Financial Statements and Supplementary Information - Statutory Basis

Blue Cross Blue Shield of Wisconsin

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

Blue Cross Blue Shield of Wisconsin

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Years Ended December 31, 2018 and 2017

Contents

Building a better working world

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Report of Independent Auditors

Board of Directors
Blue Cross Blue Shield of Wisconsin

We have audited the accompanying statutory basis financial statements of Blue Cross Blue Shield of Wisconsin (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 Office of the Commissioner of Insurance of the State of Wisconsin. 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 Office of the Commissioner of Insurance of the State of Wisconsin, 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 11, 2019

Blue Cross Blue Shield of Wisconsin

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	**$ 7,038**	$ (40,854)
Bonds	**153,300**	149,100
Investment in common stock of subsidiary	**167,880**	152,882
Real estate	**5,036**	5,407
Securities lending collateral	**—**	3,315
Total cash and invested assets	**333,254**	269,850
Accrued investment income	**1,205**	1,213
Premiums receivable	**59,214**	57,827
Amounts recoverable from reinsurers	**9,260**	—
Amounts receivable relating to uninsured plans	**77,556**	80,760
Net deferred tax asset	**4,868**	5,002
Guaranty fund assessment receivable	**845**	845
Receivables from affiliates	**3,188**	38,583
Federal Employee Program receivable	**73,272**	121,245
Health care and other receivables	**2,651**	1,123
Other assets	**175**	188
Total admitted assets	**$ 565,488**	$ 576,636
Liabilities and capital and surplus		
Liabilities:		
Unpaid claims and claims adjustment expenses	**$ 73,854**	$ 77,277
Aggregate policy reserves	**73,617**	121,441
Premiums received in advance	**9,569**	9,820
Accounts payable and accrued expenses	**12,290**	11,278
Current federal income tax payable	**1,617**	3,533
Ceded reinsurance premiums payable	**3,961**	—
Remittances and items not allocated	**6,173**	2,494
Payable for securities	**—**	2,971
Payable for securities lending	**—**	3,315
Liability for amounts held under uninsured plans	**75,244**	60,940
Amounts withheld or retained for accounts of others	**242**	182
Other liabilities	**6,073**	6,682
Total liabilities	**262,640**	299,933
Capital and surplus:		
Common stock, $1 par value: 10,000,000 shares authorized, 2,000,000 shares issued and outstanding	**2,000**	2,000
Additional paid-in surplus	**37,689**	37,689
Unassigned surplus (deficit)	**263,159**	222,191
Special surplus funds	**—**	14,823
Total capital and surplus	**302,848**	276,703
Total liabilities and capital and surplus	**$ 565,488**	$ 576,636

See accompanying notes.

Blue Cross Blue Shield of Wisconsin

Statements of Operations - Statutory Basis

	Year Ended December 31	
	2018	**2017**
	(In Thousands)	
Premium income	**$ 726,892**	$ 769,101
Benefits and expenses:		
Claims and claims adjustment expenses	**623,130**	671,660
Operating expenses	**21,307**	18,046
Change in reserves for accident and health contracts	**(23)**	(104)
Total benefits and expenses	**644,414**	689,602
Net underwriting gain (loss)	**82,478**	79,499
Investment gains (losses):		
Net investment income (loss)	**61,022**	43,868
Net realized capital gains (losses), net of taxes (benefits)	**289**	195
Total net investment gains (losses)	**61,311**	44,063
Other income (expense)	**716**	(494)
Income (loss) before federal income taxes	**144,505**	123,068
Federal income taxes (benefits)	**21,463**	30,297
Net income (loss)	**$ 123,042**	$ 92,771

See accompanying notes.

Blue Cross Blue Shield of Wisconsin

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	$ 2,000	$ 37,689	$ 220,809	$ —	$ 260,498
Net income (loss)	—	—	92,771	—	92,771
Change in net unrealized capital gains and losses, net of taxes (benefits)	—	—	18,623	—	18,623
Change in net deferred income tax	—	—	(6,626)	—	(6,626)
Change in nonadmitted assets	—	—	6,437	—	6,437
Change in special surplus funds for ACA health insurer fee	—	—	(14,823)	14,823	—
Dividend to shareholder	—	—	(95,000)	—	(95,000)
Balance as of December 31, 2017	2,000	37,689	222,191	14,823	276,703
Net income (loss)	**—**	**—**	**123,042**	**—**	**123,042**
Change in net unrealized capital gains and losses, net of taxes (benefits)	**—**	**—**	**14,969**	**—**	**14,969**
Change in net deferred income tax	**—**	**—**	**101**	**—**	**101**
Change in nonadmitted assets	**—**	**—**	**(1,967)**	**—**	**(1,967)**
Change in special surplus funds for ACA health insurer fee	**—**	**—**	**14,823**	**(14,823)**	**—**
Dividend to shareholder	**—**	**—**	**(110,000)**	**—**	**(110,000)**
Balance as of December 31, 2018	**$ 2,000**	**$ 37,689**	**$ 263,159**	**$ —**	**$ 302,848**

Blue Cross Blue Shield of Wisconsin

Statements of Cash Flow - Statutory Basis

	Year Ended December 31 2018	2017
	(In Thousands)	
Operating activities:		
Premiums collected	**$ 729,186**	$ 772,388
Investment income received	**61,969**	44,645
Miscellaneous revenue	**(242)**	—
Claims and claims adjustment expenses paid	**(636,746)**	(672,429)
General administrative and miscellaneous expenses paid	**(4,063)**	(21,570)
Federal income taxes (paid) recovered	**(23,399)**	(29,035)
Net cash provided by (used in) operating activities	**126,705**	93,999
Investment activities:		
Proceeds from investments sold, matured or repaid	**35,845**	42,472
Cost of investments acquired	**(40,078)**	(46,838)
Net cash provided by (used in) investment activities	**(4,233)**	(4,365)
Financing or miscellaneous activities:		
Dividend to shareholder	**(110,000)**	(95,000)
Changes in securities lending payable	**(3,315)**	(1,332)
Net transfers from (to) affiliates	**35,395**	(6,727)
Other	**3,340**	3,369
Net cash provided by (used in) financing or miscellaneous activities	**(74,580)**	(99,690)
Change in cash, cash equivalents and short-term investments	**47,892**	(10,056)
Cash, cash equivalents and short-term investments at beginning of year	**(40,854)**	(30,798)
Cash, cash equivalents and short-term investments at end of year	**$ 7,038**	$ (40,854)

See accompanying notes.

1. Nature of Operations and Significant Accounting Policies

Blue Cross Blue Shield of Wisconsin (the "Company") is a Wisconsin domiciled stock insurance company that markets and underwrites hospitalization, surgical and medical, major medical, prescription drugs, vision and dental insurance to individuals and group accounts in the State of Wisconsin. The Company also provides administrative services for certain other health plans and governmental agencies. The Company operates as a licensee of the Blue Cross and Blue Shield Association ("BCBSA"). The Company is a wholly-owned subsidiary of Crossroads Acquisition Corp. ("Crossroads"), which is an indirect wholly-owned subsidiary of Anthem, Inc. ("Anthem"), a publicly traded company.

The Company has two wholly-owned subsidiaries; Compcare Health Services Insurance Corporation ("Compcare") and Claim Management Services, Inc. ("CMSI"). Compcare operates as a health maintenance organization in Wisconsin. CMSI is a dormant entity with no current operations.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"). The OCI 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 OCI.

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.

Investments in affiliated entities are valued pursuant to SSAP No. 97, *Investment in Subsidiaries, Controlled, and Affiliated Entities* ("SSAP No. 97"). Investments in affiliated entities are not consolidated with the accounts and operations of the Company as would be required for GAAP. Equity in earnings of subsidiaries is accounted for as a change in unrealized capital gains or losses. Dividends received from subsidiaries are accounted for as a component of net investment income. Unaudited ownership interests are nonadmitted by the Company. For GAAP, equity in earnings of subsidiaries are accounted for as a component of net income and dividends received from subsidiaries are accounted for as a reduction of the investment in the subsidiary.

The Company owned approximately 1.9% and 1.9% of its ultimate parent company's stock at December 31, 2018 and 2017, respectively. The Company's investment in stock of its ultimate parent company is carried at zero for statutory accounting purposes at December 31, 2018 and 2017. Under GAAP, the Company's investment in the stock of its parent is recorded at its market value with changes reported as unrealized gains or losses directly to stockholder's equity, net of tax.

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, investments in unaudited subsidiaries, furniture and equipment, leasehold improvements, prepaid expenses, certain health care and other receivable balances, and certain premium receivable balances are excluded from the balance sheets by a direct charge to capital and surplus. These nonadmitted assets totaled $21,998 and $20,031 at December 31, 2018 and 2017, respectively. For GAAP, these amounts are carried as assets, net of a valuation allowance, if necessary.

Real estate: Company-owned property is included in invested assets, and investment income includes estimated investment income from real estate owned and occupied, with offsetting rental expense included in operating expenses in the statutory basis statements of operations. For GAAP, Company-owned property is not included in invested assets, and no investment income and offsetting expense is recorded on real estate owned and occupied.

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

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

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

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

Reinsurance: Any reinsurance balance amounts deemed to be uncollectible have been written off through a charge to operations. Policy and contract liabilities ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under GAAP.

Guaranty fund assessments: Guaranty fund assessments may be partially recovered over a period of time through premium surcharges, which are generally recognized when the assessment is paid. For GAAP, the recovery of guaranty fund assessments is recognized in the year recovered.

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 9 Federal Income Taxes for details.

Investments

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

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

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

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

In accordance with SSAP No. 97, the Company reports its insurance subsidiary at its underlying audited statutory capital and surplus and its noninsurance subsidiaries at their underlying audited GAAP equity. The Company reports the net change in the equity of its subsidiaries as a change in net unrealized capital gains or losses and any dividend received as net investment income. The Company nonadmits the investment in its noninsurance subsidiary, as it is unaudited.

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

Real Estate

Real estate refers to property occupied by the Company. Land is recorded at cost and other real estate is recorded at cost less accumulated depreciation, which is classified as an invested asset. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets. Depreciation expense in 2018 and 2017 was $372 and $371, respectively. Accumulated depreciation at December 31, 2018 and 2017 was $3,479 and $3,107, respectively.

Furniture, Fixtures and Leasehold Improvements

Furniture, fixtures and leasehold improvements are capitalized and depreciated on a straight-line basis over its useful life. The net book value is charged in full to unassigned surplus as a nonadmitted asset. Depreciation expense in 2018 and 2017 was $568 and $554, respectively. Accumulated depreciation at December 31, 2018 and 2017 was $3,703 and $3,135, respectively.

Health Care Receivables

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

Unpaid Claims and Claims Adjustment Expenses

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

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

The Company records a liability for future policy benefits relating to certain insurance policies for which some of the premiums received in earlier years are intended to pay anticipated benefits to be incurred in future years. The liability represents the present value of future benefits to be paid to or on behalf of policy holders and related expenses less the present value of future net premiums. Changes in the liability for future benefits are recognized in the accompanying statutory basis statements in the period in which the change occurs.

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 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 earned over the term of the related insurance policies and reinsurance contracts. Unearned premium reserves, included in aggregate policy reserves, are established to cover the unexpired portion of premiums written and collected, and are computed by pro rata methods for direct business and based on reports received from ceding companies for reinsurance assumed. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. The premiums paid by policyholders prior to the effective date is recorded in the balance sheets as premiums received in advance and subsequently recorded to income as earned during the coverage period. Premium rates for certain lines of business are subject to approval by the OCI.

At December 31, 2018 and 2017, the Company reported admitted assets of $136,770 and $138,587, respectively, in premiums receivable and amounts receivable relating to uninsured plans. Based upon Company experience, any uncollectible receivables are not expected to exceed $11,926 that was nonadmitted at December 31, 2018; therefore, no additional provision for uncollectible amounts has been recorded. The potential for any additional loss is not believed to be material to the Company's financial condition.

Reinsurance

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

Retrospectively Rated Contracts

The Company sells policies where premiums vary based on loss experience or premium stabilization programs. Premium revenue includes an adjustment for retrospectively rated refunds based on an estimate of incurred claims, risk adjustment programs, and risk corridors programs. Accrued retrospective premiums are reported in premiums receivable. Reserves for rate credits or policy rating refunds are reported in aggregate policy reserves. Risk corridors receipts (payments) and changes in risk corridors receivable (payable) are reported in premium income. Risk adjustment programs transfer premiums from insurers that enroll members with relatively lower health risks to insurers that enroll members with relatively higher health risks and are also recorded as premium revenue in operations.

Medical loss ratio ("MLR") rebates per the Affordable Care Act ("ACA") are reported in accordance with SSAP No. 66, *Retrospectively Rated Contracts.* A retrospectively rated contract is one that has the final policy premium calculated based on the loss experience of the insured during the term of the policy (including loss development after the term of the policy) and the stipulated formula set forth in the policy, or in the case of MLR rebates, pursuant to the *Public Health Services Act*, a formula required by law. The Company uses estimates to report in the statutory basis financial statements the aggregate policy reserve amounts for retrospectively rated contracts based on its underwriting experience, actuarial, tax, and accounting estimates and assumptions at the financial statement date and regulations and guidance available that is subject to change prior to settlement. Accordingly, the Company's use of estimates and assumptions in the preparation of the statutory basis financial statements and related footnote disclosures may differ from actual results.

The amount of net premiums written by the Company for the years ended December 31, 2018 and 2017 that were subject to retrospective rating features, including MLR rebate regulations, was $607,923 and $730,600, which represented 89.5% and 92.0%, respectively, of the total net premiums written.

Medicare Part D Premiums and Expenses

The Company serves as a plan sponsor, offering Medicare Part D prescription drug insurance coverage under a contract with the Centers for Medicare & Medicaid Services ("CMS"). The CMS premium and the member premium represent payments for the Company's insurance risk coverage under the Medicare Part D program and therefore are recorded as premium revenues in operations. Premium revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. Pharmacy benefit costs and administrative costs under the contract are expensed as incurred.

Funds received from the government include payments for reinsurance, low income subsidy cost sharing or coverage gap discount program component. The payments for a portion of claims above the out-of-pocket threshold are for the reinsurance component and those related to payments for all or a portion of the deductible, the coinsurance and the co-payment amounts for low income subsidy cost sharing component. Under the coverage gap discount component, Part D sponsors receive monthly prospective payments from CMS. These prospective payments provide cash flow to Part D sponsors for advancing the gap discounts at the point of sale, and are reduced by the discount amounts invoiced to manufacturers. These offsets ensure that Part D sponsors do not receive duplicate payments for discounts made available to their enrollees. The subsidies from CMS representing reinsurance, low income subsidy cost sharing or coverage gap discount program components, under the Medicare Part D program, are not reflected as premium revenues, but rather are accounted for as deposits in amounts receivable for uninsured plans on the accompanying balance sheets. The related liabilities are reported in the accompanying balance sheets in liability for amounts held under uninsured plans.

Affordable Care Act Risk Sharing Provisions

Three premium stabilization programs became effective as part of the implementation of the ACA. These premium stabilization programs include a risk adjustment program, a transitional reinsurance program, and a temporary risk corridor program. The risk adjustment is a permanent program that transfers premiums from insurers that enroll members with relatively lower health risks to insurers that enroll members with relatively higher health risks and therefore is recorded as premium revenue in operations. In addition, risk adjustment high cost risk pooling began in 2018. This program adds a reinsurance-like element to the risk adjustment program, in that it functions with specified attachment point and ceiling at a specified coinsurance rate for reimbursement, and is recorded to written premiums. This is also a permanent program. The transitional reinsurance program operated from 2014 through 2016 and reimbursed insurers for eligible claims between a specified attachment point and ceiling at a specified coinsurance rate and was accounted for consistent with traditional reinsurance. The transitional reinsurance program was funded through assessments per covered enrollee for fully insured and self insured plans. The temporary risk corridor program operated from 2014 through 2016 and shared the risks of certain plans between the federal government and insurers by limiting insurers' losses and gains. This was determined via specified targets, corridors, and risk sharing percentages and, therefore, was accounted for as a retrospectively rated contract.

Federal Employee Health Benefits Program

The Company participates in the Federal Employee Health Benefits Program ("FEHBP") with other Blue Cross Blue Shield ("BCBS") plans. This program includes a fully-insured experience-rated contract, commonly known as FEP, between the Office of Personnel Management ("OPM") and

BCBSA, which acts as an agent for the participating BCBS plans. In addition, each participating plan, including the Company, executes a contract with BCBSA that obligates each participating plan to underwrite FEP benefits in its service area. Premium rates are developed by BCBSA and negotiated with OPM annually. These rates determine the funds that will be available to the participating BCBS plans to provide insurance to Federal employees that enroll with the BCBS FEP. The excess of gross premiums for the life of the program over the charges for the life of the program on an accrual basis is accounted for as a rate stabilization reserve (commonly referred to as the special reserve), as required by the contract between OPM and BCBSA. Each year, OPM also allocates a portion of the premiums to a contingency reserve, which may be utilized by the participating plans in the event that annual premiums paid to the insurance carrier are insufficient or the rate stabilization reserve falls below certain levels prescribed by OPM. Premiums paid to the carrier and available to each participating BCBS plan, including the special reserve and the contingency reserve, are held at the U.S. Treasury, including amounts unused from prior periods. Any premiums that remain in the rate stabilization reserve upon termination of the BCBSA contract after the claims run-out and reimbursement of allowable administrative expenses would be returned to OPM for the benefit of the FEHBP. The FEP contract renews automatically each year unless written notice of termination is given by either party.

In accordance with the FEP contract, premium funds that exceed daily operating needs are held on behalf of the Company in letter of credit accounts at the U.S. Treasury to provide funding for claims, administrative expenses, and other charges to the contract. The Company, along with other BCBS plans who participate in the FEHBP contract, have an unrestricted right to draw funds being held in the U.S. Treasury, other than those allocated to the contingency reserve, for any valid claim or expense. If the balance of the special reserve is exhausted or falls below certain prescribed levels, OPM will transfer funds from the contingency reserve to the special reserve to the extent that funds are available in the contingency reserve. Amounts incurred in excess of the total reserves held at the U.S. Treasury for the FEP would not be reimbursed to the Company.

The Company has recorded its allocable share of the special reserve funds held in the U.S. Treasury as an asset, with an equivalent amount recorded as a rate stabilization reserve. These amounts are $91,589 and $121,245 as of December 31, 2018 and 2017, respectively, and are included in Federal Employee Program receivable and in aggregate policy reserves in the accompanying balance sheets.

FEP represented approximately 86.5% and 96.8% of premiums receivable as of December 31, 2018 and 2017, respectively. FEP represented approximately 54.2% and 63.0% of net premiums written for the years ended December 31, 2018 and 2017, respectively.

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

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.

Guaranty Fund and Other Assessments

The Company is subject to guaranty fund and other state assessments where it writes business. Guaranty fund assessments are accrued at the time of insolvencies. Other assessments are accrued either at the time of the assessment or at the time losses are incurred. Guaranty fund assessments may be partially recovered through a reduction in future recoveries of premium surcharges based on state regulatory provisions and are generally recognized when the assessment is paid.

(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	**$ 35,421**	**$ 452**	**$ (62)**	**$ (293)**	**$ 35,518**
Industrial and miscellaneous	**57,189**	**227**	**(277)**	**(772)**	**56,367**
Loan-backed and structured securities	**60,690**	**414**	**(27)**	**(1,028)**	**60,049**
Total bonds	**$ 153,300**	**$ 1,093**	**$ (366)**	**$ (2,093)**	**$ 151,934**
December 31, 2017					
United States government securities	$ 2,957	$ —	$ —	$ —	$ 2,957
Foreign government securities	17,997	295	(35)	(42)	18,215
States, territories and political subdivisions	36,501	879	(29)	(124)	37,227
Industrial and miscellaneous	34,160	1,048	(79)	(22)	35,107
Loan-backed and structured securities	57,485	706	(107)	(311)	57,773
Total bonds	$ 149,100	$ 2,928	$ (250)	$ (499)	$ 151,279

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	**$ 7,834**	**$ 7,774**
Due after one through five years	**40,043**	**39,872**
Due after five through ten years	**25,522**	**25,258**
Due after ten years	**19,211**	**18,981**
Loan-backed and structured securities	**60,690**	**60,049**
	$ 153,300	**$ 151,934**

(Dollars In Thousands)

Proceeds from sales of bonds during 2018 and 2017 were $16,021 and $24,145, respectively, resulting in realized gross gains of $472 and $508 and realized gross losses of $156 and $102, 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 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	**43**	**$ 27,689**	**$ (366)**	53	$ 38,247	$ (250)
12 months or greater	**94**	**62,821**	**(2,093)**	26	20,082	(499)
Total bonds	**137**	**$ 90,510**	**$ (2,459)**	79	$ 58,329	$ (749)

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

(Dollars In Thousands)

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

The Company did not have loaned securities at December 31, 2018. The Company's investment portfolio includes loaned securities with a carrying value of $3,086 at December 31, 2017. The fair value of the loaned securities is $3,238 at December 31, 2017.

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.

(Dollars In Thousands)

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

	Level I	Level II	Level III	Total
December 31, 2018				
Industrial and miscellaneous bonds	**$ —**	**$ 2,456**	**$ —**	**$ 2,456**
Total bonds	**—**	**2,456**	**—**	**2,456**
Industrial and miscellaneous money market funds	**72,994**	**—**	**—**	**72,994**
Total cash equivalents	**72,994**	**—**	**—**	**72,994**
Total assets at fair value	**$ 72,994**	**$ 2,456**	**$ —**	**$ 75,450**
December 31, 2017				
Industrial and miscellaneous bonds	$ —	$ 2,497	$ —	$ 2,497
Total bonds	—	2,497	—	2,497
Industrial and miscellaneous money market funds	8,541	—	—	8,541
Total cash equivalents	8,541	—	—	8,541
Total assets at fair value	$ 8,541	$ 2,497	$ —	$ 11,038

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 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.

(Dollars In Thousands)

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

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

The 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	**$ 151,934**	**$ 153,300**	**$ —**	**$ 151,918**	**$ 16**
Cash equivalents	**72,994**	**72,994**	**72,994**	**—**	**—**

December 31, 2017

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level I)	(Level II)	(Level III)
Bonds	$ 151,279	$ 149,100	$ —	$ 151,233	$ 46
Cash equivalents	8,541	8,541	8,541	—	—
Securities lending collateral	3,315	3,315	1,358	1,957	—

The Company has no investments measured at net asset value.

(Dollars In Thousands)

4. Subsidiaries and Affiliates

Statutory basis financial information of the Company's subsidiary, Compcare, which exceeded 10% of admitted assets, is summarized, as filed in the annual statement, as follows:

Summary balance sheets

	December 31	
	2018	**2017**
Investments	**$ 285,512**	$ 271,427
Other assets	**43,743**	37,087
Total admitted assets	**$ 329,255**	$ 308,514
Insurance reserves	**$ 78,835**	$ 66,469
Other liabilities	**82,540**	89,163
Capital and surplus	**167,880**	152,882
Total liabilities and capital and surplus	**$ 329,255**	$ 308,514

Summary statements of operations

	Years Ended December 31	
	2018	**2017**
Revenues and investment gains	**$ 941,448**	$ 808,029
Expenses	**882,349**	766,548
Net income	**$ 59,099**	$ 41,481

Compcare nonadmits amounts due from affiliates pursuant to Ins. 9.10 of the Wisconsin Administrative Code effective March 1, 2000. The difference between this practice prescribed by the OCI and NAIC SAP for capital and surplus is ($791) and ($1,945) at December 31, 2018 and 2017, respectively. There was no difference in net income for the years ended December 31, 2018 or 2017.

Included in the Company's change in net unrealized gains (losses) for the years ended December 31, 2018 and 2017 is $15,071 and $18,562, respectively, related to the change in carrying values of the Company's investments in subsidiaries and affiliates.

The Company did not recognize an impairment write down for its investment in subsidiary during 2018 or 2017.

(Dollars In Thousands)

5. 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, net of reinsurance	**$ 77,277**	$ 78,046
Incurred (redundancies) related to:		
Current year	**627,404**	681,361
Prior years	**(4,274)**	(9,701)
Total incurred	**623,130**	671,660
Paid related to:		
Current year	**553,805**	604,744
Prior years	**72,748**	67,685
Total paid	**626,553**	672,429
Balances at December 31, net of reinsurance	**73,854**	77,277
Ceded unpaid claims and claims adjustment expenses	**11,252**	146
Balances at December 31, gross of reinsurance	**$ 85,106**	$ 77,423

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.

6. Reinsurance

Certain premiums and benefits are ceded to other insurance companies under various reinsurance agreements. These reinsurance agreements limit the Company's exposure to losses within its capital resources. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. The reinsurance activity includes the transitional reinsurance program required by the ACA and disclosed in Note 8 ACA Risk Sharing Provisions.

(Dollars In Thousands)

Effective January 1, 2018, the Company entered into a quota share reinsurance agreement to cede 20% of its direct Federal Employee Program ("FEP") liabilities, net of applicable assets, and 20% of its respective direct FEP written premiums less claims less a ceding commission to Anthem Insurance Companies, Inc., an affiliated company and an authorized reinsurer, as indicated in the Quota Share Reinsurance Contract that was approved by the OCI on December 22, 2017.

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

	Year ended December 31	
	2018	**2017**
Direct premiums	**$ 842,948**	$ 769,127
Ceded premiums - affiliated reinsurers	**(116,036)**	—
Ceded premiums - unaffiliated reinsurers	**(20)**	(26)
Net premiums	**$ 726,892**	$ 769,101

The Company's ceded reinsurance arrangements reduced claims and claims adjustment expenses in the accompanying financial statements as follows:

	Year ended December 31	
	2018	**2017**
Direct claims and claims adjustment expenses	**$ 732,070**	$ 671,721
Ceded claims and claims adjustment expenses - affiliated reinsurers	**(108,902)**	—
Ceded claims and claims adjustment expenses - unaffiliated reinsurers	**(38)**	(61)
Net claims and claims adjustment expenses	**$ 623,130**	$ 671,660

The Company's ceded reinsurance arrangements reduced aggregate policy reserves in the accompanying statutory basis balance sheets by $19,137 and $828 as of December 31, 2018 and 2017, respectively.

7. ACA Medical Loss Ratio Rebates

The Company had no ACA Medical loss ratio rebates accrued pursuant to the *Public Health Services Act* as of December 31, 2018 or 2017.

(Dollars In Thousands)

8. ACA Risk Sharing Provisions

The impact of risk sharing provisions under each of the premium stabilization programs of the ACA, discussed in Note 1, Nature of Operations and Significant Accounting Policies, are as follows:

Risk adjustment program

Premium risk adjustment receivables are reported in premiums receivable. Premium risk adjustment payables are reported in aggregate policy reserves. User fee payable is reported in accounts payable and accrued expenses. Risk adjustment premiums are reported in premium income. User fees incurred are reported in operating expenses.

The amounts related to the risk adjustment program are as follows:

	Year ended December 31	
	2018	**2017**
Premium risk adjustment payables	**$ 154**	$ —
User fee payable	**1**	1
Risk adjustment premiums	**(426)**	158
User fees incurred	**1**	1

Reinsurance program

The Company did not write ACA compliant plans in the individual market during 2018. The reinsurance program ended December 31, 2016.

Risk corridors

The Company has recognized no balances, receivable or payable, under the ACA risk corridors program as of December 31, 2018. The ACA risk corridors program ended December 31, 2016.

(Dollars In Thousands)

The following table provides a reconciliation of the ACA risk-sharing provisions balances (gross of any nonadmission) at December 31, 2017 to any remaining unsettled balance as of December 31, 2018 along with reasons for adjustments to these balances during 2018:

	Accrued During the Prior Year on Business Written Before December 31 of the Prior Year		Received or Paid as of the Current Year on Business Written Before December 31 of the Prior Year		Differences		Adjustments			Unsettled Balances as of the Reporting Date	
					Prior Year Accrued Less Payments	Prior Year Accrued Less Payments	To Prior Year Balances	To Prior Year Balances	Ref	Cumulative Balance from Prior Years	Cumulative Balance from Prior Years
	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)	Receivable	(Payable)		Receivable	(Payable)
Permanent ACA Risk Adjustment Program											
Premium adjustments receivable	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	B	$ —	$ —
Premium adjustments (payable)	$ —	$ —	$ —	$ 272	$ —	$ (272)	$ —	$ 272	A	$ —	$ —
Subtotal ACA Permanent Risk Adjustment Program	$ —	$ —	$ —	$ 272	$ —	$ (272)	$ —	$ 272		$ —	$ —
Transitional ACA Reinsurance Program											
Amounts recoverable for claims paid	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	B	$ —	$ —
Amounts recoverable for claims unpaid (contra liability)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	B	$ —	$ —
Ceded reinsurance premiums payable	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	B	$ —	$ —
Subtotal ACA Transitional Reinsurance Program	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —		$ —	$ —
Temporary ACA Risk Corridors Program											
Accrued retrospective premium	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	B	$ —	$ —
Reserve for rate credits or policy experience rating refunds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	B	$ —	$ —
Subtotal ACA Risk Corridors Program	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —		$ —	$ —
Total for ACA Risk Sharing Provisions	$ —	$ —	$ —	$ 272	$ —	$ (272)	$ —	$ 272		$ —	$ —

A. Adjustments were made to reflect the ending balance in the Centers for Medicare & Medicaid Services "Summary Report on Permanent Risk Adjustment Transfers for the 2017 Benefit Year."

B. Not applicable.

9. Federal Income Taxes

The Company has a current federal income tax recoverable (payable) of ($1,617) and ($3,533) as of December 31, 2018 and 2017, respectively.

(Dollars In Thousands)

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

	2018		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	**$ 5,105**	**$ 4,936**	**$ 10,041**
Gross deferred tax liabilities	**(605)**	**(112)**	**(717)**
Net deferred tax asset before admissibility test	**$ 4,500**	**$ 4,824**	**$ 9,324**

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.	**$ 4,500**	**$ 368**	**$ 4,868**
Admitted pursuant to paragraph 11.b.	**—**	**—**	**—**
Admitted pursuant to paragraph 11.c.	**605**	**112**	**717**
Admitted deferred tax asset	**5,105**	**480**	**5,585**
Deferred tax liability	**(605)**	**(112)**	**(717)**
Net admitted deferred tax asset	**4,500**	**368**	**4,868**
Nonadmitted deferred tax asset	**$ —**	**$ 4,456**	**$ 4,456**

	2017		
	Ordinary	**Capital**	**Total**
Gross deferred tax assets	$ 5,019	$ 4,965	$ 9,984
Adjusted gross deferred tax assets	(685)	(102)	(787)
Net deferred tax asset before admissibility test	$ 4,334	$ 4,863	$ 9,197

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.	$ 4,334	$ 668	$ 5,002
Admitted pursuant to paragraph 11.b.	639	—	639
Admitted pursuant to paragraph 11.c.	46	102	148
Admitted deferred tax asset	5,019	770	5,789
Deferred tax liability	(685)	(102)	(787)
Net admitted deferred tax asset	4,334	668	5,002
Nonadmitted deferred tax asset	$ —	$ 4,195	$ 4,195

(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.	$ 166	$ (300)	$ (134)
Admitted pursuant to paragraph 11.b.	(639)	—	(639)
Admitted pursuant to paragraph 11.c.	559	10	569
Admitted deferred tax asset	86	(290)	(204)
Deferred tax liability	80	(10)	70
Net admitted deferred tax asset	166	(300)	(134)
Nonadmitted deferred tax asset	$ —	$ 261	$ 261

	2018	2017
Ratio percentage used to determine recovery period and threshold limitation amount	**582%**	579%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitations	**$ 297,980**	$ 271,701

The impact of tax planning strategies is as follows:

	2018		2017		Change	
	Ordinary	Capital	Ordinary	Capital	Ordinary	Capital
Adjusted gross deferred tax assets amount	**$ 5,105**	**$ 4,936**	$ 5,019	$ 4,965	$ 86	$ (28)
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	**$ 5,105**	**$ 480**	$ 5,019	$ 770	$ 86	$ (290)
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.

(Dollars In Thousands)

Current federal income taxes consist of the following major components:

	2018	2017	Change
Federal income taxes on operations	**$ 21,463**	$ 30,297	$ (8,834)
Federal income tax expense (benefit) on net capital gains (losses)	**20**	211	(191)
Federal income taxes	**$ 21,483**	$ 30,508	$ (9,025)

The components of deferred income taxes are as follows:

	December 31 2018	December 31 2017	Change
Deferred tax assets:			
Ordinary:			
Accrued future expenses	**$ 1,138**	$ 1,293	$ (155)
Accounts receivable	**2,781**	2,786	(5)
Claims discount reserve	**127**	116	11
Other insurance reserves	**161**	271	(110)
Prepaid expenses	**395**	22	373
Unearned premium reserve	**409**	418	(9)
Other adjustments	**94**	113	(19)
Subtotal	**5,105**	5,019	86
Nonadmitted deferred tax assets	**—**	—	—
Admitted ordinary deferred tax assets	**5,105**	5,019	86
Capital:			
Investments in securities	—	29	(29)
Affiliated investment write-down	**4,936**	4,936	—
Subtotal	**4,936**	4,965	(29)
Nonadmitted deferred tax assets	**(4,456)**	(4,195)	(261)
Admitted capital deferred tax assets	**480**	770	(290)
Admitted deferred tax assets	**5,585**	5,789	(204)
Deferred tax liabilities:			
Ordinary:			
Fixed assets	**(408)**	(506)	98
Other adjustments	**(197)**	(179)	(18)
Subtotal	**(605)**	(685)	80
Capital:			
Investments in securities	**(10)**	—	(10)
Sec. 166 Partial Worthlessness	**(102)**	(102)	—
Subtotal	**(112)**	(102)	(10)
Deferred tax liabilities	**(717)**	(787)	70
Net admitted deferred tax asset (liability)	**$ 4,868**	$ 5,002	$ (134)

(Dollars In Thousands)

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

	2018	2017	Change
Total deferred tax assets	**$ 10,041**	$ 9,984	$ 57
Total deferred tax liabilities	**(717)**	(787)	70
Net deferred tax asset	**$ 9,324**	$ 9,197	127
Tax effect of unrealized gains (losses)			(26)
Change in net deferred income tax			$ 101

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 $6,131. 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 $264 to $5,868, which is included as a component of statutory surplus.

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	**$ 30,350**	$ 43,148
ACA health insurer fee	**3,041**	—
Change in nonadmitted assets	**(343)**	3,488
Tax exempt income and dividend received deduction net of proration	**(3,228)**	(4,876)
Prior year true-ups and adjustments	**(263)**	(1)
Tax settlements and contingencies	**207**	—
Tax Cuts and Jobs Act Tax Rate Change	**—**	4,096
Subsidiary dividends	**(8,400)**	(8,750)
Other, net	**18**	29
Total	**$ 21,382**	$ 37,134
Federal income taxes expense (benefit)	**$ 21,483**	$ 30,508
Change in net deferred income taxes	**(101)**	6,626
Total statutory income taxes	**$ 21,382**	$ 37,134

(Dollars In Thousands)

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

The Company has a tax loss contingency related to the 2017 consolidated tax return in which interest was accrued and expensed in the amount of $1. In preparation of statutory basis financial statements, this interest is netted with current federal income tax.

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	$ 21,914	$ 20	$ 21,934
2017	30,270	211	30,481
2016	N/A	199	199

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.

10. 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 $684,744 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 $14,480 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 $14,823 and was segregated in special surplus funds on the balance sheet at December 31, 2017.

11. Capital and Surplus

The OCI requires the Company to maintain a minimum surplus as set forth in the state statutes. In addition, the State of Wisconsin 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 Wisconsin statutes, the Company is limited in the amount of dividends that can be declared without regulatory approval. The OCI must approve any dividend that, together with all dividends declared during the preceding three years, exceeds the lesser of 10% of statutory surplus existing at the end of the prior calendar year and a limitation based on net income less realized capital gains. Also, any dividend paid from other than earned surplus shall be considered an extraordinary dividend, and will need approval of the Wisconsin Insurance Commissioner. The Company may pay $30,285 in dividends during 2019 without prior approval.

The portion of unassigned surplus (deficit) representing cumulative unrealized gains (losses), net of taxes, was $141,499 and $126,530 at December 31, 2018 and 2017, respectively.

12. Leases

The Company leases office space and EDP equipment under various non-cancelable operating leases. Certain leases have the right to renew. There are no escalation clauses for any lease. Related lease expense for 2018 and 2017 was $950 and $952, respectively.

At December 31, 2018, future lease payments for operating leases with initial or remaining noncancelable terms of one year or more consisted of the following: 2019, $906; 2020, $791; 2021, $529; 2022, $533; 2023, $544 and thereafter, $0.

13. Contingencies

Guaranty fund assessments

The National Organization of Life & Health Insurance Guaranty Associations, or NOLHGA, is a voluntary organization consisting of the state life and health insurance guaranty associations located throughout the U.S. Such associations, working together with NOLHGA, provide a safety net for their state's policyholders, ensuring that they continue to receive coverage, subject to state maximum limits, even if their insurer is declared insolvent. In March 2017, long term care insurance writers

Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company, (collectively "Penn Treaty"), were ordered to be liquidated by the Pennsylvania state court, which had jurisdiction over the Penn Treaty rehabilitation proceeding. The Company and other insurers will be obligated to pay a portion of their policyholder claims through state guaranty association assessments in future periods. At December 31, 2017, the Company estimated its portion of these net assessments for the insolvency of Penn Treaty to approximate $1,297 and recorded the estimate as part of general administrative expenses. Payment of the assessments will be largely recovered through member surcharge over future years.

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.

Express Scripts, Inc. Pharmacy Benefit Management Litigation

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

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

ERISA Litigation

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

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

<u>Cyber Attack Regulatory Proceedings and Litigation</u>

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

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

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

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

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

Cigna Corporation Merger Litigation

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

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

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

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

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.

(Dollars In Thousands)

14. 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 Company, LLC ("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	**$ (315)**	$ (335)
Postretirement medical benefit plan	**(51)**	25
Deferred compensation plan	**36**	32
Defined contribution plan	**1,261**	1,120

(Dollars In Thousands)

15. Uninsured Accident and Health Plans

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

	ASO Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASO
For the year ended December 31, 2018			
Net reimbursement for administrative expenses (including administrative fees) in excess of (less than) actual expenses	**$ 6,762**	**$ —**	**$ 6,762**
Total net other income or expenses (including interest paid to or received from plans)	**—**	**—**	**—**
Net gain (loss) from operations	**$ 6,762**	**$ —**	**$ 6,762**
Total claim payment volume	**$ 352,890**	**$ —**	**$ 352,890**

The net gain (loss) from operations from administrative service contract ("ASC") plans was:

	ASC Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASC
For the year ended December 31, 2018			
Gross reimbursement for medical costs incurred	**$ 1,008,595**	**$ —**	**$ 1,008,595**
Gross administrative fees earned	**83,816**	**—**	**83,816**
Gross expenses incurred (claims and administrative fees)	**(1,088,200)**	**—**	**(1,088,200)**
Net gain (loss) from operations	**$ 4,211**	**$ —**	**$ 4,211**
For the year ended December 31, 2017			
Gross reimbursement for medical costs incurred	$ 1,325,913	$ —	$ 1,325,913
Gross administrative fees earned	88,873	—	88,873
Gross expenses incurred (claims and administrative fees)	(1,408,790)	—	(1,408,790)
Net gain (loss) from operations	$ 5,996	$ —	$ 5,996

(Dollars In Thousands)

The receivables from CMS, U.S. Department of Health and Human Services ("HHS"), and uninsured plans at December 31 are as follows:

Receivable from	Related to	2018	2017
Uninsured plans	Uninsured business, not including pharmaceutical rebate receivables	**$ 40,599**	$ 45,103

16. 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	**$ 2,651**	**$ —**	$ 1,122	$ 132
Pharmaceutical rebate receivables, reported in amounts receivable relating to uninsured plans	**3,374**	**453**	1,725	475
Total pharmaceutical rebate receivables	**$ 6,025**	**$ 453**	$ 2,847	$ 607

During 2018, the Company sold $12,278 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 $61 discount fee.

During 2017, the Company sold $5,578 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 $28 discount fee.

(Dollars In Thousands)

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	**$ —**	**$ 855**	$ —	$ 1,209
Claim overpayment receivables, reported in amounts receivable relating to uninsured plans	**—**	**9,609**	—	7,600
Total claim overpayment receivables	**$ —**	**$ 10,464**	$ —	$ 8,809

Provider advances at December 31 are as follows:

	2018		2017	
	Admitted	**Nonadmitted**	**Admitted**	**Nonadmitted**
Provider advances, reported in health care and other receivables	**$ —**	**$ 1,800**	$ —	$ 1,800
Total provider advances	**$ —**	**$ 1,800**	$ —	$ 1,800

17. 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.

The Company is party to a cash concentration agreement with its affiliated companies. Under this agreement, any of the Company's affiliates may be designated as a cash manager to handle the collection and/or payment of funds on behalf of the Company. Conversely, the Company may be designated as a cash manager to handle the collection and/or payment of funds on behalf of its affiliates. Cash services covered under this agreement include the collection of premiums and other revenue, the collection of benefit and administrative expense reimbursements, the payment of policy benefits, payroll expense, operating expense, and accounts payable disbursements.

Net payments to affiliated companies pursuant to the above administrative service agreements were $123,092 and $95,372 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 $3,188 and $38,583 due from affiliates, respectively. At December 31, 2018 and 2017, the Company reported no amounts due to affiliates. The receivable and payable balances represent intercompany transactions that will be settled in accordance with the settlement terms of the intercompany agreement.

The Company owns shares of Anthem which is not recognized as an admitted asset. Anthem pays regular dividends to its shareholders. As a result of the investment, the Company earned $14,586 and $13,127 during 2018 and 2017, respectively, which is reported as net investment income.

The Board of Directors of the Company declared an extraordinary dividend in the amount of $110,000 on August 20, 2018. The OCI approved this dividend on September 24, 2018. The Company paid the dividend to its parent company, Crossroads, on September 25, 2018.

On September 25, 2018, the Company received a $40,000 dividend from its subsidiary, Compcare.

The Board of Directors of the Company declared an extraordinary dividend in the amount of $95,000 on August 21, 2017. The OCI approved this dividend on September 1, 2017 and the Company paid the dividend to its parent company, Crossroads, on September 19, 2017.

On September 19, 2017, the Company received a $25,000 dividend from its subsidiary, Compcare.

18. Assessments

At December 31, 2018 and 2017, the Company accrued guaranty assessments of $970 and $361, respectively.

The Company has established an asset to reflect future recoveries of guaranty assessments, based on state regulatory provisions for future premium surcharges. At December 31, 2018 and 2017, this asset was $845 and $845, respectively. The assessments are expected to be paid between 1 to 20 years.

(Dollars In Thousands)

19. Subsequent Events

Management of the Company has evaluated all events occurring after December 31, 2018 through April 11, 2019, the date the financial statements were available to be issued, to determine whether any event required either recognition or disclosure in the financial statements. It was determined there were no events that require recognition or disclosure in the financial statements through the report date.

Supplementary Information - Statutory Basis

Building a better
working world

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Report of Independent Auditors on Supplementary Information

Board of Directors
Blue Cross Blue Shield of Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States, the statutory basis financial statements of Blue Cross Blue Shield of Wisconsin for the years ended December 31, 2018 and 2017, and have issued an adverse opinion with respect to conformity with U.S. generally accepted accounting principles and an unmodified opinion with respect to conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. thereon dated April 11, 2019. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental investment disclosures are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the statutory basis financial statements as a whole.

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

Ernst + Young LLP

April 11, 2019

Blue Cross Blue Shield of Wisconsin

Summary Investment Schedule - Statutory Basis

(Dollars In Thousands)

December 31, 2018

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage of Gross Investment Holdings	Amount	Securities Lending Reinvested Collateral Amount	Total	Percentage of Total Admitted Invested Assets
Bonds:						
Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
States, territories and possessions general obligations	$ 2,869	0.9%	$ 2,869	—	$ 2,869	0.9%
Political subdivisions of states, territories and possessions and political subdivisions general obligations	4,680	1.4	4,680	—	4,680	1.4
Revenue and assessment obligations	27,872	8.4	27,872	—	27,872	8.4
Mortgage-backed securities (includes residential and commercial MBS):						
Pass-through securities:						
Issued or guaranteed by GNMA	3,725	1.1	3,725	—	3,725	1.1
Issued by FNMA and FHLMC	32,142	9.6	32,142	—	32,142	9.6
CMOs and REMICs:						
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	5,266	1.6	5,266	—	5,266	1.6
All other	14,955	4.5	14,955	—	14,955	4.5
Other debt and other fixed income securities (excluding short-term):						
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	42,661	12.8	42,661	—	42,661	12.8
Unaffiliated non-U.S. securities (including Canada)	19,130	5.7	19,130	—	19,130	5.7
Equity interests:						
Other equity securities:						
Affiliated	167,880	50.4	167,880	—	167,880	50.4
Real estate investments:						
Property occupied by company	5,036	1.5	5,036	—	5,036	1.5
Cash, cash equivalents and short-term investments	7,038	2.1	7,038	—	7,038	2.1
Total invested assets	$ 333,254	100.0%	$ 333,254	$ —	$ 333,254	100.0%

Blue Cross Blue Shield of Wisconsin

Investment Risks Interrogatories - Statutory Basis

(Dollars In Thousands)

December 31, 2018

1. The Company's total admitted assets as reported on Page 2 of the Annual Statement are: $ 565,488

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

	Investment	Description of Exposure		Amount	Percentage of Total Admitted Assets
2.01	Compcare Health Services Insurance Corporation	Investment of common stock of subsidiary	$	167,880	29.7%
2.02	FMR LLC	Short-Term Money Market	$	46,000	8.1%
2.03	Morgan Stanley	Bond/Short-Term Money Market	$	15,794	2.8%
2.04	Wells Fargo & Co	Bond/Short-Term Money Market	$	10,998	1.9%
2.05	JP Morgan Chase & Co	Bond	$	3,296	0.6%
2.06	WF-RBS Commercial Mortgage Trust	Bond	$	2,929	0.5%
2.07	Deutsche Bank AG	Bond/Short-Term Money Market	$	2,774	0.5%
2.08	FHLMC POOL C09004	Bond	$	2,258	0.4%
2.09	City of San Antonio TX	Bond	$	2,035	0.4%
2.10	State of California	Bond	$	1,846	0.3%

3. The Company's total admitted assets held in bonds by NAIC designation are:

	Bonds		Amount	Percentage of Total Admitted Assets
3.01	NAIC - 1	$	114,539	20.3%
3.02	NAIC - 2	$	36,371	6.4%
3.03	NAIC - 3	$	2,330	0.4%
3.04	NAIC - 4	$	60	0.0%

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

(Dollars In Thousands)

4. Assets held in foreign investments:

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

Yes [ ] No [X]

		Amount	Percentage of Total Admitted Assets
4.02	Total admitted assets held in foreign investments	$ 17,125	3.0%
4.03	Foreign-currency-denominated investments	$ —	0.0%
4.04	Insurance liabilities denominated in that same foreign currency	$ —	0.0%

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

		Amount	Percentage of Total Admitted Assets
5.01	Countries rated NAIC - 1	$ 17,125	3.0%
5.02	Countries rated NAIC - 2	$ —	0.0%
5.03	Countries rated NAIC - 3 or below	$ —	0.0%

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

		Amount	Percentage of Total Admitted Assets
	Countries rated NAIC - 1		
6.01	Country: United Kingdom	$ 5,056	0.9%
6.02	Country: Australia	$ 3,274	0.6%
	Countries rated NAIC - 2		
6.03	Country:	$ —	0.0%
6.04	Country:	—	0.0%
	Countries rated NAIC - 3 or below		
6.05	Country:	$ —	0.0%
6.06	Country:	$ —	0.0%

7. The Company has no unhedged foreign currency exposure.

8. The Company has no unhedged foreign currency exposure.

9. The Company has no unhedged foreign currency exposure.

Investment Risks Interrogatories - Statutory Basis (continued)

(Dollars In Thousands)

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

	Issuer	NAIC Rating	Amount	Percentage of Total Admitted Assets
10.01	CK Hutchison Holdings Ltd	1FE	$ 1,601	0.3%
10.02	Australia & New Zealand Banking Group	1FE	$ 1,500	0.3%
10.03	Credit Suisse Group AG	1FE	$ 1,000	0.2%
10.04	Skandinaviska Enskilda Banken	1FE	$ 1,000	0.2%
10.05	UBS Group AG	1FE	$ 974	0.2%
10.06	Macquarie Group Ltd	1FE	$ 900	0.2%
10.07	HSBC Holdings PLC	1FE	$ 897	0.2%
10.08	Invesco Ltd	1FE	$ 897	0.2%
10.09	Johnson Controls International	2FE	$ 877	0.2%
10.10	Westpac Banking Corp	1FE	$ 874	0.2%

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

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

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [X]

	Name of Issuer	Amount	Percentage of Total Admitted Assets
13.02	Compcare Health Services Insurance Corporation	$ 167,880	29.7%

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

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

16. The Company has no investments in mortgage loans.

17. The Company has no investments in mortgage loans.

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

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

Investment Risks Interrogatories - Statutory Basis (continued)

(Dollars In Thousands)

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

		At Year-end		At End of Each Quarter (Unaudited)		
		Amount	Percentage of Admitted Assets	1st qtr	2nd qtr	3rd qtr
20.01	Securities lending	$ —	0.0%	$ 597	$ 1,198	$ 537
20.02	Repurchase agreements	$ —	0.0%	$ —	$ —	$ —
20.03	Reverse repurchase agreements	$ —	0.0%	$ —	$ —	$ —
20.04	Dollar repurchase agreements	$ —	0.0%	$ —	$ —	$ —
20.05	Dollar reverse repurchase agreements	$ —	0.0%	$ —	$ —	$ —

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

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

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

Note to Supplementary Information - Statutory Basis

(Dollars In Thousands)

December 31, 2018

Note-Basis of Presentation

The accompanying supplemental schedules present selected statutory basis financial information as of December 31, 2018 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' *Annual Statement Instructions* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual,* and agrees to or is included in the amounts reported in Blue Cross Blue Shield of Wisconsin's 2018 Annual Statement as filed with the Office of the Commissioner of Insurance of the State of Wisconsin.

Captions or amounts that are not applicable have been omitted.