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RECEIVED

APR 25 2011

**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

Via Overnight Courier

April 22, 2011

Mr. Sukalyan Ghosh, CFE
Insurance Financial Analyst
Financial Regulation Section - 4
Department of Consumer and
Business Services
350 Winter Street, N.E., Room 440
Salem, OR 97309-0405

Ms. Martha Smith
Senior Financial Examiner
State of Idaho
Department of Insurance
700 W. State Street, 3rd Floor
P. O. Box 83720
Boise, ID 83720-0043

Mr. Daniel Applegarth
Assistant Chief Examiner
Utah State Insurance Department
State Office Building, Room 3110
Salt Lake City, UT 84114

Mr. Ronald J. Pastuch
Holding Company Manager
Company Supervision Division
Office of Insurance Commissioner
5000 Capitol Boulevard
Tumwater, WA 98501

Re: 2010 Annual Holding Company Statement

Dear Mr. Ghosh, Ms. Smith, Mr. Applegarth, and Mr. Pastuch:

On behalf of The Regence Group and the affiliated insurers within its holding company system, enclosed are two copies each of the consolidated Regence holding company statement for 2010.

If you have any questions or concerns, please feel free to contact Kerry Barnett, as indicated on the form, or me.

Sincerely,

LISA T. MURPHY

Senior Associate General Counsel
and Assistant Director

cc: Kerry E. Barnett

Enclosures

**HEALTH CARRIER HOLDING COMPANY SYSTEM
ANNUAL REGISTRATION STATEMENT**

FORM B

Filed with the Insurance Commissioners of the States of:
Idaho, Oregon, Utah, and Washington

By

THE REGENCE GROUP

On Behalf of the Following Health Carriers:

<u>Name:</u>	<u>Address:</u>
1. Regence BlueShield (Regence Washington)	1800 Ninth Avenue Seattle, Washington 98101
a. Asuris Northwest Health (ANH)	North 1121 Argonne Street, Suite 220 Spokane, Washington 99212
b. Commencement Bay Life Insurance Company (CBL)	1800 Ninth Avenue Seattle, Washington 98101
2. Regence BlueCross BlueShield of Oregon (Regence Oregon)	100 SW Market Street Portland, Oregon 97201
a. Regence HMO Oregon (RHO)	201 High Street SE Salem, Oregon 97308
b. Regence Health Maintenance of Oregon, Inc. (RHMO)	100 SW Market Street Portland, Oregon 97201
c. Regence Life and Health Insurance Company (RLH)	100 SW Market Street Portland, Oregon 97201
3. Regence BlueCross BlueShield of Utah (Regence Utah)	2890 East Cottonwood Parkway Salt Lake City, Utah 84121
a. HealthWise	2890 East Cottonwood Parkway Salt Lake City, Utah 84121
4. Regence BlueShield of Idaho, Inc. (Regence Idaho)	1602 21st Avenue Lewiston, Idaho 83501

Reporting Period for This Statement: 2010

Date of This Filing: April 29, 2011

Individual to whom Notices and Correspondence concerning this Statement should be addressed:

Kerry E. Barnett
Group Executive Vice President, Corporate Services
and Chief Legal Officer
The Regence Group
200 SW Market Street, Suite 1500
Portland, Oregon 97201
(503) 276-1814

ITEM 1. IDENTITY AND CONTROL OF REGISTRANT

The identity and control of The Regence Group (Regence) holding company is described below. The identity and control of affiliated insurers is attached as Exhibit A.

Home Office Address

100 SW Market Street
Portland, Oregon 97201

Principal Executive Office Address

200 SW Market Street, Suite 1500
Portland, Oregon 97201

Date Affiliate became subject to Holding Company System

Please see the description below.

Method of Acquisition and Maintenance of Control

Regence was initially incorporated as ENTRUST on April 17, 1995. It changed its name to The Benchmark Group on May 25, 1995, and changed its name to The Regence Group effective April 1, 1997. It is an Oregon nonprofit public benefit corporation without members and is authorized to do business in Washington, Idaho, Utah, and California.

Regence is the sole member of Regence BlueCross BlueShield of Oregon (Regence Oregon), Regence BlueShield (Regence Washington), and Regence BlueCross BlueShield of Utah (Regence Utah). As sole member, Regence has authority to approve elections to the governing Boards of these three affiliated corporations and to discharge members of their governing Boards at any time, with or without cause. Further, Regence has approval authority over actions of the three governing Boards going to such fundamental matters as merger, dissolution, or sales not in the ordinary course of business. In addition, Regence manages Regence BlueShield of Idaho, Inc. (Regence Idaho) under terms of a 20-year Management and Administrative Services Agreement, which has been approved by the Idaho Insurance Commissioner.

ITEM 2. ORGANIZATIONAL CHART

See the attached Exhibit B, Regence Organizational Chart.

ITEM 3. THE ULTIMATE CONTROLLING PERSON

(a) Name

The Regence Group

(b) Home Office Address

100 SW Market Street
Portland, Oregon 97201

(c) Principal Executive Office

200 SW Market Street, Suite 1500
Portland, Oregon 97201

(d) Organizational Structure

Nonprofit public benefit corporation organized under the Oregon Nonprofit Corporation Act, ORS Chapter 65.

(e) Principal Business

Non-insurer holding company established to administer the Regence holding company system.

(f) N/A.

(g) Nonprofit Corporation Members and Directors

Regence is a nonprofit organization organized without stock and without members, governed by a self-perpetuating board of directors. Under the terms of affiliation between Regence and its four affiliated health plans, each of the plans has a contractual right to representation on Regence's board of directors.

(h) Pending Court Proceedings for Reorganization or Liquidation

None.

ITEM 4. BIOGRAPHICAL INFORMATION

A current list of Regence Executive Officers and Directors is attached as Exhibit C. To the best of my information and belief, none of the Regence directors or officers has been convicted of any crimes, other than minor traffic violations, during the past ten years.

ITEM 5. TRANSACTIONS AND AGREEMENTS

(a) Loans, other investments, or purchases, sales or exchanges of securities of the affiliates by the registrant or of the registrant by its affiliates

(1) Regence is in receipt of loans from each of its four primary affiliates as follows:

<i>Affiliate</i>	<i>Amount</i>	<i>Date of Transaction</i>
• RBCBSO	\$ 1,640,000	June 30, 1995
• RBS	1,820,000	June 30, 1995
• RBSI	540,000	June 1, 1995
• RBCBSU	1,125,000	August 1, 1997

Each loan is for a term of 20 years and carries interest compounded annually at the prime rate for standard commercial loans.

(2) Regence Washington made capital contributions of \$4.3 million from June 2010 through March 2011 to its wholly-owned subsidiary, Kinetix Living Corp. These contributions were contemplated in filings made with the Washington Insurance Commissioner during the acquisition of that entity.

(b) Purchases, sales or exchanges of assets between affiliates

The following purchases, sales, or exchanges of assets between Regence affiliates occurred in 2010, and, as applicable, the cost was allocated pursuant to the administrative services agreements identified in Item 5(e)(1)(i) and (ii).

(1) In January 2010, Regence renewed its system-wide comprehensive Directors and Officers, Managed Care, and Errors and Omissions liability insurance. The premiums for this coverage were allocated as follows: Regence – \$199,000; Regence Washington – \$874,118; Regence Oregon – \$480,598; Regence Idaho – \$152,559; and Regence Utah – \$317,949.

(2) Each of the four Regence affiliate plans entered into “Regence” Service Mark and Trade Name License Agreements effective October 1, 1999, under which the affiliate plans are charged an annual license fee for use of the “Regence” mark in their corporate names. The fee is calculated at \$.30 per medical member on the annual renewal date. The fees paid by the affiliate plans for 2010 were as follows: Regence Washington – \$340,000; Regence Oregon – \$256,000; Regence Idaho – \$59,000; and Regence Utah – \$119,000.

(3) During 2010, Regence purchased software assets and incurred costs related to internally-customized software projects, and then allocated the assets to each of the four affiliate plans in exchange for cash. These projects mainly related to a multi-year, enterprise-wide system implementation and process improvement

program. Portions of these projects, and others, were transferred to the affiliate plans for cash. The total of these transfers was \$40,000,000, broken down as follows: Regence Washington – \$17,644,000; Regence Oregon – \$11,984,000; Regence Idaho – \$3,452,000; and Regence Utah – \$6,920,000.

- (4) Regence Utah sold TZ Holdings, L.P. shares for \$33,558,220 to Regence Oregon on December 31, 2010.

(c) Transactions between affiliates not in the ordinary course of business

Regence Washington contributed \$20,000,000 to The Regence Foundation on December 22, 2010.

(d) Guarantees or undertakings for the benefit of an affiliate which result in an actual contingent exposure of the registrant's assets to liability, other than insurance contracts entered into in the ordinary course of the registrant's business

- (1) Regence Oregon guarantees a promissory note on behalf of 200 Market Limited Partnership, a 50% owned joint venture.
- (2) Regence Oregon has insolvency agreements with RHO, RHMO, and RLH.

(e) Management agreements, service contracts and all cost-sharing arrangements

(1) Regence

- (i) Regence manages Regence Idaho under terms of a 20-year Management and Administrative Services Agreement.
- (ii) In December 2007, Regence entered into an administrative services agreement with Regence Oregon, Regence Utah, and Regence Washington.
- (iii) Under the agreements mentioned in Item 5(e)(1)(i) and (ii), Regence affiliates reimburse expenses incurred at the Regence level. Depending upon the type of expenses involved, they are allocated to the Regence affiliates using cost center surveys and objective statistical measures, as further described in the agreements.

During 2010, Regence allocated \$377,241,000 in expenses to its affiliates as follows: Regence Washington – \$159,990,000; Regence Oregon – \$118,474,000; Regence Idaho – \$33,026,000; and Regence Utah – \$65,751,000.

- (iv) Regence and RLH have a cost-sharing agreement based on RLH's actual expenses for the prior year and forecasted increase in the current year's budget. This flat-rate fee is for services provided to RLH, for example, in the way of legal, financial, human resources, underwriting, executive and information technology services. This fee can be adjusted in June of the

current operating year if RLH projects a material gain or loss difference forecasted for the remainder of the year. In 2010, RLH's fee total was \$1,500,000.

- (v) Regence and RegenceRx have an administrative services agreement, entered into as of July 1, 2005, under which Regence provides certain administrative services on behalf of RegenceRx.

(2) Regence Washington

- (i) Regence Washington provides and maintains the computer software claims system (referred to as the FEP shared system) on behalf of Regence for administration of the federal employee health benefit plan. Each Regence affiliate plan shares in Regence Washington's cost of maintaining and administering the FEP shared system, which processes claims of federal employees, retirees, and family members within the Regence states. In 2010, \$1,611,000 was allocated from Regence Washington to the three other Regence affiliate plans to maintain this system, broken down as follows: \$742,000 was allocated to Regence Oregon; \$811,000 was allocated to Regence Utah; and \$58,000 was allocated to Regence Idaho.
- (ii) Regence Washington provides various services to Commencement Bay Life Insurance Company (CBL). For 2010, Regence Washington provided services to CBL amounting to \$13,000. CBL presently is inactive.

(3) Regence Oregon

- (i) Regence Oregon has agreements with both RHO and RHMO to provide ongoing management and other services. RHO and RHMO are inactive licensed corporate entities. In addition, RHO provides administrative services for Regence Oregon managed care plans that are funded pursuant to risk sharing arrangements. Regence Oregon compensates RHO for these services.
- (ii) Regence Oregon and RLH have a management agreement entered into on October 1, 1988, which requires Regence Oregon to provide services in the areas of marketing, personnel benefits, and office services. RLH pays Regence Oregon each month for these services based upon a flat rate.
- (iii) RHO and RHMO have an ongoing management agreement between them entered into on January 1, 1989, which requires RHO to provide the same comprehensive services for RHMO as Regence Oregon does for RHO and under the same compensation arrangement. RHO and RHMO are still licensed corporate entities but presently are inactive.

- (iv) Regence Oregon and Regence Idaho have an agreement for Regence Idaho to process Medicare supplement, major medical drug, and professional electronic claims on behalf of Regence Oregon. Regence Oregon reimburses Regence Idaho an administrative fee per claim on a monthly basis.
- (v) Regence Oregon's government programs division in Salem, Oregon, processes Medicare Advantage claims for each of the four Regence affiliate plans and ANH, to consolidate expertise and experience. This is done under the administrative services agreements identified in Item 5(e)(1)(i) and (ii), and, pursuant to those agreements, the cost is included in the Regence allocations to each of the affiliate plans.

(4) Regence Utah

- (i) Regence Utah has an agreement with ValueCare to create a single investment pool between these entities. The objective of this investment pool is to provide the opportunity for a greater return on investments. The investment gains and losses are allocated back to each entity pro rata according to its initial contribution to the pool.
- (ii) Regence Utah has operating agreements with each of HealthWise, ValueCare, and Group Services, Inc., which establish that Regence Utah will provide support services, such as marketing, advertising, printing, computer, accounting, and legal services. In return, Regence Utah has access to, and may utilize the services of, the affiliates subject to the terms and conditions of the operating agreements.
- (iii) A lease agreement exists between RBCSU Realty, LLC, as Landlord and Regence Utah, as Tenant, a copy of which was given to the Utah Insurance Department on October 2, 1997, pertaining to certain real property located at 2890 East Cottonwood Parkway, Salt Lake City, Utah.
- (iv) Regence Utah and Regence Idaho are members of The Regence Caring Foundation for Children, Inc., a Utah nonprofit corporation, which is a 501(c)(3) tax-exempt organization. The Regence Caring Foundation for Children, Inc. provides free dental care to uninsured children within Utah and Idaho. Each entity donates money, raises money from the public, and donates administrative services to benefit eligible uninsured children in their respective State.

(5) Regence Idaho

- (i) Regence Idaho has an agreement with The Regence Caring Foundation for Children, Inc. to provide services for individuals residing in Idaho, similar to the Utah agreement described in Item 5(e)(4)(iv), above.

(f) Reinsurance agreements

- (1) Regence Oregon reinsures stop-loss policies underwritten by RLH for Regence Oregon's self-funded administrative arrangements.
- (2) Regence Utah reinsures HealthWise where a HealthWise member's aggregate claims for the calendar year exceed \$50,000.
- (3) Regence Idaho assumes 100% of the liability for benefits due under RLH Medicare Script (Medicare Part D stand-alone prescription drug plan) policies issued to individuals in the state of Idaho.
- (4) Regence Utah assumes 100% of the liability for benefits due under RLH Medicare Script (Medicare Part D stand-alone prescription drug plan) policies issued to individuals in the state of Utah.
- (5) Regence Oregon 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 Oregon.
- (6) Regence Oregon reinsures Institution Fund Services for RHO and RHMO pursuant to Reinsurance Agreements dated October 22, 1993.

(g) Dividends and other distributions to shareholders

- (1) Regence Oregon made a \$56,000,000 ordinary distribution to The Regence Group, its sole member, on November 17, 2010
- (2) Regence Utah made a \$10,000,000 extraordinary distribution to The Regence Group, its sole member, on December 28, 2010.

(h) Consolidated tax allocation agreements

On September 20, 2000, Regence and its eligible affiliates and subsidiaries entered into a Consolidated Federal Income Tax Agreement setting forth the arrangement to allocate consolidated tax liability among the parties. The agreement apportions the tax liability of the parties during consolidated return years as prescribed in Treasury Regulation Sections 1.1502-2 and 1.1502-79.

(i) Any pledge of the registrant's stock or of the stock of any subsidiary or controlling affiliate, for a loan made to any member of the insurance holding company system

None.

ITEM 6. LITIGATION OR ADMINISTRATIVE PROCEEDINGS

(a) Criminal prosecutions or administrative proceedings by any government agency or authority which may be relevant to the trustworthiness of any party thereto.

None.

(b) Proceedings which may have a material effect upon the solvency or capital structure of the ultimate holding company including, but not necessarily limited to, bankruptcy, receivership or other corporate reorganizations.

None.

ITEM 7. STATEMENT REGARDING PLAN OR SERIES OF TRANSACTIONS

The registrant hereby states that it has not entered into separate transactions with persons within the registrant's holding company system since the filing of the prior year's annual registration statement, the purpose of which is to avoid statutory threshold amounts that would have required the commissioner's prior approval or reporting to the commissioner.

For Washington only – Regence BlueShield hereby states that it has not entered into separate transactions with persons within the health carrier's holding company system which in the aggregate amount exceed the statutory threshold amounts which would have required the commissioner's prior approval or reporting to the commissioner.

ITEM 8. FINANCIAL STATEMENTS AND EXHIBITS

An audited financial statement of Regence for the year ending December 31, 2010, with Report of Independent Auditors, is attached as Exhibit D, incorporated by reference.

ITEM 9. FORM C REQUIRED

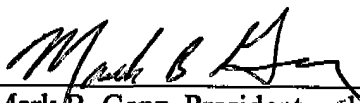
Attached as Exhibit E is Form C, Summary of Registration Statement, submitted concurrent with this Registration Statement.

ITEM 10. SIGNATURE AND CERTIFICATION

Pursuant to the respective holding company registration requirements, the registrant has caused this annual registration statement to be duly signed on its behalf in the City of Portland and State of Oregon on the 22nd day of April, 2011.

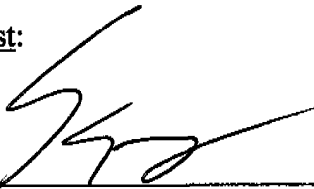
THE REGENGE GROUP

By:



Mark B. Ganz, President and CEO

Attest:

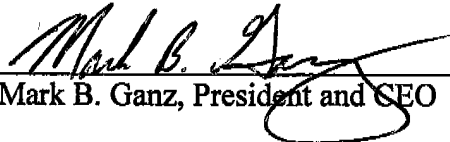


Kerry E. Barnett
Group Executive Vice President, Corporate Services
and Chief Legal Officer

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached annual registration statement dated April 22, 2011, for and on behalf of The Regence Group; that he is the President and CEO of such company and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

By:



Mark B. Ganz, President and CEO

LIST OF EXHIBITS

Exhibit A – Identity and Control of Affiliated Insurers

Exhibit B – The Regence Group Organization Chart

Exhibit C – Officers and Directors of The Regence Group

Exhibit D – The Regence Group Audited Financial Statements

Exhibit E – Form C, Summary of Registration Statement

EXHIBIT A

IDENTITY AND CONTROL OF AFFILIATED INSURERS

The following insurers are part of the holding company system:

1. Regence BlueCross BlueShield of Oregon (Regence Oregon) and its subsidiaries

Home Office Address

100 SW Market Street
Portland, Oregon 97201

Principal Executive Offices Address

100 SW Market Street
Portland, Oregon 97201

Date Affiliate became subject to Holding Company System

Regence BlueCross BlueShield of Oregon System: March 1, 1983
The Regence Group System: June 1, 1995

Method of Acquisition and Maintenance of Control

Name Change History: Oregon Physicians' Service (OPS) merged into Northwest Hospital Association (dba Blue Cross of Oregon) effective March 1, 1983, and the name of the surviving corporation was changed to Blue Cross and Blue Shield of Oregon; the corporation changed its name to Regence BlueCross BlueShield of Oregon effective April 1, 1997.

The Regence Group (Regence) became the sole member of Regence Oregon pursuant to a Plan and Agreement of Affiliation effective June 1, 1995. As sole member, Regence has the authority to approve or disapprove elections to the governing board of Regence Oregon and to discharge members of its governing board at any time, with or without cause. Further, Regence 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.

A. Regence HMO Oregon (RHO)

Home Office Address

201 High Street SE
Salem, Oregon 97308

Principal Executive Offices Address

100 SW Market Street
Portland, Oregon 97201

Date Affiliate became subject to Holding Company System

Regence BlueCross BlueShield of Oregon System: November 10, 1988

The Regence Group System: June 1, 1995

Method of Acquisition and Maintenance of Control by RCBBSO

Name Change History: Originally incorporated as Capitol Health Care, Inc., on November 11, 1976; changed its name to HMO Oregon on November 1, 1993, and then changed its name to Regence HMO Oregon on April 1, 1997.

Regence Oregon became the only member of RHO pursuant to a Plan and Agreement of Acquisition dated March 9, 1988, and Articles of Acquisition dated October 28, 1988. The consideration for the acquisition was a \$2,000,000 loan to RHO, a line of credit in the sum of \$5,000,000 and transfer of ownership by RCBBSO to RHO of its wholly owned subsidiary, Regence Health Maintenance of Oregon, Inc. (RHMO), together with financial and capitalization assurances on behalf of RHMO.

As the only member of RHO, only Regence Oregon has the authority to appoint its board Chair and to approve the nominations of directors, all who serve at the pleasure of Regence Oregon, to approve the annual corporate plan and budget, to approve any product line and service line changes and to approve amendments to the Articles of Incorporation and Bylaws of RHMO. Further, as member, Regence Oregon 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.

RHO is still a licensed corporate entity but presently is inactive.

B. Regence Health Maintenance of Oregon, Inc. (RHMO)

Home Office Address

100 SW Market Street
Portland, Oregon 97201

Principal Executive Offices Address

100 SW Market Street
Portland, Oregon 97201

Date Affiliate became subject to Holding Company System

Regence BlueCross BlueShield of Oregon System: November 27, 1985

The Regence Group System: June 1, 1995

Method of Acquisition and Maintenance of Control by RCBBSO

Name Change History: Originally incorporated as Network Health Plan, Inc., on November 27, 1985; changed name to Health Maintenance of Oregon, Inc., on

September 11, 1986; changed name to Regence Health Maintenance of Oregon, Inc. on September 8, 1997.

Regence Oregon originally organized and incorporated RHMO and owned 100 percent of its voting securities. These securities were subsequently transferred to RHO's wholly owned subsidiary Capitol Health Care Management, Inc., as part of Regence Oregon's acquisition of RHO on November 10, 1988. Regence Oregon retains control of RHMO through its control of RHO, owner of Capitol Health Care Management, Inc.

RHMO is still a licensed corporate entity but presently is inactive.

C. Regence Life and Health Insurance Company (RLH)

Home Office Address

100 SW Market Street
Portland, Oregon 97201

Principal Executive Offices Address

100 SW Market Street
Portland, Oregon 97201

Date Affiliate became subject to Holding Company System

Regence BlueCross BlueShield of Oregon System: March 1, 1983
The Regence Group System: June 1, 1995

Method of Acquisition and Maintenance of Control by RBCBSO

Name Change History: Originally organized by OPS as Medical Health Company (MHC) on March 9, 1964, as a hospital association; name changed to Greater Northwest Insurance Company (GNI) on November 16, 1982, and became licensed as a health and life insurance company; name changed to Oregon Pacific States Insurance (OPSI) company on April 24, 1984; name changed to Regence Life and Health Insurance Company on April 1, 1997.

OPS initially organized MHC in the early 1960s as a wholly owned subsidiary. In 1982, MHC was licensed as a health care service contractor and its name was changed first to GNI, then to OPSI. On December 17, 1982, OPSI was issued an Oregon Certificate of Authority to do business as a life and health insurance company and surrendered its Certificate of Authority to do business as a health care service contractor. RBCBSO acquired all the stock of RLH when NHS and OPS merged on March 1, 1983.

Effective April 2, 1999, the insurance agency business of the four Regence affiliate plans was combined by merging three out-of-state insurance agency subsidiaries into the RLH subsidiary, Regence Coordinated Services, Inc. In consideration for the transaction, each of the affiliate plans received shares of RLH stock. In 2008,

Regence Oregon sold 16,795 shares of RLH stock to Regence Washington for \$26,946,000. After the transaction, Regence Washington is a majority stockholder of RLH with 75% of the corporation's stock. The remaining Regence affiliate percentages changed as follows: Regence Oregon – 11%; Regence Idaho – 2%; and Regence Utah – 12%.

2. Regence BlueShield (Regence Washington) and its subsidiaries

Home Office Address

1800 Ninth Avenue
Seattle, Washington 98101

Principal Executive Offices Address

1800 Ninth Avenue
Seattle, Washington 98101

Date Registrant became subject to the Holding Company System

June 1, 1995

Method of Acquisition and Maintenance of Control

Pursuant to a Plan and Agreement of Affiliation effective June 1, 1995, Regence became the sole member of Regence Washington. As a Washington membership nonprofit corporation, control of Regence Washington is exercised through Regence Washington's membership interests. Regence maintains control of Regence Washington by reason of its continued holding of all membership interests in Regence Washington.

A. Asuris Northwest Health (ANH)

Home Office Address

North 1121 Argonne Street, Suite 220
Spokane, Washington 99212

Principal Executive Offices Address

1800 Ninth Avenue
Seattle, Washington 98101

Date Registrant became subject to the Holding Company System

June 1, 1995.

Method of Acquisition and Maintenance of Control

ANH, formerly known as Northwest Health, was incorporated as a nonprofit membership corporation in 1933 under the name Walla Walla Valley Medical Service Corporation. ANH was acquired by Regence Washington in November 1994. ANH automatically became a member of the holding company system by reason of Regence Washington's affiliation with Regence on June 1,

1995. As a Washington membership nonprofit corporation, control of ANH is exercised through ANH's membership interests. Regence Washington maintains control of ANH by reason of its continued holding of all membership interests in ANH. In September 2002, Regence Northwest Health changed its name to ANH.

B. Commencement Bay Life Insurance Company (CBL)

Home Office Address

1800 Ninth Avenue
Seattle, Washington 98101

Principal Executive Offices Address

1800 Ninth Avenue
Seattle, Washington 98101

Date Registrant became subject to the Holding Company System

September 1, 1992

Method of Acquisition and Maintenance of Control

CBL was formed and incorporated by, and is controlled by, its sole shareholder, Regence Washington.

3. Regence BlueCross BlueShield of Utah (Regence Utah) and its subsidiary

Home Office Address

2890 East Cottonwood Parkway
Salt Lake City, Utah 84121

Principal Executive Offices Address

2890 East Cottonwood Parkway
Salt Lake City, Utah 84121

Date Affiliate became subject to Holding Company System

BlueCross BlueShield of Utah System: December 28, 1981
The Regence Group System: August 1, 1997

Method of Acquisition and Maintenance of Control

Name Change History: Blue Cross of Utah and Blue Shield of Utah merged into BlueCross BlueShield of Utah effective December 28, 1981; name of the corporation changed to Regence BlueCross BlueShield of Utah effective August 1, 1997.

Regence became the sole member of Regence Utah pursuant to a Plan and Agreement of Affiliation effective July 28, 1997.

A. HealthWise

Home Office Address

2890 East Cottonwood Parkway
Salt Lake City, Utah 84121

Principal Executive Offices Address

2890 East Cottonwood Parkway
Salt Lake City, Utah 84121

Date Affiliate became subject to Holding Company System

BlueCross BlueShield of Utah System: August 10, 1982
The Regence Group System: August 1, 1997

Method of Acquisition and Maintenance of Control by RBCBSU

Name Change History: Incorporated as HealthWise on August 10, 1982.
Regence Utah owns all HealthWise stock.

4. Regence BlueShield of Idaho, Inc. (Regence Idaho)

Home Office Address

1602 21st Avenue
Lewiston, Idaho 83501

Principal Executive Offices Address

1602 21st Avenue
Lewiston, Idaho 83501

Date Registrant became subject to the Holding Company System

June 1, 1995.

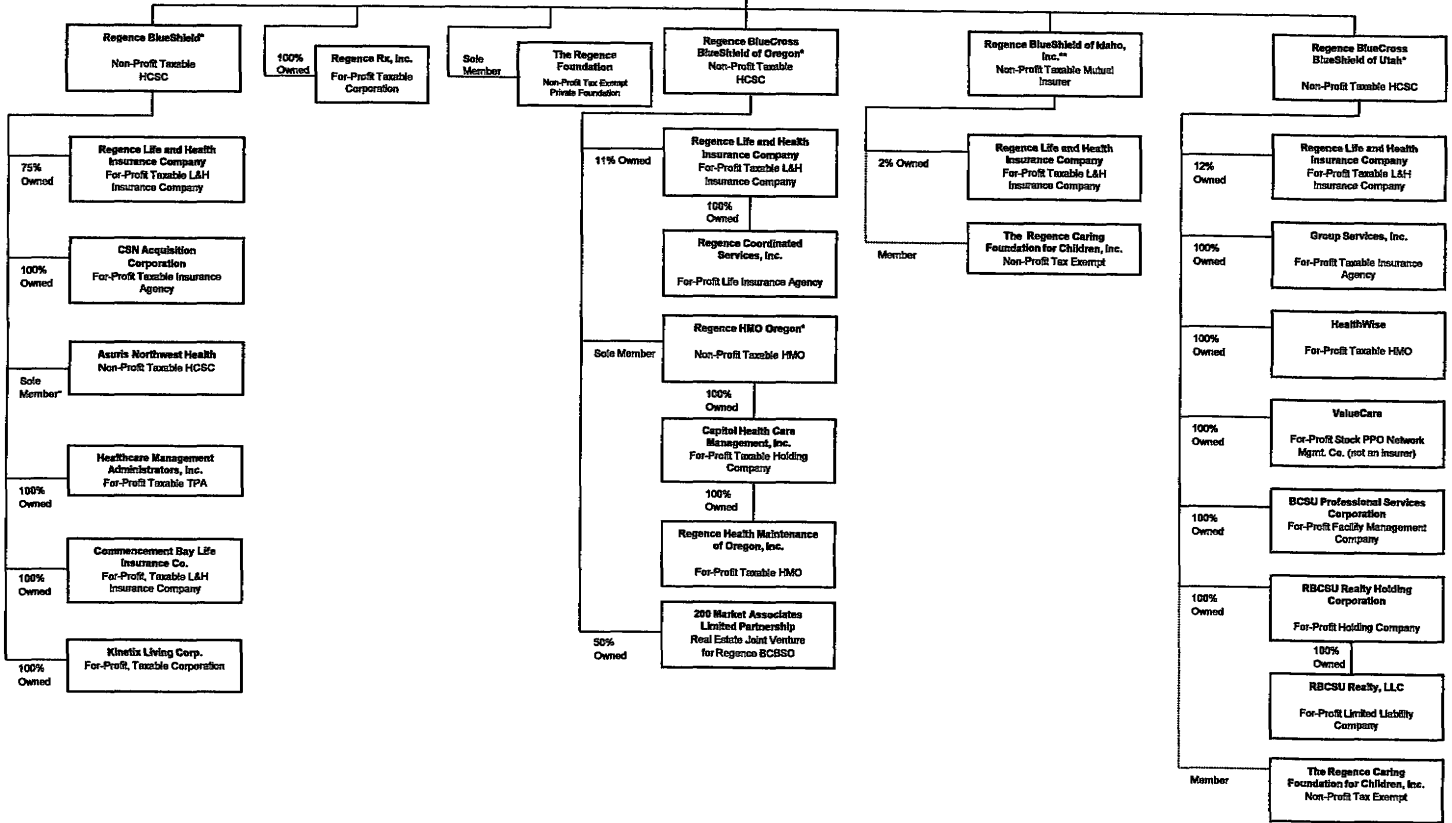
Method of Acquisition and Maintenance of Control

Regence Idaho became affiliated with the Regence holding company system effective June 1, 1995, pursuant to the same Plan and Agreement of Affiliation by which Regence Washington and Regence Oregon became affiliated, as described above. Pursuant to that Plan and with the approval of the Idaho Insurance Commissioner, Regence and Regence Idaho entered into a 20-year Management and Administrative Services Contract effective June 1, 1995. Regence maintains control of Regence Idaho by reason of its continuing contractual rights and powers under that management agreement.

04/19/2011

The Regence Group
Non-Profit, Non-Insurer Holding Company

HCSC Health Care Service Contractor
 * Sole Member is Upstream Parent
 ** Controlled by 20 Year Management Agreement
 # Dissolution in progress



THE REGENGE GROUP – 2010
 Health Carrier Holding Company System Annual Registration Statement
 EXHIBIT B – Organizational Chart

Exhibit C

The Regence Group Officers

Mark B. Ganz
President & CEO

Kerry E. Barnett
Corporate Secretary;
Group Executive Vice President,
Corporate Services & Chief Legal Officer

Vince P. Price
Executive Vice President,
Chief Financial Officer

William C. Barr
Group Executive Vice President,
Health Insurance Services

John W. Morgan
Group Executive Vice President,
Direct Health Solutions

Andreas B. Ellis
Corporate Treasurer

Robert A. Hatch
President, Utah

M. Jonathan Hensley
President, Washington

Scott D. Kreiling
President, Idaho

Jared L. Short
President, Oregon

John M. Stellmon
Senior Vice President,
Health Care Services

John Cimral
Senior Vice President,
Chief Information Officer

Jo Anne C. Long
Senior Vice President,
Government Programs

Ralph M. Prows, M.D.
Chief Medical Officer

Margaret M. Maguire
Vice President,
Chief of Staff

Mohandas Nair
Chief Innovation Officer

Lisa T. Murphy
Assistant Corporate Secretary

The Regence Group: 2010 Directors

Mark C. Adams, M.D.
505 Broadway, Unit 505
Tacoma, WA 98402
(253) 426-6322
Fax: (253) 426-6369
markadamsm@gmail.com

S. Fred Beck
CFO, ICON Health & Fitness, Inc.
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Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report)

An Independent Licensee of the Blue Cross and Blue Shield Association.

THE REGENCE GROUP

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Regence Group
Portland, Oregon

We have audited the accompanying consolidated balance sheets of The Regence Group, its subsidiaries, and affiliates (the "Group") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in surplus and accumulated other comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional consolidating information on pages 41 through 46 is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the basic consolidated financial statements. These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

March 29, 2011

Page 2

THE REGENCE GROUP
Consolidated Balance Sheets
December 31, 2010 and 2009
(In thousands)

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents	\$ 258,014	\$ 229,036
Accounts Receivable, net	802,656	850,954
Investments	2,525,816	2,399,351
Property, Buildings and Equipment, net	426,057	422,910
Other Assets	162,664	158,107
Deferred Compensation	51,288	50,158
Deferred Income Taxes	-	2,945
Total Assets	<u>\$ 4,226,495</u>	<u>\$ 4,113,461</u>

(Continued)

THE REGENCE GROUP
Consolidated Balance Sheets
December 31, 2010 and 2009
(In thousands)

<u>LIABILITIES AND SURPLUS</u>	<u>2010</u>	<u>2009</u>
Liabilities:		
Reserve for Unpaid Claims	\$ 885,353	\$ 1,028,451
Reserve for Adjusting Expenses on Unpaid Claims	22,994	27,851
Unearned Premiums	281,808	279,528
Debt and Other Obligations	140,177	143,088
Accrued Expenses and Other Liabilities	396,808	428,592
Experience Refunds Payable	39,466	33,735
Deferred Compensation	51,288	50,158
Deferred Income Taxes	<u>24,082</u>	<u>-</u>
Total Liabilities	<u>1,841,976</u>	<u>1,991,403</u>
Commitments and Contingencies (Note 14)		
Surplus:		
Accumulated Surplus	2,297,986	2,056,694
Accumulated Other Comprehensive Income	<u>86,533</u>	<u>65,364</u>
Total Surplus	<u>2,384,519</u>	<u>2,122,058</u>
Total Liabilities and Surplus	<u>\$ 4,226,495</u>	<u>\$ 4,113,461</u>
		(Concluded)

See accompanying notes to consolidated financial statements.

THE REGENCE GROUP
Consolidated Statements of Operations
Years Ended December 31, 2010 and 2009
(In thousands)

	<u>2010</u>	<u>2009</u>
Premiums	\$ 8,132,901	\$ 8,898,660
Commissions Expense	(166,027)	(177,040)
Premium Taxes	<u>(59,339)</u>	<u>(54,112)</u>
Net Revenue	7,907,535	8,667,508
Claims Expense	7,018,165	7,872,552
Operating Expense	698,489	797,750
Impairment of Goodwill	<u>13,173</u>	<u>-</u>
Underwriting Income (Loss)	177,708	(2,794)
Investment Income, net	156,327	61,172
Other (Expense) Income, net	(2,167)	12,111
Uninsurable Pool Assessments	<u>(28,745)</u>	<u>(32,385)</u>
Income Before Income Taxes	303,123	38,104
Income Tax Expense	<u>61,831</u>	<u>7,078</u>
Net Income	<u>\$ 241,292</u>	<u>\$ 31,026</u>

See accompanying notes to consolidated financial statements.

THE REGENCE GROUP
Consolidated Statements of Changes in Surplus and Accumulated Other Comprehensive Income (Loss)
Years Ended December 31, 2010 and 2009

(In thousands)

	Accumulated Surplus	Other Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2009	\$ 2,023,231		\$ (243,662)	\$ 1,779,569
Cumulative Effect of Adoption of Accounting Guidance related to other-than-temporary impairment	2,437		(2,437)	-
Net Income	31,026	\$ 31,026		31,026
Other Comprehensive Income, net of tax:				
Unrealized Gain on Investments:				
Unrealized Holding Gain Arising During Period net of other-than-temporary impairment of \$4,388 and tax expense of \$47,712		199,056		
Reclassification Adjustment for Loss Included in Net Income, net of tax expense of \$7,941		20,577		
Periodic Pension and Postretirement Cost Adjustment, net of tax expense of \$27,430		91,830		
Other Comprehensive Income		311,463	311,463	311,463
Comprehensive Income		\$ 342,489		
Balance at December 31, 2009	\$ 2,056,694		\$ 65,364	\$ 2,122,058
Net Income	241,292	\$ 241,292		241,292
Other Comprehensive Income, net of tax:				
Unrealized Gain on Investments:				
Unrealized Holding Gain Arising During Period net of other-than-temporary impairment of \$1,483 and tax expense of \$36,278		107,982		
Reclassification Adjustment for Gain Included in Net Income, net of tax benefit of \$22,406		(55,997)		
Periodic Pension and Postretirement Cost Adjustment, net of tax benefit of \$9,206		(30,816)		
Other Comprehensive Income		21,169	21,169	21,169
Comprehensive Income		\$ 262,461		
Balance at December 31, 2010	\$ 2,297,986		\$ 86,533	\$ 2,384,519

See accompanying notes to consolidated financial statements.

THE REGENCE GROUP
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009
(In thousands)

	2010	2009
Cash Flows From Operating Activities:		
Net Income	\$ 241,292	\$ 31,026
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	74,362	62,775
Impairment of Goodwill	13,173	-
Deferred Income Taxes	22,361	4,782
Net Amortization of Bond Premium	6,328	5,091
Net Realized (Gains) Losses on Investments	(78,403)	28,518
Net Losses on Sales of Property, Buildings and Equipment	484	1,529
 Changes In:		
Accounts Receivable	48,955	(110,501)
Other Assets	(8,246)	4,665
Reserve for Unpaid Claims	(143,098)	(30,739)
Reserve for Adjusting Expenses on Unpaid Claims	(4,857)	(1,600)
Unearned Premiums	2,280	84,284
Accrued Expenses and Other Liabilities	(74,821)	23,733
Experience Refunds Payable	5,731	(7,276)
	<u>\$ 105,541</u>	<u>\$ 96,287</u>
 Cash Flows From Investing Activities:		
Proceeds from Sales and Maturities of Investments	1,517,141	1,352,872
Purchases of Investments	(1,505,813)	(1,344,958)
Proceeds from Sales of Property, Buildings and Equipment	2,468	1,150
Cash Paid for Acquisition, net of cash acquired	(14,437)	-
Purchases of Property, Buildings and Equipment	(64,951)	(86,307)
	<u>\$ (65,592)</u>	<u>\$ (77,243)</u>

(Continued)

THE REGENCE GROUP
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009
(In thousands)

	2010	2009
Cash Flows From Financing Activities:		
Proceeds from Debt and Other Obligations	\$ 22,000	\$ 17,000
Repayments of Debt and Other Obligations	(32,971)	(21,035)
Net Cash Used in Financing Activities	\$ (10,971)	\$ (4,035)
Net Increase in Cash and Cash Equivalents	28,978	15,009
Cash and Cash Equivalents at Beginning of Year	229,036	214,027
Cash and Cash Equivalents at End of Year	\$ 258,014	\$ 229,036
 Non-Cash Activities:		
Purchases of Property, Buildings and Equipment Financed Through Capital Lease Obligations	\$ 8,060	\$ 4,978
Purchases of Property, Buildings and Equipment Financed Through Incurrence of Other Liabilities	\$ 4,236	\$ 1,691
 Cash Paid for Taxes and Interest:		
Cash Paid During the Year for Taxes	\$ 40,565	\$ 9,516
Cash Paid During the Year for Interest	\$ 10,963	\$ 13,490
		(Concluded)

See accompany notes to consolidated financial statements.

THE REGENGE GROUP
Notes to Consolidated Financial Statements
Years Ended December 31, 2010 and 2009

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Business Organization – The Regence Group (TRG) is incorporated as a nonprofit corporation under the laws of the State of Oregon. TRG is the sole member of Regence BlueShield, Regence BlueCross BlueShield of Oregon, and Regence BlueCross BlueShield of Utah and has established a long-term management services contract with Regence BlueShield of Idaho, Inc. (individually, an affiliate, or collectively, the Plans) and has control over the operations and management of the Plans. TRG, its subsidiaries Regence Rx, Inc. (Regence Rx) and The Regence Foundation (Regence Foundation), as well as the Plans are collectively referred to as Regence. Regence is a health care services company, which primarily provides hospital, medical, dental and pharmaceutical drug coverage to groups and individuals through insurance policies. Each of the Plans is subject to regulation by the insurance commissioners in the states in which they are licensed to sell insurance.

B. Principles of Consolidation – The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of Regence BlueShield and its wholly owned subsidiaries (Regence BlueShield), Regence BlueCross BlueShield of Oregon and its wholly owned subsidiary and directly affiliated organizations (Regence BCBSO), Regence BlueShield of Idaho, Inc., Regence BlueCross BlueShield of Utah and its wholly owned subsidiaries (Regence BCBSU), Regence Rx, Regence Foundation and TRG. All intercompany accounts and transactions have been eliminated.

C. Cash and Cash Equivalents – Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less at the date of acquisition. Cash equivalents of \$129,395,000 and \$173,164,000 are included within cash and cash equivalents at December 31, 2010 and 2009, respectively.

D. Concentration of Risk – Regence invests its excess cash in interest-bearing deposits with major banks, commercial paper, money market funds and government securities. Investments principally include U.S. Treasury securities, obligations of U.S. Government-sponsored agencies, loan-backed securities, corporate and other debt and equity securities. Deposits in interest-bearing accounts with a single financial institution may exceed FDIC insured limits of \$250,000. Regence uses multiple financial institutions to limit exposure to these risks.

E. Accounts Receivable – Accounts receivable includes premiums due and accrued, reinsurance, income taxes and other miscellaneous receivables. At December 31, 2010 and 2009, accounts receivable also includes an allowance for doubtful accounts of \$6,771,000 and \$7,652,000, respectively.

F. Investments – All of Regence's debt and equity securities are categorized as available-for-sale. These investments are carried at fair value with unrealized gains and losses (net of tax) recorded as a separate component of surplus. The amortized cost of debt securities not backed by loans is adjusted for

amortization of premiums and accretion of discounts to maturity. For asset-backed and residential and commercial mortgage-backed securities (collectively, loan-backed securities), premiums and discounts are amortized or accreted over the estimated life of the security. Such amortization and accretion, as well as interest income, is included in net investment income. Realized gains and losses on the sale of investments are determined using the first-in, first-out method and are included in net investment income.

Management periodically reviews Regence's investments to determine whether declines in fair value below amortized cost are other-than-temporary. Relevant factors considered in the analysis include, but are not limited to, changes in fair value relative to market volatility, the extent and/or duration of impairment, price recovery trend, credit risk and concentration within Regence's total holdings. Other criteria that may identify an other-than-temporary impairment include declarations of bankruptcy by the issuer, significant downgrades in credit ratings and delinquent dividends or interest payments.

Upon determination that equity securities are other-than-temporarily impaired or that Regence does not have the intent and ability to hold the securities until the fair value is recovered, permanent adjustments are made to the cost basis of the investment to reflect the impairment. Adjustments are included in net investment income.

For debt securities, Regence assesses whether it has the intent to sell or will more likely than not be required to sell the security prior to recovery of the amortized cost basis. If either condition is met, the full impairment is included in other-than-temporary impairment losses recognized in net investment income. Otherwise, only the impairment resulting from credit deterioration is included in income and impairment caused by all other factors is included in unrealized holding gain arising during the period in other comprehensive income (OCI). The credit component is determined by comparing the amortized cost basis to the net present value of expected future cash flows. Cash flow estimates for loan-backed securities are based on assumptions regarding the credit quality of the underlying collateral and prepayment timing. Cash flow estimates of corporate and other debt securities are driven by the probability of default or risk of an issuer declaring bankruptcy. U.S. Treasury securities have no significant credit risk as these investments would not likely be settled for less than amortized cost.

G. Property, Buildings and Equipment – Property, buildings, equipment are recorded at cost less accumulated depreciation. Depreciation is recorded on the straight-line basis over estimated useful lives of three to ten years for furniture and equipment, three to twelve years for capitalized software, and up to fifty years for buildings and improvements. Leasehold improvements are amortized over the estimated useful life of the asset, not to exceed the life of the lease.

H. Other Assets – Other assets includes investments accounted for under the equity method. Regence adjusts the carrying value of the investment and net income for its proportionate share of the investee's gains and losses. These adjustments are included in net investment income on the consolidated statements of operations. Other assets also includes certain costs incurred in the development of internally-customized software not yet placed into service, prepaid expenses and other miscellaneous assets.

I. Long-Lived Assets – Management reviews long-lived assets, including capitalized internally-customized software, for impairment whenever events or circumstances indicate the carrying amount of

an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its fair value. All long-lived assets to be disposed of by sale are carried at the lower of carrying amount or fair value less costs to sell, and no depreciation is recorded on these specifically identified assets. No impairments were recorded in 2010 and 2009.

J. Underwriting Reserves – The reserves for unpaid claims and the reserve for adjusting expenses on unpaid claims represent Regence’s estimate of future payments for services rendered as of each year end and an estimate of future expenses to process such claims. The reserves are actuarial estimates based upon historical claims experience modified for current trends and changes in benefit coverage; however, subsequent actual claim payments may differ from established estimates. The method for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are included in current period earnings.

Management also performs reviews for premium deficiencies resulting from an excess of expected claims and administrative expenses over future premiums without consideration of investment earnings. Premium deficiency reserves included in reserve for unpaid claims were \$6,176,000 and \$8,469,000 at December 31, 2010 and 2009, respectively.

K. Experience Refunds Payable – For certain customer contracts, Regence recognizes balances at the end of the agreement period for any excess of premiums over claims expense and retention charged. The experience refunds payable represents excess customer payments and deposits under these contracts. As specified in each customer contract, these balances may be refunded or applied toward future premiums or claims.

L. Income Taxes – TRG and its sole member affiliates as well as Regence Rx file a consolidated federal income tax return. Under tax sharing agreements, the affiliates pay to, or receive from TRG amounts by which the affiliates’ federal income tax liability is affected by virtue of inclusion in the consolidated federal return.

Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at year end. These amounts are based on enacted tax laws in the various jurisdictions where Regence has taxable income. Valuation allowances reduce deferred tax assets to an amount that will, more likely than not, be realized.

Tax benefits from uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The amount recognized is measured as the largest amount of tax benefit that is greater than 50 percent likely to be realized upon effective settlements. There were no material reserves at December 31, 2010 and 2009.

M. Other Comprehensive Income – OCI includes all changes in surplus (net of tax, where applicable) during the period, including net income, unrealized gains and losses on available-for-sale investments,

and periodic pension and postretirement costs. OCI is net of reclassification adjustments for items included in net income, such as realized gains and losses on investments.

N. Administrative Services Contracts and Uninsured Portion of Pharmaceutical Drug Coverage under Medicare – Regence has administrative services contracts with self-insured customers, under which the customers are at risk for all or a portion of their claims experience. Regence charges these self-insured customers a fee for services rendered.

Regence provides pharmaceutical drug coverage (Medicare Part D) under its contracts with the Centers for Medicare and Medicaid Services (CMS). Medicare Part D benefits paid that exceed established thresholds, as well as additional benefits paid for low income eligible subscribers, are fully reimbursed by CMS.

Gross amounts included in premiums related to the administrative services contracts and the portion of Medicare Part D for which CMS retains risk were \$2,097,566,000 and \$2,150,734,000 in 2010 and 2009, respectively. Related gross claims incurred included in claims expense were \$1,988,806,000 and \$2,016,288,000 in 2010 and 2009, respectively.

Management also performs reviews for related administrative fee deficiencies resulting from an excess of expected administrative expenses over future fees without consideration of investment earnings. Administrative fee deficiency reserves included in accrued expenses and other liabilities were \$3,625,000 at December 31, 2010. No administrative fee deficiency reserve was recorded in 2009.

O. Revenue Recognition – Premiums received for underwritten products are recognized as revenue over the period the insurance coverage is in effect. Premiums collected in advance of the period of coverage are reflected as unearned premiums in Regence’s consolidated balance sheets.

Regence also provides coverage for certain groups whose contracts provide for premiums based on group experience factors. Under these contracts, revenue is generally recorded on the basis of claims expense and retention charged. These contracts provide for maximum rates, and losses can result if claims and retention exceed those rates. In certain instances, such losses may be collectible from specific groups, recognized as revenue, and included in net accounts receivable. All other losses are recorded in the year incurred and may, in many cases, be recouped against subsequent years’ gains on a group specific basis.

Regence serves as a plan sponsor offering Medicare Advantage and Part D prescription drug insurance coverage under contracts with CMS. CMS deploys a risk adjustment model that apportions premiums paid to all health plans according to health severity and certain demographic factors. The CMS risk adjustment model pays more for members whose medical history indicates they have certain medical conditions. Under this risk adjustment methodology, CMS calculates the risk adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient and physician treatment settings. Regence and health care providers collect, capture, and submit the necessary and available diagnosis data to CMS within prescribed deadlines. Regence estimates risk adjustment revenues based upon the diagnosis data submitted to CMS.

In addition to premiums paid by CMS, Medicare subscribers pay a fixed monthly premium to Regence for the plan year. Premium revenues are recognized ratably over the period in which eligible subscribers are

entitled to receive covered benefits. Regence records premium payments received in advance of the applicable service period as unearned premiums.

P. Commissions Expense and Other Insurance Contract Acquisition Costs – Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred.

Q. Use of Estimates – The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

R. Fair Value of Financial Instruments – Certain financial instruments are measured at fair value in Regence's consolidated balance sheets. The valuations of these instruments include inputs that can be classified as one of the three levels in a hierarchy. The levels of inputs are as follows:

Level 1. Quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2. Other observable inputs that reflect quoted market prices for assets either directly or indirectly. These include quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), inputs other than quoted prices that are observable, and inputs derived principally from or corroborated by other observable market data for substantially the full term of the asset or liability.

Level 3. Unobservable inputs that cannot be corroborated by other observable market data at the measurement date.

Fair values are based on quoted market prices when available. An instrument's classification is based on the lowest level of input that is significant to its measurement.

S. New Accounting Pronouncements –

Fair Value

In January 2010, the FASB issued new guidance requiring additional disclosures for transfers between securities valued using Levels 1 and 2 fair value measurements and clarifications to existing fair value disclosures related to the level of disaggregation, inputs and valuation techniques, and gross presentation of Level 3 activity. Regence adopted this standard for the year ended December 31, 2010 with the exception of the gross presentation of purchases, sales, issuance, and settlements which is not effective until December 31, 2011. The additional information is disclosed in note 3.

Variable Interest Entities (VIE's)

In December 2009, the FASB issued additional guidance on consolidation rules applicable to VIE's. This guidance requires an ongoing assessment to determine whether a VIE must be consolidated based on evaluation of various qualitative factors. The guidance also expands required disclosures for both

consolidated and unconsolidated VIE's. Adoption of this standard effective January 1, 2010 resulted in additional information disclosed in note 2.

T. Subsequent Events – Regence evaluated subsequent events for recognition or disclosure through March 29, 2011, which represents the date the consolidated financial statements were available to be issued.

2. INVESTMENTS

A. Available for Sale Investments

The following table sets forth the cost, or amortized cost, and fair values of investments held at December 31, 2010:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit Related Impairment
Equity securities:					
Communications	\$ 29,981	\$ 11,227	\$ 39	\$ 41,169	\$ -
Consumer goods	102,332	31,288	92	133,528	-
Industrial goods	62,220	20,909	101	83,028	-
Utilities	55,223	17,249	45	72,427	-
Financial services	69,858	15,996	71	85,783	-
Technology	32,345	14,802	64	47,083	-
Foreign equity	105,682	21,151	102	126,731	-
Private placement	11,063	44,625	-	55,688	-
Other	15,777	3,696	-	19,473	-
Total equity securities	484,481	180,943	514	664,910	-
Debt securities:					
U.S. Treasury securities and					
U.S. Government-					
sponsored agencies					
	358,261	8,605	1,299	365,567	-
U.S. states and political					
subdivisions					
	85,954	1,778	651	87,081	-
Foreign government					
	5,546	229	-	5,775	-
Corporate					
Communications	91,375	7,283	153	98,505	-
Consumer goods	111,666	7,838	711	118,793	327
Industrial goods	62,731	4,528	259	67,000	161
Utilities	149,774	9,935	1,176	158,533	989
Financial services	348,604	19,628	857	367,375	-
Technology	15,507	676	117	16,066	6
Other	34,252	70	295	34,027	-
Loan-backed					
Residential mortgage-backed	475,052	17,458	3,079	489,431	-
Commercial mortgage-backed	34,256	1,369	257	35,368	-
Asset-backed	16,979	407	1	17,385	-
Total debt securities	1,789,957	79,804	8,855	1,860,906	1,483
Total investments	\$ 2,274,438	\$ 260,747	\$ 9,369	\$ 2,525,816	\$ 1,483

The following table sets forth the cost, or amortized cost, and fair values of investments held at December 31, 2009:

(In thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit Related Impairment
Equity securities:					
Communications	\$ 38,381	\$ 9,712	\$ 80	\$ 48,013	\$ -
Consumer goods	122,830	25,536	390	147,976	-
Industrial goods	60,239	13,011	132	73,118	-
Utilities	53,654	11,698	108	65,244	-
Financial services	71,743	9,740	55	81,428	-
Technology	35,781	13,512	48	49,245	-
Foreign equity	89,413	13,176	336	102,253	-
Private placement	14,258	35,050	322	48,986	-
Other	22,268	2,218	130	24,356	-
Total equity securities	<u>508,567</u>	<u>133,653</u>	<u>1,601</u>	<u>640,619</u>	<u>-</u>
Debt securities:					
U.S. Treasury securities and					
U.S. Government-					
sponsored agencies	343,864	3,199	2,669	344,394	-
U.S. states and political					
subdivisions	90,710	2,359	118	92,951	-
Foreign government	3,370	-	10	3,360	-
Corporate					
Communications	107,487	7,088	185	114,390	1
Consumer goods	118,834	6,447	1,062	124,219	729
Industrial goods	64,347	3,764	680	67,431	542
Utilities	139,522	7,911	1,492	145,941	884
Financial services	294,049	13,207	2,000	305,256	1,263
Technology	10,292	680	13	10,959	13
Loan-backed					
Residential mortgage-backed	473,428	18,025	2,129	489,324	-
Commercial mortgage-backed	37,714	899	284	38,329	956
Asset-backed	21,646	542	10	22,178	-
Total debt securities	<u>1,705,263</u>	<u>64,121</u>	<u>10,652</u>	<u>1,758,732</u>	<u>4,388</u>
Total investments	<u><u>\$ 2,213,830</u></u>	<u><u>\$ 197,774</u></u>	<u><u>\$ 12,253</u></u>	<u><u>\$ 2,399,351</u></u>	<u><u>\$ 4,388</u></u>

The following investments have been in a continuous unrealized loss position at December 31, 2010:

(In thousands)	<u>Less than Twelve Months</u>		<u>Twelve Months or More</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Equity securities:				
Communications	\$ 1,179	\$ 39	\$ -	\$ -
Consumer goods	2,494	91	43	1
Industrial goods	2,880	101	-	-
Utilities	1,067	45	-	-
Financial services	1,596	71	-	-
Technology	1,153	64	-	-
Foreign equity	2,977	71	568	31
Total equity securities	<u>13,346</u>	<u>482</u>	<u>611</u>	<u>32</u>
Debt securities:				
U.S. Treasury securities and U.S. Government-sponsored agencies				
	105,484	1,299	-	-
U.S. states and political subdivisions				
	26,654	651	-	-
Corporate				
Communications	6,819	143	55	10
Consumer goods	14,527	318	3,867	393
Industrial goods	3,459	89	649	170
Utilities	10,344	392	4,538	784
Financial services	50,157	679	2,357	178
Technology	6,852	110	390	7
Other	32,164	295	-	-
Loan-backed				
Residential mortgage-backed	155,466	3,040	450	39
Commercial mortgage-backed	12,819	246	256	11
Asset-backed	-	-	13	1
Total debt securities	<u>424,745</u>	<u>7,262</u>	<u>12,575</u>	<u>1,593</u>
Total investments	<u>\$ 438,091</u>	<u>\$ 7,744</u>	<u>\$ 13,186</u>	<u>\$ 1,625</u>

The following investments have been in a continuous unrealized loss position at December 31, 2009:

(In thousands)	<u>Less than Twelve Months</u>		<u>Twelve Months or More</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Equity securities:				
Communications	\$ 860	\$ 80	\$ -	\$ -
Consumer goods	6,541	380	173	10
Industrial goods	2,853	118	213	14
Utilities	1,530	90	332	18
Financial services	1,065	33	548	22
Technology	704	48	-	-
Foreign equity	5,440	281	367	55
Private placement	-	-	2,872	322
Other	13,891	130	-	-
Total equity securities	<u>32,884</u>	<u>1,160</u>	<u>4,505</u>	<u>441</u>
Debt securities:				
U.S. Treasury securities and U.S. Government-sponsored agencies	207,315	2,487	2,850	182
U.S. states and political subdivisions	6,481	118	-	-
Foreign government	3,360	10	-	-
Corporate				
Communications	5,619	37	4,146	148
Consumer goods	2,162	129	11,448	933
Industrial goods	2,709	106	8,312	574
Utilities	2,890	31	16,047	1,461
Financial services	29,311	420	22,135	1,580
Technology	-	-	382	13
Loan-backed				
Residential mortgage-backed	61,393	824	8,706	1,305
Commercial mortgage-backed	3,124	26	7,660	258
Asset-backed	68	-	1,410	10
Total debt securities	<u>324,432</u>	<u>4,188</u>	<u>83,096</u>	<u>6,464</u>
Total investments	<u>\$ 357,316</u>	<u>\$ 5,348</u>	<u>\$ 87,601</u>	<u>\$ 6,905</u>

Regence had 1,229 out of 9,055 securities in an unrealized loss position at December 31, 2010. The fair value of these investments is less than cost due to reasons including, but not limited to, changes in interest rates, economic conditions, and market outlook for various industries. Regence has the intent and ability to hold equity securities until the market price recovers. Regence neither intends to sell nor will likely be required to sell debt securities and expects to recover the entire amortized cost basis of these securities.

As a result, Regence concluded these investments were not other-than-temporarily impaired at December 31, 2010.

The amortized cost and fair value of debt securities held at December 31, 2010 other than those backed by loans, are shown below by contractual maturity:

(In thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 77,132	\$ 77,973
Due after one year through five years	732,046	761,775
Due after five years through ten years	417,341	439,832
Due after ten years	37,151	39,142
	<u>1,263,670</u>	<u>1,318,722</u>
Loan-backed securities	526,287	542,184
Total debt securities	<u>\$ 1,789,957</u>	<u>\$ 1,860,906</u>

The maturities of loan-backed securities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The maturities of all other securities are based on contractual maturities.

Net realized gains (losses), included in net investment income, for the years ended December 31, 2010 and 2009 are as follows:

(In thousands)	2010	2009
Total other-than-temporary losses	\$ (7,059)	\$ (34,974)
Portion of losses in other comprehensive income	1,483	4,388
Other-than-temporary losses in net income	(5,576)	(30,586)
Gross realized gains from sales of investments	96,815	62,399
Gross realized losses from sales of investments	(12,836)	(60,331)
Total realized gains (losses), net	<u>\$ 78,403</u>	<u>\$ (28,518)</u>

The following represents the activity for the credit-related portion of other-than-temporary impairment losses recognized in net investment income:

(In thousands)	Credit-related Impairment
Cumulative losses at January 1, 2009	(12,223)
Additions for credit impairments recognized on:	
Securities not previously impaired	(5,384)
Securities previously impaired	(466)
Reductions for credit impairments previously recognized on securities that matured or were sold during the year	7,032
Cumulative losses at December 31, 2009	<u>\$ (11,041)</u>
Additions for credit impairments recognized on:	
Securities not previously impaired	(2,231)
Securities previously impaired	(53)
Reductions for credit impairments previously recognized on securities that matured or were sold during the year	4,351
Cumulative losses at December 31, 2010	<u><u>\$ (8,974)</u></u>

The Plans are required to keep investments on deposit in certain states in which they are licensed. At December 31, 2010 and 2009, debt securities with a fair value of \$73,624,000 and \$69,223,000, respectively, were restricted to comply with these requirements.

B. Equity Method Investment

Regence owns a 12.4 percent limited partnership interest in TZ Holdings, L.P. (TZ Holdings). While this represents a minority interest, Regence may potentially influence the operating or financial decisions of the partnership as it holds a 6.7 percent voting interest on TZ Holdings' board of directors. Therefore, Regence accounts for the investment under the equity method. The carrying value of the investment included in other assets was \$110,843,000 and \$111,521,000 as of December 31, 2010 and 2009, respectively. TZ Holdings' total assets and liabilities as of December 31, 2010 were \$1,521,585,000 and \$674,248,000, respectively. As of December 31, 2009, TZ Holdings' total assets were \$1,679,355,000 and total liabilities were \$781,993,000. The results of operations for TZ Holdings for the years ended December 31, 2010 and 2009 were net income of \$9,346,000 and \$3,530,000 respectively.

Regence has an agreement through 2016 with a subsidiary of TZ Holdings that provides data processing and related services for Regence. Expenditures under this agreement represent 5.7 percent and 6.0 percent of Regence's total operating expenses and 7.6 percent and 11.9 percent of Regence's trade accounts payable balances at December 31, 2010 and 2009, respectively. These costs are included in operating expense and within net property, buildings and equipment.

C. Variable Interest Entities

Regence evaluates whether it is the primary beneficiary and is required to consolidate another entity through a quantitative and qualitative analysis. The assessment considers the entity's structure and purpose, the risks and rewards created by and shared through the entity and Regence's ability to direct the activities that most significantly impact the entity's economic performance. Additionally, the assessment considers benefits received and losses absorbed that could potentially be significant. Upon adoption of the new accounting standard described in note 1S, Regence reviewed its investments, related party relationships and other applicable transactions and concluded that it does not have the ability to direct the activities that most significantly impact the economic performance for those entities determined to be VIE's.

Since 1990, Regence BCBSO has held a 50.0 percent limited partner interest in 200 Market Associated Limited Partnership (200 Market). The remaining partners are under either common ownership or management by a party not affiliated with Regence. As a special purpose entity, the nature of 200 Market's activities is to own, manage, and lease property located in Portland, Oregon. At December 31, 2010 Regence leased approximately 59.0 percent of the property's rentable space. The business operations are managed by the general partner while the limited partners' ability to direct activities is contractually limited by the partnership agreement and debt covenants of the promissory note guaranteed by the partners. Regence BCBSO also guarantees this note held by 200 Market (see note 14). Regence does not have the power to direct significant activities that affect 200 Market's economic performance and, therefore, is not the primary beneficiary and has not consolidated 200 Market. The carrying value of the investment, which is accounted for using the equity method, was in a negative position representing a \$10,035,000 and \$10,194,000 liability included in accrued expenses and other liabilities at December 31, 2010 and 2009, respectively. The total partnership deficit balance at December 31, 2010 and 2009 was \$19,220,000 and \$20,079,000, respectively.

3. FAIR VALUE MEASUREMENTS

The following summarizes fair value measurements by level for assets measured at fair value on a recurring basis as of December 31, 2010:

(In thousands)	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 129,395	\$ 117,913	\$ 11,482	\$ -
Equity securities:				
Communications	41,169	41,169	-	-
Consumer goods	133,528	133,528	-	-
Industrial goods	83,028	83,028	-	-
Utilities	72,427	72,427	-	-
Financial services	85,783	85,783	-	-
Technology	47,083	47,083	-	-
Foreign equity	126,731	126,731	-	-
Private placement	55,688	-	-	55,688
Other	19,473	-	19,473	-
Total equity securities	664,910	589,749	19,473	55,688
Debt securities:				
U.S. Treasury securities and				
U.S. Government-				
sponsored agencies	365,567	246,333	119,234	-
U.S. states and political				
subdivisions	87,081	-	85,851	1,230
Foreign government	5,775	-	5,775	-
Corporate				
Communications	98,505	-	98,505	-
Consumer goods	118,793	-	118,137	656
Industrial goods	67,000	-	66,772	228
Utilities	158,533	-	158,110	423
Financial services	367,375	-	367,283	92
Technology	16,066	-	16,066	-
Other	34,027	-	34,027	-
Loan-backed				
Residential mortgage-backed	489,431	-	488,122	1,309
Commercial mortgage-backed	35,368	-	30,842	4,526
Asset-backed	17,385	-	15,439	1,946
Total debt securities	1,860,906	246,333	1,604,163	10,410
Total assets	\$ 2,655,211	\$ 953,995	\$ 1,635,118	\$ 66,098

The following summarizes fair value measurements by level for assets measured at fair value on a recurring basis as of December 31, 2009:

(In thousands)	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 173,164	\$ 135,425	\$ 37,739	\$ -
Equity securities:				
Communications	48,013	48,013	-	-
Consumer goods	147,976	147,976	-	-
Industrial goods	73,118	73,118	-	-
Utilities	65,244	65,244	-	-
Financial services	81,428	81,428	-	-
Technology	49,245	49,245	-	-
Foreign equity	102,253	102,253	-	-
Private placement	48,986	-	-	48,986
Other	24,356	-	24,356	-
Total equity securities	640,619	567,277	24,356	48,986
Debt securities:				
U.S. Treasury securities and U.S. Government-sponsored agencies	344,394	257,093	87,301	-
U.S. states and political subdivisions	92,951	-	92,951	-
Foreign government	3,360	-	3,360	-
Corporate				
Communications	114,390	-	114,332	58
Consumer goods	124,219	-	123,569	650
Industrial goods	67,431	-	67,132	299
Utilities	145,941	-	145,941	-
Financial services	305,256	-	305,197	59
Technology	10,959	-	10,959	-
Loan-backed				
Residential mortgage-backed	489,324	-	487,607	1,717
Commercial mortgage-backed	38,329	-	38,162	167
Asset-backed	22,178	-	22,178	-
Total debt securities	1,758,732	257,093	1,498,689	2,950
Total assets	\$ 2,572,515	\$ 959,795	\$ 1,560,784	\$ 51,936

Assets classified as Level 1 include actively-traded money market funds, equity securities, and U.S. Treasury securities. The fair values of these securities reflect quoted prices in active markets.

The fair value of cash equivalents is equal to the carrying value at the measurement date. Cash equivalents classified in Level 2 represent securities maturing within three months that do not trade on a regular basis.

Equity securities classified as Level 2 use other observable market inputs to estimate fair value. The fair value of these instruments is obtained from third-party pricing services which use quoted prices for similar securities or quoted prices for identical or similar securities in less active markets. Equity securities designated as Level 3 represent private placement investments for which no observable market data is available. Where available, the fair values of these securities are also obtained from a third-party pricing service.

The fair value of debt securities other than those classified in Level 1 is derived using pricing models that incorporate estimated market interest rates. Level 2 inputs used in these models include benchmark yields, credit spreads, broker quotes and other observable market data. Loan-backed securities also incorporate prepayment speeds, default rates, and collateral values into the pricing models. Debt securities classified as Level 3 include certain securities in a default position, since management judgment is a significant input in estimating fair value.

The following table represents a reconciliation of assets valued using Level 3 inputs on a recurring basis for the twelve months ended December 31:

(In thousands)	<u>Level 3 Fair Value Measurements</u>				Total
	Private Placement Equity Securities	US States / Political Subdivisions	Corporate Debt Securities	Loan-Backed Securities	
Balance at January 1, 2009	\$ 47,266	\$ -	\$ 1,989	\$ 86	\$ 49,341
Total gains or losses (realized/unrealized):					
Included in investment income	(2,675)	-	(562)	(374)	(3,611)
Included in accumulated other comprehensive income	4,679	-	1,687	288	6,654
Purchases, sales, issuance, and settlements, net	(284)	-	(319)	-	(603)
Transfers out of Level 3	-	-	(1,729)	1,884	155
Balance at December 31, 2009	<u>48,986</u>	<u>-</u>	<u>1,066</u>	<u>1,884</u>	<u>51,936</u>
Total gains or losses (realized/unrealized):					
Included in investment income	62	-	(26)	(18)	18
Included in accumulated other comprehensive income	9,896	(32)	26	297	10,187
Purchases, sales, issuance, and settlements, net	(3,256)	-	(697)	(504)	(4,457)
Transfers into Level 3	-	1,262	1,030	6,122	8,414
Balance at December 31, 2010	<u>\$ 55,688</u>	<u>\$ 1,230</u>	<u>\$ 1,399</u>	<u>\$ 7,781</u>	<u>\$ 66,098</u>

Regence recognizes transfers between levels at the end of the reporting period. There were no significant transfers between Levels 1 and 2 during the years ended December 31, 2010 and 2009.

4. PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment consisted of the following at December 31:

(In thousands)	<u>2010</u>	<u>2009</u>
Capitalized software	\$ 546,751	\$ 494,524
Buildings and improvements	198,417	196,257
Furniture and equipment	131,540	131,549
Leased equipment	42,056	37,641
Land	18,128	18,128
Assets held for sale	<u>2,509</u>	<u>5,164</u>
	939,401	883,263
Less: Accumulated depreciation and amortization	<u>513,344</u>	<u>460,353</u>
Property, buildings and equipment, net	<u>\$ 426,057</u>	<u>\$ 422,910</u>

Assets held for sale include a building and the associated land. Amounts are equal to the lower of cost or fair value, less estimated costs to sell.

Depreciation and amortization expense recorded in operating expense on the consolidated statements of operations was \$74,362,000 and \$62,775,000 for 2010 and 2009, respectively.

5. CAPITALIZED SOFTWARE

Included in property, buildings and equipment are costs related to internally-customized and purchased software that are capitalized and amortized over periods of between three and twelve years. Included in other assets are costs related to software currently being customized, but not amortized, as it has not been placed into service. Capitalized costs include direct costs of materials and services incurred in customizing or obtaining internal-use software and payroll and payroll-related costs for employees directly involved in the customization of internal-use software.

In 2010 and 2009, internally-customized software was placed into service. As a result, \$54,889,000 and \$55,354,000, respectively, was reclassified from other assets to property, buildings and equipment.

The following table sets forth the total amount of internally-customized and purchased software capitalized at December 31:

(In thousands)	<u>2010</u>	<u>2009</u>
Internally-customized and purchased software included in property, buildings and equipment	\$ 546,751	\$ 494,524
Less: Accumulated amortization	<u>(303,528)</u>	<u>(266,524)</u>
	243,223	228,000
Other assets	<u>21,818</u>	<u>27,528</u>
Net capitalized software	<u>\$ 265,041</u>	<u>\$ 255,528</u>

6. RESERVES FOR UNPAID CLAIMS AND ADJUSTING EXPENSES ON UNPAID CLAIMS

Activity in the reserves for unpaid health claims and adjusting expenses on unpaid health claims are summarized as follows:

(In thousands)	<u>2010</u>	<u>2009</u>
Balance at January 1	\$ 1,030,603	\$ 1,073,873
Less: Reinsurance recoverables	<u>(37,951)</u>	<u>(586)</u>
Net balance at January 1	<u>992,652</u>	<u>1,073,287</u>
Incurred related to:		
Current year	7,373,555	8,318,974
Prior year	<u>(89,615)</u>	<u>(87,652)</u>
Total incurred	<u>7,283,940</u>	<u>8,231,322</u>
Paid related to:		
Current year	6,527,474	7,315,883
Prior year	<u>904,939</u>	<u>996,074</u>
Total paid	<u>7,432,413</u>	<u>8,311,957</u>
Net balance at December 31	844,179	992,652
Add: Reinsurance recoverables	<u>40,929</u>	<u>37,951</u>
Balance at December 31	<u>\$ 885,108</u>	<u>\$ 1,030,603</u>

The decreases in reserves for prior year unpaid claims and adjusting expenses on unpaid claims were primarily attributable to prior year health claims being settled for amounts less than originally estimated due to lower actual claims trends than those assumed at the time the liability was established.

Regence enters into reinsurance arrangements to transfer a portion of the risks associated with certain long-term disability contracts to reinsurers. As the primary liability to customers remains with Regence, estimated reserves are recorded in reserves for unpaid claims and adjusting expenses on unpaid claims.

Corresponding reinsurance recoverables are recorded in net accounts receivable. The financial condition of reinsurers is evaluated and Regence only records reinsurance recoverables to the extent recovery is probable.

The following illustrates the differences between total incurred claims (above) and claims expense as reported on the consolidated statements of operations:

(In thousands)	<u>2010</u>	<u>2009</u>
Incurred claims and adjusting expenses on unpaid claims	\$ 7,283,940	\$ 8,231,322
Less: Claims adjusting expenses included in operating expense	(274,923)	(380,927)
Add: Life claims incurred	11,441	13,688
Change in premium deficiency reserves	<u>(2,293)</u>	<u>8,469</u>
Claims expense	<u>\$ 7,018,165</u>	<u>\$ 7,872,552</u>

The following illustrates the difference between the reserves for unpaid claims and claims adjusting expenses (above) and the reserves for unpaid claims and adjusting expenses on unpaid claims as reported on the consolidated balance sheets:

(In thousands)	<u>2010</u>	<u>2009</u>
Reserves for unpaid claims and claims adjusting expenses	\$ 885,108	\$ 1,030,603
Add: Premium deficiency reserves	6,176	8,469
Life claims reserves	<u>17,063</u>	<u>17,230</u>
Reported on consolidated balance sheets	<u>\$ 908,347</u>	<u>\$ 1,056,302</u>

7. DEBT AND OTHER OBLIGATIONS

Debt and other obligations consist of the following at December 31:

(In thousands)	<u>2010</u>	<u>2009</u>
Debt secured by commercial property:		
Payable in monthly principal installments of \$200 with interest of 5.12%, due March 28, 2018	\$ 53,400	\$ 55,800
Payable in monthly installments of \$216 including interest of 7.19%, due October 1, 2022	20,606	21,673
Payable in monthly installments of \$100 including interest of 5.94%, due August 1, 2018	10,632	11,175
Payable in monthly installments of \$54 including interest of 5.82%, due February 7, 2015	7,483	7,685
Payable in monthly installments of \$51 including interest of 5.94%, due August 1, 2016	7,295	7,472
Payable in monthly installments of \$9 including interest of 7.92%, due April 1, 2012	138	232
Total debt secured by commercial property	<u>99,554</u>	<u>104,037</u>
Revolving line of credit	22,000	17,000
Capital lease obligations	<u>19,541</u>	<u>23,467</u>
	141,095	144,504
Less: Interest on capital lease obligations	918	1,416
Carrying value of debt and other obligations	<u>\$ 140,177</u>	<u>\$ 143,088</u>

The fair value of debt secured by commercial property was \$103,850,000 and \$105,185,000 at December 31, 2010 and 2009, respectively. The carrying value of the revolving line of credit approximated fair value at December 31, 2010 and 2009.

Debt was secured by commercial property with carrying values totaling \$69,705,000 and \$72,481,000 as of December 31, 2010 and 2009, respectively.

Regence's capital lease obligations relate to equipment obtained through lease agreements.

Regence maintains a revolving line of credit to supplement short-term cash flows. The maximum available line of credit is \$30,000,000. The line of credit is renewable annually. The interest rate is based on LIBOR plus 140 basis points for the term of the agreement. At December 31, 2010 and 2009 the interest rate was 1.7 percent and 2.5 percent, respectively.

Regence's future minimum principal payments for years ended December 31 are as follows:

(In thousands)	
2011	\$ 35,223
2012	10,970
2013	8,369
2014	5,799
2015	11,694
Thereafter	<u>69,040</u>
	141,095
Less: Interest on capital lease obligations	<u>918</u>
Carrying value of debt and other obligations	<u>\$ 140,177</u>

Regence has financial debt covenants with certain loans secured by commercial property requiring Regence to maintain minimum debt service coverage ratios. Regence met these requirements for the years ended December 31, 2010 and 2009.

8. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consisted of the following at December 31:

(In thousands)	<u>2010</u>	<u>2009</u>
Retirement plans	\$ 115,641	\$ 116,053
Checks issued and outstanding	70,169	93,465
Payroll and employee benefits	64,861	53,051
Suspense accounts	30,831	30,087
Trade accounts payable	19,089	19,755
Commissions payable	18,116	16,579
Federal income taxes	12,897	14,899
Drug rebates payable	11,445	17,846
Partnership interest	10,035	10,194
Accrued taxes	9,351	15,379
Advance deposits	9,100	5,957
Assets to be escheated	2,642	15,161
All other	<u>22,631</u>	<u>20,166</u>
Total accrued expenses and other liabilities	<u>\$ 396,808</u>	<u>\$ 428,592</u>

9. RETIREMENT PLANS

In August 2009, the Board of Directors (the Board) approved a freeze effective December 31, 2009, of the defined benefit pension plan, which covered substantially all full-time employees having one or more years of service and provided benefits based on years of service and the employee's final average compensation. As a result of the freeze, after the effective date, no new participants will enter the plan;

no pension benefits will be earned; benefits-eligible employees who have not yet met plan eligibility criteria will become immediately eligible; and non-vested plan participants will receive accelerated vesting to 100 percent. Assets and liabilities were remeasured as of July 31, 2009. These benefit changes resulted in the recognition of a settlement charge of \$32,680,000 and a non-cash net curtailment loss of \$2,473,000, which are included in the 2009 net periodic benefit cost below. The benefit changes decreased Regence's projected benefit obligation by \$66,081,000. In 2010, no additional settlement charges were recognized.

Regence also provides a supplemental retirement plan to cover key employees meeting certain eligibility requirements. Regence funds this plan as benefit obligations become due.

The following sets forth the defined benefit pension plans' funded status and amounts recognized in Regence's consolidated balance sheets at December 31, 2010 and 2009. The benefit obligations and plan assets are measured at December 31.

(In thousands)	Defined Benefit Pension Plan		Supplemental Retirement Plan	
	2010	2009	2010	2009
Projected benefit obligation	\$(423,679)	\$(374,355)	\$ (48,021)	\$ (49,031)
Fair value of plan assets	432,873	354,946	-	-
Funded status recognized	<u>\$ 9,194</u>	<u>\$ (19,409)</u>	<u>\$ (48,021)</u>	<u>\$ (49,031)</u>
Accumulated benefit obligation	\$(423,679)	\$(374,355)	\$ (41,520)	\$ (41,379)
Net periodic benefit cost	\$ 2,193	\$ 77,447	\$ 4,901	\$ 4,921
Employer contributions	\$ 65,000	\$ 60,000	\$ 5,118	\$ 3,895
Benefits paid	\$ 20,924	\$ 4,090	\$ 5,118	\$ 3,895
Settlements (actual lump sum payments)	\$ -	\$ 67,844	\$ -	\$ -
Net actuarial loss	\$ 207,779	\$ 180,325	\$ 8,291	\$ 8,713
Prior service (credit) cost	(77,851)	(84,603)	1,695	2,066
Total recognized in AOCI	<u>\$ 129,928</u>	<u>\$ 95,722</u>	<u>\$ 9,986</u>	<u>\$ 10,779</u>

The following weighted average assumptions were used in determining the actuarial present value of the projected benefit obligations at December 31:

	Defined Benefit Pension Plan		Supplemental Retirement Plan	
	2010	2009	2010	2009
Discount rate	5.85%	6.04%	5.85%	6.04%
Rate of increase in future compensation	N/A	4.50-8.10%	5.00%	5.00%

The following weighted average assumptions were used in determining the actuarial present value of the net period benefit cost at December 31:

	Defined Benefit Pension Plan		Supplemental Retirement Plan	
	2010	2009	2010	2009
Discount rate	6.04%	6.51%	6.04%	6.51%
Rate of increase in future compensation	N/A	4.50-8.10%	5.00%	5.00%
Expected long term rate of return on assets	7.50%	7.50%	N/A	N/A

The expected long-term rate of return on assets assumption was determined by using a combination of expected returns for each asset class within Regence's portfolio plus inflation. The expected returns were based on past performance as well as projections for the next twelve months. Based on these considerations, Regence believes the expected long-term rate of return on assets assumption is reasonable.

The following benefit payments are expected to be paid:

(In thousands)	Defined Benefit Pension Plan	Supplemental Retirement Plan
2011	\$ 27,752	\$ 3,195
2012	27,173	3,670
2013	26,349	3,569
2014	28,171	6,081
2015	29,998	4,227
Years 2016-2020	151,371	25,292

The estimated amounts that will be amortized from Accumulated Other Comprehensive Income (AOCI) into net periodic benefit cost in 2011 are as follows:

(In thousands)	Defined Benefit Pension Plan	Supplemental Retirement Plan
Actuarial loss	\$ 9,665	\$ 453
Prior service (credit) cost	(5,120)	313
Total	\$ 4,545	\$ 766

Regence follows a Retirement Trust Committee (RTC) approved investment policy that focuses on long-term investment performance. To manage the overall risk of the portfolio, the portfolio asset allocation and investment manager selection are continually monitored and approved by the RTC. An independent external investment consultant provides the RTC with a quarterly update on policy compliance and fund

performance. Semi-annually, the overall performance and asset allocation are reported to Regence's Board for review.

The target allocations for plan assets, including the underlying investments of common collective trusts, are 39 percent equity securities, 52 percent debt securities, and 9 percent to all other types of investments. The portfolio is rebalanced to the target asset allocations as necessary to ensure proper risk exposure.

Other investments consist of financial instruments without readily determined market values. These include limited partnerships, insurance contracts, hedge fund companies, and other pooled investments. The value of the investments has been determined by management based upon the estimates of value made by these entities. Estimates provided are reviewed for reasonableness by management. Management and these entities consider the financial condition and operating results of each limited partnership and other pooled investment entity and other factors deemed appropriate. Insurance contracts are valued at contract value. Shares of hedge fund companies are valued at estimated fair value which represents the net asset values of shares held by the defined benefit pension plan at year end.

The following summarizes fair value measurements of Regence's defined benefit plan assets by level of assets measured at fair value on a recurring basis, excluding net investment trade and income payables of \$18,814,000, as of December 31, 2010:

(In thousands)	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
U.S. government securities	\$ 35,743	\$ 35,743	\$ -	\$ -
Corporate debt securities				
Banking and finance	41,571	-	41,571	-
Industrial	30,420	-	30,420	-
Oil and gas	21,263	-	21,263	-
Private placements	18,089	-	18,089	-
Consumer goods	20,286	-	20,286	-
Utilities	27,165	-	27,165	-
Other	15,059	-	14,451	608
Corporate stock - preferred	129	129	-	-
Corporate stock - common				
Basic industries	3,775	3,775	-	-
Capital goods	2,244	2,244	-	-
Consumer goods	4,943	4,943	-	-
Energy	6,780	6,780	-	-
Financial services	4,080	4,080	-	-
Healthcare	2,250	2,250	-	-
Technology	2,647	2,647	-	-
Other	1,899	1,899	-	-
Registered investment companies				
Money market	32,892	32,855	37	-
International equity	7,217	7,217	-	-
Small capital value	6,115	6,115	-	-
Hedge fund companies	18,477	-	-	18,477
Common and collective trusts				
Large capital value	32,888	-	32,888	-
Large capital growth	33,499	-	33,499	-
International funds	50,740	20,242	30,498	-
Partnership and joint venture interests	109	-	-	109
Unallocated insurance contracts	1,572	-	-	1,572
Other pooled investment entities	29,826	-	10,740	19,086
Other investments	9	9	-	-
Total	\$ 451,687	\$ 130,928	\$ 280,907	\$ 39,852

The following summarizes fair value measurements of Regence's defined benefit plan assets by level of assets measured at fair value on a recurring basis, excluding net investment income receivables of \$1,804,000, as of December 31, 2009:

(In thousands)	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
U.S. government securities	\$ 23,568	\$ 3,752	\$ 19,816	\$ -
Corporate debt securities				
Asset-backed and mortgage-backed	4,138	-	4,138	-
Banking and finance	29,901	-	29,901	-
Industrial	14,381	-	14,381	-
Oil and gas	8,541	-	8,541	-
Private placements	5,827	-	5,827	-
Transportation	4,289	-	4,289	-
Utilities	17,981	-	17,981	-
Other	7,967	-	7,967	-
Corporate stock - preferred	52	52	-	-
Corporate stock - common				
Basic industries	1,381	1,381	-	-
Capital goods	1,233	1,233	-	-
Consumer goods	3,373	3,373	-	-
Energy	2,783	2,783	-	-
Financial services	2,113	2,113	-	-
Healthcare	1,820	1,820	-	-
Technology	1,772	1,772	-	-
Other	3,793	3,793	-	-
Registered investment companies				
Money market	9,614	9,614	-	-
International equity	2,011	2,011	-	-
Small capital value	8,727	8,727	-	-
Bond fund	6,686	6,686	-	-
Hedge fund companies	17,306	-	-	17,306
Common and collective trusts				
Large capital core	28,699	-	28,699	-
Large capital value	19,547	-	19,547	-
Large capital growth	19,636	-	19,636	-
High yield bond fund	21,621	-	21,621	-
Global bond fund	6,758	-	6,758	-
Real estate funds	1,018	-	1,018	-
International funds	39,956	-	39,956	-
Other	7	-	-	7
Partnership and joint venture interests	1,263	136	-	1,127
Unallocated insurance contracts	1,675	-	-	1,675
Other pooled investment entities	27,534	-	9,340	18,194
Other investments	6,171	-	6,171	-
Total	\$ 353,142	\$ 49,246	\$ 265,587	\$ 38,309

The following table represents a reconciliation of assets valued using Level 3 inputs on a recurring basis for the twelve months ended December 31:

(In thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						Total
	Corporate Debt	Partnership / Joint Venture Interests	Common / Collective Trusts	Unallocated Insurance Contracts	Hedge Fund Companies	Other Pooled Investment Entities	
Balance at January 1, 2009	\$ -	\$ 109	\$ 5	\$ 1,770	\$ 15,990	\$ 15,739	\$ 33,613
Actual return on plan assets relating to assets still held at the reporting date	-	-	2	(95)	1,316	2,455	3,678
Purchases, sales, and settlements, net	-	1,018	-	-	-	-	1,018
Balance at December 31, 2009	-	1,127	7	1,675	17,306	18,194	38,309
Actual return on plan assets relating to assets still held at the reporting date	-	127	-	-	1,171	892	2,190
Purchases, sales, and settlements, net	-	(1,145)	(7)	(103)	-	-	(1,255)
Transfers in (out) of Level 3	608	-	-	-	-	-	608
Balance at December 31, 2010	\$ 608	\$ 109	\$ -	\$ 1,572	\$ 18,477	\$ 19,086	\$ 39,852

10. POSTRETIREMENT BENEFITS

Regence provides certain health care and life insurance benefits through a postretirement health and welfare plan (retiree health and welfare plan) 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. Regence'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. This amount is calculated based on the Regence contribution percentage and applies to the Regence-funded health plan. If a retiree elects a medical or dental option that is more expensive than the Regence-funded health plan, the retiree must pay the additional cost for the more expensive plan.

In August 2009, the Board approved amendments to the retiree health and welfare plan. Coverage for eligible participants who retire on or after January 2, 2010 will terminate on the date the participant or beneficiary attains Medicare eligibility on the basis of age or disability, regardless of whether the participant/beneficiary becomes entitled to Medicare. The requirement that a retiree be enrolled as a participant on the active employee health and welfare plan immediately before retirement in order to be eligible to enroll was not applied to individuals who retired between October 1, 2009 and January 1, 2010. Assets and liabilities were remeasured as of September 30, 2009. The amendments to the retiree health and welfare plan decreased Regence's accumulated postretirement benefit obligation by \$11,228,000 at December 31, 2009.

Regence funds a portion of the accumulated postretirement benefit obligation through the Voluntary Employees' Beneficiary Association Trust (the VEBA Trust). Contributions to the VEBA Trust are based on the present value of prospective benefits for retirees and their dependents, amortized over eleven years, plus the normal cost for active employees and their dependents (both components are adjusted for interest to the end of the year) determined by the entry age cost method. Fair values of investments held by the VEBA Trust are measured at Level 1 as defined in note 1R. Regence did not fund additional amounts in 2010 or 2009.

The following sets forth the postretirement health and welfare plan's funded status and amounts recognized in Regence's consolidated balance sheets at December 31, 2010 and 2009. The accumulated benefit obligation and plan assets are measured at December 31.

(In thousands)	2010	2009
Accumulated postretirement benefit obligation	\$ (53,792)	\$ (50,119)
Fair value of plan assets	2,173	2,505
Funded status recognized	\$ (51,619)	\$ (47,614)
Net periodic benefit cost	\$ 434	\$ 1,548
Benefits paid	\$ 3,804	\$ 3,460
Net actuarial loss	\$ 15,521	\$ 11,344
Prior service credit	(25,412)	(27,844)
Total recognized in AOCI	\$ (9,891)	\$ (16,500)

The following weighted average assumptions were used in determining the actuarial present value of the accumulated postretirement benefit obligation at December 31:

	2010	2009
Discount rate	5.11%	5.91%

The following weighted average assumptions were used in determining the actuarial present value of the accumulated postretirement net periodic benefit cost at December 31:

	2010	2009
Discount rate	5.91%	6.06%
Expected long-term rate of return on assets	6.09%	5.91%

The expected long-term rate of return on assets assumption was determined by using a combination of expected returns for each asset class within Regence's portfolio plus inflation. The expected returns were based on past performance as well as projections for the next twelve months. Based on these considerations, Regence believes the expected long-term rate of return on assets assumption is reasonable.

The assumed health-care cost trend used in measuring the health-care portion of the postretirement cost for 2011 is 7.5 percent, gradually declining to 5.0 percent by the year 2017 and remaining at that level

thereafter. The assumed rates for health-care cost trend have a significant effect on the amounts reported for postretirement benefits.

The following benefit payments are expected to be paid:

(In thousands)	Expected		
	Gross	Federal Subsidy	Net
2011	\$ 4,496	\$ (360)	\$ 4,136
2012	4,470	(414)	4,056
2013	4,499	(468)	4,031
2014	4,513	(522)	3,991
2015	4,523	(572)	3,951
Years 2016-2020	22,796	(1,024)	21,772

The estimated amounts that will be amortized from AOCI into net periodic benefit cost in 2011 are as follows:

(In thousands)	
Actuarial loss	\$ 947
Prior service credit	(3,898)
Total	<u>\$ (2,951)</u>

11. EMPLOYEE SAVINGS PLAN

Under the provisions of The Regence Group 401(k) Savings Plan (the 401(k) plan), Regence matches employee contributions up to 100 percent (50 percent in 2009) of the first six percent of salary for each pay period in which employees make an Internal Revenue Code (IRC) Section 401(k) contribution. Employees working at least 20 hours per week may contribute to the 401(k) plan. The IRC permitted employees to contribute up to \$16,500 in 2010 and 2009, or 70 percent of eligible earnings, whichever was lower. In 2009, Regence provided a graduated vesting program for employer-matched contributions, and the earnings thereon. After two years of service, the employee is 50 percent vested in employer contributions and the earnings thereon and fully vested after three years of service. As of 2010, employer contributions are fully vested when an employee starts participating in the program and a discretionary contribution can be made of up to five percent of eligible earnings for participating employees, subject to annual review and Board approval. Employer contributions totaled \$30,701,000 and \$7,849,000 for the years ended December 31, 2010 and 2009, respectively.

12. PHYSICIAN DEFERRED COMPENSATION

Regence BCBSO and Regence BlueShield maintain separate nonqualified physician deferred compensation plans covering certain member physicians who voluntarily defer payment of their billings. Both plans funded the obligations primarily through the purchase of group flexible paid-up life insurance contracts for active participants and annuity contracts for retired participants. As Regence BCBSO and

Regence BlueShield are the owners and named beneficiaries of these contracts, in order to reflect policies to pay benefits equal to accumulations, both the assets and liabilities under the physician deferred compensation plans are reflected in Regence's consolidated balance sheets. As of December 31, 2010 and 2009, the balances were \$24,059,000 and \$25,146,000, respectively.

13. DEFERRED COMPENSATION

Regence also offers The Regence Group Deferred Income Program for Executives and The Regence Group Deferred Income Program for Directors (collectively, the Programs). The purpose of the Programs is to provide an unfunded, nonqualified deferred compensation arrangement to eligible key employees and eligible directors. Regence facilitated payments totaling \$1,687,000 and \$2,083,000 to the programs in the years ended December 31, 2010 and 2009, respectively. Assets are invested in mutual funds consisting of equity and fixed income securities. The fair value of these investments, determined using Level 1 inputs, was \$27,177,000 and \$24,960,000 as of December 31, 2010 and 2009, respectively.

14. COMMITMENTS AND CONTINGENCIES

Regence is committed under various operating leases and agreements for rental office space, equipment (primarily computers and peripheral equipment) and professional services for remaining terms of up to eight years. Some of these lease agreements contain escalation clauses for increases over base payment amounts. These leases expire on various dates with renewal options available on many of the leases. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Minimum payment obligations under non-cancellable operating leases and agreements for the years ended December 31 are as follows:

(In thousands)	
2011	\$ 32,791
2012	25,768
2013	22,543
2014	21,216
2015	14,708
Thereafter	13,624
	<u>\$ 130,650</u>

Regence's total expense for leases and agreements for 2010 and 2009 amounted to \$61,064,000 and \$50,664,000, respectively.

Regence leases office space from 200 Market. The payments for this lease activity were \$4,273,000 and \$4,620,000 for the years ended December 31, 2010 and 2009, respectively (see note 2C).

Regence BCBSO is a guarantor for a \$61,000,000 promissory note for 200 Market. The note bears an interest rate of 5.26 percent. Interest only payments were due in monthly installments through December 2009. Principal and interest payments of \$337,000 are due in monthly installments until the note reaches

maturity in December 2015, at which point the remaining principal and interest balance is due. The probability of performance under this guarantee is considered remote.

Regence is involved in various legal actions arising in the ordinary course of business. The Group accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. It is management's opinion that the resolution of these matters will not have a material effect on Regence's consolidated financial statements.

15. INCOME TAXES

Certain activities of Regence are subject to federal and state income taxes.

Components of Regence's income tax provision for the years ended December 31 are as follows:

(In thousands):	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$34,792	\$2,263
State	<u>4,678</u>	<u>33</u>
	<u>39,470</u>	<u>2,296</u>
Deferred:		
Federal	19,738	4,727
State	<u>2,623</u>	<u>55</u>
	<u>22,361</u>	<u>4,782</u>
Income tax expense	<u>\$61,831</u>	<u>\$7,078</u>

Components of Regence's net deferred income tax (liabilities) assets for the years ended December 31 are as follows:

(In thousands):	2010	2009
Deferred income tax assets:		
Alternative minimum tax (AMT) credits	\$ 105,520	\$ 130,022
Postretirement benefits	22,918	23,902
Investments/other basis adjustment	22,850	33,894
Accrued liabilities	20,210	15,029
Reserve discount	18,405	15,701
Deferred compensation	11,780	11,776
Charitable contribution carryover	8,420	4,302
Vacation pay	3,772	5,835
Intangible assets	2,308	3,452
Deferred acquisition costs	1,413	1,396
State capital loss carryforwards	1,268	597
Other	10,875	6,581
	229,739	252,487
Valuation allowance	(105,344)	(148,318)
Deferred income tax assets, net of valuation allowance	124,395	104,169
Deferred income tax liabilities:		
Accumulated depreciation and amortization	(83,869)	(65,091)
Pension	(40,308)	(16,499)
	(124,177)	(81,590)
Net deferred tax (liabilities) assets, before OCI items	218	22,579
Deferred tax on OCI:		
Deferred tax on unrealized gains and losses on investments	(86,740)	(64,246)
Deferred tax on unrealized benefit costs	51,627	36,418
Valuation allowance on OCI items	10,813	8,194
	(24,300)	(19,634)
Net deferred income tax (liabilities) assets	\$ (24,082)	\$ 2,945

The valuation allowance is composed of a full valuation allowance against AMT credit carryforwards and a reduction in the value of the other temporary differences to reflect their realization at the AMT rate. Regence's valuation allowance on net deferred tax assets before OCI decreased by \$42,974,000 during the year ended December 31, 2010 and increased \$12,838,000 during the year ended December 13, 2009.

In 2008, Regence recorded an additional valuation allowance of \$6,000,000 against its deferred tax assets related to investments since it did not deem realization was more likely than not. As of December 31, 2009, Regence determined that this additional valuation allowance was no longer needed. Of the total,

\$4,600,000 was reversed through other comprehensive income and \$1,400,000 was reversed through 2009 deferred tax expense.

Regence has AMT credits of \$105,520,000 and \$130,022,000 in 2010 and 2009, respectively. These credits do not expire. The consolidated filing has a charitable contribution carryforward of \$21,556,000 for regular tax purposes and \$20,028,000 for AMT purposes. Regence BlueShield of Idaho, Inc, which files a separate company tax return, has a capital loss carryforward of \$9,224,000 and a charitable contribution carryforward of \$1,705,000.

Regence's effective rate on pretax income from operations differed from the federal regular tax rate due to application of the AMT credits, the net result of permanent differences including meals and entertainment, dividend received deduction, investment in subsidiaries, lobbying, the inclusion of state taxes (net of the federal tax benefit), and adjustments for prior year tax expense.

At December 31, 2010, the years of 2007 through 2009 were open for audit by the Internal Revenue Service and the states of Oregon, Utah and Idaho under the three year statute of limitations rule.

16. MAJOR CUSTOMERS

Regence has one major commercial customer that constitutes more than ten percent of annual premiums. During the years ended December 31, 2010 and 2009, gross premiums earned from this customer were \$1,078,754,000 and \$1,096,308,000, respectively. Claims incurred by this customer were \$1,031,624,000 and \$1,047,389,000 for the years ended December 31, 2010 and 2009, respectively. These premiums and claims are related to administrative services contracts.

Revenues related to contracts with CMS in the aggregate also constitute more than ten percent of annual premiums. During the years ended December 31, 2010 and 2009, total gross premiums earned under the contracts were \$1,179,564,000 and \$1,246,010,000, respectively. Related claims were \$986,788,000 and \$1,104,347,000 for the years ended December 31, 2010 and 2009, respectively.

THE REGENGE GROUP
Consolidating Balance Sheet Information
December 31, 2010
(In thousands)

	Regence BlueShield	Regence BCBSO	Regence BlueShield of Idaho, Inc.	Regence BCBSU	TRG	RegenceRx	Regence Foundation	Reclass/ Eliminations	Total
ASSETS									
Cash and Cash Equivalents	\$ 56,939	\$ 33,214	\$ 9,320	\$ 35,821	\$121,980	\$ -	\$ 740	\$ -	\$ 258,014
Accounts Receivable, net	342,132	279,626	31,482	185,530	67,845	14,259	42	(118,260)	802,656
Investments	1,274,723	663,098	196,344	310,376	43,996	-	49,253	(11,974)	2,525,816
Property, Buildings and Equipment, net	146,998	149,692	48,583	75,024	5,760	-	-	-	426,057
Other Assets	120,361	119,863	13,418	17,944	20,115	-	-	(129,037)	162,664
Deferred Compensation	25,482	4,840	2,001	390	18,575	-	-	-	51,288
Deferred Income Taxes	-	-	-	-	46,062	-	-	(46,062)	-
Total Assets	<u>\$1,966,635</u>	<u>\$1,250,333</u>	<u>\$ 301,148</u>	<u>\$625,085</u>	<u>\$324,333</u>	<u>\$ 14,259</u>	<u>\$ 50,035</u>	<u>\$ (305,333)</u>	<u>\$4,226,495</u>

(Continued)

THE REGENGE GROUP
Consolidating Balance Sheet Information
December 31, 2010
(In thousands)

	Regence BlueShield	Regence BCBSO	Regence BlueShield of Idaho, Inc.	Regence BCBSU	TRG	RegenceRx	Regence Foundation	Reclass/ Eliminations	Total
LIABILITIES AND SURPLUS									
Liabilities:									
Reserve for Unpaid Claims	\$ 450,982	\$ 235,366	\$ 64,337	\$145,262	\$ -	\$ -	\$ -	\$ (10,594)	\$ 885,353
Reserve for Adjusting Expenses on Unpaid Claims	10,283	6,400	2,118	4,193	-	-	-	-	22,994
Unearned Premiums	106,316	93,014	13,834	68,644	-	-	-	-	281,808
Debt and Other Obligations	62,032	21,303	19,927	20,625	21,415	-	-	(5,125)	140,177
Accrued Expenses and Other Liabilities	130,782	104,951	29,826	53,506	299,802	13,404	123	(235,586)	396,808
Experience Refunds Payable	13,912	15,010	9,946	598	-	-	-	-	39,466
Deferred Compensation	25,482	4,840	2,001	390	18,575	-	-	-	51,288
Deferred Income Taxes	29,036	25,315	5,959	9,797	-	-	37	(46,062)	24,082
Total Liabilities	828,825	506,199	147,948	303,015	339,792	13,404	160	(297,367)	1,841,976
Surplus:									
Accumulated Surplus	1,053,099	698,841	136,847	296,045	74,007	855	46,258	(7,966)	2,297,986
Accumulated Other Comprehensive Income (Loss)	84,711	45,293	16,353	26,025	(89,466)	-	3,617	-	86,533
Total Surplus	1,137,810	744,134	153,200	322,070	(15,459)	855	49,875	(7,966)	2,384,519
Total Liabilities and Surplus	\$1,966,635	\$1,250,333	\$ 301,148	\$625,085	\$324,333	\$ 14,259	\$ 50,035	\$ (305,333)	\$4,226,495

(Concluded)

THE REGENGE GROUP
Consolidating Balance Sheet Information
December 31, 2009
(In thousands)

	Regence BlueShield	Regence BCBSO	Regence BlueShield of Idaho, Inc.	Regence BCBSU	TRG	RegenceRx	Regence Foundation	Reclass/ Eliminations	Total
ASSETS									
Cash and Cash Equivalents	\$ 92,071	\$ 23,135	\$ 12,684	\$ 38,810	\$ 61,841	\$ -	\$ 495	\$ -	\$ 229,036
Accounts Receivable, net	402,831	301,843	40,699	193,383	19,973	26,293	3	(134,071)	850,954
Investments	1,153,435	736,187	185,933	314,776	587	-	24,356	(15,923)	2,399,351
Property, Buildings and Equipment, net	142,211	111,685	50,432	72,741	45,841	-	-	-	422,910
Other Assets	69,204	39,511	1,995	32,272	16,666	-	-	(1,541)	158,107
Deferred Compensation	26,668	4,920	1,703	334	16,533	-	-	-	50,158
Deferred Income Taxes	-	-	-	-	39,038	-	-	(36,093)	2,945
Total Assets	\$ 1,886,420	\$ 1,217,281	\$ 293,446	\$ 652,316	\$ 200,479	\$ 26,293	\$ 24,854	\$ (187,628)	\$ 4,113,461

(Continued)

THE REGENGE GROUP
Consolidating Balance Sheet Information
December 31, 2009
(In thousands)

	Regence BlueShield	Regence BCBSO	Regence BlueShield of Idaho, Inc.	Regence BCBSU	TRG	RegenceRx	Regence Foundation	Reclass/ Eliminations	Total
LIABILITIES AND SURPLUS									
Liabilities:									
Reserve for Unpaid Claims	\$ 496,256	\$ 300,521	\$ 67,919	\$ 188,898	\$ -	\$ -	\$ -	\$ (25,143)	\$ 1,028,451
Reserve for Adjusting Expenses on Unpaid Claims	12,434	7,971	2,438	5,008	-	-	-	-	27,851
Unearned Premiums	112,883	91,125	14,067	61,453	-	-	-	-	279,528
Debt and Other Obligations	69,993	5,997	18,647	29,890	23,686	-	-	(5,125)	143,088
Accrued Expenses and Other Liabilities	115,006	89,450	31,328	66,570	219,213	25,706	494	(119,175)	428,592
Experience Refunds Payable	11,197	9,822	12,127	589	-	-	-	-	33,735
Deferred Compensation	26,668	4,920	1,703	334	16,533	-	-	-	50,158
Deferred Income Taxes	15,140	12,121	4,358	4,430	-	-	44	(36,093)	-
Total Liabilities	859,577	521,927	152,587	357,172	259,432	25,706	538	(185,536)	1,991,403
Surplus:									
Accumulated Surplus	969,758	659,172	128,090	272,838	6,068	587	22,273	(2,092)	2,056,694
Accumulated Other Comprehensive Income (Loss)	57,085	36,182	12,769	22,306	(65,021)	-	2,043	-	65,364
Total Surplus (Deficit)	1,026,843	695,354	140,859	295,144	(58,953)	587	24,316	(2,092)	2,122,058
Total Liabilities and Surplus	\$ 1,886,420	\$ 1,217,281	\$ 293,446	\$ 652,316	\$ 200,479	\$ 26,293	\$ 24,854	\$ (187,628)	\$ 4,113,461

(Concluded)

THE REGENCE GROUP
Consolidating Statement of Operations Information
Year Ended December 31, 2010
(In thousands)

	Regence BlueShield	Regence BCBSO	Regence BlueShield of Idaho, Inc.	Regence BCBSU	TRG	RegenceRx	Regence Foundation	Reclass/ Eliminations	Total
Premiums	\$ 3,873,919	\$ 2,350,064	\$ 550,326	\$ 1,358,592	\$ -	\$ -	\$ -	\$ -	\$ 8,132,901
Commissions Expense	(80,399)	(33,189)	(20,035)	(32,404)	-	-	-	-	(166,027)
Premium Taxes	(41,454)	(11,695)	(6,190)	-	-	-	-	-	(59,339)
Net Revenue	3,752,066	2,305,180	524,101	1,326,188	-	-	-	-	7,907,535
Claims Expense	3,364,129	2,004,832	457,586	1,191,618	-	-	-	-	7,018,165
Operating Expense	307,417	206,796	66,515	117,761	-	-	-	-	698,489
Impairment of Goodwill	13,173	-	-	-	-	-	-	-	13,173
Underwriting Income	67,347	93,552	-	16,809	-	-	-	-	177,708
Investment Income (Loss), net	69,622	55,235	10,131	27,702	(1,372)	-	615	(5,606)	156,327
Other (Expense) Income, net	(21,423)	(2,526)	(424)	(2,198)	851	447	23,374	(268)	(2,167)
Uninsurable Pool Assessments	(11,207)	(15,838)	(1,629)	(71)	-	-	-	-	(28,745)
Income (Loss) Before Income Taxes	104,339	130,423	8,078	42,242	(521)	447	23,989	(5,874)	303,123
Income Tax Expense (Benefit)	20,998	34,754	(679)	9,035	(2,460)	179	4	-	61,831
Net Income	\$ 83,341	\$ 95,669	\$ 8,757	\$ 33,207	\$ 1,939	\$ 268	\$ 23,985	\$ (5,874)	\$ 241,292

THE REGENCE GROUP
Consolidating Statement of Operations Information
Year Ended December 31, 2009
(In thousands)

	Regence BlueShield	Regence BCBSO	Regence BlueShield of Idaho, Inc.	Regence BCBSU	TRG	RegenceRx	Regence Foundation	Reclass/ Eliminations	Total
Premiums	\$ 3,967,475	\$ 2,862,098	\$ 585,947	\$ 1,483,140	\$ -	\$ -	\$ -	\$ -	\$ 8,898,660
Commissions Expense	(79,888)	(35,857)	(22,885)	(38,410)	-	-	-	-	(177,040)
Premium Taxes	(43,649)	(4,051)	(6,412)	-	-	-	-	-	(54,112)
Net Revenue	3,843,938	2,822,190	556,650	1,444,730	-	-	-	-	8,667,508
Claims Expense	3,511,000	2,531,257	492,426	1,337,869	-	-	-	-	7,872,552
Operating Expense	335,490	255,023	72,439	134,798	-	-	-	-	797,750
Underwriting Income (Loss)	(2,552)	35,910	(8,215)	(27,937)	-	-	-	-	(2,794)
Investment Income (Loss), net	30,458	18,538	3,605	10,837	(1,379)	22	(909)	-	61,172
Other Income (Expense), net	(834)	1,638	258	2,799	419	430	7,700	(299)	12,111
Uninsurable Pool Assessments	(10,024)	(21,672)	(689)	-	-	-	-	-	(32,385)
Income (Loss) Before Income Taxes	17,048	34,414	(5,041)	(14,301)	(960)	452	6,791	(299)	38,104
Income Tax Expense (Benefit)	7,245	9,907	(1,699)	(1,266)	(7,369)	153	107	-	7,078
Net Income (Loss)	<u>\$ 9,803</u>	<u>\$ 24,507</u>	<u>\$ (3,342)</u>	<u>\$ (13,035)</u>	<u>\$ 6,409</u>	<u>\$ 299</u>	<u>\$ 6,684</u>	<u>\$ (299)</u>	<u>\$ 31,026</u>

Exhibit E

**HEALTH CARRIER HOLDING COMPANY SYSTEM
ANNUAL REGISTRATION STATEMENT**

**FORM C
SUMMARY OF REGISTRATION STATEMENT**

Filed with the Insurance Commissioners of the States of:
Idaho, Oregon, Utah, and Washington

By

THE REGENCE GROUP

On Behalf of the Following Health Carriers:

<u>Name:</u>	<u>Address:</u>
1. Regence BlueShield (Regence Washington)	1800 Ninth Avenue Seattle, Washington 98101
a. Asuris Northwest Health (ANH)	528 E. Spokane Falls Boulevard Suite 301 Spokane, Washington 99212
b. Commencement Bay Life Insurance Company (CBL)	1800 Ninth Avenue Seattle, Washington 98101
2. Regence BlueCross BlueShield of Oregon (Regence Oregon)	100 SW Market Street Portland, Oregon 97201
a. Regence HMO Oregon (RHO)	201 High Street SE Salem, Oregon 97308
b. Regence Health Maintenance of Oregon, Inc. (RHMO)	100 SW Market Street Portland, Oregon 97201
c. Regence Life and Health Insurance Company (RLH)	100 SW Market Street Portland, Oregon 97201
3. Regence BlueCross BlueShield of Utah (Regence Utah)	2890 East Cottonwood Parkway Salt Lake City, Utah 84121
a. HealthWise	2890 East Cottonwood Parkway Salt Lake City, Utah 84121
4. Regence BlueShield of Idaho, Inc. (Regence Idaho)	1602 21st Avenue Lewiston, Idaho 83501

Reporting Period for This Statement: 2010

Date of This Filing: April 22, 2011

Individual to whom Notices and Correspondence concerning this Statement should be addressed:

Kerry E. Barnett
Executive Vice President & Chief Legal Officer
The Regence Group
200 SW Market Street, Suite 1500
Portland, Oregon 97201
(503) 276-1814

Changes from the Prior Registration Statement

Item 1. Identity and Control of Registrant.

Removed the state of Montana as a state where Regence is authorized to do business.

Item 2. Organizational Chart

Exhibit B was updated to correct the name of The Regence Caring Foundation for Children, Inc.

Item 4. Biographical Information

The list of Regence Executive Officers and Directors was updated.

Item 5. Transactions and Agreements

- (a) This subsection was amended to show that Regence Washington made certain capital contributions to its wholly-owned subsidiary, Kinetix Living Corp.
- (b) The inter-company transaction amounts are updated for 2010 and the entry explaining the creation of Regence Rx, Inc. in 2005 was removed. This subsection also was amended to show that Regence Utah sold TZ Holdings, L.P. shares for \$33,558,220 to Regence Oregon on December 31, 2010.
- (c) This subsection was updated to show that Regence Washington contributed \$20,000,000 to The Regence Foundation on December 22, 2010. This section also was updated to remove the December 23, 2009, Regence BlueShield transfer of \$20,000,000 by Regence BlueShield to Asuris Northwest Health, which was a one-time occurrence in 2009.
- (d) No changes.
- (e) The allocations noted in subsections (1) and (2) are updated for 2010. In addition, Subsections (4)(iv) and (5)(i) were updated to include the full name of The Regence Caring Foundation for Children, Inc.
- (f) No changes.

- (g) This subsection was updated to show that Regence Oregon made an ordinary distribution of \$56,000,000 to The Regence Group on November 17, 2010 and that Regence Utah made an extraordinary distribution of \$10,000,000 to The Regence Group on December 27, 2010.
- (h) No changes.
- (i) No changes.

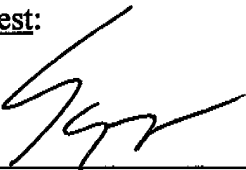
SIGNATURE AND CERTIFICATION

Pursuant to the respective holding company registration requirements, the registrant has caused this Form C, summary of the annual registration statement, to be duly signed on its behalf in the City of Portland and State of Oregon on the 22nd day of April, 2011.

THE REGENCE GROUP

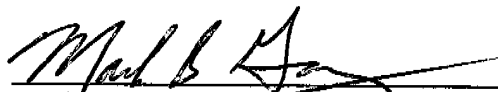
By: 
Mark B. Ganz, President and CEO

Attest:


Kerry E. Barnett
Group Executive Vice President, Corporate Services
and Chief Legal Officer

CERTIFICATION

The undersigned deposes and says that he has duly executed the attached Form C, summary of the annual registration statement, dated April 22, 2011 for and on behalf of The Regence Group; that he is the President and CEO of such company and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

By: 
Mark B. Ganz, President and CEO



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