# STATE OF WASHINGTON
# OFFICE OF THE INSURANCE COMMISSIONER

## FINANCIAL EXAMINATION
## OF
## REGENCE BLUESHIELD
## SEATTLE, WASHINGTON

NAIC CODE 53902
December 31, 2010

Order No. 12-175
Regence BlueShield
Exhibit A

**SALUTATION**

Seattle, Washington
June 27, 2012

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioner:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Regence BlueShield
of
Seattle, Washington

hereinafter referred to as "RBS" or the "Company" at its home office located at 1800 Ninth Avenue, Seattle, Washington 98101. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2010.

## CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Regence BlueShield of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2010.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

6-27-12

Date

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## SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2006 through December 31, 2010 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioner (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination though the end of field work on April 20, 2012.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following section of this report. In addition, the Company's Certified Public Accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2010 NAIC FCEH which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2010 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. **Related Party Transactions**

   a. **Regence Rx, Inc. (Regence Rx) Services** – Regence BlueCross BlueShield of Oregon (RBS-OR) performs services on behalf of Regence Rx, and RBS-OR allocates the costs of these services to RBS. There is no agreement between the Company and RBS-OR or Regence Rx for these services. RCW 48.31C.050(2) requires management agreements, service contracts, and cost-sharing arrangements to be filed with the Commissioner prior to entering into the transaction. SSAP No. 96 requires all agreements between affiliates to be in writing and RCW 48.43.097 requires adherence to the AP&P.

      In addition, the examiners identified some Regence Rx expenses that were improperly allocated to RBS. Specifically, consulting expenses to re-brand Regence Rx were allocated to the Company. These types of expenses are not related to a service performed for the Company, and allocating a portion of these expenses is not in accordance with RCW 48.31C.050 and SSAP No. 70 which require shared expenses to be fair and reasonable and allocated to the entity to which they belong.

Regence Rx retained eight percent of pharmacy network access fees collected from pharmacies for RBS pharmacy claims without providing any services to RBS. Regence Rx did not bear the cost of setting up or maintaining the network. In addition, only 92 percent of the network access fee derived from external customers was allocated among affiliates (including RBS) even though 100 percent of the expenses associated with this activity were allocated to affiliates (including RBS). This is not in accordance with RCW 48.31C.050 and SSAP No. 70 which require expenses incurred and payment received to be fair and reasonable and allocated to the entity to which they belong.

**The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097 and SSAP No. 96 by executing and filing with the Commissioner a service agreement for Regence Rx services; and with RCW 48.43.097 and SSAP No. 70 by allocating expenses on a fair and reasonable basis and to the entity to which they belong. (See Comment and Recommendation No. 2.)**

b. **Services Performed Without a Properly Filed, Written Agreement** - The Company provided services to CSN Acquisition Corporation (CSN), without a written agreement, and without filing the agreement on a Form D prior to entering into the transaction. CSN is an affiliate brokerage agency selling long-term care coverage underwritten by companies unaffiliated with RBS. RBS receives and pays commissions on behalf of CSN. SSAP No. 96 requires that all transactions between related parties to be in the form of a written agreement, and RCW 48.43.097 requires adherence to the AP&P. In addition, RCW 48.31C.050(2) requires all management agreements, service contracts, and cost-sharing arrangements between the health carrier and a person in its health carrier holding company system to be filed with the OIC prior to entering into them.

**The Company is instructed to comply with RCW 48.43.097 and SSAP No. 96 by formalizing all intercompany transactions into a written agreement, and with RCW 48.31C.050(2) by filing all required management agreements, service contracts, and cost-sharing arrangements with the OIC on a Form D.**

c. **Accrual of Expenses and Liabilities** – The Regence Group (TRG), the parent company of RBS, posted $6 million of expense accruals in its books from April through July of 2010, and no transactions had actually occurred. TRG allocated a share of these expenses as well as the corresponding liabilities to RBS. These accruals were done to record expenses that were expected to occur in later periods, and the entries were reversed in November of 2010. The practice of accruing expenses when an obligation to pay does not exist fails to meet the definition of a liability under SSAP No. 5. In addition, recording an expense for a transaction that has not occurred is not in accordance with Generally Accepted Accounting Principles (GAAP) or commonly recognized accounting practices. RCW 48.43.097 and WAC 284-07-050(5) require statutory financial statements to be in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

**The Company is instructed to comply with RCW 48.43.097 and WAC 284-07-050(5) by filing its NAIC Annual Statement in accordance with the AP&P. Specifically, the Company should only book a liability if the definition of a liability contained in SSAP No. 5 is met, and it should**

**only record an expense when a transaction has taken place that gives rise to the expense, and that meets the definition of an expense contained within the AP&P.**

d. **Legal Fees Not Borne by the Entity to Which They Belong –** The Company's process of allocating legal expenses did not result in the expense being borne by the entity to which it belonged. A new process was implemented in 2011 to correct the problem. In the examiner's test of the new process, they identified legal expenses that were allocated to entities to which the invoice did not relate. RCW 48.31C.050 and SSAP No. 70 require intercompany allocations to be fair and reasonable and require shared expenses to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

   **The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097, and SSAP No. 70 by allocating expenses to the entity to which they belong. (See Comment and Recommendation No. 2.)**

e. **Monitor Reversing Entries –** Expense allocations can originate on the Company books and be allocated to its parent and affiliates, and they can also originate on the books of the Company's parent or affiliates and be allocated to the Company. These allocations are sometimes reversed in a later period, and if a journal entry is reversed in a subsequent period, the reversal is allocated. The basis for an allocation is a statistic that changes from month-to-month. When entries are reversed, the allocation of the reversal uses the current statistic rather than the statistic used when the original entry was recorded. The original allocated amount may not reconcile with the amount reversed. The reversal amount that is eventually allocated to the entity has the potential to be significantly different from the amount originally allocated. RCW 48.31C.050 and SSAP No. 70 require intercompany allocations to be fair and reasonable and require shared expenses to be apportioned to the entities to which they belong. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

   **The Company is instructed to comply with RCW 48.31C.050, RCW 48.43.097 and SSAP No. 70(8) by monitoring reversing entries to ensure that the allocated reversal amount is the same as the original amount charged.**

f. **Expenses for Kinetix Living Corp. (Kinetix) Services Were Not Allocated to Plan Subsidiaries –** An entry was made at year-end to reclassify the March 2010 through December 2010 Kinetix expenses. This reclassifying entry caused the allocation methodology to stop at RBS, RBS-OR, Regence BlueShield of Idaho, Inc. (RBS-ID), and Regence BlueCross BlueShield of Utah (RBS-UT) (collectively referred to as "plan parents") and did not allocate to the subsidiaries of the plan parents. For Washington entities, this resulted in RBS being allocated its share plus $21,363 that should have been allocated to its subsidiary, Asuris Northwest Health (ANH). RCW 48.31C.050(1) and SSAP No. 70(8) require shared expenses to be allocated to the entities incurring the expense as if the expense had been paid solely by the incurring entity; transactions to be fair and reasonable; and expenses incurred and payment received to be allocated to the health carrier in conformity with customary accounting principles, consistently applied. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. Due to immateriality, no examination adjustment was necessary.

**The Company is instructed to comply with RCW 48.31C.050(1), RCW 48.43.097, and SSAP No. 70(8) by allocating expenses to the entity to which they belong. (See Comment and Recommendation No. 2.)**

g. **Trade Name and Service Mark Fees** – Since October 1, 1999, the Company has had an intercompany agreement with its parent, The Regence Group (TRG). Under the agreement, TRG charges RBS a fee of $0.30 per member for use of the name "Regence." RBS does not receive any services for this fee as defined in SSAP 25, "Transactions Involving Services", nor is it an allocation of expenses as defined in SSAP 70, "Allocation of Expenses". Since there are no costs incurred and no expenses made, these transactions should be re-characterized as dividends or capital contributions. Accordingly, the $340,000 distribution of cash paid to TRG in 2010, and the $1.38 million paid in the years 2006 through 2009, should all have been recorded as capital contributions or dividends in accordance with RCW 48.31C.050(1). Due to immateriality, no examination adjustment was necessary.

   **The Company is instructed pursuant to RCW 48.31C.050, RCW 48.43.097, WAC 284-07-050(2), to re-characterize any related party transfer of assets that are not an allocation of expenses or services received as capital contributions or dividends.**

h. **Health Systems International, LLC Invoice Coding Errors** – Network fees were charged to RBS instead of ANH in error. RCW 48.31C.050(1) and SSAP No. 70(8) require shared expenses to be allocated to the entities incurring the expense as if the expense had been paid solely by the incurring entity. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P. For the years 2008 through 2010, the error amounted to $729,131. Due to immateriality, no examination adjustment was necessary.

   **The Company is instructed to comply with RCW 48.31C.050(1), RCW 48.43.097, and SSAP No. 70(8) by allocating expenses to the entity to which they belong. (See Comment and Recommendation No. 2.)**

2. <u>Actuarial Findings</u>

   a. **Incurred But Not Reported (IBNR) Claims** – The Company underestimated its reserve for IBNR claims that are reported on page 3, line 1 "Claims unpaid," of the 2010 NAIC Annual Statement. RCW 48.44.037(4) requires the Company to include an estimated amount to provide for the payment of all claims which have been incurred, whether reported or not. Furthermore, RCW 48.12.080(2) requires the Company to increase its loss reserves to an amount that is needed to make them adequate, when the Company's loss experience indicates that its loss reserves, however estimated, are inadequate.

   The IBNR includes estimates for both retrospective and prospective business and these carry additional balance sheet items on page 3, line 4, and page 2, line 15.3, of the 2010 NAIC Annual Statement, which were also impacted by the IBNR understatement.

   The following examination adjustment was required to the Company's 2010 NAIC Annual Statement:
   Increase page 3, line 1 "Claims unpaid" by $13,400,000

Decrease page 3, line 4 "Aggregate health policy reserves" by $ 400,000
Increase page 2, line 15.3 "Accrued retrospective premiums" by $2,800,000
The net effect is a decrease in surplus of $10,200,000.

**The Company is instructed to comply with RCW 48.44.037(4) and RCW 48.12.080(2) by recording an adequate estimate for claims unpaid. (See Examination Adjustment No. 1.)**

b. **Unpaid Claims Adjustment Expenses** – The Company's method for calculating the amounts for unpaid claims adjustment expenses (CAE) did not follow SSAP No. 55(8), which requires these expenses to be based on estimated ultimate cost of settling claims using past experience adjusted for current trends, and any other factor that would modify past experience. RCW 48.43.097 requires adherence to the AP&P.

The Company's actual claim adjustment experience for the last three years, excluding cost containment expenses, was 5.1 percent. The Company used an estimated percentage of 2.7 percent. The Company should have used a percentage based on historical actual CAE's of 5.1 percent. An exam adjustment to increase unpaid CAE in the amount of $4,886,000 was made to accurately reflect the true cost.

**The Company is instructed to comply with RCW 48.43.097, WAC 284-07-050(2) and SSAP No. 55(8) by estimating the cost of settling unpaid claims, using past experience adjusted for current trends, and any other factor that would modify past experience. (See Examination Adjustment No. 2.)**

3. **Net Deferred Tax Assets (DTA)**

The Company incorrectly reported admitted Net DTA on page 2, line 18.2, "Net deferred tax asset" of the 2010 NAIC Annual Statement as $23,515,281. The correct balance should have been $38,686,691. A formula in a spreadsheet incorrectly compared DTA reversing in one year to Deferred Tax Liabilities (DTL), rather than gross DTA as per SSAP No. 10R(10)(c) and (10)(e)(iii). The misstatement resulted in an understatement in admitted Net DTAs of $15,171,410. The misstatement carried through to the disclosures in Note 9A of the "Notes to Financial Statements." The net effect is an increase of surplus of $15,171,410.

**The Company is instructed to comply with RCW 48.43.097 by filing its NAIC Annual Statements in accordance with the AP&P, SSAP No. 10R. (See Examination Adjustment No. 3 and Comment and Recommendation No. 1.)**

4. **Buildings Held for Sale - Appraisals Not Obtained**

The Company did not obtain appraisals, as required by SSAP 40, on two buildings when they were reclassified as held for sale on the Company's 2010 NAIC Annual Statement. RCW 48.43.097 requires adherence to the AP&P.

**The Company is instructed to comply with RCW 48.43.097 and SSAP No. 40 by obtaining appraisals of properties when they are classified as held for sale, or non-admitting the value of the property.**

5. **Real Estate Net of Encumbrances**
The Company reported an encumbrance of $53.4 million for one piece of real estate on page 3, line 14, "Borrowed money and interest thereon" of the 2010 NAIC Annual Statement in error. SSAP No. 40 requires that real estate be reported net of encumbrances on page 2, line 4, "Real estate."

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, SSAP No. 40, by reporting its real estate net of encumbrances. (See Examination Adjustment No. 4.)**

6. **Federal Employees Health Benefit Plan Rate Stabilization Reserve**
The Company did not correctly calculate the rate stabilization reserve (RSR) and the corresponding uncollected premium asset for the Federal Employees Health Benefit Plan (FEP). The Company did not reverse the prior year estimate for service charges when recording the actual service charges. As a result, the FEP RSR included in page 3, line 4 "Aggregate health policy reserves" of the 2010 NAIC Annual Statement was understated by $1,353,448 and the uncollected premium asset on page 2, line 15.1 "Uncollected premiums and agents' balances in the course of collection" was understated by the corresponding amount. By not properly recording the liability and asset, the Company was in violation of SSAP Nos. 4 and 5. No examination adjustment was necessary because the amount was immaterial and did not affect surplus.

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P, SSAP Nos. 4 and 5.**

7. **NAIC Annual Statement Error - Underwriting and Investment Exhibit (U&I) Part 2D**
The Company included the FEP RSR reserve and prescription (Rx) rebates payable on the U&I Part 2D, line 1 "Unearned premium reserves" in error. The FEP RSR should be reported on line 4 "Reserve for rate credits or experience rating refunds" per the NAIC Annual Statement Instructions and the NAIC AP&P INT 05-05 and related Appendix B. Additionally, Rx rebates payable should be reported under line 5 of the U&I Part 2D "Aggregate write-ins for other policy reserves" per the NAIC Annual Statement Instructions. There was no effect on Page 3 "Liabilities, Capital, and Surplus", since the entire U&I Part 2D is included in page 3, line 4 "Aggregate health policy reserves."

**The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.**

## COMMENTS AND RECOMMENDATIONS

1. **Material Weakness in Internal Controls Relating to Net Deferred Taxes**
The Company had material weaknesses in its internal controls relating to the recording of its net deferred tax assets and associated surplus/unassigned funds. A formula error existed in the spreadsheets used to calculate DTA. The lack of controls in the review of the deferred tax calculations resulted in the DTA being understated by $15.2 million.

**It is recommended that the Company implement measures to ensure that deferred tax calculations are adequately reviewed. (See Instruction No. 3.)**

2. **Internal Controls over General Ledger Coding**

The examiners found instances where the person approving a vendor invoice or manual journal entry also provided the initial general ledger coding. No independent review and approval of this coding was evident. The initial coding must be accurate and supportable to properly allocate intercompany expenses and fees to the entities within the group.

**It is recommended that the Company strengthen its controls over the review and approval of initial entity and department general ledger coding for vendor invoices and manual journal entries. (See Instruction Nos. 1.a, 1.d, 1.f, and 1.h.)**

## COMPANY PROFILE

### Company History

RBS is a taxable nonprofit corporation organized pursuant to Chapter 24.03 RCW and is licensed as a health care service contractor pursuant to Chapter 48.44 RCW. RBS was originally incorporated as King County Medical Service Corporation (KCMSC) in 1933. It was issued a Certificate of Registration by the OIC on September 5, 1947. On November 23, 1970, KCMSC changed its name to King County Medical Blue Shield (KCMBS). Between 1983 and 1995, KCMBS merged with seven other medical bureaus:

- Lewis County Medical Services
- Pierce County Medical Bureau (PCMB)
- Cowlitz Medical Service
- Thurston County Medical Bureau
- Snohomish County Physicians Corporation
- Grays Harbor Medical Bureau
- Clallam County Physicians Service, Inc.

KCMBS changed its name to Regence Washington Health on April 1, 1997 and to RBS on April 16, 1998. On January 1, 2000, RBS merged with Northwest Washington Medical Bureau. The surviving entity was RBS.

Separately, RBS, RBS-OR and RBS-ID agreed to unite under the common control of TRG in the Plan and Agreement of Affiliation signed in 1995. In 1997, another Plan and Agreement of Affiliation was executed to add RBS-UT to the affiliation. RBS, RBS-OR, RBS-ID and RBS-UT are referred to collectively as "plan parents."

### Capitalization

The Company met the minimum capital requirements of RCW 48.44.037 with $956,538,338 (capital and surplus) as of December 31, 2010. The Company does not have any capital stock. The sole voting member is TRG, an Oregon nonprofit corporation.

### Territory and Plan of Operation

The Company is registered as a health care service contractor in the state of Washington. Its authorized lines of business are: Comprehensive (Hospital and Medical), Medicare Supplement, Dental, Federal Employees Health Benefit Plan, Medicare, and Medicaid. Approximately 75 percent of the business comes from the comprehensive hospital and medical line of business.

RBS, RBS-OR, RBS-UT, and RBS-ID, consolidated many aspects of operations while still maintaining local presences in targeted markets. Overall, TRG operates 29 multi-function facilities, sales or subsidiary offices throughout the states of Washington, Oregon, Utah, and Idaho.

**Growth of Company**

The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

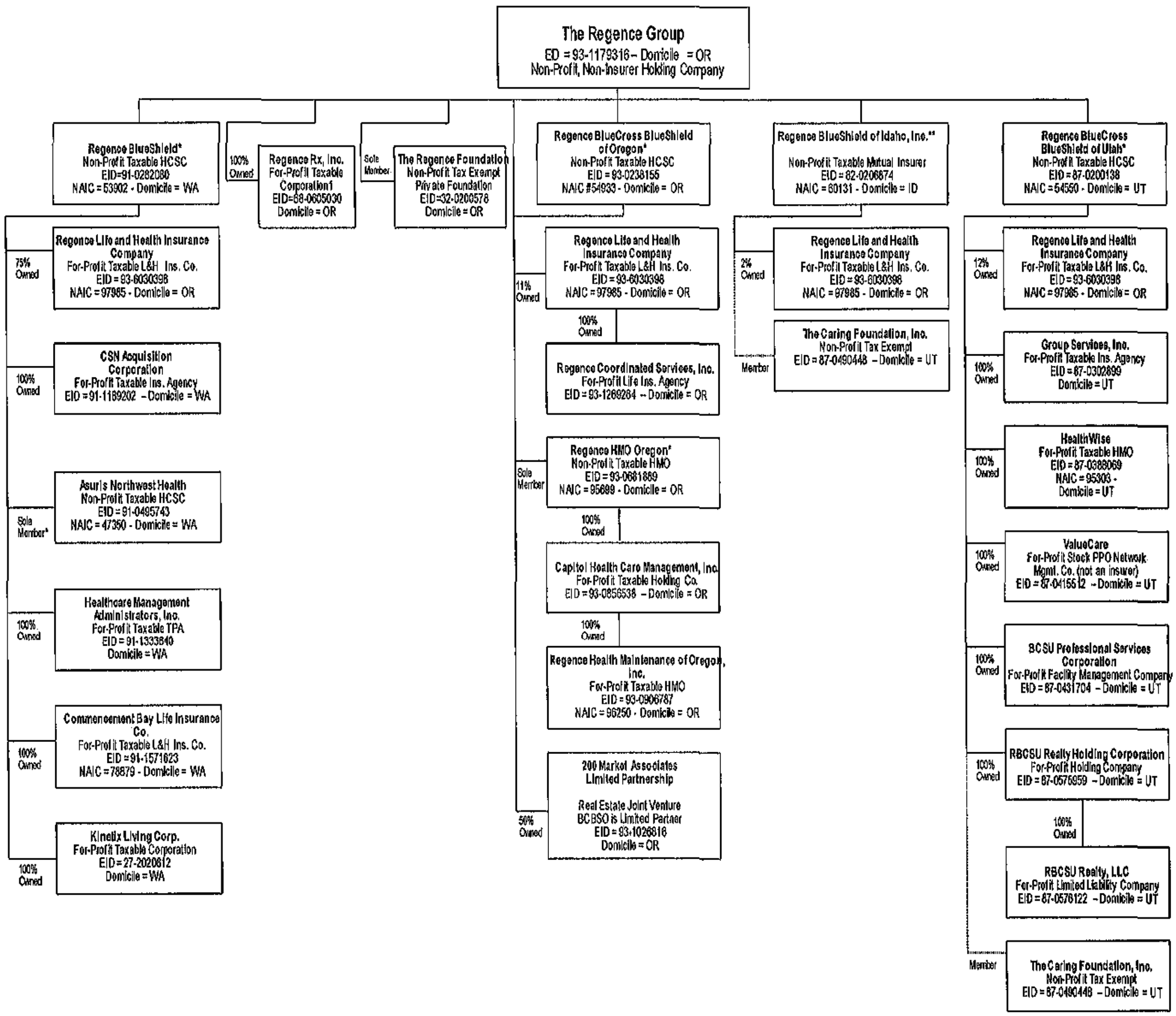
| Year | Admitted Assets | Liabilities | Capital & Surplus |
|---|---|---|---|
| *2010 | $1,436,332,743 | $479,708,995 | $956,623,748 |
| 2009 | 1,427,858,699 | 535,062,873 | 892,795,826 |
| 2008 | 1,314,846,000 | 518,823,861 | 796,022,139 |
| 2007 | 1,400,524,678 | 475,644,405 | 924,880,273 |
| 2006 | 1,289,973,634 | 409,045,640 | 880,927,994 |

| Year | Total Revenue | Net Underwriting Gain (Loss) | Net Investment Gain (Loss) | Net Income |
|---|---|---|---|---|
| *2010 | $2,320,199,752 | ($4,604,899) | $68,806,490 | $36,208,917 |
| 2009 | 2,394,442,332 | (32,381,386) | 44,809,155 | 10,463,284 |
| 2008 | 2,281,263,433 | (22,861,155) | 17,489,368 | (16,312,330) |
| 2007 | 2,214,886,611 | 8,169,616 | 71,096,624 | 66,598,417 |
| 2006 | 1,967,975,071 | 74,681,436 | 59,165,660 | 105,848,440 |

*Adjusted balances per Examination Adjustments

**Affiliated Companies**

The following organization chart as of December 31, 2010 shows the Company's parent and affiliated companies:




**The Regence Group (TRG)**

TRG is an Oregon nonprofit public benefit corporation. It is authorized to do business in Utah and California.

TRG is the sole voting member of RBS, RBS-OR, and RBS-UT. As the sole voting member, TRG has authority to approve elections to the governing Board of Directors (BOD) of these three affiliates, and to discharge members of the governing BOD at any time, with or without cause. In addition, TRG manages RBS-ID under the terms of the Management and Administrative Service Agreement dated May 25, 1995.

**Regence Life and Health Insurance Company (RLH)**
RLH is an Oregon for-profit, taxable life and health insurance company and was formed on February 23, 2005.

In 2008, RBS-OR sold 16,795 shares of RLH stock to RBS for $26,946,000. After the transaction, RBS held 75 percent of RLH stock. The remaining RLH stock is owned as follows: RBS-OR 11 percent; RBS-ID 2 percent; and RBS-UT 12 percent.

RLH changed its name to LifeMap Assurance Company in April 2012.

**CSN Acquisition Corporation (CSN)**
CSN is a Washington for-profit non-health insurance agency that was formed on March 31, 1999 and is a wholly-owned subsidiary of RBS.

**Asuris Northwest Health (ANH)**
ANH was originally incorporated in Washington as Walla Walla Valley Medical Service, a taxable nonprofit corporation in 1933, and was issued a Certificate of Registration as a health care service contractor under RCW 48.44 by the OIC on September 5, 1947. It was acquired by RBS in November 1994. The name was changed to Regence Northwest Health in 1997 and to ANH in September 2002.

**Healthcare Management Administrators, Inc. (HMA)**
HMA was formed in Washington on March 20, 1986. It provides third-party administrative services to self-funded employers located in Washington and Oregon and offers access to providers in the Regence BlueShield Preferred Provider Organization (PPO) and participating networks. It is a for-profit healthcare administrator.

**Commencement Bay Life Insurance Company (CBL)**
CBL was incorporated on August 12, 1992 as a Washington stock life and disability insurance company under the laws of the state of Washington. It is a wholly owned subsidiary of RBS. It is a for-profit life, accident and health insurance company which currently has no policies in-force.

**Kinetix Living Corporation (Kinetix)**
RBS acquired the assets of Kinetix on March 1, 2010 and created a new wholly-owned subsidiary by the same name. It provides a program which combines cardio, strength-building, nutritional education and training with ongoing communications to create a culture of health and wellness within an organization. It ceased operations on December 30, 2011. (See Subsequent Events.)

**Regence Rx, Inc. (Regence Rx)**
Regence Rx is an Oregon corporation organized under the Oregon Business Corporation Act. The Articles of Incorporation were filed with, and approved by, the Oregon Secretary of State on April 20, 2005. Regence Rx is wholly owned by TRG, and is not a risk-bearing entity.

Regence Rx was organized to engage in pharmacy benefit management services and in other business, trade or activity which may lawfully be conducted by a corporation organized under the Oregon Business Corporation Act. Its primary purpose was to process drug claims including claims adjudication and provider payments on behalf of affiliates. (See Instruction No. 1.a.)

**The Regence Foundation**

The Regence Foundation was formed on June 11, 2007. The Regence Foundation is an Internal Revenue Service (IRS) 501(c)(3) organization that manages charitable contributions made primarily on behalf of TRG and affiliates. It is organized and operates exclusively for charitable purposes permitted by Section 501(c)(3) of the Internal Revenue Code. The Regence Foundation changed its name to Cambia Health Foundation with the State of Oregon on April 26, 2012.

**Regence BlueCross BlueShield of Oregon (RBS-OR)**

RBS-OR is an Oregon domiciled nonprofit health care service contractor. Its sole voting member is TRG.

**Regence BlueShield of Idaho, Inc. (RBS-ID)**

RBS-ID is an Idaho domiciled mutual disability insurance company. All corporate powers are vested in the Board of Directors. TRG manages RBS-ID under the terms of the Management and Administrative Service Agreement dated May 25, 1995.

**Regence BlueCross BlueShield of Utah (RBS-UT)**

RBS-UT is a Utah domiciled nonprofit taxable health care service contractor. Its sole voting member is TRG.

**Intercompany Agreements**

The Company is a party to various intercompany agreements with affiliates. As of December 31, 2010, the Company had the following intercompany agreements in force:

**Regence Administrative Services Agreement**

On December 28, 2007, TRG entered into the Regence Administrative Services Agreement (ASA) with RBS-OR, RBS-UT, and RBS. It includes RBS subsidiaries, ANH, Commencement Bay Life Insurance Company, and Regence Life and Health Insurance Company. The ASA was filed with the OIC on January 11, 2008, and resubmitted to the OIC on February 28, 2008 to include a provision addressing settlement timing in compliance with SSAP No. 25(6).

**Plan and Agreement of Affiliation**

The Plan and Agreement of Affiliation was entered into in May 1995. Under this agreement, RBS, RBS-OR, and RBS-ID agreed to unite under common control of TRG. In July 1997, another Plan and Agreement of Affiliation was executed to add RBS-UT to the affiliation.

**Management and Administrative Services Agreement**

The Management and Administrative Services Agreement was entered into on May 25, 1995 between RBS-ID and TRG and was amended in 1998, 2001, and last amended on July 28, 2011. It allows TRG to manage RBS-ID for an initial term totaling 20 years, and allows for the allocation of TRG costs to RBS-ID for those services performed by TRG on its behalf. RBS signed the agreement for the purpose of guaranteeing payment of damages in the case of breach of contract. Otherwise, RBS is not a party to this agreement.

**TRG & Subsidiaries Consolidated Federal Income Tax Agreement**

This agreement is between TRG and its affiliates and subsidiaries (including both RBS and ANH). It became effective for the tax year ended December 31, 1997. The agreement sets forth the arrangement to allocate consolidated tax liability among the parties.

**"Regence" Service Mark and Trade Name License Agreement**
The "Regence" Service Mark and Trade Name License Agreement, between TRG and RBS, was effective October 1, 1999. RBS is charged an annual license fee for use of the "Regence" mark in its corporate name. (See Instruction No. 1.g.)

**Regence FEP Cost Sharing Agreement**
The original agreement was effective January 1, 1997, and was between RBS and two affiliates: RBS-OR and RBS-ID. It was amended on July 27, 1998 to include RBS-UT. RBS provides and maintains the computer software claims system on behalf of the three affiliates for administration of the FEP. Each affiliate shares in RBS's cost of maintaining and administering the FEP shared system, which processes claims of federal employees, retirees, and family members.

**Administrative Services Agreement**
The Administrative Services Agreement is between CBL and RBS and was effective August 14, 2004. RBS provides operational, administrative, and management services for CBL.

## MANAGEMENT AND CONTROLS

**Ownership**
The Company's Articles of Incorporation state that the corporation shall not have or issue shares of capital stock. There is a single member of the Corporation, which is TRG, an Oregon nonprofit corporation (the "Sole Member"). The Sole Member has all rights, powers and privileges to manage the Company.

**Board of Directors**
The following individuals were on the Board of Directors (BOD) as of December 31, 2010:

| | |
|---|---|
| Mack L. Hogans | Chairman |
| Mark C. Adams | Director |
| Mark B. Ganz | Director |
| Murphy J.Hensley | Director |
| Michael G. Koppel | Director |
| Katharine G. Lindemann | Director |
| Jack G. Strother | Director |

**Officers**
The following individuals were officers as of December 31, 2010:

| | |
|---|---|
| Murphy J. Hensley | President |
| Kerry E. Barnett | Secretary |
| Andreas B. Ellis | Treasurer |
| Christopher J. Gorey | Vice President of Sales |
| Leonard A. Hagen | Assistant Secretary |
| Elizabeth B. Johnson | Vice President |

**Conflict of Interest**
The Company's policy requires that members of the BOD, officers and all employees sign a conflict of interest statement each year. The purpose of the statement is to detect any activities or participation on the part of an employee that could possibly be interpreted as having the appearance of a conflict of interest. No such conflicts were noted during the examination period.

**Fidelity Bond and Other Insurance**
RBS is a named insured, along with other affiliates of TRG, on a financial institution fidelity bond. The aggregate limit of coverage was $20 million and the single loss limit was $10 million as of December 31, 2010. The aggregate amount of coverage meets the recommended guidelines by the NAIC.

In addition, the Company is a named insured on policies for property, auto, and general liability insurance with umbrella coverage.

**Officers', Employees', and Agents' Welfare and Pension Plans**
The Company had the following officers', employees', and agents' welfare and pension plans as of December 31, 2010:

**Retirement Plans**
The Company participates in a defined-benefit pension plan sponsored by TRG that covers substantially all full-time employees having one or more years of service. Benefits are based upon years of service and the employee's final average compensation. TRG froze the plan as of December 31, 2009.

The Company participates in a Supplemental Executive Retirement Plan (SERP) sponsored by TRG to cover key employees meeting certain eligibility requirements. The SERP is a non-qualified defined benefit pension plan that is not subject to Employee Retirement Income Security Act (ERISA) minimum funding requirements. The plan is funded only on a "pay-as-you go" basis.

The Company has no legal obligation for benefits under these plans. The obligation is carried by TRG.

**Postretirement Benefit Plan**
The Company participates in a postretirement health and welfare plan sponsored by TRG that provides certain health care and life insurance benefits to retired employees that meet certain eligibility rules based on age and years of service at their retirement date. To be eligible for the plan, the employees must have been hired on or before January 1, 2004 and were active participants in health plans at the time of retirement. Coverage for eligible participants who retire on or after January 2, 2010, will terminate the date the participant or beneficiary attains Medicare eligibility. The Company has no legal obligation for benefits under this plan. The obligation is carried by TRG. In fiscal year 2010, the Company's share of net expense for the postretirement benefit plan was $159,379.

**Employee Savings Plan**
The Company participates in an employee savings plan sponsored by TRG. In 2010, TRG matched employee contributions up to 100 percent of the first six percent of salary for each pay period in which the employee made a contribution. In addition, the BOD approved discretionary contributions of five percent of eligible earnings for eligible employees for the year ended December 31, 2010. The

Company's share of the net expense was $10,929,492 in 2010. The Company has no legal obligation for benefits under the plan. The obligation is carried by TRG.

**Physician Deferred Compensation Plans**

The Company maintains a separate non-qualified deferred compensation plan covering certain member physicians who voluntarily deferred their billings for services provided. The Company funds the obligations primarily through the purchase of group flexible paid-up life insurance contracts for active participants and annuity contracts for retired participants. The Company is both the owner and beneficiary of these contracts.

**Deferred Income Program for Executives and Directors**

The Company offers a non-qualified deferred compensation plan to Executives and Directors whereby participants may defer a portion of their compensation.

## CORPORATE RECORDS

The Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOD and committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present.

## ACTUARIAL REVIEW

The OIC health actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2010. The review included examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities; verifying that claim liabilities include provisions for all components noted in SSAP No. 55(7) and (8), and SSAP No. 54(12), (13), (18) and (19); reviewing historical paid claims and loss ratios; checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2010 NAIC Annual Statement; and estimating claims unpaid for the valuation date of December 31, 2010.

The OIC Actuary determined reserves were understated and an examination adjustment has been made to increase claims unpaid by $13,400,000. (See Instruction No. 2.a.) In addition, the Company's methodology for reserving for unpaid claims adjustment expenses was not in compliance with SSAP No. 55(7) and (8), and an examination adjustment has been made to increase unpaid claims adjustment expenses by $4,886,000. (See Instruction No. 2.b.)

## REINSURANCE

None

## INDEMNITY DEPOSITS

The Company maintained the following statutory deposits as of December 31, 2010:

| State | Type | Book Value | Fair Value |
|---|---|---|---|
| **Washington** | US Government Bond | $52,000,172 | $54,306,584 |
| **Total** | | **$52,000,172** | **$54,306,584** |

## ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Deloitte & Touche, LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination.

The Company's IT environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and Related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and include the availability of an alternate site.

## SUBSEQUENT EVENTS

On November 4, 2011, the Company's holding company, TRG, changed its name to Cambia Health Solutions, Inc.

Kinetix, a wholly-owned subsidiary of RBS, stopped seeking new business in September 2011. Kinetix was providing services to its active customers (primarily corporate) and new participants covered under an existing corporate agreement until it ceased operations on December 30, 2011.

RBS sold its home office building at 1800 Ninth Avenue in Seattle for $76 million in December 2011. The majority of workers were relocated to Tacoma, Washington.

## FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and comments have been addressed and corrected.

## FINANCIAL STATEMENTS

The following financial statements show the financial condition of Regence BlueShield as of December 31, 2010:

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Reconciliation of Surplus
Analysis of Changes in Financial Statements Resulting from the Examination

**Regence BlueShield**
**Assets, Liabilities, Capital and Surplus**
**December 31, 2010**

| | BALANCE PER COMPANY | EXAMINATION ADJUSTMENTS | BALANCE PER EXAMINATION | NOTES |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Bonds | $726,000,547 | $0 | $726,000,547 | |
| Stocks | | | | |
| Preferred stocks | 52,300,238 | | 52,300,238 | |
| Common stocks | 437,511,063 | | 437,511,063 | 5 |
| Real Estate | | | | |
| Properties occupied by the company | 35,033,065 | (53,400,000) | (18,366,935) | 4 |
| Properties held for the production of income | 2,048,594 | | 2,048,594 | |
| Properties held for sale | 1,481,182 | | 1,481,182 | |
| Cash | 23,265,556 | | 23,265,556 | |
| Other invested assets | 57,796 | | 57,796 | |
| Receivables for securities | 507,171 | | 507,171 | |
| Investment income due and accrued | 10,574,741 | | 10,574,741 | |
| Premiums and considerations | | | | |
| Uncollected premiums and agents' balances in the course of collection | 93,754,294 | | 93,754,294 | |
| Accrued retrospective premiums | 12,394,725 | 2,800,000 | 15,194,725 | 1 |
| Amounts receivable relating to uninsured plans | 15,536,647 | | 15,536,647 | |
| Net deferred tax asset | 23,515,281 | 15,171,410 | 38,686,691 | 3 |
| Receivables from parent, subsidiaries and | 3,934,167 | | 3,934,167 | |
| Health care and other amounts receivable | 5,168,483 | | 5,168,483 | |
| Aggregate write-ins for other than invested assets | 28,677,783 | | 28,677,783 | |
| **Total assets** | **$1,471,761,333** | **($35,428,590)** | **$1,436,332,743** | |
| | | | | |
| **LIABILITIES, CAPITAL AND SURPLUS** | | | | |
| Claims unpaid | $209,299,411 | $13,400,000 | $222,699,411 | 1 |
| Accrued medical incentive pool and bonus amoun | 96,532 | | 96,532 | |
| Unpaid claims adjustment expenses | 5,601,003 | 4,886,000 | 10,487,003 | 2 |
| Aggregate health policy reserves | 70,730,078 | (400,000) | 70,330,078 | 1 |
| Premiums received in advance | 43,197,346 | | 43,197,346 | |
| General expenses due or accrued | 27,026,274 | | 27,026,274 | |
| Current federal and foreign income tax payable and interest thereon | 6,685,092 | | 6,685,092 | |
| others | 28,519,129 | | 28,519,129 | |
| Remittances and items not allocated | 3,402,761 | | 3,402,761 | |
| Borrowed money | 53,400,000 | (53,400,000) | 0 | 4 |
| Amounts due to parent, subsidiaries and affiliate | 53,136,314 | | 53,136,314 | |
| Payable for securities | 285,169 | | 285,169 | |
| Liability for amounts held under uninsured plans | 13,235,943 | | 13,235,943 | |
| Aggregate write-ins for other liabilities | 607,943 | | 607,943 | |
| **Total liabilities** | **515,222,995** | **(35,514,000)** | **479,708,995** | |
| | | | | |
| Aggregate write-ins for special surplus funds | 16,858,916 | | 16,858,916 | |
| Unassigned fund (surplus) | 939,679,422 | 85,410 | 939,764,832 | 1, 2, 3 |
| **Total capital and surplus** | **956,538,338** | **85,410** | **956,623,748** | |
| **Total liabilities, capital and surplus** | **$1,471,761,333** | **($35,428,590)** | **$1,436,332,743** | |

## Regence BlueShield
## Statement of Revenue and Expenses
## For the Year Ended December 31, 2010

| | BALANCE PER COMPANY | EXAMINATION ADJUSTMENTS | BALANCE PER EXAMINATION | NOTES |
|---|---|---|---|---|
| Member months | 8,296,160 | | 8,296,160 | |
| Net premium income | $2,330,838,226 | $0 | $2,330,838,226 | |
| Change in unearned premium reserves and reserve for rate credits | (10,638,474) | | (10,638,474) | |
| Total revenues | 2,320,199,752 | 0 | 2,320,199,752 | |
| **Hospital and Medical:** | | | | |
| Hospital/medical benefits | 917,404,201 | 10,200,000 | 927,604,201 | 1 |
| Other professional services | 627,768,828 | | 627,768,828 | |
| Outside referrals | 16,493,197 | | 16,493,197 | |
| Emergency room and out-of-area | 61,193,511 | | 61,193,511 | |
| Prescription drugs | 301,016,496 | | 301,016,496 | |
| Incentive pool, withhold adjustments and bonus amounts | (19,002) | | (19,002) | |
| Subtotal | 1,923,857,231 | 10,200,000 | 1,934,057,231 | |
| **Less:** | | | | |
| Total hospital and medical | 1,923,857,231 | 10,200,000 | 1,934,057,231 | 1, 2 |
| Claims adjustment expenses | 137,802,318 | 4,886,000 | 142,688,318 | 2 |
| General administrative expenses | 248,059,102 | | 248,059,102 | |
| Total underwriting deductions | 2,309,718,651 | 15,086,000 | 2,324,804,651 | |
| Net underwriting gain or (loss) | 10,481,101 | (15,086,000) | (4,604,899) | |
| Net investment income earned | 49,952,752 | | 49,952,752 | |
| Net realized capital gains (losses) less capital gains tax | 18,853,738 | | 18,853,738 | |
| Net investment gains (losses) | 68,806,490 | 0 | 68,806,490 | |
| Net gain or (loss) from agents' or premium balances charged off | (972,121) | | (972,121) | |
| Aggregate write-ins for other income or expenses | (18,378,941) | | (18,378,941) | |
| Net income or (loss) after capital gains tax and before all other federal income taxes | 59,936,529 | (15,086,000) | 44,850,529 | 1, 2 |
| Federal and foreign income taxes incurred | 8,641,612 | | 8,641,612 | |
| **Net income or (loss)** | **$51,294,917** | **($15,086,000)** | **$36,208,917** | |

## Regence BlueShield
## Statement of Revenue and Expenses (Continued)
## For the Year Ended December 31, 2010

| | BALANCE PER COMPANY | EXAMINATION ADJUSTMENTS | BALANCE PER EXAMINATION | NOTES |
|---|---|---|---|---|
| CAPITAL AND SURPLUS ACCOUNT | | | | |
| **Capital and surplus prior reporting year** | $892,795,826 | $0 | $892,795,826 | |
| Net income or (loss) | 51,294,917 | (15,086,000) | 36,208,917 | 1, 2 |
| Change in net unrealized capital gains (losses) less capital gains tax | 18,804,283 | | 18,804,283 | |
| Change in net unrealized foreign exchange capital gain or (loss) | 543,187 | | 543,187 | |
| Change in net deferred income tax | 1,023,900 | | 1,023,900 | |
| Change in nonadmitted assets | (9,588,741) | 126,020 | (9,462,721) | 3 |
| Aggregate write-ins for gains or (losses) in surplus | 1,664,966 | 15,045,390 | 16,710,356 | 3 |
| **Net change in capital & surplus** | 63,742,512 | 85,410 | 63,827,922 | |
| **Capital and surplus end of reporting period** | $956,538,338 | $85,410 | $956,623,748 | |

## Regence BlueShield
## Five Year Reconciliation of Surplus
## For the Years Ended December 31

| | *2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Capital and surplus prior reporting year** | **$892,795,826** | **$796,022,142** | **$924,880,273** | **$880,927,974** | **$716,581,642** |
| Net income or (loss) | 36,208,917 | 10,463,284 | (16,312,330) | 66,598,417 | 105,848,440 |
| Change in net unrealized capital gains (losses) less capital gains tax | 18,804,283 | 45,692,658 | (68,168,840) | 509,776 | 19,425,490 |
| Change in net unrealized foreign exchange capital gain or (loss) | 543,187 | 477,817 | (2,689,017) | 833,315 | |
| Change in net deferred income tax | 1,023,900 | (24,317,928) | 14,318,793 | 1,717,005 | 37,630,116 |
| Change in nonadmitted assets | (9,462,721) | 43,243,239 | (47,769,192) | (28,140,232) | 1,442,286 |
| Cumulative effect of changes in accounting principles | | 235,411 | | | |
| Aggregate write-ins for gains or (losses) in surplus | 16,710,356 | 20,979,203 | (8,237,545) | 2,434,018 | |
| **Net change in capital & surplus** | **63,827,922** | **96,773,684** | **(128,858,131)** | **43,952,299** | **164,346,332** |
| **Capital and surplus end of reporting period** | **$956,623,748** | **$892,795,826** | **$796,022,142** | **$924,880,273** | **$880,927,974** |

***Adjusted balances per Examination Adjustments.**

## Regence BlueShield
## Analysis of Changes in Financial Statements Resulting from the Examination
## December 31, 2010

| | Per Annual Statement | Per Examination | Notes | Increase (Decrease) in Surplus | Total |
|---|---|---|---|---|---|
| **Capital and surplus 12/31/2010 per NAIC Annual Statement** | | | | | $956,538,338 |
| **Assets** | | | | | |
| Real estate | $ 35,033,065 | $ (18,366,935) | 4 | $ (53,400,000) | |
| Accrued retrospective premiums | 12,394,725 | 15,194,725 | 1 | 2,800,000 | |
| Net deferred tax asset | 23,515,281 | 38,686,691 | 3 | 15,171,410 | |
| **Liabilities** | | | | | |
| Claims unpaid | 209,299,411 | 222,699,411 | 1 | (13,400,000) | |
| Unpaid claims adjustment expenses | 5,601,003 | 10,487,003 | 2 | (4,886,000) | |
| Aggregate health policy reserves | 70,730,078 | 70,330,078 | 1 | 400,000 | |
| Borrowed money | 53,400,000 | 0 | 4 | 53,400,000 | |
| Change in surplus | | | | | 85,410 |
| **Capital and surplus 12/31/2010 per examination** | | | | | $956,623,748 |

## NOTES TO THE FINANCIAL STATEMENTS

1. **Estimate of Incurred Claims**
   To correct understatement of IBNR: Increase page 3 line 1, "Claims unpaid" by $13,400,000, decrease page 3, line 4, "Aggregate health policy reserves" by $400,000, increase page 2, line 15.3, "Accrued retrospective premium" by $2,800,000, increase page 4, line 9 "Hospital/medical benefits" by $10,200,000. (See Instruction No. 2.a.)

2. **Unpaid Claims Adjustment Expenses**
   To correct calculation of Unpaid claims adjustment expenses: Increase page 3, line 3, "Unpaid claims adjustment expenses" by $4,886,000. Increase page 4, line 20 "Claims adjustment expenses" by $4,886,000. (See Instruction No. 2.b.)

3. **Net Deferred Tax Asset**
   To correct the amount of net deferred tax asset: Increase page 2, line 18.2, "Net deferred tax asset" by $15,171,410, and increase page 5, line 39, "Change in nonadmitted assets" by $126,020 and increase page 5, line 47, "Aggregate write-ins for gains or (losses) in surplus" by $15,045,390. (See Instruction No. 3.)

4. **Real Estate Net of Encumbrances**
   To correct the reporting of real estate net of its encumbrance: Decrease page 2, line 4, "Real estate" by $53,400,000, and decrease page 3, line 14, "Borrowed money and interest thereon" by $53,400,000. (See Instruction No. 5.)

5. The Company has a special consent order to acquire and hold a single entity's NAIC non-exempt listed mutual funds, totaling not more than four percent of Company assets. This special consent order is subject to an aggregate investment limitation of the lesser of 20 percent of Company assets or 50 percent of its surplus over its minimum required surplus for all common stocks and NAIC non-exempt listed mutual funds, excluding the Company's investment in the common stock of its subsidiaries. Also, the special consent order allows the Company to acquire and hold a single entity's or entities' exempt listed mutual funds in an unlimited amount.

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Regence BlueShield and its affiliates during the course of this examination.

In addition to the undersigned, Adrienne C. DeBella, CPA, CFE, Health Field Supervising Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, ARA, Reinsurance Specialist; Shiraz Jetha, FSA, MAAA, CERA, Health Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Kathy Hicks, CPA, Financial Examiner; Dinesh Weerasooriya, CPA, Financial Examiner; Friday Enoye, AFE, Financial Examiner; Tony Quach, AFE, Financial Examiner; Youngjae Lee, CPA, Financial Examiner, Eula Rath, CPA, Financial Examiner; Zairina Othman, Financial Examiner; Laurie Reiser, Financial Examiner; and Terry Gates, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

Michael V. Jordan, CPA, CFE, MHP
Assistant Chief Examiner
State of Washington

## AFFIDAVIT

**STATE OF WASHINGTON }**
} ss
**COUNTY OF KING }**

Michael V. Jordan, CPA, CFE, MHP, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Regence BlueShield was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners.

Michael V. Jordan, CPA, CFE, MHP
Assistant Chief Examiner
State of Washington

Subscribed and sworn to before me this 27th day of June, 2012.

Notary Public in and for the
State of Washington

COLLEEN JANSEN
COMMISSION EXPIRES
NOTARY
PUBLIC
5-17-16
STATE OF WASHINGTON