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ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2010

OF THE CONDITION AND AFFAIRS OF THE

Group Hospitalization and Medical Services, Inc.

NAIC Group Code 00380 (Current Period), 00380 (Prior Period) NAIC Company Code 53007 Employer's ID Number 53-0078070

Organized under the Laws of District of Columbia, State of Domicile or Port of Entry District of Columbia

Country of Domicile United States

Licensed as business type: Life, Accident & Health [ ] Property/Casualty [ ] Hospital, Medical & Dental Service or Indemnity [X]
Dental Service Corporation [ ] Vision Service Corporation [ ] Health Maintenance Organization [ ]
Other [ ] Is HMO, Federally Qualified? Yes [ ] No [ ]

Incorporated/Organized 08/11/1939 Commenced Business 03/15/1934

Statutory Home Office 840 First Street NE (Street and Number), Washington, DC 20065 (City, State and Zip Code)

Main Administrative Office 10455 Mill Run Circle (Street and Number)
Owings Mills, MD 21117 (City, State and Zip Code) 410-581-3000 (Area Code) (Telephone Number)

Mail Address 10455 Mill Run Circle (Street and Number or P.O. Box), Owings Mills, MD 21117 (City, State and Zip Code)

Primary Location of Books and Records 10455 Mill Run Circle (Street and Number)
Owings Mills, MD 21117 (City, State and Zip Code), 410-998-7011 (Area Code) (Telephone Number) (Extension)

Internet Web Site Address www.carefirst.com

Statutory Statement Contact William Vincent Stack (Name), 410-998-7011 (Area Code) (Telephone Number) (Extension)
bill.stack@carefirst.com (E-Mail Address) 410-998-6850 (Fax Number)

OFFICERS

Name	Title	Name	Title
Chester Emerson Burrell	President and Chief Executive Officer	John Anthony Picciotto	Corp.Secretary, Exec. VP & Gen. Counsel
Jeanne Ann Kennedy	Corp. Treasurer & VP		

OTHER OFFICERS

Gregory Allen Devou	EVP, Chief Mktg Officer	Gregory Mark Chaney	EVP, CFO
Michael Thomas Avotins #	SVP, ASU - Large Groups	Michael Bruce Edwards	SVP, Networks Mgmt
Gwendolyn Denise Skillern	SVP, General Auditor	Fred Adrian Walton Plumb	SVP, ASU-FEP
Michael John Felber	SVP, Sales	Rita Ann Costello	SVP, Strategic Marketing
Maria Harris Tildon	SVP, Public Policy	Jon Paul Shematek, M.D.	SVP, Chief Medical Officer
Kenny Waitem Kan	SVP, Chief Actuary	Andrew Francis Sullivan	SVP, ASU-Consumer Direct
Kevin Charles O'Neill	SVP, Strategic Managed Care Initiatives	Steven Jon Margolis	SVP, ASU-Small & Medium Groups
Gregory James Maguire #	SVP, Technical & Ops Support		

DIRECTORS OR TRUSTEES

Elizabeth Oliver-Farrow	James Wallace	Linda Washington Cropp	Larry Donovan Bailey
Carlos Mario Rodriquez	Robert Marcellus Willis	Nathaniel Thomas Connally	Faye Ford Fields
Natalie Olivia Ludaway	Robert Lee Sloan	Ralph John Rohner	

State of Maryland
County of Baltimore ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions* and *Accounting Practices* and *Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Chester Emerson Burrell	John Anthony Picciotto	Jeanne Ann Kennedy
President and Chief Executive Officer	Corp.Secretary, Exec. VP & Gen. Counsel	Corp. Treasurer & VP

Subscribed and sworn to before me this
______ day of ______,

a. Is this an original filing? Yes [X] No [ ]
b. If no:
1. State the amendment number
2. Date filed
3. Number of pages attached

ASSETS

		Current Year			Prior Year
		1	2	3	4
		Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1.	Bonds (Schedule D)	723,913,872		723,913,872	709,120,314
2.	Stocks (Schedule D):				
	2.1 Preferred stocks	2,994,797		2,994,797	4,626,208
	2.2 Common stocks	115,850,151		115,850,151	266,642,938
3.	Mortgage loans on real estate (Schedule B):				
	3.1 First liens			0	0
	3.2 Other than first liens			0	0
4.	Real estate (Schedule A):				
	4.1 Properties occupied by the company (less $ .... encumbrances)			0	0
	4.2 Properties held for the production of income (less $ .... encumbrances)			0	0
	4.3 Properties held for sale (less $ .... encumbrances)			0	0
5.	Cash ($ (83,650,080) , Schedule E-Part 1), cash equivalents ($ 0 , Schedule E-Part 2) and short-term investments ($ 98,597,575 , Schedule DA)	14,947,492		14,947,492	(4,915,652)
6.	Contract loans (including $ .... premium notes)			0	0
7.	Derivatives			0	
8.	Other invested assets (Schedule BA)	375,018,733	166,667	374,852,066	10,337,765
9.	Receivables for securities			0	0
10.	Securities lending reinvested collateral assets			0	
11.	Aggregate write-ins for invested assets	0	0	0	0
12.	Subtotals, cash and invested assets (Lines 1 to 11)	1,232,725,045	166,667	1,232,558,378	985,811,573
13.	Title plants less $ .... charged off (for Title insurers only)			0	0
14.	Investment income due and accrued	5,423,724		5,423,724	6,338,681
15.	Premiums and considerations:				
	15.1 Uncollected premiums and agents' balances in the course of collection	234,731,257	3,683,579	231,047,678	233,636,800
	15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ .... earned but unbilled premiums)			0	0
	15.3 Accrued retrospective premiums			0	0
16.	Reinsurance:				
	16.1 Amounts recoverable from reinsurers			0	24,725,173
	16.2 Funds held by or deposited with reinsured companies			0	0
	16.3 Other amounts receivable under reinsurance contracts	820,205		820,205	835,899
17.	Amounts receivable relating to uninsured plans	38,352,576	2,435,215	35,917,361	40,869,627
18.1	Current federal and foreign income tax recoverable and interest thereon			0	8,257,680
18.2	Net deferred tax asset	32,103,068	19,551,129	12,551,939	17,326,378
19.	Guaranty funds receivable or on deposit			0	0
20.	Electronic data processing equipment and software	92,950,152	90,580,660	2,369,492	1,869,986
21.	Furniture and equipment, including health care delivery assets ($ ....)	5,861,339	5,861,339	0	0
22.	Net adjustment in assets and liabilities due to foreign exchange rates			0	0
23.	Receivables from parent, subsidiaries and affiliates	1,191,190	0	1,191,190	4,559,156
24.	Health care ($ 50,227,918) and other amounts receivable	658,110,778	7,552,053	650,558,725	560,908,988
25.	Aggregate write-ins for other than invested assets	69,763,339	68,635,420	1,127,919	2,414,019
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	2,372,032,673	198,466,062	2,173,566,611	1,887,553,960
27.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
28.	Total (Lines 26 and 27)	2,372,032,673	198,466,062	2,173,566,611	1,887,553,960
DETAILS OF WRITE-INS					
1101.				0	0
1102.				0	0
1103.				0	0
1198.	Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0
1199.	Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)	0	0	0	0
2501.	Other Assets	1,127,919		1,127,919	2,414,019
2502.	Prepaid Expenses - Non-Admitted	18,394,970	18,394,970	0	0
2503.	Pension- Prepaid	50,088,379	50,088,379	0	0
2598.	Summary of remaining write-ins for Line 25 from overflow page	152,071	152,071	0	0
2599.	Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	69,763,339	68,635,420	1,127,919	2,414,019

LIABILITIES, CAPITAL AND SURPLUS

	Current Year 1 Covered	2 Uncovered	3 Total	Prior Year 4 Total
1. Claims unpaid (less $ 33,861,487 reinsurance ceded)	256,940,956	76,721	257,017,677	252,990,782
2. Accrued medical incentive pool and bonus amounts			0	0
3. Unpaid claims adjustment expenses	10,805,773	3,227	10,809,000	10,604,000
4. Aggregate health policy reserves	598,330,808		598,330,808	506,185,845
5. Aggregate life policy reserves			0	0
6. Property/casualty unearned premium reserves			0	0
7. Aggregate health claim reserves			0	0
8. Premiums received in advance	49,468,375		49,468,375	65,643,239
9. General expenses due or accrued	102,795,763		102,795,763	103,086,984
10.1 Current federal and foreign income tax payable and interest thereon (including $ 3,085,348 on realized capital gains (losses))	13,924,463		13,924,463	0
10.2 Net deferred tax liability			0	0
11. Ceded reinsurance premiums payable	13,748,723		13,748,723	49,526,217
12. Amounts withheld or retained for the account of others	44,970,527		44,970,527	55,780,751
13. Remittances and items not allocated	4,603,748		4,603,748	9,692,451
14. Borrowed money (including $ current) and interest thereon $ (including $ current)			0	0
15. Amounts due to parent, subsidiaries and affiliates	67,268,594		67,268,594	38,830,160
16. Derivatives			0	
17. Payable for securities			0	0
18. Payable for securities lending			0	
19. Funds held under reinsurance treaties (with $ authorized reinsurers and $ unauthorized reinsurers)			0	0
20. Reinsurance in unauthorized companies			0	0
21. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
22. Liability for amounts held under uninsured plans	17,553,317		17,553,317	25,522,569
23. Aggregate write-ins for other liabilities (including $ 16,173,475 current)	23,576,242	0	23,576,242	8,232,547
24 Total liabilities (Lines 1 to 23)	1,203,987,289	79,948	1,204,067,237	1,126,095,545
25. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
26. Common capital stock	XXX	XXX		0
27 Preferred capital stock	XXX	XXX		0
28. Gross paid in and contributed surplus	XXX	XXX		0
29. Surplus notes	XXX	XXX		0
30. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
31. Unassigned funds (surplus)	XXX	XXX	969,499,374	761,458,437
32. Less treasury stock, at cost:				
32.1 shares common (value included in Line 26 $)	XXX	XXX		0
32.2 shares preferred (value included in Line 27 $)	XXX	XXX		0
33. Total capital and surplus (Lines 25 to 31 minus Line 32)	XXX	XXX	969,499,374	761,458,437
34. Total liabilities, capital and surplus (Lines 24 and 33)	XXX	XXX	2,173,566,611	1,887,553,982
DETAILS OF WRITE-INS				
2301. Amounts Withheld for Escheatment	7,402,767		7,402,767	7,474,467
2302. Reinsurance Payable	16,173,475		16,173,475	758,080
2303.			0	0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	23,576,242	0	23,576,242	8,232,547
2501.	XXX	XXX		0
2502.	XXX	XXX		0
2503.	XXX	XXX		0
2598. Summary of remaining write-ins for Line 25 from overflow page	XXX	XXX	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	XXX	XXX	0	0
3001.	XXX	XXX		0
3002.	XXX	XXX		0
3003.	XXX	XXX		0
3098. Summary of remaining write-ins for Line 30 from overflow page	XXX	XXX	0	0
3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above)	XXX	XXX	0	0

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months	XXX	9,736,298	10,297,022
2. Net premium income (including $ 0 non-health premium income)	XXX	2,996,119,351	2,927,358,276
3. Change in unearned premium reserves and reserve for rate credits	XXX	(92,144,962)	(50,511,159)
4. Fee-for-service (net of $ medical expenses)	XXX		0
5. Risk revenue	XXX		0
6. Aggregate write-ins for other health care related revenues	XXX	13,454,249	14,020,781
7. Aggregate write-ins for other non-health revenues	XXX	0	0
8. Total revenues (Lines 2 to 7)	XXX	2,917,428,638	2,890,867,898
Hospital and Medical:			
9. Hospital/medical benefits	768,898	1,756,148,150	1,830,129,882
10. Other professional services		63,531,312	61,623,633
11. Outside referrals	53,483	53,483	0
12. Emergency room and out-of-area	9,898	240,856,011	271,271,537
13. Prescription drugs		727,560,448	690,420,830
14. Aggregate write-ins for other hospital and medical	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts			0
16. Subtotal (Lines 9 to 15)	832,279	2,788,149,404	2,853,445,882
Less:			
17. Net reinsurance recoveries		271,850,108	277,000,178
18. Total hospital and medical (Lines 16 minus 17)	832,279	2,516,299,296	2,576,445,704
19. Non-health claims (net)			0
20. Claims adjustment expenses, including $ 35,478,128 cost containment expenses		116,317,831	97,283,480
21. General administrative expenses		224,013,271	218,271,245
22. Increase in reserves for life and accident and health contracts (including $ increase in reserves for life only)		0	0
23. Total underwriting deductions (Lines 18 through 22)	832,279	2,856,630,398	2,892,000,429
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	60,798,240	(1,132,531)
25. Net investment income earned (Exhibit of Net Investment Income, Line 17)		29,307,171	33,411,421
26. Net realized capital gains (losses) less capital gains tax of $ 3,085,348		12,341,392	11,041,476
27. Net investment gains (losses) (Lines 25 plus 26)	0	41,648,563	44,452,897
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered $) (amount charged off $)]			0
29. Aggregate write-ins for other income or expenses	0	1,248,252	496,606
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	103,695,055	43,816,972
31. Federal and foreign income taxes incurred	XXX	16,963,506	(984,481)
32. Net income (loss) (Lines 30 minus 31)	XXX	86,731,549	44,801,453
DETAILS OF WRITE-INS			
0601. FEP Performance Incentive	XXX	13,379,000	13,960,000
0602. Trigon network fee - Med D	XXX	75,249	60,781
0603.	XXX		0
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	XXX	13,454,249	14,020,781
0701.	XXX		
0702.	XXX		
0703.	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX	0	0
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 7 above)	XXX	0	0
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	0	0	0
2901. Miscellaneous		1,436,221	510,106
2902. Regulatory fines and fees		(187,969)	(13,500)
2903.			0
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	0	1,248,252	496,606

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year	2 Prior Year
CAPITAL & SURPLUS ACCOUNT		
33. Capital and surplus prior reporting year	761,458,437	686,779,717
34. Net income or (loss) from Line 32	86,731,549	44,801,453
35. Change in valuation basis of aggregate policy and claim reserves		0
36. Change in net unrealized capital gains (losses) less capital gains tax of $ 4,094,565	80,886,945	36,072,553
37. Change in net unrealized foreign exchange capital gain or (loss)		0
38. Change in net deferred income tax	(4,692,390)	(98,906,990)
39. Change in nonadmitted assets	9,764,768	73,130,315
40. Change in unauthorized reinsurance	0	0
41. Change in treasury stock	0	0
42. Change in surplus notes	0	0
43. Cumulative effect of changes in accounting principles		1,633,801
44. Capital Changes:		
44.1 Paid in	0	0
44.2 Transferred from surplus (Stock Dividend)		0
44.3 Transferred to surplus		0
45. Surplus adjustments:		
45.1 Paid in	0	0
45.2 Transferred to capital (Stock Dividend)	0	0
45.3 Transferred from capital		0
46. Dividends to stockholders		0
47. Aggregate write-ins for gains or (losses) in surplus	35,350,065	17,947,588
48. Net change in capital & surplus (Lines 34 to 47)	208,040,937	74,678,720
49. Capital and surplus end of reporting year (Line 33 plus 48)	969,499,374	761,458,437
DETAILS OF WRITE-INS		
4701. Change in additional liability\Intangible Assets for pension	(1,570,766)	15,952,466
4702. Surplus transfer at 1/1/2010	21,569,147	0
4703. Surplus transfer - 2010 Results	15,351,684	0
4798. Summary of remaining write-ins for Line 47 from overflow page	0	1,995,122
4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above)	35,350,065	17,947,588

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance	2,853,465,000	2,866,547,000
2. Net investment income	35,149,447	31,679,605
3. Miscellaneous income	13,454,249	13,960,000
4. Total (Lines 1 through 3)	2,902,068,696	2,912,186,605
5. Benefit and loss related payments	2,472,676,000	2,599,578,000
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		0
7. Commissions, expenses paid and aggregate write-ins for deductions	309,812,000	284,718,000
8. Dividends paid to policyholders		0
9. Federal and foreign income taxes paid (recovered) net of $ 3,085,348 tax on capital gains (losses)	(2,133,000)	(3,241,000)
10. Total (Lines 5 through 9)	2,780,355,000	2,881,055,000
11. Net cash from operations (Line 4 minus Line 10)	121,713,696	31,131,605
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	1,519,214,343	883,118,287
12.2 Stocks	36,157,000	128,284,186
12.3 Mortgage loans	0	0
12.4 Real estate	0	0
12.5 Other invested assets	437,436	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	(135)
12.7 Miscellaneous proceeds	0	0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	1,555,808,779	1,011,402,338
13. Cost of investments acquired (long-term only):		
13.1 Bonds	1,529,086,474	975,468,094
13.2 Stocks	72,901,364	57,851,998
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	48,295,000	10,383,380
13.6 Miscellaneous applications	0	0
13.7 Total investments acquired (Lines 13.1 to 13.6)	1,650,282,838	1,043,703,472
14. Net increase (decrease) in contract loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)	(94,474,059)	(32,301,134)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	0	0
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities		0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied)	(7,376,495)	(25,930,890)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(7,376,495)	(25,930,890)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	19,863,142	(27,100,419)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	(4,915,624)	22,184,795
19.2 End of year (Line 18 plus Line 19.1)	14,947,518	(4,915,624)

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Net premium income	2,996,119,351	1,317,114,317	30,748,003	0	0	1,626,198,996	0	0	22,058,035	0
2. Change in unearned premium reserves and reserve for rate credit	(92,144,962)					(92,144,962)				
3. Fee-for-service (net of $ .... medical expenses)	0									XXX
4. Risk revenue	0									XXX
5. Aggregate write-ins for other health care related revenues	13,454,249	0	0	0	0	13,379,000	0	0	75,249	XXX
6. Aggregate write-ins for other non-health care related revenues	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6)	2,917,428,638	1,317,114,317	30,748,003	0	0	1,547,433,034	0	0	22,133,284	0
8. Hospital/medical benefits	1,756,148,150	445,009,918	3,896,891			1,299,606,572			7,634,769	XXX
9. Other professional services	63,531,312	29,831,873	261,234			33,242,914			195,291	XXX
10. Outside referrals	53,483	25,114	220			27,985			164	XXX
11. Emergency room and out-of-area	240,856,011	113,096,767	990,373			126,028,494			740,377	XXX
12. Prescription drugs	727,560,448	721,244,608	6,315,840							XXX
13. Aggregate write-ins for other hospital and medical	0	0	0	0	0	0	0	0	0	XXX
14. Incentive pool, withhold adjustments and bonus amounts	0									XXX
15. Subtotal (Lines 8 to 14)	2,788,149,404	1,309,208,280	11,464,558	0	0	1,458,905,965	0	0	8,570,601	XXX
16. Net reinsurance recoveries	271,850,107	288,269,635	(12,280,179)						(4,139,349)	XXX
17. Total hospital and medical (Lines 15 minus 16)	2,516,299,297	1,020,938,645	23,744,737	0	0	1,458,905,965	0	0	12,709,950	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
19. Claims adjustment expenses including $ 35,478,128 cost containment expenses	116,317,832	61,663,133	3,009,857			47,360,782			4,284,060	
20. General administrative expenses	224,013,270	177,509,256	5,074,888			35,060,005			6,369,121	
21. Increase in reserves for accident and health contracts	0									XXX
22. Increase in reserves for life contracts	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22)	2,856,630,399	1,260,111,034	31,829,482	0	0	1,541,326,752	0	0	23,363,131	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23)	60,798,239	57,003,283	(1,081,479)	0	0	6,106,282	0	0	(1,229,847)	0
DETAILS OF WRITE-INS										
0501. FEP Performance Incentive	13,379,000					13,379,000				XXX
0502. Trigon Network Fee	75,249								75,249	XXX
0503.	0									XXX
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0	XXX
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	13,454,249	0	0	0	0	13,379,000	0	0	75,249	XXX
0601.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301.	0									XXX
1302.	0									XXX
1303.	0									XXX
1398. Summary of remaining write-ins for Line 13 from overflow page	0	0	0	0	0	0	0	0	0	XXX
1399. Totals (Lines 1301 through 1303 plus 1398) (Line 13 above)	0	0	0	0	0	0	0	0	0	XXX

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Ceded	4 Net Premium Income (Cols. 1+2-3)
1. Comprehensive (hospital and medical)	1,671,173,667	48,347,067	402,406,417	1,317,114,317
2. Medicare Supplement	15,425,911	16,370,786	1,048,694	30,748,003
3. Dental only				0
4. Vision only				0
5. Federal Employees Health Benefits Plan	1,626,198,996			1,626,198,996
6. Title XVIII - Medicare				0
7. Title XIX - Medicaid				0
8. Other health	15,927,233	7,683,466	1,552,664	22,058,035
9. Health subtotal (Lines 1 through 8)	3,328,725,807	72,401,319	405,007,775	2,996,119,351
10. Life				0
11. Property/casualty				0
12. Totals (Lines 9 to 11)	3,328,725,807	72,401,319	405,007,775	2,996,119,351

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 – CLAIMS INCURRED DURING THE YEAR

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Payments during the year:										
1.1 Direct	2,790,568,076	1,313,833,166	11,369,517			1,458,640,683	97,010		6,627,700	
1.2 Reinsurance assumed	52,523,926	34,528,764	13,080,747						4,914,415	
1.3 Reinsurance ceded	343,067,101	341,385,807	867,497				97,010		716,787	
1.4 Net	2,500,024,901	1,006,976,123	23,582,767	0	0	1,458,640,683	0	0	10,825,328	0
2. Paid medical incentive pools and bonuses	0									
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct	283,581,846	129,043,511	1,884,825	0	0	146,951,226	5,450	0	5,696,834	0
3.2 Reinsurance assumed	7,297,317	5,035,994	2,187,956	0	0	0	0	0	73,367	0
3.3 Reinsurance ceded	33,861,487	33,761,364	94,673	0	0	0	5,450	0	0	0
3.4 Net	257,017,676	100,318,141	3,978,108	0	0	146,951,226	0	0	5,770,201	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct	0									
4.2 Reinsurance assumed	0									
4.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	
4.4 Net	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year	0									
6. Net healthcare receivables (a)	12,477,672	12,477,672								
7. Amounts recoverable from reinsurers December 31, current year	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct	273,522,844	116,565,855	1,789,784	4,624,869	0	146,685,943	102,460	0	3,753,933	0
8.2 Reinsurance assumed	8,002,939	5,775,903	2,084,085	11,305	0	0	0	0	131,646	0
8.3 Reinsurance ceded	28,535,003	26,126,301	57,731	2,248,511	0	0	102,460	0	0	0
8.4 Net	252,990,780	96,215,457	3,816,138	2,387,663	0	146,685,943	0	0	3,885,579	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct	0	0	0	0	0	0	0	0	0	0
9.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
9.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
9.4 Net	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year	0	0	0	0	0	0	0	0	0	0
11. Amounts recoverable from reinsurers December 31, prior year	24,725,173	24,725,173	0	0	0	0	0	0	0	0
12. Incurred benefits:										
12.1 Direct	2,788,149,406	1,309,208,281	11,464,558	0	0	1,458,905,966	0	0	8,570,601	0
12.2 Reinsurance assumed	51,818,303	33,777,549	13,184,618	0	0	0	0	0	4,856,136	0
12.3 Reinsurance ceded	323,668,411	322,047,185	904,439	0	0	0	0	0	716,787	0
12.4 Net	2,516,299,298	1,020,938,645	23,744,737	0	0	1,458,905,966	0	0	12,709,950	0
13. Incurred medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0

(a) Excludes $ ………. 34,487,300 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1 Total	2 Comprehensive (Hospital and Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Reported in Process of Adjustment:										
1.1. Direct	17,653,891	8,033,532	117,339			9,148,367			354,653	
1.2. Reinsurance assumed	593,232	593,232								
1.3. Reinsurance ceded	4,412,043	4,412,043								
1.4. Net	13,835,080	4,214,721	117,339	0	0	9,148,367	0	0	354,653	0
2. Incurred but Unreported:										
2.1. Direct	265,927,955	121,009,979	1,767,486			137,802,859	5,450		5,342,181	
2.2. Reinsurance assumed	6,704,085	4,442,762	2,187,956						73,367	
2.3. Reinsurance ceded	29,449,444	29,349,321	94,673				5,450			
2.4. Net	243,182,596	96,103,420	3,860,769	0	0	137,802,859	0	0	5,415,548	0
3. Amounts Withheld from Paid Claims and Capitations:										
3.1. Direct	0									
3.2. Reinsurance assumed	0									
3.3. Reinsurance ceded	0									
3.4. Net	0	0	0	0	0	0	0	0	0	0
4. TOTALS:										
4.1. Direct	283,581,846	129,043,511	1,884,825	0	0	146,951,226	5,450	0	5,696,834	0
4.2. Reinsurance assumed	7,297,317	5,035,994	2,187,956	0	0	0	0	0	73,367	0
4.3. Reinsurance ceded	33,861,487	33,761,364	94,673	0	0	0	5,450	0	0	0
4.4. Net	257,017,676	100,318,141	3,978,108	0	0	146,951,226	0	0	5,770,201	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR-NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability Dec. 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical)	88,329,542	943,371,754	3,907,241	96,410,900	92,236,783	96,215,458
2. Medicare Supplement	3,128,142	20,454,625	53,379	3,924,730	3,181,521	3,816,139
3. Dental Only					0	2,387,662
4. Vision Only					0	0
5. Federal Employees Health Benefits Plan	138,232,199	1,320,408,484	2,006,892	144,944,334	140,239,091	146,685,943
6. Title XVIII - Medicare			0		0	0
7. Title XIX - Medicaid					0	0
8. Other health	834,857	9,990,470	566,764	5,203,437	1,401,621	3,885,579
9. Health subtotal (Lines 1 to 8)	230,524,740	2,294,225,333	6,534,276	250,483,401	237,059,016	252,990,781
10. Healthcare receivables (a)		12,477,672			0	0
11. Other non-health					0	0
12. Medical incentive pools and bonus amounts					0	0
13. Totals (Lines 9-10+11+12)	230,524,740	2,281,747,661	6,534,276	250,483,401	237,059,016	252,990,781

(a) Excludes $ 34,487,300 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	3,084,577	3,086,287	3,086,778	3,086,958	3,087,015
2. 2006	802,589	886,535	888,143	888,332	888,397
3. 2007	XXX	973,429	1,058,779	1,060,624	1,060,865
4. 2008	XXX	XXX	925,457	1,011,301	1,014,075
5. 2009	XXX	XXX	XXX	977,244	1,062,436
6. 2010	XXX	XXX	XXX	XXX	930,894

Section B – Incurred Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	3,085,955	3,086,288	3,086,778	3,086,958	3,087,015
2. 2006	902,398	887,633	888,143	888,332	888,397
3. 2007	XXX	1,084,261	1,060,248	1,060,624	1,060,865
4. 2008	XXX	XXX	1,023,973	1,013,181	1,014,075
5. 2009	XXX	XXX	XXX	1,071,579	1,066,343
6. 2010	XXX	XXX	XXX	XXX	1,027,305

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Hospital and Medical

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 (Col. 9/1) Percent
1. 2006	1,075,236	888,397	26,663	3.0	915,060	85.1			915,060	85.1
2. 2007	1,288,871	1,060,865	34,174	3.2	1,095,039	84.9			1,095,039	84.9
3. 2008	1,180,091	1,014,075	45,127	4.4	1,059,202	89.7	0	0	1,059,202	89.7
4. 2009	1,271,277	1,062,436	42,177	3.9	1,104,613	86.8	3,907	164	1,108,684	87.2
5. 2010	1,317,114	930,894	55,750	5.9	986,644	74.9	96,411	5,584	1,088,639	82.6

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS
(000 Omitted)

Section A – Paid Health Claims - Medicare Supplement

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	67,701	67,736	67,888	67,888	67,887
2. 2006	9,371	11,091	11,209	11,209	11,156
3. 2007	XXX	9,245	12,351	12,307	12,314
4. 2008	XXX	XXX	17,742	21,420	21,413
5. 2009	XXX	XXX	XXX	20,767	23,949
6. 2010	XXX	XXX	XXX	XXX	20,455

Section B - Incurred Health Claims - Medicare Supplement

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	67,758	67,736	67,888	67,888	67,887
2. 2006	11,688	11,122	11,209	11,209	11,156
3. 2007	XXX	11,305	12,344	12,307	12,314
4. 2008	XXX	XXX	21,681	21,518	21,413
5. 2009	XXX	XXX	XXX	24,485	24,003
6. 2010	XXX	XXX	XXX	XXX	24,379

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Medicare Supplement

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 (Col. 9/1) Percent
1. 2006	15,172	11,156	337	3.0	11,493	75.7			11,493	75.7
2. 2007	15,256	12,314	397	3.2	12,711	83.3			12,711	83.3
3. 2008	29,269	21,413	1,407	6.5	22,820	77.9	0	0	22,820	77.9
4. 2009	30,745	23,949	2,173	9.0	26,122	84.9	53	2	26,177	85.1
5. 2010	30,748	20,455	2,721	13.3	23,176	75.3	3,925	273	27,374	89.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Dental Only

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	100,219	100,249	100,250	100,250	100,250
2. 2006	35,177	38,235	38,244	38,245	38,245
3. 2007	XXX	39,123	41,065	41,074	41,074
4. 2008	XXX	XXX	22,173	24,159	24,159
5. 2009	XXX	XXX	XXX	24,477	24,477
6. 2010	XXX	XXX	XXX	XXX	0

Section B – Incurred Health Claims - Dental Only

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	100,227	100,248	100,249	100,250	100,250
2. 2006	38,370	38,248	38,244	38,245	38,245
3. 2007	XXX	43,521	41,082	41,074	41,074
4. 2008	XXX	XXX	24,207	24,167	24,159
5. 2009	XXX	XXX	XXX	26,856	24,477
6. 2010	XXX	XXX	XXX	XXX	0

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Dental Only

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 (Col. 9/1) Percent
1. 2006	50,825	38,245	1,148	3.0	39,393	77.5			39,393	77.5
2. 2007	60,911	41,074	1,323	3.2	42,397	69.6			42,397	69.6
3. 2008	32,912	24,159	3,125	12.9	27,284	82.8	0	0	27,284	82.8
4. 2009	34,383	24,477	3,734	15.2	28,211	82.0	0	0	28,211	82.0
5. 2010	0	0	0	0.0	0	0.0	0	0	0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Federal Employees Health Benefits Plan Premium

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	5,198,213	5,197,929	5,197,271	5,197,037	5,196,913
2. 2006	1,101,484	1,247,007	1,248,077	1,247,639	1,247,387
3. 2007	XXX	1,205,791	1,355,481	1,355,844	1,355,870
4. 2008	XXX	XXX	1,283,267	1,427,693	1,427,478
5. 2009	XXX	XXX	XXX	1,321,402	1,460,199
6. 2010	XXX	XXX	XXX	XXX	1,320,408

Section B - Incurred Health Claims - Federal Employees Health Benefits Plan Premium

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
Year in Which Losses Were Incurred	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	5,199,585	5,197,929	5,197,272	5,197,037	5,196,913
2. 2006	1,253,701	1,248,409	1,248,077	1,247,639	1,247,387
3. 2007	XXX	1,380,549	1,358,688	1,355,844	1,355,870
4. 2008	XXX	XXX	1,441,838	1,430,679	1,427,478
5. 2009	XXX	XXX	XXX	1,465,102	1,462,206
6. 2010	XXX	XXX	XXX	XXX	1,465,353

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Federal Employees Health Benefits Plan Premium

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 (Col. 9/1) Percent
1. 2006	1,295,757	1,247,387	37,469	3.0	1,284,856	99.1			1,284,856	99.1
2. 2007	1,426,028	1,355,870	43,686	3.2	1,399,556	98.1			1,399,556	98.1
3. 2008	1,480,392	1,427,478	30,705	2.1	1,458,183	98.4	0	0	1,458,183	98.4
4. 2009	1,518,221	1,460,199	33,550	2.2	1,493,749	98.3	2,007	84	1,495,840	98.5
5. 2010	1,534,054	1,320,408	42,819	3.2	1,363,227	88.8	144,944	4,289	1,512,460	98.5

Pt 2C - Sn A - Paid Claims - XV

NONE

Pt 2C - Sn A - Paid Claims - XI

NONE

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A - Paid Health Claims - Other

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	24,592	24,593	24,602	24,601	24,601
2. 2006	11,560	11,561	11,572	11,572	11,572
3. 2007	XXX	11,035	12,368	12,396	12,396
4. 2008	XXX	XXX	12,402	13,378	13,378
5. 2009	XXX	XXX	XXX	12,355	13,189
6. 2010	XXX	XXX	XXX	XXX	9,990

Section B – Incurred Health Claims - Other

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	24,592	24,594	24,601	24,601	24,601
2. 2006	16,569	11,561	11,572	11,572	11,572
3. 2007	XXX	14,784	12,724	12,396	12,396
4. 2008	XXX	XXX	15,897	13,724	13,378
5. 2009	XXX	XXX	XXX	15,894	13,756
6. 2010	XXX	XXX	XXX	XXX	15,194

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Other

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 (Col. 9/1) Percent
1. 2006	19,540	11,572	347	2.9	11,919	60.9			11,919	60.9
2. 2007	23,963	12,396	399	3.2	12,795	53.3			12,795	53.3
3. 2008	21,331	13,378	2,039	15.2	15,417	72.2	0	0	15,417	72.2
4. 2009	22,222	13,189	3,033	22.9	16,222	72.9	567	24	16,813	75.6
5. 2010	22,058	9,990	3,873	38.7	13,863	62.8	5,203	388	19,454	88.1

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A - Paid Health Claims - Grand Total

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	8,475,302	8,476,794	8,476,789	8,476,734	8,476,666
2. 2006	1,960,181	2,194,429	2,197,245	2,196,997	2,196,757
3. 2007	XXX	2,238,623	2,480,044	2,482,245	2,482,519
4. 2008	XXX	XXX	2,261,041	2,497,951	2,500,503
5. 2009	XXX	XXX	XXX	2,356,245	2,584,250
6. 2010	XXX	XXX	XXX	XXX	2,281,747

Section B - Incurred Health Claims - Grand Total

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
Year in Which Losses Were Incurred	1 2006	2 2007	3 2008	4 2009	5 2010
1. Prior	8,478,117	8,476,795	8,476,788	8,476,734	8,476,666
2. 2006	2,222,726	2,196,973	2,197,245	2,196,997	2,196,757
3. 2007	XXX	2,534,420	2,485,086	2,482,245	2,482,519
4. 2008	XXX	XXX	2,527,596	2,503,269	2,500,503
5. 2009	XXX	XXX	XXX	2,603,916	2,590,785
6. 2010	XXX	XXX	XXX	XXX	2,532,231

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Grand Total

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 (Col. 5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 (Col. 9/1) Percent
1. 2006	2,456,530	2,196,757	65,964	3.0	2,262,721	92.1	0	0	2,262,721	92.1
2. 2007	2,815,029	2,482,519	79,979	3.2	2,562,498	91.0	0	0	2,562,498	91.0
3. 2008	2,743,995	2,500,503	82,403	3.2	2,582,906	94.1	0	0	2,582,906	94.1
4. 2009	2,876,848	2,584,250	84,667	3.2	2,668,917	92.7	6,534	274	2,675,725	93.0
5. 2010	2,903,974	2,281,747	105,163	4.6	2,386,910	82.1	250,483	10,534	2,647,927	91.1

Pt 2C - Sn B - Incurred Claims - XV

NONE

Pt 2C - Sn B - Incurred Claims - XI

NONE

Part 2C - Sn C - Claims Expense Ratio XV

NONE

Part 2C - Sn C - Claims Expense Ratio XI

NONE

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other
1. Unearned premium reserves	0								
2. Additional policy reserves (a)	0								
3. Reserve for future contingent benefits	0								
4. Reserve for rate credits or experience rating refunds (including $ .... for investment income)	598,330,808					598,330,808			
5. Aggregate write-ins for other policy reserves	0	0	0	0	0	0	0	0	0
6. Totals (gross)	598,330,808	0	0	0	0	598,330,808	0	0	0
7. Reinsurance ceded	0								
8. Totals (Net) (Page 3, Line 4)	598,330,808	0	0	0	0	598,330,808	0	0	0
9. Present value of amounts not yet due on claims	0								
10. Reserve for future contingent benefits	0								
11. Aggregate write-ins for other claim reserves	0	0	0	0	0	0	0	0	0
12. Totals (gross)	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded	0								
14. Totals (Net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501.	0								
0502.	0								
0503.	0								
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	0	0	0	0	0	0	0	0	0
1101.	0								
1102.	0								
1103.	0								
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)	0	0	0	0	0	0	0	0	0

(a) Includes $ .... premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3	4	5
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
1. Rent ($ for occupancy of own building)	2,544,443	7,825,538	7,268,599	0	17,638,580
2. Salaries, wages and other benefits	19,459,994	59,155,806	68,115,979	0	146,731,779
3. Commissions (less $ 20,044,980 ceded plus $ 3,345,086 assumed)	0	0	75,196,431	0	75,196,431
4. Legal fees and expenses	0	2,780	1,463,849	0	1,466,629
5. Certifications and accreditation fees	0	0	0	0	0
6. Auditing, actuarial and other consulting services	176,777	24,987	1,928,451	0	2,130,215
7. Traveling expenses	172,576	539,498	1,675,311	0	2,387,385
8. Marketing and advertising	0	0	2,057,372	0	2,057,372
9. Postage, express and telephone	239,797	5,380,786	4,622,269	0	10,242,852
10. Printing and office supplies	398,228	1,585,802	2,407,401	0	4,391,431
11. Occupancy, depreciation and amortization	0	0	0	0	0
12. Equipment	20,764	64,167	1,058,628	0	1,143,559
13. Cost or depreciation of EDP equipment and software	2,364,369	10,074,154	28,773,620		41,212,143
14. Outsourced services including EDP, claims, and other services	18,065,467	18,327,705	23,438,395		59,831,567
15. Boards, bureaus and association fees	37,949	25,511	1,800,115		1,863,575
16. Insurance, except on real estate	160,851	666,670	518,165		1,345,686
17. Collection and bank service charges	861	0	348,682		349,543
18. Group service and administration fees	0	0	0	0	0
19. Reimbursements by uninsured plans	(9,047,664)	(25,023,469)	(42,743,248)		(76,814,381)
20. Reimbursements from fiscal intermediaries	0	0	0	0	0
21. Real estate expenses	0	0	0	0	0
22. Real estate taxes	0	0	216,470	0	216,470
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes	0	0	0	0	0
23.2 State premium taxes	0	0	28,855,807	0	28,855,807
23.3 Regulatory authority licenses and fees	6,878	3,046	2,240,703	0	2,250,627
23.4 Payroll taxes	1,206,499	3,939,303	3,485,814		8,631,616
23.5 Other (excluding federal income and real estate taxes)	14,111	55,681	383,501		453,293
24. Investment expenses not included elsewhere	0	0	0	1,957,052	1,957,052
25. Aggregate write-ins for expenses	(343,772)	(1,808,262)	10,900,957	0	8,748,923
26. Total expenses incurred (Lines 1 to 25)	35,478,128	80,839,703	224,013,271	1,957,052	(a) 342,288,154
27. Less expenses unpaid December 31, current year	0	10,809,000	102,795,763	0	113,604,763
28. Add expenses unpaid December 31, prior year	0	10,604,000	103,086,984	0	113,690,984
29. Amounts receivable relating to uninsured plans, prior year	2,418,710	10,181,132	28,269,786	0	40,869,628
30. Amounts receivable relating to uninsured plans, current year	3,744,238	8,531,541	23,641,582	0	35,917,361
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	36,803,656	78,985,112	219,676,288	1,957,052	337,422,108
DETAILS OF WRITE-INS					
2501. Charitable contributions	4,182	2,320	13,371,320	0	13,377,822
2502. Service charges Inter-plan bank	0	7,496,249	20,556	0	7,516,805
2503. IPSBB Inter-plan bank ITS	0	11,108,460	0	0	11,108,460
2598. Summary of remaining write-ins for Line 25 from overflow page	(347,954)	(20,415,291)	(2,490,919)	0	(23,254,164)
2599. Totals (Line 2501 through 2503 + 2598) (Line 25 above)	(343,772)	(1,808,262)	10,900,957	0	8,748,923

(a) Includes management fees of $ 193,910,664 to affiliates and $ to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 4,587,664	3,940,060
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)	(a) 24,652,829	24,338,008
1.3	Bonds of affiliates	(a) 0	
2.1	Preferred stocks (unaffiliated)	(b) 184,208	189,855
2.11	Preferred stocks of affiliates	(b) 0	
2.2	Common stocks (unaffiliated)	2,025,447	2,025,447
2.21	Common stocks of affiliates	0	
3.	Mortgage loans	(c)	
4.	Real estate	(d)	
5.	Contract loans		
6.	Cash, cash equivalents and short-term investments	(e) 45,901	93,215
7.	Derivative instruments	(f)	
8.	Other invested assets	10,000	10,000
9.	Aggregate write-ins for investment income	667,638	667,638
10.	Total gross investment income	32,173,687	31,264,223
11.	Investment expenses		(g) 1,957,052
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h) 0
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		0
16.	Total deductions (Lines 11 through 15)		1,957,052
17.	Net investment income (Line 10 minus Line 16)		29,307,171
	DETAILS OF WRITE-INS		
0901.	Misc Interest Income	667,638	667,638
0902.			
0903.			
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0
0999.	Totals (Lines 0901 through 0903) plus 0998 (Line 9 above)	667,638	667,638
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		0
1599.	Totals (Lines 1501 through 1503) plus 1598 (Line 15 above)		0

(a) Includes $ 933,377 accrual of discount less $ 5,855,049 amortization of premium and less $ 6,392,718 paid for accrued interest on purchases.
(b) Includes $ 226 accrual of discount less $ 5,873 amortization of premium and less $ 0 paid for accrued dividends on purchases.
(c) Includes $ 0 accrual of discount less $ 0 amortization of premium and less $ paid for accrued interest on purchases.
(d) Includes $ for company's occupancy of its own buildings; and excludes $ interest on encumbrances.
(e) Includes $ 1,964 accrual of discount less $ 52,715 amortization of premium and less $ 66,811 paid for accrued interest on purchases.
(f) Includes $ accrual of discount less $ amortization of premium.
(g) Includes $ investment expenses and $ investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes $ interest on surplus notes and $ interest on capital notes.
(i) Includes $ depreciation on real estate and $ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds	(1,253,962)		(1,253,962)		
1.1	Bonds exempt from U.S. tax			0		
1.2	Other bonds (unaffiliated)	10,047,757	(726,373)	9,321,384	1,481,564	
1.3	Bonds of affiliates	0	0	0	0	0
2.1	Preferred stocks (unaffiliated)	577,773	0	577,773	(194,310)	0
2.11	Preferred stocks of affiliates	0	0	0	0	0
2.2	Common stocks (unaffiliated)	6,781,963	0	6,781,963	8,923,943	0
2.21	Common stocks of affiliates	0	0	0	73,659,268	0
3.	Mortgage loans	0	0	0	0	0
4.	Real estate	0	0	0		0
5.	Contract loans			0		
6.	Cash, cash equivalents and short-term investments	(417)		(417)	0	0
7.	Derivative instruments			0		
8.	Other invested assets	0	0	0	823,915	0
9.	Aggregate write-ins for capital gains (losses)	0	0	0	0	0
10.	Total capital gains (losses)	16,153,114	(726,373)	15,426,741	84,694,380	0
	DETAILS OF WRITE-INS					
0901.				0		
0902.				0		
0903.				0		
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999.	Totals (Lines 0901 through 0903) plus 0998 (Line 9 above)	0	0	0	0	0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)	0	0	0
6. Contract loans	0	0	0
7. Derivatives	0		0
8. Other invested assets (Schedule BA)	166,667	166,667	0
9. Receivables for securities	0	0	0
10. Securities lending reinvested collateral assets	0		0
11. Aggregate write-ins for invested assets	0	0	0
12. Subtotals, cash and invested assets (Lines 1 to 11)	166,667	166,667	0
13. Title plants (for Title insurers only)	0	0	0
14. Investment income due and accrued	0	0	0
15. Premiums and considerations:			
15.1 Uncollected premiums and agents' balances in the course of collection	3,683,579	2,521,514	(1,162,065)
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.	0	0	0
15.3 Accrued retrospective premiums	0	0	0
16. Reinsurance:			
16.1 Amounts recoverable from reinsurers	0	0	0
16.2 Funds held by or deposited with reinsured companies	0	0	0
16.3 Other amounts receivable under reinsurance contracts	0	0	0
17. Amounts receivable relating to uninsured plans	2,435,215	1,917,054	(518,161)
18.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
18.2 Net deferred tax asset	19,551,129	23,563,646	4,012,517
19. Guaranty funds receivable or on deposit	0	0	0
20. Electronic data processing equipment and software	90,580,660	91,500,453	919,793
21. Furniture and equipment, including health care delivery assets	5,861,339	7,019,802	1,158,463
22. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
23. Receivables from parent, subsidiaries and affiliates	0	0	0
24. Health care and other amounts receivable	7,552,053	4,514,303	(3,037,750)
25. Aggregate write-ins for other than invested assets	68,635,420	77,027,391	8,391,971
26 Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	198,466,062	208,230,830	9,764,768
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
28. Total (Lines 26 and 27)	198,466,062	208,230,830	9,764,768
DETAILS OF WRITE-INS			
1101.	0	0	0
1102.	0	0	0
1103.	0	0	0
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)	0	0	0
2501. Other Assets non admitted	18,394,970	77,027,391	58,632,421
2502. Intangible assets	50,088,379	0	(50,088,379)
2503. Pension - Intangible	152,071	0	(152,071)
2598. Summary of remaining write-ins for Line 25 from overflow page	0	0	0
2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)	68,635,420	77,027,391	8,391,971

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	Current Year Member Months
1. Health Maintenance Organizations	38,281	15,535	15,461	13,631	13,678	174,670
2. Provider Service Organizations	0					
3. Preferred Provider Organizations	761,158	739,238	742,394	744,854	735,305	8,873,969
4. Point of Service	46,389	40,288	39,759	38,820	38,307	471,731
5. Indemnity Only	15,925	19,236	21,214	24,024	8,857	215,928
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	861,753	814,297	818,828	821,329	796,147	9,736,298
DETAILS OF WRITE-INS						
0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page	0	0	0	0	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	0	0	0	0	0	0

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Accounting Practices

The financial statements of Group Hospitalization and Medical Services, Inc. (GHMSI or the Company) are presented on the basis of accounting practices prescribed by the District of Columbia Department of Insurance, Securities and Banking (DISB).

The DISB recognizes only statutory accounting practices prescribed or permitted by the District of Columbia for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the District of Columbia Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP) has been adopted as a component of prescribed practices by the District of Columbia. The Company does not utilize any permitted practices.

For the years ended 2010 and 2009, there were no differences in net income and surplus between NAIC SAP and practices prescribed by the District of Columbia.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts in the accompanying statutory-basis financial statements and disclosures. Actual results could differ from those estimates.

C. Accounting Policy

Reclassifications

For the year ending December 31, 2010, the Company reclassified certain costs totaling $17,026,000, which were historically classified as claims incurred, to administrative expense.

Fair Value of Financial Instruments

The carrying amounts of cash and short-term investments, uncollected premiums, other amounts receivable under reinsurance contracts, amounts receivable relating to uninsured plans, federal income tax recoverable, receivables from parent, subsidiaries and affiliates, health care and other amounts receivable, investment income due and accrued, aggregate health policy reserves, premiums received in advance, general expenses due or accrued, amounts withheld or retained for the account of others, remittances and items not allocated, amounts due to parent, subsidiaries and affiliates, liability for amounts held under uninsured plans and reinsurance payable approximate fair value.

Investments

Investment securities are carried in accordance with valuation criteria established by the NAIC, i.e. stocks (other than investments in subsidiaries) are carried at market value and bonds at amortized cost. Adjustments reflecting the, revaluation of stocks at the statement date are charged to unassigned funds (surplus), unless the adjustments are losses deemed to be other than temporary.

The Company periodically performs evaluations, on a lot-by-lot and security-by-security basis, of its investment holdings to evaluate whether any declines in the fair value of investments are other than temporary. This evaluation consists of a review of several factors, including but not limited to: length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery of the market value of a security; and the intent and ability of the Company to hold the security until the market value recovers. As discussed in more detail below, prior to July 1, 2009, these reviews were conducted pursuant to the applicable SSAPs. Any unrealized loss identified as other than temporary was recorded directly in the investment income, net. As of July 1, 2009, the Company adopted SSAP No. 43R *Loan-backed and Structured Securities* (SSAP No. 43R) a replacement to SSAP No. 43 *Loan-backed and Structured Securities* and SSAP No. 98 *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments,* an Amendment of SSAP No. 43 *Loan-backed and Structured Securities*. Accordingly, any non-interest related impairment related to mortgage-backed and asset-backed securities that the Company does not intend to sell and has the intent and ability to retain until recovery is recognized in investment income, net, with the interest related impairment recognized in capital and surplus.

For equity securities and non mortgage-backed/asset-backed securities, the Company considers the various factors described above, including its intent and ability to hold the security for a period of time sufficient for recovery to its cost. Where the Company lacks the intent or ability, the security's decline in fair value is deemed to be other than temporary and the entire difference between fair value and cost is recognized in investment income, net.

For mortgage-backed and asset-backed securities, that are not deemed to have non-interest related declines, the Company performs additional analysis to assess whether it intends to sell or it has the intent and ability to retain the investment before the expected recovery of the amortized cost basis. The Company has asserted that it has the intent and ability to retain the investment before recovery of its amortized cost basis. If such an assertion had not been made, the security's decline in fair value is deemed to be other than temporary and the entire difference between fair value and amortized cost is recognized in investment income, net.

For mortgage-backed and asset-backed securities, the difference between the projected future cash flows expected to be collected and the amortized cost basis is recognized as non-interest related other than temporary impairment (OTTI) in investment income, net. The Company uses its best estimate of the present value of cash flows expected to be collected from the security to determine the amount of non-interest loss. If fair value is less than the projected future cash flows expected to be collected, the interest related OTTI is recorded in capital and surplus.

NOTES TO FINANCIAL STATEMENTS

When determining the collectability and the period over which the mortgage-backed and asset-backed securities are expected to recover, additional considerations are made when assessing the unique features that apply to certain structured securities such as residential mortgage-backed, commercial mortgage-backed and asset-backed securities. These additional features include, but are not limited to: the quality of underlying collateral; expected prepayment speeds; current and forecasted loss severity; consideration of payment terms of underlying assets backing a particular security; and the payment priority within the tranche structure of the security.

Based on its evaluation, the Company has recorded other than temporary impairment of investments of $726,000 and $7,579,000 for the years ended December 31, 2010 and 2009, respectively.

Cash and Short-Term Investments

Cash and short-term investments consist of cash balances and short-term, highly liquid investments with remaining maturities of one year or less at the time of acquisition. Short-term investments are principally stated at amortized cost. In accordance with the Company's cash management policy of maximizing the amount of funds invested in income-earning assets, the Company routinely anticipates the timing and amount of future cash flows. This policy frequently results in the existence of negative book cash balances.

Bonds

Bonds consist primarily of U.S. Treasury and other U.S. government agencies securities, state and municipal securities, foreign government securities (U.S. dollar-denominated), corporate bonds, mortgage-backed securities, asset-backed securities and convertible bonds.

Bonds not backed by other loans are carried at amortized cost, except in cases where NAIC designation requires them to be carried at the lower of cost or fair value. Fair values for bonds are based on quoted market prices for the same or similar investments. Changes in admitted asset carrying amounts of bonds, aside from OTTI, are charged directly to capital and surplus (refer to Note 20 *Fair Value Measurements* for discussion of valuation methods for bonds).

Mortgaged-backed securities that are included within bonds are valued at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions are obtained from external sources and are based on the current interest rate and economic environment. The prospective adjustment method is used to value all such securities (refer to Note 20 *Fair Value Measurements* for discussion of valuation methods for mortgage-backed securities).

Stocks

Investments in unaffiliated common stock, primarily in publicly traded index funds, are carried at fair value. The fair values for common stocks are based on quoted market prices. Changes in admitted asset carrying amounts of stocks, aside from OTTI, are charged directly to capital and surplus (refer to Note 20 *Fair Value Measurements* for discussion of valuation methods for common stocks).

Investments in affiliated common stocks included the Company's managed care subsidiaries (CareFirst BlueChoice, Inc. (CFBC) and its subsidiaries) and the Company's wholly-owned noninsurance subsidiaries (2009 only). CFBC and its subsidiaries were reported at their underlying statutory equity, multiplied by the Company's percentage ownership, and the noninsurance subsidiaries were reported at GAAP equity.

Redeemable preferred stocks are carried at cost, except in cases where NAIC designation requires them to be carried at lower of cost or fair value. Perpetual preferred stocks are valued using unit prices as reported in NAIC Valuations of Securities Manual except in cases where NAIC designation requires them to be carried at lower of cost or fair value (refer to Note 20 *Fair Value Measurements* for discussion of valuation methods for preferred stocks).

Investment Dispositions

A primary objective in the management of the fixed maturity and equity portfolios is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take advantage of market conditions or other investment opportunities, as well as tax considerations. Sales will generally produce realized gains and losses. In the ordinary course of business, the Company may sell securities for a number of reasons, including, but not limited to: (i) changes to the investment environment; (ii) expectation that the fair value could deteriorate further; (iii) desire to reduce exposure to an issuer or an industry; (iv) changes in credit quality; and (v) changes in expected cash flow. For purpose of computing realized gains and losses, the specific-identification method of determining cost was used.

Other Invested Assets

Other invested assets consist of direct investments in limited liability companies and a limited partnership. The limited liability companies and limited partnership which have admissible audits are carried at the underlying equity of the investee. Dividends and distributions are recorded in investment income. Undistributed earnings are included in unrealized gains and losses and are reflected in capital and surplus, net of deferred taxes.

Other invested assets included the Company's member equity in CareFirst Holdings, LLC (CFH) and its subsidiaries. CFH is reported at its underlying audited GAAP equity. CFH's regulated subsidiaries were reported at their underlying statutory equity.

Risk Concentrations

Financial instruments that potentially subject the Company to credit risk consist primarily of investment securities and receivables. The Company receives advice through or assigns direct management of investments to professional investment managers selected for their expertise in various markets, within guidelines established by the Board of Directors. These guidelines include broad diversification of investments. Aside from the Federal Employee Program (FEP) discussed below, concentrations of credit risk and business volume with respect to commercial receivables are generally limited due to the large number of employer groups

NOTES TO FINANCIAL STATEMENTS

comprising the Company's customer base. As of December 31, 2010 and 2009, except for FEP, there were no significant concentrations of financial instruments in a single investee, industry or geographic location.

Health Care and Other Amounts Receivable

Health care and other amounts receivable consists of pharmacy rebates receivable, advances to providers, the Company's allocable share of the FEP special reserve discussed below, and health care related receivables from other insurance plans. The Company has advances on deposit with certain regulated hospitals in the State of Maryland. These advances permit the Company to earn discounts of 2.25% and 2.00% of allowed inpatient and outpatient charges, respectively, by these hospitals. These provider advances are reported at their realizable value.

Property and Equipment Admitted

The admitted value of the Company's electronic data processing equipment and software is limited to 3% of capital and surplus as of September 30, 2010 excluding any electronic data processing equipment and net deferred tax assets. Electronic data processing equipment and software is depreciated using the straight-line method over the lesser of its useful life or three years. Depreciation and amortization expense for electronic data processing equipment is included as a component of general and administrative expenses. There have not been any changes to the Company's capitalization policy or the related predefined thresholds from the prior period.

Unpaid losses and loss adjustment expenses

The liability for unpaid claims and claim adjustment expenses includes medical claims payable and the related accrued claims processing expenses. Unpaid claims are computed in accordance with generally accepted actuarial practices and are based upon authorized health care services and past claims payment experience, together with other current factors which, in management's judgment, require recognition in the calculation.

Each reporting period, the Company estimates its liability for medical care services that have been rendered on behalf of insured members but for which claims have either not been received or processed. The Company develops its estimates for medical care services incurred but not reported using an actuarial process that is consistently applied.

The actuarial models consider factors such as time from the dates of service to claims receipt, claims backlogs, seasonal variances in medical care consumption, provider rate changes, medical care utilization and other medical cost trends, membership volume and demographics and other factors. Depending on the health care provider and type of service, the typical billing lag for services can vary significantly. Substantially all claims related to medical care services are known and settled within twelve months from the date of service.

The Company regularly re-examines its previously established unpaid claims estimates based on actual claim submissions and other changes in facts and circumstances. Due to the uncertainties inherent in the claims estimation process, it is at least reasonably possible that the actual claims paid could differ materially from the amounts accrued in the accompanying balance sheets—statutory basis.

Revenue recognition

Premiums are recognized as earned on a monthly basis for the period the health care coverage is in effect. Premiums received in advance represent prepayments of premiums for future health care coverage.

Uncollected premiums primarily represent unpaid amounts, which have been earned, from employer groups and individuals for health benefits. Provision is made for potential adjustments, which arise as a result of management or third-party review.

The Company provides coverage for certain groups whose contracts provide for payments based on group experience factors (retrospectively rated contracts). Under these contracts, revenue is generally recorded on the basis of incurred claims, plus retention. In certain cases, maximum rates are established by contract, and losses can result if claims and retention exceed these maximum rates. Any such losses are recorded in the year incurred and may, in many cases, be recouped against subsequent years' gains. The Company utilizes underwriting rules and experience rating practices that are consistent with other underwritten contracts to estimate the retrospective premium adjustments. Amounts billed for these contracts are included in premiums earned. The Company did not have any retrospectively rated contracts in 2010. The amount of net premiums written that was subject to retrospective rating features in 2009 was $22,141,000, which represented 1.2% of the total revenue.

The Company participates with other BlueCross and BlueShield plans in administering certain health care benefit plans of various national accounts. Administrative fees are generally recognized as earned and are recorded as a reduction of general and administrative expenses.

Administrative Service Contracts

The Company has administrative service contracts (ASC) with certain customers, under which the Company earns fees for processing medical claims, and is reimbursed for the cost of such claims. The gross administrative fees earned from these administrative service contracts have been included as an offset to general and administrative expenses.

Claims Incurred

Physician and institutional services are provided by medical providers to whom the Company pays fees based upon fee schedules. Claims incurred are recognized in the period in which members receive medical services. In addition to actual benefits paid, claims incurred include the impact of accruals for estimates of reported and unreported claims, which are unpaid as of the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

Federal Employee Program

The Company participates in the Federal Employee Health Benefits Program (FEHBP) with other BlueCross BlueShield plans. This program includes an experience-rated contract between the Office of Personnel Management (OPM) and the BlueCross BlueShield Association (BCBSA), which acts as an agent for the participating BlueCross BlueShield plans. In addition, each participating plan, including the Company, executes a contract with the BCBSA which obligates each participating plan to underwrite FEP benefits in its service area. Premium rates are developed by BCBSA and approved by OPM annually. These rates determine the funds that will be available to the participating BlueCross BlueShield plans to provide insurance to Federal employees that enroll with the BlueCross BlueShield FEHBP Plan.

The excess of gross premiums for the life of the program over the charges for the life of the program on an accrual basis is considered the special reserve under the contract between OPM and BCBSA. Each year, OPM also allocates additional funds to a contingency reserve which may be utilized by the participating plans in the event that funds set aside from annual premiums are insufficient or fall below certain prescribed levels by OPM. Funds available to each participating BlueCross BlueShield plan, including the special reserve and the contingency reserve, are held at the U.S. Treasury, including amounts unused from prior periods. Any funds which remain unused upon termination of the BCBSA contract after the claims run-out and reimbursement of allowable administrative expenses would be returned to OPM for the benefit of the FEHBP. The BCBSA contract renews automatically each year unless written notice of termination is given by either party.

In accordance with the contract, OPM holds the unused funds on behalf of the Company to provide funding for claims, administrative expenses, and other charges to the contract. The Company, along with other BlueCross BlueShield Plans who participate in the FEHBP contract, have an unrestricted right to draw funds being held in the special reserve for any valid claim or expense. The unaudited amounts being held in the special reserve are $4,733,730,000 and $3,578,797,000 as of December 31, 2010 and 2009, respectively. The unaudited amounts being held in the contingency reserve are $4,466,665,000 as of September 30, 2010 and $3,338,093,000 as of December 31, 2009. If the balance of the special reserve is exhausted or falls below certain prescribed levels, OPM will transfer funds from the contingency reserve to the special reserve.

Amounts incurred in excess of the total reserves held at the U.S. Treasury for the FEHBP would not be reimbursed to the Company.

Based upon formulas developed by the BCBSA, the Company has recorded its allocable share of the special reserve being held by OPM as an asset, with an equivalent amount recorded as a rate stabilization reserve. These amounts are $598,331,000 and $506,186,000 as of December 31, 2010 and 2009, respectively, which are included in health care and other amounts receivable and aggregate health policy reserves.

FEP revenue earned were $1,547,433,000 and $1,532,181,000 for the years ended December 31, 2010 and 2009, respectively.

FEP Operations Center

Service Benefit Plan Administrative Services Corporation (SBP), a subsidiary of GHMSI, operates the FEP Operations Center under a contract with BCBSA. SBP is owned 90% by GHMSI and 10% by BCBSA. The arrangement contains automatic termination provisions upon the occurrence of certain triggering events.

SBP performs certain administrative functions as the national operations center for the FEP under its ten-year cost reimbursement contract with BCBSA. The reimbursement of allocable costs under this contract is allocated to CFMI and the Company and recorded as a reduction of general and administrative expenses. The FEP reimbursed the Company for costs incurred in connection with this agreement totaling $85,785,000 and $77,976,000 for the years ended December 31, 2010 and 2009, respectively.

2. Accounting Changes and Corrections of Errors

Changes in Accounting Principles

Accounting changes adopted to conform to the provisions of NAIC statutory accounting practices are reported as changes in accounting principles. The cumulative effect of any changes is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the period adopted and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

Effective July 1, 2009, the Company adopted SSAP No. 43R. The Company recorded an increase to surplus of $1,634,000, net of taxes, as of July, 1, 2009.

Correction of Error

During the second quarter of 2009, the Company corrected its accounting policy regarding nonadmitted assets and the recording of an accounts receivable allowance for doubtful accounts on a statutory accounting basis. In prior years, the Company maintained an accounts receivable allowance for doubtful accounts on a statutory accounting basis. The Company no longer maintains an allowance for doubtful accounts and nonadmits receivables according to the various NAIC SAPs.

As a result of the correction noted above, the Company recorded an increase of $1,995,000 directly to surplus. This adjustment was comprised of reversing the allowance for doubtful accounts of $6,320,000 as of December 31, 2008, recording additional nonadmitted assets of $3,826,000 and decreasing the gross and net admitted deferred tax assets of $499,000.

3. Business Combinations and Goodwill

NOTES TO FINANCIAL STATEMENTS

Not applicable.

4. Discontinued Operations

Not applicable.

5. Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

None.

B. Debt Restructuring

None.

C. Reverse Mortgages

None.

D. Loan-backed Securities

(1) The Company records its investment in loan-backed securities using the prospective adjustment method. Prepayment assumptions for single and multi-class mortgage-backed/other asset-backed securities are obtained from broker survey values. The Company uses IDC to determine the market value for such securities.

(2) The Company does not have any mortgage-backed/other-asset backed securities which are other-than-temporarily impaired where the Company intends to sell, or does not have the intent and ability to hold until recovery.

(3) Effective July 1, 2009, the Company adopted SSAP No. 43R as discussed in Note 2 *Accounting Changes and Corrections of Errors*. Under SSAP No. 43R, the Company recognized $3,346,000 of OTTI on mortgage-backed securities in 2009, all of which was due to the Company's best estimate of the present value of expected cash flows being less the amortized cost basis for each respective security. At December 31, 2010, the Company did not hold any mortgage-backed or other-asset backed securities where the present value of cash flows expected to be collected is less than the amortized cost basis.

(4) The following table shows the gross unrealized losses and fair value of the Company's mortgage-backed/other asset-backed securities with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2010 and 2009 (*in thousands*).

	Fair Value < 1 Year	Unrealized Losses < 1 Year	Fair Value > 1 Year	Unrealized Losses > 1 Year	Total Unrealized Losses
December 31, 2010					
Government sponsored enterprise mortgage-backed securities	$122,398	$ 3,076	$ –	$ –	$ 3,076
Residential mortgage-backed securities	2,228	26	–	–	26
Commercial mortgage-backed/ Other asset-backed securities	915	5	–	–	5
Total	$125,541	$ 3,107	$ –	$ –	$ 3,107

	Fair Value < 1 Year	Unrealized Losses < 1 Year	Fair Value > 1 Year	Unrealized Losses > 1 Year	Total Unrealized Losses
December 31, 2009					
Government sponsored enterprise mortgage-backed securities	$ 75,238	$ 728	$ 664	$ 28	$ 756
Residential mortgage-backed securities	–	–	36,363	10,475	10,475
Commercial mortgage-backed/ Other asset-backed securities	1,578	32	4,231	161	193
Total	$ 76,816	$ 760	$ 41,258	$ 10,664	$ 11,424

(5) See Note 1 *Accounting Policy – Investments*

NOTES TO FINANCIAL STATEMENTS

E. Repurchase Agreements and/or Securities Lending Transactions

None.

F. Real Estate

None.

G. Low-Income Housing Tax Credits (LIHTC)

None.

6. Joint Ventures, Partnerships and Limited Liability Companies

A. The Company has direct investments in limited liability companies and a limited partnership. The Company has no investments in limited liability companies or limited partnerships that exceed 10% of its admitted assets.

B. The Company did not recognize any impairment write down for its investment in limited liability companies or limited partnership during the statement periods.

7. Investment Income

A. Investment income due and accrued is excluded from surplus when amounts are over 90 days past due or collection is uncertain.

B. No amount of investment income due and accrued was non-admitted and excluded from surplus as of December 31, 2010 and 2009.

8. Derivative Instruments

Not applicable.

9. Income Taxes

The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, and Capital and Surplus are as follows:

	Dec. 31, 2010	Dec. 31, 2009
Total of gross deferred tax assets	$41,877,613	$46,526,196
Total of deferred tax liabilities	(9,774,545)	(5,636,172)
Net deferred tax asset	32,103,068	40,890,024
Deferred tax asset nonadmitted	(19,551,129)	(23,563,646)
Net admitted deferred tax asset	12,551,939	17,326,378
(Increase) decrease in nonadmitted asset	$4,012,517	113,100,581

The amount of admitted adjusted gross deferred tax assets under each component of SSAP 10R during 2010 and 2009 is as follows:

NOTES TO FINANCIAL STATEMENTS

		December 31, 2010				December 31, 2009		
		Capital	Ordinary	Total		Capital	Ordinary	Total
Federal Income Taxes Recoverable through loss carry back	10.a	$0	$0	$0		$0	$0	$0
Adjusted Gross DTA expected to be realized in one year	10.b.i	3,784,232	8,767,707	12,551,939		7,506,042	9,820,336	17,326,378
10% adjusted capital and surplus limit	10.b.ii	0	0	97,076,860		0	0	76,145,844
Admitted pursuant to Paragraph 10.b (lesser of i. or ii.)		3,784,232	8,767,707	12,551,939		7,506,042	9,820,336	17,326,378
Additional admitted pursuant to Paragraph 10.c	10.c	0	9,774,545	9,774,545		0	5,636,172	5,636,172
Risk-based capital:	10.d	0	0	0		0	0	0
Total adjusted capital		0	0	0		0	0	0
Authorized control level		0	0	0		0	0	0
Additional admitted pursuant to 10.e.i.	10.e.i.	0	0	0		0	0	0
Adjusted gross DTA expected to be realized in three years	10.e.ii.a	0	0	0		0	0	0
15% adjusted statutory capital and surplus limit	10.e.ii.b	0	0	0		0	0	0
Additional permitted pursuant to 10.e.ii (lesser of a or b)		0	0	0		0	0	0
Additional admitted pursuant to 10.e.iii	10.e.iii	0	0	0		0	0	0
Total admitted DTA		$3,784,232	$18,542,252	$22,326,484		$7,506,042	$15,456,508	$22,962,550
Total DTL		(5,576,464)	(4,198,081)	(9,774,545)		(4,168,202)	(1,467,970)	(5,636,172)
Net admitted DTA		(1,792,232)	14,344,171	12,551,939		3,337,840	13,988,538	17,326,378
Nonadmitted DTA		$0	$19,551,129	$19,551,129		$0	$23,563,646	$23,563,646

The Company has elected not to admit additional deferred tax assets pursuant to SSAP 10R, paragraph 10e.

The provisions for incurred taxes on earnings:

	Dec. 31, 2010	Dec 31, 2009	Change
Federal provision	16,963,506	(984,481)	17,947,987
Federal income tax on net capital gains	3,085,348	2,760,369	324,979
Federal income taxes incurred	20,048,854	1,775,888	18,272,966

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

NOTES TO FINANCIAL STATEMENTS

			Dec 31, 2010	Dec. 31, 2009	Change	Character
Deferred tax assets:						
	Accounts Receivable		4,236,080	2,601,598	1,634,482	Ordinary
	Investments		3,784,232	7,506,042	(3,721,810)	Capital
	Benefit Obligations		11,115,484	10,361,217	754,267	Ordinary
	Accrued Expenses		5,528,190	6,222,102	(693,912)	Ordinary
	Unpaid Claims		2,359,599	2,451,124	(91,525)	Ordinary
	Nonadmitted deferred tax assets and other		14,854,026	17,384,113	(2,530,087)	Ordinary
		Total deferred tax assets	41,877,613	46,526,196	(4,648,583)	
	Nonadmitted deferred tax assets		(19,551,129)	(23,563,646)	4,012,517	
		Admitted deferred tax assets	22,326,484	22,962,550	(636,066)	
Deferred tax liabilities:						
	FAS 115		(5,576,464)	(4,168,202)	(1,408,262)	Capital
	Other		(4,198,081)	(1,467,970)	(2,730,111)	Ordinary
		Total deferred tax liabilities	(9,774,545)	(5,636,172)	(4,138,373)	
		Net Admitted deferred tax assets	12,551,939	17,326,378	(4,774,439)	

The change in net deferred income taxes is comprised of the following:

	Dec. 31, 2010	Dec. 31, 2009	Change
Total gross deferred tax assets	$41,877,613	$46,526,196	$(4,648,583)
Total deferred tax liabilities	(9,774,545)	(5,636,172)	(4,138,373)
Net deferred tax asset(liability)	$32,103,068	$40,890,024	(8,786,956)
Tax effect of unrealized gains(losses)			4,094,565
Change in net deferred income tax			(4,692,391)

In accordance with SSAP 10R, below are the components of the net DTA and DTL recognized in GHMSI's financial statement by tax character.

	December 31, 2010			December 31, 2009		
	Capital	Ordinary	TOTAL	Capital	Ordinary	TOTAL
Total of gross deferred tax assets	3,784,232	149,876,552	153,660,784	7,506,042	162,216,004	169,722,046
Less: AMT Credits Valuation Allowance	0	(111,783,171)	(111,783,171)	0	(123,195,850)	(123,195,850)
Adjusted gross deferred assets	3,784,232	38,093,381	41,877,613	7,506,042	39,020,154	46,526,196
Gross deferred tax liabilities	(5,576,465)	(4,198,081)	(9,774,546)	(4,168,202)	(1,467,970)	(5,636,172)
Net deferred tax asset	(1,792,233)	33,895,300	32,103,067	3,337,840	37,552,184	40,890,024
Deferred tax asset nonadmitted	0	(19,551,129)	(19,551,129)	0	(23,563,646)	(23,563,646)
Net admitted deferred tax asset	(1,792,233)	14,344,172	12,551,939	3,337,840	13,988,538	17,326,378

The provision for income taxes differs from the statutory rate of 35% principally as a result of the 833(b) deduction.

The Company has accumulated Alternative Minimum Tax (AMT) credits which can be used, in certain circumstances, to offset future regular tax.

The Company is included in the consolidated federal income tax return of CFI. The federal statutory income tax rate for the Company is 35 percent. For federal income tax purposes, the Company benefits from a special deduction provided to certain BlueCross and BlueShield organizations under Internal Revenue Code Section 833(b) (the 833(b) deduction). The 833(b) deduction results in the Company incurring income taxes at the Tentative Minimum Tax (TMT) rates of 20%. As a result, the Company's income tax provision is reduced from the statutory rate of 35% to account for the benefit of the 833(b) deduction. The Company could lose the benefit of the 833(b) deduction in the future if there is a change in the tax law, if the Company ceases to be not-for-profit, if the Company's reserves reach certain levels, if the medical loss ratio does not exceed 85 percent as required under the Health Reform Legislation (refer to Note 14E *All Other Contingencies* for additional information), or if certain other events occur. If the Company can no longer use the 833(b) deduction, the Company will incur federal income taxes at the statutory rate of 35%, net of available AMT credits.

CFI has a written agreement, approved by the Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidated return. The tax sharing agreement calls for allocation of current federal income tax liability to the Company on the basis of the percentage of the consolidated federal income tax liability attributable to the Company computed on a separate company basis to the total consolidated federal income tax liability. The agreement also provides that to the extent the Company's tax attributes (e.g., NOLs) reduce the consolidated federal income tax

NOTES TO FINANCIAL STATEMENTS

liability, CFI shall pay the Company for use of such attributes in the year utilized. Amounts due from the subsidiaries for federal income taxes are settled monthly.

Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

The Company is subject to examination by the Internal Revenue Service and state taxing authorities. In general, the Company's tax years 2008 and forward remain open under the statutes of limitation and subject to examination.

The Company is exempt from all income taxes in the District of Columbia, Maryland and Virginia.

10. Information Concerning Parent, Subsidiaries and Affiliates

Group Hospitalization and Medical Services, Inc. (GHMSI or the Company) is a not-for-profit company that provides a comprehensive array of health insurance and managed care products and services primarily through indemnity health insurance, health maintenance organization coverage and health benefits administration. Other products and services include preferred provider and point-of-service networks, third-party administrator services and other managed care services. These products and services are provided to individuals, businesses and governmental agencies primarily in the Washington, D.C. metropolitan area.

The Company and CareFirst of Maryland, Inc. (CFMI) are both affiliates of a not-for-profit parent company, CareFirst, Inc. (CFI). These affiliates do business as CareFirst BlueCross BlueShield.

Until December 31, 2010, CFMI and the Company held a 60% and 40% interest, respectively, in a health maintenance organization subsidiary, CareFirst BlueChoice, Inc. (CFBC). Since control over CFBC operations was vested in CFI, the Company determined that neither the Company nor CFMI exercised control over CFBC. In 2006, the Boards of CFI, CFMI, and GHMSI approved earnings redistributions to evenly share changes in the statutory surplus of CFBC. In 2008, the Boards approved in principle the creation of a new holding company, CareFirst Holdings, LLC (CFH), which would be owned by CFMI and GHMSI. The Company received regulatory approval for the establishment of CFH in 2010 and CFH was formed on December 31, 2010. Since control over CFH operations is vested in CFI, the Company has determined that neither the Company nor CFMI exercise control over CFH. Therefore, the Company accounts for its interests in CFH under the equity method of accounting.

As part of the formation of CFH, CFMI contributed its 60% interest in CFBC and its wholly owned subsidiaries Willse, Inc. (Willse) and FirstCare, Inc. (FirstCare) (collectively CFMI's former subsidiaries). The Company contributed to CFH its 40% interest in CFBC, its wholly owned subsidiaries National Capital Administrative Services, Inc. (NCAS), National Capital Insurance Agency, Inc. (NCIA), and Capital Area Services Company, Inc. (CASCI) (collectively GHMSI's former subsidiaries) and a cash contribution of $45,290,000. The restructuring was recorded at book value with GHMSI recording an equity gain of $36,921,000.

The carrying value of the Company's investments in affiliated common stocks and CFH was $361,123,000 and $205,253,000 at December 31, 2010 and 2009, respectively. Included in the change in net unrealized gains/losses for the years ended December 31, 2010 and 2009 are increases of $73,659,000 and $25,889,000, respectively, related to the change in carrying values of these investments. The increase in carrying value of the Company's investments in affiliated common stocks and CFH from 2009 to 2010 includes the increase in unrealized gains mentioned above, a surplus transfer from CFMI of $36,921,000 and cash contribution from GHMSI of $45,290,000.

As of December 31, 2010, the Company's equity investment in CFH exceeded 10% of the Company's admitted assets. 2010 financial information for the CFH is summarized as follows (*in thousands*):

	December 31 2010
Investments	$ 370,202
Other assets	165,589
Total admitted assets	$ 535,791
Other liabilities	174,668
Capital and surplus	361,123
Total liabilities and capital and surplus	$ 535,791

CFH had no significant income statement activity for the year ended December 31, 2010.

In 2009, the Company held an investment in The GHMSI Companies, Inc. (GHMSI Companies), a downstream noninsurance holding company, with a carrying value of $ $205,253,000 at December 31, 2009. The GHMSI Companies wholly-owned NCAS, NCIA, CASCI and owned 40% of CFBC. The 2009 financial statements of the GHMSI Companies was not audited so the value reported on the balance sheet—statutory basis is limited to the values reported in the audited financial statements of GHMSI in accordance with SSAP No. 97, *Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 88*.

As of December 31, 2009, the Company's investment in the GHMSI Companies exceeded 10% of the Company's admitted assets. 2009 financial information for the GHMSI Companies is summarized as follows *(in thousands*):

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		December 31 2009
Investments	$	206,236
Other assets		9,503
Total admitted assets	$	215,739
Other liabilities	$	10,486
Capital and surplus		205,253
Total liabilities and capital and surplus	$	215,739

The GHMSI Companies had no significant income statement activity for the year ended December 31, 2009.

During 2010 and 2009, the Company incurred certain costs on behalf of CFMI and its current and former subsidiaries, including salaries, claims processing expenses, and professional fees. Similarly, certain costs were incurred by CFMI and its current and former subsidiaries on behalf of the Company. As a result of an administrative agreement between the Company and CFMI, these amounts were allocated between the companies based on relevant statistical measures. Net charges to the Company for services performed by CFMI and its current and former subsidiaries were $124,638,000 and $109,170,000 during the years ended December 31, 2010 and 2009, respectively. These allocations are netted against general and administrative expenses.

The Company has an operating relationship with its subsidiaries and affiliates, whereby the Company provides administrative and corporate services which are allocated to the subsidiaries and affiliates under administrative agreements. Total allocations to the subsidiaries and affiliates, excluding CFMI and its current and former subsidiaries and FirstCare, for all services provided by the Company were approximately $52,978,000 and $45,902,000 during the years ended December 31, 2010 and 2009, respectively. These allocations are netted against general and administrative expenses.

The Company also has an operating relationship with FirstCare, whereby the Company provides administrative and corporate services which are allocated to FirstCare under administrative agreements. Total allocations to FirstCare for all services provided by the Company were approximately $904,000 and $1,571,000 during the years ended December 31, 2010 and 2009, respectively. Additionally, in accordance with the Company's quota-share reinsurance contract with FirstCare (refer to Note 23 *Reinsurance* for additional discussion), the Company assumed $1,830,000 and $1,596,000 of general and administrative expenses ceded by FirstCare during the years ended December 31, 2010 and 2009, respectively. These allocations are netted against general and administrative expenses.

Historically, the Company along with CFMI has provided the majority of the operating and administrative services, including claims processing to CFBC. These services were charged to CFBC based on the costs incurred by the Company. In 2008, the Company performed a review and analysis of certain intercompany transactions with CFBC. The analysis identified services provided by the Company that should include a profit mark-up on the costs charged to CFBC. Total charges to CFBC for the profit mark-up performed by the Company were $7,896,000 and $5,667,000 for the years ended December 31, 2010 and 2009, respectively. These charges are recorded as a reduction to general and administrative expenses.

In 2010, CFI performed a review and analysis of certain intercompany transactions with CASCI. The analysis identified services provided by CASCI that should include a profit mark-up on the costs charged to the Company. Total charges from CASCI for the profit mark-up to the Company were $3,359,000 for the year ended December 31, 2010. These charges are recorded as an increase to general and administrative expenses.

The Company maintains relationships with brokers for CFBC and its subsidiaries. The Company pays broker commissions and incentives for both the Company and CFBC and its subsidiaries, and allocates a portion of these amounts to CFBC and its subsidiaries based upon relevant statistics. Total broker fees allocated to CFBC were $135,977,000 and $130,250,000 for the years ended December 31, 2010 and 2009, respectively.

For certain fully insured point-of-service health care programs, the Company bears all of the out-of-network (indemnity) underwriting risk and CareFirst BlueChoice bears the in-network (HMO) underwriting risk. Cost of care for these products is charged directly to the Company and CareFirst BlueChoice based upon the nature of the claims incurred. Premiums on these health care programs are allocated between the Company and CareFirst BlueChoice based on actual underwriting results such that the underwriting gain of the health care programs, as a percentage of premiums earned, is shared equally between the two companies. Total premiums recorded by CFBC for the programs were $28,538,000 and $21,639,000 for the years ended December 31, 2010 and 2009, respectively.

On January 16, 1998, CFI issued a subordinated surplus note with the Company for $167,000 and with CFMI for $333,000. The notes are unsecured and bear interest at 6% per annum, payable in arrears commencing on the initiation date. No payments of principal or interest shall be made on the notes unless and until CFI has sufficient realized earned surplus to make such payment, after providing for its minimum required surplus, all required reserves and other liabilities. In December 2007, the notes were amended to extend the maturity date from January 16, 2008 to January 16, 2018. Principal on these notes, if not paid sooner, shall be due and payable on January 16, 2018. Both interest and principal payments require the prior approval of the Maryland Insurance Administration (MIA).

At December 31, 2010 the Company reported $1,191,000 and $67,269,000 as amounts due from and due to affiliates, respectively. These amounts are settled monthly.

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11. Debt

None

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

Prior to December 31, 2002, the Company maintained a qualified noncontributory defined benefit retirement plan covering substantially all full-time employees (the GHMSI Plan). Effective December 31, 2002, the GHMSI Plan merged with a qualified noncontributory defined benefit retirement plan maintained by CFMI (the CFMI Plan) to become the CareFirst, Inc. Retirement Plan (the Plan). Although CFI merged the CFMI and GHMSI plans, it has committed to maintain separate recordkeeping of plan assets and benefit obligations so that it will comply with certain regulatory restrictions that apply to the Company and CFMI. Consistent with the standards for multiple-employer plan accounting, the Company and CFMI have accounted for their net pension obligations as if the plans remained separate. Employees hired on or after January 1, 2009 no longer participate in the Plan. These employees participate in an enhanced 401(k) program.

The annual contributions exceeded the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan provides for eligible employees to receive benefits based principally on years of service with the Company and a percentage of certain compensation prior to normal retirement.

The Company also has nonqualified supplemental retirement benefit plans covering certain officers, which provide for these individuals to receive additional benefits based principally on compensation and years of service. These plans provide for incremental benefit payments so that total benefit payments equal amounts that would have been payable from the Company's principal retirement plans if it were not for limitations imposed by income tax regulations.

The Company provides certain health care benefits for retired employees. The Company's postretirement benefit program provides for a specific credit amount, which may be used to purchase health insurance upon retirement. The credit amount is based upon the retiree's age and years of service with the Company. The Company funds postretirement benefits as benefits are paid.

The Company uses a December 31 measurement date for determining benefit obligations and fair value of plan assets.

The following table sets forth the obligations, plan assets, funded status, and amount recognized on the balance sheet for the retirement plans, which include the qualified and nonqualified pension plans described above, and the other postretirement plans described above (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2010	**2009**	**2010**	**2009**
Change in projected benefit obligations				
Benefit obligations at beginning of year	**$ 277,303**	$ 247,432	**$ 19,434**	$ 17,741
Service cost	**8,742**	7,746	**1,398**	1,383
Interest cost	**15,216**	15,132	**1,044**	1,043
Benefits paid	**(10,331)**	(10,670)	**(669)**	(922)
Actuarial loss	**16,452**	17,663	**327**	189
Settlements	**–**	–	**(1,032)**	–
Benefit obligations at end of year	**$ 307,382**	$ 277,303	**$ 20,502**	$ 19,434
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 264,791**	$ 219,384	**$ –**	$ –
Actual return on plan assets	**32,438**	51,249	**–**	–
Employer contributions	**2,222**	4,828	**1,701**	922
Benefits paid	**(10,331)**	(10,670)	**(669)**	(922)
Settlements	**–**	–	**(1,032)**	–
Fair value of plan assets at end of year	**$ 289,120**	$ 264,791	**$ –**	$ –
Funded status	**$ (18,262)**	$ (12,512)	**$ (20,502)**	$ (19,434)
Transition (asset) liability not yet recognized	**(36,578)**	(39,228)	**566**	1,065
Unamortized prior service cost	**1,279**	1,469	**–**	–
Unrecognized net loss (gain)	**100,917**	100,468	**(586)**	(1,596)
Prepaid pension assets or (accrued) liabilities prior to additional liability	**47,356**	50,197	**(20,522)**	(19,965)
Additional liability	**(8,656)**	(7,382)	**–**	–
Prepaid pension assets or (accrued) liabilities	**$ 38,700**	$ 42,815	**$ (20,522)**	$ (19,965)

NOTES TO FINANCIAL STATEMENTS

	Pension Benefits 2010	Pension Benefits 2009	Other Postretirement Benefits 2010	Other Postretirement Benefits 2009
Accumulated benefit obligations (vested portion)	**$ 300,508**	$ 274,607	**$ 17,949**	$ 17,340
Accumulated benefit obligations (non-vested portion)	**$ 1,143**	$ 400		
Benefit obligations (non-vested portion)			**$ 13,583**	$ 11,877

The estimated transition asset, prior service cost and net actuarial loss for the defined benefit pension plans that will be amortized in 2011 from capital and surplus into net periodic benefit costs are $(2,650,000), $190,000 and $6,998,000, respectively.

The estimated transition liability for other postretirement benefit plans that will be amortized in 2011 from capital and surplus into net periodic benefit costs is $283,000.

An additional pension liability is required when the actuarial present value of accumulated benefits obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2010 and 2009, additional liabilities of $8,656,000 and $7,382,000, respectively, were recorded. In connection with the additional liabilities, intangible pension assets of $152,000 and $449,000, respectively, were recorded and nonadmitted.

	Pension Benefits 2010	Pension Benefits 2009	Other Postretirement Benefits 2010	Other Postretirement Benefits 2009
Components of net periodic benefit cost (in thousands)				
Service cost	**$ 8,742**	$ 7,746	**$ 1,398**	$ 1,383
Interest cost	**15,216**	15,132	**1,044**	1,043
Expected return on plan assets	**(22,006)**	(21,655)	**–**	–
Amortization of transition (asset) liability	**(2,649)**	(2,133)	**355**	355
Amortization of prior service cost	**190**	190	**–**	–
Net recognized actuarial loss (gain)	**5,570**	1,285	**(37)**	(135)
Settlement gain	**–**	–	**(500)**	–
Net periodic benefit cost of the year ended December 31	**$ 5,063**	$ 565	**$ 2,260**	$ 2,646

Weighted-average assumptions used in calculating the benefit obligations for all plans are as follows:

	Pension Benefits 2010	Pension Benefits 2009	Other Postretirement Benefits 2010	Other Postretirement Benefits 2009
Discount rate – benefit obligation (a)	**5.00%**	5.50%	**5.25%**	5.75%
Discount rate – net benefit cost (a)	**5.50%**	6.50%	**5.75%**	6.50%
Expected rate of return on plan assets	**8.00% /N/A (b)**	8.00%/N/A (b)	**N/A**	N/A
Rate of compensation increase	**4.50%**	4.50%	**N/A**	N/A
Annual rate of increase in the per capita cost of covered health care benefits	**N/A**	N/A	**6.00%**	6.00%

(a) The discount rates used were based on an Aa yield curve.

(b) As of December 31, 2010 and 2009, the expected return on plan assets is 8.00% for qualified pension benefits and N/A for nonqualified pension benefits. The Company contributes to the nonqualified pension plans as benefits are paid.

During 2010, the Company fully settled its liability for its postretirement life insurance plan by transferring the liability to an unaffiliated entity. As a result, a settlement gain was recognized in 2010.

NOTES TO FINANCIAL STATEMENTS

An important factor in determining the pension expense is the assumption for expected long-term rate of return on plan assets. The Company uses a total portfolio return analysis in the development of its assumption. Factors such as past market performance, the long-term relationship between fixed maturity and equity securities, interest rates, inflation and asset allocations are considered in the assumption. Peer data and historical returns are also reviewed for appropriateness of the selected assumption.

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the investment categories, weighted based on the median of the target allocation for each class. The key objective of the pension asset portfolio is to meet the assumed actuarial rate of return while maintaining a diversified asset allocation.

The Company's pension investment policy, as established by the CareFirst Inc. Retirement Committee, is to provide for growth of capital with a moderate level of volatility by investing assets through adequate asset diversification per the target allocations stated below. The investment policy is reviewed on a quarterly basis, under the advisement of a certified investment advisor, to determine if the policy should be changed. The pension plan weighted-average asset allocations by asset category are as follows:

	Expected Rate of Returns	Asset Allocation Range	December 31 2010	December 31 2009
Domestic equity securities	8% – 12%	30% – 50%	**37 %**	37 %
International equity securities	8% – 12%	15% – 25%	**22**	19
Emerging markets equity securities	8% – 12%	0% – 10%	**7**	7
Real estate	8% – 12%	0% – 10%	**3**	3
Fixed maturity securities	4% – 8%	25% – 35%	**30**	33
Cash and cash equivalents	1% – 3%	Residual	**1**	1
Total			**100 %**	100 %

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on total service and interest cost	$ 30	$ (26)
Effect on postretirement benefit obligations	612	(536)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the above pension plans and other postretirement benefit plan for the years ending December 31(in thousands):

	Pension Benefits	Other Postretirement Benefits	Total
2011 *	$ 24,273	$ 1,421	$ 25,694
2012	23,593	1,578	25,171
2013	23,230	1,691	24,921
2014	24,183	1,801	25,984
2015	22,024	1,904	23,928
2016 through 2020	100,434	13,574	114,008
	$ 217,737	$ 21,969	$ 239,706

* The expected cash flow payments are based on, in part, the assumption that certain nonqualified pension plans participants who have attained age 62 and older during 2010 will retire in 2011.

The Company expects to make contributions of $727,000 and $1,421,000, respectively, to the pension benefit plans and the postretirement benefits plan during 2011.

In addition, the Company sponsors a 401(k) plan for the benefit of all eligible employees. The Company contributes to this plan based on a percentage of employee contributions and recognized expenses of $1,604,000 and $1,620,000 for the years ended December 31, 2010 and 2009, respectively.

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

(1) The Company has no shares authorized, issued or outstanding.

(2) The Company has no preferred stock outstanding.

NOTES TO FINANCIAL STATEMENTS

(3) – (9) Not applicable.

(10) The portion of unassigned funds (surplus) represented by cumulative net unrealized gains is $249,354,000.

(11) – (13) Not applicable.

14. Contingencies

A. Contingent Commitments

The unfunded commitment to a limited partnership was $3,859,000 at December 31, 2010.

B. – D. None

E. All Other Contingencies

Various lawsuits, including class action lawsuits and other claims, occur in the normal course of business and are pending against the Company. The Company records accruals for such matters when a loss is deemed to be probable and estimable. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not have a material adverse effect on the accompanying statutory-basis financial statements; however, there can be no assurance in this regard.

In the jurisdictions in which the Company is licensed to conduct business, associations have been created for the purpose, among others, of protecting insured parties under health insurance policies. The Company is contingently liable for assessments in any calendar year, in order to provide any required funds to carry out the power and duties of the associations.

The Company, through CFI, operates under licensing agreements with BCBSA, whereby the Company uses the service marks of BCBSA in the course of its business. The Company files periodic reports with BCBSA.

CFMI and the Company have entered into an intercompany agreement that requires CFMI or the Company, or their respective subsidiaries, to provide the financial resources necessary to satisfy the respective regulatory reserve requirement, subject to specific limitations, if either CFMI or the Company or their respective subsidiaries fail to meet or maintain their respective regulatory reserve requirement as required by law, or if such transfer of financial resources is needed to satisfy any other legally enforceable obligation.

CFI has a commitment for a credit facility with a commercial bank under which certain of its affiliates, including the Company, may borrow up to a maximum amount of $60,000,000. There have been no draws made on this line of credit during 2010 or 2009.

The Company insures individuals who are qualified Medicare beneficiaries. Medicare law identifies the primary payer and secondary payer of claims when individuals are insured by both the Company and Medicare. Principally as a result of information systems programming errors, the Company incorrectly paid certain claims in years prior to 2009 as the secondary payer rather than as the primary payer. The issues were communicated to the Centers for Medicare and Medicaid Services (CMS) in May 2009. The Company has implemented corrective measures to (1) correctly identify Medicare beneficiaries that should be paid primary and (2) modify information systems to correctly adjudicate claims on behalf of Medicare beneficiaries.

Based on its interpretation of Medicare law, the Company believes it is liable for improperly processed claims for the period from January 1, 2006 to December 31, 2008. In 2009, CFI provided CMS with the data of the incorrectly paid claims and offered to settle its obligations to CMS for $19,000,000. Accordingly, CFI recorded a liability of $19,000,000 at December 31, 2009 for this proposed settlement, of which $9,376,000 was recorded by the Company, which is included in general expenses due or accrued. The settlement remains subject to government approval. While there can be no assurances that the settlement will be accepted, or that CMS will accept the Company's legal interpretation that Medicare law limits its liability in this matter to the Company's proposed settlement amount, the Company's management, after consultation with legal counsel, does not believe the final resolution of this matter will result in additional material liabilities to the Company. During 2010, the Company received demand letters from CMS regarding certain of these individual claims. The Company has processed and paid these claims in accordance with the demand letters and accordingly has released the reserve associated with these claims in the amount of $1,151,000. Therefore, the Company's remaining liability was $8,225,000 as of December 31, 2010.

During the first quarter of 2010, the Patient Protection and Affordable Care Act, or PPACA, and a reconciliation measure, the Health Care and Education Reconciliation Act of 2010, or HCERA, which the Company refers to together as the Health Reform Legislation, were signed into law. The Health Reform Legislation, and existing or future laws and rules, could force the Company to change how it does business, restrict revenue and enrollment growth in certain products and market segments, restrict premium growth rates for certain products and market segments, increase its medical and administrative costs and capital requirements, expose it to an increased risk of liability (including increasing its liability in federal and state courts for coverage determinations and contract interpretation) or put it at risk for loss of business. The new laws encompass certain new taxes and fees, including an excise tax on high premium insurance policies, limitations on the amount of compensation that is tax deductible and new fees on companies in the health insurance industry which may not be deductible for income tax purposes. The Company's operating results, financial position and cash flows could be materially adversely affected by such changes.

15. Leases

The Company leases certain administrative facilities and equipment under operating leases. Some of these lease agreements contain escalation clauses for increases in rental rates over the life of the lease. These leases expire on various dates with renewal options available on many of these leases.

NOTES TO FINANCIAL STATEMENTS

Future noncancelable minimum payments for leases for which the Company is obligated are as follows as of December 31, 2010 *(in thousands)*:

2011	$ 15,876
2012	15,555
2013	11,998
2014	6,519
2015	6,696
Thereafter	18,373
Total minimum payments	$ 75,017

Rent expense for operating leases, net of amounts allocated to affiliates, was $11,543,000 and $11,384,000 for the years ended December 31, 2010 and 2009, respectively.

16. Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations of Credit Risk

Not applicable.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

Not applicable.

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

A. ASO Plans

Not applicable.

B. ASC Plans

The results from operations of uninsured ASC plans and the uninsured portion of partially insured plans were as follows for the years ended December 31, 2010 and 2009 *(in thousands)*:

	2010	2009
Gross reimbursement for medical costs incurred	$1,162,990	$ 1,085,324
Gross administrative fees accrued	76,814	70,338
Gross expenses incurred	(1,258,104)	(1,179,400)
Operating loss, before stop loss	(18,300)	(23,738)
Stop loss, net	7,322	6,818
Proforma operating loss	$ (10,978)	$ (16,920)

The stop loss amount reported represents stop loss written for the ASC business shown above. For the year-end December 31, 2010, GHMSI ceded an ASC underwriting loss of $5,111,000 to CFMI and assumed an ASC underwriting loss of $81,000 from CFMI for a net underwriting gain of $5,030,000. For the year-end December 31, 2009, GHMSI ceded an ASC underwriting loss of $7,280,000 to CFMI and assumed an ASC underwriting loss of $6,721,000 from CFMI for a net underwriting gain of $559,000.

C. Medicare or Similarly Structured Cost Based Reimbursement Contract

Not applicable.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

Not applicable.

20. Fair Value Measurements

Included in various investment-related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stocks when carried at the lower of cost or market. SSAP No. 100 *Fair Value Measurements* defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value. The fair value hierarchy is as follows:

- Level 1 – Quoted (unadjusted) prices for identical assets or liabilities in active markets.
- Level 2 – Other observable inputs, either directly or indirectly.
- Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of

NOTES TO FINANCIAL STATEMENTS

the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset. Management is responsible for the determination of fair value, and performs a monthly analysis on the prices received from third parties to determine whether the prices appear to be reasonable estimates of fair value.

The guidance on fair value measurements only applies to items that are measured and reported at fair value in the statement of financial position after initial recognition. The following methods and assumptions were used to estimate the fair value of such financial instruments:

Bonds. The fair value of U.S. Treasury securities is determined by an active price for an identical security in an observable market and is therefore classified as Level 1. Other U.S. government agencies securities, state and municipal securities, foreign government securities, corporate bonds, mortgage-backed securities and asset-backed securities that are priced by independent pricing services using observable inputs are classified as Level 2. Certain mortgage-backed securities where the fair value is obtained from the Company's internal cash-flow model (2009 only) are classified as Level 3.

Stocks. Publicly traded common stocks (2009 only) valued at the closing price reported on the exchanges are classified as Level 1. Fair value of publicly traded index funds and preferred stocks where market quotes are available but are not considered actively traded are classified as Level 2. Fair values of privately held equity securities, where there has been limited trading activity or where less price transparency exists around the inputs to the valuation, are classified as Level 3.

The following table presents information about the Company's financial assets measured at fair value as of December 31, 2010 and 2009 *(in thousands):*

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2010
Assets				
Bonds	$ –	$ 851	$ –	$ 851
Common stocks				
Large capital equity securities (a)	–	34,525	–	34,525
Small capital equity securities (a)	–	36,928	–	36,928
International equity securities (a)	–	40,626	–	40,626
Privately-held common stocks	–	–	3,771	3,771
Total common stocks	–	112,079	3,771	115,850
Total assets at fair value	$ –	$ 112,930	$ 3,771	$ 116,701

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2009
Assets				
Bonds	$ –	$ 7,717	$ –	$ 7,717
Common stocks				
Large capital equity securities (a)	–	24,128	–	24,128
Small capital equity securities (a)	–	16,389	–	16,389
International equity securities (a)	–	16,818	–	16,818
Privately-held common stocks	–	–	3,825	3,825
Publicly-traded common stocks	231	–	–	231
Total common stocks	231	57,335	3,825	61,391
Preferred stocks	–	1,626	–	1,626
Total assets at fair value	$ 231	$ 66,678	$ 3,825	$ 70,734

(a) Represent equity investments in publicly-traded index funds.

A reconciliation of the beginning and ending balances of common stocks and bonds (2009 only) measured at fair value using Level 3 inputs as of December 31, 2010 and 2009 is as follows *(in thousands):*

NOTES TO FINANCIAL STATEMENTS

	Common stocks
Beginning balance at January 1, 2010	$ 3,825
Unrealized losses in capital and surplus—statutory-basis	(54)
Ending balance at December 31, 2010	$ 3,771
Change in unrealized losses included in net losses related to assets still held	$ –

	Bonds	Common stocks	Total
Beginning balance at January 1, 2009	$ 3,076	$ 3,825	$ 6,901
Total gains and losses:			
Realized in net loss	17	–	17
Unrealized in capital and surplus—statutory-basis	9	–	9
Purchases, sales, issuances and settlements, net	(3,102)	–	(3,102)
Ending balance at December 31, 2009	$ –	$ 3,825	$ 3,825
Change in unrealized losses included in net losses related to assets still held	$ –	$ –	$ 3,825

21. Other Items

(A) Extraordinary Items

Not applicable

(B) Troubled Debt Restructuring: Debtors

Not applicable

(C) Other Disclosures

Not applicable

(D) Uncollectible Balances

Not applicable

(E) Business Interruption Insurance Recoveries

Not applicable

(F) State Transferable Tax Credits

Not applicable

(G) Subprime-Mortgage-Related Risk Exposure

(1) The Company categorizes mortgage securities with an average FICO score of less than 675 (credit score) as a subprime mortgage security. The Company has no subprime mortgage securities as of December 31, 2010.

(2) The Company does not engage in mortgage lending and therefore has no direct exposure through investments in subprime mortgage loans.

(3) The Company has no exposure in subprime mortgage lending through its fixed maturity and equity investments.

22. Events Subsequent

There have been no events occurring subsequent to the close of the books or accounts for this statement that would have a material effect on the financial condition of the Company.

23. Reinsurance

The Company entered into a quota-share reinsurance contract with FirstCare, a plan sponsor offering Medicare Part D prescription drug insurance coverage under a contract with CMS. The Company assumed risk premiums in the amount of $6,607,000 and $6,540,000, and incurred an underwriting loss in the amount of $42,000 and $893,000, for the years ended December 31, 2010 and 2009, respectively, as a result of the quota-share reinsurance contract with FirstCare.

NOTES TO FINANCIAL STATEMENTS

Certain business has been written by CFMI and GHMSI which represents contracts outside the historic CFMI and GHMSI service areas (cross-jurisdictional sales). The income or loss from operations from this cross-jurisdictional business is transferred via a quota share reinsurance contract from the company that earned them to the company in whose service area they were earned. The Company remains obligated for amounts ceded in the event that CFMI does not meet its obligations. As a result of this reinsurance agreement, the following amounts were assumed from and ceded to CFMI (*in thousands*):

	Year Ended December 31 2010	2009
Premiums assumed	$ 65,783	$ 65,463
Premiums ceded	(405,008)	(410,260)
Premiums, net	(339,225)	(344,797)
Cost of care assumed	47,000	54,235
Cost of care ceded	(323,668)	(337,211)
Cost of care, net	(276,668)	(282,976)
General and administrative expenses ceded, net	(57,382)	(58,905)
Net gain ceded	$ (5,175)	$ (2,916)

24. Retrospectively Rated Contracts and Contracts Subject to Redetermination

A. – C. See Note 1 *Accounting Policy - Revenue Recognition.*

25. Change in Incurred Claims and Claim Adjustment Expenses

As of December 31, 2010, $230,525,000 has been paid for incurred claims attributable to insured events for prior years. Reserves remaining for prior years are now $6,534,000 as a result of re-estimation of unpaid claims and unpaid claims adjustment expenses. Therefore, there has been a $15,932,000 favorable prior year development since December 31, 2009 to December 31, 2010 of which $6,447,000 was a result of favorable development in the Federal Employee Program line of business. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

26. Intercompany Pooling Arrangements

Not applicable.

27. Structured Settlements

Not applicable

28. Health Care Receivables

A. Pharmacy Rebates receivable are based on pharmacy utilization during the quarter as well as past experience of rebates received.

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Invoice/ Confirmed	Actual Rebates Collected Within 90 Days of Invoicing/ Contractual Due Date	Actual Rebates Collected within 91-180 Days of Invoicing/ Contractual Due Date	Actual Rebates Collected More Than 180 days After Invoicing/ Contractual Due Date
12/31/2010	$3,702,334	$3,702,334	$ –	$ –	$ –
9/30/2010	3,702,334	3,702,334	1,142,554	–	–
6/30/2010	4,086,739	4,086,739	4,062,795	–	–
3/31/2010	3,484,399	3,484,399	3,494,090	105	–
12/31/2009	$5,247,929	$5,247,929	$5,235,682	$ 1,855	$ –
9/30/2009	6,136,209	6,136,209	6,116,332	–	–
6/30/2009	6,132,159	6,132,159	6,122,684	78	–
3/31/2009	5,832,120	5,832,120	5,786,374	14,159	163
12/31/2008	$5,775,874	$5,775,874	$5,715,411	$ 126	$ –
9/30/2008	5,659,431	5,659,431	5,572,575	(4,754)	–
6/30/2008	5,875,909	5,875,909	5,468,967	294,889	7,270
3/31/2008	5,324,394	5,324,394	5,155,339	70,247	160

B. Not applicable

29. Participating Policies

Not applicable

NOTES TO FINANCIAL STATEMENTS

30. Premium Deficiency Reserve

Not applicable

31. Salvage and Subrogation

The following discloses the estimated salvage and subrogation used in computing the Company's unpaid claims liability (in thousands):

Year incurred	
2010	$ 995
2009	$1,718

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No [ ]

1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [ ] N/A [ ]

1.3 State Regulating? District of Columbia

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [X]

2.2 If yes, date of change:

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2008

3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2008

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 09/29/2009

3.4 By what department or departments? District of Columbia Department of Insurance, Securities and Banking

3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes [ ] No [ ] N/A [X]

3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [X] No [ ] N/A [ ]

4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business? Yes [ ] No [X]

4.12 renewals? Yes [ ] No [X]

4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business? Yes [ ] No [X]

4.22 renewals? Yes [ ] No [X]

5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [X]

5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [X]

6.2 If yes, give full information

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [X]

7.2 If yes,

7.21 State the percentage of foreign control

7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]

8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

ERNST & YOUNG, LLP 621 EAST PRATT STREET, BALTIMORE MD 21202

10.1 Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation? Yes [ ] No [X]

10.2 If the response to 10.1 is yes, provide information related to this exemption:

10.3 Has the insurer been granted any exemptions to the audit committee requirements as allowed in Section 14H of the Annual Financial Reporting Model Regulation, or substantially similar state law or regulation? Yes [ ] No [X]

10.4 If the response to 10.3 is yes, provide information related to this exemption:

10.5 Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation? Yes [ ] No [X]

10.6 If the response to 10.5 is yes, provide information related to this exemption:

10.7 Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws? Yes [X] No [ ] N/A [ ]

10.8 If the response to 10.7 is no or n/a, please explain.

11. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

PAULA HOLT, FSA, MAAA, ASSOCIATE VICE PRESIDENT, ACTUARY, 10455 MILL RUN CIRCLE, OWINGS MILLS, MD 21117

12.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [X]

12.11 Name of real estate holding company

12.12 Number of parcels involved 0

12.13 Total book/adjusted carrying value $ 0

12.2 If yes, provide explanation

13. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

13.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

13.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [ ]

13.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [ ]

13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [ ]

14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [X] No [ ]

a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

c. Compliance with applicable governmental laws, rules and regulations;

d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

e. Accountability for adherence to the code.

14.11 If the response to 14.1 is no, please explain:

14.2 Has the code of ethics for senior managers been amended? Yes [ ] No [X]

14.21 If the response to 14.2 is yes, provide information related to amendment(s).

14.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [X]

14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

GENERAL INTERROGATORIES

BOARD OF DIRECTORS

15. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No [ ]

16. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]

17. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No [ ]

FINANCIAL

18. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes [ ] No [X]

19.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 19.11 To directors or other officers $ 0
- 19.12 To stockholders not officers $ 0
- 19.13 Trustees, supreme or grand (Fraternal only) $ 0

19.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 19.21 To directors or other officers $ 0
- 19.22 To stockholders not officers $ 0
- 19.23 Trustees, supreme or grand (Fraternal only) $ 0

20.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [X]

20.2 If yes, state the amount thereof at December 31 of the current year:
- 20.21 Rented from others $ 0
- 20.22 Borrowed from others $ 0
- 20.23 Leased from others $ 0
- 20.24 Other $ 0

21.1 Does this statement include payments for assessments as described in the *Annual Statement Instructions* other than guaranty fund or guaranty association assessments? Yes [ ] No [X]

21.2 If answer is yes:
- 21.21 Amount paid as losses or risk adjustment $ 0
- 21.22 Amount paid as expenses $ 0
- 21.23 Other amounts paid $ 0

22.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]

22.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 0

INVESTMENT

23.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 23.3) Yes [X] No [ ]

23.2 If no, give full and complete information, relating thereto

23.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 17 where this information is also provided)

23.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [ ] No [ ] NA [X]

23.5 If answer to 23.4 is yes, report amount of collateral for conforming programs. $

23.6 If answer to 23.4 is no, report amount of collateral for other programs. $

23.7 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes [ ] No [ ] NA [X]

23.8 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [ ] No [ ] NA [X]

23.9 Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes [ ] No [ ] NA [X]

GENERAL INTERROGATORIES

24.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 20.1 and 23.3). Yes [ ] No [X]

24.2 If yes, state the amount thereof at December 31 of the current year:

24.21	Subject to repurchase agreements	$ 0
24.22	Subject to reverse repurchase agreements	$ 0
24.23	Subject to dollar repurchase agreements	$ 0
24.24	Subject to reverse dollar repurchase agreements	$ 0
24.25	Pledged as collateral	$ 0
24.26	Placed under option agreements	$ 0
24.27	Letter stock or securities restricted as to sale	$ 0
24.28	On deposit with state or other regulatory body	$ 0
24.29	Other	$ 0

24.3 For category (24.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

25.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]

25.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] N/A [X]
If no, attach a description with this statement.

26.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [X] No [ ]

26.2 If yes, state the amount thereof at December 31 of the current year. $ 3,001,467

27. Excluding items in Schedule E – Part 3 – Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III – General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping agreements of the NAIC *Financial Condition Examiners Handbook*? Yes [X] No [ ]

27.01 For agreements that comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
SUNTRUST BANK	1445 NEW YORK AVE., WASHINGTON DC 20005
THE BANK OF NEW YORK MELLON	1 WALL ST., N.Y.,N.Y. 10286

27.02 For all agreements that do not comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

27.03 Have there been any changes, including name changes, in the custodian(s) identified in 27.01 during the current year? Yes [X] No [ ]
27.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason
	THE BANK OF NEW YORK MELLON	11/24/2010	The custodian agreement was amended during the year

27.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
15958	VANGUARD	P.O. BOX 2900, VALLEY FORGE, PA. 19482-2900
104596	DODGE AND COX	55 CALIFORNIA ST.,SAN FRANCISCO, CA., 94104
107105	BLACKROCK INVESTMENT ADVISORS	1111 EAST WARRENVILLE RD., NAPERVILLE, IL. 60563
10578	CALAMOS	1 LINCOLN ST., BOSTON. MA 02111

GENERAL INTERROGATORIES

28.1 Does the reporting entity have any diversified mutual funds reported in Schedule D - Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes [X] No [ ]

28.2 If yes, complete the following schedule:

	1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
28.2001.	922908-88-4	VANGUARD EXTENDED MARKET INDEX	36,927,724
28.2002.	922040-10-0	VANGUARD INSTITUTIONAL INDEX	34,525,263
28.2003.	921909-82-6	VANGUARD INSTITUTIONAL MARKETS INDEX FUND	40,626,165
28.2999 TOTAL			112,079,152

28.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
VANGUARD EXTENDED MARKET	LAS VEGAS SANDS CORP.	172,452	12/31/2010
VANGUARD EXTENDED MARKET	MOSAIC CO.	146,972	12/31/2010
VANGUARD EXTENDED MARKET	DELTA AIR LINES INC.	143,649	12/31/2010
VANGUARD EXTENDED MARKET	CROWN CASTLE INTL.	134,048	12/31/2010
VANGUARD EXTENDED MARKET	BUNGE LTD.	132,940	12/31/2010
VANGUARD INSTITUTIONAL INDEX	EXXON MOBIL CORP.	1,048,532	12/31/2010
VANGUARD INSTITUTIONAL INDEX	APPLE INC.	863,822	12/31/2010
VANGUARD INSTITUTIONAL INDEX	MICROSOFT CORP.	621,455	12/31/2010
VANGUARD INSTITUTIONAL INDEX	GENERAL ELECTRIC CO.	578,989	12/31/2010
VANGUARD INSTITUTIONAL INDEX	JOHNSON AND JOHNSON	568,631	12/31/2010
VANGUARD DEVELOPED MARKET INDEX FUND	NESTLE SA	727,615	12/31/2010
VANGUARD DEVELOPED MARKET INDEX FUND	HSBC HOLDINGS PLC	697,145	12/31/2010
VANGUARD DEVELOPED MARKET INDEX FUND	BP PLC	506,202	12/31/2010
VANGUARD DEVELOPED MARKET INDEX FUND	BHP BILLITON LTD	503,765	12/31/2010
VANGUARD DEVELOPED MARKET INDEX FUND	VODAFONE GROUP PLC	485,483	12/31/2010

29. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
29.1 Bonds	822,511,446	835,471,939	12,960,493
29.2 Preferred Stocks	2,994,797	3,297,990	303,193
29.3 Totals	825,506,243	838,769,929	13,263,686

29.4 Describe the sources or methods utilized in determining the fair values:

Custodian Bank

30.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [X] No [ ]

30.2 If the answer to 30.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [X] No [ ]

30.3 If the answer to 30.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

31.1 Have all the filing requirements of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office been followed? Yes [X] No [ ]

31.2 If no, list exceptions:

GENERAL INTERROGATORIES

OTHER

32.1 Amount of payments to Trade associations, service organizations and statistical or rating bureaus, if any? $ 1,704,151

32.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
BlueCross BlueShield Association	$ 1,141,487
	$

33.1 Amount of payments for legal expenses, if any? $ 1,866,232

33.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Hogan & Hartson LLP	$ 540,002
Hogan Lovells US LLP	$ 678,218

34.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ 200,457

34.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
Trammell & Company	$ 151,347
	$

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [X] No [ ]

1.2 If yes, indicate premium earned on U. S. business only $ 15,425,911

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? $ 0

1.31 Reason for excluding

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. $

1.5 Indicate total incurred claims on all Medicare Supplement Insurance. $ 11,464,557

1.6 Individual policies:

Most current three years:

1.61 Total premium earned $ 2,274,247

1.62 Total incurred claims $ 2,502,263

1.63 Number of covered lives 1,235

All years prior to most current three years:

1.64 Total premium earned $ 13,151,664

1.65 Total incurred claims $ 8,962,294

1.66 Number of covered lives 4,338

1.7 Group policies:

Most current three years:

1.71 Total premium earned $ 0

1.72 Total incurred claims $ 0

1.73 Number of covered lives 0

All years prior to most current three years:

1.74 Total premium earned $ 0

1.75 Total incurred claims $ 0

1.76 Number of covered lives 0

2. Health Test:

		1 Current Year	2 Prior Year
2.1	Premium Numerator	$ 2,974,061,316	$ 2,905,136,717
2.2	Premium Denominator	$ 2,996,119,351	$ 2,927,358,276
2.3	Premium Ratio (2.1/2.2)	0.992	0.992
2.4	Reserve Numerator	$ 855,348,485	$ 759,176,627
2.5	Reserve Denominator	$ 855,348,485	$ 759,176,627
2.6	Reserve Ratio (2.4/2.5)	1.000	1.000

3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? Yes [ ] No [X]

3.2 If yes, give particulars:

4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? Yes [X] No [ ]

4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? Yes [ ] No [X]

5.1 Does the reporting entity have stop-loss reinsurance? Yes [ ] No [X]

5.2 If no, explain:

5.3 Maximum retained risk (see instructions)

5.31 Comprehensive Medical $ 0

5.32 Medical Only $ 0

5.33 Medicare Supplement $ 0

5.34 Dental and Vision $ 0

5.35 Other Limited Benefit Plan $ 0

5.36 Other $ 0

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Intercompany Support Agreement with Carefirst of Maryland, Inc.

7.1 Does the reporting entity set up its claim liability for provider services on a service date basis? Yes [X] No [ ]

7.2 If no, give details:

8. Provide the following information regarding participating providers:

8.1 Number of providers at start of reporting year 36,836

8.2 Number of providers at end of reporting year 38,399

9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [X] No [ ]

9.2 If yes, direct premium earned:

9.21 Business with rate guarantees between 15-36 months 2,402,681

9.22 Business with rate guarantees over 36 months 0

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts? Yes [ ] No [X]

10.2 If yes:

10.21 Maximum amount payable bonuses	$ 0
10.22 Amount actually paid for year bonuses	$ 0
10.23 Maximum amount payable withholds	$ 0
10.24 Amount actually paid for year withholds	$ 0

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,	Yes [ ] No [X]
11.13 An Individual Practice Association (IPA), or,	Yes [ ] No [X]
11.14 A Mixed Model (combination of above) ?	Yes [ ] No [X]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements? Yes [X] No [ ]

11.3 If yes, show the name of the state requiring such net worth. District of Columbia

11.4 If yes, show the amount required. $ 108,690,100

11.5 Is this amount included as part of a contingency reserve in stockholder's equity? Yes [ ] No [X]

11.6 If the amount is calculated, show the calculation.

See 11.6 footnote below

12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
District of Columbia
State of Maryland
Virginia: the cities of Alexandria and Fairfax; the town of Vienna; Arlington County; the areas of Fairfax and Prince William Counties in Virginia lying East of Route 123

13.1 Do you act as a custodian for health savings accounts? Yes [ ] No [X]

13.2 If yes, please provide the amount of custodial funds held as of the reporting date. $ 0

13.3 Do you act as an administrator for health savings accounts? Yes [ ] No [X]

13.4 If yes, please provide the balance of the funds administered as of the reporting date. $ 0

11.6 Minimum Net Worth Requirements

The company is licensed to conduct business in the states of Virginia (Northern Virginia) and Maryland and the District of Columbia. The minimum net worth for each of these jurisdictions is as follows:

District of Columbia: calculated as 8% of prior year's risk premium

$2,927,358,276	Prior Year's Premium Earned
$1,568,732,026	Less: FEP Premiums Earned
$1,358,626,250	Prior Year's Risk Premiums
X 8%	Applicable Rate for the District of Columbia
$108,690,100	Minimum Statutory Reserve Requirements

Maryland: $108,690,100 Minimum Statutory Reserve Requirement: calculated as 8% of prior year's risk premium

Virginia: $162,160,717 calculated as 45 days of anticipated operating expenses and incurred claims expenses generated from subscription contracts.

	Incurred Claims	Operating Expenses
Total	$2,516,299,296	$340,331,102
Less:FEP	1,458,905,965	82,420,837
Incurred	1,057,393,331	257,910,265
Divided by	365 days	365 days
Times	45 days	45 days

$130,363,561 (claims) plus $31,797,156 (O/E) = $162,160,717 total

FIVE - YEAR HISTORICAL DATA

	1 2010	2 2009	3 2008	4 2007	5 2006
Balance Sheet (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 28)	2,173,566,611	1,887,553,960	1,772,935,044	1,699,544,305	1,690,628,372
2. Total liabilities (Page 3, Line 24)	1,204,067,237	1,126,095,545	1,086,155,336	945,985,383	1,027,621,966
3. Statutory surplus	108,690,100	101,088,276	110,888,548	93,244,845	80,588,629
4. Total capital and surplus (Page 3, Line 33)	969,499,374	761,458,437	686,779,718	753,558,921	663,006,406
Income Statement (Page 4)					
5. Total revenues (Line 8)	2,917,428,638	2,890,867,898	2,757,511,005	2,828,482,064	2,457,593,879
6. Total medical and hospital expenses (Line 18)	2,516,299,296	2,576,445,704	2,478,528,630	2,507,343,711	2,177,416,445
7. Claims adjustment expenses (Line 20)	116,317,831	97,283,480	85,485,704	82,496,274	73,978,438
8. Total administrative expenses (Line 21)	224,013,271	218,271,245	183,980,707	197,711,266	157,162,197
9. Net underwriting gain (loss) (Line 24)	60,798,240	(1,132,531)	9,515,964	40,930,813	49,036,799
10. Net investment gain (loss) (Line 27)	41,648,563	44,452,897	24,318,770	42,124,827	34,165,096
11. Total other income (Lines 28 plus 29)	1,248,252	496,606	(3,237)	550,806	201,917
12. Net income or (loss) (Line 32)	86,731,549	44,801,453	26,260,168	68,423,901	64,622,913
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	121,713,696	31,131,605	21,617,038	(20,974,725)	115,522,247
Risk-Based Capital Analysis					
14. Total adjusted capital	969,499,374	761,458,437	686,779,718	753,558,921	663,006,406
15. Authorized control level risk-based capital	88,316,466	84,463,139	81,253,875	82,303,273	69,443,956
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7)	796,147	861,753	928,875	846,805	810,150
17. Total members months (Column 6, Line 7)	9,736,298	10,297,022	10,975,857	9,972,510	9,399,669
Operating Percentage (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus Line 19)	86.6	89.5	90.3	89.0	88.6
20. Cost containment expenses	1.2	0.6	0.5	0.6	0.6
21. Other claims adjustment expenses	2.7	2.7	2.5	2.2	2.3
22. Total underwriting deductions (Line 23)	98.3	100.5	100.1	99.0	98.0
23. Total underwriting gain (loss) (Line 24)	2.0	0.0	0.3	1.4	1.9
Unpaid Claims Analysis					
(U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13, Col. 5)	237,059,016	244,125,662	249,272,344	238,284,957	205,342,625
25. Estimated liability of unpaid claims – [prior year (Line 13, Col. 6)]	252,990,781	271,596,789	298,340,241	265,360,719	250,652,812
Investments In Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)	0	0	0	0	0
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)	0	0	0	0	0
28. Affiliated common stocks (Sch. D Summary, Line 24, Col. 1)	0	205,252,996	179,364,063	174,236,603	140,973,988
29. Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10)	0	0	0	0	0
30. Affiliated mortgage loans on real estate		0	0	0	0
31. All other affiliated		0	0	0	0
32. Total of above Lines 26 to 31	0	205,252,996	179,364,063	174,236,603	140,973,988

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [ ] No [ ]

If no, please explain:

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

State, Etc.	1 Active Status	2 Accident & Health Premiums	3 Medicare Title XVIII	4 Medicaid Title XIX	5 Federal Employees Health Benefits Program Premiums	6 Life & Annuity Premiums & Other Considerations	7 Property/ Casualty Premiums	8 Total Columns 2 Through 7	9 Deposit-Type Contracts
		Direct Business Only							
1. Alabama AL	N							0	0
2. Alaska AK	N							0	0
3. Arizona AZ	N							0	0
4. Arkansas AR	N							0	0
5. California CA	N							0	0
6. Colorado CO	N							0	0
7. Connecticut CT	N							0	0
8. Delaware DE	N							0	0
9. District of Columbia DC	L	461,784,940			280,804,196			742,589,136	0
10. Florida FL	N							0	0
11. Georgia GA	N							0	0
12. Hawaii HI	N							0	0
13. Idaho ID	N							0	0
14. Illinois IL	N							0	0
15. Indiana IN	N							0	0
16. Iowa IA	N							0	0
17. Kansas KS	N							0	0
18. Kentucky KY	N							0	0
19. Louisiana LA	N							0	0
20. Maine ME	N							0	0
21. Maryland MD	L	728,755,811			759,324,671			1,488,080,482	0
22. Massachusetts MA	N							0	0
23. Michigan MI	N							0	0
24. Minnesota MN	N							0	0
25. Mississippi MS	N							0	0
26. Missouri MO	N							0	0
27. Montana MT	N							0	0
28. Nebraska NE	N							0	0
29. Nevada NV	N							0	0
30. New Hampshire NH	N							0	0
31. New Jersey NJ	N							0	0
32. New Mexico NM	N							0	0
33. New York NY	N							0	0
34. North Carolina NC	N							0	0
35. North Dakota ND	N							0	0
36. Ohio OH	N							0	0
37. Oklahoma OK	N							0	0
38. Oregon OR	N							0	0
39. Pennsylvania PA	N							0	0
40. Rhode Island RI	N							0	0
41. South Carolina SC	N							0	0
42. South Dakota SD	N							0	0
43. Tennessee TN	N							0	0
44. Texas TX	N							0	0
45. Utah UT	N							0	0
46. Vermont VT	N							0	0
47. Virginia VA	L	511,986,055			586,070,129			1,098,056,184	0
48. Washington WA	N							0	0
49. West Virginia WV	N							0	0
50. Wisconsin WI	N							0	0
51. Wyoming WY	N							0	0
52. American Samoa AS	N							0	0
53. Guam GU	N							0	0
54. Puerto Rico PR	N							0	0
55. U.S. Virgin Islands VI	N							0	0
56. Northern Mariana Islands MP	N							0	0
57. Canada CN	N							0	0
58. Aggregate Other Alien OT	XXX	0	0	0	0	0	0	0	0
59. Subtotal	XXX	1,702,526,806	0	0	1,626,198,996	0	0	3,328,725,802	0
60. Reporting entity contributions for Employee Benefit Plans	XXX							0	
61. Total (Direct Business)	(a) 3	1,702,526,806	0	0	1,626,198,996	0	0	3,328,725,802	0
DETAILS OF WRITE-INS									
5801.	XXX							0	
5802.	XXX							0	
5803.	XXX							0	
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX	0	0	0	0	0	0	0	
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX	0	0	0	0	0	0	0	

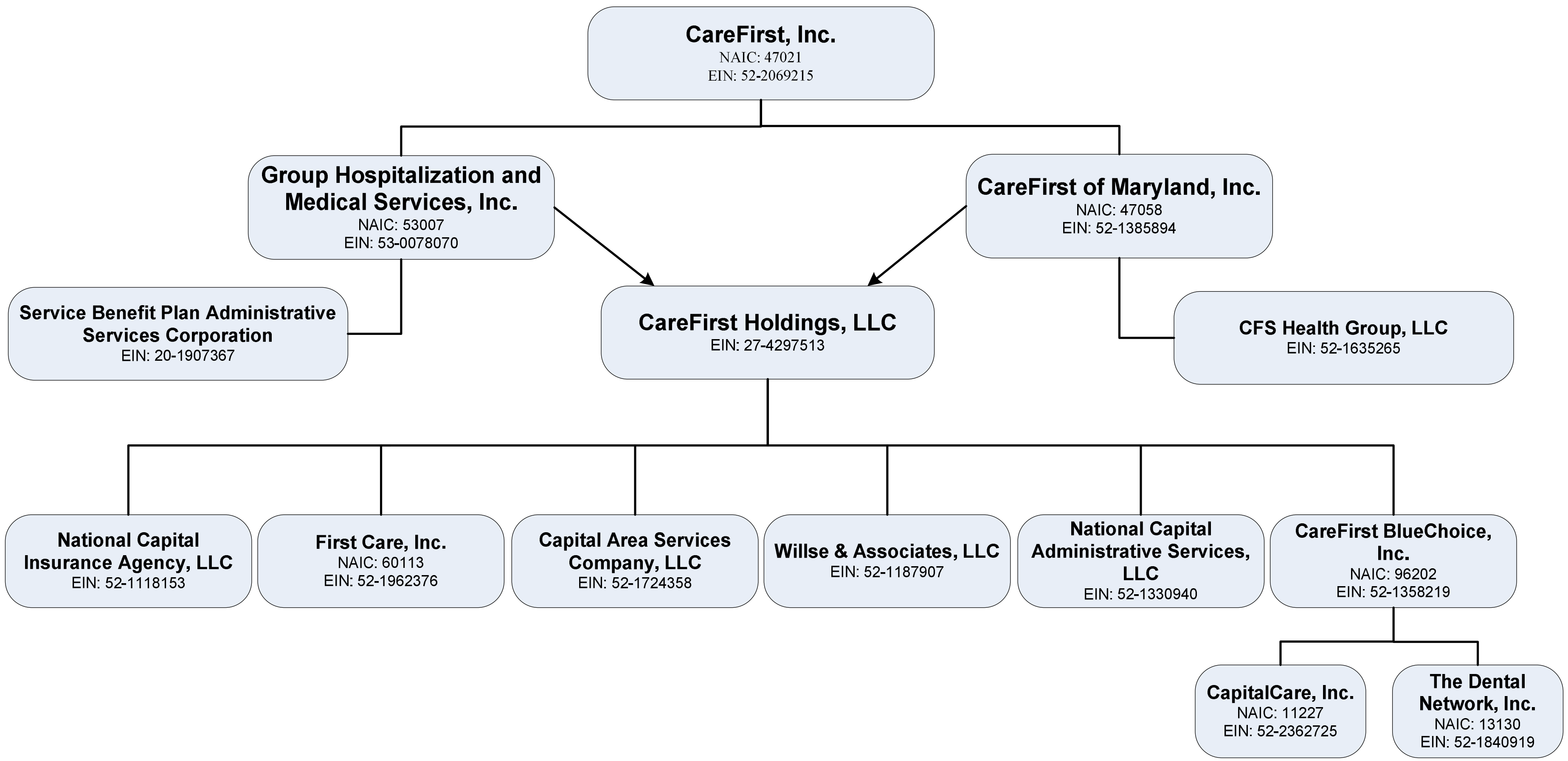
(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business in the state.

Explanation of basis of allocation by states, premiums by state, etc.: Enrollment and billing systems capture and report premiums by group situs except for federal employees health benefits program where premiums are reported based on the members' residence.

(a) Insert the number of L responses except for Canada and other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



***Service Benefit Plan Administrative Services Corporation** is owned 90% by Group Hospitalization and Medical Services, Inc. and 10% by the Blue Cross and Blue Shield Association.

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK (Continued)

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK (Continued)