

Report of Examination of

Community Insurance Company
Mason, Ohio

As of December 31, 2012

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Columbus, Ohio
January 31, 2014

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Lt. Governor/Director:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Community Insurance Company

an Ohio domiciled, for-profit insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the intervening period through December 31, 2012.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and corporate governance, identify and assess current and prospective risks and evaluate the Company’s system of 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 Statements of Statutory Accounting Principles (“SSAPs”) 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.

The Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles as of December 31, 2012. The Department reviewed the independent auditors’ report and supporting work papers during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Carter A. Beck	Senior Vice President and Counsel, WellPoint, Inc.
Wayne S. Deveydt	Executive Vice President and Chief Financial Officer, WellPoint, Inc.
Erin P. Hoeflinger	President, Community Insurance Company
Catherine I. Kelaghan	Vice President and Counsel, WellPoint, Inc.
Kathleen S. Kiefer	Vice President, Assistant Secretary and Counsel, WellPoint, Inc.

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Erin P. Hoeflinger	President
Robert D. Kretschmer	Vice President and Treasurer
Kathleen S. Kiefer	Vice President and Secretary
Judy L. Pershern	Assistant Secretary
Amy S. Renshaw	Assistant Secretary

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is a wholly-owned subsidiary of ATH Holding Company, LLC. ATH Holding Company, LLC is a wholly-owned subsidiary of WellPoint, Inc. ("WellPoint"). WellPoint is the ultimate controlling person in the holding company system and its common stock is publicly traded on the NYSE.

Territory and Plan of Operations

The Company is a licensee of the Blue Cross and Blue Shield Association (“BCBSA”) and markets its products under the Blue Cross Blue Shield trade name. The Company offers traditional indemnity products and a diversified mix of managed care products, including health maintenance organizations, preferred provider organizations and point of service plans to employers and individuals in Ohio. The Company also participates in the Federal Employee Program providing health benefit coverage to federal employees and their dependents. As of December 31, 2012, the Company serves over 1.8 million members.

The Company also provides administrative services, such as claims processing, underwriting, provider network access and medical cost management to certain customers under self-insured agreements.

The Company has entered into administrative services agreements with its affiliated companies. Pursuant to these agreements, various administrative, management and support services are provided to or provided by the Company. The agreements were filed with, and approved by the Department.

Significant Operating Results

The Company reported the following net underwriting results, reported in millions, by line of business during 2012:

	Total	Accident and Health	Title XVIII Medicare	Federal Employees
Total revenue	<u>\$ 5,229.5</u>	<u>\$ 3,062.2</u>	<u>\$ 1,314.2</u>	<u>\$ 853.1</u>
Hospital and medical exp.	4,412.9	2,471.7	1,132.5	808.7
Administrative expenses	<u>375.6</u>	<u>237.2</u>	<u>97.1</u>	<u>41.3</u>
Underwriting deductions	<u>4,788.5</u>	<u>2,708.9</u>	<u>1,229.6</u>	<u>850.0</u>
Underwriting gain	<u>\$ 441.0</u>	<u>\$ 353.3</u>	<u>\$ 84.6</u>	<u>\$ 3.1</u>

Financial Statements

The financial condition of the Company and the results of its operations for the period ending December 31, 2012, as reported by the Company and filed with the Department, and audited by its external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Revenue and Expenses

Statement of Changes in the Capital and Surplus Account

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

Assets	
Bonds	\$ 1,235,457,191
Common stocks	252,995,253
Real estate – properties occupied by the company	29,170,843
Cash, cash equivalents, and short term investments	(203,327,562)
Other invested assets	25,065,455
Receivables for securities	4,593,013
Securities lending reinvested collateral assets	<u>114,503,911</u>
Subtotal, cash and invested assets	1,458,458,104
Investment income due and accrued	12,015,969
Uncollected premiums in course of collection	51,689,382
Deferred premiums and installments booked, but not yet due	101,865,438
Accrued retrospective premiums	1,213,134
Amounts receivable relating to uninsured plans	164,833,208
Net deferred tax asset	60,876,199
Electronic data processing equipment	1,337,499
Receivable from affiliates	88,361,745
Healthcare receivables	18,432,083
Miscellaneous assets	<u>29,614,689</u>
Total Assets	<u>\$ 1,988,697,450</u>

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

Liabilities, Capital and Surplus

Liabilities:

Claims unpaid	\$ 479,215,183
Accrued medical incentive pool and bonus amounts	2,829,024
Unpaid claims adjustment expenses	16,208,671
Aggregate health policy reserves	101,130,901
Aggregate health claim reserves	132,926
Premiums received in advance	40,240,888
General expenses due or accrued	45,410,949
Current federal income taxes payable	1,620,213
Amounts withheld or retained for the account of others	2,116,441
Remittances and items not allocated	8,499,635
Borrowed money	150,021,875
Amounts due to affiliates	143,707,339
Payable for securities	23,153,920
Payable for securities lending	114,503,911
Liability for amounts held under uninsured plans	76,360,740
Miscellaneous liabilities	<u>28,726,342</u>
Total liabilities	<u>\$ 1,233,878,958</u>

Capital and Surplus:

Common capital stock	1,142,307
Gross paid in and contributed surplus	195,393,523
Unassigned funds	<u>558,282,662</u>
Total capital and surplus	<u>754,818,492</u>
Total liabilities, capital and surplus	<u>\$ 1,988,697,450</u>

**Statement of Revenue and Expenses
As of December 31, 2012**

Revenue:

Net premium income	\$ 5,214,779,738
Change in unearned premium reserves; reserve for rate credits	<u>14,759,184</u>
Total revenue	<u>5,229,538,922</u>

Hospital and Medical Expenses:

Hospital and medical benefits	3,198,002,991
Other professional services	201,404,726
Emergency room and out of area	334,929,613
Prescription drugs	674,334,575
Incentive pool, withhold adjustments and bonus amounts	<u>4,236,049</u>
Total medical and hospital expenses	4,412,907,954

Claims adjustment expenses	91,327,645
General administrative expenses	288,278,639
Increase in reserves for health contracts	<u>(4,012,168)</u>
Total underwriting deductions	<u>4,788,502,070</u>

Net underwriting gain	441,036,852
Net investment gains	87,653,254
Net gain (loss) from premium balances charged off	(8,852)
Miscellaneous revenue	<u>5,119,974</u>
Net income before federal income taxes	533,801,228
Federal income taxes incurred	<u>153,667,304</u>
Net income	<u>\$ 380,133,924</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

Capital and surplus, December 31, 2007	\$ <u>639,925</u>
Net income	4,167,889
Change in net unrealized capital gains	67,300
Change in net deferred income tax	3,734
Change in non-admitted assets	38,816
Cumulative effect of changes in accounting principles	23,654
Dividends to stockholder	(4,177,700)
Other gains (losses) in surplus	<u>(8,800)</u>
Change in surplus during the examination period	<u>114,893</u>
Capital and surplus, December 31, 2012	<u>\$ 754,818</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant SSAPs and the NAIC Securities Valuation Office.

Unpaid Claims

Unpaid claims and claims adjustment expenses represent management's best estimate of amounts based on historical claim development patterns as well as emerging medical cost trends. The Company's Board of Directors appointed Cheryl Allari, FSA, MAAA, Actuarial Director (employee) to render the Company's Statement of Actuarial Opinion ("Opinion"). The Opinion for year end 2012 was unqualified.

Mathew Elston, FSA, MAAA, the Department's Assistant Director, Product Regulation and Actuarial Services, reviewed the Opinion and performed other procedures as considered necessary to evaluate the unpaid claims. Based on his evaluation, Mr. Elston concluded the Company's carried reserves fall within a reasonable range of reserve estimates at December 31, 2012.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company at December 31, 2012, and is summarized as follows:

Total Assets	<u>\$ 1,988,697,450</u>
Liabilities	1,233,878,958
Capital and Surplus	<u>754,818,492</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,988,697,450</u>

Subsequent Events

The Company's Board of Directors declared an ordinary dividend in the amount of \$175 million on June 4, 2013. The Company paid this dividend to its parent company, ATH Holding Company, LLC, on June 19, 2013. The Department approved the transaction.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of WellPoint and its subsidiaries during the course of this examination.

In addition to the undersigned, Leroy Moster, AES, CFE, CISA, CPA and Jyotika Patel, CPA, of the Department, participated in this examination.

Respectfully,



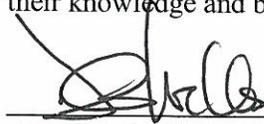
Donnie G. Wells, CFE
Examiner-in-Charge
Office of Risk Assessment
Ohio Department of Insurance



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2012.



Examiner-in-Charge

1/31/14
Date



Assistant Chief Examiner

1/31/14
Date

State of Ohio
County of Franklin

Personally appeared before me the above named Donnie G. Wells personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 31 day of January, 2014.

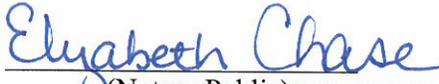


(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his knowledge and belief.

Subscribed and sworn to before me this 31 day of January 2014.



(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires