



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**REGENCE HEALTH MAINTENANCE OF OREGON, INC.
PORTLAND, OREGON**

NAIC COMPANY CODE 96250

AS OF

DECEMBER 31, 2008

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SALUTATION

January 29, 2010

Alfred W. Gross, Commissioner
Chairman, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**REGENCE HEALTH MAINTENANCE OF OREGON, INC.
100 SW Market Street
Portland, Oregon 97201**

NAIC Company Code 96250

hereinafter referred to as the “Company” or “RHMO.” The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The full scope examination of the Company was conducted as of December 31, 2008, covering the three year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with the NAIC Financial Condition Examiner Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify 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. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions in accordance with the Oregon Insurance Code.

In addition to the above, work papers were reviewed that were prepared by Deloitte & Touche LLP, the Company's independent auditors, during its audit of the Company's accounts for the year ended December 31, 2008. Portions of the auditors' work papers have been incorporated into our work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination.

Scott Fitzpatrick, FSA, MAAA, actuary for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in this examination by evaluating

losses and loss adjustment expenses unpaid. The results of his analysis are found under the relevant section of this report.

Concurrent with this examination, other affiliated insurers domiciled in Oregon and Utah were examined. These companies included Regence Life and Health Insurance Company (OR), Regence HMO Oregon (OR), Regence BlueCross BlueShield of Oregon (OR), Regence BlueCross BlueShield of Utah (UT) and HealthWise (UT). This was part of a coordinated examination effort, whereby the states coordinate their efforts to examine all the companies within The Regence Group as of December 31, 2008. A separate report will be issued for each company.

COMPANY HISTORY

The Company was formed on November 27, 1985, by Blue Cross Blue Shield of Oregon (BCBSO) as a for-profit stock corporation under the name of NetWork Health Plan, Inc. On September 3, 1986, the Company's name was changed to Health Maintenance of Oregon, Inc. The Company received its Certificate of Authority to transact business as a domestic health care service contractor from the Oregon Insurance Division on November 19, 1986, under ORS Chapter 750. On March 2, 1987, the Company became a federally qualified, state registered, health maintenance organization.

Effective November 15, 1988, HMO Oregon (formerly known as Capitol Health Care, Inc.) entered into a "Plan and Agreement of Acquisition" with BCBSO. Under this Plan, ownership of the Company's capital stock was transferred to Capitol Health Care Management, Inc., a subsidiary of HMO Oregon, and BCBSO became an upstream parent.

On June 1, 1995, BCBSO became part of The Benchmark Group, a non-profit holding company located in Portland, Oregon. On April 1, 1997, The Benchmark Group changed its

name to The Regence Group (TRG), and concurrently, the Company's name changed to Regence Health Maintenance of Oregon, Inc.

Capital Stock

During the period under examination, the Company was authorized under Article III of its Articles of Incorporation to issue 10,000 shares of no par voting common stock. The Company has issued 4,250 shares to its direct parent, Capitol Health Care Management, Inc., representing 100% of the shares outstanding. The stated value of each share was set at \$1,000. No additional capital or paid-in surplus had been contributed to the Company during the period under examination.

Dividends to Stockholders and Other Distributions

From 2006 to 2008, the Company declared and paid dividends to its stockholder as follows:

<u>Declared date</u>	<u>Paid date</u>	<u>Amount</u>	<u>Description</u>
11/13/2007	12/31/2007	\$ 20,000,000	Extraordinary

The \$20 million cash distribution was approved by the Oregon Insurance Division on December 5, 2007, pursuant to ORS 732.554 and 732.576.

CORPORATE RECORDS

Board Minutes

In general, the review of 2006 to 2009 Board meeting minutes of the Company and of TRG, as well as the various committees authorized by TRG, indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum, as defined by ORS 731.302, met at all of the meetings held during the period under review. Regular Board meetings are held quarterly.

TRG's Investment Committee approved investments and monitored the investment guidelines for TRG and each of its subsidiaries. Minutes of their meetings were approved by

the Company's Board of Directors in accordance with ORS 733.730. TRG's Personnel and Compensation Committee approved officer salaries. The Company's Board approved the TRG Personnel and Compensation Committee's actions pursuant to ORS 732.320(3).

Articles of Incorporation

The Company's Articles of Incorporation were not amended during the period under examination. The Articles of Incorporation conformed to Oregon statutes.

Bylaws

The Company amended its corporate Bylaws twice during the period under examination; on June 6, 2006 to reflect the reduction in the number of directors, and April 12, 2008, to establish two classes of directors, to change the term of office from one year to three years, and to set a mandatory retirement age at 70. The Company shares a common Board of Directors with its upstream parent, RBCBSO.

The Bylaws conformed to Oregon statutes.

Holding Company Registration Statement

An insurance holding company registration statement was filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

MANAGEMENT AND CONTROL

Board of Directors

Article II, section 2, of the Company's Amended Bylaws state that the number of directors shall not be more than seven (7) or less than five (5). In addition, the Bylaws specify that there be two classes of directors, outside and inside. Outside directors shall be a person who is not an employee of an affiliate or of the corporation. Inside directors shall be a person

who is an employee of the corporation. Only the CEO of TRG and the corporate president may be an inside director. Generally, directors shall serve one or more terms of three years, staggered so that approximately 1/3 are elected each year. A majority of the number of directors constitutes a quorum. The Board of Directors met all requirements of ORS 750.015.

As of December 31, 2008, the Company's Board of Directors was as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Member Since</u>
William L. Chenevich Portland, Oregon	Vice Chairman US Bancorp	2004
Peggy Y. Fowler Tigard, Oregon	CEO Portland General Electric	2005
Mark B. Ganz Portland, Oregon	CEO The Regence Group	2004
William R. Lee, MD Portland, Oregon	Physician	1995
Luis Machuca Hillsboro, Oregon	President and CEO Kryptiq Corporation	2008
J. Bart McMullan Jr. MD Portland, Oregon	President Regence BlueCross BlueShield of OR Regence Health Maintenance of OR Regence HMO Oregon	2004
John W. Morgan Portland, Oregon	President and CEO HemCon Medical Technologies, Inc.	2008

Dr. McMullan announced his retirement in September 2009, and was replaced by Jared L. Short.

Article IV of the amended Bylaws state the board shall have no standing committees. Instead, TRG authorized five different committees to assist in the management of all its subsidiaries. The committees are: 1) Organizational & Governance Committee; 2) Investment Committee; 3) Audit & Compliance Committee; 4) Personnel & Compensation

Committee; and 5) Health Care Services Committee. The various committees provide direction to the group within the area/field in which they are assigned. The committees' actions are summarized and reported to TRG's board of directors during their regular meetings. The actions and minutes of each of the committees are approved during the Company's board of director meetings.

Officers

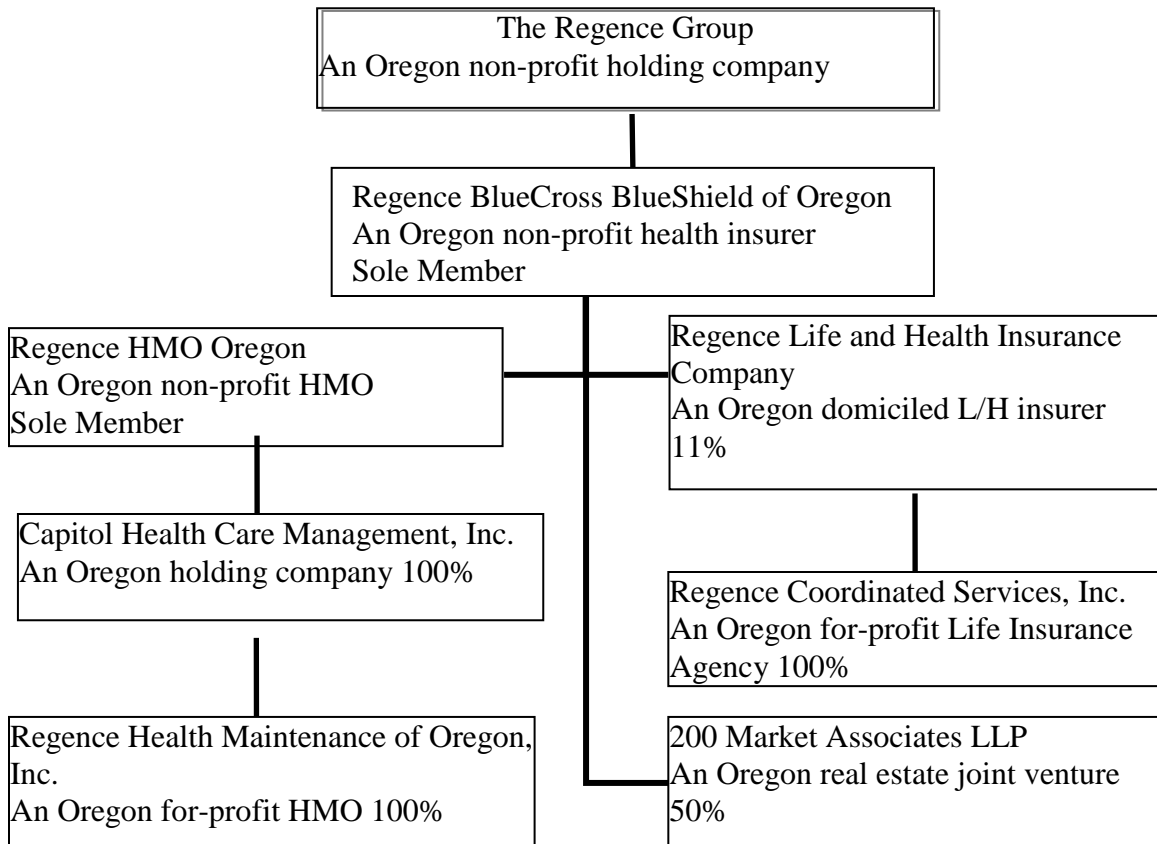
Operating management of the Company as of December 31, 2008, was under the direction of the following principal officers:

<u>Officer</u>	<u>Office</u>
John B. McMullan Jr. M.D.	President
Steven L. Hooker	Treasurer
Kerry E. Barnett	Secretary
Stephanie C. Dreyfuss	Vice President – Provider Services
Michael T. Mudrow	Assistant Secretary

Dr. McMullan retired in September 2009, and was replaced by Jared L. Short. Steven Hooker announced his retirement in December 2009. He was replaced by Andreas B. Ellis.

Affiliated Companies

The Company is part of a holding company system in which TRG is the ultimate parent. TRG is a nonprofit Oregon Corporation governed by an 11-member board of directors and is the sole member of RBCBSO, Regence BlueShield (RBS), and Regence BlueCross BlueShield of Utah (RBCBSU). In addition, TRG manages the operations of Regence BlueShield of Idaho (RBSI) under the terms of a long-term management services agreement. The following organization chart depicts the relationship of Oregon affiliates within the Regence group.



The following is a description of the parent, affiliates and subsidiaries:

Regence BlueCross BlueShield of Oregon (BCBSO) is authorized to conduct business as a health care service contractor in the states of Oregon and Washington. Also, RBCBSO is licensed as a foreign corporation by the Secretary of State of Idaho. The Company operates as a Blue Cross and Blue Shield plan subject to operational and performance standards established by the national Blue Cross and Blue Shield Association.

Regence HMO Oregon (RHO) is an Oregon health care service contractor federally qualified as a health maintenance organization. RHO is the immediate parent of Capitol Health Care Management, Inc. RHO ceased writing business in 2005.

Capitol Health Care Management, Inc. (CHCM) is an Oregon for-profit business corporation which functions as a down stream holding company to own all the stock of RHO subsidiaries and to consolidate the income tax results of the for-profit subsidiaries of RHO. CHCM owns 100% of the Company's common stock, and would be considered the direct parent.

Regence Life and Health Insurance Company (RLH) is an Oregon domiciled for-profit insurer licensed to conduct the business of life and accident and health insurance in Alaska, Idaho, Montana, Oregon, Utah, and Washington.

Regence Coordinated Services, Inc. (RCS) is a for-profit life and health insurance agency owned by RLH, and formed by the four TRG regional plans, which merged four regional insurance agency subsidiaries into RCS. In consideration of this transaction, each of the affiliated plans received shares of RLH stock (RBS – 75%, RBCBSU – 12%, RBCBSO – 11%, and RBSI – 2%).

200 Market Associates LP is a limited partnership formed by RBCBSO and Russell Development Company, each with a 50% ownership, to own and operate an office building located at 200 SW Market Street, Portland, Oregon.

INTERCOMPANY AGREEMENTS

Regence Administrative Services Agreement

Effective December 28, 2007, TRG entered into a cost-sharing agreement with each of the Regence Plans in Idaho, Oregon, Utah and Washington, including their subsidiary companies. Under the terms of the agreement, TRG will provide all operational, administrative, and management services reasonably necessary to transact business. These services include managerial, legal, financial, actuarial, underwriting, accounting, human resources, billing, membership, claims adjudication, customer service, reporting, regulatory

compliance, and all applicable technical, clerical and communication support, as well as all necessary equipment, materials, office space and general supplies. Reimbursement will be made using a cost allocation method described in the contract, and it is the intent that TRG receive full compensation for the cost of its services and general overhead and taxes, and that no profit be derived from the agreement. This complies with the provisions of ORS 732.215. Reconciliations will be performed monthly, and settlement of expenses shall be made 90 days after the month end. The agreement will automatically renew each year, unless cancelled by any party upon 30 days written notice. The Insurance Division approved the agreement on February 13, 2008 in accordance with ORS 732.574(2)(d).

Management Agreement with RCBBSO

RBCBSO performs certain functions for the Company under a management agreement entered into and effective January 1, 1999, including the use of RBCBSO's employees for performing the operations of the Company. Some of the functions that RBCBSO performs under the management agreement include: accounting, data processing, marketing, financial reporting, budgeting, provider contracting and policy services. In return for these services, the Company agrees to pay all costs and expenses that are directly attributable to its operations. Indirect expenses are charged to the Company using a written cost allocation plan. The allocation method appeared to be reasonable and therefore meets the provisions of ORS 732.574(1)(b).

Insolvency Agreement

Effective August 1, 1991, the Company entered into an agreement with RBCBSO whereby RBCBSO agrees, in the event of insolvency of the Company, to make payments to policyholders for covered services.

CONFLICT OF INTEREST

The Company's Code of Business Conduct provides for conflict of interest disclosure in the form of a questionnaire that is completed annually by the Company's Board of Directors, officers, and employees. All personnel performed due diligence in completing the questionnaire. From a review of the questionnaires of board members and senior management, there were no material conflicts of interest reported.

FIDELITY BOND AND OTHER INSURANCE

A review of the adequacy of limits, retentions, and the solvency of the insurers providing the insurance was considered during the examination of the Company's insurance coverage. TRG purchased insurance covering itself and all its subsidiaries. A fidelity bond covered losses up to \$15,000,000 per occurrence, net of a \$50,000 deductible, caused by employees' dishonesty and fraud. This coverage exceeded the minimum coverage recommended by the NAIC *Financial Condition Examiners Handbook*. Executive liability risks and D&O risks are covered up to \$50,000,000 per loss occurrence net of a \$250,000 deductible. Other insurance coverages in force at December 31, 2008, included property, commercial general and excess liability, automobile liability, umbrella liability, fiduciary liability, computer crime liability, and workers' compensation. All insurance limits and deductibles appeared adequate as of December 31, 2008.

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

The Company does not have its own employees, but does contribute to the pension and other employee benefits assessed for employees performing work for it.

Employee Retirement Plan

The Company participates in a defined-benefit pension plan sponsored by TRG that covers substantially all regular employees having one or more years of service. Benefits are based upon years of service and the employee's final average compensation. The Company also participates in a supplemental executive retirement plan sponsored by TRG to cover key employees meeting specific eligibility requirements. The Company's practice is to reimburse TRG for employee retirement plan obligations and to record such amounts as employment related expenses. The Company has no legal obligation for benefits under these plans; the obligation is carried by TRG. As sponsor of the plan, however, TRG is legally required to fund the plans regardless of amounts paid to TRG by the Company. The Company's share of net expenses for the retirement plans was \$0 and \$(1,000) in 2008 and 2007, respectively.

Effective December 31, 2009, the defined-benefit pension plan was frozen. Subsequent to the freeze date, there will be no new participants enrolled in the plan, and no pension benefits will be earned after that date. Benefits-eligible employees who have not yet met plan eligibility criteria were immediately eligible, and non-vested plan participants became fully vested.

Employee 401(k) Plan

The Company participates in an employee savings plan sponsored by TRG in which the Company will match employee contributions up to 50% of the first 6% of salary for each pay period in which the employee makes a contribution. Beginning January 1, 2010, this employee match will increase up to 100% of the first 6% of salary for each pay period in which the employee makes a contribution. In addition, a discretionary contribution of up to 5% of eligible earnings for eligible employees will be added, subject to annual review and board approval. Expense is allocated to the Company based on the portion of the employees'

functional activities that relate to the Company. The Company has no legal obligation for benefits under this plan; the obligation is carried by TRG. As sponsor of the plan, however, TRG is legally required to fund the plan regardless of amounts paid to TRG by the Company. The Company contributed no net expenses for the savings plan during the period under examination.

Post-retirement Benefits Plan

The Company participates in a post-retirement health and welfare plan sponsored by TRG for retired employees, subject to certain eligibility rules based on age and years of service at retirement date. Employees hired after January 1, 2004, are not eligible for benefits. Expenses are allocated to the Company monthly, based on relative employee count. The Company has no legal obligation for benefits under this plan; the obligation is carried by TRG. As sponsor of the plan, however, TRG is legally required to fund the plan regardless of amounts paid to TRG by the Company. The Company contributed no net expenses for the benefits plan during the period under examination.

Coverage for eligible participants who retire on or after January 2, 2010, will terminate the date the participant or beneficiary attains Medicare eligibility on the basis of age or disability, regardless of whether the participant or beneficiary becomes entitled to Medicare.

Eligible participants who retire on or after January 2, 2010, and already are eligible for Medicare on the basis of age or disability will not be eligible to enroll in the plan. Retirees must be enrolled as a participant in the active employee health and welfare plan immediately prior to retirement in order to be eligible to enroll in the plan, except for those individuals retiring between October 1, 2009, and January 1, 2010.

TERRITORY AND PLAN OF OPERATION

The Company ceased writing business in 2005.

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule.

Amounts were derived from Company's filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2004	\$27,360,201	\$5,294,469	\$22,065,732	\$2,323,136
2005*	23,866,545	822,895	23,043,650	1,307,655
2006	24,812,947	815,070	23,997,877	636,970
2007	5,353,589	620,753	4,732,837	734,959
2008*	5,047,046	195,750	4,851,296	114,781

*Per examination

The Company ceased writing business in 2005. As noted earlier in this report of examination, the Company paid a \$20,000,000 cash dividend to its immediate parent in 2007.

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the examination reports.

<u>Year</u>	(1) <u>Total Revenues</u>	(2) <u>Total Hospital and Medical</u>	(3) <u>CAE and General Expenses</u>	(2)+(3)/(1) <u>Combined Loss Ratio</u>
2004	\$24,958,971	\$20,022,965	\$3,205,355	93.1%
2005*	4,115,994	2,588,132	956,669	86.1%
2006	(19,026)	249,140	(72,659)	(927.6)%
2007	0	(71,523)	71,644	N/M
2008*	0	0	7,876	N/M

*Per examination

N/M = Not Meaningful

The Company ceased writing business during 2005.

REINSURANCE

The Company has an excess of loss agreement with RBCBSO whereby the Company cedes 100% of its losses related to commercial institutional fund benefits above \$200,000. In accordance with the terms of the agreement, the Company agrees to pay RBCBSO a premium on a per-member per-month basis for this reinsurance coverage.

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded. In addition, the Company does not retain risk on any one subject of insurance in an amount exceeding 10% of its surplus pursuant to the provisions of ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2008, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. From a review of the Company's disaster recovery plan, it was determined that the current information system possessed the physical and internal controls as prescribed by the NAIC.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

No recommendations were made in the 2005 examination report.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of Regence Health Maintenance of Oregon, Inc., as of December 31, 2008:

Statutory Balance Sheet
Statement of Revenues and Expenses
Reconciliation of Surplus Since the last Examination

REGENCE HEALTH MAINTENANCE OF OREGON, INC.
BALANCE SHEET
AS OF DECEMBER 31, 2008

	Balance per Company	Exam Adjustment	Balance per Exam
Assets			
Bonds (Note 1)	\$2,963,605	-	\$2,963,605
Cash and short-term investments (Note 1)	881	-	881
Aggregate write-ins for invested assets	-	-	-
Subtotal, cash and invested assets	\$2,964,486	\$ -	\$2,964,486
Investment income due and accrued	14,798	-	14,798
Net deferred tax assets	30,100	-	30,100
Receivables from parent, subsidiaries, and affiliates	2,037,662	-	2,037,662
Aggregate write-ins for other than invested assets	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$5,047,046</u>	<u>\$ 0</u>	<u>\$5,047,046</u>
Liabilities, Capital and Surplus			
Claims unpaid (Note 2)	\$ -	\$ -	\$ -
Unpaid claims adjustment expense (Note 2)	-	-	-
General expenses due or accrued	132,775	-	132,775
Current FIT payable	57,732	-	57,732
Remittance and items not allocated	103	-	103
Amounts due to parent, subsidiaries, and affiliates	-	-	-
Aggregate write-ins for liabilities	<u>5,140</u>	<u>0</u>	<u>5,140</u>
Total Liabilities	<u>\$ 195,750</u>	<u>\$ 0</u>	<u>\$ 195,750</u>
Common capital stock	4,250,000		4,250,000
Gross paid in and contributed surplus	125,637	-	125,637
Unassigned funds (surplus)	<u>475,659</u>	<u>0</u>	<u>475,659</u>
Total capital and surplus	<u>4,851,296</u>	<u>0</u>	<u>4,851,296</u>
Total liabilities, capital and surplus	<u>\$5,047,046</u>	<u>\$ 0</u>	<u>\$5,047,046</u>

REGENCE HEALTH MAINTENANCE OF OREGON, INC.
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

	Balance per Company	Examination Adjustment	Balance per Exam
Net premium income	\$ -	\$ -	\$ -
Fee-for-service	-	-	-
Aggregate write-ins for other non- health care related revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
Hospital and Medical:			
Hospital/medical benefits	-	-	-
Other professional services	-	-	-
Outside referrals	-	-	-
Emergency room and out-of-area	-	-	-
Prescription drugs	-	-	-
Incentive pool, withhold adjustments and bonus amounts	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal:	-	-	-
Less:			
Net reinsurance recoveries	<u>-</u>	<u>-</u>	<u>-</u>
Total medical and hospital	-	-	-
Non-health claims	-	-	-
Claim adjustment expenses	-	-	-
General administrative expenses	7,876	-	7,876
Increase in reserves for life and accident and health contracts	<u>-</u>	<u>-</u>	<u>-</u>
Total underwriting deductions	<u>7,876</u>	<u>-</u>	<u>7,876</u>
Net underwriting gain or loss	<u>(7,876)</u>	<u>-</u>	<u>(7,876)</u>
Net investment income earned	125,406	-	125,406
Net realized capital gains or (losses)	<u>27,450</u>	<u>-</u>	<u>27,450</u>
Net investment gains or (losses)	152,856	-	152,856
Aggregate write-ins for other income or expense	<u>-</u>	<u>-</u>	<u>-</u>
Net income or (loss) before federal income taxes	144,980	-	144,980
Federal and foreign income taxes incurred	<u>30,199</u>	<u>-</u>	<u>30,199</u>
Net Income (loss)	<u>\$ 114,781</u>	<u>\$ -</u>	<u>\$ 114,781</u>

**REGENCE HEALTH MAINTENANCE OF OREGON, INC.
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
FOR THE YEAR ENDED DECEMBER 31**

	2008	2007	2006
Capital and surplus, December 31, previous year	<u>\$4,732,833</u>	<u>\$23,997,874</u>	<u>\$23,043,650</u>
Net income	114,781	734,959	636,970
Change in net unrealized capital gains (losses)	-	-	153,539
Change in net deferred income tax	3,682	-	26,418
Change in nonadmitted assets	-	-	23,477
Change in unauthorized reinsurance	-	-	-
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:	-	-	-
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:	-	-	-
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to stockholders (cash)	-	(20,000,000)	-
Examination adjustment	-	-	113,820
Aggregate write-ins for gains and losses in surplus (Note 1)	-	-	-
Change in surplus as regards policyholders for the year	<u>118,463</u>	<u>(19,265,041)</u>	<u>954,224</u>
Surplus as regards policyholders, December 31, current year	<u>\$4,851,296</u>	<u>\$ 4,732,833</u>	<u>\$23,997,874</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2008, all of the Company's long-term bond investments were in US government obligations. The Company did not have any exposure to mortgaged-backed or asset-backed securities. Cash and short-term deposits consisted of cash on deposit and a short-term money market fund. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2004	\$22,924,170	\$1,773,036	83.8%	6.5%
2005*	22,797,468	181,239	95.5%	0.8%
2006	23,131,482	1,055,021	93.2%	4.3%
2007	4,002,595	770,046	74.8%	14.4%
2008*	2,963,605	881	58.7%	0.0%

* Per examination

The minutes indicated that the board reviews and approves investments in accordance with the provisions of ORS 733.730 and ORS 733.740. As of December 31, 2008, invested assets with a reported book value of \$2,963,605, representing 100% of the total invested assets, were invested in amply secured obligations of the United States or FDIC insured cash deposits, which exceeded the required capitalization amount required by ORS 733.580.

Effective December 29, 2005, the Company entered into an amended and restated custodial agreement with Mellon Bank, NA. The agreement appears to contain all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 - Claims Unpaid and Claims Adjustment Expenses

Scott L. Fitzpatrick, FSA, MAAA, life and health actuary for the Oregon Insurance Division, reviewed the loss and loss adjustment expenses in the Company's filed financial statements as of December 31, 2008. The purpose of his review was to determine, in general, if the Company's liabilities were reasonably stated. In his opinion, he concluded:

	<u>My Estimate</u>	<u>Company Estimate</u>
Claims Unpaid	\$0	\$0
Accrued Med. Incentive Pool & Bonus	\$0	\$0
Unpaid Claims Adjustment Expenses	\$0	\$0
Aggregate Health Policy Reserves	\$0	\$0
Aggregate Health Claim Reserves	\$0	\$0
Experience Rated Refunds	\$0	\$0
Any Other Actuarial Liabilities	\$0	\$0

My total estimate for actuarial liabilities exactly matches the company's estimate, since the company is dormant and no actuarial liabilities currently exist. Therefore, the statement of the actuarial liabilities at year-end for the annual statement was appropriate and adequate.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations as a result of this report of examination, and no adjustments to surplus were made.

CONCLUSION

During the period covered by this examination, the capital and surplus of the Company has decreased from \$23,043,650, as presented in the December 31, 2005, report of examination to \$4,851,296, as shown in this report of examination. The comparative assets and liabilities are shown below:

	<u>2008</u>	<u>December 31,</u>	<u>2005</u>	<u>Change</u>
Assets	\$5,047,046		\$23,866,545	\$(18,819,499)
Liabilities	<u>195,750</u>		<u>822,895</u>	<u>627,145</u>
Surplus	<u>\$4,851,296</u>		<u>\$23,043,650</u>	<u>\$(18,192,354)</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Raymond W. Anderson, CFE, Mark A. Giffin, CFE, and Ellen Quale, CPA, AFE, insurance examiners, and Scott Fitzpatrick, FSA, MAAA, Life and Health Actuary, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination. David L. Daulton, CFE, of the firm Huff, Thomas and Company, and Aaron Phillips, examiner for the Utah Department of Insurance, also participated in this examination, both representing the State of Utah.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Regence Health Maintenance of Oregon, Inc.

2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Regence Health Maintenance of Oregon, Inc., was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Greg A. Lathrop, CFE
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2010.

Notary Public for the State of Oregon

My Commission Expires: _____