

Report of Examination of

**Community Insurance Company
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

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, 2012. 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.
Erin P. Hoeflinger	President and Chairperson, Community Insurance Company
Catherine I. Kelaghan	Vice President and Counsel, Anthem, Inc.
Kathleen S. Kiefer	Vice President, Assistant Secretary and Counsel, Anthem, Inc.

Officers

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

Name	Title
Erin P. Hoeflinger	President and Chairperson
Robert D. Kretschmer	Vice President and Treasurer
Kathleen S. Kiefer	Vice President and Secretary
Judy L. Pershern	Assistant Secretary
Amy S. Renshaw	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 ATH Holding Company, LLC. ATH Holding Company, LLC is a wholly-owned subsidiary of Anthem, Inc. ("Anthem"), formally known as WellPoint, Inc. 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 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, 2013, 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 2013:

	Total	Accident & Health	Title XVIII Medicare	Federal Employees
Total revenue	<u>\$ 5,102.2</u>	<u>\$ 3,059.7</u>	<u>\$ 1,146.4</u>	<u>\$ 896.1</u>
Hospital and medical exp.	4,256.2	2,423.9	982.9	849.4
Administrative expenses	<u>386.6</u>	<u>223.7</u>	<u>121.1</u>	<u>41.8</u>
Underwriting deductions	<u>4,642.8</u>	<u>2,647.5</u>	<u>1,104.0</u>	<u>891.3</u>
Underwriting gain	<u>\$ 459.4</u>	<u>\$ 412.2</u>	<u>\$ 42.4</u>	<u>\$ 4.8</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	\$ 1,170,208,607
Preferred stocks	503,774
Common stocks	309,140,733
Real estate – properties occupied by the company	28,189,323
Cash, cash equivalents, and short term investments	(288,675,779)
Other invested assets	33,768,270
Receivables for securities	3,260,611
Securities lending reinvested collateral assets	<u>109,519,426</u>
Subtotal, cash and invested assets	1,365,914,965
Investment income due and accrued	10,275,689
Uncollected premiums in course of collection	47,853,084
Deferred premiums and installments booked, but not yet due	110,937,035
Accrued retrospective premiums	1,549,318
Amounts receivable relating to uninsured plans	172,666,429
Net deferred tax asset	34,669,129
Electronic data processing equipment	482,832
Receivable from affiliates	117,180,510
Healthcare receivables	19,951,514
Miscellaneous assets	<u>5,958,718</u>
Total Assets	<u>\$ 1,887,439,223</u>

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2013**

Liabilities, Capital and Surplus

Liabilities:

Claims unpaid	\$ 465,230,331
Accrued medical incentive pool and bonus amounts	3,407,170
Unpaid claims adjustment expenses	15,666,223
Aggregate health policy reserves	58,852,109
Aggregate health claim reserves	313,951
Premiums received in advance	37,597,937
General expenses due or accrued	43,336,178
Current federal income taxes payable	6,908,301
Amounts withheld or retained for the account of others	1,871,538
Remittances and items not allocated	4,778,020
Borrowed money	150,007,583
Amounts due to affiliates	93,271,158
Payable for securities	18,882,293
Payable for securities lending	109,519,426
Liability for amounts held under uninsured plans	67,053,350
Miscellaneous liabilities	<u>32,360,869</u>
Total liabilities	<u>\$ 1,109,056,437</u>

Capital and Surplus:

Common capital stock	1,142,307
Gross paid in and contributed surplus	195,393,523
Unassigned funds	<u>581,846,956</u>
Total capital and surplus	<u>778,382,786</u>
Total liabilities, capital and surplus	<u>\$ 1,887,439,223</u>

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

<u>Revenue:</u>	
Net premium income	\$ 5,077,537,837
Change in unearned premium reserves; reserve for rate credits	<u>24,621,049</u>
Total revenue	<u>5,102,158,886</u>
 <u>Hospital and Medical Expenses:</u>	
Hospital and medical benefits	3,083,650,274
Other professional services	205,705,539
Emergency room and out of area	301,038,626
Prescription drugs	655,148,735
Incentive pool, withhold adjustments and bonus amounts	<u>10,682,522</u>
Total medical and hospital expenses	4,256,225,696
 Claims adjustment expenses	 110,638,552
General administrative expenses	293,599,781
Increase in reserves for health contracts	<u>(17,657,742)</u>
Total underwriting deductions	<u>4,642,806,287</u>
 Net underwriting gain	 459,352,599
Net investment gains	99,576,301
Net gain (loss) from premium balances charged off	(226,673)
Miscellaneous revenue	<u>2,568,051</u>
Net income before federal income taxes	561,270,278
Federal income taxes incurred	<u>168,795,555</u>
Net income	<u>\$ 392,474,723</u>

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

Capital and surplus, December 31, 2012	<u>\$ 754,818</u>
Net income	392,475
Change in net unrealized capital gains	19,399
Change in net deferred income tax	(18,917)
Change in non-admitted assets	10,607
Dividends to stockholder	<u>(380,000)</u>
Change in surplus during the examination period	<u>23,564</u>
Capital and surplus, December 31, 2013	<u>\$ 778,383</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, Director and Actuary III (Anthem employee) to render the Company's Statement of Actuarial Opinion ("Opinion") for the year 2013. The Opinion 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 ordinary dividend in the amount of \$175 million on June 4, 2014. The Company paid this dividend to its parent company, ATH Holding Company, LLC, on June 20, 2014. The transaction was approved by the Department.

The Company's Board of Directors declared an ordinary dividend in the amount of \$75 million on December 15, 2014. The Company paid this dividend to its parent company, ATH Holding Company, LLC, on December 29, 2014. The transaction was approved by the Department.

The Company is subject to an annual fee under section 9010 of the Affordable Care Act ("ACA"). The ACA assessment paid in year 2014 was \$71,573,580 and the ACA fee assessment payable due in year 2015 is estimated to be \$94,793,972.

Conclusion

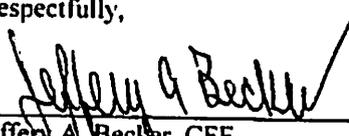
The balance sheet contained in this Report of Examination reflects the financial condition of the Company at December 31, 2013, and is summarized as follows:

Total Assets	<u>\$ 1,887,439,223</u>
Liabilities	1,109,056,437
Capital and Surplus	<u>778,382,786</u>
Total Liabilities, Capital and Surplus	<u>\$ 1,887,439,223</u>

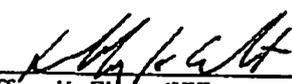
Acknowledgement

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

Respectfully,



Jeffery A. Becker, 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.

Jeffery A Becker
Examiner-in-Charge

5/21/15
Date

Jeffrey K Ebert
Assistant Chief Examiner

5/21/15
Date

State of Ohio
County of Franklin

Personally appeared before me the above named Jeffery 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
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017

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