



MISSISSIPPI INSURANCE DEPARTMENT

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JACKSON, MISSISSIPPI 39201
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Post Office Box 79
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MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

March 6, 2014

**CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Ms. Mary Carol Pigott, President & CEO
Blue Cross & Blue Shield of Mississippi,
A Mutual Insurance Company
3545 Lakeland Drive
Flowood, MS 39232

RE: Report of Examination as of December 31, 2012

Dear Ms. Pigott:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), 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.

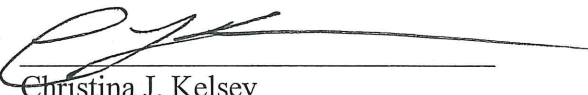
Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

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

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY


Christina J. Kelsey
Senior Attorney

MC/CJK/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. 14-6730

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. 2011). 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. 2011).

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. 2011), called for an examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, and appointed Kim Strong, Examiner-In-Charge, to conduct said examination.

IV.

That on or about January 22, 2014, the draft Report of Examination concerning Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company, for the period of January 1, 2009 through December 31, 2012, was submitted to the Department by the Examiner-In-Charge, Kim Strong.

V.

That on or about February 11, 2014, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. On or about March 4, 2014, the Department received correspondence from the Company and, in response thereto, no revisions were made to the report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), 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. 2011).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), 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 6th day of March 2014.





J. MARK HAIRE
DEPUTY 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 6th day of March 2014, to:

**Ms. Mary Carol Pigott, President & CEO
Blue Cross & Blue Shield of Mississippi,
A Mutual Insurance Company
3545 Lakeland Drive
Flowood, MS 39232**



Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 9853



MISSISSIPPI INSURANCE DEPARTMENT

Report of Examination

of

**Blue Cross & Blue Shield, A Mutual Insurance
Company**

as of

December 31, 2012

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION**

State of Mississippi,

County of Madison,

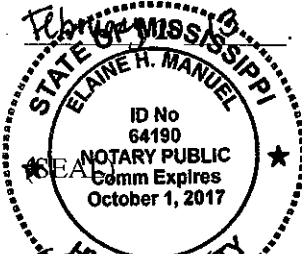
Kimberly Strong, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Comapny as of December 31, 2012.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Blue Cross & Blue Shield, A Mutual Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

Kimberly Strong
Kimberly Strong, CPA, CFE
Examiner-in-Charge

Subscribed and sworn before me by Elaine H. Manuel on this 10th day of



Elaine H. Manuel
Notary Public

My commission expires 10/1/17 [date].



MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of
Insurance

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December 11, 2013

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building
501 North West Street
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2012, of the affairs and financial condition of:

BLUE CROSS & BLUE SHIELD, A MUTUAL INSURANCE COMPANY

3545 Lakeland Drive
Flowood, MS 39232

License #	NAIC Group #	NAIC #	FEETS#	ETS
7700147	N/A	60111	60111-MS-2011-6	MS120-M20

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.

SCOPE OF EXAMINATION

We have performed our single-state examination of Blue Cross & Blue Shield of Mississippi, A Mutual Insurance Company ("Company" or "BCBSMS"). The last exam was completed as of December 31, 2008. This examination covers the period January 1, 2009 through December 31, 2012.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

There were no comments or recommendations contained within the examination report as of December 31, 2008.

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.

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 portfolio and actions of the Company's officers.

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 \$15,000,000. 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 Association 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 2012, were as follows:

Name and Residence	Principal Occupation
Richard John Hale, Chairman Madison, Mississippi	Owner, RJ Farms
James Herbert Finley, Vice Chairman Morton, Mississippi	Owner, Finley Manufacturing Services, LLC
Arthur Claiborne Kelly Starkville, Mississippi	Owner, Kelly Consulting Group
Robert Mark Ledbetter Tupelo, Mississippi	Vice President and General Manager, WTVA, Inc.
Carol Todd Puckett Jackson, Mississippi	President, The Everyday Gardener, Inc. and Director of Special Projects, Viking Range Corporation
Mary Carol Pigott Jackson, 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	Development Officer, University of Mississippi Medical School

Committees

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

Name	Title
Robin Y. McCormick	Chairman
James H. Finley	Member
Richard J. Hale	Member
Robert M. Ledbetter	Member
Carol T. Puckett	Member
Arthur C. Kelly	Member
M. Carol Pigott	Non-voting Member
Ralph B. Vance, Sr., M.D.	Non-voting Member

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

Name	Title
Ralph B. Vance, Sr., M. D.	Chairman
Robert M. Ledbetter	Member
Richard J. Hale	Member
Arthur C. Kelly	Member
James H. Finley	Member
Robin T. McCormick	Member
Carol T. Puckett	Member
M. Carol Pigott (non-voting)	Non-voting Member

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

Name	Title
Carol T. Puckett, Chairman	Chairman
James H. Finley	Member
Richard J. Hale	Member
Robin Y. McCormick	Member
Ralph B. Vance, Sr., M.D.	Member
Robert M. Ledbetter	Member
Arthur C. Kelly	Member
M Carol Pigott	Non-voting Member

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

Name	Title
Richard J. Hale	Member
James H. Finley	Member
Robin Y. McCormick	Member
Ralph B. Vance, Sr., M. D.	Member
Carol T. Puckett	Member

Officers

Name	Title
Mary Carol Pigott	President and Chief Executive Officer
Jeffery Thomas Leber	Executive Vice President & Chief Financial Officer
John Hamiter Proctor, III	Vice President, Legal and Audit & Corporate Secretary
Thomas Carroll Fenter, M.D.	Corporate Medical Advisor
Amy Ridell Ayers	Vice President, Customer and Employee Services
Ronald Scott Stringer	Vice President, Customer and Employee Services
Jennifer Jay Allen	Vice President, Provider Networks Services
Bryan Arthur Lagg	Vice President, Sales
Ugandhar Adari	Vice President, Strategic Development

Conflict of Interest

The Company had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, 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 of Directors.

Corporate Governance

The risk- focused surveillance approach requires examiners to consider the insurer's corporate governance and established risk management processes. This evaluation includes assessing the "tone-at-the-top", board of directors and management oversight and understanding and conveyance of the necessity of internal controls to employees. Strong corporate governance encompasses a clearly defined vision of ethics, appropriate goals, effective strategy, effective implementation of the strategy, and appropriate reporting systems emphasizing feedback and transparency.

It was noted that the Company's management as of December 31, 2012 consisted of a CEO, CFO and seven Vice-Presidents. In accordance with the Company's Bylaws (as amended April 22, 2010) the Board consisted of eight board members with a majority being public members. Ms. McCormick meets the standard of a "financial expert". Information regarding the Board members, committees and other related information can be found in the "Management and Control" section of this report.

The appropriateness of the entity's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining an understanding of the organizational structure and encompassed understanding the assignment of authority and responsibility. It was noted that the Company maintained formal internal control policies. Oversight of operational processes, business planning, non-routine transactions, and material events were reviewed and approved by appropriate levels of management and the Board. Management maintains effective controls over its IT environment and maintains frequent correspondence with its external auditors, Carr, Riggs & Ingram, LLC. The audit committee members are independent from management. The management structure of the Company shows clear assignment of responsibilities within the Company. It appears that the Company's organizational structure provides appropriate segregation of duties, review and oversight for the size and nature of the Company.

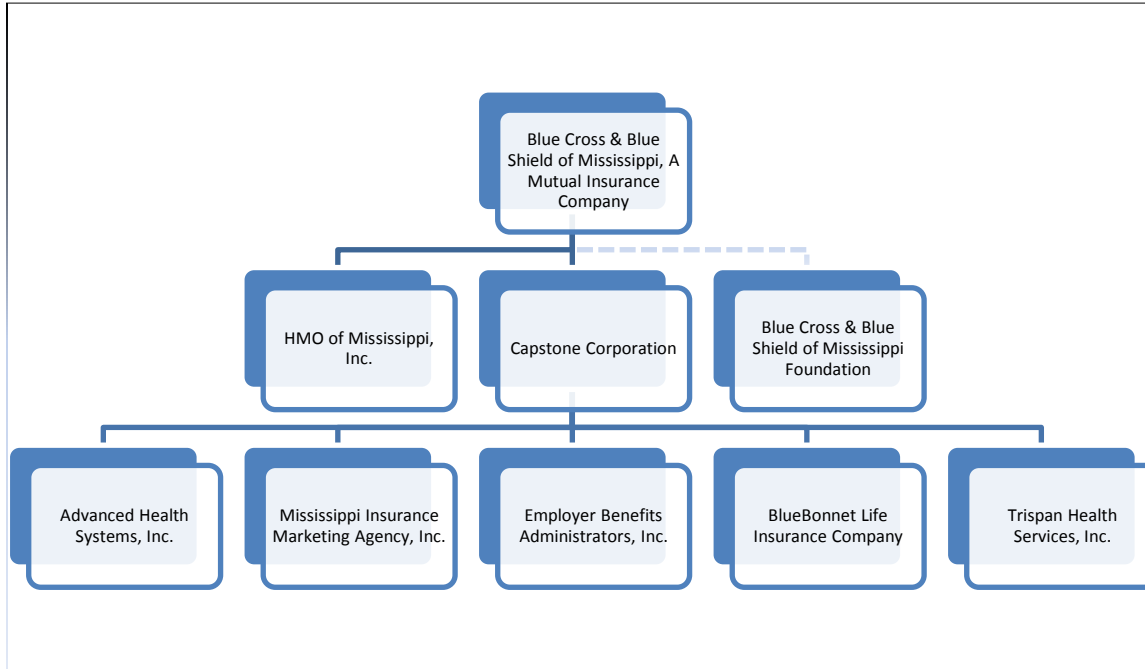
Management competence is a consideration in the overall assessment of corporate governance. Factors such as management's experience level and management turnover were taken into account. Management has significant experience with the Company and the health insurance industry; as well as, access to resources available through the Blue Cross & Blue Shield Association.

The Company's enterprise risk management is informal. Risk management is practiced by all levels of management. Risk management is discussed in regular meetings by management and plans are developed to manage and mitigate those risks. Departments interact and communicate with each other frequently. Management reports are sufficiently detailed to allow management to make sound decisions.

HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company was required to file with the MID, Holding Company Registration Statements in accordance with Miss. Code Ann. §§ 83-6-5 and 83-6-9. These filings set forth material changes in structure, identity or relationships of affiliates and any material transactions by and between the Company and its affiliates.

Organizational Chart



Subsidiaries and Affiliated Companies

BLUE CROSS & BLUE SHIELD OF MISSISSIPPI, A MUTUAL INSURANCE COMPANY (BCBSMS): BCBSMS was the ultimate controlling entity and was incorporated in 1947 under the laws of the State of Mississippi. It provided hospitalization and other health care benefits under contract to subscribers. This company also performed administrative services and processed claims for other Blue Cross & Blue Shield plans and for certain other programs.

HMO OF MISSISSIPPI, INC. (HMOMS): HMOMS, 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 were included within BCBSMS' managed care offerings. As of the examination date, HMOMS was inactive.

CAPSTONE CORPORATION (CAPSTONE): Capstone, 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 (BCBSMSFD): BCBSFD, 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. It is reflected with a dotted line denoting the lack of control by its parent, BCBSMS.

ADVANCED HEALTH SYSTEMS, INC. (AHS): AHS, 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. (MIMA): MIMA, 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. (EBA): EBA, 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. The name was changed from Bluestone Administrative Services, Inc. in February 1987. As of the examination date, EBA was inactive.

BLUEBONNET LIFE INSURANCE COMPANY (BBLIC): BBLIC, 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 the Company was to provide life, cancer, and disability insurance coverage.

TRISPAN HEALTH SERVICES, INC. (THS): THS, 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 the Company was to execute contracts related to federal and/or state government health care programs. As of the examination date, THS was inactive.

Affiliated and 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.

Service and Lease Agreement with HMOMS:

Effective August 31, 1996, BCBSMS entered into a Service and Lease Agreement with HMOMS; whereby, BCBSMS provided certain business services to the Company. These services included; general management services, financial services, accounting, printing, mailing, corporate data systems and programming, public relations, personnel, payroll, purchasing, legal, and other services. BCBSMS allocated or directly charged HMOMS its portion of salaries, travel, fees, and expenses.

Insolvency Plan Agreement with HMOMS:

Effective September, 1, 1995, BCBSMS entered into an Insolvency Plan Agreement whereby, BCBSMS guaranteed the solvency of the HMOMS. Pursuant to this agreement, BCBSMS agreed to continue coverage for members of HMOMS, in the event of insolvency.

Service Agreement with BCBSMSFD:

The Company entered into a Service Agreement on January 1, 2007, with the BCBSMSFD. Under the terms of this agreement, the Company shall provide employees to work on behalf of the Foundation. In return for the services provided, the Foundation shall reimburse the Company for the employees' time computed at rates by prorating the salaries paid to the employee, during their respective payroll periods, together with the cost of fringe benefits and travel expenses. In addition, the Company shall provide non-professional goods such as pencils, stationery and other incidental supplies at no charge.

Use Agreement with Bluestone Administrative Services, Inc. (BAS) - Current Name EBA:

Effective September, 1986, the Company agreed to allow BAS to use the marketing area property located in the Service Center building, including, furniture, fixtures and equipment and the use of any automobile currently in use by the marketing area personnel. Payments to the

Company or Capstone Corporation for the use of the marketing area property shall be determined on the basis of the time of use and mileage in the case of automobiles. Payments shall be due on the fifteenth of the month following the previous quarter. BAS changed its name to Employer Benefit Administration, Inc. in February 1987.

Service Agreement with Advanced Health Systems, Inc. (AHS):

Each company agrees to provide or make available to the other certain business services including (but not limited to) provider networks, general management services, general provider contracting services, financial services, accounting, printing, mailing, corporate data systems and programming, public relations, purchasing, claims administrative services, managed care services and other such services.

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 \$4,000,000 aggregate limit of liability, which exceeded the minimum fidelity coverage suggested by the NAIC for a company of this size.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

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 Plan was amended to only include those employed prior to January 1, 2007. 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. The Company has funded this obligation through 2012.

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

As of December 31, 2012, the Company was authorized to write accident and health lines of business in state of Mississippi. BCBSMS' health operations were defined by the following segments: underwritten group, non-group, underwritten other, cost plus, national and the State of Mississippi. The Company also had a segment for non-full service health contracts that consists mainly of dental policies.

BCBSMS used three main distribution channels; internal sales force, broker sales force and Mississippi Farm Bureau. During the exam period, the Company launched provider and member access portals and internet sales. As of 2012, the Company was the only major health insurer to offer coverage throughout the entire State of Mississippi.

GROWTH OF COMPANY

Surplus increased 18% during the examination period. However, the ratio of premium-to-surplus decreased from 2.466 as of December 31, 2008 to 2.019 as of December 31, 2012. The Company's ratio of assets to liabilities increased from 3.049 to 3.625 over the examination period and revenues to expenses decreased from 1.044 to .9960.

REINSURANCE

Quota Share Reinsurance Contract with HM Life Insurance Company

Under this agreement, BCBSMS ceded 100% of policies issued in connection with the FEP BlueVision Plan in the Company's service area.

ACCOUNTS AND RECORDS

The Company's 2012 trial balances were tied to the financial statements within the statutory annual statements filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm and the Company's claims unpaid liability and

health policy reserves were calculated by a consulting actuarial firm.

The Company processed all information at its home office located in Flowood, Mississippi utilizing a combination of purchased and internally-modified applications. Significant applications include NAS, CAS and RX Claims for claims processing, MABIL for membership and billing, CARMS for credit and accounts receivable and WALKER for financial reporting. The Company utilizes multiple platforms including IBM z/196, AS400, Intel x86 and UNIX. During the examination period, the Company moved to a primarily tapeless environment with mainframe and open systems data continuously replicated to like equipment at SunGard Availability Services LP.

The Company is licensed as a single-line accident and health mutual insurance company pursuant to Miss. Code Ann. § 83-19-31(1) (d), which requires the Company to maintain surplus equal to the capital and surplus requirements of a stock company writing similar lines of insurance. Miss. Code Ann. § 83-19-31 (1) (a) requires single-line companies to maintain combined capital and surplus of \$1,000,000.

STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31(2) and § 83-7-21. The following chart displays the Company's deposits at December 31, 2012.

Description of Security	State Deposited	Fair Value
Bond	Mississippi	\$ 602,010

FINANCIAL STATEMENTS

Introduction

The following financial statements consist of a Statement of Assets, Liabilities, Capital and Surplus as of December 31, 2012, a Statement of Revenue and Expenses for examination period ended December 31, 2012, a Reconciliation of Capital and Surplus for the examination period ended December 31, 2012 and a Reconciliation of Examination Adjustments to Surplus at December 31, 2012.

Statement of Assets, Liabilities, Capital and Surplus
December 31, 2012

Assets

Bonds	\$ 530,110,971
Common stocks	68,074,467
Real estate	46,792,833
Cash and short-term investments	61,701,884
Other invested assets	837,895
Investment income due and accrued	4,828,008
Uncollected premiums in course of collection	29,178,872
Amounts recoverable from reinsurers	926,406
Amounts receivable relating to uninsured plans	22,222,179
Current federal income tax recoverable	1,545,323
Net deferred tax asset	6,134,591
Electronic data processing equipment and software	6,754,181
Health care amounts receivable	2,776,505
Aggregate write-ins for other than invested assets	6,326,656
Total assets	788,210,771

Liabilities, Capital and Surplus

Claims unpaid	\$ 103,946,542
Unpaid claims adjustment expenses	2,454,682
Aggregate health policy reserve	4,825,463
Premiums received in advance	4,840,734
General expenses due or accrued	50,846,172
Ceded reinsurance premiums payable	978,829
Amounts withheld or retained	3,226,256
Remittances and items not allocated	3,014,179
Amounts due to parent, subsidiaries and affiliates	6,470,444
Aggregate write-ins for other liabilities	41,612,668
Total liabilities	222,215,969
Unassigned funds (surplus)	565,994,802
Total liabilities, surplus and other funds	\$ 788,210,771

Statement of Revenue and Expenses
For the examination period ended December 31, 2012

Member months	7,425,325
Net premium income	\$ 1,143,243,580
Change in unearned premium reserves	(85,236)
Total revenues	1,143,158,344
 Hospital and Medical	
Hospital/medical benefits	\$ 663,463,330
Emergency room and out-of-area	168,781,386
Prescription drugs	209,724,047
Subtotal	1,041,968,763
Less:	
Net reinsurance recoveries	754,200
TOTAL hospital and medical	1,041,214,563
 Claims adjustment expenses, including \$51,233 cost containment expenses	 2,890,180
General administrative expenses	129,722,686
TOTAL underwriting deductions	1,173,827,429
Net underwriting losses	(30,669,085)
 Net investment income earned	 29,325,133
Net realized capital gains	2,312,588
Net investment gains	31,637,721
Aggregate write-ins for other income or expenses	(14,065)
Net income after capital gains tax and before all federal income taxes	954,571
Federal and foreign income taxes incurred	2,607,635
Net loss	\$ 1,653,064

Reconciliation of Capital and Surplus (in 1,000s)
For the examination period ended December 31, 2012

	2012	2011	2010	2009
Capital and surplus prior reporting year	\$ 561,077	\$ 534,827	\$ 502,405	\$ 479,671
Net income (loss)	(1,653)	28,439	29,632	19,245
Change in net unrealized capital gains (losses) less capital gains tax	6,355	5,424	6,912	1,389
Change in net deferred income tax	3,561	(6,924)	(3,286)	2,117
Change in non admitted assets	(3,496)	503	(2,288)	(25,238)
Cumulative effect of changes in accounting principles	1,343	-	-	-
Aggregate write-ins for gains or (losses) in surplus	(1,192)	(1,192)	1,452	25,221
Net change in capital and surplus	4,918	26,250	32,422	22,734
Capital and surplus, end of reporting year	\$ 565,995	\$ 561,077	\$534,827	\$ 502,405

**RECONCILIATION OF EXAMINATION ADJUSTMENTS TO SURPLUS
DECEMBER 31, 2012**

There were no changes made to the admitted assets, liabilities capital and surplus balances reported by the Company for the year ended December 31, 2012. The surplus, which totaled \$565,994,802 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31(1)(d).

MARKET CONDUCT ACTIVITIES

A full market conduct examination was not conducted; however, specific areas of the market conduct activities were reviewed. The specific areas reviewed included those items as indicated below.

Policyholder Service

The Company maintained complaint documentation during the period under examination. Complaints appeared to have been appropriately resolved and no policyholder abuse was noted.

Underwriting and Rating

Based upon procedures performed during the course of the examination, the Company appeared to be appropriately applying premium rates for insured policies based on application data. It appeared that all applicable policy forms had been appropriately approved by the MID.

Claims Handling

Claim files were reviewed for general indicators of policyholder treatment concerns. No significant areas of concern were noted.

Producer Licensing

The Company appeared to have the appropriate licensure to issue its products and agents appeared to be properly licensed and appointed.

Privacy

Privacy notices were sent to the Company's policyholders annually.

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

The examination did not identify any material comments and recommendations.

SUBSEQUENT EVENTS

Subsequent to the examination date, ten network hospitals owned by HMA were terminated by BCBSMS. It is recommended that a target market conduct examination be performed to ensure that access to providers for policyholders of BCBSMS throughout the state of Mississippi remains adequate.

Subsequent to the examination date, the examiners and representatives of the MID were notified by the Mississippi Board of Pharmacy of concerns related to pharmacy benefit administration. Based on the nature and extent of procedures necessary to address the noted items, it is recommended that a target market conduct examination be performed in order to adequately address the areas of concern presented.

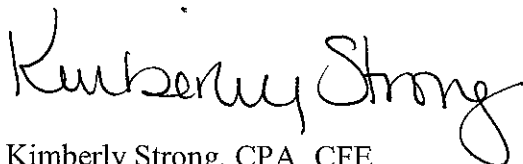
ACKNOWLEDGMENT

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

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Steve Sartin, CISA, CRISC	IT Specialist, Harper, Rains, Knight & Co.
Joanna Latham, CFE, AES, CPA, CISA, CRISC	IT Specialist, AGI Services, Inc.
John Humphries, ASA, MAAA, CFE, AES	Managing Actuary, AGI Services, Inc.
Mike Presley, FSA, MAAA	Consulting Actuary, AGI Services, Inc.
Mary Anne King, CPA	Financial Examiner, Harper, Rains, Knight & Co.
Stacey McFarland	Financial Examiner, Harper, Rains, Knight & Co.
Todd Merchant	Financial Examiner, Harper, Rains, Knight & Co.
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Trina Barton, CPA, AMCM	Market Conduct Examiner, AGI Services, Inc.
Kristina Gaddis, CFE, CISA	Market Conduct Examiner, AGI Services, Inc.

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

Respectfully submitted,



Kimberly Strong, CPA, CFE
Examiner-in-charge