HEALTH CARE SERVICE CORPORATION, A MUTUAL LEGAL RESERVE COMPANY

**d/b/a BlueCross BlueShield of Illinois,
BlueCross BlueShield of Texas, and
BlueCross BlueShield of New Mexico**

A Division of Health Care Service Corporation,
a Mutual Legal Reserve Company,
an Independent Licensee of the
Blue Cross and Blue Shield Association

FINANCIAL STATEMENTS
(Statutory Basis)

As of December 31, 2001 and 2000
together with Auditors' Report

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Health Care Service Corporation,
a Mutual Legal Reserve Company:

We have audited the accompanying statutory statements of admitted assets, liabilities and policyholders' surplus of HEALTH CARE SERVICE CORPORATION, A MUTUAL LEGAL RESERVE COMPANY (the "Corporation"), as of December 31, 2001 and 2000, and the related statutory statements of income and expenses and cash flows for the years then ended. These financial statements and the schedules referred to below are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 2 to the financial statements, the Corporation prepared these financial statements using the accounting practices and procedures of the National Association of Insurance Commissioners as prescribed or permitted by the Department of Insurance of the State of Illinois, which practices differ from accounting principles generally accepted in the United States. The effects on the financial statements of the variances between statutory basis of accounting and accounting principles generally accepted in the United States, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the Corporation as of December 31, 2001 and 2000, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Corporation as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices and procedures of the National Association of Insurance Commissioners as prescribed or permitted by the Department of Insurance of the State of Illinois.

As explained in Note 2 to the financial statements, effective January 1, 2001, the Corporation changed its method of accounting to that prescribed in the codified National Association of Insurance Commissioners' Statements of Statutory Accounting Principles and related interpretations prescribed by the Department of Insurance of the State of Illinois.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of selected financial data, summary investments and investment risk interrogatories, as of and for the year ended December 31, 2001, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Chicago, Illinois
March 1, 2002

HEALTH CARE SERVICE CORPORATION,
A MUTUAL LEGAL RESERVE COMPANY

STATEMENTS OF ADMITTED ASSETS, LIABILITIES
AND POLICYHOLDERS' SURPLUS (STATUTORY BASIS)
AS OF DECEMBER 31, 2001 AND 2000
(IN THOUSANDS OF DOLLARS)

ADMITTED ASSETS	2001	2000
CASH AND INVESTED ASSETS:		
Cash and cash equivalents (Note 2b)	$ 327,499	$ (99,218)
Short-term investments, at amortized cost which approximates market value (Note 2b)	335,316	661,552
Bond mutual funds, at NAIC market value (cost: 2001 - $34,668; 2000 - $33,118)	35,247	33,326
U.S. Government and agency securities, at amortized cost (market value: 2001 - $298,433; 2000 - $265,226)	294,113	259,680
Corporate and other bonds, at amortized cost (market value: 2001 - $459,833; 2000 - $383,140)	447,863	381,084
Common and preferred stocks, at market value (cost: 2001 - $56,333; 2000 - $75,408)	70,130	150,192
Investments in unconsolidated subsidiaries (Note 7)	666,176	702,664
Real estate, at cost, less accumulated depreciation of $72,117 in 2001 and $55,948 in 2000 (Note 2o)	233,762	237,047
Other invested assets	447	14,335
Total Cash and Invested Assets	$ 2,410,553	$ 2,340,662
RECEIVABLES:		
Premium business	$ 147,693	$ 159,497
Receivables from uninsured customers	236,363	180,332
HMO business	12,446	13,868
Less: Allowance for doubtful accounts	(15,237)	(21,886)
Total Accident and Health Policy Receivables, net	$ 381,265	$ 331,811
Due from Federal Employee Program (Note 8)	270,185	201,663
Hospital receivables (Note 2d)	367,125	285,951
Other	72,492	57,591
Total Receivables, net	$ 1,091,067	$ 877,016
DEFERRED TAX ASSETS (Note 2b)	61,209	0
DATA PROCESSING EQUIPMENT, at cost, less accumulated depreciation of $101,275 in 2001 and $104,034 in 2000 (Note 2k)	$ 24,215	$ 64,354
TOTAL ADMITTED ASSETS	**$ 3,587,044**	**$ 3,282,032**

The accompanying notes to financial statements are an integral part of these statements.

HEALTH CARE SERVICE CORPORATION,
A MUTUAL LEGAL RESERVE COMPANY

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND POLICYHOLDERS' SURPLUS (STATUTORY BASIS) AS OF DECEMBER 31, 2001 AND 2000 (CONTINUED) (IN THOUSANDS OF DOLLARS)

LIABILITIES AND POLICYHOLDERS' SURPLUS	**2001**	**2000**
ACCIDENT AND HEALTH POLICY RESERVES:		
Policy and contract claims	$ 645,431	$ 525,762
Aggregate reserves	223,586	164,783
HMO policy and contract claims	251,274	237,046
Total Accident and Health Policy Reserves	$ 1,120,291	$ 927,591
Accrued liabilities	651,893	524,885
Long-term debt (Note 18)	399,635	325,000
Federal income tax liability	151,561	124,814
Liability for postretirement benefits other than pensions	67,076	60,918
Asset valuation reserve	7,869	9,017
Interest maintenance reserve	7,805	3,772
Total Liabilities	$ 2,406,130	$ 1,975,997
POLICYHOLDERS' SURPLUS:		
Balance, beginning of year	$ 1,306,035	$ 1,238,837
Net gain	387,140	173,785
Increase in non-admitted assets	(107,860)	(6,514)
Net change in admitted deferred tax (Note 17)	27,998	0
Decrease in asset valuation reserve	1,148	2,871
Net change in unrealized capital (losses) gains	(61,267)	52,623
Net decrease in equity of unconsolidated subsidiaries	(186,590)	(85,154)
Increase in HMO Restricted Surplus Fund	51	76
Change in accounting principle (Note 2a)	(90,347)	0
Goodwill expense (Notes 7 and 20)	(95,394)	(70,489)
Total Policyholders' Surplus	$ 1,180,914	$ 1,306,035
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	**$ 3,587,044**	**$ 3,282,032**

The accompanying notes to financial statements are an integral part of these statements.

HEALTH CARE SERVICE CORPORATION,
A MUTUAL LEGAL RESERVE COMPANY

STATEMENTS OF INCOME AND EXPENSES (STATUTORY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(IN THOUSANDS OF DOLLARS)

	2001	2000
INCOME:		
Premium business	$ 4,631,525	$ 3,836,762
Limited Risk business (Note 2f)	0	5,192,176
HMO business	1,498,026	1,310,108
Investment income, net of real estate depreciation expenses of $9,994 and $13,348, and net of investment expenses of $5,760 and $2,612, and net of interest expenses of $25,001 and $17,618 in 2001 and 2000, respectively	59,381	78,562
Other income	9,340	16,635
Total Income	$ 6,198,272	$ 10,434,243
EXPENSES:		
Premium benefits	$ 3,758,044	$ 3,176,531
Limited Risk benefits (Note 2f)	0	4,774,541
HMO benefits (Note 9)	1,351,104	1,160,967
Operating expenses, net of reimbursements (Note 16A)	447,170	885,769
Commission expenses	193,590	159,969
Other expenses	25,702	61,270
Total Expenses	$ 5,775,610	$ 10,219,047
NET GAIN FROM OPERATIONS BEFORE FEDERAL INCOME TAXES AND REALIZED CAPITAL GAINS	$ 422,662	$ 215,196
Federal income tax expense (Note 17)	(86,974)	(75,284)
NET GAIN BEFORE REALIZED CAPITAL GAINS	$ 335,688	$ 139,912
Net realized capital gains, less capital gains tax of $13,995 in 2001 and $7,687 in 2000	51,452	33,873
NET GAIN	**$ 387,140**	**$ 173,785**

The accompanying notes to financial statements are an integral part of these statements.

HEALTH CARE SERVICE CORPORATION,
A MUTUAL LEGAL RESERVE COMPANY

STATEMENTS OF CASH FLOWS (STATUTORY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(IN THOUSANDS OF DOLLARS)

CASH FROM OPERATIONS:	2001	2000
Premiums collected	$ 4,580,010	$ 3,766,117
Limited Risk revenue collected (Note 2f)	0	5,172,626
HMO revenue collected	1,499,778	1,299,258
Investment income received, net of investment expenses paid	101,310	106,951
Premium benefits paid	(3,693,448)	(3,129,862)
Limited Risk benefits paid (Note 2f)	0	(4,819,961)
HMO benefits paid	(1,367,773)	(1,149,385)
Commissions and other expenses paid, net of reimbursements	(798,529)	(1,067,736)
Federal income taxes paid, net of refunds received	(60,227)	(15,850)
Net cash provided by operations	**$ 261,121**	**$ 162,158**
CASH FROM INVESTMENTS:		
Proceeds from sale or maturity of -		
Bonds	$ 331,635	$ 409,786
Common and preferred stocks and money market funds	187,578	114,824
Real estate	0	8,146
Other invested assets	5,001	3,000
Net gain (loss) on short-term investments	30	(281)
Miscellaneous proceeds	5,972	0
Capital gains tax paid	(13,995)	(7,686)
Total proceeds	$ 516,221	$ 527,789
Cost of investments acquired -		
Bonds	$ 427,613	$ 498,428
NYLCare Health Plans of the Southwest, Inc. and NYLCare Health Plans of the Gulf Coast, Inc. (Note 7)	0	420,038
Common and preferred stocks and money market funds	355,363	191,762
Real estate	9,572	1,464
Other invested assets	(18,553)	14,485
Total cost of investments acquired	$ 773,995	$ 1,126,177
Net cash used for investments	**$ (257,774)**	**$ (598,388)**
CASH FROM FINANCING AND OTHER SOURCES, NET:		
Long-term debt (Note 18)	$ 73,257	$ 325,000
Interest on long-term debt	(23,623)	(17,618)
Other sources, net	47,500	81,330
Net cash provided by financing and other sources	**$ 97,134**	**$ 388,712**
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	$ 100,481	$ (47,518)
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS AT THE BEGINNING OF THE YEAR	562,334	609,852
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS AT THE END OF THE YEAR	**$ 662,815**	**$ 562,334**

The accompanying notes to financial statements are an integral part of these statements.

(1) ORGANIZATION:

Health Care Service Corporation, a Mutual Legal Reserve Company, which is comprised of Blue Cross Blue Shield of Illinois, Blue Cross Blue Shield of Texas, and Blue Cross Blue Shield of New Mexico (the Corporation), operates under the provisions of Article III of the Illinois Insurance Code, which govern mutual legal reserve companies in Illinois. As required by these provisions, the Corporation must maintain policyholders' surplus of at least $1,500.

The Corporation writes and administers health and dental insurance business throughout the states of Illinois, Texas, and New Mexico. The Corporation also offers insurance nationally through other Blue Cross Blue Shield plans.

(2) ACCOUNTING POLICIES:

(a) Change in Accounting Principles -

The State of Illinois Department of Insurance adopted the National Association of Insurance Commissioners (NAIC) Accounting Practices and Procedures Manual effective January 1, 2001. This manual, known as "Codification", was designed to provide a nationwide standard of accounting, which insurers will be required to follow for Statutory Accounting Practices. The advantages of Codification include more consistency and comparability of insurers' financial statements due to adoption of one national set of standards.

Several provisions of Codification have impacted the Corporation's financial statements beginning in 2001. The most significant change relates to Limited Risk business, where the Corporation pays benefits on the Corporation's check stock and subsequently receives reimbursement from customers for paid benefits plus a fee for administrative services. Under Codification, the claims and related reimbursements are no longer included as income or expenses on the Corporation's Statement of Income and Expenses. These changes resulted in the Corporation's income, claims, and administrative expenses each declining by approximately 50% in 2001. The overall net gain from operations did not change, and there is no effect on the Corporation's Statement of Admitted Assets, Liabilities and Policyholders' Surplus.

Adopting Codification also resulted in changes to the Corporation's admitted assets and policyholders' surplus as of January 1, 2001. Specifically, the Corporation's non-admitted electronic data processing equipment increased $36,000, and non-admitted provider receivables increased $104,000, resulting in a corresponding decrease to policyholders' surplus of $140,000. Partially offsetting this was the establishment on the Statement of Admitted Assets, Liabilities and Policyholders' Surplus of an admitted net deferred federal income tax asset of $33,000 and an admitted pharmaceutical drug rebate receivable of $17,000 resulting in a $50,000 increase to policyholders' surplus. The net effect of these items resulted in a net decrease to policyholders' surplus of approximately $90,000.

(b) Basis of Presentation -

For 2001, as noted under Note (2)(a), the accompanying financial statements were prepared in conformity with Codification, except where permitted practice exceptions were granted by the Department of Insurance of the State of Illinois (DOI). Permitted statutory accounting practice exceptions encompass all accounting practices not so prescribed. The effects of using permitted accounting practices instead of prescribed methods are highlighted in Note (2)(d).

For 2000, the accompanying financial statements have been prepared in conformity with the accounting practices and procedures of the NAIC as prescribed or permitted by the DOI. Prescribed statutory accounting practices included a variety of publications of the NAIC, as well as state laws, regulations, and general administrative rules. The effects of using permitted accounting practices instead of prescribed methods are highlighted in Note (2)(d).

The major differences between accounting principles generally accepted in the United States (GAAP) and statutory accounting practices are that under statutory requirements:

i. Certain assets, designated as "non-admitted assets" (principally certain receivables, furniture, fixtures, office equipment, leasehold improvements and non-operating system software) are charged to policyholders' surplus.

ii. In 2001, short-term investments with original maturities of three months or less are reported as cash and cash equivalents in the Corporation's Statements of Admitted Assets, Liabilities and Policyholders' Surplus, which is consistent with GAAP. In 2000, however, these investments were included in short-term investments on the Corporation's Statements of Admitted Assets, Liabilities and Policyholders' Surplus.

iii. An interest maintenance reserve, as prescribed by the NAIC, is established to defer recognition of net realized gains and losses on bonds due to changes in market interest rates, and to amortize these gains and losses into income over the remaining life of the bonds.

iv. An asset valuation reserve, as prescribed by the NAIC, is established to stabilize policyholders' surplus when the market value of investments fluctuates.

v. Changes in equity of unconsolidated subsidiaries and goodwill amortization expense related to the purchase of subsidiaries are reported as direct additions to or reductions from policyholders' surplus.

vi. Certain leases which are capitalized under GAAP are treated as operating leases under statutory accounting practices.

vii. In 2001, under Codification, pension expense and other postretirement benefit expense are recorded per GAAP rules with a modification to exclude non-vested employees. In 2000, pension expense was equal to the current year employer contribution as required by the Employee Retirement Income Security Act of 1974 (ERISA) rather than as determined under GAAP.

viii. In 2001, under Codification, deferred tax assets and liabilities are recognized and deferred tax assets are admitted based on prescribed limitations. Changes in deferred tax assets and liabilities are recorded as a direct charge to policyholders' surplus. In 2000, deferred taxes were not recognized under statutory accounting practices.

ix. Investments are stated at values prescribed or permitted by the NAIC and therefore are not stated in accordance with GAAP.

x. The cash flow statements are prepared in conformity with statutory accounting practices and therefore are not prepared in accordance with GAAP.

xi. For home office real estate, the NAIC requires an imputed rent calculation. The results of the imputed rent calculation are included in the Corporation's Statements of Income and Expenses as both additional investment income and additional operating expenses as discussed further in Note (2)(o).

xii. In 2001, administrative fees earned on Administrative Service Only and Limited Risk business are shown as a reduction to operating expenses in the Corporation's Statements of Income and Expenses, and therefore, are not stated in accordance with GAAP. In 2000, administrative fees earned on Administrative Service Only business were shown as a reduction to operating expenses in the Corporation's Statements of Income and Expenses and, therefore, were not stated in accordance with GAAP.

The aggregate net effect on the financial statements of the differences described above has not been determined.

(c) Use of Estimates -

The preparation of financial statements in conformity with the accounting practices and procedures of the NAIC as prescribed or permitted by the DOI requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The most significant of these estimates are accident and health policy reserves.

(d) Permitted Accounting Practices -

The Corporation received written approval from the DOI to treat as admitted assets certain provider recoverables received within one or two months of the related claim payment. These recoverables are collateralized in the sense that the Corporation can and does collect the majority of these amounts by offsetting payments to the provider by amounts owed to the Corporation. Prescribed accounting methods normally would require that these provider recoverables be treated as non-admitted assets to the extent that they cannot be offset against liabilities to the same provider. As of December 31, 2001 and 2000, the permitted method increased policyholders' surplus by $163,036 and $285,952, respectively over what it would have been had the prescribed accounting practice been followed. This permitted practice is subject to annual approval by the DOI.

In addition, the Corporation has written approval from the DOI to admit the excess goodwill related to the purchase in 2000 of NYLCare Health Plans of the Southwest Inc. and NYLCare Health Plans of the Gulf Coast, Inc., as discussed further in Note (7). The statutory admissible amount of goodwill is limited to a maximum of 10% of an insurance company's policyholders' surplus adjusted to exclude any net positive goodwill, electronic data processing equipment and operating software, and net deferred tax assets. As of December 31, 2001 and 2000, the permitted method increased policyholders' surplus by $105,017 and $174,845, respectively, over what it would have been had the prescribed accounting practice been followed. This permitted practice is subject to annual approval by the DOI.

There were no effects on the Corporation's net gain as a result of practices permitted by the State of Illinois. A reconciliation of the Corporation's policyholders' surplus between the practices permitted by the State of Illinois and the methods codified by the NAIC is shown below:

	Dec 31, 2001	Dec 31, 2000
Policyholders' Surplus, State permitted practice	**$ 1,180,914**	**$ 1,306,035**
State Prescribed Practices (Surplus)	-0-	-0-
State Permitted Practices (Surplus)		
Goodwill	(105,017)	(174,845)
Hospital Receivable	(163,036)	(285,952)
Policyholders' Surplus, NAIC Codified	**$ 912,861**	**$ 845,238**

(e) Premium Business Income -

Income from premium business is recorded on the accrual basis of accounting and is recognized as income during the period of coverage.

(f) Limited Risk Business Income -

In 2000, income from Limited Risk group business was recognized when the Corporation paid benefits. Beginning in 2001, Limited Risk business, which is a category of uninsured business under Codification, is no longer reported in the Corporation's Statement of Income and Expenses. The administrative fees earned are shown as a reduction to operating expenses in the Corporation's Statements of Income and Expenses.

(g) Administrative Service Only (ASO) -

ASO, which is also referred to as uninsured business under Codification, is business where the Corporation pays benefits on the behalf of employers using the employer's check stock. The Corporation receives an administrative fee for providing these services. Income and claim expenses are not included in the Corporation's financial statements in 2001 and 2000. The administrative fees earned are shown as a reduction to operating expenses in the Corporation's Statements of Income and Expenses.

(h) HMO Business Income -

Income from HMO business is recorded on the accrual basis of accounting and is recognized as income during the period of coverage.

(i) Hospital Charge Recoveries -

Hospital charge recoveries are netted against premium, Limited Risk, and HMO benefits and are recorded on an incurred basis. Consistent with permitted accounting practices as described in Note (2)(d), certain
hospital receivables have been included in the Corporation's Statements of Admitted Assets, Liabilities,
and Policyholders' Surplus as admitted assets.

(j) Pharmaceutical Rebate Receivable -

In the fourth quarter of 2001, the Corporation began recording a pharmaceutical rebate receivable as a result of adopting Codification guidance related to these specific receivables. The total rebate receivable at December 31, 2001 was approximately $36,000. Of this amount, $3,400 was treated as non-admitted. Of the $36,000 receivable, $15,000 is confirmed as owed to the Corporation and the remaining $21,000 is an estimated amount based on past collection patterns. In 2001, the Corporation collected pharmacy rebates of $61,759.

(k) Data Processing Equipment -

The Corporation capitalizes the cost of data processing equipment, including operating system software. At December 31, 2001, data processing equipment had an admitted asset balance of $24,215. Substantially all of this equipment was depreciated on a straight-line basis over a five-year life, prior to 2001. Beginning in 2001, equipment is depreciated on a straight-line basis over the lesser of three years or its remaining useful life. Depreciation expense was $29,648 and $27,380 for 2001 and 2000, respectively. Non-operating software is depreciated on a straight-line basis over a five-year life, with the remaining undepreciated balance being non-admitted.

(l) Furniture, Fixtures, Equipment, and Leasehold Improvements -

The Corporation capitalizes the cost of furniture, fixtures and equipment and depreciates it on a straight-line basis over a five-year life. Depreciation expense was $23,930 and $15,896 for 2001 and 2000, respectively. The Corporation also capitalizes the cost of leasehold improvements and amortizes that cost over the shorter of the life of the lease or the economic useful life. Amortization expense was $14,231 and $8,057 for 2001 and 2000, respectively. The remaining unamortized balances of furniture, fixtures, equipment, and leasehold improvements are non-admitted.

(m) Accident and Health Policy Reserves -

The Corporation records policy and contract claims for premium and HMO benefits at the time covered services are provided. The liabilities are established based on management's estimate of the ultimate cost of settling all losses incurred, but unpaid, including those incurred but not reported to the Corporation. Although such amounts are based on estimates, management believes that the reserves are adequate. These estimates are continually reviewed and, as adjustments to these liabilities become necessary, such adjustments are reflected in current operations. Changes in assumptions for such things as medical cost and legal actions, as well as changes in actual experience, could cause these estimates to change in the near term.

Aggregate reserves represent reserves for unearned premium income and experience-rated refunds for premium business.

An estimate of future claim payments is not recorded for Limited Risk business claims or for ASO claims.

(n) Investments -

Investments are stated at values prescribed or permitted by the NAIC. Accordingly, bonds are stated at amortized cost. Short-term investments, primarily commercial paper, are stated at amortized cost which approximates market value. Real estate is stated at cost less accumulated depreciation. Common and preferred stocks, bond mutual funds and money-market funds are stated at market value. Market values are based on valuations as prescribed by the NAIC Securities Valuation Office. Amortization of bond premium and accretion of bond discount are recognized on a yield-basis method. Realized gains and losses are determined on a specific identification basis. Security transactions are accounted for on a trade date basis, with any unsettled transactions recorded as due to or from investment broker and included in other invested assets and accrued liabilities in the Corporation's Statements of Admitted Assets, Liabilities and Policyholders' Surplus.

Investments in the Corporation's unconsolidated insurance and HMO subsidiaries are reflected in the accompanying Statements of Admitted Assets, Liabilities and Policyholders' Surplus based on their underlying statutory capital and surplus plus any related unamortized goodwill. Changes in investments in unconsolidated subsidiaries are recorded as a direct increase or decrease to policyholders' surplus. Goodwill amortization resulting from statutory purchases is recorded as a direct decrease to policyholders' surplus. Dividends received from unconsolidated subsidiaries are recorded as investment income in the Statements of Income and Expenses (see Note (7)).

(o) Real Estate -

The Corporation's real estate portfolio primarily consists of the downtown Chicago headquarters and the corporate data center. The buildings and building components are being depreciated over their useful lives which range from 7 to 40 years.

Under statutory accounting practices, insurance companies are required to calculate imputed rental income and rent expense for owner occupied real estate. The method for calculating imputed rental income and expense is based on estimated current market value times rentable square feet. These imputed amounts are reported as investment income and operating expense in the Statements of Income and Expenses as if the Corporation had paid itself rent of $25,109 and $22,841 for 2001 and 2000, respectively.

(p) Reclassifications -

Certain prior year balances have been restated to conform to the current year presentation.

(3) PENSION PLANS AND OTHER EMPLOYEE BENEFITS :

In 2000, the Corporation sponsored two defined benefit pension plans covering substantially all of its employees. One plan covered employees of the Illinois division. Benefits were based on years of service and the employees' average compensation during the last five years of employment. The funding policy was to contribute an amount between the minimum required contribution under ERISA and the maximum deductible contribution under the Internal Revenue Code. The required contribution was computed using the projected unit credit method.

Pension expense for the Illinois division was $21,234 in 2000. The funded status of this pension plan covering the employees of the Illinois division, and also including the employees of certain wholly owned subsidiaries, Fort Dearborn Life Insurance Company (FDL), Medical Life Insurance Company (MLIC), and management employees of HCSA, Inc. (HCSA), was:

As of January 1, 2000	
	2000
Present Value of Vested Benefits	$ 118,143
Present Value of Non-vested Benefits	17,171
Total Present Value of Benefits	$ 135,314
Plan Assets Available for Benefits	$ 168,808
Interest Rate used in Determining Present Value of Vested and Non-vested Benefits	8.25%

The other plan covered employees of the Texas division. Benefits were based on years of service and the employees' highest 60-month average compensation over the last 120 months of service. The funding policy was to contribute an amount between the minimum required contribution under ERISA and the maximum deductible contribution under the Internal Revenue Code. The required contribution was computed using the entry-age normal method.

Pension expense for the Texas division was $6,550 in 2000. The funded status of the pension plan covering the employees of the Texas division, and also including employees of certain wholly-owned subsidiaries, Texas Gulf Coast HMO, Inc. and Southwest Texas HMO, Inc., was:

As of April 1, 2000	
	2000
Present Value of Vested Benefits	$ 114,357
Present Value of Nonvested Benefits	13,005
Total Present Value of Benefits	$ 127,362
Plan Assets Available for Benefits	$ 183,656
Interest Rate used in Determining Present Value of Vested and Non-vested Benefits	8.00%

Prior to 2001, based on then existing statutory guidelines, annual expense for the plans was recorded on a statutory pay-as-you-go (contributed) cash basis. Effective in 2001, as a part of Codification, the NAIC changed the statutory guidelines for calculating, recording, and reporting annual pension as well as related footnote disclosures of changes, funded status, cost components, and assumptions.

In 2001, the Corporation sponsors two qualified defined benefit pension plans covering the majority of eligible employees. One plan covers the majority of the Corporation's employees located in the Illinois division, the Texas division, and the New Mexico division as of July 1, 2001, as well as a smaller number of employees who are employed by the Life insurance subsidiaries of FDL and MLIC. The other plan covers the majority of the Chicago based represented (union) Corporation employees located within the Illinois division. In conjunction with the adoption of Codification, effective January 1, 2001, the Corporation changed its method of accounting for pension. The revised method requires the recognition of pension costs over the period a participant renders service with a modification to exclude non-vested employees. The effect of this change was an obligation of $92,393, which the Corporation elected to amortize as a component of net periodic pension costs over a period not to exceed twenty years, consistent with NAIC transition guidelines. Plan benefits are based on tenure and employee status, which are calculated either as a factor times service, credit times final pay, or a "cash balance" formula. The current provisions of the plans require one year of service for eligibility and five years of service for vesting. The Corporation's funding policy continues to be to contribute to the plans an amount between the minimum required contribution under ERISA and the maximum deductible contribution as governed by the IRS.

A combined summary of assets and obligations of the Pension Plans, including key assumptions used in the actuarial valuations, is as follows at December 31, 2001:

Change in benefit obligation		**2001**
Benefit obligation at beginning of year	$	425,621
Service cost		19,396
Interest cost		31,704
Contribution by plan participants		-0-
Actuarial loss		27,467
Benefits paid		(18,423)
Plan amendments		3,014
Business combinations		15,463
Benefit obligation at end of year	$	504,242
Change in plan assets		
Fair value of plan assets at beginning of year	$	325,987
Actual return on plan assets		(10,067)
Employer contribution		40,241
Plan participants' contribution		-0-
Benefits paid		(18,423)
Business combinations		16,101
Fair value of plan assets at end of year	$	353,839
Funded status		
Unamortized prior service cost	$	3,014
Unrecognized net loss		64,982
Remaining net obligation at initial date of application		87,411
Prepaid asset	$	5,004
Components of Net Periodic Cost		
Service cost	$	19,051
Interest cost		31,130
Expected return on plan assets		(27,168)
Amortization of unrecognized transition obligation		4,982
Total net periodic benefit cost	$	27,995

Weighted-average assumptions as of December 31, 2001:

Discount rate	7.00%
Rate of compensation increase	4.50% - 6.00%
Expected long-term rate of return on plan assets	8.25%

The Corporation's net periodic cost was $27,106 with the balance of $889 being allocated to FDL and MLIC. The benefit obligation for non-vested employees is $24,242. The Corporation has a net prepaid pension asset of $5,004 as of December 31, 2001, which under codification is non-admitted.

The Corporation has a thrift plan for Illinois division union employees and a 401(k) plan for Illinois, Texas, and New Mexico divisions' salaried employees. These plans cover substantially all employees who have completed one year of service. Participants may elect to contribute a portion of their salary, which will be matched in part by the Corporation. The total expense incurred by the Corporation related to matching employee contributions was $8,010 in 2001 and $6,860 in 2000.

(4) POSTRETIREMENT BENEFITS OTHER THAN PENSIONS :

In addition to pension benefits, the Corporation provides certain health care and life insurance benefits (post- retirement benefits) for retired employees. The Corporation provides these benefits under three separate policies/provisions, but has aligned the underlying medical coverage options. The first plan primarily covers certain Illinois division employees and a smaller number of employees of FDL and MLIC. Substantially all full-time employees are eligible for postretirement benefits if they are at least 40 years old and have at least twenty years of service. Certain assets are held in a VEBA trust. The Corporation did not make any contributions to the VEBA in 2001 or 2000. A second plan primarily covers certain Texas division employees. Substantially all full-time employees retiring from the Corporation are eligible for these benefits if they are at least 55 years old and have at least 10 years of service. A third plan applies primarily to certain New Mexico division employees. Although the New Mexico business was purchased July 1, 2001, the 2000 amounts shown in the chart below include the effects of the New Mexico business for comparative purposes (see Note 20(A)). Substantially all full time employees retiring from the Corporation are eligible for these benefits if they are at least 55 years old and have at least 10 years of service. In the case of all three benefit plans, these benefits are subject to deductibles, copayment provisions, and other limitations. Covered employees pay a portion of their benefits based on years of active service. The corporation may amend or change the benefits.

A combined summary of assets and obligations of the described other postretirement benefits, including key assumptions used in the actuarial valuations, is as follows for December 31, 2001 and 2000:

Change in accumulated postretirement benefit obligation (APBO)		**2001**		**2000**
APBO at January 1	$	120,044	$	91,427
Service cost		6,726		5,664
Interest cost		7,200		8,225
Contribution by plan participants		-0-		138
Actuarial (gain) loss		(14,754)		19,058
Benefits paid		(6,450)		(4,468)
APBO at December 31	$	112,766	$	120,044
Change in plan assets				
Fair value of plan assets at January 1	$	47,394	$	43,291
Actual return on plan assets		(1,814)		4,103
Employer contribution		6,450		4,337
Plan participants' contribution		-0-		138
Benefits paid		(6,450)		(4,475)
Fair value of plan assets at December 31	$	45,580	$	47,394
Funded status				
Unrecognized prior service cost	$	2,410	$	2,549
Unrecognized net (gain) loss		(4,968)		2,720
Remaining net obligation at initial date of application		84		2,097
Accrued retiree costs	$	(69,660)	$	(65,284)
Components of Net Periodic Cost		**2001**		**2000**
Service Cost	$	6,726	$	5,664
Interest Cost		7,200		8,225
Expected return on plan assets		(2,301)		(2,093)
Amortization of transition amount		91		174
Amortization of net (gain) loss		(1,387)		91
Amortization of prior service cost		170		167
Settlement/Curtailment gain/loss		-0-		-0-
Total net periodic benefit cost	$	**10,499**	$	**12,228**

Weighted-average assumptions as of December 31:

	2001	**2000**
Discount rate	7.00%	7.00% - 7.50%
Rate of compensation increase	5.50% - 6.00%	5.50% - 6.00%
Expected long-term rate of return on plan assets	5.00%	5.00%

The Corporation's allocated portion of ending accrued retiree costs is $67,076 with the remaining $2,584 allocated to FDL and MLIC. The Corporation’s portion of net periodic cost in 2001 equals $10,151 with the remaining $348 being attributed to FDL and MLIC. The unrecognized benefit obligation for non-vested employees was $80,470 and $60,678 at the end of 2001 and 2000, respectively.

The assumed medical cost trend rates are: Illinois division-initial and ultimate trend rate of 5.0%, reached in 2001; Texas division-initial trend rate of 7.0%; and an ultimate trend rate of 5.0% reached in 2009. New Mexico division-initial and ultimate trend rate of 5.5% reached in 2001.

Effect of change in assumed medical cost trend rates:	**2001**	**2000**
One-percentage point increase		
Effect on total of service cost and interest cost	$ 2,120	$ 2,297
Effect on postretirement benefit obligation	$ 15,579	$ 17,227
One-percentage point decrease		
Effect on total of service cost and interest cost	$ (1,723)	$ (1,871)
Effect on postretirement benefit obligation	$ (12,800)	$ (14,122)

(5) INVESTMENTS:

The amortized cost and NAIC market value of debt securities held as assets by the Corporation at December 31, 2001 and 2000 are as follows:

2001	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Market Value
Short-term Investments	$ 335,316	$ -0-	$ -0-	$ 335,316
U.S. Government and Agency Securities	294,113	5,056	(736)	298,433
Corporate Bonds	447,863	12,790	(820)	459,833
Total	**$ 1,077,292**	**$ 17,846**	$ **(1,556)**	**$ 1,093,582**
Due in one year or less	$ 390,595			391,512
Due after one year through five years	378,390			389,505
Due after five years through ten years	146,049			149,403
Due after ten years	162,258			163,162
Total	**$ 1,077,292**			**$ 1,093,582**

2000	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Market Value
Short-term Investments	$ 661,552	$ -0-	$ -0-	$ 661,552
U.S. Government and Agency Securities	259,680	5,923	(377)	265,226
Corporate Bonds	381,084	4,356	(2,300)	383,140
Total	**$ 1,302,316**	**$ 10,279**	**$ (2,677)**	**$ 1,309,918**

Proceeds from sales and maturities of investments in debt securities during 2001 and 2000 were $331,635 and $409,786, respectively. Gross gains of $7,114 and gross losses of $1,455 were realized on those sales in 2001. Gross gains of $929 and gross losses of $4,839 were realized on those sales in 2000. For equity securities including investments in unconsolidated subsidiaries, at December 31, 2001, net unrealized losses were $439,130. During 2001, proceeds from sales of equity securities were $202,588. Net gains of $70,595 were realized on those sales. For equity securities including investments in unconsolidated subsidiaries, at December 31, 2000, net unrealized losses were $87,295. During 2000, proceeds from sales of equity securities were $114,824. Gross gains of $48,089 and gross losses of $5,929 were realized on those sales.

The Corporation does not engage in any significant off-balance sheet, derivative or hedging activities. There are no significant industry or other concentrations.

(6) INTEREST MAINTENANCE RESERVE AND ASSET VALUATION RESERVE:

The NAIC requires companies to record an interest maintenance reserve (IMR) and asset valuation reserve (AVR). The IMR is designed to defer recognition of net realized capital gains and losses on the sale of bonds due to changes in the level of interest rates in the market in relation to the bonds' stated interest rate. The deferred gains and losses are required to be amortized into income over the approximate remaining life of the investment sold.

A summary of IMR activity in 2001 and 2000 follows:	2001	2000
Beginning balance	$ 3,772	$ 6,486
Net realized gains (losses) on bonds sold during the year	5,659	(3,910)
Less: Federal income tax (expense) recoveries on net realized (losses) gains during the year	(1,132)	783
Net realized gains to be amortized	$ 8,299	$ 3,359
Amortization income (expense) in the current year	494	(413)
Net realized gains to be recognized in future years	**$ 7,805**	**$ 3,772**

The $494 amortization income in 2001 and $413 amortization expense in 2000 are included in investment income in the Statements of Income and Expenses.

The AVR is designed to provide a standardized reserve process for realized and unrealized gains and losses due to the default and equity risks associated with invested assets. The Corporation decreased this reserve $1,148 in 2001 and $2,871 in 2000, with a corresponding increase to policyholders' surplus.

(7) INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES:

The Corporation's total investment in unconsolidated subsidiaries was $666,176 in 2001 and $702,664 in 2000.

The life insurance subsidiaries comprise a significant component with statutory net worth of $291,677 in 2001 and $268,161 in 2000. The primary life insurance companies are FDL, MLIC and Colorado Bankers Life Insurance Company (CBL). The Corporation is carrying its investment in life insurance companies at their underlying statutory net worth values. The combined financial statements of these life insurance companies are shown below.

Condensed Consolidated Life Operations
Statements of Admitted Assets, Liabilities and Surplus

	2001	2000
Cash and Short-Term Investments	$ 23,876	$ 37,697
Long-Term Investments	1,055,587	921,999
Premiums Receivable	28,782	38,531
Other Assets	42,169	44,370
Total Assets	**$ 1,150,414**	**$ 1,042,597**
Aggregate Reserves	$ 654,541	$ 628,468
Policy and Contract Claims	74,024	62,623
Other Liabilities	118,172	71,345
Minority Interest	12,000	12,000
Statutory Net Worth	291,677	268,161
Total Liabilities and Surplus	**$ 1,150,414**	**$ 1,042,597**

Condensed Consolidated Life Operations
Statements of Operations

	2001	2000
Premium Income	$ 599,045	$ 572,927
Other Income	66,752	66,043
Total Income	**$ 665,797**	**$ 638,970**
Policy Benefits	$ 450,861	$ 476,246
Operating Expenses	183,690	130,664
Total Expenses	**$ 634,551**	**$ 606,910**
Net Gain Before Taxes	$ 31,246	$ 32,060
Federal Income Tax Expense	(12,260)	(12,447)
Net Gain	**$ 18,986**	**$ 19,613**

On March 31, 2000, the Corporation purchased NYLCare Health Plans of the Southwest, Inc. and NYLCare Health Plans of the Gulf Coast, Inc. for $420,038. This purchase resulted in total goodwill of $357,011. Of this amount, $123,884 is being amortized by the Corporation over 10 years. Pursuant to permission from the DOI, the remaining $233,127 is allowed as an admitted asset but is being amortized over the three-year period from April 1, 2000 through March 31, 2003. Goodwill expense totaling $90,099 in 2001 and $67,572 in 2000 are included in goodwill expenses on the Statements of Admitted Assets, Liabilities, and Policyholders' Surplus. Total unamortized goodwill of $199,340 at December 31, 2001 and $289,439 at December 31, 2000 are included in investment in unconsolidated subsidiaries on the Statement of Admitted Assets, Liabilities and Policyholders' Surplus.

The names of these HMOs were subsequently changed in 2000 to Southwest Texas HMO, Inc. and Texas Gulf Coast HMO, Inc. The combined December 31, 2000 condensed financial statements of these two HMO companies are shown below.

Condensed Combined HMO
Statement of Admitted Assets, Liabilities and Surplus
As of December 31, 2000

Cash and Short-Term Investments	$ 102,623
Long-Term Investments	75,338
Premiums Receivable	53,098
Other Assets	46,260
Total Assets	**$ 277,319**
Claims Payable	$ 111,935
Other Liabilities	88,964
Statutory Net Worth	76,420
Total Liabilities and Surplus	**$ 277,319**

Condensed Combined HMO
Statement of Revenue and Expenses
For the nine months ended December 31, 2000

Premium Income	$	572,867
Other Income		6,723
Total Income	**$**	**579,590**
Medical Expenses	$	619,828
Operating Expenses		97,133
Total Expenses	**$**	**716,961**
Net Loss Before Taxes	$	(137,371)
Federal Income Tax Benefit		27,867
Net Loss	**$**	**(109,504)**

In 2001, Rio Grande HMO, Inc. and West Texas Health Plans, L.C. (two other HMOs owned by the Corporation) along with Texas Gulf Coast HMO, Inc. were merged into Southwest Texas HMO, Inc. with Southwest Texas HMO, Inc. being the surviving entity. Below are the December 31, 2001 condensed financial statements of Southwest Texas HMO, Inc (Southwest Texas).

Condensed Southwest Texas HMO, Inc.
Statement of Admitted Assets, Liabilities and Surplus
As of December 31, 2001

Cash and Short-Term Investments	$	130,493
Long-Term Investments		81,070
Premiums Receivable		137,157
Other Assets		102,300
Total Assets	**$**	**451,020**
Claims Payable	$	308,568
Other Liabilities		26,077
Statutory Net Worth		116,375
Total Liabilities and Surplus	**$**	**451,020**

Condensed Southwest Texas HMO, Inc.
Statement of Revenue and Expenses
For the year ended December 31, 2001

Premium Income	$	1,242,982
Other Income		17,243
Total Income	**$**	**1,260,225**
Medical Expenses	$	1,373,602
Operating Expenses		167,430
Total Expenses	**$**	**1,541,032**
Net Loss Before Taxes	$	(280,807)
Federal Income Tax Benefit		58,630
Net Loss	**$**	**(222,177)**

Included in the above condensed combined HMO Statement of Admitted Assets, Liabilities and Surplus as of December 31, 2000 is a premium deficiency reserve of $13,276 related to certain commercial and Medicaid group contracts. During 2001, this premium deficiency reserve increased by a net $108,870 to $122,146 as of December 31, 2001, as a result of certain contracts that provide guaranteed future premium rates. These guaranteed rates are not expected to cover the projected increase in medical costs associated with these contracts, and therefore in accordance with statutory accounting practices, Southwest Texas recorded an additional liability for the expected loss on these contracts. The premium deficiency reserve will be released over the remaining term of the contracts as actual medical costs are incurred.

Below is a listing of directly or indirectly owned subsidiaries as of December 31, 2001:

Subsidiaries:

Fort Dearborn Life Insurance Company
Medical Life Insurance Company
American Capital Life Insurance Company
Medical Life Insurance Agency
Dental Network of America
HCSC Purchasing, LLC
Preferred Financial Corporation
Colorado Bankers Life Insurance Company
Industry Savings Plan, Inc.
HCSC Insurance Services Company
HCSA, Inc.
Hallmark Services Corporation
HealthCare Benefits, Inc.
Nichold Company
Medlease Company
Health Care Consulting Services, Inc.
Third Coast Holding Company
Third Coast Insurance Company
Third Coast Insurance Services Company
Southwest Texas HMO, Inc.
MedConnect, LLC
HMO New Mexico, Inc.
BCI HMO, Inc.
Arizona California Texas International, Inc.
Servicios Adminstrados en Salud, S.A. DE C.V
United Heartland of Illinois, Inc.

The Corporation made capital contributions to certain companies in 2001 and 2000 as follows:

	2001	2000
Southwest Texas HMO, Inc.	$ 237,950	$ 120,000
Third Coast Holding Company	3,000	-0-
Arizona California Texas International, Inc.	1,500	3,000
HMO New Mexico, Inc.	1,005	-0-
United Heartland of Illinois, Inc.	-0-	227
Total	**$ 243,455**	**$ 123,227**

BCI HMO, Inc. (BCI) paid a $1,000 cash dividend to the Corporation in both 2001 and 2000. In 2001, the Corporation contributed its ownership interest in MLIC to FDL (see Note (16C)).

(8) FEDERAL EMPLOYEE PROGRAM:

The Federal Employee Program (FEP) is a national contract between Blue Cross and Blue Shield plans (participating plans) and the U.S. Office of Personnel Management under which participating plans provide health coverage to U.S. government employees. The contract is underwritten by the participating plans on a premium basis. The Corporation provides insurance coverage for FEP members in Illinois, Texas and New Mexico. The Blue Cross and Blue Shield Association (the Association) acts as the agent for the various participating plans. In its capacity as agent, the Association coordinates billing, claims processing and investment activity and reports the financial results to each participating plan.

The Corporation's share of revenue, expenses, assets and liabilities under the FEP contract is reflected in the Corporation's financial statements. Amounts due from FEP represent funds being held in a Letter of Credit Account maintained specifically for FEP benefits. As checks clear its bank account, the Corporation reimburses itself by drawing funds from the FEP Letter of Credit Account.

(9) HMO BENEFITS:

The Corporation contracts with medical groups to provide medical and dental benefits to subscribers enrolled in its HMO programs. The Corporation pays fixed amounts per enrolled subscriber and incentives to the medical groups that provide these benefits. In addition, the Corporation also incurs claim expenses for subscribers enrolled in its HMO programs. Estimates of future claim and incentive payments are included in the HMO policy and contract claims liability.

(10) UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES:

The Corporation accrues liabilities for unpaid claims and claim adjustment expenses for premium and HMO benefits. These liabilities represent the estimated ultimate cost of settling claims relating to insured events that have occurred on or before December 31, 2001. The estimated liability includes the amount of money that will be required for future payments of (a) claims that have been reported to the insurer; (b) claims related to insured events that have occurred, but that have not been reported to the insurer as of year end; and (c) claim adjustment expenses. Claim adjustment expenses include costs incurred in the claim settlement process such as legal fees and costs to record, process, and adjust claims, and are included in accrued liabilities in the Statements of Admitted Assets, Liabilities and Policyholders' Surplus.

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	2001	2000
Balance at January 1	$ 840,516	$ 771,186
Plus: New Mexico division business assumed (Note 20(A))	21,548	-0-
Incurred expenses related to:		
Current Year	5,349,809	4,498,580
Prior Year	(156,176)	(109,098)
Total Incurred	5,193,633	4,389,482
Paid expenses related to:		
Current Year	4,461,379	3,693,178
Prior Year	674,238	626,974
Total Paid	5,135,617	4,320,152
Balance at December 31	**$ 920,080**	**$ 840,516**

(11) LEASES:

Leases are primarily for data processing equipment with remaining lease terms of one to five years, and for office space with remaining lease terms of one to eleven years. Rental expense for 2001 and 2000 was approximately $64,800 and $64,600 respectively.

Future minimum lease payments as of December 31, 2001 are as follows:

Year	Amount
2002	$ 38,711
2003	35,118
2004	26,916
2005	19,090
2006	11,268
Subsequent to 2006	47,570
Total minimum lease payments	$ 178,673

(12) ASO AND ADMINISTRATIVE SERVICES CONTRACT (ASC) BUSINESS:

The Corporation provides certain claim administration services for its uninsured customers through ASO or ASC arrangements. The net gain or loss from operations related to these contracts is shown in the chart below.

	ASO Uninsured Plans
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expense	$ (18,934)
Total net other income or expenses (including interest paid or received from customers)	-0-
Net (loss) from operations	**$ (18,934)**
Total claim payment volume	$ 932,491

	ASC Uninsured Plans

Gross reimbursement for medical cost incurred	$	6,488,831
Gross administrative fees accrued		-0-
Other income or expenses (including interest paid to or received from customers)		-0-
Gross expenses incurred (claims and administrative)		6,438,003
Net gain from operations	**$**	**50,828**

(13) DIRECT PREMIUM WRITTEN BY A THIRD PARTY ADMINISTRATOR:

Total premiums written by a third party administrator in 2001 was $230,488. This business was written by Hallmark Services Corporation (Hallmark). Hallmark is a wholly-owned subsidiary of the Corporation. Hallmark has authority to underwrite and sell individual and group health insurance on behalf of the Corporation. Hallmark also bills premiums, but amounts are remitted directly to the Corporation.

(14) RETROSPECTIVELY RATED CONTRACTS:

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

The amount of net premiums written by the Corporation at December 31, 2001 that are subject to retrospective rating features was $92,500, that represented 2.60% of the premiums written for the group health. No other net premiums written by the Corporation are subject to retrospective rating features.

(15) LEGAL ACTIONS:

The Corporation entered into a merger agreement with Blue Cross Blue Shield of Texas, Inc. (BCBSTX) in 1995. In November 1996, the Attorney General of the State of Texas (Attorney General) filed a declaratory judgment action and contingent request for temporary and permanent injunction, to determine whether a proposed merger of BCBSTX and the Corporation should be permitted under various provisions of the laws of the State of Texas. In February 1998, the court rejected the lawsuit and ruled in favor in BCBSTX. Pursuant to a settlement agreement, the Corporation has committed to contribute $10,000 over five years to the Texas Healthy Kids Corporation. The full amount of this contribution was expensed in the 1998 financial statements of the Corporation. To date, the Corporation has paid $8,000, consistent with the agreement, toward this judgment. Also, pursuant to the settlement agreement, the Attorney General has agreed to limit its appeal of this matter to the issue regarding the status of BCBSTX as a charity or a charitable trust. The effect of the Attorney General's appeal of this matter on the Corporation's financial statements cannot be determined at this time. However, if the Attorney General succeeds in its appeal, the Corporation may be required to pay up to $340,000 plus interest over a period of 20 years to the State of Texas.

In addition, the Corporation is a defendant in legal actions arising from normal business activities. Management believes, after consultation with legal counsel, that the ultimate liability, if any, resulting from these legal actions will not materially affect the Corporation's financial position or results of operations.

(16) RELATED PARTY TRANSACTIONS:

A. The Corporation has administrative agreements with nearly all of its subsidiaries whereby the Corporation may provide any combination of management, administrative, marketing, or claims processing functions. Amounts billed under these agreements, based on actual costs incurred, were $160,623 and $88,903 in 2001 and 2000, respectively. These amounts are netted against operating expenses in the Corporation's Statements of Income and Expenses.

At December 31, 2001, the Corporation has receivables of $4,776 and payables of $7,891 from its subsidiaries.

B. In 2001, the Corporation purchased the remaining 67% of West Texas Health Plans L.C. for $7,450, increasing the Corporation's ownership to 100%. The full amount of goodwill equaling $5,067 was charged directly to policyholders' surplus in the Statements of Admitted Assets, Liabilities and Policyholders' Surplus.

   In 2001, West Texas Health Plans L.C. was merged into Southwest Texas, with Southwest Texas being the surviving entity.

C. In 2001, the Corporation contributed its ownership interest in MLIC to FDL. Prior to this contribution, the Corporation owned 100% of both companies. After this contribution, the Corporation owns 100% of FDL, including its ownership of MLIC as a subsidiary of FDL. There was no effect on the Corporation's total investment in unconsolidated subsidiaries due to this transaction. The statement value of MLIC at the date it was contributed to FDL was $116,718.

D. The Corporation indirectly owns 100% of Third Coast Insurance Company (TCIC). The Corporation has agreed, under certain circumstances, to purchase surplus notes that may be issued by TCIC up to $30,000 to maintain an appropriate level of statutory net worth. In 1997, the Corporation purchased and non-admitted $10,000 in surplus notes issued by TCIC leaving a remaining contingent liability of $20,000. In 2001, the Corporation invested an additional $3,000 of paid in capital through Third Coast Holding Company to TCIC.

E. The Corporation has guaranteed that it will cover all uncovered expenses of Southwest Texas in the event Southwest Texas can not fulfill its requirements. The Corporation has not accrued for any losses related to this guaranty. In 2001, the Corporation infused capital of $237,950 into Southwest Texas. At December 31, 2001, Southwest Texas had a statutory net worth of $116,375.

   In 2001, management developed and commenced implementation of a financial recovery plan to achieve financial viability for Southwest Texas on an ongoing basis. The financial recovery plan identifies specific action steps such as negotiating revised terms in certain provider and customer contracts and improving the effectiveness of claims and medical management. Implementation of the recovery plan is expected to be completed in 2002.

F. The Corporation, for a nominal fee, has guaranteed the payment of claim-related expenses of BCI in the event that BCI becomes insolvent as determined by the DOI. At December 31, 2001, BCI had a statutory net worth of $11,394. The Corporation has not accrued for any losses related to this guaranty.

G. CBL has $12,000 in outstanding voting preferred stock, which is owned by two unaffiliated companies. The Corporation has a guaranty repurchase agreement, which requires the Corporation to purchase the preferred stock from the two unaffiliated companies if CBL does not purchase it.

H. In 2001, the Corporation purchased additional shares of Arizona California Texas International, Inc. (ACTI) stock for $1,500 increasing its ownership to 84.7%. In 2000, the Corporation purchased additional shares of ACTI, Inc. stock for $3,000, increasing the Corporation's ownership to 80.6%.

   Included in the Corporation's Statements of Income and Expenses for 2001 is a realized loss of $6,280 for ACTI as a result of the Corporation discontinuing the operations of Servicios Administrado en Salud, S.A. De C.V. (SAS), a wholly-owned subsidiary of ACTI.

<u>(17) INCOME TAXES</u>:

The Corporation files a consolidated federal income tax return with all of its majority owned subsidiaries (see Note (7)) except for American Capital Life Insurance Company, MLIC, CBL, Medical Life Insurance Agency, and SAS, which file separately.

The method of allocation between the companies is subject to a written agreement, approved by the Corporation's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the agreement.

The components of the net deferred tax asset recognized in Assets, Liabilities, and Policyholders Surplus are as follows:

		Dec 31, 2001		Jan 1, 2001
Total of all gross deferred tax assets	$	671,432	$	495,061
Total of all deferred tax liabilities		(6,187)		(26,957)
Net deferred tax asset		665,245		468,104
Deferred tax asset non-admitted		604,036		434,893
Net admitted deferred tax asset		61,209		33,211
Increase in non-admitted deferred tax asset	$	169,143	$	N/A

The provisions for incurred taxes on earnings for the years ended December 31 are:

		2001		2000
Federal income tax	$	85,667	$	75,282
Federal income tax on net capital gains		15,302		7,689
Utilization of capital loss carryforwards		-0-		-0-
Current income taxes incurred	$	100,969	$	82,971

The tax effects of the change in temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

Deferred Tax Assets		Change
Accrued Vacation Liability	$	(2,947)
Allowance for Doubtful Accounts		3,129
Fixed Assets		31,604
Postretirement Benefits Liability		2,155
Deferred Compensation Liability		3,892
Non-admitted Assets		45,798
Net Operating Loss Carryforwards/Tax Credits		63,092
Contingent Liabilities		20,626
Other		9,022
Total Change in Deferred Tax Assets	$	176,371
Change in Non-admitted Deferred Tax Assets		(169,143)
Change in Admitted Deferred Tax Assets	$	7,228

Deferred Tax Liabilities		Change
Unrealized Capital Gains	$	(21,215)
Accrued Market Discount		452
Other		(7)
Total Change in Deferred Tax Liabilities		(20,770)
Change in Net Admitted Deferred Tax Asset	$	27,998

The change in net deferred taxes is comprised of the following:

		December 31, 2001		January 1, 2001		Change
Total of all gross deferred tax assets	$	671,432	$	495,061	$	176,371
Total of all deferred tax liabilities		(6,187)		(26,957)		20,770
Net deferred tax asset	$	665,245	$	468,104	$	197,141
Change in unrealized capital gains						(21,215)
Change in net deferred income taxes					$	175,926

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

	Effective Tax Rate percentage
Provision computed at statutory rate	35.0
Special deductions/alternative minimum tax	(29.2)
Change in non-admitted assets	(9.4)
Change in fixed assets	(5.5)
Other	(6.3)
Total	(15.4)
Federal income taxes incurred	20.6
Change in net deferred income taxes	(36.0)
Total statutory income taxes	(15.4)

At December 31, 2001, the company had $346,868 tax effected operating loss and tax credit carryforwards originating in 1988 through 2001, of which $68,639 will expire, if unused, in years 2003 and after.

The amount of federal income taxes incurred in the current year and the preceding year, which are available for recoupment in the event of future net losses are:

2001	$ 56,782
2000	17,353
Total	$ 74,135

(18) LONG-TERM DEBT:

The Corporation established bank lines of credit totaling $325,000 in 1999. The Corporation drew down the full amount of these lines of credit on March 30, 2000. Effective October 24, 2000, the pricing for the $235,000, 364 day revolving facility and $90,000, five year revolving facility was changed. The facility commitment fee changed to .10% and .125%, respectively. The $235,000, 364 day revolving credit matured on November 30, 2000. The Corporation converted this revolving credit to a 2 year term loan on that same date. Under the two year term loan agreement, the principal was to be repaid in eight quarterly installments of $29,375, beginning February 28, 2001. The interest rate was based on the three month LIBOR rate, which was 6.40% at December 31, 2000. This interest rate was to be reset each quarter. In 2001, the Corporation repaid the full amount of principal and interest of the two-year term loan and the revolving facility.

As a result of adopting Codification (see Note (2)(a)), the Corporation is in technical breach of its debt covenants on the $90,000 five year revolving facility at December 31, 2001. The breach related to certain policyholders' surplus requirements and has no effect on the financial position of the Corporation as of December 31, 2001, since there is no outstanding balance. The Corporation and its banks are currently in process of revising these debt covenants to remedy the impact of accounting changes as a result of adopting Codification.

In 2001, the Corporation issued $400,000 in debt, pursuant to Rule 144A under the Securities Act of 1933. This issuance was underwritten by Morgan Stanley Dean Witter, Bank of America Securities LLC, and Bank One Capital Markets, Inc., and is administered by Bank One Trust Company as trustee. The majority of the proceeds were used to repay the two-year term loan and the revolving facility, as discussed above. The debt obligation has the following repayment conditions and restrictions. The notes will bear interest from June 27, 2001 at a rate of 7.75% per annum, payable semi-annual in arrears on June 15 and December 15 of each year. The notes will mature on June 15, 2011. At December 31, 2001, the carrying value of the debt obligation including discount accretion was $399,635.

(19) RISK-BASED CAPITAL:

The NAIC has imposed regulatory risk-based capital (RBC) requirements on life and health insurance enterprises, including the Corporation. The RBC calculation serves as a benchmark for the regulation of life and health insurance enterprises' solvency by state insurance regulators. At December 31, 2001, the Corporation's total adjusted capital is in excess of the regulatory RBC requirements.

(20) OTHER ITEMS:

A. In 2001, the Corporation completed an assumption reinsurance agreement with Blue Cross Blue Shield of New Mexico (BCBSNM) effective July 1, 2001. In addition, the Corporation purchased 100% of the stock of New Mexico HMO, Inc. (NMHMO) as part of this transaction. The purchase of the NMHMO is reported as a statutory purchase.

   The Corporation paid $50,662 to acquire the business of BCBSNM and to purchase NMHMO. This transaction resulted in total goodwill of approximately $28,000. Of the total goodwill, approximately $23,800 related to assumption of the business of BCBSNM. This goodwill is being amortized to operations as operating expense over seven years, from July 1, 2001 through June 30, 2008. The remaining goodwill of approximately $4,600 is related to the purchase of NMHMO and is being amortized as part of goodwill expense directly to policyholders' surplus over a period of ten years.

   Total unamortized goodwill at December 31, 2001 of approximately $26,500 was treated as a non-admitted asset.

B. In March 2000, the Corporation purchased a surplus note, plus interest from Wellmark, Inc. The purchase price was $7,700 and included a premium of $2,300, which was being amortized over 108 months. The surplus note was issued by BCBSNM. In 2001 BCBSNM paid the Corporation the full amount of the surplus note plus accrued interest and the Corporation expensed the remaining unamortized premium of approximately $1,900.

C. In 2000, the Corporation purchased GenAm Benefits Insurance Company (GenAM) for $15,672. This purchase resulted in goodwill of $2,917. The Corporation charged off the full amount of the goodwill as a direct reduction to policyholders' surplus in 2000. GenAm was then renamed HCSC Insurance Services Company.

HEALTH CARE SERVICE CORPORATION,
A MUTUAL LEGAL RESERVE COMPANY

SELECTED FINANCIAL DATA
FOR THE YEAR ENDED DECEMBER 31, 2001
(IN THOUSANDS OF DOLLARS)

		2001
Investment Income Earned		
U.S. Government bonds	$	4,860
Other bonds (unaffiliated)		37,911
Preferred stocks (unaffiliated)		179
Preferred stocks of affiliates		27
Common stocks (unaffiliated)		2,329
Common stocks of affiliates		1,000
Real estate		25,109
Cash on hand and on deposit		17,729
Short term investments		15,730
Other invested assets		(1,819)
Other investment income		459
Investment income allocated from FEP		5,673
Amortization of interest maintenance reserve		494
Gross investment income	$	109,681
Less: Investment expenses		5,760
Real estate expenses		9,545
Interest expense		25,001
Depreciation on real estate		9,994
Net investment income	$	59,381

Accident and Health Insurance - Premiums in Force: (Premium Business only)		
Group	$	3,624,310
Individual	$	1,068,325
Claim Payments in 2001 by Incurred Year: (Premium Business only)		
Group Accident & Health		
2001	$	2,580,806
2000	$	360,504
1999 and prior	$	(3,807)
Individual Accident & Health		
2001	$	604,443
2000	$	114,677
1999 and prior	$	967

HEALTH CARE SERVICE CORPORATION,
A MUTUAL LEGAL RESERVE COMPANY

SELECTED FINANCIAL DATA
FOR THE YEAR ENDED DECEMBER 31, 2001
(IN THOUSANDS OF DOLLARS)

Bonds and Stocks of Parents, Subsidiaries and Affiliates - Statement Value:	
Bonds	$ 0.00
Preferred Stocks	25,000
Common Stocks	641,176
Total	$ 666,176

Bonds and Short -Term Investments by Class and Maturity:

By Maturity - Statement Value	
Due within one year or less	$ 390,595
Over 1 year through 5 years	378,390
Over 5 years through 10 years	146,049
Over 10 years through 20 years	31,488
Over 20 years	130,770
Total by Maturity	$ 1,077,292
By Class - Statement Value	
Class 1	$ 1,015,595
Class 2	61,697
Class 3	-0-
Class 4	-0-
Class 5	-0-
Class 6	-0-
Total by Class	$ 1,077,292

Total Bonds Publicly Traded	$ 1,076,436
Total Bonds Privately Placed	856
Total Bonds	$ 1,077,292

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. Treasury securities	76,792,472	3.179	76,792,472	3.186
1.2 U.S. government agency obligations:				
1.21 Issued by U.S. government agencies	140,726,432	5.826	140,726,432	5.838
1.22 Issued by U.S. government sponsored agencies				
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 U.S. States and territories general obligations	749,638	0.031	749,638	0.031
1.42 Political subdivisions of U.S. states, territories and possessions general obligations				
1.43 Revenue and assessment obligations				
1.44 Industrial development bonds and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA	12,888,400	0.534	12,888,400	0.535
1.512 Issued by FNMA and FHLMC	62,956,193	2.606	62,956,193	2.612
1.513 Other pass-through securities				
1.52 Other mortgage-backed securities:				
1.521 Issued by FNMA, FHLMC or GNMA				
1.522 Other mortgage-backed securities collateralized by MBS issued or guaranteed by FNMA, FHLMC or GNMA	0		0	
1.523 All other mortgage-backed securities	88,620,566	3.669	88,620,566	3.676
2. Other debt securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	359,242,423	14.872	359,242,423	14.903
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	35,381,556	1.465	35,381,556	1.468
3.2 Preferred stocks:				
3.21 Affiliated	25,000,000	1.035	25,000,000	1.037
3.22 Unaffiliated	1,788,000	0.074	1,788,000	0.074
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000	0	0.000
3.32 Unaffiliated	54,133,592	2.241	53,483,592	2.219
3.4 Tangible personal property under leases:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity securities:				
3.51 Affiliated	645,551,353	26.724	641,175,586	26.599
3.52 Unaffiliated	14,858,547	0.615	14,858,547	0.616
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
5. Real estate investments:				
5.1 Property occupied by the company	233,762,000	9.677	233,762,000	9.697
5.2 Property held for the production of income (includes $ .... of property acquired in satisfaction of debt)				
5.3 Property held for sale ($ .... including property acquired in satisfaction of debt)				
6. Policy loans				
7. Receivables for securities	313,162	0.013	313,162	0.013
8. Cash and short-term investments	662,814,999	27.439	662,814,999	27.496
9. Other invested assets				
10. Total invested assets	2,415,579,333	100.000	2,410,553,566	100.000

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SUPPLEMENTAL EXHIBIT FOR THE YEAR 2001 OF THE Health Care Service Corporation, A Mutual Legal Reserve Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

Due April 1

FOR THE YEAR ENDED DECEMBER 31, 2001

OF The (Name) Health Care Service Corporation, A Mutual Legal Reserve Company

Address (City, State and Zip Code) Chicago, IL 60601-5099

NAIC Group Code 0917 NAIC Company Code 70670 Employer's ID Number 361236610

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by stating the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1, 2, 3, 4, 11 and, if applicable 20 through 24. Answer each of interrogatories 5 through 19 (except 11) only if the reporting entity's aggregate holding in the gross investment category addressed in that interrogatory equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts.

1. State the reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 3,593,230,635

2. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government agency securities and those U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the company and policy loans.

	1 Investment Category		2 Amount	3 Percentage of Total Admitted Assets	
2.01	General Electric Cap	$	23,574,443	0.7	%
2.02	Morgan Stanley Group, Inc.	$	15,392,644	0.4	%
2.03	Chase Manhattan Corp	$	12,240,070	0.3	%
2.04	Ford Motor	$	11,456,006	0.3	%
2.05	General Motors	$	10,674,621	0.3	%
2.06	Merrill Lynch & Company	$	10,570,639	0.3	%
2.07	Daimler Chrysler Corp	$	10,382,193	0.3	%
2.08	Caterpillar, Inc.	$	9,805,940	0.3	%
2.09	Citigroup, Inc.	$	8,709,885	0.2	%
2.10	American Express Co.	$	8,190,191	0.2	%

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds		1	2			Preferred Stocks		3	4	
3.01	NAIC-1	$	680,279,059	18.9	%	3.07	P/RP-1	$			%
3.02	NAIC-2	$	61,697,065	1.7	%	3.08	P/RP-2	$			%
3.03	NAIC-3	$			%	3.09	P/RP-3	$			%
3.04	NAIC-4	$			%	3.10	P/RP-4	$			%
3.05	NAIC-5	$			%	3.11	P/RP-5	$			%
3.06	NAIC-6	$			%	3.12	P/RP-6	$			%

4. State the amounts and percentages of the reporting entity's total admitted assets held in foreign investments (regardless of whether there is any foreign currency exposure) and unhedged foreign currency exposure (defined as the statement value of investments denominated in foreign currencies which are not hedged by financial instruments qualifying for hedge accounting as specified in SSAP No. 31 - Derivative Instruments), including (4.01) foreign-currency-denominated investments of $ 0 (4.02) supporting insurance liabilities denominated in that same foreign currency of $ 0 and excluding (4.03) Canadian investments and currency exposure of $ 0

Assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 5 - 10. (4.04) Yes [X] No [ ]

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating: Not applicable
6. Two largest foreign investment exposures to a single country, categorized by NAIC sovereign rating:

		1	2
7.	Aggregate unhedged foreign currency exposure	$ 0	%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

9. Two largest unhedged foreign currency exposures to a single country, categorized by NAIC sovereign rating:

10. List the 10 largest sovereign (i.e. non-governmental) foreign issues:

11. State the amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure, including Canadian-currency-denominated investments of (11.01) $ 0 supporting Canadian-denominated insurance liabilities of (11.02) $ 0

Assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 12. (11.03) .... Yes [X] No [ ]

12. Aggregate Canadian investment exposure.

13. State the aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions (defined as investments having restrictions that prevent investments from being sold within 90 days).

Assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 13. .... Yes [X] No [ ]

14. State the aggregate amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt or Class 1).

Assets held in equity interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 14. ... Yes [ ] No [X]

	1 Investment Category	2	3
14.01	DFA Fixed Income Portfolio	$ 35,246,426	1.0 %
14.02	Citigroup, Inc	$ 1,918,240	0.1 %
14.03	Pfizer, Inc.	$ 1,793,250	0.0 %
14.04	Microsoft Corp	$ 1,768,875	0.0 %
14.05	General Electric Company	$ 1,442,880	0.0 %
14.06	Exxon Mobil Corp	$ 1,312,620	0.0 %
14.07	Intel Corporation	$ 1,195,100	0.0 %
14.08	Verizon Communications	$ 1,110,564	0.0 %
14.09	International Business Machine	$ 1,040,256	0.0 %
14.10	Magellan Health Services, Inc	$ 1,035,990	0.0 %

15. State the amounts and percentages of the entity's total admitted assets held in nonaffiliated, privately placed equities (included in other equity securities) and excluding securities eligible for sale under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions.

Assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 15. .... Yes [X] No [ ]

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

16. State the aggregate amounts and percentages of the entity's total admitted assets held in general partnership interests (included in other equity securities). Not applicable.

Assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 16. .... Yes [X] No [ ]

17. With respect to mortgage loans reported in Schedule B, state the amounts and percentages of the reporting entity's total admitted assets held. Not applicable.

Mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatories 17 and 18. .... Yes [X] No [ ]

18. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date: Not applicable.

19. State the amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in one parcel or group of contiguous parcels of real estate reported in Schedule A, excluding property occupied by the company. Not applicable.

Assets held in each of the five largest investment in one parcel or group of contiguous parcels of real estate reported in Schedule A less than 2.5% of the reporting entity's total admitted assets, therefore detail not required for interrogatory 19. .... Yes [X] No [ ]

20. State the amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements: Not applicable

	At Year-end		At End of Each Quarter		
			1st Quarter	2nd Quarter	3rd Quarter
	1	2	3	4	5
20.01 Securities lending (do not include assets held as collateral for such transactions)	$ 0	%	$ 0	$ 0	$ 0
20.02 Repurchase agreements	$ 0	%	$ 0	$ 0	$ 0
20.03 Reverse repurchase agreements	$ 0	%	$ 0	$ 0	$ 0
20.04 Dollar repurchase agreements	$ 0	%	$ 0	$ 0	$ 0
20.05 Dollar reverse repurchase agreements	$ 0	%	$ 0	$ 0	$ 0

21. State the amounts and percentages indicated below for warrants not attached to other financial instruments, opinions, caps, and floors: Not applicable.

	Owned		Written	
	1	2	3	4
21.01 Hedging	$ 0	%	$ 0	%
21.02 Income generation	$ 0	%	$ 0	%
21.03 Other	$ 0	%	$ 0	%

22. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for collars, swaps, and forwards:

	At Year-end		At End of Each Quarter		
			1st Quarter	2nd Quarter	3rd Quarter
	1	2	3	4	5
22.01 Hedging	$ 0	%	$ 0	$ 0	$ 0
22.02 Income generation	$ 0	%	$ 0	$ 0	$ 0
22.03 Replications	$ 0	%	$ 0	$ 0	$ 0
22.04 Other	$ 0	%	$ 0	$ 0	$ 0

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

23. State the amounts and percentages indicated below of potential exposure (defined as the amount determined in accordance with the NAIC Annual Statement Instructions) for futures contracts:

	At Year-end		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
23.01 Hedging	$ 0	%	$ 0	$ 0	$
23.02 Income generation	$ 0	%	$ 0	$ 0	$ 0
23.03 Replications	$ 0	%	$ 0	$ 0	$ 0
23.04 Other	$ 0	%	$ 0	$ 0	$ 0

24. State the amounts and percentages of the 10 largest investments included in the Write-ins for Invested Assets category included on the Summary Investment Schedule.

	1	2	3
24.01	Not applicable	$ 0	%
24.02	Not applicable	$ 0	%
24.03	Not applicable	$ 0	%
24.04	Not applicable	$ 0	%
24.05	Not applicable	$ 0	%
24.06	Not applicable	$ 0	%
24.07	Not applicable	$ 0	%
24.08	Not applicable	$ 0	%
24.09	Not applicable	$ 0	%
24.10	Not applicable	$ 0	%