STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

REGENCE BLUECROSS BLUESHIELD OF UTAH

of

Salt Lake City, Utah

as of

December 31, 2005

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March 1, 2007

Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2005, has been made of the financial condition and business affairs of:

REGENCE BLUECROSS BLUESHIELD OF UTAH
Salt Lake City, Utah

a Utah domiciled nonprofit corporation providing hospital, medical-surgical, dental and other service benefits. The examination was conducted at its administrative office located at 100 SW Market St. Portland, Oregon. The following report of examination is respectfully submitted.

Scope of Examination

Period Covered by Examination

Regence BlueCross BlueShield of Utah, hereafter referred to as "the Company," was last examined by representatives of the Utah Insurance Department (the Department) as of the period ending December 31, 2001. The present examination was conducted by Huff, Thomas and Company and covered the period from January 1, 2002, through December 31, 2005, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities was signed by and received from the Company's management at the conclusion of this examination.

Examination Procedure Employed

A coordinated examination of all companies of The Regence Group (TRG) was conducted in compliance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. Representatives from the states of Idaho, Oregon, Utah and Washington participated on the examination. Oregon acted in the capacity of the lead state. The states participating in the TRG examination agreed to perform procedures and assignments identified in the "Memorandum of Understanding".

The Department engaged the services of Lewis & Ellis Inc. to perform an independent review of the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2005. There were no adjustments made to the Company's loss and loss adjustment expense reserves as a result of the review conducted by Lewis & Ellis, Inc.

In conducting the examination, the examiners have relied upon the independent audit reports and the opinions contained therein rendered by Deloitte & Touche, LLP for the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, a determination of liabilities, and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

Status of Prior Examination Findings

The previous examination was performed by the Department as of December 31, 2001. Items of significance commented on in the prior examination report were resolved during the current examination period or have been disclosed in the "Summary" section of this report.

History

Blue Cross of Utah was originally organized as International Hospital Service Plan, a nonprofit corporation, on December 22, 1944. Effective October 15, 1965, the name was changed to Blue Cross of Utah.

Blue Shield of Utah was organized as Medical Service Bureau of the State Medical Association, Inc., a nonprofit corporation, on February 21, 1935. The corporation was inactive until August 16, 1946. Effective September 22, 1966, the name was changed to Blue Shield of Utah.

Effective January 1, 1982 Blue Cross of Utah and Blue Shield of Utah were merged and consolidated into a nonprofit health service corporation, organized with authority to do business pursuant to Utah Code Annotated (U.C.A.) Title 31A, Chapter 7, with the name "Blue Cross and Blue Shield of Utah."

By order of the Insurance Commissioner of the State of Utah, granted pursuant to U.C.A. Section 31A-16-103, the Company affiliated with The Regence Group

(TRG), a nonprofit holding company, effective December 22, 1997. The name of the Company was changed to Regence BlueCross BlueShield of Utah.

Capital and Surplus

The Company is not-for-profit and has no common or preferred stock authorized, issued or outstanding.

Dividend to Stockholders

The Company is not-for-profit and did not declare or pay dividends during the examination period.

Management and Control

Board of Directors

Pursuant to the Company's Articles of Incorporation and Bylaws, the Board of Directors shall be comprised of the President, of the Corporation, the Chief Executive officer of the Member, and other individuals as determined by the Board of Directors and approved by the Members. A majority of the Board of Directors shall be Public Directors. Public Directors shall be those persons who are not Health Care Providers as defined in the U.C.A. 78-14-3. A majority of the Board of Directors shall be Utah residents and may not be "insiders" as defined in the U.C.A. § 31A-7-303(3).

On December 31, 2003 Richard L.Woolworth, retired as Chairman of the Board of the Company. His position was filled on March 25, 2004 by Mark B. Ganz. Mr. Ganz is also the new chief executive (President) of TRG.

The Board of Directors shall consist of not less than five (5) Directors nor more than seven (7) Directors. All directors, except the President of the Corporation, must also at all times be directors on the Board of Directors of the Member. The term of office of all outside Directors shall be three (3) years. A Director may serve more than one 3-year term. Directors listed as serving and their principal occupations were as follows:

Name and Residence	Principal Occupation
Mark Burns Ganz Salt Lake City, Utah	The Regence Group President and CEO of the Regence Group
Douglas Scott Ideson Salt Lake City, Utah	Regence BlueCross BlueShield of Utah President and CEO
Robert A. Hatch Salt Lake City, Utah	First Security Bank President
Shelly Thomas Salt Lake City, Utah	Huntsman Cancer Institute Senior Vice President
Stephen Fred Beck Logan, Utah	ICON Health & Fitness, Inc. Chief Financial Officer

There were two committees of the Board of Directors as of December 31, 2005. The committees were the following:

Nominating Committee	Audit Committee
Mark Burns Ganz, Chair	Mark Burns Ganz, Chair
Stephen Fred Beck	Stephen Fred Beck
Robert A. Hatch	Robert A. Hatch
Douglas Scott Ideson	Douglas Scott Ideson
Shelly Thomas	Shelly Thomas

Officers

Officers of the Organization as of December 31, 2005, were as follows:

Name	Title
Douglas Scott Ideson	President/Chief Executive Officer
Steven Lynn Hooker	Treasurer
Kerry Evan Barnett	Secretary
Robert Allen Hatch	Chairman of the Board
Stephen Fred Beck	Vice Chairman of the Board
Byron Kent Clawson	Vice President of Professional & Provider Relations
Alfred Samuel Tredway	Assistant Treasurer
Wendy Cowley	Assistant Secretary

Jon Ruch resigned as President and CEO on December 31, 2003, at which time he also resigned from the Board of Directors. Douglas S. Ideson replaced him as a member of the Board of Directors effective January 1, 2004 by virtue of his appointment as President and CEO on the same date.

Biographical affidavits for officers and directors were filed with the Department in accordance with U.C.A. § 31A-5-410(1)(a)(ii).

Conflict of Interest Procedure

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer or employee, which is likely to conflict with his or her official duties. From a review of the completed conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No conflicts of interest were identified by the examination.

Corporate Records

Articles of Incorporation:

On December 11, 2003, the Company amended its Restated Articles of Incorporation to reflect a change as it pertains to the distribution of assets left in the event of dissolution. Utah statute requires the assets left after the payment of debts be distributed to benefit individuals or entities in Utah.

Bylaws

On December 11, 2003, the Company again amended its Bylaws to: 1) Amend term limits to three years, and 2) remove the requirement that the Chairman of the Board of Directors be an employee of TRG or the Corporation. In addition, other minor changes were made to the Bylaws on this date

On March 24, 2005, the Company amended its Bylaws to: 1) reduce the size of the Fiduciary Board to not less than five nor more than seven members, 2) qualify, one must be a member of the TRG Board of Directors, 3) eliminate the standard committees except Audit and Nominating, 4) create a Community Board. In addition,) other minor changes were made to the Bylaws on this date.

In accordance with U.C.A. § 31A-5-203(4) the Company provided a copy of the amendments to the Bylaws to the Commissioner within 60 days after the adoption.

Minutes

Minutes of the meetings of the members, directors, and committees were reviewed. The minutes indicated the Company operates within the scope of its authority and the directors were properly informed of and participated in Company affairs. Generally, at each annual board meeting, a detailed report of investment transactions since the previous meeting is presented and approved. Overall, the minutes of meetings of members, directors, and committees adequately supported the Company's transactions and events. On September 25, 2003, the Department examination report as of December 31, 2001, was reviewed by the members of the Board of Directors as required by U.C.A. § 31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company was not involved in any acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the examination period.

Surplus Debentures

The Company had no outstanding surplus debentures during the examination period.

Affiliated Companies

Organizational Structure

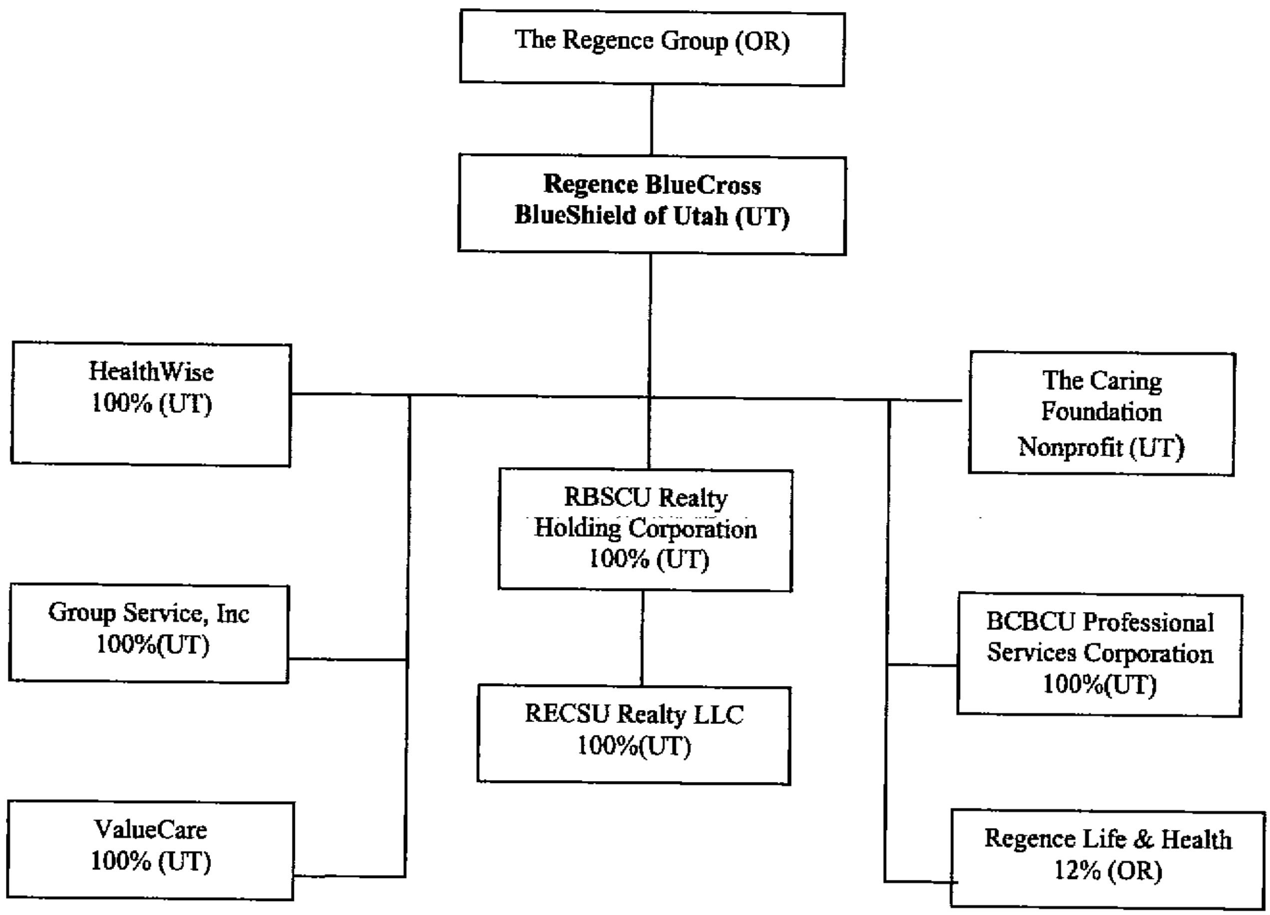
By order of the commissioner, granted pursuant to U.C.A. § 31A-16-103 and effective December 22, 1997, the Company was allowed to affiliate with The Regence Group (TRG), a nonprofit holding company organized as a nonprofit corporation in the State of Oregon. Regence Blue Cross BlueShield of Oregon (RBCBSO), Regence BlueShield (RBS) and Regence BlueShield of Idaho, Inc. (RBSI) are members of TRG. TRG is the sole member of the Company, RBCBSO, and RBS pursuant to a Plan and Agreement of Affiliation, effective July 28, 1997. In addition, TRG has a long-term management service agreement with RBSI.

As "sole member", TRG has authority to approve or disapprove elections to the governing board of the Company and to discharge members of its governing board at any time, with or without cause. Further, the "sole member" has approval authority over actions of the board going to such fundamental matters as merger, dissolution, or sales not in the ordinary course of business.

The Company's wholly owned subsidiaries are HealthWise, Group Services, Inc. (insurance agency), ValueCare (PPO network management company), BCSU Professional Service Corporation (facility management company) and RBCSU Realty, LLC (Real-estate LLC). The Company administers a 501C(3) organization: The Caring

Foundation for Children. The foundation administers a dental-care program for children of low-income families. TRG members jointly own the Regence Life and Health Insurance Company, with RBCBSU maintaining a 12% ownership interest.

The following organization chart illustrates the Company's immediate affiliate and direct upstream parentage relationships:



Agreements with Affiliates

The following identifies the Company's management and administrative agreements with affiliates, which define and control various aspects of the Company's transactions and operations as of December 31, 2005.

TRG Costing Sharing Agreement

It was identified that the Company does not have a formal written cost sharing arrangement with TRG. Administrative costs incurred by TRG are routinely allocated to BCBSU. Amounts allocated were $45,871,000 and $41,759,000 for the years ended 2005 and 2004, respectively and are reported as claims adjustment and general administrative expenses. Also, the Company pays certain expenses on behalf of its parent TRG, its subsidiaries and affiliates. The basis of allocation is mainly driven by the ratio of membership, gross operating expense and claims expenses.

Pursuant to the provisions of U.C.A. § 31A-16-106(1) (b)(iv) Standards and Management of Transactions within a holding company system, management agreements, service contracts and all cost sharing arrangements involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into the transaction at least 30 days prior to entering into the transaction or within a shorter period the commissioner has not disapproved the transaction within the period. In addition, reporting and disclosure requirements should be complied with as required by SSAP No.25, paragraphs 15 through 17.

Finance Agreement:

Effective September 1, 1982, the Company entered into a finance agreement with HealthWise, its subsidiary. Pursuant to the finance agreement, the Company agreed to provide HealthWise initial and sustaining financial support and accept reinsurance of risk. Under the agreement the Company reinsures HealthWise where a member's aggregate claims for the calendar year exceed $50,000. In the event of HealthWise's insolvency, the Company will provide, to HealthWise enrollees, after allowing for any contribution from local, state or federal guaranty funds, benefits according to HealthWise's certificates until the expiration date of the certificates.

Operating Agreement:

Effective September 1, 1982 the Company entered into an operating agreement with HealthWise, its subsidiary. Pursuant to the operating agreement between the Company and HealthWise, the Company agreed to provide HealthWise necessary office and administrative services for HealthWise's continued operations. The Company is reimbursed actual expenses allocated in accordance with generally accepted cost accounting principles. This amount is due and payable within thirty days after the month in which expenses are incurred. The Company allocated $8,423,000 in administrative cost to HealthWise in 2005.

ValueCare Agreement:

Effective January 1, 1989, the Company entered into an agreement with ValueCare, its subsidiary. Pursuant to the agreement between the Company and ValueCare, the Company agreed to pay ValueCare one hundred and two percent (102%) of the cost of contracting with health care providers and maintaining a preferred provider network. In addition, the Company agreed to pay ValueCare a provider network access fee in the amount of fifty cents ($.50) per subscriber per month. Pursuant to the same agreement, ValueCare agreed to be responsible for all administrative and financial obligations related to the maintenance of the preferred provider network and to permit the Company to utilize its preferred provider network for the Company's subscribers.

Advance Agreement:

Effective September 1, 1982, the Company entered into an advance agreement with HealthWise, its subsidiary. Pursuant to an inter-company advance agreement between the Regence BlueCross BlueShield of Utah, HealthWise, ValueCare and Group Services, Inc., advances between the entities became subject to interest. The rate of interest was the prime interest rate as of January first of the calendar year.

Lease Agreement:

Effective September 30, 1997, the Company entered into a lease agreement with RBCBSU Realty, LLC, its subsidiary. The lease agreement exists between RBCBSU Realty, LLC, as Landlord and the Company, as Tenant, pertaining to certain real property located at 2890 East Cottonwood Parkway, Salt Lake City, Utah.

Investment Pool Agreement:

Effective January 1, 1989, the Company entered into investment agreement with two subsidiaries. Pursuant to investment pool agreements between the Company, ValueCare and Group Services, Inc., the Company maintained a single consolidated investment pool. Gross earnings of the pool were calculated on a monthly basis. The Company assesses an administrative service charge equal to two percent of gross monthly earnings of the pool, to each participant. Monthly net earnings of the pool (gross earnings less two percent service charge) were allocated to the participants of the pool.

Consolidated Tax Agreement:

The Company was party to a consolidated federal income tax filing arrangement effective January 1, 1997. Parties to the agreement included TRG and its subsidiaries as listed on an addendum to the agreement.

Caring Foundation Agreement:

As part of the not-for-profit mission, the Company administers a 501C (3) organization: The Caring Foundation for Children. The foundation administers a dental-care program for children of low-income families. The Caring Foundation Agreement became effective April 1, 2001.

Fidelity Bond and Other Insurance

The Company, through its holding company, TRG, protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Federal Insurance Company. The bond has a single loss coverage limit of $10 million with a $100,000 retention. The bond meets the $3.3 million suggested minimum coverage prescribed by the NAIC. The Company also has executive liability coverage with a $15 million limit and a $50,000 retention. Other major insurance coverages in force at December 31, 2005 are as follows.

Commercial Automobile	Commercial Property
Commercial Umbrella	Workers' Compensation

Pension and Insurance Plans

The Regence Group 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 certain eligibility requirements. The plans are not funded by the Company; they are funded by TRG. The Company has no legal obligation for benefits under these plans; the obligation is carried by TRG. The Company's share of net expense for the retirement plans was $4,702,000 and $5,993,000 for 2005 and 2004, respectively.

The Regence Group 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 percent of the first 6 percent of salary for each pay period in which the employee makes a contribution. The Company's contribution for the plan was $770,000 and $641,000 for 2005 and 2004, respectively.

Post-retirement Benefits

The Company participates in a postretirement health and welfare plan sponsored by TRG for retired employees with fifteen or more years of continuous service, who were hired on or before January 1, 2004 and participated in active health plans at the time of retirement. Effective December 31, 2005, the Company's postretirement benefits were consolidated to TRG. The plan is not funded by the Company; it is funded by TRG. The Company has no legal obligation for benefits under this plan; the obligation is carried by TRG. The Company's share of net expense for the postretirement benefit plan was $638,000 and $897,000 for 2005 and 2004, respectively.

Deferred Compensation Plan

The Company offers a non-qualified deferred compensation program to certain key employees whereby they may defer a portion of their compensation. The Company has also adopted a Directors' Deferred Compensation Plan, which permits non-employee directors to receive their fees and retainers as members of the Board of Directors and committees of the Board in a form other than as direct payments. The assets and liabilities under the plans are recorded as other assets and amounts withheld or retained for account of others for $868,000 and $728,000 for 2005 and 2004, respectively.

Statutory Deposit

The Company's statutory deposit requirement was $400,000, pursuant to U.C.A. § 31A-4-105. The examination confirmed from the Department that the Company maintained a statutory deposit consisting of the following for the benefit of all policyholders, claimants and creditors of the Company, which was adequate to cover the required deposit.

State	Description of Deposit	Par Value	Book Value	Fair Value
Utah	US Treasury Notes	$ 475,000	$ 472,822	$ 463,111

Insurance Products and Related Practices

Policy Forms and Underwriting

The Company provided a list of policy forms filed as of December 31, 2005. A sample review of the policy forms found that they agreed with the Department filings.

Territory and Plan of Operation

The Company holds a certificate of authority, which allows it to transact nonprofit health service insurance in the State of Utah and has the authority to conduct administrative services in the State of Idaho.

The Company acquires the majority of its group and individual business using an agency system. The agency force consists of employees licensed as agents and independent non-employee agents. Sales by employee agents are conducted from facilities at the home office and at three district offices.

Advertising and Sales Material

Advertising campaigns and the development of sales material are under the direction of the Company. An advertising agency produces the advertising program. Current advertising files are maintained at the Company. Historical files are maintained at the advertising agency. The Company advertises on local television and in local newspaper as well as other media.

Treatment of Policyholders

The Company maintains a consumer complaints register and a claims appeal register. The Utah complaint register indicated that 92 complaints were received by the Department during the three-year period under examination. All of these complaints have been closed. Formal procedures to handle written complaints were determined to be in place within the Company.

Agents Licensing

A review of agents was performed to determine whether agents were licensed properly. No exceptions were noted.

Reinsurance

Assumed

The Company assumes risk from HealthWise, a wholly owned subsidiary. Risk assumed includes benefit coverage (excluding dental) for a member's aggregate claims for incurred services exceeding $50,000 per calendar year.

Ceded

Effective January 1, 2003, the Company commuted its Excess Major Medical reinsurance agreement with Employer's Reinsurance Corporation (ERC). The Company made a final settlement with ERC in December 2005.

Accounts and Records

The Company utilizes an electronic data processing and information system for purposes of recording data related to contractual obligations and financial transactions. This data provides the basis from which the various reports needed for operations are developed. Journals, registers, statistical records and other reports summarizing the financial transactions from operations are prepared daily as a function of recording data. After review, the summary amounts from the journals, register and reports are recorded on a general ledger by journal entry. General ledger account balances are reconciled to supporting data monthly. The general ledger provides the basic elements required for financial reporting.

A trial balance, as of December 31, 2005, was prepared from the Company's general ledger. Account balances were traced to annual statement reports, exhibits, and schedules. Individual account balances were examined as deemed necessary.

The Company's independent auditors issued unqualified opinions on the Company's audited financial statements for each year during the examination period. No material exceptions were noted when agreeing the Company's audited financial statements to the respective annual statements. All of the independent audit work papers were made available to the examiners during the examination.

The examination of accounts and records noted the following deficiencies:

1. Annual Statement Deficiencies

The 2005 annual statement contained certain inaccuracies as noted, namely in the Exhibit of Net Investment Income, Schedule D, Schedule-BA and Notes to the Financial Statements. These items were discussed with the Company's management.

2. Custodial Agreement

The Company's custodial agreement with Wells Fargo Bank does not fully comply with the revised version of Utah Administrative Code (U.A.C.) Rule § R590-178-5, which was amended on September 19, 2006. Compliance became effective within 90 days of amendment date of this rule. Assets not in compliance with this rule shall be nonadmitted. The agreement is missing the following provisions:

- A national bank, state bank or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurance company's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator or other regulator of a trust company. A broker/dealer shall secure and maintain insurance protection for each insurance company's securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's securities. The commissioner may determine whether the type of insurance is appropriate and the amount of coverage is adequate.

- The custodian shall provide written notification to the insurance company's domiciliary commissioner if the custodial agreement with the insurance company has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the insurance commissioner within three (3) business days of the receipt by the custodian of the insurance company's written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.

- Broker/dealers are not authorized to hold securities that are used to meet the deposit requirements set forth in Subsection 31A-2-206(2).

- The custodian's annual report of the insurance company's accounts shall also be provided to the insurance company. Reports and verifications may be transmitted in electronic or paper form.

3. **RBCBSU & HealthWise InterCompany Settlement**

The 2005 NAIC Financial Condition Examiners Handbook audit scope for Receivable and Payable from/to Parent requires a review of settlements between related parties to determine the reasonableness and consistency of settlements. In addition, the audit scope requires procedures to verify the collectibility of the reported liability. The Utah entities do not settle intercompany balances between themselves. As a result, this audit scope could not be performed for the Utah companies.

Furthermore, the Amendment to the Operating Agreement between HealthWise and BlueCross BlueShield of Utah, effective January 1, 1988, states that "In consideration for the performance of services by Blue [BlueCross BlueShield of Utah], HealthWise agrees to pay to Blue the actual allocated expenses calculated by Blue in accordance with generally accepted cost accounting principles. This amount is due and payable within thirty (30) days after the month in which expenses are incurred."

4. **Key Bank Open Line of Credit**

Effective July 14, 2004, TRG and affiliate health companies have an unsecured open line of credit to borrow up to $30,000,000 from KeyBank National Association. This was not disclosed in Notes to Financial Statement under Note No. 11(2) at year-end. The NAIC Annual Statement Instructions state that the company should disclose all pertinent information concerning outstanding debt and available lines of credit.

5. **Wells Fargo Repurchase Agreement Collateral Requirement**

The Wells Fargo Repurchase Agreement in place for the Company does not stipulate for collateral having a fair value of an amount at least equal to 102 percent of the purchased price paid by the reporting entity ('Buyer,' in contrast to bank as 'Seller') in accordance with SSAP No. 91 paragraph 71.a.

6. <u>TRG Loan</u>

The Company has loaned $1,125,000 to TRG for a term of 20 years (8/1/1997 to 8/1/2017), with interest compounded annually at the Prime rate for standard commercial loans. However, TRG's 2005 Annual Holding Company Registration Statement incorrectly states that the Company has no loans with affiliates. The aforementioned loan should have been fully disclosed in the registration statement. Since this loan was made prior to the adoption of the Insurer Holding Company Act in 2001, pre-approval by the Commissioner was not required.

7. <u>Allocation of Investment Expense</u>

All Regence companies only recorded amounts charged for external investment management services as investment expenses and therefore incorrectly reported zero balances for the remaining items under the Underwriting and Investment Exhibit Part 3 - Analysis of Expenses, Column 4. However, the internally accumulated costs associated with investments were allocated across the lines under the same column of the annual statements.

"SSAP No. 70 paragraph 9 provides that any basis adopted to apportion expenses shall be that which yields the most accurate results and may result from special studies of employee activities, salary ratios, premium ratios or similar analyses. Also SSAP No. 70 paragraph 5 provides that allocation of expenses for health insurers should be based on a method that yields the most accurate results."

Financial Statement

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

Balance Sheet as of December 31, 2005

Statement of Revenue And Expenses for the Year Ended
December 31, 2005

Reconciliation of Capital And Surplus – 2002 through 2005

The Company Notes To Financial Statements are an integral part of the financial statements.

REGENCE BLUECROSS BLUESHIELD OF UTAH

BALANCE SHEET
as of December 31, 2005

		Notes
Bonds	$ 131,691,861	(1)
Preferred stocks	225,000	
Common stocks	112,377,092	
Real estate - Properties occupied by the company	10,587,048	
Cash and short-term investments	5,860,521	
Other Invested Assets	9,134,284	
Receivables for Securities	317,609	
Investment income due and accrued	2,294,233	
Uncollected premiums and agents' balances	75,089,065	
Amounts receivable relating to uninsued plans	12,099,194	
Current federal and foreign income tax recoverable and interest thereon	1,062,611	(2)
Net deferred tax asset	796,207	
Receivable from parent, subsidiaries & affiliates	1,074,100	
Health care and other amounts receivable	913,622	
Aggregate write-ins for other than invested assets	(8,598,055)	
Total assets	$ 354,924,391	
LIABILITIES		
Claims Unpaid	$ 68,736,806	(3)
Unpaid claims adjustment expenses	2,272,897	
Aggregate health policy reserve	41,052,418	
Premiums received in ad vance	17,136,026	
General expenses due and accrued	11,606,849	
Amounts withheld or retained for the accounts of others	1,522,836	
Remittance and items not allocated	3,058,435	
Amounts due to parent, subsidiaries and affiliates	26,432,442	
Payable for securities	264,681	
Liabilities for amounts held under uninsured accident and health plans	932,679	
Aggregate write-ins for liabilities	2,519,691	
Total liabilities	$ 175,535,760	
CAPITAL AND SURPLUS		
Unassigned funds (surplus)	179,388,635	
Total capital and surplus	179,388,635	(4)
Total liabilities, capital and surplus	$ 354,924,395	

REGENCE BLUECROSS BLUESHIELD OF UTAH

STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2005

Member Months		3,480,086
Premiums revenue	$	662,208,179
Underwriting deductions:		
Medical and hospital benefits		548,429,912
Claims adjustment expenses		38,659,517
General and administrative expenses		62,885,700
Total expenses		649,975,129
		-
Underwriting income		12,233,050
Investment income (loss):		
Net investment income		7,524,657
Net realized capital gain (loss)		1,562,931
Total investment income (loss)		9,087,588
Other income (expense)		2,082,531
Net income or (loss) before Federal income taxes incurred		23,403,169
Federal income taxes incurred		(3,681,264)
Net income	$	27,084,433

REGENCE BLUECROSS BLUESHIELD OF UTAH

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT
2002 through 2005

	2002	2003	2004	2005
Capital and surplus, December 31, previous year	$ 99,892,123	$ 83,280,217	$ 124,638,961	$ 159,482,489
Net income	15,101,222	(11,161,244)	12,152,686	27,084,433
Change in net unrealized capital gains (losses)	(9,877,351)	25,066,288	14,311,648	8,234,650
Change in deferred income tax	(801,195)	7,103,829	(2,871,333)	(4,847,738)
Change in nonadmitted assets	(22,527,173)	25,764,011	15,272,864	(10,565,202)
Aggregate write-ins for gains or (losses) in surplus	1,492,591	(5,414,140)	(4,022,337)	0
Net change in capital and surplus for the year	(16,611,906)	41,358,744	34,843,528	19,906,143
Capital and surplus end of reporting	$ 83,280,217	$ 124,638,961	$ 159,482,489	$ 179,388,632

Notes to Financial Statement

Note 1 - Yankee Bonds Non-investment Quality

A definition of a "Yankee Bond" is a fixed income bond issued in U.S. denomination by foreign governments, whose bonds are guaranteed by foreign governments, or by corporations not domiciled in the United States of America.

Pursuant to U.A.C. Rule R590-181, Yankee Bonds can only be admitted as an asset up to the limit of qualified assets if the bond quality rating is "1" or "2" assigned by the NAIC SVO. The Company owned approximately $777,618 in Yankee Bonds that were identified as not investment quality and should have been reported as a nonadmitted asset.

Note 2 – Federal Tax Receivable/Payable Netted

The Company keeps all activity related to income taxes payable/receivable in one liability account. At year-end, if the account has a debit balance, it is transferred to the current federal and foreign taxes recoverable. The net balance at December 31, 2005 was a debit balance, and as such, was reported as an asset. However, the beginning balance included a tax cushion/contingency of $185,475 according to the Company. During the year it was lowered by $792. Therefore there should be, at minimum, an ending tax payable of $184,683.

NAIC Annual Statement Instructions for Federal and Foreign Taxes Payable, page 3, specifically forbid offsetting taxes payable with recoverable amounts. Therefore, the Examiner recommends a reclassification of $184,683 from the federal tax recoverable account to the federal tax payable account.

Note 3 - Claims Unpaid

As of year-end 2005, the Company reported a claims unpaid liability in the amount of $68,736,806. Lewis & Ellis, Inc. (L&E) was retained by the Department, to independently review the actuarial assumptions and methodologies of the actuarial liabilities established by the Company as of December 31, 2005.

In order to test the Company's claims reserves, L&E independently developed completion factors based on historical claim information provided by the Company through May 2006. Completion factors were developed for different claim lags provided by the Company. L&E's estimate of the Company's December 31, 2005 claims unpaid liability as of May 31, 2006 is $65,108,323. As a result, L&E made the following conclusion on the Company's claims unpaid reserve:

> "Based on our analysis, we believe the claims unpaid liability established by the Company as of December 2005 is appropriate. The Company utilizes the claim

lag method to establish their claims unpaid liability. We believe the methodology utilized by the Company is appropriate."

Note 4 Capital and Surplus

The Company is required to maintain permanent surplus in the amount of $400,000 pursuant to U.C.A. § 31A-5-211. As defined by U.C.A. § 31A-17 Part 6, the company had total adjusted capital of $179,616,977. Its authorized control level risk based capital requirement was $21,846,397.

Summary of Findings and Recommendations

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

Page	
8	**It was identified that the Company does not have a formal written cost sharing arrangement with TRG. In accordance with U.C.A. § 31A-16-106(b)(iv) is recommended the Company execute a formal cost sharing agreement.** **The cost sharing agreement should clearly and accurately describe the precise nature and details of the transaction between related parties. Also, it is recommended the Board of Directors prior to entering into such agreement approve the agreement. U.C.A. § 31A-16-106(1)(b) requires the Company to notify the commissioner in writing of its intention to enter into the transaction at least 30 days prior to entering into the transaction, or within any shorter period the commissioner may permit, if the commissioner has not disapproved the transaction within the period. (Agreements with Affiliates)**
13	**The 2005 annual statement contained certain inaccuracies as noted, namely in the Exhibit of Net Investment Income, Schedule D, Schedule-BA and Notes to the Financial Statements. These items were discussed with the Company's management.** **It is recommend the Company hereafter comply with the provisions of U.C.A. § 31A-2-203 by filing complete and accurate annual statements in accordance with the instructions provided. (Accounts and Records)**
14	**The Company's custodial agreement with Wells Fargo Bank does not fully comply with the revised version of U.A.C. § R590-178-5, which became effective 90 days after the amendment date of September 19, 2006. Four provisions were not contained in the agreement. Assets not in compliance with this rule shall be nonadmitted.**

	In accordance with U.A.C. R590-178-5, it is recommended the Company amend its custodial agreement with Wells Fargo Bank to include the aforementioned provisions. (Accounts and Records)
15	**The Utah entities do not settle intercompany balances between themselves. As a result, this audit scope could not be performed for the Utah companies.** **In accordance with the NAIC Examiners Handbook and amended Operating Agreement between HealthWise and BlueCross BlueShield of Utah it is recommended that the Utah companies settle their intercompany receivable and payable balances between themselves within 30 days after the related expenses are incurred.**
16	**Effective July 14, 2004, TRG and affiliate health companies have an unsecured open line of credit to borrow up to $30,000,000 from KeyBank National Association. This was not disclosed in Notes to Financial Statement under Note No. 11(2) at year-end.** **In accordance with U.C.A. § 31A-2-203 (6) it is recommended that the Company disclose in Notes to Financial Statement No. 11 all pertinent information concerning outstanding debt and open lines of credit during the statement period. (Accounts and Records)**
15	**The Wells Fargo Repurchase Agreement in place for the Company does not stipulate for collateral having a fair value of an amount at least equal to 102 percent of the purchased price paid by the reporting entity ('Buyer,' in contrast to bank as 'Seller') in accordance with SSAP No. 91 paragraph 71.a.** **In accordance with Utah Insurance Code title U.C.A. § 31A-17-201 and U.C.A. § 31A-17-401 (1), it is recommended that the Company include the collateral requirements prescribed under SSAP No. 91 in the repurchase agreement. (Accounts and Records)**
16	**TRG's 2005 Annual Holding Company Registration Statement incorrectly states that the Company has no loans with affiliates. The Company loaned $1,125,000 to TRG for a term of 20 years (8/1/1997 to 8/1/2017)** **In accordance with U.C.A. § 31A-16-105(2)(c)(i), it is recommended that the Company provide current information about any loans with affiliates in its Annual Holding Company Registration Statement. (Accounts and Records)**
16	**All Regence companies only recorded amounts charged for external investment management services as investment expenses and therefore incorrectly reported zero balances for the remaining items under the Underwriting and Investment Exhibit Part 3 - Analysis of Expenses, Column 4.**

	In accordance with U.C.A. § 31A-2-203 (6) it is recommended that the Company accurately record allocation of investment expenses under Underwriting and Investment Exhibit Part 3. (Accounts and Records)
20	**The Company owned approximately $777,618 in Yankee Bonds that were identified as not investment quality and should have been reported as a non-admitted asset.** **In accordance with U.A.C. Rule R590-181, it is recommended that the Company non-admit all Yankee Bonds which do not meet a quality rating of "1" and "2" assigned by the SVO on future statements. Notes to Financial Statements**
20	**Current federal and foreign income tax recoverable and interest thereon was reported as a net amount, offsetting taxes payable with recoverable amounts, instead of reporting the gross amounts in accordance with the NAIC Annual Statement Instructions.** **In accordance with U.C.A. § 31A-2-203 (6), it is recommended that the Company properly report federal taxes recoverable and payable at gross, and not netted. Also, it is recommended the Company keep records of these accounts so that the individual components of the balance may be easily identified. Notes to Financial Statements**

It is recommended the Company take immediate steps to implement procedures that will eliminate these deficiencies for future operations.

Subsequent Events

On March 22, 2007 the Company amended its Annual Holding Company Statement rules and regulations Item Five ("Transactions and Agreements") of their 2005 Annual Holding Company Statement. The amendment concerns a reinsurance agreement entered into effective January 1, 2006, whereby the Company assumes 100% of the liability for benefits due under ANH Medicare Script(Medicare Part D) stand-alone prescription drug plan) policies issued to individuals in the State of Utah.

Acknowledgment

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

Participating on this examination, were examiner Lois Haley, CFE, examiner for the State of Idaho; Michael Phillips, CFE, Mark Giffin, CFE, Timothy R. Hurley, CFE; Raymond W. Anderson, AFE, examiners for the State of Oregon; Jeanette Liao, AFE; Anne V. Kaufman, Albert Karau Jr. AFE; Youngjae Lee, Tarik Subbage, CFE; and Friday Enoye, examiners with the Washington Office of the Insurance Commissioner, also participated in this examination. Mike Mayberry, F.S.A., M.A.A.A., of Lewis & Ellis Actuaries & Consultants, performed the actuarial review. Steven Fry, former Chief Examiner; Jacob W. Garn, current Chief Examiner; Colette Reddoor, CFE, Assistant Chief Examiner; and Neeraj Gupta, CFE supervised the examination for the State of Utah. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

David L Daulton, CFE
Examiner-In-Charge, representing the Utah Insurance Department