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Attorneys for the Department of Insurance

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

OF THE STATE OF IDAHO

In the Matter of: BLUE CROSS OF IDAHO HEALTH SERVICE, INC. Certificate of Authority No. 1900 NAIC No. 60095	Docket No. 18-3557-18 **ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2016**

The State of Idaho, Department of Insurance ("Department"), having conducted an examination of the affairs, transactions, accounts, records, and assets of Blue Cross of Idaho Health Service, Inc. ("Blue Cross"), pursuant to Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Examination of Blue Cross of Idaho Health Service, Inc. as of December 31, 2016 ("Report"), as filed.

FINDINGS OF FACT

1. Blue Cross is an Idaho-domiciled insurance company licensed to transact disability insurance, including managed care, in Idaho under Certificate of Authority No. 1900.

2. The Department completed an examination of Blue Cross pursuant to Idaho Code § 41-219(1) on or about September 11, 2018. The Department's findings are set forth in the Report.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on September 14, 2018, and a copy of such verified Report was transmitted to Blue Cross on September 20, 2018. A copy of the verified Report is attached hereto as Exhibit A.

4. Pursuant to Idaho Code § 41-227(4), Blue Cross had thirty (30) days from September 20, 2018, to make a written submission or rebuttal with respect to any matters contained in the Report. No such written submission or rebuttal was received by the Department from Blue Cross.

CONCLUSIONS OF LAW

5. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

6. Having fully considered the Report, the Director concludes that Blue Cross meets the minimum capital and surplus requirements set forth in Idaho Code § 41-313.

ORDER

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Examination of Blue Cross of Idaho Health Service, Inc. as of December 31, 2016 is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 1, title 74, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, Blue Cross shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

IT IS SO ORDERED.

DATED this 2 day of November, 2018.

STATE OF IDAHO
DEPARTMENT OF INSURANCE

DEAN L. CAMERON
Director

NOTIFICATION OF RIGHTS

This Order constitutes a final order of the Director. Any party may file a motion for reconsideration of this final order within fourteen (14) days of the service date of this order. The Director will dispose of the petition for reconsideration within twenty-one (21) days of its receipt, or the petition will be considered denied by operation of law. *See*, Idaho Code § 67-5246(4).

Pursuant to Idaho Code §§ 67-5270 and 67-5272, any party aggrieved by this final order may appeal it by filing a petition for judicial review in the district court of the county in which: (1) the hearing was held; or (2) the final agency action was taken; or (3) the aggrieved party resides or operates its principal place of business in Idaho; or (4) the real property or personal property that was the subject of the agency decision is located. An appeal must be filed within twenty-eight (28) days of: (a) the service date of this final order; or (b) an order denying a petition for reconsideration; or (c) the failure within twenty-one (21) days to grant or deny a petition for reconsideration, whichever is later. *See*, Idaho Code § 67-5273. The filing of a petition for judicial review does not itself stay the effectiveness or enforcement of the order under appeal.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 2nd day of November, 2018, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2016 to be served upon the following by the designated means:

Blue Cross of Idaho Health Service, Inc. Attn: Charlene Maher, President and CEO 3000 E. Pine Avenue Meridian, ID 83642	☐ first class mail ☒ certified mail ☐ hand delivery ☐ email
Nathan Faragher Chief Examiner, Company Activities Bureau Chief Idaho Department of Insurance 700 W. State Street, 3rd Floor P.O. Box 83720 Boise, ID 83720-0043 nathan.faragher@doi.idaho.gov	☐ first class mail ☐ certified mail ☐ hand delivery ☒ email
Hermoliva Abejar Chief Deputy Examiner Idaho Department of Insurance 700 W. State Street, 3rd Floor Boise, ID 83720-0043 hermoliva.abejar@doi.idaho.gov	☐ first class mail ☐ certified mail ☐ hand delivery ☒ email
Judy L. Geier Deputy Attorney General Idaho Department of Insurance 700 W. State Street, 3rd Floor P.O. Box 83720 Boise, ID 83720-0043 judy.geier@doi.idaho.gov	☐ first class mail ☐ certified mail ☐ hand delivery ☒ email

Pamela Murray

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

BLUE CROSS OF IDAHO HEALTH SERVICE, INC.

(NAIC Company Code 60095)

as of

December 31, 2016

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State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

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DEAN L. CAMERON
Director

Meridian, Idaho

September 11, 2018

The Honorable Dean L. Cameron
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2016, of the financial condition and corporate affairs of:

Blue Cross of Idaho Health Service, Inc.
3000 East Pine Avenue
Meridian, Idaho 83642

hereinafter referred to as the "Company," at its offices in Meridian, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

We have performed our examination of Blue Cross of Idaho Health Service, Inc., a health insurer licensed to write business in the State of Idaho. The last examination was completed as of December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2016.

Examination Procedures Employed

Our examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the State of Idaho, and insurance rules promulgated by the Idaho Department of Insurance (Department). The 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. The 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 (SSAPs) and NAIC *Annual Statement Instructions* when applicable to domestic state regulations.

The Company retained the services of a certified public accounting firm, Eide Bailly LLP, to audit its financial records for the years 2014 through 2016. KPMG LLP audited the Company's financial records in 2013. In a letter received on July 31, 2014, the Company notified the Director that it changed its auditor from KPMG LLP to Eide Bailly LLP for the year ending December 31, 2014.

Eide Bailly LLP allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's corporate governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A risk-focused approach was determined appropriate.

The examination determined the risks associated with identified key functional areas of the Company's operations and considered mitigating factors. Interviews were held with the senior

management of the Company to gain an understanding of the entity's operating profile and control environment.

The examination relied on the findings of the actuarial firm contracted by the Department to verify claims unpaid, unpaid claims adjustment expenses and aggregate health policy reserves.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

Status of Prior Examination Findings

There were no exceptions commented upon in our preceding Report of Examination, dated May 5, 2014, which covered the period from January 1, 2009 to December 31, 2012.

SUMMARY OF SIGNIFICANT FINDINGS

Our examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus.

HISTORY AND DESCRIPTION

The Company was formed as a non-profit entity on December 31, 1977. Its incorporation and formation was the result of a consolidation of Blue Cross of Idaho, Inc. and South Idaho Medical Service Bureau, Inc., who had maintained separate operations in Idaho since 1945 and 1962, respectively. The Company was formed under Title 41, Chapter 34, Idaho Code, and operated as a hospital and professional service corporation. In 1995, the Company converted to a nonprofit mutual insurer under Title 41, Chapter 28, Idaho Code.

Beginning in 1987, the Company became subject to Federal income taxes. Prior thereto it had been exempt under Section 501(c)(4), Internal Revenue Code.

Prior to the Company's mutualization, it was exempt from Idaho State premium taxes, state corporation taxes, and participation in the Life and Health Guaranty Association. State taxation in lieu of Idaho premium taxes was provided under Section 41-3427, Idaho Code, which required assessment of four cents per subscriber contract per month.

As a result of mutualization in 1995, the Company's lines of business, with the exception of its administrative service contract business, are no longer exempt from Idaho premium taxes and participation in the Life and Health Guaranty Association. In addition, the Company's Annual Statement reporting form was changed from a hospital, medical, dental and indemnity form to a Life, Accident and Health blank.

Beginning with 1994, the Company's managed care line of business, Idaho Preferred Healthcare, was no longer required to file a separate Annual Statement. Idaho Preferred Healthcare's line of business was to be reported in the Company's Annual Statement separately as to premium income, claims, administrative expenses and enrollment in the same manner as required for the other lines of business. Idaho Preferred Healthcare was reported in the Company's 1994 and 1995 Annual Statements.

The Department, by a letter dated March 12, 1996, notified the Company that, effective with the quarterly statement as of March 31, 1996, Idaho Preferred Healthcare was to begin filing separate statements. Although Idaho Preferred Healthcare did not operate as a separate legal entity, it was required to file a separate statement, since it operated under a separate Certificate of Authority and its business and operations were clearly distinguishable from the other types of insurance offered by the Company.

In August 1996, the name of Idaho Preferred Healthcare was changed to Blue Cross of Idaho Coordinated Care Services. As noted in the preceding paragraph, Blue Cross of Idaho Coordinated Care Services was not a corporation or legal entity, but was operated concurrently with the operations of the Company and was considered a separate and distinct division within the Company, in accordance with Section 41-3406 (4), Idaho Code.

Effective February 11, 1999, Health Ventures Corporation received its Certificate of Authority to operate as a managed care organization under Title 41, Chapter 39, Idaho Code. Prior to this, Health Ventures Corporation was incorporated as a third party administrator for the Company's Medicare managed care line of business, which was written by Blue Cross of Idaho Coordinated Care Services. Health Ventures Corporation changed to an insurer on February 11, 1999, and effective this date became the 100 percent reinsurer of the Blue Cross of Idaho Coordinated Care Services' group managed care and Medicare Choice lines of business. Health Ventures Corporation was owned equally by the Company and St. Luke's Regional Medical Center. Health Ventures Corporation owned 50 percent of Triad Limited Liability Company while Eastern Idaho IPA, PLLC owned the remaining 50 percent.

On January 1, 2000, Blue Cross of Idaho Coordinated Care Services voluntarily surrendered its certificate of authority and ceased writing business. Consequently, Blue Cross of Idaho Coordinated Care Services' assets, liabilities, equity, and all managed care products were absorbed within the Company. The Company's Certificate of Authority was re-issued on January 3, 2000 to include managed care business.

Health Ventures Corporation executed surplus note agreements with the Company and St. Luke's Regional Medical Center on June 29, 2000. During 2000, surplus notes in the amount of $3,250,000 each were issued to the Company and to St. Luke's.

In December 2001, the Company acquired St. Luke's Regional Medical Center's interest in Health Ventures Corporation for $7,000,000 in cash in exchange for St. Luke's shares and surplus notes receivable of $3,250,000. The Board of Directors authorized the transaction on November 30, 2001. The Plan of Dissolution was submitted to the Idaho Department of Insurance and in a letter dated December 27, 2001, the Department indicated it had no objections

to the acquisition. Pursuant to the Plan, Health Ventures Corporation was dissolved on February 26, 2002, and voluntarily surrendered its Certificate of Authority on February 28, 2002. Health Ventures Corporation's share of Triad Limited Liability Company was transferred to the Company. The surplus notes issued to St. Luke's were surrendered and the Company became the owner of Health Ventures' assets and liabilities.

Blue Cross of Idaho Foundation for Health, Inc. was incorporated as a non-profit entity on December 28, 2001. The Board of Directors approved the establishment of the Foundation on November 13, 2001. The purpose of the foundation is to promote health improvement initiatives to Idaho residents.

The Company changed its reporting format from the NAIC Life, Accident and Health blank to the Health blank effective January 1, 2004.

In 2007, the Company purchased 6 percent of WPMI, LLC, a joint venture with three other Blue Cross Blue Shield plans for the purpose of providing third party administrative services and health insurance products in China. In 2011, the Company increased its ownership to 8 percent. This investment is nonadmitted for statutory accounting purposes.

In 2008, the Company entered into a limited liability partnership, BlueCross BlueShield Ventures I. This entity was formed for the purpose of providing a structure to gain access to innovative companies and achieve significant strategic insights and returns in the healthcare insurance industry related to new ventures. This investment is nonadmitted for statutory accounting purposes.

In 2010, the Company entered into a limited liability partnership, Blue Health Intelligence LLC. This entity was formed for the purpose of collecting health related data for analysis and/or purchase by outside interests. This investment is nonadmitted for statutory accounting purposes.

In 2011, the Company entered into a joint venture, BlueCross BlueShield Ventures II, for the purpose of providing a structure to gain access to innovative companies and achieve significant strategic insights and returns in the healthcare insurance industry related to new ventures. The common stock of this investment is reported as an admitted asset; the private equity fund portion is nonadmitted for statutory accounting purposes.

The Company entered into a joint venture, PEAK1 Administration, LLC, with Blue Cross and Blue Shield of Montana in 2012. PEAK1 Administration, LLC provides third party administration of account-based employee benefit plans for cafeteria and non-medical ancillary product plans. The Company owned 51 percent of this joint venture. PEAK1 was sold on August 9, 2013.

The Company owned 50 percent of Idaho Benefits Administration, Inc., a joint venture with Wellpoint Health Networks. The Company contracted with Wellpoint for certain administrative services for its dental products in 2011. The Company terminated its participation in this joint venture in 2016.

In February 2012, the Company created Idaho Benefits Administration, LLC as a holding company for potential new business interests. The Company owned 100 percent of this entity at year-end 2016.

In September 2012, the Company created Network Management Initiatives (NM Initiatives, LLC), to allow the use of a non-branded network and to contract with dentists outside of Idaho. At year-end 2016, Idaho Benefits Administration, LLC owned 100 percent of NM Initiatives, LLC.

Following the passage of the Patient Protection and Affordable Care Act (PPACA), the Company was an active participant in the state-based health insurance exchange, Your Health Idaho, providing critical input and guidance as the exchange built its enrollment processes and procedures.

In 2013, Blue Cross of Idaho Care Plus, Inc. was formed for the Company's Medicare Advantage policy holders. This move, approved by the Centers for Medicare and Medicaid Services, allowed the Company to better serve the financial needs of its members based on federal tax benefits available to companies that primarily serve members in government programs.

In 2015, the Company launched an online cost transparency tool, CostAdvisor, as well as a mobile app for smartphones, giving members easy access to their health insurance information.

During 2016, the Company created new provider networks for individual health plans sold on and off the state health exchange. These new tailored health plans required a member to have a primary care physician who directed the member's care, including referrals to specialists. The Company began selling these new customized network plans in late 2016 for the 2017 calendar year.

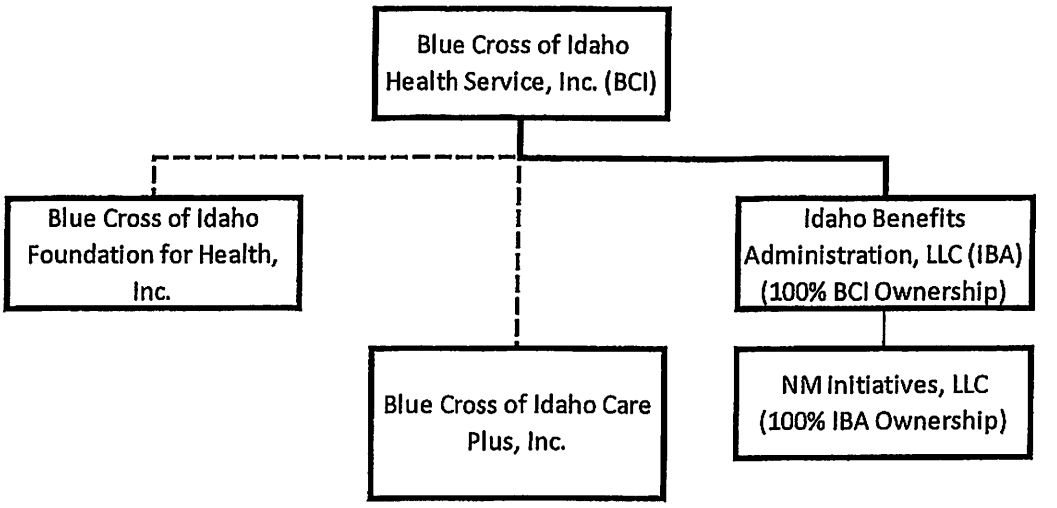
The Company continues to lead the state in innovative solutions to lower the cost of care. As of April 2017, the Company paid 47% of claims to providers as part of a value-based payment arrangement. Value-based payment methods include pay-for performance programs, bundled payments and shared-savings or shared-risk programs with physician clinics or physicians networks.

The Company is a member of the Blue Cross and Blue Shield Association. The Association serves as a national non-affiliated advisory organization for all Blue Cross and Blue Shield Plans in the United States.

MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company is a member of an insurance holding company system and is the ultimate controlling person, as depicted in the following organizational chart as of December 31, 2016:



The affiliated entities are described in more detail under the caption, *HISTORY AND DESCRIPTION.*

As previously reported, Blue Cross of Idaho Care Plus, Inc. was created on February 19, 2013. The Company filed the holding company registration statement with the Idaho Department of Insurance relating to the formation of this entity on March 8, 2013.

Directors

The Company is a taxable non-profit mutual insurance company with each policyholder being a member of the corporation. The members annually elect Company directors to staggered three-year terms.

The affairs of the Company are managed under the direction of and supervised by the Board of Directors. The Company must have at least five directors and up to seventeen directors, including the Chief Executive Officer. The number of directors is in compliance with Section 41-2835(5), Idaho Code, which requires no less than five nor more than twenty-five members. The Board is comprised of three categories of directors which must include at least one hospital director, at least one physician director, with the majority being public directors. The President and Chief Executive Officer serves as an ex officio Director.

The following persons were the duly elected or ex officio members of the Board of Directors at December 31, 2016:

Name	Principal Occupation
Catherine Lyons	Retired Executive Vice President, Hewlett Packard Company, Boise, ID
Charlene Maher	President and Chief Executive Officer, Blue Cross of Idaho, Meridian, ID
Daniel Ordyna	President and Chief Executive Officer, Portneuf Medical Center, Pocatello, ID
Gordon S. Jones	Dean of College of Innovation and Design, Boise State University, Boise, ID
Jack W. Gustavel	Chairman and Chief Executive Officer, Idaho Independent Bank, Coeur d'Alene,ID
Jo Anne Stringfield	Former Human Resources Executive, Martin Equity Partners and Micron Technology, Boise ID
Kenlon P. Johnson	President, Forde Johnson Oil Company, Inc., Idaho Falls, ID
Michael J. Shirley	Retired President & General Manager, Bogus Basin Mountain Recreation Area, Boise, ID
Micheal J. Adcox, M.D.	Nephrologist, St. Luke's Nephrology Clinic, Boise, ID
Richard K. Thurston, M.D.	Emergency Room Physician Benewah Community Hospital, St. Maries, ID
Steven L. Goddard	President and Chief Executive Officer, WinCo Foods, Boise, ID
Thomas F. Kealey	President, Silver Creek Holding Company, Boise, ID
Ward Parkinson	Vice President of Commercial Development, Ovonyx, Inc., Boise, ID

The Company's amended and restated Bylaws provide that the Board shall elect directors to serve as the Board Chair and Vice Chair. The Board Chair and Vice Chair at year-end 2016 were:

Jo Anne Stringfield	Board Chair
Kenlon P. Johnson	Board Vice Chair

Officers:

The following persons were appointed as officers of the Company as of December 31, 2016:

Name	Position
Charlene Maher	President & Chief Executive Officer
Brian Fellner (1)	Treasurer & Chief Financial Officer
Steven J. Tobiason	Secretary, Senior Vice President, General Counsel & Chief Compliance Officer
Dave Jeppesen	ExecutiveVice President, Chief Marketing Officer
Debbie Henry (1)	Senior Vice President, Human Resources and Organizational Development
Laurie Heyer	Executive Vice President, Healthcare Service Operations and Information Technology
Dr. Rhonda Robinson Beale	Senior Vice President & Chief Medical Officer
Mike Reynoldson	Vice President, Government Affairs
Lance Hatfield	Vice President and Chief Information Officer
Rex Warwick	Vice President, Sales
Dave Hutchins	Vice President, Actuarial Services & Underwriting
Sally Dimond	Vice President of Healthcare Operations

(1)-Left Company in 2017

The following new officers joined the Company in 2017:

Name	Position
Ralph Woodard	Treasurer, Senior Vice President & Chief Financial Officer
Jim Hickey	Senior Vice President, Human Resources
Keith Bushardt	Senior Vice President, Sales
Valerie Reardon	Senior Vice President, Chief Compliance & Privacy Officer
Chuck Clabots	Senior Vice President, Information Technology and Chief Information Officer
Paul Zurlo	Senior Vice President, Consumer Business
Karen Smith-Hagman	Vice President, Clinical Consult National Accounts
Drew Hobby	Vice President, Provider Partner and Payment Innovations
Amanda Tan	Vice President, Corporate Strategy
David Ward	Vice President, Controller & Chief Accounting Officer
Kevin Tighe	Vice President, Internal Audit
Kathy Whaley	Vice President, Service Operations
Stacy Gehlken	Vice President, Total Rewards and Human Resources

Committees:

Pursuant to the amended and restated Bylaws, the Board may create one or more regular or special Board committees. Each committee must include at least two directors. The Committees operate under Statements of Purpose and Organization, which set forth the purpose of each committee, responsibilities, duties, eligibility, appointment, and meetings.

Directors appointed to the Board committees at year-end 2016 are shown below:

Executive Committee	
Jo Anne Stringfield	Chair
Kenlon P. Johnson	Vice Chair
Michael J. Shirley	
Micheal J. Adcox, M.D.	
Steven L. Goddard	
Thomas F. Kealey	
Charlene Maher	Ex-Officio
Audit Committee	
Kenlon P. Johnson	Chair
Jack W. Gustavel	
Catherine Lyons	
Thomas F. Kealey	
Michael J. Shirley	
Jo Anne Stringfield	Ex-Officio
Compensation and Benefits Committee	
Steven L. Goddard	Chair
Michael J. Shirley	
Ward Parkinson	
Kenlon P. Johnson	
Micheal J. Adcox, M. D.	
Jo Anne Stringfield,	Ex-Officio
Finance Committee	
Thomas F. Kealey	Chair
Kenlon P. Johnson	
Jack W. Gustavel	
Catherine Lyons	
Michael J. Shirley	
Gordon S. Jones	
Jo Anne Stringfield	Ex-Officio
Charlene Maher	Ex-Officio
Governance Committee	
Michael J. Shirley	Chair
Micheal J. Adcox, M.D.	
Steven L. Goddard	

Ward Parkinson	
Richard K. Thurston, M. D.	
Jo Anne Stringfield	Ex Officio
Charlene Maher	Ex Officio

Nominating Committee

Michael J. Shirley	Chair
Micheal J. Adcox, M. D.	
Steven L. Goddard	
Ward Parkinson	
Richard K. Thurston, M.D.	
Jo Anne Stringfield	Ex-Officio

Quality Committee

Micheal J. Adcox, M.D.	Chair
Dan Ordyna	
Thomas F. Kealey	
Richard K. Thurston, M.D.	
Steven L. Goddard	
Catherine Lyons	
Gordon S. Jones	
Charlene Maher	Ex-Officio

Independent Public Directors Committee

Jo Anne Stringfield	Chair
Michael J. Shirley	
Kenlon P. Johnson	
Steven L. Goddard	
Jack W. Gustavel	
Thomas F. Kealey	
Ward Parkinson	
Catherine Lyons	
Gordon S. Jones	

Strategic Partnership and Innovation Committee

Jo Anne Stringfield	Chair
Thomas F. Kealey	
Catherine Lyons	
Gordon Jones	

Conflict of Interest

The Company has a conflict of interest procedure in place that applies to all directors, corporate officers, and all employees.

Within thirty days from their date of hire, all new corporate officers, managers, supervisors, administrative assistants and employees in designated sensitive areas are required to complete a Conflict of Interest Statement and Questionnaire. Annually, the Board of Directors, corporate officers, and all employees will submit a Conflict of Interest Statement to the Company.

The Company has established processes for addressing and mitigating any conflicts of interest, which includes reviews by the Company's General Counsel and Corporate Compliance Officer or Delegate. Furthermore, summaries of conflicts of interest reported by Company employees are submitted to the Board of Directors for their review.

Conflict of interest questionnaires that were completed for the period January 1, 2013, through December 31, 2016, and subsequent thereto, appeared to appropriately disclose any real or potential conflicts of interest.

Contracts and Agreements

Agreements with Affiliate

The Company had the following agreements in effect with its affiliate, Blue Cross of Idaho Care Plus, Inc. (ICP), as of December 31, 2016:

Guarantee Agreement

In February 2013, the Company and ICP entered into a Financial Guarantee agreement whereby the Company guarantees to the full extent of its assets, all of the contractual and financial obligations of ICP to its customers, in accordance with the Blue Cross Blue Shield Association Guidelines to administer the Controlled Affiliate License Agreement. As of December 31, 2016, ICP's assets exceeded its liabilities; therefore, no liability under this agreement was required to be recorded for BCI.

Asset Transfer, Assignment and Assumption Agreement

The Company and ICP entered into an Asset Transfer, Assignment and Assumption Agreement, which was approved by the Centers for Medicare and Medicaid Services (CMS) for an effective date of October 1, 2014, to transfer from the Company to ICP the rights, title and interest in Medicare Advantage Plan contracts, and the Medicare-Medicaid Coordinated Plan with the State of Idaho Department of Health and Welfare.

Administrative Services Agreement

The Company entered into an administrative services agreement with ICP on February 21, 2013, and was later amended on June 29, 2017 with a retroactive effective date on January 1, 2015. In

this agreement, the Company agreed to provide various services to support ICP's operations. The charge to ICP is the lower of the fair market value as determined by market research or the cost derived from the Company's allocation methodology.

Third Party Agreements

The Company had the following agreements in effect at December 31, 2016:

Agreement with State of Idaho Department of Health and Welfare

The Company entered into a contract with the State of Idaho Department of Health and Welfare to administer the State's dental insurance plan for Medicaid enrollees, otherwise known as "Idaho Smiles".

Under the contract, the Company provides insurance coverage by maintaining a statewide network of qualified and licensed dental care providers to eligible Idaho Medicaid participants. In addition, the Company is responsible for processing and paying claims for all covered dental benefits provided to eligible participants for whom the Company is paid a premium (fixed fee).

The Company is paid a fixed fee per eligible participant per month. The per participant per month fees paid to the Company must be inclusive of all services in the contract. From this fixed fee, specific dollar amounts are allocated to administrative costs and to provider costs. The administrative cost portion is fixed for the first five years of the agreement and then negotiated annually thereafter. The portion allocated to provider costs is adjusted annually by a percentage determined by Health and Welfare. The Company must increase the dental provider's reimbursements by at least this percentage adjustment.

This contract was terminated on February 1st, 2017.

Service Agreement with BlueCross BlueShield of South Carolina

The Company entered into a service agreement with BlueCross BlueShield of South Carolina (BCBSSC) effective January 1, 2009. Under this agreement, BCBSSC agreed to provide certain services (the "Initial Implementation" and the "Production Service") to assist the Company with the processing of certain electronic transactions conducted through the Inter-Plan Teleprocessing system established by Blue Cross Blue Shield Association. This agreement was terminated on July 22, 2017.

Medicaid Provider Agreement

The Company entered into a Medicaid Provider Agreement with the Idaho Department of Health & Welfare on November 13, 2006. Under this agreement, the Company agreed to provide services in accordance with government regulations governing the reimbursement of services and items under Medicaid in Idaho.

Prescription Benefit Services Agreement

The Company entered into a Prescription Benefit Services agreement with Caremark PCS Health, LLC (Caremark) effective September 1, 2012. Under this agreement, Caremark agreed to furnish certain drug benefit management and related services to the Company for individuals and groups that purchased coverage with such benefits.

Master Services Agreement

The Company entered into a Master Services agreement with AIM Specialty Health (AIM) effective October 1, 2013. In this agreement, AIM agreed to provide diagnostic imaging utilization management and sleep utilization management services to the Company.

PlanConnexion Hosting Services Agreement

The Company entered into a PlanConnexion Hosting Services agreement with Blue Cross Blue Shield Association (BCBSA) effective June 1, 2014. In this agreement BCBSA agreed to provide services in connection with PlanConnexion for the Company. It includes hosting, supporting and professional services. The purpose of these services is to assist the Company in fulfilling its obligations for participating in Inter-Plan programs.

Vision Care Agreement

The Company entered into a Vision Care agreement with Vision Service Plan of Idaho, Inc. (VSP) effective January 1, 2015. Under this agreement, the Company agreed to engage the services of VSP to arrange for the provision of vision care services. VSP acted as a subcontractor of the Company.

Marketing and Administrative Agreement

The Company entered into a Marketing and Administrative agreement with Willamette Dental of Idaho, Inc. (Willamette). Under this agreement, Willamette agreed to provide dental services for the Coordinated Care Dental Plan at Willamette's dental offices. This Plan is a Managed Care Dental Plan offered by the Company with dental services provided by Willamette.

Administrative Services Agreement

The Company entered into an Administrative Services Agreement with DentaQuest, LLC (DentaQuest). Under this agreement, DentaQuest agreed to provide dental services to Medicare Advantage Special Needs Participants on the Company's behalf.

Indemnification Agreement (Directors)

The Company entered into an Indemnification Agreement with each member of the Board of Directors as of December 31, 2016. Under this agreement, the Company agreed to indemnify the director against all obligations to pay money or perform or not perform actions arising from, related to or connected with any threatened, pending or completed action, suit or proceeding and

including without limitation any claim made by or in the right of the Company that involves the director.

Indemnification Agreement (Employees)

The Company entered into an Indemnification Agreement with each key employee as of December 31, 2016. Under this agreement, the Company agreed to indemnify the employee against all obligations to pay money or perform or not perform actions arising from, related to or connected with any threatened, pending or completed action, suit or proceeding that involves the employee.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There was no amendment on the Articles of Incorporation during the examination period.

The Company's Bylaws were amended once during the examination period. The Board of Directors adopted the changes at their meeting of September 8, 2014. The amended and restated Bylaws were submitted to the Idaho Department of Insurance pursuant to Section 41-2830(3), Idaho Code. In a letter to the Company dated August 29, 2014, the Department indicated the amended and restated Bylaws are not disapproved and may be used by the Company.

Minutes of Meetings

A review of the minutes of the meetings of the Policyholders, the Board of Directors, and the various committees for the period January 1, 2013, through December 31, 2016, and subsequent thereto, indicated compliance with the Company's Articles of Incorporation and Bylaws with respect to the election of the Board of Directors and Officers, and the election or appointment of Committee members.

This review of the minutes also indicated that a quorum was present at all Board of Directors' meetings held during the examination period and that significant Company transactions were properly authorized.

Investment transactions were approved by the Finance Committee, which is charged by the Board of Directors with the duty of reviewing and considering approval of all investment transactions, in compliance with Section 41-704, Idaho Code. Furthermore, the Company maintained records of its investments in conformity with Section 41-705, Idaho Code.

The external auditors presented the audited financial statements and required communications to the Company's Audit Committee as required under IDAPA 18.01.62.021.06.

The minutes of the Board of Directors' meeting held on July 19, 2014, indicated that the Board discussed the Report of Examination as of December 31, 2012, conducted by the Idaho Department of Insurance.

FIDELITY BOND AND OTHER INSURANCE

The Company's corporate insurance coverages included a financial institutional bond, which covered losses resulting from dishonest or fraudulent acts committed by employees up to $1.75 million per single loss. The deductible was $50,000 per single loss. The financial institutional bond insurance coverage met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook.*

Other insurance maintained by the Company included director and officers liability; errors and omissions liability; employment practice liability; commercial property; general liability; business automobile; umbrella excess liability; employee benefits liability, fiduciary liability, privacy liability and network risk insurance, workers compensation and employers liability coverages.

The insurance carriers providing coverages to the Company were licensed or otherwise authorized in the State of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Defined Benefit Plan

The Company sponsors a noncontributory defined benefit pension plan for employees, which is administered by the Blue Cross and Blue Shield Association National Employee Benefit Administration covering substantially all of its employees hired before January 1, 2007. Employees hired on or after January 1, 2007, are not eligible to participate in the defined benefit retirement program, but may receive an enhanced benefit of an additional 2.5 percent annual Company contribution to their 401(k) Plan. In October 2016, the Company announced that the pension plan was amended to freeze all future benefit accruals effective January 1, 2017. Only retirement earnings and years of service through and including January 1, 2017, will be considered in the calculation of the participants' retirement program benefit. All participants were fully vested as of the freeze date. The effect of the amendment generated a curtailment gain of $20.8 million recorded in surplus, recognizing prior service costs and transition obligations included in the projected benefit obligation, although the December 31, 2016 accumulated plan obligations were unaffected. The Company's contribution to the 401(k) Plan for the enhanced benefit was $1.0 million for the year ended December 31, 2016. The Company accrued benefits in accordance with actuarially determined amounts. The Company contributed $8 million to the defined benefit retirement program in 2016.

The Company reported a benefit obligation of $78.3 million at December 31, 2016, for this defined benefit plan. Fair value of plan assets was $84.0 million at December 31, 2016.

Employee Retirement Savings Plan - 401(k) Plan

The Company provides a 401(k) salary deferral plan that covers all employees from date of hire who have attained age 18. The Company made matching contributions equal to 100 percent of the employee's deferral up to 3 percent of the employee's annual salary and 50 percent of the employee's additional deferrals up to 5 percent of the employee's annual salary. The Company's matching contributions were $2.3 million in 2016.

Postretirement Benefit Plans

The Company also provides health and life insurance benefits for certain retired employees and, in the case of health insurance, for their eligible dependents. These benefits are provided once the employee becomes eligible by satisfying plan provisions, which include certain age and/or service and participation requirements. The Company's postretirement benefit plans, other than pension plans, are unfunded. Employees retiring on or after January 1, 2010, are not eligible to participate in the Company's retiree life plan. The net postretirement benefit obligation for vested and nonvested employees was $26.0 million as of December 31, 2016.

Employee Insurance Plans

The Company provides a non-contributory long term disability program for regular full-time and eligible part-time employees. The Company also provides a group health care, dental and vision plan for which the employee contributes part of the premium. Group life and accidental death and dismemberment coverages are offered for which the employee contributes part of the premium. Additional voluntary group accidental death coverage and group universal life plans were also made available to the employees at their own expense. A flexible spending account was also made available to Company employees to pay for eligible health-related, dependent care expenses, or group health care expenses as qualified by Section 125(d) of the Internal Revenue Code.

Executive Plans - Whole Life Policies

The Company had two corporate whole life par policies in effect for former highly compensated key personnel. The policies were established in trust as a deferred compensation and supplemental retirement plan for employed corporate officers. The Rabbi trust was originally established in 1993 and the Company was the beneficiary and owner of the policies. The policies remain in place as of December 31, 2016.

Supplemental Executive Retirement Plan

In December 1994, the Company established the non-contributory retirement program for certain Company employees. This is the Company's Defined Benefit Pension plan for certain executive level employees. The purpose of this program is to provide benefits for employees whose benefits would be reduced as a result of the benefit limitations of Sections 401(a)(17) and 415 of the Internal Revenue Code. The Company uses a Rabbi trust to fund the plan. In November 2016, the Company announced that this plan was amended to freeze all future benefit accruals effective January 1, 2017.

Executive Deferred Compensation Plan
This plan allows executive level employees to elect a portion of their compensation to be deferred and within the meaning of Sections 201(2), 301(a)(3), and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. Benefits under this plan are to be paid solely from the general assets of the Company. Investment elections are directed by participants and related investment earnings are credited to each participant's account.

Long Term Incentive Plan
The Long Term Incentive Plan (LTIP) was established to recognize and reward key executives of the Company in a position to substantially impact the achievement of long term performance goals. Each year participants are granted an award based on a predetermined percentage of their pay contingent upon the individual and Company achieving established 3-year performance objectives. Participants are paid the amount of the award earned as soon as administratively practicable following the close of the applicable performance period.

Incentive Plans
Various corporate incentive plans have been set up by the Company with the objective to improve performance and productivity and to reward individuals that helped to accomplish the agreed upon goals. These incentive plans are based upon monthly, quarterly or annual performance targets. The Federal Employees Program incentive consists of a dollar amount that is determined by the national program, which is then divided among eligible employees.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of Idaho as a taxable non-profit mutual insurance company authorized to write disability insurance, including managed care. In addition to the home office located in Meridian, Idaho, the Company maintains four district offices located throughout Idaho in the cities of Coeur d'Alene, Idaho Falls, Pocatello, and Twin Falls. The primary functions of the district offices include marketing, policyholder service, and writing new business. Claims processing is performed in the home office.

The Company provided health care services to group and individual subscribers utilizing participating/contracting providers as a means of fulfilling their contractual obligations. In addition, the Company provided administrative services to companies which have self-funded a portion of their employees' health care claims, and the Federal Employee Health Benefit Plan to federal government employees.

During the examination period, the Company provided traditional individual major medical and Medicare supplement plans, Medicare Advantage plans, small and large group plans, Preferred Provider Organization plans, Managed Care plans and also administered Administrative Service Contracts (ASC) for self-funded plans. As previously reported under *MANAGEMENT AND CONTROL, Contracts and Agreements*, the Company began administering and paying the claims to participants of the State of Idaho Medicaid dental program, "Idaho Smiles "during the prior

examination period. The State of Idaho Medicaid dental program contract was terminated on February 1st, 2017.

The Company marketed its insurance products through commissioned producers and agencies and utilized a field force of approximately 1,357 appointed producers.

Agencies and individual agents become appointed to sell health insurance plans by signing a Producer Agreement. The Agreement includes an Addendum that pertains to privacy issues and responsibilities. There is also a Medicare Advantage Addendum to the Agreement that outlines the requirements that must be signed by agents who sell Medicare Advantage products. The Producer Agreement contains standard language, such as agency and agent responsibilities, confidentiality, indemnification, hold harmless and compensation information. The contracts may be terminated by either party by written certified notice or personal delivery. The termination date will be effective 30 days after the date a written notice is mailed by either party.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2016, the examination confirmed with the Idaho Department of Insurance that the Company had made provision for the following deposits to be held in trust for the protection of all its policyholders and/or creditors through said office of the Director of Insurance, State of Idaho, in compliance with Section 41-316A, Idaho Code.

Description	Par Value	Fair Value	Book Value
US Treasury Notes, 1.375 percent, Due 11/30/2018	$1,000,000	$1,003,630	$ 999,532
First American Government Obligations Fund	50,000	50,000	50,000
Totals:	$1,000,000	$1,053,630	$1,049,532

GROWTH OF THE COMPANY

The following represents the Company's premium activity and its relationship to surplus over the period of our examination:

	2016	2015	2014	2013
Net Written Premium	$1,175,160,271	1,212,774,013	1,368,941,907	1,243,606,465
Policyholder Surplus	$ 486,631,870	434,875,126	498,634,634	541,034,316
Net Written Premium to Policyholder Surplus Ratio	241%	279%	275%	230%

The Company reported $3.6 million and $37.6 million of underwriting losses in 2014 and 2015 respectively due mainly to direct losses in the government health care exchange business.

The Company contributed a total of $50 million (surplus notes) for the formation of its affiliate, Blue Cross of Idaho Care Plus, Inc. (ICP) from 2013 through 2015. In addition, the Company transferred $19 million to ICP in consideration for the losses inherent in the transfer of business from the Company to ICP. These factors contributed to the reduction of the Company's admitted assets and capital and surplus in 2014 and 2015.

LOSS EXPERIENCE

The ratios of benefits and expenses to premium shown in the following schedule were derived from amounts reported in the Company's Annual Statements:

	2016	2015	2014	2013
Net Premiums Earned	$ 1,173,573,251	1,202,518,893	1,367,153,709	1,244,222,742
Claims Incurred	$ 1,036,297,544	1,116,902,295	1,234,258,801	1,081,226,588
Claims Adjustment Expenses Incurred	$ 26,812,689	27,198,048	35,394,495	33,163,374
Total Claims and Claims Adjustment Expenses Incurred	$ 1,063,110,233	$ 1,144,100,343	$ 1,269,653,296	$ 1,114,389,962
Total Loss and Loss Adjustment Expenses Incurred to Net Premiums Earned	91%	95%	93%	90%

Premiums and expenses decreased in 2015 and 2016 which was primarily due to the absence of Medicare and Medicaid premiums and claims following the transfer of these lines of business to the Company's affiliate, ICP. Loss ratios increased in 2014 and 2015 were the direct result of losses with government health care exchange business.

REINSURANCE

Reinsurance Assumed

The Company did not assume any reinsurance during this examination period.

Reinsurance Ceded

The Company had the following ceded reinsurance contracts in effect as of December 31, 2016:

Type of Contract	Reinsurer	Business Covered	Company's Retention	Coverage
Stop Loss Medical Excess of Loss	Axis Insurance Company (100%)	Stop Loss Medical business administered by the Company (self-	$2 million per member during any one policy period	100% of the ultimate net loss in excess of the Company's retention of $2 million for any one member.

	Princeton, New Jersey	funded) which provides coverage above the Company's $2 million retention per member		The liability for ultimate net loss for any one member shall be unlimited during any one policy period
Fully Insured Medical Excess of Loss	Axis Insurance Company (100%) Princeton, New Jersey	Fully insured medical business which provides coverage above the Company's $2 million retention per member	$2 million per member during the term of this contract (1/1/2016-1/1/2017)	100% of the ultimate net loss in excess of the Company's retention of $2 million for any one member. The liability for ultimate net loss for any one member shall be unlimited during the term of this contract
Medicare Advantage Excess of Loss	Axis Insurance Company (100%) Princeton, New Jersey	Medicare Advantage and Dual Eligible insurance business which provides coverage above the Company's $2 million retention per member	$2 million per member during the term of this contract (1/1/2016-1/1/2017)	100% of the ultimate net loss in excess of the Company's retention of $2 million for any one member. The liability for ultimate net loss for any one member shall be unlimited during the term of this contract

Axis Insurance Company (Axis) is an authorized insurer in the State of Idaho. Effective January 1, 2017, Swiss Re Life & Health America Inc. (Swiss Re) replaced Axis as its reinsurer. Swiss Re is also an authorized insurer in the State of Idaho.

The above reinsurance contracts carry adequate risk transfer in compliance with Statement of Statutory Accounting Principle (SSAP) 62R.

Small Employer Health Reinsurance Program (SEHRP)

This is a voluntary reinsurance program created by Idaho's Small Employer Health Insurance Availability Act, Idaho Code, Title 41, Chapter 47.

The reinsurance is available for employers who have 2 to 50 employees at the beginning of the plan year, the majority of whom are employed in Idaho. Under this program, an insurer can choose to reinsure either all members of an employer or a particular member within 60 days of the commencement of coverage with the insurer. The insurer may terminate reinsurance on the health benefit plan's anniversary.

The amount of claims the reinsurance covers is set annually by the SEHRP board. For the exam period, the reinsurance covers 90% of the re-adjudicated claim amount between $14,000 and $109,555 and 100% of the claims between $109,555 and $123,555 for a maximum of $100,000 paid by the reinsurance pool.

The claim amount that would be considered for reinsurance is based on what would have been paid if the insured were covered under the Small Employer Standard benefit plan, rather than the plan design that the Small Employer actually has.

Premium rates are set annually by the board. The premium rates are higher when a single member is reinsured than when an entire small employer is reinsured.

The program's board assesses Idaho carriers the following year for any shortfall between premiums and claims plus administrative expenses based on the carrier's Idaho Health Insurance premium excluding the Federal Employee Health Benefit Plan, Short Term Medical insurance, Dental and Vision coverage, Medicare Advantage, Medicare Supplement, and Excess Loss Reinsurance.

In 2016, the Company ceded $88,163 of premium and had recovered $198,297 under this program.

Idaho High Risk Reinsurance Pool

The Company also participates in the Idaho Individual High Risk Reinsurance Pool. Under this Pool, the Company could submit high risk applicants to the pool if said applications were denied a preferred program, based on a health statement application, or if the premium for the preferred program was higher than the High Risk Program counterpart.

The Board of Directors of the Idaho Individual High Risk Reinsurance Pool were responsible for the design of the individual Basic, Standard, Catastrophic A and Catastrophic B high risk plans and also established the premium rates for the plans. The Company had to meet a $5,000 deductible per person per calendar year and was also responsible for 10 percent coinsurance of the next $25,000 of benefit payments during a calendar year and the pool reinsured the remainder. Lifetime policy maximums were determined by the plan selected. In 2005, Health Savings Account compatible health plans were also added to pool eligibility. The amount covered is 90% of claim cost between $5,000 and $30,000 and 100% of the claim cost over $30,000. The underlying policies have a $1,000,000 maximum coverage.

Insurer premium rates for the program are set annually by the board. The program is also funded through an allocation of premium taxes and through grants from the Federal Government. If the program has insufficient funds to administer and pay reinsurance claims, the shortfall would be made up by an assessment of Idaho insurers. There has never been an assessment, and no assessment is anticipated in the foreseeable future.

In 2016, the Company ceded $144,973 of premiums to this pool and had recovered $489,997 from it.

Transitional Affordable Care Act (ACA) Reinsurance Program

Health Care Reform established a temporary three-year reinsurance program for the years 2014-2016, whereby all issuers of major medical commercial insurance products and self-insured plan sponsors are required to contribute funding in amounts set by the U.S. Department of Health and Human Services (HHS). Funds collected are utilized to reimburse issuers' high claims costs incurred for qualified individual members. The expense related to this required funding is reflected in general administrative expenses for all insurance products with the exception of products associated with qualified individual members, which is reflected as a reduction of premium revenue. When annual claim costs incurred exceed a specified attachment point, the Company is entitled to certain reimbursement under this program.

INSURANCE PRODUCTS AND RELATED PRACTICES

A separate limited scope market conduct examination as of December 31, 2016, was conducted concurrently with the financial examination by the Idaho Department of Insurance. The results of the routine targeted market conduct examination will be submitted to the Director separately.

ACCOUNTS AND RECORDS

General Accounting

The Company's claims payment, processing, group administration, membership/billing administration, provider administration, customer service, commissions, and benefits administration applications were performed on an off the shelf claims system.

In 2013 and 2014, the general ledger and supporting accounting records were maintained on a GAAP basis and then adjusted to a statutory basis of accounting through adjusting journal entries. Beginning in 2015, the general ledger and supporting accounting records have been maintained on a modified statutory basis for internal reporting, and are adjusted to a statutory basis through adjusting journal entries.

The Company has two current practices prescribed by the Idaho Department of Insurance that differ from NAIC Statutory Accounting Principles. The prescribed practices relate to amortization periods for cost of electronic and mechanical machines set forth under Section 41-601(11), Idaho Code and Section 41-601(12), Idaho Code which permits office equipment, office furniture, and private passenger automobiles as admitted assets.

Independent Accountants

The annual independent audits of the Company were performed by Eide Bailly LLP from 2014 through 2016. The 2013 audit was performed by KPMG LLP.

The financial statements in each audit report were on a statutory basis. There was some reliance on the 2016 audit report and work papers in this examination of the Company.

Actuarial Opinion

The unpaid claim reserves and unpaid claims adjustment expenses and related actuarial items were calculated and certified by the Company's actuary, David Hutchins, FSA, MAAA. The December 31, 2016 statement of actuarial opinion stated that the amounts carried in the balance sheet:

(A) Are in accordance with accepted actuarial standards consistently applied and are fairly stated in accordance with sound actuarial principles;

(B) Are based on actuarial assumptions relevant to contract provisions and appropriate to the purpose for which the statement was prepared;

(C) Meet the requirements of the insurance laws and regulations of the State of Idaho;

(D) Make a good and sufficient provision of all unpaid claims and other actuarial liabilities of the organization under the terms of its contracts and agreements;

(E) Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statements of the preceding year-end; and

(F) Include appropriate provision of all related actuarial items that ought to be established.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by Risk & Regulatory Consulting, LLC, consulting actuary for the Idaho Department of Insurance.

See the *NOTES TO THE FINANCIAL STATEMENTS* section, later in this report, for further discussion regarding the Department's consulting actuary's analysis.

SUBSEQUENT EVENTS

The examination noted no significant events affecting the financial condition and solvency of the company as of the date of this report.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2016

Statement of Revenue and Expenses, For the Year Ending December 31, 2016

Capital and Surplus Account, For the Year Ending December 31, 2016

Reconciliation of Capital and Surplus Account, December 31, 2012, through December 31, 2016.

BALANCE SHEET
As of December 31, 2016

ASSETS

	Assets	Non Admitted Assets	Net Admitted Assets
Bonds	$407,425,016	$ 0	$407,425,016
Preferred stocks	2,419,987	0	2,419,987
Common stocks	179,624,497	381,892	179,242,605
Real estate, properties occupied by the company	19,770,099	0	19,770,099
Cash, cash equivalents and short-term investments	24,514,996	0	24,514,996
Other invested assets	77,289,662	77,289,662	0
Receivables for securities	9,640,259	0	9,640,259
Investment income due and accrued	2,768,476	0	2,768,476
Uncollected premiums and agents' balances in the course of collection	3,822,713	116,464	3,706,249
Accrued retrospective premiums	3,696,316	854,573	2,841,743
Amounts recoverable from reinsurers	16,473,986	289,800	16,184,186
Amounts receivable relating to uninsured plans	12,517,000	2,690,193	9,826,807
Net deferred tax asset	25,911,735	8,065,201	17,846,534
Electronic data processing equipment & software	9,772,954	6,572,615	3,200,339
Furniture and equipment, including health care delivery assets	2,001,984	0	2,001,984
Receivable from affiliate	4,749,189	0	4,749,189
Health care and other amounts receivable	46,651,635	21,187,080	25,464,555
Aggregate write-ins for other than invested assets:			
Other benefits costs	2,443,709	2,443,709	0
Prepaid expenses and miscellaneous receivables	9,802,772	9,745,247	57,525
Cash value life insurance	1,027,375	0	1,027,375
ACA cost sharing reduction	3,205,630	0	3,205,630
FEP rate stabilization reserve (Note 1)	34,164,150	0	34,164,150
Total Assets	$899,694,141	$129,636,436	$770,057,705

LIABILITIES, CAPITAL AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid (less $105,117 reinsurance ceded) (Note 1)	$111,947,425	$ 0	$111,947,425
Unpaid claims adjustment expenses (Note 1)	703,000		703,000
Aggregate health policy reserves (Note 1)	43,054,564		43,054,564
Premiums received in advance	16,619,760		16,619,760
General expenses due or accrued	59,763,027		59,763,027
Current income tax payable	6,454,688		6,454,688
Ceded reinsurance premiums payable	1,512,444		1,512,444
Amounts withheld or retained for the account of others	9,556,126		9,556,126
Remittances and items not allocated	110,423		110,423
Payable for securities	20,928,628		20,928,628
Liability for amounts held under uninsured plans	12,775,750		12,775,750
Total liabilities	$283,425,835	$ 0	$283,425,835
Unassigned funds (surplus)			$486,631,870
Total capital and surplus			$486,631,870
Total Liabilities, capital and surplus			$770,057,705

STATEMENT OF REVENUE AND EXPENSES

For the Year Ending December 31, 2016

	Per Examination and Per Company
Net premium income	$1,175,160,271
Change in unearned premium reserves and reserve for rate credits	(1,615,495)
Fixed Asset Disposal & Other Income	28,475
Total revenues	$1,173,573,251
Hospital and Medical:	
Hospital/medical benefits	$ 738,155,497
Other professional services	120,811,998
Outside referrals	10,736,908
Emergency room and out-of-area	16,865,783
Prescription drugs	149,727,358
Subtotal	$1,036,297,544
Less:	
Net reinsurance recoveries	$ 18,671,884
Total Hospital & Medical	$1,017,625,660
Claims adjustment expenses, including $11,287,272 cost containment expenses	$ 26,812,689
General administrative expenses	130,737,329
Total underwriting deductions	$1,175,175,678
Net underwriting loss	$ (1,602,427)
Net investment income earned	$ 21,234,329
Net realized capital gains, less capital gains tax of $3,245,997	9,041,138
Net income before federal income taxes	$ 28,673,040
Federal and foreign income taxes incurred	17,653,824
Net income	$ 11,019,217

CAPITAL AND SURPLUS ACCOUNT
For the Year Ending December 31, 2016

	Per Company	Examination Changes	Per Examination
Capital and surplus, December 31, 2015	$458,543,049	$ 0	$458,543,049
GAINS AND (LOSSES) IN SURPLUS			
Net income	$ 11,019,217	$ 0	$ 11,019,217
Change in net unrealized capital gains	3,483,475	0	3,483,475
Change in net deferred income tax	(458,953)	0	(458,953)
Change in nonadmitted assets	(9,264,144)	0	(9,264,144)
Other comprehensive income	23,309,224	0	23,309,224
Net change in capital and surplus	$ 28,088,821	$ 0	$ 28,088,821
Capital and surplus, December 31, 2016	$486,631,870	$ 0	$486,631,870

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT
December 31, 2012 Through December 31, 2016

	2013	2014	2015	2016
Capital and surplus, December 31, previous year	$ 485,668,585	$ 541,034,316	$524,764,084	$458,543,049
Net income	39,349,643	5,927,752	(3,086,201)	11,019,217
Change in net unrealized capital gains	20,535,179	9,060,075	(18,133,864)	3,483,481
Change in net deferred income tax	8,162,898	15,676,642	12,286,818	(458,962)
Change in nonadmitted assets	77,770	(33,295,025)	(48,974,225)	(9,264,142)
GAAP-STAT difference (Pension, Bond Valuation)	(971,985)	1,887,960	0	0
Change in pension and post-retirement benefits	(11,787,774)	(20,632,329)	10,686,437	23,309,227
Unrealized loss change on dissolution of joint venture	0	5,104,693	0	0
Amount paid to affiliate on transfer line of business	0	0	(19,000,000)	0
Net change in capital and surplus	$ 55,365,731	$(16,270,232)	$ (66,221,035)	$ 28,088,821
Capital and surplus, December 31, current year	$ 541,034,316	$ 524,764,084	$ 458,543,049	$486,631,870

NOTES TO THE FINANCIAL STATEMENTS

Note (1) FEP rate stabilization reserve	$ 34,164,150
Claims unpaid (less $105,117 reinsurance ceded)	111,947,425
Unpaid claims adjustment expenses	703,000
Aggregate health policy reserves	43,054,564

Risk & Regulatory Consulting, LLC (RRC), was retained by the Department to review the above actuarial liabilities and reserves as of December 31, 2016.

Shumei Kuo F.S.A., M.A.A.A., performed the actuarial review. She relied on the testing/results of the Company's controls performed by the internal and external auditors. She also reviewed the Company's reserving assumptions and methodology as documented in its actuarial memorandum and performed a hindsight analysis of year-end 2016 incurred but not reported (IBNR) using paid claims through June 30, 2017.

Based upon RRC's review, it appears the Company used appropriate and typical actuarial methods in establishing its aggregate claim liabilities and reserves. Furthermore, RRC concluded that the Company was holding adequate liabilities at year-end 2016 for the lines of coverage and risks reviewed and that the FEP amount was appropriately computed.

SUMMARY

Summary

The results of this examination disclosed that as of December 31, 2016, the Company had admitted assets of $770,057,705, liabilities of $283,425,835, and unassigned funds of $486,631,870. Therefore, the Company's total capital and surplus exceeded the $2,000,000 minimum prescribed by Section 41-313, Idaho Code.

ACKNOWLEDGEMENT

The undersigned acknowledges the assistance and cooperation of the Company's Directors, Officers and employees in conducting the examination.

In addition to the undersigned, Shumei Kuo, F.S.A., M.A.A.A, Risk & Regulatory Consulting, LLC, conducted the actuarial portion of the examination. The Company's information systems were reviewed by Information System Specialist, Joanna Latham, CPA, CFE, AES, CISA, CRISC, on behalf of Jennan Enterprises LLC.

Respectfully submitted,

Kelvin Ko, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of California
County of Los Angeles

Kelvin Ko, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of Blue Cross of Idaho Health Service, Inc. for the period from January 1, 2013 through December 31, 2016, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

Kelvin Ko, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 11 day of September, 2018 at San Gabriel

Notary Public

My commission expires: 02/12/2020

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