits will vary depending upon the account's contract with the Company. Benefits provided are as follows: coverage for room and board and general nursing care in a semi-private room (if a private room is utilized benefits are allowed for the most prevalent semi-private room charge at the facility). Benefits will also be provided for drugs, medicine dispensed, and physical therapy. Following the satisfaction of a calendar year deductible, benefits are paid as a percentage of facility charges.

Benefits vary according to the account. There can be several restrictions to coverage such as the number of days of care allowable, qualification prior to admission, and copayment allowance.

d. Home Health Agency (HHA) Benefits

Home Health visits by a Registered Nurse (R.N.) or a Licensed Practical Nurse

(L.P.N.) are provided when their services are billed for, by and payable to, a home health agency. These benefits are subject to any applicable deductible and coinsurance/copayment, and are normally provided for up to 30 visits during any 12 consecutive months and for up to 12 months following the subscriber's last discharge from a qualifying confinement. Simultaneous visits by two or more nurses are considered one visit. This coverage is included for all community-rated groups with Preferred Coverage.

e. Dental Benefits

Dental benefits are available for preventive and restorative care, as well as orthodontics.

f. Out of Hospital Prescription Drug Program

The Company utilizes the advance PCS network to provide pharmacy benefits.

g. Hospice Home Care

The Company concluded a pilot program for Hospice Programs and began offering Hospice coverage in 1984. Hospice coverage offers support in the case of terminal illness. A wide range of services is provided to control physical symptoms, relieve pain and provide emotional support for the patient and family during the last six months of the patient's life.

Under Hospice Home Care, the Company will cover home care services to terminally ill patients in their own homes. There is no additional premium charge for this program which is standard in all contracts.

h. Organ Transplant Coverage

Approval to provide Specific Human Organ Transplant Coverage was filed with the TDCI in December, 1985. Organ Transplant Coverage is a mandatory provision for all underwritten business except for accounts of 300 or more that are experience rated. Organ Transplant Coverage is optional for these accounts as well as self-funded accounts.

Up to $1,000,000 in benefits are provided under Organ Transplant Coverage for operative procedures and post-operative care for a 12 month period following the transplant. The special endorsement for Organ Transplants includes heart, heart and lung, liver and pancreas transplants.

i. Vision Care

This is an optional coverage offered to any group of more than 50 members. Benefits are provided for vision exams, lenses for glasses, frames, and contact lenses. Benefits are normally provided for eye exams and glasses with a copayment requirement and the balance payable according to UCR charges. Benefits for frames and contact lenses are payable with a front-end copayment according to fee schedule and are limited according to predefined time periods.

j. Cost Containment Initiatives

The rising cost of health care is an issue of national concern. Within the State of Tennessee, the Company has initiated a variety of programs designed to contain costs while providing the level of quality care demanded, expected, and deserved by its members. These programs and their objectives are defined as follows:

1. <u>Pre Admission Certification</u>

Pre-Admission certification and concurrent care review are mature programs combining telephone nurse review with onsite nurse review, reviewing all admissions to hospitals and all extensions of stay. Benefits are significantly reduced by failure to obtain certification. Any denials issued during the certification process are such that the subscribers are held harmless from those costs in network facilities. This program operates under the guidance of the Director of Medical Affairs and the Associate Medical Director of the Company with specialty consultants available as needed.

2. <u>Second Surgical Opinion</u>

Second surgical opinion is a voluntary program in which subscribers are encouraged to request second opinion for certain surgical procedures. Those second opinions are to be obtained from a defined second surgical opinion panel, and the Company pays full contract benefits for second opinions.

3. <u>Personal Benefits Management</u>

Case Management is an evolving process at the Company. Currently, benefits are provided at alternative levels of care to help offset the high cost of inpatient care. However, this program is expanding into providing a more intermediate level of case management to include medically reasonable therapies.

4. <u>Preferred Provider Organization (PPO)</u>

An additional cost containment initiative instituted in 1985, deals with a network of preferred providers. Providers were invited to participate in this network; however, selection was based on historical charge efficiency, range of services offered, geographic location, and acceptance of the facility by the Company's subscribers.

The objective was to reduce members' health care cost by identifying cost efficient facilities, negotiating discounts to charges for services with these facilities, and directing patients to these facilities. Ensuring cost efficient, quality care for its members is the Company's goal.

Administrative Programs:

1. Medicare

Effective July 1, 1966, the Company began administering Title XVIII of Medicare (Public Law 89-97) which involved administering claims payments and related responsibilities for the U.S. Government. The Company is reimbursed for the cost of handling this program. The Company's Medicare operations are handled by an internal division under the trade name Riverbend Government Benefits Administrator (RGBA). The Company organized a separate, wholly-owned Tennessee corporation, called Riverbend Government Benefits Administrator, Inc., on October 25, 2002; however, Medicare operations continued in the Company's division and the corporate subsidiary remained a shell company through 2005.

2. Cost Plus/Administrative Services Only (ASO)

The major portion of the Company's Administrative Programs is providing health care benefits to groups on an administrative services only basis. Hospitalization, Medical-Surgical, and various other health care benefits, as defined by contract, are provided to groups with 300 or more members. Groups are billed for claims expenses realized and an administrative services fee.

3. Group Insurance Services, Inc. (GISI)

This wholly-owned subsidiary of the Company was established to provide "package" programs to groups, served by the Company, which desire Life, Accidental Death and Dismemberment, and other such benefits together with BlueCross and BlueShield benefits and desire to receive a single billing for the "package" of benefits. GISI was formed under Tennessee law on January 9, 1964.

Listed below is a tabulation of the Company's 2005 direct premiums written in Tennessee.

Accident & Health Premiums	Federal Employees Health Benefits Program Premiums	Total
$1,923,608,510	$266,291,576	$2,189,900,086

LOSS EXPERIENCE

The loss experience of the Company, since the previous examination, as reported in its annual statements, is as follows:

Year	Total Revenues	Total Hospital and Medical Expenses	Medical Loss Ratio	Total Administrative Expenses	Combined Ratio
2001	$1,256,230,873	$1,090,072,324	86.8%	$147,201,750	98.5%
2002	1,446,449,749	1,194,917,423	82.6%	152,168,965	93.1%
2003	1,574,372,998	1,272,154,642	80.8%	189,635,710	92.8%
2004	1,868,659,511	1,499,158,908	80.2%	194,412,910	90.6%
2005	2,175,059,310	1,805,966,889	83.0%	190,506,632	91.8%
Total	$8,320,772,441	$6,862,270,186	82.5%	$873,925,967	93.0%

STATUTORY DEPOSITS

The Company is qualified as a self-insurer under the Workers Compensation Act of Tennessee. As a self-insurer, the Company had a special deposit, as of December 31, 2005, which is not held for the benefit of all policyholders, claimants and creditors of the Company.

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee USTN, 3.5%, Due 11/15/06	$350,000	$354,503	$347,375

The above deposit was verified by direct correspondence with the regulating jurisdiction.

COMMITMENTS AND CONTINGENCIES

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of annual statements for the years 2001, 2002, 2003, 2004 and 2005.

The Company is in compliance with Tenn. Comp. R. & Reg., ch. 0780-1-46 with respect to the custody of its securities. Additionally, the Company is in compliance with NAIC Risk-Based Capital requirements.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually by Ernst & Young LLP, Chattanooga, Tennessee. There is no violation as respects Tenn. Comp. R. & Reg., ch. 0780-1-65.07(3).

ACTUARIAL REVIEW

An actuarial examination of the following accounts was performed by Michael A. Mayberry, FSA, MAAA and David M. Dillion, FSA, MAAA of Lewis & Ellis, Inc., Actuaries and Consultants, Richardson, Texas:

Claims unpaid
Unpaid claims adjustment expenses
Aggregate health policy reserves
Aggregate health claim reserves

No material problems were noted with the amounts reported or in the methodologies used to obtain those amounts.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of revenue and expenses at December 31, 2005, together with a reconciliation of reserves and unassigned funds for the period under review, as established by this examination:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 770,502,749	$ 0	$ 770,502,749
Stocks:			
Preferred stocks	1,611,154	0	1,611,154
Common stocks	395,307,559	69,129,666	326,177,893
Real estate	47,630,556	0	47,630,556
Cash, cash equivalents and short term investments	143,526,344	0	143,526,344
Other invested assets	5,158,213	4,960,097	198,116
Subtotals, cash and invested assets	1,363,736,575	74,089,763	1,289,646,812
Investment income due and accrued	8,135,688	0	8,135,688
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	9,857,066	450,545	9,406,521
Deferred premiums, agents' balances and installments booked but deferred	56,671,407	0	56,671,407
Accounts receivable relating to uninsured plans	43,713,563	6,473,555	37,240,008
Net deferred tax asset	21,396,471	15,342,864	6,053,607
Guaranty funds receivable or on deposit	1,051,200	0	1,051,200
Electronic data processing equipment	77,314,155	58,216,098	19,098,057
Furniture and equipment	17,203,606	17,203,606	0
Receivables from parent, subsidiaries and affiliates	7,198,499	162,576	7,035,923
Health care and other amounts receivable	13,410,292	5,777,052	7,633,240
Aggregate write-ins for other than invested assets:			
Pension benefit/Retiree health asset	68,008,230	66,875,031	1,133,199
Prepaid and Miscellaneous	26,960,980	26,960,980	0
Split dollar retirees life insurance surrender value	9,403,168	0	9,403,168
Total assets	$1,724,060,900	$271,552,070	$1,452,508,830

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	$ 214,044,589	$ 0	$ 214,044,589
Unpaid claims adjustment expenses	8,487,917	0	8,487,917
Aggregate health policy reserves	65,601,692	0	65,601,692
Aggregate health claim reserves	8,747,951	0	8,747,951
Premiums received in advance	21,508,464	0	21,508,464
General expenses due or accrued	106,344,532	0	106,344,532
Current federal income tax payable	22,558,916	0	22,558,916
Amounts withheld or retained for account of others	25,680,884	0	25,680,884
Remittance and items not allocated	6,674,701	0	6,674,701
Payable for securities	3,620,851	0	3,620,851
Liability for amounts held for uninsured a&h plans	54,403,695	0	54,403,695
Aggregate write-ins for liabilities:			
Pending escheatment to state	6,886,444	0	6,886,444
Total liabilities	544,560,636	0	544,560,636
Aggregate write-ins for special surplus funds:	XXX	XXX	
Statutory reserves required	XXX	XXX	552,291,356
Unassigned funds	XXX	XXX	355,656,838
Total capital and surplus	XXX	XXX	907,948,194
Total liabilities, capital and surplus	XXX	XXX	$1,452,508,830

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Member months	XXX	12,386,456
Net premium income	XXX	$2,186,434,687
Change in unearned premium reserves	XXX	(11,375,377)
Total revenues	XXX	2,175,059,310
Hospital and Medical:		
Hospital/medical benefits	0	1,435,495,673
Other professional services	0	92,148,173
Prescription drugs	0	280,263,043
Subtotal	0	1,807,906,889
Less:		
Net reinsurance recoveries	0	1,940,361
Total hospital and medical	0	1,805,966,528
Claims adjustment expenses	0	29,268,957
General administrative expenses	0	161,237,675
Total underwriting deductions	0	1,996,473,160
Net underwriting gain or (loss)	XXX	178,586,150
Net investment income earned	0	47,527,858
Net realized capital gains or (losses) net of tax	0	32,798,789
Net investment gains or (losses)	0	80,326,647
Aggregate write-ins for other income or expenses:		
Charitable contribution to Tennessee Health Foundation	0	(23,300,000)
Net income or (loss) before federal income taxes	XXX	235,612,797
Federal income taxes incurred	XXX	88,006,315
Net income (loss)	XXX	$ 147,606,482

RECONCILIATION OF RESERVES AND UNASSIGNED FUNDS
FOR THE PERIOD UNDER EXAMINATION

Capital and Surplus, December 31, 2000	$ 572,341,649
Net income	40,279,441
Change in net unrealized capital gains or (losses)	13,599,591
Change in net deferred income tax	27,108,072
Change in nonadmitted assets	(30,263,274)
Cumulative effect of changes in accounting principles	(8,834,843)
Aggregate write-ins for gains or (losses) in surplus:	
Adjustment to prior year subsidiary GAAP reserve balance	(143,003)
Net change in capital and surplus for the year	41,745,984
Capital and Surplus, December 31, 2001	$ 614,087,633
Net income	96,718,506
Change in net unrealized capital gains or (losses)	(28,077,715)
Change in net deferred income tax	5,598,474
Change in nonadmitted assets	(85,784,728)
Net change in capital and surplus for the year	(11,545,463)
Capital and Surplus, December 31, 2002	$ 602,542,170
Net income	111,839,284
Change in net unrealized capital gains or (losses)	(61,297,687)
Change in net deferred income tax	(6,690,339)
Change in nonadmitted assets	1,975,978
Net change in capital and surplus for the year	45,827,236
Capital and Surplus, December 31, 2003	$ 648,369,406
Net income	148,468,963
Change in valuation basis of aggregate policy and claim reserves	(5,393,916)
Change in net unrealized capital gains or (losses)	6,950,744
Change in net deferred income tax	(4,173,397)
Change in nonadmitted assets	(6,980,017)
Net change in capital and surplus for the year	138,872,377
Capital and Surplus, December 31, 2004	$ 787,241,783
Net income	147,606,482
Change in valuation basis of aggregate policy and claim reserves	283,512
Change in net unrealized capital gains or (losses)	(14,958,908)
Change in net deferred income tax	11,451,087
Change in nonadmitted assets	7,674,893
Cumulative effect of changes in accounting principles	(30,692,394)
Aggregate write-ins for gains or (losses) in surplus:	
Change in additional minimum pension liability	(658,261)
Net change in capital and surplus for the year	120,706,411
Capital and Surplus, December 31, 2005	$ 907,948,194

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Although minor differences were found in various items, none were considered to produce a material effect on surplus funds either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

The examination did not result in any findings which require comments or recommendations.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2005, the Company had net admitted assets of $1,452,508,830 and liabilities, exclusive of capital and surplus, of $544,560,636. Thus, there existed for the additional protection of the policyholders, the amount of $907,948,194 in the form of statutory reserves and unassigned funds.

In addition to the undersigned, Michael A. Mayberry, FSA, MAAA and David M. Dillion, FSA, MAAA of Lewis & Ellis, Inc., Actuaries and Consultants, Richardson, Texas, Bryant Cummings, CFE, Insurance Examiner, State of Tennessee and Brian H. Sewell, CFE, Insurance Examiner, State of Tennessee participated in the work of this examination.

Respectfully submitted,

David R. White, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Donnie R. Nicholson
Examiner III
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of BlueCross BlueShield of Tennessee, Inc. dated November 19, 2007, and made as of December 31, 2005, on behalf of the TDCI. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

David R. White, CFE
Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

26th day of November, 2007

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 05/22/2010

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

ORGANIZATIONAL CHART