

AUDITED STATUTORY-BASIS FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.
Years Ended December 31, 2017 and 2016
With Report of Independent Registered Public
Accounting Firm

Ernst & Young LLP



Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Audited Statutory-Basis Financial Statements and
Supplementary Information

Years Ended December 31, 2017 and 2016

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

We have audited the accompanying statutory-basis balance sheets of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. as of December 31, 2017 and 2016, and the related statutory-basis statements of operations, changes in surplus and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, the statutory-basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance, which practices differ from U.S. generally accepted accounting principles. The variances between such practices and U.S. generally accepted accounting principles are described in Note 2. The effects on the accompanying financial statements of these variances are not reasonably determinable but are presumed to be material.

In our opinion, because of the effects of the matter described in the preceding paragraph, the statutory-basis financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. at December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the financial position of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance.



We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework), and our report dated April 27, 2018 expressed an unqualified opinion thereon.

Ernst & Young LLP

April 27, 2018



Report of Independent Registered Public Accounting Firm

The Board of Directors
Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

We have audited Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.'s (the Company) internal control over statutory financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over statutory financial reporting, and for its assessment of the effectiveness of internal control over statutory financial reporting included in the accompanying Report of Management on Internal Control over Statutory Financial Reporting. Our responsibility is to express an opinion on the company's internal control over statutory financial reporting based on our audit.

We conducted our audit in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over statutory financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over statutory financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over statutory financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance. A company's internal control over statutory financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of statutory-basis financial statements in accordance with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the statutory-basis financial statements.



Because of its inherent limitations, internal control over statutory financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over statutory financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the statutory-basis balance sheets of the Company as of December 31, 2017 and 2016, and the related statutory-basis statements of operations, changes in surplus and cash flow for the years then ended and our report dated April 27, 2018 expressed an unqualified opinion on those financial statements with regard to their conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance.

Ernst + Young LLP

April 27, 2018



**Management's Report on Internal Control over Statutory Financial Reporting
for Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.**

April 27, 2018

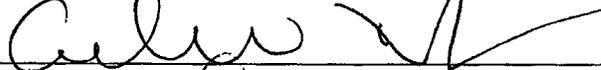
We, as members of management of Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. ("the Company"), are responsible for establishing and maintaining adequate internal control over statutory financial reporting. The Company's internal control over statutory financial reporting is a process designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of the statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness, as of December 31, 2017, of the Company's internal control over statutory financial reporting based on the framework established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment under that framework, we assert that the Company maintained effective internal control over statutory financial reporting as of December 31, 2017.

Ernst & Young LLP, our independent registered public accounting firm, has issued its report on the effectiveness of the Company's internal control over statutory financial reporting as of December 31, 2017.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.



Andrew Dreyfus, President and Chief Executive Officer



Andreana Santangelo, Executive Vice President and Chief Financial Officer



Brett Painchaud, Senior Vice President and Controller



Linda Williams, Senior Vice President and Chief Risk
and Audit Officer

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Statutory-Basis Balance Sheets
(Dollars in Thousands)

	December 31	
	2017	2016
Admitted assets		
Bonds	\$ 948,471	\$ 877,500
Preferred stock	–	735
Common stock	187,671	207,462
Properties occupied by the Company	90,760	92,838
Cash, cash equivalents, and short-term investments	92,766	46,010
Receivable for securities	7,888	2,684
Other invested assets	952,189	685,567
Total cash and invested assets	<u>2,279,745</u>	<u>1,912,796</u>
Accrued investment income	4,679	4,383
Premiums receivable	46,258	129,686
Reinsurance recoverable	1,715	13,611
Data processing equipment	7,268	4,559
Health care receivables	65,106	28,191
Other receivables	2,650	4,610
Other assets	4,284	350
Total admitted assets	<u>\$ 2,411,705</u>	<u>\$ 2,098,186</u>
Liabilities and surplus		
Unpaid claims liabilities	\$ 402,230	\$ 381,168
Accrued medical incentive pool and bonus payments	97,458	73,953
Aggregate policy reserves	31,962	20,682
Premiums received in advance	110,201	104,475
Accounts payable and accrued liabilities	32,950	28,352
Borrowed money	320,250	247,848
Amounts due to parent, subsidiaries, and affiliates	18,908	27,748
Payable for securities	14,082	6,276
Total liabilities	<u>1,028,041</u>	<u>890,502</u>
Special surplus funds	48,717	–
Unassigned surplus	1,334,947	1,207,684
Total surplus	<u>1,383,664</u>	<u>1,207,684</u>
Total liabilities and surplus	<u>\$ 2,411,705</u>	<u>\$ 2,098,186</u>

See accompanying notes.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Statutory-Basis Statements of Operations
(Dollars in Thousands)

	Year Ended December 31	
	2017	2016
Premiums earned	\$ 4,817,365	\$ 4,596,511
Health care benefits	4,259,338	4,055,255
Claims adjustment expenses	190,418	179,221
General and administrative expenses	287,876	328,220
Total expenses	4,737,632	4,562,696
Underwriting gain	79,733	33,815
Net investment income	37,111	28,705
Net realized investment gains	3,897	10,376
Net investment gains	41,008	39,081
Other income	693	1,279
Net income	\$ 121,434	\$ 74,175

See accompanying notes.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Statutory-Basis Statements of Changes in Surplus
(Dollars in Thousands)

	Unassigned Surplus	Special Surplus Funds	Total Surplus
Balance at January 1, 2016	\$ 1,049,033	\$ 40,550	\$ 1,089,583
2016 ACA health insurer fee	40,550	(40,550)	–
Net income	74,175	–	74,175
Change in net unrealized gains	35,947	–	35,947
Change in non-admitted assets	7,979	–	7,979
Balance at December 31, 2016	1,207,684	–	1,207,684
Net income	121,434	–	121,434
Change in net unrealized gains	59,451	–	59,451
Change in non-admitted assets	(4,905)	–	(4,905)
2018 ACA health insurer fee	(48,717)	48,717	–
Balance at December 31, 2017	\$ 1,334,947	\$ 48,717	\$ 1,383,664

See accompanying notes.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Statutory-Basis Statements of Cash Flow
(Dollars in Thousands)

	Year Ended December 31	
	2017	2016
Operating activities		
Premiums received	\$ 4,917,647	\$ 4,556,547
Health care benefits paid	(4,238,223)	(4,018,703)
General and claim adjustment expenses paid	(457,732)	(496,921)
Net investment income received	42,503	36,284
Net cash provided by operating activities	<u>264,195</u>	<u>77,207</u>
Investing activities		
Sales, maturities, and redemptions of investments	840,653	1,276,219
Cost of investments acquired	(1,095,380)	(1,468,595)
Net cash (used in) investing activities	<u>(254,727)</u>	<u>(192,376)</u>
Financing or miscellaneous activities		
Borrowed funds	72,500	80,000
Other cash applications, net	(35,212)	33,517
Net cash provided by financing or miscellaneous activities	<u>37,288</u>	<u>113,517</u>
Net increase (decrease) in cash, cash equivalents, and short-term investments	46,756	(1,652)
Cash, cash equivalents, and short-term investments:		
Beginning of year	46,010	47,662
End of year	<u>\$ 92,766</u>	<u>\$ 46,010</u>

See accompanying notes.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (Dollars in Thousands)

December 31, 2017

1. Nature of Business

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. (“HMO Blue” or the “Company”), a wholly-controlled subsidiary of Blue Cross and Blue Shield of Massachusetts, Inc. (“BCBSMA”), is a Massachusetts nonprofit corporation organized under Chapter 180 of the Massachusetts General Laws (“M.G.L.”) and holds a health maintenance organization license pursuant to Massachusetts General Laws Chapter 176G. HMO Blue and BCBSMA (collectively, the “Companies”) operate under common management and Board of Directors control. The Company provides hospitalization, medical, and other health benefits to members through contracts with hospitals, participating physicians, skilled nursing facilities, nursing homes, and other health care providers and organizations. The Company offers a variety of HMO and other supplementary programs for the benefit of its members.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the National Association of Insurance Commissioners (“NAIC”) *Statements of Statutory Accounting Principles* (“SSAP”), and in conformity with accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance (“DOI”), which practices differ from US generally accepted accounting principles (“GAAP”).

The more significant variances from GAAP are as follows:

Investments: Investments in bonds not backed by other loans are principally stated at amortized cost using the constant yield (interest) method. Bonds can also be stated at the lesser of amortized cost or fair value based on their NAIC designated rating. Preferred stocks are reported at lower of cost or fair value. The related net unrealized gains (losses) are reported in unassigned surplus. For GAAP, such fixed maturity investments would be designated as available-for-sale or held-for-trading and reported at fair value with unrealized investment gains (losses) reported as a separate component of stockholder’s equity for available-for-sale, unless the decline is believed to be other-than-temporary, or as earnings for held-for-trading.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Fair value for statutory purposes, as with GAAP, is based on quoted market prices while the fair value of private placements and credit tenant loans is obtained from independent third-party dealers.

The Company has a process in place to identify bonds, excluding loan-backed and structured securities that could potentially have an impairment that is other-than-temporary. For statutory reporting, the Company recognizes other-than-temporary impairment losses on bonds with unrealized losses when either of the following two conditions exist: the Company either (1) has the intent to sell the debt security or (2) is more likely than not to be required to sell the debt security before its anticipated recovery. Declines in value due to credit difficulties are also considered to be other-than-temporarily impaired when the Company does not have the intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in value. For statutory reporting, the entire difference between amortized cost and fair value on such bonds with credit difficulties is recognized as an impairment loss in earnings. For GAAP, an impairment loss is recognized in earnings determined as the difference between amortized cost and the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The remaining difference between the net present value and the fair value is recognized as a non-credit unrealized loss in accumulated other comprehensive income for GAAP.

All single class and multi-class mortgage-backed/asset-backed securities (i.e., collateralized mortgage obligations) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discounts or amortization of premiums of such securities using either the retrospective or prospective methods. The retrospective adjustment method is used to value all such securities, except principal-only and interest-only securities and such securities with NAIC designations of 3–6, which are valued using the prospective method. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the present value of estimated future cash flows using the original effective interest rate inherent in the security.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

For GAAP, all securities purchased or retained that represent beneficial interests in securitized assets (i.e., all asset-backed securities, including collateralized mortgage obligations, collateralized bond obligations, collateralized debt obligations, collateralized loan obligations, and mortgage-backed securities) and other than high credit quality securities with fixed rates of interest are carried at fair value, and their rate of income recognition is adjusted using the prospective method when there is a change in estimated future cash flows.

If it is determined that an other-than-temporary credit impairment has occurred, the security is written down through earnings to the present value of estimated future cash flows using the original effective interest rate inherent in the security, with any further non-credit impairment recorded in the accumulated other comprehensive income to adjust the investment to its current fair value. This non-credit portion of the impairment recorded for GAAP is not recognized under NAIC guidelines. High credit quality asset-backed securities with fixed rates of interest are also carried at fair value for GAAP, but if their estimated future cash flows change, the retrospective method is used.

Investments in real estate are reported net of related obligations rather than on a gross basis. Real estate owned and occupied by the Company is included in investments rather than reported as an operating asset under GAAP, and investment income and operating expenses include rent for the Company's occupancy of those properties.

Non-admitted Assets: Certain assets designated as "non-admitted," including furniture, fixtures and equipment, leasehold improvements, non-operating system software, prepaid expenses, certain premium receivable balances, and other assets not specifically identified as an admitted asset within the SSAP, are excluded from the accompanying balance sheets and are charged directly to surplus. Under GAAP, such assets are included in the balance sheets, net of any impairment charge.

Statements of Cash Flow: Cash, cash equivalents, and short-term investments in the statements of cash flow represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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 practices are as follows:

Use of Estimates

The preparation of the financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments

Investments are stated at values prescribed by the NAIC, as follows:

Investments in bonds not backed by other loans are principally stated at amortized cost using the constant yield (interest) method. Bonds can also be stated at the lesser of amortized cost or fair value based on their NAIC designated rating.

Common stock is stated at fair value.

Preferred stock is reported at lower of cost or fair value.

The Company has various ownership interests in limited liability partnerships and limited liability companies. The Company carries these investments based on its ownership interest in the underlying GAAP equity of the investee. These investments are included as other invested assets on the balance sheets.

Unrealized gains and losses on common stock and other invested assets are reflected directly in surplus 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 income.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Amortization of bond premium and accretion of bond discount are recognized on a yield-basis method. Security transactions are accounted for on a trade-date basis, with any unsettled transactions recorded as due to or from investment broker and included as payable or receivable for securities in the balance sheets.

Investment income is recognized as income when earned. Accrued investment income is defined as investment income earned as of the reporting date, but not legally due to be paid to the Company until subsequent to the reporting date.

Cash equivalents are short-term highly liquid investments with original maturities of three months or less and are principally stated at amortized cost. Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at amortized cost.

Real Estate

Land is recorded at cost, and other real estate, which includes expenditures for significant improvements, is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life (typically 50 years).

The Companies jointly own land and buildings with 349,058 square feet of office space in Quincy, Massachusetts and 328,945 square feet of office space in Hingham, Massachusetts.

The components of the Company's real estate are summarized as follows:

	December 31	
	2017	2016
Land and buildings	\$ 115,428	\$ 115,285
Less accumulated depreciation	(24,668)	(22,447)
Net real estate occupied by the Company	<u>\$ 90,760</u>	<u>\$ 92,838</u>

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Under statutory reporting guidelines, the Companies are required to calculate imputed rental income for owner-occupied real estate. The method for calculating imputed rental income is based on estimated rental rates of like property in the same area multiplied rentable square feet. These imputed amounts are reported as net investment income and general and administrative expenses in the statements of operations reflecting that the Company had recorded annual rent of \$6,058 and \$5,506 for the periods ended December 2017 and 2016.

Furniture, Equipment, and Capitalized Software

The admitted value of the Company's electronic data processing equipment ("EDP") and operating software is limited to three percent of adjusted surplus. The Company's admitted portion is reported at cost, less accumulated depreciation.

The components of the Company's EDP and operating software are summarized as follows:

	December 31	
	2017	2016
EDP equipment and operating software	\$ 46,879	\$ 39,276
Less accumulated depreciation	(39,611)	(34,717)
Net EDP equipment and operating software	\$ 7,268	\$ 4,559

The Company calculates depreciation on furniture, equipment, and leasehold improvements and amortization of capitalized software using the straight-line method. Furniture and equipment is depreciated over its estimated useful life or ten years; leasehold improvements over the lesser of its useful life or the term of the lease; operating software over the lesser of its useful life or three years; and internally developed software over the lesser of its useful life or five years.

Depreciation and amortization expense charged to income in 2017 and 2016 was \$19,784 and \$19,221, respectively.

The Company continually evaluates the recoverability of long-lived assets by assessing whether the carrying amount of asset balances can be recovered as measured against the future undiscounted net cash flows expected to be generated by the assets. The future undiscounted net cash flows are based on historical trends, revenue forecasts, and market trends projected over the remaining life of the long-lived assets.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. In 2017, the Company did not have any impairment expenses. In 2016, the Company recognized \$1,769 in impairment expenses related to internally developed software systems.

Unpaid Claims Liabilities

The Company uses estimates for determining its claims incurred but not yet reported which are based on historical claim payment patterns, healthcare trends and membership, and includes a provision for adverse changes in claim frequency and severity. 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 claims payments become known. This information is compared to the originally established year end liability.

Management believes its methodologies for reserving for unpaid claims are appropriate and represent its best estimate.

Accrued Medical Incentive Pool and Bonus Payments

Medical incentive pool and bonus accruals represent the liability for arrangements with health care providers and other risk sharing arrangements where the Company agrees to share savings with contracted providers.

Aggregate Policy Reserves

Aggregate policy reserves represent a reserve for unearned premium income, rate credits, and experience rating refunds.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Premium Deficiency

The Company evaluates its health care contracts to determine if it is probable that a loss will be incurred. A premium deficiency loss is recognized when it is probable that expected future paid claims, administrative expenses, and reserves will exceed existing reserves plus anticipated future premiums on existing contracts. Anticipated investment income and overhead expenses are also considered in the calculation of premium deficiency losses. As of December 31, 2017 and 2016, the Company did not have a premium deficiency reserve.

Premiums

The Company receives premium revenue from insured business. Member premiums are billed in advance of their respective coverage periods. Premium receivables are recorded when due. Premium earned is recorded during the coverage period. Aggregate policy reserves are established to cover the unexpired portion of premiums written and are computed by pro-rata methods for direct business.

Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to administrative expenses as incurred. The premium paid by subscribers prior to the effective date is recorded in the balance sheets as premiums received in advance and subsequently credited to income as earned during the coverage period.

The definitions of the Patient Protection and Affordable Care Act (“PPACA”) and implementing regulations require commercial health plans with a medical loss ratio (“MLR”) on fully insured products that fall below certain targets to rebate ratable portions of their premiums annually. The Company’s management thereby regularly monitors MLR calculations by market type and records the applicable liability and expense if the MLR falls below the minimum requirements pursuant to the PPACA.

For uncollected premium, after the calculation of non-admitted amounts, an evaluation is made of the remaining admitted assets in accordance with SSAP No. 5, *Liabilities, Contingencies and Impairment of Assets*, to determine if there is a collectability issue.

If it is probable that the balance is uncollectible, any uncollectible amount is written off and charged to income in the period the determination is made. In 2017 and 2016, the amount charged to income was \$487 and \$1,097, respectively.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Affordable Care Act (“ACA”)

Effective January 1, 2014, the Company adopted Statement of Statutory Accounting Principles No. 106, *Affordable Care Act Assessments* (“SSAP 106”). SSAP 106 provides accounting treatment for the assessment under Section 9010 of the Patient Protection and Affordable Care Act (ACA) of entities issuing health insurance. Refer to Note 20.

Effective January 1, 2014, the Company also adopted SSAP No. 107, *Accounting for the Risk-Sharing Provisions of the Affordable Care Act* (“SSAP 107”). The Affordable Care Act (“ACA”) imposes fees and premium stabilization provisions on health insurance issuers offering commercial health insurance. The risk-sharing provisions include three programs known as risk adjustment, reinsurance, and risk corridor. The required payments to the programs are reported as assessments and amounts distributed back to the insurance companies are presented as recoverable or receivable on the balance sheet. Refer to Note 13.

The risk adjustment program based on Section 1343 of the ACA is effective beginning in the 2014 benefit year and continues as a permanent program. The risk adjustment program includes health plans participating in the state individual or small group markets. The purpose of the risk adjustment program is to transfer funds from lower risk plans to higher risk plans in the same state in order to adjust premiums for adverse selection among carriers caused by membership shifts due to guarantee issue and community rating mandates.

The Commonwealth of Massachusetts terminated its risk adjustment program effective December 31, 2016. Commencing January 1, 2017, the Company takes part in the federal risk adjustment program whereby premium adjustments are based on the risk scores of enrollers rather than the actual loss experience of the insured. The risk adjustment payables and receivables are accounted for as premium adjustments subject to redetermination. In addition to the risk adjustment amount, the federal government now determines the user fee which is treated as an assessment and recognized as an expense and liability when the premium subject to assessment is earned.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

The transitional or temporary reinsurance program based on Section 1341 of the ACA was effective for plan years 2014 through 2016. Reinsurance assessments were collected and distributions have been issued during this three-year term. In general, this transitional reinsurance program provided funding to issuers in the individual market that incur high claims costs for enrollees. The program required assessments from all issuers based on a per member annual fee established by the Department of Health and Human Services (“HHS”).

The reinsurance program for individual insured products was accounted for as a traditional reinsurance program with assessments reported as ceded premium and distributions received for the reimbursement of claims reflected as ceded claim benefits recovered. Group plans were required to contribute funding, but were not eligible to receive reinsurance program distributions. Accordingly, insured group contributions to the reinsurance pool as well as disbursements to the U.S. Treasury covered administrative expenses of the program and were treated as an assessment payable that was charged to taxes, licenses, and fees.

The risk corridor program based on Section 1342 of the ACA was effective for benefit years 2014 through 2016. The risk corridors program applied to Qualified Health Plans (“QHPs”) in the individual and small group markets. The purpose of the risk corridor program was to provide limitations on issuer losses and gains for QHPs through additional protection against initial pricing risk. The program created a mechanism for sharing or spreading the risk for allowable costs between the federal government and the QHP issuers.

Any risk corridor payable or receivable, if applicable, were reported as a component of accounts receivable, and were included in other receivables on the balance sheets. Any related expense or revenue associated with the risk corridor program was included as a component of premiums earned on the statements of operations.

The ACA’s reinsurance and risk corridors programs were temporary programs that transitioned to end effective December 31, 2016. These programs were intended to protect against negative effects of adverse selection and risk selection, and also work to stabilize premiums during the initial implementation years of the ACA. Any adjustments or outstanding balances related to these programs are included in the 2017 financial results.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Health Care Receivables

The Company enters into contractual agreements with various health care providers to provide certain medical services to its members. Compensation arrangements vary by provider. Certain providers have entered into risk-sharing arrangements with the Company, whereby a settlement is calculated by comparing actual medical claims experience to a pre-approved and predetermined budgeted amount. These settlements are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined. Estimated settlements for these risk-sharing arrangements are reflected in health care receivables on the Company's balance sheets.

Other amounts included in health care receivables represent pharmaceutical rebates, claims overpayments, advances to the providers and capitation arrangement receivables. Pharmaceutical rebates are arrangements with pharmaceutical companies negotiated by the Company's pharmacy benefit manager ("PBM"), in which the Company receives rebates based upon certain drug utilization of its subscribers. Claim overpayments occur as a result of several events, including, but not limited to, claim payments made in error to a provider. The Company also makes advances to providers when those advances are supported by legally enforceable contracts and are generally entered into at the request of the providers.

Advances to the providers under a capitation arrangement are usually made in anticipation of future services, and used in connection with some managed care contracts, when a physician or other medical provider is paid a flat amount.

Fair Value of Financial Instruments

The fair value of investment securities is estimated based on quoted prices for those or similar investment securities. The carrying amounts of cash, cash equivalents and short-term investments approximate fair value because of the short maturity of these instruments.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In March 2017, the NAIC made substantive revisions to SSAP No. 69 – *Statement of Cash Flow* to adopt ASU 2016-15 *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* as issued by the FASB, without modifications. The revisions clarified the classification of eight specific cash flow issues with the objective of reducing diversity in practice. The amendment is to be applied retrospectively, effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. The Company will adopt the amendment in 2019 and is currently assessing the impact of these revisions on its financial statements.

In August 2017, the NAIC adopted non-substantive revisions to SSAP No. 69 – *Statement of Cash Flow* to adopt ASU 2016-18 *Statement of Cash Flows: Restricted Cash* as issued by the FASB. The revision clarifies that restricted cash and cash equivalents shall not be reported as operating, investing or financing activities, but shall be reported with cash and cash equivalents when reconciling beginning and ending amounts on the cash flow statement. A consequential change was incorporated in SSAP No. 1 – *Accounting Policies, Risks & Uncertainties and Other Disclosures* to ensure information on restricted cash, cash equivalents and short-term investments is reported in the restricted asset disclosure. The revision is effective December 31, 2019, to be adopted retrospectively to allow for comparative cash flow statements. Early adoption is permitted. The Company will adopt the amendment in 2019 and is currently assessing the impact of these revisions on its financial statements.

3. Cash and Investments

Included in various investment related line items in the financial statements are certain financial instruments carried at fair value. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated by incorporating current market inputs for similar financial instruments. In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models, and assumptions that management believes market participants would use to determine a current transaction price.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

3. Cash and Investments (continued)

The Company's statutory-basis financial assets have been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100, *Fair Value Measurement* ("SSAP 100"). The levels of the fair value hierarchy are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset at the reporting date.

Investments in mutual funds are carried at estimated fair value based on quoted market prices and are recorded in the statutory-basis balance sheets as common stock. These assets include primarily actively-traded exchange-listed mutual funds identified as common stock. Unadjusted quoted prices for these securities are provided to the Company by independent pricing services.

Level 2 assets consist primarily of bonds, including U.S. government, industrial, and miscellaneous, mortgage backed securities, and preferred stocks which are valued using pricing models with observable market inputs.

Level 3 investments include holdings in real estate investment trusts ("REITs") and other privately issued stock holdings. Fair values of the REIT holdings are provided to the Company by the trust manager either monthly or quarterly and are derived from limited observable inputs as a result of low transaction volume. The Company also holds privately issued common stocks that experience similarly low transaction volume. The Company obtains prices for these investments quarterly and considers these prices to approximate fair value.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Investments (continued)

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the ending fair value for the reporting period in which the changes occur. There were no significant transfers between levels for the year ended December 31, 2017.

Investments in partnerships and similar investments are recorded in the statutory-basis balance sheets as other invested assets. Other invested asset investments in subsidiary, controlled, and affiliated entities are recorded using the statutory equity method. These investments are not included within the scope of SSAP 100.

As of December 31, 2017 and 2016, included in the Company's Other Invested Assets is an investment in a surplus note, issued by BCBSMA of \$285,000 and \$100,000, respectively.

The following table presents the Company's financial assets that are measured and reported at fair value in the balance sheets by fair value hierarchy level at December 31, 2017 and 2016:

Description	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Common stock:				
Industrial and miscellaneous	\$ 124,959	\$ –	\$ 62,461	\$ 187,420
Parent, subs, and affiliates	–	–	251	251
Preferred stock	–	–	–	–
Total assets at fair value	<u>\$ 124,959</u>	<u>\$ –</u>	<u>\$ 62,712</u>	<u>\$ 187,671</u>

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Investments (continued)

Description	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Common stock:				
Industrial and miscellaneous	\$ 146,741	\$ –	\$ 60,485	\$ 207,226
Parent, subs, and affiliates	–	–	236	236
Preferred stock	–	735	–	735
Total assets at fair value	\$ 146,741	\$ 735	\$ 60,721	\$ 208,197

Fair Value Measurements in Level 3:

	Balance at January 1, 2017	Transfers in Level 3	Transfers out Level 3	Total Gain Included in Net Realized Capital Gains and (Losses)	Total Included in Surplus	Purchases	Sales	Issuances and Settlements	Balance at December 31, 2017
Common stock									
Industrial and miscellaneous	\$ 60,485	\$ –	\$ –	\$ 161	\$ 1,701	\$ 275	\$ (161)	\$ –	\$ 62,461
Parent, subs, and affiliates	236	–	–	–	15	–	–	–	251
Total assets	\$ 60,721	\$ –	\$ –	\$ 161	\$ 1,716	\$ 275	\$ (161)	\$ –	\$ 62,712

	Balance at Jan 1, 2016	Transfers in Level 3	Transfers out Level 3	Total Gain Included in Net Realized Capital Gains and (Losses)	Total Included in Surplus	Purchases	Sales	Issuances and Settlements	Balance at December 31, 2016
Common stock									
Industrial and miscellaneous	\$ 59,440	\$ –	\$ –	\$ –	\$ 831	\$ 214	\$ –	\$ –	\$ 60,485
Parent, subs, and affiliates	230	–	–	–	6	–	–	–	236
Total assets	\$ 59,670	\$ –	\$ –	\$ –	\$ 837	\$ 214	\$ –	\$ –	\$ 60,721

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Investments (continued)

The table below presents the fair value by hierarchy level for certain financial assets that are not reported at fair value in the balance sheets:

Description	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Bonds:				
U.S. treasury securities	\$ –	\$ 305,404	\$ –	\$ 305,404
Industrial and miscellaneous	–	343,199	–	343,199
Mortgage-backed securities	–	300,178	–	300,178
Total	\$ –	\$ 948,781	\$ –	\$ 948,781

Description	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Bonds:				
U.S. treasury securities	\$ –	\$ 282,408	\$ –	\$ 282,408
Industrial and miscellaneous	–	312,878	–	312,878
Mortgage-backed securities	–	278,682	–	278,682
Total	\$ –	\$ 873,968	\$ –	\$ 873,968

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Investments (continued)

The cost or amortized cost, gross unrealized gains, gross unrealized losses, and fair value of cash and investments are as follows:

	December 31, 2017			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash, cash equivalents, and short-term investments	\$ 92,766	\$ —	\$ —	\$ 92,766
Bonds:				
U.S. treasury securities and agency obligations	306,872	909	(2,377)	305,404
Industrial and miscellaneous	339,319	5,713	(1,833)	343,199
Mortgage-backed securities	302,280	1,344	(3,446)	300,178
Total bonds	948,471	7,966	(7,656)	948,781
Common stock	150,826	36,916	(71)	187,671
Total cash and investments	\$ 1,192,063	\$ 44,882	\$ (7,727)	\$ 1,229,218

	December 31, 2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash, cash equivalents, and short-term investments	\$ 46,010	\$ —	\$ —	\$ 46,010
Bonds:				
U.S. treasury securities and agency obligations	286,304	637	(4,533)	282,408
Industrial and miscellaneous	311,700	4,361	(3,183)	312,878
Mortgage-backed securities	279,496	1,924	(2,738)	278,682
Total bonds	877,500	6,922	(10,454)	873,968
Common stock	180,639	26,938	(115)	207,462
Preferred stock	700	35	—	735
Total cash and investments	\$ 1,104,849	\$ 33,895	\$ (10,569)	\$ 1,128,175

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Investments (continued)

At December 31, 2017 and 2016, there are no bonds that are non-admitted due to a default or near default status.

The following tables show gross unrealized losses and fair values of bonds and equities and length of time that individual securities have been in a continuous unrealized position.

	Less than 12 Months		12 Months or More		Total		Number of Securities
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
At December 31, 2017							
U.S. treasury securities	\$ 209,391	\$ (1,684)	\$ 41,999	\$ (694)	\$ 251,390	\$ (2,378)	89
Industrial and miscellaneous	65,643	(388)	94,957	(1,444)	160,600	(1,832)	260
Mortgage-backed securities	84,919	(569)	143,804	(2,877)	228,723	(3,446)	389
Total Bonds	359,953	(2,641)	280,760	(5,015)	640,713	(7,656)	738
Common stock	1,122	(71)	-	-	1,122	(71)	3
Total	\$ 361,075	\$ (2,712)	\$ 280,760	\$ (5,015)	\$ 641,835	\$ (7,727)	741

	Less than 12 Months		12 Months or More		Total		Number of Securities
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	
At December 31, 2016							
U.S. treasury securities	\$ 158,173	\$ (4,145)	\$ 26,428	\$ (389)	\$ 184,601	\$ (4,534)	86
Industrial and miscellaneous	107,272	(2,366)	61,235	(817)	168,507	(3,183)	287
Mortgage-backed securities	73,418	(1,172)	110,092	(1,565)	183,510	(2,737)	219
Total Bonds	338,863	(7,683)	197,755	(2,771)	536,618	(10,454)	592
Common stock	1,498	(10)	2,244	(105)	3,742	(115)	2
Total	\$ 340,361	\$ (7,693)	\$ 199,999	\$ (2,876)	\$ 540,360	\$ (10,569)	594

Effective December 31, 2017, and on a prospective basis, all money market mutual funds are classified as cash equivalents. The change is due to revisions in SSAP No. 2R—*Cash, Cash Equivalents, Drafts, and Short-Term Investments*. As of December 31, 2017, the Company's \$22,083 investment in money-market mutual funds were included in cash, cash equivalents and short-term investments.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Investments (continued)

Management regularly reviews the fair value of the Company's investments. If the fair value of any investment falls below its cost basis, the decline is analyzed to determine whether the decline in value is other-than-temporary. To make this determination for each security, the following is considered:

- The length of time and the extent to which the fair value has been below cost;
- The financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings potential;
- Volatility inherent in the asset class to which the investment belongs;
- Management's intent and ability to hold the respective securities long enough for it to recover its value.

At December 31, 2017 and 2016, included in the Company's investments are unrealized losses deemed to be temporary. These investments reflect a range of industries, and the Company determined the current market volatility is temporary.

In 2017, the Company did not record any other-than-temporary impairments. In 2016, the Company recorded other-than-temporary impairments of \$3,013 related to other invested assets.

The amortized cost and fair value of bonds at December 31, 2017, by stated maturity, are shown below. Fixed maturities subject to early or unscheduled prepayments have been included based upon their stated maturity dates. Actual maturities may differ from stated maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost or Amortized Cost	Fair Value
Within 1 year	\$ 28,141	\$ 28,127
After 1 year through 5 years	366,051	364,733
After 5 years through 10 years	176,356	176,958
After 10 years	377,923	378,963
Total bonds	<u>\$ 948,471</u>	<u>\$ 948,781</u>

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Investments (continued)

Proceeds, realized gains and (losses) from investment securities sales are as follows:

Description	Proceeds from Sales		Realized Gains		Realized (Losses)	
	2017	2016	2017	2016	2017	2016
Bonds	\$ 644,789	\$ 729,750	\$ 4,058	\$ 8,295	\$ 3,848	\$ 4,285
Common stock	37,200	414,885	2,714	5,645	–	–
Other invested assets	155,207	22,426	1,433	3,734	526	–

Gross realized investment gains and losses are as follows:

	2017	2016
Gross gains	\$ 8,278	\$ 17,674
Gross losses	(4,381)	(7,298)
Net realized investment gains	\$ 3,897	\$ 10,376

Major categories of net investment income are summarized as follows:

	2017	2016
Income:		
Bonds	\$ 19,912	\$ 17,106
Other invested assets	14,470	13,310
Common stock	8,633	7,253
Preferred stock	23	37
Real estate	6,058	5,506
Cash, cash equivalents and short-term investments	1,243	398
Other miscellaneous	3,043	768
Total investment income	53,382	44,378
Less: investment expenses	14,051	13,469
Depreciation	2,220	2,204
Net investment income	\$ 37,111	\$ 28,705

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

3. Cash and Investments (continued)

As of December 31, 2017, the Company had the following structured notes:

CUSIP Identification	Actual Cost	Fair Value	Book/Adjusted Carrying Value	Mortgage-Referenced Security (Yes/No)
912810-RF-7	\$ 1,942	\$ 2,102	\$ 1,983	No
912810-RL-4	263	316	276	No
912828-C9-9	9,539	9,873	9,894	No
912828-K3-3	14,081	14,434	14,564	No
912828-LA-6	3,610	3,478	3,484	No
912828-MF-4	7,131	7,105	7,151	No
912828-NM-8	7,871	7,940	7,925	No
912828-PP-9	8,008	8,150	8,152	No
912828-QV-5	9,109	9,116	9,233	No
912828-S5-0	1,761	1,760	1,802	No
912828-SA-9	9,654	9,684	9,818	No
Total	\$ 72,969	\$ 73,958	\$ 74,282	

4. Restricted Assets

The Company's restricted assets and pledged collateral are summarized in the table as follows:

	2017	2016		2017
	Total Gross Restricted	Total Gross Restricted	Increase/Decrease	Total Admitted Restricted
Restricted assets category				
Federal Home Loan Bank ("FHLB") capital stock	\$ 6,375	\$ 6,099	\$ 276	\$ 6,375
Pledged as collateral to FHLB	112,150	110,779	1,371	112,150
On deposit with states ^(a)	1,142	1,025	117	1,142
Other restricted assets ^(b)	6,333	—	6,333	—
Total	\$ 126,000	\$ 117,903	\$ 8,097	\$ 119,667

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

4. Restricted Assets (continued)

- (a) At December 31, 2017 and 2016, HMO Blue had restricted securities, included in bonds, and on deposit with the Commonwealth of Massachusetts as required by M.G.L. c.176G, section 26.
- (b) At December 31, 2017 and 2016, BCBSMA had Commonwealth of Massachusetts Tax Credits as restricted assets included in other assets on the statutory-basis balance sheets.

5. Health Care Benefits, Net of Reinsurance

The Company's health care benefits, net of recoveries, are summarized in the reconciliation of the beginning and ending balances of claims payable, claims incurred but not yet reported, reinsurance recoverable, and health care receivables as follows:

	<u>2017</u>	<u>2016</u>
Net balance at January 1	\$ 320,379	\$ 279,852
Incurred related to:		
Current year	4,154,750	3,952,753
Prior years	(54,826)	(35,311)
Total incurred	<u>4,099,924</u>	3,917,442
Paid related to:		
Current year	3,833,260	3,626,631
Prior years	269,055	250,284
Total paid	<u>4,102,315</u>	3,876,915
Net balance at December 31	<u>\$ 317,988</u>	<u>\$ 320,379</u>

Negative amounts reported for incurred related to prior years result from claims being settled for amounts less than originally estimated. The favorable development in medical claims payables for the years ended December 31, 2017 and 2016, is primarily attributable to actual claim payment patterns and cost trends differing from those assumed at the time the liability was established.

At December 31, 2017 and 2016, health care receivables include \$17,420 and \$18,988, respectively, of amounts that are non-admitted in accordance with SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

5. Health Care Benefits, Net of Reinsurance (continued)

Management believes its methodologies for reserving for unpaid claims are appropriate and represent its best estimate at December 31, 2017 and 2016.

A reconciliation of incurred claims reported above to health care benefits in the Company's statements of operations is as follows:

	<u>2017</u>	<u>2016</u>
Total incurred benefits per above	\$ 4,099,924	\$ 3,917,442
Medical incentive pool and bonus payments incurred	159,414	137,813
Health care benefits	<u>\$ 4,259,338</u>	<u>\$ 4,055,255</u>

A reconciliation of paid claims reported above to health care benefits paid in the Company's statements of cash flow is as follows:

	<u>2017</u>	<u>2016</u>
Total paid benefits per above	\$ 4,102,315	\$ 3,876,915
Medical incentive pool and bonus payments paid	135,908	141,788
Health care benefits paid	<u>\$ 4,238,223</u>	<u>\$ 4,018,703</u>

Estimated subrogation credits of \$6,111 and \$5,729 were taken into account in determining health care benefits reserves as of December 31, 2017 and 2016, respectively.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

6. Pension and Other Post-Retirement Benefit Plans

The pension and other post-retirement benefit plans (“Plans”) are sponsored by BCBSMA and the associated costs are shared by the Companies. BCBSMA allocates amounts to the Company and wholly owned subsidiaries based on salary ratios. All employees who have completed twelve months of employment are eligible to participate in BCBSMA’s Retirement Income Trust Plan (“RIT”), which grants benefits to retired employees at various levels based on age and years of service. BCBSMA also participates in two noncontributory retirement plans for eligible employees. BCBSMA uses a December 31 measurement date for all of its plans. The Company is an active participating employer of the Plans.

In January 2016, BCBSMA adopted a spot rate approach to determine service cost and interest cost and BCBSMA updated the actuarial basis for discount rate determination to be the Mercer Select 100 Yield Curve.

The Company’s share of the net expenses for the years ended December 31, 2017 and 2016, are as follows:

	Pension Benefits		Post-Retirement Benefits		Postemployment and Compensated Absences	
	2017	2016	2017	2016	2017	2016
Service cost	\$ 6,004	\$ 6,134	\$ 1,106	\$ 39	\$ 17,769	\$ 15,121
Interest cost	9,180	10,192	1,766	66	–	–
Expected return on plan assets	(17,382)	(18,418)	(1,899)	(70)	–	–
Amortization of unrecognized transitional obligation	162	148	–	–	–	–
Recognized actuarial loss	7,167	7,222	–	–	–	–
Amortization of prior service cost	(23)	(174)	820	31	–	–
Amount of loss recognized due to settlement	1,027	478	–	–	–	–
Total net periodic benefit cost	\$ 6,135	\$ 5,582	\$ 1,793	\$ 66	\$ 17,769	\$ 15,121

The Companies do not have any regulatory contribution requirements for 2018. However, the Companies currently intend to make voluntary contributions of \$60,000 to its defined benefit pension plan and \$5,308 to its post-retirement benefit plan in 2018.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

6. Pension and Other Post-Retirement Benefit Plans (continued)

The Companies other post-retirement benefit plan includes medical, dental, and life benefits for retired employees. The plan is funded by a 401(h) account. The Companies made a contribution into this account of \$5,634 and \$2,704 in 2017 and 2016, respectively. Total employer contributions to the post-retirement benefit plan were \$8,714 and \$5,328 in 2017 and 2016, respectively.

BCBSMA also has a 401(k) savings plan for eligible employees. Under the employee savings plan, BCBSMA contributes an amount equal to 100% of employee contributions, up to a maximum of 4% of each employee's compensation, subject to Internal Revenue Service limits of \$54 and \$53 for 2017 and 2016, respectively. The Company's allocated costs for the 401(k) plan were \$6,603 and \$6,359 in 2017 and 2016, respectively. In 2017, the Company continued to make an additional core contribution of 2% of base pay for all associates subject to the Internal Revenue Code limit.

7. Income Taxes

The Company is reporting as an organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(4), and is exempt from Massachusetts state income taxes. The Company is subject to tax on any income unrelated to its operations as a tax-exempt health maintenance organization. The amount of unrelated business income tax for the Company for 2017 and 2016 was immaterial.

The Company would be required to adopt Accounting Standards Codification No. 740-10, *Income Taxes* ("ASC 740"), *Accounting for Uncertainty in Income Taxes*, if it prepared GAAP-basis financial statements for the years ended December 31, 2017 and 2016. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Similar guidance has not been adopted by the NAIC. If the Company were to adopt ASC 740 for statutory reporting purposes, it would have no impact on the financial statements.

The Company files income tax returns in the US federal jurisdiction. The Company's open tax years are 2014 through 2017. The Company would recognize any interest and penalties resulting from ASC 740 in general and administrative expenses.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

7. Income Taxes (continued)

The Tax Cuts and Jobs Act (“TCJA”) was enacted on December 22, 2017. For tax-exempt entities, the TCJA requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, and report income or loss from unrelated business activities on an activity-by-activity basis and other provisions. Regulations and other guidance necessary to implement the law are expected to be released in future years. The ultimate outcome of these regulations and other guidance, as well as the impact to the Company, cannot be presently determined. Impacts and their calculations will be made and refined as additional guidance is released.

8. State Transferable Tax Credits

The General Laws of the Commonwealth of Massachusetts (the “Commonwealth”) provide film tax credits that apply to Massachusetts income and excise taxes relating to expenditures incurred while making motion pictures in the Commonwealth. These film tax credits are transferable and are, therefore, available through purchase to any taxpayer in the Commonwealth.

The Company estimates the utilization of any remaining unused state tax credits by projecting the annual premium tax liability taking into account policy growth and rate changes, projecting future premium tax liability based on projected premium, tax rates and tax credits, and comparing projected future tax liability to the availability of remaining tax credits.

All of the Company’s state tax credits are classified under Massachusetts law as transferable tax credits. All of the tax credits during 2017 were utilized against Massachusetts tax liabilities and are, therefore, admitted.

As of December 31, 2017 and 2016, the carrying value of the Massachusetts tax credits applied to related tax liabilities was \$19,880 and \$15,104, respectively. As of December 31, 2017 the Company had unapplied Massachusetts tax credits of \$3,933. As of December 31, 2016 the Company did not have any unapplied Massachusetts tax credits.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

9. Surplus

The NAIC has imposed regulatory risk-based capital (“RBC”) requirements on health insurance companies, including the Company. The RBC calculation serves as a benchmark for the regulation of health insurance companies’ solvency by state insurance regulators. At December 31, 2017 and 2016, the Company’s total adjusted capital is in excess of the regulatory RBC requirements.

M.G.L. Chapter 141, which applies requirements of unfair insurance competition under Chapter 176D to HMOs and HMOs operated as a line of business, requires an HMO to have adjusted net worth of \$1,500 when initially licensed. Thereafter, an HMO must maintain a minimum adjusted net worth in an amount determined by the DOI based initially on a sliding scale over a seven-year phase-in period effective December 31, 2004. HMOs must maintain a minimum deposit of at least \$1,000 with a trustee acceptable to the DOI. The Company exceeded all regulatory Chapter 141 requirements at December 31, 2017 and 2016.

As a condition of granting an HMO license to HMO Blue, the DOI required the Companies to enter into an agreement with the DOI granting the DOI discretionary authority to require either company to issue a surplus note to the other company if either of the company’s health RBC is significantly higher than the other company’s RBC.

In 2016, the Company invested in a surplus note in the amount of \$100,000 from BCBSMA in exchange for cash. The term of the note was 5 years at an interest rate of 2.5% and had to pay principal and interest semiannually commencing on July 1, 2017 and thereafter on January 1 and July 1 in each year. In 2017, BCBSMA paid HMO Blue the entire \$100,000 of outstanding principal and \$2,447 in interest on this note.

In December 2017, the Company invested in a surplus note in the amount of \$285,000 that was issued by BCBSMA in exchange for cash. The term of the note is 10 years at an interest rate of 2.95% and pays interest annually, commencing on September 30, 2018. As of December 31, 2017 there were no unapproved interest or principal payments. During 2017, no interest or principal was paid.

Each payment of interest and principal of the surplus notes may be made after obtaining prior written approval of the Massachusetts Commissioner of Insurance. Subject to payment restrictions, the note may be prepaid in whole at any time, or in part from time to time, without penalty and with interest due on the date of payment.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

9. Surplus (continued)

The indebtedness is subordinated to all other obligations of the Company, including but not limited to, claims of members, members' beneficiaries, providers and all other claims, including claims for indebtedness issued, incurred or guaranteed by the Company. This surplus note is not registered under the Securities Act of 1933 or distributed pursuant to Rule 144A under the Securities Act of 1933.

10. Permitted Statutory Accounting Practices

State insurance laws and regulations prescribe accounting practices for determining statutory net income and surplus for insurance companies. In addition, state regulators may permit statutory accounting practices that differ from prescribed practices. The Company had no permitted practices that would have an effect on statutory surplus at December 31, 2017 and 2016.

11. Related-Party Transactions

BCBSMA and HMO Blue (the Companies) have an inter-company Loan Agreement which allows borrowings between the companies not to exceed the lesser of 3% of HMO Blue's admitted assets on a statutory basis or 25% of HMO Blue's net worth on a statutory basis calculated as of the previous year-end or if loans exceed the maximum amount per the calculation, by obtaining permission from the Massachusetts Insurance Commissioner of the Company's intent to exceed the limits. These loans bear interest based on the overnight LIBOR rate plus a spread or a fixed rate as agreed to by the Companies.

In December, 2016, HMO Blue borrowed \$100,000 from BCBSMA at a fixed rate of 2.50% after receiving confirmation from the Massachusetts Division of Insurance of no matters which would preclude the Companies from entering into this transaction. Transaction details for this loan are as follows:

	<u>2017</u>	<u>2016</u>
Interest accrued	\$ 1,127	\$ 156
Interest paid	1,283	—
Principal paid	70,000	30,000

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

11. Related-Party Transactions (continued)

As of December 31, 2017 and 2016, the Company had payables to BCBSMA for the amount of \$18,908 and \$27,748, respectively.

HMO Blue has one inactive wholly-owned subsidiary, Blue Care Partnership, LLC (“Blue Care Partnership”), and two affiliated companies, BlueCross BlueShield Venture Partners, L.P. (“BCBS Venture”) and BlueCross BlueShield Venture Partners II, L.P. (“BCBS Venture II”).

In 2008, BCBSMA and HMO Blue each committed to invest \$10,000 in BlueCross BlueShield Ventures, Inc. (the “General Partner”) and BlueCross BlueShield Venture Partners, L.P. (the “Partnership”), in the form of 20 Class A shares of the General Partner and 17.1% limited interest in the Partnership. BCBS Venture is a strategic corporate venture fund formed by eleven Blue Cross and Blue Shield plans to invest in emerging companies that will bring greater innovation, efficiency, consumer-focus and transparency to healthcare. As of December 31, 2017, HMO Blue has contributed \$9,439 to the Partnership and \$100 to the General Partner. As of December 31, 2017 and 2016, the admitted book values of the company’s investment in BCBS Venture were \$7,129 and \$6,237, respectively.

In 2011, the Companies each committed to invest \$10,000 in BlueCross BlueShield Ventures II, Inc. (the “General Partner II”) and BlueCross BlueShield Venture Partners II, L.P. (the “Partnership II”), in the form of 200 Class A shares of the General Partner II and 10.5% limited interest in the Partnership II. BCBS Venture II is a strategic corporate venture fund formed by twenty Blue Cross and Blue Shield plans to primarily make equity investments in emerging companies of strategic interest to Blue Plans while pursuing positive financial returns. As of December 31, 2017, HMO Blue has contributed \$7,438 to the Partnership II and \$100 to the General Partner II. As of December 31, 2017 and 2016, the admitted book values of the company’s investment in BCBS Venture II were \$7,293 and \$6,302, respectively.

There were no non-admitted assets related to the Company’s investments in Subsidiary, Controlled, and Affiliated Entities as of December 31, 2017 and 2016.

HMO Blue and BCBSMA operate under common Board of Directors management and control. The Company participates in a bilateral inter-company agreement with BCBSMA to settle any claims, fees, administrative cost expense allocation, and pass-through cash and expenses paid by one company on behalf of the other company.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

11. Related-Party Transactions (continued)

Under the terms of its license with Blue Cross and Blue Shield Association, BCBSMA has also entered into a unilateral agreement with HMO Blue to guarantee all current and future financial obligations of HMO Blue.

The Companies have an undivided interest in what had been BCBSMA's property and equipment. The initial basis of the property and equipment were systematically allocated to each company. Ongoing depreciation expenses are charged to each company based on utilization.

Existing employees of the Companies (the "Associates") are either concurrently employed by both BCBSMA and HMO Blue or solely employed by BCBSMA. Those individuals solely employed by BCBSMA include senior level management ("SLM") and non SLM individuals who provide routine services that benefit specific products, programs, and subsidiaries of BCBSMA. The compensation, benefits and administrative expenses of the concurrently employed Associates are charged to BCBSMA and HMO Blue in accordance with their provision of services to each company.

With respect to individuals solely employed by BCBSMA, the pro-rata portion of compensation, benefits and administrative expenses attributable to services provided to HMO Blue is charged to HMO Blue on an arm's length basis, including a mark-up. A common paymaster arrangement has been established for payroll and payroll related benefits. An agency arrangement has been established for payment of claims and operating expenses and receipt of funds. The Companies' pension and post-retirement benefits plans ("Benefit Plans") are sponsored by BCBSMA and BCBSMA is liable for the Benefit Plans. BCBSMA charges HMO Blue, as a participating employer of the Benefit Plans, a fee based on HMO Blue's allocated share of the Benefit Plans' expenses.

12. Retrospectively Rated Contracts and Contracts Subject to Redetermination

The Company receives premium payments from the Centers for Medicare & Medicaid Services ("CMS") on a monthly basis to provide comprehensive healthcare benefits for the Company's insured Medicare members. Premiums are fixed during the contract period, however, are subject to retroactive risk adjustments based on submitted diagnosis data accepted by CMS throughout the year. The Company estimates retroactive risk adjustment revenue based on accepted data and its adjusted risk scores. This revenue is recognized when the amounts become determinable and collectability is reasonably assured.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

12. Retrospectively Rated Contracts and Contracts Subject to Redetermination (continued)

The total amount of net premiums written by the Company that are subject to retrospective rating features was \$486,156 and \$457,975 for the years ended December 31, 2017 and 2016, respectively, which represents approximately 10%, respectively, of Company's written premiums for both 2017 and 2016. No other premiums written by the Company are subject to retrospective rating features.

13. Risk-Sharing Provisions of the ACA

As discussed in Note 2, the Company wrote accident and health insurance premium that is subject to the ACA risk-sharing provisions. The ACA risk-sharing provisions had an impact on admitted assets, liabilities, and revenue for the current and prior year, and were as follows:

	December 31, 2017		2017		Ref ⁽¹⁾
	Receivable	(Payable)	Income	(Expense)	
a. Permanent ACA risk adjustment program					
Premium adjustments	\$ 14,550	\$ -	\$ -	\$ (11,044)	(a)
Risk adjustment user fees	-	(245)	-	(486)	(f)
Subtotal ACA permanent risk adjustment program	14,550	(245)	-	(11,530)	
b. Transitional ACA reinsurance program					
Claims paid	1,715	-	5,002	-	(b)
Claims unpaid	-	-	-	-	(g)
Related to uninsured plans	-	-	-	-	(g)
Contributions – not reported as ceded premium	-	-	-	-	(c) (d)
Ceded reinsurance premiums	-	-	-	-	(e)
Subtotal ACA transitional reinsurance program	1,715	-	5,002	-	
c. Temporary ACA risk corridor program					
Accrued retrospective premium	-	-	-	-	(h)
Reserve for rate credits or policy experience rating refunds	-	-	-	-	(h)
Subtotal ACA risk corridors program	-	-	-	-	
d. Total for ACA risk sharing provisions	\$ 16,265	\$ (245)	\$ 5,002	\$ (11,530)	

Ref ⁽¹⁾:

- (a) This receivable has been admitted.
- (b) This recoverable has been admitted.
- (c) There were no reinsurance contributions (not reported as ceded premium) as of December 31, 2017.
- (d) This expense was recorded within administrative expenses.
- (e) There were no ceded reinsurance premiums paid in 2017.
- (f) At December 31, 2017, risk adjustment user fee payable adjustments were \$(245) and \$(241) related to benefit years 2016 and 2015, respectively, and were based on most recent CMS notice received in 2017.
- (g) No balances or premium was excluded from the ACA Reinsurance Program.
- (h) No balances or premium was excluded from the ACA Risk Corridor Program.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

13. Risk-Sharing Provisions of the ACA (continued)

	December 31, 2016		2016		Ref ⁽¹⁾
	Receivable	(Payable)	Income	(Expense)	
a. Permanent ACA risk adjustment program					
Premium adjustments	\$ 99,599	\$ –	\$ 73,646	\$ –	(a)
Risk adjustment user fees	–	–	–	–	(f)
Subtotal ACA permanent risk adjustment program	99,599	–	73,646	–	
b. Transitional ACA reinsurance program					
Claims paid	13,611	–	19,760	–	(b)
Claims unpaid	1,430	–	(2,134)	–	(g)
Related to uninsured plans	–	–	–	–	(g)
Contributions – not reported as ceded premium	–	–	–	(17,962)	(c) (d)
Ceded reinsurance premiums	–	–	–	(1,219)	(e)
Subtotal ACA transitional reinsurance program	15,041	–	17,626	(19,181)	
c. Temporary ACA risk corridor program					
Accrued retrospective premium	–	–	–	–	(h)
Reserve for rate credits or policy experience rating refunds	–	–	–	–	(h)
Subtotal ACA risk corridors program	–	–	–	–	
d. Total for ACA risk sharing provisions	\$ 114,640	\$ –	\$ 91,272	\$ (19,181)	

Ref ⁽¹⁾:

- (a) This receivable has been admitted.
- (b) This recoverable has been admitted.
- (c) Reinsurance contributions (not reported as ceded premium) were paid in December 2016, for \$17,962.
- (d) This expense was recorded within administrative expenses.
- (e) Ceded reinsurance premiums were paid in December 2016, for \$1,219.
- (f) No balances or premium was excluded from the ACA Risk Adjustment Program.
- (g) No balances or premium was excluded from the Transitional ACA Reinsurance Program.
- (h) No balances or premium was excluded from the Temporary ACA Risk Corridor Program.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

13. Risk-Sharing Provisions of the ACA (continued)

	Roll-Forward of Prior Year ACA Risk Sharing Balances									
	Accrued		Received/Paid		Differences		Adjustments		Unsettled	
	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)	Rec	(Pay)	Ref ⁽³⁾	Rec (Pay)
a. Permanent ACA risk adjustment										
Premium adjustments receivable	\$ 99,599	\$ -	\$ 74,003	\$ -	\$ 25,594	\$ -	\$ (25,594)	\$ -	(a)	\$ - \$ -
Premium adjustments (payable)	-	-	-	-	-	-	-	-	(b)	- -
Subtotal ACA permanent risk adjustment program	99,599	-	74,003	-	25,594	-	(25,594)	-		- -
b. Transitional ACA reinsurance										
Claims paid	13,611	-	18,327	-	(4,717)	-	6,432	-	(c)	1,715 -
Claims unpaid	1,430	-	-	-	1,430	-	(1,430)	-	(d)	- -
Related to uninsured plans	-	-	-	-	-	-	-	-	(e)	- -
Contributions – not reported as ceded premium	-	-	-	-	-	-	-	-	(f)	- -
Ceded reinsurance premiums	-	-	-	-	-	-	-	-	(g)	- -
Subtotal ACA transitional reinsurance program	15,401	-	18,327	-	(3,287)	-	5,002	-		1,715 -
c. Temporary ACA risk corridor										
Accrued retrospective premium	-	-	-	-	-	-	-	-		- -
Reserve for rate credits or policy experience rating refunds	-	-	-	-	-	-	-	-		- -
Subtotal ACA risk corridors program	-	-	-	-	-	-	-	-		- -
d. Total for ACA risk sharing provisions	\$ 114,640	\$ -	\$ 92,330	\$ -	\$ 22,307	\$ -	\$ (20,592)	\$ -		\$ 1,715 \$ -

Ref⁽³⁾:

- (a) Adjustments to the prior benefit year ACA Risk Adjustment received in 2017 were \$(25,594) million (gross of non-admitted) and were based on the reconsideration settlement notice from the Commonwealth of Massachusetts Health Insurance Connector Authority.
- (b) Adjustments to the prior benefit year ACA Risk Adjustment payable in 2017 was \$0.
- (c) The adjustment for amounts recoverable for claims paid under the Transitional ACA Reinsurance Program reflects the differences between previously estimated amounts and the final settlement notice received.
- (d) The adjustment for amounts recoverable for claims unpaid under the Transitional ACA Reinsurance Program reflects the differences between previously estimated amounts and the final settlement notice received.

As of December 31, 2017 and 2016, the Company did not report any risk-sharing provisions related to the temporary ACA Risk Corridor Program. Therefore, no risk-corridor related asset or liability balances were either accrued, impaired or non-admitted.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

14. Health Care Receivables

Amounts receivable for pharmaceutical rebates are estimated based on a per script calculation. Rebate amounts are typically paid on a quarterly basis 150 days after the end of each quarter. The Company's pharmacy rebate receivable balances are as follows:

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days	Actual Rebates Received Within 91 to 180 days	Actual Rebates/ (Refunds) Received Within More Than 180 Days
12/31/2017	\$ 3,657	\$ 3,628	\$ —	\$ —	\$ —
9/30/2017	3,715	3,579	—	—	—
6/30/2017	2,900	2,902	—	3,514	—
3/31/2017	2,408	2,384	—	3,325	24
12/31/2016	2,384	2,487	—	2,790	50
9/30/2016	2,433	2,305	—	2,792	4
6/30/2016	2,598	2,616	—	2,739	29
3/31/2016	2,383	1,150	—	2,757	203
12/31/2015	1,507	1,507	—	2,049	148
9/30/2015	1,451	1,496	—	1,685	352
6/30/2015	1,336	1,364	—	1,364	252
3/31/2015	1,313	1,385	—	1,349	278

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

14. Health Care Receivables (continued)

The Company's risk sharing receivable balances are as follows:

Year	Evaluation Period Year Ending	Risk Sharing Receivable as Estimated in the Prior Year	Risk Sharing Receivable as Estimated in the Current Year	Risk Sharing Receivable Billed	Risk Sharing Receivable Not Yet Billed	Actual Risk Sharing Amounts Received in Year Billed	Actual Risk Sharing Amounts Received in First Year After	Actual Risk Sharing Amounts Received in Second Year After	Actual Risk Sharing Amounts Received – All Other
2017	2017 2018	\$ 8,621 N/A	\$ 12,779 33,695	\$ 9,878 93	\$ 2,901 33,602	\$ 9,878 93	\$ – N/A	\$ – N/A	\$ – N/A
2016	2016 2017	17,351 N/A	56,332 8,621	47,395 N/A	8,936 N/A	19,952 N/A	18,507 N/A	– N/A	– N/A
2015	2015 2016	19,872 N/A	19,621 17,351	19,621 N/A	– N/A	13,170 N/A	6,451 N/A	– N/A	– N/A

15. Leases

The Companies jointly have a long-term operating lease agreement for 308,210 square feet for its corporate headquarters on Huntington Avenue in Boston, Massachusetts. Occupancy and rental expense commenced April 2015 and will continue for 15 years 2 months, with options to extend for up to 10 years thereafter. Additionally, the Companies jointly occupy space through three smaller, long-term, non-cancelable, operating lease agreements for office and data center facilities, which extend through various dates through 2024.

During 2016 the Companies entered into an agreement to sublease 34,417 square feet of space at its Huntington Avenue location. Payments to the Companies began in June 2017 at an annual amount of \$1,566 and will continue through May 2020.

For 2017 and 2016, the Company recorded rental expenses of \$5,891 and \$6,712, respectively, of which, \$5,785 and \$6,594 were related to office space rental expenses, respectively.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

15. Leases (continued)

At December 31, 2017, allocated minimum rental commitments on significant non-cancelable operating leases for the Company are as follows:

2018	\$	5,850
2019		5,742
2020		5,739
2021		5,782
2022		5,796
Thereafter		40,063

In addition, the Companies have agreements with outside vendors to provide certain information technology services for a significant portion of the Companies' business operations. The Companies minimum commitments under these agreements vary annually, with amounts ranging from \$7,079 to \$13,916 per year from 2018 through 2021.

16. Debt

The Company does not have any outstanding capital note obligations in its financial statements as of December 31, 2017.

The Companies jointly entered into three revolving credit agreements. Borrowings under these unsecured lines of credit bear interest on a fixed or floating interest rate basis. The first facility for \$200,000 matured in June 2017 and was renewed until June 2018. The second facility for \$50,000 matured in June 2017 and was renewed until June 2018. The third facility for \$50,000 matured in October 2017 and was renewed until October 2018.

At December 31, 2017 and 2016, the Company had \$150,000 and \$35,000 of outstanding principal and \$83 and \$32 of accrued interest and fees under these facilities, respectively. During 2017 and 2016, the Company paid interest of \$47 and \$84 and fees of \$244 and \$184, respectively on these facilities. As a covenant of the first facility, the borrowers are required to certify compliance on an annual basis of a minimum Risk-Based Capital level of 300% of Company Action Level and are required to certify compliance on a quarterly basis that the Cash Reserve Ratio is not less than 1.25 to 1.0. As a covenant of the second and third facilities, the borrowers are required to maintain at all times a combined liquidity of not less than \$1,250,000. As of December 31, 2017, there were no violations of the debt terms and covenants reported.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

16. Debt (continued)

In October 2014, the Companies jointly entered into a \$150,000 5-year unsecured term loan which amortizes monthly and has a fixed interest rate of 2.35%. The Companies are required to certify compliance on an annual basis of a minimum Risk-Based Capital level of 300% of Company Action Level and a Cash Reserve Ratio is not less than 1.25 to 1.00. The Companies each received proceeds from the term loan of \$75,000. In 2017, HMO Blue paid principal of \$15,000 and interest of \$847. At December 31, 2017, HMO Blue has a carrying value outstanding of \$27,500 and accrued interest of \$4. As of December 31, 2017, there were no violations of the debt terms and covenants reported.

In March 2017, the Companies jointly entered into a \$100,000 5-year unsecured term loan which amortizes monthly and has a fixed interest rate of 2.79%. The Companies are required to certify compliance on an annual basis of a minimum Risk-Based Capital level of 350% of Company Action Level and a Cash Reserve Ratio is not less than 1.25 to 1.00. The Companies each received proceeds from the term loan of \$50,000. In 2017, HMO Blue paid principal of \$7,500 and interest of \$991. At December 31, 2017, HMO Blue has a carrying value of \$42,500 outstanding and accrued interest of \$7. As of December 31, 2017, there were no violations of the debt terms and covenants reported.

17. FHLB Agreements

The Company is a member of the FHLB of Boston. Through its membership, the Company has conducted business activity (borrowings) with the FHLB. It is part of the Company's strategy to utilize these funds as back-up liquidity and to ensure sufficient capital and credit to meet operational needs and provide financial flexibility to respond to strategic opportunities in the marketplace.

The Company has determined the actual maximum borrowing capacity as \$100,000. The Company based this amount on anticipated borrowing needs of the Company.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

17. FHLB Agreements (continued)

As a requirement of the FHLB membership, the Company has \$1,875 and \$1,599 of FHLB Class B Membership Stock at December 31, 2017 and 2016, respectively. The Class B Membership Stock is not eligible for redemption. In addition, the Company is required to purchase FHLB Activity Stock up to 4.5% of the value of principal borrowed. At December 31, 2017 and 2016, the Company recorded \$4,500 of FHLB Activity Stock.

At December 31, 2017, the Company had outstanding borrowings of \$50,000 for a 5-year term at a rate of 1.60% which matures in 2020 and a second outstanding borrowing of \$50,000 for a 5-year term at a rate of 2.05% which matures in 2020. During 2017 and 2016, the Company paid \$1,850 and \$1,698, respectively of interest expense. At December 31, 2017 and 2016, the Company had an outstanding principal balance of \$100,000 and accrued interest of \$157.

The Company is required to pledge collateral for all outstanding borrowings with the FHLB which consists of U.S. Government backed securities which are valued at 96% for maturities under 3 years and 94% for maturities over 3 years and FNMA & FHLMC mortgage-backed securities which are valued at 92% of current market value.

The total collateral pledged against these borrowings had a fair value as of December 31, 2017 and 2016, of \$111,418 and \$110,291, respectively, and a carrying value of \$112,150 and \$110,779, respectively. The maximum amounts pledged during the 2017 and 2016 reporting periods had a fair value of \$112,542 and \$113,775 and a carrying value of \$112,802 and \$112,949, respectively. The Company has no prepayment obligations with the FHLB.

18. Commitments and Contingencies

The Company is involved in pending and threatened litigation of the character incidental to its business or arising out of its insurance operations, and is, from time to time, involved as a party in various governmental and administrative proceedings. Management continues to monitor these matters, and believes the Company has accrued adequate reserves against potential liabilities.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

18. Commitments and Contingencies (continued)

As of December 31, 2017, the Company's remaining commitments, pursuant to the terms of the investment agreements, are as follows:

Blue Cross Blue Shield Venture Partners, L.P.	\$	461
Blue Cross Blue Shield Venture Partners II, L.P.		2,462
Blue Cross Blue Shield Venture Partners III, LLC.		2,037
Hancock Capital Partners V, L.P.		2,748
Comvest Capital III, L.P.		5,420
Park Square Capital Credit Opp II Feeder, L.P.		5,248
Comvest Capital IV, L.P.		14,047
Park Square Capital Credit Opp III Feeder, L.P.		22,500
Total Commitments	\$	<u>54,923</u>

The Company and all other Blue Plans have been named as defendants in antitrust class-action complaints that have been brought against the Blue Plans and the Blue Cross and Blue Shield Association ("BCBSA"); these cases have been consolidated in a multidistrict litigation pending in Federal Court in Alabama. The plaintiffs, who include both providers and Plan subscribers, assert that they have been damaged as a result of alleged anticompetitive conduct. Their claims focus on, among other things, BCBSA's "exclusive service area" requirement, "best efforts" rules (limiting revenue from non-Blue business), alleged restrictions on Plans' ability to transfer ownership interests, and rules governing the BlueCard program. The Company is vigorously defending against these claims, as are BCBSA and our fellow Plans. The discovery phase of the litigation commenced in 2012. In January 2018, the court suspended certain procedural and pretrial deadlines; no dates have been set for any pretrial conferences or trials.

Given the status of the litigation, an ultimate outcome cannot be presently determined or predicted by the Company. As of December 31, 2017, the date of the financial statements, the chance of future events confirming the fact of the loss or incurrence of a liability is reasonably possible and an estimate of the possible loss or range of loss cannot be made. Therefore, the Company has not accrued a contingent loss related to the litigation. The Company continues to vigorously defend these class actions.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued) (Dollars in Thousands)

19. State Assessments

In 2017, BCBSMA and HMO were obligated to pay three major state assessments. The first is with the Commonwealth of Massachusetts' "*Center for Health Information and Analysis*" ("CHIA"). This is an administrative-type surcharge to cover state operating expenses. HMO Blue's assessment to cover CHIA FY2018 operations was \$1,851, payable in the two payments. During 2017, the HMO Blue paid CHIA \$830. The remaining \$1,021 is payable in the first quarter of 2018.

The second is the Commonwealth of Massachusetts Health Policy Commission's assessment pursuant to Section 958 Chapter 9.04, "*Assessment on Certain Health Care Provider and Surcharge Payors*". This amount is based on the assessment percentage of the Company and the annual legislatively approved budget of the Health Policy Commission for FY2018. During 2017, HMO Blue paid \$483 for this assessment.

The third is the Commonwealth of Massachusetts' DOI "*Health Care Assess Bureau*" ("HCAB") assessment to pay for HCAB expenses. This assessment is based on the Company's portion of health premiums as reported to the HCAB. During 2017, HMO Blue paid \$432 to the HCAB.

20. ACA Insurer Fee

The Company is subject to an annual health insurance industry fee under section 9010 of the federal ACA. The ACA fee is allocated to individual health insurers based on the ratio of the entity's net premiums written to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due.

The Consolidated Appropriations Act of 2016, Title II, § 201, Moratorium on Annual Fee on Health Insurance Providers ("HIPF"), has suspended collection of the HIPF or ACA fee for the 2017 calendar year. Therefore, no payment based on the 2016 data year was due in the fee year of 2017.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Notes to Statutory-Basis Financial Statements (continued)
(Dollars in Thousands)

20. ACA Insurer Fee (continued)

As of December 31, 2017, the Company has written health insurance that is subject to the ACA and expects to conduct health insurance business in 2018. The Company's estimated portion of the annual fee is \$48,717 and is payable on September 30, 2018. This amount is reflected in special surplus and would have had a 23% impact on the Company's risk based capital ("RBC"). As of December 31, 2017 this impact would not have triggered an RBC action level.

	<u>2017</u>	<u>2016</u>
ACA fee assessment payable for the upcoming year	\$ 48,717	\$ –
ACA fee assessment paid	–	38,497
Premium written subject to ACA 9010 assessment	4,808,793	4,334,570
Total adjusted capital before surplus adjustment	1,383,664	1,207,684
Total adjusted capital after surplus adjustment	1,334,947	1,207,684
Authorized control level after surplus adjustment	213,071	184,959

21. Subsequent Events

The Company's management evaluated subsequent events through April 27, 2018, the date the financial statements were available to be issued.

Supplementary Information

Report of Independent Auditors on Supplementary Information

The Board of Directors
Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

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

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

Ernst & Young LLP

April 27, 2018

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis
(Dollars in Thousands)

December 31, 2017

- Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.’s total admitted assets as reported on page two of its Annual Statement are \$2,411,705.
- Following are the ten largest exposures to a single issuer/borrower/investment, excluding:
 - U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt,
 - property occupied by Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. and
 - policy loans:

Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
BCBSMA Surplus Note	Other invested asset	\$ 285,000	11.82%
PIMCO All Asset Institutional Fund	Common stock	107,631	4.46
Primus High Yield Bond Fund	Other invested asset	79,558	3.30
Lazard Asset Management Fund	Other invested asset	73,722	3.06
Newton Global Equity Income Fund	Other invested asset	60,060	2.49
Putnam Total Return Fund	Other invested asset	58,855	2.44
RREEFF II Core REIT	Common Stock	56,086	2.33
BlueRock Market Neutral Fund LP	Other invested asset	55,731	2.31
Parametric Defensive Equity Fund	Other invested asset	52,745	2.19
Gryphon INTL GR EAFE Equity Fund	Other Invested asset	42,183	1.75

- Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.’s total admitted assets held in bonds, short-term investments and preferred stock, by NAIC rating, are:

Bonds and Short-Term Investments			Preferred Stock		
NAIC Rating	Amount	Percentage of Total Admitted Assets	NAIC Rating	Amount	Percentage of Total Admitted Assets
NAIC-1	\$ 909,045	37.70%	P/RP-1	\$ –	–%
NAIC-2	69,233	2.87	P/RP-2	–	–
NAIC-3	3,147	0.13	P/RP-3	–	–
NAIC-4	–	–	P/RP-4	–	–
NAIC-5	–	–	P/RP-5	–	–
NAIC-6	–	–	P/RP-6	–	–
	<u>\$ 981,425</u>			<u>\$ –</u>	

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis (continued)
(Dollars in Thousands)

4. Assets held in foreign investments:

	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Total admitted assets held in foreign investments	\$ 155,160	6.43%

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

<u>NAIC Sovereign Rating</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Countries rated NAIC-1	\$ 149,017	6.18%
Countries rated NAIC-2	6,142	0.26
Countries rated NAIC 3 or below	–	–

6. Largest foreign investment exposure by country, categorized by the country's NAIC sovereign rating:

<u>NAIC Sovereign Rating</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
Countries rated NAIC-1:		
United Kingdom	\$ 63,468	2.63%
Cayman Islands	29,552	1.23
Countries rated NAIC-2:		
United Kingdom	2,114	0.09
France	1,204	0.05
Countries rated NAIC-3:		

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis (continued)
(Dollars in Thousands)

7. The Company has no unhedged foreign currency exposure.
8. The Company has no aggregate unhedged foreign currency exposure.
9. The Company has no unhedged foreign currency exposures to a single country.
10. Ten largest non-sovereign (i.e., non-government) foreign issues:

Issuer	NAIC Rating	Amount	Percentage of Total Admitted Assets
Newton Global Equity Income Fund	OIA	\$ 60,060	2.49%
Park Square Capital Opportunity II Fund	OIA	19,917	0.83
Comvest Capital III International Fund	OIA	10,782	0.45
GE Capital International FDG	1FE	3,340	0.14
Carlyle Global Market Strategies	1FE	3,245	0.14
CIF funding LTD 2A A1L 144a	1FE	2,750	0.11
Sparebank 1 Boligkreditt 144A	1FE	2,662	0.11
Stadshypotek AB 144A	1FE	2,285	0.10
Sumitomo Mitsui Financial Group Inc.	1FE	2,183	0.09
Kingsland LTD 14-7A 144A	1FE	2,131	0.09

11. The Company has no assets held in Canadian investments greater than 2.5% of the Company's total admitted assets.
12. The Company has no assets held in investments with contractual sales restrictions.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis (continued)
(Dollars in Thousands)

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

Name of Issuer	Amount	Percentage of Total Admitted Assets
BCBSMA Surplus Note	\$ 285,000	11.82%
PIMCO All Asset Institutional Fund	107,631	4.46
Primus High Yield Bond Fund	79,558	3.30
Lazard Asset Management Fund	73,722	3.06
Newton Global Equity Income Fund	60,060	2.49
Putnam Total Return Fund	58,855	2.44
RREEFF III Core REIT	56,086	2.33
BlueRock Market Neutral Fund LP	55,731	2.31
Parametric Defensive Equity Fund	52,745	2.19
Gryphon INTL GR EAFE Equity Fund	42,183	1.75

14. The Company has no assets held in nonaffiliated, privately placed equities greater than 2.5% of the Company's total admitted assets.
15. The Company has no assets held in general partnership interests greater than 2.5% of the Company's total admitted assets.
16. The Company has no mortgage loans greater than 2.5% of the Company's total admitted assets.
17. The Company has no aggregate mortgage loans that are greater than 2.5% of the Company's total admitted assets.
18. The Company has no assets held in real estate reported greater than 2.5% of the Company's total admitted assets, excluding home office properties.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Investment Risk Interrogatories – Statutory-Basis (continued)

(Dollars in Thousands)

19. The Company has no assets held in investments held in mezzanine real estate loans greater than 2.5% of the Company's total admitted assets.
20. The Company has no securities lending or repurchase agreements during 2017.
21. The Company has no warrants not attached to other financial instruments, options, caps, and floors during 2017.
22. The Company has no potential exposure for collars, swaps, and forwards during 2017.
23. The Company had no potential exposure for future contracts during 2017.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Summary of Investment Schedule – Statutory-Basis
(Dollars in Thousands)

December 31, 2017

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in Annual Statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. treasury securities	\$ 275,622	12.09%	\$ 275,622	12.09%
U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
Issued by U.S. government agencies	31,250	1.37	31,250	1.37
Issued by U.S. government-sponsored agencies	18,621	0.82	18,621	0.82
Non-US government (including Canada, excluding mortgage backed securities)	4,154	0.18	4,154	0.18
Securities issued by states, territories, and possessions and their political subdivisions in the U.S.:				
State, territory and possessions – general obligations	790	0.04	790	0.04
Political subdivisions of states, territories, and possessions – general obligations	955	0.04	955	0.04
Revenue and assessment obligations	3,372	0.15	3,372	0.15
Industrial development and similar obligations	–	–	–	–
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	29,413	1.29	29,413	1.29
Issued or guaranteed by FNMA and FHLMC	190,338	8.35	190,338	8.35
All other	–	–	–	–
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC ,or VA	58,524	2.57	58,524	2.57
Issued by non-U.S. Government issuers and collateralized by MBS issued or guaranteed by GNMA, FMNA, FHLMC, or VA	209	0.01	209	0.01
All other	23,795	1.04	23,795	1.04
Other debt and other fixed income securities (excluding short term):				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	242,825	10.65	242,825	10.65
Unaffiliated Non- U.S. (including Canada)	68,604	3.01	68,604	3.01
Affiliated securities	–	–	–	–

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Summary of Investment Schedule – Statutory-Basis (continued)
(Dollars in Thousands)

December 31, 2017

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in Annual Statement	
	Amount	Percentage	Amount	Percentage
Equity interests:				
Investments in mutual funds	\$ 181,045	7.94%	\$ 181,045	7.94%
Preferred stock:				
Affiliated	–	–	–	–
Unaffiliated	–	–	–	–
Publicly traded equity securities (excluding preferred stock):				
Affiliated	–	–	–	–
Unaffiliated	–	–	–	–
Other equity securities:				
Affiliated	251	0.01	251	0.01
Unaffiliated	6,375	0.28	6,375	0.28
Other equity interests including tangible personal property under lease:				
Affiliated	–	–	–	–
Unaffiliated	–	–	–	–
Mortgage loans:				
Construction and land development	–	–	–	–
Agricultural	–	–	–	–
Single family residential properties	–	–	–	–
Multifamily residential properties	–	–	–	–
Commercial loans	–	–	–	–
Mezzanine real estate loans	–	–	–	–
Real estate investments:				
Property occupied by company	90,760	3.98	90,760	3.98
Property held for production of income (includes \$0 of property acquired in satisfaction of debt)	–	–	–	–
Property held for sale (includes \$0 of property acquired in satisfaction of debt)	–	–	–	–
Contract loans	–	–	–	–
Receivables for securities	7,888	0.35	7,888	0.35
Securities lending	–	–	–	–
Cash, cash equivalents and short-term investments	92,766	4.07	92,766	4.07
Other invested assets	952,189	41.76	952,189	41.76
Total invested assets	\$ 2,279,745	100.00%	\$ 2,279,745	100.00%

*Gross investment holdings as valued in compliance with NAIC Accounting Practices and Procedures Manual.

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.

Note to Supplemental Investment Disclosures

December 31, 2017

Note—Basis of Presentation

The accompanying supplemental schedules present selected investment disclosures as of December 31, 2017, and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and agree to or are included in the amounts reported in the Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc.'s 2017 Statutory Annual Statement as filed with the Commonwealth of Massachusetts Division of Insurance.

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