BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA

Statement Regarding the Acquisition of Control of or Merger with Domestic Insurers:

Hospital Service Association of Northeastern Pennsylvania, d/b/a Blue Cross of Northeastern Pennsylvania;
First Priority Life Insurance Company, Inc.;
HMO of Northeastern Pennsylvania, Inc., d/b/a First Priority Health

By Highmark Inc.

HIGHMARK INC. ("Highmark") RESPONSE TO INFORMATION REQUEST 5.3.1 FROM
THE PENNSYLVANIA INSURANCE DEPARTMENT

REQUEST 5.3.1:

Provide GAAP and SAP financials for Highmark and the Highmark Affiliates for years 2006-2013.

RESPONSE:

Highmark certifies that it has provided the SAP financials for Highmark and its Pennsylvania-domiciled insurance company subsidiaries for the years ended December 31, 2008-2012 at Tab G of the Form A. Included herewith is a disk which includes the SAP financials for Highmark, Highmark Health Insurance Company and Keystone Health Plan West, Inc. for the year ended December 31, 2013.

This response will be updated as SAP financials for other Highmark subsidiaries become available.

Highmark Inc.
Fifth Avenue Place
120 Fifth Avenue
Pittsburgh, PA 15222

Divider Page

Highmark Inc.

Statutory Financial Statements and Supplemental Schedules
December 31, 2013 and 2012

Highmark Inc.
Index
December 31, 2013 and 2012

Independent Auditor's Report

To the Board of Directors of
Highmark Inc.

We have audited the accompanying statutory financial statements of Highmark Inc. (the "Corporation") which comprise the statutory statements of admitted assets, liabilities and surplus as of December 31, 2013 and 2012, and the related statutory statements of revenue and expenses, changes in surplus, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Pennsylvania Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 4 to the financial statements, the financial statements are prepared by the Corporation on the basis of the accounting practices prescribed or permitted by the Pennsylvania Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 4 and accounting principles generally accepted in the United States of America are material.

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Corporation as of December 31, 2013 and 2012, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Pennsylvania Insurance Department described in Note 4.

Emphasis of Matter

As discussed in Note 4 to the financial statements, the Corporation changed the manner in which it accounts for pension and other postretirement benefits plans in 2013 and current and deferred income taxes in 2012. Our opinion is not modified with respect to these matters.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the attached index of the Corporation as of December 31, 2013 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Corporation as of December 31, 2013 and for the year then ended. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 28, 2014

Highmark Inc.
Statutory Statements of Admitted Assets, Liabilities and Surplus
December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Admitted Assets		
Cash, cash equivalents and short-term investments	$ 500,754	$ 400,628
Investments		
Bonds - unaffiliated	1,408,780	1,479,211
Bonds - affiliated	573,829	-
Preferred stocks - unaffiliated	5,524	6,876
Common stocks - unaffiliated	827,355	731,912
Stocks - subsidiaries and affiliates	2,119,649	2,978,440
Real estate	71,796	69,754
Derivatives	-	4,570
Other invested assets	874,448	343,101
Receivables for securities	3,724	1,253
Securities lending reinvested collateral assets	131,590	176,074
Cash and invested assets	6,517,449	6,191,819
Investment income due and accrued	33,522	12,575
Uncollected premiums	336,999	319,475
Reinsurance recoverable	3,544	118,623
Funds held by reinsurers	1,431	2,055
Amounts receivable under reinsurance contracts	-	24,672
Amounts receivable relating to uninsured plans	232,678	218,074
Current federal income tax recoverable	82,001	28,459
Electronic data processing equipment, net	13,499	8,003
Amounts due from parent, subsidiaries and affiliates	69,580	58,956
Health care receivables	113,843	115,418
Other assets	219,533	188,143
Total admitted assets	$ 7,624,079	$ 7,286,272
Liabilities and Surplus		
Claims unpaid	$ 553,663	$ 213,039
Unpaid claims adjustment expenses	11,498	4,303
Aggregate health policy reserves	260,385	393,397
Premiums received in advance	112,435	101,673
General expenses due or accrued	564,288	489,186
Ceded reinsurance premiums payable	335	322,526
Amounts held for others	332,035	293,105
Borrowed money	1,211,690	913,078
Amounts due to parent, subsidiaries and affiliates	38,114	32,083
Derivatives	-	4,570
Payables for securities	3,594	5,734
Payable for securities lending	131,590	176,074
Funds held under reinsurance treaties	-	174,630
Other liabilities	18,173	24,789
Total liabilities	3,237,800	3,148,187
Unassigned surplus	4,386,279	4,138,085
Total liabilities and surplus	$ 7,624,079	$ 7,286,272

The accompanying notes are an integral part of these statutory financial statements.

Highmark Inc.
Statutory Statements of Revenue and Expenses
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Underwriting income		
Net premium income	$ 6,200,529	$ 2,078,762
Change in rate stabilization reserve	4,324	(15,726)
Total revenue	6,204,853	2,063,036
Underwriting expenses incurred		
Net claims incurred	5,624,281	1,865,337
Claims adjustment expenses	196,759	79,985
General administrative expenses	293,426	77,355
Change in premium deficiency reserves	(131,032)	(2,340)
Total underwriting expenses incurred	5,983,434	2,020,337
Net underwriting gain	221,419	42,699
Net investment income	516,701	274,125
Net realized capital gains	65,626	105,726
Affiliation expenses	(215,149)	(8,000)
Other expenses, net	(293,565)	(296,290)
Net income before federal income taxes	295,032	118,260
Federal income tax benefit	(45,709)	(44,907)
Net income	$ 340,741	$ 163,167

The accompanying notes are an integral part of these statutory financial statements.

Highmark Inc.
Statutory Statements of Changes in Surplus
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Surplus at January 1	$ 4,138,085	$ 4,101,545
Net income	340,741	163,167
Change in net unrealized capital gains	(68,375)	135,630
Change in net deferred income taxes	(94,569)	(2,450)
Change in nonadmitted assets	524,523	(215,275)
Impact of adoption of SSAP 101	-	(44,532)
Impact of adoption of SSAP's 92 and 102, net of tax of $198,227	(368,134)	-
Transfers to parent and affiliate	(85,992)	-
Surplus at December 31	$ 4,386,279	$ 4,138,085

The accompanying notes are an integral part of these statutory financial statements.

Highmark Inc.
Statutory Statements of Cash Flows
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Cash flows from operating activities		
Premiums collected, net of reinsurance	$ 6,033,748	$ 2,061,757
Claims paid, net of reinsurance and commutation	(5,168,250)	(1,827,865)
Claims adjustment expenses paid	(170,421)	(7,156)
General administrative expenses paid	(249,012)	(90,468)
Net investment income	252,127	290,954
Other expenses paid, net	(375,878)	(481,535)
Federal income taxes (paid) recovered	(7,833)	99,449
Net cash provided by operating activities	314,481	45,136
Cash flows from investing activities		
Proceeds from the disposition of investments	1,842,864	1,694,543
Cost of investments acquired	(1,943,524)	(1,751,507)
Net cash used in investing activities	(100,660)	(56,964)
Cash flows from financing and other activities		
Borrowed money, net	303,655	(484)
Other cash (applied) provided by	(252,841)	13,059
Affiliated expenses paid	(164,509)	-
Net cash provided by financing and other activities	(113,695)	12,575
Increase in cash, cash equivalents and short term investments	100,126	747
Cash, cash equivalents and short-term investments		
Beginning of year	400,628	399,881
End of year	$ 500,754	$ 400,628
Supplemental disclosures of cash flow information for non-cash transactions		
Dividend and return of capital in the form of bonds	$ 423,199	$ -
Dividend in the form of a surplus note	$ 250,000	$ -
Receipt of surplus note	$ (250,000)	$ -
Transfer to related party	$ 16,240	$ -

The accompanying notes are an integral part of these statutory financial statements.

(in thousands of dollars)

1. Nature of Operations

Highmark Inc. (the "Corporation"), a wholly owned subsidiary of Highmark Health, is incorporated as a non-profit corporation and operates as a hospital plan and a professional health service plan in the Commonwealth of Pennsylvania ("Pennsylvania"). As a licensee of the Blue Cross and Blue Shield Association ("BCBSA"), the Corporation underwrites various indemnity and managed care health insurance products for national accounts (primarily groups headquartered in Pennsylvania that have operations in other locations), regional accounts and individual accounts. The Corporation also underwrites Medicare supplemental, dental and vision products and provides administrative services under contractual arrangements. In addition, the Corporation jointly markets various health insurance products with Independence Blue Cross and Hospital Service Association of Northeastern Pennsylvania d/b/a Blue Cross of Northeastern Pennsylvania ("BCNEPA").

The Corporation's other for-profit and non-profit subsidiaries and affiliates offer health insurance, dental insurance, vision services, workers compensation insurance, stop-loss insurance, physician care, real estate management services and other administrative services. The Corporation's controlled affiliates, Highmark West Virginia Inc. d/b/a Highmark Blue Cross Blue Shield West Virginia ("HWV") and Highmark BCBSD Inc. d/b/a Highmark Blue Cross Blue Shield Delaware ("HDE"), are non-profit health services corporations and are licensees of the BCBSA. The accompanying statutory financial statements do not include the financial position, results of operations or cash flows of HWV and HDE.

Effective January 1, 2011, the Corporation and HM Health Insurance Company, a wholly owned health insurance subsidiary d/b/a/ Highmark Health Insurance Company ("HHIC") entered into a 100% Quota Share Reinsurance Contract ("the Contract"), whereby HHIC assumed the liability for all Pennsylvania insured business of the Corporation with the exception of Medicare Advantage and certain individual guaranteed issue products. Effective January 1, 2013, the Corporation and HHIC terminated this agreement, whereby the Corporation recaptured all of HHIC's outstanding liabilities and released HHIC from all future liabilities under the Contract after the final settlement for the month of December 2012, which occurred in January 2013.

On April 29, 2013, the Pennsylvania Insurance Department ("the Department") approved, with conditions, a change of control of the Corporation, formerly known as Highmark Health Services, in favor of Highmark Health, a Pennsylvania non-profit corporation and federally recognized 501(c)(3). Following the consummation of the change in control transaction, Highmark Health became the sole corporate member of Allegheny Health Network ("Allegheny Health"), a Pennsylvania non-profit corporation and federally recognized 501(c)(3) controlled by Highmark Health, and the Corporation. Highmark Health also became the primary licensee of the BCBSA for the Corporation's service area of Pennsylvania.

2. Affiliations

Saint Vincent Health System

Effective July 1, 2013, the Corporation, Highmark Health and Allegheny Health finalized an affiliation agreement with Saint Vincent Health System ("SVHS"), Saint Vincent Health Center ("SVHC") and various of their affiliates ("Saint Vincent Entities"). In accordance with the affiliation agreements, the Corporation provided grants to SVHS and SVHC in an aggregate amount of $25,000 to finance various capital projects and to support the capital and operational needs of SVHS and/or SVHC. In exchange for the transfer and/or relinquishment by the Sisters of Saint Joseph ("the Sisters"), the sponsor and sole member of SVHS and SVHC prior to the transactions contemplated by the affiliation agreement, of all membership and other interest in the Saint Vincent

(in thousands of dollars)

Entities, a contribution of $10,000 was made by Allegheny Health to the Sisters. The grants were recorded in affiliation expenses in the statutory statements of revenue and expenses. In accordance with the terms of the affiliation agreement, Allegheny Health is now the sole member of SVHS and SVHC with the power to elect persons to the SVHS and SVHC Board of Directors who control 75% of the voting power of all Directors. The statutory financial statements do not include the financial position, results of operations or cash flows of SVHS, SVHC and Saint Vincent Entities.

West Penn Allegheny Health System, Inc.
Effective April 29, 2013, the Corporation, Highmark Health and Allegheny Health affiliated with West Penn Allegheny Health System, Inc. ("WPAHS"), with Allegheny Health becoming sole member of WPAHS with the power to elect 75% of the Board of Directors of WPAHS. At closing, the Corporation provided a $75,000 grant and a $100,000 loan to WPAHS in accordance with the affiliation agreement. Prior to the closing, the Corporation had provided a $100,000 loan and a $100,000 grant to WPAHS. The loans are recorded in other invested assets in the statutory statements of admitted assets, liabilities and surplus. The grants are recorded in affiliation expenses in the statutory statements of revenue and expenses. As of December 31, 2013, the Corporation has funded $375,000 of a $475,000 funding commitment to WPAHS as set forth in the affiliation agreement. As contemplated by the affiliation agreement, and as a condition to closing of the affiliation with WPAHS, the Corporation purchased $604,170 aggregate principal amount of Allegheny County Hospital Development Authority Health System Revenue Bonds Series 2007A ("WPAHS Bonds"), previously issued for the benefit of WPAHS, representing approximately 95% of the outstanding principal amount of the bonds, at a purchase price of 87.5% of par plus accrued interest. Funds for the purchase were provided by a commercial lender pursuant to a collateralized term loan facility. In October 2013, the Corporation purchased an additional $51,635 aggregate principal amount of WPAHS Bonds at a purchase price of 87.5% of par plus accrued interest. In January 2014, the Corporation purchased an additional $8,100 aggregate principal amount of WPAHS Bonds at a purchase price of 87.5% of par plus accrued interest. The statutory financial statements do not include the financial position, results of operations or cash flows of WPAHS.

Jefferson Regional Medical Center
Effective March 1, 2013 the Corporation affiliated with Jefferson Regional Medical Center ("JRMC"), obtaining the power to elect persons to the JRMC Board of Directors who controlled approximately 75% of the voting power of all Directors. As part of the affiliation agreement, the Corporation committed $75,000 plus interest to the JRMC Foundation and recognized a corresponding affiliation expense in the statutory statements of revenue and expenses. A payment of $45,509 was made in March 2013 to satisfy a portion of this commitment and the remaining $32,100 was paid in January 2014. The Corporation also committed to fund a maximum of $100,000, of which $25,240 was paid in 2013, for expansion of the hospital's emergency room, an ambulatory surgery suite and other capital projects. JRMC's net assets were subsequently transferred to Allegheny Health, which is now the sole member of JRMC with the power to elect persons to the JRMC Board of Directors who control approximately 75% of the voting power of all Directors. The statutory financial statements do not include the financial positions, results of operations or cash flows of JRMC.

Highmark BCBSD Inc.
Effective January 1, 2012, the Corporation became the sole member of BCBSD, Inc., d/b/a Blue Cross Blue Shield of Delaware, which thereupon changed its name to Highmark BCBSD Inc. HDE is a Delaware non-stock corporation and is regulated as a non-profit health service corporation in Delaware. As the sole member of HDE, the Corporation has the authority to elect HDE's Board of Directors. Highmark Health is the primary licensee of the BCBSA for HDE, and, in providing health coverage, both insured and administered, to customers in Delaware, HDE operates as a controlled affiliate of the Corporation within the meaning of BCBSA rules. HDE is a separate legal entity and is not liable for the Corporation's obligations. In accordance with its articles of incorporation, in the

(in thousands of dollars)

event of dissolution of HDE, the Directors shall cause any remaining assets of HDE to be distributed to a foundation created pursuant to Delaware law or to a federally tax-exempt organization. Creditors of the Corporation may not anticipate that any of the assets or revenues of HDE are or will be available to pay their claims, either currently or at any time in the future. The accompanying statutory financial statements do not include the financial position, results of operations or cash flows of HDE.

3. Divestiture

In January 2012, the Corporation sold 100% of the outstanding shares of Highmark Medicare Services Inc. (“HMS”), a processor of Medicare Part A and Part B fee-for-service claims, to Diversified Service Options, Inc. for $27,123. In 2012, the Corporation recognized dividend income from earnings of $5,907 and a realized capital gain of $10,849 related to the sale of HMS. The sale agreement also provides for additional earn-out consideration upon the renewal or award of specified government contracts. In 2013, the Corporation recognized an additional earn-out consideration of $3,019 in other expenses, net.

4. Summary of Significant Accounting Policies

Basis of Financial Presentation
The accompanying statutory financial statements are presented on the basis of accounting practices prescribed by the Department. The Department recognizes only statutory accounting practices prescribed or permitted by Pennsylvania for determining and reporting the financial condition and results of operations of an insurance company in order to assess its solvency under Pennsylvania insurance law and regulations. The National Association of Insurance Commissioners (“NAIC”) *Accounting Practices and Procedures Manual* (“NAIC SAP”) has been adopted as a component of prescribed or permitted practices by Pennsylvania. The Pennsylvania Insurance Commissioner (the “Commissioner”) has the right to permit other specific practices that deviate from prescribed practices.

For the years ended December 31, 2013 and 2012, there were no differences between NAIC SAP and practices prescribed or permitted by Pennsylvania.

These statutory financial statements differ from the combined financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The principal differences are: in statutory accounting (1) certain assets, such as accounts receivable aged more than 90 days, office furniture and equipment, nonoperating software, certain provider advances, certain unsecured loans, certain intangible assets, surplus notes and prepaid expenses are excluded from statutory surplus; (2) pharmaceutical rebates receivable are limited based on the timing of billing and collection activities; (3) bonds and certain preferred stocks are carried at the lower of amortized cost or fair value, not fair value as required under GAAP; (4) equity income or loss of subsidiaries, affiliates and limited partnerships is recorded directly to surplus rather than in results of operations as required under GAAP, with dividends or distributions recognized in statutory net income when declared; (5) investments in the Corporation’s controlled affiliates, HWV and HDE, are not recognized; (6) assets and liabilities pertaining to reinsurance transactions are reported net of reinsurance; (7) deferred tax asset (“DTA”) recognition is limited; (8) uncertain tax positions are fully recognized if the probability is greater than 50%; and (9) certain equity transfers to affiliates are expensed.

(in thousands of dollars)

The following is a reconciliation of statutory surplus to GAAP total reserves, which included HWV and HDE at December 31, 2013 and 2012:

	2013	2012
Statutory surplus	$ 4,386,279	$ 4,138,085
Unrealized appreciation on investments	268,886	329,310
Net deferred tax asset	40,395	125,340
Pension and postretirement adjustments	40,400	(171,784)
Nonadmitted assets	302,284	472,633
HWV reserves	335,399	322,270
HDE reserves	195,882	189,704
Other	8,275	8,070
GAAP total reserves	$ 5,577,800	$ 5,413,628

The following is a reconciliation of statutory net income to GAAP net income for the years ended December 31, 2013 and 2012:

	2013	2012
Statutory net income	$ 340,741	$ 163,167
Undistributed earnings of subsidiaries, affiliates and limited partnerships	296,551	351,513
Dividends received from subsidiaries and limited partnerships	(468,383)	(250,767)
Net deferred income taxes	(58,263)	(54,286)
Pension and postretirement adjustments	3,678	6,341
Affiliation expenses	137,540	-
HWV net income	1,819	32,623
HDE net loss	(11,579)	(7,484)
HDE contribution income	-	185,827
JRMC contribution income	61,825	-
Other	(9,822)	5,313
GAAP net income	$ 294,107	$ 432,247

The statutory financial statements of the Corporation are not intended to present the financial position, results of operations or cash flows on the basis of GAAP.

New Accounting Pronouncements

On January 1, 2013, the Corporation adopted SSAP No. 92 – *Accounting for Postretirement Benefits Other Than Pensions* and SSAP No. 102 – *Accounting for Pensions*. The Corporation elected to record the full impact of both the pension and other postretirement benefit plans as of January 1, 2013. Under SSAP No. 92 and No. 102, a benefit plan must be recognized at its funded status as an asset (over-funded) or liability (under-funded) and qualified plan benefit obligations now include nonvested employees. Retrospective application was not permitted. Refer to Note 12 – Employee Benefit Plans for the impact of this change on the statutory financial statements.

In August 2011, the NAIC adopted SSAP No. 101 *Income Taxes, A Replacement of SSAP No. 10R and SAAP No. 10* which established new guidance for current and deferred federal and foreign income taxes and current state income taxes. The new guidance expanded the admissibility of deferred taxes, included a more-likely-than-not qualifier for recognition of tax contingencies and allowed deferred tax liabilities (“DTLs”) to be offset against the admitted DTA amounts. SSAP No. 101 became effective for years beginning January 1, 2012. Refer to Note 13 – Income Taxes for the impact of this change on the statutory financial statements.

In March 2011, the NAIC adopted nonsubstantive revisions to SSAP No. 100 *Fair Value Measurements* which required a gross presentation of purchases, sales, issues and settlement (each separately) within the reconciliation for fair value measurements categorized within Level 3 of the fair value hierarchy. The revisions also required documentation of the fair value hierarchy for items that are disclosed with a fair value measurement but may not be reported at fair value in the statements of position. The nonsubstantive revisions to SSAP No. 100 were effective January 1, 2012. The adoption of this guidance did not impact the Corporation’s statutory financial position, results of operations or cash flows.

Use of Estimates
The preparation of the Corporation’s statutory financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities. It also requires the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Cash Equivalents and Short-Term Investments
Cash equivalents include securities with a maturity of 90 days or less at the date of purchase. Short-term investments include Class 1 and exempt money market accounts, and bonds with a maturity of less than one year but greater than 90 days at the date of purchase. Cash equivalents and short-term investments are stated at amortized cost.

Investments
The Corporation’s investment policies are as follows:

- Bonds not backed by other loans are carried at amortized cost using the effective interest method or the lower of amortized cost or fair value, contingent upon NAIC designation assigned by the Securities Valuation Office (“SVO”);

- Common stocks are carried at fair value except investments in stocks of subsidiaries and affiliates in which the Corporation has an interest of 10% or more which are carried on the equity basis;

- Preferred stocks are recorded at the lower of cost or fair value, contingent upon NAIC designation assigned by the SVO;

- Loan-backed securities are stated at amortized cost or the lower of amortized cost or fair value, contingent upon NAIC designation assigned by the SVO. The retrospective adjustment method is used to value all loan-backed securities, except for securities where the yield has become negative, which are valued using the prospective method;

- Stocks of insurance subsidiaries and affiliates are recorded based on the statutory equity of the respective entity as reported in its statutory financial statements. Investments in stocks of non-insurance subsidiaries and affiliates are recorded based on the equity of the respective entity in its financial statements prepared in accordance with GAAP. Holding companies are valued based on their respective directly and indirectly owned subsidiaries and affiliates in accordance with SSAP No. 97 - *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement* *of SSAP No. 88*. Unaudited subsidiary and affiliate investments are recorded at zero. Dividends from subsidiaries and affiliates are recorded as investment income when declared;

- Other invested assets consist primarily of investments in partnerships accounted for under the audited GAAP equity method, loans to affiliates and non-rated surplus notes carried at cost or statement factor value determined in accordance with SSAP No. 41- *Surplus Notes*;

- All derivatives are stated at book/adjusted carrying value;

- Real estate occupied by the Corporation is recorded at book value, which is the actual cost of the property, plus capitalized improvements, less depreciation;

- Treasury inflation-indexed securities are carried at amortized cost adjusted for the current inflation ratio. Changes in the inflation factors are recorded as unrealized gains or losses with unrealized losses only recognized to the par amount of the security; and

- Realized capital gains and losses on the sale of investments are determined using the specific identification method.

The Corporation monitors its investment portfolio for unrealized losses that appear to be other-than-temporary. The Corporation performs a detailed review of these securities to determine the underlying cause of the unrealized loss and whether the security is impaired. At the time equity or debt security, excluding loan-backed securities, is determined to be other-than-temporarily impaired, the Corporation reduces the book value of the security to the current fair value and records a realized loss in the statutory statements of revenue and expenses. Any subsequent increase in the equity or debt security's, excluding loan-backed securities, fair value is reported as an unrealized gain. At the time a loan-backed security is determined to be other-than-temporarily impaired, the credit component of the other-than-temporary impairment ("OTTI") is recorded as a realized loss in the statutory statements of revenue and expenses and the non-credit component of the OTTI is recorded in surplus.

The Corporation participates in securities lending transactions. The Corporation maintains effective control over the loaned securities and requires collateral initially equal to at least 102% of loaned domestic securities and 105% of loaned international securities at the loan date. Collateral received consists of cash and fixed-income securities. Noncash collateral is not recorded in the statutory statements of admitted assets, liabilities and surplus as the Corporation does not have the right to sell, pledge, or otherwise reinvest the noncash collateral. Cash collateral is invested in short-term debt securities and the offsetting collateral liability is included in payable for securities lending in the statutory statements of admitted assets, liabilities and surplus. Noncash collateral consists of short-term debt securities. The Corporation did not have OTTI's on invested collateral at December 31, 2013 and 2012.

(in thousands of dollars)

The aggregate amounts of contractually obligated open collateral positions and the corresponding liabilities that represented the Corporation's obligations to return the collateral at December 31, 2013 and 2012 were as follows:

	2013	2012
Open	$ -	$ -
30 Days or Less	128,528	176,064
31 to 60 Days	3,062	10
61 to 90 Days	-	-
Greater than 90 days	-	-
Sub-Total	$ 131,590	$ 176,074
Securities Received	14,748	110,343
Total Collateral Reinvested	$ 146,338	$ 286,417

The aggregate amounts of reinvested cash collateral and securities available to repledge by maturity term at December 31, 2013 and 2012 was as follows:

	2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Open	$ -	$ -	$ -	$ -
30 Days or Less	61,862	61,862	81,435	81,435
31 to 60 Days	12,504	12,505	33,685	33,686
61 to 90 Days	10,996	10,996	11,729	11,729
91 to 120 Days	18,359	18,359	11,904	11,904
121 to 180 Days	10,996	10,996	11,301	11,301
181 to 365 Days	16,037	16,036	25,238	25,234
1 to 2 Years	632	631	-	-
2 to 3 Years	-	-	439	435
Greater Than 3 Years	204	202	343	338
Sub-Total	131,590	131,587	176,074	176,062
Securities Received	-	-	-	-
Total Collateral Reinvested	$ 131,590	$ 131,587	$ 176,074	$ 176,062

The aggregate fair value of all non-cash collateral that is not permitted by contract or custom to sell or repledge at December 31, 2013 and 2012 was $14,748 and $110,343, respectively.

The Corporation had no cash or non-cash collateral for securities lending transactions that extended beyond one year at December 31 2013 and 2012.

The Corporation's assets are invested in a variety of financial instruments. Accordingly, the related values as presented in the statutory financial statements are subject to various market fluctuations, which include changes in the interest rate environment, equity markets and general economic conditions.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the statutory statements of admitted assets, liabilities and surplus and disclosed in the statutory financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value in accordance with SSAP No. 100.

(in thousands of dollars)

Reinsurance
The Corporation reports unpaid claim liabilities ceded to reinsurers net of reinsurance recoverables on unpaid losses. Reinsurance recoverables on unpaid losses are estimated and recognized in a manner consistent with the claim liability associated with the reinsured policy. Amounts recoverable from reinsurers represents reinsured claims paid by the Corporation which have not been settled with the reinsurer. The liability for funds held under reinsurance treaties represents claims unpaid which have been settled with the reinsurer.

Uncollected Premiums
In the normal course of business, the Corporation grants credit to its customers under various contractual agreements. Uncollected premiums are carried at net realizable value. All uncollected premiums aged greater than 90 days are nonadmitted. Concentrations of credit risk with respect to uncollected premiums are limited due to the large number of employer groups that constitute the Corporation's customer base. At December 31, 2013 and 2012, there were no significant concentrations in a single investee or industry.

Health Care Receivables
Health care receivables consist primarily of pharmaceutical rebates receivable and advances to providers. Pharmaceutical rebates receivable is an actuarial estimate based on prescriptions filled and terms of rebate contracts for the most recent three months. For prior months, the Corporation records the actual amounts that have been invoiced or confirmed in writing with the pharmaceutical companies and collected within 90 days. The actuarial estimates are continually reviewed and any resulting adjustments are included in current operations.

The Corporation advances operating funds to health care providers. The Corporation admits advances to health care providers in accordance with the terms of the provider contract and NAIC SAP. At December 31, 2013 and 2012, the Corporation admitted advances to providers of $42,687 and $42,564 respectively, of which $29,859 and $0 were advances to related parties at December 31, 2013 and 2012, respectively.

Electronic Data Processing ("EDP") Equipment, net
EDP equipment and software are carried at cost less accumulated depreciation and amortization which is limited to 3% of the Corporation's surplus. Maintenance, repairs and minor improvements are expensed as incurred. Gains or losses on sales or disposals are included in the statutory statements of revenue and expenses. Depreciation and amortization are computed under the straight-line method over the estimated useful life of three years. Non-operating EDP equipment and software are nonadmitted. The admitted balances of $13,499 and $8,003 at December 31, 2013 and 2012, respectively, were net of accumulated depreciation and amortization of $52,361 and $52,795, respectively.

Goodwill
Goodwill resulting from the purchase of a subsidiary, controlled or affiliated ("SCA") entity is amortized to unrealized capital gains and losses on investments over the period in which the acquiring entity benefits economically, not to exceed 10 years. Goodwill is tested for impairment at least annually and more frequently if events or changes in circumstances indicate that an asset may be impaired. If fair value is less than carrying value, an impairment loss is recorded in the statutory statements of revenues and expenses. No impairment losses were recognized for the years ended December 31, 2013 and 2012.

(in thousands of dollars)

Other Assets
Other assets primarily include the cash surrender value of corporate-owned life insurance policies held in grantor trusts and BlueCard program receivables. Under the BlueCard program, the Corporation does not maintain membership but receives network access fees and administrative fees from other Blue Cross and Blue Shield plans for services provided to members of those plans through the Corporation's provider network.

Claims Unpaid
Claims unpaid include claims reported and adjudicated but unpaid as well as an estimate incurred but not reported ("IBNR") claims net of reinsurance. The liability for IBNR claims is an actuarial estimate based on historical claims paid data, modified for current conditions and coverage changes. The methods to determine the estimate of IBNR claims use past experience adjusted for current trends. The methods and assumptions are continually reviewed and any resulting adjustments are included in claims incurred in the period determined. Corresponding administrative costs to process IBNR claims are estimated and accrued and are reported as unpaid claims adjustment expenses.

Aggregate Health Policy Reserves
Aggregate health policy reserves consist of the unearned portion of premiums from the Federal Employee Program, premium deficiency reserves ("PDRs"), reserves for refunds and credits to experience-rated groups.

The Corporation establishes a PDR when future claims expense and related maintenance costs are expected to exceed future subscriber premiums on contracts in force for a given line of business or product grouping within a contract period. Anticipated investment income is not considered in the PDR calculation. The Corporation evaluates the need for a PDR by grouping policies consistent with the way the business is acquired, serviced and measured. In 2013, the Corporation released premium deficiency reserves of $131,032 due primarily to the anticipated termination of the guaranteed-issue products in 2014 due to the Affordable Care Act ("ACA").

At December 31, 2013, the Corporation established a PDR of $13,018 to Medically Underwritten, Special Care and CHIP products. At December 31, 2012, the Corporation established a PDR of $144,050 to Individual Direct Pay, including Guaranteed Issue Health Maintenance Organization ("HMO") and CHIP.

Amounts Held for Others
Amounts held for others include deposits received from uninsured groups for administrative arrangements and BlueCard program liabilities. At December 31, 2013 and 2012, the Corporation held deposits received from uninsured groups of $108,908 and $107,539, respectively.

Revenue Recognition
The Corporation's revenue includes premium income from underwritten business. Premiums are generally billed in advance of the contractual coverage periods and included in premium income as they are earned during the coverage period. Premiums that have been received prior to the service period are reported as premiums received in advance. The Corporation estimates retrospective premium adjustments to premium income by examining each group's activity and applying the appropriate contractual limitations. For the year ended December 31, 2013, the Corporation's net premiums written that were subject to retrospective rating features were $264,919, which represented 4.27% of total net premiums written. For the year ended December 31, 2012, the Corporation's net premiums written that were subject to retrospective rating features were $344,191, which represented 5.81% of total net premiums written.

(in thousands of dollars)

The administrative fees associated with uninsured administrative arrangements and third party administration fees are recorded as a reduction to general administrative expenses and recognized in the period in which related services are performed.

Income Taxes

The Corporation is subject to federal income taxes, although it remains exempt from state and local taxes. DTAs and DTLs are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using tax rates and laws that are expected to be in effect when the difference is reversed. Net DTAs are admitted to the extent that they are expected to reverse and become realized within three years. Uncertain tax positions are assessed in accordance with applicable statutory guidance.

SSAP No. 101 was a revised income tax accounting standard adopted by the NAIC, which was effective for the year beginning January 1, 2012. Changes implemented in SSAP No. 101 include a three-step process that is used to determine the proper recording of contingencies: (1) the term "probable" is replaced with "more likely than not," which is defined as a likelihood of more than 50%, and if met, a tax loss contingency must be recorded; (2) it must be presumed the return will be examined by the relevant taxing authority and that that authority will have full knowledge of all relevant information; and (3) if a loss contingency is greater than 50% of the tax benefit associated with a tax position, the loss contingency shall be increased to 100%. SSAP 101 also sets a three-step admissibility test for the admitted portion of deferred taxes: (1) ordinary and capital temporary differences reversing within 2 and 3 years, respectively, of the balance sheet can be carried back to recoup prior year taxes; (2) companies that are subject to risk-based capital ("RBC") requirements will qualify for various reversal periods and limitations based on their RBC; and (3) reversal patterns should be considered when offsetting DTAs and DTLs.

The Corporation is included in a consolidated federal income tax return with all of its 80% or more owned corporate subsidiaries. The Corporation has a written agreement, approved by the Corporation's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. The agreement generally provides for the settlement of the consolidated federal tax liability as if each subsidiary filed a separate income tax return. Federal income tax benefits or losses are allocated to the entities incurring such benefits or losses to the extent they were used to reduce the consolidated federal income tax liability.

Subsequent Events

On February 18, 2014, the Corporation entered into a definitive Merger Agreement (the "Merger Agreement") with BCNEPA. If the transactions contemplated by the Merger Agreement are consummated, BCNEPA will be merged with and into the Corporation, with the Corporation being the surviving corporation. The merger is subject to various conditions precedent, including approval by the Department.

Effective January 1, 2014, the Corporation assumed the liabilities for all insured business of Keystone Health Plan West, Inc. ("KHPW"), a wholly owned subsidiary HMO, and HHIC through 100% Quota Share Reinsurance Contracts.

On January 1, 2014, the Corporation will be subject to an annual fee under Section 9010 of the ACA. This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums 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. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for a U.S. health risk for each calendar year beginning on or after January 1, 2014. As of

(in thousands of dollars)

December 31, 2013, the Corporation has written health insurance subject to the ACA assessment, expects to conduct health insurance business subject to the ACA assessment in 2014, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2014 to be approximately $82,000. If the assessment were recorded in 2013, the estimated impact would decrease RBC by approximately 12%.

5. Regulation

The Corporation is subject to regulation by the Department and the Pennsylvania Department of Health. Under the laws and regulations of Pennsylvania, the Corporation is required to maintain minimum surplus of $25 for the exclusive purpose of meeting the contractual obligations of its subscribers.

The Corporation is subject to minimum RBC requirements that were developed by the NAIC and adopted by the Department. The formula for determining the amount of RBC specifies various weighting factors that are applied to statutory financial balances and various levels of activity based on perceived degrees of risk. The RBC ratio of the Corporation is compared to authorized control levels established by the NAIC. Companies below specific ratio thresholds may be required to take specific corrective actions. At December 31, 2013 and 2012, the Corporation exceeded its minimum RBC requirements.

The Commissioner has determined that an appropriate sufficient operating surplus range for the Corporation is 550% - 750% of the health RBC ratio or the Department’s consolidated risk factor ratio, whichever is lower. As long as the Corporation operates above the 550% ratio, it is not permitted to include a risk and contingency factor in its filed premium rates. If the Corporation’s ratio exceeds 750%, it will be required to justify its surplus level and could be required to submit a plan to bring its surplus within the designated appropriate sufficient operating surplus range. At December 31, 2013 and 2012, the Corporation’s health RBC ratio was within the appropriate sufficient operating surplus range determined by the Department.

The Corporation’s Medicare Advantage products offered under contracts with CMS accounted for 36% and 95% of total premiums for the years ended December 31, 2013 and 2012, respectively.

CMS uses a risk-adjustment model which apportions premiums paid to Medicare Advantage plans according to the health severity of their members. The risk-adjustment model pays higher premiums for members with certain medical conditions identified with specific diagnostic codes. Under the risk-adjustment methodology, all Medicare Advantage plan sponsors must collect and submit the necessary diagnosis code information from providers to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to Medicare Advantage plans.

The Corporation generally relies on providers to code their claim submissions with appropriate diagnoses, which are sent to CMS as the basis for the payment received from CMS under the risk-adjustment model. The Corporation also relies on these providers to document appropriately all medical data, including the diagnosis data submitted with claims.

CMS is continuing to perform audits of selected companies’ Medicare Advantage contracts related to this risk adjustment diagnosis data. In February 2012, CMS announced a final Risk Adjustment Data Validation (RADV) audit and payment adjustment methodology and that it will utilize to conduct RADV audits beginning with the 2011 payment year. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which

(in thousands of dollars)

influence the calculation of premium payments to Medicare Advantage plans. These audits may result in retrospective adjustments to payments made to health plans.

The final methodology, including the first application of extrapolated audit results to determine audit settlements, is expected to be applied to the next round of RADV contract level audits to be conducted on 2011 premium payments. Selected Medicare Advantage contracts will be notified of an audit after the close of the final reconciliation for the payment year being audited. Through the date of this report, the Corporation has not been notified by CMS that one of its Medicare Advantage contracts has been selected for audit for contract year 2011.

The ACA considerably transforms the U.S. health care system and increases regulations within the U.S. health insurance industry. This legislation is intended to expand the availability of health insurance coverage to millions of Americans. The ACA contains provisions that take effect at various times through 2018, with most measures effective in 2014.

The ACA creates state health insurance exchanges, which provide individuals and small businesses with access to affordable and quality health insurance. The Corporation participates in the Pennsylvania health insurance exchange.

The ACA establishes an annual fee on the health insurance sector effective in 2014. The aggregate annual fee for all insurers is $8,000,000 for calendar year 2014. This amount is apportioned among all insurers based on a ratio designed to reflect relative market share of U.S. health insurance business. The amount of the fee is calculated on the basis of prior year net written premiums, excluding the carrier's first $25,000 and half of the second $25,000 in net premiums. The fee applies to certain net premiums in excess of $50,000 and is based on the ratio of net written premium for health insurance of all insurance issuers to total applicable net premiums for all such issuers. The fee is not tax deductible. Refer to Note 4 for the estimated impact.

The ACA also establishes a transitional reinsurance program that reimburses non-grandfathered individual plans for a portion of the costs of high-costs enrollees for a 3-year period beginning January 1, 2014. The total amount assessed through this provision is $25,000,000 in the 3-year period, and additional administrative expense charge for 2014 of $20,300. The fee will be levied on a per-covered-life basis and be collected annually, with the first payment billed on December 15, 2014. Contribution amounts will be based on a per capita contribution rate, which is estimated to be five dollars and twenty-five cents per member per month for calendar year 2014. Both insured and self-insured plans will be assessed.

The ACA also establishes a risk corridors program for a 3-year period beginning January 1, 2014. The purpose of the risk corridors program is to provide limitations on issuer losses and gains for qualified health plans through additional protection against initial pricing risk. The program creates a mechanism for sharing the risk for allowable costs between the Federal government and the qualified health plan issuers.

The ACA also establishes a risk adjustment program. The purpose of the risk adjustment program is to transfer funds from lower risk plans to higher risk plans within the same market in the same state. It will adjust premiums for adverse selection among carriers caused by membership shifts due to guarantee issue and community rating mandates. States may set up their own risk adjustment programs, or they may permit Health and Human Services to develop and manage the program in the state.

The reinsurance, risk corridors and risk adjustments programs, established to apportion risk among insurers, may not be effective in appropriately mitigating the financial risks related to exchange

(in thousands of dollars)

products. These factors, along with the limited information about the individuals who have access to these newly established exchanges that was available when the Corporation established premiums, may have an adverse effect on the results of operations if premiums are not adequate.

Effective January 1, 2014, the Corporation is subject to a Community Health Reinvestment ("CHR") Agreement with the Department which establishes an annual CHR commitment for the Corporation based on direct written health premiums. The Corporation's minimum social mission commitment for 2014 is quantified at $77,482. The Corporation has the ability to direct the funds related to CHR endeavors provided that the funds are used to provide health care coverage for persons who are uninsured or unable to pay for coverage, to fund programs for the prevention and treatment of disease or injury including mental health counseling or the promotion of health or wellness, to fund the prevention of conditions, behavior or activities that are adverse to good health or donations for the benefit of health care providers in furtherance of any of the foregoing purposes.

Because it is not eligible to participate in a Pennsylvania-sponsored guarantee fund and in order to meet a licensing requirement of BCBSA, the Corporation has established and funded a trust for purposes of paying its claims liabilities in the event of its insolvency. The admitted value of the contributed assets in the trust was $310,028 and $291,638 at December 31, 2013 and 2012, respectively, and was reported in bonds in the statutory statements of admitted assets, liabilities and surplus.

(in thousands of dollars)

6. Investments

Cost or amortized cost, gross unrealized gains and losses, fair value and book/adjusted carrying value of bonds and unaffiliated stocks at December 31, 2013 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Book/ Adjusted Carrying Value
Bonds					
U.S. government	$ 306,050	$ 20,371	$ (6,141)	$ 320,280	$ 306,082
All other government	3,708	2	(121)	3,589	3,708
States, territories, and possessions	268	4	-	272	268
Obligations of states and political sub-divisions of the U.S.	3,916	4	(150)	3,770	3,916
Special revenue & special assessment obligations	366,990	2,402	(9,701)	359,691	366,990
Mortgage-backed securities					
Residential	4,649	253	(102)	4,800	4,589
Commercial	18,239	191	(412)	18,018	18,239
Asset backed securities	5,451	47	(5)	5,493	5,451
Other loan-backed and structured securities	10,981	1,355	(126)	12,210	10,981
Industrial and miscellaneous securities	689,331	23,364	(8,317)	704,378	688,556
Affiliated bonds	576,698	-	(2,869)	573,829	573,829
Total bonds	1,986,281	47,993	(27,944)	2,006,330	1,982,609
Preferred stocks - unaffiliated					
Domestic	6,308	(1,929)	(10)	4,369	4,369
Foreign	1,155	190	-	1,345	1,155
Common stocks - unaffiliated					
Domestic	430,291	199,724	(3,635)	626,380	626,380
Foreign	161,264	42,116	(2,405)	200,975	200,975
Total stocks	599,018	240,101	(6,050)	833,069	832,879
Total	$2,585,299	$ 288,094	$ (33,994)	$ 2,839,399	$ 2,815,488

HMI-001100

(in thousands of dollars)

Cost or amortized cost, gross unrealized gains and losses, fair value and book/adjusted carrying value of bonds and unaffiliated stocks at December 31, 2012 were as follows:

	2012				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Book/ Adjusted Carrying Value
Bonds					
U.S. government	$ 347,460	$ 59,781	$ (541)	$ 406,700	$ 347,228
All other government	2,562	10	(12)	2,560	2,560
Obligations of states and political sub-divisions of the U.S.	2,626	-	(37)	2,589	2,626
Special revenue & special assessment obligations	419,710	7,850	(481)	427,079	419,710
Mortgage-backed securities					
Residential	6,145	238	(256)	6,127	5,913
Commercial	10,896	452	(31)	11,317	10,896
Asset backed securities	3,737	51	(1)	3,787	3,737
Other loan-backed and structured securities	19,880	2,005	(1,015)	20,870	19,880
Industrial and miscellaneous securities	670,382	35,945	(1,294)	705,033	666,661
Total bonds	1,483,398	106,332	(3,668)	1,586,062	1,479,211
Preferred stocks - unaffiliated					
Domestic	4,700	917	(7)	5,610	4,875
Foreign	2,001	238	-	2,239	2,001
Common stocks - unaffiliated					
Domestic	432,908	109,824	(6,125)	536,607	536,607
Foreign	155,986	41,421	(2,102)	195,305	195,305
Total stocks	595,595	152,400	(8,234)	739,761	738,788
Total	$2,078,993	$ 258,732	$ (11,902)	$ 2,325,823	$ 2,217,999

(in thousands of dollars)

The gross unrealized losses and fair value of investments classified by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2013 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds						
U.S. government	$ 98,627	$ (5,240)	$ 16,523	$ (901)	$ 115,150	$ (6,141)
All other government	1,851	(62)	686	(59)	2,537	(121)
Obligations of states and political sub-divisions of the U.S.	-	-	2,420	(150)	2,420	(150)
Special revenue & special assessment obligations	231,739	(7,402)	40,235	(2,299)	271,974	(9,701)
Mortgage-backed securities						
Residential	-	-	1,157	(102)	1,157	(102)
Commercial	13,093	(393)	334	(19)	13,427	(412)
Asset backed securities	1,136	(5)	-	-	1,136	(5)
Other loan-backed and structured securities	4,154	(126)	-	-	4,154	(126)
Industrial and miscellaneous securities	290,689	(7,175)	11,784	(1,142)	302,473	(8,317)
Affiliates	573,829	(2,869)	-	-	573,829	(2,869)
Total bonds	1,215,118	(23,272)	73,139	(4,672)	1,288,257	(27,944)
Preferred stocks - unaffiliated						
Domestic	111	(3)	802	(7)	913	(10)
Common stocks - unaffiliated						
Domestic	19,309	(2,553)	3,206	(1,082)	22,515	(3,635)
Foreign	30,965	(1,883)	2,776	(522)	33,741	(2,405)
Total stocks	50,385	(4,439)	6,784	(1,611)	57,169	(6,050)
Total	$ 1,265,503	$ (27,711)	$ 79,923	$ (6,283)	$ 1,345,426	$ (33,994)

HMI-001102

(in thousands of dollars)

The gross unrealized losses and fair value of investments classified by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2012 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds						
U.S. government	$ 69,138	$ (541)	$ -	$ -	$ 69,138	$ (541)
All other government	750	(12)	-	-	750	(12)
Obligations of states and political sub-divisions of the U.S.	2,589	(37)	-	-	2,589	(37)
Special revenue & special assessment obligations	95,383	(378)	8,720	(103)	104,103	(481)
Mortgage-backed securities						
Residential	1,184	(111)	1,323	(145)	2,507	(256)
Commercial	1,568	(4)	686	(27)	2,254	(31)
Asset backed securities	346	(1)	-	-	346	(1)
Other loan-backed and structured securities	-	-	5,985	(1,015)	5,985	(1,015)
Industrial and miscellaneous securities	95,749	(1,008)	12,637	(286)	108,386	(1,294)
Total bonds	266,707	(2,092)	29,351	(1,576)	296,058	(3,668)
Preferred stocks - unaffiliated						
Domestic	-	-	820	(7)	820	(7)
Common stocks - unaffiliated						
Domestic	29,635	(3,058)	7,500	(3,067)	37,135	(6,125)
Foreign	10,210	(1,177)	3,053	(925)	13,263	(2,102)
Total stocks	39,845	(4,235)	11,373	(3,999)	51,218	(8,234)
Total	$ 306,552	$ (6,327)	$ 40,724	$ (5,575)	$ 347,276	$ (11,902)

At December 31, 2013, the Corporation held bonds with gross unrealized losses of $27,944. Management evaluated the unrealized losses in bonds and determined that they were due primarily to volatility in the interest rate environment and market conditions. The Corporation does not intend to sell the related bonds and it is not likely that the Corporation will be required to sell the bonds before recovery of their amortized cost bases, which may be maturity. Therefore, management does not consider the bonds to be other-than-temporarily impaired as of December 31, 2013.

At December 31, 2013, the Corporation held unaffiliated stocks with gross unrealized losses of $6,050. Management reviews stocks in which fair value falls below cost. In determining whether a stock is other-than-temporarily impaired, management considers both quantitative and qualitative information. The impairment review process is subjective and considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than book value, the financial condition and near term prospects of the issuer, recommendations of investment advisors, the intent and ability to hold securities for a time sufficient to allow for any anticipated recovery in value, and general market conditions and industry or sector specific factors, including forecasts of economic, market or industry trends. The Corporation believes that the unrealized losses on unaffiliated stocks do not represent an OTTI at December 31, 2013.

(in thousands of dollars)

The cost or amortized cost, fair value and book/adjusted carrying value of bonds at December 31, 2013 are shown below by contractual maturity. Expected maturities could differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost or Amortized Cost	Fair Value	Book/Adjusted Carrying Value
Due within one year or less	$ 11,681	$ 12,508	$ 11,680
Due after one year through five years	401,910	408,595	400,585
Due after five years through ten years	448,759	450,522	448,172
Due after ten years	782,923	796,120	781,224
Loan-backed securities	341,008	338,585	340,948
Total	$ 1,986,281	$ 2,006,330	$ 1,982,609

The Corporation's investments in loan-backed securities are comprised of mortgage-backed and asset-backed instruments which are subject to concentrations of credit risk. If parties to the instruments fail to perform to the terms of the contracts and the collateral for the amounts due prove to be inadequate, the Corporation could lose all or a portion of its investment in these securities. The Corporation uses the retrospective adjustment method regarding prepayment assumptions, which are generally obtained from broker dealer survey values. The Corporation has no loan-backed securities that were acquired prior to January 1, 1994. The Corporation did not hold any loan-backed securities with a material negative yield at December 31, 2013 or 2012.

In deciding whether impairments are other-than-temporary, the Corporation may consider several factors, including the adequacy of collateral, probability of default, and estimates regarding timing and amount of recoveries associated with a default.

The Corporation has the ability and intent to retain all loan-backed securities with a recognized other-than-temporary impairment. There were no other-than-temporary impairments recognized on loan-backed securities for the year ended December 31, 2013.

The following is an analysis of other-than-temporary impairments recognized on loan-backed securities in 2012:

CUSIP	Book/Adj Carrying Value Amortized Cost Before Current Period OTTI	Present Value of Projected Cash Flows	Recognized Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value at Time of OTTI	Date of Financial Statement Where Reported
92925VAA8	$ 335	$ 332	$ 3	$ 332	$ 245	06/30/2012
933634AA5	367	351	16	351	265	06/30/2012
93364EAC8	610	588	22	588	589	12/31/2012
			$ 41			

The Corporation has assets pledged as collateral or otherwise restricted related to assets pledged as collateral not captured in other categories of $891,441 at December 31, 2013. These assets collateralize the $600,000 term loan disclosed in Note 14 – Borrowed Money. This amount was included in admitted assets and represented 11.19% and 11.69% of total assets and total admitted assets, respectively at December 31, 2013. There were no assets pledged as collateral not captured in other categories at December 31, 2012. The Corporation also had other restricted assets of $310,028 and $291,638 at December 31, 2013 and 2012, respectively, related to the trust established

(in thousands of dollars)

to meet a licensing requirement of the BCBSA as disclosed in Note 5 – Regulation. These amounts were included in admitted assets and represented 3.89% and 4.07% of total assets and total admitted assets, respectively at December 31, 2013 and 3.58% and 4.00% of total assets and total admitted assets, respectively at December 31, 2012.

The following is a summary of gross realized capital gains (losses) and other-than-temporary impairments on investments for the years ended December 31, 2013 and 2012:

	2013	2012
Bonds		
Gross realized capital gains	$ 54,721	$ 28,525
Gross realized capital losses	(11,345)	(4,388)
Other-than-temporary impairment	-	(41)
Net realized gain on bonds	43,376	24,096
Unaffiliated Stocks		
Gross realized capital gains	38,992	82,431
Gross realized capital losses	(773)	(13,369)
Other-than-temporary impairment	(2,645)	(7,187)
Net realized gain (loss) on unaffiliated stocks	35,574	61,875
Affiliated Stocks		
Gross realized capital gains	-	19,755
Gross realized capital losses	(13,324)	-
Net realized (loss) gain on affiliated stocks	(13,324)	19,755
Net realized capital gains	$ 65,626	$ 105,726

OTTI's recognized in 2013 resulted from the extent and duration of fair value declines due to market conditions, along with minor credit related concerns. Impaired securities included mainly stock securities within the domestic retail, communications, and financial services sectors, along with international developed markets.

The following is a summary of net investment income for the years ended December 31, 2013 and 2012:

	2013	2012
Investment income		
Interest on bonds	$ 68,882	$ 46,849
Dividends on stocks	489,330	264,653
Interest on other investments	13,264	26,203
Change in cash surrender value of corporate-owned life insurance	9,373	5,220
Other, includes interest on cash, cash equivalents and short-term investments	3,537	2,449
Gross investment income	584,386	345,374
Less investment and interest expenses	(67,685)	(71,249)
Net investment income	$ 516,701	$ 274,125

Investment income due and accrued is excluded from the statutory financial statements for all investment income due on any invested asset that is 90 days or more past due. Interest on surplus

(in thousands of dollars)

notes is excluded if approval of such interest has not been granted by the commissioner of the state of domicile. The total amount of surplus note interest excluded at December 31, 2013 and December 31, 2012 was $98 and $98, respectively.

The Corporation's exposure to subprime residential mortgage-backed securities is comprised of investments within the bond portfolio that contain securities collateralized by mortgages or home equity loans that have characteristics of subprime loans, including deteriorating credit ratings, credit scores or delinquency rates. The Corporation performs ongoing analysis of cash flows and other stress variables and manages its subprime risk exposure by maintaining high credit quality investments and by limiting the Corporation's holdings in these types of investments.

The Corporation's exposure to subprime residential mortgage-backed securities is comprised of investments within the bond portfolio that contain securities collateralized by mortgages or home equity loans that have characteristics of subprime loans, including deteriorating credit ratings, credit scores or delinquency rates. At December 31, 2013 and 2012, the book/adjusted carrying value of these investments was $4,809 and $6,674, respectively, which represented less than 1% of the Corporation's total bond portfolio. No OTTIs relating to these securities were recorded at December 31, 2013 and OTTIs of $38 related to these securities were recorded in the statutory statements of admitted assets, liabilities and surplus at December 31, 2012. The Corporation performs ongoing analysis of cash flows and other stress variables and manages its subprime risk exposure by maintaining high credit quality investments and by limiting the Corporation's holdings in these types of investments.

7. Fair Value of Financial Instruments

In accordance with SSAP No. 100, financial assets and liabilities recorded at fair value in the statutory statements of admitted assets, liabilities and surplus and disclosed at fair value in the statutory financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Input levels, as defined by NAIC SAP, are as follows:

Level 1 – Pricing inputs are based on unadjusted quoted market prices for identical financial assets in active markets. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are based on other than unadjusted quoted prices in active markets included in Level 1 and include observable unadjusted quoted market prices for similar financial assets or liabilities in active markets or quoted market prices for identical assets in inactive markets.

Level 3 – Pricing inputs include unobservable inputs that are supported by little or no market activity that reflect management's best estimate of what market participants would use in pricing the asset at the measurement date.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities:

Bonds: Fair values are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally uses Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Government securities issued by the U.S. Treasury represent Level 1 securities, while Level 2 securities include U.S. Government securities issued by other agencies of the U.S. Government, corporate securities, obligations of states and political subdivisions of the U.S. and mortgage-

(in thousands of dollars)

backed securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. The Corporation has certain fixed maturity securities, primarily WPAHS Bonds and other corporate debt, which are designated as Level 3 securities. For these securities, the valuation methodologies may incorporate broker quotes or assumptions for benchmark yields, credit spreads, default rates and prepayment speeds that are not observable in the markets.

Preferred stocks: Certain preferred stocks have fair values based on quoted market prices and are designated as Level 1. For certain preferred stocks, quoted market prices for the identical security are not available and the fair value is estimated by reference to similar securities for which quoted prices are available. These securities are designated Level 2. The Corporation also has certain preferred stocks for which the fair value is estimated based on each security's current condition and future cash flow projections. Such securities are designated Level 3.

Common stocks: Fair values are generally designated as Level 1 and are based on quoted market prices. For certain common stocks, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar or underlying securities for which quoted prices are available. These securities are designated Level 2. The Corporation also has certain common stock, including private equity securities and interests in limited partnerships, for which the fair value is estimated based on each security's current condition and future cash flow projections or based on the Corporation's share of the entities' undistributed earnings, which approximates fair value. Such securities are designated Level 3. Certain common stocks' prices have been estimated using the net asset value per share of the investments, which are based on market prices of underlying securities. At December 31, 2013 and 2012, the Corporation held securities with fair value of $308,361 and $310,672, respectively, the pricing of which was based on assigned net asset values.

Other invested assets: Other assets include surplus debentures, loans to affiliates, ownership interest in real estate investment trusts and certain equity securities, including private equity securities. Fair values of real estate trusts are approximated based on trustee estimates. Fair value of equity securities is estimated based on each security's current condition and future cash flow projections or based on the Corporation's share of the entities' undistributed earnings, which approximates fair value. Such securities are designated Level 3.

Short-term securities: Short-term securities include Class 1 and exempt money market accounts, and securities with a maturity of less than one year but greater than 90 days at the date of purchase. Fair values of short-term securities are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally use Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Government securities represent Level 1 securities, while Level 2 securities include corporate securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

Cash and cash equivalents: Cash equivalents include commercial paper, discount notes or securities with a maturity of 3 months or less, and bank deposits that are purchased or deposited daily with specified yield rates. Cash equivalents are designated as Level 1 or Level 2, depending on structure and the extent of credit-related features.

Derivative assets (interest rate swaps): The fair value of the interest rate swaps is based on the quoted market prices by the financial institution that is the counterparty to the swap. Prices

(in thousands of dollars)

provided by the counterparties are independently verified by using valuation models that incorporate market observable inputs for similar interest rate swaps.

Securities lending collateral assets: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures.

The Corporation uses a third party pricing service to obtain quoted prices for each security. The third party service provides pricing based on recent trades of the specific security or like securities, as well as a variety of valuation methodologies for those securities where an observable market price may not exist. The third party service may derive pricing for Level 2 securities from market corroborated pricing, matrix pricing, discounted cash flow analysis and inputs such as yield curves and indices. Pricing for Level 3 securities may be obtained from investment managers for private placements or derived from discounted cash flows, or ratio analysis and price comparisons of similar companies. The Corporation performs an analysis of reasonableness of the prices received for fair value by monitoring month-to-month fluctuations and determining reasons for significant differences, selectively testing of fair values against prices obtained from other sources, and comparing the combined fair value of a class of assets against an appropriate index benchmark. The Corporation did not make adjustments to the quoted market prices obtained from third party pricing services during the years ended December 31, 2013 and 2012 that were material to the statutory financial statements.

The following table summarizes fair value measurements by level at December 31, 2013 for financial assets measured at fair value:

	Total Fair Value	Level 1	Level 2	Level 3
Bonds				
Mortgage-backed securities:				
Residential	$ 512	$ -	$ 512	$ -
Industrial and miscellaneous securities	25,758	-	17,591	8,167
Affiliated bonds	573,829	-	-	573,829
Total bonds	$ 600,099	$ -	$ 18,103	$ 581,996
Stocks				
Preferred stocks - unaffiliated				
Domestic	$ 3,551	$ 1,703	$ 1,848	$ -
Common stocks - unaffiliated				
Domestic	626,380	403,191	208,640	14,549
Foreign	200,975	200,975	-	-
Total stocks	$ 830,906	$ 605,869	$ 210,488	$ 14,549
Total	$ 1,431,005	$ 605,869	$ 228,591	$ 596,545

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2012 for financial assets measured at fair value:

	Total Fair Value	Level 1	Level 2	Level 3
Bonds				
Mortgage-backed securities:				
Residential	$ 1,825	$ -	$ 1,825	$ -
Industrial and miscellaneous securities	10,415	-	9,247	1,168
Total bonds	$ 12,240	$ -	$ 11,072	$ 1,168
Stocks				
Preferred stocks - affiliated				
Domestic	$ 160	$ -	$ -	$ 160
Preferred stocks - unaffiliated				
Domestic	1,573	1,573	-	-
Common stocks - unaffiliated				
Domestic	536,607	341,370	181,231	14,006
Foreign	195,305	195,305	-	-
Total stocks	$ 733,645	$ 538,248	$ 181,231	$ 14,166
Total	$ 745,885	$ 538,248	$ 192,303	$ 15,334

Transfers between levels, if any, are recorded annually as of the end of the reporting period unless, with respect to a particular issue, a significant event occurred that necessitated the transfer be reported at the date of the event.

There were no significant transfers between Level 1 and 2 during the years ended December 31, 2013 and 2012.

The changes in fair value for assets measured using significant unobservable inputs (Level 3) for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Balance at January 1	$ 15,334	$ 28,336
Total gains or losses		
Realized loss on investments	148	(79)
Unrealized net holding gains arising during the period	14	639
Purchases	584,862	5,692
Sales	(5,694)	(7,771)
Issuances	-	-
Settlements	-	-
Transfers into Level 3	14,734	8,023
Transfers out of Level 3	(12,853)	(19,506)
Balance at December 31	$ 596,545	$ 15,334

There were no significant transfers between Level 2 and Level 3 for the years ended December 31, 2013 and 2012.

(in thousands of dollars)

The following table summarizes the aggregate fair value for all financial assets by level and the related admitted values at December 31, 2013:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds						
U.S. Government	$ 320,280	$ 306,082	$ 260,934	$ 59,346	$ -	$ -
All other government	3,589	3,707	-	3,589	-	-
States, territories, and possessions	272	268	-	272	-	-
Obligations of states and political sub-divisions of the U.S.	3,770	3,916	-	3,770	-	-
Special revenue & special assessment obligations	359,691	366,991	-	359,691	-	-
Mortgage-backed securities						
Residential	4,800	4,589	-	4,800	-	-
Commercial	18,018	18,239	-	18,018	-	-
Asset backed securities	5,493	5,451	-	5,493	-	-
Other loan-backed and structured securities	12,210	10,981	-	12,210	-	-
Industrial and miscellaneous securities	704,378	688,556	-	658,115	46,263	-
Affiliated bonds	573,829	573,829	-	-	573,829	-
Total bonds	2,006,330	1,982,609	260,934	1,125,304	620,092	-
Stocks						
Preferred stocks - unaffiliated						
Domestic	4,369	4,369	2,521	1,848	-	-
Foreign	1,345	1,155	1,345	-	-	-
Common stocks - unaffiliated						
Domestic	626,380	626,380	403,191	208,640	14,549	-
Foreign	200,975	200,975	200,975	-	-	-
Common stocks - affiliated						
Domestic	-	2,119,649	-	-	-	2,119,649
Total stocks	833,069	2,952,528	608,032	210,488	14,549	2,119,649
Other invested assets	256,582	874,448	-	-	256,582	617,866
Short-term securities	347,394	347,339	289,276	58,118	-	-
Cash and cash equivalents	153,411	153,415	133,980	19,431	-	-
Securities lending collateral assets	131,587	131,590	5,108	126,479	-	-
Total	$ 3,728,373	$ 6,441,929	$ 1,297,330	$ 1,539,820	$ 891,223	$ 2,737,515

(in thousands of dollars)

The following table summarizes the aggregate fair value for all financial assets by level and the related admitted values at December 31, 2012:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practicable (Carrying Value)
Bonds						
U.S. Government	$ 406,700	$ 347,228	$ 309,670	$ 97,030	$ -	$ -
All other government	2,560	2,560	-	2,560	-	-
Obligations of states and political sub-divisions of the U.S.	2,589	2,626	-	2,589	-	-
Special revenue & special assessment obligations	427,079	419,710	-	427,079	-	-
Mortgage-backed securities						
Residential	6,127	5,913	-	6,127	-	-
Commercial	11,317	10,896	-	11,317	-	-
Asset backed securities	3,787	3,737	-	3,787	-	-
Other loan-backed and structured securities	20,870	19,880	-	20,870	-	-
Industrial and miscellaneous securities	705,033	666,661	-	660,645	44,388	-
Total bonds	1,586,062	1,479,211	309,670	1,232,004	44,388	-
Stocks						
Preferred stocks - unaffiliated						
Domestic	5,610	4,875	5,610	-	-	-
Foreign	2,239	2,001	2,239	-	-	-
Preferred stocks - affiliated						
Domestic	160	160	-	-	160	-
Common stocks - unaffiliated						
Domestic	536,607	536,607	341,370	181,231	14,006	-
Foreign	195,305	195,305	195,305	-		-
Common stocks - affiliated						
Domestic	-	2,978,280	-	-	-	2,978,280
Total stocks	739,921	3,717,228	544,524	181,231	14,166	2,978,280
Other invested assets	232,751	343,101	-	-	232,751	110,350
Short-term securities	355,246	355,248	299,787	55,459	-	-
Cash and cash equivalents	45,378	45,380	4,581	40,797	-	-
Derivative assets (interest rate swaps)	4,570	4,570	-	4,570	-	-
Securities lending collateral assets	176,062	176,074	3,842	172,220	-	-
Total	$ 3,139,990	$ 6,120,812	$ 1,162,404	$ 1,686,281	$ 291,305	$ 3,088,630

At December 31, 2013, the Corporation held affiliated common stock, affiliated surplus debentures and affiliated loans with carrying values of $2,119,649, $280,000 and $337,865, respectively. At December 31, 2012, the Corporation held affiliated common stock, affiliated surplus debentures and affiliated loans with carrying values of $2,978,280, $30,000 and $80,350, respectively. It is not practicable to estimate the fair value of these financial assets as it is not cost effective to have a valuation performed.

(in thousands of dollars)

8. Investments in Subsidiary and Affiliate Stocks

The following tables summarize the Corporation's cost and book/adjusted carrying value of its subsidiaries and affiliates at December 31, 2013 and 2012:

	2013	
	Cost	**Book/Adjusted Carrying Value**
Health insurance subsidiaries and affiliates	$ 167,000	$ 271,652
Life and casualty insurance subsidiaries	179,801	454,531
Dental insurance subsidiary	73,750	397,485
Vision services subsidiary	490,851	881,973
Other	368,802	114,008
Total	$ 1,280,204	$ 2,119,649

	2012	
	Cost	**Book/Adjusted Carrying Value**
Health insurance subsidiaries and affiliates	$ 736,967	$ 1,145,083
Life and casualty insurance subsidiaries	179,801	405,626
Dental insurance subsidiary	73,750	399,944
Vision services subsidiary	470,850	882,804
Other	368,208	144,983
Total	$ 1,829,576	$ 2,978,440

The Corporation's carrying value of its interest in HVHC Inc. ("HVHC"), a wholly owned noninsurance subsidiary, was 11.6% and 12.1% of the Corporation's admitted assets at December 31, 2013 and 2012, respectively. At December 31, 2013 the carrying value in HVHC was $76,085 lower than the aggregate audited GAAP equity value due to the measurement of its underlying investments. There was no difference between the amount at which this investment was carried and its aggregate audited GAAP equity value as of December 31, 2012. HVHC's assets, liabilities and net income at December 31, 2013 were $1,230,377, $272,319 and $52,898, respectively. HVHC's assets, liabilities and net income at December 31, 2012 were $1,283,471, $400,667 and $64,674, respectively.

In 2013, the Corporation utilized the look-through approach in valuing its investment in HVHC and Standard Property Corporation ("SPC"), a wholly owned holding company for the Corporation's real estate. In 2012, the Corporation utilized the look-through approach in valuing its investments in HVHC, HMPG Inc. ("HMPG"), a wholly-owned noninsurance subsidiary, and SPC. Because the financial statements of these downstream noninsurance holding companies are not audited or do not include the audited consolidating schedules, the Corporation has limited the value of its investment in HVHC and SPC to the value contained in the audited financial statements of SCA entities and/or non-SCA SSAP No. 48 *Joint Ventures, Partnerships and Limited Liability Companies* ("SSAP No. 48") entities owned by the holding companies in accordance with SSAP No. 97. At December 31, 2013 and 2012, the value of HVHC was $881,973 and $882,804, respectively. At December 31, 2013, the value SPC was $0 as none of its underlying investments were audited. At December 31, 2012, the value of SPC was $33,814. At December 31, 2012, the value of HMPG was $0 as none of its underlying investments were audited. All liabilities, commitments, contingencies, guarantees or obligations of HVHC and SPC that are required to be recorded in the statutory statements of

(in thousands of dollars)

admitted assets, liabilities and surplus are reflected in the Corporation's determination of their carrying values.

9. Health Care Receivables

The following is an analysis of pharmaceutical rebates receivable:

Quarter Ended	Estimated Pharmaceutical Rebates as Reported	Pharmaceutical Rebates as Invoiced or Confirmed	Actual Rebates Collected Within 90 Days	Actual Rebates Collected Within 91-180 Days	Actual Rebates Collected More Than 180 Days
12/31/13	$ 42,116	$ -	$ -	$ -	$ -
09/30/13	$ 40,949	$ 41,019	$ 6,421	$ -	$ -
06/30/13	$ 39,052	$ 39,419	$ 32,136	$ 2,902	$ -
03/31/13	$ 38,194	$ 38,628	$ 26,954	$ 9,755	$ 1,871
12/31/12	$ 37,869	$ 39,477	$ 31,020	$ 6,370	$ 1,968
09/30/12	$ 37,846	$ 39,375	$ 35,310	$ 2,450	$ 1,615
06/30/12	$ 37,516	$ 38,860	$ 35,914	$ 1,260	$ 1,686
03/31/12	$ 36,277	$ 37,245	$ 32,735	$ 2,919	$ 1,591
12/31/11	$ 41,812	$ 43,755	$ 33,797	$ 2,992	$ 6,943
09/30/11	$ 42,548	$ 44,609	$ 32,315	$ 3,275	$ 9,019
06/30/11	$ 43,503	$ 45,289	$ 29,712	$ 5,643	$ 9,933
03/31/11	$ 43,432	$ 44,554	$ 23,396	$ 10,484	$ 10,674

10. Reinsurance

The Corporation assumes reinsurance from and cedes reinsurance to affiliate and non-affiliate reinsurers under various agreements. Reinsurance activity is reported in reinsurance recoverable, funds held by reinsurers, amounts receivable under reinsurance contracts, claims unpaid, ceded reinsurance premiums payable and funds held under reinsurance treaties in the statutory statements of admitted assets, liabilities, and surplus. Premium income, claims incurred, claims adjustment expenses, and general administrative expenses are presented net of reinsurance. Reinsurance is assumed and ceded principally on a quota share basis.

The insurance company which assumes the coverage assumes the related liability; however, the Corporation is contingently liable with respect to risks ceded in the event assuming reinsurers are unable to meet their obligations.

The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer's insolvencies. During 2013 and 2012, there were no write-offs relating to uncollectible reinsurance.

(in thousands of dollars)

The effect of reinsurance, including the agreements described above, is as follows:

		2013		2012
Premiums earned				
Direct	$	6,198,592	$	5,927,157
Assumed		12,286		15,291
Ceded		(10,349)		(3,863,686)
Net premiums earned	$	6,200,529	$	2,078,762

In accordance with the HHIC agreement, the Corporation recorded the following for the year ended December 31, 2012:

Ceded premiums earned	$	3,854,104
Ceded claims incurred	$	3,533,166
Ceded claim adjustment expenses	$	122,271
Ceded general administrative expenses	$	181,253

(in thousands of dollars)

11. Claims Unpaid

Activity in the liability for claims unpaid and gross health care receivables under insured arrangements for the years ended December 31, 2013 and 2012 are summarized as follows:

	2013	2012
Claims unpaid at January 1	$ 213,039	$ 203,197
Health care receivables	(41,005)	(45,323)
Reinsurance recoverables	(118,623)	(142,738)
Accrued medical incentive pool	9,078	9,881
Net balance at January 1	62,489	25,017
Commutation and release reinsurance transaction	464,914	-
Incurred related to		
Current year	5,713,086	1,887,348
Prior year	(88,805)	(22,011)
Total incurred claims	5,624,281	1,865,337
Paid related to		
Current year	5,205,899	1,699,930
Prior year	427,265	127,935
Total paid claims	5,633,164	1,827,865
Net balance at December 31	518,520	62,489
Health care receivables	40,845	41,005
Reinsurance recoverables	3,544	118,623
Accrued medical incentive pool	(9,246)	(9,078)
Claims unpaid at December 31	$ 553,663	$ 213,039

Negative amounts reported in 2013 and 2012 for prior year incurred claims resulted from claims being settled for amounts less than originally estimated due to lower than estimated utilization. Management has established estimates for claims unpaid to satisfy its ultimate claims liability. However, these estimates are inherently subject to a number of highly variable circumstances. Consequently, actual results could differ materially from the amounts recorded in the statutory financial statements.

12. Employee Benefit Plans

The Corporation sponsors a non-contributory defined benefit pension plan (the “pension plan”), which covers certain employees of the Corporation and the Corporation’s participating subsidiaries and affiliates which meet age and service requirements. The pension plan provides participants with a frozen legacy benefit as well as a cash-balance account consisting of pay credits, based on age and years of service, interest credits and limited transition credits. The Corporation funds its pension plan in accordance with limits specified by the Employee Retirement Income Security Act of 1974, as amended.

(in thousands of dollars)

The Corporation also sponsors a defined benefit other postretirement plan (the "other postretirement plan"), which provides various postretirement health and life insurance benefits to the Corporation's retirees and certain retirees of the Corporation's participating subsidiaries and affiliates. Effective January, 1, 2012, HWV merged its other postretirement plan into the Corporation's other postretirement plan. For accounting and reporting purposes, separate assets and liabilities are maintained. The Corporation uses a voluntary employees' beneficiary association ("VEBA") trust to fund its other postretirement plan benefits.

On January 1, 2013, there was a net reduction to surplus of $171,786 from the adoption of SSAPs No. 92 and 102. The following summarizes the impact of adoption:

	Pension Benefits	Postretirement Benefits	Nonqualified Pension Benefits
Unrecognized costs	$ (334,504)	$ (122,615)	$ (32,130)
Nonvested benefit obligation	(1,766)	(75,346)	-
Impact of SSAP No. 102 and No. 92 adoption	(336,270)	(197,961)	(32,130)
Change in nonadmitted assets	305,767	59,373	29,435
Net reduction in surplus	$ (30,503)	$ (138,588)	$ (2,695)

A summary of assets, obligations and assumptions of the pension and other postretirement plan at December 31, 2013 and 2012 were as follows:

	Overfunded		Underfunded	
	2013	2012	2013	2012
Change in benefit obligation				
Pension Benefits				
Benefit obligation at beginning of year	$ 1,739,457	$ -	$ -	$ 1,544,058
Service cost	57,116	-	-	53,818
Interest cost	70,721	-	-	69,879
Actuarial (gain) loss	(189,192)	-	-	118,817
Benefits paid	(52,010)	-	-	(46,127)
Plan amendments	1,765	-	-	-
Business combinations, divestitures, curtailments, settlements and special	-	-	-	(988)
Benefit obligation at end of year	$ 1,627,857	$ -	$ -	$ 1,739,457
Postretirement Benefits				
Benefit obligation at beginning of year	$ -	$ -	$ 300,484	$ 260,571
Service cost	-	-	22,465	22,313
Interest cost	-	-	12,668	10,459
Contribution by plan participants	-	-	2,821	2,539
Actuarial (gain) loss	-	-	(33,535)	14,381
Benefits paid	-	-	(16,166)	(12,983)
Plan amendments	-	-	76,763	-
Benefit obligation at end of year	$ -	$ -	$ 365,500	$ 297,280

(in thousands of dollars)

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Change in plan assets				
Fair value of plan assets at beginning of year	$ 1,632,147	$ 1,457,061	$ 237,242	$ 211,018
Actual return on plan assets	36,647	164,556	29,233	17,943
Reporting entity contribution	51,473	56,657	14,493	18,577
Plan participants' contributions	-	-	2,482	2,539
Benefits paid	(52,010)	(46,127)	(12,931)	(12,834)
Fair value of plan assets at end of year	$ 1,668,257	$ 1,632,147	$ 270,519	$ 237,243

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Funded status				
Overfunded:				
Assets (nonadmitted)				
Prepaid benefits costs	$ 261,346	N/A	$ -	N/A
Overfunded plan assets	(220,946)	N/A	-	N/A
Total assets (nonadmitted)	$ 40,400	N/A	$ -	N/A
Underfunded:				
Liabilities recognized				
Accrued benefit costs	$ -	N/A	$ 270,519	N/A
Liability for pension benefits	-	N/A	(365,500)	N/A
Total liabilities recognized	$ -	N/A	$ (94,981)	N/A
Unrecognized liabilities	$ -	N/A	$ -	N/A

The Corporation recognized an additional minimum pension liability of $78,573 at December 31, 2012.

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Components of net periodic benefit cost				
Service cost	$ 57,116	$ 53,818	$ 22,465	$ 22,313
Interest cost	70,721	69,879	12,668	10,459
Expected return on plan assets	(117,384)	(102,333)	(11,550)	(10,632)
Gains and losses	31,325	35,145	8,198	3,613
Prior service cost or credit	(24,457)	(26,223)	15,947	1,027
Gain or loss recognized due to a settlement or curtailment	-	(19,946)	-	3,525
Total net periodic benefit costs	$ 17,321	$ 10,340	$ 47,728	$ 30,305

(in thousands of dollars)

	Pension Benefits 2013	Pension Benefits 2012	Postretirement Benefits 2013	Postretirement Benefits 2012
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost				
Items not yet recognized as a component of net periodic cost - prior year	$ 334,504	N/A	$ 122,615	N/A
Net prior service cost or credit arising during the period	1,765	N/A	76,763	N/A
Net prior service cost or credit recognized	24,457	N/A	(15,947)	N/A
Net gain and loss arising during the period	(108,455)	N/A	(51,369)	N/A
Net gain and loss recognized	(31,325)	N/A	(8,198)	N/A
Items not yet recognized as a component of net periodic cost - current year	$ 220,946	N/A	$ 123,864	N/A

	Pension Benefits 2013	Pension Benefits 2012	Postretirement Benefits 2013	Postretirement Benefits 2012
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost				
Net transition asset or obligation	$ -	N/A	$ -	N/A
Net prior service cost or credit	(26,000)	N/A	16,000	N/A
Net recognized gains and losses	21,000	N/A	3,000	N/A
Total	$ (5,000)	N/A	$ 19,000	N/A

	Pension Benefits 2013	Pension Benefits 2012	Postretirement Benefits 2013	Postretirement Benefits 2012
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost				
Net transition asset or obligation	$ -	$ -	$ -	$ -
Net prior service cost or credit	(228,550)	(254,773)	63,710	2,894
Net recognized gains and losses	449,496	589,277	60,154	119,721
Total	$ 220,946	$ 334,504	$ 123,864	$ 122,615

(in thousands of dollars)

	2013	2012
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31		
Weighted-average discount rate		
Pension benefits	4.10%	4.60%
Postretirement benefits	3.50%	4.30%
Expected long-term rate of return - pension benefits	7.25%	7.25%
Rate of compensation increase	3.40% - 7.50%	3.50% - 8.00%
Weighted-average assumptions used to determine projected benefit obligations at December 31		
Weighted-average discount rate		
Pension benefits	4.90%	4.10%
Postretirement benefits	4.30%	3.50%
Rate of compensation increase	3.40% - 7.50%	3.40% - 7.50%

For measurement purposes at December 31, 2013, a 7.26% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014. The rate assumed was assumed to gradually decrease to 4.50% by the year 2028 and remain at that level thereafter.

The amount of the accumulated benefit obligation for the pension plan was $1,598,918 and $1,710,720 at December 31, 2013 and 2012, respectively.

	1 Percentage Point Increase	1 Percentage Point Decrease
Assumed health care cost trend rates have a significant effect on the amounts reported in the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:		
Effect on total of service and interest cost components	$ 800	$ (900)
Effect on postretirement benefit obligation	$ 12,000	$ (12,000)

Estimated benefit payments are expected as follows:

Year	Pension Benefits	Postretirement Benefits
2014	$ 54,000	$ 20,000
2015	$ 60,000	$ 22,000
2016	$ 66,000	$ 25,000
2017	$ 72,000	$ 27,000
2018	$ 78,000	$ 29,000
2019-2023	$ 492,000	$ 177,000

The Corporation does not have any regulatory contribution requirements in 2014; however, the Corporation currently intends to make voluntary contributions to the pension plan and postretirement plan of $52,400 and $13,800, respectively, in 2014.

In connection with the sale of HMS in January 2012, the Corporation recognized curtailment gains of $19,946 in the pension plan and $245 in the nonqualified pension plan and a curtailment loss of $3,525 in the other postretirement plan. The net amount was recognized in aggregate write-ins for other expense in the statutory statements of revenue and expenses.

(in thousands of dollars)

The Corporation also sponsors unfunded nonqualified supplemental retirement plans (the "nonqualified retirement plans") covering certain eligible employees. The weighted-average assumptions used in the measurement of the nonqualified plans were consistent with the assumptions used in the measurement of pension plan and adjusted, when needed, for nonqualified plan specific characteristics. At December 31, 2013 and 2012, the Corporation's nonqualified retirement plan benefit obligation exceeded the nonqualified retirement plan liability recognized in the statutory statements of admitted assets, liabilities and surplus of $59,354 and $66,413, respectively. At December 31, 2012, the liability for nonqualified retirement plans included additional minimum pension liabilities of $29,435. In 2012, lump sum benefit payments of $5,846 in the nonqualified supplement retirement plan resulted in recognition of a settlement loss of $3,120, recognized in other expenses, net in the statutory statements of revenue and expenses.

For the pension plan, the Corporation's overall investment strategy is to achieve a mix of 96% of investments for long-term growth and 4% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 30% equity securities, 56% fixed income securities, 4% cash equivalents and 10% alternative investments. Equity securities primarily include stock investments in U.S., developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries, domestic mortgage-backed securities and U.S. Treasury securities. Alternative investments include investments in real estate and private equity funds that follow several different strategies.

For the other postretirement plan, the Corporation's overall investment strategy is to achieve a mix of 95% of investments for long-term growth and 5% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 62% equity securities, 33% fixed income securities and 5% cash equivalents. Equity securities primarily include stock investments in U.S., developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries, and bonds of U.S. and foreign governments and agencies.

The following methods and assumptions were used to determine the fair value of each class of the following assets recorded at fair value:

Cash and cash equivalents: Cash and cash equivalents include domestic and international bank deposits designated as Level 1 and bank issued repurchased agreements designated as Level 2.

Bonds: Fair values of bonds are based on quoted market prices, where available. These fair values are obtained primarily form a third party pricing service, which generally uses Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Government securities issued by the U.S. Treasury represent Level 1 securities, while Level 2 securities include U.S. Government securities issued by other agencies of the U.S. Government, corporate securities, obligations of states and political subdivisions of the United States and mortgage-backed securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

Stocks: The fair value of stocks is based on quoted market prices and is designated as Level 1.

Registered investment funds: Shares of registered investment company funds are valued at quoted market prices, which represent the net asset value of the issuer's shares. The shares held by the Plan are valued using the issuer's net asset value and are designated as Level 1. Shares

(in thousands of dollars)

of certain registered investment company funds not frequently traded in the marketplace are designated as Level 2.

Common collective trust funds: The fair value of common collective trust funds is measured by the net unit value, which is based on the fair value of underlying investments. Fair values of common collective trusts are designated as Level 2 assets.

Private equity limited partnerships: The fair value of the private equity limited partnerships is estimated based on each security's current condition and future cash flow projections or based on the Plan's share of undistributed earnings, which approximates fair value. Such investments are designated Level 3.

The following table summarizes the fair value measurements by level at December 31, 2013:

Pension Plan	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 299	$ 3,800	$ -	$ 4,099
Bonds				
U.S. government	295,581	27,342	-	322,923
Mortgage-backed securities	-	998	-	998
All other government	-	3,659	-	3,659
Corporate debt securities	-	293,072	-	293,072
Other debt securities	-	60,462	-	60,462
Total bonds	295,581	385,533	-	681,114
Stocks				
Domestic	158,788	-	-	158,788
Foreign	135,403	-	-	135,403
Total stocks	294,191	-	-	294,191
Registered investment funds	378,502	-	-	378,502
Common collective trust funds	-	266,645	-	266,645
Private equity limited partnerships	-	-	41,667	41,667
Total pension plan assets	$ 968,573	$ 655,978	$ 41,667	$ 1,666,218
Postretirement Benefit Plan				
Corporate bonds	$ -	$ 7,727	$ -	$ 7,727
Other bonds	-	537	-	537
Domestic stocks	36,502	-	-	36,502
Registered investment funds	225,566	-	-	225,566
Total postretirement benefit plan assets	$ 262,068	$ 8,264	$ -	$ 270,332

At December 31, 2013, the fair value of pension plan assets excluded guaranteed insurance contract assets of $4,361, carried at contract value and other receivables, offset by accrued expenses of $2,322.

At December 31, 2013, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $187.

(in thousands of dollars)

The following table summarizes the fair value measurements by level at December 31, 2012:

Pension Plan	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 445	$ -	$ -	$ 445
Bonds				
U.S. government	356,355	27,167	-	383,522
Mortgage-backed securities	-	1,339	-	1,339
All other government	-	3,930	-	3,930
Corporate debt securities	-	316,207	-	316,207
Other debt securities	-	61,373	-	61,373
Total bonds	356,355	410,016	-	766,371
Stocks				
Domestic	130,890	-	-	130,890
Foreign	106,196	-	-	106,196
Total stocks	237,086	-	-	237,086
Registered investment funds	381,503	-	-	381,503
Common collective trust funds	-	217,074	-	217,074
Private equity limited partnerships	-	-	27,256	27,256
Total pension plan assets	$ 975,389	$ 627,090	$ 27,256	$ 1,629,735
Postretirement Benefit Plan				
Cash	$ 4	$ -	$ -	$ 4
Corporate debt securities	-	6,347	-	6,347
Other debt securities	-	502	-	502
Domestic stocks	26,930	-	-	26,930
Registered investment funds	203,397	-	-	203,397
Total postretirement benefit plan assets	$ 230,331	$ 6,849	$ -	$ 237,180

At December 31, 2012, the fair value of pension plan assets excluded guaranteed insurance contract assets of $5,042, carried at contract value and other receivables, offset by accrued expenses of $2,630.

At December 31, 2012, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $63.

The following table summarizes the fair value measurements in Level 3 of the fair value hierarchy at December 31, 2013:

	Beginning Balance at 01/01/2013	**Transfer into Level 3**	**Transfers out of Level 3**	**Return on Assets Still Held**	**Return on Assets Sold**	**Purchases**	**Issuance**	**Sales**	**Settlements**	**Ending Balance at 12/31/2013**
Private equity limited partnerships	$ 27,256	$ -	$ -	$ 1,514	$ -	$ 19,072	$ 1,646	$ -	$ (7,822)	$ 41,667

The following table summarizes the fair value measurements in Level 3 of the fair value hierarchy at December 31, 2012:

	Beginning Balance at 01/01/2012	**Transfer into Level 3**	**Transfers out of Level 3**	**Return on Assets Still Held**	**Return on Assets Sold**	**Purchases**	**Issuance**	**Sales**	**Settlements**	**Ending Balance at 12/31/2012**
Private equity limited partnerships	$ 15,194	$ -	$ -	$ 581	$ -	$ 12,653	$ 1,122	$ -	$ (2,293)	$ 27,256

(in thousands of dollars)

The expected return on pension plan assets is developed using inflation expectations and risk factors to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets. The expected return on other postretirement plan assets is developed based on historical returns and the future expectations for returns for each asset class as well as the asset allocation of the other postretirement plan assets.

The Corporation sponsors a defined contribution savings plan (the “savings plan”) covering substantially all of its employees and employees of certain participating subsidiaries. The savings plan allows participating employees to contribute a percentage of their annual salaries, subject to current IRS limitations. Employee contributions are matched by the Corporation at various percentages. The Corporation’s defined contribution expense related to the savings plan was $23,305 and $19,621 in 2013 and 2012, respectively.

The Corporation also sponsors deferred compensation plans for certain eligible employees. Participating employees may contribute a certain amount of their annual compensation to these plans. The Corporation matches a portion of those deferrals and pays interest on the deferrals at various rates. The Corporation made matching contributions to the deferred compensation plans of $980 and $633 in 2013 and 2012, respectively. Deferred compensation plan liabilities of $47,658 and $39,571 were recognized in general expenses due and accrued in the statutory statements of admitted assets, liabilities and surplus at December 31, 2013 and 2012, respectively.

13. Income Taxes

The tax effects of temporary differences that gave rise to significant portions of DTAs and DTLs at December 31 are as follows:

	2013			2012		
	Ordinary	Capital	Total	Ordinary	Capital	Total
DTAs:						
A&H premiums due & healthcare receivables	$ 39,450	$ -	$ 39,450	$ 61,371	$ -	$ 61,371
Accrued pension	-	-	-	52,928	-	52,928
Unrealized pension & post retirement	129,036	-	129,036	-	-	-
Basis adjustment - bonds & stocks	-	11,345	11,345	-	8,628	8,628
Furniture, equipment and capitalized software	28,455	2,524	30,979	14,530	2,525	17,055
General expenses due & accrued	75,304	-	75,304	138,710	-	138,710
Intangible assets	24,754	-	24,754	26,505	-	26,505
Other	7,976	462	8,438	12,518	-	12,518
Gross DTAs	304,975	14,331	319,306	306,562	11,153	317,715
Statutory valuation allowance adjustments	137,554	-	137,554	249,513	-	249,513
Adjusted Gross DTA	167,421	14,331	181,752	57,049	11,153	68,202
DTAs nonadmitted	-	-	-	-	-	-
Subtotal net admitted DTA	167,421	14,331	181,752	57,049	11,153	68,202
DTLs:						
Accrued pension	61,266	-	61,266	-	-	-
Unrealized pension & post retirement	10,046	-	10,046	5,947	-	5,947
Basis adjustment - bonds & stocks	5,008	21	5,029	3,450	-	3,450
Partnership basis	14,520	-	14,520	12,194	-	12,194
Unrealized capital gains (net)	-	79,327	79,327	-	44,860	44,860
Other	11,564	-	11,564	268	1,483	1,751
DTLs	102,404	79,348	181,752	21,859	46,343	68,202
Net Admitted DTA/(DTL)	$ 65,017	$ (65,017)	$ -	$ 35,190	$ (35,190)	$ -

(in thousands of dollars)

The amount of each result or component of the DTA admission calculated at December 31 was as follows:

	2013			2012		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted gross DTA expected to be realized after application of threshold limitation	-	-	-	-	-	-
1. Adjusted gross DTAs expected to be realized following the balance sheet date	N/A	N/A	-	N/A	N/A	-
2. Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	655,946	N/A	N/A	620,713
Adjusted gross DTAs offset by gross DTLs	167,421	14,331	181,752	57,049	11,153	68,202
DTAs admitted	$ 167,421	$ 14,331	$ 181,752	$ 57,049	$ 11,153	$ 68,202

As a result of applying the guidance due to the adoption of SSAP 101, the Corporation recorded a decrease of $44,532 to the cumulative effect of changes in accounting principles line shown on the statutory statements of changes in surplus in 2012. There was no change in the amount of the current tax liability.

The following summarizes the impact of adoption:

	01/01/2012	12/31/2011
Gross DTA	$ 257,256	$ 257,256
Statutory valuation allowance adjustment	200,464	200,464
Adjusted gross DTA	56,792	56,792
DTAs Nonadmitted	10,557	10,557
Admitted adjusted gross DTA	46,235	46,235
Gross DTL	39,664	39,664
Contingent tax liability	187,038	142,506
Net admitted adjusted gross DTA	(180,467)	(135,935)
Cumulative effect of change in accounting principle		$ (44,532)

The ratios used to determine the applicable period used for determining the amount of adjusted gross DTA expected to be realized at December 31, 2013 and 2012 were 656% and 626%, respectively. The amount of adjusted capital and surplus used to determine the percentage threshold limitation at December 31, 2013 and 2012 were $4,386,279 and $4,138,085, respectively.

For the years ended December 31, 2013 and 2012, the Corporation had not employed any tax planning strategies to admit DTAs.

Current income taxes incurred consisted only of federal income tax benefits of $45,709 and $44,907 in 2013 and 2012, respectively.

(in thousands of dollars)

The change in net deferred income taxes was comprised of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in the statutory statements of changes in surplus):

	2013	2012	Change
Adjusted gross DTAs	$ 181,752	$ 68,202	$ 113,550
Total DTLs	181,752	68,202	113,550
Net DTAs	$ -	$ -	-
Tax effect of unrealized gains			(94,569)
Change in net deferred income tax			$ (94,569)

For the years ending December 31, 2013 and 2012, the Corporation does not have situations where DTLs were not recognized for amounts described in SSAP No. 101.

The provision (benefit) for federal income taxes incurred is different from that which would have been obtained by applying the statutory federal income tax rate to income before income taxes. The significant items that caused this difference were as follows:

	2013	2012
Provision computed at statutory rate	$ 103,261	$ 41,391
Reconciling items:		
Changes in temporary differences recorded to surplus	186,333	(88,652)
Changes in valuation allowance	(103,863)	46,525
Dividends received deduction	(165,437)	(66,170)
Increase/(decrease) to tax exposure reserve	(1,197)	(759)
Non-deductible expenses	8,707	4,055
Other	5,486	(3,432)
Relationship management / support services	19,111	26,478
Tax exempt (income)/losses	(3,541)	(1,893)
	$ 48,860	$ (42,457)
Federal income taxes incurred	$ (45,709)	$ (44,907)
Change in net deferred income taxes	94,569	2,450
Total statutory income taxes	$ 48,860	$ (42,457)

The Corporation has contribution carryforwards of $71,548 that will expire in varying amounts beginning in 2014 through 2018. A valuation allowance exists on the contribution carryforwards as the Corporation does not expect to use the full amount of contribution carryforwards before expiration. No loss carryforwards exist for the Corporation.

The Corporation has not made any deposits admitted under Section 6603 of the Internal Revenue Code.

The Corporation does not anticipate that any significant increase or decrease to unrecognized tax contingencies will be recorded in 2014.

(in thousands of dollars)

Prior to January 1, 1987, the Corporation was exempt from federal income taxes. With the enactment of the Tax Reform Act of 1986 (the "Act"), the Corporation, and all other Blue Cross and Blue Shield plans, became subject to federal income tax. Among other provisions of the Internal Revenue Code, these plans were granted a deduction under Code Section 833(b) (the "special deduction") for regular tax calculation purposes. The special deduction is calculated as the excess of 25% of incurred claims and claim adjustment expenses for the tax year over adjusted surplus, as defined, limited to taxable income. The amount of taxable income before the special deduction has the effect of increasing the adjusted surplus balance used in calculating the special deduction. Once the cumulative adjusted surplus balance exceeds 25% of incurred claims and claim adjustment expenses for the current taxable year, the deduction is eliminated. The special deduction calculation is complicated and little technical guidance has been issued by the taxing authorities. Therefore, some uncertainty exists in the calculation of the special deduction. After evaluating the uncertainties and in recognition of the impending statute expirations associated with certain tax years, during 2011, the Corporation made the decision to file refund claims for the 2004 through 2010 tax years. Through its refund claim filings and the 2010 original tax return filed in 2011, the Corporation requested special deduction tax benefits totaling approximately $275,000. An increase to income tax expense for interest of $329 was recognized in 2013. Adjustments may be made to the Corporation's tax benefits recorded in the future as additional information becomes available in future periods.

Under statutory reporting, the realizability of DTAs must be evaluated by considering only separate company operating results. Because of the Corporation's recent separate company loss history, a valuation allowance was recognized in 2013 and 2012 to reflect the uncertainty of realizing the tax benefits associated with deductible temporary differences.

14. Borrowed Money

At December 31, 2013, the Corporation had outstanding $543,010 of a $600,000 term loan with a financial institution, which was used to purchase the outstanding WPAHS bonds disclosed in Note 2. The proceeds from the sale of the WPAHS bonds must be used as a mandatory principal prepayment on the term loan equal to the proceeds plus accrued interest on such principal amount. Interest is calculated on the daily LIBOR Rate plus one-half of one percent. The interest is due quarterly. Interest of $1,637 was paid on the term loan for the year ended December 31, 2013. The term loan is scheduled to be repaid April 22, 2016 and is subject to certain restrictive covenants which include a minimum debt to capitalization ratio. The Corporation was in compliance with all covenants at December 31, 2013.

At December 31, 2013 and 2012, the Corporation had outstanding $350,000 of 4.75% unsecured Senior Notes and $240,875 and $250,000, respectively, of 6.125% unsecured Senior Notes (collectively, "the Notes"). The interest is due semiannually in May and November. The Notes are scheduled to mature on May 15, 2021 and May 15, 2041, respectively, and can be redeemed at any time in whole or in part by the Corporation. In February 2013, the Corporation purchased $9,125 of the Notes due in May 2041 from third parties. The repurchased Notes were subsequently cancelled and the Corporation recognized a net capital loss on the early extinguishment of debt of $9. Interest of $31,375 and $31,938 was paid on the Notes for the years ended December 31, 2013 and 2012, respectively. The unamortized discounts of the Notes, which are being amortized over the life of the Notes under the effective interest method, were $2,420 and $2,728 at December 31, 2013 and 2012, respectively. The Notes are subject to certain restrictive covenants, which include limitations on the creation of liens and the disposition of stock of certain subsidiaries along with a change in control covenant. The Corporation was in compliance with all covenants at December 31, 2013 and 2012.

(in thousands of dollars)

On August 15, 2013, the Corporation repaid in full the 6.8% unsecured Senior Notes (the "Senior Notes") issued August 2003 and due August 2013, which included principal of $292,878 and accrued interest of $9,958. At December 31, 2012, the Corporation had outstanding $305,581 of the Senior Notes. During 2013 and 2012, the Corporation purchased $12,703 and $750, respectively, of the Senior Notes from third parties. The repurchased Senior Notes were subsequently cancelled and the Corporation recognized net capital losses on the early extinguishment of debt of $400 and $58 for the years ended December 31, 2013 and 2012, respectively. Interest of $20,348 and $20,822 was paid on the Senior Notes for the years ended December 31, 2013 and 2012, respectively. The Senior Notes were subject to certain restrictive covenants, which included limitations on the creation of liens on the stock of certain subsidiaries. The Corporation was in compliance with all covenants through the loan repayment date.

The Corporation is obligated to a financial institution with respect to an irrevocable letter of credit with a stated amount of $2,285. The letter of credit expires January 2015. There were no amounts drawn under this letter of credit at December 31, 2013 or 2012.

The Corporation is party to a revolving credit agreement with a financial institution providing for a $75,000 revolving credit facility expiring June 2015. The agreement contains an accordion feature enabling the Corporation to increase the credit facility up to $125,000. Amounts outstanding under this facility bear interest at variable interest rates. There was $75,000 outstanding under this facility at December 31, 2013. Interest of $345 was paid on the outstanding balance of the facility for the year ended December 31, 2013. There were no amounts outstanding under this facility at December 31, 2012.

The carrying amount of borrowed money reported in the statutory statements of admitted assets, liabilities and surplus at December 31, 2013 and 2012 was $1,211,690 and $913,078, respectively. Using a discounted cash flow technique that considered the Corporation's credit rating with adjustments for duration and risk profile, the Corporation determined the fair value of its borrowed money at December 31, 2013 and 2012 to be $1,264,189 and $974,385, respectively. Fair value of the borrowed money is designated as Level 2 as it is derived from current market observable rates estimated to be available for debt of similar terms and maturities.

15. Derivatives

The Corporation was party to multiple interest rate swap agreements which met the criteria of fair value hedges with two highly rated, major U.S. financial institutions (the "counterparties") pursuant to which the Corporation synthetically converted $125,000 of its fixed rate Senior Notes due August 15, 2013 to variable notes through maturity. The Corporation received $4,594 and $4,571 in interest from the counterparties in 2013 and 2012, respectively, which was recorded in net investment income in the statutory statements of revenue and expenses. The swap agreements expired with the payoff of the Senior Notes in August 2013. At December 31, 2012, the interest rate swaps book values and corresponding liabilities of $4,570 were recorded in derivatives in the statutory statements of admitted assets, liabilities and surplus.

16. Leases

The Corporation leases office equipment, computer equipment and office space under various non-cancelable operating lease agreements that expire on various dates through 2020. The leases are also subject to various renewal options and extensions. Rental expense for the years ended December 31, 2013 and 2012 was $63,208 and $53,551, respectively, and was recognized on a straight-line basis over the lease term.

(in thousands of dollars)

Minimum rental commitments under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows for each of the next five years ending December 31:

2014	$	44,603
2015		32,304
2016		29,146
2017		17,078
2018		9,868
Thereafter		26,007
Total	$	159,006

17. Results of Operations from Uninsured Groups

The net gain from operations from uninsured groups and host BlueCard arrangements for the years ended December 31, 2013 and 2012 were as follows:

		2013		2012
Gross reimbursement for medical costs incurred	$	10,568,853	$	10,374,465
Gross network access fees		32,564		37,144
Gross administrative fees reimbursed		627,240		646,873
Gross expenses incurred (claims and administrative)		(11,219,666)		(11,044,926)
Total net gain from operations	$	8,991	$	13,556

18. Medicare Part D

Estimated settlements for CMS subsidies and risk corridor at December 31, 2013 and 2012 were as follows:

		2013		2012
Receivable from CMS for subsidies	$	51,060	$	38,883
Payable to CMS for risk corrider		(340)		(3,448)
Total due from CMS, net	$	50,720	$	35,435

In 2013 and 2012, the Corporation received $24,371 and $12,149, respectively, from CMS for settlements related to 2012 and 2011 subsidies and risk corridor. Certain 2012 subsidies remain outstanding at December 31, 2013 and are recorded at net realizable value.

19. Transactions with Related Parties

The Corporation has transactions in the normal course of business with its parent, subsidiaries and affiliates. Common related party transactions include those related to the provision of investment services, asset management, legal services, property management, administration of employee benefits and payroll, data and claims processing and normal management of operations. At December 31, 2013 and 2012, the Corporation reported $69,580 and $58,956, respectively, as amounts due from parent, subsidiaries and affiliates and $38,114 and $32,083, respectively, as amounts due to parent, subsidiaries and affiliates. The terms of settlement generally require that amounts be settled within 30 days.

(in thousands of dollars)

At December 31, 2013 and 2012, the Corporation held a $20,000 surplus note and a $10,000 surplus note from HM Life Insurance Company ("HM Life") and Highmark Casualty Insurance Company ("Highmark Casualty"), respectively, two indirect wholly owned insurance subsidiaries. Interest is payable from unassigned surplus of the respective subsidiary only if the subsidiary's RBC is 300% or greater. Each subsidiary must redeem its note on or before December 9, 2033. At December 31, 2013, the Department had approved and the Corporation recorded interest income of $144 and $72 related to the HM Life and Highmark Casualty notes, respectively. Both amounts were paid in January 2014. At December 31, 2012, the Department had approved and the Corporation recorded interest income of $143 and $71 related to the HM Life and Highmark Casualty notes, respectively. Both amounts were paid in January 2013.

At both December 31, 2013 and 2012, the Corporation held a $1,135 and a $1,315 surplus note from Inter-County Health Plan, Inc., a not for profit medical service corporation, and Inter-County Hospitalization Plan, Inc., a not for profit hospital service corporation, respectively (collectively "ICHP"). The Corporation is a member of each of the ICHP companies and, as such, elects 50% of the board of directors of each. Both ICHP surplus notes have a stated maturity date of December 31, 2014. The surplus notes are not rated by the SVO, therefore, in accordance with SSAP No. 41 – *Surplus Notes*, a statement factor was applied and reduced the admitted value of the surplus notes to $0 at December 31, 2013. At December 31, 2013, the Corporation recorded interest income of $45 and $53 related to the Inter-County Health Plan, Inc. and the Inter-County Hospitalization, Inc. notes, respectively, for the period January 1, 2012 through December 31, 2012. This amount was approved by the Department and was paid to the Corporation in March 2013. At December 31, 2012, the Corporation recorded interest income of $45 and $53 related to the Inter-County Health Plan, Inc. and the Inter-County Hospitalization, Inc. notes, respectively, for the period January 1, 2011 through December 31, 2011. This amount was approved by the Department and was paid to the Corporation in March 2012.

In December 2013, the Corporation received a $250,000 surplus note from KHPW. The note has a stated maturity date of June 30, 2014. At December 31, 2013 no interest accruals had been approved by the Department and, therefore, no such accruals were recorded in the statutory statements of admitted assets, liabilities and surplus.

The outstanding principal balance of the WPAHS loans at December 31, 2013 and 2012 was $200,000 and $100,000, respectively. Principal payments of $50,000 on each note are due on April 30, 2023 and April 30, 2024, $25,000 on April 30, 2025 and the remaining unpaid principal plus unpaid accrued interest on April 30, 2026. Interest on the WPAHS loans is based on the prime rate plus 2.00% provided that WPAHS meets a debt coverage ratio of 30. The interest rate is reset annually on July 1 of each year. The WPAHS loans are recorded in other invested assets in the statutory statements of admitted assets, liabilities and surplus at December 31, 2013. The WPAHS loans were unsecured and therefore non-admitted in the statutory statements of admitted assets, liabilities, and surplus at December 31, 2012.

In conjunction with the affiliation transactions described in Note 2, the Corporation funded cash of $35,000 and $70,749 to SVHS and JRMC, respectively. Additionally, the Corporation transferred $75,000 in the form of $58,760 cash and $16,240 non-cash transactions to WPAHS. These transfers were recorded in affiliation expenses in the statutory statements of revenue and expenses for the year ended December 31, 2013. Additionally, the Corporation transferred net assets of HMPG to Allegheny Health of $26,992, which included net assets of $20,014 and cash of $6,978 and funded cash of $59,000 to Highmark Health in 2013. These transfers were recorded in unassigned surplus in the statutory statements of admitted assets, liabilities, and surplus at December 31, 2013.

(in thousands of dollars)

In December 2013, the Corporation received an ordinary cash dividend of $7,350 from Gateway Health Plan, L.P., an affiliated limited partnership that has a wholly-owned for-profit HMO. The Corporation and its subsidiary hold 50% interest in Gateway Health Plan, L.P. In December 2012, the Corporation received an ordinary cash dividend of $5,880 from Gateway Health Plan, L.P.

In December 2013, the Corporation received an extraordinary dividend of $375,000 in cash and debt securities from KHPW, of which $83,967 was recorded as a return of capital and $291,033 was recorded as dividend income. In May 2013, an ordinary cash dividend of $95,000 was declared from KHPW. The dividend was paid in July 2013. In May 2012, an extraordinary cash dividend of $125,000 was declared from KHPW. The dividend was paid in July 2012.

In October 2013, an extraordinary cash dividend of $75,000 was declared from United Concordia Companies, Inc., ("UCCI"), a wholly owned insurance subsidiary. The dividend was paid in December 2013. In May 2012, an extraordinary cash dividend of $100,000 was declared from UCCI. The dividend was paid in December 2012.

In May 2013, an extraordinary cash dividend of $36,000 was declared from Highmark Select Resources Inc, f/k/a Highmark Senior Resources Inc. ("HSR"), a wholly owned insurance subsidiary. The distribution was paid in June 2013 and was recorded as a return of capital.

In March 2013, an extraordinary dividend of $450,000 in cash and debt securities was declared from HHIC. The distribution was paid in April 2013 and was recorded as a return of capital.

In September 2012, an extraordinary cash dividend of $12,000 was declared from HMO of Northeastern Pennsylvania, Inc., d/b/a First Priority Health ("FPH"), an insurance entity in which the Corporation holds a 40% interest. The dividend was paid in October 2012.

The Corporation and Allegheny Health share a common parent, Highmark Health. As a hospital plan and professional health service plan, the Corporation incurs claims related to affiliated hospitals and physician practices. Affiliated claims incurred by the Corporation for 2013 approximated 3% of claims incurred in 2013.

20. Guarantees and Commitments

At December 31, 2013 and 2012, the Corporation had committed $29,089 and $26,415, respectively, to various limited partnership investments. These commitments are due upon capital calls by the general partners of the partnerships.

In 2013, the Corporation extended lines of credit of $224,500 to controlled affiliates of HMPG, of which $133,850 was outstanding at December 31, 2013. In 2012, the extended lines of credit were $114,500 to controlled affiliates of HMPG, of which $77,900 was outstanding at December 31, 2012.

In October 2013, the Corporation established a convertible line of credit up to the amount of $178,300 to Highmark Health in order to finance the acquisition, development and implementation of an electronic medical records capability, of which $4,015 was outstanding at December 31, 2013.

In January 2012, the Corporation established a standby letter of credit up to the amount of $17,500 which would cover fifty percent of expenses should the Corporation's affiliation with HDE be terminated. In October 2013 the amount was increased to $27,500. The letter expires in January

(in thousands of dollars)

2015. At December 31, 2013 and 2012, there were no amounts outstanding under the letter of credit.

The Caring Foundation, d/b/a Highmark Caring Foundation, is a not-for-profit affiliate of the Corporation with programs designed to provide peer support to children, adolescents and families grieving the death of a parent, primary caregiver or sibling. The Caring Foundation is not a subsidiary of the Corporation. In December 2010, the Corporation made a $20,000 commitment to the Caring Foundation, which is expected to be paid in installments over the next five years. At December 31, 2013 and 2012, the net present value of the Corporation's commitment to the Caring Foundation of $7,817 and $11,618, respectively, was recorded in other liabilities in the statutory statements of admitted assets, liabilities and surplus.

The Corporation guarantees a $15,000 revolving credit facility for UCCI from a third-party lender. The Corporation believes that the likelihood that it will be called upon to perform on this guarantee is remote. This assessment is based upon the past performance of UCCI and the strength of its business plan. At December 31, 2013 and 2012, there were no amounts outstanding under this credit facility.

The Corporation has extended a revolving credit facility in the principal amount of $19,000 to UCCI. At December 31, 2013 and 2012, there were no amounts outstanding under the UCCI facility.

The Corporation is party to a guarantee agreement with the United States Department of Defense TRICARE Management Activity ("TMA") pursuant to which the Corporation guarantees the performance of UCCI under UCCI's TRICARE Dental Program ("TDP") and TRICARE Active Duty Dental Program ("ADDP") contracts. After a competitive procurement process, TMA did not award a new contract to UCCI for a five-year term. The current TDP contract expired on April 30, 2012, with run-out responsibility through April 30, 2013. The guarantee will remain in effect until formal closing of the contract by TMA. The Corporation executed a second guarantee agreement with TMA in connection with UCCI's proposal to administer the ADDP for another five-year term. The second ADDP contract was awarded to UCCI in November 2013. Delivery of services will commence on August 1, 2014.

The Corporation guarantees JRMC's debt and pension obligations in existence as of March 2012, which totaled approximately $190,000 at December 31, 2013. This resulted in the recognition of a $2,300 estimated liability at December 31, 2013 representing the annual premiums associated with letter of credit guarantees and is included in general expenses due or accrued in the statutory statements of admitted assets, liabilities and surplus and in affiliation expenses in the statutory statements of revenue and expenses at December 31, 2013.

The Corporation has agreed to indemnify the issuer of certain surety or fidelity bonds which have been issued or may be issued for the benefit of various subsidiaries from time to time. At December 31, 2013 and 2012, there was $46,983 and $44,619 of such bonds outstanding.

The Corporation issued a guarantee to CMS to provide sufficient funds as are needed to fulfill the requirements of a certain contract between CMS and HMS. The Corporation was released from this guarantee in March 2012.

The Corporation has issued guarantees of all customer-related contractual and financial obligations of KHPW, HSR, FPH, HHIC, HWV and HDE. These guarantees satisfy a requirement of BCBSA related to the use of the registered Blue Cross and Blue Shield service marks by controlled affiliates and/or the requirements of CMS pertaining to Medicare Risk HMOs. The Corporation's share of the combined customer obligations of KHPW, HSR, FPH, HHIC, HWV and HDE was $361,663 and

(in thousands of dollars)

$848,011 at December 31, 2013 and 2012, respectively. The BCBSA licenses also require that if KHPW, FPH, HHIC, HWV, HDE or First Priority Life Insurance Company, Inc., a licensed life, accident and health insurance company, 40% of the stock of which is held by the Corporation, ceases operations, the Corporation must offer or arrange for the offering of Blue Cross and/or Blue Shield coverage to all subscribers of that company without exclusions, limitations or conditions based on health status.

21. Contingencies

In September 2012, UPMC filed an amended antitrust lawsuit asserting monopolization and attempted monopolization claims against the Corporation and WPAHS. In addition, the complaint alleges that the Corporation and WPAHS have engaged in a conspiracy to maintain the Corporation's alleged monopolies in the Western Pennsylvania health insurance markets and to unreasonably restrain competition in in-patient hospital care. On December 30, 2013, UPMC dismissed this lawsuit with prejudice.

Herman Wooden and Thomas Logan, former corporate members of the Corporation, filed a lawsuit against the Corporation in the Common Pleas Court of Philadelphia County alleging that the Corporation is violating the Pennsylvania nonprofit corporation law by accumulating more than "incidental profits." Plaintiffs are seeking the creation of a common fund for the disposition of any funds determined to constitute more than "incidental profits" as well as an award of attorneys' fees and costs. In May 2012, the Court of Common Pleas entered an order sustaining the Corporation's preliminary objections in part, limiting plaintiffs' claim to the "allegedly excessive profits accumulated" while plaintiffs were members of the Corporation. The Court of Common Pleas overruled the Corporation's remaining preliminary objections, however, thereby allowing the case to proceed through discovery. On March 8, 2013, plaintiffs filed a Motion for Partial Summary Judgment as to Liability Only. The Corporation filed an opposition to such Motion on May 3, 2013 to which plaintiffs filed a reply on May 9, 2013. The Corporation filed its own Motion for Summary Judgment on April 15, 2013 as to which plaintiffs filed an opposition on May 17, 2013. On August 8, 2013, the Court of Common Pleas granted the Corporation's Motion for Summary Judgment and denied plaintiffs' Partial Motion for Summary Judgment. Plaintiffs appealed from the trial court's decision to the Commonwealth Court on August 9, 2013. Plaintiffs/Appellants filed their docketing statement on September 12, 2013. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

In December 2010, Royal Mile Company, Royal Asset Management and Pamela Lang, on behalf of individuals and companies which have obtained health insurance coverage from the Corporation, filed a class action lawsuit in the United States District Court for the Western District of Pennsylvania alleging that the Corporation and UPMC Health System violated antitrust laws by entering into an illegal agreement to restrain trade and by conspiring to create monopolies in the Western Pennsylvania health insurance market. On May 17, 2013, the Corporation filed a Motion to Dismiss this lawsuit. On September 27, 2013, the Court granted the Corporation's Motion to Dismiss and gave the Plaintiffs thirty days to file a further amended complaint. On October 28, 2013, the Plaintiffs filed a Motion for Leave to file a Third Amended Complaint. On November 4, 2013, the Corporation filed a Response to such Motion and, on November 27, 2013, the Corporation filed a Supplemental Opposition to such Motion. Oral argument on the Plaintiffs' Motion for Leave is scheduled for April 7, 2014. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter.

A number of class action lawsuits filed throughout the United States against the BCBSA, the Corporation and/or other Blue Cross and/or Blue Shield plans have been consolidated in a multi-

(in thousands of dollars)

district litigation in the U.S. District Court for the Northern District of Alabama and captioned In re: Blue Cross Blue Shield Antitrust Litigation. Such lawsuits have been filed on behalf of (i) healthcare providers in the United States who have provided services to any patient insured by or who was a member or beneficiary of the Corporation or any other Blue Cross and/or Blue Shield plan and/or (ii) members and subscribers of the Corporation and/or any other Blue Cross and/or Blue Shield plan (the "BCBS Plans"). The lawsuits primarily deal with the competitive impact of exclusive service areas granted by the Association and alleged contract provisions of BCBS Plans. Plaintiffs generally seek a judgment that Defendants have violated Section 1 of the Sherman Act, an injunction prohibiting Defendants from entering into agreements that restrict the territories in which any BCBS Plan may compete, and an award of treble damages. In addition, certain of the complaints filed by Plaintiffs in this litigation (including, without limitation, LifeWatch) contain additional claims specifically against the Corporation. Amended consolidated complaints were filed on behalf of providers and on behalf of members on July 1, 2013. The Corporation and the other defendants filed Motions to Dismiss such complaints on September 30, 2013. The Plaintiffs filed Oppositions to Defendants' Motion to Dismiss on January 15, 2014. Oral argument on such Motions to Dismiss is scheduled for April 9, 2014. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

On February 1, 2013, a former employee filed a purported class action complaint in Cambria County, Pennsylvania asserting one cause of action for breach of the Pennsylvania Minimum Wage Act ("PMWA"). The complaint claims that the former employee was misclassified as an exempt employee when they should have been classified as non-exempt, and thus should have been paid overtime compensation. The complaint was filed ostensibly on behalf of all "supervisors", defined as "individuals employed as supervisors in the Corporation's 'Healthplan Operations,' department from 2010 to the present…." Preliminary Objections were filed, and in response the Plaintiff filed an Amended Complaint on or about April 5, 2013. The Amended Complaint reasserted the PMWA claim and added a claim under the Fair Labor Standards Act. The Corporation removed the action to the Federal District Court for the Western District of Pennsylvania, and filed a Motion to Dismiss the action, which was denied on November 15, 2013. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

The Corporation is subject to various other contingencies, including legal and compliance actions and proceedings that arise in the ordinary course of its business. Due to the complex nature of these actions and proceedings, the timing of the ultimate resolution of these matters is uncertain. In the opinion of management, based on consultation with legal counsel, adequate provision has been made in the statutory financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the statutory financial position, results from operations or cash flows of the Corporation.

Highmark Inc.
Supplemental Summary Investment Schedule
December 31, 2013

(in thousands of dollars)

Investment Categories	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Assets Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
1. Bonds						
1.1 U.S. treasury securities	$ 248,508	3.8	$ 248,508	$ -	$ 248,508	3.8
1.2 U.S. government agency obligations						
(excluding mortgage-backed securites)						
1.21 Issued by U.S. government agencies	-	-	-	-	-	-
1.22 Issued by U.S. government sponsored agencies	117,361	1.8	117,360	-	117,360	1.8
1.3 Foreign government (including Canada, excluding						
mortgage-backed securities)	3,708	0.1	3,708	-	3,708	0.1
1.4 Securities issued by states, territories and possessions and						
political subdivisions in the U.S.						
1.41 States, territories and possessions general obligations	268	0.0	268	-	268	0.0
1.42 Political subdivisions of states, territories and						
possessions and political subdivisions general obligations	1,346	0.0	1,346	-	1,346	0.0
1.43 Revenue and assessment obligations	8,306	0.1	8,306	-	8,306	0.1
1.44 Industrial development and similar obligations	-	-	-	-	-	-
1.5 Mortgage-backed securities (includes residential and commercial MBS)						
1.51 Pass-through securities						
1.511 Issued or guaranteed by GNMA	56,334	0.9	56,334	-	56,334	0.9
1.512 Issued or guaranteed by FNMA and FHLMC	237,825	3.6	237,826	-	237,826	3.6
1.513 All other	-	-	-	-	-	-
1.52 CMOs and REMICs						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	7,308	0.1	7,308	-	7,308	0.1
1.522 Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies show n in line 1.521	22,828	0.4	22,828	-	22,828	0.4
1.523 All other	-	-	-	-	-	-
2. Other debt and other fixed income securities (excluding short-term)						
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	613,422	9.4	613,422	5,194	618,617	9.5
2.2 Unaffiliated foreign securities	91,565	1.4	91,565	2,779	94,344	1.4
2.3 Affiliated securities	573,829	8.8	573,829	-	573,829	8.8
3. Equity interests						
3.1 Investments in mutual funds	308,361	4.7	308,361	-	308,361	4.7
3.2 Preferred stocks						
3.21 Affiliated	-	-	-	-	-	-
3.22 Unaffiliated	5,524	0.1	5,524	-	5,524	0.1
3.3 Publicly traded equity securities (excluding preferred stocks)						
3.31 Affiliated	-	-	-	-	-	-
3.32 Unaffiliated	504,445	7.7	504,445	-	504,445	7.7
3.4 Other equity securities						
3.41 Affiliated	2,119,649	32.6	2,119,649	-	2,119,649	32.6
3.42 Unaffiliated	14,549	0.2	14,549	-	14,549	0.2
3.5 Other equity interests including tangible personal property under lease						
3.51 Affiliated	-	-	-	-	-	-
3.52 Unafflilated	-	-	-	-	-	-
4. Mortgage loans						
4.1 Construction and land development	-	-	-	-	-	-
4.2 Agricultural	-	-	-	-	-	-
4.3 Single family residential properties	-	-	-	-	-	-
4.4 Multifamily residential properties	-	-	-	-	-	-
4.5 Commercial loans	-	-	-	-	-	-
4.6 Mezzanine real estate loans	-	-	-	-	-	-
5. Real estate investments						
5.1 Property occupied by company	71,796	1.1	71,796	-	71,796	1.1
5.2 Property held for production of income	-	-	-	-	-	-
5.3 Property held for sale	-	-	-	-	-	-
6. Contract loans	-	-	-	-	-	-
7. Derivatives	-	-	-	-	-	-
8. Receivables for securities	3,724	0.1	3,724	-	3,724	0.1
9. Securities Lending	131,590	2.0	131,590	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	500,754	7.7	500,754	123,617	624,371	9.6
11. Other invested assets	876,898	13.4	874,448	-	874,448	13.4
12.Total invested assets	$ 6,519,899	100.0	$ 6,517,449	$ 131,590	$ 6,517,449	100.0

HMI-001134

(in thousands of dollars)

1. Admitted Assets

The Corporation's total admitted assets as reported on Page 3 of these statutory financial statements were $7,624,079.

2. Investment Categories

The Corporation's ten largest exposures to a single issuer/borrower/investment, excluding U.S. Government, U.S. Government agency securities and U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the Corporation and policy loans were as follows:

Issuer	Description of Exposure		Amount	Percentage of Total Admitted Assets
HVHC Inc.	Investment in subsidiary	$	881,973	11.57%
West Penn Allegheny Health System Inc.	Investment in affiliated bonds/loans	$	773,829	10.15%
HM Insurance Group, Inc.	Investment in subsidiary/surplus note	$	484,531	5.96%
United Concordia Companies, Inc.	Investment in subsidiary	$	397,485	5.21%
Keystone Health Plan West, Inc.	Investment in subsidiary/surplus note	$	287,033	3.76%
Federal National Mortgage Association	Bonds	$	248,346	3.26%
HM Health Insurance Company	Investment in subsidiary	$	177,709	2.33%
Gateway Health Plan, LP	Investment in affiliate	$	172,932	2.27%
Goldman Sachs	Bonds	$	149,761	1.96%
Western Assets	Money market mutual fund	$	134,300	1.76%

3. NAIC Rating

The amounts and percentages of the Corporation's total admitted assets held in bonds and preferred stocks by NAIC rating were as follows:

Bonds		Amount	Percent	Preferred Stocks		Amount	Percent
NAIC-1	$	1,514,844	19.87%	P/RP-1	$	-	0.0%
NAIC-2	$	104,998	1.38%	P/RP-2	$	3,550	0.0%
NAIC-3	$	54,205	0.71%	P/RP-3	$	1,974	0.0%
NAIC-4	$	100,856	1.32%	P/RP-4	$	-	0.0%
NAIC-5	$	529,300	6.94%	P/RP-5	$	-	0.0%
NAIC-6	$	45,181	0.59%	P/RP-6	$	-	0.0%

4. Foreign Investments

The Corporation held assets in foreign investments that were more than 2.5% of the Corporation's total admitted assets. Total admitted assets held by the Corporation in foreign investments were $270,998 or 3.6% of total admitted assets. The Corporation did not have foreign-currency-denominated investments or insurance liabilities denominated in that same foreign currency.

(in thousands of dollars)

5. Foreign Investment Exposure by NAIC Sovereign Rating

The Corporation's aggregate foreign investment exposure categorized by NAIC sovereign rating and the percentage of the Corporation's total admitted assets were as follows:

	Amount	Percentage
Countries rated NAIC-1	$ 257,856	3.4%
Countries rated NAIC-2	$ 12,908	0.2%
Countries rated NAIC-3 or below	$ 234	0.0%

6. Foreign Investment Exposure by Country and NAIC Sovereign Rating

The Corporation's two largest foreign investment exposures to a single country, categorized by NAIC sovereign ratings, and the percentage of the Corporation's total admitted assets were as follows:

	Amount	Percentage
Countries rated NAIC-1		
Cayman Islands	$ 86,276	1.1%
United Kingdom	$ 31,453	0.4%
Countries rated NAIC-2		
Ireland	$ 5,516	0.1%
Spain	$ 2,542	0.0%
Countries rated NAIC-3 or below		
Venezuela	$ 234	0.0%

7. Aggregate Unhedged Foreign Currency Exposure

The Corporation's aggregate unhedged foreign currency exposure and the percentage of the Corporation's total admitted assets were $89,803 or 1.2%, respectively.

8. Aggregate Unhedged Foreign Investment Exposure by the Country's NAIC Rating

The Corporation's aggregate unhedged foreign investment exposure categorized by the Country's NAIC sovereign rating and the percentage of the Corporation's total admitted assets were as follows:

	Amount	Percentage
Countries rated NAIC-1	$ 87,261	1.1%
Countries rated NAIC-2	$ 2,542	0.0%

(in thousands of dollars)

9. Unhedged Foreign Currency Exposure by Country and NAIC Sovereign Rating

The Corporation's two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating, and the percentage of the Corporation's total admitted assets were as follows:

	Amount	Percentage
Countries rated NAIC-1		
Japan	$ 22,719	0.3%
United Kingdom	$ 14,923	0.2%
Countries rated NAIC-2		
Spain	$ 2,542	0.0%

10. Non-Sovereign Foreign Issues

The Corporation's 10 largest non-sovereign (i.e., non-governmental) foreign issues were as follows:

Issuer	NAIC Designation	Amount	Percentage
Ashmore Emerging Markets Debt LLC	U	$ 86,022	1.1%
Shell International Finance	1FE	$ 9,612	0.1%
Statoil ASA	1FE	$ 9,039	0.1%
Diageo Capital	1FE	$ 8,709	0.1%
Teva Pharm Finance	1FE	$ 7,987	0.1%
Commonwealth Bank Australia	1FE	$ 4,648	0.1%
Adidas AG Com	U	$ 3,753	0.0%
Reckitt Benckiser Group	U/1FE	$ 3,280	0.0%
Schlumberger LTD Com	U/1FE	$ 3,240	0.0%
Industria De Diseno Textil	U	$ 2,542	0.0%

11. Canadian Investments

Aggregate assets held in Canadian investments were less than 2.5% of the Corporation's total admitted assets; therefore, detail is not required.

12. Contractual Sales Restrictions

The Corporation did not have assets held in investments with contractual sales restrictions; therefore, detail is not required.

(in thousands of dollars)

13. Equity Interests

The Corporation's amounts and percentages held in the 10 largest equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1), were as follows:

Issuer		Amount	Percentage
HVHC, Inc.	$	881,973	11.6%
HM Insurance Group, Inc.	$	454,531	6.0%
United Concordia Companies, Inc.	$	397,485	5.2%
HM Health Insurance Company	$	177,709	2.3%
Silchester Intl Inv Tobacco Fr Value Equ	$	120,889	1.6%
Highmark Ventures Inc.	$	101,775	1.3%
Ashmore Emerging Markets Debt LLC	$	86,022	1.1%
First Priority Life Insurance Company	$	56,910	0.7%
Mondrian International SM Cap Equity Fd L.P.	$	51,223	0.7%
Keystone Health Plan West, Inc.	$	37,033	0.5%

14. Nonaffiliated, Privately Placed Equities

Assets held in nonaffiliated, privately placed equities were less than 2.5% of the Corporation's total admitted assets; therefore, detail is not required.

15. General Partnership Interests

The Corporation did not have assets held in general partnership interests; therefore, detail is not required.

16. Mortgage Loans

The Corporation did not have assets held in investments in mortgage loans; therefore, detail is not required.

17. Mortgage Loans – Loan-to-Value

The Corporation did not have assets held in investments in mortgage loans; therefore, detail is not required.

18. Real Estate

Assets held in real estate were less than 2.5% of the Corporation's total admitted assets; therefore, detail is not required.

19. Mezzanine Real Estate Loans

The Corporation did not have investments in mezzanine real estate loans; therefore, detail is not required.

(in thousands of dollars)

20. Securities Lending and Reverse Repurchase Agreements

The amounts of the Corporation's total admitted assets subject to securities lending were as follows:

	At Year-End		At End of Each Quarter		
	Amount	**Percent**	**1st Qtr**	**2nd Qtr**	**3rd Qtr**
Securities lending	$ 144,000	1.9%	$ 241,180	$ 115,292	$ 111,353

21. Warrants

The Corporation did not have warrants (owned or written) not attached to other financial instruments, options, caps or floors for hedging, income generation or other.

22. Collars, Swaps and Forwards

The Corporation did not have any potential exposure for collars, swaps and forwards for hedging, income generation, replications or other.

23. Futures Contracts

The Corporation did not have futures contracts or futures potential exposure for hedging, income generation, replications or other.

Divider Page

HM Health Insurance Company

Statutory Financial Statements and Supplemental Schedules
December 31, 2013 and 2012

HM Health Insurance Company
Index
December 31, 2013 and 2012

Independent Auditor's Report

To the Board of Directors of
HM Health Insurance Company

We have audited the accompanying statutory financial statements of HM Health Insurance Company (the "Corporation") which comprise the statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2013 and 2012, and the related statutory statements of revenue and expenses, changes in capital and surplus, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Pennsylvania Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Corporation on the basis of the accounting practices prescribed or permitted by the Pennsylvania Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, are material.

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Corporation as of December 31, 2013 and 2012, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of the Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Pennsylvania Insurance Department described in Note 2.

Emphasis of Matter

As discussed in Note 2 and 11, the Corporation has entered into significant transactions with Highmark Inc., its parent, which is a related party.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the attached index of the Corporation as of December 31, 2013 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Corporation as of December 31, 2013 and for the year then ended. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 31, 2014

HM Health Insurance Company
Statutory Statements of Admitted Assets, Liabilities, Capital and Surplus
December 31, 2013 and 2012

	2013	2012
Admitted Assets		
Cash, cash equivalents and short-term investments	$ 69,964	$ 83,297
Investments		
Bonds	211,505	682,534
Securities lending reinvested collateral assets	10,137	10,303
Cash and invested assets	291,606	776,134
Investment income due and accrued	2,516	8,760
Uncollected premiums	9,736	331,924
Reinsurance recoverable	77	52
Funds held by reinsurers	-	174,630
Amounts receivable relating to uninsured plans	15,007	13,571
Net deferred tax asset	7,085	8,559
Receivables from parent, subsidiaries and affiliates	4,739	2,659
Health care receivables	14,261	15,457
Federal income tax recoverable	2,633	2,953
Other assets	373	1,080
Total admitted assets	$ 348,033	$ 1,335,779
Liabilities, Capital and Surplus		
Claims unpaid	$ 86,177	$ 566,584
Unpaid claims adjustment expenses	1,346	8,786
Aggregate health policy reserves	3,480	4,932
Premiums received in advance	48,851	46,013
General expenses due or accrued	49	14,919
Amounts due to parent, subsidiaries and affiliates	16,740	15,951
Payable for securities lending	10,137	10,303
Assumed administrative expenses payable	-	24,672
Other liabilities	3,544	2,367
Total liabilities	170,324	694,527
Common stock		
$10 par value, 250,000 shares authorized, issued and outstanding	2,500	2,500
Paid-in surplus	41,438	491,438
Unassigned surplus	133,771	147,314
Total capital and surplus	177,709	641,252
Total liabilities, capital and surplus	$ 348,033	$ 1,335,779

The accompanying notes are an integral part of these statutory financial statements.

HM Health Insurance Company
Statutory Statements of Revenue and Expenses
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Underwriting income		
Net premium income	$ 1,143,752	$ 5,064,615
Underwriting expenses incurred		
Net claims incurred	1,027,052	4,603,936
Claims adjustment expenses	32,677	138,101
General administrative expenses	111,117	313,072
Total underwriting expenses incurred	1,170,846	5,055,109
Net underwriting (loss) gain	(27,094)	9,506
Net investment income	14,456	29,997
Net realized capital gains	3,074	7,153
Other (expense) income, net	(325)	13,075
Net (loss) income before federal income taxes	(9,889)	59,731
Federal income tax (benefit) provision	(267)	18,232
Net (loss) income	$ (9,622)	$ 41,499

The accompanying notes are an integral part of these statutory financial statements.

HM Health Insurance Company
Statutory Statements of Changes in Capital and Surplus
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Capital and surplus at January 1	$ 641,252	$ 597,288
Net (loss) income	(9,622)	41,499
Change in net unrealized capital gains (losses)	149	(470)
Change in nonadmitted assets	(2,677)	2,438
Change in net deferred income taxes	(1,393)	218
Cumulative effect of changes in accounting principles	-	279
Return of capital	(450,000)	-
Capital and surplus at December 31	$ 177,709	$ 641,252

The accompanying notes are an integral part of these statutory financial statements.

HM Health Insurance Company
Statutory Statements of Cash Flows
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Cash flows from operating activities		
Premiums collected, net of reinsurance	$ 1,641,234	$ 5,032,626
Claims and commutation paid, net of reinsurance	(1,506,582)	(4,560,602)
Claims adjustment expenses paid, net	(35,699)	(141,516)
General administrative expenses paid, net	(129,855)	(313,012)
Net investment income	24,534	35,671
Other (expenses paid) income received, net	(324)	11,994
Medicare Part D payments, net	(1,436)	(11,135)
Federal income taxes recovered (paid)	587	(34,682)
Net cash (used in) provided by operating activities	(7,541)	19,344
Cash flows from investing activities		
Proceeds from the disposition of investments	308,012	542,035
Cost of investments acquired	(175,032)	(587,895)
Net cash provided by (used in) investing activities	132,980	(45,860)
Cash flows from financing and other activities		
Dividend as a return of capital	(112,227)	-
Other cash applied	(26,545)	(9,891)
Net cash used in financing and other activities	(138,772)	(9,891)
Decrease in cash, cash equivalents and short-term investments	(13,333)	(36,407)
Cash, cash equivalents and short-term investments		
Beginning of year	83,297	119,704
End of year	$ 69,964	$ 83,297
Supplemental disclosure of non cash investing and financing activities:		
Dividend as a return of capital in the form of bonds	$ (337,773)	$ -

The accompanying notes are an integral part of these statutory financial statements.

(in thousands of dollars)

1. Nature of Operations

HM Health Insurance Company (the “Corporation”) is a life, accident and health insurance company domiciled in the Commonwealth of Pennsylvania (“Pennsylvania”) and is licensed to underwrite coverage in 47 jurisdictions in the United States of America. The Corporation, as a licensee of the Blue Cross Blue Shield Association, provides Medicare eligible beneficiaries in West Virginia with Medicare Advantage PPO and Private Fee-For-Service products under contracts (the “Contracts”) with the Centers for Medicare and Medicaid Services (“CMS”). Effective July 1, 2010, the Corporation also began operating a preferred provider organization (“PPO”) in Pennsylvania offering coverage in the small group market. All products are marketed and sold under the trade name of Highmark Health Insurance Company. Premiums from Medicare Advantage products represented 11% and 2% of the premium revenue of the Corporation for the years ended December 31, 2013 and 2012, respectively.

In April 2013, the Corporation became an indirect wholly owned subsidiary of Highmark Health, a Pennsylvania nonprofit corporation and federally recognized 501(c)(3) upon consummation of a transaction between Highmark Health and the Corporation’s former ultimate parent company, Highmark Inc., a professional health services plan and hospital plan corporation domiciled in Pennsylvania, pursuant to which Highmark Health became the sole corporate member of Highmark Inc. Highmark Inc. is the sole stockholder of the Corporation and owns 250,000 shares of the Corporation’s common stock.

The Corporation has entered into an agreement with Highmark Inc. and Highmark West Virginia Inc. d/b/a Highmark Blue Cross Blue Shield West Virginia (“HWV”), an affiliate of Highmark Inc., to share equally in the operating results of the Medicare Advantage PPO product offered in West Virginia.

Effective January 1, 2013, the Corporation and Highmark Inc. terminated their 100% Quota Share Reinsurance Contract (“the Contract”), whereby the Corporation relinquished all outstanding liabilities to Highmark Inc. and was released from all future liabilities under the Contract after the final settlement for the month of December 2012 in January 2013. Refer to Note 7 for the 2012 impact of the Contract. There was no impact in 2013.

Effective August 1, 2012, the Corporation entered into an Assumption Reinsurance Agreement (“Agreement”) with Highmark Select Resources Inc. (“HSR”), a wholly owned insurance subsidiary of Highmark Inc. The Agreement was approved by the Pennsylvania Insurance Department (“the Department”) and stipulates that the Corporation (the assuming reinsurer) assumes 100% of the Medicare Part D insurance policies issued by HSR (the ceding insurer) in effect as of August 1, 2012. Also in effect on August 1, 2012 was a Novation Agreement for Change of Ownership of a Medicare Prescription Drug Plan (“PDP”) Line of Business (“Novation Agreement”) among HSR, the Corporation and CMS. Under the Novation Agreement, CMS approved the transfer of a PDP contract from HSR to the Corporation, and the Corporation assumed from HSR all rights, privileges and responsibilities, as well as liabilities of the contract between HSR and CMS to become a Medicare Prescription Drug Plan sponsor.

(in thousands of dollars)

2. Summary of Significant Accounting Policies

Basis of Financial Presentation

The accompanying statutory financial statements are presented on the basis of accounting practices prescribed by the Department. The Department recognizes only statutory accounting practices prescribed or permitted by Pennsylvania for determining and reporting the financial condition and results of operations of an insurance company in order to assess its solvency under Pennsylvania insurance law and regulations. The National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by Pennsylvania. The Pennsylvania Insurance Commissioner has the right to permit other specific practices that deviate from prescribed practices.

For the years ended December 31, 2013 and 2012, there were no differences between NAIC SAP and practices prescribed or permitted by the Department.

These statutory financial statements differ from the financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The principal differences are: (1) certain assets, such as accounts receivable aged more than 90 days and intangible assets are excluded from statutory surplus; (2) pharmaceutical rebates receivable are limited based on the timing of billing and collection activities; (3) bonds are carried at the lower of amortized cost or fair value, not fair value as required under GAAP; (4) assets and liabilities pertaining to reinsurance transactions are reported net of reinsurance; and (5) deferred tax asset ("DTA") recognition is limited.

The following is a reconciliation of statutory capital and surplus to unaudited GAAP basis stockholder's equity for the Corporation as of December 31, 2013 and 2012:

	2013	2012
Statutory capital and surplus	$ 177,709	$ 641,252
Net deferred tax liabilities	(2,884)	(13,353)
Nonadmitted assets	7,806	5,128
Net unrealized appreciation on bonds	1,969	50,346
Other	-	419
GAAP basis stockholder's equity	$ 184,600	$ 683,792

The following is a reconciliation of statutory net (loss) income to unaudited GAAP basis net income for the years ended December 31, 2013 and 2012:

	2013	2012
Statutory net (loss) income	$ (9,622)	$ 41,499
Net deferred income taxes	(1,865)	693
Amortized cost adjustments related to contributed bonds	21,517	(6,015)
Other	(419)	419
GAAP basis net income	$ 9,611	$ 36,596

The statutory financial statements of the Corporation are not intended to present the financial position, results of operations, or cash flows on the basis of GAAP.

(in thousands of dollars)

New Accounting Pronouncements
In August 2011, the NAIC adopted SSAP No. 101 *Income Taxes, A Replacement of SSAP No. 10R and SAAP No. 10* which established new guidance for current and deferred federal and foreign income taxes and current state income taxes. The new guidance expanded the admissibility of deferred taxes, included a more-likely-than-not qualifier for recognition of tax contingencies and allowed deferred tax liabilities ("DTLs") to be offset against the admitted DTA amounts. SSAP No. 101 became effective for years beginning January 1, 2012. Refer to Note 10 – Income Taxes for the effect of this change on the statutory financial statements.

In March 2011, the NAIC adopted nonsubstantive revisions to SSAP No. 100 *Fair Value Measurements* which required a gross presentation of purchases, sales, issues and settlement (each separately) within the reconciliation for fair value measurements categorized within Level 3 of the fair value hierarchy. The revisions also required documentation of the fair value hierarchy for items that are disclosed with a fair value measurement but may not be reported at fair value in the statutory statements of financial position. The nonsubstantive revisions to SSAP No. 100 were effective January 1, 2012. The adoption of this guidance did not impact the Corporation's statutory financial position, results of operations or cash flows.

Use of Estimates
The preparation of the Corporation's statutory financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities. It also requires the disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Cash Equivalents and Short-Term Investments
Cash equivalents include securities with a maturity of 90 days or less at the date of purchase. Short-term investments include Class 1 and exempt money market accounts, and bonds with a maturity of less than one year but greater than 90 days at the date of purchase. Cash equivalents and short-term investments are stated at amortized cost.

Investments
The Corporation's investment policies are as follows:

- Bonds not backed by other loans are carried at amortized cost using the effective interest method, or the lower of amortized cost or fair value, contingent upon NAIC designation assigned by the Securities Valuation Office ("SVO");

- Loan-backed securities are stated at amortized cost or the lower of amortized cost or fair value, contingent upon NAIC designation assigned by the SVO. The retrospective adjustment method is used to value all loan-backed securities, except for securities where the yield has become negative, which are valued using the prospective method; and

- Realized capital gains and losses on the sale of investments are determined using the specific identification method.

(in thousands of dollars)

The Corporation monitors its investment portfolio for unrealized losses that appear to be other-than-temporary. The Corporation performs a detailed review of these securities to determine the underlying cause of the unrealized loss and whether the security is impaired. At the time a debt security, excluding loan-backed securities, is determined to be other-than-temporarily impaired, the Corporation reduces the book value of the security to the current fair value and records a realized loss in the statutory statements of revenue and expenses. Any subsequent increase in the debt securities, excluding loan-backed security's fair value is reported as an unrealized gain. At the time a loan-backed security is determined to be other-than-temporarily impaired, the credit component of the other other-than-temporary impairment ("OTTI") is recorded as a realized loss in the statutory statements of revenue and expenses and the non-credit component of the OTTI is recorded in surplus.

The Corporation participates in securities lending transactions. The Corporation maintains effective control over the loaned securities and requires collateral initially equal to at least 102% of loaned domestic securities and 105% of loaned international securities at the loan date. Collateral received consists of cash and fixed-income securities. Noncash collateral is not recorded in the statutory statements of admitted assets, liabilities, capital and surplus, as the Corporation does not have the right to sell, pledge, or otherwise reinvest the noncash collateral. Cash collateral is invested in short-term debt securities and the offsetting collateral liability is included in payable for securities lending in the statutory statements of admitted assets, liabilities, capital and surplus. Noncash collateral consists of short-term debt securities. The Corporation did not have OTTIs on invested collateral at December 31, 2013 or 2012.

The aggregate amounts of contractually obligated open collateral positions and the corresponding liabilities that represented the Corporation's obligations to return the collateral at December 31, 2013 and 2012 were as follows:

	2013	2012
Open	$ -	$ -
30 Days or Less	10,137	10,303
31 to 60 Days	-	-
61 to 90 Days	-	-
Greater than 90 days	-	-
Sub-Total	$ 10,137	$ 10,303
Securities received	-	5,753
Total collateral reinvested	$ 10,137	$ 16,056

The aggregate amount of reinvested cash collateral by maturity term at December 31, 2013 and 2012 was as follows:

	2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Open	$ -	$ -	$ -	$ -
30 Days or Less	4,766	4,766	4,765	4,765
31 to 60 Days	963	963	1,971	1,971
61 to 90 Days	847	847	686	686
91 to 120 Days	1,414	1,414	697	697
121 to 180 Days	847	847	661	661
181 to 365	1,235	1,235	1,477	1,477
1 to 2 Years	49	49	-	-
2 to 3 Years	-	-	26	25
Greater Than 3 Years	16	16	20	20
Sub-Total	$ 10,137	$ 10,137	$ 10,303	$ 10,302
Securities received	-	-	-	-
Total collateral reinvested	$ 10,137	$ 10,137	$ 10,303	$ 10,302

(in thousands of dollars)

The amount of accepted collateral that is not permitted by contract or custom to sell or repledge for the years ending December 31, 2013 and 2012 was $0 and $5,753, respectively.

The Corporation had no cash or non-cash collateral for securities lending transactions that extended beyond one year at December 31, 2013 and 2012.

The Corporation's assets are invested in a variety of financial instruments. Accordingly, the related values as presented in the statutory financial statements are subject to various market fluctuations, which include changes in the interest rate environment and general economic conditions.

Fair Value of Financial Instruments
Financial assets and liabilities recorded at fair value in the statutory statements of admitted assets, liabilities, capital and surplus and disclosed in the statutory financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value in accordance with SSAP No. 100.

Reinsurance
The Corporation reports unpaid claims liabilities ceded to reinsurers net of reinsurance recoverables on unpaid losses. Reinsurance recoverables on unpaid losses are estimated and recognized in a manner consistent with the claim liability associated with the reinsured policy. The funds held by reinsurance companies represent unpaid claims which have been settled with the reinsurer.

Uncollected Premiums
Uncollected premiums consist of receivables from CMS and subscribers, and are carried at net realizable value. Uncollected premiums from subscribers aged over 90 days are nonadmitted. Uncollected premiums from CMS are admitted unless collectability issues exist.

Health Care Receivables
Health care receivables consist of pharmaceutical rebates receivable. Pharmaceutical rebates receivable is an actuarial estimate based on prescriptions filled and terms of rebate contracts for the most recent three months. For prior months, the Corporation records the actual amounts that have been invoiced or confirmed in writing with the pharmaceutical companies and collected within 90 days. The actuarial estimates are continually reviewed and any resulting adjustments are included in current operations.

Claims Unpaid
Claims unpaid include claims reported and adjudicated but unpaid as well as an estimate of incurred but not reported ("IBNR") claims, net of reinsurance. The liability for IBNR claims is an actuarial estimate based on historical claims paid data, modified for current conditions and coverage changes. The methods to determine the estimate of IBNR claims use past experience adjusted for current trends. The methods and assumptions are continually reviewed and any resulting adjustments are included in claims incurred in the period determined. Corresponding administrative costs to process IBNR claims are estimated and accrued and are reported as unpaid claims adjustment expenses.

Revenue Recognition
The Corporation's operations relate to commercial and government products and include premium income from individuals, groups and CMS. Premiums due from individuals and groups are generally billed in advance of the contractual coverage periods and are included in premium income as they are earned during the coverage period. Premiums that have been received prior to the service period are reported as premiums received in advance. The Corporation estimates retrospective premium adjustments to earned premium for its health insurance business subject to Medicare Part D risk corridor provisions by examining activity and applying the appropriate contractual limitations. For the

(in thousands of dollars)

years ended December 31, 2013 and 2012, the Corporation's net premiums written that were subject to retrospective rating features were $71,908 and $40,499, respectively, which represented 6.3% and 3.3%, respectively, of total direct premiums earned.

Medicare Part D

The Corporation's operations also include Medicare Part D prescription drug coverage, which consists of premium income from individuals and CMS. Premiums due from individuals are generally billed in advance of the contractual coverage period and are included in premiums earned as they are earned during the coverage period. The unearned portion of premiums collected is reflected in the statutory statements of admitted assets, liabilities, capital and surplus as premiums received in advance. The Corporation receives monthly payments from CMS for providing prescription drug coverage. Premium income for providing this coverage is recognized ratably over the term of the contract. Costs for covered prescription drugs are expensed as incurred. Low-income, coverage gap discount and reinsurance subsidies paid in advance by CMS are recorded as liabilities for amounts held under uninsured plans and reduce claims expense as incurred. The CMS contract includes risk corridor provisions. Risk corridor provisions compare a target amount of premiums received from members and CMS based on the Corporation's annual bid less administrative expenses to actual prescription drug costs incurred during the contract year. Based on actual claims incurred, a receivable or payable is recorded as an adjustment to premium revenue. Reconciliations of the final risk corridor and low-income, coverage gap discount and reinsurance subsidies are required annually. Amounts receivable under these plans, including amounts over 90 days due, are admitted.

Income Taxes

The Corporation is subject to federal income taxes. DTAs and DTLs are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using tax rates and laws that are expected to be in effect when the difference is reversed. Net DTAs are admitted to the extent that they are expected to reverse and become realized within three years. Uncertain tax positions are assessed in accordance with applicable statutory guidance.

SSAP No. 101 was a revised income tax accounting standard adopted by the NAIC, which was effective for the year beginning January 1, 2012. Changes implemented in SSAP No. 101 include a three-step process that is used to determine the proper recording of contingencies: (1) the term "probable" is replaced with "more likely than not," which is defined as a likelihood of more than 50%, and if met, a tax loss contingency must be recorded; (2) it must be presumed the return will be examined by the relevant taxing authority and that that authority will have full knowledge of all relevant information; and (3) if a loss contingency is greater than 50% of the tax benefit associated with a tax position, the loss contingency shall be increased to 100%. SSAP 101 also sets a three-step admissibility test for the admitted portion of deferred taxes: (1) ordinary and capital temporary differences reversing within 2 and 3 years, respectively, of the balance sheet can be carried back to recoup prior year taxes; (2) companies that are subject to risk-based capital ("RBC") requirements will qualify for various reversal periods and limitations based on their RBC; and (3) reversal patterns should be considered when offsetting DTAs and DTLs.

The Corporation is included in a consolidated federal income tax return with Highmark Inc., and all subsidiaries of Highmark Inc. in which Highmark Inc. holds 80% or more of the outstanding ownership interests. The Corporation has a written agreement, approved by the Corporation's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. The agreement generally settles the consolidated federal tax liability as if each subsidiary filed a separate income tax return. Federal income tax benefits or losses are allocated to the entities incurring such benefits or losses to the extent they were used to reduce the consolidated federal income tax liability.

(in thousands of dollars)

Subsequent Events
Effective January 1, 2014, Highmark Inc. assumed the liability for all insured business of the Corporation through a 100% Quota Share Reinsurance Contract. As a result, the Corporation will have no underwritten business in 2014.

On January 1, 2014, the Corporation will be subject to an annual fee under section 9010 of the Affordable Care Act ("ACA"). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums 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. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for a U.S. health risk for each calendar year beginning on or after January 1, 2014. As of December 31, 2013, the Corporation has written health insurance subject to the ACA assessment, expects to conduct health insurance business subject to the ACA assessment in 2014, and estimates their portion of the annual health insurance industry fee to be payable on September 30, 2014 to be approximately $16,000. If the assessment were recorded in 2013, the estimated impact would decrease RBC by approximately 35%.

3. Regulation

The Corporation is subject to regulation by the Department and the Pennsylvania Department of Health. Under the laws and regulations of Pennsylvania, the Corporation is required to maintain minimum surplus of $1,500 for the exclusive purpose of meeting the contractual obligations of its subscribers. Pursuant to these requirements, $1,585 and $1,553 were on deposit with the Department at December 31, 2013 and 2012, respectively. In addition, the Corporation is required to comply with certain regulations under the Contracts with CMS. At December 31, 2013 and 2012, the Corporation was in compliance with the requirements.

The Corporation is subject to minimum RBC requirements that were developed by the NAIC and adopted by the Department. The formula for determining the amount of RBC specifies various weighting factors that are applied to statutory financial balances and various levels of activity based on perceived degrees of risk. The RBC ratio of the Corporation is compared to authorized control levels established by the NAIC. Companies below specific ratio thresholds may be required to take specific corrective actions. At December 31, 2013 and 2012, the Corporation exceeded its minimum RBC requirements.

CMS uses a risk-adjustment model which apportions premiums paid to Medicare Advantage plans according to the health severity of their members. The risk-adjustment model pays higher premiums for members with certain medical conditions identified with specific diagnostic codes. Under the risk-adjustment methodology, all Medicare Advantage plan sponsors must collect and submit the necessary diagnosis code information from providers to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to Medicare Advantage plans.

The Corporation generally relies on providers to code their claim submissions with appropriate diagnoses, which are sent to CMS as the basis for the payment received from CMS under the risk-adjustment model. The Corporation also relies on these providers to document appropriately all medical data, including the diagnosis data submitted with claims.

CMS is continuing to perform audits of selected companies' Medicare Advantage contracts related to this risk-adjustment diagnosis data. In February 2012, CMS announced a final Risk Adjustment Data Validation (RADV) audit and payment adjustment methodology and that it will utilize to conduct

(in thousands of dollars)

RADV audits beginning with the 2011 payment year. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which influence the calculation of premium payments to Medicare Advantage plans. These audits may result in retrospective adjustments to payments made to health plans.

The final methodology, including the first application of extrapolated audit results to determine audit settlements, is expected to be applied to the next round of RADV contract level audits to be conducted on 2011 premium payments. Selected Medicare Advantage contracts will be notified of an audit after the close of the final reconciliation for the payment year being audited. Through the date of this report, the Corporation has not been notified by CMS that one of its Medicare Advantage contracts has been selected for audit for contract year 2011.

The ACA considerably transforms the U.S. health care system and increases regulations within the U.S. health insurance industry. This legislation is intended to expand the availability of health insurance coverage to millions of Americans. The ACA contains provisions that take effect at various times through 2018, with most measures effective in 2014.

The ACA creates state health insurance exchanges, which provide individuals and small businesses with access to affordable and quality health insurance. The Corporation participates in the Pennsylvania health insurance exchange.

The ACA establishes an annual fee on the health insurance sector effective in 2014. The aggregate annual fee for all insurers is $8,000,000 for calendar year 2014. This amount is apportioned among all insurers based on a ratio designed to reflect relative market share of U.S. health insurance business. The amount of the fee is calculated on the basis of prior year net written premiums, excluding the carrier's first $25,000 and half of the second $25,000 in net premiums. The fee applies to certain net premiums in excess of $50,000 and is based on the ratio of net written premium for health insurance of all insurance issuers to total applicable net premiums for all such issuers. The fee is not tax deductible. Refer to Note 2 for the estimated impact.

The ACA also establishes a transitional reinsurance program that reimburses non-grandfathered individual plans for a portion of the costs of high-costs enrollees for a 3-year period beginning January 1, 2014. The total amount assessed through this provision is $25,000,000 in the 3-year period, and additional administrative expense charge for 2014 of $20,300. The fee will be levied on a per-covered-life basis and be collected annually, with the first payment billed on December 15, 2014. Contribution amounts will be based on a per capita contribution rate, which is estimated to be five dollars and twenty-five cents per member per month for calendar year 2014. Both insured and self-insured plans will be assessed.

The ACA also establishes a risk corridors program for a 3-year period beginning January 1, 2014. The purpose of the risk corridors program is to provide limitations on issuer losses and gains for qualified health plans through additional protection against initial pricing risk. The program creates a mechanism for sharing the risk for allowable costs between the Federal government and the qualified health plan issuers.

The ACA also establishes a risk adjustment program. The purpose of the risk adjustment program is to transfer funds from lower risk plans to higher risk plans within the same market in the same state. It will adjust premiums for adverse selection among carriers caused by membership shifts due to guarantee issue and community rating mandates. States may set up their own risk adjustment programs, or they may permit Health and Human Services to develop and manage the program in the state.

(in thousands of dollars)

4. Investments

Cost or amortized cost, gross unrealized gains and losses, fair value and book/adjusted carrying value of bonds at December 31, 2013 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Book/ Adjusted Carrying Value
Bonds					
U.S. Government	$ 8,501	$ 32	$ (242)	$ 8,291	$ 8,501
Obligations of states and political sub-divisions of the U.S.	500	-	(30)	470	500
Special revenue & special assessment obligations	55,963	252	(782)	55,433	55,963
Industrial and miscellaneous securities	146,782	4,015	(1,517)	149,280	146,541
Total bonds	$ 211,746	$ 4,299	$ (2,571)	$ 213,474	$ 211,505

Cost or amortized cost, gross unrealized gains and losses, fair value and book/adjusted carrying value of bonds at December 31, 2012 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Book/ Adjusted Carrying Value
Bonds					
U.S. Government	$ 28,410	$ 531	$ (59)	$ 28,882	$ 28,410
Obligations of states and political sub-divisions of the U.S.	500	-	(1)	499	500
Special revenue & special assessment obligations	132,045	4,751	(84)	136,712	132,045
Other loan backed and structured securities	9,835	2,885	-	12,720	9,835
Industrial and miscellaneous securities	512,215	42,876	(1,035)	554,056	511,744
Total bonds	$ 683,005	$ 51,043	$ (1,179)	$ 732,869	$ 682,534

The gross unrealized losses and fair value of investments classified by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2013 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds						
U.S. Government	$ -	$ -	$ 4,521	$ (242)	$ 4,521	$ (242)
Obligations of states and political sub-divisions of the U.S.	470	(30)	-	-	470	(30)
Special revenue & special assessment obligations	30,093	(567)	5,170	(216)	35,263	(782)
Industrial and miscellaneous securities	56,840	(1,362)	1,688	(154)	58,528	(1,517)
Total bonds	$ 87,403	$ (1,959)	$ 11,379	$ (612)	$ 98,782	$ (2,571)

(in thousands of dollars)

The gross unrealized losses and fair value of investments classified by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2012 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds						
U.S. Government	$ 12,858	$ (59)	$ -	$ -	$ 12,858	$ (59)
Obligations of states and political sub-divisions of the U.S.	499	(1)	-	-	499	(1)
Special revenue & special assessment obligations	17,075	(84)	-	-	17,075	(84)
Industrial and miscellaneous securities	59,970	(833)	4,298	(202)	64,268	(1,035)
Total bonds	$ 90,402	$ (977)	$ 4,298	$ (202)	$ 94,700	$ (1,179)

At December 31, 2013, the Corporation held bonds with gross unrealized losses of $2,571. Management evaluated the unrealized losses in bonds and determined that they were due primarily to volatility in the interest rate environment and market conditions. The Corporation does not intend to sell the bonds and it is not likely that the Corporation will be required to sell the bonds before recovery of their amortized cost bases, which may be maturity. Therefore, management does not consider the bonds to be other-than-temporarily impaired as of December 31, 2013.

The cost or amortized cost, fair value and book/adjusted carrying value of bonds at December 31, 2013 are shown below by contractual maturity. Expected maturities could differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost or Amortized Cost	Fair Value	Book Adjusted Carrying Value
Due within one year or less	$ -	$ -	$ -
Due after one year and within five years	38,065	38,639	38,029
Due five yeards through ten years	115,780	117,711	115,575
Due after ten years	6,608	6,500	6,608
Loan-backed and structured securities	51,293	50,624	51,293
Total	$ 211,746	$ 213,474	$ 211,505

The Corporation's investments in loan-backed securities are comprised of mortgage-backed and asset-backed instruments which are subject to concentrations of credit risk. If parties to the instruments fail to perform to the terms of the contracts and the collateral for the amounts due prove to be inadequate, the Corporation could lose all or a portion of its investment in these securities. The Corporation uses the retrospective adjustment method regarding prepayment assumptions, which are generally obtained from broker dealer survey values. The Corporation has no loan-backed securities that were acquired prior to January 1, 1994. The Corporation did not hold any loan-backed securities for which the yield has become negative at December 31, 2013 or 2012.

In deciding whether impairments are other-than-temporary, the Corporation may consider several factors, including the adequacy of collateral, probability of default, and estimates regarding timing and amount of recoveries associated with a default.

There were no OTTIs recognized on loan-backed securities for the years ended December 31, 2013 and 2012.

The Corporation has assets pledged as collateral or otherwise restricted related to amounts on deposit with states of $3,139 and $3,079 at December 31, 2013 and 2012, respectively. These amounts were included in admitted assets and represented 0.88% and 0.90% of total assets and total

(in thousands of dollars)

admitted assets, respectively at December 31, 2013 and 0.23% of total assets and total admitted assets at December 31, 2012.

Gross realized capital gains on the sale of bonds in 2013 and 2012 were $5,200 and $8,220, respectively. There were no gross realized capital gains on short-term investments in 2013. Gross realized capital gains on short-term investments in 2012 were $4. Gross realized capital losses on the

sales of bonds in 2013 and 2012 were $2,126 and $1,071, respectively. The Corporation did not recognize any gross realized capital losses on short-term investments in 2013 or 2012. The Corporation did not recognize any losses for other than temporary impairments in 2013 or 2012.

The following is a summary of net investment income for the years ended December 31, 2013 and 2012:

	2013	2012
Investment income		
Interest on bonds	$ 14,993	$ 30,429
Interest on short-term and other investments	284	606
Gross investment income	15,277	31,035
Less investment and interest expenses	(821)	(1,038)
Net investment income	$ 14,456	$ 29,997

5. Fair Value of Financial Instruments

In accordance with SSAP No. 100, financial assets and liabilities recorded at fair value in the statutory statements of admitted assets, liabilities, capital and surplus and disclosed at fair value in the statutory financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Input levels, as defined by NAIC SAP, are as follows:

Level 1 – Pricing inputs are based on unadjusted quoted market prices for identical financial assets in active markets. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are based on other than quoted prices in active markets included in Level 1 that are observable unadjusted quoted market prices for similar financial assets or liabilities in active markets or quoted market prices for identical assets in inactive markets.

Level 3 – Pricing inputs include unobservable inputs that are supported by little or no market activity that reflect management's best estimate of what market participants would use in pricing the asset at the measurement date.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities:

Bonds: Fair values are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally uses Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Government securities issued by the U.S. Treasury represent Level 1 securities, while U.S. Government securities issued by other agencies of the U.S. Government represent Level 2 securities. Corporate securities, securities from states, municipalities and political subdivisions and mortgage-backed securities are also Level 2 securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds.

(in thousands of dollars)

Short-term securities: Short-term securities include Class 1 and exempt money market accounts and securities with a maturity of less than one year but greater than 90 days at the date of purchase. Fair values of short-term securities are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Government securities represent Level 1 securities while Level 2 securities include corporate

securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

Cash and cash equivalents: Cash equivalents include commercial paper, discount notes or securities with a maturity of 3 months or less and bank deposits that are purchased or deposited daily with specified yield rates. Cash equivalents are designated as Level 1 or Level 2, depending on structure and the extent of credit-related features.

Securities lending collateral assets: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures.

The Corporation uses a third party pricing service to obtain quoted prices for each security. The third party service provides pricing based on recent trades of the specific security or like securities, as well as a variety of valuation methodologies for those securities where an observable market price may not exist. The third party service may derive pricing for Level 2 securities from market corroborated pricing, matrix pricing, and inputs such as yield curves and indices. Pricing for Level 3 securities may be obtained from investment managers for private placements or derived from discounted cash flows or ratio analysis and price comparisons of similar companies. The Corporation performs an analysis of reasonableness of the prices received for fair value by monitoring month-to-month fluctuations and determining reasons for significant differences, selectively testing fair values against prices obtained from other sources, and comparing the combined fair value of a class of assets against an appropriate index benchmark. There were no adjustments to quoted market prices obtained from third party pricing services during the period ended December 31, 2013 that were material to the statutory financial statements.

The following table summarizes fair value measurements by level at December 31, 2013 for financial assets measured at fair value:

	Total Fair Value	Level 1	Level 2	Level 3
Bonds				
Industrial and miscellaneous securities	$ 9,212	$ -	$ 9,212	$ -
Total bonds	$ 9,212	$ -	$ 9,212	$ -

The following table summarizes fair value measurements by level at December 31, 2012 for financial assets measured at fair value:

	Total Fair Value	Level 1	Level 2	Level 3
Bonds				
Industrial and miscellaneous securities	$ 16,917	$ -	$ 16,917	$ -
Total bonds	$ 16,917	$ -	$ 16,917	$ -

(in thousands of dollars)

Transfers between levels, if any, are recorded annually as of the end of the reporting period unless, with respect to a particular issue, a significant event occurred that necessitated the transfer be reported at the date of the event.

There were no significant transfers between Level 1 and 2 during the years ended December 31, 2013 and 2012.

The following table summarizes the aggregate fair value for all financial assets, by level, and the related admitted values at December 31, 2013:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds					
U.S. Government	$ 8,291	$ 8,501	$ 3,142	$ 5,149	$ -
Obligations of states and political sub-divisions of the U.S.	470	500	-	470	-
Special revenue & special assessment obligations	55,433	55,963	-	55,433	-
Industrial and miscellaneous securities	149,280	146,541	-	149,280	-
Total bonds	213,474	211,505	3,142	210,332	-
Short-term securities	61,254	61,254	55,249	6,005	-
Cash and cash equivalents	8,708	8,710	1,001	7,707	-
Securities lending collateral assets	10,137	10,137	393	9,744	-
Total	$ 293,573	$ 291,606	$ 59,785	$ 233,788	$ -

The following table summarizes the aggregate fair value for all financial assets, by level, and the related admitted values at December 31, 2012:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds					
U.S. Government	$ 28,882	$ 28,410	$ 9,363	$ 19,519	$ -
Obligations of states and political sub-divisions of the U.S.	499	500	-	499	-
Special revenue & special assessment obligations	136,712	132,045	-	136,712	-
Other loan-backed and structured securities	12,720	9,835	-	12,720	-
Industrial and miscellaneous securities	554,056	511,744	-	554,056	-
Total bonds	732,869	682,534	9,363	723,506	-
Short-term securities	69,337	69,325	61,253	8,084	-
Cash and cash equivalents	13,972	13,972	1,930	12,042	-
Securities lending collateral assets	10,303	10,303	225	10,078	-
Total	$ 826,481	$ 776,134	$ 72,771	$ 753,710	$ -

(in thousands of dollars)

6. Health Care Receivables

The following is an analysis of pharmaceutical rebates receivable:

Quarter Ended		Estimated Pharmaceutical Rebates As Reported		Pharmaceutical Rebates as Invoiced or Confirmed		Actual Rebates Collected Within 90 Days		Actual Rebates Collected Within 91-180 Days		Actual Rebates Collected More Than 180 Days
12/31/2013	$	7,598	$	-	$	-	$	-	$	-
09/30/2013	$	7,591	$	7,581	$	37	$	-	$	-
06/30/2013	$	7,360	$	7,444	$	5,888	$	737	$	-
03/31/2013	$	7,250	$	7,247	$	5,285	$	1,600	$	349
12/31/2012	$	7,988	$	8,404	$	6,566	$	1,258	$	498
09/30/2012	$	8,340	$	8,653	$	7,572	$	620	$	461
06/30/2012	$	8,582	$	8,850	$	8,083	$	239	$	528
03/31/2012	$	6,571	$	6,774	$	5,695	$	571	$	509
12/31/2011	$	5,804	$	6,134	$	4,815	$	368	$	933
09/30/2011	$	5,838	$	6,120	$	4,547	$	413	$	1,160
06/30/2011	$	5,893	$	6,206	$	4,090	$	814	$	1,301
03/31/2011	$	5,179	$	5,333	$	2,826	$	1,302	$	1,204

7. Reinsurance

The Corporation assumes reinsurance from and cedes reinsurance to affiliated reinsurers under various agreements. Reinsurance activity is reported in reinsurance recoverable, funds held by reinsurers, claims unpaid and other liabilities in the statutory statements of admitted assets, liabilities, capital and surplus. Premium income, claims incurred, claims adjustment expenses, and general administrative expenses are presented net of reinsurance in the statutory statements of revenue and expenses. Reinsurance is assumed and ceded on a quota share basis.

The insurance company which assumes the coverage assumes the related liability; however, the Corporation is contingently liable with respect to risks ceded in the event assuming reinsurers are unable to meet their obligations.

The Corporation evaluates the financial condition of its reinsurer and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer's insolvencies. During 2013 and 2012, there were no write-offs relating to uncollectible reinsurance.

The effect of reinsurance is as follows:

		2013		2012
Premiums earned				
Direct premiums	$	1,145,419	$	1,211,706
Assumed premiums		-		3,854,104
Ceded premiums		(1,667)		(1,195)
Net earned premiums	$	1,143,752	$	5,064,615

(in thousands of dollars)

In accordance with the Highmark Inc. reinsurance agreement, the Corporation recorded the following for the year ended December 31, 2012:

Assumed premiums earned	$	3,854,104
Assumed claims incurred	$	3,533,166
Assumed claim adjustment expenses	$	122,271
Assumed general administrative expenses	$	181,253

8. Claims Unpaid

Activity in the liability for claims unpaid and gross health care receivables under insured arrangements for the years ended December 31, 2013 and 2012 are summarized as follows:

	2013	2012
Claims unpaid at January 1	$ 566,584	$ 520,108
Health care receivables	(16,323)	(13,048)
Reinsurance recoverables	(52)	(50)
Accrued medical incentive pool	2,092	1,957
Net balance at January 1	552,301	508,967
Commutation and release reinsurance transaction	(464,914)	-
Incurred related to:		
Current year	1,044,723	4,615,848
Prior year	(17,671)	(11,912)
Total incurred claims	1,027,052	4,603,936
Paid related to:		
Current year	974,490	4,077,382
Prior year	67,178	483,220
Total paid claims	1,041,668	4,560,602
Net balance at December 31	72,771	552,301
Health care receivables	16,079	16,323
Reinsurance recoverables	77	52
Accrued medical incentive pool	(2,750)	(2,092)
Claims unpaid at December 31	$ 86,177	$ 566,584

Negative amounts reported in 2013 and 2012 for prior year incurred claims resulted from claims being settled for amounts less than originally estimated due to lower than estimated utilization. Management has established estimates for claims unpaid to satisfy its ultimate claim liability. However, these estimates are inherently subject to a number of highly variable circumstances. Consequently, actual results could differ materially from the amount recorded in the statutory financial statements.

(in thousands of dollars)

9. Medicare Part D

Estimated settlements for CMS subsidies and risk corridor at December 31, 2013 and 2012 were as follows:

	2013	2012
Receivable from CMS for subsidies	$ 15,007	$ 13,571
Payable to CMS for risk corridor	(3,480)	(4,932)
Total due from CMS	$ 11,527	$ 8,639

In 2013 and 2012, the Corporation received $7,443 and $10,359, respectively, from CMS for settlements related to 2012 and 2011 subsidies and risk corridor, respectively. The 2013 settlement related to 2012 included $4,621 as a result of the Novation Agreement. Certain 2012 subsidies remain outstanding at December 31, 2013 and are recorded at net realizable value.

10. Income Taxes

The tax effects of temporary differences that gave rise to significant portions of DTAs and DTLs at December 31 are as follows:

	2013			2012		
	Ordinary	Capital	Total	Ordinary	Capital	Total
DTAs:						
A&H premiums due & healthcare receivables	$ 2,202	$ -	$ 2,202	$ 1,623	$ -	$ 1,623
Change in unearned premiums	3,420	-	3,420	3,221	-	3,221
Discounting loss	335	-	335	2,861	-	2,861
Intangible assets	1,022	-	1,022	1,161	-	1,161
Unrealized capital losses (net)	-	84	84	-	165	165
Other	663	-	663	279	-	279
Gross DTAs	7,642	84	7,726	9,145	165	9,310
DTAs nonadmitted	589	(38)	627	624	-	624
Subtotal net admitted DTAs	7,053	46	7,099	8,521	165	8,686
DTLs						
Market discount	14	-	14	127	-	127
DTLs	14	-	14	127	-	127
Net admitted DTAs	$ 7,038	$ 46	$ 7,085	$ 8,395	$ 165	$ 8,559

The amount of each result or component of the DTA admission calculation at December 31 was as follows:

	2013			2012		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	$ 6,759	$ 46	$ 6,805	$ 8,238	$ 165	$ 8,403
Adjusted gross DTAs expected to be realized after application of the threshold limitation	280	-	280	156	-	156
1. Adjusted gross DTAs expected to be realized following the balance sheet date	N/A	N/A	280	N/A	N/A	156
2. Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	25,641	N/A	N/A	94,904
Adjusted gross DTAs offset by gross DTLs	14	-	14	127	-	127
DTAs admitted	$ 7,053	$ 46	$ 7,099	$ 8,521	$ 165	$ 8,686

(in thousands of dollars)

As a result of applying the guidance due to the adoption of SSAP No. 101, the Corporation recorded an increase of $279 in 2012 to cumulative effect of changes in accounting principles in the statutory statements of changes in capital and surplus. There was no change in the amount of the current tax liability.

The following summarizes the impact of adoption:

	January 1, 2012	December 31, 2011
Gross DTA	$ 9,031	$ 9,031
Statutory valuation allowance	-	-
Adjusted gross DTA	9,031	9,031
DTAs nonadmitted	(816)	(1,095)
Gross DTL	(65)	(65)
Net admitted adjusted gross DTA	8,150	7,871
Net increase to surplus	8,150	7,871
Cumulative effect of change in accounting principle		$ 279

The ratios used to determine the applicable period used for determining the amount of adjusted gross DTA expected to be realized at December 31, 2013 and 2012 were 381% and 402%, respectively. The amount of adjusted capital and surplus used to determine the percentage threshold limitation at December 31, 2013 and 2012 were $170,625 and $632,693, respectively.

For the years ending December 31, 2013 and 2012, the Corporation has not employed any tax planning strategies to admit DTAs.

For the years ending December 31, 2013 and 2012, the Corporation does not have situations were DTLs are not recognized for amounts described in SSAP No. 101.

Current income taxes incurred consisted only of federal income tax benefit of $267 and federal tax provision of $18,232 in 2013 and 2012, respectively.

The change in net deferred income taxes was comprised of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in statutory statements of changes in capital and surplus):

	2013	**2012**	**Change**
Adjusted gross DTAs	$ 7,726	$ 9,310	$ (1,584)
Total DTLs	14	127	(113)
Net DTAs	7,712	9,183	(1,471)
Tax effect of unrealized gains / (losses)			78
Change in net deferred income tax			$ (1,393)

(in thousands of dollars)

The provision for federal income taxes incurred was different from that which would have been obtained by applying the statutory federal income tax rate to income before income taxes. The significant items that caused this difference were as follows:

	2013	2012
(Benefit) provision computed at statutory rate	$ (3,461)	$ 20,906
Change in temporary differences recorded to surplus	(936)	622
Relationship management/support services	(2,008)	(1,398)
Tax exempt income	7,531	(2,116)
	$ 1,126	$ 18,014
Federal income taxes incurred	(267)	18,232
Change in net deferred income taxes	1,393	(218)
Total statutory income taxes	$ 1,126	$ 18,014

At December 31, 2013, the Corporation had no net operating loss carryforwards, capital loss carryforwards or AMT credit carryforwards.

The following is income tax expense for 2013, 2012 and 2011 that is available for recoupment in the event of future net losses:

Year	Ordinary	Capital	Total
2011	N/A	$ 776	$ 776
2012	10,698	2,258	12,956
2013	-	9,037	9,037
	$ 10,698	$ 12,071	$ 22,769

The Corporation does not anticipate that any significant increase or decrease to unrecognized tax contingencies will be recorded in 2014.

The Corporation has not made any deposits admitted under Section 6603 of the Internal Revenue Service Code.

11. Transactions with Related Parties

The Corporation has a management services agreement with Highmark Inc. to receive all of the financial, investment, administrative and operational services required by the Corporation for operation. The allocated cost of these services is included in general administrative expenses, claims adjustment expenses, and investment expenses as a component of net investment income. For the years ended December 31, 2013 and 2012, the amounts incurred for such services were $144,447 and $164,610, respectively. Amounts due to Highmark Inc. for administrative services performed by Highmark Inc. on behalf of the Corporation were $9,463 and $9,313, respectively and were reported in amounts due to parent, subsidiaries and affiliates.

Highmark Inc. processes and pays all facility and professional claims on behalf of the Corporation. Claims paid by Highmark Inc. on behalf of the Corporation for direct and assumed business amounted to $1,041,668 and $4,560,602 for 2013 and 2012, respectively. At December 31, 2013 and 2012, the amounts due to parent, subsidiaries and affiliates were $7,277 and $6,592, respectively.

(in thousands of dollars)

Related parties bill and collect premium revenues on behalf of the Corporation's subscribers and subsequently reimburses the Corporation for such premiums collected. At December 31, 2013 and 2012, the admitted amounts due from related parties were $4,739 and $2,659, respectively. These amounts consisted of premiums collected by related parties on behalf of the Corporation. The terms of the management services agreement with Highmark Inc. generally require that amounts be settled within 30 days.

Under the profit share agreement discussed in Note 1, HWV's share in the operating loss was $445 and operating gains was $2,876 in 2013 and 2012, respectively and was recorded to general administrative expenses and claims adjustment expenses. Settlements between the Corporation and HWV are performed on a quarterly basis. At December 31, 2013 and 2012, the amounts due from HWV were $373 and due to HWV were $46, respectively, and were included in other assets and amounts due to parent, subsidiaries and affiliates, respectively.

In March 2013, the Corporation declared and the Department approved an extraordinary dividend of $450,000 in cash and debt securities to Highmark Inc. The distribution was paid in April 2013 and was recorded as a return of capital.

12. Contingencies

The Corporation is subject to various contingencies, including legal and compliance actions and proceedings that arise in the ordinary course of its business. In the opinion of management, based on consultation with legal counsel, adequate provision has been made in the statutory financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the statutory financial position, results of operations or cash flows of the Corporation.

HM Health Insurance Company
Supplemental Summary Investment Schedule
December 31, 2013

(in thousands of dollars)

Investment Categories	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Assets as Reported in the Annual Statement Amount	Securities Lending Reinvested Collateral Amount	Total Amount	Percentage
1. Bonds						
1.1 U.S. treasury securities	$ 3,139	1.1	$ 3,139	$ -	$ 3,139	1.1
1.2 U.S. government agency obligations (excluding mortgage-backed securites)						
1.21 Issued by U.S. government agencies	-	-	-	-	-	-
1.22 Issued by U.S. government sponsored agencies	10,032	3.4	10,032	-	10,032	3.4
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	-	-	-	-	-	-
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.						
1.41 States, territories and possessions general obligations	-	-	-	-	-	-
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	-	-	-	-	-	-
1.43 Revenue and assessment obligations	500	0.2	500	-	500	0.2
1.44 Industrial development and similar obligations						
1.5 Mortgage-backed securities (includes residential and commercial MBS)						
1.51 Pass-through securities						
1.511 Issued or guaranteed by GNMA	5,362	1.8	5,362	-	5,362	1.8
1.512 Issued or guaranteed by FNMA and FHLMC	43,580	14.9	43,580	-	43,580	14.9
1.513 All other	-	-	-	-	-	-
1.52 CMOs and REMICs						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	2,351	0.8	2,351	-	2,351	0.8
1.522 Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in line 1.521	-	-	-	-	-	-
1.523 All other	-	-	-	-	-	-
2. Other debt and other fixed income securities (excluding short-term)						
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by	120,788	41.5	120,788	467	121,255	41.6
2.2 Unaffiliated foreign securities	25,753	8.8	25,753	147	25,900	8.8
2.3 Affiliated securities	-	-	-	-	-	-
3. Equity interests						
3.1 Investments in mutual funds	-	-	-	-	-	-
3.2 Preferred stocks						
3.21 Affiliated	-	-	-	-	-	-
3.22 Unaffiliated	-	-	-	-	-	-
3.3 Publicly traded equity securities (excluding preferred stocks)						
3.31 Affiliated	-	-	-	-	-	-
3.32 Unaffiliated	-	-	-	-	-	-
3.4 Other equity securities						
3.41 Affiliated	-	-	-	-	-	-
3.42 Unaffiliated	-	-	-	-	-	-
3.5 Other equity interests including tangible personal property under lease						
3.51 Affiliated	-	-	-	-	-	-
3.52 Unaffliliated	-	-	-	-	-	-
4. Mortgage loans						
4.1 Construction and land development	-	-	-	-	-	-
4.2 Agricultural	-	-	-	-	-	-
4.3 Single family residential properties	-	-	-	-	-	-
4.4 Multifamily residential properties	-	-	-	-	-	-
4.5 Commercial loans	-	-	-	-	-	-
4.6 Mezzanine real estate loans	-	-	-	-	-	-
5. Real estate investments						
5.1 Property occupied by company	-	-	-	-	-	-
5.2 Property held for production of income	-	-	-	-	-	-
5.3 Property held for sale	-	-	-	-	-	-
6. Contract loans	-	-	-	-	-	-
7. Derivatives	-	-	-	-	-	-
8. Receivables for securities	-	-	-	-	-	-
9. Securities lending	10,137	3.5	10,137	XXX	XXX	XXX
10.Cash, cash equivalents and short-term investments	69,964	24.0	69,964	9,523	79,487	27.3
11.Other invested assets	-	-	-	-	-	-
12.Total invested assets	$ 291,606	100.0	$ 291,606	$ 10,137	$ 291,606	100.0

(in thousands of dollars)

1. Admitted Assets

The Corporation's total admitted assets at December 31, 2013, as reported on page 3 of these statutory financial statements, were $348,033.

2. Investment Categories

The Corporation's 10 largest exposures to a single issuer/borrower/investment, excluding U.S. Government, U.S. Government agency securities and U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the Corporation and policy loans were as follows:

Issuer	Description of Exposure	Amount	Percentage of Admitted Assets
FNMA	Bond	$ 31,735	9.1%
Goldman Sachs Group Inc.	Bond/money market mutual fund	$ 24,035	6.9%
Western Asset Cash Reserves	Money market mutual fund	$ 22,000	6.3%
FHLMC	Bond	$ 11,845	3.4%
Blackstone Holdings	Bond	$ 8,308	2.4%
Federal Farm Credit Bank	Bond	$ 6,578	1.9%
Bank of America Corp	Bond/money market mutual fund	$ 6,113	1.8%
Morgan Stanley	Bond/discount note	$ 6,087	1.7%
Blackrock	Money market mutual fund	$ 5,300	1.5%
General Electric	Bond	$ 5,268	1.5%

3. NAIC Rating

The amounts and percentages of the Corporation's total admitted assets held in bonds by NAIC rating at December 31, 2013 were as follows:

	Amount	Percentage of Admitted Assets
NAIC-1	$ 201,569	57.9%
NAIC-2	$ 26,685	7.7%
NAIC-3	$ 11,888	3.4%
NAIC-4	$ 39,580	11.4%
NAIC-5	$ 745	0.2%

The Corporation held no amounts in preferred stock.

4. Foreign Investments

The Corporation held assets in foreign investments that were more than 2.5% of the Corporation's total admitted assets. Total admitted assets held by the Corporation in foreign investments were $21,274 or 6.1% of total admitted assets.

(in thousands of dollars)

5. Foreign Investment Exposure by NAIC Sovereign Rating

The Corporation's aggregate foreign investment exposure categorized by NAIC sovereign rating and the percentage of the Corporation's total admitted assets were as follows:
.

	Amount	Percentage
Countries designated NAIC-1	$ 20,961	6.0%
Countries designated NAIC-2	$ 313	0.1%

6. Foreign Investment Exposure by Country and NAIC Sovereign Rating

The Corporation's two largest foreign investment exposures to a single country, categorized by NAIC sovereign ratings, and the percentage of the Corporation's total admitted assets were as follows:

	Amount	Percentage
Countries designated NAIC-1		
Netherlands	$ 6,453	1.9%
Australia	$ 4,397	1.3%
Countries designated NAIC-2		
Mexico	$ 313	0.1%

7. Aggregate Unhedged Foreign Currency Exposure

The Corporation has no aggregate unhedged foreign currency exposure.

8. Aggregate Unhedged Foreign Currency Exposure by NAIC Sovereign Rating

The Corporation has no aggregate unhedged foreign investment exposure; therefore no rating is required.

9. Unhedged Foreign Currency Exposure by Country and NAIC Sovereign Rating

The Corporation has no unhedged foreign currency exposure; therefore no rating is required.

10. Non-Sovereign Foreign Issues

The Corporation's ten largest non-sovereign (i.e. non-governmental) foreign issues:

Issuer	NAIC Rating	Amount	Percentage of Admitted Assets
Shell International	1FE	$ 4,340	1.2%
Commonwealth Bank Australia	1FE	$ 2,710	0.8%
Statoil ASA	1FE	$ 2,284	0.7%
Volkswagen INTL FIN NV	1FE	$ 1,742	0.5%
Weatherford Bermuda	2FE	$ 1,268	0.4%
Ensco PLC	2FE	$ 1,071	0.3%
Invesco Finance	1FE	$ 999	0.3%
Rio Tinto Finance	1FE	$ 998	0.3%
Arcelormittal	3FE	$ 743	0.2%
Barcardi LTD	2FE	$ 499	0.1%

(in thousands of dollars)

11. Canadian Investments and Canadian Investment Exposure

The Corporation held assets in Canadian investments of $4,479 at December 31, 2013 which was less than 1.3% of the Corporation's total admitted assets; therefore, detail was not required.

12. Contractual Sales Restrictions

The Corporation did not have assets held in investments with contractual sales restrictions; therefore, detail is not required.

13. Equity Interests

The Corporation did not have assets held in equity interests; therefore, detail is not required.

14. Non-Affiliated, Privately Placed Equities

The Corporation did not have assets held in nonaffiliated, privately placed equities; therefore, detail is not required.

15. General Partnership Interests

The Corporation did not have assets held in general partnership interests; therefore, detail is not required.

16. Mortgage Loans

The Corporation did not have assets held in investments in mortgage loans; therefore, detail is not required.

17. Mortgage Loans-Loan-to-Value

The Corporation did not have assets held in investments in mortgage loans; therefore, detail is not required.

18. Real Estate

The Corporation did not have assets held in real estate; therefore, detail is not required.

19. Mezzanine Real Estate Loans

The Corporation did not have investments in mezzanine real estate loans; therefore, detail is not required.

20. Securities Lending and Reverse Repurchase Agreements

The amounts of the Corporation's total admitted assets subject to securities lending were as follows:

	At Year-End		At End of Each Quarter		
	Amount	**Percent**	**1st Qtr**	**2nd Qtr**	**3rd Qtr**
Securities lending	$ 9,781	2.8%	$ 17,859	$ 3,002	$ 6,841

(in thousands of dollars)

21. Warrants

The Corporation did not have warrants (owned or written) not attached to other financial instruments, options, caps or floors for hedging, income generation or other.

22. Collars, Swaps, and Forwards

The Corporation did not have any potential exposure for collars, swaps and forwards for hedging, income generation, replications or other.

23. Futures Contracts

The Corporation did not have futures contracts or futures potential exposure for hedging, income generation, replications or other.

Divider Page

Keystone Health Plan West, Inc.

Statutory Financial Statements and Supplemental Schedules
December 31, 2013 and 2012

Keystone Health Plan West, Inc.
Index
December 31, 2013 and 2012

Independent Auditor's Report

To the Board of Directors of
Keystone Health Plan West, Inc.

We have audited the accompanying statutory financial statements of Keystone Health Plan West, Inc. (the "Corporation") which comprise the statutory statements of admitted assets, liabilities, capital and surplus as of December 31, 2013 and 2012, and the related statutory statements of revenue and expenses, changes in capital and surplus and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Pennsylvania Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Corporation on the basis of the accounting practices prescribed or permitted by the Pennsylvania Insurance Department, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America are material.

PricewaterhouseCoopers LLP, Two Commerce Square, Suite 1700, 2001 Market Street, Philadelphia, PA 19103-7042
T: (267) 330 3000, F: (267) 330 3300, www.pwc.com/us

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles”, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Corporation as of December 31, 2013 and 2012, or the results of its operations or its cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of the Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Pennsylvania Insurance Department described in Note 2.

Emphasis of Matter

As discussed in Note 2 and 11, the Corporation has entered into significant transactions with Highmark Inc., its parent, which is a related party.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the attached index of the Corporation as of December 31, 2013 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The effects on the supplemental schedules of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the supplemental schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Corporation as of December 31, 2013 and for the year then ended. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 31, 2014

Keystone Health Plan West, Inc.
Statutory Statements of Admitted Assets, Liabilities, Capital and Surplus
December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Admitted Assets		
Cash, cash equivalents and short-term investments	$ 204,708	$ 218,102
Investments		
Bonds	190,805	343,050
Common stock	10,118	10,089
Receivables for securities	1	46
Securities lending reinvested collateral assets	394	7,711
Cash and invested assets	406,026	578,998
Investment income due and accrued	2,198	3,375
Uncollected premiums	7,641	5,066
Amounts receivable relating to uninsured plans	24,230	18,663
Capital stock tax receivable	1,176	4,022
Net deferred tax asset	9,592	15,649
Amounts due from parent, subsidiaries and affiliates	14,172	14,965
Health care receivables	17,387	17,523
Total admitted assets	$ 482,422	$ 658,261
Liabilities, Capital and Surplus		
Claims unpaid	$ 133,744	$ 158,893
Unpaid claims adjustment expenses	2,398	2,941
Aggregate health policy reserves	3,299	17,310
Premiums received in advance	24,856	27,932
Current federal income taxes payable	8,454	5,420
Amounts due to parent, subsidiaries and affiliates	10,497	13,152
Payables for securities	-	2,000
Payable for securities lending	394	7,711
Amounts held for others	2,384	3,550
Other liabilities	9,363	12,145
Total liabilities	195,389	251,054
Common stock		
Class A, $1.00 par value, 75,000 shares authorized, issued and outstanding	75	75
Class B, $1.00 par value, 75,000 shares authorized, issued and outstanding	75	75
Gross paid-in surplus	36,883	120,850
Surplus note	250,000	-
Unassigned surplus	-	286,207
Total capital and surplus	287,033	407,207
Total liabilities, capital and surplus	$ 482,422	$ 658,261

The accompanying notes are an integral part of these statutory financial statements.

Keystone Health Plan West, Inc.
Statutory Statements of Revenue and Expenses
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Underwriting income		
Premium income	$ 1,791,264	$ 1,892,650
Underwriting expenses incurred		
Claims incurred	1,563,079	1,680,973
Claims adjustment expenses	49,427	48,034
General administrative expenses	74,784	74,648
Change in premium deficiency reserves	(10,482)	531
Total underwriting expenses incurred	1,676,808	1,804,186
Net underwriting gain	114,456	88,464
Net investment income	9,932	14,635
Net realized capital (losses) gains	(111)	4,417
Other (expense) income	(150)	4
Net income before federal income taxes	124,127	107,520
Federal income tax provision	19,471	12,262
Net income	$ 104,656	$ 95,258

The accompanying notes are an integral part of these statutory financial statements.

Keystone Health Plan West, Inc.
Statutory Statements of Changes in Capital and Surplus
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Capital and surplus at January 1	$ 407,207	$ 431,527
Net income	104,656	95,258
Change in net unrealized (losses) gains	(39)	223
Change in nonadmitted assets	2,430	5,641
Cumulative effect of changes in accounting principles	-	1,626
Change in net deferred income taxes	(7,221)	(2,068)
Change in surplus note	250,000	-
Return of capital	(83,967)	-
Dividend	(386,033)	(125,000)
Capital and surplus at December 31	$ 287,033	$ 407,207

The accompanying notes are an integral part of these statutory financial statements.

Keystone Health Plan West, Inc.
Statutory Statements of Changes in Cash Flows
Years Ended December 31, 2013 and 2012

(in thousands of dollars)

	2013	2012
Cash flows from operating activities		
Premiums collected	$ 1,782,244	$ 1,893,641
Claims paid	(1,587,009)	(1,675,475)
Claims adjustment expenses paid	(49,035)	(47,190)
General administrative expenses paid	(78,042)	(75,664)
Medicare Part D settlement, net	(8,129)	(6,113)
Other (expenses paid) income received, net	(1,550)	358
Net investment income	13,626	18,072
Miscellaneous income (expense)	2,844	(141)
Federal income taxes paid	(16,437)	(19,422)
Net cash provided by operating activities	58,512	88,066
Cash flows from investing activities		
Proceeds from investments sold or matured	226,963	282,281
Cost of investments acquired	(157,479)	(262,357)
Net cash provided by investing activities	69,484	19,924
Cash flows from financing and other activities		
Dividend	(134,574)	(125,000)
Other cash applied, net	(6,816)	(409)
Net cash used in financing and other activities	(141,390)	(125,409)
Decrease in cash, cash equivalents and short-term investments	(13,394)	(17,419)
Cash, cash equivalents and short-term investments		
Beginning of year	218,102	235,521
End of year	$ 204,708	$ 218,102
Supplemental disclosure of noncash investing and financing activities:		
Dividend and return of capital in the form of bonds	$ (85,426)	$ -
Dividend in the form of a surplus note	$ (250,000)	$ -
Issuance of surplus note	$ 250,000	$ -

The accompanying notes are an integral part of these statutory financial statements.

(in thousands of dollars)

1. Description of Business

Nature of Operations

Keystone Health Plan West, Inc. (the “Corporation”) operates as a for-profit health maintenance organization (“HMO”) in Western Pennsylvania, having obtained federal qualification as an HMO on August 25, 1987. The Corporation, as a licensee of the Blue Cross Blue Shield Association (“BCBSA”), provides prepaid commercial group and individual hospitalization and medical insurance, as well as individual hospitalization, medical coverage and prescription drug coverage for Medicare beneficiaries under a Medicare Advantage contract (the “Contract”) with the Centers for Medicare & Medicaid Services (“CMS”). Approximately 90% of the Corporation’s premium revenue for the years ended December 31, 2013 and 2012 was derived from the Contract. The Corporation also provides insurance coverage to low-income children through the Children’s Health Insurance Program (“CHIP”) subject to contracts between Highmark Inc. and the Commonwealth of Pennsylvania (“Pennsylvania”).

In April 2013, the Corporation became an indirect wholly owned subsidiary of Highmark Health, a Pennsylvania nonprofit corporation and federally recognized 501(c)(3), upon consummation of a transaction between Highmark Health and the Corporation’s former ultimate parent company, Highmark Inc., a professional health services plan and hospital plan corporation domiciled in Pennsylvania, pursuant to which Highmark Health became the sole corporate member of Highmark Inc. Highmark Inc. owns 75,000 shares of $1 par Class A common stock and 75,000 shares of $1 par Class B common stock. Class A and Class B common stock share equal voting rights. The excess of the purchase price over the par value of the stock was recorded as paid-in-capital.

2. Summary of Significant Accounting Policies

Basis of Financial Presentation

The accompanying statutory financial statements are presented on the basis of accounting practices prescribed by the Pennsylvania Insurance Department (the “Department”). The Department recognizes only statutory accounting practices prescribed or permitted by Pennsylvania for determining and reporting the financial condition and results of operations of an insurance company in order to assess its solvency under Pennsylvania insurance law and regulations. The National Association of Insurance Commissioners’ (“NAIC”) *Accounting Practices and Procedures Manual* (“NAIC SAP”) has been adopted as a component of prescribed or permitted practices by Pennsylvania. The Pennsylvania Insurance Commissioner has the right to permit other specific practices that deviate from prescribed practices.

For the years ended December 31, 2013 and 2012, there were no differences between NAIC SAP and practices prescribed or permitted by Pennsylvania.

These statutory financial statements differ from the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The principal differences are: (1) certain assets, such as accounts receivable aged more than 90 days and prepaid assets are excluded from statutory surplus; (2) pharmaceutical rebates receivable are limited based on the timing of billing and collection activities; (3) bonds are carried at the lower of amortized cost or fair value, not fair value as required under GAAP; (4) equity income or loss of subsidiary is recorded directly to surplus rather than in results of operations as required under GAAP with dividends or distributions recognized in statutory net income when declared; (5) deferred tax asset (“DTA”) recognition is limited; and (6) surplus notes are recorded as part of surplus rather than a liability as required under GAAP, with the approval of the domiciliary commissioner required for payment of principal and interest as well as accrual of interest.

(in thousands of dollars)

The following is a reconciliation of statutory capital and surplus to unaudited GAAP basis stockholder's equity for the Corporation at December 31, 2013 and 2012:

	2013	2012
Statutory capital and surplus	$ 287,033	$ 407,207
Unrealized appreciation	2,103	20,691
Net deferred tax asset	281	(7,755)
Nonadmitted assets	3,307	5,737
Surplus note	(250,000)	-
GAAP basis stockholder's equity	$ 42,724	$ 425,880

The following is a reconciliation of statutory net income to unaudited GAAP basis net income for the Corporation for the years ended December 31, 2013 and 2012:

	2013	2012
Statutory net income	$ 104,656	$ 95,258
Net deferred income taxes	(5,244)	(151)
Subsidiary dividend	(990)	(2,970)
Undistributed gains (losses) of subsidiary	1	(2)
Other	80	26
GAAP basis net income	$ 98,503	$ 92,161

The statutory financial statements of the Corporation are not intended to present the financial position, results or cash flows of operations on the basis of GAAP.

New Accounting Pronouncements

In August 2011, the NAIC adopted SSAP No. 101 *Income Taxes, A Replacement of SSAP No. 10R and SAAP No. 10* which established new guidance for current and deferred federal and foreign income taxes and current state income taxes. The new guidance expanded the admissibility of deferred taxes, included a more-likely-than-not qualifier for recognition of tax contingencies and allowed deferred tax liabilities ("DTLs") to be offset against the admitted DTA amounts. SSAP No. 101 became effective for years beginning January 1, 2012. Refer to Note 9 – Income Taxes for the effect of this change on the statutory financial statements.

In March 2011, the NAIC adopted nonsubstantive revisions to SSAP No. 100 *Fair Value Measurements* which required a gross presentation of purchases, sales, issues and settlement (each separately) within the reconciliation for fair value measurements categorized within Level 3 of the fair value hierarchy. The revisions also required documentation of the fair value hierarchy for items that were disclosed with a fair value measurement but may not have been reported at fair value in the statements of financial position. The nonsubstantive revisions to SSAP No. 100 were effective January 1, 2012. The adoption of this guidance did not impact the Corporation's statutory financial position, results of operations or cash flows.

Use of Estimates

The preparation of the Corporation's statutory financial statements in conformity with NAIC SAP requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities. It also requires the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

(in thousands of dollars)

Cash Equivalents and Short-Term Investments
Cash equivalents include securities with a maturity of 90 days or less at the date of purchase. Short-term investments include Class 1 and exempt money market accounts, and bonds with a maturity of less than one year but greater than 90 days at the date of purchase. Cash equivalents and short-term investments are stated at amortized cost.

Investments
The Corporation's investment policies are as follows:

- Bonds not backed by other loans are carried at amortized cost using the effective interest method or the lower of amortized cost or fair value, contingent upon NAIC designation assigned by the Securities Valuation Office ("SVO");
- Common stocks are carried at fair value;
- Other invested assets consist of an investment in a limited liability company accounted for under the audited GAAP equity method. Since the investment is not audited it is recorded at zero. Dividends received are recorded as investment income when declared;
- Loan-backed securities are stated at the lower of amortized cost or fair value, contingent upon NAIC designation assigned by the SVO. The retrospective adjustment method is used to value all loan-backed securities, except for securities where the yield has become negative which are valued using the prospective method;
- Treasury inflation-indexed securities are carried at amortized cost adjusted for the current inflation ratio. Changes in the inflation factors are recorded as unrealized gains or losses with unrealized losses only recognized to the par amount of the security; and
- Realized capital gains and losses on the sale of investments are determined using the specific identification method.

The Corporation monitors its investment portfolio for unrealized losses that appear to be other-than-temporary. The Corporation performs a detailed review of these securities to determine the underlying cause of the unrealized loss and whether the security is impaired. At the time a equity or debt security, excluding loan backed securities, is determined to be other-than-temporarily impaired, the Corporation reduces the book value of the security to the current fair value and records a realized loss in the statutory statements of revenue and expenses. Any subsequent increase in the equity or debt security's, excluding loan-backed securities, fair value is reported as an unrealized gain. At the time a loan-backed security is determined to be other-than-temporarily impaired, the credit component of the other than temporary impairment ("OTTI") is recorded as a realized loss in the statutory statements of revenue and expenses and the non-credit component of the OTTI is recorded in surplus.

The Corporation participates in securities lending transactions. The Corporation maintains effective control over the loaned securities and requires collateral initially equal to at least 102% of loaned domestic securities and 105% of loaned international securities at the loan date. Collateral received consists of cash and fixed-income securities. Noncash collateral is not recorded in the statutory statements of admitted assets, liabilities, capital and surplus as the Corporation does not have the right to sell, pledge, or otherwise reinvest the noncash collateral. Cash collateral is invested in short-term debt securities and the offsetting collateral liability is included in payable for securities lending in the statutory statements of admitted assets, liabilities, capital and surplus. Noncash collateral consists of short-term debt securities. The Corporation did not have OTTI's on invested collateral at December 31, 2013 and 2012.

(in thousands of dollars)

The aggregate amount of contractually obligated open collateral positions and the corresponding liability that represented the Corporation's obligations to return the collateral at December 31, 2013 and 2012 were as follows:

	2013	2012
Open	$ -	$ -
30 Days or Less	394	7,711
31 to 60 Days	-	-
61 to 90 Days	-	-
Greater than 90 Days	-	-
Sub-Total	$ 394	$ 7,711
Securities received	-	4,298
Total collateral reinvested	$ 394	$ 12,009

The aggregate amount of reinvested cash collateral and securities available to repledge by maturity term at December 31, 2013 and 2012 was as follows:

	2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Open	$ -	$ -	$ -	$ -
30 Days or Less	185	185	3,566	3,566
31 to 60 Days	37	37	1,475	1,475
61 to 90 Days	33	33	514	514
91 to 120 Days	55	55	521	521
121 to 180 Days	33	33	495	495
181 to 365 Days	48	48	1,105	1,105
1 to 2 Years	2	2	-	-
2 to 3 Years	-	-	20	19
Greater than 3 Years	1	1	15	15
Sub-Total	394	394	7,711	7,710
Securities received	-	-	-	-
Total collateral reinvested	$ 394	$ 394	$ 7,711	$ 7,710

The Corporation accepts non-cash collateral through its participation in securities lending transactions with its lending agent. Non-cash collateral generally consist of US Government securities which are not recorded on the balance sheet as the Corporation does not have the right to sell, pledge, or otherwise reinvest unless the counterparty defaults. The aggregate fair value of all non-cash collateral accepted was $0 and $4,298 at December 31, 2013 and 2012, respectively.

The Corporation has no cash or non cash collateral that extends beyond one year from the reporting date.

The Corporation's assets are invested in a variety of financial instruments. Accordingly, the related values as presented in the statutory financial statements are subject to various market fluctuations, which include changes in the interest rate environment and general economic conditions.

(in thousands of dollars)

Fair Value of Financial Instruments
Assets and liabilities recorded at fair value in the statutory statements of admitted assets, liabilities, capital and surplus and disclosed in the statutory financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value in accordance with SSAP No. 100.

Uncollected Premiums
Uncollected premiums consist of receivables from CMS and subscribers, and are carried at net realizable value. Uncollected premiums from subscribers aged over 90 days are nonadmitted. Uncollected premiums from CMS are admitted unless collectability issues exist.

Health Care Receivables
Health care receivables consist of pharmaceutical rebates receivable. Pharmaceutical rebates receivable is an actuarial estimate based on prescriptions filled and terms of rebate contracts for the most recent three months. For prior months, the Corporation records the actual amounts that have been invoiced or confirmed in writing with the pharmaceutical companies and collected within 90 days. The actuarial estimates are continually reviewed and any resulting adjustments are included in current operations.

Claims Unpaid
Claims unpaid include claims reported and adjudicated but unpaid as well as an estimate of incurred but not reported ("IBNR") claims. The liability for IBNR claims is an actuarial estimate based on historical claims paid data, modified for current conditions and coverage changes. The methods to determine the estimate of IBNR claims use past experience adjusted for current trends. The methods and assumptions are continually reviewed and any resulting adjustments are included in claims incurred in the period determined. Corresponding administrative costs to process IBNR claims are estimated and accrued and are reported as unpaid claims adjustment expenses.

Aggregate Health Policy Reserves
Aggregate health policy reserves consist of premium deficiency reserves ("PDRs") and risk corridor provisions for Medicare Part D business. The Corporation establishes a PDR when future claims expense and related maintenance costs are expected to exceed future subscriber premiums from contracts in force for a given line of business or product grouping within a contract period. Anticipated investment income is not considered in the PDR calculation. The Corporation evaluates the need for a PDR by grouping policies consistent with the way the business is acquired, serviced and measured. At December 31, 2013 and 2012, the Corporation determined that, due to insufficient premium rates related to several individual and state-sponsored products, establishment of a PDR of $459 and $10,941 respectively, was necessary.

Revenue Recognition
The Corporation's revenue includes premium income from underwritten business. Premiums are generally billed in advance of the contractual coverage periods and included in premium income as they are earned during the coverage period. Premiums that have been received prior to the service period are reported as premiums received in advance.

The administrative fees associated with uninsured administrative arrangements are recorded as a reduction to general administrative expenses and recognized in the period in which related services are performed.

Medicare Part D
The Corporation serves as a plan sponsor offering Medicare Part D prescription drug insurance coverage under the Contract with CMS. The Contract with CMS provides for risk corridor provisions.

(in thousands of dollars)

Risk corridor provisions compare a target amount from members and CMS based on the Corporation's annual bid less administrative expense to actual prescription drug costs incurred during the contract year. Based on actual claims incurred, a receivable or payable is recorded as an adjustment to premium income. Payables are reported as aggregate health policy reserves.

The Corporation receives reimbursement for prescription drug costs for reinsurance, coverage gap discount and low-income cost subsidies for which the Corporation is not at risk. Premium income or claims incurred are not recognized for these subsidies; rather receipt and payment activity is accumulated at the contract level and net balances are recorded in either amounts receivable relating to uninsured plans or amounts held for others. A reconciliation of the final risk corridor and reinsurance, coverage gap discount and low income cost subsidies is required annually.

Income Taxes
The Corporation is subject to federal income taxes. DTAs and DTLs are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using tax rates and laws that are expected to be in effect when the difference is reversed. Net DTAs are admitted to the extent that they are expected to reverse and be realized within one year. Uncertain tax positions are assessed in accordance with applicable statutory guidance.

SSAP No. 101 was a revised income tax accounting standard adopted by the NAIC, which was effective for the year beginning January 1, 2012. Changes implemented in SSAP No. 101 include a three-step process that is used to determine the proper recording of contingencies: (1) the term "probable" is replaced with "more likely than not," which is defined as a likelihood of more than 50%, and if met, a tax loss contingency must be recorded; (2) it must be presumed the return will be examined by the relevant taxing authority and that that authority will have full knowledge of all relevant information; and (3) if a loss contingency is greater than 50% of the tax benefit associated with a tax position, the loss contingency shall be increased to 100%. SSAP 101 also sets a three-step admissibility test for the admitted portion of deferred taxes: (1) ordinary and capital temporary differences reversing within 2 and 3 years, respectively, of the balance sheet can be carried back to recoup prior year taxes; (2) companies that are subject to risk-based capital ("RBC") requirements will qualify for various reversal periods and limitations based on their RBC; and (3) reversal patterns should be considered when offsetting DTAs and DTLs.

The Corporation is included in a consolidated federal income tax return with Highmark Inc. and all subsidiaries of Highmark Inc. in which Highmark Inc. holds 80% or more of the outstanding ownership interests. The Corporation has a written agreement, approved by the Corporation's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. The agreement generally provides for the settlement of the consolidated federal tax liability as if each subsidiary filed a separate income tax return. Federal income tax benefits or losses are allocated to the entities incurring such benefits or losses to the extent they were used to reduce the consolidated federal income tax liability.

Surplus Note
The surplus note was issued for $250,000 to Highmark Inc. on December 30, 2013 and was approved by the Department. Interest accrues on the outstanding principal balance determined on the first day of each month at a rate equal to the sum of the yield of the U.S Treasury Notes having a maturity of one year determined as of December 1, of each year plus 200 basis points. Interest and principal payments are subordinated in right of payment to the prior payment of senior indebtedness, including all obligations and claims arising under any policy of insurance issued by the Corporation. The Corporation shall redeem this note within six months of the date of issue. The note may be redeemed at whole or in part, at the option and with the approval of the Board of Directors at such time as the Board of Directors of the Corporation determine the amount of the Corporation's surplus to be

(in thousands of dollars)

sufficient to permit such redemption. Such redemption shall only be effective with the consent of the Commissioner. Each payment of principal and interest may be made only with prior approval of the Department and only to the extent the Corporation has sufficient policyholders' surplus to make such payment. As of December 31, 2013, the Corporation has made no payments of principal or interest.

Subsequent Events
Effective January 1, 2014, the Corporation converted from a Pennsylvania business corporation to a Pennsylvania nonprofit corporation. Upon conversion, the Class A and Class B common stock was cancelled. Also effective January 1, 2014, Highmark Inc. assumed the liability for all insured business of the Corporation through a 100% Quota Share Reinsurance Contract. As a result, the Corporation will have no underwritten business in 2014.

3. Regulation

The Corporation is subject to regulation by the Department and the Pennsylvania Department of Health. Under the laws and regulations of Pennsylvania, the Corporation is required to maintain minimum surplus of $1,000 for the exclusive purpose of meeting the contractual obligations of its subscribers. Pursuant to these requirements, $102 and $100 were on deposit with the Department at December 31, 2013 and 2012, respectively. In addition, the Corporation is required to comply with certain regulations under the Contract with CMS. At December 31, 2013 and 2012, the Corporation was in compliance with the requirements.

The Corporation is subject to minimum RBC requirements that were developed by the NAIC and adopted by the Department. The formula for determining the amount of RBC specifies various weighting factors that are applied to statutory financial balances and various levels of activity based on perceived degrees of risk. The RBC ratio of the Corporation is compared to authorized control levels established by the NAIC. Companies below specific ratio thresholds may be required to take specific corrective actions. At December 31, 2013 and 2012, the Corporation exceeded its minimum RBC requirements.

CMS uses a risk-adjustment model which apportions premiums paid to Medicare Advantage plans according to the health severity of their members. The risk-adjustment model pays higher premiums for members with certain medical conditions identified with specific diagnostic codes. Under the risk-adjustment methodology, all Medicare Advantage plan sponsors must collect and submit the necessary diagnosis code information from providers to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to Medicare Advantage plans.

The Corporation generally relies on providers to code their claim submissions with appropriate diagnoses, which are sent to CMS as the basis for the payment received from CMS under the risk-adjustment model. The Corporation also relies on these providers to document appropriately all medical data, including the diagnosis data submitted with claims.

CMS is continuing to perform audits of selected companies' Medicare Advantage contracts related to this risk adjustment diagnosis data. In February 2012, CMS announced a final Risk Adjustment Data Validation (RADV) audit and payment adjustment methodology and that it will utilize to conduct RADV audits beginning with the 2011 payment year. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which influence the calculation of premium payments to Medicare Advantage plans. These audits may result in retrospective adjustments to payments made to health plans.

(in thousands of dollars)

The final methodology, including the first application of extrapolated audit results to determine audit settlements, is expected to be applied to the next round of RADV contract level audits to be conducted on 2011 premium payments. Selected Medicare Advantage contracts will be notified of an audit after the close of the final reconciliation for the payment year being audited. Through the date of this report, the Corporation has not been notified by CMS that its Medicare Advantage contract has been selected for audit for contract year 2011.

The Affordable Care Act ("ACA") considerably transforms the U.S. health care system and increases regulations within the U.S. health insurance industry. This legislation is intended to expand the availability of health insurance coverage to millions of Americans. The ACA contains provisions that take effect at various times through 2018, with most measures effective in 2014.

The ACA creates state health insurance exchanges, which provide individuals and small businesses with access to affordable and quality health insurance. The Corporation participates in the Pennsylvania market.

The ACA establishes an annual fee on the health insurance sector effective in 2014. The aggregate annual fee for all insurers is $8,000,000 for calendar year 2014. This amount is apportioned among all insurers based on a ratio designed to reflect relative market share of U.S. health insurance business. The amount of the fee is calculated on the basis of prior year net written premiums, excluding the carrier's first $25,000 and half of the second $25,000 in net premiums. The fee applies to certain net premiums in excess of $50,000 and is based on the ratio of net written premium for health insurance of all insurance issuers to total applicable net premiums for all such issuers. The fee is not tax deductible. The Corporation will not be subject to this fee as it meets the exemption requirements under the ACA.

The ACA also establishes a transitional reinsurance program that reimburses non-grandfathered individual plans for a portion of the costs of high-costs enrollees for a 3-year period beginning January 1, 2014. The total amount assessed through this provision is $25,000,000 in the 3-year period, and additional administrative expense charge for 2014 of $20,300. The fee will be levied on a per-covered-life basis and be collected annually, with the first payment billed on December 15, 2014. Contribution amounts will be based on a per capita contribution rate, which is estimated to be five dollars and twenty-five cents per member per month for calendar year 2014. Both insured and self-insured plans will be assessed.

The ACA also establishes a risk corridors program for a 3-year period beginning January 1, 2014. The purpose of the risk corridors program is to provide limitations on issuer losses and gains for qualified health plans through additional protection against initial pricing risk. The program creates a mechanism for sharing the risk for allowable costs between the Federal government and the qualified health plan issuers.

The ACA also establishes a risk adjustment program. The purpose of the risk adjustment program is to transfer funds from lower risk plans to higher risk plans within the same market in the same state. It will adjust premiums for adverse selection among carriers caused by membership shifts due to guarantee issue and community rating mandates. States may set up their own risk adjustment programs, or they may permit Health and Human Services to develop and manage the program in the state.

The reinsurance, risk corridors and risk adjustments programs, established to apportion risk among insurers, may not be effective in appropriately mitigating the financial risks related to exchange products. These factors, along with the limited information about the individuals who have access to these newly established exchanges that was available when the Corporation established premiums, may have an adverse effect on the results of operations if premiums are not adequate.

(in thousands of dollars)

4. Investments

Cost or amortized cost, gross unrealized gains and losses, fair value and book/adjusted carrying value of bonds and common stocks at December 31, 2013 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Book/ Adjusted Carrying Value
Bonds					
U.S. government	$ 34,791	$ 224	$ (140)	$ 34,875	$ 34,791
Obligations of states and political subdivisions of the U.S.	1,864	-	-	1,864	1,864
Special revenue & special assessment obligations	47,370	319	(1,442)	46,247	47,370
Mortgage-backed securities					
Residential	650	-	(45)	605	650
Commercial	3,698	149	(19)	3,828	3,698
Asset backed securities	1,240	2	(2)	1,240	1,240
Other loan-backed and structured securities	4,278	1,253	-	5,531	4,278
Industrial and miscellaneous securities	96,914	5,331	(896)	101,349	96,914
Total bonds	$ 190,805	$ 7,278	$ (2,544)	$ 195,539	$ 190,805
Common stocks					
Common stocks - unaffiliated					
Domestic	10,138	-	(20)	10,118	10,118
Total common stocks	10,138	-	(20)	10,118	10,118
Total	$ 200,943	$ 7,278	$ (2,564)	$ 205,657	$ 200,923

Cost or amortized cost, gross unrealized gains and losses, fair value and book/adjusted carrying value of bonds and common stocks at December 31, 2012 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Book/ Adjusted Carrying Value
Bonds					
U.S. government	$ 65,655	$ 1,432	$ (60)	$ 67,027	$ 65,655
Special revenue & special assessment obligations	100,289	2,707	(47)	102,949	100,289
Mortgage-backed securities					
Residential	763	-	(48)	715	763
Commercial	4,576	390	-	4,966	4,576
Other loan-backed and structured securities	6,697	1,822	-	8,519	6,697
Industrial and miscellaneous securities	165,070	13,300	(232)	178,138	165,070
Total bonds	$ 343,050	$ 19,651	$ (387)	$ 362,314	$ 343,050
Common stocks					
Common stocks - unaffiliated					
Domestic	10,069	20	-	10,089	10,089
Total common stocks	10,069	20	-	10,089	10,089
Total	$ 353,119	$ 19,671	$ (387)	$ 372,403	$ 353,139

(in thousands of dollars)

The gross unrealized losses and fair value of investments classified by investment category and length of time an individual security is in a continuous unrealized loss position at December 31, 2013 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Bonds						
U.S. government	$ 12,663	$ (55)	$ 1,643	$ (85)	$ 14,306	$ (140)
Special revenue & special assessment obligations	40,924	(1,206)	2,807	(236)	43,731	(1,442)
Mortgage-backed securities						
Residential	-	-	604	(45)	604	(45)
Commercial	2,060	(19)	-	-	2,060	(19)
Asset backed securities	373	(2)	-	-	373	(2)
Industrial and miscellaneous securities	64,322	(761)	5,091	(135)	69,413	(896)
Total bonds	$ 120,342	$ (2,043)	$ 10,145	$ (501)	$ 130,487	$ (2,544)
Common stocks - unaffiliated						
Domestic	10,098	(20)	-	-	10,098	(20)
Total common stocks	10,098	(20)	-	-	10,098	(20)
Total	$ 130,440	$ (2,063)	$ 10,145	$ (501)	$ 140,585	$ (2,564)

The gross unrealized losses and fair value of investments classified by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2012 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Bonds						
U.S. government	$ 13,159	$ (60)	$ -	$ -	$ 13,159	$ (60)
Special revenue & special assessment obligations	10,929	(47)	-	-	10,929	(47)
Mortgage-backed securities						
Residential	-	-	715	(48)	715	(48)
Industrial and miscellaneous securities	35,551	(109)	4,037	(123)	39,588	(232)
Total bonds	$ 59,639	$ (216)	$ 4,752	$ (171)	$ 64,391	$ (387)

At December 31, 2013, the Corporation held bonds with gross unrealized losses of $2,544. Management evaluated the unrealized losses in bonds and determined that they were due primarily to volatility in the interest rate environment and market conditions. The Corporation does not intend to sell the bonds and it is not likely that the Corporation will be required to sell the bonds before recovery of their amortized cost bases, which may be maturity. Therefore, management does not consider the bonds to be other-than-temporarily impaired as of December 31, 2013.

At December 31, 2013, the Corporation held unaffiliated common stocks with gross unrealized losses of $20. Management reviews stocks in which fair value falls below cost. In determining whether a stock is other-than-temporarily impaired, management considers both quantitative and qualitative information. The impairment review process is subjective and considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than book value, the financial condition and near term prospects of the issuer, recommendations of investment advisors, the intent and ability to hold securities for a time sufficient to allow for any anticipated recovery in value, and general market conditions and industry or sector specific factors, including forecasts of economic, market or industry trends. The Corporation believes that the unrealized losses on unaffiliated common stocks do not represent an OTTI at December 31, 2013.

(in thousands of dollars)

The cost or amortized cost, fair value and book/adjusted carrying value of bonds at December 31, 2013 are shown below by contractual maturity. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost or Amortized Cost	Fair Value	Book/Adjusted Carrying Value
Due within one year or less	$ 15,763	$ 15,861	$ 15,763
Due after one year through five years	80,840	82,187	80,840
Due after five years through ten years	53,765	55,663	53,765
Due after ten years	3,510	3,764	3,510
Loan-backed/asset backed and structured securities	36,927	38,064	36,927
Total	$ 190,805	$ 195,539	$ 190,805

The Corporation's investments in loan-backed/asset backed and structured securities are comprised of mortgage-backed and asset-backed instruments which are subject to concentrations of credit risk. If parties to the instruments fail to perform to the terms of the contracts and the collateral for the amounts due prove to be inadequate, the Corporation could lose all or a portion of its investment in these securities. The Corporation uses the retrospective adjustment method regarding prepayment assumptions, which are generally obtained from broker dealer survey values. The Corporation has no loan-backed securities that were acquired prior to January 1, 1994. The Corporation did not hold any loan-backed securities for which the yield has become negative at December 31, 2013 or 2012.

In deciding whether impairments are other-than-temporary, the Corporation may consider several factors, including the adequacy of collateral, probability of default, and estimates regarding timing and amount of recoveries associated with a default.

The Corporation has the ability and intent to retain all loan-backed securities with a recognized other-than-temporary impairment. There were no other-than-temporary impairments recognized on loan-backed securities for the years ended December 31, 2013 or 2012.

The Corporation has assets pledged as collateral or otherwise restricted related to amounts on deposit with states of $102 and $100 at December 31, 2013 and 2012, respectively. These amounts were included in admitted assets and represented 0.02% and 0.02% of total assets and total admitted assets, respectively at December 31, 2013 and 0.02% and 0.02% of total assets and total admitted assets, respectively at December 31, 2012.

Gross realized capital gains on the sale of bonds in 2013 and 2012 were $2,675 and $4,628, respectively. Gross realized capital losses on the sales of bonds in 2013 and 2012 were $2,786 and $211, respectively. The Corporation did not recognize any losses for other-than temporary impairments in 2013 or 2012.

(in thousands of dollars)

The following is a summary of net investment income for the years ended December 31, 2013 and 2012:

	2013	2012
Investment income		
Interest on bonds	$ 9,245	$ 11,701
Dividends on common stocks	69	69
Other, includes interest on cash, cash equivalents and short-term investments	1,465	3,657
Gross investment income	10,779	15,427
Less investment and interest expenses	(847)	(792)
Net investment income	$ 9,932	$ 14,635

Investment income due and accrued is excluded from the financial statements for all investment income due on any invested asset that is 90 days or more past due.

The Corporation's exposure to subprime residential mortgage-backed securities is comprised of investments within the bond portfolio that contain securities collateralized by mortgages or home equity loans that have characteristics of subprime loans, including deteriorating credit ratings, credit scores or delinquency rates. At December 31, 2013 and 2012, the book/adjusted carrying value of these investments was $650 and $763, respectively, which represented less than 1% of the Corporation's total bond portfolio. There were no OTTIs recognized on these securities at December 31, 2013 or 2012. The Corporation performs ongoing analysis of cash flows and other stress variables and manages its subprime risk exposure by maintaining high credit quality investments and by limiting the Corporation's holdings in these types of investments.

5. Fair Value of Financial Instruments

In accordance with SSAP No. 100, financial assets and liabilities recorded at fair value in the statutory statements of assets, liabilities, capital and surplus and disclosed in the statutory financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Input levels, as defined by NAIC SAP, are as follows:

Level 1 – Pricing inputs are based on unadjusted quoted market prices for identical financial assets in active markets. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are based on other than unadjusted quoted prices in active markets included in Level 1 and include observable unadjusted quoted market prices for similar financial assets or liabilities in active markets or quoted market prices for identical assets in inactive markets.

Level 3 – Pricing inputs include unobservable inputs that are supported by little or no market activity that reflect management's best estimate of what market participants would use in pricing the asset at the measurement date.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities:

Bonds: Fair values are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally uses Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Government Securities issued by the U.S. Treasury represent Level 1 securities, while U.S.

(in thousands of dollars)

Government securities issued by other agencies of the U.S. Government represent Level 2 securities. Level 2 securities primarily include corporate securities, securities from states, municipalities and political subdivisions, and mortgage-backed securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds.

Common stocks: Fair values are generally designated as Level 1 and are based on quoted market prices. The Corporation held securities with fair value of $10,118 and $10,089 at December 31, 2013 and 2012, respectively, the pricing of which was based on assigned net asset values.

Short-term securities: Short-term securities include Class 1 and exempt money market accounts, and securities with a maturity of less than one year but greater than 90 days at the date of purchase. Fair values of short-term securities are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally use Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Government securities represent Level 1 securities, while Level 2 securities include corporate securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds.

Cash and cash equivalents: Cash equivalents include commercial paper, discount notes or securities with a maturity of 3 months or less, and bank deposits that are purchased or deposited daily with specified yield rates. Cash equivalents are designated as Level 1 or Level 2, depending on structure and the extent of credit-related features.

Securities lending collateral assets: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures.

The Corporation uses a third party pricing service to obtain quoted prices for each security. The third party service provides pricing based on recent trades of the specific security or like securities, as well as a variety of valuation methodologies for those securities where an observable market price may not exist. The third party service may derive pricing for Level 2 securities from market corroborated pricing, matrix pricing, discounted cash flow analysis and inputs such as yield curves and indices. Pricing for Level 3 securities may be obtained from investment managers for private placements or derived from discounted cash flows, or ratio analysis and price comparisons of similar companies. The Corporation performs an analysis of reasonableness of the prices received for fair value by monitoring month-to-month fluctuations and determining reasons for significant differences, selectively testing of fair values against prices obtained from other sources, and comparing the combined fair value of a class of assets against an appropriate index benchmark. The Corporation did not make adjustments to the quoted market prices obtained from third party pricing services during the years ended December 31, 2013 and 2012 that were material to the statutory financial statements.

The following table summarizes fair value measurements by level at December 31, 2013 for financial assets and liabilities measured at fair value:

	Fair Value	Level 1	Level 2	Level 3
Common stocks				
Common stocks - unaffiliated				
Domestic	$ 10,118	$ 10,118	$ -	$ -
Total	$ 10,118	$ 10,118	$ -	$ -

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2012 for financial assets and liabilities measured at fair value:

	Fair Value	Level 1	Level 2	Level 3
Common stocks				
Common stocks - unaffiliated				
Domestic	$ 10,089	$ 10,089	$ -	$ -
Total	$ 10,089	$ 10,089	$ -	$ -

Transfers between levels, if any, are recorded annually as of the end of the reporting period unless, with respect to a particular issue, a significant event occurred that necessitated the transfer be reported at the date of the event. There were no significant transfers between levels for the years ended December 31, 2013 and 2012.

The following table summarizes the aggregate fair value of all financial assets by level and the related admitted values at December 31, 2013:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds					
U.S. Government	$ 34,875	$ 34,791	$ 30,757	$ 4,118	$ -
Obligations of states and political sub-divisions of the U.S.	1,864	1,864	-	1,864	-
Special revenue & special assessment obligations	46,247	47,370		46,247	-
Mortgage-backed securities					
Residential	605	650		605	-
Commercial	3,828	698		3,828	-
Asset-backed securities	1,240	1,240		1,240	-
Other loan-backed and structured securities	5,531	4,278	-	5,531	-
Industrial and miscellaneous securities	101,349	96,914	-	101,349	-
Total bonds	$ 195,539	$ 190,805	$ 30,757	$ 164,782	$ -
Common stocks - unaffiliated					
Domestic	10,118	10,118	10,118	-	-
Total common stock	$ 10,118	$ 10,118	$ 10,118	$ -	$ -
Short-term securities	125,663	125,680	87,145	38,518	-
Cash and cash equivalents	79,022	79,029	43,237	35,785	-
Securities lending collateral assets	394	394	19	375	-
Total	$ 410,736	$ 406,026	$ 171,276	$ 239,460	$ -

(in thousands of dollars)

The following table summarizes the aggregate fair value of all financial assets by level and the related admitted values at December 31, 2012:

	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds					
U.S. Government	$ 67,027	$ 65,655	$ 42,138	$ 24,888	$ -
Special revenue & special assessment obligations	102,949	100,289	-	102,949	-
Mortgage-backed securities					
Residential	715	763	-	715	-
Commercial	4,966	4,576	-	4,965	-
Other loan-backed and structured securities	8,519	6,697	-	8,519	-
Industrial and miscellaneous securities	178,138	165,070	-	178,140	-
Total bonds	362,314	343,050	42,138	320,176	-
Common stocks - unaffiliated					
Domestic	10,089	10,089	10,089	-	-
Total common stocks	10,089	10,089	10,089	-	-
Short-term securities	173,109	173,109	119,429	53,680	-
Cash and cash equivalents	44,992	44,993	3,769	41,223	-
Securities lending collateral assets	7,710	7,711	168	7,542	-
Total	$ 598,214	$ 578,952	$ 175,593	$ 422,621	$ -

6. Health Care Receivables

The following is an analysis of pharmaceutical rebates receivable:

Quarter Ended	Estimated Pharmaceutical Rebates as Reported	Pharmaceutical Rebates as Invoiced or Confirmed	Actual Rebates Collected Within 90 Days	Actual Rebates Collected Within 91-180 Days	Actual Rebates Collected More Than 180 Days
12/31/2013	$ 8,776	$ -	$ -	$ -	$ -
09/30/2013	$ 8,948	$ 8,969	$ 29	$ -	$ -
06/30/2013	$ 8,701	$ 8,703	$ 7,112	1,262	$ -
03/31/2013	8,699	8,864	6,388	2,092	370
12/31/2012	8,805	9,010	7,307	1,229	401
09/30/2012	9,732	9,921	8,846	677	397
06/30/2012	9,711	9,859	9,214	181	464
03/31/2012	9,889	9,861	9,070	361	431
12/31/2011	10,738	11,000	9,978	319	686
09/30/2011	11,376	11,659	9,281	1,473	904
06/30/2011	11,539	11,764	10,216	554	994
03/31/2011	11,719	11,689	7,390	2,991	1,309

(in thousands of dollars)

7. Claims Unpaid

Activity in the liability for claims unpaid and gross health care receivables under insured arrangements for the years ended December 31, 2013 and 2012 are summarized as follows:

	2013	2012
Claims unpaid at January 1	$ 158,893	$ 156,496
Health care receivables	(16,167)	(19,488)
Accrued medical incentive pool	436	656
Net balance at January 1	143,162	137,664
Incurred related to		
Current year	1,601,758	1,699,462
Prior year	(38,679)	(18,489)
Total incurred claims	1,563,079	1,680,973
Paid related to		
Current year	1,485,188	1,559,731
Prior year	101,821	115,744
Total paid claims	1,587,009	1,675,475
Net balance at December 31	119,232	143,162
Health care receivables	15,783	16,167
Accrued medical incentive pool	(1,271)	(436)
Claims unpaid at December 31	$ 133,744	$ 158,893

Negative amounts reported in 2013 and 2012 for incurred claims related to prior years resulted from claims being settled for amounts less than originally estimated due to lower than anticipated utilization. Management has established estimates for claims to satisfy its ultimate claim liability. However, these estimates are inherently subject to a number of highly variable circumstances. Consequently, actual results could differ materially from the amount recorded in the statutory financial statements.

8. Medicare Part D

Estimated settlements for CMS subsidies and risk corridor at December 31, 2013 and 2012 were as follows:

	2013	2012
Receivable from CMS for subsidies	$ 20,913	$ 12,779
Payable to CMS for risk corridor	(2,841)	(6,369)
Total due from CMS	$ 18,072	$ 6,410

In 2013 and 2012, the Corporation received $3,464 and $7,372, respectively from CMS for settlements related to 2012 and 2011 subsidies and risk corridor. Certain 2012 subsidies remain outstanding at December 31, 2013 and are recorded at net realizable value.

(in thousands of dollars)

9. Income Taxes

SSAP No. 101 became effective January 1, 2012 and included revised disclosure requirements.

The tax effects of temporary differences that gave rise to significant portions of DTAs and DTLs at December 31 are as follows:

	2013			2012		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
DTAs						
Accident & health premiums due and healthcare receivables	$ 160	$ -	$ 160	$ 3,829	$ -	$ 3,829
Basis adjustment-bonds and common stocks	-	6	6	-	310	310
Change in unearned premiums	1,743	-	1,743	1,959	-	1,959
Discounting loss	477	-	477	765	-	765
General expenses due and accrued	5,207	-	5,207	6,455	-	6,455
State tax contingencies	2,005	-	2,005	3,199	-	3,199
Other	415	-	415	729	-	729
Gross DTA	10,007	6	10,013	16,936	310	17,246
Statutory valuation allowance adjustments	-	-	-	-	-	-
Adjusted gross DTA	10,007	6	10,013	16,936	310	17,246
DTAs nonadmitted	378	-	378	1,509	32	1,541
Subtotal net admitted DTA	9,629	6	9,635	15,427	278	15,705
DTLs						
Market discount	37	-	37	49	-	49
Unrealized capital gains, net	-	6	6	-	7	7
DTL	37	6	43	49	7	56
Net admitted DTA	$ 9,592	$ -	$ 9,592	$ 15,378	$ 271	$ 15,649

The amount of each result or component of the DTA admission calculated at December 31 was as follows:

	2013			2012		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Federal income taxes paid in prior years recoverable through loss carrybacks	$ 8,993	$ -	$ 8,993	$ 14,385	$ 232	$ 14,617
Adjusted gross DTA expected to be realized after application of the threshold limitation	599	-	599	993	39	1,032
1. Adjusted gross DTAs expected to be realized following the balance sheet date	N/A	N/A	599	N/A	N/A	1,032
2. Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	41,744	N/A	N/A	58,734
Adjusted gross DTAs offset by gross DTLs	37	6	43	49	7	56
DTAs admitted	$ 9,629	$ 6	$ 9,635	$ 15,427	$ 278	$ 15,705

As a result of applying the guidance due to the adoption of SSAP No. 101, the Corporation recorded an increase of $1,626 to the cumulative effect of changes in accounting principles in the statutory statement of changes in capital and surplus on January 1, 2012. There was no change in the amount of the current tax liability.

(in thousands of dollars)

The following summarizes the impact of adoption:

	January 1, 2012	December 31, 2011
Gross DTA	$ 19,332	$ 19,332
Statutory Valuation Allowance Adjustment	-	-
Adjusted Gross DTA	19,332	19,332
DTAs Nonadmitted	4,837	6,463
Admitted Adjusted Gross DTA	14,495	12,869
Gross DTL	67	67
Net Admitted Adjusted Gross DTA	$ 14,428	$ 12,802
Cummulative effect of change in accounting principle		$ 1,626

The ratios used to determine the applicable period used for determining the amount of adjusted gross DTAs expected to be realized at December 31, 2013 and 2012 were 454% and 597%, respectively. The amount of adjusted capital and surplus used to determine the percentage threshold limitation at December 31, 2013 and 2012 were $277,441 and $391,559, respectively.

For the years ending December 31, 2013 and 2012, the Corporation did not employ any tax planning strategies to admit DTAs.

For the years ending December 31, 2013 and 2012, the Corporation does not have situations where DTLs were not recognized for amounts described in SSAP No. 101.

The current income tax provisions of $19,471 and $12,262 recognized for the years ended December 31, 2013 and 2012, respectively, included only federal taxes.

The change in net deferred income taxes was comprised of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes on the statutory statement of changes in capital and surplus):

	2013	2012	Change
Total DTAs	$ 10,013	$ 17,246	$ (7,233)
Total DTLs	(43)	(56)	13
Net DTA	$ 9,970	$ 17,190	(7,220)
Tax effect of unrealized gains			(1)
Change in net deferred income taxes			$ (7,221)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	2013	2012
Income tax provision at statutory rates	$ 43,444	$ 37,632
Change in temporary differences recorded directly to surplus	129	895
Relationship management/support services	(16,881)	(24,197)
Total statutory income taxes	$ 26,692	$ 14,330
Federal income tax provision	$ 19,471	$ 12,262
Change in net deferred income taxes	7,221	2,068
Total statutory income taxes	$ 26,692	$ 14,330

(in thousands of dollars)

The Corporation had no net operating loss or tax credit carryforwards at December 31, 2013 or 2012.

The Corporation had income tax expenses available for recoupment in the event of future net losses for 2013, 2012, and 2011 as follows:

Year	Ordinary	Capital	Total
2011	N/A	$ 949	$ 949
2012	18,834	1,546	20,380
2013	17,543	36	17,579
	$ 36,377	$ 2,531	$ 38,908

The Corporation has not made any deposits admitted under Section 6603 of the Internal Revenue Service Code.

The Corporation does not anticipate that any significant increase or decrease to unrecognized tax benefits will be recorded in 2014.

10. Results from Operations of Uninsured Groups

The net loss from operations from uninsured groups for the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
Gross reimbursement for medical costs incurred	$ 280,867	$ 285,698
Gross network access fees	67	84
Gross administrative expenses reimbursed	13,786	15,037
Gross claim and administrative expenses incurred	(296,324)	(300,930)
Total net loss from operations	$ (1,604)	$ (111)

11. Transactions with Related Parties

The Corporation has a management services agreement with Highmark Inc. to receive all of the financial investment, administrative and operational services including certain billing and collection services. The terms of the management services agreement generally require that amounts be settled within 30 days. The allocated costs of these administrative services were reported in general administrative expenses, claims adjustment expenses and investment expenses (as a component of net investment income). For the years ended December 31, 2013 and 2012, the amounts incurred for such services were $124,514 and $122,988, respectively. Amounts due to Highmark Inc. for these services were $8,842 and $9,855, at December 31, 2013 and 2012, respectively, and were reported in amounts due to parent, subsidiaries and affiliates.

Highmark Inc. processes and pays all facility and professional claims on behalf of the Corporation. Claims paid by Highmark Inc. on behalf of the Corporation for these agreements amounted to $1,587,009 and $1,675,475 for 2013 and 2012, respectively. The allocated cost of claims processing was included in claim adjustment expenses and cost containment expenses. Amounts due to Highmark Inc. for these services were $1,655 and $3,297, at December 31, 2013 and 2012, respectively, and were reported in amounts due to parent, subsidiaries and affiliates.

The Corporation has an administrative service agreement with Highmark Inc. and Highmark Inc.'s wholly owned subsidiary, Davis Vision, Inc., to provide supplemental vision benefits for certain of the Corporation's products. The Corporation also has an administrative agreement with Highmark Inc. and Highmark Inc.'s wholly owned subsidiary, United Concordia Companies, Inc., to provide

(in thousands of dollars)

supplemental dental benefits for certain of the Corporation's products. The vision and dental claims expense associated with these agreements amounted to $8,970 and $10,295, respectively, for the years ended December 31, 2013 and 2012.

Highmark Inc. bills and collects premium revenue on behalf of the Corporation's subscribers, and subsequently reimburses the Corporation for such premiums collected. At December 31, 2013 and 2012, the amounts due from Highmark Inc. were $14,172 and $14,965, respectively, and were reported in amounts due from parent, subsidiaries and affiliates.

In December 2013 and August 2012, the Corporation received ordinary cash dividends of $990 and $2,970 respectively, from its subsidiary, Employee Benefit Data Services.

In December 2013, the Department approved and the Corporation paid an extraordinary dividend of $375,000 in cash and debt securities to Highmark Inc. of which $83,967 was recorded as a return of capital and $291,033 recorded as a dividend. In July 2013 and 2012, the Corporation paid an ordinary cash dividend to Highmark Inc. of $95,000 and an extraordinary cash dividend to Highmark Inc. of $125,000, respectively.

12. Contingencies

The Corporation is subject to various contingencies, including legal and compliance actions and proceedings that arise in the ordinary course of its business. In the opinion of management, based on consultation with legal counsel, adequate provision has been made in the statutory financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the statutory financial position, results from operations or cash flows of the Corporation.

Keystone Health Plan West, Inc.
Supplemental Summary Investment Schedule
December 31, 2013

(in thousands of dollars)

Investment Categories	Gross Investment Holdings Amount	Gross Investment Holdings Percentage	Admitted Assets Amount	Admitted Assets Securities Lending Reinvested Collateral Amount	Admitted Assets Total Amount	Admitted Assets Percentage
1. Bonds						
1.1 U.S. treasury securities	$ 30,733	7.6%	$ 30,733	-	$ 30,733	7.6%
1.2 U.S. government agency obligations (excluding mortgage-backed securites)						
1.21 Issued by U.S. government agencies	-	-	-	-	-	-
1.22 Issued by U.S. government sponsored agencies	24,367	6.0%	24,367	-	24,367	6.0%
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	-	-	-	-	-	-
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.						
1.41 States, territories and possessions general obligations	-	-	-	-	-	-
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	1,864	0.5%	1,864	-	1,864	0.5%
1.43 Revenue and assessment obligations	-	-	-	-	-	-
1.44 Industrial development and similar obligations	-	-	-	-	-	-
1.5 Mortgage-backed securities (includes residential and commercial MBS)						
1.51 Pass-through securities						
1.511 Issued or guaranteed by GNMA	4,059	1.0%	4,059	-	4,059	1.0%
1.512 Issued or guaranteed by FNMA and FHLMC	22,004	5.4%	22,004	-	22,004	5.4%
1.513 All other	-	-	-	-	-	-
1.52 CMOs and REMICs						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	999	0.2%	999	-	999	0.2%
1.522 Issued by non-U.S. government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in line 1.521	4,348	1.1%	4,348	-	4,348	1.1%
1.523 All other	-	-	-	-	-	-
2. Other debt and other fixed income securities (excluding short-term)						
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	89,312	22.0%	89,312	24	89,336	22.0%
2.2 Unaffiliated foreign securities	13,119	3.2%	13,119	-	13,119	3.2%
2.3 Affiliated securities	-	-	-	-	-	-
3. Equity interests						
3.1 Investments in mutual funds	10,118	2.5%	10,118	-	10,118	2.5%
3.2 Preferred stocks						
3.21 Affiliated	-	-	-	-	-	-
3.22 Unaffiliated	-	-	-	-	-	-
3.3 Publicly traded equity securities (excluding preferred stocks)						
3.31 Affiliated	-	-	-	-	-	-
3.32 Unaffiliated	-	-	-	-	-	-
3.4 Other equity securities						
3.41 Affiliated	-	-	-	-	-	-
3.42 Unaffiliated	-	-	-	-	-	-
3.5 Other equity interests including tangible personal property under lease						
3.51 Affiliated	-	-	-	-	-	-
3.52 Unafflliated	-	-	-	-	-	-
4. Mortgage loans						
4.1 Construction and land development	-	-	-	-	-	-
4.2 Agricultural	-	-	-	-	-	-
4.3 Single family residential properties	-	-	-	-	-	-
4.4 Multifamily residential properties	-	-	-	-	-	-
4.5 Commercial loans	-	-	-	-	-	-
4.6 Mezzanine real estate loans	-	-	-	-	-	-
5. Real estate investments						
5.1 Property occupied by company	-	-	-	-	-	-
5.2 Property held for production of income	-	-	-	-	-	-
5.3 Property held for sale	-	-	-	-	-	-
6. Contract loans	-	-	-	-	-	-
7. Derivatives	-	-	-	-	-	-
8. Receivables for securities	1	0.0%	1	-	1	0.0%
9. Securities lending	394	0.1%	394	XXX	XXX	XXX
10.Cash, cash equivalents and short-term investments	204,708	50.4%	204,708	370	205,078	50.5%
11.Other invested assets	-	-	-	-	-	-
12.Total invested assets	$ 406,026	100.0%	$ 406,026	$ 394	$ 406,026	100.0%

(in thousands of dollars)

1. Admitted Assets

The Corporation's total admitted assets at December 31, 2013, as reported on page 3 of these statutory financial statements, were $482,422.

2. Investment Categories

The Corporation's 10 largest exposures to a single issuer/borrower/investment, excluding U.S. Government, U.S. Government agency securities and U.S. Government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the Corporation and policy loans were as follows:

Issuer	Description of Exposure	Amount	Percentage of Admitted Assets
Goldman Sachs Financial SQ	Money Market Mutual Fund	$ 41,204	8.5%
Western Asset	Money Market	$ 33,000	6.8%
FNMA Pool	Bonds	$ 21,620	4.5%
Blackrock	Money Market Mutual Fund	$ 19,902	4.1%
Federal Home Loan	Bonds	$ 15,402	3.2%
Morgan Stanley	Bonds	$ 11,894	2.5%
FHLMC Pool	Bonds	$ 11,386	2.4%
PNC	Bonds	$ 10,997	2.3%
Comcast	Bonds	$ 10,019	2.1%
Sumitomo Corporation	Bonds	$ 10,000	2.1%

3. NAIC Rating

The amounts and percentages of the Corporation's total admitted assets held in bonds by NAIC rating at December 31, 2013 were as follows:

Bonds	Amount	Percentage of Admitted Assets
NAIC-1	$ 322,396	66.8%
NAIC-2	$ 29,880	6.2%

The Corporation held no amounts in preferred stock.

4. Foreign Investments

The Corporation held assets in foreign investments of $11,746 at December 31, 2013 which was less than 2.5% of the Corporation's total admitted assets; therefore, detail was not required.

5. Foreign Investment Exposure by NAIC Sovereign Rating

The Corporation holds less than 2.5% of total admitted assets in foreign investments; therefore, no rating is required.

6. Foreign Investment Exposure by Country and NAIC Sovereign Rating

The Corporation holds less than 2.5% of total admitted assets in foreign investments; therefore, no rating is required.

(in thousands of dollars)

7. Aggregate Unhedged Foreign Currency Exposure

None

8. Aggregate Unhedged Foreign Currency Exposure by NAIC Sovereign Rating

None

9. Unhedged Foreign Currency Exposure by Country and NAIC Sovereign Rating

None

10. Non-Sovereign Foreign Issues

None

11. Canadian Investments and Canadian Investment Exposure

The Corporation held assets in Canadian investments of $1,373 at December 31, 2013 which was less than 2.5% of the Corporation's total admitted assets; therefore, detail was not required.

12. Contractual Sales Restrictions

None

13. Equity Interests

The Corporation held equity interest in the amount of $10,118 at December 31, 2013 which was less than 2.5% of the Corporation's total admitted assets; therefore, detail was not required.

14. Non-Affiliated, Privately Placed Equities

None

15. General Partnership Interests

None

16. Mortgage Loans

None

17. Mortgage Loans-Loan-to-Value

None

18. Real Estate

None

19. Mezzanine Real Estate Loans

None

(in thousands of dollars)

20. Securities Lending and Reverse Repurchase Agreements

The amounts of the Corporation's total admitted assets subject to securities lending were as follows:

	At Year-End		At End of Each Quarter		
	Amount	**Percent**	**1st Qtr**	**2nd Qtr**	**3rd Qtr**
Securities lending	$ 363	0.1%	$ 7,123	$ 12,975	$ 6,109

21. Warrants

None

22. Collars, Swaps, and Forwards

None

23. Futures Contracts

None