EXAMINATION REPORT
of
DELTA DENTAL OF VIRGINIA
Roanoke, Virginia
as of
December 31, 2012

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 Delta Dental of Virginia as of December 31, 2012, 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 29th day of October, 2013

Jacqueline K. Cunningham

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 25, 2013

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by the authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

DELTA DENTAL OF VIRGINIA

Roanoke, Virginia

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

DESCRIPTION

The Plan is a non-stock, non-profit dental services plan operating pursuant to Chapter 45 of Title 38.2 of the Code of Virginia. The Plan was last examined by representatives of the State Corporation Commission's (the "Commission") Bureau of Insurance (the "Bureau") as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2012.

HISTORY

The Plan was incorporated under the laws of Virginia on January 6, 1965. According to its amended and restated articles of incorporation, the Plan was organized to operate one or more dental services plans in accordance with the provisions of Chapter 45 of Title 38.2 of the Code of Virginia, as amended. The Plan may also assist in the administration of governmental health care programs in any manner provided for by contract or regulations. On August 16, 2005, the Plan changed its name from Delta Dental Plan of Virginia to Delta Dental of Virginia. During 2006, Corvesta, Inc. ("Corvesta"), a non-stock, non-profit holding company was formed by the Board of Directors of the Plan and on December 31, 2007, Corvesta became the sole member of the Plan.

MANAGEMENT AND CONTROL

The bylaws of the Plan provide that the Board of Directors shall control and manage the affairs and business of the Plan. The Board shall consist of no fewer than nine directors nor more than twenty directors. Directors shall be elected at an annual meeting of Corvesta's Board of Directors and shall serve four-year terms. No Director shall serve more than three full terms on the Board and a Director shall not be elected or re-elected to the Board after his or her seventy-fifth birthday. The Plan's President may serve as a Director for more than three terms or beyond his or her seventy-fifth birthday as long as he or she occupies the position of President of the Plan.

The bylaws also provide for four standing committees: the Executive/Finance Committee, the Dental Policy Committee, the Marketing Committee and the Nominating Committee. The Board may, by resolution adopted by a majority vote of the Directors, establish such other committees of the Board as it deems appropriate.

The officers of the Plan shall be a Chairman of the Board, a President, who shall also be the Chief Executive Officer, a Secretary, a Treasurer and such other officers as the Board may elect. The term of each officer, with the exception of the President, shall be for one year or until his/her successor has been elected. The President shall be an employee under contract with the Plan and shall automatically serve as a member of the Board. Additional officers may be elected by the Board according to its needs.

At December 31, 2012, the Board of Directors and Officers were as follows:

Directors	Principal Occupation
Harold J. Barrett, Jr., DDS	Retired Falls Church, Virginia
Lyndell B. Brooks	Retired Roanoke, Virginia
Gordon L. Gentry, Jr.	Chairman/CEO Towne Bank Newport News, Virginia
Daniel C. Hastings, Jr.	Retired Ringgold, Virginia
Michael L. Houliston	Retired Massanutten, Virginia

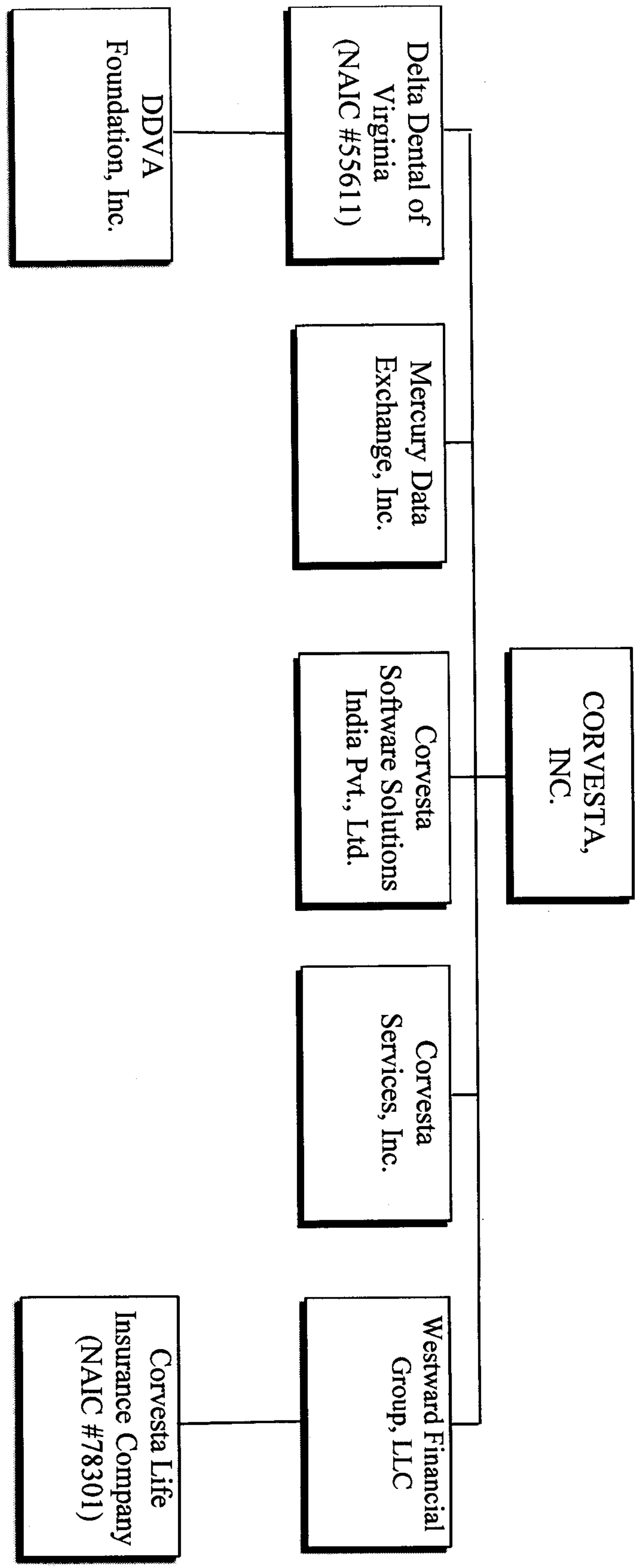
George A. Levicki, DDS	President and Chief Executive Officer Delta Dental of Virginia Roanoke, Virginia
Mayer G. Levy, DDS	Retired Newport News, Virginia
Lezley P. McIlveen, DDS	Dentist Herndon, Virginia
Emanuel W. Michaels, DDS	Retired Norfolk, Virginia
French H. Moore, Jr., DDS	Retired Abingdon, Virginia
Thomas S. Nardo	Retired Richmond, Virginia
Jess Newbern, III	Retired Roanoke, Virginia
Albert L. Payne, DDS	Dentist Danville, Virginia
S. Gordon Seccombe, Jr.	Retired Newport News, Virginia
Patrick N. Shaffner	Retired Roanoke, Virginia
Grant M. Sprinkle, III, DDS	Dentist Salem, Virginia
Barry Wolfe, DDS	Dentist Roanoke, Virginia

Officers

Lyndell B. Brooks	Chairman of the Board
George A. Levicki, DDS	President, Chief Executive Officer
Grant M. Sprinkle, III, DDS	Secretary
Thomas S. Nardo	Treasurer
Peter V. Davies, II	Senior Vice President, Chief Operating Officer
Michael W. Wise	Vice President, Finance
Stacy H. Campbell	Vice President, Strategy and Business Development
Bradley D. Knopf	Vice President, Actuarial and Underwriting

AFFILIATED COMPANIES

At December 31, 2012, Corvesta was the sole member of the Plan. The chart on the following page illustrates the organizational structure of the Plan and affiliated entities at December 31, 2012:


CORVESTA, INC.
Delta Dental of Virginia (NAIC #55611)
DDVA Foundation, Inc.
Mercury Data Exchange, Inc.
Corvesta Software Solutions India Pvt., Ltd.
Corvesta Services, Inc.
Westward Financial Group, LLC
Corvesta Life Insurance Company (NAIC #78301)

TRANSACTIONS WITH AFFILIATES

Master Services and Credit Agreement

Effective November 1, 2011, the Plan entered into a Master Services and Credit Agreement with Corvesta and its affiliates. According to the agreement, the purpose is to:

a) Provide for the sharing of the combined costs of certain administrative, executive and other services as well as the sharing of overhead costs that benefit all affiliates;

b) Provide special services by and between affiliates directly related to the administration of an affiliate's business operation and;

c) Enable each affiliate to borrow funds from another affiliate for start-up costs and business expenses.

The sharing of fees and expenses under (a) above is determined based on the proportion of each affiliates annual revenue to the total annual revenue of all affiliates. Services provided to an affiliate under (b) above are reimbursed based on pre-determined hourly, monthly or annual rates or are reimbursed based on the actual direct costs incurred by the affiliate as well as the allocable portion of indirect costs. Interest rates on loans to affiliates under (c) above shall be at prevailing market rates and any loans to or by the Plan are subject to applicable insurance laws and regulations.

The agreement shall remain in effect indefinitely. Any party may terminate the agreement upon 30 days' notice prior to the effective date of termination. The Plan incurred $10,990,199 in fees to Corvesta related to the agreement in 2012.

Surplus Transfers

In 2010, the Plan transferred $7,057,852 in equity investments to Corvesta. In 2012, the Plan transferred $1,834,508 in intellectual property to Corvesta. In addition, the Plan transferred $8,000,000, $8,000,000 and $28,000,000 to Corvesta in 2010, 2011 and 2012, respectively. In 2011, the Plan transferred $2,500,000 as start-up funding to DDVA Foundation, Inc.

EMPLOYMENT CONTRACT

On January 1, 2006, the Plan entered into an employment agreement with Dr. George A. Levicki, President and Chief Executive Officer. The initial term of the agreement was for three years and it shall renew automatically for one-year terms thereafter. The agreement states that Dr. Levicki shall receive a base salary, with such base salary to increase on an annual or more frequent basis at the discretion of the Executive Compensation Committee of the Board. In addition to the salary, the agreement provides for an annual incentive bonus if Dr. Levicki satisfies the terms and conditions of the Plan's executive incentive plan. The Executive Compensation Committee may revise the measures and the incentive plan on an annual basis. For the year ending December 31, 2012, Dr. Levicki received a base salary of $486,720, a bonus of $403,455 and other compensation of $66,875. This agreement further provides for, but is not limited to, the following fringe benefits:

a. Health and dental benefits for Dr. Levicki and his eligible dependents.

b. A company vehicle and operating expenses associated with maintaining the vehicle, including but not limited to personal property taxes, license and renewal fees, insurance, maintenance, repairs and fuel.

c. Membership in a country club of Dr. Levicki's choice in the Roanoke Valley. Membership shall include initiation fees, stock purchase, annual or monthly membership dues, fees, and/or assessments. Dr. Levicki shall be responsible for any other fees incidental to his membership, including but not limited to periodic minimum charges for food or other purchases and any charges not directly related to Dr. Levicki's business use of the facility.

d. A term life insurance policy with a death benefit equal to $760,000.

e. Disability income insurance.

The Plan may terminate this agreement at any time upon advance notice to Dr. Levicki, subject to provisions of the contract. Dr. Levicki may terminate this agreement at any time upon not less than six months advance notice of termination to the Plan.

RETIREMENT PLANS

Profit Sharing/401k Plan:

The Plan has a defined contribution profit sharing plan in which all employees 21 years of age are immediately eligible for 401k participation and those with at least one year of service are eligible for all other benefits. The Plan's contributions are made at a rate of eleven percent of the participants' eligible compensation. For the year ended December 31, 2012, the expense associated with the funding of the defined contribution profit sharing plan was $463,119. Within the defined contribution profit sharing plan, participants can contribute a percentage of their eligible compensation on a pretax basis. The Plan matches a percentage of the elective deferrals made by participants. The expense related to the Plan's match of participant elective deferrals totaled $86,510 in 2012.

Deferred Compensation Plans:

The Plan has a nonqualified deferred compensation plan available to key employees. Under the nonqualified deferred compensation plan, eligible key employees are granted options in an amount and at a date (the "award date") determined by the Plan's Board. These options become vested based upon the vesting terms of the award and are exercisable upon vesting. Participating key employees have the choice of receiving exercised options in cash or by acquiring mutual fund shares at the fair market value as of the award date. At December 31, 2012, the Plan has fully funded the obligation by acquiring marketable securities with a fair market value of $529,297. The expense related to the nonqualified deferred compensation plan in 2012 was $0.

During 2012, the Plan entered into non-funded deferred compensation agreements with three key executives. Pursuant to the agreements, the Board of Director approved benefit is earned by the executives for continued employment and is payable upon vesting. Non-vested benefits are forfeited if the executive ceases employment with the Plan. At December 31, 2012, a $1,516,667 liability was accrued for benefits under these deferred compensation agreements.

CONFLICT OF INTEREST

The Plan has adopted a conflict of interest policy that expresses its policies and procedures for identifying and dealing with conflicts and potential conflicts of interest. No person shall use his or her position, knowledge or information obtained during the course of activities for the Plan for personal profit or advantage or in any other manner that conflicts with the Plan's interest. No person should occupy a position or maintain a material financial interest in any other business enterprise that presents a conflict of interest between his or her duties to the Plan and his or her duties to the other enterprise. No person should accept gifts, payments, favors, discounts, entertainment, hospitality or any other consideration that goes beyond commonly accepted business practices. To ensure compliance with the Plan's policy, directors, officers, and responsible employees must complete a conflict of interest questionnaire annually.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Plan was listed as a named insured on a commercial crime policy with a $1,000,000 limit of liability, subject to a $500 deductible, to insure against losses arising from dishonest acts of its officers and employees. Additionally, the Plan was listed as a named insured on a commercial general liability policy, a workers compensation and employers' liability policy, an automobile liability policy, a commercial umbrella policy, and an executive liability policy.

TERRITORY AND PLAN OF OPERATION

The Plan is licensed to issue contracts for future dental services. Services are provided by approximately 3,800 licensed dentists within the Plan's service area which encompasses the entire state of Virginia. Subscriber contracts offered by the Plan for dental services can be categorized into three general classes:

1. Prepaid Group Contracts. Group prepaid dental contracts are written for a subscriber fee usually fixed for a one-year period. These contracts require monthly payment of subscriber fees based on the number of employees comprising the group. Underwriting risk to the Plan is involved under these contracts.

2. Administrative Services Contracts (ASC). Contracts provide for the processing and payment of dental claims incurred by an ASC group. The Plan is reimbursed for the claim payments as well as an administrative fee. There is no underwriting risk to the Plan under these contracts.

3. Delta Care Plan Contracts. The Plan contracts with participating dentists to provide treatment to subscribers for a per-subscriber-per-month fee for each subscriber who has selected the dentist.

GROWTH OF THE PLAN

The following data is representative of the growth of the Plan for the ten-year period ending December 31, 2012. The data is compiled from the Plan's filed Annual Statements, previous examination reports, and the current examination report.

Year	Total Admitted Assets	Total Liabilities	Capital And Surplus
2003	$38,152,335	$12,744,713	$25,407,622
2004	45,547,673	12,776,852	32,770,821
2005	64,653,158	21,787,434	42,865,724
2006	75,261,315	22,241,602	53,019,713
2007	83,121,886	25,320,234	57,801,652
2008	83,546,302	27,531,457	56,014,845
2009	92,237,519	29,599,219	62,638,300
2010	94,083,679	33,993,120	60,090,559
2011	102,113,543	37,245,846	64,867,697
2012	99,753,831	47,807,715	51,946,116

Year	Total Revenue	Net Investment Gains	Dental Expenses	Administrative Expenses	Net Income
2003	$68,071,993	$809,710	$52,084,008	$10,200,037	$6,597,658
2004	69,465,970	1,066,214	52,432,608	11,803,432	6,296,144
2005	90,157,020	1,559,145	70,489,192	12,235,987	8,990,986
2006	111,484,741	2,409,936	88,684,414	15,007,274	10,202,989
2007	121,946,329	(24,199)	96,852,679	16,732,287	8,337,164
2008	129,500,147	(2,379,961)	101,754,476	16,346,320	9,019,390
2009	143,261,540	1,380,791	113,446,756	17,848,757	13,346,818
2010	156,082,017	(732,126)	124,698,125	21,011,281	9,640,485
2011	180,671,629	2,125,892	142,539,933	24,196,725	16,060,863
2012	184,814,995	4,540,337	145,257,607	26,621,943	17,475,782

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 from January 1, 2010 through December 31, 2012. Assets were verified and liabilities established at December 31, 2012.

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 Plan, assess corporate governance, identify and assess inherent risks within the Plan, 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 Plan were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2012; a statement of revenue and expenses for the year ending December 31, 2012; a reconciliation of capital and surplus for the period under review; and a statement of cash flow for the year ending December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$40,806,346		$40,806,346
Stocks:			
Preferred stocks	551,612		551,612
Common stocks	21,961,440		21,961,440
Real estate	13,465,264		13,465,264
Cash and short-term investments	7,313,816		7,313,816
Subtotals, cash and invested assets	$84,098,478		$84,098,478
Investment income due and accrued	267,242		267,242
Uncollected premiums and agents' balances in the course of collection	2,852,539	19,201	2,833,338
Amounts receivable relating to uninsured plans	10,562,329		10,562,329
Electronic data processing equipment and software	223,213		223,213
Furniture and equipment	1,123,855	1,123,855	0
Receivables from parent, subsidiaries and affiliates	10,214	4,772	5,442
Health care and other amounts receivable	6,527,488	4,763,699	1,763,789
Total assets	$105,665,358	$5,911,527	$99,753,831

LIABILITIES, CAPITAL AND SURPLUS

Claims unpaid	$9,200,000
Unpaid claims adjustment expenses	900,000
Aggregate health policy reserves	6,227
Premiums received in advance	3,795,501
General expenses due or accrued	19,944,865
Amounts withheld or retained for the account of others	956,291
Amount due to parent, subsidiaries and affiliates	8,292,653
Liability for amounts held under uninsured plans	4,481,233
Aggregate write-ins for other liabilities	230,945
Total liabilities	$47,807,715
Unassigned funds (surplus)	$51,946,116
Total capital and surplus	$51,946,116
Total liabilities, capital and surplus	$99,753,831

STATEMENT OF REVENUES AND EXPENSES

Net premium income	$185,465,182
Change in unearned premium reserve and reserve for rate credits	(650,187)
Total revenues	$184,814,995
Hospital and Medical	
Hospital/medical benefits	$145,257,607
Total hospital and medical	$145,257,607
Claims adjustment expenses	5,958,290
General administrative expenses	20,682,531
Increase in reserves for life and accident and health contracts	(18,878)
Total underwriting deductions	$171,879,550
Net underwriting gain	$12,935,445
Net investment income earned	$1,666,664
Net realized capital gains	2,873,673
Net investment gains	$4,540,337
Net income	$17,475,782

RECONCILIATION OF CAPITAL AND SURPLUS

	2010	2011	2012
Capital and surplus prior reporting year	$62,638,300	$60,090,559	$64,867,697
Net income	$9,640,485	$16,060,863	$17,475,782
Net unrealized capital gains (losses)	2,932,614	(675,052)	(827,390)
Change in nonadmitted assets	(62,988)	(108,673)	264,535
Transfers to Corvesta, Inc.	(15,057,852)	(8,000,000)	(29,834,508)
Transfers to DDVA Foundation, Inc.		(2,500,000)	
Net change in capital and surplus	($2,547,741)	$4,777,138	($12,921,581)
Capital and surplus end of reporting year	$60,090,559	$64,867,697	$51,946,116

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	$185,392,710
Net investment income	2,183,776
Total	$187,576,486
Benefit and loss related payments	145,057,607
Commissions, expenses paid and aggregate write-ins for deductions	23,326,127
Total	$168,383,734
Net cash from operations	$19,192,752

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$12,051,605
Stocks	10,729,655
Total investment proceeds	$22,781,260
Cost of investments acquired (long-term only):	
Bonds	$8,526,724
Stocks	293,244
Real estate	2,764,787
Total investment acquired	$11,584,755
Net cash from investments	$11,196,505

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	($19,783,548)
Net cash from financing and miscellaneous sources	($19,783,548)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	$10,605,709
Cash and short-term investments:	
Beginning of the year	(3,291,893)
End of the year	$7,313,816

SUBSEQUENT EVENTS

On March 27, 2013, the Plan transferred $2,000,000 to Corvesta. On June 27, 2013, the Plan transferred an additional $2,000,000 to Corvesta.

CONCLUSION

The courteous cooperation extended by the Plan's officers and employees during the course of the examination is gratefully acknowledged. In addition to the undersigned, Darrin Bailey, CFE, and Milton Parker participated in the work of the examination.

Respectfully submitted,

Kenneth G. Campbell

Kenneth G. Campbell, CFE
Assistant Chief Examiner

DELTA DENTAL

www.deltadentalva.com

STATE CORP COMMISSION
BUREAU OF INSURANCE
13 OCT 15 AM 8:47

October 3, 2013

Mr. David H. Smith
State Corporation Commission
Bureau of Insurance
Post Office Box 1157
Richmond, VA 23218

Dear Mr. Smith:

We are providing this letter in connection with the draft Examination Report regarding the Delta Dental of Virginia statutory financial statements as of December 31, 2012 and for the period from January 1, 2010 to December 31, 2012.

The draft Examination Report was accompanied by a cover letter from you dated September 25, 2013. The cover letter indicated the examination report does not contain any recommendations for corrective action and requested our written acknowledgement of receipt of the report within thirty days of the date of the letter. Please accept this correspondence as such acknowledgement. Also as requested in your correspondence, please provide 25 copies of the final report so that we may address inquiries and for our internal records.

Respectfully,

George A. Levicki, DDS
President & CEO

Delta Dental of Virginia
4818 Starkey Road
Roanoke, Virginia 24018-8542

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