Financial Statements - Statutory Basis

Anthem Kentucky Managed Care Plan, Inc.

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

Anthem Kentucky Managed Care Plan, Inc.

Financial Statements - Statutory Basis

Years Ended December 31, 2018 and 2017

Contents

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Report of Independent Auditors

Board of Directors
Anthem Kentucky Managed Care Plan, Inc.

We have audited the accompanying statutory basis financial statements of Anthem Kentucky Managed Care Plan, Inc. (the Company), which comprise the balance sheets as of December 31, 2018 and 2017, 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 Kentucky 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 opinion.

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

As described in Note 1 to the statutory basis financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Kentucky Department of Insurance, which is a basis of accounting other than U.S. generally accepted accounting principles. The effects on the financial statements of the variances between these statutory accounting practices and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles 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 the Company at December 31, 2018 and 2017, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Ernst + Young LLP

April 18, 2019

Anthem Kentucky Managed Care Plan, 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	**$ 18,983**	$ 37,246
Bonds	**220,377**	199,660
Total cash and invested assets	**239,360**	236,906
Accrued investment income	**2,448**	2,272
Premiums receivable	**7,185**	5,698
Net deferred tax asset	**968**	781
Health care and other receivables	**837**	669
Other assets	**—**	570
Total admitted assets	**$ 250,798**	$ 246,896
Liabilities and capital and surplus		
Liabilities:		
Unpaid claims and claims adjustment expenses	**$ 60,649**	$ 61,644
Current federal income tax payable	**2,143**	532
Accounts payable and accrued expenses	**9,761**	7,516
Payable to affiliates	**5,300**	5,306
Payable for securities	**3,525**	—
Other premium liabilities	**4,562**	18,800
Other liabilities	**256**	314
Total liabilities	**86,196**	94,112
Capital and surplus:		
Common stock, $1,000 par value, 1,000 shares authorized, issued and outstanding	**1,000**	1,000
Additional paid-in surplus	**32,000**	32,000
Unassigned surplus (deficit)	**131,602**	104,144
Special surplus funds	**—**	15,640
Total capital and surplus	**164,602**	152,784
Total liabilities and capital and surplus	**$ 250,798**	$ 246,896

See accompanying notes.

Anthem Kentucky Managed Care Plan, Inc.

Statements of Operations - Statutory Basis

	December 31 2018	December 31 2017
	(In Thousands)	
Premium income	**$ 746,423**	$ 665,626
Benefits and expenses:		
Claims and claims adjustment expenses	**680,084**	594,395
Operating expenses	**52,329**	29,914
Total benefits and expenses	**732,413**	624,309
Net underwriting gain (loss)	**14,010**	41,317
Investment gains (losses):		
Net investment income (loss)	**6,117**	3,603
Net realized capital gains (losses), net of taxes (benefits)	**(346)**	(168)
Total net investment gains (losses)	**5,771**	3,435
Other income (expense)	**25**	—
Income (loss) before federal income taxes	**19,806**	44,752
Federal income taxes (benefits)	**6,236**	14,464
Net income (loss)	**$ 13,570**	$ 30,288

See accompanying notes.

Anthem Kentucky Managed Care Plan, 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	$ 1,000	$ 32,000	$ 89,008	$ —	$ 122,008
Net income (loss)	—	—	30,288	—	30,288
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	322	—	322
Change in net deferred income tax	—	—	(1,060)	—	(1,060)
Change in nonadmitted assets	—	—	1,226	—	1,226
Change in special surplus funds for ACA health insurer fee	—	—	(15,640)	15,640	—
Balance as of December 31, 2017	1,000	32,000	104,144	15,640	152,784
Net income (loss)	—	—	**13,570**	—	**13,570**
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	**(8)**	—	**(8)**
Change in net deferred income tax	—	—	**184**	—	**184**
Change in nonadmitted assets	—	—	**(1,928)**	—	**(1,928)**
Change in special surplus funds for ACA health insurer fee	—	—	**15,640**	**(15,640)**	—
Balance as of December 31, 2018	**$ 1,000**	**$ 32,000**	**$ 131,602**	**$ —**	**$ 164,602**

See accompanying notes.

Anthem Kentucky Managed Care Plan, Inc.

Statements of Cash Flow - Statutory Basis

	Year Ended December 31 2018	2017
	(In Thousands)	
Operating activities:		
Premiums collected	**$ 744,936**	$ 655,344
Investment income received	**9,167**	4,437
Claims and claims adjustment expenses paid	**(681,372)**	(598,895)
General administrative and miscellaneous expenses paid	**(50,066)**	(29,224)
Federal income taxes (paid) recovered	**(4,532)**	(14,010)
Net cash provided by (used in) operating activities	**18,133**	17,652
Investment activities:		
Proceeds from investments sold, matured or repaid	**73,825**	25,770
Cost of investments acquired	**(94,684)**	(177,288)
Net cash provided by (used in) investment activities	**(20,859)**	(151,518)
Financing or miscellaneous activities:		
Net transfers from (to) affiliates	**(6)**	(5,360)
Other premium liability	**(14,238)**	18,321
Other	**(1,293)**	1,071
Net cash provided by (used in) financing or miscellaneous activities	**(15,537)**	14,032
Change in cash, cash equivalents and short-term investments	**(18,263)**	(119,833)
Cash, cash equivalents and short-term investments at beginning of year	**37,246**	157,079
Cash, cash equivalents and short-term investments at end of year	**$ 18,983**	$ 37,246

See accompanying notes.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis

(Dollars In Thousands)

December 31, 2018

1. Nature of Operations and Significant Accounting Policies

Anthem Kentucky Managed Care Plan, Inc. (the "Company") is a Kentucky domiciled stock insurance company and is incorporated as a for-profit, health maintenance organization. The Company operates as a licensee of the Blue Cross and Blue Shield Association ("BCBSA"). The Company is a wholly-owned subsidiary of ATH Company, LLC ("ATH Holding"), which is an indirect wholly-owned subsidiary of Anthem, Inc. ("Anthem"), a publicly traded company.

A contract with the Kentucky Department for Medicaid Services authorized and enabled the Company to begin operating as a licensed provider of group and individual health insurance, offering Health Maintenance Organization health insurance to Medicaid enrollees in all regions of Kentucky. The loss of this contract would have a material effect on the Company's operations.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Kentucky Department of Insurance ("Department"). The Department 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 Department.

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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, 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 $2,723 and $795 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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

initial maturities of three months or less. Short-term investments are reported separately and negative cash balances are also reported separately as liabilities.

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. 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. Non-investment grade bonds are stated at the lower of cost or fair value as determined by the NAIC's Securities Valuation Office ("SVO").

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.

Provider Risk Share and Other Reserves

The Company contracts with physicians or provider groups to provide medical services to the Company's members. The Company pays capitation or negotiated fees for defined services provided by the physicians. Under the terms of these agreements, certain providers are eligible to receive provider incentives based on qualitative and quantitative factors. Estimated risk-sharing settlements are continually reviewed, and necessary adjustments are included in current operations. Claims and claims adjustment expenses include all amounts incurred by the Company under these arrangements.

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

investment income as a factor in the premium deficiency reserve calculation. The Company did not record premium deficiency reserves as of December 31, 2018 or 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 $7,185 and $5,698, 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 Kentucky Department for Medicaid Services 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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

assumptions in the preparation of the statutory basis financial statements and related footnote disclosures may differ from actual results.

All of the Company's net premiums written are subject to a retrospective rating feature.

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(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	**$ 186,339**	**$ 2,101**	**$ (80)**	**$ (570)**	**$ 187,790**
Industrial and miscellaneous	**29,313**	**89**	**(25)**	**—**	**29,377**
Loan-backed and structured securities	**4,725**	**6**	**—**	**—**	**4,731**
Total bonds	**$ 220,377**	**$ 2,196**	**$ (105)**	**$ (570)**	**$ 221,898**
December 31, 2017					
States, territories and political subdivisions	$ 199,660	$ 3,219	$ (316)	$ (36)	$ 202,527
Total bonds	$ 199,660	$ 3,219	$ (316)	$ (36)	$ 202,527

The statement and fair values of bonds, excluding short-term investments and cash equivalents, 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	**$ 2,043**	**$ 2,038**
Due after one through five years	**48,487**	**48,558**
Due after five through ten years	**64,022**	**64,634**
Due after ten years	**101,100**	**101,937**
Loan-backed and structured securities	**4,725**	**4,731**
	$ 220,377	**$ 221,898**

Proceeds from sales of bonds during 2018 and 2017 were $50,853 and $14,325, respectively, resulting in realized gross gains of $63 and $294, and realized gross losses of $503 and $575, respectively.

Investments with a statement value of $512 and $546 were on deposit with the Department at December 31, 2018 and 2017, respectively.

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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	**17**	**$ 22,187**	**$ (105)**	54	$ 56,859	$ (316)
12 months or greater	**30**	**37,082**	**(570)**	4	3,457	(36)
Total bonds	**47**	**$ 59,269**	**$ (675)**	58	$ 60,316	$ (352)

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(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				
U.S. special revenues	**$ —**	**$ 1,138**	**$ —**	**$ 1,138**
Total bonds	**—**	**1,138**	**—**	**1,138**
Industrial and miscellaneous money market funds	**4,000**	**—**	**—**	**4,000**
Total cash equivalents	**4,000**	**—**	**—**	**4,000**
Total assets at fair value	**$ 4,000**	**$ 1,138**	**$ —**	**$ 5,138**
December 31, 2017				
Industrial and miscellaneous money market funds	38,771	—	—	38,771
Total cash equivalents	38,771	—	—	38,771
Total assets at fair value	$ 38,771	$ —	$ —	$ 38,771

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, residential 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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.

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 following table summarizes the fair value of financial instruments by types:

December 31, 2018

Type of Financial Instrument	**Aggregate Fair Value**	**Admitted Assets**	**(Level I)**	**(Level II)**	**(Level III)**
Bonds	**$ 221,898**	**$ 220,377**	**$ —**	**$ 221,898**	**$ —**
Cash equivalents	**4,000**	**4,000**	**4,000**	**—**	**—**

December 31, 2017

Type of Financial Instrument	**Aggregate Fair Value**	**Admitted Assets**	**(Level I)**	**(Level II)**	**(Level III)**
Bonds	$ 202,527	$ 199,660	$ —	$ 202,527	$ —
Cash equivalents	38,771	38,771	38,771		
Short-term investments	699	699	—	699	—

The Company has no investments measured at net asset value.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(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	**$ 61,644**	$ 66,144
Incurred (redundancies) related to:		
Current year	**691,130**	614,559
Prior years	**(11,046)**	(20,164)
Total incurred	**680,084**	594,395
Paid related to:		
Current year	**632,091**	554,965
Prior years	**48,988**	43,930
Total paid	**681,079**	598,895
Balances at December 31	**$ 60,649**	$ 61,644

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

5. Federal Income Taxes

The Company has a current federal income tax recoverable (payable) of ($2,143) and ($532) as of December 31, 2018 and 2017, respectively.

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

	2018		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	**$ 1,003**	**$ —**	**$ 1,003**
Gross deferred tax liabilities	**(1)**	**(34)**	**(35)**
Net deferred tax asset before admissibility test	**$ 1,002**	**$ (34)**	**$ 968**

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.	**$ 1,002**	**$ —**	**$ 1,002**
Admitted pursuant to paragraph 11.b.	**—**	**—**	**—**
Admitted pursuant to paragraph 11.c.	**1**	**—**	**1**
Admitted deferred tax asset	**1,003**	**—**	**1,003**
Deferred tax liability	**(1)**	**(34)**	**(35)**
Net admitted deferred tax asset	**1,002**	**(34)**	**968**
Nonadmitted deferred tax asset	**$ —**	**$ —**	**$ —**

	2017		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	$ 795	$ —	$ 795
Gross deferred tax liabilities	—	(14)	(14)
Net deferred tax asset before admissibility test	$ 795	$ (14)	$ 781

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.	$ 794	$ —	$ 794
Admitted pursuant to paragraph 11.b.	—	—	—
Admitted pursuant to paragraph 11.c.	1	—	1
Admitted deferred tax asset	795	—	795
Deferred tax liability	—	(14)	(14)
Net admitted deferred tax asset	795	(14)	781
Nonadmitted deferred tax asset	$ —	$ —	$ —

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.	$ 208	$ —	$ 208
Admitted pursuant to paragraph 11.b.	—	—	—
Admitted pursuant to paragraph 11.c.	—	—	—
Admitted deferred tax asset	208	—	208
Deferred tax liability	(1)	(20)	(21)
Net admitted deferred tax asset	207	(20)	187
Nonadmitted deferred tax asset	$ —	$ —	$ —

	2018	2017
Ratio percentage used to determine recovery period and threshold limitation amount	**616%**	674%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitations	**$ 163,634**	$ 152,003

The impact of tax planning strategies is as follows:

	2018		2017		Change	
	Ordinary	Capital	Ordinary	Capital	Ordinary	Capital
Adjusted gross deferred tax assets amount	**$ 1,003**	**$ —**	$ 795	$ —	$ 208	$ —
Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	**0%**	**0%**	0%	0%	0%	0%
Net admitted adjusted gross deferred tax assets amount	**$ 1,003**	**$ —**	$ 795	$ —	$ 208	$ —
Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	**0%**	**0%**	0%	0%	0%	0%

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Current federal income taxes consist of the following major components:

	2018	2017	Change
Federal income taxes on operations	**$ 6,236**	$ 14,464	$ (8,228)
Federal income tax expense (benefit) on net capital gains (losses)	**(92)**	(113)	21
Federal income taxes	**$ 6,144**	$ 14,351	$ (8,207)

The components of deferred income taxes are as follows:

	December 31		
	2018	**2017**	**Change**
Deferred tax assets:			
Ordinary:			
Accounts receivable	**$ 193**	$ 167	$ 26
Claims discount reserve	**102**	90	12
Other insurance reserves	**329**	538	(209)
Other receivables	**379**	—	379
Subtotal	**1,003**	795	208
Admitted ordinary deferred tax assets	**1,003**	795	208
Admitted deferred tax assets	**1,003**	795	208
Deferred tax liabilities:			
Ordinary:			
Discount of coordination of benefits	**(1)**	—	(1)
Subtotal	**(1)**	—	(1)
Capital:			
Investments in securities	**(34)**	(14)	(20)
Subtotal	**(34)**	(14)	(20)
Deferred tax liabilities	**(35)**	(14)	(21)
Net admitted deferred tax asset (liability)	**$ 968**	$ 781	$ 187

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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

	December 31 2018	December 31 2017	Change
Total deferred tax assets	**$ 1,003**	$ 795	$ 208
Total deferred tax liabilities	**(35)**	(14)	$ (21)
Net deferred tax asset	**$ 968**	$ 781	187
Tax effect of unrealized gains (losses)			(3)
Change in net deferred income tax			$ 184

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 $521. 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 $420 to $101, which is included as a component of statutory surplus.

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

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	**$ 4,140**	$ 15,624
ACA health insurer fee	**3,230**	—
Change in nonadmitted assets	**(405)**	540
Tax exempt income and dividend received deduction net of proration	**(866)**	(1,040)
Tax Cuts and Jobs Act Tax Rate Change	**—**	410
Prior year true-ups and adjustments	**(420)**	(123)
Tax settlements and contingencies	**281**	—
Total	**$ 5,960**	$ 15,411
Federal income taxes expense (benefit)	**$ 6,144**	$ 14,351
Change in net deferred income taxes	**(184)**	1,060
Total statutory income taxes	**$ 5,960**	$ 15,411

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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	$ 6,913	$ —	$ 6,913
2017	14,196	—	14,196
2016	N/A	6	6

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 examination of the 2017 and 2018 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 $665,626 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 $15,379 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 $15,640 and was segregated in special surplus funds on the balance sheet at December 31, 2017.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

7. Capital and Surplus

The Department requires the Company to maintain a minimum surplus as set forth in the state statutes. In addition, the State of Kentucky 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 Kentucky statutes, the Company is limited in the amount of dividends that can be declared without regulatory approval. The Department must approve any dividend that, together with all dividends declared during the preceding 12 months, exceeds the lesser of statutory net income for the prior calendar year or 10% of statutory surplus existing at the end of the prior calendar year. Also, any dividend paid from other than earned surplus shall be considered an extraordinary dividend, and will need approval of the Kentucky Insurance Commissioner. The Company may pay $13,570 in dividends during 2019 without prior approval.

The portion of unassigned surplus (deficit) representing cumulative unrealized gains (losses), net of taxes, was ($8) and $0 at December 31, 2018 and 2017, respectively.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

8. Contingencies

Litigation and regulatory proceedings

Blue Cross Blue Shield Antitrust Litigation

Anthem is a defendant in multiple lawsuits that were initially filed in 2012 against the BCBSA and Blue Cross and/or Blue Shield licensees, or Blue plans, across the country. The cases were consolidated into a single multi-district proceeding captioned *In re Blue Cross Blue Shield Antitrust Litigation* that is pending in the United States District Court for the Northern District of Alabama, or the Court. Generally, the suits allege that the BCBSA and the Blue plans have conspired to horizontally allocate geographic markets through license agreements, best efforts rules that limit the percentage of non-Blue revenue of each plan, restrictions on acquisitions rules governing the BlueCard and National Accounts programs and other arrangements in violation of the Sherman Antitrust Act, or Sherman Act, and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers, and actions filed in Alabama, Arkansas, California, Florida, Hawaii, Illinois, Indiana, Kansas, Kansas City, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Dakota, Rhode Island, South Carolina, Tennessee, Texas, Vermont and Virginia have been consolidated into the multi-district proceeding.

In response to cross motions for partial summary judgment by plaintiffs and defendants, the Court issued an order in April 2018 determining that the defendants' aggregation of geographic market allocations and output restrictions are to be analyzed under a per se standard of review, and the BlueCard program and other alleged Section 1 Sherman Act violations are to be analyzed under the rule of reason standard of review. The Court also found that there remain genuine issues of material fact as to whether defendants operate as a single entity with regard to the enforcement of the Blue Cross Blue Shield trademarks. In June 2018, in response to a motion filed by the defendants, the Court certified its April order for interlocutory appeal to the United States Court of Appeals for the Eleventh Circuit, or the Eleventh Circuit. Also in June 2018, the defendants filed, with the Eleventh Circuit Court of Appeals, a petition for permission to appeal the April order, which Plaintiffs opposed. In December 2018, the Eleventh Circuit denied the petition. No dates have been set for either the final pretrial conferences or trials in these actions. Anthem intends to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.

<u>Cigna Corporation Merger Litigation</u>

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 scheduled for September 2019. Anthem believes Cigna's allegations are without merit and intends to vigorously pursue the

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

9. Retirement Benefits

The Company participates in the Anthem Cash Balance Plan (the "Plan"), a frozen non-contributory defined benefit pension plan sponsored by ATH Holding, covering most employees of Anthem and its subsidiaries. ATH Holding allocates a share of the total accumulated 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.

The Company participates in a postretirement medical benefit plan, sponsored by ATH Holding, providing certain health, life, vision and dental benefits to eligible retirees. ATH Holding allocates a share of the total accumulated costs of this plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

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 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.

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

	2018	**2017**
Defined benefit pension plan	**$ (220)**	$ (202)
Postretirement medical benefit plan	**(36)**	15
Deferred compensation plan	**25**	19
Defined contribution plan	**882**	674

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

10. 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	**$ 837**	**$ —**	$ 669	$ 150
Total pharmaceutical rebate receivables	**$ 837**	**$ —**	$ 669	$ 150

During 2018, the Company sold $3,683 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 $18 discount fee.

During 2017, the Company sold $1,410 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 $7 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	**$ —**	**$ 650**	$ —	$ 512
Total claim overpayment receivables	**$ —**	**$ 650**	$ —	$ 512

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

11. 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 $72,531 and $44,780 in 2018 and 2017, respectively, and are included in operating expenses, claims, and claims adjustment expenses in the statutory basis statements of operations.

At December 31, 2018 and 2017, the Company reported no amounts due from affiliates. At December 31, 2018 and 2017, the Company reported $5,300 and $5,306 due to affiliates, respectively. The receivable and payable balances represent intercompany transactions that will be settled in accordance with the settlement terms of the intercompany agreement.

On April 18, 2017, the Company purchased bonds of $147,748 from an affiliate, Anthem Health Plans of Kentucky, Inc.

12. Assessments

The Company is subject to a state assessment to fund the Guaranteed Acceptance Program losses and Kentucky Access Program. Although Kentucky Access and the Guaranteed Acceptance Program have been discontinued, the assessment continues for the purpose of funding any remaining obligations of these programs and provide support for administrative functions of the Kentucky Office of Health Benefit Exchange. The assessment is 1% on all fully insured premium except for individual exchange business which is assessed at 0.5% of fully insured premium. At December 31, 2018 and 2017, the Company accrued $7,437 and $6,622, respectively, for these assessments in accounts payable and accrued expenses in the accompanying statutory basis balance sheets. Expenses incurred related to these assessments were $7,437 and $6,566 in 2018 and 2017, respectively, and are recorded in operating expenses.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

13. Subsequent Events

Management of the Company has evaluated all events occurring after December 31, 2018 through April 18, 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.

Financial Statements - Statutory basis

Anthem Kentucky Managed Care Plan, Inc.

Years Ended December 31, 2017 and 2016
With Reports of Independent Auditors

Anthem Kentucky Managed Care Plan, Inc.

Financial Statements - Statutory Basis

Years ended December 31, 2017 and 2016

Contents

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Report of Independent Auditors

Board of Directors
Anthem Kentucky Managed Care Plan, Inc.

We have audited the accompanying statutory basis financial statements of Anthem Kentucky Managed Care Plan, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, 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 Kentucky 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 Kentucky, the financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Kentucky 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 Anthem Kentucky Managed Care Plan, Inc. at December 31, 2017 and 2016, 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 Anthem Kentucky Managed Care Plan, Inc. at December 31, 2017 and 2016, 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 Kentucky Department of Insurance.

Ernst + Young LLP

April 12, 2018

Anthem Kentucky Managed Care Plan, Inc.

Balance Sheets - Statutory Basis

	December 31	
	2017	2016
	(In Thousands)	
Admitted assets		
Cash and invested assets:		
Cash, cash equivalents and short-term investments	**$ 37,246**	$ 157,079
Bonds	**199,660**	50,473
Total cash and invested assets	**236,906**	207,552
Accrued investment income	**2,272**	517
Premiums receivable	**5,698**	5,028
Net deferred tax asset	**781**	2,014
Receivables from affiliates	**—**	140
Health care and other receivables	**669**	728
Other assets	**570**	151
Total admitted assets	**$ 246,896**	$ 216,130
Liabilities and capital and surplus		
Liabilities:		
Unpaid claims and claims adjustment expenses	**$ 61,644**	$ 66,144
Aggregate policy reserves	**—**	9,612
Current federal income tax payable	**532**	190
Accounts payable and accrued expenses	**7,516**	6,783
Payable to affiliates	**5,306**	10,806
Other premium liabilities	**18,800**	479
Other liabilities	**314**	108
Total liabilities	**94,112**	94,122
Capital and surplus:		
Common stock, $1,000 par value, 1,000 shares authorized, issued and outstanding	**1,000**	1,000
Additional paid-in surplus	**32,000**	32,000
Unassigned surplus (deficit)	**104,144**	89,008
Special surplus funds	**15,640**	—
Total capital and surplus	**152,784**	122,008
Total liabilities and capital and surplus	**$ 246,896**	$ 216,130

See accompanying notes.

Anthem Kentucky Managed Care Plan, Inc.

Statements of Operations - Statutory Basis

	December 31	
	2017	**2016**
	(In Thousands)	
Premium income	**$ 665,626**	$ 588,873
Benefits and expenses:		
Claims and claims adjustment expenses	**594,395**	524,122
Operating expenses	**29,914**	32,407
Total benefits and expenses	**624,309**	556,529
Net underwriting gain (loss)	**41,317**	32,344
Investment gains (losses):		
Net investment income	**3,603**	1,011
Net realized capital gains (losses), net of taxes (benefits)	**(168)**	10
Total net investment gains (losses)	**3,435**	1,021
Income (loss) before federal income taxes	**44,752**	33,365
Federal income taxes (benefit)	**14,464**	14,665
Net income (loss)	**$ 30,288**	$ 18,700

See accompanying notes.

Anthem Kentucky Managed Care Plan, 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, 2016	$ 1,000	$ 32,000	$ 61,737	$ 9,538	$ 104,275
Net income (loss)	—	—	18,700	—	18,700
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	(322)	—	(322)
Change in net deferred income tax	—	—	3	—	3
Change in nonadmitted assets	—	—	(648)	—	(648)
Change in special surplus funds for ACA health insurer fee	—	—	9,538	(9,538)	—
Balance as of December 31, 2016	1,000	32,000	89,008	—	122,008
Net income (loss)	**—**	**—**	**30,288**	**—**	**30,288**
Change in net unrealized capital gains and losses, net of taxes (benefits)	**—**	**—**	**322**	**—**	**322**
Change in net deferred income tax	**—**	**—**	**(1,060)**	**—**	**(1,060)**
Change in nonadmitted assets	**—**	**—**	**1,226**	**—**	**1,226**
Change in special surplus funds for ACA health insurer fee	**—**	**—**	**(15,640)**	**15,640**	**—**
Balance as of December 31, 2017	**$ 1,000**	**$ 32,000**	**$ 104,144**	**$ 15,640**	**$ 152,784**

See accompanying notes. 5

Anthem Kentucky Managed Care Plan, Inc.

Statements of Cash Flow - Statutory Basis

	Year Ended December 31 2017	2016
	(In Thousands)	
Operating activities:		
Premiums collected	**$ 655,344**	$ 577,195
Investment income received	**4,437**	1,390
Claims and claims adjustment expenses paid	**(598,895)**	(514,099)
General administrative and miscellaneous expenses paid	**(29,224)**	(28,514)
Federal income taxes (paid) recovered	**(14,010)**	(17,724)
Net cash provided by (used in) operating activities	**17,652**	18,248
Investment activities:		
Proceeds from investments sold, matured or repaid	**25,770**	7,456
Cost of investments acquired	**(177,288)**	(22,124)
Net cash provided by (used in) investment activities	**(151,518)**	(14,668)
Financing or miscellaneous activities:		
Net transfers from (to) affiliates	**(5,360)**	6,867
Other premium liability	**18,321**	479
Other	**1,071**	(811)
Net cash provided by (used in) financing or miscellaneous activities	**14,032**	6,535
Change in cash, cash equivalents and short-term investments	**(119,833)**	10,115
Cash, cash equivalents and short-term investments at beginning of year	**157,079**	146,964
Cash, cash equivalents and short-term investments at end of year	**$ 37,246**	$ 157,079

See accompanying notes.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis

(Dollars In Thousands)

December 31, 2017

1. Nature of Operations and Significant Accounting Policies

Anthem Kentucky Managed Care Plan, Inc. (the "Company") is a Kentucky domiciled stock insurance company and is incorporated as a for-profit, health maintenance organization. The Company operates as a licensee of the Blue Cross and Blue Shield Association ("BCBSA"). The Company is a wholly-owned subsidiary of ATH Company, LLC ("ATH Holding"), which is an indirect wholly-owned subsidiary of Anthem, Inc. ("Anthem"), a publicly traded company.

A contract with the Kentucky Department for Medicaid Services authorized and enabled the Company to begin operating as a licensed provider of group and individual health insurance, offering Health Maintenance Organization health insurance to Medicaid enrollees in all regions of Kentucky. The loss of this contract would have a material effect on the Company's operations.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Kentucky Department of Insurance ("Department"). The Department 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, 2017 and 2016, 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 Department.

Such practices vary 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 are reported at amortized cost or fair value based on their NAIC rating. For GAAP, such fixed maturity investments 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.

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, prepaid expenses, and certain health care and other

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

receivable balances, are excluded from the balance sheets by a direct charge to capital and surplus. These nonadmitted assets totaled $795 and $2,021 at December 31, 2017 and 2016, 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 one year or less. 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 and negative cash balances are reported separately as liabilities and short term investments.

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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. Non-investment grade bonds are stated at the lower of cost or fair value as determined by the NAIC's Securities Valuation Office ("SVO").

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. 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 and cash equivalent investments are stated at the lower of amortized cost or fair value.

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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 losses and loss 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 did not record premium deficiency reserves in 2017 and 2016.

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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, 2017 and 2016, the Company reported admitted assets of $5,698 and $5,028, respectively, in premium 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 the Kentucky Department for Medicaid Services 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 premiums receivable or 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.

All of the Company's net premiums written are subject to a retrospective rating feature.

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 is written during the preceding calendar

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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. Payment of the health insurer fee was suspended for 2017 and resumed for 2018.

Reclassifications

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

2. Investments

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

			Gross Unrealized Losses		
December 31, 2017	**Statement Value**	**Gross Unrealized Gains**	**Less Than 12 Months**	**12 Months or Greater**	**Fair Value**
States, territories and political subdivisions	**$ 199,660**	**$ 3,219**	**$ (316)**	**$ (36)**	**$ 202,527**
Total bonds	**$ 199,660**	**$ 3,219**	**$ (316)**	**$ (36)**	**$ 202,527**
December 31, 2016					
States, territories and political subdivisions	$ 50,473	$ 90	$ (592)	$ —	$ 49,971
Total bonds	$ 50,473	$ 90	$ (592)	$ —	$ 49,971

The statement and fair values of bonds at December 31, 2017 by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Statement Value	**Fair Value**
Due in one year or less	**$ 4,655**	**$ 4,656**
Due after one through five years	**42,699**	**42,679**
Due after five through ten years	**68,458**	**69,414**
Due after ten years	**83,848**	**85,778**
	$ 199,660	**$ 202,527**

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Proceeds from sales of bonds during 2017 and 2016 were $14,325 and $3,956, respectively, resulting in realized gross gains of $294 and $16, and realized gross losses of $575 and $0, respectively.

Investments with a statement value of $546 and $536 were on deposit with the Department at December 31, 2017 and 2016, respectively.

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 other-than-temporary impairments ("OTTI") of securities for the years ended December 31, 2017 and 2016.

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, 2017			December 31, 2016		
	Number of Securities	**Fair Value**	**Gross Unrealized Loss**	**Number of Securities**	**Fair Value**	**Gross Unrealized Loss**
Bonds:						
Less than 12 months	**54**	**$ 56,859**	**$ (316)**	43	$ 34,546	$ (592)
12 months or greater	**4**	**3,457**	**(36)**	—	—	—
Total bonds	**58**	**$ 60,316**	**$ (352)**	43	$ 34,546	$ (592)

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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, 2017 or 2016.

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:

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 liabilities measured at fair value and held as of December 31, 2017 and 2016, respectively:

	Level I	Level II	Level III	Total	Net Asset Value ("NAV") Included in Level II
December 31, 2017					
Industrial and miscellaneous money market funds	**$ 38,771**	**$ —**	**$ —**	**$ 38,771**	**$ —**
Total cash equivalent investments	**38,771**	**—**	**—**	**38,771**	**—**
Total assets at fair value	**$ 38,771**	**$ —**	**$ —**	**$ 38,771**	**$ —**
December 31, 2016					
U.S. special revenues	$ —	$ 441	$ —	$ 441	$ —
Total bonds	—	441	—	441	—
Total assets at fair value	$ —	$ 441	$ —	$ 441	$ —

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,

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

for the determination of fair value to facilitate fair value measurements and disclosures. United States government securities represent Level I or Level II securities, depending upon whether the securities are actively traded, 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 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.

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, we designate all cash equivalents as Level I.

There were no securities measured at fair value using Level III inputs during the years ended December 31, 2017 and 2016. There were no transfers between levels during the years ended December 31, 2017 and 2016. The Company's policy is to recognize transfers between levels, if any, as of the beginning of the reporting period.

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

December 31, 2017

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level I)	(Level II)	(Level III)	Not Practicable (Carrying Value)	Net Asset Value (“NAV”) Included in Level II
Bonds	**$ 202,527**	**$ 199,660**	**$ —**	**$ 202,527**	**$ —**	**$ —**	**$ —**
Short-term investments	**699**	**699**	**—**	**699**	**—**	**—**	**—**
Cash equivalents	**38,771**	**38,771**	**38,771**	**—**	**—**	**—**	**—**

December 31, 2016

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level I)	(Level II)	(Level III)	Not Practicable (Carrying Value)	Net Asset Value (“NAV”) Included in Level II
Bonds	$ 49,972	$ 50,473	$ —	$ 49,972	$ —	$ —	$ —
Short-term investments	223	223	223	—	—	—	—

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(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:

	2017	2016
Balances at January 1	**$ 66,144**	$ 56,121
Incurred (redundancies) related to:		
Current year	**614,559**	533,283
Prior years	**(20,164)**	(9,161)
Total incurred	**594,395**	524,122
Paid related to:		
Current year	**554,965**	469,546
Prior years	**43,930**	44,553
Total paid	**598,895**	514,099
Balances at December 31	**$ 61,644**	$ 66,144

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

5. Federal Income Taxes

The Company has a current federal income tax recoverable (payable) of ($532) and ($190) as of December 31, 2017 and 2016, respectively.

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

	2017		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	**$ 795**	**$ —**	**$ 795**
Gross deferred tax liabilities	**—**	**(14)**	**(14)**
Net deferred tax asset before admissibility test	**$ 795**	**$ (14)**	**$ 781**

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, 2017 is:

	Ordinary	Capital	Total
Admitted pursuant to paragraph 11.a.	**$ 794**	**$ —**	**$ 794**
Admitted pursuant to paragraph 11.b.	**—**	**—**	**—**
Admitted pursuant to paragraph 11.c.	**1**	**—**	**1**
Admitted deferred tax asset	**795**	**—**	**795**
Deferred tax liability	**—**	**(14)**	**(14)**
Net admitted deferred tax asset	**795**	**(14)**	**781**
Nonadmitted deferred tax asset	**$ —**	**$ —**	**$ —**

	2016		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	$ 1,845	$ 171	$ 2,016
Gross deferred tax liabilities	(2)	—	(2)
Net deferred tax asset before admissibility test	$ 1,843	$ 171	$ 2,014

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 as of December 31, 2016 is:

	Ordinary	Capital	Total
Admitted pursuant to paragraph 11.a.	$ 1,844	$ 6	$ 1,850
Admitted pursuant to paragraph 11.b.	—	165	165
Admitted pursuant to paragraph 11.c.	1	—	1
Admitted deferred tax asset	1,845	171	2,016
Deferred tax liability	(2)	—	(2)
Net admitted deferred tax asset	1,843	171	2,014
Nonadmitted deferred tax asset	$ —	$ —	$ —

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

The change in the amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 during 2017 is:

	Ordinary	Capital	Total
Admitted pursuant to paragraph 11.a.	$ (1,050)	$ (6)	$ (1,056)
Admitted pursuant to paragraph 11.b.	—	(165)	(165)
Admitted pursuant to paragraph 11.c.	—	—	—
Admitted deferred tax asset	(1,050)	(171)	(1,221)
Deferred tax liability	2	(14)	(12)
Net admitted deferred tax asset	(1,048)	(185)	(1,233)
Nonadmitted deferred tax asset	$ —	$ —	$ —

	2017	2016
Ratio percentage used to determine recovery period and threshold limitation amount	**674%**	594%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitations	**$ 152,003**	$ 119,994

The impact of tax planning strategies is as follows:

	2017		2016		Change	
	Ordinary	Capital	Ordinary	Capital	Ordinary	Capital
Adjusted gross deferred tax assets amount	**$ 795**	**$ —**	$ 1,845	$ 171	$ (1,050)	$ (171)
Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	**0%**	**0%**	0%	0%	0%	0%
Net admitted adjusted gross deferred tax assets amount	**$ 795**	**$ —**	$ 1,845	$ 171	$ (1,050)	$ (171)
Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	**0%**	**0%**	0%	0%	0%	0%

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Current federal income taxes consist of the following major components:

	2017	2016	Change
Federal income taxes on operations	**$ 14,464**	$ 14,665	$ (201)
Federal income tax on net capital gains	**(113)**	6	(119)
Federal income taxes	**$ 14,351**	$ 14,671	$ (320)

The components of deferred income taxes are as follows:

	December 31		
	2017	2016	Change
Deferred tax assets:			
Ordinary:			
Accounts receivable	**$ 167**	$ 707	$ (540)
Claims discount reserve	**90**	173	(83)
Other insurance reserves	**538**	965	(427)
Subtotal	**795**	1,845	(1,050)
Admitted ordinary deferred tax assets	**795**	1,845	(1,050)
Capital:			
Investments in securities	—	171	(171)
Subtotal	—	171	(171)
Admitted capital deferred tax assets	—	171	(171)
Admitted deferred tax assets	**795**	2,016	(1,221)
Deferred tax liabilities:			
Ordinary:			
Discount of coordination of benefits	—	(2)	2
Subtotal	—	(2)	2
Capital:			
Investments in securities	**(14)**	—	**(14)**
Subtotal	**(14)**	—	(14)
Deferred tax liabilities	**(14)**	(2)	12
Net admitted deferred tax asset (liability)	**$ 781**	$ 2,014	$ (1,233)

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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

	December 31		
	2017	**2016**	**Change**
Total deferred tax assets	**$ 795**	$ 2,016	$ (1,221)
Total deferred tax liabilities	**(14)**	(2)	$ (12)
Net deferred tax asset	**$ 781**	$ 2,014	(1,233)
Tax effect of unrealized gains (losses)			173
Change in net deferred income tax			$ (1,060)

On December 22, 2017, the federal government enacted a tax bill, 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. The Tax Cuts and Jobs Act contains significant changes to corporate taxation, including, but not limited to, reducing the U.S. Federal corporate income tax rate from 35% to 21% and modifying or limiting many business deductions. At December 31, 2017, the Company estimated the effects on existing deferred tax balances. The Company remeasured deferred tax assets and liabilities based on the rates at which they are expected to be utilized in the future, which is generally 21%. However, the Company will continue to analyze certain aspects of the Tax Cuts and Jobs Act and refine the calculations, which could potentially affect the measurement of those balances or give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of our deferred tax assets and liabilities was a net decrease of $521. This includes the components for change in net deferred income tax of $410 and a change in nonadmitted assets of $111.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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

	2017	2016
Tax expense (benefit) computed using the federal statutory rate	**$ 15,624**	$ 11,680
ACA health insurer fee	**—**	3,415
Change in nonadmitted assets	**540**	(227)
Tax exempt income net of proration	**(1,040)**	(323)
Tax Cuts and Jobs Act	**410**	—
Prior year true-up and adjustments	**(123)**	123
Total	**$ 15,411**	$ 14,668
Federal income taxes (benefit)	**$ 14,351**	$ 14,671
Change in net deferred income taxes	**1,060**	(3)
Total statutory income taxes	**$ 15,411**	$ 14,668

At December 31, 2017, 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
2017	$ 14,543	$ —	$ 14,543
2016	14,265	6	14,271
2015	N/A	—	—

The Company is included in the consolidated federal income tax return of its parent Anthem, along with other affiliates, as of December 31, 2017. 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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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, 2017, the examination of the 2017 tax year continues to be in process.

6. Health Insurer Fee

The Company had $665,626 of premium written subject to assessment under ACA Section 9010 as of December 31, 2017 and no premiums written subject to assessment under ACA Section 9010 as of December 31, 2016 due to the 2017 suspension of this assessment. The Company paid no annual health insurance industry fee during 2017. The Company's portion of the annual health insurance industry fee paid during 2016 was $9,759 and is included in operating expenses. The Company's estimated portion of the annual Health Insurance Industry Fee to be paid in 2018 is $15,640 and is segregated in special surplus funds on the balance sheet.

Total Adjusted Capital ("TAC") and Authorized Control Level ("ACL") were $152,784 and $22,557, respectively, as of December 31, 2017. Had the assessment, based upon 2017 premiums written, been accrued on December 31, 2017, TAC would have been reduced to $137,144, which would continue to exceed all capital and surplus requirements as described in Note 7.

7. Capital and Surplus

The Department requires the Company to maintain a minimum surplus as set forth in the state statutes. In addition, the Commonwealth of Kentucky 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, 2017 and 2016, the Company's capital and surplus exceeded all regulatory requirements.

Under Kentucky statutes, the Company is limited in the amount of dividends that can be declared without regulatory approval. The Department must approve any dividend that, together with all dividends declared during the preceding 12 months, exceeds the lesser of statutory net income for the prior calendar year or 10% of statutory surplus existing at the end of the prior calendar year. Also, any dividend paid from other than earned surplus shall be considered an extraordinary dividend, and will need approval of the Kentucky Insurance Commissioner. The Company may pay $15,278 in dividends during 2018 without prior approval.

The portion of unassigned surplus (deficit) representing cumulative unrealized gains (losses) was $0 and ($322) at December 31, 2017 and 2016, respectively.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

8. Contingencies

Anthem is a defendant in multiple lawsuits that were initially filed in 2012 against the BCBSA as well as Blue Cross and/or Blue Shield licensees across the country. The cases were consolidated into a single multi-district lawsuit called *In re Blue Cross Blue Shield Antitrust Litigation* that is pending in the United States District Court for the Northern District of Alabama (the "Court"). Generally, the suits allege that the BCBSA and the Blue plans have engaged in a conspiracy to horizontally allocate geographic markets through license agreements, best efforts rules (which limit the percentage of non-Blue revenue of each plan), restrictions on acquisitions, rules governing the BlueCard and National Accounts programs and other arrangements in violation of the Sherman Antitrust Act and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers. Subscriber and provider plaintiffs each filed consolidated amended complaints in July 2013. The consolidated amended subscriber complaint was also brought on behalf of putative state classes of health plan subscribers in Alabama, Arkansas, California, Florida, Hawaii, Illinois, Louisiana, Michigan, Mississippi, Missouri, New Hampshire, North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, and Texas. Defendants filed motions to dismiss in September 2013. In June 2014, the Court denied the majority of the motions, ruling that plaintiffs had alleged sufficient facts at that stage of the litigation to avoid dismissal of their claims. Following the subsequent filing of amended complaints by each of the subscriber and provider plaintiffs, we filed our answer and asserted our affirmative defenses in December 2014. Since January 2016, subscribers have filed additional actions asserting damage claims in Indiana, Kansas, Kansas City, Minnesota, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, Vermont, and Virginia, all of which have been consolidated into the multi-district lawsuit. In November 2016 and April 2017, subscriber plaintiffs and provider plaintiffs filed new consolidated amended complaints adding new named plaintiffs and new factual allegations. Anthem filed answers to the amended complaints in May 2017. In February 2017, the Court granted in part defendants' motion for summary judgment based on the filed rate doctrine finding that the damages claims of certain named Alabama subscribers are barred under federal law. Subscribers filed a motion to reconsider the Court's order, which was denied without prejudice to plaintiffs' right to raise the issue at a later date. In April 2017, the Court of Appeals for the Eleventh Circuit affirmed a lower court ruling in a related declaratory judgment action, *Musselman v. Blue Cross and Blue Shield of Alabama, et al*. that the antitrust conspiracy claims being asserted by a subset of putative provider class members were released a decade ago by class action settlements in the *In re Managed Care Litigation*. In June 2017, the Court denied defendants' motion to dismiss certain of the claims in provider plaintiffs' latest consolidated complaint. Briefing on the relevant standard of review for the claims asserted under the Sherman Antitrust Act commenced in July 2017. Cross motions for partial summary judgment on the relevant standard of review were heard by the Court in October 2017, and they remain pending. In August 2017, provider plaintiffs moved for partial summary

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

judgment against Anthem on the basis of collateral estoppel on several issues discussed in United States v. Anthem, Inc., 236 F. Supp. 3d 171 (D.D.C. 2017). That motion was heard in October 2017. In January 2018, the Court issued an order suspending certain deadlines from the Court's third amended scheduling order. No dates have been set for either the pretrial conference or trials in these actions. An Order regarding Section 1 Standard of Review and Single Entity Defense was issued on April 5, 2018. The Order granted Subscriber Plaintiffs' Motion for Partial Summary Judgment on the Application of the Per Se Rule. It granted in part and denied in part Provider Plaintiffs' Motion for Partial Summary Judgment. It granted in part and denied in part Defendants' Motion for Summary Judgment on Plaintiffs' Section 1, Per Se, and Quick Look Claims and denied Subscriber Plaintiffs' Motion for Partial Summary Judgment on Defendants' "Single Entity" Defense. The Court found that Defendants' aggregation of geographic market allocations and output restrictions are due to be analyzed under a per se standard of review. The BlueCard program and other alleged Section 1 violations are due to be analyzed under the Rule of Reason. Finally, there remain genuine issues of material fact as to whether Defendants operate as a single entity with regard to the enforcement of the Blue Marks. Defendants plan on filing a motion for certification under 28 U.S.C. § 1292(B) requesting the Court to amend its Order to allow an appeal to the Eleventh Circuit Court of Appeals. Anthem intends to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

In March 2016, Anthem filed a lawsuit against Express Scripts, Inc., or Express Scripts, our 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 damages for pharmacy pricing that is higher than competitive benchmark pricing, damages related to operational breaches as well as various declarations under the pharmacy benefit management agreement, or PBM Agreement, between the parties. Our suit asserts that Express Scripts' pricing exceeds the competitive benchmark pricing required by the PBM Agreement by approximately $13,000,000 over the remaining term of the PBM Agreement, and by approximately $1,800,000 through the post-termination transition period. Further, we assert that Express Scripts' excessive pricing has caused us to lose existing customers and prevented us from gaining new business. In addition to the amounts associated with competitive benchmark pricing, we are seeking over $158,000 in damages associated with operational breaches incurred, together with a declaratory judgment 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 we can terminate the PBM Agreement either due to Express Scripts' breaches or because we have determined that Express Scripts' performance with respect to the delegated Medicare Part D prescription drug plans, functions has been unsatisfactory; and (iv) is required under the PBM Agreement to provide post-termination services, at competitive benchmark pricing, for one year following any termination. In April 2016, Express Scripts filed an answer to the lawsuit disputing our contractual claims and

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

alleging various defenses and counterclaims. Express Scripts contends that we breached the PBM Agreement by failing to negotiate proposed new pricing terms in good faith and that we breached the implied covenant of good faith and fair dealing by disregarding the terms of the transaction. In addition, Express Scripts 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. We believe that Express Scripts' defenses and counterclaims are without merit. We filed a motion to dismiss Express Scripts' counterclaims. In March 2017, the court granted our 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. We intend to vigorously pursue our claims and defend against any counterclaims; however, the ultimate outcome cannot be presently determined.

Anthem, Inc. and Express Scripts were named as defendants in a purported class action lawsuit filed in June 2016 in the Southern District of New York by three members of ERISA plans alleging ERISA violations captioned Karen Burnett, Brendan Farrell, and Robert Shullich, individually and on behalf of all others similarly situated v. Express Scripts, Inc. and Anthem, Inc. The lawsuit was then consolidated with a similar lawsuit that was previously filed against Express Scripts. A first amended consolidated complaint was filed in the consolidated lawsuit, which is captioned In Re Express Scripts/Anthem ERISA Litigation. The first amended consolidated complaint was filed by six individual plaintiffs against Anthem and Express Scripts on behalf of all persons who are participants in or beneficiaries of any ERISA or non-ERISA health care plan from December 1, 2009 to the present in which Anthem provided prescription drug benefits through a PBM Agreement with Express Scripts and who paid a percentage based co-insurance payment in the course of using that prescription drug benefit. As to the ERISA members, the plaintiffs allege that Anthem breached its duties under ERISA (i) by failing to adequately monitor Express Scripts' pricing under the PBM Agreement and (ii) by placing its own pecuniary interest above the best interests of Anthem insureds by allegedly agreeing to higher pricing in the PBM Agreement in exchange for the $4,675,000 purchase price for our NextRx PBM business. As to the non-ERISA members, the plaintiffs assert that Anthem breached the implied covenant of good faith and fair dealing implied in the health plans under which the non-ERISA members are covered by (i) negotiating and entering into the PBM Agreement with Express Scripts that was detrimental to the interests of such non-ERISA members, (ii) failing to adequately monitor the activities of Express Scripts, including failing to timely monitor and correct the prices charged by Express Scripts for prescription medications, and (iii) acting in Anthem's self-interests instead of the interests of the non-ERISA members when it accepted the $4,675,000 purchase price for NextRx. Plaintiffs seek to hold Anthem and Express Scripts jointly

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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 November 2016, we filed a motion to dismiss all of the claims brought against Anthem. In response, in March 2017, the plaintiffs filed a second amended consolidated complaint adding two self-insured accounts as plaintiffs and asserting an additional purported class of self-insured accounts. In April 2017, we filed a motion to dismiss the claims brought against Anthem. Our motion was granted without prejudice in January 2018. Anthem intends to vigorously defend this suit; however, its ultimate outcome cannot be presently determined.

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.

Upon discovery of the cyber-attack, Anthem took immediate action to remediate the security vulnerability and retained a cybersecurity firm to evaluate our 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.

Actions have been filed in various federal and state courts and other claims have been or may be asserted against us 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. Federal and state agencies, including state insurance regulators, state attorneys general, the Health and Human Services Office of Civil Rights and the Federal Bureau of Investigation, are investigating events related to the cyber-attack, including how it occurred, its consequences and our responses. In December 2016, the National Association of Insurance Commissioners, or NAIC, concluded its multistate targeted market conduct and financial exam. In connection with the resolution of the matter, the NAIC requested Anthem provide, and Anthem agreed to provide, a customized credit protection program, equivalent to a credit freeze, for Anthem's members who were under the age of eighteen on January 27, 2015. No fines or penalties were imposed on Anthem. Although Anthem is cooperating in these investigations, we may be subject to fines or other obligations, which may have an adverse effect on how Anthem operates its business

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

and its results of operations. With respect to the civil actions, a motion to transfer was filed with the Judicial Panel on Multidistrict Litigation, or the Panel, 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, or the U.S. District Court. The U.S. District Court entered its case management order in September 2015. Anthem filed a motion to dismiss ten of the counts that were before the U.S. District Court. In February 2016, the U.S. District Court issued an order granting in part and denying in part our motion, dismissing three counts with prejudice, four counts without prejudice and allowing three counts to proceed. Plaintiffs filed a second amended complaint in March 2016, and Anthem subsequently filed a second motion to dismiss. In May 2016, the U.S. District Court issued an order granting in part and denying in part our motion, dismissing one count with prejudice, dismissing certain counts asserted by specific named plaintiffs with or without prejudice depending on their individualized facts, and allowing the remaining counts to proceed. In July 2016, plaintiffs filed a third amended complaint, which we answered in August 2016. Fact discovery was completed in December 2016. Plaintiffs filed their motion for class certification and trial plan in March 2017. Anthem filed its opposition to class certification, motions to strike the testimony of three of the plaintiffs' experts and trial plan in April 2017. Prior to those motions being heard, the parties agreed to settle plaintiffs' claims on a class-wide basis for a total settlement payment of $115 million and certain nonmonetary relief. In June 2017, plaintiffs filed a motion for preliminary approval of the settlement and a motion to continue all case deadlines. In July 2017, the U.S. District Court granted the motion to continue all case deadlines. The U.S. District Court issued an order of preliminary approval in August 2017. The U.S. District Court held a hearing on plaintiffs' motion for final approval and class counsel's fee petition in February 2018. The U.S. District Court has appointed a special master to review class counsel's fee petition and has rescheduled the final fairness hearing for April 2018. Three state court cases related to the cyber-attack are presently proceeding outside of this multidistrict litigation. Two of those cases have been stayed and a dispositive motion is pending with respect to the third. There remain open regulatory investigations into the incident that are not directly impacted by the multidistrict litigation settlement.

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 state court cases and regulatory actions related to the cyber-attack; however, their ultimate outcome cannot be presently determined.

In July 2015, Anthem and Cigna Corporation, ("Cigna") announced that they entered into a Merger Agreement, pursuant to which Anthem would acquire all outstanding shares of Cigna. In July 2016, the U.S. Department of Justice ("DOJ"), along with certain state attorneys general, filed a civil antitrust lawsuit in the U.S. District Court for the District of Columbia ("District Court") seeking

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

to block the merger. In February 2017, Cigna purported to terminate the Merger Agreement and commenced litigation against Anthem in the Delaware Court of Chancery ("Delaware Court") seeking damages, including the $1,850,000 termination fee pursuant to the terms of the Merger Agreement, and a declaratory judgment that its purported termination of the Merger Agreement was lawful, among other claims, which is captioned in 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 Merger Agreement, specific performance compelling Cigna to comply with the 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 our motion to enjoin Cigna from terminating the Merger Agreement, Anthem delivered to Cigna a notice terminating the Merger Agreement. The litigation in Delaware is ongoing. Anthem believes Cigna's allegations are without merit and intends to vigorously pursue its claims and defend against Cigna's allegations; however, the ultimate outcome of Anthem's litigation with Cigna cannot be presently determined.

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 Federal Agencies. 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.

9. Retirement Benefits

The Company participates in the Anthem Cash Balance Plan (the "Plan"), a frozen non-contributory defined benefit pension plan sponsored by ATH Holding, covering most employees of Anthem and its subsidiaries. ATH Holding allocates a share of the total accumulated 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.

The Company participates in a postretirement medical benefit plan, sponsored by ATH Holding, providing certain health, life, vision and dental benefits to eligible retirees. ATH Holding allocates

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

a share of the total accumulated costs of this plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

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 these plans.

The Company participates in the 401(k) 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 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.

During 2017 and 2016, the Company was allocated the following costs or (credits) for these retirement benefits:

	2017	**2016**
Defined benefit pension plan	**$ (202)**	$ (205)
Postretirement medical benefit plan	**15**	31
Deferred compensation plan	**19**	18
Defined contribution plan	**674**	611

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

10. 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:

	2017		2016	
	Admitted	**Nonadmitted**	**Admitted**	**Nonadmitted**
Pharmaceutical rebate receivables, reported in health care and other receivables	**$ 669**	**$ 150**	$ 728	$ 1,081
Total pharmaceutical rebate receivables	**$ 669**	**$ 150**	$ 728	$ 1,081

During 2017, the Company sold $1,410 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, less a $7 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:

	2017		2016	
	Admitted	**Nonadmitted**	**Admitted**	**Nonadmitted**
Claim overpayment receivables, reported in health care and other receivables	**$ —**	**$ 512**	$ —	$ 793
Total claim overpayment receivables	**$ —**	**$ 512**	$ —	$ 793

11. 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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Net payments to affiliated companies pursuant to the above administrative service agreements were $44,780 and $47,112 in 2017 and 2016, respectively, and are included in operating expenses and claims adjustment expenses in the statutory basis statements of operations.

At December 31, 2017, the Company reported no amounts due from affiliates. At December 31, 2016, the Company reported $140 due from affiliates. At December 31, 2017 and 2016, the Company reported $5,306 and $10,806 due to affiliates, respectively. The receivable and payable balances represent intercompany transactions that will be settled in accordance with the settlement terms of the intercompany agreement.

On April 18, 2017, the Company purchased bonds of $147,748 from an affiliate, Anthem Health Plans of Kentucky, Inc.

12. Assessments

The Company is subject to a state assessment to fund the guaranteed acceptance program losses and Kentucky Access program. Although Kentucky Access and the guaranteed acceptance program have been discontinued, the assessment continues for the purpose of funding any remaining obligations of these programs and provide support for administrative functions of the Kentucky Office of Health Benefit Exchange. The assessment is 1% on all fully insured premium except for individual exchange business which is assessed at 0.5% of fully insured premium. At December 31, 2017 and 2016, the Company accrued $6,622 and $5,774, respectively, for these assessments in accounts payable and accrued expenses in the accompanying statutory basis balance sheets. Expenses incurred related to these assessments were $6,566 and $6,070 in 2017 and 2016, respectively, and are recorded in operating expenses.

13. Subsequent Events

Management of the Company has evaluated all events occurring after December 31, 2017 through April 12, 2018, 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.

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Financial Statements - Statutory basis

Anthem Kentucky Managed Care Plan, Inc.

Years Ended December 31, 2016 and 2015
With Reports of Independent Auditors

Anthem Kentucky Managed Care Plan, Inc.

Financial Statements - Statutory Basis

Years ended December 31, 2016 and 2015

Contents

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Building a better working world

Report of Independent Auditors

Board of Directors
Anthem Kentucky Managed Care Plan, Inc.

We have audited the accompanying statutory basis financial statements of Anthem Kentucky Managed Care Plan, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, 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 Kentucky 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 Kentucky, the financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Kentucky 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 Anthem Kentucky Managed Care Plan, Inc. at December 31, 2016 and 2015, 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 Anthem Kentucky Managed Care Plan, Inc. at December 31, 2016 and 2015, 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 Kentucky Department of Insurance.

Ernst + Young LLP

April 17, 2017

Anthem Kentucky Managed Care Plan, Inc.

Balance Sheets - Statutory Basis

	December 31	
	2016	**2015**
	(In Thousands)	
Admitted assets		
Cash and invested assets:		
Cash, cash equivalents and short-term investments	**$ 157,079**	$ 146,964
Bonds	**50,473**	39,567
Total cash and invested assets	**207,552**	186,531
Accrued investment income	**517**	258
Premiums receivable	**5,028**	—
Net deferred tax asset	**2,014**	1,837
Receivables from affiliates	**140**	1,290
Health care and other receivables	**728**	862
Other assets	**151**	—
Total admitted assets	**$ 216,130**	$ 190,778
Liabilities and capital and surplus		
Liabilities:		
Unpaid claims and claims adjustment expenses	**$ 66,144**	$ 56,121
Aggregate policy reserves	**9,612**	10,335
Premiums received in advance	**—**	5,929
Current federal income tax payable	**190**	3,243
Accounts payable and accrued expenses	**6,783**	2,876
Payable to affiliates	**10,806**	5,089
Payable for securities	**—**	2,658
Other liabilities	**587**	252
Total liabilities	**94,122**	86,503
Capital and surplus:		
Common stock, $1,000 par value, 1,000 shares authorized, issued and outstanding	**1,000**	1,000
Additional paid-in surplus	**32,000**	32,000
Unassigned surplus (deficit)	**89,008**	61,737
Special surplus funds	**—**	9,538
Total capital and surplus	**122,008**	104,275
Total liabilities and capital and surplus	**$ 216,130**	$ 190,778

See accompanying notes.

Anthem Kentucky Managed Care Plan, Inc.

Statements of Income - Statutory Basis

	December 31 2016	December 31 2015
	(In Thousands)	
Premium income	**$ 588,873**	$ 490,397
Benefits and expenses:		
Claims and claims adjustment expenses	**524,122**	370,544
Operating expenses	**32,407**	21,523
Total benefits and expenses	**556,529**	392,067
Net underwriting gain (loss)	**32,344**	98,330
Investment gains (losses):		
Net investment income	**1,011**	27
Net realized capital gains (losses), net of tax (benefit)	**10**	—
Total net investment gains (losses)	**1,021**	27
Income (loss) before federal income taxes	**33,365**	98,357
Federal income tax (benefit)	**14,665**	36,487
Net income (loss)	**$ 18,700**	$ 61,870

See accompanying notes.

Anthem Kentucky Managed Care Plan, 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
Balance as of January 1, 2015	$ 1,000	$ 17,000	$ 6,765	$ 2,114	$ 26,879
Net income (loss)	—	—	61,870	—	61,870
Change in net deferred income tax	—	—	1,669	—	1,669
Change in nonadmitted assets	—	—	(1,143)	—	(1,143)
Change in special surplus funds for ACA health insurer fee	—	—	(7,424)	7,424	—
Capital contribution from parent	—	15,000	—	—	15,000
Balance as of December 31, 2015	1,000	32,000	61,737	9,538	104,275
Net income (loss)	**—**	**—**	**18,700**	**—**	**18,700**
Change in net unrealized capital gains and losses, net of tax (benefit)	**—**	**—**	**(322)**	**—**	**(322)**
Change in net deferred income tax	**—**	**—**	**3**	**—**	**3**
Change in nonadmitted assets	**—**	**—**	**(648)**	**—**	**(648)**
Change in special surplus funds for ACA health insurer fee	**—**	**—**	**9,538**	**(9,538)**	**—**
Balance as of December 31, 2016	**$ 1,000**	**$ 32,000**	**$ 89,008**	**$ —**	**$ 122,008**

See accompanying notes.

Anthem Kentucky Managed Care Plan, Inc.

Statements of Cash Flow - Statutory Basis

	Year Ended December 31 2016	2015
	(In Thousands)	
Operating activities:		
Premiums collected	**$ 577,195**	$ 502,692
Investment income received	**1,390**	(196)
Claims and claims adjustment expenses paid	**(514,099)**	(339,986)
General administrative and miscellaneous expenses paid	**(28,514)**	(19,570)
Federal income taxes (paid) recovered	**(17,724)**	(35,066)
Net cash provided by (used in) operating activities	**18,248**	107,874
Investment activities:		
Proceeds from investments sold, matured or repaid	**7,456**	2,658
Cost of investments acquired	**(22,124)**	(39,070)
Net cash provided by (used in) investment activities	**(14,668)**	(36,412)
Financing or miscellaneous activities:		
Capital contribution from parent	**—**	15,000
Net transfers from (to) affiliates	**6,867**	(7,733)
Other	**(332)**	(1,577)
Net cash provided by (used in) financing or miscellaneous activities	**6,535**	5,690
Change in cash, cash equivalents and short-term investments	**10,115**	77,152
Cash, cash equivalents and short-term investments at beginning of year	**146,964**	69,812
Cash, cash equivalents and short-term investments at end of year	**$ 157,079**	$ 146,964

See accompanying notes.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis

(Dollars In Thousands)

December 31, 2016

1. Nature of Operations and Significant Accounting Policies

Anthem Kentucky Managed Care Plan, Inc. (the “Company”) is a Kentucky domiciled stock insurance company and is incorporated as a for-profit, health maintenance organization. A contract with the Kentucky Department for Medicaid Services authorized and enabled the Company to begin operating as a licensed provider of group and individual health insurance, offering health maintenance organization health insurance to Medicaid enrollees in all regions of Kentucky. The loss of this contract would have a material effect on the Company’s operations. The Company began operations on October 1, 2014. The Company operates as a licensee of the Blue Cross and Blue Shield Association (“BCBSA”). The Company is a wholly-owned subsidiary of ATH Company, LLC (“ATH Holding”), which is a wholly-owned subsidiary of Anthem, Inc. (“Anthem”), a publicly traded company.

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, or the Acquisition. On July 21, 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 seeking to block the Acquisition. On January 18, 2017, Anthem provided notice to Cigna that Anthem had elected to extend the termination date under the Merger Agreement from January 31, 2017 until April 30, 2017. Following the conclusion of the trial, the Court ruled in favor of the DOJ, on February 8, 2017, and Anthem promptly filed notice that Anthem would appeal the Court’s ruling. On February 14, 2017, Cigna purported to terminate the Merger Agreement and commenced litigation against Anthem in the Delaware Court of Chancery, or Delaware Court, seeking damages and a declaratory judgment that its purported termination of the Merger Agreement was lawful, among other claims. Anthem believes Cigna’s allegations are without merit. Also on February 14, 2017, Anthem initiated its own litigation against Cigna in the Delaware Court seeking a temporary restraining order to enjoin Cigna from terminating the Merger Agreement, specific performance compelling Cigna to comply with the Merger Agreement and damages. On February 15, 2017, the Delaware Court granted Anthem’s motion for a temporary restraining order and issued an order enjoining Cigna from terminating the Merger Agreement. The temporary restraining order became effective immediately and will remain in place pending any further order from the Delaware Court. Anthem intends to vigorously defend the Acquisition in both the Circuit Court and the Delaware Court and remains committed to completing the Acquisition as soon as practicable.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Kentucky Department of Insurance ("Department"). The Department 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, 2016 and 2015 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 Department.

Such practices vary 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 are reported at amortized cost or fair value based on their NAIC rating. For GAAP, such fixed maturity investments 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.

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 non admitted 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, 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 $2,021 and $1,373 at December 31, 2016 and 2015, 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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

tax assets, electronic data processing ("EDP") equipment and operating software and any net positive goodwill, 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 income.

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 one year or less. 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 and negative cash balances are reported separately as liabilities and short term investments.

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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").

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 (loss), 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 and cash equivalent investments are stated at the lower of amortized cost or fair value.

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.

Retrospectively Rated Contracts

The Company's contracts with the Kentucky Department for Medicaid Services 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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.

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 is 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. Payment of the health insurer fee has been suspended for 2017 and is currently scheduled to resume for 2018 and beyond.

Reclassifications

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

2. Investments

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

			Gross Unrealized Losses		
December 31, 2016	**Statement Value**	**Gross Unrealized Gains**	**Less Than 12 Months**	**12 Months or Greater**	**Fair Value**
States, territories and political subdivisions	**$ 50,473**	**$ 90**	**$ (592)**	**$ —**	**$ 49,971**
Total bonds	**$ 50,473**	**$ 90**	**$ (592)**	**$ —**	**$ 49,971**
December 31, 2015					
States, territories and political subdivisions	$ 39,567	$ 333	$ (9)	$ —	$ 39,891
Total bonds	$ 39,567	$ 333	$ (9)	$ —	$ 39,891

The statement and fair values of bonds at December 31, 2016 by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Statement Value	**Fair Value**
Due in one year or less	**$ 3,148**	**$ 3,148**
Due after one through five years	**12,289**	**12,186**
Due after five through ten years	**10,605**	**10,453**
Due after ten years	**24,431**	**24,184**
	$ 50,473	**$ 49,971**

Proceeds from sales of bonds during 2016 were $3,956, resulting in realized gross gains of $16. There were no sales of bonds during 2015.

Bonds with a statement value of $536 and $526 were on deposit with the Department at December 31, 2016 and 2015, respectively.

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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 income. The new cost basis of the impaired securities is not increased for future recoveries in fair value. The Company recorded no charges for other-than-temporary impairment ("OTTI") of securities for the years ended December 31, 2016 and 2015.

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, 2016			December 31, 2015		
	Number of Securities	Fair Value	Gross Unrealized Loss	Number of Securities	Fair Value	Gross Unrealized Loss
Bonds:						
Less than 12 months	**43**	**$ 34,546**	**$ (592)**	13	$ 11,197	$ (9)
Total bonds	**43**	**$ 34,546**	**$ (592)**	13	$ 11,197	$ (9)

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, 2016 or 2015.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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:

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 liabilities measured at fair value and held as of December 31, 2016:

	Level I	Level II	Level III	Total
December 31, 2016				
U.S. special revenues	$ —	$ 441	$ —	$ 441
Total bonds	—	441	—	441
Total assets at fair value	$ —	$ 441	$ —	$ 441

At December 31, 2015 the Company did not have assets or liabilities measured at fair value.

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 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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.

There were no securities measured at fair value using Level III inputs during the years ended December 31, 2016 and 2015. There were no transfers between levels in 2016 or 2015. The Company's policy is to recognize transfers between levels, if any, as of the beginning of the reporting period.

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

December 31, 2016

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level I)	(Level II)	(Level III)	Not Practicable (Carrying Value)
Bonds	**$ 49,972**	**$ 50,473**	**$ —**	**$ 49,972**	**$ —**	**$ —**
Short-term investments	**223**	**223**	**223**	**—**	**—**	**—**

December 31, 2015

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level I)	(Level II)	(Level III)	Not Practicable (Carrying Value)
Bonds	$ 39,891	$ 39,567	$ —	$ 39,891	$ —	$ —
Short-term investments	13,440	13,440	12,316	1,124	—	—

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(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:

	2016	2015
Balances at January 1	**$ 56,121**	$ 25,563
Incurred (redundancies) related to:		
Current year	**533,283**	372,398
Prior year	**(9,161)**	(1,854)
Total incurred	**524,122**	370,544
Paid related to:		
Current year	**469,546**	317,891
Prior year	**44,553**	22,095
Total paid	**514,099**	339,986
Balances at December 31	**$ 66,144**	$ 56,121

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.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

5. Federal Income Taxes

The Company has a federal income tax recoverable (payable) of ($190) and ($3,243) as of December 31, 2016 and 2015, respectively.

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

	2016		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	**$ 1,845**	**$ 171**	**$ 2,016**
Gross deferred tax liabilities	**(2)**	**—**	**(2)**
Net deferred tax asset before admissibility test	**$ 1,843**	**$ 171**	**$ 2,014**

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, 2016 is:

Admitted pursuant to paragraph 11.a.	**$ 1,844**	**$ 6**	**$ 1,850**
Admitted pursuant to paragraph 11.b.	**—**	**165**	**165**
Admitted pursuant to paragraph 11.c.	**1**	**—**	**1**
Admitted deferred tax asset	**1,845**	**171**	**2,016**
Deferred tax liability	**(2)**	**—**	**(2)**
Net admitted deferred tax asset	**1,843**	**171**	**2,014**
Nonadmitted deferred tax asset	**$ —**	**$ —**	**$ —**

	2015		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	$ 1,838	$ —	$ 1,838
Gross deferred tax liabilities	—	—	—
Net deferred tax asset before admissibility test	$ 1,838	$ —	$ 1,838

The amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 as of December 31, 2015 is:

Admitted pursuant to paragraph 11.a.	$ 1,837	$ —	$ 1,837
Admitted pursuant to paragraph 11.b.	—	—	—
Admitted pursuant to paragraph 11.c.	—	—	—
Admitted deferred tax asset	1,837	—	1,837
Deferred tax liability	—	—	—
Net admitted deferred tax asset	1,837	—	1,837
Nonadmitted deferred tax asset	$ 1	$ —	$ 1

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

The change in the amount of admitted adjusted gross deferred tax assets under each component of SSAP No. 101 during 2016 is:

	Ordinary	Capital	Total
Admitted pursuant to paragraph 11.a.	$ 7	$ 6	$ 13
Admitted pursuant to paragraph 11.b.	—	165	165
Admitted pursuant to paragraph 11.c.	1	—	1
Admitted deferred tax asset	8	171	179
Deferred tax liability	(2)	—	(2)
Net admitted deferred tax asset	6	171	177
Nonadmitted deferred tax asset	$ (1)	$ —	$ (1)

	2016	2015
Ratio percentage used to determine recovery period and threshold limitation amount	**594%**	713%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	**$ 119,994**	$ 102,438

The impact of tax planning strategies is as follows:

	2016		2015		Change	
	Ordinary	**Capital**	**Ordinary**	**Capital**	**Ordinary**	**Capital**
Adjusted gross deferred tax assets amount	**$ 1,845**	**$ 171**	$ 1,838	$ —	$ 7	$ 171
Percentage of adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	**0%**	**0%**	0%	0%	0%	0%
Net admitted adjusted gross deferred tax assets amount	**$ 1,845**	**$ 171**	$ 1,837	$ —	$ 8	$ 171
Percentage of net admitted adjusted gross deferred tax assets by tax character attributable to the impact of tax planning strategies	**0%**	**0%**	0%	0%	0%	0%

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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Current federal income taxes consist of the following major components:

	2016	2015	Change
Federal income taxes on operations	**$ 14,665**	$ 36,487	$ (21,822)
Federal income tax on net capital gains	**6**	—	6
Federal income taxes	**$ 14,671**	$ 36,487	$ (21,816)

The components of deferred income taxes are as follows:

	December 31 2016	2015	Change
Deferred tax assets:			
Ordinary:			
Accounts receivable	**$ 707**	$ 480	$ 227
Claims discount reserve	**173**	156	17
Other insurance reserves	**965**	787	178
Unearned premium reserve	**—**	415	(415)
Subtotal	**1,845**	1,838	7
Nonadmitted deferred tax assets	**—**	(1)	1
Admitted ordinary deferred tax assets	**1,845**	1,837	8
Admitted deferred tax assets	**1,845**	1,837	8
Capital:			
Investments in securities	**171**	—	171
Subtotal	**171**	—	171
Admitted capital deferred tax assets	**171**	—	171
Admitted deferred tax assets	**2,016**	1,837	179
Deferred tax liabilities:			
Ordinary:			
Discount of coordination of benefits	**(2)**	—	(2)
Subtotal	**(2)**	—	(2)
Deferred tax liabilities	**(2)**	—	(2)
Net admitted deferred tax asset (liability)	**$ 2,014**	$ 1,837	$ 177

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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

	December 31 2016	December 31 2015	Change
Total deferred tax assets	**$ 2,016**	$ 1,838	$ 178
Total deferred tax liabilities	**(2)**	—	$ (2)
Net deferred tax asset	**$ 2,014**	$ 1,838	176
Tax effect of unrealized gains (losses)			(173)
Change in net deferred income tax			$ 3

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

	2016	2015
Tax expense (benefit) computed using the federal statutory rate	**$ 11,680**	$ 34,425
ACA health insurer fee	**3,415**	813
Change in nonadmitted assets	**(227)**	(400)
Tax exempt income net of proration	**(323)**	(20)
Prior year true-up and adjustments	**123**	—
Total	**$ 14,668**	$ 34,818
Federal income taxes (benefit)	**$ 14,671**	$ 36,487
Change in net deferred income taxes	**(3)**	(1,669)
Total statutory income taxes	**$ 14,668**	$ 34,818

At December 31, 2016, 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
2016	$ 14,334	$ 6	$ 14,340
2015	36,279	—	36,279
2014	N/A	—	—

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

The Company is included in the consolidated federal income tax return of their parent Anthem, Inc., along with other affiliates, as of December 31, 2016. 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 Internal Revenue Service 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, 2016, the examination of the 2016 tax year continues to be in process.

6. Health Insurer Fee

The Company had $494,884 of premiums written subject to assessment under ACA Section 9010 as of December 31, 2015 and no premiums written subject to assessment under ACA Section 9010 as of December 31, 2016 due to the 2017 suspension of this assessment. Because no health insurer fee is to be paid in 2017, no funds have been segregated in special surplus funds for the health insurer fee at December 31, 2016. The Company’s portion of the annual health insurance industry fee paid during 2016 was $9,759 and is included in operating expenses.

7. Capital and Surplus

The Department requires the Company to maintain a minimum surplus as set forth in the state statutes. In addition, the Commonwealth of Kentucky 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, 2016 and 2015, the Company’s capital and surplus exceeded all regulatory requirements.

Under Kentucky statutes, the Company is limited in the amount of dividends that can be declared without regulatory approval. The Department must approve any dividend that, together with all dividends declared during the preceding 12 months, exceeds the lesser of statutory net income for the prior calendar year or 10% of statutory surplus existing at the end of the prior calendar year. Also, any dividend paid from other than earned surplus shall be considered an extraordinary dividend, and will need approval of the Kentucky Insurance Commissioner. The Company may pay $12,201 in dividends during 2017 without prior approval.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

The portion of unassigned surplus representing cumulative unrealized gains (losses) was ($322) at December 31, 2016. There were no cumulative unrealized gains (losses) at December 31, 2015.

8. Contingencies and Assessments

Anthem and some of its subsidiaries, including the Company, are a defendant in multiple lawsuits that were initially filed in 2012 against the Blue Cross and Blue Shield Association (BCBSA) as well as Blue Cross and/or Blue Shield licensees across the country. The cases were consolidated into a single multi-district lawsuit called *In re Blue Cross Blue Shield Antitrust Litigation* that is pending in the United States District Court for the Northern District of Alabama. Generally, the suits allege that the BCBSA and the Blue plans have engaged in a conspiracy to horizontally allocate geographic markets through license agreements, best efforts rules (which limit the percentage of non-Blue revenue of each plan), restrictions on acquisitions and other arrangements in violation of the Sherman Antitrust Act and related state laws. The cases were brought by two putative nationwide classes of plaintiffs, health plan subscribers and providers. Subscriber and provider plaintiffs each filed consolidated amended complaints on July 1, 2013. The consolidated amended subscriber complaint was also brought on behalf of putative state classes of health plan subscribers in Alabama, Arkansas, California, Florida, Hawaii, Illinois, Louisiana, Michigan, Mississippi, Missouri, New Hampshire, North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, and Texas. Defendants filed motions to dismiss in September 2013. In June 2014, the Court denied the majority of the motions, ruling that plaintiffs had alleged sufficient facts at this stage of the litigation to avoid dismissal of their claims. Following the subsequent filing of amended complaints by each of the subscriber and provider plaintiffs, Anthem filed its answer and asserted its affirmative defenses in December 2014. No date has been set for either the pretrial conference or trials in these actions. Since January 2016, subscribers have filed additional actions asserting damage claims in Indiana, Kansas, Kansas City, Minnesota, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, Vermont, and Virginia, all of which have been or will be consolidated into the multi-district lawsuit. In November 2016, subscriber plaintiffs and provider plaintiffs, respectively, filed new amended complaints adding new named plaintiffs and new factual allegations. The Company intends to vigorously defend these suits; however, their ultimate outcome cannot be presently determined.

In March 2016, Anthem filed a lawsuit against its vendor for pharmacy benefit management ("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 damages for pharmacy pricing that is higher than competitive benchmark pricing, damages related to operational breaches and seeks various declarations under the PBM agreement between the parties. Anthem's suit asserts that Express Scripts, Inc.'s ("Express Scripts") current pricing exceeds the competitive benchmark pricing required by the PBM agreement over the remaining term of the PBM agreement and through

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

the post-termination transition period. Further, Anthem believes that Express Scripts' excessive pricing has caused Anthem to lose existing customers and prevented the Company from gaining new business. In addition to the amounts associated with competitive benchmark pricing, Anthem is seeking damages associated with operational breaches incurred to date, together with a declaratory judgment that Express Scripts: (1) breached its obligation to negotiate in good faith and to agree in writing to new pricing terms; (2) is required to provide competitive benchmark pricing to Anthem through the term of the PBM agreement; (3) has breached the PBM agreement, and that Anthem can terminate the PBM agreement either due to Express Scripts' breaches or because Anthem has determined that Express Scripts' performance with respect to the delegated Medicare Part D functions has been unsatisfactory; and (4) is required under the PBM agreement to provide post-termination services, at competitive benchmark pricing, for one year following any termination. In April 2016, Express Scripts filed an answer to the lawsuit disputing Anthem's contractual claims and alleging various defenses and counterclaims. Express Scripts contends that Anthem breached the PBM agreement by failing to negotiate proposed new pricing terms in good faith and that Anthem breached the implied covenant of good faith and fair dealing by disregarding the terms of the transaction. In addition, Express Scripts is seeking declaratory judgments: (1) regarding the timing of the periodic pricing review under the PBM agreement; (2) that it has no obligation to ensure that Anthem receives any specific level of pricing, that Anthem has 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 (3) that Anthem does not have the right to terminate the PBM agreement. In the alternative, Express Scripts claims that Anthem has been unjustly enriched by its payment of $4,675,000 at the time of the PBM agreement. Anthem believes that Express Scripts' defenses and counterclaims are without merit. Anthem filed a motion to dismiss Express Script's counterclaims, which is pending. Anthem intends to vigorously pursue these claims and defend against any counterclaims; however, the ultimate outcome cannot be presently determined.

Anthem and Express Scripts were also named as defendants in a purported class action lawsuit filed in June 2016 in the Southern District of New York by three members of ERISA plans alleging ERISA violations captioned *Karen Burnett, Brendan Farrell, and Robert Shullich, individually and on behalf of all others similarly situated vs. Express Scripts, Inc. and Anthem, Inc*. The lawsuit was then consolidated with a similar lawsuit that was previously filed against Express Scripts. A first amended consolidated complaint was filed in the consolidated lawsuit, which is captioned *In Re Express Scripts/Anthem ERISA Litigation*. The first amended consolidated complaint was filed by six individual plaintiffs against Anthem and Express Scripts on behalf of all persons who are participants in or beneficiaries of any ERISA or non-ERISA health care plan from December 1, 2009 to the present in which Anthem provided prescription drug benefits through a PBM agreement with Express Scripts and who paid a percentage bases on co-insurance payment in the course of using that prescription drug benefit. As to the ERISA members, the plaintiffs allege that Anthem breached its duties under ERISA (i) by failing to adequately monitor Express Scripts' pricing under

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

the PBM agreement and (ii) by trading off the best interests of Anthem insureds for its own pecuniary interest by allegedly agreeing to higher pricing in the PBM agreement in exchange for the $4,675,000 purchase price for Anthem's NextRX PBM business. As to the non-ERISA members, the plaintiffs assert that Anthem breached the implied covenant of good faith and fair dealing implied in the health plans under which the non-ERISA members are covered by (i) negotiating and entering into the PBM agreement with Express Scripts that was detrimental to the interests of the such non-ERISA members, (ii) failing to adequately monitor the activities of Express Scripts, including failing to timely monitor and correct the prices charged by Express Scripts for prescription medications, and (iii) acting in Anthem's self-interests instead of the interests of the non-ERISA members when it accepted the $4,675,000 purchase price for NextRx. Plaintiffs seek to hold Anthem 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. Anthem filed a motion to dismiss all of the claims brought against Anthem, which is pending. Express Scripts filed a motion to transfer the case to a federal court in Missouri and Anthem intends to oppose this transfer. Anthem intends to vigorously defend this suit; however, its ultimate outcome cannot be presently determined.

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.

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 continued to implement security enhancements since this incident. 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. Federal and state agencies, including state insurance regulators, state attorneys general, the Health and Human Services Office of Civil Rights and the Federal Bureau

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

of Investigation, are investigating events related to the cyber-attack, including how it occurred, its consequences and Anthem's responses. The NAIC's multistate targeted market conduct and financial exam was concluded in December 2016. As part of the resolution, the NAIC asked and Anthem has agreed to provide a customized credit protection program functionally equivalent to a credit freeze for minors who were under the age of 18 on January 27, 2015. No fines or penalties were issued. 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 on its 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 filed a motion to dismiss ten of the counts that are before the U.S. District Court. In February 2016, the court issued an order granting in part and denying in part our motion, dismissing three counts with prejudice, four counts without prejudice and allowing three counts to proceed. Plaintiffs filed a second amended complaint in March 2016, and Anthem subsequently filed a second motion to dismiss. In May 2016, the court issued an order granting in part and denying in part our motion, dismissing one count with prejudice, dismissing certain counts asserted by specific named plaintiffs with or without prejudice depending on their individualized facts, and allowing the remaining counts to proceed. In July 2016, plaintiffs filed a third amended complaint, which Anthem answered in August 2016. Fact discovery was completed in December 2016. There remain two 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. 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 investigations, audits, reviews and administrative proceedings. These investigations, audits, reviews and administrative proceedings include routine and special investigations by state insurance departments, state attorneys general, the U.S. Attorney General and Federal Agencies. 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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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 is subject to a one percent assessment on all fully insured premium to support the administrative functions of KYnect (Kentucky's Health Insurance Exchange). At December 31, 2016 and 2015, the Company accrued $5,774 and $2,270, respectively, for these assessments in general expenses due or accrued in the accompanying statutory basis balance sheets. Expenses incurred related to these assessments were $6,070 and $2,270 in 2016 and 2015, respectively, and are recorded in operating expenses.

At December 31, 2016, the Company reported admitted assets of $5,028 in premiums receivable. These receivables are not deemed to be uncollectible, therefore, no provision for uncollectible amounts have been recorded. The potential for any loss is not believed to be material to the Company's financial condition.

The Company has no other known contingencies.

9. Retirement Benefits

The Company participates in the Anthem Cash Balance Pension Plan, a frozen non-contributory defined benefit pension plan sponsored by ATH Holding, covering most employees of Anthem and its subsidiaries. ATH Holding allocates a share of the total accumulated 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.

The Company participates in a postretirement medical benefit plan, sponsored by ATH Holding, providing certain health, life, vision and dental benefits to eligible retirees. ATH Holding allocates a share of the total accumulated costs of this plan to the Company based on the number of allocated employees. The Company has no legal obligation for benefits under this plan.

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. The Company has no legal obligation for benefits under these plans.

The Company participates in the Anthem 401(k) Retirement Savings Plan, a defined contribution 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

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

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.

During 2016 and 2015, the Company was allocated the following costs or (credits) for these retirement benefits:

	2016	2015
Defined benefit pension plan	**$ (205)**	$ (126)
Postretirement medical benefit plan	**31**	5
Deferred compensation plan	**18**	12
Defined contribution plan	**611**	388

10. Health Care Receivables

Pharmaceutical rebate receivables of $728 and $862 reported in health care and other receivables were admitted at December 31, 2016 and 2015, respectively.

Pharmaceutical rebate receivables 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 $1,081 and $800 reported in health care and other receivables were nonadmitted at December 31, 2016 and 2015, respectively.

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 and other health care receivables of $940 and $572 were nonadmitted as of December 31, 2016 and 2015, respectively.

11. 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, billing, accounting, underwriting, and product development, which support the operations of the Company. These costs are allocated based on various utilization statistics.

Anthem Kentucky Managed Care Plan, Inc.

Notes to Financial Statements - Statutory Basis (continued)

(Dollars In Thousands)

Net payments to affiliated companies pursuant to the above administrative service agreements were $47,112 and $28,679 in 2016 and 2015, respectively, and are included in operating expenses and claims adjustment expenses in the statutory basis statements of income.

At December 31, 2016 and 2015, the Company reported $140 and $1,290 due from affiliates and $10,806 and $5,089 due to affiliates. The receivable and payable balances represent intercompany transactions that are settled within the terms of the management and services agreement.

The Company received a capital contribution from its parent company, ATH Holding, in the amount of $15,000 on March 26, 2015.

12. Subsequent Events

Management of the Company has evaluated all events occurring after December 31, 2016 through April 17, 2017, 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.

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