

Report of Examination of

**AMERIGROUP Ohio, Inc.
dba AMERIGROUP Community Care
Mason, Ohio**

As of December 31, 2013

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Columbus, Ohio
May 15, 2015

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

**AMERIGROUP Ohio, Inc.
dba AMERIGROUP Community Care**

an Ohio domiciled, for-profit health insuring corporation, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the intervening period through December 31, 2013.

Representatives of the Indiana Department of Insurance, as the Coordinating State regulator of Anthem, Inc. (“Anthem”), formerly known as WellPoint, Inc., led the multi-state coordinated examination. The examination was conducted 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, 2013. 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, Anthem, Inc.
Wayne S. DeVeydt	Executive Vice President and Chief Financial Officer, Anthem, Inc.
Catherine I. Kelaghan	Vice President and Counsel, Anthem, Inc.
Gary M. Radtke	President and Chief Executive Officer AMERIGROUP Ohio, Inc.
Tunde S. Sotunde	President, North Region. Medicaid Government Business Division Anthem, Inc.

Officers

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

Name	Title
Gary M. Radtke	President and Chief Executive Officer
Tunde S. Sotunde	Chairperson
Robert D. Kretschmer	Treasurer
Kathleen S. Kiefer	Secretary
Jack L. Young	Vice President and Assistant Secretary
Eric K. Noble	Assistant Treasurer

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 AMERIGROUP Corporation ("AMERIGROUP"). AMERIGROUP is wholly-owned subsidiary of ATH Holding Company, LLC ("ATH") and ATH is a wholly-owned subsidiary of Anthem. Anthem is the ultimate controlling corporation in the holding company system and its common stock is publicly traded on the NYSE.

Territory and Plan of Operations

The Company began operations in 2005 to manage healthcare services to Medicaid members through a contract with the State of Ohio in the Cincinnati service area. The Company's contract with the Ohio Department of Medicaid terminated effective June 30, 2013. The Company is expected to perform certain operations to close out the contract. The Company will continue to earn investment income and incur minimal administrative cost while continuing to maintain capital in accordance with regulatory requirements.

Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, for Title XIX Medicaid business during 2013:

Total revenue	<u>\$ 80,042</u>
Hospital and medical expenses	51,669
Administrative expenses	<u>16,476</u>
Underwriting deductions	<u>68,145</u>
Underwriting gain	<u>\$ 11,897</u>

Financial Statements

The financial condition of the Company and the results of its operations for the period ending December 31, 2013, 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, 2013**

Assets	
Bonds	\$ 22,411,412
Cash, cash equivalents, and short term investments	<u>14,948,774</u>
Subtotal, cash and invested assets	37,360,186
Investment income due and accrued	209,454
Uncollected premiums in course of collection	38,961
Amounts recoverable from reinsurers	328,126
Current federal and foreign income tax recoverable	173,723
Net deferred tax asset	<u>610,005</u>
Total assets	<u>\$ 38,720,455</u>
Liabilities, Capital and Surplus	
<u>Liabilities:</u>	
Claims unpaid	\$ 3,216,038
Unpaid claims adjustment expenses	109,339
Aggregate health policy reserves	45,000
General expenses due or accrued	888,004
Remittances and items not allocated	591,846
Amounts due to affiliates	15,014
Miscellaneous liabilities	<u>15,409</u>
Total liabilities	<u>4,880,650</u>
<u>Capital and Surplus:</u>	
Common capital stock	10
Gross paid in and contributed surplus	10,580,060
Unassigned funds	<u>23,259,735</u>
Total capital and surplus	<u>33,839,805</u>
Total liabilities, capital and surplus	<u>\$ 38,720,455</u>

**Statement of Revenue and Expenses
As of December 31, 2013**

Revenue:

Net premium income	\$ 79,831,525
Change in unearned premium reserves; reserve for rate credits	<u>210,814</u>
Total revenue	<u>80,042,339</u>

Hospital and Medical Expenses:

Hospital and medical benefits	33,858,956
Other professional services	3,775,727
Emergency room and out of area	6,722,284
Prescription drugs	7,820,189
Other hospital and medical	1,259,866
Incentive pool, withhold adjustments and bonus amounts	700,000
Less net reinsurance recoveries	<u>(2,468,340)</u>
Total hospital and medical expenses	51,668,682

Claims adjustment expenses	6,432,405
General administrative expenses	<u>10,043,750</u>
Total underwriting deductions	<u>68,144,837</u>

Net underwriting gain	11,897,502
Net investment gains	<u>375,700</u>
Net income before federal income taxes	12,273,202
Federal income taxes incurred	<u>3,904,350</u>
Net income	<u>\$ 8,368,852</u>

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, prior year end	<u>\$ 42,006</u>	<u>\$ 32,668</u>	<u>\$ 35,745</u>	<u>\$ 35,844</u>	<u>\$ 32,796</u>
Net income	8,369	13,484	6,807	9,237	3,200
Change in net deferred income tax	(242)	(275)	(151)	(1,469)	1,850
Change in non-admitted assets	(293)	603	274	1,856	(2,078)
Surplus paid-in	(7,413)	422	337	277	75
Transferred from capital	7,413	-	-	-	-
Dividends to stockholder	<u>(16,000)</u>	<u>(4,897)</u>	<u>(10,344)</u>	<u>(10,000)</u>	-
Net change in capital and surplus	<u>(8,166)</u>	<u>9,338</u>	<u>(3,077)</u>	<u>(99)</u>	<u>3,048</u>
Capital and surplus, current year end	<u>\$ 33,840</u>	<u>\$ 42,006</u>	<u>\$ 32,668</u>	<u>\$ 35,745</u>	<u>\$ 35,844</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 JoAnn Stuckmeyer, FSA, MAAA, Actuarial Director (Anthem employee) to render the Company's Statement of Actuarial Opinion ("Opinion"). The Opinion for year end 2013 was unqualified.

The Indiana Department of Insurance retained Merlinos and Associates ("Merlinos") to review the methods, assumptions and selections presented in the Appointed Actuary's Actuarial Memorandum in support of the Opinion. Kirk Braunius, ASA, MAAA, of Merlinos, concluded the carried reserves as of December 31, 2013 are reasonable and have been determined based on reasonable methodologies and assumptions.

Subsequent Events

In 2014, WellPoint, Inc. changed its corporate name to Anthem, Inc.

As disclosed by the Company in filings with the Department, in February 2015, Anthem reported that it was the target of a sophisticated external cyber-attack. The attackers gained unauthorized access to certain of Anthem's information technology systems and obtained personal information related to many of its current and former members and employees. Currently, Anthem is in the process of determining the extent of this cyber-attack and supporting federal law enforcement efforts to identify the responsible parties. Upon discovery of the cyber-attack, Anthem took immediate action to remediate the security vulnerability and retained a cybersecurity firm to evaluate its systems and identify solutions based on the evolving landscape.

Anthem has incurred expenses subsequent to the cyber-attack to investigate and remediate this matter and expects to continue to incur expenses of this nature in the foreseeable future. Anthem does not believe the impact of these expenses will be material. Anthem will recognize these expenses in the periods in which they are incurred.

State and federal agencies, including state insurance regulators, state attorneys general, and the Federal Bureau of Investigations, are investigating events related to the cyber-attack, including how it occurred, its consequences and Anthem's responses. Anthem is cooperating in these investigations.

The Company's Board of Directors declared an extraordinary dividend in the amount of \$25 million on May 20, 2014. The Company paid this dividend to its parent company, AMERIGROUP Corporation, on June 25, 2014. The transaction was approved by the Department.

Conclusion

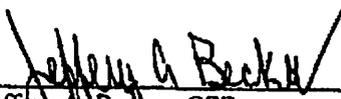
The balance sheet contained in this Report of Examination reflects the financial condition of the Company at December 31, 2013, and is summarized as follows:

Total Assets	<u>\$ 38,720,455</u>
Liabilities	\$ 4,880,650
Capital and Surplus	<u>33,839,805</u>
Total Liabilities, Capital and Surplus	<u>\$ 38,720,455</u>

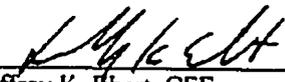
Acknowledgement

In addition to the aforementioned and undersigned, Bryan Radecky, CFE, CPA, of the Department, participated in this examination.

Respectfully,



Jeffrey A. Bedger, 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, 2013.

Jeffrey A Becker
Examiner-in-Charge

5/21/15
Date

[Signature]
Assistant Chief Examiner

5/21/15
Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffrey A. Becker 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 21 day of May, 2015.

Elizabeth Chase
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 21 day of May, 2015.

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