COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS HMO BLUE, INC.

Boston, Massachusetts

As of December 31, 2024

NAIC GROUP CODE 3637

NAIC COMPANY CODE 12219

EMPLOYER ID NUMBER 04-3362283

BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS HMO BLUE, INC.

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COMMISSIONER

May 29, 2026

The Honorable Michael T. Caljouw
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
One Federal Street, Suite 700
Boston, MA 02110

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176G, Section 10 and other applicable statues, an examination has been made of the financial condition and affairs of

BLUE CROSS AND BLUE SHIELD OF MASSACHUSETTS HMO BLUE, INC.

The Company's home office is located at 101 Huntington Avenue, Suite 1300, Boston, MA 02199-7611. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc. ("Company" or "HMO Blue") was last examined as of December 31, 2021, by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the three-year period from January 1, 2022, through December 31, 2024, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook,* the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 176G, Section 10, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Ernst & Young ("E&Y"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2022 through 2024. A review and use of the Certified Public Accountants' work papers were made to the extent deemed appropriate and effective. The Company has an internal audit department. Work papers prepared by the Company's internal audit department have been reviewed as a source of information and were tested and leveraged as deemed appropriate and effective.

Representatives from the firm of KPMG LLP ("KPMG") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. KPMG's Health Actuaries were involved in the performance of those procedures to the extent that such procedures related to the Company's reserves for unpaid claims and loss adjustment expenses and provider risk sharing settlements as of December 31, 2024.

KPMG's Information Technology Advisory Services personnel were engaged to review the Company's Information Technology environment to assist in determining the level of reliance to be placed on the information generated by the data processing systems.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the previous examination, and there are no significant findings related to the current examination.

COMPANY HISTORY

Blue Cross and Blue Shield of Massachusetts ("BCBSMA") began as the Associated Hospital Service Corporation of Massachusetts in 1937. The corporation aimed to spread the cost of hospital treatment among a large group of employed persons and, upon its opening, was the twenty-sixth plan of its kind in the United States, differing from others in its offering of statewide coverage. In 1939, the name Blue Cross was officially adopted by the American Hospital Association as the national symbol for the Hospital Service movement and in 1941, Blue Shield was established as a result of physician interest in the prepayment concept of financing health care.

Over the years, Blue Cross and Blue Shield of Massachusetts continued to grow and adapt to the needs of consumers, offering ever-increasing comprehensive coverage. The two separate organizations merged to become Blue Cross and Blue Shield of Massachusetts, Inc. and continued as part of a national network of affiliated plans, the Blue Cross and Blue Shield Association.

In January 2005, BCBSMA transferred its insured HMO business to a separately incorporated, not-for-profit subsidiary, HMO Blue. HMO Blue provides hospitalization, medical and other health benefits as a licensed health maintenance organization. HMO Blue and BCBSMA operate under common management and control. HMO Blue was licensed by the Division effective January 1, 2005. As a condition of granting an HMO license to HMO Blue, the Division required BCBSMA and HMO Blue to enter into an agreement to issue a surplus note to the other company if either entity's health risk-based capital ("RBC") falls outside a specified range. BCBSMA also entered into a unilateral agreement with HMO Blue to guarantee all of HMO Blue's current and future financial obligations.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") and its Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed, and there were no changes during the examination period. The bylaws provide guidance related to corporate governance, including the roles and responsibilities of the directors and officers of the Company.

Board of Directors

According to the bylaws, the Company's business shall be managed by a Board which may exercise all of the powers of the Company, except as otherwise provided by the articles of incorporation, the law, or the bylaws. The Board shall consist of not fewer than five nor more than twenty-one directors. On December 31, 2024, the Company's Board consisted of the following individuals:

Director	Title
Ruby Kam	EVP & Chief Financial Officer, BCBSMA
Dorothy E. Puhy	Retired, EVP & CFO Dana-Farber Cancer Institute
Sarah Iselin	President and CEO, BCBSMA
Richard D. Lynch	Chief Operating EVP & Officer, BCBSMA
Donald Savery	SVP, General Counsel & Secretary, BCBSMA

Officers

The officers of the Company as of December 31, 2024, were as follows:

Officer	Title
Dorothy E. Puhy	Chair
Sarah Iselin	President & Chief Executive Officer
Richard D. Lynch	Chief Operating Officer
Ruby Kam	Chief Financial Officer
Dawn Perry	Chief Audit Officer
Michael Guerriere	Chief Actuary
Anthony C. Criscuolo	Treasurer
Enrico A. Giammarco	Assistant Treasurer
Mark R. Collura	Assistant Treasurer
Donald Savery	Clerk
Alona G. Abalos	Assistant Clerk

Committees of the Board of Directors

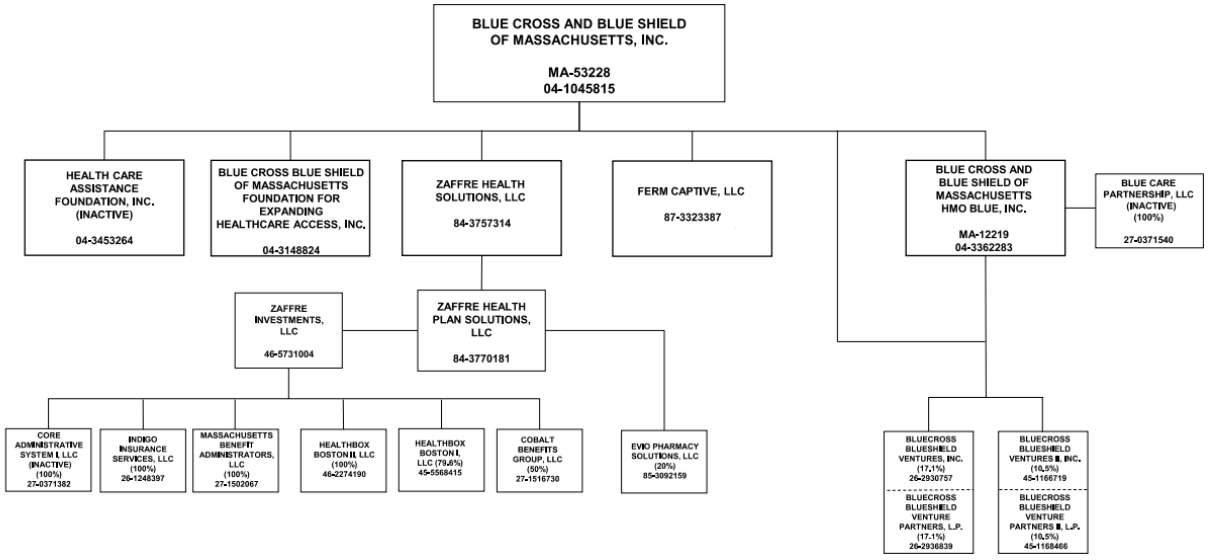
According to the bylaws, except as otherwise provided by law, by the articles of organization or these bylaws, all corporate powers shall be exercised by or under the authority of the directors. The affairs, property and business of the corporation shall be managed under the direction of the directors, and the directors may adopt such rules and regulations for that purpose and for the conduct of its meetings as they may deem proper. The directors shall have the power from time to time to appoint such committees with such membership and duties as they may determine; to

appoint, prescribe the duties of and determine the salaries or compensation of officers, agents and employees; to authorize employment contracts which may extend beyond the terms of the directors and may create contract rights which do not prevent but are not otherwise prejudiced by the removal of or failure to reelect any officer; and to delegate to the extent permitted by law any of their powers to committees, officers, agents and employees of the corporation subject to such limitations as the directors may impose.

Affiliated Companies

As stated in the Insurance Holding Company System Form B, Form C and Form F as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts General Law Chapter 175, Section 206C, Chapter 176G, Section 28 and Regulation 211 CMR 7.00. BCBSMA is the "ultimate controlling person" of the holding company system.

Organizational Chart



Transactions and Agreements with Subsidiaries and Affiliates

Inter-company Agreement
BCBSMA and HMO Blue (together the "Companies") operate under a common Board of Directors management and control. The Company participates in a bilateral inter-company agreement with BCBSMA to settle any claims, fees, administrative cost expense allocation, and pass-through cash and expenses paid by one company on behalf of the other company.

Inter-company Guarantees
As a condition of granting an HMO license to HMO Blue, the Division required the BCBSMA and HMO Blue to enter into an agreement with the Division granting the Division discretionary authority to require either company to issue a surplus note to the other company if either of the company's health RBC is more than seventy-five percentage points higher than the other

company's RBC. Under the terms of its license with the Blue Cross and Blue Shield Association, BCBSMA has also entered into a unilateral agreement with HMO Blue to guarantee all current and future financial obligations of HMO Blue.

Inter-company Loan Agreement
BCBSMA and HMO Blue have an inter-company loan agreement, which allows borrowings between the Companies, however, such amounts are limited to predetermined levels based on certain financial measures.

Captive Agreement
In September 2021, BCBSMA Board of Directors approved the creation of FERM Captive as a wholly-owned subsidiary of BCBSMA. It is a single-parent captive insurer created to finance the risks and liabilities, not otherwise reasonably insurable under Director and Officers, Errors and Omissions, and Cyber Liability policies. The FERM Captive will provide coverage to HMO Blue in accordance with a captive agreement.

Committed Investments to affiliates
HMO Blue and BCBSMA each committed to invest $10,000,000 in BlueCross BlueShield Ventures, Inc. and BlueCross BlueShield Venture Partners, L.P., in the form of 20 Class A shares of the General Partner and 17.1% limited interest in the Partnership. BlueCross BlueShield Ventures, Inc. is a strategic corporate venture fund formed by eleven Blue Cross and Blue Shield plans to invest in emerging companies that will bring greater innovation, efficiency, consumer-focus, and transparency to healthcare.

HMO Blue and BCBSMA each committed to invest $10,000,000 in BlueCross BlueShield Ventures II, Inc. and Blue Cross BlueShield Venture Partners II, L.P, in the form of 200 Class A shares of the General Partner II and 10.5% limited interest in the Partnership II. BCBS Venture II, Inc. is a strategic corporate venture fund formed by twenty Blue Cross and Blue Shield plans to primarily make equity investments in emerging companies of strategic interest to Blue Plans while pursuing positive financial returns.

Asset Transfer and Usage Fee Agreement
Effective May 31, 2020, BCBSMA, in accordance with the Asset Transfer and Usage Fee Agreement, transferred an internally developed software assets with a book value of $70,639,086 to HMO Blue in exchange for cash. Beginning June 1, 2020, the BCBSMA pays the Company a monthly software usage fee, based on a mutually agreed upon methodology, equal to the fair market value of such usage and calculated in accordance with the U.S. Treasury Transfer Pricing Regulations.

Senior Management Agreement
Under the existing structure BCBSMA and its senior level management team oversee daily operations and set strategic direction for both Companies. Pursuant to the Senior Management Service Agreement BCBSMA will provide the services of the Senior Level Management team in exchange for an arm's length payment

Tri-party Employment Agreement
BCBSMA, HMO Blue and Indigo Insurance Services, LLC ("Indigo"), a subsidiary of Zaffre Investments, LLC, who is an indirect subsidiary of BCBSMA, have a Tri-party Employment Agreement which covers the terms and conditions upon which BCBSMA, HMO Blue and Indigo will concurrently employ associates who provide sales, account relations and sale related administrative services for all three entities. This agreement allows the Companies and Indigo to contract for employment services through the issuance of multiple employee work assignments. A common paymaster arrangement has been established for payroll and payroll related benefits. BCBSMA charges HMO Blue a fee based on the Company's allocated share of the Benefit Plans expenses.

TERRITORY AND PLAN OF OPERATION

HNO Blue is headquartered in Boston, Massachusetts. The Company is licensed to transact business in the Commonwealth of Massachusetts. As of December 31, 2024, HMO Blue's service area included all of Massachusetts with a focus on the greater metropolitan Boston area.

Treatment of Policyholders – Market Conduct

In accordance with Massachusetts General Laws, Chapter 175, Section 4, the Division performed a limited-scope market conduct examination of the market conduct affairs of the Company. The examination included but was not limited to the Company's' 2022 calendar year health insurance business in Massachusetts. As a result of the exam, two corrective actions were identified that require that the Company submit a report to the Division's Market Conduct Section on or before February 12, 2026:

1) Indicating the internal grievance procedures have been documented and implemented correctly both within internal documentation and on the Company's website.

2) Detailing their findings on the review of the Cotiviti claim denial workflow documents to ensure that a more stringent business practice is not occurring by making mental health providers provide additional clinical evidence when other claims denials do not require that same level of proof.

REINSURANCE

The Company does not assume or cede reinsurance.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2024. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Capital, and Surplus as of December 31, 2024

Statement of Revenue and Expenses for the Year Ended December 31, 2024

Reconciliation of Capital and Surplus for Each Year in the Three-Year Period Ended December 31, 2024

Statement of Assets, Liabilities, Capital, and Surplus
As of December 31, 2024

	Per Annual Statement
Assets	
Bonds	$1,424,885,261
Preferred stocks	4,977,916
Common stocks	606,194,206
Real estate properties occupied by the Company	43,720,282
Properties held for sale	4,060,800
Cash, cash equivalents and short-term investments	69,481,184
Other invested assets	1,252,203,395
Receivables for securities	3,148,980
Subtotals, cash, and invested assets	3,408,672,024
Investment income due and accrued	9,531,241
Premiums and considerations:	
Uncollected premiums and agents' balances	5,432,457
Accrued retrospective premium and contracts subject to redetermination	76,956,495
Current federal and foreign income tax recoverable and interest thereon	68,850
Electronic data processing equipment and software	3,278,991
Health care and other amounts receivable	69,177,498
Aggregate write-ins for other than invested assets	2,209,374
Total assets	$3,575,326,930
Liabilities	
Claims unpaid	$516,383,852
Accrued medical incentive pool and bonus amounts	61,511,206
Unpaid claims adjustment expenses	4,716,157
Aggregate health policy reserves	220,324,351
Premiums received in advance	95,895,226
General expenses due or accrued	53,579,240
Borrowed money and interest thereon	277,371,712
Amounts due to parent, subsidiaries, and affiliates	35,803,668
Payable for securities	3,832,408
Aggregate write-ins for other liabilities	125,224,796
Total liabilities	1,394,642,616
Unassigned funds (surplus)	2,180,684,314
Total capital and surplus	2,180,684,314
Total liabilities capital, and surplus	3,575,326,930

Statement of Revenue and Expenses
For the Year Ended December 31, 2024

	Per Annual Statement
Member Months	8,086,550
Net premium income	$5,803,110,752
Change in unearned premium reserves and reserves for rate credits	1,714,933
Total revenues	5,804,825,685
Deductions:	
Hospital/medical benefits	4,035,082,236
Other professional services	139,865,969
Emergency room and out-of-area	103,848,219
Prescription drugs	987,833,780
Incentive pool, withhold adjustments and bonus amounts	111,076,332
Subtotal	5,377,706,536
Total hospital and medical	5,377,706,536
Claims adjustment expenses	279,719,249
General administrative expenses	340,123,697
Increase in reserves for life and accident and health contracts	159,000,000
Total underwriting deductions	6,156,549,482
Net underwriting gain or loss	(351,723,797)
Net investment income earned	103,980,816
Net realized capital gains (losses) less capital gains tax	19,711,979
Net investment gains	123,692,795
Aggregate write-ins for other income or expenses	7,403,841
Net income or (loss) after capital gains tax and before all other federal income taxes	(220,627,161)
Federal and foreign income taxes incurred	15,789
Net income (loss)	$(220,642,950)

Reconciliation of Capital and Surplus
For Each Year in the Three-Year Period Ended December 31, 2024

	2024	2023	2022
Capital and surplus, December 31 prior year	$2,381,695,522	$2,140,516,398	$2,103,111,481
Net income	(220,642,950)	187,728,430	202,060,847
Change in net unrealized capital gains	(1,823,369)	53,134,519	(144,206,923)
Change in net unrealized foreign exchange capital gain or (loss)	(950,434)	707,383	477,285
Change in nonadmitted assets	22,405,545	(391,208)	(20,916,291)
Net change in capital and surplus for the year	(201,011,208)	241,179,124	37,404,917
Capital and surplus, December 31 current year	$2,180,684,314	$2,381,695,522	$2,140,516,398

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Company uses estimates for determining its claims incurred but not yet reported which are based on historical claim payment patterns, healthcare trends and membership and includes a provision for adverse changes in claim frequency and severity. Amounts incurred related to prior years may vary from previously estimated liabilities as the claims are ultimately settled.

KPMG Health Actuaries prepared independent estimates of the unpaid claim liabilities ("UCL") as of December 31, 2024. For December 31, 2024, completion factors for the projection of ultimate claims were developed using historical payment patterns and actuarial judgment. "Low" and "High" estimates were developed by subtracting the claims paid-to-date from the actuarial range of incurred estimates. The actuarial estimates, as determined by KPMG Health Actuaries, indicate that BCBSMA 's UCL are reasonable as of December 31, 2024.

SUBSEQUENT EVENTS

In October 2025, the Company announced that it is offering a voluntary separation program to about 18% of its employees who are at least 55 years old and have worked for the organization for a minimum of 10 years. Management is currently working through the succession planning for the impacted roles.

Prem Somasundaram became the permanent Chief Information Officer in January 2025.

The Company sold its One Enterprise Drive property in Quincy, MA to Foxrock Properties LLC for approximately $9 million prior to closing costs in early 2025.

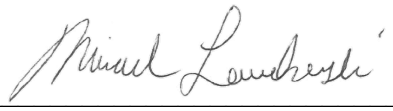
SUMMARY OF RECOMMENDATIONS

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by KPMG LLP who participated in this examination hereby is acknowledged:



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