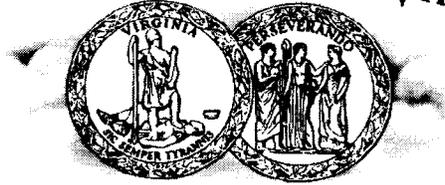


EXAMINATION REPORT
of
Coventry Health Care of Virginia, Inc.
Richmond, Virginia
as of
December 31, 2013

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Coventry Health Care of Virginia, Inc. as of December 31, 2013, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 13th day of January, 2015

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

	<u>Page</u>
Description	1
History	1
Capital and Surplus	3
Net Worth Requirement	3
Management and Control	3
Affiliated Companies	4
Transactions with Affiliates	6
Territory and Plan of Operation	9
Conflict of Interest	10
Fidelity Bond and Other Insurance	10
Provider Agreements.....	10
Contract Forms.....	11
Growth of the Corporation.....	12
Excess Risk Insurance.....	13
Special Reserves and Deposits.....	13
Scope	14
Financial Statements	14
Subsequent Events	20
Conclusion	21

Richmond, Virginia
November 3, 2014

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by the authority of Section 38.2-4315 of the Code of Virginia, an examination of the records and affairs of

COVENTRY HEALTH CARE OF VIRGINIA, INC.

Richmond, Virginia

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation became licensed in Virginia as a health maintenance organization ("HMO") pursuant to Chapter 43 of Title 38.2 of the Code of Virginia on April 1, 1991. The Corporation was last examined by representatives from the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2013.

HISTORY

Southern Health Services, L.P. (the "Partnership") was organized on November 21, 1983 and became licensed as an HMO on March 15, 1985. The Partnership's general partner was Southern Health Management Corporation (the "General Partner").

Effective April 1, 1991, the Partnership and the General Partner were reorganized and merged into Southern Health Management Corporation ("SHMC"). Southern Health Services, Inc. succeeded the Partnership when the Partnership transferred its assets and liabilities to SHMC and SHMC simultaneously transferred certain assets and liabilities to the Corporation.

On September 14, 1994, SHMC, Coventry Corporation and Coventry Acquisition Sub, Inc., a wholly owned subsidiary of Coventry Corporation, entered into an Agreement and Plan of Reorganization. In accordance with terms of the Agreement, Coventry Acquisition Sub, Inc. would merge with and into SHMC, with SHMC becoming the surviving entity. The merger was approved by the Bureau on November 8, 1994 and closed on December 1, 1994. At the time of the merger, Coventry Corporation became the sole shareholder of SHMC. During 1996, SHMC changed its name to Coventry HealthCare Management Corporation ("CHMC").

On January 27, 1998, the Bureau approved a change in control of the Corporation. Principal Health Care, Inc. merged with Coventry Corporation, forming a new company, Coventry Health Care, Inc. ("Coventry"). CHMC continued to be the immediate parent company of the Corporation and Coventry became the immediate parent company of CHMC.

On July 27, 2001, Coventry entered into a Stock Acquisition Agreement with the Rector and Visitors of the University of Virginia ("UVA"), the University of Virginia Health Services Foundation and Blue Ridge Health Alliance, Inc. ("BRHA") to purchase 100% of the issued and outstanding capital stock of BRHA, including its wholly owned subsidiary QualChoice of Virginia Health Plan, Inc. ("QualChoice"), a Virginia domiciled HMO that was initially licensed in Virginia on January 4, 1995. Upon acquisition of BRHA's capital stock, BRHA, QualChoice and the Corporation merged, with the Corporation remaining as the surviving entity. The Bureau approved the transaction on August 28, 2001 and the acquisition and merger was completed on September 1, 2001.

Effective September 30, 2002, the Corporation merged with and into CHMC with the Corporation remaining as the surviving entity. As a result of the merger, all outstanding shares of the Corporation were transferred to Coventry.

On August 19, 2012, Aetna Inc. ("Aetna"), Coventry, and Jaguar Merger Subsidiary, Inc., a wholly owned subsidiary of Aetna ("Merger Sub") entered into an Agreement and Plan of Merger pursuant to which Merger Sub will be merged with and into Coventry, with Coventry surviving the merger as a wholly owned subsidiary of Aetna. The Bureau approved the application for Aetna to acquire control of the Corporation on December 19, 2012. On May 7, 2013, Coventry merged into a wholly-owned subsidiary of Aetna and, as a result, Aetna indirectly owns 100 percent of the outstanding capital stock of the Corporation.

CAPITAL AND SURPLUS

At December 31, 2013, the Corporation's capital and surplus was \$35,876,165. According to the amended and restated Articles of Incorporation, the Corporation has the authority to issue 1,000 shares of common capital stock with a par value of \$.01 per share. As of December 31, 2013, 1,000 shares were issued and outstanding, with gross paid in and contributed surplus of \$106,211,202 and unassigned funds of (\$70,335,047).

NET WORTH REQUIREMENT

Section 38.2-4302 B of the Code of Virginia states that an HMO licensed in Virginia shall maintain a minimum net worth in an amount at least equal to the sum of uncovered expenses, but not less than \$600,000, up to a maximum of \$4,000,000. 14 VAC 5-211-30 A requires that an HMO report the sum of its uncovered expenses for each three-month period ending December 31, March 31, June 30 or September 30. Because the sum of the Corporation's uncovered expenses for the three-month period ending December 31, 2013 was \$10,622,137, the Corporation's minimum net worth requirement at December 31, 2013 was \$4,000,000.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the business and affairs of the Corporation shall be managed by the Board of Directors (the "Board"). The minimum number of Directors shall be three with the actual number fixed by the affirmative vote of a majority of the entire Board. Each director shall be elected for one year or until the next annual meeting of the Corporation's shareholders. A majority of the directors elected to hold office shall constitute a quorum for the transaction of business.

The officers of the Corporation shall consist of a President, a Treasurer and a Secretary. Additional officers, including a Chairman of the Board and assistant officers, may be elected or appointed by the Board. Any two or more offices may be held by the same person.

At December 31, 2013, the Board and Officers were as follows:

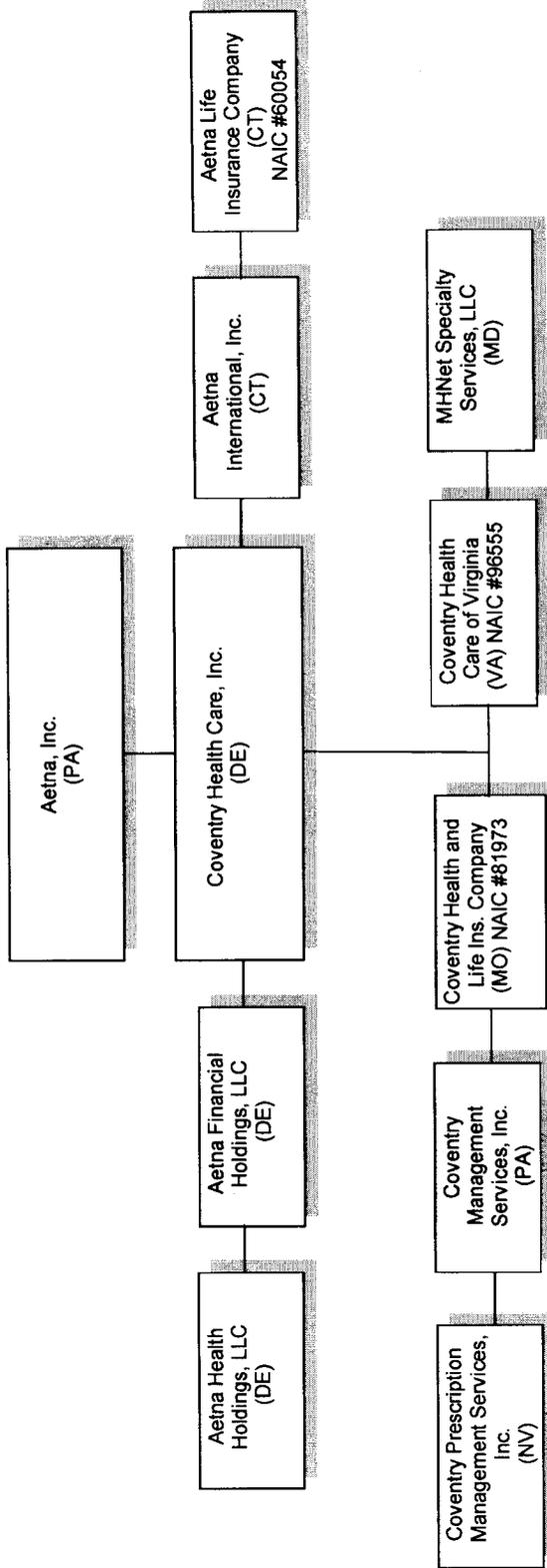
<u>Directors</u>	<u>Principal Occupation</u>
Thomas J. Grote	Vice President, Local Market Head Southeast Region, Aetna Linthicum, Maryland
Tracy H. Baker	Vice President, Local Market Head Southeast Region, Aetna Morrisville, North Carolina
Charles R. Stark	Senior Vice President West Region, Aetna Overland Park, Kansas

Officers

Tracy H. Baker	President and Chief Executive Officer
John K. Maruca	Vice President
W. Dewey Brown, Jr.	Chief Financial Officer
Peter W. Chauncey	Executive Vice President and Chief Operating Officer
John J. Ruhlman	Corporate Controller
Jerry J. Bellizzi	Vice President
Kevin J. Casey	Senior Investment Officer
Elaine R. Cofrancesco	Treasurer and Vice President
Edward C. Lee	Secretary and Vice President
Denise W. Bartlett	Assistant Corporate Controller
Jennie K. Casaday	Actuary

AFFILIATED COMPANIES

The Corporation is a wholly owned subsidiary of Coventry. The ultimate controlling entity is Aetna. By virtue of this ownership, the Company is a member of an insurance holding company system as defined in Section 38.2-1322 of the Code of Virginia. The following chart summarizes the Company's relationship within the holding company system:



TRANSACTIONS WITH AFFILIATES

Management Services Agreements

Effective January 1, 2003, the Corporation entered into a Management Services Agreement with Coventry Management Services, Inc. ("CMS"). Under the terms of the agreement, CMS shall perform the following services:

- a. Information System Services. Provide all services relating to information system equipment and services, including, but not limited to, desktop support, application development, data center support, telecommunications support and network support.
- b. Service Center Services. Provide claims processing services, data integrity services, fraud and recovery support, premium billing and collection services, enrollment and eligibility services, member services and benefit and contract administration.

As compensation, the Corporation pays CMS \$11.32 and \$5.82 per member per month for group membership and Medicaid membership, respectively. The agreement automatically renews on January 1 of each year for successive one-year terms unless terminated by either party upon 90 days written notice prior to the end of any term. The Corporation incurred \$8,012,647 for group business and \$2,627,881 for Medicaid business related to the agreement in 2013.

Effective January 1, 2003, the Corporation entered into a Management Services Agreement with Coventry. Under the terms of the agreement, Coventry shall perform certain administrative services including, but not limited to, senior management, advertising, actuarial services, marketing and public relations, purchasing, pharmacy services, corporate and legal services, regulatory compliance and governmental affairs, accounting services, tax compliance and consulting, facilities management, risk management, human resources consulting and payroll services. As compensation, the Corporation pays Coventry \$4.93 per member per month for commercial membership and \$5.58 for Medicaid. The agreement automatically renews on January 1 of each year for successive one-year terms unless terminated by either party upon 90 days written notice prior to the end of any term. The Corporation incurred \$3,489,607 for the commercial business fees and \$2,519,515 for the Medicaid business fees related to the agreement in 2013.

Administrative Services Agreement

Effective January 1, 2002, the Corporation entered into an Administrative Services Agreement with Coventry Health and Life Insurance Company ("CHLIC"). Pursuant to the agreement, the Corporation shall perform certain administrative services for CHLIC including management and general administrative services, sales and marketing, financial services, medical management, provider relations and contracting, and facilities and support. For these services, the Corporation is reimbursed \$14 per CHLIC member per month. The agreement automatically renews on January 1 of each year for successive one-year terms unless terminated by either party upon 90 days written notice prior to the end of any term. As of year-end, the Corporation was due \$2,711,548 in fees related to this agreement.

Other Affiliated Agreements

Effective Jan. 1, 2010, the Corporation became a party to a Global Capitation Network Participation agreement between MHNet Specialty Services, LLC and CHC, Inc. MHNet will provide behavioral health management services, including behavioral health utilization management, network contracting and credentialing and claims processing for the Corporation's business. In 2013, the Corporation incurred \$9,566,215 in fees related to this agreement.

The Corporation is party to a Pharmacy Benefits Administration agreement, effective Jan. 1, 2011 with Coventry Prescription Management Services, Inc. ("CPMS"). CPMS provides the administration of the outpatient pharmacy benefits services to the Corporation's enrollees. This agreement was amended Jan. 1, 2013 to change the compensation rates. In 2013, the Corporation incurred \$22,322,611 in fees related to this agreement.

Excess Risk Insurance Agreement

Effective April 1, 2013, the Corporation entered into an amended Excess Risk Insurance Agreement with CHLIC. The deductible pursuant to the agreement is \$325,000 per HMO and Point-of-Service member per year and \$225,000 per Medicaid member per year. Once the deductible has been reached, CHLIC will reimburse the Corporation for eligible charges in the following manner:

- a. 90% as to each HMO and Point-of-Service plan member.
- b. 80% as to each Medicaid member.

The maximum insurance payable under this agreement for any one member is \$1,000,000. In 2013, the Corporation incurred \$3,683,570 in premiums and recovered \$1,093,218 in claims pursuant to the agreement.

Tax Sharing Agreement

Effective with the tax year ending December 31, 2013, the Corporation entered into a Tax Sharing Agreement with and among Aetna and its subsidiaries. Pursuant to the agreement, Aetna and the subsidiaries are members of an affiliated group which expects to file a consolidated federal tax return for each taxable year during which the subsidiaries are includible corporations qualified to so file. The Corporation will pay to Aetna an amount equal to the regular federal tax liability that such subsidiary would pay on its own taxable income if it were filing a separate unconsolidated return. Tax computations shall reflect the positions, elections and accounting methods used by Aetna in preparing the consolidated federal tax return for Aetna and its subsidiaries. Aetna will pay to each subsidiary an amount equal to the tax benefit of the subsidiary's tax assets (i.e. losses or credits) to the extent such tax assets are utilized.

Each subsidiary shall pay to Aetna, or receive from Aetna payments within ninety days of the consolidated federal tax return filing date.

Guarantor Agreement

Effective June 7, 2001, the Corporation entered into a Guarantor Agreement with Coventry and assumed by Aetna Health Holdings, LLC ("AHH") as part of the May 7, 2013 merger. According to the agreement, AHH will pay all expenses and claims incurred by the Corporation pursuant to its agreements with groups and subscribers in the event of the Corporation's inability to pay or its insolvency. Such expenses and claims shall include, but not be limited to, all hospital charges and any other fee-for-service charge for services or benefits for which the Corporation is liable, capitation payments to health care providers who have contracted with the Corporation and payments to health care providers not under contract with the Corporation for covered services rendered to a member.

Dividends

The Corporation paid cash dividends of \$30,000,000, \$23,000,000 and \$17,000,000 in 2011, 2012 and 2013, respectively. All dividends were considered extraordinary and were pre-approved by the Commission. The dividends were paid to the Corporation's sole shareholder, Coventry.

TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Corporation's service area, as reported in its 2013 Annual Statement, included the Virginia cities of Alexandria, Bedford, Bristol, Buena Vista, Charlottesville, Clifton Forge, Colonial Heights, Covington, Danville, Emporia, Fairfax, Falls Church, Fredericksburg, Galax, Harrisonburg, Hopewell, Lexington, Lynchburg, Manassas, Manassas Park, Martinsville, Newport News, Norton, Petersburg, Poquoson, Radford, Richmond, Roanoke, Salem, Staunton, Suffolk, Waynesboro, Williamsburg and Winchester. In addition, the service area included the Virginia counties of Accomack, Albemarle, Alleghany, Amelia, Amherst, Appomattox, Arlington, Augusta, Bath, Bedford, Bland, Botetourt, Brunswick, Buckingham, Campbell, Caroline, Carroll, Charles City, Charlotte, Chesterfield, Clarke, Craig, Culpeper, Cumberland, Dinwiddie, Essex, Fairfax, Fauquier, Floyd, Fluvanna, Franklin, Frederick, Giles, Goochland, Grayson, Greene, Greensville, Halifax, Hanover, Henrico, Henry, Highland, Isle of Wight, James City, King and Queen, King George, King William, Lancaster, Loudoun, Louisa, Lunenburg, Madison, Mathews, Mecklenburg, Middlesex, Montgomery, Nelson, New Kent, Northampton, Northumberland, Nottoway, Orange, Page, Patrick, Pittsylvania, Powhatan, Prince Edward, Prince George, Prince William, Pulaski, Rappahannock, Richmond, Roanoke, Rockbridge, Rockingham, Russell, Shenandoah, Smyth, Spotsylvania, Stafford, Surry, Sussex, Tazewell, Warren, Washington, Westmoreland, Wise, Wythe and York. The Corporation's service area also includes the West Virginia counties of Greenbrier, Hardy, Monroe, Pendleton and Pocahontas.

Medical services are provided by physicians in independent practice within the Corporation's service area. The Corporation markets an HMO plan, an In-Network Point-of-Service (POS) plan, an Out-of-Network POS plan and an Individual Health Care Exchange Plan. Each member selects a primary care physician ("PCP") from a directory of the Corporation's primary providers. Members can go to a specialist physician without a referral, with the exception of the Exchange plan. Under the HMO and In-Network POS plans the specialist physician must be a participating provider in order for services to be covered. Under the Exchange plan the member must have an authorization from their tier 1 PCP for any service being performed by a provider other than the members PCP. Members must receive prior authorization for inpatient hospital admissions and selected outpatient procedures. A member must notify the Corporation within 24 hours of an emergency room visit or emergency hospital admission.

During 2013, the Corporation contracted with the Virginia Department of Medical Assistance Services to administer coverage to Medicaid members which comprised 46% of its total premium revenue.

CONFLICT OF INTEREST

The Corporation has adopted Coventry's code of business conduct and ethics policy. The policy, as it relates to conflicts of interest, states that directors, officers, and employees should avoid situations that conflict or appear to conflict with their personal interests and the interests of the Corporation. To ensure compliance with the policy the Corporation's directors, officers and employees must complete an annual conflict of interest questionnaire that discloses any interests, affiliations, and relationships.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2013, the Corporation was listed as a named insured on a financial institutions bond of Aetna. This policy provides fidelity and forgery coverages of \$60,000,000 after a deductible of \$10,000,000 for a single loss. Additionally, the Corporation was listed as a named insured on a property insurance policy, a commercial general liability policy, a professional liability policy, a business automobile policy and an error and omissions policy.

PROVIDER AGREEMENTS

Medical Services

The Corporation has entered into agreements with numerous PCPs and specialist physicians to render, provide or arrange for the provision of covered health care services to members. The Corporation compensates participating physicians either on a capitated basis or a fee-for-service arrangement. The fee-for-service arrangement is the lesser of billed charges or established fee schedules minus any applicable copayments.

Hospital Care

The Corporation has entered into agreements with a number of hospitals in its service area to provide covered hospital services to members. The Corporation compensates participating hospitals on either a fee-for-service, a fixed per-diem, or a per case basis. The amounts paid to each hospital are based on terms disclosed in each individual agreement.

Other Health Care Services

The Corporation has entered into various ancillary service agreements. These agreements provide mental health services, pharmacy services, laboratory services, home

health care, physical therapy, durable medical equipment and other related covered health care services. Compensation is based on arrangements set forth in each contract.

CONTRACT FORMS

Group Contracts

The group contract agreement generally covers the following services provided by PCPs, participating specialists and other participating providers:

1. Physician Services
2. Inpatient Hospital Care
3. Preventive Care
4. Maternity Services
5. Skilled Nursing Facility Confinement
6. Home Health Care Services
7. Ambulance Services
8. Emergency Benefits
9. Durable Medical Equipment
10. Short-Term Rehabilitative Therapy

Exclusions generally include any service or supply that is not medically necessary or any service or supply that is not a covered service; private duty nursing; cosmetic surgery; prescription drugs unless covered by a prescription drug rider; and experimental medical, surgical or other health care procedures, services or supplies. Other exclusions include routine eye exams and visual augmentation devices; contraceptive devices; routine footcare and foot orthotics; and programs for weight reduction or smoking cessation.

The above are abbreviated descriptions of the coverages and exclusions and each individual contract may vary.

GROWTH OF THE CORPORATION

The following data is representative of the growth of the Corporation for the ten-year period ending December 31, 2013. The data is compiled from the Corporation's filed Annual Statements, previous examination reports and the current examination report.

<u>Year</u>	Total Admitted <u>Assets</u>	Total <u>Liabilities</u>	Total Capital & <u>Surplus</u>
2004	\$86,977,731	\$45,024,220	\$41,953,511
2005	92,640,930	46,422,914	46,218,016
2006	102,839,842	41,487,041	61,352,801
2007	106,789,201	49,564,358	57,224,843
2008	102,867,409	42,264,452	60,602,957
2009	98,074,324	37,542,166	60,532,158
2010	95,730,259	35,682,247	60,048,012
2011	77,910,931	34,298,625	43,612,306
2012	76,001,748	37,475,576	38,526,172
2013	74,478,184	38,602,019	35,876,165

<u>Year</u>	Total <u>Revenue</u>	Net Investment <u>Gain</u>	Medical & Hospital <u>Expenses</u>	Administrative <u>Expenses</u>	Pre-Tax <u>Income</u>
2004	\$310,664,732	\$2,499,228	\$256,177,136	\$29,962,630	\$27,024,194
2005	338,032,322	2,719,626	285,249,190	30,240,954	25,261,804
2006	362,886,208	3,682,867	291,610,867	29,978,418	44,979,790
2007	387,993,182	4,779,452	319,778,352	33,911,764	39,082,518
2008	337,833,926	3,712,223	291,310,348	26,226,435	24,009,366
2009	276,042,474	2,622,121	245,886,919	27,311,198	5,466,478
2010	242,733,601	2,411,026	199,742,561	25,945,012	19,457,054
2011	222,011,858	2,649,764	187,964,164	18,560,006	18,137,452
2012	258,721,557	2,333,606	216,566,212	20,454,682	24,034,269
2013	315,385,489	1,729,402	267,035,470	29,862,613	20,216,808

The Corporation's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
2004	112,040
2005	112,185
2006	106,368
2007	117,565
2008	92,166
2009	70,998
2010	57,769
2011	59,692
2012	71,228
2013	82,225

EXCESS RISK INSURANCE

At December 31, 2013, the Corporation has an Excess Risk Insurance Agreement with CHLIC. The specific terms of the contract are discussed in the Transactions with Affiliates section of the examination report.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2013, the Bureau required the Corporation to maintain a minimum deposit of \$3,380,000 with the Treasurer of Virginia.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period January 1, 2011 through December 31, 2013. Assets were verified and liabilities were established at December 31, 2013.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the Bureau plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2013; a statement of revenue and expenses for the year ending December 31, 2013; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2013. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$38,844,903		\$38,844,903
Properties occupied by the company	1,887,102		1,887,102
Cash and short-term investments	<u>18,210,046</u>		<u>18,210,046</u>
Subtotals, cash and invested assets	\$58,942,051	\$0	\$58,942,051
Investment income due and accrued	385,306		385,306
Uncollected premiums and agents' balances in the course of collection	13,149,970		13,149,970
Amounts recoverable from reinsurers	43,444		43,444
Amounts receivable relating to uninsured plans	211,022		211,022
Current federal income tax recoverable and interest thereon	16,128		16,128
Net deferred tax asset	2,119,299	805,627	1,313,672
Furniture and equipment	15,762	15,762	0
Health care and other amounts receivable	416,591		416,591
Aggregate write-in for other than invested assets	<u>321,479</u>	<u>321,479</u>	<u>0</u>
Total assets	<u><u>\$75,621,052</u></u>	<u><u>\$1,142,868</u></u>	<u><u>\$74,478,184</u></u>

LIABILITIES, CAPITAL AND SURPLUS

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid	\$23,081,415	\$1,171,388	\$24,252,803
Unpaid claims adjustment expenses	321,000		321,000
Aggregate health claim reserves		140,310	140,310
Premiums received in advance		3,584,837	3,584,837
General expenses due or accrued		1,986,520	1,986,520
Amounts withheld or retained for the account of others		11,932	11,932
Remittance and items not allocated		757,832	757,832
Amounts due to parent, subsidiaries and affiliates		6,583,234	6,583,234
Liability for amounts held under uninsured plans		963,551	963,551
	<hr/>	<hr/>	<hr/>
Total liabilities	\$23,402,415	\$15,199,604	\$38,602,019
Common capital stock			\$10
Gross paid in and contributed surplus			106,211,202
Unassigned funds (surplus)			<u>(70,335,047)</u>
Total capital and surplus			<u>\$35,876,165</u>
Total liabilities, capital and surplus			<u><u>\$74,478,184</u></u>

STATEMENT OF REVENUE AND EXPENSES

	<u>Uncovered</u>	<u>Total</u>
Net premium income	XXX	\$315,386,058
Aggregate write-ins for other health care related revenues	XXX	(569)
Total revenues	XXX	\$315,385,489
Hospital and Medical		
Hospital/medical benefits	\$8,872,578	\$189,126,960
Other professional services	2,078,659	12,246,272
Emergency room and out-of-area	472,195	20,525,257
Prescription drugs		46,230,200
Subtotal	\$11,423,432	\$268,128,689
Less:		
Net reinsurance recoveries		1,093,219
Total hospital and medical	\$11,423,432	\$267,035,470
Claims adjustment expenses		13,397,248
General administrative expenses		16,343,790
Total underwriting deductions	\$11,423,432	\$296,776,508
Net underwriting gain	XXX	\$18,608,981
Net investment income earned		\$1,002,917
Net realized capital gains		726,485
Net investment gains		\$1,729,402
Net (loss) from agents' or premium balances charged off		(\$121,575)
Net income before federal income taxes	XXX	\$20,216,808
Federal income taxes incurred	XXX	6,305,931
Net income	XXX	\$13,910,877

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus prior reporting year	<u>\$60,048,012</u>	<u>\$43,612,307</u>	<u>\$38,526,173</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Net income	\$13,317,123	\$17,047,264	\$13,910,877
Change in net deferred income tax	(340,341)	(181,241)	1,417,590
Change in nonadmitted assets	587,513	1,047,843	(978,475)
Dividends to stockholders	<u>(30,000,000)</u>	<u>(23,000,000)</u>	<u>(17,000,000)</u>
Net change in capital and surplus	<u>(\$16,435,705)</u>	<u>(\$5,086,134)</u>	<u>(\$2,650,008)</u>
Capital and surplus end of reporting year	<u><u>\$43,612,307</u></u>	<u><u>\$38,526,173</u></u>	<u><u>\$35,876,165</u></u>

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$315,129,620
Net investment income	1,577,645
Miscellaneous income	(569)
Total	<u>\$316,706,696</u>
Benefit and loss related payments	\$263,026,470
Commissions, expenses paid and aggregate write-ins for deductions	30,954,939
Federal income taxes paid	7,527,525
Total	<u>\$301,508,934</u>
Net cash from operations	<u>\$15,197,762</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$28,982,142
Cash, cash equivalents and short-term investments	(26)
Total investment proceeds	<u>\$28,982,116</u>
Cost of investments acquired (long-term only):	
Bonds	\$19,275,265
Real estate	(1,986,291)
Miscellaneous applications	1,986,293
Total investments acquired	<u>\$19,275,267</u>
Net cash from investments	<u>\$9,706,849</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	(\$17,000,000)
Other cash provided	(85,854)
Net cash from financing and miscellaneous sources	<u>(\$17,085,854)</u>

RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$7,818,757
Cash, cash equivalents and short-term investments:	
Beginning of the year	10,391,289
End of the year	<u>\$18,210,046</u>

SUBSEQUENT EVENTS

1. On January 1, 2014, Coventry merged into AHH, a wholly-owned subsidiary of Aetna, and as a result, Coventry was eliminated as a legal entity and AHH directly owns 100% of the outstanding common stock of Corporation.
2. The Corporation is subject to an annual fee under Section 9010 of the Affordable Care Act ("ACA"). The annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premium written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. SSAP No. 35R does not require an accrual for this known liability until January 1 of the payment year. The Notes to the 2013 Annual Statement disclosed that the Corporation estimated the amount of the ACA fee payable on September 30, 2014 to be \$4,770,000. Therefore, total capital and surplus at December 31, 2013, as reported in the examination report, was decreased from \$35,876,165 to \$31,106,165 on January 1, 2014. The Corporation's risk-based capital is expected to decrease 13% from \$10,676,955 at December 31, 2013 to \$9,288,951 at January 1, 2014. A review of the Corporation's records indicated that it paid \$4,691,800 for its portion of the ACA fee during 2014.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Chris Collins, CFE and Kevin Knight, CFE, participated in the work of the examination.

Respectfully submitted,



John P. Drear, CFE
Senior Insurance Examiner
Commonwealth of Virginia



STATE CORP. COMMISSION
2015 JAN -5 AM 10:01
BUREAU OF INSURANCE

December 29, 2014

Virginia Bureau Department of Insurance
Attn: David Smith
P. O. Box 1157
Richmond, VA 23218

Subject: Coventry Health Care of Virginia Inc. Examination December 31, 2013

Dear Mr. Smith:

Please accept this letter as written acknowledgement of receipt and acceptance of the Virginia Bureau of Insurance's ("Bureau") Examination of Coventry Health Care of Virginia Inc. ("Company") as of December 31, 2013. We understand the Bureau's report included no recommendations and therefore no corrective actions required of the Company.

We appreciate your efforts in this engagement and should you have any further questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to be "Tracy H. Baker", with a long horizontal flourish extending to the right.

Tracy H. Baker
Chief Executive Officer
Coventry Health Care of Virginia Inc.

cc: Dewey Brown
Denise Bartlett