REPORT OF EXAMINATION

STATES WEST LIFE INSURANCE COMPANY

As of December 31, 1996

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the STATES WEST LIFE INSURANCE COMPANY of Mountlake Terrace, Washington. This report shows the financial condition and related corporate matters as of December 31, 1996.

Patrick McNaughton, Chief Examiner

Date

STATES WEST LIFE INSURANCE COMPANY
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Seattle, Washington
November 10, 2000

The Honorable Kathleen Sebelius
Chair, NAIC Financial Condition (EX) Committee
Commissioner, Kansas Department of Insurance
420 SW 9th Street
Topeka, KS 66612-1678

The Honorable Bob Lohr
NAIC Secretary, Western Zone
Director, Alaska Division of Insurance
3601 C Street, Suite 1324
Anchorage, AK 99503-5948

The Honorable Mike Kreidler
Insurance Commissioner, State of Washington
PO Box 40255
Olympia, WA 98504-0255

Dear Commissioners:

In accordance with your instructions and in compliance with the statutes of the state of Washington, Chapter 48.03 Revised Code of Washington, an Association Examination has been made of the corporate affairs and financial records of the

STATES WEST LIFE INSURANCE COMPANY
of
Mountlake Terrace, Washington

hereinafter referred to as the Company, at its home office located at 7001 220th Street SW, Mountlake Terrace, Washington 98043. The following report on the examination is respectfully submitted showing the condition of the Company as of December 31, 1996.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 1991. The current examination was conducted by insurance examiners from the states of Washington and Montana, and covers the period from January 1, 1992 through December 31, 1996. The examination was conducted in accordance with the laws and regulations of the state of Washington contained in Title 48 of the Revised Code of Washington (RCW) and Title 284 of the Washington Administrative Code (WAC) and the examination procedures recommended by the National Association of Insurance Commissioners found in the NAIC Financial Condition Examiner's Handbook.

Corporate records and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. The Company’s Certified Public Accountant’s work papers were reviewed and utilized where possible to support efficiency in the examination.

INSTRUCTIONS

Comments on any adverse findings that are applicable to the current examination are included in the following instructions.

Pursuant to the findings and conclusions of the examiners and actuary, in accordance with sound actuarial principals, Title 48 RCW, Title 284 WAC and the NAIC Accounting Practices and Procedures Manual (APPM) for Life, Accident and Health Insurance Companies, the Company is hereby instructed to comply with the following:

1. **THE COMPANY IS INSTRUCTED** to comply with **RCW 48.13.030,** and dispose of or non-admit the excess of 4% investment in any one entity.

2. **THE COMPANY IS INSTRUCTED** to comply with **WAC 284-07-050(2)** and report appropriate net due and deferred premiums on life insurance contracts as admitted assets per chapter 18 of the NAIC APPM.

3. **THE COMPANY IS INSTRUCTED** to comply with **WAC 284-07-050(2)** and include appropriate amounts for individual life conversion policies in the asset for due and deferred life insurance premiums and in the liability for advance life insurance premiums per chapter 18 of the NAIC APPM.

   When this is implemented, a reserve for the non-deduction of deferred fractional premiums for individual life conversion policies should also be included in the Company's aggregate life insurance reserve.

4. **THE COMPANY IS INSTRUCTED** to comply with **WAC 284-07-050(2)** and report all due and unpaid reinsurance premiums in the appropriate asset line on page 2 of the annual statement rather than aggregate write-ins for liabilities per chapter 24 of the NAIC APPM.

5. **THE COMPANY IS INSTRUCTED** to comply with **RCW 48.74.030** and use reserve factors for individual life conversion policies that reflect changes in the valuation interest rates per the Standard Valuation Law. This recommended change was implemented during 1997.

6. **THE COMPANY IS INSTRUCTED** to comply with **WAC 284-07-050(2)** to include a reserve for the immediate payment of claims for individual life conversion policies in the Company's aggregate life insurance reserve per Actuarial Guideline XXXII from the NAIC Financial Examiners Handbook.

HISTORY

States West Life Insurance Company is a Washington corporation organized in 1981 through a joint venture between Unigard Olympic Life Insurance Company (UOLIC) and Washington-Alaska Group Services, Inc. (WAGS).

UOLIC, a Washington company, was then a member of the Unigard group of companies. It was subsequently sold and renamed as United Olympic Life Insurance Company.

WAGS is a for profit Washington insurance agency wholly owned by Premera Blue Cross (PBC). PBC is a Washington non-profit health care service contractor. Among other activities, WAGS provides life and disability insurance marketing services for the Company. American Bankers Life Assurance Company of Florida (ABLAC) initially underwrote these policies for WAGS prior to the formation of the Company. To broaden PBC's product offerings and to capture an equity position in this business, WAGS aligned with UOLIC to jointly organize States West Life Insurance Company. On October 1, 1987, all of ABLAC's policies written through WAGS were assumed by the Company and eventually rewritten by the Company. The affiliation continued with the Company assuming the reinsurance responsibility from ABLAC for a block of business called Unipay. This arrangement was terminated during 1994 when ABLAC agreed to buy back the block of Unipay business.

CAPITALIZATION:

Pursuant to chapter RCW 48.06.040, the Company obtained a solicitation permit on September 8, 1981 to sell 120,000 shares of $10 par value common stock. In accordance with the Pre-incorporation Subscription Agreement, all authorized shares were issued to UOLIC (80% or 96,000 shares) and WAGS (20% or 24,000 shares). Capital contributions of $2 million from UOLIC and $ .5 million from WAGS were received for a total capital contribution of $2.5 million. The solicitation permit was duly closed pursuant to a statutory qualifying examination as of November 30, 1981.

UOLIC sold its 96,000 shares of common stock to WAGS for a base sale price of $2.5 million plus adjustments based on reserve development. The "Agreement for Sale of Stock of States West Life Insurance Company" was signed, and the sale transaction was closed on December 1, 1983. The automatic group life reinsurance treaty between UOLIC and the Company was then terminated. A new board of directors and officers under the direction of WAGS were then duly elected and the Company's home office was moved to Seattle, Washington. The Corporate Headquarters were later moved to the current location in Mountlake Terrace, Washington.

The authorized capital stock consists of 120,000 shares of $10 par value common stock with equity interests and capital contributions as follows:

	Capital
Initial Capital	$1,200,000
Paid in Capital	$1,300,000
Total	$2,500,000
Number of Shares	120,000

WAGS has been the only shareholder and no change to the capital has been made since the close of the stock sale transaction.

DIVIDENDS TO SHAREHOLDERS:

The Company did not declare or distribute shareholder dividends during the period of examination, January 1, 1992 through December 31, 1996. None were declared or distributed in 1997 and 1998 subsequent to the examination period.

AFFILIATED COMPANIES

Washington-Alaska Group Services, Inc. is the parent of the Company. It is a for profit Washington insurance agency wholly owned by PBC. WAGS markets individual health and disability policies of various insurance carriers and provides life and disability insurance marketing services solely to the Company. WAGS also acts as general agent for the Company's agency force. During 1994, WAGS became affiliated through a profit sharing partnership with Pacific Health & Life of Oregon and its subsidiary, Western Benefits Administrators. Pacific Health & Life of Oregon changed its name during 1998 and became, LifeWise, A Premera Health Plan, Inc.

NorthStar Administrators, Inc., (NorthStar), formerly known as NCAS Northwest, Inc. (NCAS), is a third party administrator for some of the Company's claims processing. It is also a PBC affiliate 100% owned by WAGS.

Premera Blue Cross is a non-profit Washington health care service contractor and the parent company of WAGS. The name was changed from Blue Cross of Washington & Alaska (BCWA) during 1998.

PREMERA was organized during 1994 as the holding company for all of the Premera Blue Cross affiliates including the affiliation with Medical Service Corporation of Eastern Washington and its two affiliates, MSC Service Corporation and MSC Life Insurance Company.

ORGANIZATIONAL CHART

The following organizational chart displays the relationship of all of the affiliates under the PREMERA holding company system as of the examination date.

4101-orgchart.xls

MANAGEMENT and CONTROL

BOARD OF DIRECTORS:

Control of the Company is vested in the Board of Directors (BOD) consisting of five members as of December 31, 1996.

Name and Address	Principal Business Affiliation	Member Since
Stephen D. Melton	President and CEO	1988
Betty Woods	Chairman	1988
Deryl J. Brown-Archie	Corporate Secretary	1994
Kenneth A. Hamm	Treasurer	1994
Susan W. Hallett	Vice President and COO	1995

The Corporate Bylaws provide that the number of directors may be changed from time to time by amendment or by resolution of the Board of Directors. The Board of Directors was composed of six members as of December 31, 1992. That number was changed to seven during October 1992 and again reduced to six during 1993 when one person left the board. During 1994 two members were replaced and in 1995 one member left the board and one member was replaced which reduced the number of members to five. The number of directors has remained at five through 1998. All changes were acknowledged by resolution and attached to the Board of Director meeting minutes.

OFFICERS:

Officers on December 31, 1996 were:

Stephen D. Melton	President and Chief Executive Officer
Deryl J. Brown-Archie	Corporate Secretary
Kenneth A. Hamm	Treasurer
Susan W. Hallett	Vice President
Stanley A. Roberts	Actuary

COMMITTEES:

The Board of Directors created an Audit Committee at its meeting held April 27, 1992. It consists of three members, none of whom are outside directors. It meets annually and keeps minutes of the meetings. The members as of December 31, 1996 were: Betty Woods, chairman, Stephen D. Melton and Kenneth A. Hamm.

The Board also has an active Finance Committee whose members as of December 31, 1996 were: Betty Woods, chairman, Stephen D. Melton and Kenneth A. Hamm.

CORPORATE RECORDS:

The Articles of Incorporation were last amended and restated May 10, 1989. The Corporate Bylaws were last amended and restated March 29, 1989.

The Board of Directors and the sole Shareholder properly authorized all prior changes to the Articles of Incorporation and Corporate Bylaws. The Board of Directors has complied with the provisions of the Corporate Bylaws in the Administration of the affairs of the Company.

The Corporate Bylaws, Section 2.1, specifies that the annual shareholder meeting shall be held the fourth Wednesday in March in each year. Section 3.3 specifies that the annual Board of Directors meeting of the Company shall be held on the same day. Generally, the Company's Board of Directors meetings are held two times a year. The annual meetings usually have been re-scheduled to April with the second meeting usually held during October.

The Board of Directors of Washington-Alaska Group Services elects the Board of Directors of the States West Life Insurance Company at the Annual Shareholder Meeting which is usually held immediately prior to the Company annual BOD meeting. The Board of Directors of the Company elects its officers and appoints its committees at the annual BOD meeting.

The results of the examination indicate that the Company keeps a correct and complete set of books and records of account and minutes of the proceedings of its Shareholder, Board of Directors and Committees of the Board. Books, records, and minutes are in written form and were reviewed during the course of the examination. Meetings were well attended and the minutes were in sufficient detail and substance to demonstrate that the Board was actively involved in the administration of the affairs of the Company.

CONTRACTS

The Company is a participant in several agreements between affiliates and, as a member of an insurance company holding system, these have been filed pursuant to RCW 48.31B.025. As of December 31, 1996, the Company was party to the following contracts:

Intercompany Tax Allocation Agreement:

The Company’s Federal Income Tax return is consolidated with that of its ultimate parent, PREMERA, and affiliates as listed on the Company’s Annual Statement, Schedule Y, Part 1. This excludes Premera HealthPlus, which is an affiliate of PBC. The method of allocation between the companies is subject to written agreement, approved by the Board of Directors. Allocation is based on calculations of separate taxable income, with current credit for net losses. Intercompany tax balances are settled on an annual basis.

Intercompany Cost Sharing Arrangement:

The Company has a cost allocation arrangement based upon generally accepted accounting principles involving Premera Blue Cross and all affiliates.

The “Intercompany Agreement Allocation of Costs” document was effective January 10, 1994. It is among PBC, a Washington nonprofit corporation, and Premera HealthPlus, States West Life Insurance Company, Washington-Alaska Group Services, Inc., NorthStar Administrators, Inc., PremeraFirst, LifeWise, A Premera Health Plan Inc. and Western Benefits Administrators, Inc., all affiliate corporations of PBC.

Administrative/Management Agreements:

States West Life Insurance Company is part of the following Administrative/Management Agreements with other affiliated companies offering professional assistance in the development and implementation of long-term strategies for future growth.

LifeWISE, A Premera Health Plan, Inc. - Effective 11/95

LifeWISE, A Premera Health Plan, Inc., is engaged in the health insurance business. The agreement provides for assistance in the administration of certain of the Company's current Group Life and Disability business activities as well as the development and implementation of strategies for the Company's future growth in the state of Oregon. It also provides product support, training and other services appropriate for the accomplishment of the objectives of the Company.

Agency Agreement with MSC Service Corporation

MSC Service Corporation (MSC-SC) is licensed as a life and disability insurance agency by the state of Washington and sells the Company group insurance products as well as assisting in the development and implementation of strategies for the Company's future growth in Eastern Washington.

MSC-SC, as well as selling the Company group insurance policies, also provides product support, training and other services appropriate for the accomplishment of the objectives of the Company.

Guaranty Agreement States West Life and Premera Blue Cross - Effective - March 3, 1994:

Premera Blue Cross, the upstream parent company of States West Life, has expressed its intention to provide meaningful financial support to States West Life Insurance Company. PBC has also determined that it is in PBC's long term interest to provide a guarantee of the admitted assets of the Company. That guarantee is not intended to expand the legal relationship or legal rights and liabilities existing between PBC and the Company.

Under the guaranty agreement, if the Company's admitted assets, for any cause, are reduced to less than 120% of its liabilities, PBC will infuse capital in the amount necessary to maintain the minimum ratio of 120% of liabilities. The infusion is limited to a total of all infused capital not to exceed 5 million dollars.

Admitted assets, after examination adjustments, as of December 31, 1996 were $20,498,396 and liabilities were $10,878,315. If admitted assets were reduced below $13,053,978, PBC would need to make a capital contribution under the terms of the guaranty agreement.

INTERNAL SECURITY

Conflict of Interest:

The Conflict of Interest Policy requires periodic declarations by officers, directors, and key employees. At each Board of Directors meeting, all directors, officers, and key management personnel, as designated by the CEO or President and Chief Operating Officer, are required to disclose to the Secretary of the Company all relevant outside interests, memberships, associations, and affiliations. This information is reviewed by the Secretary of the Company who assists the Board of Directors in identifying those issues and situations in which a conflict of interest may exist or arise as to directors, officers, or key management personnel.

The Company also has in place a Code of Business Conduct and a Compliance Program. Each year, the Board of Directors reviews and adopts the Model Policies of Employee, Officer and Director Conduct, and the Code of Business Conduct and Compliance program. The Board also designates an individual to act as the Compliance Officer, with duties as described in the Compliance program. All employees receive a copy of the Code of Business Conduct and Compliance Program as well as a one-page summary and wallet insert of the Code of Business Conduct. Training programs are conducted for all management personnel and employees.

It appears that the Company takes great effort to protect the confidentiality of the Company strategy, all records, data and any other information of a private or sensitive nature. No conflicts between corporate duties and self-interest have been disclosed that would indicate a failure to give an undivided and unselfish loyalty to the Company.

Fidelity Bond and Other Insurance:

The Company is a named insured on a fidelity insurance policy purchased by the upstream parent. Coverage limits to $4,000,000 are provided for all of the affiliated companies insured. The minimum amount recommended by the NAIC for States West Life Insurance Company alone is $250,000 to $300,000. The aggregate amount of coverage appears adequate to cover the exposure risk of the Company and its upstream affiliates.

The Company is also provided protection against certain property and liability losses as a named insured on policies obtained by the parent. Policies in effect at December 31, 1996 provided coverages for real and personal property, commercial general liability, umbrella/excess liability, financial institution fidelity bond, fiduciary liability, directors' & officers' liability, errors & omissions liability and managed care organization liability.

EMPLOYEES' BENEFIT PLANS

States West Life Insurance Company employed twenty-eight persons as of December 31, 1996. The salaries and benefits for these direct employees and others providing services to the Company through other affiliates are processed through the holding company (PREMERA) cost center.

Functions within PREMERA are managed as one unit serving multiple companies. Inter-company allocations are performed to cost these joint resources to the user companies. They are a part of the Line of Business (LOB) allocation process and use the same statistical base.

Cost center documentation is kept on all cost centers within PREMERA. This is the basis for both Legal and LOB allocations. Documentation is maintained on an access database. Sources for statistics include, but are not limited to members, number of paid claims, timesheets and usage reports.

Monthly statistics are collected and input into the general ledger system. Allocation percentages are applied and journal entries are posted. Inter-company balances due to/from are balanced and reconciled. All administrative costs of the PREMERA cost center are allocated to affiliate companies.

On a monthly basis, the Vice-President of Finance, Controller, and Accounting Manager review the cost center expense ratio for reasonableness and consistency. Externally, government agencies review the cost center reports for proper allocations basis and expense.

Employee Benefits, Savings and Retirement:

Company employees are covered under the Premera Blue Cross benefit program. The program provides coverage for medical, dental, long-term disability, life and optional personal accident insurance. The Company also offers its eligible employees a tax-favored savings program (401K) in which the Company contributes a percentage of the employee's contribution up to an annual limit.

PBC employees are covered under a non-contributory defined benefit retirement program sponsored through the national Blue Cross Blue Shield Association. The Company's employees also participate in this program.

Employee Profit Sharing and Incentive Pay Plans:

One States West Life Insurance Company employee directly receives incentive pay. The Company also participates in profit sharing and incentive pay of PBC officers and high-ranking employees indirectly through inter-company expense allocation.

The EXECUTIVE INCENTIVE PLAN awards incentive pay to the President, Executive Vice President or higher-ranking officers of PBC or President of a subsidiary. Awards are based on various performance goals.

The SUPPLEMENTAL RETIREMENT PROGRAM provides deferred income benefits to key management of PBC and the Company.

Under the MARKETING DIVISION COMPENSATION PLAN, one Company employee received awards. The plan awards incentive pay based on new sales and profitability.

TERRITORY AND PLAN OF OPERATION

States West Life Insurance Company is licensed in several states and markets Life and Disability products primarily through a captive sales force of Premera Blue Cross.

The Company began business in Washington when it received a certificate of authority in November 1981 to transact life and disability insurance business. The Company was subsequently granted certificates of authority in the following states: Alaska (1981), Arizona (1986), California (1988), Oregon (1990), Idaho (1991), Montana (1991), North Dakota (1989), and Wyoming (1988). No business has yet been written in the states: Arizona, North Dakota, and Wyoming.

The Company writes the following group policies; life, accidental death and dismemberment, long term disability, managed disability, short-term disability, and medical stop-loss. These product lines were developed to complement PBC's health care programs and permit employers to buy total employee benefit packages from a single source. The Company is increasing its presence in Oregon, utilizing the sales force of its affiliate LifeWise, A Premera Health Plan, Inc. It is also continuing its expansion into Eastern Washington through its parent's affiliate, Medical Service Corporation of Eastern Washington.

The Company appoints agents and brokers directly for the sale of its products. Commissions are paid directly to agents and brokers. The Company also pays compensation for the sale of the Company products to PBC for distribution to its licensed sales representatives. The Company personnel conduct training of the PBC sales force on the Company products, services, and procedures. The Company currently has relationships with 750 brokers and 22 soliciting agents.

The following schedule shows the Company's direct writings:

Direct Business Writings Comparative Between Years								
		1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Alaska	Life	1,704,699	1,946,593	1,698,093	1,663,787	2,039,914	1,970,322	2,119,467
	A & H	1,236,602	1,359,129	1,435,321	932,119	1,017,137	1,023,699	1,171,463
California	Life		25,312	25,529	23,495	27,607	32,073	31,358
	A & H		4,916	4,302	4,540	4,886	5,234	5,378
Idaho	Life	6,011	4,667	12,014	62,110	176,673	249,221	339,823
	A & H	4,609	3,672	17,081	22,808	46,826	130,974	249,750
Montana	Life			955	3,876	3,954	5,493	5,128
	A & H			167	685	702	3,303	5,876
Oregon	Life			58,702	194,412	328,249	449,041	470,634
	A & H			59,667	259,685	390,282	495,154	492,826
Washington	Life	4,165,289	4,131,976	4,733,984	5,924,104	6,330,777	7,227,799	7,015,787
	A & H	4,041,158	4,487,636	4,498,512	5,193,854	6,174,512	5,827,018	5,691,194
TOTAL		**11,158,368**	**11,963,901**	**12,544,327**	**14,285,475**	**16,541,519**	**17,419,331**	**17,598,684**

The Company continues to focus its efforts on increasing its primary lines of business, the group term life and disability markets. Direct premiums increased 13.9% in 1995 and 15.8% in 1996. Modest gains were experienced during 1997 and 1998. Net premiums have also increased somewhat more due to increased enrollment in the life and disability lines of business and increased retention levels.

REINSURANCE PROGRAM

A summary of the States West Life Insurance Company Reinsurance Program as of December 31, 1996 follows:

Coverage Type	Retention	Limits	Levels
Group Life Excess	$175,000 per individual	$2,000,000 per individual	The excess of $175,000 is reinsured 100%
Group Life Catastrophe Excess	$350,000 each accident	$2,500,000 each accident	The excess of $350,000 is reinsured 100%
Specific Stop Loss Excess	$250,000 per individual	$1,000,000 per individual	The excess of $250,000 is reinsured 100%
Group AD&D	0	$2,000,000	100% is reinsured with a refunding agreement
Long Term Disability	50/50 Quota share	Group policy limit	50/50 Quota share with reinsurer
Group Voluntary Life	50/50 Quota share	$300,000	$150,000 maximum risk

Dental	50/50 Quota share	$2,500 maximum per individual	Quota share
Excess Risk	50/50 QS to $200,000 $75,000 2nd layer $175,000 total retention	$2,000,000 per individual	Quota share The excess of $175,000 is reinsured 100%
Closed Block Group Life AD&D Short Term Disability	50/50 Quota share	$300,000	$150,000 maximum risk

The contracts appear to have the required wording to minimize the Company risk. The Company does not do business with unauthorized reinsurers.

The President and the Underwriting Manager routinely review the reinsurance program to be sure that the exposure to risk is limited through the spreading of that risk through the various reinsurance contracts.

INFORMATION SYSTEMS AND ACCOUNTING RECORDS

The Company is a member of the PREMERA Holding Company Group and obtains its Information Systems support from Premera Blue Cross, the parent of Washington Alaska Group Services. The Information Systems Department (IS) includes approximately 300 employees, including individuals assigned directly to individual subsidiary companies.

Company Management is sufficiently knowledgeable of IS issues and provides oversight and direction. Systems development, acquisition and maintenance controls were evaluated to gain assurance that programs and systems are designed, tested, approved and implemented using appropriate controls. There are formal written procedure manuals. Separation of duties is practiced and internal controls are in place.

Operations and Application Controls were reviewed to determine the type of hardware installed: operating systems and proprietary software in use; back up and recovery facilities employed and the controls exercised to maintain data security. Adequate procedures and controls are in place for mainframe and network operations, and personal computers.

The accounting records, including the general ledger and subsidiary records, are maintained on a Generally Accepted Accounting Principal (GAAP) basis. Statutory Statement balances are reconciled to the general ledger. Reconciling items consist of but are not limited to, elimination of deferred tax entries, fixed assets, prepaid assets, FAS 106 liabilities, and FAS 115 investment reporting differences.

ACTUARIAL

A consulting actuary representing the Montana Department of Insurance performed the actuarial review of the reserves and related assets and liabilities associated with policy coverages in group life, and group accident and health insurance contracts underwritten by the Company.

The Company provided copies of its actuarial workpapers and reserve reports as of December 31, 1996 and copies of its paid claims listings for 1997. Tests were performed on the Company's underlying data, methods, and calculations as deemed necessary. Tests were also performed on the valuation reports and of Company procedures to establish that accurate and complete in-force information as of December 31, 1996 was represented in the valuation reports and workpapers. A sampling of contracts and payments was also taken from active life and disabled life reserve reports, premium collection records and paid claims reports. They were tested for completeness and accuracy. It was determined that the Company's calculations are based on accurate and complete demographic data.

During the course of the examination, the actuary performed such testing of the Company's reserving methodologies and philosophies as deemed necessary to form an opinion with respect to the items reported. The actuary relied upon listings and summaries of in-force policies and contracts that were furnished by the Company.

The general examination emphasis was to review the methods, assumptions or other bases used to determine the reported annual statement items, and to determine whether the reported amounts are sufficient and in compliance with Washington law.

It was the actuary's opinion, that actuarial assets and liabilities reported by the Company and discussed in his report: (a) were computed in accordance with accepted reserving methods and principles; (b) made a reasonable provision for the unpaid loss obligations of the Company under the terms of its policies and agreements; and (c) met the requirements of the insurance laws of the state of Washington.

The actuary did not recommend change to any of the amounts reported by States West Life Insurance Company in its 1996 Annual Statement for computational adjustments that were noted during the examination. Computational adjustments considered are noted in the **Notes and Comments to Financial Statements (notes 4, 5, 6, 7, and 8)**. The combined net effect of the noted adjustments would be a $573,930 increase to Company surplus. It was also noted that the Company followed a very conservative approach in preparing its 1996 Annual Statement by non-admitting all of its life insurance due and deferred premiums.

We have elected to follow the Company's lead and the Actuary's recommendation, and adopt a conservative philosophy and not specifically adjust for any of the computational adjustments in establishing the actuarial assets and liabilities.

Although no adjustments were made to the Company's balance sheet, several findings are discussed in the **Instructions (items 2-6)** section of this report which will result in a more accurate statement of the Company's actuarial assets, reserves, and liabilities in future annual statements.

SUBSEQUENT EVENTS

Ownership and Control:
There have been no changes in ownership and control of the Company. However, during the subsequent years to the examination date, there were name changes of holding company affiliates and changes of ownership and control within the holding company system.

Medical Service Corporation of Eastern Washington (MSC) merged into Blue Cross Washington-Alaska (BCWA). As part of the same process, a name change from BCWA to Premera Blue Cross (PBC) became effective June 30, 1998. At the same time, PBC became the owner of the related MSC affiliates.

The name of Pacific Health & Life (OR) was changed to LifeWise, a Premera Health Plan, Inc., effective July 1, 1997.

Territory and Plan of Operations:
The Company received its Certificates of Authority to do business in the states of Utah and New Mexico during 1997. No business had been written in these states as of December 31, 1998.

EDP and Accounting Systems:
The EDP Main Operating System became Y2K compliant during April 1998. Corporate minutes from October 26, 1998 mentioned a New Claim System. The new claims system is targeted to be implemented during July 1999. No other EDP and accounting system implementations occurred during 1997 and 1998 through the present.

Reinsurance:
During 1997 the Company revised its retention and retained the first $50,000 of Voluntary Group Life and AD&D business and reinsured 100% of the risk over $50,000. The Excess risk contracts were not renewed for 1997.

A common renewal date of July 1 of each calendar year for reinsurance of Group Life, Supplemental Life, Group AD&D and Voluntary AD&D was established in 1998.

Financial:
A financial fluctuation analysis was prepared by the examiners for the years under examination through December 31, 1998 and the Office of Insurance Commissioner (OIC) Financial Analyst produced a ratio analysis and other fluctuations through the 1st Quarter 1999. There does not appear to be any fluctuations that would have any impact over the subsequent financial statements.

COMMENTS ON RECOMMENDATIONS FROM PRIOR EXAMINATION

The examination as of December 31, 1991 reported three securities that were over the 4% limitation on the investment in any one entity. The Commissioner issued Order No. G 94 – 2, item VIII, "Pursuant to RCW 48.13.030, for exceeding the limitation on investments imposed by this statute, the penalty is suspension of the Company's license. In lieu of suspension of its license for this violation, the Company shall pay a fine of $1,000 no later than January 31, 1994."

The Company responded to that order on January 14, 1994, "Item 8: Limitations on Securities of One Entity. Controls have been modified to ensure that all security holdings will comply with the limitations set forth in the appropriate regulations." "Order #7: Excess Investments in One Entity - the Company has enhanced its controls and monitoring procedure to ensure that the statutory limits surrounding investment holdings will not be exceeded in the future."

The December 31, 1996 market value of the common stock, Columbia Management Corporation, is $3,322,842 and represents 14.51% of total assets and 30.69% of total surplus. The amount over the 4% limit allowed by RCW 48.13.030, will be non-admitted for purposes of this examination. **(See Instruction 1)**

Columbia Management Corporation was again over limit on December 31, 1997 and two issues of Vanguard, new purchases during 1998, were over limit on December 31, 1998.

The following schedule shows that the Company over limit investments for 1996 through 1998.

COMMON STOCK:

Year	admitted assets	cusip	security	4% limit	market value	over limit
1996	22,905,037	**197384**-100	Columbia Management Core	916,201	3,322,842	2,406,641
1997	30,087,223	**197384**-100	Columbia Management Core	1,203,489	4,517,621	3,314,132
1998	31,534,828	**922908**-108	Vanguard Index 500	1,261,393	1,025,999	
1998	31,534,828	**922908**-405	Vanguard Index Value Fund		971,944	736,550

Based on the review performed, the Company is compliant with all other issues and orders from the prior examination.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 1996, as determined by this examination:

Balance Sheet
As of December 31, 1996

Comparative Balance Sheet
As of December 31, 1995 and 1996

Statement of Income
Year Ended December 31, 1996

Comparative Statement of Income
For the Years Ended December 31, 1995 and 1996

Capital and Surplus Account
As of December 31, 1996

Comparative Capital and Surplus Account
Years Ended December 31, 1992 through 1996

STATES WEST LIFE INSURANCE COMPANY

BALANCE SHEET

AS OF DECEMBER 31, 1996

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	Notes
ASSETS				
Bonds	$14,745,610		$14,745,610	1
Common stocks	3,322,842	(2,406,641)	916,201	2
Cash and short term investments	4,243,183		4,243,183	3
Reinsurance ceded: Amounts recoverable	96,325		96,325	
Life insurance premiums and annuity considerations, Deferred and uncollected				4
Accident and health premiums due and unpaid	151,186		151,186	
Investment income due and accrued	330,329		330,329	
Receivable from parent, subsidiaries and affiliates	15,562		15,562	
TOTAL ASSETS	$22,905,037	($2,406,641)	$20,498,396	
LIABILITIES				
Aggregate Reserve for life policies and contracts	$3,450,912		$3,450,912	5
Aggregate Reserve for accident and health policies	1,818,843		1,818,843	6
Policy and contract claims: Life	1,355,829		1,355,829	7
Policy and contract claims: Accident and health	928,288		928,288	8
Premiums and annuity considerations received in advance	185,960		185,960	
Provision for experience rating refunds	1,140,891		1,140,891	9
Interest Maintenance Reserve	20,320		20,320	
Commissions to agents due or accrued	67,891		67,891	
General expenses due or accrued	495,171		495,171	
Taxes, licenses and fees due or accrued excl. FIT	139,525		139,525	
Federal income taxes due or accrued	418,929		418,929	
Amounts withheld or retained by company	22,057		22,057	
Asset Valuation Reserve	298,000		298,000	
Drafts outstanding				
Aggregate write-ins for liabilities	535,699		535,699	10
TOTAL LIABILITIES	10,878,315		10,878,315	
SURPLUS AND OTHER FUNDS				
Common capital stock	1,200,000		1,200,000	
Gross paid in and contributed surplus	1,300,000		1,300,000	
Unassigned funds (surplus)	9,526,722	(2,406,641)	7,120,081	2
Capital and surplus	12,026,722	(2,406,641)	9,620,081	
TOTAL LIABILITIES, SURPLUS and OTHER FUNDS	$22,905,037	($2,406,641)	$20,498,396	

STATES WEST LIFE INSURANCE COMPANY

COMPARATIVE BALANCE SHEET
AS OF DECEMBER 31,

	1996	1995
ASSETS		
Bonds	$14,745,610	$10,651,352
Common stocks	916,201 *	
Cash and short term investments	4,243,183	8,701,952
Reinsurance ceded: Amounts recoverable	96,325	128,235
Life insurance premiums and annuity considerations, Deferred and uncollected		
Accident and health premiums due and unpaid	151,186	195,643
Investment income due and accrued	330,329	263,337
Receivable from parent, subsidiaries and affiliates	15,562	18,800
TOTAL ASSETS	$20,498,396	$19,959,319
LIABILITIES		
Aggregate Reserve for life policies and contracts	$3,450,912	$2,983,825
Aggregate Reserve for accident and health policies	1,818,843	1,623,185
Policy and contract claims: Life	1,355,829	1,253,879
Policy and contract claims: Accident and health	928,288	419,048
Premiums and annuity considerations received in advance	185,960	163,094
Provision for experience rating refunds	1,140,891	648,493
Interest Maintenance Reserve	20,320	28,494
Commissions to agents due or accrued	67,891	89,716
General expenses due or accrued	495,171	614,774
Taxes, licenses and fees due or accrued excl. FIT	139,525	145,843
Federal income taxes due or accrued	418,929	311,023
Amounts withheld or retained by company	22,057	12,486
Asset Valuation Reserve	298,000	226,521
Drafts outstanding		56,365
Aggregate write-ins for liabilities	535,699	452,745
TOTAL LIABILITIES	10,878,315	9,029,491
SURPLUS AND OTHER FUNDS		
Common capital stock	1,200,000	1,200,000
Gross paid in and contributed surplus	1,300,000	1,300,000
Unassigned funds (surplus)	7,120,081 *	8,429,828
Capital and surplus	9,620,081	10,929,828
TOTAL LIABILITIES, SURPLUS and OTHER FUNDS	$20,498,396	$19,959,319

* As adjusted by examination

STATES WEST LIFE INSURANCE COMPANY

SUMMARY OF OPERATIONS

YEAR ENDED DECEMBER 31, 1996

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	Notes
INCOME				
Premiums and annuity considerations	$13,078,315		$13,078,315	11
Net investment income	1,639,665		1,639,665	
Amortization of Interest Maintenance Reserve	17,479		17,479	
Aggregate write-ins for miscellaneous income	4,068		4,068	
TOTAL INCOME	14,739,527		14,739,527	
BENEFITS				
Death Benefits	5,240,838		5,240,838	
Disability benefits and Benefits under accident and health policies	2,535,593		2,535,593	
Increase in aggregate reserves For life and accident and health policies and contracts	662,745		662,745	
TOTAL BENEFITS	8,439,176		8,439,176	
EXPENSES				
Commissions on premiums and annuity considerations	982,705		982,705	
General insurance expenses	2,852,808		2,852,808	12
Insurance taxes, licenses and fees, excl. federal income tax	530,369		530,369	
TOTAL BENEFITS and EXPENSES	12,805,058		12,805,058	
Net gain from operations before federal income tax	1,934,469		1,934,469	
Federal income taxes incurred (excl. tax on capital gains)	420,044		420,044	13
Net gain from operations after dividends to policyholders And federal income taxes And before realized capital gains or (losses)	1,514,425		1,514,425	
Net realized capital gains or (losses) less capital gains tax And transferred to the interest maintenance reserve				
NET INCOME	1,514,425		1,514,425	

STATES WEST LIFE INSURANCE COMPANY

COMPARATIVE SUMMARY OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	1996	1995
INCOME		
Premiums and annuity considerations	$13,078,315	$11,343,975
Net investment income	$1,639,665	1,146,952
Amortization of Interest Maintenance Reserve	$17,479	4,165
Aggregate write-ins for miscellaneous income	4,068	37,722
TOTAL INCOME	14,739,527	12,532,814
BENEFITS		
Death Benefits	5,240,838	4,839,954
Disability benefits and		
Benefits under accident and health policies	2,535,593	1,623,299
Increase in aggregate reserves		
For life and accident and health policies and contracts	662,745	558,398
TOTAL BENEFITS	8,439,176	7,021,651
EXPENSES		
Commissions on premiums and annuity considerations	982,705	914,308
General insurance expenses	2,852,808	2,678,228
Insurance taxes, licenses and fees, excl. federal income tax	530,369	603,492
TOTAL BENEFITS and EXPENSES	12,805,058	11,217,679
Net gain from operations before federal income tax	1,934,469	1,315,135
Federal income taxes incurred (excl. tax on capital gains)	420,044	304,065
Net gain from operations after dividends to policyholders		
And federal income taxes		
And before realized capital gains or (losses)	1,514,425	1,011,070
Net realized capital gains or (losses) less capital gains tax		
And transferred to the interest maintenance reserve		52,861
NET INCOME	1,514,425	1,063,931

STATES WEST LIFE INSURANCE COMPANY

CAPITAL AND SURPLUS ACCOUNT
AS OF DECEMBER 31, 1996

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	Notes
Capital and surplus on December 31, 1995	$10,929,828		$10,929,828	
GAINS AND (LOSSES) IN SURPLUS				
Net income	1,514,425		1,514,425	
Change in net unrealized capital gains or (losses)	(144,825)		(144,825)	
Change in non-admitted assets and related items	(201,227)	(2,406,641)	(2,607,868)	2
Change in asset valuation reserve	(71,479)		(71,479)	
Net change in capital and surplus for the year	1,096,894	(2,406,641)	(1,309,747)	
Capital and surplus on December 31, 1996	$12,026,722	($2,406,641)	$9,620,081	

COMPARATIVE CAPITAL AND SURPLUS ACCOUNT
AS OF DECEMBER 31,

	1996	1995	1994	1993	1992
Capital and surplus, December 31, prior year	$10,929,829	$9,943,496	$8,503,228	$7,422,081	$7,033,556
GAINS AND (LOSSES) IN SURPLUS					
Net income	1,514,425	1,063,931	1,428,188	1,344,103	467,790
Change in net unrealized capital gains or (losses)	(144,825)	27,364	(71,258)	36,718	12,211
Change in nonadmitted assets and related items	(2,607,868) *	(43,021)	64,516	(222,983)	(68,289)
Change in liability for reinsurance in unauthorized companies					7,325
Change in asset valuation reserve	(71,479)	(61,941)	18,822	(76,691)	(30,512)
Net change in capital and surplus for the year	(1,309,747)	986,333	1,440,268	1,081,147	388,525
Capital and surplus, December 31,	$9,620,082	$10,929,829	$9,943,496	$8,503,228	$7,422,081
Authorized Shares	120,000	120,000	120,000	120,000	120,000
Issued and Outstanding Shares	120,000	120,000	120,000	120,000	120,000
Par Value	10	10	10	10	10

STATES WEST LIFE INSURANCE COMPANY

ANALYSIS OF EXAMINATION CHANGES IN FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1996

	Increase (Decrease)		Notes
CAPITAL and SURPLUS, per Company		$12,026,722	
ASSETS			
Common Stocks	(2,406,641)		2
Net Increase/(Decrease) to surplus		(2,406,641)	
CAPITAL and SURPLUS, per Examination		$9,620,081	

NOTES AND COMMENTS TO FINANCIAL STATEMENTS

1. **BONDS** represent 64.38% of total assets and 136.20% of total surplus. Bonds are stated at amortized cost. The discount or premium on bonds is amortized using the effective-yield method. For loan-backed bonds, anticipated prepayments are considered when determining the amortization of discount or premium. Premium assumptions are consistent with the current interest rates and economic environment.

2. **COMMON STOCK** represents 14.51% of total assets and 30.69% of total surplus. The balance consists of one Securities Valuation Office (SVO) class "L" issue, Columbia Management Corporation. This was valued at market value which was lower than cost in accordance with the NAIC Valuations of Securities manual and the applicable section of the Washington Insurance Code.

   The Columbia Management Corporation is over the 4% limit allowable and the over-limit amount of $2,406,641 will be non-admitted.

3. **SHORT TERM INVESTMENTS** are 18.73% of total assets and 39.62% of surplus. The balance consists of six SVO class “1” issues with five issues purchased in December 1996 with maturity dates in January 1997 except for the Horizon Fund, which is a variable balance mutual fund. These were all valued at cost in accordance with the NAIC Valuations of Securities manual and the applicable section of the Washington Insurance Code.

4. **LIFE INSURANCE PREMIUMS AND ANNUITY CONSIDERATIONS DEFERRED AND UNCOLLECTED** in the amount of $253,952 were treated as Assets Not Admitted in the 1996 Annual Statement. This amount represents the outstanding inventory of gross due and uncollected premiums on the Company's group life insurance contracts after being reduced by premiums payable to the Company's reinsurers. It was determined during the actuarial review that this amount, after reductions for appropriate expense loading and for premiums outstanding more than 90 days, can be held as an admitted asset.

5. **AGGREGATE RESERVES FOR LIFE POLICIES AND CONTRACTS** in the amount of $3,450,912 are 15.07% of total assets and 31.87% of surplus. The actuary calculated a $14,818 reserve for the immediate payment of claims on individual policies reserved using curtate reserve factors. He also estimated a reserve increase of $204 using revised reserve factors that reflect changes in the valuation interest rate per RCW 48.74.030, Standard Valuation Law. It was also found that the reported incurred-but-not-reported (IBNR) claims liability for group disabled life claims overstated actual 1997 claims experience by $33,762. Altogether, these would amount to a decrease of $18,740 to Aggregate Life Insurance Reserves.

6. **AGGREGATE RESERVES FOR ACCIDENT AND HEALTH POLICIES** in the amount of $1,818,843 are 7.94% of total assets and 16.80% of surplus. The actuary recalculated the reserves on group long-term disability claims to reflect actual monthly benefits paid during 1997 which reduced the reserve by $53,854. The reported IBNR claims liability for group short-term disability claims understated actual 1997 claims experience by $28,953. Additionally, the reported IBNR claims liability for group long-term disability claims overstated actual 1997 claims experience by $259,261. Combined, this would amount to a $284,162 decrease to Aggregate Accident and Health Insurance Reserves.

7. **LIFE POLICY AND CONTRACT CLAIMS** in the amount of $1,355,829 are 5.92% of total assets and 12.52% of surplus. The actuary found that the reported IBNR claims liability for life claims overstated actual 1997 and 1998 claims experience by $125,034.

8. **ACCIDENT AND HEALTH POLICY AND CONTRACT CLAIMS** in the amount of $928,288 are 4.05% of total assets and 8.57% of surplus. The actuary found that the pending liability for group stop-loss claims overstated actual 1997 claims experience by $70,790. The IBNR claims liability for Teamster's accidental death claims understated actual 1997 claims experience by $15,548. Additionally, the reported IBNR claims liability for group accident and health claims overstated actual 1997 claims experience by $90,752. These combined would decrease the liability for Accident and Health Policy and Contract Claims by $145,994.

9. **EXPERIENCE RATED REFUNDS** can be a receivable or payable which is recorded for estimated amounts from or to certain experience-rated groups for the deficiency or excess of premiums received relative to claims incurred, net of reinsurance and retention and pooling charges.

10. **AGGREGATE WRITE-INS FOR LIABILITIES** were $535,699, which included $459,675 for Premiums Payable to its Reinsurers. The NAIC Accounting Practices and Procedures Manual for Life, Accident and Health Insurance Companies, Reinsurance Chapter 24, Reinsurance Premiums, suggests that, "For all reinsurance arrangements, the assuming company must report premiums under the terms of the reinsurance contract as income and establish any asset or liability consistent with the methods and assumptions used to establish its policy reserves and guidance contained in Chapter 18, Premium Income, Deferred and Uncollected premiums. The ceding company shall reduce its deferred and uncollected premiums reported as an asset and the assuming company shall record an asset for premiums payable to the reinsurer." Following this logic, the review of a company's annual statement would be better facilitated if all premiums payable to reinsurers were reported as contra due and deferred premium assets rather than as a liability **(See Instruction 4).**

11. **PREMIUMS EARNED:** Life insurance premiums are recognized as revenue when due. Accident and health premiums are earned using the monthly pro rata over the terms of the related policies. Unearned premiums represent the portion of premiums collected that relates to future periods.

12. **RELATED PARTY TRANSACTIONS:** For the year ended December 31, 1996, PBC charged the Company for general and administrative expenses in the amount of $1,592,000 and the Company charged WAGS for general and administrative expenses in the amount of $24,000. These expenses are allocated based upon written agreements.

13. **FEDERAL INCOME TAXES INCURRED:** The Company files as a member of an affiliated group that includes PREMERA as the common parent. Income taxes owed by the company are allocated in accordance with an intercompany tax-sharing agreement. Allocation is based upon separate return calculations of taxable income with current credit for net losses at the consolidated tax rate. Intercompany tax balances are settled when PREMERA either makes payments to or receives refunds from the Internal Revenue Service.

ACKNOWLEDGMENT

The cooperation extended to the examiners by the officers and employees of the States West Life Insurance Company during the course of this examination is hereby acknowledged.

Larry A. Omdal, Examiner in Charge, Peter Mendoza, Insurance Examiner, and John Jacobson, Insurance Examiner and EDP Specialist all from the Office of Insurance Commissioner, State of Washington, participated in the examination and preparation of this report. Thomas L. Burger, FSA, MAAA, Senior Consulting Actuary for Taylor-Walker & Associates, Inc., performed the actuarial examination on behalf of the Montana Department of Insurance.

State of Washington)
) ss
County of Thurston)

Larry A. Omdal, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

____
Larry A. Omdal
Examiner in Charge

Subscribed and sworn to before me on this ________day of ______________________, 2001.

____
Notary Public in and for the

State of Washington,

residing at __________________________