Jeremiah W. (Jay) Nixon
Governor
State of Missouri

Department of Insurance
Financial Institutions
and Professional Registration
John M. Huff, Director

December 23, 2013

David R. Gentile, President
Blue Cross and Blue Shield of Kansas City
2301 Main Street
Kansas City, MO 64108

Dear Mr. Gentile:

This letter is to inform you that ten days from the date of this letter, the Missouri Department of Insurance, Financial Institutions and Professional Registration (the "Department") will file a copy of the enclosed Order and Examination Report of Blue Cross and Blue Shield of Kansas City as of December 31, 2012 in this office as a public document. The Department is issuing the Examination Report pursuant to section 374.205, RSMo. The Department will distribute copies of the Examination Report to all states in which your company is licensed and to the National Association of Insurance Commissioners.

Within thirty (30) days of the date of this letter, the company must file affidavits executed by each of the company's directors stating under oath that they have received copies of the Examination Report and the Order. At their next meeting the board of directors should review the Examination Report and indicate their acceptance of the Examination Report in the board meeting minutes.

As provided in the enclosed Order, you are responsible to fully implement or address each item that may be mentioned in the Comments on Financial Statements Items and/or Summary of Recommendations sections of the Examination Report and to account for the company's financial condition and affairs in a manner consistent with the Director's findings and conclusions. If there are Comments on Financial Statement Items and/or Summary of Recommendations sections, verification of compliance must be received by the Department **within ninety (90) days of the date of this letter**. Failure to fully comply may result in further action by the Department and/or additional examination procedures.

Sincerely,
John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

Frederick G. Heese

By: Frederick G. Heese, CPA, CFE
Chief Financial Examiner & Division Director

JH/FH/tsr

Certified Mail
Return Receipt Requested

cc: Mark Nance, Audit Manager
Levi Nwasoria, Examiner-in-Charge

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

Certified Copy

I, John M. Huff, Director of the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, do hereby certify that the annexed pages are a true and correct copy of the original.

REPORT OF FINANCIAL EXAMINATION

FOR

BLUE CROSS AND BLUE SHIELD OF KANSAS CITY

AS OF

DECEMBER 31, 2012

Which said original is now on file in this department.

IN WITNESS WHEREOF, I have hereunto set my hand and caused to be affixed Seal of said Department. Done at my office in the City of Jefferson, this 23rd day of December, 2013

John M. Huff, Director

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Blue Cross and Blue Shield of Kansas City for the period ended December 31, 2012

ORDER

After full consideration and review of the report of the financial examination of Blue Cross and Blue Shield of Kansas City for the period ended December 31, 2012, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Blue Cross and Blue Shield of Kansas City as of December 31, 2012, be and is hereby ADOPTED as filed and for Blue Cross and Blue Shield of Kansas City to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 23rd day of December, 2013.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

FINANCIAL EXAMINATION OF

Blue Cross and Blue Shield of Kansas City

AS OF

DECEMBER 31, 2012

FILED

JAN 0 2 2014

DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Kansas City, MO
November 3, 2013

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Huff:

In accordance with your financial examination warrant, a full scope financial association examination has been made of the records, affairs and financial condition of

Blue Cross and Blue Shield of Kansas City

hereinafter referred to as BCBSKC or as the Company. Its main administrative office is located at 2301 Main Street, Kansas City, MO 64108. The fieldwork for this examination began on December 3, 2012, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has performed a full scope financial examination of Blue Cross and Blue Shield of Kansas City. The last examination of the Company was also performed by the DIFP as of December 31, 2007. This current examination covers the period of January 1, 2008 through December 31, 2012.

This examination was performed concurrently with the examination of the Company's insurance subsidiaries: Good Health HMO, Inc. (Good Health), Blue Advantage Plus of Kansas City, Inc. (BA+) and Missouri Valley Life and Health Insurance Company (Missouri Valley).

The examination also includes the material transactions and/or events occurring subsequent to December 31, 2012.

Procedures

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, inherent risks within the Company, system controls, and procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the

overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination approach. The key activities identified in the examination of BCBSKC were as follows:

- Investments
- Premiums
- Provider Relations
- Claims Handling
- Reserving
- Taxes
- Related Parties
- Underwriting
- Expenses

Reliance Upon Others

The examination relied upon information provided by the Company and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP of Kansas City, Missouri for its audit covering the period from January 1, 2011 through December 31, 2011 and BCBSKC's Internal Audit Department. Information relied upon included fraud risk analysis; process narratives; control testing for investments, premiums, claims, and taxes.

SUMMARY OF SIGNIFICANT FINDINGS

BCBSKC had intercompany transactions and agreements with Topaz Shared Services, LLC (Topaz) that were not filed with the DIFP in accordance with Missouri holding company laws. BCBSKC owns a 50% equity interest in Topaz, accordingly, Topaz and any other entity associated with BCBSKC with similar ownership characteristics are deemed to be a part of BCBSKC's holding company system.

Prior to the acquisition of Financial Associates Midwest, Inc., (FAM), BCBSKC had an existing administrative service agreement for broker oversight function and other related services. Following the acquisition, FAM became a wholly owned subsidiary of BCBSKC and thus, part of BCBSKC holding company system and is therefore, subject to the provisions of Missouri holding company laws with respect to transactions with affiliates and all required holding company filings and disclosures. The administrative service agreement was not filed with the DIFP in accordance with the holding company laws.

SUBSEQUENT EVENTS

On January 9, 2013, the Company established HealthyFit, LLC to provide employee wellness programs for insured employer groups. HealthyFit, LLC is a wholly-owned subsidiary of Cobalt Ventures, LLC, which is wholly-owned by the Company.

CORPORATE HISTORY

General

BCBSKC was incorporated under the laws of the State of Missouri on May 17, 1982, through the merger of Blue Cross of Kansas City with Blue Shield of Kansas City. The Company commenced business on that same date as a consolidated, not-for-profit health services

corporation. The Company also obtained a certificate of authority on May 17, 1982, to be a licensed insurer in the State of Kansas.

On February 10, 1995, the Missouri Department of Insurance granted BCBSKC a certificate of authority to operate as an Health Maintenance Organization (HMO) and on August 10, 1995, the Company was licensed as a Business Entity Producer. On February 23, 1998, the Missouri DIFP granted the Company a third party producer license.

BCBSKC is a parent company that wholly owns Good Health, HMO, Inc., Blue Advantage Plus of Kansas City, Inc., and Missouri Valley Life and Health Insurance Company. BCBSKC also controls several non-insurance subsidiaries.

Capital Contributions

The Company is a not-for-profit entity; therefore, no capital contributions occurred during the examination period.

Dividends

Due to the Company's not-for-profit status, no dividends have been declared or paid since incorporation.

Mergers and Acquisition

There have been several significant acquisitions and other major corporate events during the examination period. In May 2010, BCBSKC established two holding companies in the form of Cobalt Ventures, LLC (Cobalt) and NDBH Holding Company, LLC (NDBH Holdco). BCBSKC subsequently transferred its interests in the following non-insurance subsidiaries: The EPOCH Group (EPOCH), Preferred Health Professionals, LLC (PHP), Premier WorkComp Management, LLC (PWC) and New Directions Behavioral Health, LLC (NDBH) to Cobalt. Cobalt subsequently assigned its interest in NDBH to NDBH Holdco.

Effective December 31, 2011, the Company entered into an Asset Purchase Agreement with Cobalt Talon, LLC (Cobalt Talon), a data analytics company. Cobalt has a 100% membership interest in Cobalt Talon. Per the terms of the agreement, certain assets, including electronic data processing equipment, software and software in progress were transferred to Cobalt Talon in exchange for a $4.2 million Promissory Note. Additionally in 2011, Cobalt acquired a 55% interest in the Astra Group, Inc. a human resources outsourcing provider.

On December 30, 2011, the Company purchased a 100% ownership interest in Financial Associates Midwest, Inc., a brokerage company specializing in group and individual health products, life, dental, disability and retirement annuities. The total purchase price was $6.6 million.

Also at year-end 2011, BCBSKC contributed $5,000,000 to Capri Holding Company, LLC (Capri). BCBSKC is the sole member of Capri, a holding company for the Company's interest in Topaz Shared Services, LLC (Topaz), a joint effort by the Company and Blue Cross and Blue Shield of North Carolina (BCBSNC) to collaborate in the providing of services such as claim

processing, enrollment, and billing for the individual and small group markets. Capri owns 50% of Topaz, with BCBSNC owning the other 50%.

CORPORATE RECORDS

The Company's Articles of Consolidation and Incorporation and its Bylaws were reviewed for the period under examination. The Articles of Consolidation and Incorporation were not amended during the examination period. The Bylaws were amended on May 22, 2012. This amendment eliminated the Marketing Committee as a standing committee of the Board of Directors. Subsequently the Bylaws were amended on May 22, 2013 to reflect changes in Board meetings, how committee members and chairman are appointed and ratified, changes to who can nominate Directors, and exempting physician Directors from practicing and participating within a BCBSKC Plan.

The minutes, for both the Board of Directors and committees, were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Board of Directors

The management of the Company is vested in a Board of Directors. The Company's Bylaws specify that the number of directors shall be no fewer than twelve and no more than sixteen and a majority must be independent. As of December 31, 2012, fourteen directors were serving on the Board. The President/CEO has been appointed as a permanent member of the Board of Directors as provided for in the Bylaws. Each director shall serve a three year term. The Directors elected and serving as of December 31, 2012, were as follows:

Name	Residential Address	Principal Occupation and Business Affiliations
David R. Gentile	Leawood, KS	President and CEO, BCBSKC
Garry K. Kemp	Lee's Summit, MO	Business Manager, Greater Kansas City Building and Construction Trades Council
Janice C. Kreamer	Kansas City, MO	Vice Chairman of the Board of Directors, BCBSKC Former President, Greater Kansas City Community Foundation
Thomas A. McCullough	Kansas City, MO	EVP, COO and Director, DST Systems, Inc., Director, Carondelet Heath, Retired Partner, Ernst & Young, LLP
Michael F. Morrissey	Leawood, KS	Retired Managing Partner, Ernst & Young, LLP, Director, J.E. Dunn Construction Group, Inc.

Henry J. Hermann	Olathe, KS	COB, Waddell and Reed Financial, Inc.
Lyle K. Querry	Independence, MO	Former Business Manager of International Brotherhood of Electrical Workers
Sam R. Reda	Olathe, KS	Retired Executive, Lockton Benefit Company
James R. Roath	Kansas City, MO	President, J.S. Roath Investment Corporation
Lawrence A. Rues, MD	Kansas City, MO	Emeritus Director and Faculty, Research Family Medicine Residency, Physician at Research Medical Center, owned by HCA
Marilyn M. Rymer, MD	Shawnee Mission, KS	Neuroscience Institute Medical Center, St. Luke's Hospital
Melvin L. Glazer	Overland Park, KS	Retired Physician, Kansas City Medical Group
Randall C. Ferguson, Jr.	Lee's Summit, MO	Retired Executive, IBM Corporation Director, Great Plains Energy, Former Senior Partner, Tshibanda and Associates, LLC
Karon E. Harris-Hicks	Lake Ozark, MO	Retired BCBSKC Executive

Committees

The Bylaws provide for the Board of Directors to appoint annually six committees. As of December 31, 2012, the members of each committee were as follows:

Executive Committee
Michael F. Morrissey, Chairman
David R. Gentile, CEO
Marilyn M. Rymer, MD
James R. Roath
Lyle K. Querry, Immediate Past Chair
Thomas A. McCullough
Garry K. Kemp
Randall C. Ferguson, Jr.

Audit Committee
Garry K. Kemp, Chairman
Randall C. Ferguson, Jr.
Thomas A. McCullough
James R. Roath

Governance Committee
Janice C. Kreamer
Henry J. Hermann
Karon E. Harris-Hicks
Marilyn M. Rymer, MD

Compensation Committee
Randall C. Ferguson, Jr., Chairman
Melvin L. Glazer, MD
Karon E. Harris-Hicks
Lyle K. Querry
Janice C. Kreamer

Investment Committee
Thomas A. McCullough, Chairman
Henry J. Hermann
Sam R. Reda
Michael F. Morrissey, ex-officio
James R. Roath
Lawrence A. Rues, MD

Health Policy and Quality Committee
Lawrence A. Rues, MD
Melvin L. Glazer, MD
Garry K. Kemp
Sam R. Reda

Officers

The Board of Directors annually elects various Company officers, as required by the Bylaws. The President and Chief Executive Officer will supervise the day to day operations of the Company as directed by the Board of Directors. The senior officers elected and serving as of December 31, 2012, were as follows:

David R. Gentile	President and Chief Executive Officer
Bryan R. Camerlinck	Treasurer and Group Executive, Financial & Internal Operations and Chief Financial Officer
Richard J. Kastner	Secretary, Group Executive and General Counsel
Brian M. Burns	Senior Vice President of Integrated Health Services & Chief Health Services Executive and President of BA+
Danette K. Wilson	Group Executive of External Operations & Chief Marketing Officer and President of Good Health
Kevin P. Sparks	Group Executive of Internal Operations & Chief Strategy Officer and President of Missouri Valley
Thomas E. Nightingale	Vice President & Chief Actuary of BCBSKC
Nancy M. Creasy	Senior Vice President of Operations & Chief Services Executive
Sharon I. O'Connor	Manager, Board Relations and Corporate Secretary
Jeffrey E. Berry	Vice President of Underwriting
Wayne M. Powell	Vice President and Chief of Staff
Jeffrey S. Shipley	Vice President and Chief Information Officer

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by BCBSKC on behalf of itself and its subsidiaries for each year of the examination period.

The Company is a not-for-profit organization and therefore, there are no stockholders or other ownership. BCBSKC is ultimately controlled by its Board of Directors.

BCBSKC has several subsidiaries that have businesses involved in or related to the health care insurance industry. These subsidiaries are described as follows:

- Good Health HMO, Inc. d/b/a Blue Care, Inc., Blue Advantage Plus of Kansas City, Inc., and Missouri Valley Life and Health Insurance Company are Missouri domiciled insurers. BCBSKC owns 100% interest in these Missouri domiciled subsidiaries.

- Financial Associates Midwest, Inc. (FAM) is a brokerage company specializing in group and individual health products, life, dental, disability, and retirement annuities. BCBSKC owns 100% interest in FAM.

- Capri Holding Company, LLC is a holding company for Topaz Shared Services, LLC. BCBSKC owns 100% interest in Capri.

- Topaz Shared Services, LLC is a joint effort between the Company and BCBSNC to collaborate in providing information technology services and resources for claims processing, enrollment, and billing for individual and small group markets. BCBSKC owns 50% interest in Topaz.

- Cobalt Ventures, LLC is a holding company and directly holds BCBSKC interest in its non-insurance subsidiaries. The entities held are NDBH Holding Company LLC, The EPOCH Group, LC, Preferred Health Professionals LLC, CompAlliance, LLC, and Cobalt Talon, LLC. BCBSKC owns 100% interest in Cobalt Ventures, LLC.

- The EPOCH Group, LC provides administrative services for third-party employers that have self-funded health insurance programs. Cobalt owns 99% interest in EPOCH and Good Health owns the remaining 1% interest.

- Preferred Health Professionals, LLC provides network rental and medical management services for groups and third-party administrators. BCBSKC owns 100% interest in PHP.

- The Astra Group, Inc. (Astra) is a human resources outsourcing provider that offers services such as employee administration, compliance and risk management, audits and reporting, recruiting and hiring, custom policies and best practices, performance management, training and development, benefit packages, and payroll and tax administration. BCBSKC owns 55% interest in Astra.

- Cobalt Talon, LLC is involved in professional, technical, and scientific services. It provides analytic services to the health care industry by offering business intelligence through customized software service solutions. BCBSKC owns 100% interest in Cobalt Talon.

- NDBH Holding Company, LLC is a holding company that owns NDBH. BCBSKC owns 65% interest in NDBH HoldCo.

- New Directions Behavioral Health, LLC manages behavioral health benefits and operates an employee assistance programs. BCBSKC owns 99% interest in NDBH.

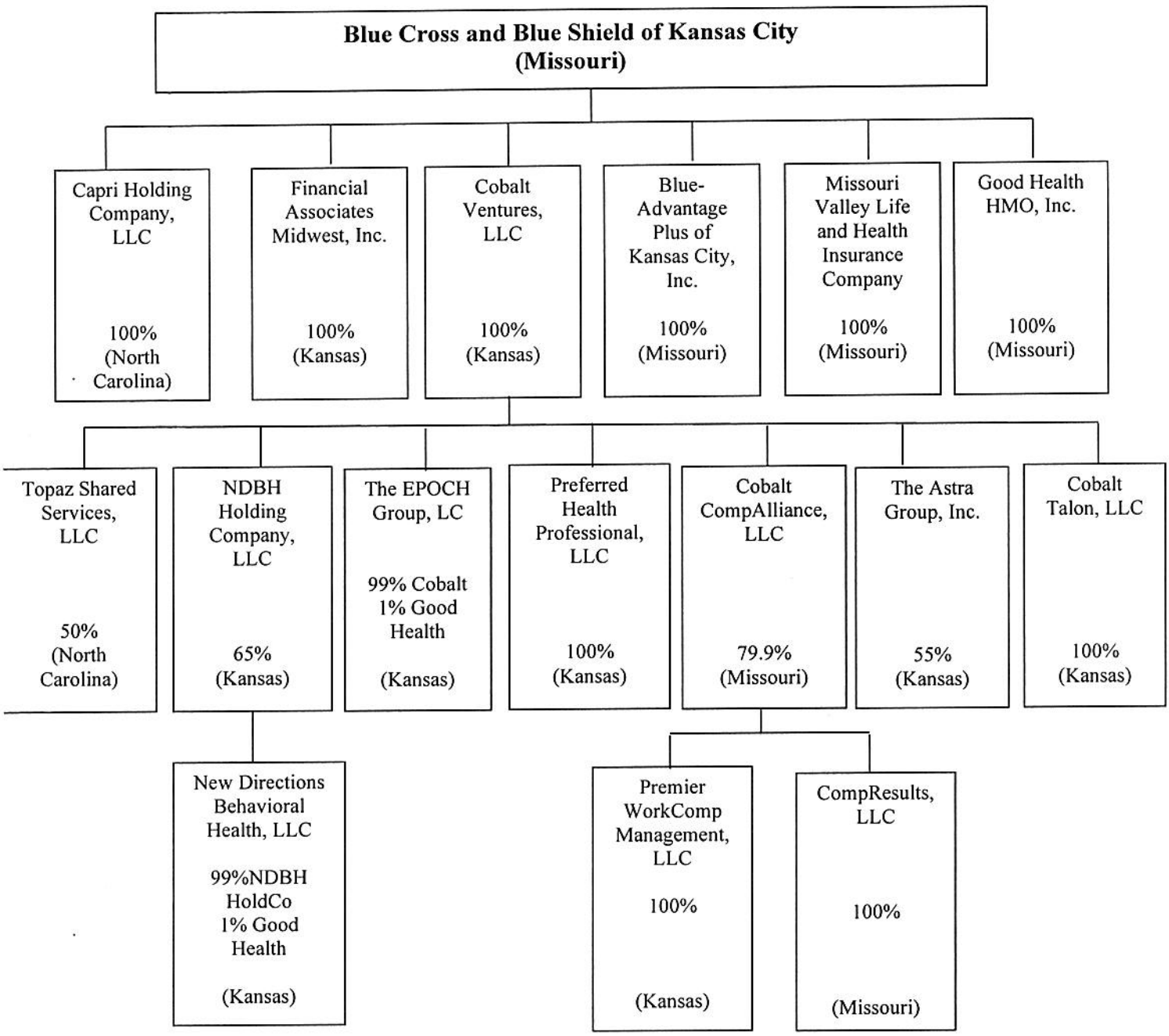
- Cobalt CompAlliance, LLC (CompAlliance) is a holding company for Premier WorkComp Management, LLC and CompResults, LLC. BCBSKC owns 79.9% interest in CompAlliance.

- Premier WorkComp Management, LLC is a PPO network used exclusively for the treatment of work-related injuries and illnesses. BCBSKC owns 100% interest in PWC.

- CompResults, LLC (CompResults) is a PPO network used exclusively to bring workers' compensation cost containment solutions to employers and payers. BCBSKC owns 100% interest in CompResults.

Organizational Chart

The following organizational chart depicts BCBSKC's ownership and holding company system, as of December 31, 2012:



Intercompany Transactions

The Company's intercompany agreements in effect, as of December 31, 2012, are outlined below.

1. **Type:** Agreement for the Sharing of Federal Income Taxes and Filing of a Consolidated Tax Return
   Affiliates: Good Health, Missouri Valley, BA+, Capri and FAM.
   Effective: March 19, 2012
   Terms: BCBSKC will file a consolidated federal tax return for itself and its subsidiaries. The tax liability for each subsidiary shall be based upon each subsidiary's taxable income or loss as reflected in the consolidated financial statements. Each subsidiary will pay its federal income taxes to BCBSKC. BCBSKC will collect and remit any tax refunds to the subsidiaries.

   This agreement replaced an agreement effective January 3, 2008. The only difference between the two is the addition of Capri and FAM.

2. **Type:** Administrative Services Agreement
   Affiliate: Missouri Valley
   Effective: August 1, 2006
   Terms: BCBSKC agrees to provide the following administrative services: accounting, budgeting, payroll, personnel, office space, utilities, maintenance, claims processing, purchasing, legal, actuarial, underwriting, cash management, investment, marketing, data processing, and other services. Missouri Valley will pay BCBSKC the actual expenses incurred for the services provided.

3. **Type:** Administrative Services Agreement
   Affiliate: Good Health
   Effective: April 1, 2009
   Terms: BCBSKC agrees to provide the following administrative services: accounting, budgeting, personnel, payroll, office space, utilities, maintenance, claims processing, purchasing, legal, actuarial, underwriting, cash management, investment, marketing, data processing, and other services. Good Health will pay BCBSKC the actual expenses incurred for the services provided.

   This agreement replaced an agreement effective August 1, 2006. This agreement added the service of tracking and allocating premium revenue between accounts that purchase both BCBSKC and Good Health benefit plans and have retrospective or contingent premium arrangements.

4. **Type:** Administrative Services Agreement
   Affiliate: BA+
   Effective: August 1, 2006
   Terms: BCBSKC agrees to provide the following administrative services: accounting, budgeting, personnel, payroll, office space, utilities, maintenance, claims processing, purchasing, legal, actuarial, underwriting, cash management,

investment, marketing, data processing, and other services. BA+ will pay BCBSKC the actual expenses incurred for the services provided.

5. **Type:** Management Services Agreement
   Affiliate: PWC
   Effective: January 6, 2003
   Terms: BCBSKC will provide the following support and management services to PWC: office space; phone system; receptionist; office supplies; copying, printing, fax, and mail; office furniture and equipment; internet/intranet activity; accounting; personnel and personnel support; legal services; and information technology and services. PWC will pay BCBSKC for the actual cost of providing the aforementioned expenses.

6. **Type:** Collaboration Agreement
   Affiliate: PHP
   Effective: January 1, 2003, amended effective December 23, 2004 and further amended June 28, 2006 - to reflect name change from PHP, Inc. to PHP, LLC.
   Terms: BCBSKC grants PHP the right to market and sell access to its networks. PHP will pay BCBSKC an access fee of $7.50 per enrolled employee of each group per month. BCBSKC agrees to make available certain managerial and administrative employees to PHP. PHP will reimburse BCBSKC for the expenses of the loaned employees.

7. **Type:** Ancillary Provider Agreement
   Affiliates: NDBH, Good Health, BA+ and Missouri Valley
   Effective: January 1, 2006, amended June 1, 2006, amended effective October 1, 2007 and amended June 1, 2008.
   Terms: NDBH agrees to manage and/or arrange for the provision of behavioral health and substance abuse services for BCBSKC's members and the members of BCBSKC's subsidiaries. NDBH will provide for the credentialing reviews of the providers. BCBSKC will pay NDBH a capitation payment each month that is determined by the per member per month rates specified in the agreement. The rates vary between products sold by BCBSKC and its subsidiaries.

   The June 1, 2008 amendment requires NDBH to provide employee assistance program services to small group accounts, as identified by BCBSKC on a monthly basis, under similar terms and conditions as the large group accounts included in the Agreement.

   The October 1, 2007 amendment changed fees related to employee assistance program services. Additionally, the amendment includes a provision to renegotiate rates to ensure that the affiliated insurers have the most favorable HMO or Preferred Provider Organization (PPO) rates of those charged to other customers of NDBH for the same or similar services.

   The June 1, 2006 amendment removed claims processing services, revised the rates, and added a risk sharing arrangement for certain HMO products.

8. **Type:** Administrative Services Agreement
   Affiliate: NDBH
   Effective: June 1, 2011
   Terms: Under the terms of the Agreement, BCBSKC shall provide administrative and other support services to include accounting services, personnel, legal services, information technology services, investment services, and insurance coverage.

9. **Type:** Agreement for the Management of Intercompany Payables and Receivables
   Affiliates: Missouri Valley, Good Health and BA+
   Effective: August 1, 2006, restated effective March 1, 2009.
   Terms: BCBSKC shall pay the payables and collect the receivables for its subsidiaries. Separate accounting records will be maintained for the transactions for each subsidiary. Transfers of funds to or from the subsidiaries will be made to minimize uninvested cash balances and to minimize the receivable or payable balance with each subsidiary. BCBSKC shall settle all intercompany payables and receivables within ninety days following receipt by BCBSKC.

   BCBSKC shall pool and retain the consolidated funds resulting from these transactions and invest the pooled funds. BCBSKC shall pay interest or receive interest each month from the subsidiaries based on the intercompany balance of each subsidiary. The interest rate shall be the applicable federal rate determined by the most recently published Internal Revenue Service Revenue Ruling.

   The agreement was restated to remove the specific exclusion for the Missouri Valley direct enrollment PPO, to change the duration of the agreement to extend to December 31, 2009 with automatic renewals for subsequent one year terms, and to include exclusion of Missouri Medicaid payments that are directly deposited into the BA+ bank account.

10. **Type:** Agreement for the Management of Intercompany Payables and Receivables
    Affiliate: Cobalt
    Effective: May 12, 2010
    Terms: Under the Agreement, BCBSKC has the authority to receive payables, receivables, and information relating to Cobalt's payables and receivables. However, no transaction will involve the receipt of insurance premiums of any kind. BCBSKC shall pool and deposit funds into BCBSKC bank accounts. All intercompany payables and receivables shall be settled within 90 days of receipt. To compensate Cobalt for allowing BCBSKC to retain funds belonging to Cobalt, each party shall pay interest based upon the previous month-end balance in each intercompany payable or receivable account. The Agreement is effective through December 31, 2010, with automatic renewals for subsequent one year terms unless canceled.

11. **Type:** Health Management Agreement
    Entity: NDBH and Good Health (Insurers)
    Effective: April 1, 2007 and amendment #1 effective February 1, 2010 and amendment #2 effective January 1, 2011

Terms: NDBH agrees to provide health coaching services to BCBSKC and Good Health members. The Insurers shall pay a fee of $1.00 per employee per month for members of groups and non-members or non-covered employees participating in "A Healthier You" program. Customization or development of program models, reports, or systems will be billed to the Insurers on a cost plus basis.

Amendment #1 redefined the services provided by NDBH to include only one model of telephonic coaching for the services.

Amendment #2 changed the fee to be paid by the Insurers.

12. Type: Guarantor Agreement
Affiliate: Missouri Valley
Effective: March 1, 1991
Terms: BCBSKC agrees to provide any contributions to the capital and surplus to Missouri Valley necessary to maintain capitalization of $1,500,000.

13. Type: Guarantor Agreement
Affiliate: Good Health
Effective: January 1, 1993
Terms: In the event of the insolvency of Good Health, BCBSKC agrees to provide Good Health whatever guarantee or coverage that is necessary to meet all applicable requirements of its business as a state-qualified HMO. This coverage will provide for the continuation of covered benefits to Good Health's members and pay provider expenses, as defined in the agreement.

14. Type: Guarantor Agreement
Affiliate: BA+
Effective: July 1, 2005
Terms: In the event of the insolvency of BA+, BCBSKC agrees to provide BA+ whatever guarantee or coverage that is necessary to meet all applicable requirements of its business as a state-qualified HMO. This coverage will provide for the continuation of covered benefits to BA+'s members and pay provider expenses, as defined in the agreement.

15. Type: Management Services Agreement
Affiliate: Cobalt
Effective: May 12, 2010
Terms: Under the terms of the Agreement, BCBSKC shall provide management services to Cobalt, including accounting, personnel and personnel support, legal services, information technology and services, investment services, and executive management services.

16. Type: A Healthier You Program Marketing Agreement
Affiliate: PHP
Effective: June 1, 2010

Terms: Under the terms of the Agreement, PHP will market and sell BCBSKC's health and wellness program, "A Healthier You" program to PHP's clients. PHP shall be responsible for the costs of developing, producing, and publishing/distributing marketing materials.

17. Type: Management Services Agreement
Affiliate: EPOCH
Effective: June 1, 2011
Terms: Under the terms of the Agreement, BCBSKC shall provide management services to EPOCH including tax return preparation, executive services, legal services, and insurance coverage.

18. Type: Business Process Outsourcing Services Agreement
Affiliate: EPOCH
Effective: July 1, 2011
Terms: Under the terms of the Agreement, EPOCH will provide transaction processing and related business process outsourcing services as detailed in the Statements of Work that is part of the Agreement.

A Statement of Work (SOW) effective October 31, 2011 through December 31, 2011, provides for EPOCH to perform claims transaction processing services for commercial facility and professional provider claims via a secure connection to BCBSKC's legacy system, NASCO.

A SOW effective July 1, 2012, provides for EPOCH to perform claims adjudication services from BCBSKC's claims inventory in its Facets production system for both facility and professional provider claims submitted by BCBSKC's contracted health care providers.

19. Type: Services Agreement
Affiliate: PHP
Effective: September 1, 2012
Terms: Under the terms of the Agreement, PHP is to provide certain services, which are detailed in the SOW. A SOW effective September 1, 2012, provides for PHP to scan and convert dental claims into an OCR format.

20. Type: Professional Services Agreement
Affiliates: Good Health, Missouri Valley, BA+ and Cobalt Talon
Effective: June 1, 2012
Terms: Under the terms of the Agreement, Cobalt Talon will provide contract labor services as set forth for each service specified in a SOW.

21. Type: Subscription Services Agreement
Affiliate: Cobalt Talon
Effective: December 31, 2011

Terms: Under the terms of the Agreement, BCBSKC will purchase data warehousing, data analytics and business intelligence services from Cobalt Talon. Cobalt Talon will provide subscription services which will include the hosting, maintenance, and support services.

22. Type: Transition Services Agreement
Affiliate: Cobalt Talon
Effective: December 31, 2011
Terms: Under the terms of the Agreement, BCBSKC shall make available staff members to advise and support the transition of the data analytics business as well as the assets sold to Cobalt Talon under a separate Asset Purchase Agreement.

23. Type: Services Agreement
Affiliates: NDBH, BCBSKC, Good Health and Missouri Valley
Effective: March 1, 2010
Terms: Under the terms of the Agreement, BCBSKC shall be responsible for receiving, processing, and adjudicating claims for NDBH for HMO members in accordance with Exhibit Two of NDBH's Ancillary Provider Agreement per agreement #7 above.

BCBSKC was also a party to a Transaction Services Agreement, an Administrative Services Agreement and an Administration Agreement all with EPOCH that terminated during the examination period.

In addition to the agreements noted above, BCBSKC has entered into an Employee Leasing Agreement and a Transition Services Agreement with Topaz Shared Services, LLC that were in effect as of December 31, 2012. These agreements have not been filed with DIFP in accordance with Missouri Law at Chapter 382.195, RSMo, which provides that a domestic insurer must notify the DIFP and obtain non-disapproval of a services contract with "any person in its holding company system". In accordance with Section 382.010(4) RSMo, an "insurance holding company system" is defined as "two or more affiliated persons, one of which is an insurer". Per Section 382.010(1) RSMo, an "affiliated" person is a person that "directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified." BCBSKC owns 50% of Topaz and BCBSNC own the remaining 50%. Under Section 382.010 (2): "Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with power to vote, or holds proxies representing, ten percent or more of the voting securities of any other person. Accordingly, Topaz and any other entity associated with BCBSKC with similar ownership characteristics are deemed to be a part of BCBSKC's holding company system.

It was further noted that prior to the acquisition of Financial Associates Midwest, Inc., BCBSKC had an existing administrative service agreement with FAM for broker oversight function and other related services. Following the acquisition, FAM became a wholly owned subsidiary of BCBSKC and thus, part of the BCBSKC holding company system and is therefore, subject to the provisions of Missouri holding company laws with respect to transactions with affiliates and all required holding company fillings and disclosures.

Intercompany Receipts and Payments

The following table summarizes the (receipts) and payments made during the examination period, between BCBSKC and its subsidiaries pursuant to the agreements summarized above.

	2012	2011	2010	2009	2008
Agreement for Sharing Federal Income Taxes					
(Received) from/paid to BCBSKC	($2,985,913)	$113,260	($3,747,171)	($12,688,219)	($3,881,610)
Administrative Services Agreement					
Received from Missouri Valley	(33,834)	(50,559)	(23,931)	(22,907)	(33,954)
Administrative Services Agreement					
Received from Good Health	(44,119,642)	(43,363,454)	(39,273,615)	(37,326,181)	(36,484,731)
Administrative Services Agreement					
Received from BA+	(4,731,743)	(7,076,969)	(8,781,864)	(11,527,391)	(11,534,459)
Management Services Agreement					
Received from PWC	(735,947)	(967,392)	(907,066)	(757,911)	(746,987)
Collaboration Agreement					
Received from PHP	(6,235,784)	(6,507,224)	(6,940,926)	(7,916,101)	(9,019,284)
Ancillary Provider Network Agreement					
Paid to NDBH	5,631,468	5,559,524	5,763,031	6,181,406	5,426,147
Agreement for the Management of Intercompany Payables/Receivables					
Received from various Subsidiaries	28	3,503	10,202	(20,235)	(67,255)
Agreement for the Management of Intercompany Payable/Receivable					
Paid to Cobalt	(12,121)	29,615	0	0	0
Administration Agreement					
Paid to EPOCH	0	0	0	0	840
Health Management Agreement					
Paid to NDBH	877,633	869,740	1,014,590	123,874	60,067
Transactions Services Agreement					
Paid to EPOCH	0	0	72,300	568,523	358,428
Administrative Services Agreement					
Paid to EPOCH	0	78,535	829,240	542,630	261,838
Management Services Agreement					
Received from Cobalt	(1,812,469)	(1,211,531)	(1,546,611)	0	0
A Healthier You Program Marketing Agreement					
Received from PHP	(2,316)	(3,144)	0	0	0

Management Services Agreement					
Received from EPOC	(455,757)	(103,093)	0	0	0
Business Process Outsourcing Services Agreement					
Paid to EPOC	1,743,539	338,907	0	0	0
Guarantor Agreement					
Capital Contribution to BA+	0	0	5,000,000	0	0
Services Agreement					
Paid to PHP	10,712	0	0	0	0
Professional Services Agreement					
Paid to Cobalt Talon	232,305	0	0	0	0
Subscription Services Agreement					
Paid to Cobalt Talon	1,355,281	0	0	0	0
Net amount paid or (received)	**($51,274,560)**	**($52,290,282)**	**($48,531,821)**	**($62,842,512)**	**($55,660,960)**

FIDELITY BOND AND OTHER INSURANCE COVERAGES

Blue Cross and Blue Shield of Kansas City is a named insured, along with other identified subsidiaries, on a financial institution bond with a liability limit of $10,000,000 and a single loss deductible of $150,000. This coverage complies with the suggested minimum amount of fidelity bond, according to NAIC guidelines.

The Company is also a named insured on the following insurance policies: Commercial Property, Commercial General Liability, Business Auto, Commercial Umbrella Liability, Excess Liability, Financial Institution Electronic and Computer Crime, Fiduciary Liability, Worker's Compensation, Directors' and Officers' and Errors and Omissions.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2012, the Company had approximately 1,000 employees. The employees work within the operations of BCBSKC and several subsidiaries, including BA+, Good Health, and Missouri Valley. Employee benefit costs are allocated to the subsidiaries, pursuant to agreements that are described in the Intercompany Transaction section of this report.

A variety of standard benefits are provided to the employees. These benefits include, but are not limited to, health insurance, dental insurance, disability insurance, life insurance, tuition reimbursement, and a 401(k) savings plan with a defined percentage of employer matching contributions. Provisions have been made in the financial statements for Company obligations relating to these benefit plans.

The Company offers multiple management and non-management incentive plans under which bonuses are paid out annually and are based upon the attainment of corporate performance goals. The Company maintains expense accruals in the financial statements for the incentive plans.

As of December 31, 2012, all vested employees were covered by a qualified, defined benefit pension plan that is managed by the Blue Cross and Blue Shield Association National Retirement Program. There are executives whose pension benefits under the qualified pension plan are reduced due to statutory limitations on earnings and benefits. These executives are provided with a nonqualified, Supplemental Executive Retirement Plan (SERP). Pension benefits for SERP participants are intended to cover any benefit reductions that must be imposed for the qualified, defined benefit plan. Eligible retired employees are also provided with postretirement benefits that provide medical, dental, and life insurance. The Company makes periodic contributions to fund the qualified pension plan. The nonqualified SERP pension plan and the postretirement benefits plan are both unfunded.

BCBSKC has recognized unfunded liabilities for its SERP pension plan and postretirement benefits plan. As of December 31, 2012, the unfunded SERP pension and postretirement benefit liabilities were recorded in accordance with Statements of Statutory Accounting Principles (SSAP) as follows:

Plan	Unfunded Amount as of 12/31/2012	Liability Recorded as of 12/31/2012	Unrecognized Liability
SERP - SSAP 89	$ 12,346,110	$ 12,346,110	$ 0
Postretirement Benefits - SSAP 14, FAS 106	51,164,540	51,164,540	0

The Company is planning changes to its pension plan, effective July 1, 2013. Pursuant to the new pension plan, employees hired or rehired after June 30, 2013 will not be eligible for participation in the pension plan. These new employees will participate in a 401 (k) program. Pension plan participants who are employed on June 30, 2013, as well as eligible employees who are not yet participants who are employed as of June 30, 2013, will not be affected by the changes as long as they remain actively employed. The Company plans to enhance benefits under the 401(k) program to compensate those employees who cannot participate in the pension plan.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

BCBSKC is licensed as a Health Services Corporation and as a Health Maintenance Organization in the State of Missouri under Chapter 354 RSMo, (Health Service Corporations – Health Maintenance Organizations – Prepaid Dental Plans). The Company is also a licensed insurer in the State of Kansas. The Company's service territory is concentrated in the Kansas City, Missouri metropolitan area and Northwest Missouri, which includes 30 counties in Missouri and 2 counties in Kansas. As of December 31, 2012, total membership was approximately 881,000.

Most of the Company's business is derived from its Preferred Provider Organization (PPO) and Health Maintenance Organizations products. These products are marketed under various names, depending on the size of the group. The Company also provides health insurance through its participation in the Federal Employee Program that is managed by the Blue Cross and Blue Shield Association. The Company also provides a small amount of dental coverage. In addition, the Company has a significant amount of Administrative Services Only and Administrative

Services Contract (ASC) plan business; for some groups enrolled in ASC coverage, the Company provides stop-loss insurance coverage. The Company offers wellness programs to encourage members toward health improvements and the Company participates in Blue Card Program to provide members with healthcare services while traveling outside the BCBSKC service area.

Third-party agents and brokers are utilized to obtain group business. The Company also has a staff of sales and marketing employees that sell and promote its various products. Marketing methods include the use of television, radio, newspaper, and magazine advertisements, billboards, direct mail, and telemarketing.

Effective May 1, 2006, the Company began transferring its HMO business to its HMO subsidiary, Good Health and also began to non-renew policies in the small group and individual markets. The Company no longer writes HMO business, yet it still retains its HMO license. Effective July 1, 2005, the Company transferred its Medicaid block of business to BA+.

GROWTH OF THE COMPANY AND LOSS EXPERIENCE

Growth of the Company

The Company reported positive operating results, with net income resulting in annual increases to total admitted assets and capital and surplus in each year under examination. The Company's earned premiums experienced significant growth of 42.8% during the examination period, while membership increased 15.9%. The increase in premiums earned has allowed the Company to remain profitable despite increasing healthcare costs. The Company's capital and surplus increased $168,708,218 million or 34.9% since December 31, 2008.

The table below summarizes the Company's growth in total admitted assets, total liabilities, total capital and surplus, total revenues, net underwriting gain, and net income for the period under examination:

	2012	2011	2010	2009	2008
Total Admitted Assets	$1,039,501,117	$1,007,432,022	$933,312,679	$829,284,472	$740,622,163
Total Liabilities	387,639,032	357,965,338	339,720,586	274,825,644	257,468,296
Total Capital and Surplus	651,862,085	649,566,684	593,592,093	554,458,828	483,153,867
Total Revenues	1,226,071,461	1,128,580,533	1,040,366,903	938,427,166	858,837,618
Net Underwriting Gain	(16,212,139)	11,140,052	32,237,703	33,536,433	25,371,412
Net Income (Loss)	26,805,785	29,286,233	29,152,179	49,694,898	14,943,185

Loss Experience

The Company's medical loss ratio remained relatively consistent during the examination period. The increase in earned premiums experienced by the Company counteracted growth trends in

healthcare costs, as revenues and hospital and medical benefits increased at similar rates. The Company's loss results are consistent with the industry, which as a whole has experienced significant growth in healthcare costs during the examination period.

The table below summarizes the Company's total revenues, incurred hospital and medical expenses, and medical loss ratios for the period under examination:

Year	Total Revenues	Total Hospital and Medical Benefits	Medical Loss Ratio
2012	$1,226,071,461	$1,067,793,873	87.1%
2011	1,128,580,533	957,485,828	84.8%
2010	1,040,366,903	858,329,709	82.5%
2009	938,427,166	771,135,452	82.2%
2008	858,837,618	714,961,512	83.2%

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2012	2011	2010	2009	2008
Direct Business	$1,222,903,652	$1,140,503,722	$1,032,217,625	$943,834,752	$852,726,376
Reinsurance Assumed:					
Affiliates	0	0	0	0	0
Non-affiliates	9,963,319	10,089,644	10,069,221	7,091,851	8,801,124
Reinsurance Ceded:					
Affiliates	0	0	0	0	0
Non-affiliates	(2,788,833)	(2,279,708)	(2,980,437)	(3,484,407)	(3,424,438)
Net Premiums Written	**$1,230,078,138**	**$1,148,313,658**	**$1,039,306,409**	**$947,442,196**	**$858,103,062**

Assumed

BCBSKC maintains one assumed reinsurance agreement. The Company and Healthy Alliance Life Insurance Company (HALIC) entered into the reinsurance agreement effective June 1, 2003, which remains in force until one of the parties chooses to cancel the agreement. Under the terms of the agreement, BCBSKC assumes a variable percentage of HALIC's group contracts issued under the Missouri Educators Health Plan (MEHP), formerly known as the Missouri State Teachers Association plan. The Company's assumed percentage of the MEHP group business is determined by the percentage of group plan members located in the BCBSKC service territory.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

The majority of the Company's business is reinsured on an excess of loss basis with high retentions. All reinsurers are authorized carriers in the State of Missouri.

BCBSKC together with BA+ and Good Health are reinsured by an excess of loss agreement with BCS Insurance Company (BCS). BCS is domiciled in the State of Ohio and is licensed as a property and casualty company with an accident and health line in the State of Missouri.

Services reinsured are those provided to Individual Child Only Commercial PPO, Other than Individual Child Only Commercial PPO (including Individual Group PPO, Stop Loss, Major Medical, and traditional coverages, including TPA processed business, identified as Preferred Care and Preferred Care Blue), Commercial HMO, Commercial Point-of-Service, and Medicaid members.

The Company's specific retention is $500,000 per covered individual per contract period for Individual Child Only Commercial PPO members, $1 million for Other than Individual Child Commercial PPO and Commercial HMO/POS members, and $875,000 for Medicaid members. The agreement includes corridor retention of $880,000 for Commercial HMO/POS members and $1 million for other than individual child only PPO members and an excess retention of 0%. The reinsurer will reimburse for claims up to a maximum of $1.5 million per covered individual for each aggregate period for individual child only Commercial PPO, a maximum of $1 million for other than individual child only Commercial PPO and Commercial HMO/POS members, and a maximum of $1,125,000 for Medicaid members.

The Company has a coinsurance agreement, effective December 15, 1998, with Genworth Life Insurance Company (Genworth), previously General Electric Capital Assurance Company for a long-term care product. BCBSKC cedes 100% of the risks for the long-term care policies to Genworth.

The Company has a proportional share reinsurance agreement, effective June 15, 1990, that was novated to MedAmerica Insurance Company (MedAmerica), April 1, 2003. BCBSKC cedes 100% of the risks for 11 specified long-term care policies conveyed to MedAmerica.

ACCOUNTS AND RECORDS

Policy management, claims management, and producer management utilize Facets from TriZetto, a Sybase application. Financial reporting and reinsurance management utilize the PeopleSoft software application, a Microsoft SQL-based application. Investment and fund management are handled through SunGard iWorks, which is a web-based Microsoft SQL application that is updated by SunGard.

The Company's financial statements for all years in the examination period were audited by the Certified Public Accounting firm of Ernst & Young, LLP of Kansas City, Missouri. The

actuarial opinion regarding the Company's actuarial liabilities, and related items for all years in the examination period was issued by Darrell D. Knapp, FSA, MAAA, of Ernst & Young, LLP, of Kansas City, Missouri.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the DIFP as of December 31, 2012, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with RSMo Section 354.410 (Certificate issued, when--annual deposits, requirements, capital account, amount, contents). The Company's required deposit was $3,500,000. The funds on deposit were as follows:

Description	Par Value	Fair Value	Book/Adjusted Carrying Value
U.S. Treasury Notes	$ 2,450,000	$ 2,460,339	$ 2,458,761
Bonds	$ 1,060,000	$ 1,111,839	$ 1,103,720
Totals	$ 3,510,000	$ 3,572,178	$ 3,562,481

Deposits with Other States

The Company does not have any funds on deposit with any other states.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Blue Cross and Blue Shield of Kansas City for the period ending December 31, 2012. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items". The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items". These differences were determined to be immaterial concerning their effect on the financial statements, and therefore; were only communicated to the Company and noted in the workpapers for each individual activity.

Assets

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$ 538,181,360	$ -	$ 538,181,360
Preferred Stocks	1,297,311	-	1,297,311
Common Stocks	200,052,959	-	200,052,959
Real Estate	21,794,725	-	21,794,725
Cash, Cash Equivalents and Short-term Investments	58,482,478	-	58,482,478
Other Invested Assets	37,810,807	-	37,810,807
Investment Income Due and Accrued	4,315,446	-	4,315,446
Uncollected Premiums and Agents' Balances in Course of Collection	57,337,377	-	57,337,377
Reinsurance Amounts Recoverable from Reinsurers	810,000	-	810,000
Amounts Receivable Relating to Uninsured Plans	63,501,510	23,163	63,478,347
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	18,157,949	-	18,157,949
Net Deferred Tax Asset	4,123,923	-	4,123,923
Electronic Data Processing Equipment and Software	7,391,952	4,723,226	2,668,726
Furniture and Equipment	561,316	561,316	-
Receivable from Parent, Subsidiaries and Affiliates	12,519,850	2,721,139	9,798,711
Health Care and Other Amounts Receivable	22,126,392	935,394	21,190,998
Prepaid Pension Benefit Cost	45,278,318	45,278,318	-
Prepaid Expenses	27,075,414	27,075,414	-
Other Assets Non-Admitted	785,039	785,039	-
TOTAL ASSETS	**$ 1,121,604,126**	**$ 82,103,009**	**$ 1,039,501,117**

Liabilities, Surplus and Other Funds

Claims Unpaid	$ 127,327,182
Unpaid Claims Adjustment Expenses	5,791,520
Aggregate Health Policy Reserves	73,308,214
Aggregate Health Claim Reserves	581,124
Premiums Received in Advance	20,310,460
General Expenses Due or Accrued	73,834,778
Ceded Reinsurance Premiums Payable	2,244
Amounts Withheld or Retained for the Account of Others	883,079
Remittances and Items Not Allocated	1,747,985
Amounts Due to Parent, Subsidiaries and Affiliates	5,453,906
Payable for Securities	135,517
Liability for Amounts Held under Uninsured Plans	9,332,619
Unfunded Post-Retirement Benefit Obligation	51,164,540
Accrued Supplemental Retirement Plan Liability	12,346,110
Summary of Remaining Write-Ins	5,419,754
TOTAL LIABILITIES	$ 387,639,032
Aggregate Write-Ins for Other Than Special Surplus Funds	1,000,000
Unassigned Funds (Surplus)	650,862,085
TOTAL SURPLUS	$ 651,862,085
TOTAL LIABILITIES AND SURPLUS	**$1,039,501,117**

Statement of Income

Net Premium Income	1,230,078,138
Change in Unearned Premium Reserves and Reserve for Rate Credits	(4,006,677)
Total Revenues	$1,226,071,461
Hospital/Medical Benefits	906,242,911
Emergency Room and Out-of-Area	21,223,568
Prescription Drugs	126,880,194
Net Reinsurance Recoveries	5,446,800
Claims Adjustment Expenses	63,939,106
General Administrative Expenses	110,550,621
Increase in Reserves	8,000,400
Total Underwriting Deductions	$1,242,283,600
Net Underwriting Gain	$ (16,212,139)
Net Investment Income Earned	22,978,466
Net Realized Capital Gains or (Losses) less tax	8,987,343
Net Investment Gains or Losses	$ 31,965,809
Intercompany Interest	12,734
Other Revenue	2,318
Aggregate Write-Ins for Other Income or Expenses	15,052
Net Income or (Loss) Before Taxes	$ 15,768,722
Federal and Foreign Income Taxes Incurred	(11,037,063)
NET INCOME	**$ 26,805,785**

Capital and Surplus Account

Capital and Surplus, December 31, 2011	$ 649,566,685
Net Income	26,805,785
Change in Net Unrealized Capital Gains and (Losses)	(1,335,996)
Change in Net Deferred Income Tax	(15,289,247)
Change in Non-Admitted Assets	(26,188,146)
Cumulative Effect of Changes in Accounting Principles	7,274,516
Change in Additional Minimum Supplemental Retirement Liability	576,349
Change in Additional Minimum Pension Liability	10,452,139
Net Change in Capital and Surplus	$ 2,295,400
Capital and Surplus at December 31, 2012	**$ 651,862,085**

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

Intercompany Transactions (Page 14)
BCBSKC had intercompany transactions and agreements with Topaz that were not filed with the DIFP in accordance with Missouri holding company laws. BCBSKC owns a 50% equity interest in Topaz, accordingly, Topaz and any other entity associated with BCBSKC with similar ownership characteristics are deemed to be a part of BCBSKC's holding company system. It is therefore recommended that BCBSKC file related party transactions with Topaz and the other partially-owned entities with the DIFP subject to the provisions of Section 382.195, RSMo.

It is also recommended that BCBSKC file the administrative agreement with Financial Associates Midwest, Inc., that existed prior to the acquisition of FAM with the DIFP for review subject to the provisions of Section 382.195, RSMo.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Blue Cross Blue Shield of Kansas City during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Leslie Nehring, CPA, CFE; Scott Rennick, CFE; Steve Koonse, CFE; Sara McNeely; Emily Turek; and Laura Church, CPA examiners for the DIFP, participated in this examination. Kimberly Dobbs, CFE, Information System Examiner for the DIFP performed a review of the information system environment. The actuarial firm of Lewis & Ellis, of Overland Park, KS also participated as consulting actuaries.

VERIFICATION

State of Missouri)
County of Jackson)

I, Levi N. Nwasoria, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Blue Cross and Blue Shield of Kansas City, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 5th day of ~~October~~ November, 2013.

My commission expires: Nov. 18, 2014 Karen S. Rohrer
Notary Public

KAREN S. ROHRER
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires 11/18/2014
Commission # 10452155

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed, except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Mark A. Nance, CFE, CPA
Audit Manager
Missouri Department of Insurance, Financial Institutions and Professional Registration

Kansas City

An Independent Licensee of the Blue Cross and Blue Shield Association

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Telephone: 816-395-2222
www.BlueKC.com

December 19, 2013

Sent via email

Tammy Rodieck, Exam Coordinator
Missouri Department of Insurance
Financial Institutions and Professional Registration
P.O. Box 690
Jefferson City, MO, 65102

RE: Financial Examination of Blue Cross and Blue Shield of Kansas City, as of 12/31/12

Ms. Rodieck,

With respect to the comments contained on page 26 of the DIFP Examination Report for Blue Cross and Blue Shield of Kansas City (BCBSKC), the company would like to include the response detailed below:

> BCBSKC filed the referenced agreements, for both Topaz and FAM, with the DIFP on July 17, 2013. The company received the DIFP's non-disapproval of these filings on August 14, 2013.
>
> BCBSKC would like to note that, with respect to the administrative agreement with Financial Associates MidWest, Inc., it did not enter into an agreement set forth in Section 382.195 with a member of its holding company system. Rather, as the DIFP notes, the administrative agreement was entered into between BCBSKC and FAM prior to FAM becoming a member of BCBSKC's holding company system. Thus, BCBSKC does not believe that it was required to file the administrative agreement with FAM per Section 382.195.

Please feel free to contact me should you have any questions.

Sincerely,

Brian Spicer
Manager, Internal Audit