

FINANCIAL STATEMENTS AND SUPPLEMENTARY  
INFORMATION – STATUTORY BASIS

AMERIGROUP Louisiana, Inc.

*Years Ended December 31, 2015 and 2014  
With Reports of Independent Auditors*

***AMERIGROUP Louisiana, Inc.***

**Financial Statements and Supplementary Information – Statutory Basis**

Years ended December 31, 2015 and 2014

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## **Report of Independent Auditors**

Board of Directors  
AMERIGROUP Louisiana, Inc.

We have audited the accompanying statutory basis financial statements of AMERIGROUP Louisiana, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, changes in capital and surplus, and cash flow for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance. Management also is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

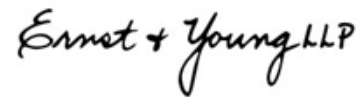
As described in Note 1, to meet the requirements of Louisiana, the financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance, which practices differ from U.S. generally accepted accounting principles. The variances between such practices and U.S. generally accepted accounting principles are described in Note 1. The effects on the accompanying financial statements of these variances are not reasonably determinable but are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the effects of the matter described in the preceding paragraph, the statutory basis financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of AMERIGROUP Louisiana, Inc. at December 31, 2015 and 2014, or the results of its operations or its cash flows for the years then ended.

### **Opinion on Statutory Basis of Accounting**

However, in our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of AMERIGROUP Louisiana, Inc. at December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

April 29, 2016

**AMERIGROUP Louisiana, Inc.**

Balance Sheets – Statutory Basis

	December 31	
	2015	2014
	(In Thousands)	
<b>Admitted assets</b>		
Cash and invested assets:		
(Bank overdrafts), cash, cash equivalents and short-term investments	\$ (5,961)	\$ 415
Bonds	67,242	66,708
Common stocks	–	15,125
Securities lending collateral	657	4,794
Total cash and invested assets	<u>61,938</u>	<u>87,042</u>
Accrued investment income	625	515
Premiums receivable	70,119	9,466
Current federal income tax recoverable	–	3,238
Net deferred tax asset	4,565	1,975
Electronic data processing equipment and software	–	3
Receivable from parent and affiliates	18	435
Health care receivables	626	–
Total admitted assets	<u>\$ 137,891</u>	<u>\$ 102,674</u>
<b>Liabilities and capital and surplus</b>		
Liabilities:		
Unpaid claims and claims adjustment expenses	\$ 53,203	\$ 31,737
Aggregate policy reserves	–	1,147
General expenses due and accrued	8,150	2,938
Current federal income tax payable	398	–
Remittances and items not allocated	2,166	368
Payable to parent and affiliates	4,182	1,042
Payable for securities lending	657	4,794
Liability for amounts held under uninsured plans	15,729	12,939
Other liabilities	161	160
Total liabilities	<u>84,646</u>	<u>55,125</u>
Capital and surplus:		
Common stock, \$.01 par value: 1,000 shares authorized, issued and outstanding	–	–
Additional paid-in surplus	75,676	60,676
Accumulated deficit	(33,190)	(21,224)
Special surplus funds	10,759	8,097
Total capital and surplus	<u>53,245</u>	<u>47,549</u>
Total liabilities and capital and surplus	<u>\$ 137,891</u>	<u>\$ 102,674</u>

See accompanying notes.

**AMERIGROUP Louisiana, Inc.**

Statements of Operations – Statutory Basis

	Year ended December 31	
	2015	2014
	<i>(In Thousands)</i>	
<b>Premium income</b>	\$ 506,311	\$ 395,969
<b>Benefits and expenses:</b>		
Claims and claims adjustment expenses	467,715	362,805
Operating expenses	43,277	33,959
Change in reserves for accident and health contracts	(1,147)	1,147
Total benefits and expenses	<u>509,845</u>	<u>397,911</u>
<b>Net underwriting loss</b>	(3,534)	(1,942)
<b>Investment gains:</b>		
Net investment income	2,179	2,216
Net realized gains on investments, net of tax	549	77
Net investment gains	<u>2,728</u>	<u>2,293</u>
<b>Other loss</b>	<u>–</u>	<u>(24)</u>
<b>(Loss) income before federal income taxes</b>	(806)	327
Federal income taxes	3,080	1,946
<b>Net loss</b>	<u>\$ (3,886)</u>	<u>\$ (1,619)</u>

See accompanying notes.

**AMERIGROUP Louisiana, Inc.**

Statements of Changes in Capital and Surplus – Statutory Basis

	<u>Common Stock</u>	<u>Paid-in Surplus</u>	<u>Accumulated Deficit</u> <i>(In Thousands)</i>	<u>Special Surplus Funds</u>	<u>Total Capital and Surplus</u>
Balance as of January 1, 2014	\$ –	\$ 60,676	\$ (13,281)	\$ –	\$ 47,395
Net loss	–	–	(1,619)	–	(1,619)
Change in unrealized capital gains	–	–	801	–	801
Change in net deferred income tax	–	–	(268)	–	(268)
Change in nonadmitted assets	–	–	1,240	–	1,240
ACA health insurer fee	–	–	(8,097)	8,097	–
Balance as of December 31, 2014	–	60,676	(21,224)	8,097	47,549
Net loss	–	–	<b>(3,886)</b>	–	<b>(3,886)</b>
Change in unrealized capital gains	–	–	<b>(1,034)</b>	–	<b>(1,034)</b>
Change in net deferred income tax	–	–	<b>2,669</b>	–	<b>2,669</b>
Change in nonadmitted assets	–	–	<b>(7,053)</b>	–	<b>(7,053)</b>
Contribution from parent	–	<b>15,000</b>	–	–	<b>15,000</b>
ACA health insurer fee	–	–	<b>(2,662)</b>	<b>2,662</b>	–
Balance as of December 31, 2015	<u>\$ –</u>	<u>\$ 75,676</u>	<u>\$ (33,190)</u>	<u>\$ 10,759</u>	<u>\$ 53,245</u>

See accompanying notes.

**AMERIGROUP Louisiana, Inc.**

Statements of Cash Flow – Statutory Basis

	<b>Year ended December 31</b>	
	<b>2015</b>	<b>2014</b>
	<i>(In Thousands)</i>	
<b>Operating activities:</b>		
Premiums collected, net of reinsurance	\$ 445,658	\$ 395,624
Net investment income	2,699	3,051
Claims and claims adjustment expenses paid	(453,224)	(365,832)
General administrative and miscellaneous expenses paid	(34,897)	(36,217)
Federal income taxes recovered (paid)	262	(5,577)
Net cash used in operating activities	<u>(39,502)</u>	<u>(8,951)</u>
<b>Investment activities:</b>		
Proceeds from investments sold, matured or repaid	46,344	15,029
Cost of investments acquired	<u>(28,988)</u>	<u>(18,090)</u>
Net cash provided by (used in) investment activities	17,356	(3,061)
<b>Financing or miscellaneous activities:</b>		
Capital contribution from parent	15,000	–
Other	770	12,569
Net cash provided by financing or miscellaneous activities	<u>15,770</u>	<u>12,569</u>
Change in (bank overdrafts), cash, cash equivalents and short term investments	(6,376)	557
Cash, (bank overdrafts) and short-term investments at beginning of year	<u>415</u>	<u>(142)</u>
(Bank overdrafts), cash, cash equivalents and short-term investments at end of year	<u>\$ (5,961)</u>	<u>\$ 415</u>

# ***AMERIGROUP Louisiana, Inc.***

## Notes to Financial Statements – Statutory Basis

*(Dollars in Thousands)*

December 31, 2015

### **1. Nature of Operations and Significant Accounting Policies**

AMERIGROUP 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”) 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. As of December 31, 2015, the Company served 171,924 members. The Company is a wholly-owned subsidiary of AMERIGROUP Corporation (“AMERIGROUP”), which is an indirect wholly-owned subsidiary of Anthem, Inc. (“Anthem”), a publicly traded company. The shareholders of Anthem approved a proposal to amend its articles of incorporation to change the name to Anthem, Inc. from WellPoint, Inc. The name change was effective December 2, 2014.

On July 24, 2015, the Company’s ultimate parent company, Anthem, and Cigna Corporation (“Cigna”) entered into an Agreement and Plan of Merger dated as of July 23, 2015, by and among Anthem, Cigna and Anthem Merger Sub Corp., a Delaware corporation and a direct wholly-owned subsidiary of Anthem, pursuant to which Anthem will acquire all outstanding shares of Cigna. The acquisition is expected to close in the second half of 2016 and is subject to certain state regulatory approvals, standard closing conditions, customary approvals required under the Hart-Scott-Rodino Antitrust Improvements Act and the approval of both the Anthem, Inc. shareholders and Cigna’s stockholders.

### **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, 2015 and 2014, there were no differences between the Company’s net income and statutory basis capital and surplus under NAIC SAP and practices prescribed or permitted by the LDI. The Company employed no permitted practices in preparing the accompanying statutory basis financial statements.

NAIC SAP varies from U.S. generally accepted accounting principles (“GAAP”). The more significant variances from GAAP, applicable to the Company, are as follows:

*Investments:* Investments in bonds and unaffiliated common stocks are reported at amortized cost or fair value based on their NAIC rating. For GAAP, such fixed maturity investments and equity securities are designated at purchase as available-for-sale and are reported at fair value with unrealized holding gains and losses reported as a separate component of capital and surplus.

For statutory purposes, all single class and multi-class mortgage-backed/asset-backed securities, such as collateralized mortgage obligations (“CMOs”), where it is determined that a decline in fair value is other-than-temporary because the Company intends to sell the security or has assessed that it does not have the intent and ability to retain the investments in the security for a period of time sufficient to recover the amortized cost basis, the amortized cost basis is written down to fair value as a realized loss in the statements of operations. If deemed other-than-temporarily impaired as the Company does not expect to recover the amortized cost basis even if it did not intend to sell the security and the Company has the intent and ability to hold the security, the amortized cost basis is written down to the present value of future cash flows as a realized loss in the statements of operations. For impaired bonds not backed by other assets, an other-than-temporary impairment (“OTTI”) is considered to have occurred if it is probable that the Company will be unable to collect all amounts due

# AMERIGROUP Louisiana, Inc.

## Notes to Financial Statements – Statutory Basis

(Dollars in Thousands)

### 1. Nature of Operations and Significant Accounting Policies (continued)

according to the instrument's contractual terms in effect at the date of acquisition. A decline in fair value that is other-than-temporary includes situations where the Company has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a bond is other-than-temporary, an impairment loss is recognized as a realized loss in the statements of operations equal to the entire difference between the bond's carrying value and its fair value.

For GAAP purposes, all securities, purchased or retained, that represent beneficial interests in securitized assets, such as CMOs, mortgage-backed securities, bonds and asset-backed securities, other than high credit quality securities, whose decline in fair value is determined to be other-than-temporary, the cost basis of the security is written down to the fair value if the Company intends to sell the security or it is more likely than not that the Company will have to sell the security prior to recovery. For impaired fixed maturity securities that the Company does not intend to sell or it is more likely than not that the Company will not have to sell such securities, but the Company expects that it will not fully recover the amortized cost basis, the credit component of the OTTI is recognized in other-than-temporary losses in the statements of operations, and the non-credit component of the OTTI is recognized in other comprehensive income. Furthermore, unrealized losses entirely caused by non-credit factors related to fixed maturity securities for which the Company expects to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive income.

*Premiums receivable:* Premiums receivable are recorded at the billed amount and reduced by any amounts not deemed collectible. Generally non-governmental receivables aged ninety days and older are excluded from the balance sheets by a direct charge to capital and surplus. 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, prepaids, and certain receivable balances are excluded from the balance sheets by a direct charge to capital and surplus. These nonadmitted assets totaled \$10,692 and \$3,639 at December 31, 2015 and 2014, respectively. For GAAP, these amounts are carried as assets, net of a valuation allowance, if necessary.

*Deferred income taxes:* Deferred tax assets are reduced by a statutory valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the gross deferred tax assets will not be realized. Adjusted gross deferred tax assets are separated by character (ordinary and capital) and admitted in an amount equal to the sum of 1) the amount of 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 applicable carryback period, plus 2) based on Risk Based Capital ("RBC") thresholds the lesser of the remaining adjusted gross deferred tax assets expected to be realized within the applicable period of the balance sheet date or an amount no greater than the applicable percentage of capital and surplus excluding any net deferred tax assets, electronic data processing ("EDP") equipment and operating software, plus 3) the amount of remaining adjusted gross deferred tax assets that can be offset against existing gross deferred tax liabilities after consideration of the reversal patterns of temporary differences. The remaining deferred tax asset is nonadmitted.

Deferred taxes do not include amounts for state taxes. Changes in deferred income taxes are recorded as adjustments to capital and surplus. 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:* (Bank overdrafts), cash, cash equivalents and short-term investments in the statements of cash flow represent cash balances, and investments with initial maturities of one year or less. If in the

# **AMERIGROUP Louisiana, Inc.**

## Notes to Financial Statements – Statutory Basis

*(Dollars in Thousands)*

### **1. Nature of Operations and Significant Accounting Policies (continued)**

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 and negative cash balances are 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 Statement of Statutory Accounting Principles ("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 operating expenses. For GAAP, these administrative fees are reported as revenue in the statements of operations.

*Reinsurance:* Any reinsurance balance amounts deemed to be uncollectible have been written off through a charge to operations. In addition, a liability for reinsurance balances has been provided for unsecured policy reserves ceded to reinsurers not authorized to assume such business. Changes to the liability are credited or charged directly to unassigned surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings. Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under GAAP.

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 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.

#### **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"). Common stocks of unaffiliated companies are stated at fair value as determined by various third-party pricing sources.

The Company participates in a securities lending program whereby marketable securities in its investment portfolio are transferred to independent brokers or dealers based on, among other things, their creditworthiness 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.

# ***AMERIGROUP Louisiana, Inc.***

## **Notes to Financial Statements – Statutory Basis**

*(Dollars in Thousands)*

### **1. Nature of Operations and Significant Accounting Policies (continued)**

Unrealized gains and losses on stocks and 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 gains on investments, net of tax. 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 investments with maturities of less than or equal to three months at the date of acquisition and are reported at amortized cost, which approximates fair value. Non-investment grade short-term are stated at the lower of amortized cost or fair value.

#### **Electronic Data Processing Equipment and Software**

EDP equipment and software are recorded at cost less accumulated depreciation. Depreciation on EDP equipment and operating software is computed principally by the straight-line method over the lesser of the estimated useful lives of the assets or three years. Non-operating software is depreciated using the straight-line method over the lesser of its useful life or five years. Accumulated depreciation at December 31, 2015 and 2014 was \$306 and \$304, respectively. Depreciation expense in 2015 and 2014 was \$3 and \$14, respectively.

#### **Furniture and Equipment**

Furniture and equipment is 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 2015 and 2014 was \$434 and \$434, 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.

#### **Premium Deficiency Reserve**

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, which is included in aggregate policy reserves in the balance sheets. The Company

# ***AMERIGROUP Louisiana, Inc.***

## **Notes to Financial Statements – Statutory Basis**

*(Dollars in Thousands)*

### **1. Nature of Operations and Significant Accounting Policies (continued)**

did not record a premium deficiency reserve as of December 31, 2015 and recorded premium deficiency reserves of \$1,147 as of December 31, 2014.

#### **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.

#### **Reinsurance**

Reinsurance premiums, claims and claims adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

#### **Retrospectively Rated Contracts**

The Company's contract with the State Medicaid Agency 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 incurred and unpaid liability 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 Company records accrued retrospective premium as an adjustment to earned premium.

The amount of net premiums written by the Company in 2015 and 2014 that was subject to retrospective rating features, including medical loss ratio ("MLR") rebates regulations, was \$506,311 and \$396,015, which both represented 100% of the total net premiums written.

#### **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 due dates.

# **AMERIGROUP Louisiana, Inc.**

## Notes to Financial Statements – Statutory Basis

*(Dollars in Thousands)*

### **1. Nature of Operations and Significant Accounting Policies (continued)**

#### **Patient Protection and Affordable Care Act**

In 2010, the U.S. Congress passed and the President signed into law the Patient Protection and Affordable Care Act (“ACA”). ACA has created significant changes and will continue to create significant changes for health insurance markets. Certain requirements include changes to Medicare Advantage payments and the minimum MLR provision that requires insurers to pay rebates to customers when insurers do not meet or exceed the specified MLR thresholds. Most of the provisions of ACA with more significant effects on the health insurance marketplace, both state and federal, went into effect on January 1, 2014, including a requirement that insurers guarantee the issuance of coverage to all individuals regardless of health status, strict rules on how health insurance is rated, the assessment of new taxes and fees (including annual fees on health insurance companies), the creation of new insurance exchanges for individuals and small groups, the availability of premium subsidies for certain individual products, and substantial expansions in eligibility for Medicaid.

Implementation of ACA brings with it significant oversight responsibilities by health insurers that may result in increased governmental audits, increased assertions of *False Claims Act* violations, and an increased risk of other litigation.

#### **Health Insurer Fee**

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 is written during the preceding calendar year. This fee is non-deductible for income tax purposes. The health insurer fee paid in 2015 is included in 2015 operating expenses. The estimated health insurer fee payable in 2016 is segregated in special surplus funds at December 31, 2015. For statutory accounting purposes, the entire fee expected to be paid during the year is recorded as a general and administrative expense on January 1st, as the first policy is underwritten for the calendar year.

#### **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**AMERIGROUP Louisiana, Inc.**

Notes to Financial Statements – Statutory Basis

(Dollars in Thousands)

**2. Investments**

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

	<u>Statement Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses Less Than 12 Months</u>	<u>12 Months or Greater</u>	<u>Fair Value</u>
<b>December 31, 2015</b>					
States, territories and political subdivisions	\$ 21,491	\$ 604	\$ (25)	\$ (20)	\$ 22,050
Industrial and miscellaneous	34,995	79	(640)	(198)	34,236
Loan-backed and structured securities	10,756	–	(44)	(43)	10,669
Total bonds	<u>\$ 67,242</u>	<u>\$ 683</u>	<u>\$ (709)</u>	<u>\$ (261)</u>	<u>\$ 66,955</u>
	<u>Statement Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses Less Than 12 Months</u>	<u>12 Months or Greater</u>	<u>Fair Value</u>
<b>December 31, 2014</b>					
States, territories and political subdivisions	\$ 22,428	\$ 351	\$ (6)	\$ (15)	\$ 22,758
Industrial and miscellaneous	35,328	347	(170)	(156)	35,349
Loan-backed and structured securities	8,952	9	(1)	(42)	8,918
Total bonds	<u>\$ 66,708</u>	<u>\$ 707</u>	<u>\$ (177)</u>	<u>\$ (213)</u>	<u>\$ 67,025</u>

The statement and fair values of bonds at December 31, 2015, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Statement Value</u>	<u>Fair Value</u>
Due after one through five years	\$ 18,007	\$ 17,791
Due after five through ten years	26,114	26,056
Due after ten years	12,365	12,439
Mortgage-backed securities	10,756	10,669
	<u>\$ 67,242</u>	<u>\$ 66,955</u>

Proceeds from sales of bonds during 2015 and 2014 were \$25,253 and \$12,483, respectively, resulting in realized gross gains of \$232 and \$161 and realized gross losses of \$664 and \$41, respectively.

Bonds with a statement value of \$1,010 and \$1,008 were on deposit with the LDI at December 31, 2015 and 2014, respectively.

Proceeds from sales of unaffiliated common stocks during 2015 were \$14,713. The Company realized gross gains of \$1,275 and there were no realized gross losses during 2015. There were no sales of stock during 2014.

The Company had no investments in unaffiliated stocks at December 31, 2015.

## AMERIGROUP Louisiana, Inc.

### Notes to Financial Statements – Statutory Basis

(Dollars in Thousands)

#### 2. Investments (continued)

A summary of the Company's investment in unaffiliated common stocks at December 31, 2014 is as follows:

<i>December 31, 2014</i>	Cost	Gross Unrealized Gains	Less Than 12 Months	Gross Unrealized Losses Less 12 Months or Greater	Fair Value
Common stocks	\$ 13,438	\$ 1,687	\$ –	\$ –	\$ 15,125

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 impairing 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 to allow for any anticipated recovery in value; (d) whether the debtor is current on interest and principal payments; and (e) 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 recorded no charges for OTTI of securities for the years ended December 31, 2015 and 2014, respectively.

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, 2015			December 31, 2014		
	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
Bonds:						
Less than 12 months	47	\$ 28,049	\$ (709)	23	\$ 10,474	\$ (177)
12 months or greater	9	4,903	(261)	17	12,017	(213)
Total bonds	56	\$ 32,952	\$ (970)	40	\$ 22,491	\$ (390)

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. Unrealized losses on stocks result from normal market fluctuations and are considered temporary. 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, 2015 or 2014.

The Company did not recognize an OTTI on loan-back and structured securities as of December 31, 2015 or 2014.

The Company's investment portfolio included loaned securities with carrying values of \$802 and \$4,718 at December 31, 2015 and 2014, respectively. The fair value of the invested collateral was \$658 and \$4,795 at December 31, 2015 and 2014, respectively.

# AMERIGROUP Louisiana, Inc.

## Notes to Financial Statements – Statutory Basis

(Dollars in Thousands)

### 2. Investments (continued)

The Company reinvests the collateral received under the securities lending program. The aggregate amount of cash collateral reinvested at December 31, 2015, categorized by the contractual maturity of the investment, is as follows:

	<b>Amortized Cost</b>	<b>Fair Value</b>
30 days or less	\$ 657	\$ 658
Total collateral reinvested	\$ 657	\$ 658

### 3. Fair Value

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

<b>Level Input</b>	<b>Input Definition</b>
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 liabilities measured at fair value and held as of December 31, 2015 and 2014, respectively:

	<b>Level I</b>	<b>Level II</b>	<b>Level III</b>	<b>Total</b>
<b>December 31, 2015</b>				
Industrial and miscellaneous bonds	\$ –	\$ 298	\$ –	\$ 298
Total bonds	–	298	–	298
Total assets at fair value	\$ –	\$ 298	\$ –	\$ 298
<b>December 31, 2014</b>				
Industrial and miscellaneous bonds	\$ –	\$ 3,985	\$ –	\$ 3,985
Total bonds	–	3,985	–	3,985
Industrial and miscellaneous common stocks	\$ 15,125	\$ –	\$ –	\$ 15,125
Total stocks	15,125	–	–	15,125
Total assets at fair value	\$ 15,125	\$ 3,985	\$ –	\$ 19,110

Fair values of fixed maturity securities 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. United States government securities represent Level I securities, while Level II securities primarily include corporate securities, securities from states, municipalities and political subdivisions and residential mortgage-backed securities. For securities not actively traded, the third party pricing services may use quoted market prices of comparable instruments or discounted cash

## AMERIGROUP Louisiana, Inc.

### Notes to Financial Statements – Statutory Basis

(Dollars in Thousands)

#### 3. Fair Value (continued)

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. As the Company is responsible for the determination of fair value, the Company performs monthly analyses on the prices received from third parties to determine whether the prices are reasonable estimates of fair value. The Company's analyses include a review of month-to-month price fluctuations and, as needed, a comparison of pricing services' valuations for the identical security.

Fair values of equity securities are generally designated as Level I and are based on quoted market prices. For certain equity securities, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar securities for which quoted prices are available. These securities are designated as Level II.

Certain financial assets are measured at fair value using Level III inputs, such as certain non-investment grade bonds and loan-backed securities or investments that are impaired during the year and recorded at fair value.

The Company's policy is to recognize transfers between levels, if any, as of the beginning of the reporting period. There were no transfers between levels during the years ended December 31, 2015 and 2014.

The Company did not have any impairments during 2015 or 2014 on assets measured at fair value.

The following table summarizes the fair value of financial instruments by type as of December 31, 2015 and 2014, respectively:

December 31, 2015						
Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level I)	(Level II)	(Level III)	Not Practicable (Carrying Value)
Bonds	\$66,955	\$67,242	\$ –	\$64,402	\$ 2,553	\$ –
Short-term investments	4,205	4,205	4,205	–	–	–
Cash equivalents	4,000	4,000	4,000	–	–	–
Securities lending collateral	658	657	658	–	–	–
December 31, 2014						
Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level I)	(Level II)	(Level III)	Not Practicable (Carrying Value)
Bonds	\$ 67,025	\$ 66,708	\$ –	\$ 67,025	\$ –	\$ –
Common stock	15,125	15,125	15,125	–	–	–
Short-term investments	1,837	1,837	837	1,000	–	–
Cash equivalents	1,008	1,008	1,008	–	–	–
Securities lending collateral	4,795	4,794	4,795	–	–	–

# AMERIGROUP Louisiana, Inc.

## Notes to Financial Statements – Statutory Basis

(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:

	<u>2015</u>	<u>2014</u>
Balances at January 1	\$ 31,737	\$ 35,244
Incurred (redundancies) related to:		
Current year	466,156	371,341
Prior years	1,559	(8,536)
Total incurred	<u>467,715</u>	<u>362,805</u>
Paid related to:		
Current year	413,033	338,247
Prior years	33,216	28,065
Total paid	<u>446,249</u>	<u>366,312</u>
Balances at December 31	<u>\$ 53,203</u>	<u>\$ 31,737</u>

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. Positive amounts reported for incurred related to prior years result from claims being settled for amounts greater 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. Reinsurance

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. These reinsurance agreements limit the Company's exposure to losses within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

The effects of reinsurance on net premium considerations are as follows:

	<b>Year ended December 31</b>	
	<u>2015</u>	<u>2014</u>
Direct premiums	\$ 506,311	\$ 396,015
Ceded premiums - non-affiliates	-	(46)
Net premiums	<u>\$ 506,311</u>	<u>\$ 395,969</u>

The Company did not have any ceded claims or claims adjustment expense for the years ended December 31, 2015 and 2014.

**AMERIGROUP Louisiana, Inc.**

Notes to Financial Statements – Statutory Basis (continued)

(Dollars in Thousands)

**6. Federal Income Taxes**

The Company had a federal income tax payable of \$398 at December 31, 2015. The Company had a federal income tax recoverable of \$3,238 at December 31, 2014.

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

	<b>Ordinary</b>	<b>2015 Capital</b>	<b>Total</b>
Gross deferred tax assets	\$ 5,349	\$ 23	\$ 5,372
Gross deferred tax liabilities	(2)	–	(2)
Net deferred tax asset before admissibility test	<u>\$ 5,347</u>	<u>\$ 23</u>	<u>\$ 5,370</u>

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 *Income Taxes - A Replacement of SSAP No. 10R and SSAP 10* ("SSAP No. 101") as of December 31, 2015 is:

	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Admitted pursuant to paragraph 11.a	\$ 4,358	\$ 20	\$ 4,378
Admitted pursuant to paragraph 11.b	188	–	188
Admitted pursuant to paragraph 11.c	<u>1</u>	<u>–</u>	<u>1</u>
Admitted deferred tax asset	4,547	20	4,567
Deferred tax liability	(2)	–	(2)
Net admitted deferred tax asset	<u>4,545</u>	<u>20</u>	<u>4,565</u>
Nonadmitted deferred tax asset	<u>\$ 802</u>	<u>\$ 3</u>	<u>\$ 805</u>

	<b>Ordinary</b>	<b>2014 Capital</b>	<b>Total</b>
Gross deferred tax assets	\$ 2,674	\$ –	\$ 2,674
Gross deferred tax liabilities	(3)	(526)	(529)
Net deferred tax asset before admissibility test	<u>\$ 2,671</u>	<u>\$ (526)</u>	<u>\$ 2,145</u>

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 as of December 31, 2014 is:

	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
Admitted pursuant to paragraph 11.a	\$ 1,923	\$ –	\$ 1,923
Admitted pursuant to paragraph 11.b	52	–	52
Admitted pursuant to paragraph 11.c	<u>529</u>	<u>–</u>	<u>529</u>
Admitted deferred tax asset	2,504	–	2,504
Deferred tax liability	(3)	(526)	(529)
Net admitted deferred tax asset	<u>2,501</u>	<u>(526)</u>	<u>1,975</u>
Nonadmitted deferred tax asset	<u>\$ 170</u>	<u>\$ –</u>	<u>\$ 170</u>

**AMERIGROUP Louisiana, Inc.**

Notes to Financial Statements – Statutory Basis (continued)

(Dollars in Thousands)

**6. Federal Income Taxes (continued)**

The change in the amount of admitted adjusted gross deferred tax assets under each component during 2015 is:

	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Admitted pursuant to paragraph 11.a	\$ 2,435	\$ 20	\$ 2,455
Admitted pursuant to paragraph 11.b	136	–	136
Admitted pursuant to paragraph 11.c	(528)	–	(528)
Admitted deferred tax asset	2,043	20	2,063
Deferred tax liability	1	526	527
Net admitted deferred tax asset	2,044	546	2,590
Nonadmitted deferred tax asset	<u>\$ 632</u>	<u>\$ 3</u>	<u>\$ 635</u>

	<u>2015</u>	<u>2014</u>
Ratio percentage used to determine recovery period and threshold limitation amount	<b>280%</b>	330%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitations	<b>\$ 48,680</b>	\$ 45,572

The impact of tax planning strategies is as follows:

	<u>2015</u>		<u>2014</u>		<u>Change</u>	
	<u>Ordinary</u>	<u>Capital</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Ordinary</u>	<u>Capital</u>
Adjusted gross deferred tax assets amount	<b>\$ 5,349</b>	<b>\$ 23</b>	\$ 2,674	\$ –	\$ 2,675	\$ 23
Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	<b>0.00%</b>	<b>0.00%</b>	0.00%	0.00%	0.00%	0.00%
Net admitted adjusted gross deferred tax assets amount	<b>\$ 4,547</b>	<b>\$ 20</b>	\$ 2,504	\$ -	\$ 2,043	\$ 20
Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	<b>0.00%</b>	<b>0.00%</b>	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:

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Federal income taxes	<b>\$ 3,080</b>	\$ 1,946	\$ 1,134
Federal income tax benefit on net capital losses	<b>294</b>	43	251
Federal income taxes incurred	<u><b>\$ 3,374</b></u>	<u>\$ 1,989</u>	<u>\$ 1,385</u>

**AMERIGROUP Louisiana, Inc.**

Notes to Financial Statements – Statutory Basis (continued)

(Dollars in Thousands)

**6. Federal Income Taxes (continued)**

The components of deferred income tax at December 31 are as follows:

	December 31		Change
	2015	2014	
Deferred tax assets:			
Ordinary:			
Amortization	\$ 289	\$ 316	\$ (27)
Accounts receivable	3,399	965	2,434
Claims discount reserve	149	98	51
Fixed assets	656	540	116
Other insurance reserves	801	338	463
Premium deficiency reserves	–	401	(401)
Prepaid expenses	18	16	2
Tenant allowance receivable	37	–	37
Subtotal	<u>5,349</u>	<u>2,674</u>	<u>2,675</u>
Nonadmitted deferred tax assets	<u>(802)</u>	<u>(170)</u>	<u>(632)</u>
Admitted ordinary deferred tax assets	<u>4,547</u>	<u>2,504</u>	<u>2,043</u>
Capital:			
Investments in securities	<u>23</u>	<u>–</u>	<u>23</u>
Subtotal	<u>23</u>	<u>–</u>	<u>23</u>
Nonadmitted deferred tax assets	<u>(3)</u>	<u>–</u>	<u>(3)</u>
Admitted capital deferred tax assets	<u>20</u>	<u>–</u>	<u>20</u>
Admitted deferred tax assets	<u>4,567</u>	<u>2,504</u>	<u>2,063</u>
Deferred tax liabilities:			
Ordinary:			
Discount of coordination of benefits	<u>(2)</u>	<u>(3)</u>	<u>1</u>
Subtotal	<u>(2)</u>	<u>(3)</u>	<u>1</u>
Capital:			
Investments in securities	<u>–</u>	<u>(526)</u>	<u>526</u>
Subtotal	<u>–</u>	<u>(526)</u>	<u>526</u>
Deferred tax liabilities	<u>(2)</u>	<u>(529)</u>	<u>527</u>
Net admitted deferred tax asset	<u>\$ 4,565</u>	<u>\$ 1,975</u>	<u>\$ 2,590</u>

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

	December 31		Change
	2015	2014	
Total deferred tax assets	\$ 5,372	\$ 2,674	\$ 2,698
Total deferred tax liabilities	<u>(2)</u>	<u>(529)</u>	<u>527</u>
Net deferred tax asset	<u>\$ 5,370</u>	<u>\$ 2,145</u>	<u>3,225</u>
Tax effect of unrealized gains			<u>(556)</u>
Change in net deferred income tax			<u>\$ 2,669</u>

## *AMERIGROUP Louisiana, Inc.*

### Notes to Financial Statements – Statutory Basis (continued)

*(Dollars in Thousands)*

#### 6. Federal Income Taxes (continued)

The Company's income tax expense and change in deferred income tax differs from the amount obtained by applying the federal statutory rate of 35% for the year ended December 31 for the following reasons:

	<b>2015</b>	<b>2014</b>
Tax expense computed using federal statutory rate	\$ (179)	\$ 129
Change in nonadmitted assets	(2,246)	273
Tax exempt and dividend income of proration	(207)	(210)
Prior year true-up and adjustments	7	104
Tax settlements and contingencies	–	(85)
ACA health insurer fee	3,256	1,971
Other	74	75
Total	\$ 705	\$ 2,257
Federal income taxes incurred	\$ 3,374	\$ 1,989
Change in net deferred income taxes	(2,669)	268
Total statutory income taxes	\$ 705	\$ 2,257

At December 31, 2015, 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:

	<b>Ordinary</b>	<b>Capital</b>	<b>Total</b>
<b>2015</b>	\$ 2,899	\$ 294	\$ 3,193
<b>2014</b>	2,212	42	2,254
<b>2013</b>	N/A	–	–

The Company is a member of the IRS Compliance Assurance Program (“CAP”). 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, 2015, the examination of the 2015 tax year continues to be in process.

#### 7. Health Insurer Fee

The Company has \$506,292 and \$396,015 of premiums written subject to assessment under ACA Section 9010 as of December 31, 2015 and 2014, respectively. The Company's estimated portion of the annual health insurance industry fee to be paid by September 30, 2015 is \$10,759 as segregated in special surplus funds on the balance sheet. The Company's portion of the annual health insurance industry fee paid during 2015 was \$9,302 and is included in operating expenses. Total Adjusted Capital (“TAC”) and Authorized Control Level (“ACL”) were \$53,245 and \$17,371, respectively, as of December 31, 2015. Had the assessment, based upon 2015 premiums written, been accrued on December 31, 2015, TAC would have been reduced to \$42,487, which would continue to exceed all capital and surplus requirements as described in Note 8.

#### 8. Capital and Surplus

The LDI requires the Company to maintain a minimum statutory capital and surplus as set forth in the State of Louisiana (“the State”) statutes. In addition, the State has adopted RBC requirements as specified by the NAIC.

# ***AMERIGROUP Louisiana, Inc.***

## **Notes to Financial Statements – Statutory Basis**

*(Dollars in Thousands)*

### **8. Capital and Surplus (continued)**

Under those requirements, the amount of surplus to be maintained is determined based on the various risk factors. At December 31, 2015 and 2014, the Company's capital and surplus exceeded all regulatory requirements.

Under Louisiana Statute 22:704, 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 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, if such insurer is a life insurer, or the net income, if such insurer is not a life 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, other than a life 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.

Within the limitations above, the Company may not pay any dividends during 2016 without prior approval.

The portion of unassigned surplus representing cumulative unrealized (losses) gains was \$(94) and \$1,496 as December 31, 2015 and 2014, respectively.

### **9. Leases**

The Company leases office space and EDP equipment under various noncancelable operating leases. Related lease expense for 2015 and 2014 was \$487 and \$464, respectively.

At December 31, 2015, future lease payments for operating leases with initial or remaining noncancelable terms of one year or more consisted of the following: 2016, \$596; and 2017, \$70.

### **10. Contingencies**

In February 2015, Anthem reported that it was the target of a sophisticated external cyber-attack. The attackers gained unauthorized access to certain of Anthem's information technology systems and obtained personal information related to many individuals and employees, such as names, birthdays, health care 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.

Anthem has continued to implement security enhancements since this incident and is supporting federal law enforcement efforts to identify the responsible parties. 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 is providing credit monitoring and identity protection services to those who have been affected by this cyber-attack. Anthem has incurred expenses subsequent to the cyber-attack to investigate and remediate this matter and expects to continue to incur expenses of this nature in the foreseeable future. Anthem will recognize these expenses in the periods in which they are incurred.

Actions have been filed in various federal and state courts, and other claims have been or may be asserted against Anthem on behalf of current or former members, current or former employees, other individuals, shareholders or others seeking damages or other related relief, allegedly arising out of the cyber-attack. State and federal agencies, including state insurance regulators, state attorneys general, the Health and Human Services Office of Civil Rights

## ***AMERIGROUP Louisiana, Inc.***

### Notes to Financial Statements – Statutory Basis

*(Dollars in Thousands)*

#### **10. Contingencies (continued)**

and the Federal Bureau of Investigation, are investigating events related to the cyber-attack, including how it occurred, its consequences and Anthem's responses. Although Anthem is cooperating in these investigations, Anthem may be subject to fines or other obligations, which may have an adverse effect on how Anthem operates its business and results of operations. With respect to the civil actions, a motion to transfer was filed with the Judicial Panel on Multidistrict Litigation in February 2015 and was subsequently heard by the Panel in May 2015. In June 2015, the Panel entered its order transferring the consolidated matter to the U.S. District Court for the Northern District of California. The U.S. District Court entered its Case Management Order in September 2015. Anthem has filed a Motion to Dismiss several of the counts that are before the U.S. District Court. There remain a few state court cases that are presently proceeding outside of the Multidistrict Litigation.

Anthem has contingency plans and insurance coverage for certain expenses and potential liabilities of this nature. The coverage has been sufficient to cover the majority of claims and liabilities incurred to date. While a loss from these matters is reasonably possible, Anthem cannot reasonably estimate a range of possible losses because the investigation into the matter is ongoing, the proceedings remain in the early stages, alleged damages have not been specified, there is uncertainty as to the likelihood of a class or classes being certified or the ultimate size of any class if certified, and there are significant factual and legal issues to be resolved.

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 and administrative proceedings. These investigations, audits and reviews include routine and special investigations by state insurance departments, state attorneys general, the U.S. Attorney General and Federal Agencies. Such investigations could result in the imposition of civil or criminal fines, penalties and other sanctions. The Company believes that any liability that may result from any one of these actions is unlikely to have a material adverse effect on the Company's financial position or results of operations.

At December 31, 2015 and 2014, the Company reported admitted assets of \$70,119 and \$9,466, respectively, in premium receivables due from policyholders and agents and receivables due from uninsured plans. The receivables are not deemed to be uncollectible, therefore, no provision for uncollectible amounts has been recorded. The potential for any additional loss is not believed to be material to the Company's financial condition.

#### **11. Retirement Benefits**

The Company participates in various deferred compensation plans sponsored by Anthem that cover certain employees. The deferred amounts are payable according to the terms and subject to the conditions of said deferred compensation agreements. Anthem allocates a share of the total costs of these plans to the Company based on the number of allocated employees participating in the plans. During 2015 and 2014, these costs totaled \$20 and \$6, respectively. The Company has no legal obligation for benefits under these plans.

The Company participates in the Anthem 401(k) Retirement Savings Plan, sponsored by 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 accumulated costs of this plan to the Company based on the number of allocated employees. During 2015 and 2014, these costs totaled \$667 and \$615, respectively. The Company has no legal obligation for benefits under these plans.

## AMERIGROUP Louisiana, Inc.

### Notes to Financial Statements – Statutory Basis

(Dollars in Thousands)

#### 12. Uninsured Accident and Health Plans

The net gain from operations from administrative service contract (“ASC”) plans was as follows:

	ASC Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASC
<b>For the year ended December 31, 2015</b>			
Gross reimbursement for medical cost incurred	\$ 133,406	\$ –	\$ 133,406
Gross administrative fees accrued	–	–	–
Other income or expenses (including interest paid to or received from plans)	–	–	–
Gross expenses incurred (claims and administrative)	<u>133,406</u>	–	<u>133,406</u>
Net gain or (loss) from operations	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

The Company did not have an ASC plan for the year ended December 31, 2014.

#### 13. Health Care Receivable

Admitted health care receivables consist of pharmaceutical rebate receivables of \$626 at December 31, 2015 and \$0 admitted health care receivables at December 31, 2014.

Pharmaceutical rebate receivables at December 31, 2015 and 2014 consist of reasonably estimated and billed amounts. Amounts not collected within 90 days of the invoice or confirmation date are nonadmitted. Pharmaceutical rebate receivables of \$988 and \$554 were nonadmitted as of December 31, 2015 and 2014, respectively.

**AMERIGROUP Louisiana, Inc.**

Notes to Financial Statements – Statutory Basis (continued)

(Dollars in Thousands)

**13. Health Care Receivable (continued)**

The following table summarizes information about the Company’s pharmaceutical rebate receivables:

<u>Quarter</u>	<u>Estimated Pharmacy Rebates as Reported on Financial Statements</u>	<u>Pharmacy Rebates as Billed or Otherwise Confirmed</u>	<u>Actual Rebates Received Within 90 Days of Billing</u>	<u>Actual Rebates Received Within 91 to 180 Days of Billing</u>	<u>Actual Rebates Received More Than 180 Days After Billing</u>
12/31/2015	\$ 239	\$ 467	\$ –	\$ –	\$ –
9/30/2015	292	525	–	–	–
6/30/2015	78	346	–	479	–
3/31/2015	(21)	321	–	235	24
12/31/2014	\$ 214	\$ 242	\$ –	\$ 115	\$ 121
9/30/2014	271	231	–	123	104
6/30/2014	297	195	–	181	14
3/31/2014	321	204	–	165	38
12/31/2013	\$ 281	\$ 282	\$ –	\$ 216	\$ 66
9/30/2013	203	290	–	151	139
6/30/2013	171	257	–	124	132
3/31/2013	179	220	–	130	80

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. Claim overpayment receivables of \$6,760 and \$1,785 were nonadmitted as of December 31, 2015 and 2014, respectively.

Other health care receivables of \$938 were nonadmitted as of December 31, 2015 and no other health care receivables were nonadmitted as of December 31, 2014.

**14. 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, communications, 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 \$53,804 and \$41,424 in 2015 and 2014, respectively, and are included in operating expenses and claims adjustment expenses in the statutory basis statements of operations.

At December 31, 2015 and 2014, the Company reported \$18 and \$435 due from affiliates and \$4,182 and \$1,042 due to affiliates, respectively. The receivable and payable balances represent intercompany transactions that are settled within the terms of the management and services agreement.

## ***AMERIGROUP Louisiana, Inc.***

### Notes to Financial Statements – Statutory Basis (continued)

*(Dollars in Thousands)*

#### **14. Related Party Transactions (continued)**

For the year ended December 31, 2015, the Company received a \$15,000 capital contribution from Anthem, Inc. It was authorized on September 28, 2015 and paid on September 30, 2015. The Company had no capital contributions for the year ended December 31, 2014.

#### **15. Subsequent Events**

The annual health insurer fee under section 9010 of the ACA, discussed in Note 1, has been suspended for 2017 and will resume for 2018 and beyond.

Management of the Company has evaluated all other events occurring after December 31, 2015 through April 29, 2016, 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 other events that require recognition or disclosure in the financial statements through the report date.

## Supplementary Information



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## **Report of Independent Auditors on Supplementary Information**

Board of Directors  
AMERIGROUP Louisiana, Inc.

Our audits were conducted for the purpose of forming an opinion on the statutory basis financial statements as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Company and state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

April 29, 2016

**AMERIGROUP Louisiana, Inc.**

Summary Investment Schedule – Statutory Basis

(Dollars in Thousands)

December 31, 2015

	<u>Gross Investment Holdings</u>		<u>Admitted Assets as Reported in the Annual Statement</u>			
	<u>Amount</u>	<u>Percentage of Gross Investment Holdings</u>	<u>Amount</u>	<u>Securities Lending Reinvested Collateral Amount</u>	<u>Total</u>	<u>Percentage of Total Admitted Invested Assets</u>
Bonds:						
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	\$ 1,692	2.7	\$ 1,692	—	\$ 1,692	2.7
Revenue and assessment obligations	4,572	7.4	4,572	—	4,572	7.4
Industrial development and similar obligations	15,227	24.6	15,227	—	15,227	24.6
Mortgage-backed securities						
CMOs and REMICs:						
All other	5,328	8.6	5,328	505	5,833	9.4
Other debt and other fixed income securities (excluding short-term):						
Unaffiliated domestic securities	34,538	55.7	34,538	152	34,690	56.0
Unaffiliated foreign securities	5,885	9.5	5,885	—	5,885	9.5
Securities lending collateral	657	1.1	657	XXX	XXX	XXX
(Bank overdrafts), cash, cash equivalents, and short-term investments	(5,961)	(9.6)	(5,961)	—	(5,961)	(9.6)
Total invested assets	<u>\$ 61,938</u>	<u>100.0 %</u>	<u>\$ 61,938</u>	<u>\$ 657</u>	<u>\$ 61,938</u>	<u>100.0 %</u>

**AMERIGROUP Louisiana, Inc.**

**Investment Risks Interrogatories – Statutory Basis**

*(Dollars in Thousands)*

December 31, 2015

1. The Company's total admitted assets as reported on Page 2 of the Annual Statement are: \$ 137,891

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

Investment	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01 Dreyfus Intl Cash Advantage	Bond	\$ 4,205	3.0 %
2.02 General Motors Co.	Bond	3,032	2.2
2.03 SPS Servicer Advance Rec. Trust	Bond	2,555	1.9
2.04 Michigan Finance Authority	Bond	1,908	1.4
2.05 State of Hawaii	Bond	1,717	1.2
2.06 Morgan Stanley Reremic Trust	Bond	1,656	1.2
2.07 LB-UBS Commercial Mortgage	Bond	1,631	1.2
2.08 Morgan Stanley	Bond	1,506	1.1
2.09 Protective Life Global Funding	Bond	1,499	1.1
2.10 Cooperatieve Centrale Raiffei	Bond	1,446	1.0

3. The Company's total admitted assets held in bonds (including cash equivalents of \$4,000 and short-term investments of \$4,205), by NAIC designation:

Investment Category	Amount	Percentage of Total Admitted Assets
<u>Bonds</u>		
3.01 NAIC - 1	\$ 50,449	36.6 %
3.02 NAIC - 2	24,700	17.9
3.03 NAIC - 3	298	0.2
3.04 NAIC - 4	-	-
3.05 NAIC - 5	-	-

The Company held no investments in preferred stock as of December 31, 2015.

**AMERIGROUP Louisiana, Inc.**

Investment Risks Interrogatories – Statutory Basis (continued)

*(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 ]

Percentage  
of Total

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

Percentage  
of Total

	Amount	Admitted Assets
5.01 Countries rated NAIC-1	\$ 5,885	4.3 %
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 designation:  
13.01

Percentage  
of Total

	Amount	Admitted Assets
Countries rated NAIC-1:		
6.01 Country: Cayman Islands	\$ 1,783	1.3 %
6.02 Country: Netherlands	1,446	1.0
Countries rated NAIC-2:		
6.03 Country:	-	-
6.04 Country:	-	-
Countries rated NAIC-3:		

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.

**AMERIGROUP Texas, Inc.**

Investment Interrogatories – Statutory Basis (continued)

(Dollars in Thousands)

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

Issuer	NAIC Designation	Amount	Percentage of Total Admitted Assets	
10.01 PENTAIR FINANCE SA	2FE	\$ 1,049	0.8	%
10.02 RABOBANK NEDERLAND SERIES 144A	2FE	1,043	0.8	
10.03 APIDOS CDO SERIES 2013-12A CLASS A CLO	1FE	1,000	0.7	
10.04 SCENTRE GROUP TR SCGAU SERIES 144A	1FE	692	0.5	
10.05 CENT CLO LP SERIES 2015-23A CLASS A2A 144A	1FE	429	0.3	
10.06 RABOBANK NEDERLAND	1FE	404	0.3	
10.07 MAGNETITE CLO LTD SERIES 2015-12A CLASS B 144A	1FE	354	0.3	
10.08 BHP BILLITON FINANCE	1FE	345	0.3	
10.09 STANDARD CHARTERED PLC SERIES 144A	1FE	275	0.2	
10.10 SOMPO JAPAN INSURANCE SERIES 144A	1FE	230	0.2	

11. Assets held in Canadian investments are less than 2.5% of the Company's total admitted assets.
12. Assets held in investments with contractual sales restrictions are less than 2.5% of the Company's total admitted assets.
13. Assets held in equity interest are less than 2.5% of admitted assets.
14. Assets held in nonaffiliated, privately placed equities are less than 2.5% of 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.
20. The Company's total admitted assets subject to securities lending agreements as of the following dates are:

	At Year-End		Amount at End of Each Quarter (Unaudited)		
	Amount	Percentage of Total Admitted Assets	1st Quarter	2nd Quarter	3rd Quarter
20.01 Securities lending	\$ 802	0.6 %	\$ 2,038	\$ 1,976	\$ 3,198
20.02 Repurchase agreements	–	–	–	–	–
20.03 Reverse repurchase agreements	–	–	–	–	–
20.04 Dollar repurchase agreements	–	–	–	–	–
20.05 Dollar reverse repurchase agreen	–	–	–	–	–

***AMERIGROUP Louisiana, Inc.***

**Investment Risks Interrogatories – Statutory Basis (continued)**

*(Dollars in Thousands)*

21. The Company has 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 has no admitted assets with potential exposure for futures contracts.

***AMERIGROUP Louisiana, Inc.***

**Note to Supplementary Information – Statutory Basis**

December 31, 2015

**Note—Basis of Presentation**

The accompanying supplemental schedules present selected statutory basis financial data as of December 31, 2015 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 AMERIGROUP Louisiana, Inc.'s 2015 Annual Statement as filed with the Louisiana Department of Insurance.

Captions or amounts that are not applicable have been omitted.