CERTIFIED MAIL
RETURN RECEIPT REQUESTED

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
550 WEST 7TH AVENUE, SUITE 1560
ANCHORAGE, AK 99501-3567

Order FE 17-03
In the Matter of Examination of
Premera Blue Cross Blue Shield of Alaska

FINDINGS OF FACT

1. A report of examination of Premera Blue Cross Blue Shield of Alaska, domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance, to Premera Blue Cross Blue Shield of Alaska.

2. The Report of Examination of Premera Blue Cross Blue Shield of Alaska (FE 17-03) has been transmitted to Christopher Brandt, Privacy Program Manager of Premera Blue Cross Blue Shield of Alaska (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment on this Report of Examination. A response from the examinee was received on June 19, 2018.

3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response and any relevant portions of the examiner’s work papers to the extent she considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).
ORDER FE 17-03
COMPANY
As of December 31, 2016

2. The actions set forth in Finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).

3. The Director of the Division of Insurance has reviewed the Report of Examination, the examinee response and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent she considered necessary in accordance with AS 21.06.150(b).

ORDER

IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Premera Blue Cross Blue Shield of Alaska (FE 17-03) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be kept in the Office of the Director of the Division of Insurance and be open to public inspection.

This order is effective June 29, 2017.

Dated this 29th day of June, 2017 in Anchorage, Alaska.

Lori Wing-Heier, Director
State of Alaska
Division of Insurance
LIMITED-SCOPE FINANCIAL AND MARKET CONDUCT EXAMINATION

of

PREMERA BLUE CROSS BLUE SHIELD OF ALASKA

(a Hospital and Medical Service Corporation)

NAIC Company Code: 47570

FE 17-03

For the Period

January 1, 2014, through December 31, 2016

FINAL REPORT: October 31, 2017

By Representatives of the

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
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October 31, 2017

Honorable Lori Wing-Heier  
Director of Insurance  
Alaska Division of Insurance  
550 W. 7th Ave. Suite 1560  
Anchorage, Alaska 99501

Dear Director Wing-Heier:

Pursuant to your instructions and in compliance with the provisions of Title 21 of the Alaska Insurance Code, as well as rules, regulations and procedures promulgated by the National Association of Insurance Commissioners (NAIC), a limited-scope examination has been made of the administrative affairs, books, records, and financial condition of:

**Premera Blue Cross Blue Shield**  
7001 220th Street SW  
Mountlake Terrace, WA 98043

Hereinafter referred to as “Premera” or the “Company,” licensed as a Hospital and Medical Service Corporation (HMSC) in Alaska. The following Report of Financial and Market Conduct Examination is respectfully submitted.
SCOPE OF EXAMINATION

Period Covered by the Examination

This is a limited-scope examination called pursuant to AS 21.06.120 and AS 21.22.110, covering the period from January 1, 2014, through December 31, 2016, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination. The purpose of this examination is to assess the financial condition and market-conduct of the Company and set forth findings of fact (together with citations of pertinent laws, regulations and rules) with regard to any material adverse findings disclosed by the examination.

The limited-scope examination was called to review the following specific conditions:

Financial Exam

- Internal Controls
- Accuracy of Annual Statement Balance Sheet, and Capital and Surplus
- Accuracy of Premium Rate Filings for Years Ending 2014 – 2016
- Soundness of information which management used to estimate reserves and set rates provided to the Alaska Division of Insurance (AK DOI) which included, but was not limited to:
  - Initial calculation of Risk Adjustment and Risk Corridor values in 2014
  - Re-evaluation of Risk Adjustment and Risk Corridor values in 2015
- Evaluation of loss reserve methodology
- Evaluation of investment holdings

Market Conduct

- Performance of any Market Conduct examination procedures necessary
- Sufficiency of Product Marketing and Sales material
- Product pricing
- Setting of in/out-of-network reimbursement rates and annual increases
- Resolution of complaints and customer relations
- Use of approved forms and rates filed with the state
- Setting and reviewing of Corporate Goals
- Setting, payment and disclosure of executive compensation
- Identification of statutory noncompliance

The examination was conducted primarily at the Company's administrative office in Mountlake Terrace, Washington, which is the primary location of the Company’s books and records.

Examination Procedures Employed

The examination procedures employed were in accordance with the NAIC Financial Condition Examiners Handbook and conducted to inspect and examine the Company's financial condition, ascertain its ability to fulfill its obligations, determine its compliance with statutory provisions and evaluate any other matters relevant to its business methods, management or equity of its dealings...
with policyholders as identified in the call letter of this limited-scope examination issued March 3, 2017.

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

The examiners utilized the following procedures specific to the limited-scope nature of this examination in reviewing Company information in the following areas:

Financial Exam – Internal control review, review/reconcile accuracy of filings to supporting documentation, evaluation of investments and evaluation of loss reserve methodologies.

Market Conduct – Consumer complaints resolution, product sales & pricing, accuracy of filings, use of approved rates and filings and compensation of directors/officers.

Workpapers of the Company's Internal Audit Department were reviewed and relied upon whenever possible to assist in the completion of examination procedures.

**Key Activities of the Company**

The following Key Activities were determined to be relevant for the limited-scope examination:

- Corporate Governance
- Investments & Capital
- Pricing and Underwriting
- Reserve Adequacy
- Reserve Data
- Related Parties

**COMPANY OVERVIEW**

**General**

Premera is an independent licensee of the Blue Cross Blue Shield Association. The Company is licensed in Alaska as a not-for-profit Hospital and Medical Service Corporation (HMSC); and, is domiciled in the State of Washington and registered there as a health care services contractor. Premera is currently the sole insurer providing coverage in Alaska's individual market following the departure of Moda Health Plan (Moda) after the 2016 plan year.
Territory and Plan of Operation

Premera is the largest health plan in the Pacific Northwest and writes business in the states of Washington, Oregon, and Alaska offering group and individual health care policies both on and off the individual health care exchange.

Review of Corporate Records

The examiner reviewed the minutes of the Board of Directors’ meetings, committees thereof, and the annual meetings of the stockholder from January 1, 2013, through the completion of fieldwork. The minutes adequately reflected the ratification, confirmation and approval of the transactions and events undertaken by the Board of Directors and the sole member, Premera, on behalf of the Company.

No dividends were paid by the Company during the years 2013 through 2016.

Conflict of Interest

The Company has an established policy for the identification and disclosure to the Board of Directors any potential conflicts of interest on the part of any director or officer. All directors, officers and responsible employees are required to disclose to the Board of Directors any employment, affiliation or substantial interest in any other business or enterprise that could conflict with the proper and faithful performance of their duties and responsibilities to the Company. Members of the Board are required to complete an online Commitment to Ethics and Conflict of Interest Statement annually.

No conflict of interest was disclosed by any director or officer in a review of the statements.

MANAGEMENT AND CONTROL

The Company is a non-stock corporation managed by its Board of Directors and officers. Its sole voting member, PREMERA, elects the Board of Directors; and, the Board of Directors elects the Company’s executive officers.

Board of Directors

The Company’s Amended and Restated Bylaws provide that the Board of Directors shall not have less than ten (10) and no more than fourteen (14) members who are elected at the annual meetings of the Board of Directors. The Directors in accordance with the Company’s Bylaws determine the actual number of members, their tenure and qualifications, and the procedures related to their election.
As of December 31, 2016, the following individuals were serving as directors of the Company:

Jeffrey Edward Roe (President and CEO)  Robert Paul Kocher
Connie Renee Collingsworth  Rosalio Jimenez Lopez
Robert William Cremin  Kathryn Langlois Munro
Richard Palmer Fox  Gary Emmit Pruitt
John Emory Heath III  Anand Vadapalli
John Edward Jenrette  Robert Carlson Wallace

Officer

The Company's Amended and Restated Bylaws provide for a slate of officers to be elected by the Board of Directors at its annual member meetings. The Company's officers are employees of companies within the insurance holding company system.

At December 31, 2016, the following individuals were serving as senior officers:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeffrey Edward Roe</td>
<td>President and CEO</td>
</tr>
<tr>
<td>Katharine Maria Cramer</td>
<td>Secretary</td>
</tr>
<tr>
<td>Kent Steven Marquardt</td>
<td>Treasurer</td>
</tr>
<tr>
<td>David John Braza</td>
<td>Sr. Vice President, Chief Actuary</td>
</tr>
<tr>
<td>Kenneth Michael Chandler</td>
<td>Sr. Vice President</td>
</tr>
<tr>
<td>John Phillip Colmenares</td>
<td>Sr. Vice President</td>
</tr>
<tr>
<td>John Mercier Espinola</td>
<td>Executive Vice President</td>
</tr>
<tr>
<td>James Daniel Grazko</td>
<td>Sr. Vice President</td>
</tr>
<tr>
<td>Mark Christopher Gregory</td>
<td>Executive Vice President</td>
</tr>
<tr>
<td>Cecily Marjorie Hall</td>
<td>Sr. Vice President</td>
</tr>
<tr>
<td>Elizabeth Baier Johnson</td>
<td>Sr. Vice President</td>
</tr>
<tr>
<td>Kirsten Connell Kemp</td>
<td>Executive Vice President</td>
</tr>
<tr>
<td>Ralph Curtis Kopf</td>
<td>Sr. Vice President</td>
</tr>
<tr>
<td>James Michael Messina</td>
<td>Executive Vice President</td>
</tr>
<tr>
<td>Jaja Ama Kalu Okonkwo Okigwe</td>
<td>Sr. Vice President</td>
</tr>
<tr>
<td>John Hayes Pierce</td>
<td>Sr. Vice President</td>
</tr>
</tbody>
</table>

Committees

As of December 31, 2016, the Company had six (6) committees of the Board as follows: Audit Committee, Investment Committee, Compensation Committee, Executive Committee, Governance Committee and Quality Committee.

Insurance Holding Company System

The Company is a member of an Insurance Holding Company System as defined in Chapter 22 of AS 21. The ultimate controlling party of the insurance holding company system is PREMERA, which is the sole member of the Company.
Organizational Chart

Premera Blue Cross (WA) is owned 100% by PREMERA and has numerous subsidiaries, some of which are insurance entities. The full organizational chart may be found in the latest financial examination report by their domestic regulator, Washington.

EXAMINATION PROCESS

An entrance meeting was held on March 6, 2017, at the Company’s home office to discuss the scope of the exam and timelines.

Following the meeting, the Examiner-in-Charge (EIC) conducted interviews of key individuals surrounding the examination scope and plan.

The initial fieldwork portion of the exam was conducted during an onsite visit the week of March 17, 2017, during which the examiner completed reviews of the following documents and information provided by the Company:

- 2016 Exhibit of Premiums, Enrollment & Utilization;
- Cost Utilization Report for 2015 & 2016 on complete years;
- Utilization trend for 2016, complete year;
- Compensation Exhibit filing, along with compensation committee minutes and procedures for determining compensation for the three years 2014 - 2016;
- Reconciliation documents between annual statement filings with supporting documentation;
- Investment transactions listing and investment committee meeting minutes for the three years 2014 - 2016;
- Actuarial "Translation" documents for the rate filings made for the three years 2014 - 2016;
- Claims detail supporting claims paid during the three years under review;
- Complaint/resolution detail log for the three years;
- List of audits performed during the three years under review from Internal Audit;
- A selection of internal audit reports;
- An explanation of loss-reserve methodologies utilized in developing the loss reserves for the Health Insurance Exchange (HIX) plans;
- An overview/summary of the reinsurance program covering the HIX policies;
- Product sales brochures marketed by Premera, including example of proposed rates for three years;
- Board of Director meeting minutes for the three years under review;
- Breakdown of $20 million profit for Alaska business as of year-end 2016;
- IBNR Adjustment Factors for 2014 - 2016, including "Provision for Diverse Deviations";
- Risk adjustment factor components;
- Actuarial Point/Range Estimate for the three years;
• Monthly Movement Analysis (rolling loss ratios) for the three years;
• BCS Reinsurance Agreement;
• Impact Analysis of High Risk Individuals on Premera Losses/Net Income;
• Reserve restatements/redundancy factors on a monthly basis for the three years;
• 2014 MAR Actuarial Estimates for Claims IBNR Liability;
• 2015 Rates for Small Groups, Individual and Medicare Supplement Products;
• Follow-up report to 2015 Rates for Small Groups;
• 2015 and 2016 MAR RBC Management; and
• 2016 Rates for Small Group, Individual, Medicare Supplement and Medicare Advantage Plans.

In addition to his review, the examiner relied upon the work of Mr. Scott Garduno, FSA, MAAA, with Taylor-Walker Consulting, LLC. Mr. Garduno reviewed and provided a report on the adequacy of the Company incorporating material presented by Moda when leaving the market, as well as the impact of the Alaska Reinsurance Program in determining rates for the 2017 and 2018 calendar years.

GENERAL COMMENTS

The examiner determined from reviewing material provided by the Company and as filed with the State of Alaska, that while the profit reported by the Company in 2016 appeared significant, a material amount of that year’s net income resulted from the delayed reimbursement by the federal government of a portion of the Risk Corridor Receivable for 2014, the 2015 Reinsurance Receivable and the final estimate for the 2016 Risk Adjustment Receivable under the Affordable Care Act (the ACA or “Act”).

The ACA included three risk-sharing provisions collectively known as the 3 R’s – Reinsurance, Risk Adjustment, and Risk Corridor. The overall goal of the three programs was to encourage participation in the exchanges; and, through the 3 R’s, give health insurers an opportunity to recoup at least part of the losses. The Risk Corridor reimbursement was specifically designed to protect insurers against uncertainty when pricing for a new risk pool by limiting losses and gains beyond an allowable range.

The initial design of the ACA was to accumulate the loss experience of the participating insurers and to provide the calculation of the reimbursement amount timely enough so that it could be included in an insurer’s premium rate proposal for the following year.

Due to the excessive losses in the initial years of the ACA, the federal government, under the ACA guidelines and congressional mandate, was not able to reimburse insurers the full amount due them, or even calculate the portion of the amount that would ultimately be reimbursed to the insurers.

Since it was unknown when, or if, any amount was going to be received under the Risk Corridor program, Premera did not include a Risk Corridor amount receivable in their financial statement.
Because no ACA receivable was reported to partially offset losses, the Company reported a significant drop in Net Income during the initial years of the ACA.

Additionally, as a consequence of the delay in releasing the Risk Corridor reimbursement rate by the federal government, the Company was unable to incorporate the reimbursement against losses in the 2016 Alaska rate filings which were required to be filed on July 1, 2015.

In September 2015, the Company received notice from CMS that 12.1% of the amount due them under the Risk Corridor program would ultimately be paid. As Premera had not accounted for any reimbursement from the government in their rate filings and had accounted only a minimal amount in their financial statements, the reimbursement received from the government in 2016 was reported as pure income and resulted in a jump in income for that year compared to the previous two years.

In retrospect, 2016 and 2017 premium rates were higher than they would have been if information from the government had been received prior to the due date of the state rate filings.

For the period under review, Mr. Garduno, Examination Actuary, reviewed premium rate filings made with the State of Alaska, which were based on information available at the time they were developed and filed. The review by Mr. Garduno indicated that the Company had made a reasonable allowance for expected loss experience in their 2016 and 2017 premium rate filings.

The examiner also noted that executive compensation was not affected by the impact of the federal government’s delayed reimbursement decision as the method for determining executive compensation was approved prior to the 2014 calendar year.

LOSS EXPERIENCE

The Company engaged Milliman, Inc., to prepare the actuarial opinion for each year during the examination period. Ms. Rachel Killian, FSA, MCAA, of Milliman, Inc., was the opinion actuary for each of the years under review. The actuarial opinions reported that the amounts carried in the balance sheet: 1) made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements; 2) were computed in accordance with accepted actuarial standards and principals; and 3) met the requirements of the insurance laws of the State of Washington.

The Company’s loss and loss adjustment expense reserves as of December 31, 2016, were reviewed as part of the current examination, particularly as it relates to the filing and determination of premium rates for the 2017 and 2018 years. This review indicated no adjustment was required to the Company’s loss and loss adjustment expense reserves for this examination report.
GROWTH OF COMPANY

(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Premiums Collected</td>
<td>$3,722,790</td>
<td>$3,454,600</td>
</tr>
<tr>
<td>DPW/PHS</td>
<td>252%</td>
<td>249%</td>
</tr>
<tr>
<td>Net Premiums Written (NPW)</td>
<td>$3,780,084</td>
<td>$3,489,362</td>
</tr>
<tr>
<td>Net Income</td>
<td>$45,159</td>
<td>$12,888</td>
</tr>
<tr>
<td>Total Net Admitted Assets</td>
<td>$2,428,930</td>
<td>$2,275,960</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$952,746</td>
<td>$887,539</td>
</tr>
<tr>
<td>Policyholders Surplus (PHS)</td>
<td>$1,476,185</td>
<td>$1,388,421</td>
</tr>
</tbody>
</table>

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Alaska Division of Insurance and present the financial condition of the Company as of December 31, 2016 and 2015; and results of its operations for the years then ended:
### Premera Blue Cross Blue Shield
#### Comparative Statement of Admitted Assets
##### As of December 31, 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$842,586,797</td>
<td>$776,262,472</td>
</tr>
<tr>
<td>Stocks</td>
<td>738,236,941</td>
<td>667,535,582</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>6,303,422</td>
<td>41,154,589</td>
</tr>
<tr>
<td>Real Estate</td>
<td>31,365,729</td>
<td>34,222,911</td>
</tr>
<tr>
<td>Other Invested Assets</td>
<td>342,521,225</td>
<td>297,664,161</td>
</tr>
<tr>
<td>Receivable for securities</td>
<td>54,676</td>
<td>170,980</td>
</tr>
<tr>
<td>Cash and invested assets</td>
<td>1,961,068,790</td>
<td>1,817,010,695</td>
</tr>
<tr>
<td>Investment income due and</td>
<td>5,607,146</td>
<td>5,173,468</td>
</tr>
<tr>
<td>accrued</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncollected premiums</td>
<td>139,933,586</td>
<td>129,859,864</td>
</tr>
<tr>
<td>Accrued retrospective premiums</td>
<td>72,188,036</td>
<td>34,124,504</td>
</tr>
<tr>
<td>Reinsurance recoverable</td>
<td>36,661,224</td>
<td>59,640,620</td>
</tr>
<tr>
<td>Amounts receivable relating to</td>
<td>90,332,715</td>
<td>126,573,298</td>
</tr>
<tr>
<td>uninsured plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Deferred Tax Asset</td>
<td>17,346,311</td>
<td>12,749,302</td>
</tr>
<tr>
<td>Electronic data processing</td>
<td>15,270,140</td>
<td>2,699,664</td>
</tr>
<tr>
<td>equipment and software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables from parent,</td>
<td>10,117,643</td>
<td>15,695,350</td>
</tr>
<tr>
<td>subsidiaries, and affiliates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care and other amounts</td>
<td>43,289,545</td>
<td>37,490,830</td>
</tr>
<tr>
<td>receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate Write-Ins</td>
<td>37,114,949</td>
<td>34,942,384</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$2,428,930,085</td>
<td>$2,275,959,979</td>
</tr>
</tbody>
</table>
Premera Blue Cross Blue Shield
Comparative Statement of Liabilities, Surplus and Other Funds
As of December 31, 2016 and 2015

<table>
<thead>
<tr>
<th>Item</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims unpaid</td>
<td>$458,264,649</td>
<td>$411,348,153</td>
</tr>
<tr>
<td>Accrued medical incentive pool and bonus amounts</td>
<td>0</td>
<td>191,304</td>
</tr>
<tr>
<td>Unpaid claims adjustment expenses</td>
<td>12,763,472</td>
<td>11,620,812</td>
</tr>
<tr>
<td>Health Policy Reserves</td>
<td>26,322,013</td>
<td>20,606,529</td>
</tr>
<tr>
<td>Premiums Received in Advance</td>
<td>36,570,437</td>
<td>50,557,841</td>
</tr>
<tr>
<td>General exp's due &amp; accrued</td>
<td>185,220,615</td>
<td>180,581,346</td>
</tr>
<tr>
<td>Current FIT payable</td>
<td>8,935,309</td>
<td>2,575,482</td>
</tr>
<tr>
<td>Net deferred tax liability</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ceded reinsurance premiums payable</td>
<td>2,348,123</td>
<td>3,275,479</td>
</tr>
<tr>
<td>Amt's withheld or retained for the account of others</td>
<td>188,013</td>
<td>197,807</td>
</tr>
<tr>
<td>Remittances and items not allocated</td>
<td>1,706,217</td>
<td>57,143</td>
</tr>
<tr>
<td>Borrowed money and interest thereon</td>
<td>10,000,000</td>
<td>30,000,767</td>
</tr>
<tr>
<td>Payable for securities</td>
<td>10,335,945</td>
<td>7,904,724</td>
</tr>
<tr>
<td>Liability for amounts held under uninsured plans</td>
<td>101,590,938</td>
<td>71,681,168</td>
</tr>
<tr>
<td>Aggregate write-ins</td>
<td>98,499,834</td>
<td>96,940,381</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>952,745,565</td>
<td>887,538,936</td>
</tr>
<tr>
<td>Aggregate write-ins for special surplus fund</td>
<td>-</td>
<td>56,549,049</td>
</tr>
<tr>
<td>Unassigned funds</td>
<td>1,476,184,520</td>
<td>1,331,871,994</td>
</tr>
<tr>
<td>Surplus as regards policyholders</td>
<td>1,476,184,520</td>
<td>1,388,421,043</td>
</tr>
<tr>
<td>Total Liabilities and Surplus</td>
<td>$2,428,930,085</td>
<td>$2,275,959,979</td>
</tr>
</tbody>
</table>
Premera Blue Cross Blue Shield
Comparative Statement of Revenue and Expenses
For the Years Ended December 31, 2016 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Months</td>
<td>9,515,808</td>
<td>9,391,353</td>
</tr>
<tr>
<td>Net Premium Income</td>
<td>$3,776,347,022</td>
<td>$3,464,194,241</td>
</tr>
<tr>
<td>Change in unearned prem reserves and reserve for rate credits</td>
<td>3,736,984</td>
<td>25,167,644</td>
</tr>
<tr>
<td>TOTAL Revenues</td>
<td>3,780,084,006</td>
<td>3,489,361,885</td>
</tr>
</tbody>
</table>

Hospital and Medical

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital/medical benefits</td>
<td>2,496,470,166</td>
<td>2,402,200,629</td>
</tr>
<tr>
<td>Emergency Room and out-of-area</td>
<td>379,951,252</td>
<td>325,222,273</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>464,645,648</td>
<td>410,532,172</td>
</tr>
<tr>
<td>Incentive pool adj's</td>
<td>(191,304)</td>
<td>204,331</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3,340,875,762</td>
<td>3,138,159,405</td>
</tr>
</tbody>
</table>

Less

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Reinsurance Recoveries</td>
<td>52,283,869</td>
<td>98,195,173</td>
</tr>
<tr>
<td>TOTAL Hospital and Medical Benefits</td>
<td>3,288,591,893</td>
<td>3,039,964,232</td>
</tr>
<tr>
<td>Claims adjustment expenses</td>
<td>163,878,641</td>
<td>159,246,047</td>
</tr>
<tr>
<td>General administrative expenses</td>
<td>314,723,247</td>
<td>316,713,110</td>
</tr>
<tr>
<td>TOTAL Underwriting Deductions</td>
<td>3,767,193,781</td>
<td>3,515,923,389</td>
</tr>
<tr>
<td>Net underwriting gain or (loss)</td>
<td>12,890,225</td>
<td>(26,561,504)</td>
</tr>
<tr>
<td>Net investment income earned</td>
<td>36,143,740</td>
<td>32,180,031</td>
</tr>
<tr>
<td>Net realized capital gains (losses)</td>
<td>37,697,075</td>
<td>44,886,149</td>
</tr>
<tr>
<td>Net Investment gains (losses)</td>
<td>73,840,815</td>
<td>77,066,180</td>
</tr>
<tr>
<td>Aggregate write-ins other income or expenses</td>
<td>(2,535,025)</td>
<td>(2,759,020)</td>
</tr>
<tr>
<td>Net income before taxes</td>
<td>84,196,015</td>
<td>47,745,656</td>
</tr>
<tr>
<td>Federal income taxes incurred</td>
<td>39,037,233</td>
<td>34,857,326</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>$45,158,782</td>
<td>$12,888,330</td>
</tr>
</tbody>
</table>
### Premera Blue Cross Blue Shield

#### Comparative Statement of Changes in Surplus and Other Funds

**December 31, 2016 and 2015**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus and other funds, beginning of year</td>
<td>$1,388,421,043</td>
<td>$1,415,269,708</td>
</tr>
<tr>
<td>Net income</td>
<td>45,158,782</td>
<td>12,888,330</td>
</tr>
<tr>
<td>Change in net unrealized capital gains</td>
<td>43,956,000</td>
<td>(57,128,595)</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>27,429,483</td>
<td>1,448,814</td>
</tr>
<tr>
<td>Change in non-admitted assets</td>
<td>(2,693,296)</td>
<td>18,411,286</td>
</tr>
<tr>
<td>Paid In surplus</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Aggregate write-ins</td>
<td>(26,087,492)</td>
<td>(2,468,500)</td>
</tr>
<tr>
<td>Net change in surplus</td>
<td>87,763,477</td>
<td>(26,848,665)</td>
</tr>
<tr>
<td>Surplus and other funds, end of year</td>
<td>$1,476,184,520</td>
<td>$1,388,421,043</td>
</tr>
</tbody>
</table>
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION

No adjustments to the financial statements filed as of December 31, 2016, were made to the Company’s surplus as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

There were no comments on any financial statement item as a result of this examination.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There were no significant findings, comments, or recommendations from examiners for the period under examination.

SUBSEQUENT EVENTS

The following events occurred subsequent to the examination date and prior to the date of this report, which require disclosure:

- The State of Alaska instituted the Alaska Reinsurance Pool, a high-risk pool covering high-risk individuals.
- Premera became the sole health insurer in the individual market following the withdrawal of Moda in 2017.
ACKNOWLEDGMENT

In addition to the undersigned, Gregory Campbell, Actuary, with the State of Alaska; Jean Adams-Harris, CFE, CPA, CISA, AES, MCM; Lori Brock, CFE; as well as other representatives of Johnson Lambert LLP; and Scott Garduno, FSA, MAAA, of Taylor-Walker Consulting, LLC, who were authorized by the Director to represent the State of Alaska, participated in this examination. The courtesy and cooperation of the Company's officers and employees are hereby gratefully acknowledged.

Respectfully submitted,

[Signature]
Richard B. Foster, CFE
Examiner-In-Charge

[Signature]
Maxine Froemling, CFE, CPA
Chief Financial Examiner
Alaska Division of Insurance
AFFIDAVIT

Anchorage, Alaska )
May 21, 2018 )
) )
STATE OF ALASKA )
THIRD JUDICIAL DISTRICT )

I, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2016, of Premera Blue Cross Blue Shield of Alaska, a Washington-domiciled, Alaska-licensed company holding Certificate of Authority #D-338, is true to the best of my knowledge and belief.

Maxine Froemling
Maxine L. Froemling, CPA, CFE
Chief Financial Examiner
State of Alaska

Subscribed and sworn to before me this 21st day of May, 2018.

L. Marine-Alley
Notary Public for the State of Alaska

My commission expires: with office
AFFIDAVIT

Anchorage, Alaska
May 21, 2018
STATE OF ALASKA
THIRD JUDICIAL DISTRICT

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