



**HEALTH ANNUAL STATEMENT  
FOR THE YEAR ENDING DECEMBER 31, 2007  
OF THE CONDITION AND AFFAIRS OF THE**

**Group Hospitalization and Medical Services, Inc.**

NAIC Group Code 0380 , 0380 NAIC Company Code 53007 Employer's ID Number 53-0078070  
(Current Period) (Prior Period)

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

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

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

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

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

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

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

Internet Website Address www.carefirst.com

Statutory Statement Contact William Vincent Stack 410-998-7011  
(Name) (Area Code) (Telephone Number) (Extension)  
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**OFFICERS**

Name	Title	Name	Title
<u>David Donald Wolf</u>	<u>Interim CEO</u>	<u>John Anthony Picciotto</u>	<u>Corp.Secretary, Exec. VP &amp; Gen. Counsel</u>
<u>Jeanne Ann Kennedy</u>	<u>Corp. Treasurer &amp; VP</u>		

**OTHER OFFICERS**

<u>David Donald Wolf</u>	<u>Exec VP, Med Sysys, Corp Dev</u>	<u>Gregory Mark Chaney</u>	<u>Exec. VP &amp; CFO</u>
<u>Gregory Allen Devou</u>	<u>Exec VP, Chief Mktg Office</u>	<u>Leon Kaplan</u>	<u>Exec VP, Operations</u>
<u>Gwendolyn Denise Skillern</u>	<u>Sr.VP and General Auditor</u>	<u>Edward William O'Neil</u>	<u>Sr. VP, Chief Actuary</u>
<u>Michael John Felber</u>	<u>SVP, Sales</u>	<u>Livio Renato Broccolino</u>	<u>Deputy General Counsel</u>
<u>Sharon Jean Vecchioni</u>	<u>Exec VP, Chief of Staff</u>	<u>Rita Ann Costello</u>	<u>Sr. VP, Strategic Marketing</u>
<u>Joseph Gabriel Rampone</u>	<u>Sr. VP, Operations</u>	<u>Jon Paul Shematek</u>	<u>Interim SVP, Chief Medical Officer</u>
			<u>Interim SVP, Chief Information Officer</u>
<u>Maynard George McAlpin</u>	<u>Executive Director, NCA</u>	<u>Glenn Rothman</u>	<u>Officer</u>

**DIRECTORS OR TRUSTEES**

<u>Michel Llewellyn Daley</u>	<u>Elizabeth Lisboa-Farrow</u>	<u>Robert Marcellus Willis</u>	<u>Natalie Olivia Ludaway</u>
<u>James Wallace</u>	<u>Larry Donovan Bailey</u>	<u>Nathaniel Thomas Connally</u>	<u>Robert Lee Sloan</u>
<u>Linda Washington Cropp</u>	<u>Carlos Mario Rodriguez</u>	<u>Faye Ford Fields</u>	<u>Ralph John Rohner</u>

State of .....  
 County of .....

**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.

David Donald Wolf  
Interim CEO

John Anthony Picciotto  
Corp.Secretary, Exec. VP & Gen. Counsel

Jeanne Ann Kennedy  
Corp. Treasurer & VP

Subscribed and sworn to before me this  
 \_\_\_\_\_ day of \_\_\_\_\_,

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

**ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.**

**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).....	680,456,306		680,456,306	636,934,705
2. Stocks (Schedule D):				
2.1 Preferred stocks .....	6,993,139		6,993,139	13,728,587
2.2 Common stocks .....	269,941,574		269,941,574	262,218,323
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens .....			0	0
3.2 Other than first liens .....			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ ..... encumbrances).....			0	0
4.2 Properties held for the production of income (less \$ ..... encumbrances) .....			0	0
4.3 Properties held for sale (less \$ ..... encumbrances) .....			0	0
5. Cash (\$ .....(80,040,223) , Schedule E, Part 1), cash equivalents (\$ .....0 , Schedule E, Part 2) and short-term investments (\$ .....86,001,638 , Schedule DA).....	5,961,415		5,961,415	(1,268,613)
6. Contract loans, (including \$ .....premium notes)			0	0
7. Other invested assets (Schedule BA) .....	166,667	166,667	0	0
8. Receivables for securities .....			0	0
9. Aggregate write-ins for invested assets .....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9) .....	963,519,101	166,667	963,352,434	911,613,002
11. Title plants less \$ .....charged off (for Title Insurers only) .....			0	0
12. Investment income due and accrued .....	6,273,913		6,273,913	5,863,168
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection .....	228,002,511		228,002,511	192,477,854
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ .....earned but unbilled premium).....			0	0
13.3 Accrued retrospective premium.....			0	0
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers .....	0		0	0
14.2 Funds held by or deposited with reinsured companies .....			0	0
14.3 Other amounts receivable under reinsurance contracts .....	624,393		624,393	529,186
15. Amounts receivable relating to uninsured plans .....	56,140,351	417,999	55,722,352	43,473,989
16.1 Current federal and foreign income tax recoverable and interest thereon .....	5,297,341		5,297,341	0
16.2 Net deferred tax asset.....	10,685,314	3,773,362	6,911,952	6,816,098
17. Guaranty funds receivable or on deposit .....			0	0
18. Electronic data processing equipment and software.....	54,052,056	52,165,966	1,886,090	1,277,888
19. Furniture and equipment, including health care delivery assets (\$ ..... ) .....	5,531,366	5,531,366	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates .....			0	0
21. Receivables from parent, subsidiaries and affiliates .....	1,493,198	15,990	1,477,208	609,805
22. Health care (\$ .....43,201,784 ) and other amounts receivable.....	431,140,117	3,482,321	427,657,796	525,660,653
23. Aggregate write-ins for other than invested assets .....	28,199,271	25,860,956	2,338,315	2,306,729
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	1,790,958,932	91,414,627	1,699,544,305	1,690,628,372
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
26. Total (Lines 24 and 25)	1,790,958,932	91,414,627	1,699,544,305	1,690,628,372
<b>DETAILS OF WRITE-INS</b>				
0901. ....				
0902. ....				
0903. ....				
0998. Summary of remaining write-ins for Line 9 from overflow page .....	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9 above)	0	0	0	0
2301. Other Assets.....	2,338,315		2,338,315	2,306,729
2302. Other Assets Non-Admitted.....	25,860,956	25,860,956	0	0
2303. ....			0	0
2398. Summary of remaining write-ins for Line 23 from overflow page .....	0	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	28,199,271	25,860,956	2,338,315	2,306,729

## LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ ..... reinsurance ceded)	298,340,241		298,340,241	265,360,719
2. Accrued medical incentive pool and bonus amounts			0	0
3. Unpaid claims adjustment expenses	8,827,800		8,827,800	8,324,800
4. Aggregate health policy reserves	384,456,009		384,456,009	492,881,873
5. Aggregate life policy reserves			0	0
6. Property/casualty unearned premium reserves			0	0
7. Aggregate health claim reserves			0	0
8. Premiums received in advance	64,973,791		64,973,791	54,899,943
9. General expenses due or accrued	88,848,986		88,848,986	92,887,312
10.1 Current federal and foreign income tax payable and interest thereon (including \$ ..... on realized capital gains (losses))			0	5,904,873
10.2 Net deferred tax liability			0	0
11. Ceded reinsurance premiums payable			0	0
12. Amounts withheld or retained for the account of others	45,325,093		45,325,093	82,840,556
13. Remittance and items not allocated	4,164,275		4,164,275	3,639,102
14. Borrowed money (including \$ ..... current) and interest thereon \$ ..... (including \$ ..... current)			0	0
15. Amounts due to parent, subsidiaries and affiliates	18,085,523		18,085,523	14,272,802
16. Payable for securities			0	0
17. Funds held under reinsurance treaties with (\$ ..... authorized reinsurers and \$ ..... unauthorized reinsurers)			0	0
18. Reinsurance in unauthorized companies			0	0
19. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
20. Liability for amounts held under uninsured plans	25,989,928		25,989,928	0
21. Aggregate write-ins for other liabilities (including \$ ..... current)	6,973,737	0	6,973,737	6,609,986
22. Total liabilities (Lines 1 to 21)	945,985,383	0	945,985,383	1,027,621,966
23. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
24. Common capital stock	XXX	XXX		0
25. Preferred capital stock	XXX	XXX		0
26. Gross paid in and contributed surplus	XXX	XXX		0
27. Surplus notes	XXX	XXX		0
28. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
29. Unassigned funds (surplus)	XXX	XXX	753,558,921	663,006,406
30. Less treasury stock, at cost:				
30.1 ..... shares common (value included in Line 24 \$ ..... )	XXX	XXX		0
30.2 ..... shares preferred (value included in Line 25 \$ ..... )	XXX	XXX		0
31. Total capital and surplus (Lines 23 to 29 minus Line 30)	XXX	XXX	753,558,921	663,006,406
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	1,699,544,304	1,690,628,372
<b>DETAILS OF WRITE-INS</b>				
2101. Amounts Withheld for Escheatment	6,372,874		6,372,874	6,165,450
2102. Reinsurance Payable	600,863		600,863	444,536
2103. ....				
2198. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 through 2103 plus 2198) (Line 21 above)	6,973,737	0	6,973,737	6,609,986
2301. ....	XXX	XXX		
2302. ....	XXX	XXX		
2303. ....	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	XXX	XXX	0	0
2801. ....	XXX	XXX		
2802. ....	XXX	XXX		
2803. ....	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page	XXX	XXX	0	0
2899. Totals (Lines 2801 through 2803 plus 2898) (Line 28 above)	XXX	XXX	0	0

**STATEMENT OF REVENUE AND EXPENSES**

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months.....	XXX	9,972,510	9,399,669
2. Net premium income (including \$ .....0 non-health premium income).....	XXX	2,713,085,834	2,486,013,359
3. Change in unearned premium reserves and reserve for rate credits .....	XXX	101,943,804	(29,481,980)
4. Fee-for-service (net of \$ ..... medical expenses) .....	XXX		0
5. Risk revenue .....	XXX		0
6. Aggregate write-ins for other health care related revenues .....	XXX	13,452,426	1,062,500
7. Aggregate write-ins for other non-health revenues .....	XXX	0	0
8. Total revenues (Lines 2 to 7) .....	XXX	2,828,482,064	2,457,593,879
<b>Hospital and Medical:</b>			
9. Hospital/medical benefits .....		1,671,757,453	1,387,314,944
10. Other professional services .....		53,177,124	47,977,529
11. Outside referrals .....			0
12. Emergency room and out-of-area .....	2,085	224,722,461	192,036,850
13. Prescription drugs .....		552,626,813	546,060,986
14. Aggregate write-ins for other hospital and medical.....	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts.....			0
16. Subtotal (Lines 9 to 15) .....	2,085	2,502,283,851	2,173,390,309
<b>Less:</b>			
17. Net reinsurance recoveries .....		(5,059,860)	(4,026,136)
18. Total hospital and medical (Lines 16 minus 17) .....	2,085	2,507,343,711	2,177,416,445
19. Non-health claims (net).....			0
20. Claims adjustment expenses, including \$ .....19,160,670 cost containment expenses.....		82,496,274	73,978,438
21. General administrative expenses.....		197,711,266	157,162,197
22. Increase in reserves for life and accident and health contracts (including \$ ..... increase in reserves for life only).....		0	0
23. Total underwriting deductions (Lines 18 through 22) .....	2,085	2,787,551,251	2,408,557,080
24. Net underwriting gain or (loss) (Lines 8 minus 23) .....	XXX	40,930,813	49,036,799
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		40,946,783	35,369,384
26. Net realized capital gains (losses) less capital gains tax of \$ .....294,511 .....		1,178,044	(1,204,288)
27. Net investment gains (losses) (Lines 25 plus 26) .....	0	42,124,827	34,165,096
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$ ..... ) (amount charged off \$ ..... )] .....			0
29. Aggregate write-ins for other income or expenses .....	0	550,806	201,917
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	83,606,446	83,403,812
31. Federal and foreign income taxes incurred .....	XXX	15,182,545	18,780,899
32. Net income (loss) (Lines 30 minus 31) .....	XXX	68,423,901	64,622,913
<b>DETAILS OF WRITE-INS</b>			
0601. FEP Performance Incentive.....	XXX	13,343,000	1,062,500
0602. Trigon network fee - Med D.....	XXX	109,426	0
0603. ....	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page .....	XXX	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above) .....	XXX	13,452,426	1,062,500
0701. ....	XXX		
0702. ....	XXX		
0703. ....	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page .....	XXX	0	0
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 7 above) .....	XXX	0	0
1401. ....			
1402. ....			
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page .....	0	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above) .....	0	0	0
2901. Miscellaneous.....		550,806	201,917
2902. ....			
2903. ....			
2998. Summary of remaining write-ins for Line 29 from overflow page .....	0	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above) .....	0	550,806	201,917

**STATEMENT OF REVENUE AND EXPENSES (continued)**

	1 Current Year	2 Prior Year
<b>CAPITAL AND SURPLUS ACCOUNT:</b>		
33. Capital and surplus prior-reporting period .....	663,006,402	560,967,145
34. Net income or (loss) from Line 32 .....	68,423,901	64,622,913
35. Change in valuation basis of aggregate policy and claim reserves .....		0
36. Change in net unrealized capital gains (losses) less capital gains tax of \$ .....(1,672,535) .....	26,203,911	36,452,894
37. Change in net unrealized foreign exchange capital gain or (loss) .....	373,266	0
38. Change in net deferred income tax .....	(1,527,159)	(371,644)
39. Change in nonadmitted assets .....	(2,491,397)	1,726,065
40. Change in unauthorized reinsurance .....	0	0
41. Change in treasury stock .....	0	0
42. Change in surplus notes .....	0	0
43. Cumulative effect of changes in accounting principles .....		0
44. Capital Changes:		
44.1 Paid in .....	0	0
44.2 Transferred from surplus (Stock Dividend) .....		0
44.3 Transferred to surplus .....		0
45. Surplus adjustments:		
45.1 Paid in .....	0	0
45.2 Transferred to capital (Stock Dividend) .....	0	0
45.3 Transferred from capital .....		0
46. Dividends to stockholders .....		0
47. Aggregate write-ins for gains or (losses) in surplus .....	(430,005)	(390,971)
48. Net change in capital & surplus (Lines 34 to 47) .....	90,552,517	102,039,257
49. Capital and surplus end of reporting period (Line 33 plus 48)	753,558,919	663,006,402
<b>DETAILS OF WRITE-INS</b>		
4701. SBP minority interest prior year.....		8,294
4702. Change in accumulated other - pension.....	(265,306)	(399,265)
4703. Miscellaneous.....	(164,699)	0
4798. Summary of remaining write-ins for Line 47 from overflow page .....	0	0
4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above)	(430,005)	(390,971)

## CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance.....	2,681,057,758	2,467,636,913
2. Net investment income .....	40,168,933	35,995,682
3. Miscellaneous income .....	13,452,426	1,062,500
4. Total (Lines 1 through 3) .....	2,734,679,117	2,504,695,095
5. Benefit and loss related payments .....	2,476,014,992	2,169,437,347
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions .....	252,959,581	211,330,993
8. Dividends paid to policyholders .....	0	0
9. Federal and foreign income taxes paid (recovered) net of \$ ..... tax on capital gains (losses).....	26,679,269	8,404,508
10. Total (Lines 5 through 9) .....	2,755,653,842	2,389,172,848
11. Net cash from operations (Line 4 minus Line 10) .....	(20,974,725)	115,522,247
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds .....	833,525,028	624,290,519
12.2 Stocks .....	107,940,498	43,357,106
12.3 Mortgage loans .....	0	0
12.4 Real estate .....	0	0
12.5 Other invested assets .....	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments .....	0	827
12.7 Miscellaneous proceeds .....	5,044,588	1,259,522
12.8 Total investment proceeds (Lines 12.1 to 12.7) .....	946,510,114	668,907,974
13. Cost of investments acquired (long-term only):		
13.1 Bonds .....	878,833,411	764,907,452
13.2 Stocks .....	80,471,537	41,982,827
13.3 Mortgage loans .....	0	0
13.4 Real estate .....	0	0
13.5 Other invested assets .....	0	0
13.6 Miscellaneous applications .....	4,970,267	680,601
13.7 Total investments acquired (Lines 13.1 to 13.6) .....	964,275,215	807,570,879
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) .....	(17,765,101)	(138,662,905)
<b>Cash from Financing and Miscellaneous Sources</b>		
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).....	45,969,853	(18,932,873)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6) .....	45,969,853	(18,932,873)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17).....	7,230,027	(42,073,531)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year .....	(1,268,613)	40,804,918
19.2 End of year (Line 18 plus Line 19.1) .....	5,961,414	(1,268,613)

**ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.**

**ANALYSIS OF OPERATIONS BY LINES OF BUSINESS**

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Net premium income	2,713,085,833	1,285,976,630	15,255,726	60,911,115	0	1,326,978,986	0	0	23,963,376	0
2. Change in unearned premium reserves and reserve for rate credit	101,943,804	2,894,461				99,049,343				
3. Fee-for-service (net of \$ medical expenses)	0	0								XXX
4. Risk revenue	0									XXX
5. Aggregate write-ins for other health care related revenues	13,452,426	0	0	0	0	13,452,426	0	0	0	XXX
6. Aggregate write-ins for other non-health care related revenues	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6)	2,828,482,063	1,288,871,091	15,255,726	60,911,115	0	1,439,480,755	0	0	23,963,376	0
8. Hospital/medical/ benefits	1,671,757,453	726,847,708	7,281,323			933,295,247			4,333,175	XXX
9. Other professional services	53,177,124	4,245,048	42,526	43,419,767		5,450,775			19,008	XXX
10. Outside referrals	0									XXX
11. Emergency room and out-of-area	224,722,460	97,768,047	979,408			125,537,238			437,767	XXX
12. Prescription Drugs	552,626,813	240,895,816	2,413,216			309,317,781				XXX
13. Aggregate write-ins for other hospital and medical	0	0	0	0	0	0	0	0	0	XXX
14. Incentive pool, withhold adjustments and bonus amounts	0									XXX
15. Subtotal (Lines 8 to 14)	2,502,283,850	1,069,756,619	10,716,473	43,419,767	0	1,373,601,041	0	0	4,789,950	XXX
16. Net reinsurance recoveries	(5,059,860)	(72,386)							(4,987,474)	XXX
17. Total hospital and medical (Lines 15 minus 16)	2,507,343,710	1,069,829,005	10,716,473	43,419,767	0	1,373,601,041	0	0	9,777,424	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
19. Claims adjustment expenses including \$ 19,160,670 cost containment expenses	82,496,274	42,799,774	1,576,534	2,714,218		34,158,733			1,247,015	
20. General administrative expenses	197,711,265	159,775,026	1,764,300	4,652,527		21,759,076			9,760,336	
21. Increase in reserves for accident and health contracts	0									XXX
22. Increase in reserves for life contracts	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22)	2,787,551,249	1,272,403,805	14,057,307	50,786,512	0	1,429,518,850	0	0	20,784,775	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23)	40,930,814	16,467,286	1,198,419	10,124,603	0	9,961,905	0	0	3,178,601	0
<b>DETAILS OF WRITE-INS</b>										
0501. FEP Performance Incentive	13,452,426					13,452,426			0	XXX
0502.										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 through 0503 plus 0598) (Line 5 above)	13,452,426	0	0	0	0	13,452,426	0	0	0	XXX
0601.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
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 through 0603 plus 0698) (Line 6 above)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
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 through 1303 plus 1398) (Line 13 above)	0	0	0	0	0	0	0	0	0	XXX

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STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

**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) .....	1,285,962,630	14,000		1,285,976,630
2. Medicare Supplement .....	15,255,726			15,255,726
3. Dental Only.....	60,911,115			60,911,115
4. Vision Only.....				0
5. Federal Employees Health Benefits Plan .....	1,326,978,986			1,326,978,986
6. Title XVIII - Medicare .....				0
7. Title XIX - Medicaid.....				0
8. Other health.....	17,873,756	6,089,621		23,963,377
9. Health subtotal (Lines 1 through 8) .....	2,706,982,213	6,103,621	0	2,713,085,834
10. Life .....				0
11. Property/casualty.....				0
12. Totals (Lines 9 to 11)	2,706,982,213	6,103,621	0	2,713,085,834

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2 - Claims Incurred During the Year**

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct .....	2,485,131,118	1,074,906,305	11,000,272	42,209,768		1,351,031,724			5,983,049	
1.2 Reinsurance assumed .....	5,126,956	72,386		0					5,054,570	
1.3 Reinsurance ceded .....	0									
1.4 Net .....	2,490,258,074	1,074,978,691	11,000,272	42,209,768	0	1,351,031,724	0	0	11,037,619	0
2. Paid medical incentive pools and bonuses .....	0									
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct .....	298,236,451	111,931,001	2,090,000	4,410,999	0	176,159,318	0	0	3,645,133	0
3.2 Reinsurance assumed .....	103,789	0	0	0	0	0	0	0	103,789	0
3.3 Reinsurance ceded .....	0	0	0	0	0	0	0	0	0	0
3.4 Net .....	298,340,240	111,931,001	2,090,000	4,410,999	0	176,159,318	0	0	3,748,922	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct .....	0									
4.2 Reinsurance assumed .....	0									
4.3 Reinsurance ceded .....	0	0	0	0	0	0	0	0	0	0
4.4 Net .....	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year .....	0									
6. Net healthcare receivables (a) .....	15,893,886	15,893,886								
7. Amounts recoverable from reinsurers December 31, current year .....	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct .....	265,189,833	101,186,800	2,373,800	3,201,000	0	153,590,000	0	0	4,838,233	0
8.2 Reinsurance assumed .....	170,886	0	0	0	0	0	0	0	170,886	0
8.3 Reinsurance ceded .....	0	0	0	0	0	0	0	0	0	0
8.4 Net .....	265,360,719	101,186,800	2,373,800	3,201,000	0	153,590,000	0	0	5,009,119	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 .....	2,502,283,850	1,069,756,620	10,716,472	43,419,767	0	1,373,601,042	0	0	4,789,949	0
12.2 Reinsurance assumed .....	5,059,859	72,386	0	0	0	0	0	0	4,987,473	0
12.3 Reinsurance ceded .....	0	0	0	0	0	0	0	0	0	0
12.4 Net .....	2,507,343,709	1,069,829,006	10,716,472	43,419,767	0	1,373,601,042	0	0	9,777,422	0
13. Incurred medical incentive pools and bonuses .....	0	0	0	0	0	0	0	0	0	0

(a) Excludes \$ loans or advances to providers not yet expensed.

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STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 2A - Claims Liability End of Current Year**

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Reported in Process of Adjustment:										
1.1. Direct .....	3,017,213	1,132,389	21,144	44,625		1,782,178			36,877	
1.2. Reinsurance assumed .....	0									
1.3. Reinsurance ceded .....	0									
1.4. Net .....	3,017,213	1,132,389	21,144	44,625	0	1,782,178	0	0	36,877	0
2. Incurred but Unreported:										
2.1. Direct .....	295,219,238	110,798,612	2,068,856	4,366,374		174,377,140			3,608,256	
2.2. Reinsurance assumed .....	103,789								103,789	
2.3. Reinsurance ceded .....	0									
2.4. Net .....	295,323,027	110,798,612	2,068,856	4,366,374	0	174,377,140	0	0	3,712,045	0
3. Amounts Withheld from Paid Claims and Capitations:										
3.1. Direct .....	0									
3.2. Reinsurance assumed .....	0									
3.3. Reinsurance ceded .....	0									
3.4. Net .....	0	0	0	0	0	0	0	0	0	0
4. TOTALS:										
4.1. Direct .....	298,236,451	111,931,001	2,090,000	4,410,999	0	176,159,318	0	0	3,645,133	0
4.2. Reinsurance assumed .....	103,789	0	0	0	0	0	0	0	103,789	0
4.3. Reinsurance ceded .....	0	0	0	0	0	0	0	0	0	0
4.4. Net .....	298,340,240	111,931,001	2,090,000	4,410,999	0	176,159,318	0	0	3,748,922	0

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE**

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability Dec. 31 of Current Year		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	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		
1. Comprehensive (hospital and medical) .....	85,656,058	989,322,632	1,098,600	110,832,401	86,754,658	101,186,800
2. Medicare Supplement .....	1,755,417	9,244,855	30,300	2,059,700	1,785,717	2,373,800
3. Dental Only.....	3,086,946	39,122,822	12,700	4,398,299	3,099,646	3,201,000
4. Vision Only.....					.0	.0
5. Federal Employees Health Benefits Plan Premiums .....	145,240,370	1,205,791,354	1,402,000	174,757,318	146,642,370	153,590,000
6. Title XVIII - Medicare .....					.0	.0
7. Title XIX - Medicaid.....					.0	.0
8. Other health .....	2,566	11,035,054		3,748,923	2,566	5,009,119
9. Health subtotal (Lines 1 to 8).....	235,741,357	2,254,516,717	2,543,600	295,796,641	238,284,957	265,360,719
10. Healthcare receivables (a).....		15,893,886			.0	
11. Other non-health.....					.0	.0
12. Medical incentive pools and bonus amounts .....					.0	.0
13. Totals (Lines 9 - 10 + 11 + 12)	235,741,357	2,238,622,831	2,543,600	295,796,641	238,284,957	265,360,719

(a) Excludes \$ .....27,926,507 loans or advances to providers not yet expensed.

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

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

**Section A – Paid Health Claims - Hospital and Medical**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	1,054,341	1,055,699	1,056,250	1,056,135	1,056,137
2. 2003 .....	557,213	629,935	630,877	630,531	630,560
3. 2004 .....	XXX	550,216	607,357	607,911	607,991
4. 2005 .....	XXX	XXX	715,332	790,000	791,599
5. 2006 .....	XXX	XXX	XXX	802,589	886,535
6. 2007 .....	XXX	XXX	XXX	XXX	973,429

**Section B – Incurred Health Claims - Hospital and Medical**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	1,056,418	1,055,699	1,056,250	1,056,135	1,056,137
2. 2003 .....	650,200	631,276	630,877	630,531	630,560
3. 2004 .....	XXX	638,675	608,938	607,911	607,991
4. 2005 .....	XXX	XXX	807,362	791,377	791,599
5. 2006 .....	XXX	XXX	XXX	902,398	887,633
6. 2007 .....	XXX	XXX	XXX	XXX	1,084,261

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

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2003 .....	788,619	630,560		0.0	630,560	80.0			630,560	80.0
2. 2004 .....	813,060	607,991		0.0	607,991	74.8			607,991	74.8
3. 2005 .....	935,200	791,599	24,504	3.1	816,103	87.3			816,103	87.3
4. 2006 .....	1,075,236	886,535	29,652	3.3	916,187	85.2	1,099	33	917,319	85.3
5. 2007 .....	1,288,871	973,429	37,318	3.8	1,010,747	78.4	110,832	4,541	1,126,120	87.4

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

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

**Section A – Paid Health Claims - Medicare Supplement**

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	31,408	31,501	31,557	31,528	31,528
2. 2003 .....	10,181	12,408	12,489	12,485	12,484
3. 2004 .....	XXX	9,724	11,596	11,765	11,765
4. 2005 .....	XXX	XXX	9,925	11,923	11,959
5. 2006 .....	XXX	XXX	XXX	9,371	11,091
6. 2007 .....	XXX	XXX	XXX	XXX	9,245

**Section B - Incurred Health Claims - Medicare Supplement**

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	31,462	31,502	31,557	31,528	31,528
2. 2003 .....	12,797	12,510	12,489	12,485	12,484
3. 2004 .....	XXX	12,141	11,646	11,765	11,765
4. 2005 .....	XXX	XXX	11,965	11,980	11,959
5. 2006 .....	XXX	XXX	XXX	11,688	11,122
6. 2007 .....	XXX	XXX	XXX	XXX	11,305

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

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2003.....	19,725	12,484		0.0	12,484	63.3			12,484	63.3
2. 2004.....	18,188	11,765		0.0	11,765	64.7			11,765	64.7
3. 2005.....	16,384	11,959	370	3.1	12,329	75.3			12,329	75.3
4. 2006.....	15,172	11,091	371	3.3	11,462	75.5	30	1	11,493	75.8
5. 2007.....	15,256	9,245	1,375	14.9	10,620	69.6	2,060	167	12,847	84.2

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STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

**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 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	35,991	36,010	36,012	36,056	36,057
2. 2003 .....	13,676	15,494	15,512	15,528	15,529
3. 2004 .....	XXX	18,259	20,511	20,570	20,578
4. 2005 .....	XXX	XXX	25,221	28,065	28,085
5. 2006 .....	XXX	XXX	XXX	35,177	38,235
6. 2007 .....	XXX	XXX	XXX	XXX	39,123

**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 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	36,004	36,010	36,013	36,056	36,057
2. 2003 .....	15,258	15,508	15,512	15,528	15,529
3. 2004 .....	XXX	20,434	20,521	20,570	20,578
4. 2005 .....	XXX	XXX	29,062	280,736	28,085
5. 2006 .....	XXX	XXX	XXX	38,370	38,248
6. 2007 .....	XXX	XXX	XXX	XXX	43,521

**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 Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2003 .....	25,352	15,529		0.0	15,529	61.3			15,529	61.3
2. 2004 .....	29,686	20,578		0.0	20,578	69.3			20,578	69.3
3. 2005 .....	41,263	28,085	869	3.1	28,954	70.2			28,954	70.2
4. 2006 .....	50,825	38,235	1,279	3.3	39,514	77.7	13		39,527	77.8
5. 2007 .....	60,911	39,123	2,367	6.1	41,490	68.1	4,398	288	46,176	75.8

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

**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 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	1,901,169	1,904,077	1,904,077	1,903,921	1,903,733
2. 2003 .....	875,842	1,013,666	1,013,664	1,013,068	1,012,940
3. 2004 .....	XXX	983,691	1,112,379	1,113,398	1,112,882
4. 2005 .....	XXX	XXX	1,045,438	1,167,825	1,168,373
5. 2006 .....	XXX	XXX	XXX	1,101,484	1,247,007
6. 2007 .....	XXX	XXX	XXX	XXX	1,205,791

**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 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	1,902,355	1,904,078	1,904,078	1,903,921	1,903,733
2. 2003 .....	1,017,837	1,015,776	1,013,664	1,013,068	1,012,940
3. 2004 .....	XXX	1,114,831	1,115,524	1,113,398	1,112,882
4. 2005 .....	XXX	XXX	1,188,573	1,169,197	1,168,373
5. 2006 .....	XXX	XXX	XXX	1,253,701	1,248,409
6. 2007 .....	XXX	XXX	XXX	XXX	1,380,549

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

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2003.....	1,048,085	1,012,940		0.0	1,012,940	96.6			1,012,940	96.6
2. 2004.....	1,161,884	1,112,882		0.0	1,112,882	95.8			1,112,882	95.8
3. 2005.....	1,250,939	1,168,373	36,168	3.1	1,204,541	96.3			1,204,541	96.3
4. 2006.....	1,295,757	1,247,007	41,709	3.3	1,288,716	99.5	1,402	41	1,290,159	99.6
5. 2007 .....	1,426,028	1,205,791	29,783	2.5	1,235,574	86.6	174,757	3,624	1,413,955	99.2

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.

**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 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	6,724	6,765	6,765	6,765	6,765
2. 2003 .....	4,299	9,113	9,116	9,107	9,107
3. 2004 .....	XXX	1,309	2,660	2,661	2,660
4. 2005 .....	XXX	XXX	6,035	6,060	6,062
5. 2006 .....	XXX	XXX	XXX	11,560	11,561
6. 2007 .....	XXX	XXX	XXX	XXX	11,035

**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 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	6,873	6,765	6,765	6,765	6,765
2. 2003 .....	5,930	9,367	9,116	9,107	9,107
3. 2004 .....	XXX	3,844	3,810	2,661	2,660
4. 2005 .....	XXX	XXX	9,707	6,060	6,062
5. 2006 .....	XXX	XXX	XXX	16,569	11,561
6. 2007 .....	XXX	XXX	XXX	XXX	14,784

**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 Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2003 .....	9,424	9,107		0.0	9,107	96.6			9,107	96.6
2. 2004 .....	9,581	2,660		0.0	2,660	27.8			2,660	27.8
3. 2005 .....	12,540	6,062	188	3.1	6,250	49.8			6,250	49.8
4. 2006 .....	19,540	11,561	387	3.3	11,948	61.1			11,948	61.1
5. 2007 .....	23,963	11,035	1,087	9.9	12,122	50.6	3,749	132	16,003	66.8

**STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.**

**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 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	3,029,633	3,034,052	3,034,661	3,034,405	3,034,220
2. 2003 .....	1,461,211	1,680,616	1,681,658	1,680,719	1,680,620
3. 2004 .....	XXX	1,563,199	1,754,503	1,756,305	1,755,876
4. 2005 .....	XXX	XXX	1,801,951	2,003,873	2,006,078
5. 2006 .....	XXX	XXX	XXX	1,960,181	2,194,429
6. 2007 .....	XXX	XXX	XXX	XXX	2,238,623

**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 2003	2 2004	3 2005	4 2006	5 2007
1. Prior .....	3,033,112	3,034,054	3,034,663	3,034,405	3,034,220
2. 2003 .....	1,702,022	1,684,437	1,681,658	1,680,719	1,680,620
3. 2004 .....	XXX	1,789,925	1,760,439	1,756,305	1,755,876
4. 2005 .....	XXX	XXX	2,046,669	2,259,350	2,006,078
5. 2006 .....	XXX	XXX	XXX	2,222,726	2,196,973
6. 2007 .....	XXX	XXX	XXX	XXX	2,534,420

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

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2003 .....	1,891,205	1,680,620	.0	0.0	1,680,620	88.9	.0	.0	1,680,620	88.9
2. 2004 .....	2,032,399	1,755,876	.0	0.0	1,755,876	86.4	.0	.0	1,755,876	86.4
3. 2005 .....	2,256,326	2,006,078	.62,099	3.1	2,068,177	91.7	.0	.0	2,068,177	91.7
4. 2006 .....	2,456,530	2,194,429	.73,398	3.3	2,267,827	92.3	2,544	.75	2,270,446	92.4
5. 2007 .....	2,815,029	2,238,623	71,930	3.2	2,310,553	82.1	295,796	8,752	2,615,101	92.9

**ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.**

**UNDERWRITING AND INVESTMENT EXHIBIT**

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

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
1. Unearned premium reserves .....	.0								
2. Additional policy reserves (a) .....	.0								
3. Reserve for future contingent benefits .....	.0								
4. Reserve for rate credits or experience rating refunds (including \$ ..... for investment income) .....	384,456,009					384,456,009			
5. Aggregate write-ins for other policy reserves .....	.0	.0	.0	.0	.0	.0	.0	.0	.0
6. Totals (Gross) .....	384,456,009	.0	.0	.0	.0	384,456,009	.0	.0	.0
7. Reinsurance ceded .....	.0								
8. Totals (Net) (Page 3, Line 4)	384,456,009	.0	.0	.0	.0	384,456,009	.0	.0	.0
9. Present value of amounts not yet due on claims .....	.0								
10. Reserve for future contingent benefits .....	.0								
11. Aggregate write-ins for other claim reserves .....	.0	.0	.0	.0	.0	.0	.0	.0	.0
12. Totals (Gross) .....	.0	.0	.0	.0	.0	.0	.0	.0	.0
13. Reinsurance ceded .....	.0								
14. Totals (Net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0
<b>DETAILS OF WRITE-INS</b>									
0501. Rate Stabilization Reserve .....	.0								
0502. CDH Supplemental Reserve .....	.0								
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 through 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 through 1103 plus 1198) (Line 11 above)	.0	.0	.0	.0	.0	.0	.0	.0	.0

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

**STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.**

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 3 - ANALYSIS OF EXPENSES**

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$ ..... for occupancy of own building).....	2,166,536	4,972,253	7,539,170	0	14,677,959
2. Salaries, wages and other benefits.....	20,147,307	51,780,537	53,056,906	0	124,984,750
3. Commissions (less \$ ..... ceded plus \$ ..... assumed.....)	0	0	77,566,520	0	77,566,520
4. Legal fees and expenses.....	0	214	1,088,754	0	1,088,968
5. Certifications and accreditation fees.....	0	0	0	0	0
6. Auditing, actuarial and other consulting services.....	224,711	201,322	3,264,081	0	3,690,114
7. Traveling expenses.....	228,027	595,266	1,803,552	0	2,626,845
8. Marketing and advertising.....	0	0	3,691,627	0	3,691,627
9. Postage, express and telephone.....	261,998	5,442,529	4,143,534	0	9,848,061
10. Printing and office supplies.....	157,411	1,188,787	2,375,598	0	3,721,796
11. Occupancy, depreciation and amortization.....	0	0	0	0	0
12. Equipment.....	87,473	180,905	770,432	0	1,038,810
13. Cost or depreciation of EDP equipment and software.....	1,022,164	4,127,259	21,105,761	0	26,255,184
14. Outsourced services including EDP, claims, and other services.....	4,020,539	13,889,298	22,940,870	0	40,850,707
15. Boards, bureaus and association fees.....	43,891	13,211	1,719,624	0	1,776,726
16. Insurance, except on real estate.....	271,462	1,017,170	621,103	0	1,909,735
17. Collection and bank service charges.....	0	0	324,923	0	324,923
18. Group service and administration fees.....	0	0	44	0	44
19. Reimbursements by uninsured plans.....	(10,694,884)	(16,402,611)	(40,580,529)	0	(67,678,024)
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	200,079	0	200,079
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....	0	0	0	0	0
23.2 State premium taxes.....	0	0	22,974,927	0	22,974,927
23.3 Regulatory authority licenses and fees.....	830	7,553	1,797,504	0	1,805,887
23.4 Payroll taxes.....	1,209,563	3,182,743	2,828,121	0	7,220,427
23.5 Other (excluding federal income and real estate taxes).....	12,709	30,758	293,654	0	337,121
24. Investment expenses not included elsewhere.....	0	0	0	1,381,224	1,381,224
25. Aggregate write-ins for expenses.....	933	(6,891,590)	8,185,011	0	1,294,354
26. Total expenses incurred (Lines 1 to 25).....	19,160,670	63,335,604	197,711,266	1,381,224	281,588,764
27. Less expenses unpaid December 31, current year.....	0	8,827,800	88,848,986	0	97,676,786
28. Add expenses unpaid December 31, prior year.....	0	8,324,800	92,887,312	0	101,212,112
29. Amounts receivable relating to uninsured plans, prior year.....	3,091,001	10,825,024	29,557,966	0	43,473,991
30. Amounts receivable relating to uninsured plans, current year.....	3,810,310	12,594,982	39,317,060	0	55,722,352
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	19,879,979	64,602,562	211,508,686	1,381,224	297,372,451
<b>DETAIL OF WRITE-INS</b>					
2501. Charitable contributions.....	933	214	4,406,867	0	4,408,014
2502. Service charges Inter-plan bank.....	0	4,763,379	18,390	0	4,781,769
2503. IPSBB Inter-plan bank ITS.....	0	10,573,585	(136)	0	10,573,449
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	(22,228,768)	3,759,890	0	(18,468,878)
2599. Totals (Line 2501 through 2503 plus 2598)(Line 25 above)	933	(6,891,590)	8,185,011	0	1,294,354

(a) Includes management fees of \$ .....145,924,208 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) 8,378,465	8,579,746
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 24,756,466	25,058,086
1.3 Bonds of affiliates	(a) 0	0
2.1 Preferred stocks (unaffiliated)	(b) 411,273	822,073
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	2,473,460	2,479,817
2.21 Common stocks of affiliates	0	
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 4,419,355	4,191,554
7. Derivative instruments	(f)	
8. Other invested assets		10,008
9. Aggregate write-ins for investment income	0	1,186,723
10. Total gross investment income	40,439,019	42,328,007
11. Investment expenses		(g) 1,381,224
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		0
16. Total (Lines 11 through 15)		1,381,224
17. Net Investment Income - (Line 10 minus Line 16)		40,946,783
<b>DETAILS OF WRITE-INS</b>		
0901. Misc Interest Income		745,667
0902. Security lending income		441,056
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0
0999. Totals (Lines 0901 through 0903 plus 0998 (Line 9, above))	0	1,186,723
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		0
1599. Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		0

- (a) Includes \$ 367,105 accrual of discount less \$ 0 amortization of premium and less \$ 7,261,688 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 \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 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	(922,183)	(1,000,000)	(1,922,183)	32,680	
1.1 Bonds exempt from U.S. tax			0		
1.2 Other bonds (unaffiliated)			0		
1.3 Bonds of affiliates	0	0	0	0	0
2.1 Preferred stocks (unaffiliated)	759,561	(1,276,472)	(516,911)	(1,000,465)	0
2.11 Preferred stocks of affiliates	0	0	0	0	0
2.2 Common stocks (unaffiliated)	6,470,968	(2,559,319)	3,911,649	(7,696,839)	403,329
2.21 Common stocks of affiliates	0	0	0	33,262,615	0
3. Mortgage loans			0		0
4. Real estate	0		0		0
5. Contract loans			0		
6. Cash, cash equivalents and short-term investments			0		
7. Derivative instruments			0		
8. Other invested assets		0	0		0
9. Aggregate write-ins for capital gains (losses)	0	0	0	0	0
10. Total capital gains (losses)	6,308,346	(4,835,791)	1,472,555	24,597,991	403,329
<b>DETAILS OF WRITE-INS</b>					
0901.					
0902.					
0903.					
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0	0	0	0

**EXHIBIT OF NONADMITTED ASSETS**

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Nonadmitted Assets	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. Other invested assets (Schedule BA) .....	166,667	166,667	0
8. Receivables for securities .....	0	0	0
9. Aggregate write-ins for invested assets .....	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9) .....	166,667	166,667	0
11. Title plants (for Title insurers only).....	0	0	0
12. Investment income due and accrued .....	0	0	0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection .....	0	0	0
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....	0	0	0
13.3 Accrued retrospective premium.....	0	0	0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers .....	0	0	0
14.2 Funds held by or deposited with reinsured companies .....	0	0	0
14.3 Other amounts receivable under reinsurance contracts .....	0	0	0
15. Amounts receivable relating to uninsured plans .....	417,999	744,026	326,027
16.1 Current federal and foreign income tax recoverable and interest thereon .....	0	0	0
16.2 Net deferred tax asset.....	3,773,362	3,723,841	(49,521)
17. Guaranty funds receivable or on deposit .....	0	0	0
18. Electronic data processing equipment and software.....	52,165,966	51,578,738	(587,228)
19. Furniture and equipment, including health care delivery assets.....	5,531,366	7,075,217	1,543,851
20. Net adjustment in assets and liabilities due to foreign exchange rates .....	0	0	0
21. Receivables from parent, subsidiaries and affiliates .....	15,990	7,837	(8,153)
22. Health care and other amounts receivable.....	3,482,321	2,571,543	(910,778)
23. Aggregate write-ins for other than invested assets .....	25,860,956	23,055,363	(2,805,593)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	91,414,627	88,923,232	(2,491,395)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
26. Total (Lines 24 and 25)	91,414,627	88,923,232	(2,491,395)
<b>DETAILS OF WRITE-INS</b>			
0901. ....			
0902. ....			
0903. ....			
0998. Summary of remaining write-ins for Line 9 from overflow page .....	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998)(Line 9 above)	0	0	0
2301. Other Assets.....	0	0	0
2302. Other Assets non admitted.....	25,860,956	23,055,363	(2,805,593)
2303. Intangible Assets.....	0	0	0
2398. Summary of remaining write-ins for Line 23 from overflow page .....	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	25,860,956	23,055,363	(2,805,593)

**ANNUAL STATEMENT FOR THE YEAR 2007 OF THE Group Hospitalization and Medical Services, Inc.**

**EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY**

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations.....	40,688	41,654	41,794	41,163	41,442	501,098
2. Provider Service Organizations.....	0					
3. Preferred Provider Organizations.....	677,543	698,874	708,023	718,689	727,091	8,520,798
4. Point of Service.....	64,608	54,429	54,454	55,587	56,546	660,421
5. Indemnity Only.....	27,311	22,815	22,423	22,044	21,726	290,193
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	810,150	817,772	826,694	837,483	846,805	9,972,510
<b>DETAILS OF WRITE-INS</b>						
0601. ....						
0602. ....						
0603. ....						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	0	0	0	0	0	0

## NOTES TO FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### Accounting Practices

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

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

#### 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 of admitted assets, liabilities, revenues and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from those amounts provided in the accompanying statutory basis financial statements.

#### Accounting Policy

##### Fair Value of Financial Instruments

The carrying amounts of cash and short-term investments, stocks (other than investments in subsidiaries), advances to providers, uncollected premiums, amounts receivable relating to uninsured accident and health plans, miscellaneous accounts receivable, other assets, claims unpaid, accounts payable and accrued expenses, unearned premiums, group experience funds and advances, and other liabilities approximate fair value.

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 evaluates 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. Declines in value below cost for debt securities where it is considered probable that all contractual terms of the security will be satisfied, the decline is due primarily to changes in interest rates (and not because of increased credit risk), and where the Company intends and has the ability to hold the investment for a period of time sufficient to allow a market recovery, are not assumed to be other than temporary. Declines in fair value below cost that are deemed to be other than temporary are recorded as realized losses and are included in investment gain, net in the accompanying statements on revenue and expenses – statutory basis. Based on its evaluation, the Company has recorded an other than temporary impairment of investments of \$4,836,000 and \$243,000 for the years ended December 31, 2007 and 2006, respectively.

##### Bonds

Bonds are carried at amortized cost, except in cases where NAIC designation requires them to be carried at lower of cost or fair value. The Company's policy is to recognize any realized gains and losses on a specific identification basis. Changes in admitted asset carrying amounts are charged directly to unassigned surplus, unless the changes are losses deemed to be other than temporary as described above.

##### Preferred Stocks

Preferred Stocks are carried at cost, except in cases where NAIC designation requires them to be carried at lower of cost or fair value. The Company's policy is to recognize any realized gains or losses on a specific identification basis.

##### Common Stocks

Common Stocks consist of mutual funds, investments in non-affiliated publicly traded companies and investments in subsidiaries valued in accordance with the NAIC SAP. The Company's policy is to recognize any realized gains or losses on a specific identification basis.

##### Advances to Providers

The Company has advances on deposit with certain hospitals in the State of Maryland. These advances permit the Company to earn differentials of 2.25 and 2.00 percent of allowed inpatient and outpatient charges, respectively, by these hospitals. These provider advances are reported at their realizable value in the accompanying statements of admitted assets, liabilities, capital and surplus—statutory basis.

## NOTES TO FINANCIAL STATEMENTS

### Property and Equipment Admitted

Property and equipment admitted were recorded at cost and are depreciated on the straight-line method over a useful life of three years. The admitted value of the Company's electronic data processing equipment is limited to three percent of capital and surplus. Electronic data processing equipment is depreciated using the straight-line method over the lesser of its useful life or three years.

### Unpaid losses and loss adjustment expenses

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

### Revenue recognition

Revenues are recognized and 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 and Federal Employee Program unearned premiums.

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

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.

Certain claim payments, premium rates, administrative expense reimbursements and provider discounts are subject to review and potential retroactive adjustment by third parties. Reserves are established for potential obligations arising from such reviews. Management believes that any potential claims will not be materially different from the amounts recorded in the accompanying statutory basis financial statements.

### Claims Incurred

Claims incurred are recognized in the period in which members receive medical services. In addition to actual benefits paid, claims incurred include the impact of accruals for estimates of reported and unreported claims, which are unpaid as of the balance sheet date.

### 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 OPM and the BlueCross BlueShield Association, which acts as an agent for the participating BlueCross BlueShield plans. In addition, each participating plan, including the Company, executes a contract with the BCBSA which obligates each participating plan to underwrite FEP benefits in its service area. Premium rates are developed by BCBSA and approved by OPM annually. These rates determine the funds that will be available to the participating BlueCross BlueShield plans to provide insurance to Federal employees that enroll with the BlueCross BlueShield FEHBP Plan. The excess of gross premiums for the life of the program over the charges for the life of the program on an accrual basis is considered the Special Reserve under the contract between OPM and BCBSA. Each year, OPM also allocates additional funds to a contingency reserve which may be utilized by the participating plans in the event that funds set aside from annual premiums are insufficient or fall below certain prescribed levels by OPM.

Funds available to each participating BlueCross BlueShield plan are held at the U.S. Treasury, including amounts unused from prior periods. Any funds which remain unused upon termination of the BCBSA contract after the claims run-out and reimbursement of allowable administrative expenses would be returned to OPM for the benefit of the FEHBP. The BCBSA contract renews automatically each year unless written notice of termination is given by either party.

In accordance with the contract, OPM holds the unused funds on behalf of the Company to provide funding for claims, administrative expenses, and other charges to the contract. The Company, along with other BlueCross BlueShield Plans who participate in the FEHBP contract, have an unrestricted right to draw funds being held in the Special Reserve for any valid claim or expense. The unaudited amounts being held in the Special Reserve are \$2,244,911,000 and \$3,725,834,000, as of December 31, 2007 and 2006, respectively. The unaudited amounts being held in the contingency reserve are \$6,013,846,000 as of September 30, 2007 and \$5,454,869,000 as of December 31, 2006. If the balance of the Special Reserve is exhausted or falls below certain prescribed levels, OPM will transfer funds from the contingency reserve to the Special Reserve. Amounts incurred in excess of the total reserves held at the U.S Treasury for the FEHBP would not be reimbursed to the Company.

Based upon formulas developed by the BCBSA, the Company has recorded its allocable share of the Special Reserve being held by OPM as an asset, with an equivalent amount recorded as a rate stabilization reserve. These amounts are \$384,456,000 and \$483,505,000 as of December 31, 2007 and 2006, respectively, which are included in health care and other amounts receivable and aggregate health policy reserves, respectively, in the accompanying balance sheets—statutory basis.

FEP premiums earned were \$1,437,213,000 and \$1,295,797,000 for the years ended December 31, 2007 and 2006, respectively.

### FEP Operations Center

Effective January 1, 2005, a new subsidiary of GHMSI was created to operate the FEP Operations Center, which had previously been operated by GHMSI under a contract with BCBSA. Service Benefit Plan Administrative Services Corporation (SBP), is 90% owned by GHMSI and 10% owned by BCBSA. The arrangement contains automatic termination provisions upon the occurrence of certain triggering events.

## NOTES TO FINANCIAL STATEMENTS

SBP performs certain administrative functions as the national operations center for the FEP under its 10-year cost reimbursement contract with BCBSA. The reimbursement of allocable costs under this contract is allocated to CFMI and the Company and recorded as a reduction of general and administrative expenses. The FEP reimbursed the Company for costs incurred in connection with this agreement totaling \$67,921,000 and \$59,138,000 for the years ended December 31, 2007 and 2006, respectively.

### 2. Accounting Changes and Corrections of Errors

During 2007, the Company changed its accounting related to recording the written premium on its FEP business. Previously, the Company had only recorded the net written premium with a corresponding balance sheet entry to record a liability related to the balance of the rate stabilization reserve along with a corresponding receivable. The Company is now recording the gross written premium and recording any change in balance of the rate stabilization reserve account through the income statement.

This change has no impact upon surplus or net income. However, the receivable and liability have been reclassified on the balance sheet and the Company is now recording the gross written premiums. The 2006 balance sheet and income statement have been restated to reflect these changes.

The Company reclassified \$483,505,000 from line 13.1 uncollected premiums to line 22 health care and other amounts receivable and reclassified the liability in the same amount from line 8 premiums received in advance to line 4 aggregate health policy reserves. In addition, on the income statement the Company recorded an additional \$24,695,000 on line 2 net premium income and also increased line 3 change in unearned premium and reserve for rate credits by the same amount. This change is being made to properly reflect the gross written premium on the FEP business.

All supplemental schedules within the Annual Statement incorporate this change.

### 3. Business Combinations and Goodwill

Not applicable.

### 4. Discontinued Operations

Not applicable.

### 5. Investments

Loan-Backed Securities

The company records its investment in loan-backed securities using the prospective adjustment method. Payment assumptions for single and multi-class mortgage-backed/ assets-backed securities are obtained from broker survey values. The company uses IDC to determine the market value for such securities.

Repurchase Agreements

The Company has certain repurchase agreements which under Company policy require a minimum of 102% of the fair value of securities purchased under repurchase agreements be supported by collateral.

### 6. Joint Ventures, Partnerships and Limited Liability Companies

Not applicable.

### 7. Investment Income

Not applicable.

### 8. Derivative Instruments

Not applicable.

### 9. Income Taxes

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

					Dec. 31, 2007	Dec. 31, 2006
Total of gross deferred tax assets					\$15,969,812	\$16,519,679
Total of deferred tax liabilities					(5,284,496)	(5,979,740)
Net deferred tax asset					10,685,316	10,539,939
Deferred tax asset nonadmitted					(3,773,363)	(3,723,841)
Net admitted deferred tax asset					6,911,953	6,816,098
(Increase) decrease in nonadmitted asset					(\$49,522)	\$2,437,716

The provisions for incurred taxes on earnings:

Dec. 31, 2007

Dec. 31, 2006

**NOTES TO FINANCIAL STATEMENTS**

Federal provision	\$15,182,545	\$18,780,899
Federal income tax on net capital gains	294,511	(301,072)
Federal income taxes incurred	<u>\$15,477,056</u>	<u>\$18,479,827</u>

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

	Dec. 31, 2007	Dec. 31, 2006
Deferred tax assets:		
Allowance for Bad Debt	\$630,885	\$707,069
Accrued Vacation	377,787	370,749
Contingent Liability	2,949,019	2,441,174
Depreciation	0	1,835,730
Discounted Unpaid Losses	1,503,611	1,399,168
FAS 106	3,385,232	3,037,141
FAS 115 Impairment	1,700,066	1,499,701
Pension Liability	490,537	386,872
Nonadmitted deferred tax assets	2,896,513	2,755,656
Other	2,036,162	2,086,419
Total deferred tax assets	<u>15,969,812</u>	<u>16,519,679</u>
Nonadmitted deferred tax assets	<u>(3,773,363)</u>	<u>(3,723,841)</u>
Admitted deferred tax assets	12,196,449	12,795,838
Deferred tax liabilities:		
FAS 115	(4,294,979)	(5,967,514)
Other	(989,517)	(12,226)
Total deferred tax liabilities	<u>(5,284,496)</u>	<u>(5,979,740)</u>
Net Admitted deferred tax assets	<u>\$6,911,953</u>	<u>\$6,816,098</u>

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

	Dec. 31, 2007	Dec. 31, 2006	Change
Total deferred tax assets	\$15,969,812	\$16,519,679	\$(549,867)
Total deferred tax liabilities	5,284,496	5,979,740	695,244
Net deferred tax asset(liability)	\$10,685,316	\$10,539,939	145,377
Tax effect of unrealized gains(losses)			(1,672,535)
Change in net deferred income tax			\$(1,527,158)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	Dec. 31, 2007	Effective Tax Rate
Provision computed at statutory rate	\$16,780,192	20.00%
Nondeductible expenses	(43,610)	-0.05%
Change in prior years' estimate	381,332	0.45%
Investments	1,672,535	1.99%
Accrued expenses	514,884	0.61%
Benefit Obligations	451,756	0.54%
Unpaid claims	104,443	0.12%
Accounts receivable	(76,184)	-0.09%
Nonadmitted assets and other	(4,308,292)	-5.13%
Total	15,477,056	18.44%
Federal income taxes incurred	15,477,056	18.44%
Change in net deferred income taxes	1,527,160	1.82%
Total statutory income taxes	\$17,004,216	20.26%

The Company has accumulated Alternative Minimum Tax (AMT) credits of approximately \$100,599,000 at December 31, 2007. The credits can be used, in certain circumstances, to offset future regular tax.

The Company is included in a consolidated federal income tax return of CareFirst, Inc. The Company has a written agreement, which sets forth the manner in which the total combined federal income tax is allocated to each entity, which is a party to the consolidation. The agreement calls for an allocation based on the Company's pre-tax income after affecting for permanent differences at the alternative minimum tax rates. The federal tax allocation for both 2007 and 2006 was 20 percent of pre-tax income after permanent differences. These amounts are included in provision for income taxes in the accompanying statements of revenue and expenses --statutory basis.

## NOTES TO FINANCIAL STATEMENTS

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.

### 10. Information Concerning Parent, Subsidiaries and Affiliates

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

The Company and CareFirst of Maryland, Inc. (CFMI) are both affiliates of a not-for-profit parent company, CareFirst, Inc. (CFI). These affiliates do business as CareFirst BlueCross BlueShield. The Company and CFMI also hold a 40% and 60% interest, respectively, in a health maintenance organization subsidiary, CareFirst BlueChoice, Inc. (CFBC). Since control over the CFBC operations is vested in CFI, the Company has determined that neither the Company nor CFMI exercise control over CFBC. On March 22, 2000, CFI also entered into a business affiliation with BCBSD, Inc. (BCBSD) whereby CFI maintained the sole membership interest in BCBSD. This business affiliation terminated on September 21, 2006.

In 2004, in compliance with certain 2003 legislation in Maryland, CFI changed the structure and membership of the CFI Board of Directors. In response to the situation, which led to the governance changes of the CFI Board of Directors, the CFI and BCBSD Boards of Directors approved the restructuring of BCBSD's affiliation with CFI. Effective September 21, 2006 as a result of various legal and regulatory actions, CFI ceased to be the sole member of BCBSD, thus effecting the formal structural disaffiliation of BCBSD from CFI, GHMSI, CFMI and their related companies. A formal contractual relationship was established with BCBSD subsequent to the disaffiliation whereby administrative services continue to be provided to BCBSD on a fee-for-service basis.

In 2005, the CFI Board also approved certain proposed changes regarding the governance structure of CFI, CFMI and GHMSI. In 2006, all required regulatory and BlueCross BlueShield Association (BCBSA) approvals were obtained to permit the restructuring that creates parity between CFMI and GHMSI, as to their representation on CFI's Board. Management believes that these changes did not materially impact CFI's control over CFMI or GHMSI.

Certain business has been written by CFMI and GHMSI which represents contracts outside the historic CFMI and GHMSI service areas (cross-jurisdictional sales). In 2006, the Boards of CFI, CFMI and GHMSI approved redistribution of earnings between CFMI and GHMSI related to cross-jurisdictional sales. The underwriting gains and losses from this cross-jurisdictional business would be distributed from the company that earned them to the company in whose service area they were earned. Implementation of such earnings redistributions is pending regulatory approval.

Also in 2006, the Boards of CFI, CFMI and GHMSI approved earnings redistributions to evenly share changes in the statutory surplus which are a result of the net gain (loss) of CFBC effective January 1, 2005. The Company is currently considering several options to obtain this result. Implementation of such earnings redistribution would require regulatory approval.

During 2007 and 2006, the Company incurred certain costs on behalf of CFMI and its subsidiaries, including salaries, claims processing expenses, and professional fees. Similarly, certain costs were incurred by CFMI and its subsidiaries on behalf of the Company. These amounts were allocated between the companies based on relevant statistical measures. Net charges to the Company for services performed by CFMI and its subsidiaries were \$69,303,000 and \$55,524,000 during the years ended December 31, 2007 and 2006, respectively.

The Company has an operating relationship with its subsidiaries and affiliates, whereby the Company provides administrative and corporate services which are allocated to the subsidiaries and affiliates under management agreements. Total allocations to the subsidiaries and affiliates, excluding CFMI and its subsidiaries and FirstCare, for all services provided by the Company were approximately \$36,794,000 and \$31,932,000 during the years ended December 31, 2007 and 2006, respectively. These allocations are netted against general and administrative expenses in the accompanying statements of income and changes in capital and surplus—statutory basis.

The Company also has an operating relationship with FirstCare, whereby the Company provides administrative and corporate services which are allocated to FirstCare under management agreements. Total allocations to FirstCare for all services provided by the Company were approximately \$1,324,000 and \$1,393,000 during the years ended December 31, 2007 and 2006, respectively. Additionally, in accordance with the Company's quota-share reinsurance contract with FirstCare, the Company assumed \$1,512,000 and \$1,341,000 of general and administrative expenses ceded by FirstCare during the years ended December 31, 2007 and 2006, respectively.

For certain fully insured point-of-service health care programs, the Company bears all of the out-of-network (indemnity) underwriting risk and CareFirst BlueChoice bears the in-network (HMO) underwriting risk. Cost of care for these products is charged directly to the Company and CareFirst BlueChoice based upon the nature of the claims incurred. Premiums on these health care programs are allocated between the Company and CareFirst BlueChoice based on actual underwriting results such that the underwriting gain of the health care programs, as a percentage of premiums earned, is shared equally between the two companies.

The Company continues to integrate operations with CFMI. To enable this integration, certain hardware and software has been purchased, developed or enhanced with the cost being funded and capitalized as an asset on either the Company's or CFMI's GAAP balance sheets. The assets are amortized over their useful lives and charged to CFMI or the Company through CFI's cost allocation system.

On January 16, 1998, CFI issued a subordinated surplus note with the Company for \$333,000 and with GHMSI for \$167,000. 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 MIA.

## NOTES TO FINANCIAL STATEMENTS

At December 31, 2006 the Company reported \$1,477,208 and \$18,085,523 as amounts due from and due to affiliates, respectively. These amounts are settled monthly.

Certain business has been written by CFMI and GHMSI which represents contracts outside the historic CFMI and GHMSI service areas (cross-jurisdictional sales), respectively. The Company has agreed with the MIA and the DISB to disclose the extent of these cross-jurisdictional sales. Revenue and impact to surplus for the year ended December 31, 2007 and contracts as of December 31, 2007 were as follows:

	Risk		Non-Risk	
	CFMI sales outside historic CFMI service area	GHMSI sales outside historic GHMSI service area	CFMI sales outside historic CFMI service area	GHMSI sales outside historic GHMSI service area
Revenue	\$73,360,000	\$330,857,000	\$0	\$0
Impact to surplus	\$5,352,000	\$6,751,000	\$(113,000)	\$3,163,000
Contracts	22,132	40,200	20,047	30,677

### 11. Debt

Not applicable.

### 12. Retirement Plans and Other Post-retirement 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 CFMI and the Company. Consistent with the standards for multiple-employer plan accounting, the Company has accounted for its net pension obligation as if the plans remained separate.

The annual contributions are not less than 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 (SERP) plans covering certain officers, which provide for eligible employees (and former employees) to receive additional benefits based principally on compensation and years of service. These plans provide for incremental benefit payments from the Company's funds 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. Substantially all employees become eligible for those benefits if they have at least ten years of service, are at least age 55, and have the Company's medical benefit coverage at the time of termination or retirement. 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.

A summary of assets, obligations and assumptions of the qualified and nonqualified pension and postretirement benefit plans is as follows at December 31, 2007:

	Qualified Pension Benefits	Other Pension Benefits	Postretirement Benefits
<b>Accumulated benefit obligations (vested portion)</b>	\$ 227,649,000	\$3,308,000	\$ 16,141,000
<b>Change in projected benefit obligations</b>			
Benefit obligations at beginning of year	\$ 223,127,000	\$2,895,000	\$ 16,527,000
Service cost	6,732,000	240,000	1,588,000
Interest cost	12,810,000	175,000	941,000
Actuarial gain	(3,583,000)	(251,000)	(396,000)
Plan Change	–	279,000	–
Benefits paid	(9,619,000)	(30,000)	(1,202,000)
Benefit obligations at end of year	\$ 229,467,000	\$3,308,000	\$ 17,458,000

	Qualified Pension Benefits	Other Pension Benefits	Postretirement Benefits
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## NOTES TO FINANCIAL STATEMENTS

<b>Change in plan assets</b>			
Fair value of plan assets at beginning of year	\$250,089,000	\$ –	\$ –
Actual return on plan assets	11,163,000	–	–
Employer contribution	1,725,000	30,000	1,202,000
Benefits paid	(9,619,000)	(30,000)	(1,202,000)
Fair value of plan assets at end of year	\$253,358,000	\$ –	\$ –
Funded status	\$23,891,000	\$(3,308,000)	\$(17,458,000)
Unrecognized net loss (gain)	30,179,000	49,000	(1,522,000)
Transition (asset) liability not yet recognized	(43,412,000)	873,000	2,118,000
Unamortized prior service cost (asset)	198,000	(67,000)	11,000
Prepaid pension asset (nonadmitted) or (accrued) benefit costs prior to additional liability	10,856,000	(2,453,000)	(16,851,000)
Additional liability	–	(855,000)	–
Prepaid pension asset (nonadmitted) or (accrued) benefit costs included as a component of general expenses due or accrued in the accompanying statutory basis financial statements	\$10,856,000	\$(3,308,000)	\$(16,851,000)
<b>Components of net periodic benefit cost</b>			
Service cost	\$ 6,732,000	\$240,000	\$1,588,000
Interest cost	12,810,000	175,000	941,000
Expected return on plan assets	(19,148,000)	–	–
Amortization of prior service cost (asset)	25,000	(10,000)	2,000
Amortization of unrecognized transition obligation	(2,482,000)	67,000	424,000
Net recognized actuarial losses	2,063,000	76,000	–
Total net periodic benefit cost	\$ –	\$548,000	\$2,955,000

An additional pension liability is required when the actuarial present value of accumulated benefits obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2007, an additional liability related to the SERP plans of \$855,000 was recorded. In connection with this additional liability, an intangible pension asset of \$285,000 was recorded and nonadmitted.

Weighted-average assumptions as of December 31, 2007:

	Qualified Pension Benefits	Other Pension Benefits	Postretirement Benefits
Discount rate – benefit obligation	6.25%	6.25%	6.25%
Discount rate – net benefit cost	5.75	5.75	5.75
Rate of compensation increase	4.50	4.50	N/A
Expected long-term rate of return on plan assets	8.50	N/A	N/A
Annual rate of increase in the per capita cost of covered health care benefits	N/A	N/A	6.00

As of December 31, 2007, accumulated pension benefit obligations and postretirement benefit obligations for nonvested employees were \$4,800,000 and \$10,753,000, respectively.

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the investment categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 8% to 12% over the long-term, while cash and fixed income securities are expected to return between 4% and 6%. Based on historical experience, the CareFirst, Inc. Retirement Committee expects that the Plan's active asset managers will provide a modest (0.5% – 1.0% per annum) premium to their respective market benchmark indices.

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

	Target Allocation	December 31	
		2007	2006

## NOTES TO FINANCIAL STATEMENTS

Domestic equity securities	30%–50%	35%	51%
International equity securities	15%–25%	21	15
Emerging Markets	0%–10%	4	N/A
Real estate	0%–10%	5	N/A
Debt securities	25%–35%	33	32
Cash and cash equivalents	Residual	2	2
Total		100%	100%

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the above plans for the years ending December 31:

2008	\$ 16,539,000
2009	17,706,000
2010	18,005,000
2011	18,552,000
2012	19,582,000
2013 through 2017	111,614,000
	\$201,998,000

The following postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the years ending December 31:

2008	\$ 1,281,000
2009	1,444,000
2010	1,595,000
2011	1,756,000
2012	1,901,000
2013 through 2017	11,929,000
	\$19,906,000

The Company does not expect to make contributions to the qualified pension plan during 2008. The Company expects to make contributions of \$572,000 and \$1,281,000 to the nonqualified supplemental retirement benefit plans and the postretirement benefits plan during 2008.

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 \$1,169,000 and \$1,255,000 for the years ended December 31, 2007 and 2006, respectively.

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:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total service and interest cost	\$ 40,000	\$ (35,000)
Effect on postretirement benefit obligation	\$ 684,000	\$ (598,000)

On December 8, 2003 the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was enacted. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Company believes its benefits one actuarially equivalent to Medicare Part D and therefore, it will qualify for federal subsidy. As permitted by FASB Staff Position (FSP) 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, the Company deferred the recognition of the impact of the new Medicare provisions at December 31, 2003. During 2004, FSP 106-2 was issued and included final guidance on accounting for the provisions of this legislation which was required during 2005. The reduction in the benefit obligation as of January 1, 2005 was \$2,541,000. These reductions incorporate the expectation the expectation that the Company will be eligible for federal subsidies as a result of providing these benefits. The 2007 net postretirement benefit cost was reduced by approximately \$167,000 as a result of the Act.

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

The Company has no shares authorized, issued or outstanding. The Company has no preferred stock outstanding.

The portion of unassigned funds (surplus) represented by Net unrealized gains is as follows: \$ 141,604,000

## NOTES TO FINANCIAL STATEMENTS

### 14. Contingencies

The health care and health insurance industries are subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care insurers and providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

During 2003, a federal grand jury subpoena was served on CFI, its subsidiaries and affiliates, requesting information and documentation pertaining to the attempted conversion and sale of those companies to a third party. The subpoena covers the time period from January 1, 1998 to August 1, 2003. The companies have produced the documents specified in the subpoena and provided them to the U.S. Attorney's Office in Baltimore.

Beginning in 1999, a series of class action lawsuits were filed against virtually all major entities in the health benefits business, including BCBSA and the BCBSA licensees. The suits allege that over a course of years the defendants have conspired to use criteria and standards for adjudication of provider claims that result in underpayment of provider claims. They allege that the defendants have been involved in a conspiracy to make false representations to providers and to conceal material information from providers about the manner in which claims are adjudicated. The Plaintiffs assert that the alleged misconduct violates the Racketeer Influenced and Corrupt Organizations Act (RICO). Plaintiffs seek treble damages and injunctive relief under RICO. The Company continues to maintain that the assertions made in this action are completely without foundation but, for entirely practical purposes, has reached an agreement in principle with the Plaintiffs that will likely settle this matter for all parties. The terms of settlement are now in the hands of the Court for review and approval. Various other 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.

CFI and its affiliates have employment contracts and other benefit arrangements with certain executives which contain provisions that could trigger the acceleration of certain benefits and/or payment of additional compensation. Such acceleration occurs upon termination of employment without cause or for "good reason" as defined in the contract. Additional acceleration occurs if said termination occurs "in connection with a change of control." Potential incremental payments related to sums owed for a termination in connection with a change of control have not been accrued as of December 31, 2007 or 2006, as management believes that the relevant triggering events have not occurred.

Effective November 2, 2006, the contract of the President and Chief Executive Officer of CFI, CFMI and GHMSI was terminated by mutual agreement with the boards of those various entities. The amount to be paid in severance, pension and other payments resulting from his separation has been recognized in accordance with the operating agreement discussed in Note 11 based upon the contractual obligations as outlined in the related employment agreement. Payment of these obligations is subject to review and approval by the Maryland Insurance Administration and may be subject to review and approval by the District of Columbia Department of Insurance, Securities and Banking.

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

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

CFMI and the Company have entered into an intercompany agreement that requires CFMI or the Company, or their respective subsidiaries, to provide the financial resources necessary to satisfy the respective regulatory reserve requirement, subject to specific limitations, if either CFMI or the Company or their respective subsidiaries fail to meet or maintain their respective regulatory reserve requirement as required by law, or if such transfer of financial resources is needed to satisfy any other legally enforceable obligation. The agreement also provides that certain functions may be performed by CFMI or the Company or their respective subsidiaries on behalf of another party to this agreement. Any costs incurred by one party in this agreement are reimbursed to the party performing those functions.

The Company's professional liability coverage is on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. The claims-made policy has been renewed through November 1, 2008.

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 2007 or 2006.

### 15. Leases

The Company leases certain administrative facilities and equipment under operating leases. Some of these lease agreements contain escalation clauses for increases in real estate taxes and operating costs over base year amounts. These leases expire on various dates, with renewal options available on many of these leases.

Future noncancelable minimum payments for leases for which the Company is obligated are as follows as of December 31, 2007:

2008	\$9,708,000
2009	9,891,000

## NOTES TO FINANCIAL STATEMENTS

2010	9,464,000
2011	9,723,000
2012	9,616,000
Thereafter	10,202,000
Total minimum payments	\$58,604,000

Rent expense for operating leases, net of amounts allocated to affiliates, was \$11,469,000 and \$10,832,000 for the years ended December 31, 2007 and 2006, respectively.

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

Not applicable.

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

Not applicable.

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

The results from operations of uninsured ASC plans and the uninsured portion of partially insured plans was as follows for the years ended December 31, 2007 and 2006:

	2007	2006
Gross reimbursement for medical costs incurred	\$ 878,078,000	\$ 823,489,000
Gross administrative fees accrued	67,678,000	62,427,000
Gross expenses incurred	(955,218,000)	(892,357,000)
Operating (loss) gain, before stop loss	(9,462,000)	(6,441,000)
Stop loss, net	11,872,000	6,536,000
Proforma operating gain (loss)	\$ 2,410,000	\$ 95,000

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

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

Not applicable.

### 20. Other Items

Not applicable.

### 21. Events Subsequent

Not applicable.

### 22. Reinsurance

Effective January 1, 2006, FirstCare, Inc. (FirstCare), a wholly-owned subsidiary of CFS Health Group, Inc. (CFS), which in turn is a wholly-owned subsidiary of CFMI, began serving as a plan sponsor offering Medicare Part D prescription drug insurance coverage under a contract with the Federal Centers for Medicare and Medicaid Services (CMS). Effective January 1, 2006, the Company entered into a quota-share reinsurance contract with FirstCare. The agreement relates to all Medicare Part D insurance policies written by FirstCare for individuals living in the Company's service areas. Under the terms of the agreement, the Company assumes all underwriting risk on the business written in its service areas. Therefore, all revenue and expenses related to the Company's members covered by the quota-share reinsurance contract are included in the accompanying statement of income and changes in capital and surplus—statutory basis for the years ended December 31, 2007 and 2006.

GHMSI assumed risk premiums in the amount of \$6,090,000 and \$4,761,000, and incurred an underwriting loss in the amount of \$(409,000) and \$(603,000), for the years ended December 31, 2007 and 2006, respectively, as a result of the quota-share reinsurance contract with FirstCare.

### 23. Retrospectively Rated Contracts

The Company maintains retrospectively rated contracts. For these contracts, the Company estimates accrued retrospective premium adjustments for its group health insurance business through a mathematical approach using an algorithm of the company's underwriting rules and experience rating practices. Accrued retrospective premiums are recorded through written premium.

### 24. Change in Incurred Claims and Claim Adjustment Expenses

Reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years has decreased by \$22,494,000 from \$267,001,000 in 2006 to \$244,507,000 in 2007 as a result of reestimation of unpaid claims and claim adjustment expenses, principally on group contracts, based on lower cost trends. Original estimates are increased or decreased as additional information becomes

## NOTES TO FINANCIAL STATEMENTS

known regarding individual claims.

### 25. Intercompany Pooling Arrangements

Not applicable.

### 26. Structured Settlements

Not applicable

### 27. Health Care Receivables

#### Pharmaceutical Rebates

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
12/31/2007	\$ 5,804,812	\$ -	\$ -	\$ -	\$ -
9/30/2007	5,804,812	5,804,812	2,753,598	-	-
6/30/2007	5,414,574	5,414,574	5,161,900	246,967	-
3/31/2007	5,074,760	5,074,760	5,051,351	12,718	88
12/31/2006	\$ 5,126,706	\$ 5,126,706	\$ 4,446,174	\$ 666,823	\$ 17,600
9/30/2006	4,853,623	4,853,623	4,723,372	127,040	15,384
6/30/2006	4,690,639	4,690,639	4,317,993	423,046	35,456
3/31/2006	4,510,240	4,510,240	4,065,881	390,926	44,971
12/31/2005	\$ 4,373,652	\$ 4,373,652	\$ 3,936,456	\$ 406,268	\$ 68,791
9/30/2005	3,832,471	3,832,471	3,749,573	187,500	14,425
6/30/2005	3,782,748	3,782,748	2,420,822	1,519,210	3,366
3/31/2005	1,989,707	1,989,707	1,989,707	-	-

### 28. Participating Policies

Not applicable

### 29. Premium Deficiency Reserve

Not applicable

### 30. Salvage and Subrogation

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

Year incurred	
2006	\$ 2,469,000
2007	2,614,000

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities .....	136,006,371	14.118	136,006,371	14.118
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies .....	30,107,219	3.125	30,107,219	3.125
1.22 Issued by U.S. government sponsored agencies .....		0.000		0.000
1.3 Foreign government (including Canada, excluding mortgaged-backed securities) .....		0.000		0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations .....		0.000		0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations .....		0.000		0.000
1.43 Revenue and assessment obligations .....	4,147,797	0.431	4,147,797	0.431
1.44 Industrial development and similar obligations .....		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA .....	18,868,693	1.959	18,868,693	1.959
1.512 Issued or guaranteed by FNMA and FHLMC .....	111,476,783	11.572	111,476,783	11.572
1.513 All other .....		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA .....	59,763,773	6.204	59,763,773	6.204
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521 .....	99,535,035	10.332	99,535,035	10.332
1.523 All other .....		0.000		0.000
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO) .....	220,550,633	22.894	220,550,633	22.894
2.2 Unaffiliated foreign securities .....		0.000		0.000
2.3 Affiliated securities .....		0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds .....	152,997,605	15.882	152,997,605	15.882
3.2 Preferred stocks:				
3.21 Affiliated .....		0.000		0.000
3.22 Unaffiliated .....	6,993,139	0.726	6,993,139	0.726
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated .....		0.000		0.000
3.32 Unaffiliated .....	25,561,117	2.653	25,561,117	2.653
3.4 Other equity securities:				
3.41 Affiliated .....	174,236,602	18.086	174,236,602	18.086
3.42 Unaffiliated .....	3,274,125	0.340	3,274,125	0.340
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated .....		0.000		0.000
3.52 Unaffiliated .....		0.000		0.000
4. Mortgage loans:				
4.1 Construction and land development .....		0.000		0.000
4.2 Agricultural .....		0.000		0.000
4.3 Single family residential properties .....		0.000		0.000
4.4 Multifamily residential properties .....		0.000		0.000
4.5 Commercial loans .....		0.000		0.000
4.6 Mezzanine real estate loans .....		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company .....		0.000	0	0.000
5.2 Property held for the production of income (including \$ ..... of property acquired in satisfaction of debt) .....		0.000	0	0.000
5.3 Property held for sale (including \$ ..... property acquired in satisfaction of debt) .....		0.000	0	0.000
6. Contract loans .....		0.000	0	0.000
7. Receivables for securities .....		0.000	0	0.000
8. Cash, cash equivalents and short-term investments .....	(80,166,459)	(8.322)	(80,166,459)	(8.322)
9. Other invested assets .....		0.000		0.000
10. Total invested assets	963,352,433	100.000	963,352,433	100.000

# 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 [  ] 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 [  ] No [  ] NA [  ]
- 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 [  ]
- 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. ....12/31/2003
- 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. ....12/31/2003
- 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). ....05/18/2005
- 3.4 By what department or departments? District of Columbia Department of Insurance, Securities and Banking .....
- 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 [  ]
- 4.12 renewals? ..... Yes [  ] No [  ]
- 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 [  ]
- 4.22 renewals? ..... Yes [  ] No [  ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [  ] No [  ]
- 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 [  ]
- 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 [  ]
- 7.2 If yes,
- 7.21 State the percentage of foreign control; .....
- 7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation 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 the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.]

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

- 9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
ERNST & YOUNG, LLP, 621 EAST PRATT, BALTIMORE, MD 21202
- 10. 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?.....  
EDWARD W. O'NEIL, FSA, MAAA, SENIOR VICE PRESIDENT AND CHIEF ACTUARY, 10455 MILL RUN CIRCLE, OWINGS MILLS, MD 21117
- 11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? ..... Yes [ ] No [ X ]
  - 11.11 Name of real estate holding company .....
  - 11.12 Number of parcels involved.....
  - 11.13 Total book/adjusted carrying value..... \$.....
- 11.2 If yes, provide explanation
- 12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 12.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?
- 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? ..... Yes [ ] No [ ]
- 12.3 Have there been any changes made to any of the trust indentures during the year? ..... Yes [ ] No [ ]
- 12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? ..... Yes [ ] No [ ] NA [ ]
- 13.1 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 [ ]
  - Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
  - Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
  - Compliance with applicable governmental laws, rules and regulations;
  - The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
  - Accountability for adherence to the code.
- 13.11 If the response to 13.1 is No, please explain:
- 13.2 Has the code of ethics for senior managers been amended?..... Yes [ ] No [ X ]
- 13.21 If the response to 13.2 is Yes, provide information related to amendment(s).
- 13.3 Have any provisions of the code of ethics been waived for any of the specified officers?..... Yes [ ] No [ X ]
- 13.31 If the response to 13.3 is Yes, provide the nature of any waiver(s).

**BOARD OF DIRECTORS**

- 14. 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 [ ]
- 15. 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 [ ]
- 16. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or likely to conflict with the official duties of such person?..... Yes [ X ] No [ ]

# GENERAL INTERROGATORIES

## FINANCIAL

17. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? ..... Yes [ ] No [ X ]
- 18.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 18.11 To directors or other officers .. \$.....0
  - 18.12 To stockholders not officers ... \$.....0
  - 18.13 Trustees, supreme or grand (Fraternal only) ..... \$.....0
- 18.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 18.21 To directors or other officers ... \$.....0
  - 18.22 To stockholders not officers .... \$.....0
  - 18.23 Trustees, supreme or grand (Fraternal only) ..... \$.....0
- 19.1 Were any of the assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in this statement? ..... Yes [ ] No [ X ]
- 19.2 If yes, state the amount thereof at December 31 of the current year:
- 19.21 Rented from others ..... \$.....
  - 19.22 Borrowed from others ..... \$.....
  - 19.23 Leased from others ..... \$.....
  - 19.24 Other ..... \$.....
- 20.1 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 ]
- 20.2 If answer is yes:
- 20.21 Amount paid as losses or risk adjustment ..... \$.....
  - 20.22 Amount paid as expenses ..... \$.....
  - 20.23 Other amounts paid ..... \$.....
- 21.1 Does the reporting entity report any amounts due from the parent, subsidiaries or affiliates on Page 2 of this statement? ..... Yes [ X ] No [ ]
- 21.2 If yes, indicated any amounts receivable from parent included in the Page 2 amount:..... \$.....

## INVESTMENT

- 22.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? ..... Yes [ ] No [ X ]
- 22.2 If no, give full and complete information relating thereto:  
Securities held at SunTrust bank
- 23.1 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 19.1) ..... Yes [ X ] No [ ]
- 23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Loaned to others ..... \$.....141,974,856
  - 23.22 Subject to repurchase agreements ..... \$.....
  - 23.23 Subject to reverse repurchase agreements ..... \$.....
  - 23.24 Subject to dollar repurchase agreements ..... \$.....
  - 23.25 Subject to reverse dollar repurchase agreements .... \$.....
  - 23.26 Pledged as collateral ..... \$.....
  - 23.27 Placed under option agreements ..... \$.....
  - 23.28 Letter stock or other securities restricted as to sale ... \$.....
  - 23.29 On deposit with state or other regulatory body ..... \$.....
  - 23.291 Other ..... \$.....
- 23.3 For category (23.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

- 24.1 Does the reporting entity have any hedging transactions reported on Schedule DB? ..... Yes [ ] No [ X ]
- 24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? ..... Yes [ ] No [ ] NA [ X ]  
If no, attach a description with this statement.
- 25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? ..... Yes [ X ] No [ ]
- 25.2 If yes, state the amount thereof at December 31 of the current year. .... \$.....6,537,791

## GENERAL INTERROGATORIES

26. Excluding items in Schedule E, 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 3, III Conducting Examinations, G - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? .....

Yes [ X ] No [ ]

26.01 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.....

26.02 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)	2 Complete Explanation(s)

26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year? .....

Yes [ ] No [ X ]

26.04 If yes, give full and complete information relating thereto:

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

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

1 Central Registration Depository Number(s)	2 Name	2 Address
15958.....	VANGUARD.....	P.O. BOX 2900, VALLEY FORGE, PA., 19482 - 2900.....
104596.....	DODGE AND COX.....	55 CALIFORNIA ST., SAN FRANCISCO, CA. 94104.....
107105.....	BLACKROCK INVESTMENT ADVISORS.....	100 BELLEVUE PARKWAY, WILMINGTON, DE. 19809.....
10578.....	CALAMOS INVESTMENTS.....	1111 EAST WARRENVILLE RD., NAPERVILLE, IL. 60563 - 1493.....
NONE.....	STATE STREET GLOBAL ADVISORS.....	1 LINCOLN ST., BOSTON, MA. 02111.....

27.1 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 [ ]

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
27.2001. 922908-88-4.....	VANGUARD INDEX FUNDS.....	13,176,680
27.2002. 922040-10-0.....	VANGUARD INSTITUTIONAL INDEX FUND.....	41,364,642
27.2999 TOTAL		54,541,322

27.3 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 INSTITUTIONAL INDEX FUND	EXXON MOBIL CORP.....	2,127,781	12/31/2007
VANGUARD INSTITUTIONAL INDEX FUND	GENERAL ELECTRIC CO.....	1,555,740	12/31/2007
VANGUARD INSTITUTIONAL INDEX FUND	MICROSOFT CORP.....	1,192,199	12/31/2007
VANGUARD INSTITUTIONAL INDEX FUND	AT & T (NEW).....	1,047,852	12/31/2007
VANGUARD INSTITUTIONAL INDEX FUND	THE PROCTOR AND GAMBLE CO.....	946,275	12/31/2007
VANGUARD INDEX FUNDS	GENENTECH INC.....	142,108	12/31/2007
VANGUARD INDEX FUNDS	THE MOSAIC CO.....	67,671	12/31/2007
VANGUARD INDEX FUNDS	BUNGE LIMITED.....	63,610	12/31/2007
VANGUARD INDEX FUNDS	LIBERTY GLOBAL INC. A.....	63,610	12/31/2007
VANGUARD INDEX FUNDS	MASTERCARD INC. - CLASS A.....	63,610	12/31/2007

## GENERAL INTERROGATORIES

28. 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 (+)
28.1 Bonds.....	766,457,945	694,309,953	(72,147,992)
28.2 Preferred stocks.....	6,993,139	6,993,139	0
28.3 Totals	773,451,084	701,303,092	(72,147,992)

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

NAIC.....

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

29.2 If no, list the exceptions:

### OTHER

30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?.....\$ .....1,275,768

30.2 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.....	914,223

31.1 Amount of payments for legal expenses, if any?.....\$ .....655,340

31.2 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
CROWELL & MORING.....	436,122

32.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?.....\$ .....326,550

32.2 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
SONNENSCH E IN, NATH & ROSENTHAL.....	240,020

# GENERAL INTERROGATORIES

## PART 2 - HEALTH INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? ..... Yes  No
- 1.2 If yes, indicate premium earned on U. S. business only ..... \$ ..... 15,255,727
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? ..... \$ .....
- 1.31 Reason for excluding .....
- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. .... \$ .....
- 1.5 Indicate total incurred claims on all Medicare Supplement insurance. .... \$ ..... 10,716,475
- 1.6 Individual policies:
- Most current three years:
- 1.61 Total premium earned ..... \$ ..... 1,339,746
- 1.62 Total incurred claims ..... \$ ..... 1,948,943
- 1.63 Number of covered lives ..... ..... 812
- All years prior to most current three years:
- 1.64 Total premium earned ..... \$ ..... 13,915,981
- 1.65 Total incurred claims ..... \$ ..... 8,767,532
- 1.66 Number of covered lives ..... ..... 5,208
- 1.7 Group policies:
- Most current three years:
- 1.71 Total premium earned ..... \$ ..... 0
- 1.72 Total incurred claims ..... \$ ..... 0
- 1.73 Number of covered lives ..... ..... 0
- All years prior to most current three years:
- 1.74 Total premium earned ..... \$ ..... 0
- 1.75 Total incurred claims ..... \$ ..... 0
- 1.76 Number of covered lives ..... ..... 0

2. Health Test:

	1 Current Year		2 Prior Year	
2.1 Premium Numerator	\$	2,690,013,254	\$	2,456,358,252
2.2 Premium Denominator	\$	2,713,085,834	\$	2,461,317,955
2.3 Premium Ratio (2.1/2.2)		0.991		0.998
2.4 Reserve Numerator	\$	682,796,250	\$	274,737,240
2.5 Reserve Denominator	\$	682,796,250	\$	274,737,240
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
- 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  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
- 5.1 Does the reporting entity have stop-loss reinsurance? ..... Yes  No
- 5.2 If no, explain:
- 5.3 Maximum retained risk (see instructions)
- 5.31 Comprehensive Medical ..... \$ .....
- 5.32 Medical Only ..... \$ .....
- 5.33 Medicare Supplement ..... \$ .....
- 5.34 Dental ..... \$ .....
- 5.35 Other Limited Benefit Plan ..... \$ .....
- 5.36 Other ..... \$ .....
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 from CareFirst of Maryland, Inc.
- 7.1 Does the reporting entity set up its claim liability for provider services on a service date base? ..... Yes  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 ..... ..... 30,044
- 8.2 Number of providers at end of reporting year ..... ..... 32,912
- 9.1 Does the reporting entity have business subject to premium rate guarantees? ..... Yes  No
- 9.2 If yes, direct premium earned:
- 9.21 Business with rate guarantees between 15-36 months ..... ..... 2,862,000
- 9.22 Business with rate guarantees over 36 months .....

## GENERAL INTERROGATORIES

- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contract? ..... Yes [ ] No [ X ]
- 10.2 If yes:
- 10.21 Maximum amount payable bonuses ..... \$ .....
- 10.22 Amount actually paid for year bonuses ..... \$ .....
- 10.23 Maximum amount payable withholds ..... \$ .....
- 10.24 Amount actually paid for year withholds ..... \$ .....
- 11.1 Is the reporting entity organized as:
- 11.12 A Medical Group/Staff Model, ..... Yes [ ] No [ X ]
- 11.13 An Individual Practice Association (IPA), or, ..... Yes [ ] No [ X ]
- 11.14 A Mixed Model (combination of above) ? ..... Yes [ ] No [ X ]
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? ..... Yes [ X ] No [ ]
- 11.3 If yes, show the name of the state requiring such net worth. .... District of Columbia
- 11.4 If yes, show the amount required. .... \$ .....93,244,845
- 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 footnote 11.6 below.
12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
District of Columbia.....
State of Maryland.....
Nothern Virginia: Portions east of Route 123 and the incorporated cities of Fairfax and Vienna.....

11.6 Minimum Net-Worth Requirements

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

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

\$2,461,317,955	Prior Year's Premiums Earned
1,295,757,388	Less: FEP Premiums Earned
1,165,560,567	Prior Year's Risk Premiums
8%	Applicable Rate for the District of Columbia
\$93,244,845	Minimum Statutory Reserve Requirement

Maryland: \$93,244,845 Minimum Statutory Reserve Requirement: calculated as 8% of prior year's risk premium

Virginia \$167,428,652, calculated as 45 days of anticipated operating expenses and incurred claims expenses generated from subscription contracts.

	Incurred Claims	Operating Expenses
Total	\$2,507,343,710	\$280,207,539
Less: FEP	1,373,601,042	55,917,809
Incurred	1,133,742,668	224,289,730
Divided by	365 days	365 days
Times	45 days	45 days
	\$ 139,776,493 plus \$ 27,652,159 Total=\$167,428,652	
	(claims) (O/E)	

**FIVE-YEAR HISTORICAL DATA**

	1 2007	2 2006	3 2005	4 2004	5 2003
<b>Balance Sheet (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 26) .....	1,699,544,305	1,690,628,372	1,528,767,661	1,418,674,490	1,292,577,769
2. Total liabilities (Page 3, Line 22) .....	945,985,383	1,027,621,966	967,800,516	917,660,025	900,569,609
3. Statutory surplus .....	93,244,845	80,588,629	69,641,210	67,448,771	58,683,808
4. Total capital and surplus (Page 3, Line 31) .....	753,558,921	663,006,406	560,967,145	501,014,465	392,008,160
<b>Income Statement (Page 4)</b>					
5. Total revenues (Line 8) .....	2,828,482,064	2,457,593,879	2,257,444,351	2,032,740,253	1,891,194,684
6. Total medical and hospital expenses (Line 18) .....	2,507,343,711	2,177,416,445	2,015,011,301	1,770,492,676	1,674,794,207
7. Claims adjustment expenses (Line 20) .....	82,496,274	73,978,438	68,696,090	63,143,405	66,080,866
8. Total administrative expenses (Line 21) .....	197,711,266	157,162,197	138,372,112	120,558,205	97,393,255
9. Net underwriting gain (loss) (Line 24) .....	40,930,813	49,036,799	35,364,848	78,545,967	52,926,355
10. Net investment gain (loss) (Line 27) .....	42,124,827	34,165,096	31,127,098	34,724,817	27,080,125
11. Total other income (Lines 28 plus 29) .....	550,806	201,917	2,026,458	338,720	(112,064)
12. Net income (loss) (Line 32) .....	68,423,901	64,622,913	54,397,489	93,527,673	72,530,062
<b>Cash Flow (Page 6)</b>					
13. Net cash from operations (Line 11) .....	(20,974,725)	115,522,247	73,421,738	104,103,854	42,299,417
<b>Risk - Based Capital Analysis</b>					
14. Total adjusted capital .....	753,558,921	663,006,406	560,967,145	501,014,465	392,008,160
15. Authorized control level risk-based capital .....	82,303,273	69,443,956	62,787,823	52,666,787	49,799,523
<b>Enrollment (Exhibit 1)</b>					
16. Total members at end of period (Column 5, Line 7) .....	846,805	810,150	756,919	737,769	710,923
17. Total member months (Column 6, Line 7) .....	9,972,510	9,399,669	8,876,205	8,659,572	8,643,336
<b>Operating Percentage (Page 4)</b>					
(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 19) .....	89.1	88.6	89.3	0.0	0.0
20. Cost containment expenses .....	0.7	0.7	0.6	0.0	XXX
21. Other claims adjustment expenses .....	2.2	2.3	2.4	0.0	0.0
22. Total underwriting deductions (Line 23) .....	99.0	98.0	98.5	96.2	97.2
23. Total underwriting gain (loss) (Line 24) .....	1.5	2.0	1.6	3.9	2.8
<b>Unpaid Claims Analysis</b>					
(U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13, Col. 5) .....	238,284,957	205,342,625	198,890,746	224,856,148	210,210,732
25. Estimated liability of unpaid claims – [prior year (Line 13, Col. 6)] .....	265,360,719	250,652,812	230,548,146	244,289,500	237,430,531
<b>Investments In Parent, Subsidiaries And Affiliates</b>					
26. Affiliated bonds (Sch. D Summary, Line 25, Col. 1) .....	0	0	0	0	0
27. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1) .....	0	0	0	0	0
28. Affiliated common stocks (Sch. D Summary, Line 53, Col. 1) .....	174,236,603	140,973,988	114,524,084	102,040,196	85,107,160
29. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 7) .....	0	0	0	0	0
30. Affiliated mortgage loans on real estate .....	0	0	0	0	0
31. All other affiliated .....	0	0	0	0	0
32. Total of above Lines 26 to 31 .....	174,236,603	140,973,988	114,524,084	102,040,196	85,107,160

## SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
<b>BONDS</b>					
Governments (Including all obligations guaranteed by governments)	1. United States .....	170,860,802	176,012,509	170,468,946	168,453,689
	2. Canada .....				
	3. Other Countries .....				
	4. Totals	170,860,802	176,012,509	170,468,946	168,453,689
States, Territories and Possessions (Direct and guaranteed)	5. United States .....				
	6. Canada .....				
	7. Other Countries .....				
	8. Totals	0	0	0	0
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States .....				
	10. Canada .....				
	11. Other Countries .....				
	12. Totals	0	0	0	0
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States .....	194,257,047	197,318,494	194,167,528	197,510,528
	14. Canada .....				
	15. Other Countries .....				
	16. Totals	194,257,047	197,318,494	194,167,528	197,510,528
Public Utilities (unaffiliated)	17. United States .....				
	18. Canada .....				
	19. Other Countries .....				
	20. Totals	0	0	0	0
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....	315,338,457	320,978,949	315,824,059	311,719,600
	22. Canada .....				
	23. Other Countries .....				
	24. Totals	315,338,457	320,978,949	315,824,059	311,719,600
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0	0
	26. <b>Total Bonds</b>	680,456,306	694,309,952	680,460,533	677,683,817
<b>PREFERRED STOCKS</b>					
Public Utilities (unaffiliated)	27. United States .....				
	28. Canada .....				
	29. Other Countries .....				
	30. Totals	0	0	0	0
Banks, Trust and Insurance Companies (unaffiliated)	31. United States .....				
	32. Canada .....				
	33. Other Countries .....				
	34. Totals	0	0	0	0
Industrial and Miscellaneous (unaffiliated)	35. United States .....	6,993,139	6,993,139	7,575,962	
	36. Canada .....				
	37. Other Countries .....				
	38. Totals	6,993,139	6,993,139	7,575,962	
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0	
	40. <b>Total Preferred Stocks</b>	6,993,139	6,993,139	7,575,962	
<b>COMMON STOCKS</b>					
Public Utilities (unaffiliated)	41. United States .....				
	42. Canada .....				
	43. Other Countries .....				
	44. Totals	0	0	0	0
Banks, Trust and Insurance Companies (unaffiliated)	45. United States .....	3,274,125	3,274,125	1,700,203	
	46. Canada .....				
	47. Other Countries .....				
	48. Totals	3,274,125	3,274,125	1,700,203	
Industrial and Miscellaneous (unaffiliated)	49. United States .....	71,666,802	71,666,802	59,373,752	
	50. Canada .....				
	51. Other Countries .....	20,890,282	20,890,282	19,985,564	
	52. Totals	92,557,084	92,557,084	79,359,316	
Parent, Subsidiaries and Affiliates	53. Totals	174,236,603	174,236,603	39,097,325	
	54. <b>Total Common Stocks</b>	270,067,812	270,067,812	120,156,844	
	55. <b>Total Stocks</b>	277,060,951	277,060,951	127,732,806	
	56. <b>Total Bonds and Stocks</b>	957,517,257	971,370,903	808,193,339	

## SCHEDULE D - VERIFICATION BETWEEN YEARS

### Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year.....	912,881,611	7. Amortization of premium.....	987,178
2. Cost of bonds and stocks acquired, Column 7, Part 3.....	959,304,948	8. Foreign Exchange Adjustment:	
3. Accrual of discount.....	1,367,302	8.1 Column 15, Part 1.....	0
4. Increase (decrease) by adjustment:.....		8.2 Column 19, Part 2, Sec. 1.....	0
4.1 Columns 12 - 14, Part 1.....	30,919	8.3 Column 16, Part 2, Sec. 2.....	403,329
4.2 Columns 15 - 17, Part 2, Sec. 1.....	(1,575,032)	8.4 Column 15, Part 4.....	0
4.3 Column 15, Part 2, Sec. 2.....	36,681,897	9. Book/adjusted carrying value at end of current period.....	957,517,257
4.4 Columns 11 - 13, Part 4.....	(15,681,059)	10. Total valuation allowance.....	
5. Total gain (loss), Column 19, Part 4.....	6,442,822	11. Subtotal (Lines 9 plus 10).....	957,517,257
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4.....	941,352,302	12. Total nonadmitted amounts.....	
		13. Statement value of bonds and stocks, current period.....	957,517,257

**SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS**

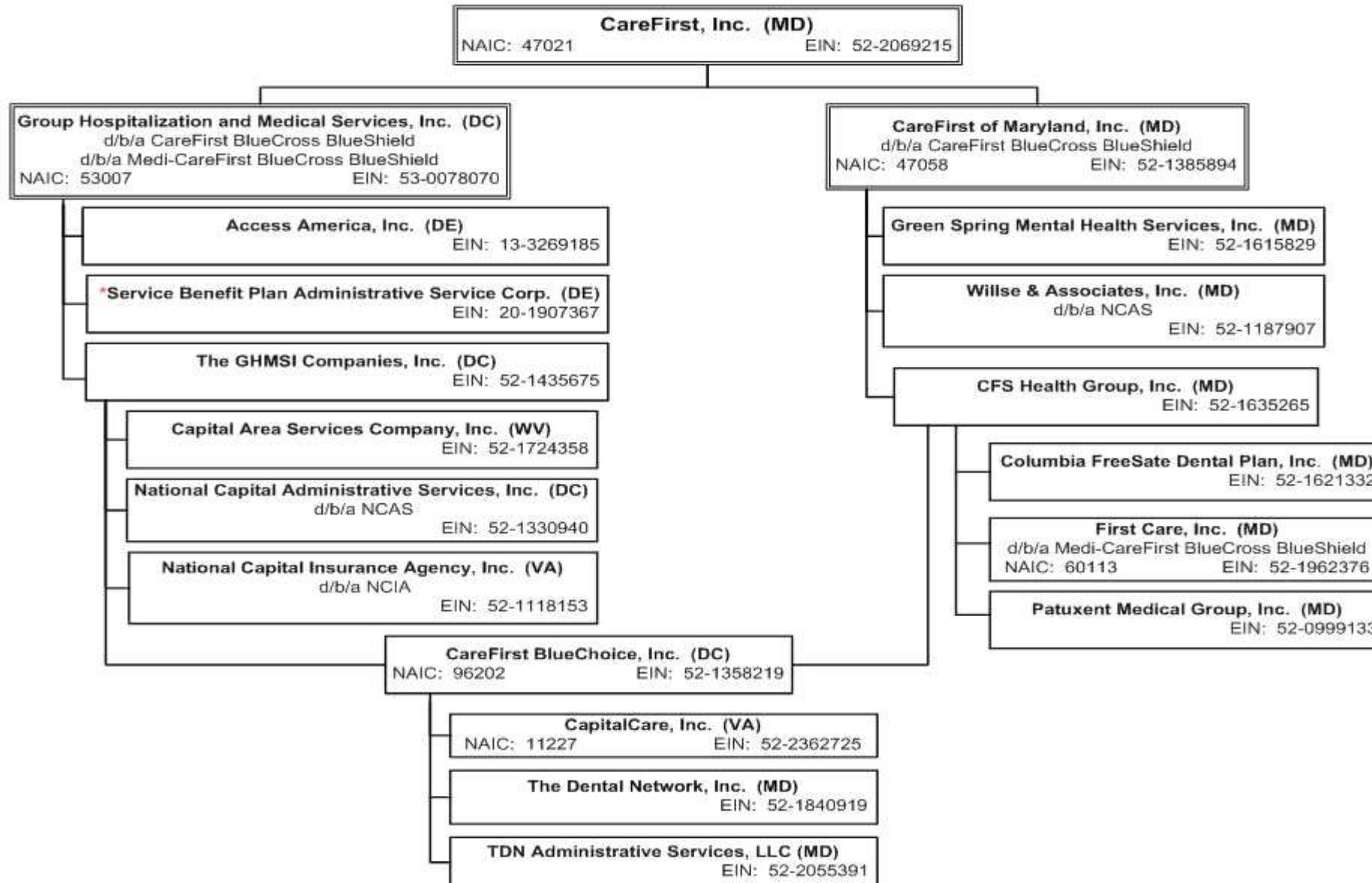
Allocated by States and Territories

States, Etc.	1 Is Insurer Licensed (Yes or No)	Direct Business Only							9 Deposit-Type Contracts	
		2 Accident & Health Premiums	3 Medicare Title XVIII	4 Medicaid Title XIX	5 Federal Employees Health Benefit Program Premiums	6 Life & Annuity Premiums & Other Considerations	7 Property/Casualty Premiums	8 Total Columns 2 Through 7		
1. Alabama	AL	No							0	0
2. Alaska	AK	No							0	0
3. Arizona	AZ	No							0	0
4. Arkansas	AR	No							0	0
5. California	CA	No							0	0
6. Colorado	CO	No							0	0
7. Connecticut	CT	No							0	0
8. Delaware	DE	No							0	0
9. District of Columbia	DC	Yes	363,896,064			1,326,978,986			1,690,875,050	0
10. Florida	FL	No							0	0
11. Georgia	GA	No							0	0
12. Hawaii	HI	No							0	0
13. Idaho	ID	No							0	0
14. Illinois	IL	No							0	0
15. Indiana	IN	No							0	0
16. Iowa	IA	No							0	0
17. Kansas	KS	No							0	0
18. Kentucky	KY	No							0	0
19. Louisiana	LA	No							0	0
20. Maine	ME	No							0	0
21. Maryland	MD	Yes	631,314,306						631,314,306	0
22. Massachusetts	MA	No							0	0
23. Michigan	MI	No							0	0
24. Minnesota	MN	No							0	0
25. Mississippi	MS	No							0	0
26. Missouri	MO	No							0	0
27. Montana	MT	No							0	0
28. Nebraska	NE	No							0	0
29. Nevada	NV	No							0	0
30. New Hampshire	NH	No							0	0
31. New Jersey	NJ	No							0	0
32. New Mexico	NM	No							0	0
33. New York	NY	No							0	0
34. North Carolina	NC	No							0	0
35. North Dakota	ND	No							0	0
36. Ohio	OH	No							0	0
37. Oklahoma	OK	No							0	0
38. Oregon	OR	No							0	0
39. Pennsylvania	PA	No							0	0
40. Rhode Island	RI	No							0	0
41. South Carolina	SC	No							0	0
42. South Dakota	SD	No							0	0
43. Tennessee	TN	No							0	0
44. Texas	TX	No							0	0
45. Utah	UT	No							0	0
46. Vermont	VT	No							0	0
47. Virginia	VA	Yes	384,792,857						384,792,857	0
48. Washington	WA	No							0	0
49. West Virginia	WV	No							0	0
50. Wisconsin	WI	No							0	0
51. Wyoming	WY	No							0	0
52. American Samoa	AS	No							0	0
53. Guam	GU	No							0	0
54. Puerto Rico	PR	No							0	0
55. U.S. Virgin Islands	VI	No							0	0
56. Northern Mariana Islands	MP	No							0	0
57. Canada	CN	No							0	0
58. Aggregate Other Alien	OT	XXX	0	0	0	0	0	0	0	0
59. Subtotal	XXX		1,380,003,227	0	0	1,326,978,986	0	0	2,706,982,213	0
60. Reporting entity contributions for Employee Benefit Plans	XXX								0	
61. Total (Direct Business)	(a) 3		1,380,003,227	0	0	1,326,978,986	0	0	2,706,982,213	0
DETAILS OF WRITE-INS										
5801.	XXX									
5802.	XXX									
5803.	XXX									
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX		0	0	0	0	0	0	0	0
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX		0	0	0	0	0	0	0	0

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

**SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER AND HMO 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.

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# ALPHABETICAL INDEX

([http://www.naic.org/committees\\_e\\_app\\_blanks.htm](http://www.naic.org/committees_e_app_blanks.htm))

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