Best's Credit Rating Effective Date
October 12, 2022

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Information

Best's Credit Rating Methodology

Guide to Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

Financial data in this report: (i) includes data of affiliated entities that are not rating unit members where analytics benefit from inclusion; and/or (ii) excludes data of rating unit member entities if they operate in different segments or geographic areas than the Rating Unit generally. See list of companies for details of rating unit members and any such included and/or excluded entities.

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Health Care Service Corporation Group

AMB #: 069154
Associated Ultimate Parent: AMB # 009193 - Health Care Service Corporation, a Mutual Legal Reserve Company

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A	**a+**
Excellent	**Excellent**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Adequate**
Business Profile	**Neutral**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Health Care Service Corp Group | AMB #: 069154

AMB #	Rating Unit Members	AMB #	Rating Unit Members
007322	Dearborn Life Insurance Co	007048	HCSC Insurance Services Co
068158	Dearborn Natl Life Ins of NY	009193	Health Care Service Corp
068932	GHS Health Maintenance Org	068771	Health Care Service-IL LOB
011405	GHS Insurance Company	068718	Health Care Service-Texas LOB

Rating Rationale

Balance Sheet Strength: Strongest

- Health Care Service Corporation maintains the strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR). In addition, capital and surplus growth is supported by strong underwriting and investment income.
- Favorable levels of financial flexibility give access to the debt markets. The organization has $2 billion senior unsecured notes, $1 billion line of credit with a consortium of banks and access to $1.75 billion of borrowing capacity under the Federal Home Loan Bank of Chicago (FHLBC). Financial leverage metrics are considered low and below 10%.
- Investments are largely held in highly rated fixed-income securities with modest allocations to equities and alternative assets.

Operating Performance: Adequate

- The group's net premiums written have increased every year for the last five years, with the biggest year-over-year increase through the first half of 2022.
- Consistent and solid operating performance driven by profitable growth has been stable through 2022. Earnings were over $1 billion through year-to-date 2022. However, some degree of volatility in earnings with lower COVID-19 claim severity were partially offset by higher emerging claims in certain lines of business.
- Net investment income has generally been stable and is in line with a relatively stable investment portfolio.

Business Profile: Neutral

- Leading market presence is supported by strong brand recognition. The organization is a market leader in all five states in which it operates. Health Care Service Corporation posted membership growth in its main markets driven by both government and commercial segments.
- The business profile is further enhanced by the offering of diversified health insurance products. The business is well diversified geographically and by product.
- While competition remains strong in all lines of business, the Blue Cross Blue Shield brand provides a significant competitive advantage for both network relationships and consumer outreach.
- Health Care Service Corporation has made notable progress towards its recent strategic priorities.

Enterprise Risk Management: Appropriate

- The ERM program is well developed with a comprehensive risk identification, monitoring, mitigation, and oversight process. The program is evolving to expand the risk assessment process by engaging employees at all levels of the organization.
- Group-wide stress testing designed to capture significant risk events and emerging risks is constantly monitored. Further, the organization performs multiple stress scenario testing to determine the impact on risk-adjusted capitalization.
- Risk appetite and tolerances extend to various areas of the organization, including operations, strategy, execution and financial condition.

Outlook

- The stable outlooks reflect AM Best's expectation that the group will maintain the strongest level of balance sheet strength assessment, based upon BCAR and is supported by its profitable earnings.

Rating Drivers

- Positive rating movement could occur with an upwards trajectory in operating performance.
- Positive rating movement could occur if Health Care Service Corporation exhibits a stable strategy and the ability to meet its forecast.
- Negative rating movement could occur if there is a sustained decline in Health Care Service Corporation's operating performance.
- Negative rating movement could occur if there is deterioration of balance sheet metrics.

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	80.8	74.2	71.7	70.9

Source: Best's Capital Adequacy Ratio Model - Combined Life & Health, US

	Year End - December 31				
Key Financial Indicators USD (000)	**2021**	**2020**	**2019**	**2018**	**2017**
Total Assets	39,148,123	37,403,115	31,274,808	28,817,948	24,070,181
Policy and Claim Reserves:					
Life and Annuity	766,694	774,188	814,894	884,007	1,003,601
Accident & Health	325,422	293,929	269,605	245,858	218,373
Health	5,895,377	5,961,757	5,764,973	5,186,105	5,185,168
Capital and Surplus	23,128,941	21,834,189	18,524,171	16,859,199	12,048,966
Total Revenues	47,863,945	45,956,078	40,188,227	38,479,355	34,932,744
Net Income	1,133,972	3,887,979	2,186,256	3,904,247	1,123,228
Net Operating Cash Flow	-74,261	6,611,104	3,615,043	1,862,111	1,754,514
Net Premiums Written:					
Life and Annuity	352,024	344,157	319,112	313,582	315,850
Accident & Health	216,030	192,657	172,282	148,781	123,465
Health	46,113,239	44,373,931	39,561,597	37,586,890	34,234,043
Total	46,681,293	44,910,745	40,052,991	38,049,253	34,673,358

Source: BestLink® - Best's Financial Suite

	Year End - December 31					
Key Financial Ratios	**2021**	**2020**	**2019**	**2018**	**2017**	**Weighted Average**
Overall:						
Operating Return on Revenue (%)	2.6	8.8	5.7	11.5	3.6	6.4
Operating Return on Capital and Surplus (%)	5.6	20.0	12.9	30.7	11.5	15.5
Health Operations:						
Loss Ratio (%)	88.7	81.1	83.3	80.1	83.4	83.5
Administrative Expense Ratio (%)	10.2	12.5	12.6	12.7	11.1	11.8
Combined Ratio (%)	98.9	93.7	95.9	92.8	94.5	95.3
IBNR Coverage (Days)	31.3	28.9	28.6	30.8	29.7	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Health Care Service Corporation (HCSC) has the strongest level of risk-adjusted capitalization as measured by Best's BCAR model, a diversified investment portfolio with a modest exposure to higher risk asset, as well as a high degree of liquidity and a strong financial flexibility.

Capitalization

Health Care Service Corporation (HCSC) has a history of maintaining more than sufficient level of both absolute and risk-adjusted capitalization and its BCAR measured strongest with the score of 70.9% at 99.6% VaR as of year end 2021. In addition, absolute and risk-adjusted capital experienced growth through 2021 driven by net gains. Through the second quarter 2022, HCSC reported over 3% growth of capital and surplus driven by over $1.5 billion of earnings. Furthermore, the group has reported strong capital and surplus growth over the past few years, as a result of profitable operating performance, as well as favorable claims experience related to the deferral of care due to COVID-19 and several other one-time items. The group's 2020 capitalization benefited from stronger net gains

Balance Sheet Strength (Continued...)

and certain one-time items including a $1.4 billion of risk corridor payment as well as the refund recovery of accumulated Alternative Minimum Tax credits that resulted from the Tax Cuts and Job Act of 2017. The boost to capital and surplus has been allocated to certain investments in the overall business.

Capital growth significantly outpaced premium expansion during 2022 leading to further improvement of already strongest risk-adjusted capitalization metrics. On a five year basis, capital growth outpaced premium growth through 2021. However, between 2014 and 2016, HCSC reported capital decline compared to pre-2014 levels, driven by substantial operating losses. While risk-adjusted capital decreased during this period, it remained very strong and more than sufficient to support business and investment risks.

Additionally, HCSC has a history of using its capital strength to support its subsidiaries. GHS Insurance Company received total capital infusions of $31 million over the last four years. Since it acquired GHS Managed Health Plans in 2014, HCSC has contributed $25 million. Over the last five years, HCSC contributed $493 million to HCSC Insurance Services Company and $31 million to GHS HMO to support premium growth.

HCSC has strong financial flexibility with a $1 billion line of credit with a consortium of banks and access to $1.75 billion of borrowing capacity through the Federal Home Loan Bank (FHLBC) of Chicago. In addition, the company issued a $2 billion of privately placed notes in 2020. In 2015, HCSC became a member of the FHLBC and the total current FHLBC borrowing capacity is $1.75 billion. As a member of the FHLBC, HCSC is participating in the FHLB COVID-19 Relief Program which consists of zero rate advances and grants that are available to all members. Overall FHLBC borrowing allows the organization to support short-term liquidity needs and keep lower cash balances. The company had no borrowings as of the first half of 2022 and borrowed $500 million from the FHLBC in 2021. However, HCSC is expected to make additional draws against the FHLBC during the second half of the year for general corporate purposes, including working capital needs. Therefore, HCSC's debt-to-capital ratio is expected to slightly increase, but financial leverage is expected to remain within an acceptable range. In addition, HCSC's earnings before interest and taxes interest coverage ratio is expected to remain strong as well, at over 10 times.

	Year End - December 31				
Capital Generation Analysis USD (000)	**2021**	**2020**	**2019**	**2018**	**2017**
Beginning Capital and Surplus	21,834,189	18,524,171	16,859,199	12,048,966	9,535,945
Net Operating Gain	1,249,815	4,032,001	2,277,617	4,434,386	1,244,549
Net Realized Capital Gains (Losses)	-115,843	-144,022	-91,361	-530,139	-121,321
Net Unrealized Capital Gains (Losses)	453,684	365,660	337,454	361,481	519,877
Other Changes	-292,904	-943,621	-858,739	544,505	869,915
Net Change in Capital and Surplus	1,294,752	3,310,018	1,664,972	4,810,234	2,513,021
Ending Capital and Surplus	23,128,941	21,834,189	18,524,171	16,859,199	12,048,966
Net Change in Capital and Surplus (%)	5.9	17.9	9.9	39.9	26.4
Net Change in Capital and Surplus (5-yr CAGR)	19.4	...	...	...	...

Source: BestLink® - Best's Financial Suite

	Year End - December 31				
Liquidity Analysis (%)	**2021**	**2020**	**2019**	**2018**	**2017**
Overall:					
Operating Cash Flow Margin (%)	-0.2	14.4	9.0	4.8	5.0
Current Liquidity (%)	161.2	162.4	135.7	116.2	104.4
Health Operations:					
Benefit and Loss Related Payments to Net Premiums Collected (%)	90.4	79.1	85.7	82.4	83.1
General Expenses and Taxes Paid to Net Premiums Collected (%)	11.6	7.7	6.6	13.8	12.9
Premium Receivable Turnover (months)	0.2	0.2	0.4	0.3	0.3

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

	Year End - December 31				
Leverage (%)	**2021**	**2020**	**2019**	**2018**	**2017**
Debt to Total Capital and Surplus	10.8	9.1	3.0	5.2	8.8
Net Premiums Written to Total Capital and Surplus	2.0	2.1	2.2	2.3	2.9
General Account Liabilities to Total Capital and Surplus	0.7	0.7	0.7	0.7	1.0

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Fixed income securities comprise over 80% of invested assets with the remaining allocation mostly in equity and real estate with small amount of BA assets and mortgage loans holdings. The majority of fixed income securities are investment grade with an average duration of seven years. However, the quality of the fixed income portfolio declined over the last five years. The volume of below investment grade bonds, which includes high yields, emerging market debt, private placements and lower rated corporate bonds, has continuously increased from 2% of fixed income portfolio in 2015 to slightly over 11% in 2021. However, the exposure to NAIC Class 2 bonds has been volatile ranging from grew from over 23% of fixed income holdings in 2017-2018 to 30% in 2020 and over 28% in 2021. Furthermore, exposure to higher-risk assets has grown due to an increased allocation to NAIC Class 3 and 4 bonds and alternative assets. These changes are in line with the organization's strategy to increase investment yields in a low interest rate environment. This strategy, along with the growth of the asset base, resulted in a more stable investment income through 2021.

Common stock holdings include mutual funds, individual equities and affiliates. Vanguard Total Stock Mutual Fund accounts for a large portion of the common stock portfolio. Current investment strategy includes private investment initiatives. Real estate holdings are mainly company occupied buildings, including the company's headquarters in Chicago, IL. BA assets include a number of health related holdings owned by groups of various Blue Cross Blue Shield plans and utilized for core business. The largest of such assets is Prime Therapeutics (Prime) which provides Pharmacy Benefits Administration services to a number of Blue plans including HCSC. HCSC has close to 40% of share in Prime, which is owned by several other Blue plans. Commercial mortgage loans are utilized for matching longer duration liabilities at Dearborn National Life Insurance Company and its New York subsidiary. HCSC does not issue mortgage loans directly, but participates in lending through a partnership with Securian Asset Management.

Some investment management functions are performed internally. The company also engages the services of multiple external advisers and consultants in the management of the company's invested assets.

	Year End - December 31				
Composition of Cash and Invested Assets	**2021**	**2020**	**2019**	**2018**	**2017**
Total Cash and Invested Assets USD (000)	27,158,412	26,481,311	18,471,856	15,003,893	13,653,431
Composition Percentages (%)					
Cash and Short Term Investments	-0.1	7.2	-1.9	0.5	-2.8
Bonds	85.3	80.3	87.0	83.4	83.4
Preferred and Common Stock	9.3	7.5	7.9	8.0	10.6
Mortgage Loans	0.8	0.7	1.0	1.0	0.8
Other Invested Assets	4.8	4.3	6.0	7.1	8.0
Total	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

	Years					
Bonds and Short Term Investments - Distribution by Maturity (%)	**0-1**	**1-5**	**5-10**	**10-20**	**20+**	**Average (Years)**
Government Bonds	2.0	5.7	2.5	0.7	1.2	6.4
Government Agencies and Municipal Bonds	1.9	6.0	6.3	2.7	0.8	7.2
Industrial and Miscellaneous Bonds	6.6	28.0	23.8	3.3	4.4	6.4
Bank Loans	...	1.2	2.4	...	...	6.0
Hybrid Securities	...	0.2	0.1	...	...	6.4
Total Bonds	10.5	41.1	35.1	6.8	6.4	6.5

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

	Year End - December 31				
Bonds - Distribution by Issuer	**2021**	**2020**	**2019**	**2018**	**2017**
Bonds USD (000)	23,166,291	21,260,482	16,076,200	12,520,492	11,387,585
US Government (%)	9.6	8.2	8.7	15.7	17.0
Foreign Government (%)	1.7	1.7	1.4	1.3	0.6
State, Municipal & Special Revenue (%)	16.5	19.5	16.1	9.4	8.3
Industrial & Miscellaneous (%)	64.9	63.3	65.8	69.4	68.8
Hybrid Securities and Other (%)	7.3	7.3	8.0	4.2	5.3
Total (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Operating Performance

HCSC's profitability measures have tempered in 2021 following a period of strong earnings with underwriting income exceeding $2 billion two of the past three years and net income exceeding $2 billion each of the past three years. HCSC's 2020 operating income was impacted by the receipt of risk corridor payments owed through the Affordable Care Act for prior years. However, underwriting and net income are expected to remain profitable.

Overall underwriting results were over $1 billion through 2022. During the first half of 2022, HCSC experienced lower-than-expected COVID-19-related health care utilization for testing, treatment and hospitalization costs. These favorable operating trends, along with the benefit from favorable prior-year claims reserve runout, were offset by higher pharmacy claims, and these trends are expected to continue through the second half of the year. Further, HCSC reported an all time high level of COVID-19 related life claims in January 2022. However, strong operating performance through the first half of 2022 is expected to stabilize due to continued elevated emerging claims, an increase in pharmacy utilization and others.

Earnings through 2021 were pressured by a faster return to pre-pandemic levels of claims utilization, including pent-up demand and the various COVID-19 variants surge in most markets. Lower underwriting results for Medicare Advantage and Medicaid lines of business was driven by lower claims utilization as well as favorable prior year reserve development and deferral of non-essential care. Furthermore, Medicaid line of business continued favorability was driven by growth in membership due to the influx of new members in several states and lack of disenrollment, resulting in higher premiums and overall healthier members. In 2020, earnings included the receipt of the risk-corridors payment from the federal government and widespread deferral of care due to the COVID-19 pandemic, as well as the refund recovery of accumulated Alternative Minimum Tax credits that resulted from the Tax Cuts and Job Act of 2017. Going forward, earnings are expected to moderate further due to an increase in utilization to more normal levels and less COVID-19-related deferral of care, as well as initiatives HCSC is undertaking to invest in its business. However, both underwriting and net income are expected to remain profitable.

HCSC's achieved premium growth since 2017 with five year compound annual growth rate (CAGR) of 7.9%. In addition, good premium revenue growth has been reported across majority of the lines of business through 2022. The group segment represents the largest portion of HCSC revenue and premium growth has been reported for the line of business and across other lines of business. Furthermore, revenue growth is also attributed to both premium rate increases and higher than anticipated retention rates. In addition, expansion of participation in government programs - Medicare Advantage and Medicaid - has contributed to revenue growth over the past five years. However, these segments remain smaller compared to commercial business. In 2020, risk corridor payment of $1.4 billion contributed to premium growth.

Operating Performance (Continued...)

Net Operating Gain by LOB - Life Operations USD (000)	Year End - December 31 2021	2020	2019	2018	2017
Individual Life	3,878	1,834	4,493	-2,195	1,346
Group Life	-70,129	-7,271	2,739	15,444	6,110
Individual Annuities	9,977	3,420	9,225	5,886	5,914
Group Annuities	2,769	444	1,527	732	471
Accident & Health	7,780	4,291	4,376	-11,433	-6,596
Other Lines of Business	...	...	...	14,532	13,418
Total	-45,726	2,718	22,361	22,966	20,663

Source: BestLink® - Best's Financial Suite

Net Underwriting Gain - Health Operations USD (000)	Year End - December 31 2021	2020	2019	2018	2017
Comprehensive	-376,462	2,323,145	880,050	2,551,379	1,862,377
Dental	44,642	60,422	42,379	50,390	42,550
Vision	-84	-49	...	...	...
Federal Employee Health Benefit Plan	15,954	41,681	-24,658	16,485	-81,396
Medicare	-19,154	1,643	16,079	-172,150	-92,089
Medicare Supplement	172,392	247,753	81,404	96,350	150,478
Medicaid	170,317	95,550	-168,495	-402,128	-634,798
Other Health	396,596	48,735	-95,754	157,105	155,343
Other Non-Health	-114	-51	-204	-455	-169
Total	404,087	2,818,830	730,801	2,296,976	1,402,297

Source: BestLink® - Best's Financial Suite

Business Profile

Health Care Service Corporation (HCSC) (d/b/a Blue Cross Blue Shield of Illinois/Texas/New Mexico/Oklahoma/Montana) offers Blue branded managed care products including preferred provider option (PPO), point of service (POS), health maintenance organization (HMO) and Consumer Directed Health Plan (CDHP) products to individuals and employer groups. Additional network based products are available to employer groups. Group business is provided on both a fully insured or on administrative service only (ASO) basis. For large multi-state employer groups, HCSC also provides access to the national Blue Cross and Blue Shield network through its Blue Card program participation. Health subsidiaries include GHS Health Maintenance Organization (OK), HCSC Insurance Services Company, GHS Managed Health Plans, Inc. and GHS Insurance Company. Dearborn National Life insurance Company (Dearborn National) is a life subsidiary. Lines of business are the HCSC - Illinois HMO Line of Business and HCSC - Texas HMO Line of Business. The company also offers Blue Cross and Blue Shield branded Medicaid, Medicare Supplemental, Medicare Advantage, Medicare Part D prescription drug and dental coverage directly or through its wholly owned health subsidiaries. Supplemental health and ancillary products offered by Dearborn National are also available to HCSC members and employer groups.

HCSC has a well-established market presence in its respective markets and leading overall market shares in each of the five states in which it operates. Moreover, the organization continues to benefit from the growth of Blue-branded and non-branded ancillary products offered through Dearborn National Life Insurance Company, which provides the organization with Group Life, Disability, Critical Illness and Vision products. HCSC also markets other Blue-branded ancillary products, such as pharmacy, advanced payment review and health advocacy solutions.

Furthermore, HCSC has reported consistent enrollment gains the past few years, driven by the group and government sector of business. The Illinois division has 8.7 million members, who comprise a little more than one half of HCSC's total enrollment. The Texas division has over 6.8 million members and primarily serves the large local market segment. The New Mexico division has over 590,000 members, the Oklahoma division has over 840,000 members, and the Montana division covers around 240,000 members. The vast majority of membership is enrolled in a managed care plan (PPO/POS/HMO). Group business accounts for over four-fifths of HCSC's business. HCSC group accounts include about one half of Fortune 500 employers located in HCSC home states. HCSC also participates with the Blue Cross Blue Shield Association National Blue Card program which accounts for approximately three million additional

Business Profile (Continued...)

members. Although individual business comprises a smaller portion of HCSC's overall enrollment, this segment exhibited good enrollment gains with the ACA subsidy expansion and special enrollment period.

The company's health operations are defined by three market segments: Group, Government and Retail. The Group market segment includes Small Group, Large Group and National Accounts. Small Group represents employer groups with 50 or less employees. The small group market has a higher level of regulation by the state Department of Insurance than other group market segments. Policyholders in this market are more price sensitive than other markets and may change carriers frequently due to price. Small Group employers have the option of utilizing Small Business Health Options Program (SHOP) in order to provide benefits for its employees. Large Group represents employer groups with 51-1,999 employees. Major and Special Accounts include large companies with more than 2,000 employees domiciled in one of HCSC's home states and group accounts that do not fall in to the traditional group segment definition such as the Federal Employee Health Benefits Program (FEP), Illinois Labor Accounts and Illinois Municipal Accounts. National Accounts primarily represents very large multi-state employer groups as well as the processing of Blue Card claims for members covered under other Blue Cross and Blue Shield plans. HCSC has over 560 national accounts with over 10,000 employees and has been a source of solid enrollment growth for the company. The majority of the national accounts covered by HCSC are self-funded. Similar to national trends the growth in the group segment had been stagnant for number of years, however reported upward trajectory through 2022. Higher enrollment is supported by both in-group growth and winning of new accounts. In addition, record retention level contributes to growing enrollment base. HCSC reported slower return of group in-force membership growth due to COVID.

The Government Market segment is comprised of different government plans in each state. HCSC currently participates in Medicaid programs in Illinois, New Mexico and Texas. In the over age 65 segment, products include Medicare Supplemental plans which are administered by HCSC, as well as Medicare Advantage and Medicare Part D prescription drug coverage offered by its wholly owned subsidiaries, HCSC Insurance Services Company (HISC), GHS Managed Health Plans, GHS Health Maintenance Organization and GHS Insurance Company. HCSC increased its participation in Medicaid programs primarily by winning contracts in several states to cover new membership under Medicaid expansion of the ACA. To provide appropriate service to Medicaid members and improve profitability of that segment, HCSC began to implement various programs to address the social determinants of care. In addition, HCSC continues to optimize the networks and provider contracts better suited to serve the members with chronic conditions and limited means to maintain the needed level of care. The membership in Medicare Advantage program has experienced a large degree of volatility over the last five years. HCSC, similar to many other Blue Cross Blue Shield plans, focused on building capabilities for Medicare Advantage program much later than many plans. As a result, the organization's Medicare Advantage plans has historically had lower Star ratings which limits revenue and products enhancement opportunities leading to difficulties to attract and retain members. HSCS has invested significantly to improve the performance of both Medicaid and Medicare Advantage products. Therefore, Medicare Advantage star ratings have improved in the recent years.

The Retail Markets segment is divided into two sub-segments: the under age 65 group and student health. In the under age 65 sub-segment, the company offers a variety of individual and family plans. These products are offered in all core states, both on and off health insurance exchanges. HCSC has seen significant growth in this line of business through 2022.

Health insurance products are sold through several distribution channels. They include general agents, brokers and consultants. Brokers and general agents mostly sell in the individual market and local small and mid-size group employers markets. General agents also support the over 65 market. All market segments can work directly with HCSC although it is mostly seen in the individual under and over 65 markets. In all states, consultants market to the national accounts.

HCSC's historic growth was due to both organic growth as well as business combinations. HCSC was formed in 1975 through the merger of Hospital Service Corporation and Illinois Medical Service. The company began operating as Blue Cross and Blue Shield of Illinois in 1982 following a merger with Rockford Blue Cross Plan. Then in 1998, the company merged with Blue Cross and Blue Shield of Texas. In 2001, HCSC acquired the assets of Blue Cross and Blue Shield of New Mexico. HCSC completed the merger with Blue Cross and Blue Shield of Oklahoma in 2005. And then in 2013, HCSC completed the asset purchase of Blue Cross and Blue Shield of Montana. The company has maintained a strong local presence in sales, marketing, provider relations and contracting offices. Administrative functions are centrally integrated. Other past transactions include: a membership transition agreement with WellPoint, Inc., and its UniCare subsidiaries for commercial membership in Illinois and Texas, under which HCSC achieved membership transfers of over 200,000; acquisition of Lovelace Health Plan, a provider owned health plan in New Mexico adding approximately 110,000 commercial and government program members. HCSC acquired about 20,000 Medicare Advantage and commercial group members in Texas from Allegian Health Plans, a subsidiary of Tenet Healthcare in 2017.

In addition to acquisitions of health insurance companies, HCSC has acquired non-insurance business as well. In 2019, HCSC announced the partnership with Sanitas USA to open primary care medical clinics in Texas. These clinics will serve HCSC members exclusively and will play an important role in creating value based clinics with focus on providing cost efficient appropriate care. If

Business Profile (Continued...)

successful, the clinics can be expanded to other HCSC states in the near future. HCSC acquired MEDecision, a provider of healthcare information technology for case, disease and utilization management, and has developed secure health information access and exchange capabilities. HCSC also has an ownership interest in Prime Therapeutics, a pharmacy benefit management company and Availity, LLC, an advanced Internet-based e-health exchange. Additionally, HCSC maintains strategic business relationships with its former subsidiaries TMG Health (a leading provider of business provider outsourcing for Medicare, Medicaid, and group retiree health plans) and Academic Health Plans (a provider of student insurance).

In October 2022, HCSC acquired Trustmark Health Benefit, a TPA of health benefits from Trustco Holdings, Inc. The addition of Trustmark Health Benefit is expected to expand HCSC's capabilities to serve a broader customer base looking for flexible health benefit solutions.

In 2021, the company and Collective Health entered into a strategic relationship to deliver a digital platform to help employers and members identify, navigate, understand and pay for the diverse services that meet their evolving health care needs. In connection with this strategic relationship, the company, through its wholly-owned subsidiary HCSC Ventures, Inc, invested approximately $225 million in Collective Health.

Dearborn National compliments and diversifies HCSC's product portfolio with variety of employer paid and voluntary products. Group products include group term life, dental, short-term disability, long-term disability, critical illness, vision and accident. Dearborn National also administers one of the largest dental networks in the U.S. in conjunction with its affiliates. In the past, Dearborn National's products included individual and group annuities, however the company exited this line of business over five years ago, but continues to maintain and service a run-off annuity block. Dearborn National's strategic focus has changed several times over the past five years, as the organization is trying to adjust to market demands and increase the value proposition for its parent company. More recently, Dearborn National is focused on increasing alignment with the parent organization in all markets HCSC operates and complements HCSC's portfolio with ancillary offerings. Dearborn National plans to re-brand all products sold in five HCSC states to carry BCBS marks. In addition, Dearborn National is investing in its operational capabilities and bringing the administration of disability claims in-house from an outside vendor. Dearborn National plans to increase collaboration and data sharing with HCSC. Dearborn National expects that a long-term higher degree of alignment with HCSC will results in improved growth and profitability.

	Year End - December 31				
Net Premiums Written by Line of Business USD (000)	**2021**	**2020**	**2019**	**2018**	**2017**
Ordinary Life	8,287	8,332	8,750	9,080	9,596
Group Life	342,443	334,044	308,363	303,140	303,407
Individual Annuities	1,287	1,775	1,983	1,362	2,840
Group Annuities	7	7	16	...	7
Individual Accident & Health	101	109	95	82	43
Group Accident & Health	215,929	192,548	172,187	148,698	123,422
Comprehensive	27,273,279	27,321,671	24,846,624	23,949,167	21,857,108
Dental	450,586	384,989	344,859	293,866	252,613
Federal Employee Health Benefit Plan	5,925,225	5,735,405	5,320,903	5,171,891	4,930,788
Medicare	1,672,974	1,561,716	1,526,348	1,541,775	1,749,609
Medicare Supplement	1,635,768	1,636,939	1,646,345	1,613,857	1,599,244
Medicaid	7,635,453	6,306,512	4,590,279	3,819,722	2,818,590
Other	1,519,954	1,426,699	1,286,239	1,196,611	1,026,092
Total	46,681,293	44,910,745	40,052,991	38,049,253	34,673,358

Source: BestLink® - Best's Financial Suite

Enterprise Risk Management

The Enterprise Risk Management (ERM) program involves all levels of the organization including the Board of Directors and senior management establishing clearly defined accountability roles for risks and controls. The program is managed by the Chief Risk Officer (CRO) with the support of dedicated staff and the ERM Steering Committee. There is regular reporting to the Board of Directors and its various committees, as well as the ERM Steering Committee, which comprises senior staff. HCSC's Enterprise Risk Management Framework utilizes four broad risk categories which include; Strategic, Financial & Reporting, Operational and Compliance & Legal. The

Enterprise Risk Management (Continued...)

program identifies inherent risk within each risk category and documents corresponding risk mitigation and controls in effect. Each category lists management accountability and corresponding Board oversight. Reporting provides information to management to determine risk appetite and tolerance levels. Formal risk appetite and tolerance level statements have been developed by the ERM Steering Committee and reported to the Board. The ERM process at HCSC is continuous including ERM survey, heat maps and reporting, complete deep dives on select risk assessments and monitoring of emerging risk as well as regulatory compliance. Over the past few years, the ERM program and risk surveys were expanded to include all levels of the organization. The CRO has established direct communication channels to senior management and the Board, as well as, linkages with corporate goal development and strategic planning.

Environmental, Social & Governance

AM Best believes that there is low risk to ESG factors at this time and that HCSC has limited exposure to ESG factors. Credit quality, investment risk, and underwriting activities are also viewed as having limited ESG risk.

Financial Statements

Balance Sheet	2021 USD (000)	2021 %	2020 USD (000)	2020 %
Cash and Short Term Investments	-36,198	-0.1	1,911,360	5.1
Bonds	23,166,291	59.2	21,260,482	56.8
Preferred and Common Stock	2,525,454	6.5	1,974,113	5.3
Other Invested Assets	1,502,865	3.8	1,335,357	3.6
Total Cash and Invested Assets	27,158,412	69.4	26,481,311	70.8
Premium Balances	3,221,930	2.4	3,055,106	1.7
Healthcare and Other Receivables	1,571,625	4.0	1,387,633	3.7
Other General Account Assets	7,196,156	18.4	6,479,065	17.3
Total General Account Assets	39,148,123	100.0	37,403,115	100.0
Total Assets	39,148,123	100.0	37,403,115	100.0
Policy and Claim Reserves	6,987,493	17.8	7,029,874	18.8
Liability for Deposit Contracts	28,549	0.1	25,131	0.1
Funds Held Under Reinsurance and Coinsurance Agreements	29	999.9	33	999.9
Asset Valuation Reserve	25,847	0.1	23,330	0.1
Accrued Expenses and Other General Account Liabilities	8,977,264	22.9	8,490,559	22.7
Total General Account Liabilities	16,019,182	40.9	15,568,926	41.6
Total Liabilities	16,019,182	40.9	15,568,926	41.6
Unassigned Surplus	23,128,042	59.1	21,833,290	58.4
Other Surplus	899	...	899	...
Total Capital and Surplus	23,128,941	59.1	21,834,189	58.4
Total Liabilities, Capital and Surplus	39,148,123	100.0	37,403,115	100.0

Year End - December 31

Source: BestLink® - Best's Financial Suite

Income Statement USD (000)	2021	2020
Net Premiums Earned	47,077,061	45,356,188
Other Revenues	1,977	2,218
Net Investment Income	784,907	597,672
Total Revenues	47,863,945	45,956,078
Net Incurred Benefits	41,944,369	36,876,275
Commissions and Expense Allowances	60,086	52,193
Insurance and Other Expense	4,801,406	5,679,509
Pre-Tax Net Operating Gain	1,058,084	3,348,101
Income Taxes Incurred	-191,731	-683,900
Net Operating Gain	1,249,815	4,032,001
Net Realized Capital Gains (Losses)	-115,843	-144,022
Net Income	1,133,972	3,887,979

Year End - December 31

Source: BestLink® - Best's Financial Suite

Statement of Operating Cash Flows USD (000)	Year End - December 31 2021	2020
Net Premiums Collected	46,461,944	45,545,865
Other Revenue Received	1,943	-599
Net Investment Income	858,585	617,918
Total Income Collected	47,322,472	46,163,184
Net Benefits and Loss Related Payments	42,013,265	36,026,883
Underwriting and Other Expenses Paid	5,492,808	5,274,786
Income Taxes Paid (Recovered)	-109,340	-1,749,589
Net Operating Cash Flow	-74,261	6,611,104

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

Best's Credit Rating Methodology, 11/13/2020

Available Capital & Holding Company Analysis, 10/13/2017

Scoring and Assessing Innovation, 03/05/2020

Understanding BCAR for U.S. and Canadian Life/Health Insurers, 05/26/2022