STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

REGENCE BLUECROSS BLUESHIELD OF UTAH

of

Salt Lake City, Utah

as of

December 31, 2008

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January 29, 2010

Honorable Neal T. Gooch
Acting 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, 2008, 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 offices located at 100 SW Market Street, 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" or the "Plan", was last examined by representatives of the Utah Insurance Department (the Department) as of the period ending December 31, 2005. The present examination was conducted by examiners of the Department, Oregon Department of Insurance and by Huff, Thomas and Company and covered the period of January 1, 2006 to December 31, 2008, and included any material transactions and/or events noted during the course of this examination and occurring subsequent to the examination date. A letter or representation attesting to the Plan's ownership of all assets and to the nonexistence of unrecorded liabilities was signed by and received from the Plan's management at the conclusion of the examination.

Examination Procedures Employed

A coordinated examination of the insurers of The Regence Group (TRG) domiciled in Oregon and Utah was conducted in accordance with the NAIC Financial Condition Examiners 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. An examination also includes 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 when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process.

Representatives from the States of Oregon and Utah participated on the examination. Oregon acted in capacity of the lead state.

The Department relied on the independent actuarial review conducted by Scott Fitzpatrick, F.S.A., and M.A.A.A., of the Department of Consumer and Business Services, Oregon Insurance Division. His analysis of the Plan's loss and loss adjustment expense reserves determined the liabilities were adequate as of December 31, 2008, and no adjustments were made to the amounts reported in the 2008 Annual Statement filed with the Department.

In conducting the examination, the examiners relied upon independent audit reports by Deloitte & Touche, LLP, and the opinions contained within 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 NAIC for the purpose of determining the Plan'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, 2005. 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.

SUMMARY OF SIGNIFICANT FINDINGS

Custodial Agreement

The examiner reviewed the custodial agreements to determine the Company's compliance with Rule R590-178-5, Requirements for Custodial Agreements. Although the custodial agreements included all of the required elements the rule also required an approval by the Board of Directors or an authorized committee of the board.

- Rule R590-178-5 states that Custodial Agreements shall be in writing and shall be authorized by a resolution of the Board of Directors of the insurance company or of an authorized committee of the board pursuant to Utah Code Annotated (U.C.A.) 31A-5-412. A committee designated under this Subsection (1) shall consist of three or more directors serving at the pleasure of the board.

- Subsequent to the examination date, on December 7, 2009, the Company's investment committee approved the custodial agreements with BNY Mellon, US Bank and Bank of America.

We recommend that henceforth, when implementing or changing custodial agreements, the Company comply with Rule R590-178-5 and obtain authorization by a resolution of the Board of Directors or an authorized committee of the board in its custodial agreements.

Financial Derivatives

The Company responded in the 2008 Annual Statement Notes to Financial Statement No. 1, C (9), that the Company does not invest in derivatives with the exception of foreign currency hedges which are stated at fair value.

The Company did not prepare a Derivative Use Plan (DUP) to measure the appropriateness or effectiveness of the hedging technique, which conflicts with SSAP No. 86, paragraph 34, which requires a formal documentation of the hedging relationship and the entity's risk management objective and strategy, including a signature of approval, for each instrument, by an authorized person.

We recommend that the Company prepare a DUP to measure the appropriateness or effectiveness of the hedging technique pursuant to the requirements of SSAP No. 86 paragraphs 34 and 35 including substantive documentation and approval as necessary.

Advance Premium Detail

The Company was unable to provide advance premium detail for approximately $6,267,716 applied to subscriber accounts at December 31, 2008. A majority of this amount is related to individual premium. As a result, the examiner was unable to properly test the accuracy or completeness of advance premium liability reported in the Financial Statement at year-end.

We recommend that the Company maintain adequate advance premium detail which can be verified to support premiums paid in advance of their contract.

SUBSEQUENT EVENTS

There were no material events subsequent to the balance sheet date that required disclosure in the examination report.

COMPANY HISTORY

General

The Blue Cross Plan 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.

The Blue Shield Plan was originally organized as Medical Service Bureau of the State Medical Association, a nonprofit corporation, on February 21, 1935. The corporation remained 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 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, pursuant to U.C.A. Section 31A-16-103, the Plan became affiliated with TRG, a nonprofit holding company, effective December 22, 1997. The name of the Plan was changed to its present name at that time.

Capital and Surplus

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

Dividends and Capital Contributions

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

Merger and Acquisitions

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

Surplus Debentures

There were no surplus debentures issued or retired during the years covered by this examination.

CORPORATE RECORDS

Articles of Incorporation

No amendments were made to the Articles of Incorporation during the period under examination.

Bylaws

The Company adopted two amendments to the corporate bylaws during the period under examination. On August 7, 2006, the Board of Directors approved a resolution to amend the bylaws to make technical changes to conform to language consistent with TRG and other affiliates. On February 4, 2008, the Board approved a resolution to provide for director terms of less than three years to facilitate the staggering of TRG director terms.

Minutes

Minutes of the meeting of 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 the affairs of the Company. Generally, at each annual board meeting, a detailed report of investment transactions since the previous meeting is presented and approved. Overall, the minutes of the meetings of members, directors and committees adequately supported the Company's transactions and events. On December 1, 2008, the Department examination report as of December 31, 2005 was reviewed by the members of the Board of Directors as required by U.C.A. § 31A-2-204(8).

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Pursuant to the Plan's Articles of Incorporation and the corporate 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 Member. A majority of the Board of Directors shall be Public Directors, defined as those persons who are not Health Care Providers as defined in U.C.A. §78-14-3. A majority of directors shall be Utah residents and may not be "insiders" as defined in U.C.A. §31A-7-313(3).

Board of Directors

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 time be directors on the Board of Directors of the Member. The term of office of all outside Directors shall be three (3) years; however, a Director may serve more than one term. Directors listed as serving and the principal occupations were as follows:

Name and Address	**Principal Affiliation**	**Appointed**
Mark Burns Ganz Portland, Oregon	President and CEO The Regence Group	2004
Douglas Scott Ideson Park City, Utah	President Regence BlueCross BlueShield of Oregon	2004
Stephen Frederick Beck* Providence, Utah	Chief Financial Officer IKON Health and Fitness	1988
Cynthia A. Bioteau Salt Lake City, Utah	President and CEO Salt Lake Community College	2008
David Kurt Seppi Twin Falls, Idaho	Medical Director and Managing Partner Physician Center	2008

* Chair of the Board

Officers

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

Name	Office
Douglas Scott Ideson	President
Stephen Lynn Hooker	Treasurer
Kerry Evan Barnett	Secretary
Byron Kent Clawson	Vice President, Professional and Provider Relations
Alfred Samuel Tredway	Vice President, Assistant Treasurer
Wendy Cowley	Assistant Secretary

At the beginning of December 2009, Stephen Lynn Hooker, Sr. VP and CFO announced his retirement. Andreas Ellis replaced Mr. Hooker as Treasurer for the Company effective 12/08/09.

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

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 interfere 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 as a result of the examination.

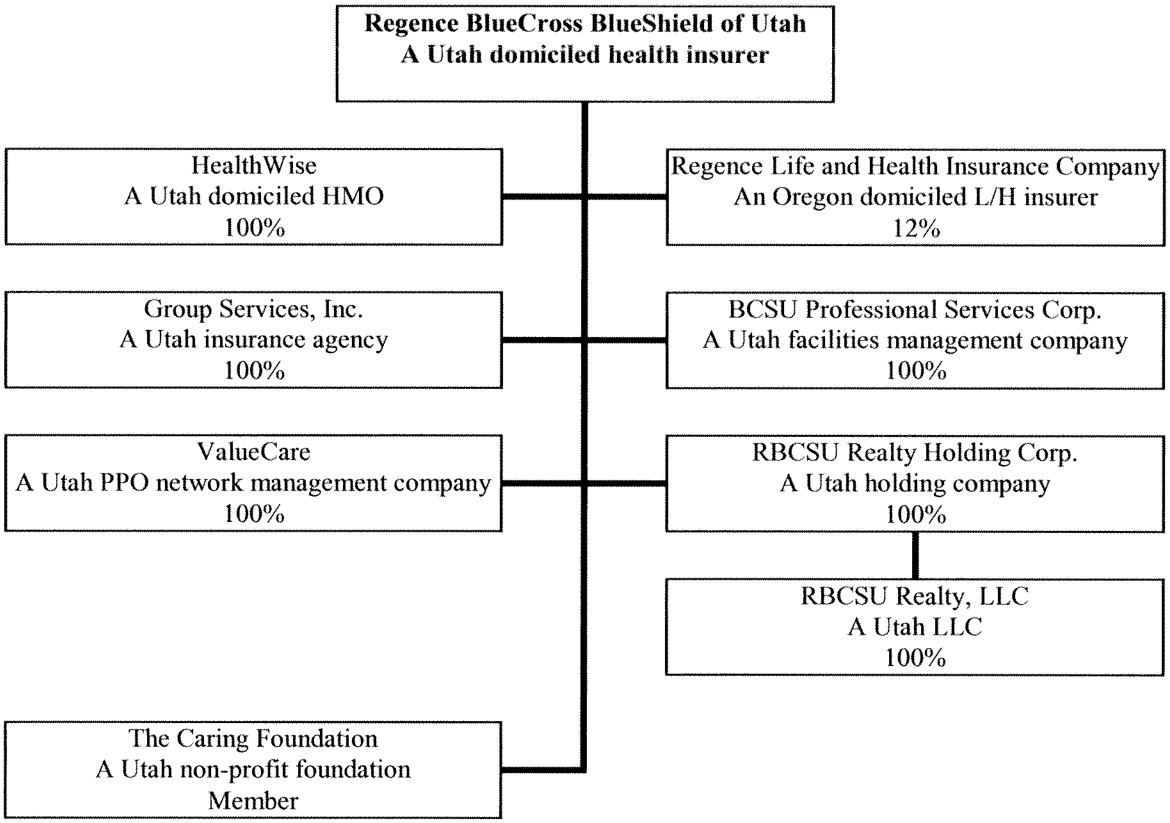
Holding Company

TRG directly controls the Company and other affiliates that include Regence BlueCross BlueShield of Oregon (RBCBSO), Regence Blue Shield (RBS), and Regence Blue Shield of Idaho, Inc. (RBSI). Effective July 28, 1997, TRG became the sole member of the Company, RBCBSO, and RBS pursuant to a Plan and Agreement of Affiliation. RBSI has a long-term management agreement with TRG.

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 in such matters as mergers, dissolutions, or transactions not in the ordinary course of business.

The Company reported seven direct and indirect subsidiaries, and is a member of a 501(c)(3) foundation. The Company owns 100% of HealthWise (a Utah HMO), Groups Services, Inc. (a Utah insurance agency), ValueCare (a Utah PPO network management company), BCSU Professional Services Corporation (a Utah facilities management company), and RBCSU Realty Holding Corporation (a Utah holding company). This last corporation owns 100% of RBCSU Realty, LLC (a Utah Real Estate LLC). The Company performs administration services for The Caring Foundation for Children (a Utah non-profit tax-exempt foundation providing dental care). In addition, the Company owns 12% of Regence Life and Health Insurance Company (an Oregon life and health insurer), with the remainder owned by affiliated Regence companies in Washington, Idaho, and Oregon.

The following organization chart illustrates the Company's ownership structure:



Agreements with Affiliates

The following describes 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, 2008:

Regence Administrative Services Agreement – entered into effective December 28, 2007, between TRG and the Company, together with all insurance affiliates and subsidiaries. The agreement states that TRG shall provide as needed and agreed upon operational, administrative and management services reasonably necessary to transact the Company's 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 is made using a cost allocation method described in the contract. It is the intent that TRG receive full compensation for the cost of their services and general overhead and taxes, and that no profit be derived from the agreement. Reconciliations will be performed monthly, and settlement of expenses shall be made no more than 90 days after the month end. The agreement will automatically renew each year, unless cancelled by any party upon 30 days written notice. The

Department approved the agreement on February 8, 2008 in accordance with U.C.A. § 31A-16-106(1)(b)(iv).

Finance Agreement – entered into effective September 1, 1982, between the Company and HealthWise, its direct subsidiary. Pursuant to this agreement, the Company agreed to provide HealthWise with initial and sustaining financial support and accept reinsurance of risk. As part of the agreement, the Company will reinsure HealthWise where a members aggregate claims for the calendar year exceeds $50,000. In the event of HealthWise's insolvency, the Company will provide benefits to enrollees of HealthWise according to HealthWise's certificates until the expiration date of the certificates, after allowing for any contribution from local, state, or federal guaranty funds.

Operating Agreement – entered into effective September 1, 1982, between the Company and HealthWise, its direct subsidiary. Pursuant to this agreement, 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 the expenses were incurred.

ValueCare Agreement – entered into effective September 1, 1982, between the Company and ValueCare, its direct subsidiary. Pursuant to this agreement, 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 ($0.50) per subscriber per month. 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 – entered into effective September 1, 1982, between the Company and three subsidiaries; HealthWise, ValueCare and Group Services, Inc. This agreement required that any advances made between the entities would be subject to interest, calculated on the basis of the prime interest rate as of January 1 of the calendar year.

Lease Agreement – entered into effective September 30, 1997, between the Company and RBCSU Realty, LLC, an indirect subsidiary. Pursuant to this agreement, the Company, as Tenant, agreed to pay RBCSU Realty, as Landlord, for office space located at 2890 East Cottonwood Parkway, Salt Lake City, Utah.

Investment Pool Agreement – entered into effective January 1, 1989, between the Company and two subsidiaries, ValueCare and Group Services, Inc. Pursuant to this agreement, ValueCare, Group Services and the Company maintain a single consolidated investment pool. Gross earnings of the pool are to be 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 – entered into effective January 1, 1997, between TRG and all of its taxable subsidiaries.

Caring Foundation Agreement – entered into effective April 1, 2001, between the Company and The Caring Foundation for Children. As part of its not-for-profit mission, the Company administers this 501(C)(3) organization to provide a dental-care program for children of low-income families.

FIDELITY BONDS AND OTHER INSURANCES

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, STOCK OWNERSHIP AND INSURANCE PLANS

Employee Retirement Plans

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 $3,095,000 and $4,777,000 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) Savings 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 six percent of salary for each pay period in which the employee makes a contribution. Beginning January 1, 2010, the Company's contribution will be up to 100% of the first six percent of salary for each pay period in which the employee makes a contribution. In addition a discretionary contribution of up to five percent of eligible earnings for eligible employees, subject to annual review and board approval will be added. The Company has no legal obligation for benefits under this plan; the obligation is carried by TRG. The contribution expense is allocated to the Company based on the portion of the employees' functional activities that relate to the Company. The Company's share of net expenses was $1,135,000 and $1,010,000 in 2008 and 2007, respectively.

Post-retirement Benefits Plans

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's share of net expenses for the savings plan was $312,000 and $276,000 in 2008 and 2007, respectively.

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.

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 member of the Board of Directors and committees of the Board in a form other than direct payments. The assets and liabilities under the plans are recorded as other assets and amounts withheld or retained for account of others for $419,000 and $505,000 for 2008 and 2007, respectively.

TERRITORY AND PLAN OF OPERATIONS

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

The Company's largest business line was comprehensive hospital and medical, which aggregated 47.3% of net premiums in 2008. Other lines of business include federal employee's health benefit (30.3%), title XVIII medicare (15.2%), Medicare supplement (3.6%), other health (2.3%), and dental (1.3%).

GROWTH OF COMPANY

The following exhibit depicts the Company's financial results throughout the examination period:

	2008	2007	2006	2005
Total admitted assets	$429,577,461	$438,356,406	$407,053,430	$354,924,392
Total liabilities	200,722,631	200,634,918	191,499,100	175,535,760
Capital and surplus	228,854,830	237,721,489	215,554,330	179,388,635
Net Income	2,851,665	14,957,644	30,654,290	27,084,433
Gross premiums written	1,011,788,106	883,222,978	796,940,007	703,110,625
Net premiums written	1,011,571,841	883,013,751	796,759,029	702,974,096

The 14.6% increase in 2008 net premiums was primarily attributable to increases in Title XVIII Medicare as well as Federal Employees Health Benefit premiums.

MORTALITY AND LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed annual statements and from examination results.

Year	Premiums Earned	Losses Incurred	Expenses Incurred	Combined Ratio
2008	$1,015,531,732	$887,914,249	$132,302,375	100.5%
2007	910,357,283	764,702,777	146,942,859	100.1
2006	795,171,788	664,266,954	117,078,611	98.3
2005	662,208,179	548,429,912	101,545,217	98.2

A combined ratio of losses incurred and expenses incurred to premiums earned in excess of 100% typically indicates an underwriting loss. As indicated from the ratio column above, the Company experienced an underwriting loss in two of the past four years.

REINSURANCE

Assumed

The Company assumed risks from HealthWise, a wholly owned subsidiary, under a Finance Agreement described above. Risk assumed included benefit coverage (excluding dental) for a member's aggregate claims for incurred services exceeding $50,000 per calendar year.

Ceded

Effective July 1, 2001, the Company cedes 100% of the individual and group accidental death benefit to Regence Life and Health Insurance Company. The accidental death benefit is included in the medical product.

Regence Life and Health Insurance Company is the contractor with CMS to provide Part D benefits to Medicare beneficiaries. Effective January 1, 2006, Regence Life and Health Insurance Company cedes the premiums and claims from Utah to the Company.

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 provided the basis from which the various reports needed for operations were developed. Journals, registers, statistical records and other reports summarizing the financial transactions from operations were prepared daily as a function of recording data. After review, the summary amounts from the journals, registers and reports were recorded on a general ledger by journal entry. General ledger account balances were reconciled to supporting data monthly. The general ledger provided the basic elements required for financial reporting.

A trial balance from each year under examination 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 the accounts and records noted the following deficiencies:

Annual Statement Deficiencies

In a few instances, the Company failed to provide adequate disclosure in its 2008 Annual Statement, namely in Schedule D Part 1 and 2, Notes to the Financial Statement and General Interrogatories. These items were discussed with the Company.

We recommend that the Company hereafter file complete and accurate NAIC Annual Statements in accordance with the instructions provided.

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 amount.

State	Description of Deposit	Par Value	Book Value	Fair Value
Utah	US Treasury Note	$ 475,000	$ 486,178	$ 491,886

FINANCIAL STATEMENT

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

Statement of Assets as of December 31, 2008

Statement of Liabilities, Capital and Surplus as of December 31, 2008

Statement of Revenues and Expenses for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus – 2005 through 2008

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

STATEMENT OF ASSETS
As of December 31, 2008

		BALANCE	NOTES
Assets			
Bonds	$	172,136,900	1
Stocks			
Preferred stocks		481,808	
Common stocks		120,125,940	
Real estate			
Properties occupied by the company		11,178,540	
Cash, cash equivalents and short-term investments		(1,713,273)	
Other invested assets (Schedule BA)		28,086,745	
Receivable for securities		33,755	
Subtotal, cash and invested assets	$	330,330,415	
Investment income due and accrued		3,270,352	
Premiums and considerations:			
Uncollected premiums and agent's balances in the course of collection		73,935,419	
Accrued retrospective premiums		65,640	
Reinsurance			
Other amounts receivable under reinsurance contracts		820,071	
Amounts receivable relating to uninsured plans		23,510,150	
Current FIT recoverable and interest thereon		3,050,996	
Net deferred tax asset		4,906,233	
Receivables from parent, subsidiaries, and affiliates		635,750	
Health care and other amounts receivable		1,344,194	
Aggregate write-ins for other than invested assets		(12,291,759)	
Total Assets	$	429,577,461	

STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
As of December 31, 2008

	BALANCE	NOTES
Liabilities, Capital and Surplus		
Claims unpaid	$ 126,998,613	2
Accrued medical incentive pool and bonus amounts	-	
Unpaid claims adjustment expense	4,013,653	
Aggregate health policy reserves	11,336,235	
Aggregate life policy reserves	-	
Aggregate health claim reserves	-	
Premiums received in advance	11,882,780	3
General expenses due or accrued	8,213,056	
Current FIT payable and interest thereon	606,444	
Net deferred tax liability	-	
Ceded reinsurance premiums payable	18,103	
Amounts withheld or retained for the account of others	1,516,356	
Remittances and items not allocated	3,589,422	
Amounts due to parent, subsidiaries, and affiliates	23,238,281	
Payable for securities	482,217	
Funds held under reinsurance treaties	-	
Reinsurance in unauthorized companies	-	
Liability for amounts held under uninsured plans	5,623,807	
Aggregate write-ins for other liabilities	3,203,664	
Total Liabilities	$ 200,722,631	
Common capital stock		
Gross paid in and contributed surplus		
Surplus notes	-	
Aggregate write-ins for other than special surplus funds	-	
Unassigned funds (surplus)	228,854,830	
Total capital and surplus	228,854,830	
Total liabilities, capital and surplus	$ 429,577,461	

STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2008

	BALANCE
Net premium income	$ 1,011,571,841
Change in unearned premium reserves	3,959,891
Total Revenues	1,015,531,732
Hospital and Medical:	
Hospital/medical benefits	479,375,926
Other professional services	225,683,439
Outside referrals	3,885,632
Emergency room and out-of-area	19,627,112
Prescription drugs	138,121,237
Subtotal:	866,693,346
Less:	
Net reinsurance recoveries	(21,220,903)
Total hospital and medical	887,914,249
Claim adjustment expenses	55,654,338
General administrative expenses	76,648,037
Total underwriting deductions	1,020,216,624
Net underwriting gain or loss	(4,684,892)
Net investment income earned	11,969,906
Net realized capital gains or (losses)	(6,888,141)
Net investment gains or (losses)	5,081,765
Net gain or (loss) from agents' or premium balances charged off	(184,878)
Aggregate write-ins for other income or expense	2,699,485
Net income or (loss) before federal income taxes	2,911,480
Federal and foreign income taxes	59,815
Net Income (loss)	$ 2,851,665

RECONCILIATION OF CAPITAL AND SURPLUS
For the Year Ended December 31,

	2008	2007	2006	Prior Exam 2005
Capital and surplus, December 31, previous	$ 237,721,491	$ 215,554,330	$ 179,388,632	$ 159,482,489
Net income	2,851,665	14,957,644	30,654,290	27,084,433
Change in net unrealized capital gains (losses)	(228,758)	10,219,617	11,021,301	8,234,650
Change in unrealized foreign exchange capital gain or (losses)	(603,314)	415,277	-	-
Change in net deferred income tax	1,568,115	3,703,000	13,790,529	(4,847,738)
Change in nonadmitted assets	(12,454,370)	(7,128,377)	(19,300,422)	(10,565,202)
Change in surplus as regards policyholders for the year	(8,866,662)	22,167,161	36,165,698	19,906,143
Surplus as regards policyholders, December 31, current year	$ 228,854,829	$ 237,721,491	$ 215,554,330	$ 179,388,632

COMMENTS ON FINANCIAL STATEMENT

Note 1 – Bonds Investment

The Company's $172.1 million bond portfolio was concentrated in corporate and structured securities. The corporate bond portfolio was the largest bond class. The $81 million of corporate bonds represented 46.6% of total bonds. U.S. Agency & GSE-backed RMBS represented $50.6 million or 29.2% of total bonds. U.S. Treasury, agency and GSE bonds represented $18.6 million or 10.7% of total bonds. Subsidiaries, controlled and affiliate bonds represented $1.8 million or 1.0% of total bonds. The credit quality of the bond portfolio was 93.2% designated NAIC 1 or NAIC 2. The Company reported no subprime exposure at December 31, 2008. The Company engaged in a securities lending program in 2008 to generate additional income. At December 31, 2008, the $14 million in bonds lent represented 8.1% of total bonds and the $1.6 million of equity securities lent represented 1.2% of equity. The collateral received had a fair value of approximately $16 million on December 31, 2008, representing 102% of the fair value of lent securities.

Note 2 - Claims Unpaid and Unpaid Loss Adjustment Expense

As of year-end 2008, the Company reported a claims unpaid liability and unpaid loss adjustment expense in the amount of $126,998,613 and $4,013,653, respectively. Scott L. Fitzpatrick, F.S.A M.A.A.A., a Life & Health actuary with the Oregon Insurance Division performed an independent review of actuarial assumptions and methodologies of the actuarial liabilities established by the Company as of December 31, 2008. Mr. Fitzpatrick concluded the statement of actuarial liabilities at year-end for the Annual Statement was appropriate and adequate.

Note 3 - Advance Premiums

The Company reported premiums received in advance of $11,882,670 on page 3, line 10 of the Annual Statement. However, the Company was unable to readily provide policy by policy detail to substantiate approximately $6,267,716 of this premium received in advance of its contract.

We recommend the that Company make appropriate changes to its premium system to ensure that policy by policy advance premium detail is available to the examiners.

SUMMARY OF COMMENTS

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

Page	
4	**We recommend that henceforth, when implementing or changing custodial agreements, the Company comply with U.A.C. Rule R590-178-5 and obtain authorization by a resolution of the Board of Directors or an authorized committee of the board in its custodial agreements.**
5	**We recommend that the Company prepare a DUP to measure the appropriateness or effectiveness of the hedging technique pursuant to the requirements of SSAP No. 86 paragraphs 34 and 35 including substantive documentation and approval as necessary.**
5	**We recommend that the Company make appropriate changes to its premium and accounting system to ensure that policy by policy advance premium detail is available to test the adequacy of this liability.**
15	**We recommend that the Company hereafter file complete and accurate Annual Statements in accordance with the instructions provided.**

ACKNOWLEDGEMENT

Participating in this examination for the state of Oregon were Greg Lathrop, CFE, Examiner-in-Charge, with participating examiners Mark Giffin, CFE, Raymond W. Anderson, CFE, Ellen Quale, AFE, and Scott Fitzpatrick, F.S.A., M.A.A.A.

Participating examiners for the Utah Insurance Department were Aaron Phillips, CFE, and Brandon Thomas, HISP, MCM, of Huff, Thomas & Company. Colette M. Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner, and Donald Catmull, 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
of Huff, Thomas & Company
Examiner-In-Charge, representing the Utah
Insurance Department