



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF EXAMINATION

**REGENCE LIFE AND HEALTH INSURANCE COMPANY
PORTLAND, OREGON**

NAIC COMPANY CODE 97985

AS OF

DECEMBER 31, 2005

TABLE OF CONTENTS

SCOPE OF EXAMINATION	4
COMPANY HISTORY	5
MANAGEMENT AND CONTROL	6
<i>Board of Directors</i>	6
<i>Officers</i>	7
<i>Affiliated Companies</i>	7
INTERCOMPANY AGREEMENTS	9
<i>Management Agreement with RBCBSO</i>	9
<i>Administrative Service Agreement with AAI</i>	9
<i>Cost Sharing Agreement with TRG</i>	10
<i>Tax Allocation Agreement</i>	10
CONFLICT OF INTEREST	10
CORPORATE RECORDS	11
<i>Board Minutes</i>	11
<i>Articles of Incorporation</i>	11
<i>Bylaws</i>	11
<i>Holding Company Registration Statement</i>	12
FIDELITY BOND AND OTHER INSURANCE	12
TERRITORY AND PLAN OF OPERATION	12
PENSION PLANS AND OTHER EMPLOYEE BENEFITS	13
<i>The Regence Group Retirement Plan</i>	13
<i>TRG 401K Plan</i>	13
COMPANY GROWTH	14
LOSS EXPERIENCE	14
REINSURANCE	14
<i>Ceded Reinsurance</i>	15
<i>Assumed Reinsurance</i>	16
ACCOUNTS AND RECORDS	17
<i>Deferred Premiums Misclassified as Uncollected Premiums</i>	17
<i>TRG Cost Sharing Agreement</i>	17
<i>Erroneously Billed Accounts Receivable</i>	18
<i>Liability for Unpaid Commissions</i>	18
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS	19
BALANCE SHEET	20
INCOME STATEMENT	22
NOTES TO FINANCIAL STATEMENTS	23
<i>Note 1 - Bonds</i>	23
<i>Note 2 - Actuarial Examination</i>	23
SUMMARY OF COMMENTS AND RECOMMENDATIONS	24
CONCLUSION	24
ACKNOWLEDGMENT	25
AFFIDAVIT	26

March 2, 2007

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, Room 440
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and pursuant to ORS 731.300, we have examined the business affairs and financial condition of

REGENCE LIFE AND HEALTH INSURANCE COMPANY
100 SW Market Street
Portland, Oregon 97201

NAIC Company Code 97985

hereinafter referred to as the “Company” or “RLH.” This report of examination is respectfully submitted.

SCOPE OF EXAMINATION

We examined the Company's financial statements as of December 31, 2005. This examination covers the four-year period then ended. Material transactions or events subsequent to the examination cut-off date were reviewed and noted during the examination.

We followed the provisions of ORS 731. 300 and the procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC). This examination determined the Company's financial condition, ability to fulfill its obligations, nature of operations and compliance with the Insurance Code. Accounting methods, internal control procedures, records and other supporting evidence were examined or tested. Assets, liabilities, income and expense related items were also examined or tested. Corrective actions taken by the Company in response to comments and/or recommendations in the December 31, 2001, report were reviewed.

Deloitte & Touche LLP (DT), the Company's independent auditors, conducted an audit of the Company's financial statements for the year ended December 31, 2005. We reviewed DT's work papers at their offices early in the examination. They did not provide all the work papers we requested and those they did provide came too late to assist in planning this examination. Therefore we did not rely on their work to reduce our own testing and we included few portions of their work papers into our work papers.

David N Ball, FSA, MAAA actuary for the State of Oregon, Department of Consumer and Business Services, evaluated claims unpaid, unpaid claim adjustment expenses and aggregate health policy reserves for this examination. His conclusions are included in the notes to the financial statements section of this report.

Concurrent with this examination, other affiliated insurers domiciled in Oregon, Washington, Idaho, and Utah were examined. These companies included Regence HMO Oregon (OR), Regence BlueCross BlueShield of Oregon (OR), Regence Health Maintenance of Oregon, Inc. (OR), Regence BlueShield (WA), RegenceCare (WA), Asuris Northwest Health (WA), Regence BlueShield of Idaho (ID), Regence BlueCross BlueShield of Utah (UT) and HealthWise (UT). This was part of a coordinated examination effort, whereby the states coordinated their efforts to examine all the companies within The Regence Group as of December 31, 2005. A separate report will be issued for each company by its state of domicile.

COMPANY HISTORY

The Company was created as a health care service contractor on September 22, 1964, as a for profit stock company under the name of Medical Health Company, Inc. The Company was then a subsidiary of Oregon Physicians' Service, one of the predecessor companies of Blue Cross and Blue Shield of Oregon (BCBSO).

On September 17, 1982, the Company's name was changed to Greater Northwest Insurance Company. On December 17, 1982, Greater Northwest Insurance Company, a for profit health care service contractor, was converted to a stock life and health insurance company with the approval of the Oregon Insurance Division. The Company surrendered the existing Certificate of Authority and was issued a new Certificate of Authority in the name of Greater Northwest Insurance Company.

On March 1, 1983, the Company became a wholly owned subsidiary of BCBSO when Oregon Physicians' Service merged into BCBSO. On April 24, 1984, the Company changed its name to Oregon Pacific States Insurance Company.

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) along with BCBSO, whose name became Regence BlueCross BlueShield of Oregon (RBCBSO). On this same date, the Company's name changed to Regence Life and Health Insurance Company.

MANAGEMENT AND CONTROL

Board of Directors

Article I, Section 2, of the Company's Bylaws designates that the Board shall be comprised of not less than three or more than seven directors. Directors serve terms of three years without limitation to the number of terms. A majority of the number of directors constitutes a quorum. The Board of Directors met all requirements of ORS 732.305.

As of December 31, 2005, the Company's six member Board of Directors was as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Date Last Appointed</u>
Mark B. Ganz 200 SW Market, Suite 1200 Portland, OR 97201	CEO - The Regence Group	May 4, 2005
Steven L Hooker 200 SW Market, Suite 1200 Portland, OR 97201	Chairman Regence Life & Health Insurance Co. Treasurer – The Regence Group	May 4, 2005
Douglas S. Ideson 200 SW Market Portland, OR 97207	President Regence BlueCross BlueShield of Utah Chairman - HealthWise	May 4, 2005
John B. McMullan Jr., MD 200 SW Market, Suite 1200 Portland, OR 97201	President Regence BlueCross BlueShield of Oregon Regence Health Maintenance of Oregon Regence HMO Oregon	May 4, 2005

<u>Name and Address</u>	<u>Principal Occupation</u>	<u>Date Last Appointed</u>
Mary O. McWilliams 1800 Ninth Avenue Seattle, WA 98101	President Regence Blue Shield Asuris Northwest Health	May 4, 2005
John M Stellmon 1602 21 st Avenue Lewiston, ID 83501	President Regence BlueShield of Idaho	May 4, 2005

TRG's Board of Directors formed the Organizational & Governance, Investment, Personnel & Compensation, Audit & Compliance, and Health Care Services committees to determine strategic decisions for the entire Regence Group. Meeting minutes from each of these committees were read and approved at the Company Board of Directors meetings.

Officers

Following are the members of the Company's operating management as of December 31, 2005:

<u>Officer</u>	<u>Office</u>
Kathryn M. Kremin	President
Michael T. Mudrow	Secretary
Daniel J. Mallea	Treasurer

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 a 13-member board of directors. TRG 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.

RBCBSO is the sole voting member of Regence HMO Oregon (RHMO OR), which wholly owns Capitol Health Care Management, Inc., which wholly owns Regence Health

Maintenance of Oregon, Inc. (RHMO). In addition, RBCBSO wholly owns Associated Administrators, Inc. Associated Administrators, Inc. (AAI), wholly owns Patrick A. Toohey & Associates. The Company wholly owns Regence Coordinated Services, Inc. (RCS).

The following is a description of these companies:

Regence BlueCross BlueShield of Oregon (RBCBSO) writes health insurance as a health care service contractor in Oregon and Washington. RBCBSO also writes Medicare Part “A” in Idaho where it is licensed as a foreign corporation by the Idaho Secretary of State. RBCBSO 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 (RHMO OR) is an Oregon health care service contractor and is a federally qualified health maintenance organization. RHMO OR is the immediate parent of Capitol Health Care Management, Inc. With the approval of RHMO OR’s board and the Oregon Insurance Division, RHMO OR discontinued renewal of group and individual services and contracts during 2004.

Capitol Health Care Management, Inc. is an Oregon business corporation which functions as a down stream holding company that owns all the stock of RHMO.

Regence Health Maintenance of Oregon, Inc. (RHMO) is an Oregon health care service contractor that is federally qualified as a health maintenance organization. RHMO ceased writing business in 2005.

Regence Coordinated Services, Inc. (RCS) is the insurance agency formed by four TRG affiliated plans, which merged three out-of-state insurance agency subsidiaries into RCS. In

consideration of this transaction, each of the affiliated plans, RBS, RBCBSU, and RBSI, received shares of RLH stock.

Associated Administrators, Inc. is a wholly owned Washington corporation licensed to do business as a third party administrator.

Patrick A. Toohy & Associates is a California corporation licensed to do business as a third party administrator.

INTERCOMPANY AGREEMENTS

Management Agreement with RBCBSO

Effective January 1, 1999, the Company entered into a management agreement with RBCBSO. The agreement obligates RBCBSO to provide certain facilities, equipment, furnishings, supplies and services to the Company with an appropriate charge-back based on RBCBSO's actual cost. Each month during the term of the agreement, the Company agrees to pay RBCBSO an amount equal to the total amount of expense incurred by RBCBSO during the months in fulfilling the obligations imposed upon it by the agreement.

RBCBSO performs its services under the direction of the Company's board of directors. As a result, the agreements comply with the provisions of ORS 732.215.

Administrative Service Agreement with AAI

Effective October 1, 1999, the Company entered into an administrative service agreement with AAI. Under the terms of this agreement, AAI acts as a third party administrator for the Company. Some of the services that AAI agrees to perform include the following: claims adjudication, claims payment, claim reporting and reconciliation, premium reconciliation reports, customer service, systems and data processing, and additional services at the request of the Company. In return for these services the Company agrees to pay AAI a monthly

amount equal to the total expenses incurred by AAI plus a formula based profit. The maximum amount payable to AAI under this agreement is limited to \$97,000 per month.

Cost Sharing Agreement with TRG

TRG and Regence Life and Health Insurance Company (RHLIC) have a cost sharing agreement based on RHLIC's actual expenses for the prior year and forecasted increase in the current year's budget. This flat-rate fee is for services provided RHLIC for legal, financial, human resources, underwriting, executive and information technology services. This fee can be adjusted in June of the current operating year if RHLIC projects a material gain or loss forecasted for the remainder of the year. In 2005 the Company paid TRG \$1,068,000 under this agreement.

Tax Allocation Agreement

The Company files its federal income tax on a consolidated return with its parent, subsidiaries and affiliates, excluding RBSI, which is required to file a separate federal income tax return. On September 20, 2000, the Company entered into a Consolidated Federal Income Tax Agreement that establishes a method for allocating taxes among the Regence companies that are party to the agreement. Under the method prescribed by the agreement, the Company's tax liability is computed as if a separate return was filed. The allocation method and terms of this agreement appear fair and reasonable.

CONFLICT OF INTEREST

The Company's provision for conflict of interest disclosure is in the form of a questionnaire that is completed by the Company's Board of Directors and management on an annual basis. All subject personnel performed due diligence in completing the questionnaire. From a review of the questionnaires, there were no material conflicts of interest reported by any of the officers or directors.

CORPORATE RECORDS

Board Minutes

The Board of Director minutes were reviewed for the period examined. The Board meets annually. The review of the Company's Board minutes indicated that the minutes support the transactions of the Company and the actions taken by its officers. The TRG Investment Committee approves investments for all the Regence companies. The Company's Board approved the TRG Investment Committee's actions in accordance with ORS 733.730 and ORS 733.740. In addition, the minutes indicated the Board approves officer salaries in accordance with the provisions of ORS 732.320(3). A quorum met at all meetings.

Articles of Incorporation

The Company's Articles of Incorporation were not amended during the period examined. The Articles of Incorporation conformed with Oregon statutes.

Bylaws

On February 2, 2004, the Company amended its Bylaws regarding vacancies caused by the separation from employment of an inside director. Article 1, Section 5 now reads:

Vacancies. Any member of the Board of Directors may resign by delivering a written resignation to the secretary. A director who is employed by The Regence Group, any of its affiliated plans, or any subsidiary of an affiliate plan, shall cease to be a member of the Board of Directors upon cessation of said employment. Any vacancy occurring on the Board of Directors may be filled by an affirmative vote of a majority of the remaining directors. A director elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office.

The Bylaws conformed with Oregon statutes.

Holding Company Registration Statement

A 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).

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 \$10,000,000 per occurrence, net of a \$100,000 deductible, caused by employees' dishonesty and fraud. This meets the minimum coverage recommended by the NAIC. An executive liability policy covered losses up to \$15,000,000 per loss occurrence net of a \$50,000 deductible. Other insurance in force at December 31, 2005, included property, fire, liability, umbrella liability, fiduciary liability, workers' compensation and computer crime. All insurance appeared adequate as of December 31, 2005.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to sell life and health insurance in Oregon, Idaho, Montana, Washington, Alaska, Utah, and Wyoming. About 53% of life and 83% of accident & health direct written premiums were produced in Oregon. The Company sells full group term life, supplemental life, short-term and long-term disability, AD&D, waiver of premium, group and individual accident & health insurances through independent agents.

PENSION PLANS AND OTHER EMPLOYEE BENEFITS

The Regence Group Retirement Plan

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. The Company participates in a supplemental retirement plan to cover key employees meeting certain eligibility requirements. The supplemental plan has not been funded.

The Company's share of net expense for the pension plan was \$396,124 and \$504,382 for 2005 and 2004, respectively.

In addition, the Company provides certain health care and life insurance benefits through a plan sponsored by TRG. Substantially all employees may become eligible for those benefits if they reach the early retirement age of 55. The Company's contribution to the cost of coverage is based on the retiree's age and years of service at retirement and is limited to a maximum dollar amount or cap per year. This amount is calculated based on the Company contribution percentage and applies to the Company funded health plan. If a retiree elects a medical or dental option that is more expensive than the Company funded health plan, the retiree must pay the additional cost for the more expensive plan. The Company's share of net expense for other postretirement benefits plans was \$41,021 and \$23,312, respectively.

TRG 401K Plan

The Company participates in an Employee Savings Plan (401)(k) sponsored by TRG in which the Company will match employee contributions up to 50% of the first 6% of salary. The Company's contribution for the 401(k) plan was \$83,467 and \$68,089 for 2005 and 2004, respectively.

COMPANY GROWTH

Company growth since the last financial examination is shown in the following schedule. Amounts were derived from the Company's filed annual statements, except for those years where an examination report was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Income (Loss)</u>
2001*	\$46,894,999	\$28,574,803	\$17,286,562	\$ 940,245
2002	51,998,909	30,018,952	21,979,957	2,440,311
2003	54,889,203	28,687,230	26,201,973	2,612,788
2004	61,488,619	31,782,868	29,705,751	3,326,412
2005*	60,305,359	29,803,874	30,501,485	2,572,590

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the Company's annual accident and health (A&H) underwriting results since 2001. The amounts were compiled from Schedule H of the Company's filed annual statements, except for those years where an examination report was published by the Oregon Insurance Division.

<u>Year</u>	<u>(1) Premium Earned</u>	<u>(2) Incurred Claims</u>	<u>(3) Incurred Expenses</u>	<u>(2)+(3)/(1) Ratio**</u>
2001*	\$14,372,747	\$7,151,704	\$5,491,242	88%
2002	15,798,289	7,605,774	5,755,876	85%
2003	13,056,087	7,283,246	6,263,825	104%
2004	14,666,541	6,587,147	6,237,456	87%
2005*	15,274,397	6,586,198	6,065,818	83%

*Per examination

**A combined claims and expense to premium ratio more than 100% typically indicates an underwriting loss.

REINSURANCE

The Company's reinsurance program included the following as of December 31, 2005:

Ceded Reinsurance

Group and Individual Health

Under the terms of a 100% coinsurance agreement with RBCBSO, the Company cedes all of its liabilities for individual and group health policies to RBCBSO. In addition, the Company's individual short-term major medical business is reinsured for losses in excess of \$100,000 per person up to a \$1,000,000 lifetime maximum per person. This coverage is provided by an excess of loss agreement with RBCBSO.

Long Term Disability (LTD)

The Company is reinsured for LTD losses through a coinsurance agreement that provides for automatic cessions of risks in excess of the Company's retention. Under the terms of the agreement, the Company retains 10% of the risk and cedes the remaining 90%. The Company also reinsures long-term disability benefits through a facultative agreement in which it may cede 100% of its liability.

Group Life and Accidental Death & Dismemberment (AD&D)

The Company's group life and AD&D policies are reinsured through an excess of loss agreement. Under the terms of this agreement, the Company is covered for \$1,850,000 of losses per person in excess of \$150,000 for group life business. For AD&D, the Company is reinsured for \$1,900,000 of losses per person in excess of \$100,000. In addition, the Company is covered by a coinsurance agreement in which it cedes 20% of the risk on voluntary AD&D business with a retained limit of \$100,000 per person. Under this agreement the reinsurer assumes 80% of the risk not to exceed \$400,000 per person.

Catastrophic Reinsurance

The Company was insured for catastrophic loss on group life and AD&D. The agreement defines a catastrophic accident as three or more lives involved in a common accident. The agreement provides for a maximum reimbursement of \$20,000,000 after a \$350,000 deductible.

Assumed Reinsurance

The Company assumes 100% of the individual accidental death benefit written by RBCBSO, RBCBSU, and RBSI. This accidental death benefit is incidental to and is automatically included in certain products marketed by these companies.

Fort Dearborn Life Insurance Company (FDL) retrocedes to the Company 100% of the business it assumed from Regence BlueShield of Idaho (RBSI). This accident and health business was small groups with 2 to 25 members directly written by RBSI.

Unauthorized Reinsurance

The Company did not cede business to unauthorized reinsurers for the period examined. All reinsurers and reinsurance syndicates were licensed in the State of Oregon to transact the particular business assumed from the Company as of December 31, 2005.

Insolvency Clause

All reinsurance contracts contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

Risk Retention

The highest risk the Company retains on any one insured is \$250,000. As such, the Company does not retain risk on any one subject in excess of 10% of its surplus as regards

policyholders and therefore complies with the provisions of ORS 731.504. In addition, it was determined that the Company's reinsurance agreements adequately transferred risks in accordance with the requirements specified in the NAIC Accounting Practices and Procedures Manual, SSAP No. 61.

ACCOUNTS AND RECORDS

In general, the Company's accounting and corporate records were maintained in a manner in which the financial condition was readily verifiable as required by the provisions of ORS 733.170. In addition, the Company has a system in place to account for unclaimed funds. The Company has filed the reports on abandoned property pursuant to the provisions of ORS 98.352. However, the following issues were noted as a result of this examination.

Deferred Premiums Misclassified as Uncollected Premiums

During the examination it was discovered there were individual policies paid in advance which were included in uncollected premiums in the annual statement. These policies should be classified as deferred premiums according to the NAIC Annual Statement instructions.

I recommend the deferred premiums be properly classified as deferred premiums, agents' balances and installments booked but deferred and not yet due in future statutory financial statements pursuant to NAIC Annual Statement instructions and in compliance with ORS 733.210.

TRG Cost Sharing Agreement

The Company does not have a formal written cost sharing arrangement with The Regence Group (TRG), an Oregon non-profit corporation that serves as an upstream holding company. Treasury department expenses from TRG are allocated to the Company based on its percentage share of the total investments portfolio.

I recommend the Company execute a formal cost sharing agreement with TRG in compliance with ORS 732.574. This cost sharing agreement should clearly and accurately describe the precise nature and details of the transactions between the related parties. In addition, I recommend the Board of Directors approve the agreement.

Erroneously Billed Accounts Receivable

During the examination, one of the groups listed in the detail of premiums due and unpaid at December 31, 2005, was found to have terminated effective March 1, 2003. When a group terminates, the system is supposed to inactivate all bills generated between the effective date and the date the termination was processed. The system did not complete the process in this case resulting in a receivable, which should have been written off. This system error was corrected in 2006 according to the Company.

I recommend the Company more closely monitor its receivables system to ensure that terminating groups are processed promptly and the receivables are accurately stated. This is in compliance with ORS 733.170.

Liability for Unpaid Commissions

Uncollected premiums are reported gross of any unpaid commissions and unpaid costs of collection. SSAP 54 paragraph 12 requires that the value of unpaid commissions, premium taxes and the cost of collection associated with due and unpaid premiums to be carried as an offsetting liability. Management stated that premium taxes are accrued based on earned premium and do not take into account which premiums are collected vs. uncollected.

I recommend the Company accrue unpaid commissions and the cost of collection associated with uncollected premiums as an offsetting liability in accordance with SSAP 54 paragraph 12 and pursuant to ORS 733.210.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has complied with all of the recommendations made in the 2001 report of examination.

REGENCE LIFE AND HEALTH INSURANCE COMPANY
BALANCE SHEET
As of December 31, 2005

<u>ASSETS</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds (Note 1)	\$39,033,798	\$ 0	\$39,033,798
Common stock	10,778,485		10,778,485
Cash and short-term investments	(153,438)		(153,438)
Receivables for securities	43,178		43,178
Investment income due and accrued	547,873		547,873
Uncollected premiums and agents balances in the course of collection	3,166,630		3,166,630
Amounts recoverable from reinsurers	468,250		468,250
Amounts receivable related to uninsured plans	12,231		12,231
Current federal and foreign income tax recoverable	26,352		26,352
Net deferred tax asset	579,333		579,333
Receivable from parent, subsidiaries and affiliates	5,793,526		5,793,526
Aggregate write-ins for other than invested assets	<u>9,141</u>	<u>0</u>	<u>9,141</u>
Total Assets	<u>\$60,305,359</u>	<u>\$ 0</u>	<u>\$60,305,359</u>

REGENCE LIFE AND HEALTH INSURANCE COMPANY
BALANCE SHEET
As of December 31, 2005
(CONTINUED)

<u>LIABILITIES AND SURPLUS</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Aggregate reserves for life contracts (Note 2)	\$ 9,400,324	\$ 0	\$ 9,400,324
Aggregate reserves for A&H contracts (Note 2)	2,528,199		2,528,199
Liability for deposit-type contracts	72,433		72,433
Contract claims – life (Note 2)	5,108,159		5,108,159
Contract claims - A&H (Note 2)	2,606,225		2,606,225
Premiums and annuity considerations received in advance	490,133		490,133
Provision for experience rating refunds (Note 2)	2,160,042		2,160,042
Other amounts payable on reinsurance	979,259		979,259
Interest maintenance reserve	18,079		18,079
Commissions to agents due or accrued	121,019		121,019
General expenses due or accrued	669,970		669,970
Taxes, licenses & fees due or accrued	94,608		94,608
Current federal and foreign income taxes due or accrued	196,664		196,664
Amounts withheld or retained by company as agent or trustee	32,422		32,422
Remittances and items not allocated	32,712		32,712
Asset valuation reserve (AVR)	1,902,865		1,902,865
Payable to parent, subsidiaries and affiliates	254,784		254,784
Payable for securities	13,253		13,253
Aggregate write-ins for liabilities	<u>3,122,724</u>	<u>0</u>	<u>3,122,724</u>
Total Liabilities	<u>29,803,874</u>	<u>0</u>	<u>29,803,874</u>
Common stock	1,767,900		1,767,900
Gross paid in and contributed surplus	6,563,088		6,563,088
Unassigned funds	<u>22,170,497</u>	<u>0</u>	<u>22,170,497</u>
Total Surplus	<u>30,501,485</u>	<u>0</u>	<u>30,501,485</u>
Total Liabilities & Surplus	<u>\$60,305,359</u>	<u>\$ 0</u>	<u>\$60,305,359</u>

REGENCE LIFE AND HEALTH INSURANCE COMPANY
INCOME STATEMENT
For The Year Ended December 31, 2005

Premiums and annuity considerations	\$35,017,603
Net investment income	2,126,351
Amortization of interest maintenance reserve	36,722
Commissions and expense allowances on reinsurance ceded	1,239,559
Aggregate write-ins for miscellaneous income	<u>0</u>
Total Income	<u>38,420,235</u>
Death benefits	13,055,786
Disability benefits and benefits under A&H contracts	6,870,861
Increase in aggregate reserves for life and A&H contracts	<u>231,466</u>
Total Benefits	20,158,113
Commissions on premiums and annuity considerations	4,050,737
Commissions and expense allowances on reinsurance assumed	14,406
General insurance expenses	8,371,144
Insurance tax, licenses and fees excluding federal income taxes	851,072
Aggregate write-ins for deductions	<u>965</u>
Total Benefits and Expenses	<u>33,446,437</u>
Net gain before policyholders dividends and federal income tax	4,973,798
Dividends to policyholders	<u>0</u>
Net gain after dividends to policyholders and before federal income tax	4,973,798
Federal income tax incurred	<u>2,290,003</u>
Net gain before realized capital gains	2,683,795
Net realized capital gains (losses)	<u>(111,205)</u>
Net Income	<u>\$ 2,572,590</u>

CAPITAL & SURPLUS ACCOUNT

Capital and surplus, December 31, prior year	<u>\$29,705,751</u>
Net income	2,572,590
Change in net unrealized capital gains and (losses)	376,239
Change in net deferred income tax	462,379
Change in nonadmitted assets	(2,189,630)
Change in asset valuation reserve	<u>(425,844)</u>
Net change in capital and surplus for the year	<u>795,734</u>
Capital and surplus, December 31, current year	<u>\$30,501,485</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

The Company's bond portfolio is primarily comprised of high quality investments in corporate bonds, US government instruments, and special revenue bonds, with most maturing in 10 years or less. Medium grade bonds were 1% or less of the Company's bond portfolio in 2003 and 2005. A quality distribution of bonds is presented below:

<u>Year</u>	<u>(1)</u> <u>Book Value</u> <u>Securities</u>	<u>(2)</u> <u>Market Value</u> <u>Securities</u>	<u>(3)</u> <u>Medium and/or Low</u> <u>Grade Securities**</u>	<u>(3/1)</u> <u>Percent of</u> <u>Portfolio</u>
2001*	\$27,088,208	\$27,585,335	0	0.00%
2002	28,024,077	29,151,719	0	0.00%
2003	30,043,651	30,936,664	99,953	0.33%
2004	34,613,105	35,777,306	0	0.00%
2005*	39,033,798	39,152,739	394,103	1.01%

*Per examination

**Medium grade is defined by the NAIC as those securities with a NAIC Securities Valuation Office rating of "3." SVO designations of "4" to "6" are considered low investment grade.

Note 2 - Actuarial Examination

<u>Annual Statement Reference</u>	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Difference</u>
<u>Liabilities</u>			
Aggregate reserve for life policies and contracts (Page 3, Line 1)	9,400,324	9,400,324	0
Aggregate reserve for accident and health policies (Page 3, Line 2)	2,528,199	2,528,199	0
Liability for deposit-type contracts (Page 3, Line 3)	72,433	72,433	0
Contract claims- Life (Page 3, Line 4.1)	5,108,159	5,108,159	0
Contract claims- Accident and health (Page 3, Line 4.2)	2,606,225	2,606,225	0
Provision for experience rating refunds (Page 3, Line 9.2)	2,160,042	2,160,042	0

The Department of Consumer and Business Services actuary, David Ball, FSA, MAAA, performed an examination of the Company's items listed above as of December 31, 2005. The scope of his examination included a review of the Company's valuation methodology, reserving assumptions, and external actuarial reports. In addition, he performed calculations for material liability items. Based on these procedures, he concluded that the liabilities were sufficient and in compliance with Oregon law. No material exceptions were noted. The detailed results of the actuarial findings are summarized in the Actuarial Examination letter contained in the supporting work papers.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of the recommendations made in this examination report.

Page

- 17 I recommend the deferred premiums be properly classified as deferred premiums, agents' balances and installments booked but deferred and not yet due in future statutory financial statements pursuant to NAIC Annual Statement instructions and in compliance with ORS 733.210.
- 18 I recommend the Company execute a formal cost sharing agreement with TRG in compliance with ORS 732.574. This cost sharing agreement should clearly and accurately describe the precise nature and details of the transactions between the related parties. In addition, I recommend the Board of Directors approve the agreement.
- 18 I recommend the Company more closely monitor its receivables system to ensure that terminating groups are processed promptly and the receivables are accurately stated. This is in compliance with ORS 733.170.
- 19 I recommend the Company accrue unpaid commissions and the cost of collection associated with uncollected premiums as an offsetting liability in accordance with SSAP 54 paragraph 12 and pursuant to ORS 733.210.

CONCLUSION

During this examination period, the Company's surplus increased from \$17,286,562, as presented in the December 31, 2001, examination report, to \$30,501,485, as shown in this examination report. Comparative assets and liabilities are shown below:

	<u>2005</u>	<u>December 31,</u>	<u>2001</u>	<u>Change</u>
Assets	\$60,305,359		\$45,861,365	\$14,443,994
Liabilities	<u>29,803,874</u>		<u>28,574,803</u>	<u>1,229,071</u>
Surplus	<u>\$30,501,485</u>		<u>\$17,286,562</u>	<u>\$13,214,923</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, AFE, Mark A. Giffin, CFE, and Timothy R. Hurley, CFE, insurance examiners, and David N. Ball, 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, examiner for the State of Utah, Jeannette Liao, CPA, AFE, Albert Karau Jr., CPA, AFE, Youngjae Lee, CPA, Anne V. Kaufmann, CPA, Tarik Subbage, CPA, CFE, and Friday Enoye, examiners with the Washington Office of the Insurance Commissioner, and Lois Haley, CFE, examiner with the Idaho Insurance Department also participated in this examination.

Respectfully submitted,

Michael P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Mike P. Phillips, CFE, CPA, AES, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Regence Life and Health Insurance Company.

2. 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 Life and Health Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Mike P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____, 2007.

NOTARY PUBLIC for the State of Oregon

My Commission Expires: _____