53007201220100100

HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2012
OF THE CONDITION AND AFFAIRS OF THE

Group Hospitalization and Medical Services, Inc.

NAIC Group Code 0380 (Current) 0380 (Prior) 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 DC

Country of Domicile United States of America

Licensed as business type: HMDI

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, US 20065 (City or Town, State, Country and Zip Code)

Main Administrative Office 10455 Mill Run Circle (Street and Number)
Owings Mills , MD, US 21117 (City or Town, State, Country 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, US 21117 (City or Town, State, Country and Zip Code)

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

Internet Website Address www.carefirst.com

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

OFFICERS

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

OTHER

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	Wanda Kay Oneferu-Bey SVP, ASU-Consumer Direct	Kevin Charles O'Neill SVP, Strategic Managed Care Initiatives
Steven Jon Margolis SVP, ASU-Small & Medium Groups	Harry Dietz Fox SVP, Technical & Ops Support	Michelle Judith Wright SVP, Human Resources

DIRECTORS OR TRUSTEES

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
25TH day of FEBRUARY 2013

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

CYNTHIA L. KIPP
NOTARY
My Comm. Exps. 7/26/2014
PUBLIC
STATE OF MARYLAND

ASSETS

		Current Year			Prior Year
		1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1.	Bonds (Schedule D)	549,574,934	0	549,574,934	571,047,761
2.	Stocks (Schedule D):				
	2.1 Preferred stocks	0	0	0	950,400
	2.2 Common stocks	179,646,805	0	179,646,805	171,563,388
3.	Mortgage loans on real estate (Schedule B):				
	3.1 First liens	0	0	0	0
	3.2 Other than first liens	0	0	0	0
4.	Real estate (Schedule A):				
	4.1 Properties occupied by the company (less $ 0 encumbrances)	0	0	0	0
	4.2 Properties held for the production of income (less $ 0 encumbrances)	0	0	0	0
	4.3 Properties held for sale (less $ 0 encumbrances)	0	0	0	0
5.	Cash ($ (50,749,663) , Schedule E - Part 1), cash equivalents ($ 0 , Schedule E - Part 2) and short-term investments ($ 13,689,876 , Schedule DA)	(37,059,787)	0	(37,059,787)	65,503,618
6.	Contract loans, (including $ 0 premium notes)	0	0	0	0
7.	Derivatives (Schedule DB)	0	0	0	0
8.	Other invested assets (Schedule BA)	401,622,035	166,667	401,455,368	399,764,736
9.	Receivables for securities	0	0	0	0
10.	Securities lending reinvested collateral assets (Schedule DL)	0	0	0	0
11.	Aggregate write-ins for invested assets	0	0	0	0
12.	Subtotals, cash and invested assets (Lines 1 to 11)	1,093,783,987	166,667	1,093,617,320	1,208,829,903
13.	Title plants less $ 0 charged off (for Title insurers only)	0	0	0	0
14.	Investment income due and accrued	4,003,396	0	4,003,396	3,918,210
15.	Premiums and considerations:				
	15.1 Uncollected premiums and agents' balances in the course of collection	216,026,090	3,304,843	212,721,247	221,961,182
	15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ 0 earned but unbilled premiums)	0	0	0	0
	15.3 Accrued retrospective premiums	0	0	0	0
16.	Reinsurance:				
	16.1 Amounts recoverable from reinsurers	8,006,603	0	8,006,603	0
	16.2 Funds held by or deposited with reinsured companies	0	0	0	0
	16.3 Other amounts receivable under reinsurance contracts	683,425	0	683,425	751,666
17.	Amounts receivable relating to uninsured plans	35,677,059	0	35,677,059	34,025,605
18.1	Current federal and foreign income tax recoverable and interest thereon	15,079,432	0	15,079,432	16,516,440
18.2	Net deferred tax asset	0	0	0	17,302,782
19.	Guaranty funds receivable or on deposit	0	0	0	0
20.	Electronic data processing equipment and software	111,676,535	101,974,200	9,702,335	3,387,848
21.	Furniture and equipment, including health care delivery assets ($ 0)	4,841,074	4,841,074	0	0
22.	Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0	0
23.	Receivables from parent, subsidiaries and affiliates	7,935,737	0	7,935,737	5,273,255
24.	Health care ($ 127,757,678) and other amounts receivable	873,135,892	10,469,176	862,666,716	778,448,501
25.	Aggregate write-ins for other than invested assets	129,087,434	127,892,584	1,194,850	2,919,697
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	2,499,936,664	248,648,544	2,251,288,120	2,293,335,089
27.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0	0
28.	Total (Lines 26 and 27)	2,499,936,664	248,648,544	2,251,288,120	2,293,335,089
	DETAILS OF WRITE-INS				
1101.		0	0	0	0
1102.		0	0	0	0
1103.		0	0	0	0
1198.	Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0
1199.	Totals (Lines 1101 thru 1103 plus 1198)(Line 11 above)	0	0	0	0
2501.	Other Assets	1,194,850	0	1,194,850	2,919,697
2502.	Prepaid Expenses - Non-Admitted	42,863,121	42,863,121	0	0
2503.	Pension- Prepaid	85,029,463	85,029,463	0	0
2598.	Summary of remaining write-ins for Line 25 from overflow page	0	0	0	0
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	129,087,434	127,892,584	1,194,850	2,919,697

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less $ 18,542,227 reinsurance ceded)	255,352,128	11,702,441	267,054,569	288,462,975
2. Accrued medical incentive pool and bonus amounts	0	0	0	0
3. Unpaid claims adjustment expenses	10,338,552	473,802	10,812,354	11,600,000
4. Aggregate health policy reserves, including the liability of $ 0 for medical loss ratio rebate per the Public Health Service Act	729,127,798	0	729,127,798	677,475,195
5. Aggregate life policy reserves	0	0	0	0
6. Property/casualty unearned premium reserves	0	0	0	0
7. Aggregate health claim reserves	0	0	0	0
8. Premiums received in advance	53,225,819	0	53,225,819	60,236,950
9. General expenses due or accrued	60,890,545	0	60,890,545	121,208,830
10.1 Current federal and foreign income tax payable and interest thereon (including $ 0 on realized capital gains (losses))	0	0	0	0
10.2 Net deferred tax liability	12,760,049	0	12,760,049	0
11. Ceded reinsurance premiums payable	23,063,571	0	23,063,571	11,139,137
12. Amounts withheld or retained for the account of others	37,859,472	0	37,859,472	36,939,131
13. Remittance and items not allocated	1,641,518	0	1,641,518	5,451,886
14. Borrowed money (including $ 0 current) and interest thereon $ 0 (including $ 0 current)	0	0	0	0
15. Amounts due to parent, subsidiaries and affiliates	46,661,221	0	46,661,221	76,407,997
16. Derivatives	0	0	0	0
17. Payable for securities	0	0	0	0
18. Payable for securities lending	0	0	0	0
19. Funds held under reinsurance treaties (with $ 0 authorized reinsurers, $ 0 unauthorized reinsurers and $ 0 certified reinsurers)	0	0	0	0
20. Reinsurance in unauthorized and certified ($ 0) companies	0	0	0	0
21. Net adjustments in assets and liabilities due to foreign exchange rates	0	0	0	0
22. Liability for amounts held under uninsured plans	10,585,684	0	10,585,684	19,865,414
23. Aggregate write-ins for other liabilities (including $ 4,433,707 current)	56,534,566	0	56,534,566	20,966,263
24. Total liabilities (Lines 1 to 23)	1,298,040,923	12,176,243	1,310,217,166	1,329,753,778
25. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
26. Common capital stock	XXX	XXX	0	0
27. Preferred capital stock	XXX	XXX	0	0
28. Gross paid in and contributed surplus	XXX	XXX	0	0
29. Surplus notes	XXX	XXX	0	0
30. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
31. Unassigned funds (surplus)	XXX	XXX	941,070,954	963,581,310
32. Less treasury stock, at cost:				
32.1 0 shares common (value included in Line 26 $ 0)	XXX	XXX	0	0
32.2 0 shares preferred (value included in Line 27 $ 0)	XXX	XXX	0	0
33. Total capital and surplus (Lines 25 to 31 minus Line 32)	XXX	XXX	941,070,954	963,581,310
34. Total liabilities, capital and surplus (Lines 24 and 33)	XXX	XXX	2,251,288,120	2,293,335,088
DETAILS OF WRITE-INS				
2301. Amounts Withheld for Escheatment	8,756,467	0	8,756,467	8,064,075
2302. Reinsurance Payable	372,352	0	372,352	12,902,188
2303. Other long term liabilities	47,405,747	0	47,405,747	0
2308. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2309. Totals (Lines 2301 thru 2303 plus 2308)(Line 23 above)	56,534,566	0	56,534,566	20,966,263
2501.	XXX	XXX	0	0
2502.	XXX	XXX	0	0
2503.	XXX	XXX	0	0
2598. Summary of remaining write-ins for Line 25 from overflow page	XXX	XXX	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	XXX	XXX	0	0
3001.	XXX	XXX	0	0
3002.	XXX	XXX	0	0
3003.	XXX	XXX	0	0
3098. Summary of remaining write-ins for Line 30 from overflow page	XXX	XXX	0	0
3099. Totals (Lines 3001 thru 3003 plus 3098)(Line 30 above)	XXX	XXX	0	0

STATEMENT OF REVENUE AND EXPENSES

		Current Year 1 Uncovered	Current Year 2 Total	Prior Year 3 Total
1.	Member Months	XXX	9,754,627	9,917,712
2.	Net premium income (including $ 0 non-health premium income)	XXX	3,204,928,073	3,126,784,071
3.	Change in unearned premium reserves and reserve for rate credits	XXX	(55,616,525)	(79,144,387)
4.	Fee-for-service (net of $ 0 medical expenses)	XXX	0	0
5.	Risk revenue	XXX	0	0
6.	Aggregate write-ins for other health care related revenues	XXX	13,573,633	11,777,762
7.	Aggregate write-ins for other non-health revenues	XXX	3,039,142	0
8.	Total revenues (Lines 2 to 7)	XXX	3,165,924,323	3,059,417,446
	Hospital and Medical:			
9.	Hospital/medical benefits	94,460,429	2,132,505,875	2,048,435,285
10.	Other professional services	3,642,521	105,418,353	96,762,211
11.	Outside referrals	33,578,877	33,578,877	23,834,078
12.	Emergency room and out-of-area	568,995	51,534,094	24,341,847
13.	Prescription drugs	0	694,981,524	735,433,138
14.	Aggregate write-ins for other hospital and medical	0	0	0
15.	Incentive pool, withhold adjustments, and bonus amounts	0	0	0
16.	Subtotal (Lines 9 to 15)	132,250,822	3,018,018,723	2,928,806,559
	Less:			
17.	Net reinsurance recoveries	0	174,018,840	233,816,642
18.	Total hospital and medical (Lines 16 minus 17)	132,250,822	2,843,999,883	2,694,989,917
19.	Non-health claims (net)	0	0	0
20.	Claims adjustment expenses, including $ 50,097,711 cost containment expenses	0	128,148,542	118,751,825
21.	General administrative expenses	0	241,650,034	230,971,163
22.	Increase in reserves for life and accident and health contracts (including $ 0 increase in reserves for life only)	0	0	0
23.	Total underwriting deductions (Lines 18 through 22)	132,250,822	3,213,798,459	3,044,712,905
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	(47,874,136)	14,704,541
25.	Net investment income earned (Exhibit of Net Investment Income, Line 17)	0	18,120,914	25,369,677
26.	Net realized capital gains (losses) less capital gains tax of $ 4,994,524	0	19,978,096	12,655,002
27.	Net investment gains (losses) (Lines 25 plus 26)	0	38,099,010	38,024,679
28.	Net gain or (loss) from agents' or premium balances charged off [(amount recovered $ 0) (amount charged off $ 0)]	0	0	0
29.	Aggregate write-ins for other income or expenses	0	(1,577,913)	35,141
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	(11,353,039)	52,764,361
31.	Federal and foreign income taxes incurred	XXX	(3,836,559)	(789,428)
32.	Net income (loss) (Lines 30 minus 31)	XXX	(7,516,480)	53,553,789
	DETAILS OF WRITE-INS			
0601.	FEP Performance Incentive	XXX	13,450,000	11,657,000
0602.	Trigon network fee - Med D	XXX	123,633	120,762
0603		XXX	0	0
0698.	Summary of remaining write-ins for Line 6 from overflow page	XXX	0	0
0699.	Totals (Lines 0601 thru 0603 plus 0698)(Line 6 above)	XXX	13,573,633	11,777,762
0701.	FEP Bridge	XXX	3,039,142	0
0702.		XXX	0	0
0703		XXX	0	0
0798.	Summary of remaining write-ins for Line 7 from overflow page	XXX	0	0
0799.	Totals (Lines 0701 thru 0703 plus 0798)(Line 7 above)	XXX	3,039,142	0
1401.		0	0	0
1402.		0	0	0
1403.		0	0	0
1498.	Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499.	Totals (Lines 1401 thru 1403 plus 1498)(Line 14 above)	0	0	0
2901.	Miscellaneous	0	(1,477,778)	72,423
2902.	Regulatory fines and fees	0	(100,135)	(37,282)
2903		0	0	0
2998.	Summary of remaining write-ins for Line 29 from overflow page	0	0	0
2999.	Totals (Lines 2901 thru 2903 plus 2998)(Line 29 above)	0	(1,577,913)	35,141

STATEMENT OF REVENUE AND EXPENSES (Continued)

		1 Current Year	2 Prior Year
	CAPITAL AND SURPLUS ACCOUNT		
33.	Capital and surplus prior reporting year	963,581,314	969,499,374
34.	Net income or (loss) from Line 32	(7,516,480)	53,553,789
35.	Change in valuation basis of aggregate policy and claim reserves	0	0
36.	Change in net unrealized capital gains (losses) less capital gains tax of $ 3,129,008	27,662,649	12,057,317
37.	Change in net unrealized foreign exchange capital gain or (loss)	0	0
38.	Change in net deferred income tax	(13,778,285)	(10,686,261)
39.	Change in nonadmitted assets	(4,334,829)	(45,847,653)
40	Change in unauthorized and certified 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	(39,698,083)	0
44.	Capital Changes:		
	44.1 Paid in	0	0
	44.2 Transferred from surplus (Stock Dividend)	0	0
	44.3 Transferred to surplus	0	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	0
46.	Dividends to stockholders	0	0
47.	Aggregate write-ins for gains or (losses) in surplus	15,154,668	(14,995,252)
48.	Net change in capital and surplus (Lines 34 to 47)	(22,510,360)	(5,918,060)
49.	Capital and surplus end of reporting period (Line 33 plus 48)	941,070,954	963,581,314
	DETAILS OF WRITE-INS		
4701.	Change in additional liability\Intangible Assets for pension	15,154,668	(14,995,252)
4702.		0	0
4703.		0	0
4798.	Summary of remaining write-ins for Line 47 from overflow page	0	0
4799.	Totals (Lines 4701 thru 4703 plus 4798)(Line 47 above)	15,154,668	(14,995,252)

CASH FLOW

		1 Current Year	2 Prior Year
	Cash from Operations		
1.	Premiums collected net of reinsurance	3,164,848,969	3,062,337,000
2.	Net investment income	25,601,390	31,469,000
3.	Miscellaneous income	16,612,775	11,777,762
4.	Total (Lines 1 through 3)	3,207,063,134	3,105,583,762
5.	Benefit and loss related payments	2,915,111,472	2,720,196,000
6.	Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0
7.	Commissions, expenses paid and aggregate write-ins for deductions	369,208,066	368,158,000
8.	Dividends paid to policyholders	0	0
9.	Federal and foreign income taxes paid (recovered) net of $ 4,994,524 tax on capital gains (losses)	(279,043)	32,815,000
10.	Total (Lines 5 through 9)	3,284,040,495	3,121,169,000
11.	Net cash from operations (Line 4 minus Line 10)	(76,977,361)	(15,585,238)
	Cash from Investments		
12.	Proceeds from investments sold, matured or repaid:		
	12.1 Bonds	1,111,556,368	1,400,186,128
	12.2 Stocks	100,504,595	49,958,401
	12.3 Mortgage loans	0	0
	12.4 Real estate	0	0
	12.5 Other invested assets	0	1,705,324
	12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	0	0
	12.7 Miscellaneous proceeds	0	0
	12.8 Total investment proceeds (Lines 12.1 to 12.7)	1,212,060,963	1,451,849,853
13.	Cost of investments acquired (long-term only):		
	13.1 Bonds	1,088,535,784	1,241,777,211
	13.2 Stocks	82,679,405	112,814,981
	13.3 Mortgage loans	0	0
	13.4 Real estate	0	0
	13.5 Other invested assets	0	2,124,000
	13.6 Miscellaneous applications	0	0
	13.7 Total investments acquired (Lines 13.1 to 13.6)	1,171,215,189	1,356,716,192
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)	40,845,774	95,133,661
	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	0
	16.5 Dividends to stockholders	0	0
	16.6 Other cash provided (applied)	(66,431,817)	(28,992,323)
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(66,431,817)	(28,992,323)
	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)	(102,563,404)	50,556,100
19.	Cash, cash equivalents and short-term investments:		
	19.1 Beginning of year	65,503,618	14,947,518
	19.2 End of year (Line 18 plus Line 19.1)	(37,059,786)	65,503,618

Note: Supplemental disclosures of cash flow information for non-cash transactions:

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	3,204,928,073	1,298,362,818	31,296,424	37,487,502	3,501,958	1,817,636,155	0	0	16,643,216	0
2.	Change in unearned premium reserves and reserve for rate credit	(55,616,525)	(1,693,922)	(590,000)	0	0	(53,332,603)	0	0	0	0
3.	Fee-for-service (net of $ 0 medical expenses)	0	0	0	0	0	0	0	0	0	XXX
4.	Risk revenue	0	0	0	0	0	0	0	0	0	XXX
5.	Aggregate write-ins for other health care related revenues	13,573,633	0	0	0	0	13,450,000	0	0	123,633	XXX
6.	Aggregate write-ins for other non-health care related revenues	3,039,142	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,039,142
7.	Total revenues (Lines 1 to 6)	3,165,924,323	1,296,668,896	30,706,424	37,487,502	3,501,958	1,777,753,552	0	0	16,766,849	3,039,142
8.	Hospital/medical benefits	2,132,505,875	191,241,138	2,042,408	0	0	1,934,873,895	0	0	4,348,434	XXX
9.	Other professional services	105,418,353	20,232,645	216,080	53,724,980	4,939,545	26,233,200	0	0	71,903	XXX
10.	Outside referrals	33,578,877	14,531,206	155,190	0	0	18,840,840	0	0	51,641	XXX
11.	Emergency room and out-of-area	51,534,094	22,301,298	238,172	0	0	28,915,369	0	0	79,255	XXX
12.	Prescription drugs	694,981,524	1,032,349,551	11,025,236	0	0	(348,393,263)	0	0	0	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	0	0	0	0	0	0	0	0	XXX
15.	Subtotal (Lines 8 to 14)	3,018,018,723	1,280,655,838	13,677,086	53,724,980	4,939,545	1,660,470,041	0	0	4,551,233	XXX
16.	Net reinsurance recoveries	174,018,840	171,024,604	(10,805,895)	20,188,284	1,260,330	0	0	0	(7,648,483)	XXX
17.	Total medical and hospital (Lines 15 minus 16)	2,843,999,883	1,109,631,234	24,482,981	33,536,696	3,679,215	1,660,470,041	0	0	12,199,716	XXX
18.	Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
19.	Claims adjustment expenses including $ 50,097,711 cost containment expenses	128,148,542	58,211,309	2,203,565	2,098,418	63,503	60,393,443	0	0	5,178,304	0
20.	General administrative expenses	241,650,034	170,652,662	4,379,110	3,083,161	1,499,040	53,859,219	0	0	8,176,842	0
21.	Increase in reserves for accident and health contracts	0	0	0	0	0	0	0	0	0	XXX
22.	Increase in reserves for life contracts	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
23.	Total underwriting deductions (Lines 17 to 22)	3,213,798,459	1,338,495,205	31,065,656	38,718,275	5,241,758	1,774,722,703	0	0	25,554,862	0
24.	Total underwriting gain or (loss) (Line 7 minus Line 23)	(47,874,136)	(41,826,309)	(359,232)	(1,230,773)	(1,739,800)	3,030,849	0	0	(8,788,013)	3,039,142
	DETAILS OF WRITE-INS										
0501.	FEP Performance Incentive	13,450,000	0	0	0	0	13,450,000	0	0	0	XXX
0502.	Trigon Network Fee	123,633	0	0	0	0	0	0	0	123,633	XXX
0503.											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 thru 0503 plus 0598) (Line 5 above)	13,573,633	0	0	0	0	13,450,000	0	0	123,633	XXX
0601.	FEP Bridge	3,039,142	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,039,142
0602.			XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.			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 thru 0603 plus 0698) (Line 6 above)	3,039,142	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	3,039,142
1301.											XXX
1302.											XXX
1303.											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 thru 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)	1,501,620,961	37,705,429	240,963,572	1,298,362,818
2.	Medicare Supplement	16,732,630	15,152,834	589,040	31,296,424
3.	Dental only	69,356,845	68,300	31,937,643	37,487,502
4.	Vision only	5,602,467	69,041	2,169,550	3,501,958
5.	Federal Employees Health Benefits Plan	1,817,636,155	0	0	1,817,636,155
6.	Title XVIII - Medicare	0	0	0	0
7.	Title XIX - Medicaid	0	0	0	0
8.	Other health	9,117,514	7,602,890	77,188	16,643,216
9.	Health subtotal (Lines 1 through 8)	3,420,066,572	60,598,494	275,736,993	3,204,928,073
10.	Life	0	0	0	0
11.	Property/casualty	0	0	0	0
12.	Totals (Lines 9 to 11)	3,420,066,572	60,598,494	275,736,993	3,204,928,073

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	3,057,123,203	1,316,838,912	13,612,183	53,544,040	4,939,545	1,663,181,155	0	0	5,007,368	0
1.2 Reinsurance assumed	49,829,865	30,168,648	11,563,201	53,716	365,768	0	0	0	7,678,532	0
1.3 Reinsurance ceded	218,265,441	195,622,962	571,143	20,437,478	1,626,098	0	0	0	7,760	0
1.4 Net	2,888,687,627	1,151,384,598	24,604,241	33,160,278	3,679,215	1,663,181,155	0	0	12,678,140	0
2. Paid medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct	280,528,745	110,439,164	2,470,801	5,144,800	0	155,228,179	0	0	7,245,801	0
3.2 Reinsurance assumed	5,068,051	3,244,385	1,721,876	6,201	0	0	0	0	95,588	0
3.3 Reinsurance ceded	18,542,227	16,433,574	103,055	1,846,437	0	0	0	0	159,162	0
3.4 Net	267,054,569	97,249,976	4,089,623	3,304,564	0	155,228,179	0	0	7,182,227	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct	0	0	0	0	0	0	0	0	0	0
4.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded	0	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	0	0	0	0	0	0	0	0	0
6. Net healthcare receivables (a)	15,272,734	15,272,734	0	0	0	0	0	0	0	0
7. Amounts recoverable from reinsurers December 31, current year	8,006,604	8,006,604	0	0	0	0	0	0	0	0
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct	304,360,491	131,349,504	2,405,898	4,963,860	0	157,939,293	0	0	7,701,936	0
8.2 Reinsurance assumed	6,985,854	4,914,924	1,935,056	4,989	0	0	0	0	130,885	0
8.3 Reinsurance ceded	22,883,372	20,540,427	130,072	2,040,703	0	0	0	0	172,170	0
8.4 Net	288,462,973	115,724,001	4,210,882	2,928,146	0	157,939,293	0	0	7,660,651	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	0	0	0	0	0	0	0	0	0	0
12. Incurred Benefits:										
12.1 Direct	3,018,018,723	1,280,655,838	13,677,086	53,724,980	4,939,545	1,660,470,041	0	0	4,551,233	0
12.2 Reinsurance assumed	47,912,062	28,498,109	11,350,021	54,928	365,768	0	0	0	7,643,235	0
12.3 Reinsurance ceded	221,930,900	199,522,713	544,126	20,243,212	1,626,098	0	0	0	(5,248)	0
12.4 Net	2,843,999,885	1,109,631,235	24,482,982	33,536,696	3,679,215	1,660,470,041	0	0	12,199,716	0
13. Incurred medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0

(a) Excludes $ 119,359,682 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 & 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	14,406,528	5,671,593	126,888	264,211	0	7,971,729	0	0	372,107	0
1.2 Reinsurance assumed	1,148,876	1,148,876	0	0	0	0	0	0	0	0
1.3 Reinsurance ceded	2,367,846	2,367,846	0	0	0	0	0	0	0	0
1.4 Net	13,187,558	4,452,623	126,888	264,211	0	7,971,729	0	0	372,107	0
2. Incurred but Unreported:										
2.1 Direct	266,122,217	104,767,571	2,343,913	4,880,589	0	147,256,450	0	0	6,873,694	0
2.2 Reinsurance assumed	3,919,175	2,095,509	1,721,876	6,201	0	0	0	0	95,588	0
2.3 Reinsurance ceded	16,174,381	14,065,728	103,055	1,846,437	0	0	0	0	159,162	0
2.4 Net	253,867,011	92,797,353	3,962,735	3,040,353	0	147,256,450	0	0	6,810,120	0
3. Amounts Withheld from Paid Claims and Capitations:										
3.1 Direct	0	0	0	0	0	0	0	0	0	0
3.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
3.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
3.4 Net	0	0	0	0	0	0	0	0	0	0
4. TOTALS:										
4.1 Direct	280,528,745	110,439,164	2,470,801	5,144,800	0	155,228,179	0	0	7,245,801	0
4.2 Reinsurance assumed	5,068,051	3,244,385	1,721,876	6,201	0	0	0	0	95,588	0
4.3 Reinsurance ceded	18,542,227	16,433,574	103,055	1,846,437	0	0	0	0	159,162	0
4.4 Net	267,054,569	97,249,976	4,089,623	3,304,564	0	155,228,179	0	0	7,182,227	0

UNDERWRITING AND INVESTMENT EXHIBIT

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

	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
Line of Business	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)	106,460,542	1,036,917,452	2,331,804	94,918,173	108,792,346	115,724,002
2. Medicare Supplement	3,578,051	21,026,190	184,262	3,905,361	3,762,313	4,210,883
3. Dental Only	3,053,485	30,106,793	42,636	3,261,928	3,096,121	2,928,146
4. Vision Only	0	3,679,215	0	0	0	0
5. Federal Employees Health Benefits Plan	192,991,129	1,470,190,026	2,429,209	152,798,970	195,420,338	157,939,294
6. Title XVIII - Medicare	0	0	0	0	0	0
7 Title XIX - Medicaid	0	0	0	0	0	0
8. Other health	605,094	12,073,046	735,883	6,446,344	1,340,977	7,660,650
9. Health subtotal (Lines 1 to 8)	306,688,301	2,573,992,722	5,723,794	261,330,776	312,412,095	288,462,975
10. Healthcare receivables (a)	0	15,272,734	0	0	0	0
11. Other non-health	0	0	0	0	0	0
12. Medical incentive pools and bonus amounts	0	0	0	0	0	0
13. Totals (Lines 9 - 10 + 11 + 12)	306,688,301	2,558,719,988	5,723,794	261,330,776	312,412,095	288,462,975

(a) Excludes $ 119,359,682 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 - Comprehensive (Hospital & Medical)

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	5,033,700	5,035,913	5,036,275	5,036,231	5,036,551
2. 2008	925,457	1,011,301	1,014,064	1,014,558	1,017,036
3. 2009	XXX	977,244	1,060,299	1,061,781	1,062,390
4. 2010	XXX	XXX	905,056	992,485	995,116
5. 2011	XXX	XXX	XXX	949,626	1,050,049
6. 2012	XXX	XXX	XXX	XXX	1,021,645

Section B - Incurred Health Claims - Comprehensive (Hospital & Medical)

	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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	5,035,169	5,035,914	5,036,275	5,036,231	5,036,551
2. 2008	1,023,973	1,013,181	1,014,064	1,014,558	1,017,036
3. 2009	XXX	1,071,579	1,064,206	1,065,350	1,062,390
4. 2010	XXX	XXX	998,791	994,493	995,116
5. 2011	XXX	XXX	XXX	1,059,773	1,052,380
6. 2012	XXX	XXX	XXX	XXX	1,116,563

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Comprehensive (Hospital & Medical)

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payment	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. 2008	1,180,091	1,017,036	45,127	4.4	1,062,163	90.0	0	0	1,062,163	90.0
2. 2009	1,271,277	1,062,390	36,948	3.5	1,099,338	86.5	0	0	1,099,338	86.5
3. 2010	1,317,114	995,116	55,935	5.6	1,051,051	79.8	0	0	1,051,051	79.8
4. 2011	1,295,884	1,050,049	50,142	4.8	1,100,191	84.9	2,332	94	1,102,617	85.1
5. 2012	1,296,669	1,021,645	52,629	5.2	1,074,274	82.8	94,918	4,806	1,173,998	90.5

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A - Paid Health Claims - Medicare Supplement

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	91,448	91,404	91,357	91,357	91,359
2. 2008	17,742	21,420	21,413	21,412	21,399
3. 2009	XXX	20,767	23,949	23,975	23,967
4. 2010	XXX	XXX	20,455	24,467	24,469
5. 2011	XXX	XXX	XXX	21,204	24,797
6. 2012	XXX	XXX	XXX	XXX	21,026

Section B - Incurred Health Claims - Medicare Supplement

	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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	91,441	91,404	91,357	91,357	91,359
2. 2008	21,681	21,518	21,413	21,412	21,399
3. 2009	XXX	24,485	24,003	23,975	23,967
4. 2010	XXX	XXX	24,379	24,550	24,469
5. 2011	XXX	XXX	XXX	25,332	24,981
6. 2012	XXX	XXX	XXX	XXX	24,932

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 Payment	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. 2008	29,269	21,399	1,407	6.6	22,806	77.9	0	0	22,806	77.9
2. 2009	30,745	23,967	1,903	7.9	25,870	84.1	0	0	25,870	84.1
3. 2010	30,748	24,469	2,730	11.2	27,199	88.5	0	0	27,199	88.5
4. 2011	30,732	24,797	3,080	12.4	27,877	90.7	184	7	28,068	91.3
5. 2012	30,706	21,026	1,992	9.5	23,018	75.0	3,905	182	27,105	88.3

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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	179,558	179,569	179,571	179,572	179,572
2. 2008	22,173	24,159	24,169	24,173	24,175
3. 2009	XXX	24,477	26,614	26,647	26,653
4. 2010	XXX	XXX	25,838	28,491	28,524
5. 2011	XXX	XXX	XXX	26,433	29,446
6. 2012	XXX	XXX	XXX	XXX	30,107

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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	179,575	179,569	179,571	179,572	179,572
2. 2008	24,207	24,167	24,169	24,173	24,175
3. 2009	XXX	26,856	26,614	26,647	26,653
4. 2010	XXX	XXX	28,514	28,522	28,524
5. 2011	XXX	XXX	XXX	29,330	29,489
6. 2012	XXX	XXX	XXX	XXX	33,369

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 Claims Payment	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. 2008	32,912	24,175	3,125	12.9	27,300	82.9	0	0	27,300	82.9
2. 2009	34,383	26,653	3,271	12.3	29,924	87.0	0	0	29,924	87.0
3. 2010	0	28,524	0	0.0	28,524	0.0	0	0	28,524	0.0
4. 2011	35,389	29,446	3,736	12.7	33,182	93.8	43	2	33,227	93.9
5. 2012	37,488	30,107	1,897	6.3	32,004	85.4	3,262	173	35,439	94.5

UNDERWRITING AND INVESTMENT EXHIBIT

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

Section A - Paid Health Claims - Vision Only

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid 1 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	0	0	0	0	0
2. 2008	0	0	0	0	0
3. 2009	XXX	0	0	0	0
4. 2010	XXX	XXX	0	0	0
5. 2011	XXX	XXX	XXX	3,161	3,161
6. 2012	XXX	XXX	XXX	XXX	3,679

Section B - Incurred Health Claims - Vision 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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	0	0	0	0	0
2. 2008	0	0	0	0	0
3. 2009	XXX	0	0	0	0
4. 2010	XXX	XXX	0	0	0
5. 2011	XXX	XXX	XXX	3,161	3,161
6. 2012	XXX	XXX	XXX	XXX	3,679

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Vision Only

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payment	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. 2008	0	0	0	0.0	0	0.0	0	0	0	0.0
2. 2009	0	0	0	0.0	0	0.0	0	0	0	0.0
3. 2010	0	0	0	0.0	0	0.0	0	0	0	0.0
4. 2011	2,953	3,161	146	4.6	3,307	112.0	0	0	3,307	112.0
5. 2012	3,502	3,679	57	1.5	3,736	106.7	0	5	3,741	106.8

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

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid 1 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	7,800,830	7,800,520	7,800,170	7,800,353	7,800,785
2. 2008	1,283,267	1,427,693	1,427,478	1,426,619	1,426,700
3. 2009	XXX	1,321,402	1,460,199	1,459,104	1,458,793
4. 2010	XXX	XXX	1,320,408	1,479,284	1,480,645
5. 2011	XXX	XXX	XXX	1,400,950	1,592,378
6. 2012	XXX	XXX	XXX	XXX	1,470,190

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

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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	7,804,037	7,800,520	7,800,170	7,800,353	7,800,785
2. 2008	1,441,838	1,430,679	1,427,478	1,426,619	1,426,700
3. 2009	XXX	1,465,102	1,462,206	1,459,104	1,458,793
4. 2010	XXX	XXX	1,465,353	1,480,681	1,480,645
5. 2011	XXX	XXX	XXX	1,557,491	1,594,808
6. 2012	XXX	XXX	XXX	XXX	1,622,989

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 Payment	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. 2008	1,480,392	1,426,700	30,705	2.2	1,457,405	98.4	0	0	1,457,405	98.4
2. 2009	1,518,221	1,458,793	29,390	2.0	1,488,183	98.0	0	0	1,488,183	98.0
3. 2010	1,534,054	1,480,645	42,961	2.9	1,523,606	99.3	0	0	1,523,606	99.3
4. 2011	1,664,324	1,592,378	58,428	3.7	1,650,806	99.2	2,429	98	1,653,333	99.3
5. 2012	1,764,304	1,470,190	54,602	3.7	1,524,792	86.4	152,799	4,986	1,682,577	95.4

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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	48,541	48,569	48,569	48,569	48,569
2. 2008	12,402	13,378	13,378	13,378	13,378
3. 2009	XXX	12,355	13,189	13,211	13,285
4. 2010	XXX	XXX	9,990	10,420	10,420
5. 2011	XXX	XXX	XXX	8,527	9,058
6. 2012	XXX	XXX	XXX	XXX	12,073

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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	48,897	48,569	48,569	48,569	48,569
2. 2008	15,897	13,724	13,378	13,378	13,378
3. 2009	XXX	15,894	13,756	13,211	13,285
4. 2010	XXX	XXX	15,194	11,163	10,420
5. 2011	XXX	XXX	XXX	15,444	9,794
6. 2012	XXX	XXX	XXX	XXX	18,519

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 Claims Payment	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. 2008	21,331	13,378	2,039	15.2	15,417	72.3	0	0	15,417	72.3
2. 2009	22,222	13,285	2,657	20.0	15,942	71.7	0	0	15,942	71.7
3. 2010	22,058	10,420	3,886	37.3	14,306	64.9	0	0	14,306	64.9
4. 2011	18,358	9,058	4,080	45.0	13,138	71.6	736	30	13,904	75.7
5. 2012	16,643	12,073	4,682	38.8	16,755	100.7	6,446	428	23,629	142.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A - Paid Health Claims - Grand Total

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid 1 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	13,154,077	13,155,975	13,155,942	13,156,082	13,156,836
2. 2008	2,261,041	2,497,951	2,500,502	2,500,140	2,502,688
3. 2009	XXX	2,356,245	2,584,250	2,584,718	2,585,088
4. 2010	XXX	XXX	2,281,747	2,535,147	2,539,174
5. 2011	XXX	XXX	XXX	2,409,901	2,708,889
6. 2012	XXX	XXX	XXX	XXX	2,558,720

Section B - Incurred Health Claims - Grand Total

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 2008	2 2009	3 2010	4 2011	5 2012
1. Prior	13,159,119	13,155,976	13,155,942	13,156,082	13,156,836
2. 2008	2,527,596	2,503,269	2,500,502	2,500,140	2,502,688
3. 2009	XXX	2,603,916	2,590,785	2,588,287	2,585,088
4. 2010	XXX	XXX	2,532,231	2,539,409	2,539,174
5. 2011	XXX	XXX	XXX	2,690,531	2,714,613
6. 2012	XXX	XXX	XXX	XXX	2,820,051

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 Payment	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. 2008	2,743,995	2,502,688	82,403	3.3	2,585,091	94.2	0	0	2,585,091	94.2
2. 2009	2,876,848	2,585,088	74,169	2.9	2,659,257	92.4	0	0	2,659,257	92.4
3. 2010	2,903,974	2,539,174	105,512	4.2	2,644,686	91.1	0	0	2,644,686	91.1
4. 2011	3,047,640	2,708,889	119,612	4.4	2,828,501	92.8	5,724	231	2,834,456	93.0
5. 2012	3,149,312	2,558,720	115,859	4.5	2,674,579	84.9	261,330	10,580	2,946,489	93.6

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	0	0	0	0	0	0	0	0
2. Additional policy reserves (a)	11,420,000	10,300,000	1,120,000	0	0	0	0	0	0
3. Reserve for future contingent benefits	0	0	0	0	0	0	0	0	0
4. Reserve for rate credits or experience rating refunds (including $ 0) for investment income	717,707,798	0	0	0	0	717,707,798	0	0	0
5. Aggregate write-ins for other policy reserves	0	0	0	0	0	0	0	0	0
6. Totals (gross)	729,127,798	10,300,000	1,120,000	0	0	717,707,798	0	0	0
7. Reinsurance ceded	0	0	0	0	0	0	0	0	0
8. Totals (Net)(Page 3, Line 4)	729,127,798	10,300,000	1,120,000	0	0	717,707,798	0	0	0
9. Present value of amounts not yet due on claims	0	0	0	0	0	0	0	0	0
10. Reserve for future contingent benefits	0	0	0	0	0	0	0	0	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	0	0	0	0	0	0	0	0
14. Totals (Net)(Page 3, Line 7)	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501.									
0502.									
0503.									
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 thru 0503 plus 0598) (Line 5 above)	0	0	0	0	0	0	0	0	0
1101.									
1102.									
1103.									
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 thru 1103 plus 1198) (Line 11 above)	0	0	0	0	0	0	0	0	0

(a) Includes $ 11,420,000 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 ($ 0 for occupancy of own building)	2,672,078	7,224,069	7,857,545	0	17,753,692
2. Salary, wages and other benefits	22,591,487	59,987,950	66,158,981	0	148,738,418
3. Commissions (less $ 0 ceded plus $ 0 assumed)	0	0	78,856,617	0	78,856,617
4. Legal fees and expenses	78	309,597	1,066,546	0	1,376,221
5. Certifications and accreditation fees	0	0	0	0	0
6. Auditing, actuarial and other consulting services	115,064	15,476	1,599,907	0	1,730,447
7. Traveling expenses	270,533	603,838	1,882,598	0	2,756,969
8. Marketing and advertising	0	0	2,196,329	0	2,196,329
9. Postage, express and telephone	257,281	5,131,730	4,704,458	0	10,093,469
10. Printing and office supplies	384,895	1,798,388	2,401,720	0	4,585,003
11. Occupancy, depreciation and amortization	0	0	0	0	0
12. Equipment	22,612	76,108	1,232,922	0	1,331,642
13. Cost or depreciation of EDP equipment and software	3,506,428	9,022,382	29,659,547	0	42,188,357
14. Outsourced services including EDP, claims, and other services	32,895,897	19,470,714	49,718,587	0	102,085,198
15. Boards, bureaus and association fees	76,116	7,015	2,056,550	0	2,139,681
16. Insurance, except on real estate	146,748	562,516	460,132	0	1,169,396
17. Collection and bank service charges	0	0	193,624	0	193,624
18. Group service and administration fees	0	0	0	0	0
19. Reimbursements by uninsured plans	(10,569,345)	(24,720,437)	(29,253,927)	0	(64,543,709)
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	230,962	0	230,962
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes	0	0	0	0	0
23.2 State premium taxes	0	0	36,192,067	0	36,192,067
23.3 Regulatory authority licenses and fees	7,382	41	2,887,530	0	2,894,953
23.4 Payroll taxes	1,399,658	3,864,341	3,454,578	0	8,718,577
23.5 Other (excluding federal income and real estate taxes)	14,075	73,052	1,002,152	0	1,089,279
24. Investment expenses not included elsewhere	0	0	0	1,362,311	1,362,311
25. Aggregate write-ins for expenses	(3,693,276)	(5,375,949)	(22,909,391)	0	(31,978,616)
26. Total expenses incurred (Lines 1 to 25)	50,097,711	78,050,831	241,650,034	1,362,311	(a) 371,160,887
27. Less expenses unpaid December 31, current year	0	10,812,354	97,939,670	0	108,752,024
28. Add expenses unpaid December 31, prior year	0	11,600,000	121,208,829	0	132,808,829
29. Amounts receivable relating to uninsured plans, prior year	3,383,367	8,170,357	22,471,881	0	34,025,605
30. Amounts receivable relating to uninsured plans, current year	4,833,277	7,530,110	23,313,672	0	35,677,059
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	51,547,621	78,198,230	265,760,984	1,362,311	396,869,146
DETAILS OF WRITE-INS					
2501. Charitable contributions	2,953	4,103	7,507,917	0	7,514,973
2502. Service charges Inter-plan bank	0	10,495,030	105,032	0	10,600,062
2503. IPSBB Inter-plan bank ITS	0	11,881,050	68,819	0	11,949,869
2598. Summary of remaining write-ins for Line 25 from overflow page	(3,696,229)	(27,756,132)	(30,591,159)	0	(62,043,520)
2599. Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	(3,693,276)	(5,375,949)	(22,909,391)	0	(31,978,616)

(a) Includes management fees of $ 198,065,653 to affiliates and $ 0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. government bonds	(a) 1,401,281	1,421,279
1.1	Bonds exempt from U.S. tax	(a) 0	0
1.2	Other bonds (unaffiliated)	(a) 13,083,263	13,168,519
1.3	Bonds of affiliates	(a) 0	0
2.1	Preferred stocks (unaffiliated)	(b) 39,747	39,747
2.11	Preferred stocks of affiliates	(b) 0	0
2.2	Common stocks (unaffiliated)	4,412,319	4,412,319
2.21	Common stocks of affiliates	0	0
3.	Mortgage loans	(c) 0	0
4.	Real estate	(d) 0	0
5	Contract Loans	0	0
6	Cash, cash equivalents and short-term investments	(e) 34,816	19,884
7	Derivative instruments	(f) 0	0
8.	Other invested assets	10,000	10,000
9.	Aggregate write-ins for investment income	0	411,477
10.	Total gross investment income	18,981,426	19,483,225
11.	Investment expenses		(g) 1,362,311
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g) 0
13.	Interest expense		(h) 0
14.	Depreciation on real estate and other invested assets		(i) 0
15.	Aggregate write-ins for deductions from investment income		0
16.	Total deductions (Lines 11 through 15)		1,362,311
17.	Net investment income (Line 10 minus Line 16)		18,120,914
	DETAILS OF WRITE-INS		
0901.	Interest income - miscellaneous	0	411,477
0902.			
0903.			
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0
0999.	Totals (Lines 0901 thru 0903 plus 0998) (Line 9, above)	0	411,477
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		0
1599.	Totals (Lines 1501 thru 1503 plus 1598) (Line 15, above)		0

(a) Includes $ 317,160 accrual of discount less $ 7,882,822 amortization of premium and less $ 4,295,079 paid for accrued interest on purchases.

(b) Includes $ 0 accrual of discount less $ 0 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 $ 0 paid for accrued interest on purchases.

(d) Includes $ 0 for company's occupancy of its own buildings; and excludes $ 0 interest on encumbrances.

(e) Includes $ 51 accrual of discount less $ 51,758 amortization of premium and less $ 37,033 paid for accrued interest on purchases.

(f) Includes $ 0 accrual of discount less $ 0 amortization of premium.

(g) Includes $. 0 investment expenses and $ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.

(h) Includes $ 0 interest on surplus notes and $ 0 interest on capital notes.

(i) Includes $ 0 depreciation on real estate and $ 0 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	2,212,043	0	2,212,043	22,420	0
1.1	Bonds exempt from U.S. tax	0	0	0	0	0
1.2	Other bonds (unaffiliated)	6,607,395	0	6,607,395	271,564	0
1.3	Bonds of affiliates	0	0	0	0	0
2.1	Preferred stocks (unaffiliated)	7,728	0	7,728	(17,400)	0
2.11	Preferred stocks of affiliates	0	0	0	0	0
2.2	Common stocks (unaffiliated)	16,145,316	0	16,145,316	8,822,563	0
2.21	Common stocks of affiliates	0	0	0	0	0
3.	Mortgage loans	0	0	0	0	0
4.	Real estate	0	0	0	0	0
5.	Contract loans	0	0	0	0	0
6.	Cash, cash equivalents and short-term investments	143	0	143	0	0
7.	Derivative instruments	0	0	0	0	0
8.	Other invested assets	0	0	0	1,690,632	0
9.	Aggregate write-ins for capital gains (losses)	0	0	0	0	0
10.	Total capital gains (losses)	24,972,625	0	24,972,625	10,789,779	0
	DETAILS OF WRITE-INS					
0901.						
0902.						
0903.						
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999.	Totals (Lines 0901 thru 0903 plus 0998) (Line 9, above)	0	0	0	0	0

EXHIBIT OF NON-ADMITTED 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 (Schedule DB)	0	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 (Schedule DL)	0	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	3,304,843	6,301,182	2,996,339
	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	0	3,182,413	3,182,413
18.1	Current federal and foreign income tax recoverable and interest thereon	0	0	0
18.2	Net deferred tax asset	0	6,540,756	6,540,756
19.	Guaranty funds receivable or on deposit	0	0	0
20.	Electronic data processing equipment and software	101,974,200	92,538,550	(9,435,650)
21.	Furniture and equipment, including health care delivery assets	4,841,074	5,284,555	443,481
22.	Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
23.	Receivable from parent, subsidiaries and affiliates	0	0	0
24.	Health care and other amounts receivable	10,469,176	12,187,806	1,718,630
25.	Aggregate write-ins for other than invested assets	127,892,584	118,111,786	(9,780,798)
26.	Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	248,648,544	244,313,715	(4,334,829)
27.	From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
28.	Total (Lines 26 and 27)	248,648,544	244,313,715	(4,334,829)
	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 thru 1103 plus 1198)(Line 11 above)	0	0	0
2501.	Other Assets non admitted	42,863,121	33,697,234	(9,165,887)
2502.	Intangible assets	85,029,463	84,274,328	(755,135)
2503.	Pension - Intangible	0	140,224	140,224
2598.	Summary of remaining write-ins for Line 25 from overflow page	0	0	0
2599.	Totals (Lines 2501 thru 2503 plus 2598)(Line 25 above)	127,892,584	118,111,786	(9,780,798)

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	0	0	0	0	0	0
2.	Provider Service Organizations	0	0	0	0	0	0
3.	Preferred Provider Organizations	711,420	705,641	705,043	698,700	692,993	8,421,540
4.	Point of Service	36,745	31,222	31,298	30,892	28,971	370,767
5.	Indemnity Only	30,692	30,090	30,947	31,388	32,090	373,974
6.	Aggregate write-ins for other lines of business	36,361	49,399	48,793	48,775	48,994	588,346
7.	Total	815,218	816,352	816,081	809,755	803,048	9,754,627
	DETAILS OF WRITE-INS						
0601.	Stoploss	36,361	49,399	48,793	48,775	48,994	588,346
0602.							
0603.							
0698.	Summary of remaining write-ins for Line 6 from overflow page	0	0	0	0	0	0
0699.	Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	36,361	49,399	48,793	48,775	48,994	588,346

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 or permitted practices by the District of Columbia. The Company does not utilize any permitted practices.

For the years ended 2012 and 2011, 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

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. These reviews were conducted pursuant to the applicable SSAPs.

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, the Company applies SSAP No. 43R *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 mortgage-backed and asset-backed securities where the fair value is less than amortized cost, and that are not deemed to have non-interest related declines, 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 would be deemed to be other than temporary and the entire difference between fair value and amortized cost would be 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.

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 determined that there is no OTTI for bonds and stocks for the years ended December 31, 2012 and 2011.

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 governments securities (U.S. dollar-denominated), corporate bonds, mortgage-backed securities, asset-backed securities and convertible bonds (2011 only).

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 (refer to Note 20). Changes in admitted asset carrying amounts of bonds, aside from OTTI, are charged directly to capital and surplus.

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).

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 (refer to Note 20). Changes in admitted asset carrying amounts of stocks, aside from OTTI, are charged directly to capital and surplus.

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).

Investment Dispositions

A primary objective in the management of the bond and stock 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 include the Company's member equity in its affiliate, CareFirst Holdings, LLC (CFH). CFH and its non-insurance subsidiaries are reported at their underlying audited GAAP equity. CFH's regulated insurance subsidiaries are reported at their underlying audited statutory surplus.

Other invested assets consisted of direct investments in unaffiliated limited liability companies and a limited partnerships. The limited liability companies and limited partnerships 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. During the fourth quarter of 2011, the Company transferred its entire investments in its unaffiliated limited liability companies and limited partnerships to CFH.

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 comprising the Company's customer base. As of December 31, 2012 and 2011, 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, amounts due from the Office of Personnel Management (OPM) under the FEP contracts (refer to Summary of Significant Accounting Policies – Federal Employee Program), health care related receivables from other insurance plans and other miscellaneous receivables.

The Company has established its own pharmacy rebate contracts and assumed the responsibility, with the assistance of a third party, for billing and collecting all pharmaceutical company rebates. The Company accounts for pharmacy rebates in accordance with SSAP No. 84, Certain Health Care Receivables and Receivables Under Government Insured Plans (SSAP 84). Per SSAP 84, pharmacy rebates may consist of estimated amounts and billed amounts. Any estimated amounts shall relate to actual prescriptions filled during the three months immediately preceding the reporting date. Any billed amounts that have not been collected within 90 days of the invoice date shall be nonadmitted.

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, 2012 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 Company pays fees based upon negotiated contractual fee schedules to medical providers that provide physician and hospital services. The Company also negotiates contractual agreements with certain physicians and medical management groups to provide health care services to its members. Cost of care is recognized in the period in which members receive medical services. In addition to actual benefits paid, cost of care includes the impact of accruals for estimates of reported and unreported claims, which are unpaid as of the balance sheet dates.

The liability for medical claims payable is computed in accordance with generally accepted actuarial practices and is based upon past claims payment experience, together with other current factors which, in management's judgment, require recognition in the calculation. 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.

Premium Deficiency Reserve

Premium deficiency reserve represents the Company's estimate of the amount that the expected incurred claims, claims adjustment expenses and certain general administrative costs exceed the expected premiums earned for the remainder of the contract period of the Company's in-force policies. For purposes of calculating the premium deficiency reserve, contracts are deemed to be short duration and are grouped in a manner consistent with the Company's method of marketing, servicing and measuring the profitability of such contracts. Once established, the premium deficiency reserve is released commensurate with actual claims experience over the remainder of the contract period. The Company does not consider anticipated investment income when calculating the reserve. The most recent evaluation date of this reserve is at December 31, 2012. The premium deficiency reserve is recorded as an offset to premiums earned and is included in the aggregate health policy reserves.

Medical Loss Ratio Rebates

As part of Health Reform Legislation, the minimum medical loss ratio (MLR) requirements became effective on January 1, 2011. The legislation requires payment of premium rebates (MLR rebates) to employers and individuals covered under the Company's comprehensive medical insurance if certain minimum MLRs (85% for large group, 80% for small group and 80% for individual under 65) are not met. The MLR rebates are measured by jurisdiction at the market segment level (large group, small group and individual under 65). As of December 31, 2012 and 2011, the Company recorded a MLR rebate accrual of $0 and $6,160,000, within the aggregate health policy reserves, which represents the Company's estimate of the MLR rebate. In 2012, the Company paid $3,964,000 of the 2011 accrual and released the remaining accrual.

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 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.

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 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.

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 BCBSA 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 $5,823,492,000 and $5,873,997,000 as of December 31, 2012 and 2011, respectively. The unaudited amounts being held in the contingency reserve are $7,417,611,000 as of September 30, 2012 and $6,236,141,000 as of December 31, 2011. 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, which are included in health care and other amounts receivable and aggregate health policy reserves, respectively. These amounts are $717,708,000 and $664,375,000 as of December 31, 2012 and 2011, respectively.

FEP revenue earned were $1,777,754,000 and $1,675,981,000 for the years ended December 31, 2012 and 2011, respectively.

FEP Operations Center

Service Benefit Plan Administrative Services Corporation (SBP), a subsidiary of GHMSI, was created to operate the FEP Operations Center under a contract with BCBSA. SBP is 90% owned by GHMSI and 10% owned by BCBSA.

SBP performs certain administrative functions as the national operations center for the FEP under its ten-year cost reimbursement contract, which was effective January 1, 2005, 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. FEP reimbursed the Company for costs incurred in connection with this agreement totaling $105,089,000 and $102,994,000 for the years ended December 31, 2012 and 2011, respectively.

2. Accounting Changes and Corrections of Errors

Changes in Accounting Principles

In November 2011, the NAIC adopted SSAP No. 101 Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10 (SSAP 101). SSAP 101 contains many of the same provisions as the Financial Accounting Standards Board Accounting Standards Codification 740, Accounting for Income Taxes, with modifications for state income taxes, the realization criteria for deferred tax assets, and the recording of changes in deferred tax balances. The guidance requires companies to determine whether it is “more likely than not” that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the tax benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest and penalties. The Company adopted SSAP 101 effective January 1, 2012, and recorded a decrease to surplus of $39,698,000.

In March 2012, the NAIC adopted SSAP No. 92 Accounting for Postretirement Benefits Other Than Pensions, A Replacement of SSAP No. 14 (SSAP 92) and SSAP No. 102 Accounting for Pensions, A Replacement of SSAP No. 89 (SSAP 102). These SSAPs adopt, with modification, Financial Accounting Standards Codification 715 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The primary focus of SSAP 92 and SSAP 102 is to recognize the funded status of a defined benefit postretirement plan in the balance sheets. The SSAPs require elements of plan costs to either be recognized as expense components during the current period, or as adjustments to surplus with future amortization into expense. The SSAPs also eliminate the exclusion of non-vested employees in accounting for a defined benefit postretirement plan. SSAP 92 and SSAP 102 are effective January 1, 2013, with early adoption permitted and the ability to elect a ten-year phase-in period. The Company will adopt SSAP 92 and SSAP 102 effective January 1, 2013, and is expected to result in a decrease in surplus of approximately $1,800,000.

3. Business Combinations and Goodwill

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) For the year ended December 31, 2012, the Company did not recognize OTTI in mortgage-backed/other asset-backed securities that the Company has the intent to hold, but does not expect to recover the entire amortized cost basis of the securities. At December 31, 2012, 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 by length of time that individual securities have been in a continuous unrealized loss position at December 31, 2012 and 2011 (*in thousands*).

	Fair Value < 1 Year	Unrealized Losses < 1 Year	Fair Value > 1 Year	Unrealized Losses > 1 Year	Total Unrealized Losses
December 31, 2012					
Government sponsored enterprise mortgage-backed securities	**$ 63,279**	**$ 516**	**$ 2,382**	**$ 44**	**$ 560**
Other mortgage-backed and asset-backed securities	**2,624**	**3**	**2,890**	**100**	**103**
Total	**$ 65,903**	**$ 519**	**$ 5,272**	**$ 144**	**$ 663**

	Fair Value < 1 Year	Unrealized Losses < 1 Year	Fair Value > 1 Year	Unrealized Losses > 1 Year	Total Unrealized Losses
December 31, 2011					
Government sponsored enterprise mortgage-backed securities	$ 25,191	$ 134	$ 2,700	$ 26	$ 160
Other mortgage-backed and asset-backed securities	10,731	243	865	60	303
Total	$ 35,922	$ 377	$ 3,565	$ 86	$ 463

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

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 no investments in unaffiliated joint ventures, partnerships or limited liability companies 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, 2012 and 2011.

8. Derivative Instruments

None.

9. Income Taxes

The Company is included in the consolidated federal income tax return of CFI. The federal statutory income tax rate for the Company is 35%. 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) rate 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% as required under the Health Reform Legislation, 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 Alternative Minimum Tax 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 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.

On January 1, 2012, as a result of applying paragraph 11.b of SSAP 101 requirements to use current period statutory capital and surplus rather than prior quarter statutory capital and surplus as required by previous guidance, the Company computed the following balances related to deferred taxes (*in thousands*):

	January 1, 2012			December 31, 2011		
	Capital	**Ordinary**	**TOTAL**	**Capital**	**Ordinary**	**TOTAL**
Gross deferred tax assets	$ 21,344	$ 146,202	$ 167,546	$ 3,873	$ 165,362	$ 169,235
Statutory valuation allowance adjustment	-	(117,852)	(117,852)	-	(135,375)	(135,375)
Adjusted gross deferred tax assets	21,344	28,350	49,694	3,873	29,987	33,860
Deferred tax asset nonadmitted	-	(6,778)	(6,778)	-	(6,541)	(6,541)
Subtotal net admitted deferred tax asset	21,344	21,572	42,916	3,873	23,446	27,319
Deferred tax liabilities	(45,299)	(10)	(45,309)	(10,007)	(10)	(10,017)
Net admitted deferred tax (liability)asset	$ (23,955)	$ 21,562	$ (2,393)	$ (6,134)	$ 23,436	$ 17,302

As a result of the adoption of SSAP 101, the Company increased the amount of deferred tax liability recorded.

The Cumulative Effect of Changes in Accounting Principles line shown in the surplus section of the quarterly statements shows a decrease of $39,698,000 of which $20,002,000 relates to CFBC's change in statutory surplus.

NOTES TO FINANCIAL STATEMENTS

The amount of admitted adjusted gross deferred tax assets are as follows (*in thousands*):

	December 31, 2012			December 31, 2011		
	Capital	Ordinary	Total	Capital	Ordinary	Total
Federal Income Taxes Recoverable Through Loss Carry Back	$ -	4,604	$ 4,604	$ -	$ 15,089	$ 15,089
Adjusted Gross DTA Expected To Be Realized (Excluding The Amount Of DTA from 2(a) above) After Application of the Threshold Limitation.(The Lesser of 2(b)1 and 2(b)2 Below)	2,154	7,656	9,810	2,213	-	2,213
Adjusted Gross DTA Expected To Be Realized Following the Balance Sheet Date	2,154	7,656	9,810	2,213	-	2,213
Adjusted Gross DTA Allowed per Limitation Threshold	-	-	139,705	-	-	97,430
Adjusted Gross DTA (Excluding The Amount of DTA from 2(a) and 2(b) above) Offset by Gross DTL	(33,125)	5,951	(27,174)	(8,347)	8,347	-
DTA Admitted as the result of application of SSAP No. 101	$ (30,971)	$ 18,211	$ (12,760)	$ (6,134)	$ 23,436	$ 17,302

	2012	2011
Rate Percentage Used To Determine Recovery and Threshold limitation Amount	15%	10%
Amount of Adjusted Capital and Surplus Used To Determine Recovery Period And Threshold Limitation in 2(b) Above	931,369	974,299

The (benefit) provision for income taxes on earnings for the years ended December 31, 2012 and 2011 are as follows (*in thousands*):

	December 31, 2012	December 31, 2011	Change
Federal benefit	$ (3,837)	$ (789)	$ (3,048)
Federal income tax on net capital gains	4,995	3,163	1,832
Federal income taxes incurred	$ 1,158	$ 2,374	$ (1,216)

NOTES TO FINANCIAL STATEMENTS

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

	December 31, 2012	December 31, 2011	Change	Character
Deferred tax assets:				
Investments	$ 3,769	$ 3,873	$ (104)	Capital
AMT Credits	20,381	-	20,381	Capital
Benefit obligations	6,738	9,726	(2,988)	Ordinary
Unpaid claims	1,032	1,304	(272)	Ordinary
Accrued expenses	4,188	5,827	(1,639)	Ordinary
Nonadmitted assets and other	6,264	13,130	(6,866)	Ordinary
Total deferred tax assets	42,372	33,860	8,512	
Nonadmitted deferred tax assets	-	(6,541)	6,541	
Admitted deferred tax assets	42,372	27,319	15,053	
Deferred tax liabilities:				
Investments	(6,279)	(3,150)	(3,129)	Capital
Investment in Affiliate	(48,842)	(6,857)	(41,985)	Capital
Other	(11)	(10)	(1)	Ordinary
Total deferred tax liabilities	(55,132)	(10,017)	(45,115)	
Net Admitted deferred tax (liabilities) assets	$ (12,760)	$ 17,302	$ (30,062)	

Deferred tax assets are reflected as admitted assets, subject to certain limitations. The components of the net deferred tax asset recognized in the Company's balance sheets—statutory basis are as follows (*in thousands*):

	December 31, 2012	December 31, 2011	Change
Gross deferred tax assets	$ 42,372	$ 33,860	$ 8,512
Deferred tax liabilities	(55,132)	(10,017)	(45,115)
Net deferred tax (liability)/asset	$ (12,760)	$ 23,843	(36,603)
Tax effect of unrealized gains (losses)			3,129
Change in net deferred income tax			$ (33,474)

The following table shows the components of the net deferred tax asset and deferred tax liability recognized in the Company's financial statements by tax character are as follows (*in thousands*):

	December 31, 2012			December 31, 2011		
	Capital	Ordinary	Total	Capital	Ordinary	Total
Total of gross deferred tax assets	$ 24,150	$ 128,325	$ 152,475	$ 3,873	$ 165,362	$ 169,235
Statutory valuation allowance	-	(110,103)	(110,103)	-	(135,375)	(135,375)
Adjusted gross deferred assets	24,150	18,222	42,372	3,873	29,987	33,860
Gross deferred tax liabilities	(55,121)	(11)	(55,132)	(10,007)	(10)	(10,017)
Net deferred tax asset	(30,971)	18,211	(12,760)	(6,134)	29,977	23,843
Deferred tax asset nonadmitted	-	-	-	-	(6,541)	(6,541)
Net admitted deferred tax (liability) asset	$ (30,971)	$ 18,211	$ (12,760)	$ (6,134)	$ 23,436	$ 17,302

The Company has deferred tax assets related to capital investments. If necessary, the Company may implement tax planning strategies including the sale of investments at a gain to utilize these capital deferred tax assets. The impact of tax planning strategies is as follows:

	December31, 2012			December 31, 2011			
	Capital Percent	Ordinary Percent	TOTAL Percent	Capital Percent	Ordinary Percent	TOTAL Percent	Change
% of adjusted gross deferred tax assets	57%	0%	57%	11%	0%	11%	46%
% of net admitted adjusted gross deferred tax assets	0%	0%	0%	22%	0%	22%	-22%

The provision for income taxes for 2012 and 2011 differs from the statutory rate principally as a result of the company's benefit derived from the 833(b) deduction, permanent items, and changes to statutory valuation and provision for tax loss contingencies.

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 state income taxes in the jurisdictions for which it is registered to do business.

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, Northern Virginia and the state of Maryland.

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. The Company and CFMI hold joint interests in a holding company, CareFirst Holdings, LLC (CFH). CFH was formed on December 31, 2010 by contributed assets from the Company and CFMI. Since control over CFH operations is vested in CFI, GHMSI determined that neither GHMSI nor CFMI exercise control over CFH. CFH's wholly-owned subsidiaries include First Care, Inc. (FirstCare), National Capital Insurance Agency, LLC, Capital Area Services Company, LLC (CASCI), CFA, LLC (CFA) and CareFirst BlueChoice, Inc. (CFBC) and its subsidiaries. CFH and its subsidiaries are owned 50.001% by CFMI and 49.999% by GHMSI.

The Company's board approved target risk based capital range is 1000% to 1300% for the year ended December 31, 2012.

As of December 31, 2012 and 2011, the Company's equity investment in CFH exceeded 10% of the Company's admitted assets. The financial information for CFH (GAAP-basis) is summarized as follows *(in thousands*):

	December 31	
	2012	**2011**
Total assets	**$ 1,174,556**	$ 1,225,078
Total liabilities	**$ 355,383**	$ 448,494
Members' equity	**819,173**	776,584
Total liabilities and members' equity	**$ 1,174,556**	$ 1,225,078

Summarized results of operations for CFH for the years ended December 31, 2012 and 2011 (GAAP-basis) are as follows (*in thousands*):

	Year Ended December 31	
	2012	**2011**
Net revenue	**$ 2,200,582**	$ 2,042,935
Operating expenses and other, net	**(2,164,656)**	(1,991,163)
Net income	**$ 35,926**	$ 51,772

The Company incurred certain costs on behalf of CFMI, including salaries, claims processing expenses, and professional fees. Similarly, certain costs were incurred by CFMI 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 were $148,264,000 and $152,632,000 for the years ended December 31, 2012 and 2011, respectively. These allocations are included in general and administrative expenses.

The Company has an operating relationship with its subsidiary and CFH, whereby the Company provides administrative and corporate services for which expenses are allocated to the subsidiary and CFH under administrative agreements. Total allocations to the subsidiary and CFH for services provided by the Company were $82,997,000 and $83,434,000 for the years ended December 31, 2012 and 2011, 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, CFI 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 by the Company were $8,663,000 and $8,785,000 for the years ended December 31, 2012 and 2011, respectively. These charges are recorded as a reduction to general and administrative expenses.

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 $3,579,000 and $4,096,000 for the years ended December 31, 2012 and 2011, respectively. 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 and its subsidiaries were $117,923,000 and $114,199,000 for the years ended December 31, 2012 and 2011, respectively.

The Company bears all of the out-of-network (indemnity) underwriting risk and CFBC bears the in-network (health maintenance organization) underwriting risk for certain fully insured point-of-service health care programs. Cost of care for these products is charged directly to the Company and CFBC based upon the nature of the claims incurred. Premiums on these health care programs are allocated between the Company and CFBC 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 allocated from (to) CFBC for these programs were $11,653,000 and $(26,092,000) for the years ended December 31, 2012 and 2011, respectively.

On March 1, 1999, 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.

At December 31, 2012 the Company reported $7,936,000 and $46,661,000 as amounts due from and due to affiliates, respectively. These amounts are settled monthly.

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 CFI 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 CFI Plan. These employees participate in an enhanced 401(k) program.

Based on the accumulated benefit obligation, this qualified noncontributory defined benefit retirement plan was 97.7% and 93.0% funded as of December 31, 2012 and 2011, respectively.

The annual contributions exceeded the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. The CFI 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.

Effective October 1, 2012, two of CFH's subsidiaries, National Capital Administrative Services, LLC (NCAS) and Willse & Associates, LLC (Willse) merged. Upon the merger, Willse became the surviving entity and changed its name to CFA. In connection with the merger, the pension and postretirement plans participants of NCAS were transferred from the GHMSI Plan to the CFMI Plan. As a result, the plan assets (pension plan only) and obligations were transferred from the GHMSI Plan to the CFMI Plan. The amounts of transfer are as follows (*in thousands*):

	Pension Benefits		Other Postretirement Benefits	
	GHMSI	**CFMI**	**GHMSI**	**CFMI**
Plan assets transferred (from) to	$ (3,273)	$ 3,273	$ -	$ -
Plan obligations transferred (from) to	(2,652)	2,652	(627)	627

NOTES TO FINANCIAL STATEMENTS

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	
	2012	**2011**	**2012**	**2011**
Change in projected benefit obligations				
Benefit obligations at beginning of year	**$ 331,789**	$ 307,382	**$ 21,405**	$ 20,502
Service cost	**8,352**	7,921	**1,274**	2,138
Interest cost	**13,070**	14,763	**829**	1,027
Benefits paid	**(16,002)**	(18,299)	**(1,526)**	(2,532)
Actuarial loss (gain)	**9,245**	20,759	**(611)**	270
Settlements	**–**	(737)	**–**	–
Benefit obligations at end of year	**$ 346,454**	$ 331,789	**$ 21,371**	$ 21,405
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 304,005**	$ 289,120	**$ –**	$ –
Actual return on plan assets	**44,143**	(5,801)	**–**	–
Employer contributions	**6,034**	39,722	**1,526**	2,532
Benefits paid	**(16,002)**	(18,299)	**(1,526)**	(2,532)
Settlements	**–**	(737)	**–**	–
Plan assets transfer	**(3,273)**	–		
Fair value of plan assets at end of year	**$ 334,907**	$ 304,005	**$ –**	$ –
Funded status	**$ (11,547)**	$ (27,784)	**$ (21,371)**	$ (21,405)
Transition (asset) liability not yet recognized	**(31,278)**	(33,928)	**–**	566
Unamortized prior service cost	**898**	1,089	**–**	–
Unrecognized net loss (gain)	**124,452**	142,750	**(370)**	(599)
Prepaid pension assets or (accrued) liabilities prior to additional liability	**82,525**	82,127	**(21,741)**	(21,438)
Additional liability	**(8,345)**	(23,640)	**–**	–
Prepaid pension assets or (accrued) liabilities	**$ 74,180**	$ 58,487	**$ (21,741)**	$ (21,438)

	Pension Benefits		Other Postretirement Benefits	
	2012	**2011**	**2011**	**2011**
Accumulated benefit obligations (vested portion)	**$ 345,757**	$ 329,792	**$ 19,866**	$ 18,645
Accumulated benefit obligations (non-vested portion)	**$ 62**	$ 118		
Benefit obligations (non-vested portion)			**$ 11,543**	$ 12,934

The estimated transition asset, prior service cost and net actuarial loss for the defined benefit pension plans that will be amortized in 2013 from capital and surplus into net periodic benefit costs are $(2,650,000), $190,000 and $10,093,000, respectively.

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, 2012 and 2011, additional liabilities of $8,345,000 and $23,640,000, respectively, were recorded. In connection with the additional liabilities, intangible pension assets of $0 and $140,000, respectively, were recorded and nonadmitted.

	Pension Benefits 2012	Pension Benefits 2011	Other Postretirement Benefits 2012	Other Postretirement Benefits 2011
Components of net periodic benefit cost *(in thousands)*				
Service cost	**$ 8,352**	$ 7,921	**$ 1,274**	$ 2,138
Interest cost	**13,070**	14,763	**829**	1,027
Expected return on plan assets	**(24,075)**	(22,349)	**–**	–
Amortization of transition (asset) liability	**(2,649)**	(2,649)	**283**	283
Amortization of prior service cost	**190**	190	**–**	–
Net recognized actuarial loss	**9,520**	7,140	**–**	–
Settlement gain	**–**	(64)	**–**	–
Net periodic benefit cost for the year ended December 31	**$ 4,408**	$ 4,952	**$ 2,386**	$ 3,448

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

	Pension Benefits 2012	Pension Benefits 2011	Other Postretirement Benefits 2012	Other Postretirement Benefits 2011
Discount rate – benefit obligation [(a)]	**3.80%**	4.00%	**4.00%**	4.20%
Discount rate – net benefit cost [(a)]	**4.00%**	5.00%	**4.20%**	5.25%
Expected rate of return on plan assets	**7.75% / N/A [(b)]**	7.75% / N/A [(b)]	**N/A**	N/A
Rate of compensation increase	**4.00%**	4.50%	**N/A**	N/A
Annual rate of increase in the per capita cost of covered health care benefits				
First year	**N/A**	N/A	**9.00% / 7.00% [(c)]**	6.00% / 6.00%
Ultimate	**N/A**	N/A	**5.00% [(c)]**	6.00%

(a) The discount rates used were based on an Aa yield curve. The Company used Aon Hewitt yield curve and Citigroup Pension Discount Curve for the years ended December 31, 2012 and 2011, respectively.

(b) As of December 31, 2012 and 2011, the expected return on plan assets is 7.75% for qualified pension benefits and N/A for nonqualified pension benefits. The Company contributes to the nonqualified pension plans as benefits are paid.

(c) As of December 31, 2012, the assumed Pre-65 Health Care Cost rate increase begins at 9.00% and decreases by 0.50% annually until reaching an ultimate rate of 5.00% in 2021. The assumed Post-65 Health Care Cost rate increase begins at 7.00% and decreases by 0.50% annually until reaching an ultimate rate of 5.00% in 2017.

During 2011, the lump-sum payments for the nonqualified pension plans surpassed the settlement threshold, which equals the sum of service cost and interest cost. As a result, settlements were recognized for all cash settlements in the nonqualified pension plans in 2011.

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 qualified pension 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 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. Target allocation ranges are guidelines, not limitations, and occasionally go above or below a target range. The weighted-average asset allocations by asset category for the qualified pension plan are as follows:

	Expected Rate of Returns	Target Allocation Range	December 31 2012	December 31 2011
Domestic equity securities	6%-10%	27%-47%	**38 %**	**41 %**
International equity securities	6%-10%	15%-25%	**18**	**14**
Emerging markets equity securities	6%-10%	0%-10%	**6**	**5**
Real estate	4%-8%	0%-10%	**3**	**3**
Real asset	1%-5%	0%-10%	**7**	**–**
Fixed maturity securities	1%-5%	18%-38%	**26**	**25**
Cash and cash equivalents	0%-2%	Residual	**2**	**12**
Total			**100 %**	**100 %**

As shown above, the Company's actual weighted-average asset allocation for international equity securities and cash and cash equivalents was not within the allocation range at December 31, 2011. The Company funded the qualified pension plan in late December 2011, but did not invest the cash and cash equivalents prior to December 31, 2011. The assets were reallocated to meet the asset allocation ranges in the first week of 2012.

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	$ 27	$ (24)
Effect on postretirement benefit obligations	703	(620)

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

	Pension Benefits	Other Postretirement Benefits	Total
2013 *	$ 17,321	$ 1,222	$ 18,543
2014	20,074	1,281	21,355
2015	20,517	1,365	21,882
2016	20,433	1,399	21,832
2017	22,344	1,826	24,170
2018 through 2022	122,094	10,446	132,540
	$ 222,783	$ 17,539	$ 240,322

* 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 2012 will retire in 2013.

The Company expects to make contributions of $131,000 and $1,222,000, respectively, to the pension benefit plans and the other postretirement benefits plan during 2013.

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 $1,566,000 and $1,385,000 for the years ended December 31, 2012 and 2011, respectively.

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

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

(2) The Company has no preferred stock authorized, issued and outstanding.

(3) – (9) Not applicable.

(10) The portion of unassigned funds (surplus) represented by cumulative net unrealized gains is $287,805,000.

(11) – (13) Not applicable.

14. Contingencies

A. Contingent Commitments

None.

B. Assessments

In the jurisdictions in which the Company is licensed to conduct business, guaranty associations have been created for the purpose, among others, of protecting insured parties covered 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. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the line of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments through full or partial premium tax offsets.

The Pennsylvania Insurance Commissioner has placed long-term care insurer Penn Treaty Network America Insurance Company and one of its subsidiaries (collectively, “Penn Treaty”) in rehabilitation, an intermediate action before insolvency, and has petitioned a state court for liquidation. If Penn Treaty is liquidated, the Company and other insurers may be required to pay a portion of Penn Treaty’s policyholder claims through guaranty association assessments in future periods. The Company is currently unable to predict the ultimate outcome of, or reasonably estimate the loss or range of losses resulting from, this potential insolvency because the Company cannot predict when the state court will render a decision, the amount of the insolvency, if any, the amount and timing of associated guaranty association assessments or the amount or availability of potential offsets, such as premium tax offsets. It is possible that in future reporting periods the Company may record a liability and a premium tax offset receivable relating to Penn Treaty which could have a material adverse effect on the Company’s financial statements.

C. Gain Contingencies

None.

D. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits

None.

E. All Other Contingencies

CFMI and the Company entered into an intercompany agreement that requires CFMI or the Company, or their respective affiliates, to provide the financial resources necessary to satisfy the respective statutory or regulatory reserve requirement, subject to specific limitations, if either CFMI or the Company or their respective affiliates fail to meet or maintain their respective statutory or 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 2012 or 2011.

CFI entered into a three-year agreement with a third party vendor to provide local care coordinator services to members who participate in the Primary Care Medical Home program. The agreement contained certain financial and operational requirements obligating both parties. In 2011, CFI did not meet the minimum volume requirements in the agreement for rendering care plans. As a result, CFI recorded a liability of $8,000,000 at December 31, 2011, of which $3,353,000 was recorded by the Company. The liability was included in the general expenses due or accrued. In July of 2012, the agreement was amended to modify certain terms and conditions. Under the amended agreement, the minimum volume requirements from the original contract ceased on June 30, 2012 and the agreement was extended from December 31, 2013 to June 30, 2016. Under the amended terms of the agreement, the Company has no liability if it does not terminate the contract before it expires. As of December 31, 2012, the Company has not terminated the contract and accordingly, the liability was reduced to $0 with an offset as a reduction in claims incurred.

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.

The Company insures individuals and provides administrative services to non-risk groups with members who are qualified Medicare beneficiaries. Medicare law identifies the primary payer and secondary payer of claims when individuals are insured by either the Company or an employer 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 for individuals that were insured by the Company. The issues were communicated to 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 $9,885,000 was recorded by the Company, which is included in other liabilities. 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. The Company has received demand letters from CMS regarding certain of these individual claims. Based on the claims processed in response to these demand letters and its ongoing evaluation of the Company’s liability for this matter, the Company has released a portion of the reserves that had been established in 2009. As of December 31, 2012, the Company has liabilities recorded totaling $7,467,000.

During 2012, the Company discovered an unrelated processing error related to the handling of claims for Medicare members of certain non-risk groups between the years from 2009 to 2012. This error was promptly corrected once identified by the Company. As a result, CFI recorded an additional liability of $4,800,000, of which $1,143,000 was recorded by the Company representing the Company's best estimate of its portion of liability to CMS at December 31, 2012. Management believes, after consultation with legal counsel, that the final resolution of this matter will not result in additional material liabilities to the Company.

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 and limitations on the amount of compensation that is tax deductible. The Health Reform Legislation presents additional challenges over the longer term, including the annual insurance industry assessment beginning in 2014, the operation of state-based exchanges for individuals and small group businesses beginning in 2014, and numerous other commercial and governmental plan requirements. Due to the complexity of the numerous changes that are taking place, the Company's operating results, financial position and cash flows could be materially adversely affected by such changes.

15. Leases

A. Lessee Operating Lease

The Company leases certain administrative facilities, including its corporate offices, 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.

Future noncancelable minimum payments for leases are as follows *(in thousands)*:

2013	$	10,030
2014		9,156
2015		9,299
2016		9,327
2017		9,224
Thereafter		45,857
Total minimum payments	$	92,893

Rent expense for all operating leases, net of amounts allocated to affiliates, for the years ended December 31, 2012 and 2011, was $13,638,000 and $13,471,000, respectively.

B. Lessor Leases

Not applicable.

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

A. Transfers of Receivables Reported as Sales

Not Applicable.

B. Transfer and Servicing of Financial Assets

Not Applicable.

C. Wash Sales

None.

18. Gain or Loss to the Reporting Entity from Uninsured 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, 2012 and 2011 *(in thousands)*:

		2012		2011
Gross reimbursement for medical costs incurred	$	1,089,046	$	1,142,949
Gross administrative fees accrued		69,308		73,205
Gross expenses incurred		(1,170,136)		(1,217,436)
Operating loss, before stop loss	$	(11,782)	$	(1,282)
Stop loss, net		2,504		6,133
Proforma operating loss (gain)	$	(9,278)	$	4,851

The stop loss amount reported represents stop loss written for the ASC business shown above.

For the year ended December 31, 2012, GHMSI ceded an ASC underwriting gain of $254,000 to CFMI and assumed an ASC underwriting gain of $3,211,000 from CFMI for a net underwriting gain of $2,957,000. For the year ended December 31, 2011, GHMSI ceded an ASC underwriting gain of $1,134,000 to CFMI and assumed an ASC underwriting gain of $1,089,000 from CFMI for a net underwriting loss of $45,000.

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 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 monthly analyses on the prices received from third parties to determine whether the prices appear to be reasonable estimates of fair value.

There were no transfers between Levels 1 and 2 during the years ended December 31, 2012 and 2011.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

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 governments securities, corporate bonds, mortgage-backed securities and other asset-backed securities that are priced by independent pricing services using observable inputs are classified as Level 2. Observable inputs used for other U.S. government agencies securities include quoted prices for like or similar assets, benchmark yields, reported trades and credit spreads. Observable inputs used for state and municipal securities, foreign governments securities and corporate bonds include quoted prices for identical or similar assets that are traded in an active market, benchmark yields, new issuances, issuer ratings, reported trades of comparable securities and credit spreads. The fair value of mortgage-backed securities and other asset-backed securities is determined by a cash flow model, which utilizes observable inputs such as quoted prices for identical or similar assets, benchmark yields, prepayment speeds, collateral performance, credit spreads, and default rates at commonly quoted intervals.

Stocks. Fair value of publicly-traded index funds and preferred stocks (2011 only) where market quotes are available but are not considered actively traded are classified as Level 2. Net asset value of the fixed income index fund invested in U.S. Treasury inflation-protected securities (USTIPS) (2012 only) is calculated as of the close of business of the New York Stock Exchange. Fair value of the fixed income index fund where a market quote is available but is not considered actively traded is 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 tables present information about the Company's financial assets measured and reported at fair value as of December 31, 2012 and 2011 *(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, 2012**
Assets				
Bonds	**$ –**	**$ 100**	**$ –**	**$ 100**
Common stocks				
Large capital equity securities (a)	**–**	**46,524**	**–**	**46,524**
Small capital equity securities (a)	**–**	**34,461**	**–**	**34,461**
International equity securities (a)	**–**	**46,313**	**–**	**46,313**
Publicly-traded fixed income index fund (b)	**–**	**48,228**	**–**	**48,228**
Privately-held equity securities	**–**	**–**	**4,121**	**4,121**
Total common stocks	**–**	**175,526**	**4,121**	**179,647**
Total assets at fair value	**$ –**	**$ 175,626**	**$ 4,121**	**$ 179,747**

	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Total Fair Value as of December 31, 2011**
Assets				
Bonds	$ –	$ 1,638	$ –	$ 1,638
Common stocks				
Large capital equity securities (a)	–	76,501	–	76,501
Small capital equity securities (a)	–	63,745	–	63,745
International equity securities (a)	–	27,415	–	27,415
Privately-held equity securities	–	–	3,903	3,903
Total common stocks	–	167,661	3,903	171,564
Preferred stocks	–	950	–	950
Total assets at fair value	$ –	$ 170,249	$ 3,903	$ 174,152

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

(b) Represent investments in USTIPS.

A reconciliation of the beginning and ending balances of privately held equity securities measured at fair value using Level 3 inputs as of December 31, 2012 and 2011 is as follows *(in thousands):*

	2012	**2011**
Beginning balance at January 1	**$ 3,903**	$ 3,771
Unrealized gains in capital and surplus—statutory-basis	**218**	132
Ending balance at December 31	**$ 4,121**	$ 3,903
Change in unrealized losses included in net losses related to assets still held	**$ –**	$ –

The following table presents information about the aggregate fair value of the Company's financial assets as of December 31, 2012 and 2011 *(in thousands)*:

NOTES TO FINANCIAL STATEMENTS

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Aggregate Fair Value as of December 31, 2012	Admitted Assets
Bonds	**$ 93,088**	**$ 477,572**	**$ –**	**$ 570,660**	**$ 549,575**
Common stocks	**–**	**175,526**	**4,121**	**179,647**	**179,647**
Total assets at fair value	**$ 93,088**	**$ 653,098**	**$ 4,121**	**$ 750,307**	**$ 729,222**

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Aggregate Fair Value as of December 31, 2011	Admitted Assets
Bonds	$ 107,573	$ 480,218	$ –	$ 587,791	$ 571,048
Common stocks	–	167,661	3,903	171,564	171,564
Preferred stocks	–	950	–	950	950
Total assets at fair value	$ 107,573	$ 648,829	$ 3,903	$ 760,305	$ 743,562

As of December 31, 2012 and 2011, the Company has no financial assets for which it is not practicable to estimate fair value.

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, 2012.

(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.

(H) Retained Assets

Not applicable

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

A. Ceded Reinsurance Report

The Company maintains 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 $6,515,000 and $6,286,000, and incurred an underwriting gain (loss) in the amount of $77,000 and $(351,000), for the years ended December 31, 2012 and 2011, respectively.

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 2012	2011
Premiums assumed	**$ 54,071**	$ 59,463
Premiums ceded	**(275,737)**	(369,607)
Premiums, net	**(221,666)**	(310,144)
Cost of care assumed	**43,047**	42,897
Cost of care ceded	**(221,931)**	(281,857)
Cost of care, net	**(178,884)**	(238,960)
General and administrative expenses ceded, net	**(44,387)**	(55,241)
Net loss (gain) ceded	**$ 1,605**	$ (15,943)

B. Uncollectible Reinsurance

Not Applicable.

C. Commutation of Ceded Reinsurance

Not Applicable.

24. Retrospectively Rated Contracts and Contracts Subject to Redetermination

A. – C. Not applicable

D. See Note 1 *Accounting Policy – Medical Loss Ratio Rebates*.

Medical loss ratio rebates required pursuant to the Public Health Service Act are as follows (*in thousands*):

	Individual	Small Group Employer	Large Group Employer	Other Categories with Rebates	Total
Prior Reporting Year					
(1) Medical loss ratio rebates incurred	$ 4,410	$ 1,750	$ –	$ –	$ 6,160
(2) Medical loss ratio rebates paid	–	–	–	–	–
(3) Medical loss ratio rebates unpaid	4,410	1,750	–	–	6,160
(4) Plus reinsurance assumed amounts	XXX	XXX	XXX	XXX	–
(5) Less reinsurance ceded amounts	XXX	XXX	XXX	XXX	–
(6) Rebates unpaid net of reinsurance	XXX	XXX	XXX	XXX	$ 6,160
Current Reporting Year-to-Date					
(7) Medical loss ratio rebates incurred	$ (4,410)	$ 2,214	$ –	$ –	$ (2,196)
(8) Medical loss ratio rebates paid	–	3,964	–	–	3,964
(9) Medical loss ratio rebates unpaid	–	–	–	–	–
(10) Plus reinsurance assumed amounts	XXX	XXX	XXX	XXX	–
(11) Less reinsurance ceded amounts	XXX	XXX	XXX	XXX	–
(12) Rebates unpaid net of reinsurance	XXX	XXX	XXX	XXX	$ –

25. Change in Incurred Claims and Claim Adjustment Expenses

As of December 31, 2012, $306,688,000 has been paid for incurred claims attributable to insured events for prior years. Reserves remaining for prior years are now $5,724,000 as a result of re-estimation of unpaid claims and unpaid claims adjustment expenses. Therefore, there has been a $23,949,000 unfavorable prior year development since December 31, 2011 to December 31, 2012 of which $37,481,000 was a result of unfavorable 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
12/31/2012	$3,171,070	$ 3,171,070	$ –	$ –	$ –
9/30/2012	3,171,070	3,171,070	449,099	–	–
6/30/2012	3,485,781	3,485,781	1,971,161	1,473,484	–
3/31/2012	3,364,602	3,364,602	2,527,276	714,465	126,428
12/31/2011	$3,972,068	$3,972,068	$3,435,582	$269,145	$ –
9/30/2011	3,988,149	3,988,149	3,478,795	516,076	–
6/30/2011	4,078,924	4,078,924	3,152,439	910,216	–
3/31/2011	3,585,638	3,585,638	3,654,719	(76,885)	–
12/31/2010	$3,816,305	$3,816,305	$3,799,130	$ –	$ –
9/30/2010	3,702,334	3,702,334	2,807,257	876,886	–
6/30/2010	4,086,739	4,086,739	4,062,795	–	16
3/31/2010	3,484,399	3,484,399	3,494,090	105	–

B. Risk Sharing Receivables

Not applicable

29. Participating Policies

Not applicable

30. Premium Deficiency Reserve

See Note 1 *Accounting Policy – Premium Deficiency Reserve*.

1. Liability carried for premium deficiency reserves: $11,420,000
2. Date of the most recent evaluation of this liability: December 31, 2012
3. Was anticipated investment income utilized in the calculation? No

31. Salvage and Subrogation

The following discloses the anticipated subrogation used in computing the Company's unpaid claims liability *(in thousands)*:

Year incurred	
2012	$ 508
2011	$ 972

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; 0.0 %
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 or 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 below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), 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 FDIC	6 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 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]

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

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

10.6 If the response to 10.5 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, Actuary
10455 Mill Run Circle
Owings Mills, Maryland 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

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance where the issuing or confirming bank is not on the SVO Bank List? Yes [ ] No [X]

15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

1 American Bankers Association (ABA) Routing Number	2 Issuing or Confirming Bank Name	3 Circumstances That Can Trigger the Letter of Credit	4 Amount

BOARD OF DIRECTORS

16. 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 [ ]

17. 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 [ ]

18. 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 with the official duties of such person? Yes [X] No [ ]

FINANCIAL

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

20.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 20.11 To directors or other officers $ 0
- 20.12 To stockholders not officers $ 0
- 20.13 Trustees, supreme or grand (Fraternal Only) $ 0

20.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 20.21 To directors or other officers $ 0
- 20.22 To stockholders not officers $ 0
- 20.23 Trustees, supreme or grand (Fraternal Only) $ 0

21.1 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]

21.2 If yes, state the amount thereof at December 31 of the current year:
- 21.21 Rented from others $ 0
- 21.22 Borrowed from others $ 0
- 21.23 Leased from others $ 0
- 21.24 Other $ 0

22.1 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]

22.2 If answer is yes:
- 22.21 Amount paid as losses or risk adjustment $ 0
- 22.22 Amount paid as expenses $ 0
- 22.23 Other amounts paid $ 0

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

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

INVESTMENT

24.01 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 24.03) Yes [X] No [ ]

24.02 If no, give full and complete information relating thereto

24.03 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)
Not applicable

24.04 Does the Company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [ ] No [ ] N/A [X]

24.05 If answer to 24.04 is yes, report amount of collateral for conforming programs. $ 0

24.06 If answer to 24.04 is no, report amount of collateral for other programs. $ 0

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

24.08 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [ ] No [ ] N/A [X]

24.09 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 [ ] N/A [X]

GENERAL INTERROGATORIES

24.10 For the reporting entity's security lending program state the amount of the following as December 31 of the current year:

24.101 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2. $ 0
24.102 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2 $ 0
24.103 Total payable for securities lending reported on the liability page. $ 0

25.1 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 21.1 and 24.03). Yes [ ] No [X]

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

25.21 Subject to repurchase agreements $ 0
25.22 Subject to reverse repurchase agreements $ 0
25.23 Subject to dollar repurchase agreements $ 0
25.24 Subject to reverse dollar repurchase agreements $ 0
25.25 Pledged as collateral $ 0
25.26 Placed under option agreements $ 0
25.27 Letter stock or other securities restricted as to sale $ 0
25.28 On deposit with state or other regulatory body $ 0
25.29 Other $ 0

25.3 For category (25.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

26.2 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.

27.1 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 [ ] No [X]

27.2 If yes, state the amount thereof at December 31 of the current year. $ 0

28. 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 [ ]

28.01 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
Bank of New York Mellon	1 Wall Street, N.Y. N.Y. 10286

28.02 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)

28.03 Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year? Yes [ ] No [X]
28.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

28.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of brokers/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
104596	Dodge & Cox	55 California St., San Francisco, CA 94104
105496	T. Rowe Price	100 E. Pratt St., Baltimore, MD 21202

GENERAL INTERROGATORIES

29.1 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 [ ]

29.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
922908-88-4	Vanguard Extended Markets Index	34,461,374
922040-10-0	Vanguard Institutional Index	46,524,289
921909-82-6	Vanguard Institutional Developed Markets Index	46,312,725
29.2999 - Total		127,298,388

29.3 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 Index	General Motors	275,691	12/31/2012
Vanguard Extended Market Index	Las Vegas Sands Corp	206,768	12/31/2012
Vanguard Extended Market Index	Liberty Global Inc.	172,307	12/31/2012
Vanguard Extended Market Index	Facebook Inc.	172,307	12/31/2012
Vanguard Extended Market Index	Liberty Media Corp - Liberty Capital	172,307	12/31/2012
Vanguard Institutional Index	Apple	1,814,447	12/31/2012
Vanguard Institutional Index	Exxon	1,442,253	12/31/2012
Vanguard Institutional Index	General Electric	790,913	12/31/2012
Vanguard Institutional Index	Chevron	790,913	12/31/2012
Vanguard Institutional Index	International Business Machines Corp.	744,389	12/31/2012
Vanguard Institutional Developed Markets Index Fund	Royal Dutch Shell plc	926,255	12/31/2012
Vanguard Institutional Developed Markets Index Fund	Nestle SA	879,942	12/31/2012
Vanguard Institutional Developed Markets Index Fund	BHP Billiton Ltd.	833,629	12/31/2012
Vanguard Institutional Developed Markets Index Fund	HSBC Holdings plc	833,629	12/31/2012
Vanguard Institutional Developed Markets Index Fund	Novartis AG	602,065	12/31/2012

30. 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 (+)
30.1 Bonds	556,752,543	577,838,178	21,085,635
30.2 Preferred stocks	0	0	0
30.3 Totals	556,752,543	577,838,178	21,085,635

30.4 Describe the sources or methods utilized in determining the fair values:
Custodian Bank

31.1 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 [ ]

31.2 If the answer to 31.1 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 [ ]

31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

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

32.2 If no, list exceptions:

GENERAL INTERROGATORIES

OTHER

33.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? $ 1,742,440

33.2 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	1,166,731

34.1 Amount of payments for legal expenses, if any? $ 1,378,682

34.2 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

35.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ 280,882

35.2 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	182,328

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. $ 16,142,630

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 $ 0

1.5 Indicate total incurred claims on all Medicare Supplement Insurance. $ 13,677,085

1.6 Individual policies:

Most current three years:
- 1.61 Total premium earned $ 4,900,441
- 1.62 Total incurred claims $ 5,546,061
- 1.63 Number of covered lives 2,573

All years prior to most current three years:
- 1.64 Total premium earned $ 11,242,189
- 1.65 Total incurred claims $ 8,131,024
- 1.66 Number of covered lives 3,769

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	3,188,284,857	3,108,426,300
2.2	Premium Denominator	3,204,928,073	3,126,784,071
2.3	Premium Ratio (2.1/2.2)	0.995	0.994
2.4	Reserve Numerator	996,182,367	965,938,170
2.5	Reserve Denominator	996,182,367	965,938,170
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 & 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 39,848
- 8.2 Number of providers at end of reporting year 46,896

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 $ 4,512,726
- 9.22 Business with rate guarantees over 36 months $ 0

GENERAL 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 entitiy 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. $ 111,713,281

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 attached footnote for detail information

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 funds administered as of the reporting date. $ 0

General Interrogatories
Part 2 - Health Interrogatories

Question 10.1 Incentive pool, withheld or bonus arrangements

Effective July 1, 2012, certain primary care physicians, who participated with the Company's Total Care and Cost Improvement program, which includes the Primary Care Medical Home program that was authorized by the Maryland Health Care Commission, and who met the criteria of the Outcomes Incentive Awards, received reimbursement increases through their fee schedules. The Company did not record any medical incentive pool amount in relation to the reimbursement increases as the impact from the change in fee schedules will be reported as claims and included in the unpaid claims liability when future provider claims are incurred. Therefore, no separate amount is payable to the providers.

Question 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

Prior Year's Premium Earned	$3,126,784,071
Less: FEP Premiums Earned	$1,730,368,058
Prior Year's Risk Premiums	$1,396,416,013
Multiply by Applicable Rate for the District of Columbia	8%
Minimum Statutory Reserve Requirements	$111,713,281

Maryland: $111,713,281 Minimum Statutory Reserve Requirement: calculated as 8% of prior year's risk premium.

Virginia: $177,420,299 calculated as 45 days of anticipated operating expenses and incurred claims expenses generated from subscription contracts.

	Incurred Claims (1)	Operating Expenses (2)
Total	$2,843,999,883	$369,798,576
Less: FEP	1,660,470,041	114,252,662
Incurred	1,183,529,842	255,545,914
Divided by	365	365
Times	45	45
	$145,914,638	31,505,661

$145,914,638 (incurred claims) plus $31,505,661 (Operating expenses) = $177,420,299

Note:

(1) Total Incurred Claims – Column 1 Line 17 Total medical and hospital claims of page 7 Analysis of Operations by lines of business. FEP Incurred Claims – Column 6 Line 17 Total medical and hospital claims of page 7 Analysis of Operations by lines of business.

(2) Total Operating Expenses – Column 1 Line 19 Claims adjustment expenses plus Line 20 General administrative expenses of page 7 Analysis of Operations by lines of business. FEP Operating Expenses – Column 6 Line 19 Claims adjustment expenses plus Line 20 General administrative expenses of page 7 Analysis of Operations by lines of business.

FIVE-YEAR HISTORICAL DATA

		1 2012	2 2011	3 2010	4 2009	5 2008
	Balance Sheet (Pages 2 and 3)					
1.	Total admitted assets (Page 2, Line 28)	2,251,288,120	2,293,335,089	2,173,566,611	1,887,553,960	1,772,935,044
2.	Total liabilities (Page 3, Line 24)	1,310,217,166	1,329,753,778	1,204,067,237	1,126,095,545	1,086,155,336
3.	Statutory surplus	111,713,281	109,593,628	108,690,100	101,088,276	110,888,548
4.	Total capital and surplus (Page 3, Line 33)	941,070,954	963,581,310	969,499,374	761,458,437	686,779,718
	Income Statement (Page 4)					
5.	Total revenues (Line 8)	3,165,924,323	3,059,417,446	2,917,428,638	2,890,867,898	2,757,511,005
6.	Total medical and hospital expenses (Line 18)	2,843,999,883	2,694,989,917	2,516,299,296	2,576,445,704	2,478,528,630
7.	Claims adjustment expenses (Line 20)	128,148,542	118,751,825	116,317,831	97,283,480	85,485,704
8.	Total administrative expenses (Line 21)	241,650,034	230,971,163	224,013,271	218,271,245	183,980,707
9.	Net underwriting gain (loss) (Line 24)	(47,874,136)	14,704,541	60,798,240	(1,132,531)	9,515,964
10.	Net investment gain (loss) (Line 27)	38,099,010	38,024,679	41,648,563	44,452,897	24,318,770
11.	Total other income (Lines 28 plus 29)	(1,577,913)	35,141	1,248,252	496,606	(3,237)
12.	Net income or (loss) (Line 32)	(7,516,480)	53,553,789	86,731,549	44,801,453	26,260,168
	Cash Flow (Page 6)					
13.	Net cash from operations (Line 11)	(76,977,361)	(15,585,238)	121,713,696	31,131,605	21,617,038
	Risk-Based Capital Analysis					
14.	Total adjusted capital	941,070,954	963,581,310	969,499,374	761,458,437	686,779,718
15.	Authorized control level risk-based capital	102,148,688	96,518,715	88,316,466	84,463,139	81,253,875
	Enrollment (Exhibit 1)					
16.	Total members at end of period (Column 5, Line 7)	803,048	815,218	796,147	861,753	928,875
17.	Total members months (Column 6, Line 7)	9,754,627	9,917,712	9,736,298	10,297,022	10,975,857
	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)	90.3	88.4	86.7	89.6	90.3
20.	Cost containment expenses	1.6	1.1	1.2	0.6	0.6
21.	Other claims adjustment expenses	2.5	2.8	2.8	2.7	2.5
22.	Total underwriting deductions (Line 23)	102.0	99.9	98.4	100.5	100.1
23.	Total underwriting gain (loss) (Line 24)	(1.5)	0.5	2.1	0.0	0.3
	Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
24.	Total claims incurred for prior years (Line 13, Col. 5)	312,412,095	261,476,380	237,059,016	244,125,662	249,272,344
25.	Estimated liability of unpaid claims-[prior year (Line 13, Col. 6)]	288,462,975	257,017,677	252,990,781	271,596,789	298,340,241
	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	0	0	205,252,996	179,364,063
29.	Affiliated short-term investments (subtotal included in Schedule DA Verification, Col. 5, Line 10)	0	0	0	0	0
30.	Affiliated mortgage loans on real estate	0	0	0	0	0
31.	All other affiliated	401,455,368	399,764,736	361,123,121	0	0
32.	Total of above Lines 26 to 31	401,455,368	399,764,736	361,123,121	205,252,996	179,364,063
33.	Total investment in parent included in Lines 26 to 31 above.	0	0	0	0	0

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

		1	Direct Business Only							
			2	3	4	5	6	7	8	9
	States, etc.	Active Status	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums & Other Considerations	Property/ Casualty Premiums	Total Columns 2 Through 7	Deposit-Type Contracts
1.	Alabama AL	N	0	0	0	0	0	0	0	0
2.	Alaska AK	N	0	0	0	0	0	0	0	0
3.	Arizona AZ	N	0	0	0	0	0	0	0	0
4.	Arkansas AR	N	0	0	0	0	0	0	0	0
5.	California CA	N	0	0	0	0	0	0	0	0
6.	Colorado CO	N	0	0	0	0	0	0	0	0
7.	Connecticut CT	N	0	0	0	0	0	0	0	0
8.	Delaware DE	N	0	0	0	0	0	0	0	0
9.	District of Columbia DC	L	470,080,477	0	0	339,294,162	0	0	809,374,639	0
10.	Florida FL	N	0	0	0	0	0	0	0	0
11.	Georgia GA	N	0	0	0	0	0	0	0	0
12.	Hawaii HI	N	0	0	0	0	0	0	0	0
13.	Idaho ID	N	0	0	0	0	0	0	0	0
14.	Illinois IL	N	0	0	0	0	0	0	0	0
15.	Indiana IN	N	0	0	0	0	0	0	0	0
16.	Iowa IA	N	0	0	0	0	0	0	0	0
17.	Kansas KS	N	0	0	0	0	0	0	0	0
18.	Kentucky KY	N	0	0	0	0	0	0	0	0
19.	Louisiana LA	N	0	0	0	0	0	0	0	0
20.	Maine ME	N	0	0	0	0	0	0	0	0
21.	Maryland MD	L	610,763,340	0	0	813,121,443	0	0	1,423,884,783	0
22.	Massachusetts MA	N	0	0	0	0	0	0	0	0
23.	Michigan MI	N	0	0	0	0	0	0	0	0
24.	Minnesota MN	N	0	0	0	0	0	0	0	0
25.	Mississippi MS	N	0	0	0	0	0	0	0	0
26.	Missouri MO	N	0	0	0	0	0	0	0	0
27.	Montana MT	N	0	0	0	0	0	0	0	0
28.	Nebraska NE	N	0	0	0	0	0	0	0	0
29.	Nevada NV	N	0	0	0	0	0	0	0	0
30.	New Hampshire NH	N	0	0	0	0	0	0	0	0
31.	New Jersey NJ	N	0	0	0	0	0	0	0	0
32.	New Mexico NM	N	0	0	0	0	0	0	0	0
33.	New York NY	N	0	0	0	0	0	0	0	0
34.	North Carolina NC	N	0	0	0	0	0	0	0	0
35.	North Dakota ND	N	0	0	0	0	0	0	0	0
36.	Ohio OH	N	0	0	0	0	0	0	0	0
37.	Oklahoma OK	N	0	0	0	0	0	0	0	0
38.	Oregon OR	N	0	0	0	0	0	0	0	0
39.	Pennsylvania PA	N	0	0	0	0	0	0	0	0
40.	Rhode Island RI	N	0	0	0	0	0	0	0	0
41.	South Carolina SC	N	0	0	0	0	0	0	0	0
42.	South Dakota SD	N	0	0	0	0	0	0	0	0
43.	Tennessee TN	N	0	0	0	0	0	0	0	0
44.	Texas TX	N	0	0	0	0	0	0	0	0
45.	Utah UT	N	0	0	0	0	0	0	0	0
46.	Vermont VT	N	0	0	0	0	0	0	0	0
47.	Virginia VA	L	521,586,600	0	0	665,220,550	0	0	1,186,807,150	0
48.	Washington WA	N	0	0	0	0	0	0	0	0
49.	West Virginia WV	N	0	0	0	0	0	0	0	0
50.	Wisconsin WI	N	0	0	0	0	0	0	0	0
51.	Wyoming WY	N	0	0	0	0	0	0	0	0
52.	American Samoa AS	N	0	0	0	0	0	0	0	0
53.	Guam GU	N	0	0	0	0	0	0	0	0
54.	Puerto Rico PR	N	0	0	0	0	0	0	0	0
55.	U.S. Virgin Islands VI	N	0	0	0	0	0	0	0	0
56.	Northern Mariana Islands MP	N	0	0	0	0	0	0	0	0
57.	Canada CAN	N	0	0	0	0	0	0	0	0
58.	Aggregate other alien OT	XXX	0	0	0	0	0	0	0	0
59.	Subtotal	XXX	1,602,430,417	0	0	1,817,636,155	0	0	3,420,066,572	0
60.	Reporting entity contributions for Employee Benefit Plans	XXX	0	0	0	0	0	0	0	0
61.	Total (Direct Business)	(a) 3	1,602,430,417	0	0	1,817,636,155	0	0	3,420,066,572	0
	DETAILS OF WRITE-INS									
58001.		XXX								
58002.		XXX								
58003.		XXX								
58998.	Summary of remaining write-ins for Line 58 from overflow page	XXX	0	0	0	0	0	0	0	0
58999.	Totals (Lines 58001 through 58003 plus 58998)(Line 58 above)	XXX	0	0	0	0	0	0	0	0

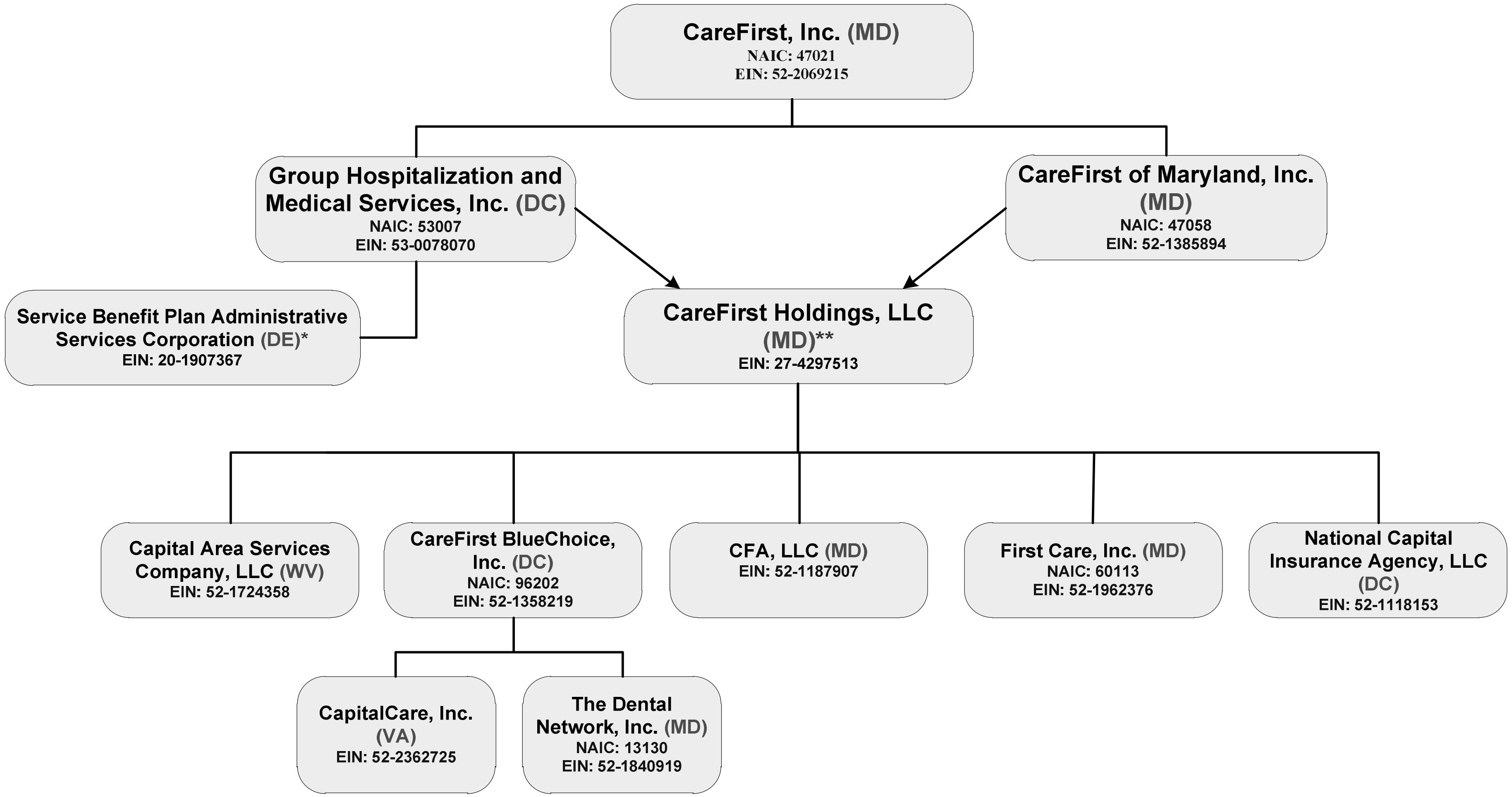
(L) Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) Registered - Non-domiciled RRGs; (Q) Qualified - Qualified or Accredited Reinsurer; (E) Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) None of the above - Not allowed to write business 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 (FEHBP). FEHBP premiums from members residing in the United States are reported based on the members' residence whereas premiums from overseas members are reported in D.C.

(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.
****CareFirst Holdings, LLC** is owned 50.001% by CareFirst of Maryland, Inc. and 49.999% by Group Hospitalization and Medical Services, Inc .

OVERFLOW PAGE FOR WRITE-INS

Additional Write-ins for Assets Line 25

		Current Year 1 Assets	Current Year 2 Nonadmitted Assets	Current Year 3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
2504.	Pension - Intangible	0	0	0	0
2597.	Summary of remaining write-ins for Line 25 from overflow page	0	0	0	0

Additional Write-ins for Liabilities Line 23

		Current Year 1 Covered	Current Year 2 Uncovered	Current Year 3 Total	Prior Year 4 Total
2304.		0	0	0	0
2305.		0	0	0	0
2307.	Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0

Additional Write-ins for Underwriting and Investment Exhibit Part 3 Line 25

		Claim Adjustment Expenses 1 Cost Containment Expenses	Claim Adjustment Expenses 2 Other Claim Adjustment Expenses	3 General Administrative Expenses	4 Investment Expenses	5 Total
2504.	Miscellaneous expenses reimbursement	0	(6,014,400)	0	0	(6,014,400)
2505.	Interest claims expense	0	1,311,690	0	0	1,311,690
2506.	Investment income return to retrospective groups	0	0	(2,253)	0	(2,253)
2507.	Network Access Reimbursement - PAR	0	(9,454,011)	0	0	(9,454,011)
2508.	Direct Reimbursements	0	(4,452,360)	0	0	(4,452,360)
2509.	Miscellaneous expense	(260,890)	122,577	(395,710)	0	(534,023)
2510.	Management fee and Investment expense	0	0	4,999,901	0	4,999,901
2511.	Management Transfer Pricing - CFBC	(1,078,541)	(3,116,940)	(4,467,498)	0	(8,662,979)
2512.	Management Transfer Pricing - CASCI	445,629	1,287,850	1,845,871	0	3,579,350
2513.	Net Cede to CFMI	(2,853,356)	(8,248,446)	(33,285,780)	0	(44,387,582)
2514.	Assumed from FirstCare	50,929	807,908	714,310	0	1,573,147
2597.	Summary of remaining write-ins for Line 25 from overflow page	(3,696,229)	(27,756,132)	(30,591,159)	0	(62,043,520)

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK

ANNUAL STATEMENT BLANK (Continued)