

FINANCIAL EVALUATION

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused to Blue Cross and Blue Shield of North Carolina, as of December 31, 2016 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 12th day June, 2018.

Mike Causey
Commissioner of Insurance



Ke Xu, CPA, CFE
Chief Financial Examiner
Examination Section



Blue Cross and Blue Shield of North Carolina

Durham, North Carolina

Report on Examination

As of December 31, 2016

Blue Cross and Blue Shield of North Carolina

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January 31, 2018

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section 58-65-105 of the General Statutes of North Carolina ("G.S."), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Blue Cross and Blue Shield of North Carolina

(hereinafter referred to as the "Company"), at its main administrative office located at 4615 University Drive, Durham, North Carolina 27707. The Company's statutory home office is located at 4705 University Drive, Building 700, Durham, North Carolina 27707. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

This examination covers the period from January 1, 2012, to December 31, 2016, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department's most recent prior examination of the Company was as of December 31, 2011.

This examination was a coordinated examination and was conducted concurrently with the examination of its subsidiary, Blue Cross and Blue Shield of North Carolina Senior Health.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. This examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The key functional activities identified are Cash and Investments, Premiums and Underwriting, Claims and Reserves, Financial Reporting and Other Transactions. The examination process includes assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with G.S. Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

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REPORT ACRONYMS

The following acronyms are used in this report:

ACS	ACS Benefits Services, LLC
BCBSNC	Blue Cross and Blue Shield of North Carolina
Senior Health Association	Blue Cross and Blue Shield of North Carolina Senior Health Association
Corium	Blue Cross and Blue Shield Association
Corium II	Corium, LLC
NobleHealth	Corium II, LLC
	NobleHealth, Inc.

SUMMARY OF EXAMINATION FINDINGS

Comments, Recommendations and Directives

The Company disclosed the joint venture impairments in an incorrect footnote on the Notes to Financial Statements, which is not in accordance with the NAIC Annual Statement Instructions. Additionally, the Company did not report these impairments, which were recognized in each of the four quarters of 2016, in its quarterly statements. The Company is directed to provide accurate financial reporting in future filings with the Department, pursuant to G.S. 58-2-165.

COMPANY HISTORY

The Company is a nonprofit health services company domiciled in the state of North Carolina. The Company provides a comprehensive spectrum of benefits products to customers primarily located in North Carolina, and holds the exclusive licenses to use the Blue Cross and Blue Shield name and service marks in North Carolina. The Company was incorporated on January 1, 1968, and commenced business on January 1, 1968. The Company has the authority to write insurance as a health service organization under the laws of Article 65 of Chapter 58 of the G.S.

MANAGEMENT AND CONTROL

Board of Trustees

The business of the Company is managed by its management designated by the board of trustees ("Board"). The bylaws specify that the number of trustees shall not be less than 12, but not more than 16. Trustees are elected annually, at the annual meeting of the Board, for a term of four years, other than the CEO whose term is as long as he or she is serving as CEO.

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The following individuals were serving as trustees at December 31, 2016:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Frank B. Holding, Jr.	Raleigh, NC	CEO, First Citizens Bank
James B. Wilson	Durham, NC	President/ CEO, BCBSNC
Roberta B. Bowman	Bluffton, SC	Bowman Strategic Advisors
Walter C. Davenport	Raleigh, NC	Retired Partner, Cherry Bekaert
Jeffrey T. Barber	Charlotte, NC	Director, Fennesbreques & Co.
Lars S. Nelson	Chapel Hill, NC	Launch CEO/ Chairman, Carbon3D, Inc.
William H. Bryan	Mount Olive, NC	Executive Chairman, Mount Olive Pickle Co.
Harold L. Martin, Sr.	Greensboro, NC	Chancellor, NC A&T University
Anita R. Brown-Graham	Chapel Hill, NC	UNC School of Government
John O. McNairy	Kinston, NC	President & CEO, Tidewater Transit
Jimmy W. Phillips	Greensboro, NC	Brooks, Pierce, McLendon, Humphry, LLP
Lisa A. Carey	Chapel Hill, NC	Professor/ Director, UNC Chapel Hill
John D. Kimberly	Asheville, NC	President, Carolina Alliance Bank

Committees

The bylaws establish the requirement for the Company to have four committees: Executive, Governance and Nominating, Personnel and Compensation, and Audit. The established committees and the individuals elected and serving at December 31, 2016, were as follows:

Executive Committee

Lars S. Nelson, Chairman
Jeffrey T. Barber
Roberta B. Bowman
Frank B. Holding
Jimmy W. Phillips
James B. Wilson

Governance and Nominating Committee

Jimmy W. Phillips, Chairman
Anita R. Brown-Graham
Lisa A. Carey
Walter C. Davenport
Lars S. Nelson

Personnel and Compensation Committee

Roberta B. Bowman, Chairman
William H. Bryan
Walter C. Davenport
Frank B. Holding Jr.
Lars S. Nelson
Jimmy W. Phillips

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Audit Committee

C. Daryl Hollis, Chairman

Anita R. Brown-Graham

Jeffery T. Barber

Lisa A. Carey

Walter C. Davenport

Harold L. Martin Sr.

Officers

The bylaws provide that the Board shall appoint the officers of the Company. The officers of the Company consist of a CEO, (who may also be the President) a President, a Secretary, a CFO, a General Counsel and such other officers deemed appropriate (collectively, "Senior Officers") by the Board. Each Senior Officer shall hold office until death, resignation, retirement, removal, or disqualification, or until a successor shall have been appointed. The CEO, may from time to time, provides that any two Senior Officer positions shall be held by the same person, but no officer may act in more than one capacity where action of two or more officers is required.

The following individuals were serving as officers at December 31, 2016:

James B. Wilson, President & CEO

Maureen K. O'Connor, Executive Vice President, Diversified Businesses

Mitchell W. Perry, Senior Vice President, CFO & Treasurer

Nathan K. Prather, Senior Vice President, General Counsel & Corporate Secretary

Accounts and Records

The Company's books and records are maintained at its statutory home office, which is located at 4705 University Drive, Building 700, Durham, NC, 27707.

Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with G.S. 58-10-185(a). Ernst & Young, LLP of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for the year ended December 31, 2016.

Information Systems

The Company has a complex IT environment with a combination of internally developed applications and third-party cloud applications. A majority of their application level interfaces are file-based, followed by service-based and Enterprise Service Bus integration. The primary systems include Lawson, Amisys, Power MHS, and Facets. Lawson is used for the Company's general ledger reporting and payroll/people services applications. Amisys, Power MHS, ASO First, and Facets are used for processing claims and premium transactions. The applications for investments are hosted by Clearwater Analytics in Boise, Idaho.

Corporate Records

We reviewed the minutes of the Board and committee meetings for the period under examination. Based on our review, the minutes documented the Company's significant transactions and events, which were properly approved by the Board.

We reviewed the Company's Articles of Incorporation and Bylaws for changes during the period under examination.

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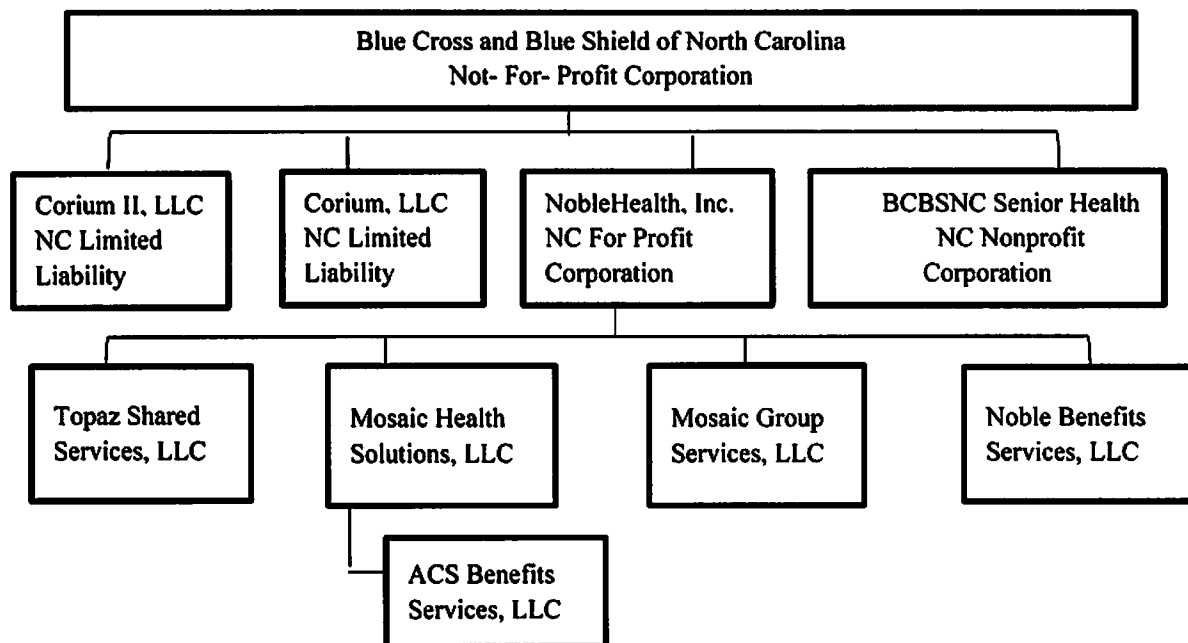
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AFFILIATED COMPANIES

Corporate Organization

The Company has four wholly-owned subsidiaries including Corium, Corium II, Senior Health, and NobleHealth. Corium owns, operates and manages financed office buildings of the Company. Corium II owns, operates and manages unencumbered office buildings of the Company. Senior Health will provide Medicare plans in the future. NobleHealth holds non-controlling strategic investments in certain health services companies. NobleHealth has four wholly-owned subsidiaries: Topaz Shared Services, LLC; Mosaic Health Solutions, LLC; Mosaic Group Services, LLC; and Noble Benefit Services, LLC. ACS is a wholly-owned subsidiary of Mosaic Health Solutions, LLC. Topaz Shared Services, LLC provides a healthcare payer operating system. Mosaic Health Solutions, LLC provides solutions to drive health innovation through investments, partnerships and the creation of new companies. Mosaic Group Services, LLC is an independent, full-service insurance agency offering financial protection for critical illnesses such as cancer, heart attacks or stroke, as well as accidents and hospital stays. Noble Benefits Services, LLC functions as a third-party administrator for self-insured employer groups. ACS Benefit Services, LLC provides self-funded plans with third-party administration services for group medical, dental and disability benefits.

The chart below outlines the organizational structure of the holding company system as of December 31, 2016:



Affiliated Transactions

The Company has agreements to provide its wholly-owned subsidiaries administrative services, which include management duties, production of business and servicing of the subsidiaries' business. The Company earned administrative service fees of \$9,211,889 and \$10,881,847 during 2016 and 2015, respectively, from its wholly-owned subsidiaries.

The Company has an agreement in which ACS provides certain administrative services to the Company. The Company paid service fees of \$5,531,772 and \$6,000,440 in 2016 and 2015, respectively. The Company has an insurance cost sharing arrangement with ACS. The Company's portion of this arrangement was \$11,825 for both the years ended December 31, 2016 and 2015. The Company has a dental services agreement with ACS, whereby the Company is provided various services for its dental products. The Company paid service fees totaling \$904,002 and \$573,884 during 2016 and 2015, respectively.

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Fidelity Bonds and Other Insurance

At December 31, 2016, the Company had fidelity bond coverage totaling \$20,000,000, which exceeds the minimum amount recommended by the NAIC.

TERRITORY AND PLAN OF OPERATION

At December 31, 2016, the Company was licensed to write in the state of North Carolina. The Company's health benefits products include preferred provider organization, traditional indemnity medical, health maintenance organization, Medicare Supplement, health savings account, and Medicare Advantage plans. The Company offers these products through both group and individual policies in and outside of the health insurance exchange. The Company also offers other health benefit services for self-funded plans, including claims processing, stop-loss, actuarial reporting services, and other administrative services. In addition, the Company offers a range of other products including, but not limited to, coverage for dental, vision, group life, disability, accidental death and dismemberment, long-term care, and prescription drugs including, Medicare Part D. These products and services are offered to large and small employers, groups and government units as well as individuals. The plan also participates in the Federal Employee Program ("FEP"), whereby the plan insures federal employees who are subject to special regulations and seeks reimbursement from the federal government.

The lines of business are made up of six segments, which include Under 65/Small Group, Group, State, Federal, Anxillary and Other.

Trends of the Company

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended December 31, 2016.

	Net Admitted	Capital and	Gross	Net Earned	Net
Year	Assets	Surplus	Premiums	Premiums	Income
	\$	\$	Written	\$	\$
2012	3,498,552,257	2,081,004,349	5,253,457,686	5,242,403,167	89,122,788
2013	3,786,788,030	2,388,532,820	5,830,776,053	5,819,892,346	180,060,588
2014	4,206,136,280	2,298,315,012	7,353,537,575	7,344,345,113	(137,577,232)
2015	4,102,658,894	2,067,050,162	7,464,870,460	7,433,252,453	(5,710,317)
2016	4,110,179,735	2,210,529,712	7,226,652,251	7,205,926,949	272,019,840

Actuarial Opinion

Pursuant to G.S. 58-67-55 and G.S. 58-2-165(c), the statutory reserves and related items for 2016 were reviewed and certified by the Company's Appointed Actuary, Patrick K. Getzen, Chief Actuary. Actuarial opinions regarding the Company's reserves for claims unpaid and unpaid claims adjusted expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency. According to the actuarial opinion, the Company's reserves for claims unpaid and unpaid claims adjusted expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all claims unpaid and unpaid claim expense obligations of the Company.

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REINSURANCE

Reinsurance Ceded

The U.S. Department of Health and Human Services (“HHS”) established a transitional reinsurance program which is designed to provide reimbursement to insurers for high cost individual business sold on or off public exchanges. The reinsurance program requires contributions from all health plans, including the Company, effective 2014 through 2016. Only non-grandfathered individual plans are eligible for recoveries. Ceded reinsurance premiums under this program were \$10,786,688 and \$22,431,099 in 2016 and 2015, respectively.

The Company entered into a Specific and Aggregate Stop Loss Medical Quota Share Reinsurance Agreement with Everest Reinsurance Company, effective October 1, 2014. The agreement provides reinsurance protection for the Company’s self-funded plans. This agreement has both specific stop-loss (“SSL”) and aggregate stop loss (“ASL”) components. Under the SSL, the Company cedes 50% of its liability up to a maximum of \$500,000 per person, per year, less a minimum retention of \$25,000. Under the ASL, the Company cedes 50% of its liability up to a maximum of \$2.5 million in excess of 120% of expected original claims cost. Premiums ceded were \$9,047,090 and \$8,140,968 in 2016 and 2015, respectively.

The Company has a long-term care reinsurance agreement with MedAmerica Insurance Company, effective February 17, 2005. Under this agreement, the reinsurer provides coverage of 100% of the net liability of the insured under the long term care policies. The Company discontinued writing long term care coverage and began to runoff existing business effective January 1, 2007. Premiums ceded were \$891,524 and \$1,045,940 in 2016 and 2015, respectively.

FINANCIAL STATEMENTS

The following financial statements are based on the annual statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016. The accompanying notes to financial statements reflect examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. The analysis of examination adjustments and supporting notes and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. No adjustments were made to surplus as a result of this examination. The financial statements and supporting schedules as of December 31, 2015, are unexamined and are presented for comparative purposes only.

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Statutory Statement of Admitted Assets

	December 31,	
	2016	2015
		<i>(unexamined)</i>
<u>Admitted Assets</u>		
Bonds	\$ 1,966,611,051	\$ 1,791,027,868
Preferred stocks	74,811,635	70,186,926
Common stocks	700,309,579	777,554,972
Properties held for the production of income (less encumbrances)	2,657,583	2,860,885
Cash, cash equivalents, and short-term investments	(55,129,183)	(77,978,822)
Other invested assets	428,964,043	370,218,199
Total cash and invested assets	3,118,224,708	2,933,870,028
Investment income due and accrued	20,727,403	20,236,288
Uncollected premiums and agents' balances in course of collection	219,813,530	216,454,352
Accrued retrospective premiums&contracts subject to redetermination	1,557,398	2,628,328
Amounts recoverable from reinsurers	87,970,753	211,062,519
Amounts receivable relating to uninsured plans	224,372,778	207,898,878
Current federal and foreign income tax recoverable&interest thereon	-	9,933,281
Net deferred tax asset	168,470,826	269,421,654
Electronic data processing equipment and software	12,541,111	1,484,147
Receivable from subsidiaries and affiliates	3,858,240	11,951,709
Health care and other amount receivable	49,465,474	71,843,402
Risk adjustment receivable	165,000,000	98,979,644
Renewable energy credits	24,813,108	34,378,858
Cash surrender value of life insurance	11,315,253	10,904,491
AR-VEBA	1,681,525	1,611,315
Mill credit note receivable	367,628	-
Total admitted assets	\$ 4,110,179,735	\$ 4,102,658,894

See accompanying notes to the financial statements.

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Statutory Statement of Liabilities, Capital and Surplus

	December 31,	
	2016	2015
	<i>(unexamined)</i>	
<u>Liabilities</u>		
Claims unpaid	\$ 696,584,538	\$ 684,240,466
Unpaid claims adjustment expenses	19,163,535	17,303,350
Aggregate health policy reserves, including the liability for medical loss ratio rebate per the Public Health Service Act	268,934,068	273,058,231
Premiums received in advance	126,794,620	108,625,997
General expenses due or accrued	433,599,574	443,987,996
Current federal and foreign income tax payable and interest thereon	7,390,975	-
Amounts withheld or retained for the account of others	429,677	316,862
Remittances and items not allocated	4,696,366	4,960,251
Borrowed money and interest thereon	106,165,508	236,006,052
Amounts due to parent, subsidiaries and affiliates	2,850,910	56,580,616
Payable for securities	4,557,202	477,999
Liability for amounts held under uninsured plans	114,624,022	115,012,930
Accrued other retirement benefits	74,842,812	76,704,989
Accounts payable	36,824,568	14,853,739
Non ACA risk adjustment payable	1,984,137	3,232,634
Unearned rent	207,511	237,500
Reserve for unclaimed property	-	9,120
Total liabilities	1,899,650,023	2,035,608,732
<u>Capital and Surplus</u>		
Special Surplus- ACA Health Insurer Tax	-	138,472,491
Contingency reserve	936,116,044	863,861,427
Unassigned funds (surplus)	1,274,413,668	1,064,716,244
Total capital and surplus	2,210,529,712	2,067,050,162
Total liabilities, capital and surplus	\$ 4,110,179,735	\$ 4,102,658,894

See accompanying notes to statutory financial statement

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Statutory Statement of Revenue and Expenses

	Year Ended December 31,	
	2016	2015
	<i>(unexamined)</i>	
<u>Revenues</u>		
Member months	19,334,113	21,719,849
Net premium income	\$ 7,205,926,949	\$ 7,433,252,453
Change in unearned premium reserves and reserve for rate credits	(27,856,542)	(7,300,692)
Gain on fixed assets	(327,231)	28,863,594
North Carolina state tax credits	11,292,774	2,234,944
Totals revenues	7,189,035,950	7,457,050,299
<u>Hospital and Medical</u>		
Hospital/medical benefits	4,118,511,745	4,776,404,257
Other professional services	258,240,915	298,434,665
Emergency room and out-of-area	417,556,865	466,471,907
Prescription drugs	1,142,173,096	1,218,723,020
Subtotal	5,936,482,621	6,760,033,849
<u>Less</u>		
Net reinsurance recoveries	71,060,357	254,553,312
Total hospital and medical	5,865,422,264	6,505,480,537
Claims adjustment expenses, including cost containment expenses	490,162,428	468,546,991
General administrative expenses	748,553,883	795,147,111
Increase in reserves for life and accident and health contracts	(5,176,153)	(3,564,554)
Totals underwriting deductions	7,098,962,422	7,765,610,085
Net underwriting gain or (loss)	90,073,528	(308,559,786)
Net investment income earned	106,143,290	117,160,807
Net realized capital gains less capital gains tax	39,799,797	97,576,407
Net investment gains	145,943,087	214,737,214
BlueCard access fees	24,322,691	23,362,720
NCDOL penalties and fines	(3,600,000)	-
Net income or (loss) after capital gains tax and before all other federal income taxes	256,739,306	(70,459,852)
Federal and foreign income taxes incurred	(15,280,534)	(64,749,535)
Net income (loss)	\$ 272,019,840	\$ (5,710,317)

See accompanying notes to the financial statements and analysis of the examination adjustments.

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Statutory Statement of Capital and Surplus

	December 31,	
	2016	2015
		<i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 2,067,050,162	\$ 2,298,315,012
Capital and surplus increases (decreases):		
Net income (loss)	272,019,840	(5,710,317)
Change in valuation basis of aggregate policy and claims reserves	28,414,555	18,814,434
Change in net unrealized capital gains	(7,594,519)	(85,711,573)
Change in net deferred income tax	(121,171,060)	17,014,295
Change in non-admitted assets	(26,174,009)	(164,596,365)
Additional Liability for Pension Benefits	(2,015,257)	(11,075,324)
Net change in capital and surplus	143,479,550	(231,264,850)
Capital and surplus, end of year	\$ 2,210,529,712	\$ 2,067,050,162

See accompanying notes to the financial statements.

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Statutory Statement of Cash Flow

	Year ended December 31,	
	2016	2015
<u>Cash From Operations</u>		<i>(unexamined)</i>
Premiums collected net of reinsurance	\$ 7,200,427,682	\$ 7,384,255,235
Net investment income	121,308,219	132,679,699
Miscellaneous income	10,965,543	31,098,538
Total	7,332,701,444	7,548,033,472
Benefit and loss related payments	5,736,960,337	6,538,520,562
Commissions, expenses paid and aggregate write-ins for deductions	1,267,125,164	1,242,996,228
Federal and foreign income taxes paid net of tax on capital gains(losses)	(32,604,780)	(63,737,207)
Total	6,971,480,721	7,717,779,583
Net cash from operations	361,220,723	(169,746,111)
<u>Cash From Investments</u>		
Proceeds from investments sold, matured or repaid:		
Bonds	351,124,127	287,879,326
Stocks	484,364,048	573,802,068
Real estate	-	34,109,725
Other invested assets	99,751,062	106,038,378
Miscellaneous proceeds	4,079,203	3,361
Total investment proceeds	939,318,440	1,001,832,858
Cost of investments acquired		
Bonds	556,718,664	347,358,075
Stocks	370,688,676	201,956,118
Real estate	12,059,215	32,753,444
Other invested assets	129,327,589	159,105,781
Total investment acquired	1,068,794,144	741,173,418
Net cash from investments	(129,475,704)	260,659,440
<u>Cash From Financing and Miscellaneous Sources</u>		
Borrowed funds	(129,840,544)	41,159,218
Other cash provided (applied)	(80,479,106)	(22,298,576)
Net cash from financing and miscellaneous sources	(210,319,650)	18,860,642
Reconciliation of Cash, Cash Equivalents and Short-Term Investments		
Net change in cash, cash equivalents and short-term investments	21,425,369	109,773,971
Cash and short-term investments, Beginning of year	(74,144,587)	(183,918,558)
Cash and short-term investments, End of year	\$ (52,719,218)	\$ (74,144,587)

See accompanying notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statement has been prepared in conformity with the accounting practices prescribed by the G.S. The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost in accordance with the valuation standards of the NAIC unless they are required to be reported at market value by the NAIC.

Preferred stocks: Carried at the estimated market value provided by the Securities Valuation Office ("SVO") of the NAIC or based on quoted market prices.

Common stocks: Carried at fair value provided by the SVO of the NAIC except investments in subsidiaries which are carried at a value determined under equity method provided by the SVO of the NAIC.

Real estate occupied by the Company and held for the production of income: Carried at depreciated cost less encumbrances.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes marketable securities with maturities greater than three months but less than one year at the time of purchase.

Other Invested Assets: Carried at the underlying audited GAAP equity of the investee, adjusted for certain provisions as described by Statement of Statutory Accounting Principles No. 48, Joint Ventures, Partnerships and Limited Liability Companies.

Premiums: Premiums written are earned over the period of coverage on a pro rata basis. Premiums billed to policyholders are recorded as uncollected premiums when the coverage period begins. Payments received in advance of coverage are recorded as premiums received in advance until earned. Delinquent uncollected premiums are charged directly to reserves and unassigned funds once delinquent for 30 days and 90 days for non-group subscribers, respectively.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

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2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2016		
	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 1,992,782,995	\$ 26,171,944	\$ 1,966,611,051
Common stocks	700,561,991	252,412	700,309,579
Preferred stocks	74,811,635	-	74,811,635
Properties held for production of income	2,657,583	-	2,657,583
Cash and short-term investments	(52,719,218)	2,409,965	(55,129,183)
Other invested assets	428,964,043	-	428,964,043
Goodwill	679,931	679,931	-
Total cash and invested assets	3,147,738,960	29,514,252	3,118,224,708
Investment income due and accrued	20,727,403	-	20,727,403
Premiums and agents' balances in course of collection	227,579,372	7,765,842	219,813,530
Accrued retrospective premiums	15,121,158	13,563,760	1,557,398
Reinsurance recoverable	87,970,753	-	87,970,753
Amounts receivable relating to uninsured plans	247,769,145	23,396,367	224,372,778
Net deferred tax assets	168,470,826	-	168,470,826
Electronic data processing equipment and software	159,053,274	146,512,163	12,541,111
Furniture and equipment, including health care delivery assets	23,031,544	23,031,544	-
Receivables from parent, subsidiaries and affiliates	3,858,240	-	3,858,240
Healthcare and other amounts receivable	136,506,863	87,041,389	49,465,474
Investment in Topaz R&D	134,909,233	134,909,233	-
Risk adjustment receivable	165,000,000	-	165,000,000
Renewable energy credits	66,534,823	41,721,715	24,813,108
Prepaid expenses	65,556,757	65,556,757	-
Prepaid retirement	23,179,740	23,179,740	-
Cash surrender value of life insurance	11,315,253	-	11,315,253
AR-VEBA	1,681,525	-	1,681,525
Mill credit note receivable	367,628	-	367,628
Summary of remaining write-ins			
Total admitted assets	\$ 4,706,372,497	\$ 596,192,762	\$ 4,110,179,735

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3. Reinsurance

Under agreement with Everest Reinsurance Company, the Company has specific and aggregate stop loss medical quota share reinsurance contracts to minimize its exposure to losses. The Company also has a long-term care reinsurance contract with MedAmerica Insurance Company. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company.

The Company utilizes D.W. Van Dyke of Connecticut, Inc. as a reinsurance intermediary for Everest to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and assumed and ceded premiums written and earned are as follows:

	December 31,	
	2016	2015
		<i>(unexamined)</i>
Direct and assumed written	\$ 7,226,652,251	7,464,870,460
Ceded written	20,725,302	31,618,007
Net written	7,205,926,949	7,433,252,453
Direct and assumed earned	7,226,652,251	7,464,870,460
Ceded earned	20,725,302	31,618,007
Net earned	\$ 7,205,926,949	7,433,252,453

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4. Claims and Claims Adjustment Expense Reserves

The claims unpaid reserve includes claims incurred but not reported (“IBNR”). The liability for IBNR is actuarially estimated based on the most current historical claims experience, changes in the number of members and participants, and estimates of health care trend changes. The estimates are reviewed and adjusted based on experience and development or as new information becomes available.

The following provides a reconciliation of the Company’s reserves for claims unpaid and claims adjustment expenses:

		<i>(unexamined)</i>
Unpaid claims	\$ 684,240,466	\$ 700,142,725
Add:		
Provisions for claims and unpaid claims adjusted expense, current year	5,963,739,251	6,540,718,159
Change in estimated claims and claims adjusted expense prior years	(98,316,987)	(18,099,857)
Total incurred during the year	5,865,422,264	6,522,618,302
Deduct:		
Claims and claim adjustment expenses paid, current year	5,282,331,542	5,861,352,593
Claims and claim adjustment expenses paid, prior years	570,746,650	677,167,968
Total paid	5,853,078,192	6,538,520,561
Reserves for claims and unpaid claim adjusted expenses, end of year	696,584,538	684,240,466
Increase (decrease) in unpaid claims	\$ 12,344,072	\$ (15,902,259)

Unpaid claims and claims adjustment expenses are reported net of the amounts that are recoverable under the Company’s reinsurance contract. The reinsurance recoverable on the Company’s year-end unpaid claims totaled \$14,981,159 and \$26,114,001 at December 31, 2016, and 2015, respectively.

5. Aggregate Health Policy Reserves

Contract reserves on accident and health policies shall be recorded when premiums and benefits are not earned or incurred at the same incidence over the policy period. The contract reserves are developed by actuarial methods and are determined based on published tables using statutorily specified interest rates and valuation methods that provide, in the aggregate, reserves that meet the G.S. requirements.

Substandard reserves are based on appropriate multiples of standard rates of mortality. The liabilities for future policy benefits are based on mortality or morbidity, and interest rates permitted by the G.S.

The Company uses net level premium methodology. There were no significant changes to the Company’s methods in 2016 and 2015. Included in aggregate policy reserves are primarily contract reserves. At December

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31, 2016, and 2015, the aggregate health policy reserves also include a liability for FEP stabilization.

Reserves are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2016, and 2015, the reserve credit taken from ceded life insurance, annuities, deposit-funds and other liability was \$12,011,352 and \$11,678,566, respectively.

6. Capital and Surplus

The following, in conjunction with the Statutory Statement of Capital and Surplus, see page 12, represents the changes in the Company's capital and surplus since the Department's last examination.

	December 31,		
	2014	2013	2012
	<i>(unexamined)</i>	<i>(unexamined)</i>	<i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 2,388,532,820	\$ 2,081,004,349	\$ 1,816,172,763
Capital and surplus increases (decreases):			
Net income	(137,577,232)	180,060,588	89,122,788
Change in net unrealized capital gain (loss)	16,482,364	79,106,119	77,365,943
Change in net deferred income tax	18,218,137	(58,838,323)	11,523,626
Change in nonadmitted assets	(29,420,649)	177,785,425	24,879,679
Change in asset valuation reserve	83,636,008	(27,769,220)	1,198,235
Cumulative effect of changes in accounting principles	-	-	65,240,114
Additional minimum pension	-	12,568,139	9,146,425
Additional liability for pension benefits	(41,556,436)	(55,384,257)	-
Prior year correction of deferred tax assets	-	-	(13,645,224)
Change in surplus as regards policyholders for the year	(90,217,808)	307,528,471	264,831,586
Capital and surplus, end of year	\$ 2,298,315,012	\$ 2,388,532,820	\$ 2,081,004,349

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7. Contingencies

The Company noted that the Pennsylvania Insurance Commissioner has placed Penn Treaty Network America Insurance Company and its subsidiary, America Network Insurance Company, (or collectively "Penn Treaty"), in rehabilitation, an intermediate action before insolvency. On July 27, 2016, the Pennsylvania Insurance Commissioner filed a petition to move Penn Treaty from rehabilitation to liquidation. In that event, the Company and other insurers may be required to pay a portion of Penn Treaty's policyholders claims through state guaranty association assessments in future periods.

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

8. Subsequent Events

The Company has evaluated subsequent events through April 28, 2017, which is the date that the financial statements were available to be issued, for recognition or disclosure in the financial statements. All of the effects of subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements, are recognized in the statements. The Company does not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date that arose after, but before the financial statements are available to be issued. In some cases, non-recognized subsequent events are disclosed to prevent financial statements from being misleading.

On March 1, 2017, Pennsylvania courts released an Order of Liquidation for Penn Treaty America Network Insurance Company. This liquidation triggered state guaranty fund actions and statutory accounting actions by insurers in 2017, including accrual of the assessment in the amount of \$49,200,000, as well as treatments of tax credits according to NAIC guidance.

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Appendix A – Report Distribution
December 31, 2016

Frank B. Holding Jr., Chairman of the Board
4615 University Drive
Durham, NC 27702-2291

Jeffrey T. Barber, Audit Committee Chairman
4615 University Drive
Durham, NC 27702-2291

Patrick H. Conway, President and CEO
4615 University Drive
Durham, NC 27702-2291

Mitchell W. Perry, CFO
4615 University Drive
Durham, NC 27702-2291

Maticia C. Sims, Vice President, Corporate Controller
46156 University Drive
Durham, NC 27702-2291

Thomas R. Krebs, Director, Financial Accounting & Reporting and Federal Segment Controller
4615 University Drive
Durham, NC 27702-2291

CONCLUSION

We conclude that the Company complies with the special contingency reserve requirements of G.S. § 58-65-95 and the minimum working capital requirements of G.S. 58-67-110(b) for the kinds of insurance the Company is authorized to write, which is \$1,000,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

January 31, 2018

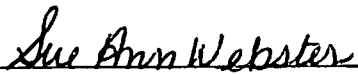
STATE OF NORTH CAROLINA
COUNTY OF WAKE

Rob Armbruster, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: 
Rob Armbruster

Date: 5/11/2018

Sworn and subscribed before me this 11th day of May, 2018.

Notary Public Signature:  Notary Public Seal:

