

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF
COMMENCEMENT BAY LIFE INSURANCE COMPANY
SEATTLE, WASHINGTON

NAIC CODE 78879
December 31, 2012

Commencement Bay Life Insurance Company
Order No. 13-0230
Exhibit A

SALUTATION

Seattle, Washington
June 11, 2013

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

Dear Commissioner Kreidler:

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

Commencement Bay Life Insurance Company
of
Seattle, Washington

hereinafter referred to as "CBLIC," or the "Company" at its home office located at 1800 Ninth Avenue, Seattle, WA 98101. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2012.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Commencement Bay Life Insurance Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2012.



Patrick H. McNaughton
Chief Examiner

7-31-13

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2008 through December 31, 2012 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 Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work on June 11, 2013.

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) workpapers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2012 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 to provide assurance on the Company's financial statements as of the examination date.

The examiners reviewed the Company's filed 2012 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).

INSTRUCTIONS

NONE

COMMENTS AND RECOMMENDATIONS

NONE

COMPANY PROFILE

Company History

CBLIC was incorporated on September 1, 1992 as a Washington stock life and disability insurance company. It was a wholly-owned subsidiary of Pierce County Medical Bureau, Inc. (PCMB). As a result of the merger on April 1, 1997 between PCMB and Regence BlueShield (RBS), the Company became a wholly-owned subsidiary of RBS.

Capitalization

CBLIC is 100 percent owned by RBS. The Company has 480,000 shares of common stock authorized and 240,000 issued and outstanding at a par value of \$10 per share. The Company paid an extraordinary cash dividend of \$17.5 million to its parent, RBS, on December 31, 2008.

Territory and Plan of Operations

The Company is authorized to operate in the state of Washington as a life and disability insurance company. The Company is currently dormant with no immediate plans to resume operations.

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:

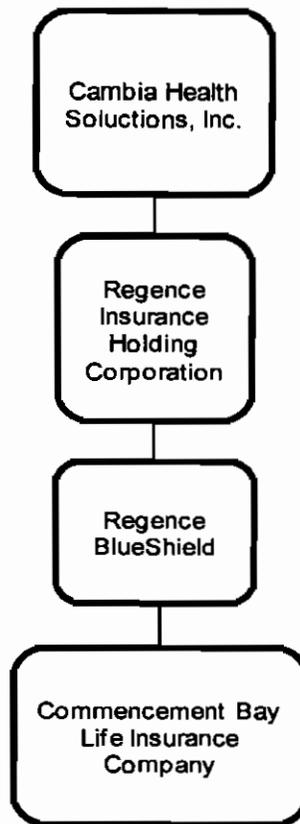
Year	Admitted Assets	Liabilities	Capital & Surplus
2012	\$7,272,936	\$236,727	\$7,036,209
2011	7,141,634	290,297	6,851,337
2010	6,889,336	315,711	6,573,625
2009	6,608,338	327,896	6,280,442
2008	7,064,227	1,107,477	5,956,750

Year	Net Investment	
	Income	Net Income
2012	\$220,856	\$209,519
2011	300,275	278,616
2010	263,842	296,579
2009	263,906	330,405
2008	631,456	343,848

Affiliated Companies

The Company is a wholly-owned subsidiary of RBS. RBS is a non-profit health care service contractor (HCSC). Regence Insurance Holding Corporation (RIHC) is a holding company formed by Cambia Health Solutions, Inc. (CHS), in 2012. CHS is an Oregon non-profit non-insurer holding company. CHS is the sole member of RIHC and the ultimate controlling entity of the Company. RIHC became the sole member

of RBS in 2012. The following is an abbreviated organizational chart based on the Company's ownership as of December 31, 2012:



Intercompany Agreements

The Company is a party to an administrative services agreement with CHS. Services may include, but are not limited to managerial, legal, financial, actuarial, underwriting, accounting, and human resources.

MANAGEMENT AND CONTROL

Board of Directors (BOD)

Directors of the Company as of December 31, 2012:

- Chris J. Gorey
- Leonard A. Hagen
- M. Jonathan Hensley
- Robert S. Kuecker
- Jared L. Short

Officers

Officers of the Company as of December 31, 2012:

M. Jonathan Hensley	President
Leonard A. Hagen	Secretary
Andreas B. Ellis	Treasurer

Conflict of Interest

A resolution of the BOD provides that every officer, director, committee member, or responsible employee disclose to the BOD any material interest or affiliation which conflicts with the duties of such person on behalf of the Company. A review of the individual conflict of interest statements on file with the Company revealed no material exceptions. Potential conflicts were duly disclosed to the BOD in accordance with the Company's conflict of interest policy.

Fidelity Bonds and Other Insurance

Officers and employees of CBLIC are covered under the fidelity bond coverage of CHS. The coverage meets the minimum amount suggested by the NAIC. The Company is also a named insured on commercial and umbrella liability, professional liability, and directors and officer's liability policies issued to CHS.

Officers', Employees', and Agents' Welfare and Pension Plans

The president of CBLIC is also an employee of RBS, the parent company. The secretary and treasurer of CBLIC are employees of CHS, the holding company. All officers of CBLIC are covered under the CHS plan.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. The minutes supported the transactions of the Company and actions taken by the officers.

MORTALITY AND LOSS

Pursuant to WAC 284-07-310 through and including 284-07-400, the Company is exempt from submitting a statement of actuarial opinion based on an asset adequacy analysis. The statement of actuarial opinion provided by CBLIC's appointed actuary is not based on an asset adequacy analysis and is in accordance with WAC 284-07-380.

REINSURANCE

The Company does not have any reinsurance contracts.

STATUTORY DEPOSITS

The Company had no statutory deposits as of December 31, 2012.

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 a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is exempt from an annual CPA audit; however, the parent company, RBS, is audited annually by the certified public accounting firm of Deloitte and Touche and 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 and no exceptions were noted.

The Company's information technology (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.

SUBSEQUENT EVENTS

NONE

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and recommendations were corrected and satisfactorily addressed.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Commencement Bay Life Insurance Company as of December 31, 2012:

Assets, Liabilities, Surplus and Other Funds
Summary of Operations
Five Year Reconciliation of Surplus

Commencement Bay Life Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
ASSETS			
Bonds	\$7,040,447	\$0	\$7,040,447
Cash, cash equivalents and short-term investments	184,655		184,655
Subtotals, cash and invested assets	<u>7,225,102</u>	<u>0</u>	<u>7,225,102</u>
Investment income due and accrued	47,833		47,833
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>7,272,936</u>		<u>7,272,936</u>
Total Assets	<u>\$7,272,936</u>	<u>\$0</u>	<u>\$7,272,936</u>
LIABILITIES			
Interest Maintenance Reserve	\$98,593		\$98,593
General expenses due or accrued	2,165		2,165
Current federal and foreign income taxes	60,100		60,100
Net deferred tax liability	17,663		17,663
Miscellaneous liabilities:			
Asset valuation reserve	18,547		18,547
Payable to parent	39,659		39,659
Total Liabilities	<u>236,727</u>	<u>0</u>	<u>236,727</u>
Common capital stock	2,400,000		2,400,000
Unassigned funds (surplus)	4,636,209		4,636,209
Total Capital and Surplus	<u>7,036,209</u>	<u>0</u>	<u>7,036,209</u>
Total Liabilities, Surplus, and Other Funds	<u>\$7,272,936</u>	<u>\$0</u>	<u>\$7,272,936</u>

Commencement Bay Life Insurance Company
Summary of Operations
For the Year Ended December 31, 2012

	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENTS</u>	<u>BALANCE PER EXAMINATION</u>
Income			
Net investment income	\$220,856	\$0	\$220,856
Amortization of Interest Maintenance Reserve	69,246		69,246
Total Income	<u>290,102</u>	<u>0</u>	<u>290,102</u>
Expenses			
General insurance expenses	11,550		11,550
Insurance taxes, licenses and fees, excl. federal income taxes	1,805		1,805
Total Expenses and Benefits	<u>13,355</u>	<u>0</u>	<u>13,355</u>
Net gain from operations before dividends to policyholders and income taxes	<u>209,519</u>		<u>209,519</u>
Net income or (loss)	<u>\$209,519</u>	<u>\$0</u>	<u>\$209,519</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>			
Capital and surplus prior reporting year	\$6,851,337		\$6,851,337
Net income	209,519		209,519
Change in net deferred income tax	(12,053)		(12,053)
Change in asset valuation reserve	(12,594)		(12,594)
Net change in capital and surplus	184,872		184,872
Capital and surplus end of reporting period	<u>\$7,036,209</u>	<u>\$0</u>	<u>\$7,036,209</u>

Commencement Bay Life Insurance Company
Five Year Reconciliation of Surplus
As of December 31,

	2012	2011	2010	2009	2008
Capital and Surplus, December 31, Prior Year	<u>\$6,851,337</u>	<u>\$6,573,625</u>	<u>\$6,280,442</u>	<u>\$5,956,750</u>	<u>\$23,072,527</u>
Net Income or (loss)	209,519	278,616	296,579	330,405	343,848
Change in net deferred income tax	(12,053)	(32)	(4,106)	(74,680)	111,904
Change in non-admitted assets				73,206	(73,206)
Change in asset valuation reserve	(12,594)	(872)	710	(5,239)	1,677
Surplus adjustment:					
Paid in (capital changes)					(12,600,000)
Transferred from surplus					(4,900,000)
Net change in Capital and Surplus	<u>184,872</u>	<u>277,712</u>	<u>293,183</u>	<u>323,692</u>	<u>(17,115,777)</u>
Capital and Surplus, December 31, Current Year	<u>\$7,036,209</u>	<u>\$6,851,337</u>	<u>\$6,573,625</u>	<u>\$6,280,442</u>	<u>\$5,956,750</u>

NOTES TO THE FINANCIAL STATEMENTS

The Company has no special consents, permitted practices, or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Commencement Bay Life Insurance Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, CFE, FLMI, ARA, Life Field Supervising Examiner and Reinsurance Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

Constantine Arustamian

Constantine Arustamian, CFE, AIE, CPA, CPCU, ARC, ARM, ARe, AIS, AIAF, API
Examiner-in-Charge
State of Washington

