Report of Examination of

CareSource
Dayton, Ohio

As of December 31, 2012

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Columbus, Ohio
October 8, 2013

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance ("Department")
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (ORC), an examination was made of

CareSource

an Ohio domiciled, nonprofit health insuring corporation, hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at 230 North Main Street, Dayton, Ohio.

A report of this examination is hereby respectfully submitted.

Scope of Examination

The Department last examined the Company as of December 31, 2009. The Department's current full scope examination covers the period of January 1, 2010 through and including December 31, 2012.

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

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

For all years under examination, the Certified Public Accounting ("CPA") firm of Ernst & Young, LLP ("E&Y") provided an unqualified opinion on the financial statements based on

statutory accounting principles. The E&Y audit reports were reviewed during the examination.

Management and Control

Board of Directors:

Members of the board of directors elected and serving on December 31, 2012, were as follows:

Name	Principal Occupation
Craig Brown	Retired, CFO Standard Register
Morris L. Brown, MD	Physician, Dayton Primary and Urgent Care
Michael E. Ervin, MD	Retired, Physician
Lisa Kloppenberg	Dean and Professor of Law, University of Dayton
Ellen S. Leffak	Director of Insurance and Risk Management, DPL, Inc.
William F. Marsteller	Chiropractic Physician, Centerville Chiropractic
David T. Miller	Chief Financial Officer, Children's Medical Center of Dayton
Pamela B. Morris	President & Chief Executive Officer, CareSource

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Pamela B. Morris	President, and Chief Executive Officer
Bobby L. Jones	Chief Operating Officer
L. Tartlon Thomas III	Chief Financial Officer
Craig Thiele, MD	Chief Medical Officer

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The Company is 100% owned by CareSource Management Group an Ohio not-for-profit corporation.

Reinsurance

The Company has an excess of loss reinsurance contract with ACE American Insurance Company covering membership services agreement for Covered Families and Children ($750,000); Aged Blind and Disabled ($325,000); and Special Needs Plan ($200,000) with maximum coverage per individual of $2,500,000. ACE has ceded the first $250,000 of the excess of loss coverage to an affiliate, CareSource Insurance LLC, a Vermont captive, as part of a self-reinsurance plan.

All reinsurance agreements appear to transfer risk and have the National Association of Insurance Commissioners ("NAIC") required clauses.

Territory and Plan of Operations

The Company is licensed to transact business in the State of Ohio.

Financial Statements

The financial condition and the results of its operations for the three-year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Operations
Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, and Surplus

	December 31, 2012
Admitted assets	
Cash and invested assets:	
Bonds	$411,976,135
Common stock	49,730,592
Cash and short-term investments	310,148,134
Total cash and invested assets	771,854,861
Investment income due and accrued	5,407,098
Uncollected premiums and agents' balances in the course of collections	95,666,548
Amounts recoverable from reinsurers	1,380,620
Healthcare and other amounts receivable	61,630,584
Total admitted assets	$935,939,711
Liabilities and capital and surplus	
Liabilities:	
Claims unpaid	303,312,703
Accrued medical incentive pool and bonus amounts	1,529,088
Unpaid claims adjustment expenses	6,895,453
Premium received in advance	1,973,952
General expenses due or accrued	74,639,151
Amounts due to parent, subsidiaries and affiliates	10,118,356
Payable for securities	2,384,160
Total liabilities	400,852,863
Capital and surplus:	
Gross paid in and contributed surplus	22,314,177
Unassigned surplus	512,772,671
Total capital and surplus	535,086,848
Total liabilities and capital and surplus	$935,939,711

Statement of Revenue and Expenses

	For the Year Ended December 31, 2012
Premium and other revenues:	
Net premium income	$3,682,585,418
Aggregate write-ins for other health care related revenue	20,885,155
Total revenues	3,703,470,573
Benefits paid or provided:	
Hospitalization/medical benefits	2,268,748,757
Other professional services	38,603,201
Emergency room and out-of-area	196,748,102
Prescription drugs	624,566,431
Incentives pool, withhold adjustments and bonus amounts	3,575,962
Less	
Net reinsurance recoveries	6,745,227
Total hospital and medical	3,125,497,226
Claims adjustment expenses, incl cost containment expenses	69,729,398
General administrative expenses	406,027,083
Total underwriting deductions	3,601,253,707
Net underwriting gain	102,216,866
Net investment income earned	12,881,006
Net realized capital gains	1,383,923
Net investment gains	14,264,929
Net income	$116,481,795

Statement of Changes in the Capital and Surplus Account
(in thousands)

	2012	2011	2010
Capital and surplus December 31, previous year	$414,715	$293,290	$180,797
Net income	116,482	131,208	112,375
Change in net unrealized capital gains (losses)	4,993	(2,117)	3,377
Change in non-admitted assets	(5,001)	(100)	(677)
Surplus adjustment paid in	5,114	-	-
Transferred from capital	(1,216)	(1,478)	(1,138)
Dividends to stockholders	-	(6,000)	-
Noncredit related impairment of RMBS	-	-	(1,105)
Aggregate write-ins for gains and losses in surplus	-	(89)	(339)
Net change in capital and surplus	120,372	121,424	112,493
Surplus, December 31, current year	$535,087	$414,715	$293,290

Notes to Financial Statements

Investments

At December 31, 2012, the Company's investments, as measured by statement valuations, were composed of:

	Ratio to Total	
Invested Assets	Investments	Assets
Bonds	53.37%	44.02%
Common stock	6.44%	5.31%
Cash and short-term investments	40.18%	33.14%
Totals	100.00%	82.47%

The Company's investments were in compliance with Section 3925.08 of the ORC.

Aggregate Reserves for Claims

Darrell D. Knapp, MAAA, certified the total reserves for the years covered by the examination. The Department's actuary, Daniel Moore, ASA, MAAA, reviewed the calculations for the reserves as of December 31, 2012.

On the basis of the above-mentioned analysis, it was determined that the claims reserves, were reasonable as of December 31, 2012.

Subsequent Events

The Company made a strategic decision to participate in the Healthcare Marketplace (exchange). The Company has received approval from both Federal (Center of Medicare and Medicaid Service) and the Department to be one of Marketplace plans. Open enrollment for the healthcare marketplace starts October 1, 2013. Coverage starts as soon as January 1, 2014.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	$935,939,711
Liabilities	$400,852,863
Unassigned funds	535,086,848
Total Liabilities and Surplus as Regards Policyholders	$935,939,711

Acknowledgement

In addition to the aforementioned and the undersigned, the following representative of the Department participated in the examination: Methuselah E. Nyangoro, CFE, CPA and Patricia Severs, CPA.

Respectfully,

Vicky L. Hugo, AES, CFE, CISA, CPA
Examiner-In-Charge
Ohio Department of Insurance

David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2012.

Vicky L Hugo 10/8/13 [signature] 10/21.3

Examiner-In-Charge Date Assistant Chief Examiner Date

State of

County of

Personally appeared before me the above named, Vicky L. Hugo, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of October, 2013.

Kimberly Ann Lowry
(Notary Public)

3-28-2016
My Commission Expires

KIMBERLY ANN LOWRY
NOTARY PUBLIC • STATE OF OHIO
Recorded in Franklin County
My commission expires Mar. 28, 2016

State of

County of

Personally appeared before me the above named, David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of October, 2013.

Kimberly Ann Lowry
(Notary Public)

3-28-2016
My Commission Expires

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