Financial Statements and Supplementary Information - Statutory Basis

Community Care Health Plan of Louisiana, Inc.

Years Ended December 31, 2018 and 2017
With Reports of Independent Auditors

Community Care Health Plan of Louisiana, Inc.

Financial Statements and Supplementary Information - Statutory Basis

Years ended December 31, 2018 and 2017

Contents

Report of Independent Auditors

Community Care Health Plan of Louisiana, Inc.

Balance Sheets - Statutory Basis

	December 31 2018	December 31 2017
	(In Thousands)	
Admitted assets		
Cash and invested assets:		
Cash, cash equivalents and short-term investments	**$ 90,404**	$ 54,530
Bonds	**187,880**	167,852
Receivable for securities	**—**	95
Securities lending collateral	**1,918**	—
Total cash and invested assets	**280,202**	222,477
Accrued investment income	**1,725**	1,630
Premiums receivable	**105,047**	95,405
Current federal income tax recoverable	**1,611**	2,673
Net deferred tax asset	**3,983**	3,185
Receivables from affiliates	**—**	7,778
Health care and other receivables	**1,945**	537
Total admitted assets	**$ 394,513**	$ 333,685
Liabilities and capital and surplus		
Liabilities:		
Unpaid claims and claims adjustment expenses	**$ 86,181**	$ 75,887
Aggregate policy reserves	**32,450**	42,175
Accounts payable and accrued expenses	**28,155**	26,820
Remittances and items not allocated	**4,349**	3,310
Payable to affiliates	**5,847**	—
Payable for securities lending	**1,918**	—
Liability for amounts held under uninsured plans	**59,675**	59,802
Other liabilities	**1,400**	1,656
Total liabilities	**219,975**	209,650
Capital and surplus:		
Common stock, $0 par value, 1,250 shares authorized, issued and outstanding	**—**	—
Additional paid-in surplus	**200,724**	135,724
Unassigned surplus (deficit)	**(26,186)**	(33,041)
Special surplus funds	**—**	21,352
Total capital and surplus	**174,538**	124,035
Total liabilities and capital and surplus	**$ 394,513**	$ 333,685

See accompanying notes.

Community Care Health Plan of Louisiana, Inc.

Statements of Operations - Statutory Basis

	Year Ended December 31 2018	2017
	(In Thousands)	
Premium income	**$ 1,138,831**	$ 947,539
Benefits and expenses:		
Claims and claims adjustment expenses	**1,017,316**	835,615
Operating expenses	**121,111**	98,102
Change in reserves for accident and health contracts	**14,217**	—
Total benefits and expenses	**1,152,644**	933,717
Net underwriting gain (loss)	**(13,813)**	13,822
Investment gains (losses):		
Net investment income (loss)	**6,369**	4,156
Net realized capital gains (losses), net of taxes (benefits)	**(148)**	239
Total net investment gains (losses)	**6,221**	4,395
Income (loss) before federal income taxes	**(7,592)**	18,217
Federal income taxes (benefits)	**2,367**	5,677
Net income (loss)	**$ (9,959)**	$ 12,540

See accompanying notes.

Community Care Health Plan of Louisiana, Inc.

Statements of Changes in Capital and Surplus - Statutory Basis

	Common Stock	Additional Paid-in Surplus	Unassigned Surplus (Deficit)	Special Surplus Funds	Total Capital and Surplus
			(In Thousands)		
Balance as of January 1, 2017	$ —	$ 95,676	$ (26,740)	$ —	$ 68,936
Net income (loss)	—	—	12,540	—	12,540
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	18	—	18
Change in net deferred income tax	—	—	(5,094)	—	(5,094)
Change in nonadmitted assets	—	—	7,587	—	7,587
Change in special surplus funds for ACA health insurer fee	—	—	(21,352)	21,352	—
Common stock issued to BCBS LA	—	16,718	—	—	16,718
Capital contributions from stockholders	—	23,330	—	—	23,330
Balance as of December 31, 2017	—	135,724	(33,041)	21,352	124,035
Net income (loss)	**—**	**—**	**(9,959)**	**—**	**(9,959)**
Change in net unrealized capital gains and losses, net of taxes (benefits)	**—**	**—**	**(181)**	**—**	**(181)**
Change in net deferred income tax	**—**	**—**	**471**	**—**	**471**
Change in nonadmitted assets	**—**	**—**	**(4,828)**	**—**	**(4,828)**
Change in special surplus funds for ACA health insurer fee	**—**	**—**	**21,352**	**(21,352)**	**—**
Capital contributions from stockholders	**—**	**65,000**	**—**	**—**	**65,000**
Balance as of December 31, 2018	**$ —**	**$ 200,724**	**$ (26,186)**	**$ —**	**$ 174,538**

See accompanying notes.

Community Care Health Plan of Louisiana, Inc.

Statements of Cash Flow - Statutory Basis

	Year Ended December 31 2018	2017
	(In Thousands)	
Operating activities:		
Premiums collected	**$ 1,105,246**	$ 979,946
Investment income received	**7,183**	4,101
Claims and claims adjustment expenses paid	**(1,013,700)**	(874,397)
General administrative and miscellaneous expenses paid	**(119,696)**	(90,594)
Federal income taxes (paid) recovered	**(1,270)**	(13,522)
Net cash provided by (used in) operating activities	**(22,237)**	5,534
Investment activities:		
Proceeds from investments sold, matured or repaid	**34,830**	28,232
Cost of investments acquired	**(58,000)**	(124,253)
Net cash provided by (used in) investment activities	**(23,170)**	(96,021)
Financing or miscellaneous activities:		
Common stock issued to BCBS LA	—	16,718
Capital contributions from stockholders	**65,000**	23,330
Changes in securities lending payable	**1,919**	(856)
Net transfers from (to) affiliates	**13,625**	(9,770)
Other	**737**	713
Net cash provided by (used in) financing or miscellaneous activities	**81,281**	30,135
Change in cash, cash equivalents and short-term investments	**35,874**	(60,352)
Cash, cash equivalents and short-term investments at beginning of year	**54,530**	114,882
Cash, cash equivalents and short-term investments at end of year	**$ 90,404**	$ 54,530

See accompanying notes.

1. Nature of Operations and Significant Accounting Policies

Community Care Health Plan of Louisiana, Inc. (the "Company") is a Louisiana domiciled stock health maintenance organization ("HMO"), which is licensed in Louisiana. The Company is a prepaid capitated plan created primarily for an enrolled population comprised of beneficiaries of the Medicaid's Temporary Assistance for Needy Families ("TANF") program as well as people with disabilities and specialized behavioral health ("BH") services. The Company serves children, families, seniors and people with disabilities through the BAYOU HEALTH program. The Company's current service areas are statewide. The Company operates as a licensee of the Blue Cross and Blue Shield Association ("BCBSA"). The Company is owned 80% by Anthem Partnership Holding Company, LLC ("APHC"), which is an indirect wholly-owned subsidiary of Anthem, Inc. ("Anthem"), a publicly traded company and 20% by Louisiana Health Service & Indemnity Company, d/b/a Blue Cross and Blue Shield of Louisiana ("BCBS LA"), which is a Louisiana health insurance company.

The Company was incorporated in 2009. A contract with the Louisiana Department of Health and Hospitals ("LA DHH") authorized and enabled the Company to begin operating as a licensed provider of health insurance, offering Health Maintenance Organization health insurance to Medicaid enrollees in all regions of Louisiana. The loss of this contract would have a material effect on the Company's operations. The Company began operations on February 1, 2012.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Louisiana Department of Insurance ("LDI"). The LDI has adopted the accounting policies found in the National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP") as a component of prescribed accounting practices. For the years ended December 31, 2018 and 2017, there were no differences between the Company's statutory basis net income or capital and surplus under NAIC SAP and practices prescribed or permitted by the LDI.

Various statutory accounting principles differ from U.S. generally accepted accounting principles ("GAAP"). The more significant differences from GAAP, applicable to the Company, are as follows:

Investments: Investments in bonds are reported at amortized cost or fair value based on their NAIC rating. For GAAP, investments in bonds are designated at purchase as available-for-sale and are reported at fair value with unrealized holding gains and losses, net of tax, reported as a separate component of capital and surplus.

In accordance with SSAP No. 43 Revised, *Loan-backed and Structured Securities* ("SSAP No. 43R"), other-than-temporary impairments ("OTTI") on loan-backed or structured securities are recorded when fair value of the security is less than its amortized cost basis at the balance sheet date and (1) the Company intends to sell the investment or (2) the Company does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis or (3) if the Company does not expect to recover the entire amortized cost basis of the security, even if it does not intend to sell the investment and the Company has the intent and ability to hold the investment. The condition in (2) above does not apply for GAAP.

Premiums receivable: Premiums receivable are recorded at the billed amount and reduced by any amounts not deemed collectible. Generally amounts aged ninety days and older are nonadmitted assets, with the exception of government receivables. For GAAP, these amounts are recorded at the billed amount and are reported net of a valuation allowance based upon historical collection trends and management's judgment on the collectability of these accounts.

Nonadmitted assets: Certain assets designated as nonadmitted, including deferred federal income taxes in excess of certain statutory limits, furniture and equipment, leasehold improvements, prepaid expenses, and certain health care and other receivable balances are excluded from the balance sheets by a direct charge to capital and surplus. These nonadmitted assets totaled \$12,249 and \$7,421 at December 31, 2018 and 2017, respectively. For GAAP, these amounts are carried as assets, net of a valuation allowance, if necessary.

Deferred income taxes: Statutory deferred tax assets ("DTA") are limited to an amount equal to the sum of: (1) federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year; (2) depending on the Company's Authorized Control Level ("ACL") Risk Based Capital ("RBC") ratio exclusive of the DTA, the lesser of (a) the amount of gross DTAs expected to be realized within three years after the application of (1) or 15% of surplus, if the ratio is greater than 300%, (b) the amount of gross DTAs expected to be realized within one year after the application of (1) or 10% of surplus, if the ratio is between 200 – 300%, or (c) if the ratio is below 200%, no DTA can be realized; (3) the amount of gross DTAs, after the application of (1) and (2), that can be offset against gross deferred tax liabilities ("DTL"). DTAs in excess of these limitations are nonadmitted.

Deferred taxes do not include amounts for state taxes. Changes in DTAs and DTLs are recognized as a separate component of gains and losses in surplus ("Change in net deferred income tax"). For GAAP, state income taxes are considered in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets estimated to be unrealizable. Excluding the tax impact of unrealized investment gains and losses and certain other items, the change in deferred income taxes is recorded in the statements of operations.

Statements of cash flow: Cash, cash equivalents and short-term investments in the statements of cash flow represent cash balances, and investments with initial maturities of less than one year and more than three months at the date of acquisition. If in the aggregate the Company has a negative cash balance, it is reported as a negative asset and not as a liability. For GAAP, the corresponding captions of cash and cash equivalents include cash balances and investments with initial maturities of three months or less. Short-term investments are reported separately and negative cash balances are also reported separately as liabilities.

Uninsured accident and health plans: The Company provides administrative services to various customers on an uninsured basis. Under these arrangements, the customer retains the risk of funding payments for health benefits provided, and the Company may be subject to credit risk of the customer from the time of the Company's claim payment until the Company receives the claim reimbursement. In accordance with SSAP No. 47, *Uninsured Plans*, these claim payments and subsequent reimbursements are excluded from the Company's statutory basis statements of operations, and administrative fees earned are deducted from general insurance expenses. For GAAP, these administrative fees are reported as revenue in the statements of operations.

The effects of the foregoing variances from GAAP on the accompanying statutory basis financial statements have not been determined but are presumed to be material.

Other significant accounting policies are as follows:

Use of Estimates

Preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. During 2018, the Company had a change in estimate relating to H.R.1, *An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018*, or the Tax Cuts and Jobs Act. See Note 5 Federal Income Taxes for details.

Investments

Bonds not backed by loans are stated at amortized cost, with amortization of premium or discount calculated based on the modified scientific method, using lower of yield to call or yield to maturity. Single class and multi-class mortgage-backed/asset-backed securities are valued at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions for loan-backed securities and structured securities are obtained from broker-dealer survey values or internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all loan-backed securities. Non-investment grade bonds are stated at the lower of cost or fair value as determined by the NAIC's Securities Valuation Office ("SVO").

The Company holds hybrid securities. These bonds generally combine elements of both debt securities and equity securities. Our current hybrid bond holdings do not contain embedded derivatives and are being accounted for in a manner consistent with our other bond holdings.

Unrealized gains and losses on non-investment grade bonds are reflected directly in unassigned surplus, net of federal income taxes unless there is deemed to be an other-than-temporary decline in value, in which case the loss is charged to income. Realized gains and losses on investments sold are determined using the specific identification method and are included in net realized capital gains (losses), net of taxes (benefits). Investment income is not accrued on bonds with interest payments in default.

Short-term investments include investments with maturities of less than one year and more than three months at the date of acquisition and are reported at amortized cost, which approximates fair value. Cash equivalent investments include money market mutual funds, and investments with maturities of less than or equal to three months at the date of acquisition. Money market mutual funds are reported at fair value. Investments with maturities of less than or equal to three months at the date of acquisition are reported at amortized cost, which approximates fair value. Non-investment grade short-term and cash equivalent investments are stated at the lower of amortized cost or fair value.

The Company participates in a securities lending program whereby marketable securities in its investment portfolio are transferred to independent brokers or dealers in exchange for collateral initially equal to at least 102% of the fair value of the securities on loan, and is thereafter maintained at a minimum of 100% of the fair value of the securities loaned. The fair value of the securities on loan to each borrower is monitored daily and the borrower is required to deliver additional collateral if the fair value of the collateral falls below 100% of the fair value of the securities on loan. The Company has no loaned portfolio securities with terms exceeding one year.

Furniture, Fixtures and Leasehold Improvements

Furniture, fixtures and leasehold improvements are capitalized and depreciated on a straight-line basis over its useful life. The net book value is charged in full to unassigned surplus as a nonadmitted asset. Depreciation expense in 2018 and 2017 was $210 and $219 , respectively. Accumulated depreciation at December 31, 2018 and 2017 was $1,509 and $1,299, respectively.

Health Care Receivables

Health care receivables represent amounts related to pharmacy rebate receivables and other health care related receivables other than premiums. Pharmacy rebate receivables are recorded when earned based upon actual rebate receivables and an estimate of receivables based upon current utilization of specific pharmaceuticals and provider contract terms. These health care receivables are subject to various admittance tests based on the nature of the receivable balance.

Unpaid Claims and Claims Adjustment Expenses

Unpaid claims and claims adjustment expenses include management's best estimate of amounts based on historical claim development patterns and certain individual case estimates. The established liability considers health benefit provisions, business practices, economic conditions and other factors that may materially affect the cost, frequency and severity of claims. Reserves for unpaid claims and claims adjustment expenses are based on assumptions and estimates, and while management believes such estimates are reasonable, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and changes in estimates are incorporated into current operating results.

There were no significant changes in methodologies and assumptions used in calculating the liability for unpaid claims and claims adjustment expenses.

Premium Deficiency Reserves

Premium deficiency reserves are established for the amount of the anticipated claims and claims adjustment expenses that have not been previously expensed in excess of the recorded unearned premium reserve and future premiums on existing policies. The Company does not use anticipated investment income as a factor in the premium deficiency reserve calculation. The Company recorded premium deficiency reserves of $14,217 as of December 31, 2018 in aggregate policy reserves. The Company did not record premium deficiency reserves as of December 31, 2017.

Premiums

Premiums are recognized as revenue during the period in which the Company is obligated to provide service to members. Premium payments from contracted government agencies are based on eligibility lists produced by the government agencies. Adjustments to eligibility lists produced by the government agencies result from retroactive application of enrollment or disenrollment of members or classification changes between rate categories. The Company estimates the amount of retroactive premium owed to or from the government agencies each period and adjusts premium revenue accordingly. Expenses incurred in connection with acquiring insurance business are charged to operations as incurred.

Delays in approval of annual premium rate changes require that the Company defer the recognition of any increases to the period in which the premium rates become final. The value of the impact can be significant in the period in which it is recognized dependent on the magnitude of the premium rate increase, the membership to which it applies and the length of the delay between the effective date of the rate increase and the final contract date. Premium rate decreases are recognized in the period the change in premium rate becomes effective and the change in the rate is known, which may be prior to the period when the contract amendment affecting the rate is finalized.

At December 31, 2018 and 2017, the Company reported admitted assets of $105,047 and $95,405, respectively, in premiums receivables. The receivables are not deemed to be uncollectible, therefore, no provision for uncollectible amounts have been recorded. The potential for any additional loss is not believed to be material to the Company's financial condition.

Retrospectively Rated Contracts

The Company's contracts with LA DHH include a provision for which premiums vary based on loss experience. The Company estimates accrued retrospective premium adjustments through the review of each retrospectively rated contract, comparing the claim development with that anticipated in the contract. Any adjustment made to the estimated liability as a result of a final settlement is included in current operations. The Company uses estimates to report in the statutory basis financial statements the aggregate policy reserve amounts for retrospectively rated contracts based on its underwriting experience; actuarial, tax, and accounting estimates and assumptions at the financial statement date and regulations and guidance available that is subject to change prior to settlement. Accordingly, the Company's use of estimates and assumptions in the preparation of the statutory basis financial statements and related footnote disclosures may differ from actual results.

The amount of net premiums written by the Company for the years ended December 31, 2018 and 2017 that were subject to retrospective rating features, including medical loss ratio ("MLR") rebate regulations, was $1,114,890 and $989,714, which represented 100% of the total net premiums written in each year.

Federal Income Taxes

The Company participates in a tax sharing agreement with Anthem and its subsidiaries. Allocation of federal income taxes is based upon separate return calculations with credit for net losses that can be used on a consolidated basis. Intercompany income tax balances are settled based on the Internal Revenue Service ("IRS") due dates.

Health Insurer Fee

Affordable Care Act ("ACA") Section 9010 imposed a mandatory annual fee on health insurers that write certain types of health insurance on U.S. risks for each calendar year beginning on or after January 1, 2014. The annual fee is allocated to health insurers based on the ratio of the amount of an insurer's premium written during the preceding calendar year to the amount of health insurance for all U.S. health risk for those certain lines of business that were written during the preceding calendar year. This fee is non-deductible for income tax purposes. The health insurer fee is reported in operating expenses in the same year it is paid. The health insurer fee to be paid in the following year is segregated in special surplus funds until the beginning of the year in which it is to be paid. The health insurer fee was paid for 2018 and has been suspended for 2017 and 2019.

(Dollars In Thousands)

2. Investments

A summary of the Company's investments in bonds is as follows:

			Gross Unrealized Losses		
December 31, 2018	**Statement Value**	**Gross Unrealized Gains**	**Less Than 12 Months**	**12 Months or Greater**	**Fair Value**
States, territories and political subdivisions	**$ 63,088**	**$ 483**	**$ (27)**	**$ (310)**	**$ 63,234**
Industrial and miscellaneous	**92,602**	**126**	**(1,339)**	**(1,327)**	**90,062**
Loan-backed and structured securities	**32,190**	**—**	**(157)**	**(362)**	**31,671**
Total bonds	**$ 187,880**	**$ 609**	**$ (1,523)**	**$ (1,999)**	**$ 184,967**
December 31, 2017					
States, territories and political subdivisions	$ 66,199	$ 1,312	$ (270)	$ —	$ 67,241
Industrial and miscellaneous	65,222	940	(89)	(177)	65,896
Loan-backed and structured securities	36,431	108	(118)	(117)	36,304
Total bonds	$ 167,852	$ 2,360	$ (477)	$ (294)	$ 169,441

The statement and fair values of bonds, excluding short-term and cash equivalent bonds, at December 31, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations.

	Statement Value	**Fair Value**
Due in one year or less	**$ 1,169**	**$ 1,166**
Due after one through five years	**47,711**	**47,103**
Due after five through ten years	**55,478**	**54,475**
Due after ten years	**51,332**	**50,552**
Loan-backed and structured securities	**32,190**	**31,671**
	$ 187,880	**$ 184,967**

Proceeds from sales of bonds during 2018 and 2017 were $23,483 and $20,757, respectively, resulting in realized gross gains of $140 and $435, and realized gross losses of $308 and $62, respectively.

(Dollars In Thousands)

Investments with a statement value of $1,021 and $1,016 were on deposit with the LDI at December 31, 2018 and 2017, respectively, and are included in cash equivalents on the balance sheet.

A significant judgment in the valuation of investments is the determination of when an other-than-temporary decline in value has occurred. The Company follows a consistent and systematic process for recognizing impairments on securities that sustain other-than-temporary declines in value. The Company has established a committee responsible for the impairment review process. The decision to impair a security incorporates both quantitative criteria and qualitative information. The impairment review process considers a number of factors, including but not limited to (a) the length of time and the extent to which a security's fair value has been less than statement value; (b) the financial condition and near term prospects of the issuer; (c) the intent to sell and, for loan-backed and structured securities, the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in value; (d) whether the debtor is current on interest and principal payments; (e) the reasons for the decline in value (i.e., credit event compared to liquidity, general credit spread widening, currency exchange rate or interest rate factors) and (f) general market conditions and industry or sector specific factors. For securities that are deemed to be other-than-temporarily impaired, the security is adjusted to its fair value (or its discounted cash flows for loan-backed and structured securities), and the resulting losses are recognized in net realized gains or losses in the statutory basis statements of operations. The new cost basis of the impaired securities is not increased for future recoveries in fair value. The Company did not recognize OTTI of securities for the years ended December 31, 2018 and 2017.

A summary of unaffiliated investments with unrealized losses along with the related fair value, aggregated by the length of time that investments have been in a continuous unrealized loss position, is as follows:

	December 31, 2018			**December 31, 2017**		
	Number of Securities	**Fair Value**	**Gross Unrealized Loss**	**Number of Securities**	**Fair Value**	**Gross Unrealized Loss**
Bonds:						
Less than 12 months	**60**	**$ 75,542**	**$ (1,523)**	41	$ 55,645	$ (477)
12 months or greater	**47**	**64,713**	**(1,999)**	5	6,038	(294)
Total bonds	**107**	**$ 140,255**	**$ (3,522)**	46	$ 61,683	$ (771)

The Company's bond portfolio is sensitive to interest rate fluctuations, which impact the fair value of individual securities. Unrealized losses on bonds reported above were primarily caused by the effects of the interest rate environment and the widening of credit spreads on certain securities. The Company currently has the ability and intent to hold these securities until their full cost can be recovered. Therefore, the Company does not believe the unrealized losses represent an OTTI as of December 31, 2018 or 2017.

(Dollars In Thousands)

The Company is required to categorize its loan-backed and structured securities by the reason for which the Company recognized an OTTI during the years ended December 31, 2018 and 2017. The Company did not recognize an OTTI on loan-backed and structured securities in 2018 and 2017.

The Company's investment portfolio includes loaned securities with a carrying value of $1,959 at December 31, 2018. The fair value of the loaned securities is $1,879 at December 31, 2018. The Company does not have loaned securities at December 31, 2017.

The Company reinvests the collateral received under the securities lending program. The aggregate amount of cash collateral reinvested at December 31, 2018, categorized by the contractual maturity of the investment, is as follows:

	Amortized Cost	Fair Value
30 days or less	$ 370	$ 370
31 to 60 days	339	339
61 to 90 days	138	138
91 to 120 days	119	119
121 to 180 days	310	310
181 to 365 days	284	284
Subtotal	1,560	1,560
Securities received	358	358
Total collateral reinvested	$ 1,918	$ 1,918

(Dollars In Thousands)

3. Fair Value

Assets and liabilities recorded at fair value in the statutory basis balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are as follows:

Level Input	Input Definition:
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following table summarizes the assets and/or liabilities measured and reported at fair value in the balance sheets as of December 31, 2018 and 2017, respectively:

	Level I	Level II	Level III	Total
December 31, 2018				
Industrial and miscellaneous bonds	**$ —**	**$ 370**	**$ —**	**$ 370**
Total bonds	**—**	**370**	**—**	**370**
Industrial and miscellaneous money market funds	**88,791**	**—**	**—**	**88,791**
Total cash equivalents	**88,791**	**—**	**—**	**88,791**
Total assets at fair value	**$ 88,791**	**$ 370**	**$ —**	**$ 89,161**
December 31, 2017				
Industrial and miscellaneous bonds	$ —	$ 935	$ —	$ 935
Total bonds	—	935	—	935
Industrial and miscellaneous money market funds	57,376	—	—	57,376
Total cash equivalents	57,376	—	—	57,376
Total assets at fair value	$ 57,376	$ 935	$ —	$ 58,311

Fair values of bonds are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs, for the determination of fair value to facilitate fair value measurements and disclosures. Level II securities primarily include United States government securities, corporate securities, securities from states, municipalities and political subdivisions and mortgage-backed securities and certain other asset-backed securities. For securities not actively traded, the pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. The Company has controls in place to review the pricing services' qualifications and procedures used to determine fair values. In addition, the Company periodically reviews the pricing services' pricing methodologies, data sources and pricing inputs to ensure the fair values obtained are reasonable.

(Dollars In Thousands)

Cash equivalents primarily consist of highly rated money market funds or bonds with original maturities of three months or less. Due to the high ratings and short-term nature of these investments, cash equivalents are primarily designated as Level I.

There were no securities measured at fair value using Level III inputs during the years ended December, 31, 2018 and 2017. There were no transfers between levels during the years ended December 31, 2018 and 2017. The Company's policy is to recognize transfers between levels, if any, as of the beginning of the reporting period.

The Company did not recognize OTTI for the years ended December 31, 2018 and 2017.

The following table summarizes the fair value of financial instruments by type:

December 31, 2018

Type of Financial Instrument	**Aggregate Fair Value**	**Admitted Assets**	**(Level I)**	**(Level II)**	**(Level III)**
Bonds	**$ 184,967**	**$ 187,880**	**$ —**	**$ 184,967**	**$ —**
Cash equivalents	**88,791**	**88,791**	**88,791**	**—**	**—**
Securities lending collateral	**1,918**	**1,918**	**910**	**1,008**	**—**

December 31, 2017

Type of Financial Instrument	**Aggregate Fair Value**	**Admitted Assets**	**(Level I)**	**(Level II)**	**(Level III)**
Bonds	$ 169,441	$ 167,852	$ —	$ 169,441	$ —
Cash equivalents	57,376	57,376	57,376	—	—

(Dollars In Thousands)

4. Unpaid Claims and Claims Adjustment Expenses

The following table provides a reconciliation of the beginning and ending balances for unpaid claims and claims adjustment expenses:

	2018	2017
Balances at January 1	**$ 75,887**	$ 121,557
Incurred (redundancies) related to:		
Current year	**1,027,383**	882,707
Prior years	**(10,067)**	(47,092)
Total incurred	**1,017,316**	835,615
Paid related to:		
Current year	**940,941**	807,239
Prior years	**66,081**	74,046
Total paid	**1,007,022**	881,285
Balances at December 31	**$ 86,181**	$ 75,887

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. Liabilities at any year end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared to the originally established year end liability. The negative amounts reported for incurred related to prior years results from claims being settled for amounts less than originally estimated. This experience is primarily attributable to actual medical cost experience that differs from that assumed at the time the liability was established.

The Company took into account estimated anticipated subrogation and other recoveries in its determination of the liability for unpaid claims based on historical recovery patterns.

5. Federal Income Taxes

The Company has a current federal income tax recoverable of $1,611 and $2,673 as of December 31, 2018 and 2017, respectively.

(Dollars In Thousands)

The components of net deferred tax assets (liabilities) at December 31 are as follows:

	2018		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	**6,976**	**39**	**$ 7,015**
Gross deferred tax liabilities	**(3,032)**	**—**	**(3,032)**
Net deferred tax asset before admissibility test	**$ 3,944**	**$ 39**	**$ 3,983**

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 *Income Taxes* ("SSAP No. 101") as of December 31, 2018 is:

Admitted pursuant to paragraph 11.a.	**$ 6,724**	**$ 39**	**$ 6,763**
Admitted pursuant to paragraph 11.b.	**—**	**—**	**—**
Admitted pursuant to paragraph 11.c.	**252**	**—**	**252**
Admitted deferred tax asset	**6,976**	**39**	**7,015**
Deferred tax liability	**(3,032)**	**—**	**(3,032)**
Net admitted deferred tax asset	**3,944**	**39**	**3,983**
Nonadmitted deferred tax asset	**$ —**	**$ —**	**$ —**

	2017		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	$ 3,484	$ —	$ 3,484
Gross deferred tax liabilities	(1)	(19)	(20)
Net deferred tax asset before admissibility test	$ 3,483	$ (19)	$ 3,464

(Dollars In Thousands)

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 as of December 31, 2017 is:

Admitted pursuant to paragraph 11.a.	$ 3,185	$ —	$ 3,185
Admitted pursuant to paragraph 11.b.	—	—	—
Admitted pursuant to paragraph 11.c.	20	—	20
Admitted deferred tax asset	3,205	—	3,205
Deferred tax liability	(1)	(19)	(20)
Net admitted deferred tax asset	3,204	(19)	3,185
Nonadmitted deferred tax asset	$ 279	$ —	$ 279

The change in the amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 during 2018 is:

	Ordinary	Capital	Total
Admitted pursuant to paragraph 11.a.	$ 3,539	$ 39	$ 3,578
Admitted pursuant to paragraph 11.b.	—	—	—
Admitted pursuant to paragraph 11.c.	232	—	232
Admitted deferred tax asset	3,771	39	3,810
Deferred tax liability	(3,031)	19	(3,012)
Net admitted deferred tax asset	740	58	798
Nonadmitted deferred tax asset	$ (279)	$ —	$ (279)

	2018	2017
Ratio percentage used to determine recovery period and threshold limitation amount	**434%**	385%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitations	**$ 170,555**	$ 120,850

(Dollars In Thousands)

The impact of tax planning strategies is as follows:

	2018		2017		Change	
	Ordinary	**Capital**	**Ordinary**	**Capital**	**Ordinary**	**Capital**
Adjusted gross deferred tax assets amount	**$ 6,976**	**$ 39**	$ 3,484	$ —	$ 3,492	$ 39
Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	**0.00%**	**0.00%**	0.00%	0.00%	0.00%	0.00%
Net admitted adjusted gross deferred tax assets amount	**$ 6,976**	**$ 39**	$ 3,205	$ —	$ 3,771	$ 39
Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	**0.00%**	**0.00%**	0.00%	0.00%	0.00%	0.00%

The Company's tax planning strategies do not include the use of reinsurance.

Current federal income taxes consist of the following major components:

	2018	2017	Change
Federal income taxes on operations	**$ 2,367**	$ 5,677	$ (3,310)
Federal income tax expense (benefit) on net capital gains (losses)	**(35)**	134	(169)
Federal income taxes	**$ 2,332**	$ 5,811	$ (3,479)

(Dollars In Thousands)

The components of deferred income taxes are as follows:

	December 31		
	2018	**2017**	**Change**
Deferred tax assets:			
Ordinary:			
Amortization	**$ 125**	$ 141	$ (16)
Accounts receivable	**3,058**	2,326	732
Claims discount reserve	**165**	112	53
Fixed assets	**202**	219	(17)
Other insurance reserves	**427**	656	(229)
Premium deficiency reserves	**2,986**	—	2,986
Prepaid expenses	**—**	17	(17)
Section 467 lease expense	**13**	13	—
Subtotal	**6,976**	3,484	3,492
Nonadmitted deferred tax assets	**—**	279	(279)
Admitted ordinary deferred tax assets	**6,976**	3,205	3,771
Capital:			
Investments in securities	**39**	—	39
Subtotal	**39**	—	39
Nonadmitted deferred tax assets	**—**	—	—
Admitted capital deferred tax assets	**39**	—	39
Admitted deferred tax assets	**7,015**	3,205	3,810
Deferred tax liabilities:			
Ordinary:			
Prepaid Expense	**(3,028)**	—	(3,028)
Discount of coordination of benefits	**(4)**	(1)	(3)
Subtotal	**(3,032)**	(1)	(3,031)
Capital:			
Investments in securities	**—**	(19)	19
Subtotal	**—**	(19)	19
Deferred tax liabilities	**(3,032)**	(20)	(3,012)
Net admitted deferred tax asset (liability)	**$ 3,983**	$ 3,185	$ 798

(Dollars In Thousands)

The changes in deferred tax assets and deferred tax liabilities are as follows:

	December 31		
	2018	**2017**	**Change**
Total deferred tax assets	**7,015**	3,484	$ 3,531
Total deferred tax liabilities	**(3,032)**	(20)	(3,012)
Net deferred tax asset	**$ 3,983**	$ 3,464	519
Tax effect of unrealized gains (losses)			(48)
Change in net deferred income tax			$ 471

Preparation of financial statements require management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results could differ from those estimates. As of December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future, which was generally 21%, by recording a provisional net decrease to deferred tax assets and liabilities of $2,309. Upon further analysis of the Tax Cuts and Jobs Act and refinement of calculations during the twelve months ended December 31, 2018, the Company adjusted the provisional amount by $516 to $1,793, which is included as a component of statutory surplus.

The Company has no repatriation transition tax or alternative minimum tax credit.

(Dollars In Thousands)

The Company's income tax expense and change in deferred income taxes differs from the amount obtained by applying the federal statutory income tax rate of 21% for the year ended December 31, 2018, and 35% for the year ended December 31, 2017 as follows:

	2018	2017
Tax expense (benefit) computed using the federal statutory rate	**(1,602)**	6,423
ACA health insurer fee	**4,932**	—
Change in nonadmitted assets	**(1,072)**	3,482
Tax exempt income and dividend received deduction net of proration	**(254)**	(353)
Prior year true-ups and adjustments	**(518)**	—
Tax settlements and contingencies	**333**	—
Tax Cuts and Jobs Act Tax Rate Change	**—**	1,309
Other, net	**42**	44
Total	**$ 1,861**	$ 10,905
Federal income taxes expense (benefit)	**2,332**	5,811
Change in net deferred income taxes	**(471)**	5,094
Total statutory income taxes	**$ 1,861**	$ 10,905

At December 31, 2018, the Company has no operating loss carryforwards or tax credit carryforwards.

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

	Ordinary	Capital	Total
2018	$ 3,290	$ —	$ 3,290
2017	4,869	134	5,003
2016	N/A	14	14

The Company is included in the consolidated federal income tax return of its parent Anthem, along with other affiliates, as of December 31, 2018. Allocation of federal income taxes with affiliates subject to the tax sharing agreement is based upon separate income tax return calculations with credit for net losses that can be used on a consolidated basis. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. Intercompany income tax balances are settled based on the IRS due dates.

The Company is a member of the IRS Compliance Assurance Process (“CAP”) program. The objective of CAP is to reduce taxpayer burden and uncertainty while assuring the IRS of the accuracy of tax returns prior to filing, thereby reducing or eliminating the need for post filing examinations. As of December 31, 2018, the examinations of the 2018 and 2017 tax year continues to be in process.

6. Health Insurer Fee

The Company had no premiums written subject to assessment under ACA Section 9010 as of December 31, 2018, due to the 2019 suspension of the assessment, and $946,071 premiums written subject to assessment under ACA Section 9010 as of December 31, 2017. The Company’s portion of the annual health insurance industry fee paid during 2018 was $23,486 and is included in operating expenses. The Company paid no annual health insurance industry fee during 2017 due to the suspension of the assessment. Because no health insurer fee is to be paid in 2019, no funds have been segregated in special surplus funds for the health insurer fee at December 31, 2018. The Company’s estimated portion of the annual health insurance industry fee paid in 2018 was $21,352 and was segregated in special surplus funds on the balance sheet at December 31, 2017.

7. Capital and Surplus

The LDI requires the Company to maintain a minimum surplus as set forth in the state statutes. In addition, the State of Louisiana has adopted RBC requirements as specified by the NAIC. Under those requirements, the amount of surplus to be maintained is determined based on various risk factors. The Company also is required to maintain certain capital and liquidity levels in conjunction with its BCBSA licensing. At December 31, 2018 and 2017, the Company’s capital and surplus exceeded all regulatory requirements.

Under Louisiana statutes, the Company is limited in the amount of dividends that can be declared without regulatory approval. Per Louisiana statute, an extraordinary dividend or distribution shall include any dividend or distribution of cash or other property, whose fair market value, together with that of other dividends or distributions made within the preceding twelve months, exceeds the lesser of: (i) Ten percent of the unassigned surplus of the insurer as regards policyholders as of the thirty-first day of December next preceding; or (ii) The net gain from operations of such insurer, not including realized capital gains, for the twelve-month period ending the thirty-first day of December next preceding, but shall not include pro rata distributions of any class of the insurer’s own securities. In determining whether a dividend or distribution is extraordinary, an insurer, may carry forward net income from the previous two calendar years that has not already been paid out as dividends. The carry forward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediate preceding calendar years. The Company may not pay any dividends during 2018 without prior approval.

The portion of unassigned surplus (deficit) representing cumulative unrealized gains (losses), net of taxes, was ($181) and $0 at December 31, 2018 and 2017, respectively.

8. Leases

The Company leases office space and EDP equipment and other miscellaneous items under various non-cancelable operating leases. Certain leases have the right to renew. There are no escalation clauses for any lease. Related lease expense for 2018 and 2017 was $892 and $940, respectively.

At December 31, 2018, future lease payments for operating leases with initial or remaining noncancelable terms of one year or more consisted of the following: 2019, $904; 2020, $645; 2021, $422; 2022 and thereafter, $0.

9. Contingencies

Litigation and regulatory proceedings

Express Scripts, Inc. Pharmacy Benefit Management Litigation

In March 2016, Anthem filed a lawsuit against Express Scripts, Inc., or Express Scripts, its vendor for pharmacy benefit management, or PBM, services, captioned *Anthem, Inc. v. Express Scripts, Inc.*, in the U.S. District Court for the Southern District of New York. The lawsuit seeks to recover over $14,800,000 in damages for pharmacy pricing that is higher than competitive benchmark pricing under the agreement between the parties, or PBM Agreement, over $158,000 in damages related to operational breaches, as well as various declarations under the PBM Agreement between the parties, including that Express Scripts: (i) breached its obligation to negotiate in good faith and to agree in writing to new pricing terms; (ii) is required to provide competitive benchmark pricing to us through the term of the PBM Agreement; (iii) has breached the PBM Agreement and that can terminate the PBM Agreement; and (iv) is required under the PBM Agreement to provide post-termination services, at competitive benchmark pricing, for one year following any termination.

Express Scripts has disputed the contractual claims and is seeking declaratory judgments: (i) regarding the timing of the periodic pricing review under the PBM Agreement; (ii) that it has no obligation to ensure that we receive any specific level of pricing, that we have no contractual right to any change in pricing under the PBM Agreement and that its sole obligation is to negotiate proposed pricing terms in good faith; and (iii) that we do not have the right to terminate the PBM Agreement. In the alternative, Express Scripts claims that we have been unjustly enriched by its payment of $4,675,000 at the time of the PBM Agreement. In March 2017, the court granted the motion to dismiss Express Scripts' counterclaims for (i) breach of the implied covenant of good faith and fair dealing, and (ii) unjust enrichment with prejudice. The only remaining claims are for breach of contract and declaratory relief. Anthem intends to vigorously pursue the claims and defend against any counterclaims, which Anthem believes are without merit; however, the ultimate outcome cannot be presently determined.

ERISA Litigation

Anthem is a defendant in a class action lawsuit that was initially filed in June 2016 against Anthem, Inc. and Express Scripts, which has been consolidated into a single multi-district lawsuit captioned *In Re Express Scripts/Anthem ERISA Litigation,* in the U.S. District Court for the Southern District of New York. The consolidated complaint was filed by plaintiffs against Express Scripts and us on behalf of all persons who are participants in or beneficiaries of any ERISA or non-ERISA healthcare plan from December 1, 2009 to the present in which we provided prescription drug benefits through the PBM Agreement with Express Scripts and paid a percentage based co-insurance payment in the course of using that prescription drug benefit. The plaintiffs allege that Anthem breached its duties, either under ERISA or with respect to the implied covenant of good faith and fair dealing implied in the health plans, (i) by failing to adequately monitor Express Scripts' pricing under the PBM Agreement and (ii) by placing our own pecuniary interest above the best interests of our insureds by allegedly agreeing to higher pricing in the PBM Agreement in exchange for the purchase price for its NextRx PBM business, and (iii) with respect to the non-ERISA members, by negotiating and entering into the PBM Agreement with Express Scripts that was allegedly detrimental to the interests of such non-ERISA members. Plaintiffs seek to hold us and Express Scripts jointly and severally liable and to recover all losses suffered by the proposed class, equitable relief, disgorgement of alleged ill-gotten gains, injunctive relief, attorney's fees and costs and interest.

In April 2017, Anthem filed a motion to dismiss the claims brought against us, and it was granted, without prejudice, in January 2018. Plaintiffs filed a notice of appeal with the United States Court of Appeals for the Second Circuit, which was heard in October 2018. Anthem intends to vigorously defend this suit; however, its ultimate outcome cannot be presently determined.

Cigna Corporation Merger Litigation

In July 2015, Anthem and Cigna Corporation, or Cigna, announced that they entered into Agreement and Plan of Merger, or Cigna Merger Agreement, pursuant to which Anthem would acquire all outstanding shares of Cigna. In July 2016, the U.S. Department of Justice, or DOJ, along with certain state attorneys general, filed a civil antitrust lawsuit in the U.S. District Court for the District of Columbia, or District Court, seeking to block the merger. In February 2017, Cigna purported to terminate the Cigna Merger Agreement and commenced litigation against us in the Delaware Court of Chancery, or Delaware Court, seeking damages, including the $1,850,000 termination fee pursuant to the terms of the Cigna Merger Agreement, and a declaratory judgment that its purported termination of the Cigna Merger Agreement was lawful, among other claims, which is captioned *Cigna Corp. v. Anthem Inc.*

Also in February 2017, Anthem initiated its own litigation against Cigna in the Delaware Court seeking a temporary restraining order to enjoin Cigna from terminating the Cigna Merger Agreement, specific performance compelling Cigna to comply with the Cigna Merger Agreement and damages, which is captioned *Anthem Inc. v. Cigna Corp*. In April 2017, the U.S. Circuit Court of Appeals for the District of Columbia affirmed the ruling of the District Court, which blocked the merger. In May 2017, after the Delaware Court denied the motion to enjoin Cigna from terminating the Cigna Merger Agreement, Anthem delivered to Cigna a notice terminating the Cigna Merger Agreement.

The litigation in Delaware is ongoing. A trial commenced in February 2019 and concluded in March 2019. A post trial briefing schedule has been issued with a final argument schedule for September 2019. Anthem believes Cigna's allegations are without merit and intends to vigorously pursue the claims and defend against Cigna's allegations; however, the ultimate outcome of the litigation with Cigna cannot be presently determined.

In October 2018, a shareholder filed a derivative lawsuit in the State of Indiana Marion County Superior Court, captioned *Henry Bittmann, Derivatively, et al. v. Joseph R Swedish, et al.*, purportedly on behalf of Anthem and its shareholders against certain current and former directors and officers alleging breaches of fiduciary duties, unjust enrichment and corporate waste associated with the Cigna Merger Agreement. This case has been stayed at the request of the parties. This lawsuit's ultimate outcome cannot be presently determined.

Cyber Attack Regulatory Proceedings and Litigation

In February 2015, Anthem reported that it was the target of a sophisticated external cyber attack. The attackers gained unauthorized access to certain of its information technology systems and obtained personal information related to many individuals and employees, such as names, birth dates, healthcare identification/social security numbers, street addresses, email addresses, phone numbers and employment information, including income data. To date, there is no evidence that credit card or medical information, such as claims, test results or diagnostic codes, were targeted, accessed or obtained, although no assurance can be given that Anthem will not identify additional information that was accessed or obtained.

Upon discovery of the cyber attack, Anthem took immediate action to remediate the security vulnerability and retained a cybersecurity firm to evaluate its systems and identify solutions based on the evolving landscape. Anthem has provided credit monitoring and identity protection services to those who have been affected by this cyber attack. Anthem has continued to implement security enhancements since this incident. Anthem has incurred expenses subsequent to the cyber attack to investigate and remediate this matter and expect to continue to incur expenses of this nature in the foreseeable future. Anthem recognizes these expenses in the periods in which they are incurred.

Federal and state agencies, including state insurance regulators, state attorneys general, the HHS Office of Civil Rights and the Federal Bureau of Investigation, are investigating, or have investigated, events related to the cyber attack, including how it occurred, its consequences and its responses. In connection with the resolution of the National Association of Insurance Commissioners' multistate targeted market conduct and financial exam in December 2016, Anthem agreed to provide a customized credit protection program, equivalent to a credit freeze, for its members who were under the age of eighteen on January 27, 2015. No fines or penalties were imposed on us. In October 2018, Anthem resolved the investigation by the HHS Office of Civil Rights. The resolution included a monetary settlement along with an agreement to a two-year Corrective Action Plan. Additionally, an ongoing investigation by a multi-state group of Attorneys General remains outstanding. Although Anthem is cooperating in this investigation, it may be subject to additional fines or other obligations, which may have an adverse effect on how we operate our business and an adverse effect on our results of operations and financial condition.

Civil class actions were filed in various federal and state courts by current or former members and others seeking damages that they alleged arose from the cyber attack. In June 2015, the Judicial Panel on Multidistrict Litigation entered an order transferring the consolidated civil actions to the U.S. District Court for the Northern District of California, or the U.S. District Court, in a matter captioned *In Re Anthem, Inc. Data Breach Litigation*. The parties agreed to settle plaintiffs' claims on a class-wide basis for a total settlement payment of $115,000. In August 2017, the U.S. District Court issued an order of preliminary approval of the settlement. The U.S. District Court held hearings on plaintiffs' motion for final approval and class counsel's fee petition in February and June 2018 and appointed a special master to review class counsel's fee petition. Final approval of the settlement was granted by the U.S. District Court in August 2018. All appeals that were filed with the Ninth Circuit Court of Appeals by class-member objections challenging approval of the settlement have been resolved. This matter is now closed. The three state court cases related to the cyber attack that were proceeding outside of this multidistrict litigation have been resolved and dismissed with prejudice.

Anthem has contingency plans and insurance coverage for certain expenses and potential liabilities of this nature and will pursue coverage for all applicable losses; however, the ultimate outcome of our pursuit of insurance coverage cannot be presently determined. Anthem intends to vigorously defend the remaining regulatory actions related to the cyber attack; however, their ultimate outcome cannot be presently determined.

Other contingencies

The Company is involved in other pending and threatened litigation of the character incidental to the business transacted, arising out of its operations and is from time to time involved as a party in various governmental investigations, audits, reviews and administrative proceedings. These investigations, audits and reviews and administrative proceedings include routine and special investigations by state insurance departments, state attorneys general, the U.S. Attorney General and subcommittees of the U.S. Congress. Such investigations, audits, reviews and administrative proceedings could result in the imposition of civil or criminal fines, penalties, other sanctions and additional rules, regulations or other restrictions on the Company's business operations. The Company believes that any liability that may result from any one of these actions, or in the aggregate, could have a material adverse effect on the Company's financial position or results of operations.

The Company has no other known contingencies.

10. Retirement Benefits

The Company participates in a deferred compensation plan sponsored by Anthem which covers certain employees once the participant reaches the maximum contribution amount for the Anthem 401(k) Plan (the "401(k) Plan"). The deferred amounts are payable according to the terms and subject to the conditions of the deferred compensation plan. Anthem allocates a share of the total accumulated costs of this plan to the Company based on the number of allocated employees subject to the deferred compensation plan. The Company has no legal obligation for benefits under this plan.

The Company participates in the 401(k) Plan, sponsored by ATH Holding Company, LLC ("ATH Holding"), and covering substantially all employees. Voluntary employee contributions are matched by ATH Holding subject to certain limitations. ATH Holding allocates a share of the total costs of the plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

(Dollars In Thousands)

During 2018 and 2017, the Company was allocated the following costs or (credits) for these retirement benefits:

	2018	2017
Deferred compensation plan	**$ 33**	$ 29
Defined contribution plan	**1,135**	1,015

11. Uninsured Accident and Health Plans

The net gain (loss) from operations and total claim payment volume from administrative services only ("ASO") plans was:

	ASO Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASO
For the year ended December 31, 2018			
Net reimbursement for administrative expenses (including administrative fees) in excess of (less than) actual expenses	**$ (7,350)**	**$ —**	**$ (7,350)**
Total net other income or expenses (including interest paid to or received from plans)	**—**	**—**	**—**
Net gain (loss) from operations	**$ (7,350)**	**$ —**	**$ (7,350)**
Total claim payment volume	**$ 226,162**	**$ —**	**$ 226,162**
For the year ended December 31, 2017			
Net reimbursement for administrative expenses (including administrative fees) in excess of (less than) actual expenses	$ (5,727)	$ —	$ (5,727)
Total net other income or expenses (including interest paid to or received from plans)	—	—	—
Net gain (loss) from operations	$ (5,727)	$ —	$ (5,727)
Total claim payment volume	$ 176,208	$ —	$ 176,208

(Dollars In Thousands)

12. Health Care Receivables

Pharmaceutical rebate receivables consist of reasonably estimated and billed amounts. Amounts not collected within 90 days of the invoice or confirmation date are nonadmitted. Total admitted and nonadmitted pharmaceutical rebates receivables at December 31 are as follows:

	2018		2017	
	Admitted	**Nonadmitted**	**Admitted**	**Nonadmitted**
Pharmaceutical rebate receivables, reported in health care and other receivables	**$ 1,945**	**$ —**	$ 537	$ 118
Total pharmaceutical rebate receivables	**$ 1,945**	**$ —**	$ 537	$ 118

During 2018, the Company sold $4,486 of pharmaceutical rebate receivables without recourse to Blue Cross of California, an affiliated entity. The proceeds received by the Company represented the expected pharmaceutical rebates recoverable in 90 days or more at the end of each quarter, less a $22 discount fee.

During 2017, the Company sold $2,108 of pharmaceutical rebate receivables without recourse to Blue Cross of California, an affiliated entity. The proceeds received by the Company represented the expected pharmaceutical rebates recoverable in 90 days or more at the end of each quarter, less a $11 discount fee.

Claim overpayment receivables consist of amounts that have been invoiced and meet the setoff conditions. Amounts that have not been invoiced and do not meet the setoff conditions are nonadmitted. Total admitted and nonadmitted claim overpayment receivables at December 31 are as follows:

	2018		2017	
	Admitted	**Nonadmitted**	**Admitted**	**Nonadmitted**
Claim overpayment receivables, reported in health care and other receivables	**$ —**	**$ 9,968**	$ —	$ 5,998
Total claim overpayment receivables	**$ —**	**$ 9,968**	$ —	$ 5,998

(Dollars In Thousands)

Other healthcare receivables at December 31 are as follows:

	2018		2017	
	Admitted	**Nonadmitted**	**Admitted**	**Nonadmitted**
Other healthcare receivables, reported in health care and other receivables	**$ —**	**$ 1,827**	$ —	$ 409
Total other healthcare receivables	**$ —**	**$ 1,827**	$ —	$ 409

13. Related Party Transactions

The Company has entered into administrative services agreements with its affiliated companies. Pursuant to these agreements, various administrative, management and support services are provided to or provided by the Company. The expenses related to these administrative management and support services are allocated to or allocated by the Company in an amount equal to the direct and indirect costs and expenses incurred in providing these services. Costs include expenses such as salaries, benefits, information technology, advertising, consulting services, rent, utilities, accounting, underwriting, and product development, which support the operations of the Company. These costs are allocated based on various utilization statistics.

Net payments to affiliated companies pursuant to the above administrative service agreements were $101,186 and $78,313 in 2018 and 2017, respectively, and are included in operating expenses and claims and claims adjustment expenses in the statutory basis statements of operations.

At December 31, 2018, the Company reported no amounts due from affiliates. At December 31, 2018, the Company reported $5,847 due to affiliates. At December 31, 2017, the Company reported $7,778 due from affiliates. At December 31, 2017, the Company reported no amounts due to affiliates. The receivable and payable balances represent intercompany transactions that will be settled in accordance with the settlement terms of the intercompany agreement.

During 2018, there was a $52,000 capital contribution from APHC. It was authorized on December 21, 2018 and paid on December 24, 2018. There was a $13,000 capital contribution from BCBS LA. It was authorized and paid on December 20, 2018.

During 2017, there was a $7,187 capital contribution from APHC. It was authorized on August 22, 2017 and paid on August 31, 2017. There was additional $12,915 capital contribution from APHC. It was authorized on December 14, 2017 and paid on December 18, 2017. During 2017, there was additional $3,228 capital contribution from BCBS LA, which was authorized and paid on December 15, 2017.

The Company has a royalty agreement with its parent, APHC. There were no royalties charged for the year ended December 31, 2018. Royalties charged to the Company for the year ended December 31, 2017 was $10,271, which is included in operating expenses in the accompanying statutory basis statements of operations.

14. Subsequent Events

Management of the Company has evaluated all events occurring after December 31, 2018 through April 23, 2019, the date the financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the financial statements. It was determined there were no events that require recognition or disclosure in the financial statements through the report date.

Supplementary Information - Statutory Basis

Report of Independent Auditors on Supplementary Information

Community Care Health Plan of Louisiana, Inc.

Summary Investment Schedule - Statutory Basis

(Dollars In Thousands)

December 31, 2018

	Gross Investment Holdings		**Admitted Assets as Reported in the Annual Statement**			
	Amount	**Percentage of Gross Investment Holdings**	**Amount**	**Securities Lending Reinvested Collateral Amount**	**Total**	**Percentage of Total Admitted Invested Assets**
Bonds:						
U.S. treasury securities	$ 6,830	2.4%	$ 6,830	$ 221	$ 7,051	2.5%
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
Political subdivisions of states, territories and possessions and political subdivisions general obligations	16,206	5.8	16,206	—	16,206	5.8
Revenue and assessment obligations	40,052	14.3	40,052	—	40,052	14.3
Mortgage-backed securities (includes residential and commercial MBS):						
Pass-through securities:						
All other	5,080	1.8	5,080	—	5,080	1.8
Other debt and other fixed income securities (excluding short-term):						
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	104,466	37.3	104,466	202	104,668	37.4
Unaffiliated non-U.S. securities (including Canada)	15,246	5.4	15,246	—	15,246	5.4
Securities lending collateral	1,918	0.7	1,918	xxx	xxx	xxx
Cash, cash equivalents and short-term investments	90,404	32.3	90,404	1,495	91,899	32.8
Total invested assets	$ 280,202	100.0%	$ 280,202	$ 1,918	$ 280,202	100.0%

Community Care Health Plan of Louisiana, Inc.

Investment Risks Interrogatories - Statutory Basis

(Dollars In Thousands)

December 31, 2018

1. The Company's total admitted assets as reported on Page 2 of the Annual Statement are: $ 394,513

2. Ten largest exposures to a single issuer/borrower/investment:

	Investment	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Bank of New York Mellon Corp/The	Short-Term Money Market	$ 24,797	6.3%
2.02	Morgan Stanley	Bond/Short-Term Money Market	15,613	4.0
2.03	HSBC Holdings PLC	Bond/Short-Term Money Market	15,350	3.9
2.04	State Street Corp	Short-Term Money Market	15,000	3.8
2.05	Deutsche Bank AG	Short-Term Money Market	11,000	2.8
2.06	Citigroup Inc	Bond	8,270	2.1
2.07	State of Hawaii	Bond	6,130	1.6
2.08	City of Bridgeport CT	Bond	5,984	1.5
2.09	Massachusetts Educational Finance	Bond	4,459	1.1
2.10	City of Houston TX	Bond	4,400	1.1

3. The Company's total admitted assets held in bonds NAIC

	Bonds	Amount	Percentage of Total Admitted Assets
3.01	NAIC - 1	$ 100,969	25.6%
3.02	NAIC - 2	86,541	21.9
3.03	NAIC - 3	370	0.1
3.04	NAIC - 4	—	—
3.05	NAIC - 5	—	—
3.06	NAIC - 6	—	—

The Company has no investments in preferred stock at December 31, 2018.

(Dollars In Thousands)

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

		Amount	Percentage of Total Admitted Assets
4.02	Total admitted assets held in foreign investments	$ 15,246	3.9%
4.03	Foreign-currency-denominated investments	—	—
4.04	Insurance liabilities denominated in that same foreign currency	—	—

5. Aggregate foreign investment exposure categorized by NAIC Sovereign rating:

		Amount	Percentage of Total Admitted Assets
5.01	Countries rated NAIC - 1	$ 15,246	3.9%
5.02	Countries rated NAIC - 2	—	—
5.03	Countries rated NAIC - 3 or below	—	—

6. Two largest foreign investment exposures to a single country, categorized by the country's NAIC sovereign rating:

		Amount	Percentage of Total Admitted Assets
	Countries rated NAIC - 1		
6.01	Country: Cayman Islands	$ 9,665	2.4%
6.02	Country: United Kingdom	2,625	0.7
	Countries rated NAIC - 2		
6.03	Country:	—	—
6.04	Country:	—	—
	Countries rated NAIC - 3 or below		
6.05	Country:	—	—
6.06	Country:	—	—

7. The Company has no unhedged foreign currency exposure.

8. The Company has no unhedged foreign currency exposure.

9. The Company has no unhedged foreign currency exposure.

Community Care Health Plan of Louisiana, Inc.

Investment Risks Interrogatories - Statutory Basis (continued)

(Dollars In Thousands)

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	Issuer	NAIC Rating	Amount	Percentage of Total Admitted Assets
10.01	CIFC Funding Ltd	1AM	$ 3,000	0.8%
10.02	HSBC Holdings PLC	1AM	2,350	0.6
10.03	Octagon Investment Partners Lt	1AM	2,301	0.6
10.04	KKR CLO Trust	1AM	2,018	0.5
10.05	Cooperatieve Rabobank UA	1FE/2FE	1,445	0.4
10.06	IHS Markit Ltd	1FE	1,282	0.3
10.07	Galaxy CLO Ltd	1FE	996	0.3
10.08	Avery Point CLO Ltd	1AM	995	0.3
10.09	Magnetite CLO Ltd	1FE	355	0.1
10.10	Standard Chartered PLC	1AM	275	0.1

11. Assets held in Canadian investments are less than 2.5% of the total admitted assets.

12. Assets held in investments with contractual sales restrictions are less than 2.5% of the total admitted assets.

13. Assets held in equity interests are less than 2.5% of total admitted assets.

14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of total admitted assets.

15. Investments in general partnership interests are less than 2.5% of the total admitted assets.

16. The Company has no investments in mortgage loans.

17. The Company has no investments in mortgage loans.

18. The Company has no investments in real estate, other than property owned and occupied by the Company.

19. The Company has no potential exposure for mezzanine real estate loans.

(Dollars In Thousands)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-end		At End of Each Quarter (Unaudited)		
		Amount	Percentage of Admitted Assets	1st qtr	2nd qtr	3rd qtr
20.01	Securities lending	$ 1,959	0.5%	$ 1,882	$ 894	$ 1,075
20.02	Repurchase agreements	—	—	—	—	—
20.03	Reverse repurchase agreements	—	—	—	—	—
20.04	Dollar repurchase agreements	—	—	—	—	—
20.05	Dollar reverse repurchase agreements	—	—	—	—	—

21. The Company held no admitted assets for warrants not attached to other financial instruments, options, caps and floors.

22. The Company held no admitted assets with potential exposure for collars, swaps and forwards.

23. The Company held no admitted assets with potential exposure for futures contracts.

Note to Supplementary Information - Statutory Basis

(Dollars In Thousands)

December 31, 2018

Note-Basis of Presentation

The accompanying supplemental schedules present selected statutory basis financial information as of December 31, 2018 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual,* and agrees to or is included in the amounts reported in Community Care Health Plan of Louisiana, Inc.'s 2018 Annual Statement as filed with the LDI.

Captions or amounts that are not applicable have been omitted.