

FINANCIAL EVALUATION

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused to Fresenius Health Plan of North Carolina, Inc., 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 8th day June, 2018.

Mike Causey
Commissioner of Insurance



Ke Xu, CPA, CFE
Chief Financial Examiner
Examination Section



Fresenius Health Plans of North Carolina, Inc.

Austin, Texas

Report on Examination

As of December 31, 2016

FRESENIUS HEALTH PLANS OF NORTH CAROLINA, INC.

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Fresenius Health Plans of North Carolina, Inc.
Report on Examination
December 31, 2016

REPORT ON EXAMINATION OF FINANCIAL CONDITION

April 30, 2018

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

Sir:

Pursuant to your instructions and in accordance with Section 58-67-100 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

Fresenius Health Plans of North Carolina, Inc.

(hereinafter referred to as the “Company” or “FHPNC”), at its main administrative and statutory home office located at 3711 S. Mopac Expy, Building Two, Suite 300, Austin, Texas, 78746. The following report on examination is respectfully submitted.

SCOPE OF 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 is the first financial examination of the Company since it was acquired in 2015.

This examination was a coordinated examination and was conducted concurrently with the examination of its affiliate, Fresenius Health Plans Insurance Company, an Indiana domiciled entity. Indiana served as lead state in this coordinated examination.

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 Premiums and Underwriting, Claims and Reserves, and Financial Reporting. 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

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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, are not included within the examination report but are separately communicated to the Company.

REPORT ACRONYMS

FMCNA	Fresenius Medical Care Holdings, Inc. d/b/a Fresenius Medical Care North America
FHPIC	Fresenius Health Plans Insurance Company
FHPNC	Fresenius Health Plans of North Carolina, Inc.
FHPI	Fresenius Health Partners, Inc.
FHPIHCI	FHP Insurance Holding Co, Inc.
MA-SNP	Medicare Advantage Special Needs Plan
MA-CSNP	Medicare Advantage Chronic Condition Special Needs Plan

SUMMARY OF EXAMINATION FINDINGS

Comments, Recommendations and Directives

- a. The Company did not file, nor request an extension to file, with the Department written notice of the independent auditor retained by the Company to conduct its annual audit on or before October 1, 2016 and 2017, respectively, as required by G.S. 58-10-205(a). The Company subsequently filed the information with the Department in 2017 and 2018, respectively. The Company is directed to comply with G.S. 58-10-205(a) for future filings.

SUBSEQUENT EVENTS

The Company amended its 2016 Annual Statement to record premium deficiency reserves totaling \$1.6 million. The Company will file with the NAIC the amended 2016 Annual Statement, Risk Based Capital ("RBC") report, the March 31, 2017, Quarterly Statement, Actuarial Memorandums and Actuarial Opinions.

On December 15, 2017, the Company filed with the Department a Comprehensive Financial Plan in response to its Regulatory Action Level RBC event as of December 31, 2016. On February 1, 2018, the Department approved the Comprehensive Financial Plan submitted by the Company and issued a Corrective Order.

On February 21, 2018, the Company notified the Department of a significant change to its business plan, in which the Company proposed an expansion to its current service area to include Guilford County and Mecklenburg County. The service area expansion was approved by the Department on March 28, 2018, contingent upon receipt of \$4 million in additional capital prior to marketing for 2019.

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COMPANY HISTORY

The Company was incorporated on January 5, 2005, and commenced business on July 15, 2005, under the name of Fidelis SecureCare of North Carolina, Inc. The Company is a health maintenance organization and is authorized to write only Medicare business in North Carolina. In 2015, the Company was acquired by FHP Insurance Holding Company, Inc. and its name was changed to Fresenius Health Plans of North Carolina, Inc. As part of the acquisition, the Company changed its product offering from a Medicare Advantage Special Needs Plan to a Medicare Advantage Chronic Condition Special Needs Plan targeted to End Stage Renal Disease patients located in Wake, Durham and Orange counties, starting from January 1, 2016.

MANAGEMENT AND CONTROL

Board of Directors

The business of the Company is managed by its management team and subject to review by the board of directors ("Board"). The bylaws specify that the number of directors shall be two or more. Directors are elected annually, at the annual meeting of shareholders and hold office until the next annual meeting and until their successors have been elected and qualified.

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

Name	Address	Principal Business Affiliation
William Preston McKinney	Austin, TX	President of FHPNC and FHPIC
Scott Edward Dickison	Georgetown, TX	Senior Vice President, Finance of FHPNC and FHPIC
Ronald Kuerbitz	Gloucester, MA	Director, Chief Executive Officer and President of FMCNA

Committees

The Board has the authority to establish committees including, but not limited to, an Audit and Finance Committee that is comprised of at least two (2) members that are directors. The following individuals served on the committee as of December 31, 2016:

Audit and Finance Committee

William Preston McKinney (Chair)
Scott Edward Dickison

Officers

The bylaws provide that the officers of the Company shall include a president, a secretary, a treasurer or officers with different titles that perform the duties of these officers as described in the Company's bylaws. All officers of the Company shall be approved by, and serve at the pleasure of, the Board. An officer may be removed at any time, either with or without cause, by written notification of removal by the Board. An officer may resign at any time upon written notice to the Company given to the Board, the president, or the secretary of the Company.

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The following individuals served as officers as of December 31, 2016:

Name	Title
William Preston McKinney	President and Chief Executive Officer
Bryan Herman Mello	Treasurer
Karen Able Gledhill	Secretary

Accounts and Records

The Company does not have an office in NC. The primary location of books and records is at 3711 S. Mopac Expy, Building Two, Suite 300, Austin, TX 78746.

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). BDO USA LLP of Chicago, Illinois, the former designated independent public accountant of the Company, issued an unqualified opinion for the years ended December 31, 2012, 2013 and 2014, respectively. The Company was acquired in 2015 and was exempt from filing an audited financial statement for 2015. KPMG LLP of Boston, Massachusetts, the current designated independent public accountant of the Company, issued an unqualified opinion for the years ended December 31, 2016.

Corporate Records

We reviewed the minutes for the meetings of the Board for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events and that the directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. Based on the review, the Articles of Incorporation have not been restated since May 18, 2015, and the Bylaws have not been amended since April 30, 2015.

AFFILIATED COMPANIES

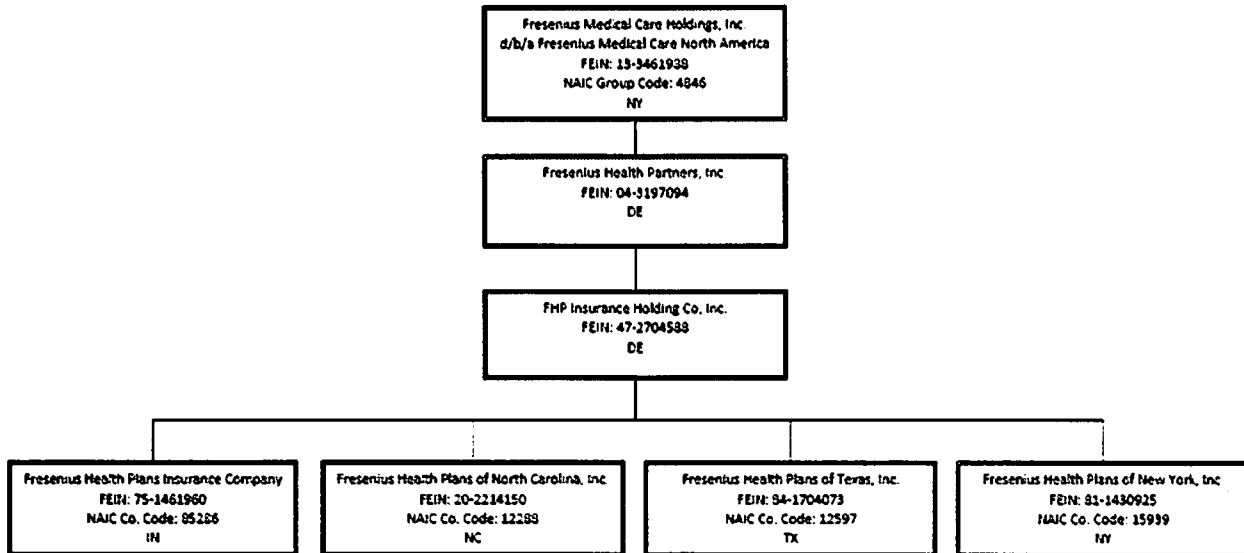
Holding Company

The Company is part of an insurance holding company system as defined in G.S. 58-19, in which FMCNA is the ultimate controlling party. FHPIHCI is a wholly owned subsidiary of FHPI, which is wholly owned by FMCNA. FHPIHCI has four wholly owned subsidiaries, which are FHPIC, FHPNC, Fresenius Health Plans of Texas, Inc., and Fresenius Health Plans of New York, Inc.

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Organization Chart

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



Affiliated Transactions

The Company has an administrative services agreement with FHPI effective February 16, 2015, whereby FHPI provides certain support services related to the Medicare Advantage and Part D plans of the Company. The Company reported \$5,035,948 due to FHPI for administrative expenses at December 31, 2016, and \$4,588,587 for administrative expenses at December 31, 2017.

The Company has entered in a Capital Maintenance Agreement with FMCNA, effective July 1, 2015. According to the agreement, FMCNA shall ensure the Company’s total adjusted capital is maintained in an amount not less than three hundred percent (300%) of the Company’s authorized control level RBC as defined in G.S. 58-12-2. FMCNA made capital contributions of \$7 million in 2017 to FHPNC to maintain an RBC ratio above 300% in accordance with the Capital Maintenance Agreement.

FIDELITY BONDS AND OTHER INSURANCE

Fresenius Medical Care Holdings Inc. has fidelity bond coverage for the entire FHP group, including the Company, totaling \$30,000,000, which meets the minimum amount recommended by the NAIC.

TERRITORY AND PLAN OF OPERATION

The Company currently offers a MA-CSNP to patients located in Wake, Durham and Orange counties. On March 28, 2018, the Company received approval from the Department to expand its service area to include Guilford and Mecklenburg counties, effective January 1, 2019.

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The Company is required to maintain a statutory deposit of \$500,000 pursuant to G.S. 58-67-25. The Company reported a statutory deposit in the amount of \$595,782 on the 2016 Annual Statement Schedule E Part 3.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department and from the last report on examination, illustrates the trends of the Company for the five (5) year period ended December 31, 2016.

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2016	\$8,958,291	\$1,129,524	\$6,934,994	\$6,934,994	\$(3,525,815)
2015	\$6,672,672	\$4,976,108	\$(144,133)	\$(144,133)	\$(1,584,629)
2014	\$1,344,122	\$1,286,140	\$0	\$0	\$(34,518)
2013	\$2,347,557	\$1,955,370	\$2,631,003	\$2,631,003	\$(826,585)
2012	\$4,508,849	\$3,916,316	\$5,803,037	\$5,803,037	\$(201,195)

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, Maria Radonova, Senior Vice President and Chief Actuary. Actuarial opinions regarding the Company's reserves for claims and claim adjustment expenses were issued by the Chief Actuary for all years in the examination period. The Chief Actuary evaluated the data provided by the Company for reasonableness and consistency of the claims and claim adjustment expense reserves. According to the actuarial opinions, the Company's reserves on the claims and claim adjustment 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 reasonable provisions for all unpaid claims and claim adjustment expense obligations of the Company. The 2016 Actuarial Memorandum was amended subsequently to add premium deficiency reserves totaling \$1.6 million at December 31, 2016, which was not included in the initial review of reserves by the Actuary.

FINANCIAL STATEMENTS

The following financial statements are based on the annual statements filed by the Company with the Department and present the Company's statutory financial position as of December 31, 2016. The supporting notes and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. No adjustment was 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.

Fresenius Health Plans of North Carolina, Inc.
Statutory Statement of Admitted Assets

	December 31,	
	2016	2015
	<i>(unexamined)</i>	
<u>Admitted Assets</u>		
Cash and short-term investments	\$ 8,540,736	\$ 6,197,255
Total cash and invested assets	8,540,736	6,197,255
Investment income due and accrued	45	-
Uncollected premiums and agents' balances in course of collection	696	-
Net deferred tax asset	-	475,417
Health care and other amounts receivable	416,814	\$ -
Total admitted assets	\$ 8,958,291	\$ 6,672,672

See accompanying notes to the statutory financial statement

Fresenius Health Plan of North Carolina, Inc.
Statutory Statement of Liabilities, Surplus and Other Funds

	December 31,	
	2016	2015
	<i>(unexamined)</i>	
<u>Liabilities</u>		
Claims unpaid	\$ 1,170,089	\$ -
Health Service Act	1,622,730	-
General expenses due or accrued	-	157,604
Amounts due to parent, subsidiaries and affiliates	5,035,948	1,538,960
Total liabilities	7,828,767	1,696,564
<u>Surplus and Other Funds</u>		
Gross paid in and contributed surplus	13,829,699	13,829,699
Unassigned funds	(12,700,175)	(8,853,591)
Total surplus and other funds	1,129,524	4,976,108
Total liabilities, surplus and other funds	\$ 8,958,291	\$ 6,672,672

See accompanying notes to the statutory financial statement

Fresenius Health Plans of North Carolina, Inc.
Statutory Statement of Revenue and Expenses

	December 31,	
	2016	2015
	<i>(unexamined)</i>	
<u>Underwriting Income</u>		
Net premium income	\$ 6,934,994	\$ (144,133)
<u>Hospital and Medical:</u>		
Hospital benefits	3,757,754	(97,400)
Other professional services	699,412	-
Outside referrals	1,212,907	-
Emergency room and out-of -area	784,337	-
Prescription drugs	255,366	-
Less:		
Claims adjustment expense	1,311,916	(2,667)
General administrative expenses	816,304	1,540,659
Increase in reserves	1,622,730	
Total underwriting deductions	10,460,726	1,440,592
Net underwriting gain/(loss)	(3,525,732)	(1,584,725)
<u>Investment Income</u>		
Net investment income earned	(83)	96
Net investment gain/(loss)	(83)	96
Net loss after capital gains tax and before all other federal income taxes	(3,525,815)	(1,584,629)
<u>Net income</u>	\$ (3,525,815)	\$ (1,584,629)

See accompanying notes to the statutory financial statements

Fresenius Health Plans of North Carolina, Inc.
Statutory Statement of Surplus

	December 31,	
	2016	2015
	<i>(unexamined)</i>	
Surplus, beginning of year	\$ 4,976,108	\$ 1,286,164
Surplus increases (decreases):		
Net income	(3,525,815)	(1,584,629)
Change in net deferred income tax	(2,806,418)	475,417
Change in non-admitted assets	2,328,044	-
Capital Change: Paid in	-	(1)
Surplus Adjustment: Paid in	-	4,800,000
Prior Year Adjustment	157,604	(843)
Change in surplus as regards policyholders for the year	(3,846,585)	3,689,944
Surplus, end of year	\$ 1,129,523	\$ 4,976,108

See accompanying notes to the statutory financial statements

Fresenius Health Plans of North Carolina, Inc.
Statutory Statement of Cash Flow

	Year ended December 31,	
	2016	2015
<u>Cash From (Used by) Operations</u>		<i>(unexamined)</i>
Premiums collected net of reinsurance	\$ 8,556,450	\$ (140,733)
Net investment income	(128)	96
Totals	8,556,322	(140,637)
Benefit and loss related payments	7,581,608	(93,057)
Commissions, expenses paid and aggregate write-ins for deductions	2,285,824	(665,926)
Federal income taxes paid net of tax on capital gain	1	-
Totals	9,867,433	(758,983)
 Net cash from (used by) operations	 (1,311,111)	 618,346
 <u>Cash From (Used by) Financing and Miscellaneous Sources</u>		
Capital and paid in surplus, less treasury stock	-	4,799,999
Other cash provided (applied)	3,654,592	(420,912)
 Net cash from (used by) financing and miscellaneous sources	 3,654,592	 4,379,087
 <u>Reconciliation of Cash and Short-Term Investments</u>		
Net change in cash and short-term investments	2,343,481	4,997,433
Cash and short-term investments, beginning of year	6,197,255	1,199,822
Cash and short-term investments, end of year	\$ 8,540,736	\$ 6,197,255

See accompanying notes to the statutory financial statements

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NOTES TO 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:

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Earned over the policy period.

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	
Cash and short-term investments	\$ 8,540,736	\$ -	\$ 8,540,736
Total cash and invested assets	8,540,736	-	8,540,736
Investment income due and accrued	45	-	45
Uncollected premiums and agents' balances in course of collection	1,275	579	696
Health care and other amounts receivable	419,191	2,377	416,814
Total admitted assets	\$ 8,961,247	\$ 2,956	\$ 8,958,291

Fresenius Health Plans of North Carolina, Inc.

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3. 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:

	December 31,	
	2016	2015
		<i>(unexamined)</i>
Unpaid claims, beginning of year	\$ -	-
Add:		
Provision for claims and unpaid claims adjustment expenses, current year	6,934,994	-
Change in estimated claims and unpaid claims adjustment expenses, prior years		-
Total incurred	6,934,994	-
Deduct:		
Claims and unpaid claims adjustment expenses paid, current year	5,539,688	-
Claims and unpaid claims adjustment expenses paid, prior year	1,170,089	-
Total paid	6,709,777	-
Reserve for claims and unpaid claims adjustment expenses, end of year	225,217	-
Increase in reserve for claims and unpaid claims adjustment expenses	\$ 225,217	-

Unpaid claims and claims adjustment expenses are reported net of the amounts that are recoverable under reinsurance contracts. The Company has no reinsurance contracts and reported no reinsurance recoverable on the Company's year-end unpaid claims at December 31, 2016, and 2015, respectively. Due to the acquisition and change in product offering, refer to Company History at page 4, the Company reported \$0 payment for incurred claims and claims adjustment expense attributable in insured events of 2015.

4. Contingencies and Commitments

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.

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Appendix A – Report Distribution

William Preston McKinney, President and CEO
Fresenius Health Plans of North Carolina, Inc.
3711 S. Mopac Expressway, Building Two, Suite 300
Austin, Texas 78746

CONCLUSION

We conclude that the Company complies with the minimum capital and surplus requirements of G.S. 58-67-25 for the kinds of insurance that the Company has been authorized to write, which is \$500,000.

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

Respectfully submitted,



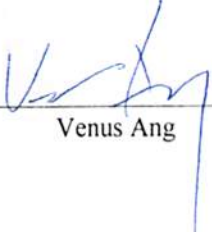
Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

April 30, 2018

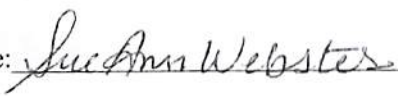
NOTARY

STATE OF NORTH CAROLINA
COUNTY OF WAKE

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

Signature:  Date: May 11, 2018
Venus Ang

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

Notary Public Signature:  Notary Public Seal:

