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HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2008

OF THE CONDITION AND AFFAIRS OF THE

Group Hospitalization and Medical Services, Inc.

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

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

Country of Domicile United States

Licensed as business type: Life, Accident & Health [ ] Property/Casualty [ ] 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 (Street and Number), Washington, DC 20065 (City or Town, State and Zip Code)

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

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

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

Internet Website Address www.carefirst.com

Statutory Statement Contact William Vincent Stack (Name) 410-998-7011 (Area Code) (Telephone Number) (Extension)
(E-mail Address) (FAX Number)

OFFICERS

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

OTHER OFFICERS

David Donald Wolf	EVP, Medical Systems	Gregory Mark Chaney	EVP & CFO
Gregory Allen Devou	EVP, Chief Mktg Officer	Gwendolyn Denise Skillern	SVP, General Auditor
Michael John Felber	SVP, Sales	Maria Harris Tildon #	SVP, Public Policy
Sharon Jean Vecchioni	EVP, Chief of Staff	Rita Ann Costello	SVP, Strategic Marketing
Jon Paul Shematek, M.D.	SVP, Chief Medical Officer	Kenny Waitem Kan #	SVP, Chief Actuary
Alok Gupta #	SVP, CIO	Pamela Susan Deuterman #	SVP, ASU-FEP
Michael Bruce Edwards	SVP, Networks Mgmt	Dennis Allen Cupido #	SVP, ASU-Large Groups
Glenn Rothman #	SVP, Shared Services		

DIRECTORS OR TRUSTEES

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

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

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

Chester Emerson Burrell President and Chief Executive Officer	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

ASSETS

	Current Year 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
1. Bonds (Schedule D)	611,460,470	0	611,460,470	680,456,306
2. Stocks (Schedule D):				
2.1 Preferred stocks	5,385,403		5,385,403	6,993,139
2.2 Common stocks	283,802,985		283,802,985	269,941,574
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less $ encumbrances)			0	0
4.2 Properties held for the production of income (less $ encumbrances)			0	0
4.3 Properties held for sale (less $ encumbrances)			0	0
5. Cash ($ (83,638,701) , Schedule E, Part 1), cash equivalents ($ 0 , Schedule E, Part 2) and short-term investments ($ 105,823,496 , Schedule DA)	22,184,796		22,184,796	5,961,415
6. Contract loans, (including $ premium notes)			0	0
7. Other invested assets (Schedule BA)	672,701	166,667	506,034	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)	923,506,355	166,667	923,339,688	963,352,434
11. Title plants less $ charged off (for Title Insurers only)			0	0
12. Investment income due and accrued	5,106,928		5,106,928	6,273,913
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	231,622,039	717,613	230,904,426	228,002,511
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	26,363,324		26,363,324	0
14.2 Funds held by or deposited with reinsured companies			0	0
14.3 Other amounts receivable under reinsurance contracts	636,577		636,577	624,393
15. Amounts receivable relating to uninsured plans	48,524,392	844,756	47,679,636	55,722,352
16.1 Current federal and foreign income tax recoverable and interest thereon	13,275,013		13,275,013	5,297,341
16.2 Net deferred tax asset	145,559,347	136,664,227	8,895,120	6,911,952
17. Guaranty funds receivable or on deposit			0	0
18. Electronic data processing equipment and software	63,484,539	62,031,946	1,452,593	1,886,090
19. Furniture and equipment, including health care delivery assets ($)	4,625,895	4,625,895	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
21. Receivables from parent, subsidiaries and affiliates	8,911,990	15,990	8,896,000	1,477,208
22. Health care ($ 48,355,373) and other amounts receivable	508,525,682	4,495,621	504,030,061	427,657,796
23. Aggregate write-ins for other than invested assets	70,328,432	67,972,746	2,355,686	2,338,315
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	2,050,470,513	277,535,461	1,772,935,052	1,699,544,305
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
26. Total (Lines 24 and 25)	2,050,470,513	277,535,461	1,772,935,052	1,699,544,305
DETAILS OF WRITE-INS				
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	2,355,686		2,355,686	2,338,315
2302. Other Assets Non-Admitted	67,972,746	67,972,746	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)	70,328,432	67,972,746	2,355,686	2,338,315

LIABILITIES, CAPITAL AND SURPLUS

	Current Year 1 Covered	2 Uncovered	3 Total	Prior Year 4 Total
1. Claims unpaid (less $ 32,258,354 reinsurance ceded)	271,551,213	45,577	271,596,790	298,340,241
2. Accrued medical incentive pool and bonus amounts			0	0
3. Unpaid claims adjustment expenses	10,119,102	1,698	10,120,800	8,827,800
4. Aggregate health policy reserves	455,674,687		455,674,687	384,456,009
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	73,389,418		73,389,418	64,973,791
9. General expenses due or accrued	107,065,396		107,065,396	88,848,986
10.1 Current federal and foreign income tax payable and interest thereon (including $ 0 on realized capital gains (losses))			0	0
10.2 Net deferred tax liability			0	0
11. Ceded reinsurance premiums payable	53,726,412		53,726,412	0
12. Amounts withheld or retained for the account of others	64,105,435		64,105,435	45,325,093
13. Remittance and items not allocated	5,187,502		5,187,502	4,164,275
14. Borrowed money (including $ current) and interest thereon $ (including $ current)			0	0
15. Amounts due to parent, subsidiaries and affiliates	12,103,349		12,103,349	18,085,523
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	24,742,235		24,742,235	25,989,928
21. Aggregate write-ins for other liabilities (including $ 536,432 current)	8,443,312	0	8,443,312	6,973,737
22 Total liabilities (Lines 1 to 21)	1,086,108,061	47,275	1,086,155,336	945,985,383
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	686,779,718	753,558,921
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	686,779,718	753,558,921
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	1,772,935,054	1,699,544,304
DETAILS OF WRITE-INS				
2101. Amounts Withheld for Escheatment	7,906,880		7,906,880	6,372,874
2102. Reinsurance Payable	536,432		536,432	600,863
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)	8,443,312	0	8,443,312	6,973,737
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 1 Uncovered	Current Year 2 Total	Prior Year 3 Total
1.	Member Months	XXX	10,975,857	9,972,510
2.	Net premium income (including $ 0 non-health premium income)	XXX	2,815,214,151	2,713,085,834
3.	Change in unearned premium reserves and reserve for rate credits	XXX	(71,218,678)	101,943,804
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	13,515,534	13,452,426
7.	Aggregate write-ins for other non-health revenues	XXX	0	0
8.	Total revenues (Lines 2 to 7)	XXX	2,757,511,007	2,828,482,064
	Hospital and Medical:			
9.	Hospital/medical benefits	433,403	1,757,032,209	1,671,757,453
10.	Other professional services		60,309,125	53,177,124
11.	Outside referrals			0
12.	Emergency room and out-of-area	25,757	251,354,756	224,722,461
13.	Prescription drugs		667,466,588	552,626,813
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)	459,160	2,736,162,678	2,502,283,851
	Less:			
17.	Net reinsurance recoveries		257,634,048	(5,059,860)
18.	Total hospital and medical (Lines 16 minus 17)	459,160	2,478,528,630	2,507,343,711
19.	Non-health claims (net)			0
20.	Claims adjustment expenses, including $ 16,090,696 cost containment expenses		85,485,704	82,496,274
21.	General administrative expenses		183,980,707	197,711,266
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)	459,160	2,747,995,041	2,787,551,251
24.	Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	9,515,966	40,930,813
25.	Net investment income earned (Exhibit of Net Investment Income, Line 17)		42,338,600	40,946,783
26.	Net realized capital gains (losses) less capital gains tax of $ (8,611,565)		(18,019,830)	1,178,044
27.	Net investment gains (losses) (Lines 25 plus 26)	0	24,318,770	42,124,827
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	(3,237)	550,806
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	33,831,499	83,606,446
31.	Federal and foreign income taxes incurred	XXX	7,571,329	15,182,545
32.	Net income (loss) (Lines 30 minus 31)	XXX	26,260,170	68,423,901
	DETAILS OF WRITE-INS			
0601.	FEP Performance Incentive	XXX	13,401,000	13,343,000
0602.	Trigon network fee - Med D	XXX	114,534	109,426
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	13,515,534	13,452,426
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	0	(3,237)	550,806
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	(3,237)	550,806

STATEMENT OF REVENUE AND EXPENSES (continued)

		1 Current Year	2 Prior Year
	CAPITAL AND SURPLUS ACCOUNT:		
33.	Capital and surplus prior-reporting period	753,558,919	663,006,402
34.	Net income or (loss) from Line 32	26,260,170	68,423,901
35.	Change in valuation basis of aggregate policy and claim reserves		0
36.	Change in net unrealized capital gains (losses) less capital gains tax of $ (4,504,957)	(10,492,177)	26,203,911
37.	Change in net unrealized foreign exchange capital gain or (loss)	(373,294)	373,266
38.	Change in net deferred income tax	126,262,466	(1,527,159)
39.	Change in nonadmitted assets	(186,120,834)	(2,491,397)
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	(22,315,531)	(430,005)
48.	Net change in capital & surplus (Lines 34 to 47)	(66,779,200)	90,552,517
49.	Capital and surplus end of reporting period (Line 33 plus 48)	686,779,719	753,558,919
	DETAILS OF WRITE-INS		
4701.	Other Adjustments	636	(164,699)
4702.	Change in accumulated other - pension	(22,316,167)	(265,306)
4703.			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)	(22,315,531)	(430,005)

CASH FLOW

	1 Current Year	2 Prior Year
Cash from Operations		
1. Premiums collected net of reinsurance	2,802,525,818	2,681,057,758
2. Net investment income	43,753,586	40,168,933
3. Miscellaneous income	13,515,534	13,452,426
4. Total (Lines 1 through 3)	2,859,794,938	2,734,679,117
5. Benefit and loss related payments	2,537,866,704	2,476,014,992
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		0
7. Commissions, expenses paid and aggregate write-ins for deductions	289,267,152	252,959,581
8. Dividends paid to policyholders		0
9. Federal and foreign income taxes paid (recovered) net of $ 4,504,957 tax on capital gains (losses)	11,044,044	26,679,269
10. Total (Lines 5 through 9)	2,838,177,900	2,755,653,842
11. Net cash from operations (Line 4 minus Line 10)	21,617,038	(20,974,725)
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	1,114,739,188	833,525,028
12.2 Stocks	67,529,066	107,940,498
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	0
12.7 Miscellaneous proceeds	0	5,044,588
12.8 Total investment proceeds (Lines 12.1 to 12.7)	1,182,268,254	946,510,114
13. Cost of investments acquired (long-term only):		
13.1 Bonds	1,052,069,860	878,833,411
13.2 Stocks	115,725,614	80,471,537
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	506,034	0
13.6 Miscellaneous applications	0	4,970,267
13.7 Total investments acquired (Lines 13.1 to 13.6)	1,168,301,508	964,275,215
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)	13,966,746	(17,765,101)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	0	0
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities		0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied)	(19,360,403)	45,969,853
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(19,360,403)	45,969,853
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	16,223,381	7,230,027
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	5,961,414	(1,268,613)
19.2 End of year (Line 18 plus Line 19.1)	22,184,795	5,961,414

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Net premium income	2,815,214,149	1,180,091,418	29,269,372	32,911,794	0	1,551,610,700	0	0	21,330,865	0
2. Change in unearned premium reserves and reserve for rate credit	(71,218,678)	0				(71,218,678)				
3. Fee-for-service (net of $ .... medical expenses)	0									XXX
4. Risk revenue	0									XXX
5. Aggregate write-ins for other health care related revenues	13,515,534	0	0	0	0	13,401,000	0	0	114,534	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)	2,757,511,005	1,180,091,418	29,269,372	32,911,794	0	1,493,793,022	0	0	21,445,399	0
8. Hospital/medical/ benefits	1,757,032,208	860,633,722	7,660,721	0		879,934,596	4,429		8,798,740	XXX
9. Other professional services	60,309,126	5,606,356	49,904	48,234,933		6,374,115			43,818	XXX
10. Outside referrals	0									XXX
11. Emergency room and out-of-area	251,354,756	116,710,426	1,038,869			132,693,269			912,192	XXX
12. Prescription Drugs	667,466,588	265,120,869	2,359,909			399,985,810				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)	2,736,162,678	1,248,071,373	11,109,403	48,234,933	0	1,418,987,790	4,429	0	9,754,750	XXX
16. Net reinsurance recoveries	257,634,049	247,111,251	(11,851,096)	26,470,269			4,429		(4,100,804)	XXX
17. Total hospital and medical (Lines 15 minus 16)	2,478,528,629	1,000,960,122	22,960,499	21,764,664	0	1,418,987,790	0	0	13,855,554	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
19. Claims adjustment expenses including $ 16,090,695 cost containment expenses	85,485,704	46,815,464	1,459,193	3,242,175	0	31,853,758			2,115,114	
20. General administrative expenses	183,980,707	140,985,111	1,837,999	5,773,818	0	22,629,501			12,754,278	
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)	2,747,995,040	1,188,760,697	26,257,691	30,780,657	0	1,473,471,049	0	0	28,724,946	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23)	9,515,965	(8,669,279)	3,011,681	2,131,137	0	20,321,973	0	0	(7,279,547)	0
DETAILS OF WRITE-INS										
0501. FEP Performance Incentive	13,401,000					13,401,000				XXX
0502. Trigon Network Fee-MED D	114,534								114,534	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)	13,515,534	0	0	0	0	13,401,000	0	0	114,534	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

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)	1,473,160,335	47,341,090	340,410,007	1,180,091,418
2. Medicare Supplement	15,237,341	14,700,380	668,349	29,269,372
3. Dental Only	68,138,893	5,684,786	40,911,885	32,911,794
4. Vision Only				0
5. Federal Employees Health Benefits Plan	1,551,610,700			1,551,610,700
6. Title XVIII - Medicare	38,704		38,704	0
7. Title XIX - Medicaid				0
8. Other health	18,643,063	7,371,453	4,683,651	21,330,865
9. Health subtotal (Lines 1 through 8)	3,126,829,036	75,097,709	386,712,596	2,815,214,149
10. Life				0
11. Property/casualty				0
12. Totals (Lines 9 to 11)	3,126,829,036	75,097,709	386,712,596	2,815,214,149

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2008 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - Claims Incurred During the Year

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Payments during the year:										
1.1 Direct	2,757,594,156	1,254,698,375	11,230,563	48,617,533		1,433,369,924	4,410		9,673,351	
1.2 Reinsurance assumed	51,152,357	31,301,745	10,183,647	4,020,206					5,646,759	
1.3 Reinsurance ceded	258,697,866	228,318,268	295,590	28,512,780			4,410		1,566,818	
1.4 Net	2,550,048,647	1,057,681,852	21,118,620	24,124,959	0	1,433,369,924	0	0	13,753,292	0
2. Paid medical incentive pools and bonuses	0									
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct	295,218,217	123,717,241	1,968,840	4,028,400	0	161,777,184	19	0	3,726,533	0
3.2 Reinsurance assumed	8,636,926	6,427,843	2,075,995	8,436	0	0	0	0	124,652	0
3.3 Reinsurance ceded	32,258,354	30,159,247	112,956	1,986,132	0	0	19	0	0	0
3.4 Net	271,596,789	99,985,837	3,931,879	2,050,704	0	161,777,184	0	0	3,851,185	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct	0									
4.2 Reinsurance assumed	0									
4.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	
4.4 Net	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year	0									
6. Net healthcare receivables (a)	18,413,241	18,413,241								
7. Amounts recoverable from reinsurers December 31, current year	26,363,324	26,363,324								
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct	298,236,451	111,931,001	2,090,000	4,410,999	0	176,159,318	0	0	3,645,133	0
8.2 Reinsurance assumed	103,789	0	0	0	0	0	0	0	103,789	0
8.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
8.4 Net	298,340,240	111,931,001	2,090,000	4,410,999	0	176,159,318	0	0	3,748,922	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	2,736,162,681	1,248,071,374	11,109,403	48,234,934	0	1,418,987,790	4,429	0	9,754,751	0
12.2 Reinsurance assumed	59,685,494	37,729,588	12,259,642	4,028,642	0	0	0	0	5,667,622	0
12.3 Reinsurance ceded	317,319,544	284,840,839	408,546	30,498,912	0	0	4,429	0	1,566,818	0
12.4 Net	2,478,528,631	1,000,960,123	22,960,499	21,764,664	0	1,418,987,790	0	0	13,855,555	0
13. Incurred medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0

(a) Excludes $ 33,373,586 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - Claims Liability End of Current Year

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan Premium	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Reported in Process of Adjustment:										
1.1. Direct	13,224,478	5,541,989	88,195	180,455		7,246,907	0		166,932	
1.2. Reinsurance assumed	444,105	444,105								
1.3. Reinsurance ceded	3,197,047	3,197,047								
1.4. Net	10,471,536	2,789,047	88,195	180,455	0	7,246,907	0	0	166,932	0
2. Incurred but Unreported:										
2.1. Direct	281,993,739	118,175,252	1,880,645	3,847,945		154,530,277	19		3,559,601	
2.2. Reinsurance assumed	8,192,821	5,983,738	2,075,995	8,436					124,652	
2.3. Reinsurance ceded	29,061,307	26,962,200	112,956	1,986,132			19			
2.4. Net	261,125,253	97,196,790	3,843,684	1,870,249	0	154,530,277	0	0	3,684,253	0
3. Amounts Withheld from Paid Claims and Capitations:										
3.1. Direct	0	0								
3.2. Reinsurance assumed	0	0								
3.3. Reinsurance ceded	0	0					0			
3.4. Net	0	0	0	0	0	0	0	0	0	0
4. TOTALS:										
4.1. Direct	295,218,217	123,717,241	1,968,840	4,028,400	0	161,777,184	19	0	3,726,533	0
4.2. Reinsurance assumed	8,636,926	6,427,843	2,075,995	8,436	0	0	0	0	124,652	0
4.3. Reinsurance ceded	32,258,354	30,159,247	112,956	1,986,132	0	0	19	0	0	0
4.4. Net	271,596,789	99,985,837	3,931,879	2,050,704	0	161,777,184	0	0	3,851,185	0

UNDERWRITING AND INVESTMENT EXHIBIT

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

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability Dec. 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical)	87,448,243	943,870,285	1,469,586	98,516,250	88,917,829	111,931,001
2. Medicare Supplement	3,376,419	17,742,201	(7,341)	3,939,220	3,369,078	2,090,000
3. Dental Only	1,952,277	22,172,682	16,500	2,034,204	1,968,777	4,410,999
4. Vision Only					0	0
5. Federal Employees Health Benefits Plan Premiums	150,102,448	1,283,267,476	3,206,800	158,570,384	153,309,248	176,159,318
6. Title XVIII - Medicare					0	0
7. Title XIX - Medicaid					0	0
8. Other health	1,350,830	12,402,463	356,582	3,494,604	1,707,412	3,748,923
9. Health subtotal (Lines 1 to 8)	244,230,217	2,279,455,107	5,042,127	266,554,662	249,272,344	298,340,241
10. Healthcare receivables (a)		18,413,241			0	
11. Other non-health					0	0
12. Medical incentive pools and bonus amounts					0	0
13. Totals (Lines 9 - 10 + 11 + 12)	244,230,217	2,261,041,866	5,042,127	266,554,662	249,272,344	298,340,241

(a) Excludes $ 33,373,586 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid 1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	1,685,634	1,687,127	1,686,666	1,686,697	1,686,753
2. 2004	550,216	607,357	607,911	607,991	608,061
3. 2005	XXX	715,332	790,000	791,599	791,964
4. 2006	XXX	XXX	802,589	886,535	888,143
5. 2007	XXX	XXX	XXX	973,429	1,058,779
6. 2008	XXX	XXX	XXX	XXX	925,457

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 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	1,686,976	1,687,128	1,686,666	1,686,698	1,686,753
2. 2004	638,675	608,938	607,911	607,991	608,061
3. 2005	XXX	807,362	791,377	791,599	791,964
4. 2006	XXX	XXX	902,398	887,633	888,143
5. 2007	XXX	XXX	XXX	1,084,261	1,060,248
6. 2008	XXX	XXX	XXX	XXX	1,023,973

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. 2004	813,060	608,061	19,601	3.2	627,662	77.2	0		627,662	77.2
2. 2005	935,200	791,964	27,138	3.4	819,102	87.6	0	0	819,102	87.6
3. 2006	1,075,236	888,143	26,663	3.0	914,806	85.1	0	0	914,806	85.1
4. 2007	1,288,871	1,058,779	34,119	3.2	1,092,898	84.8	1,470	55	1,094,423	84.9
5. 2008	1,180,091	925,457	40,980	4.4	966,437	81.9	98,516	5,440	1,070,393	90.7

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Medicare Supplement

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	43,909	44,046	44,013	44,012	44,010
2. 2004	9,724	11,596	11,765	11,765	11,761
3. 2005	XXX	9,925	11,923	11,959	12,117
4. 2006	XXX	XXX	9,371	11,091	11,209
5. 2007	XXX	XXX	XXX	9,245	12,351
6. 2008	XXX	XXX	XXX	XXX	17,742

Section B - Incurred Health Claims - Medicare Supplement

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
Year in Which Losses Were Incurred	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	44,012	44,046	44,013	44,012	44,010
2. 2004	12,141	11,646	11,765	11,765	11,761
3. 2005	XXX	11,965	11,980	11,959	12,117
4. 2006	XXX	XXX	11,688	11,122	11,209
5. 2007	XXX	XXX	XXX	11,305	12,344
6. 2008	XXX	XXX	XXX	XXX	21,681

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. 2004	18,188	11,761	379	3.2	12,140	66.7			12,140	66.7
2. 2005	16,384	12,117	410	3.4	12,527	76.5			12,527	76.5
3. 2006	15,172	11,209	337	3.0	11,546	76.1	0	0	11,546	76.1
4. 2007	15,256	12,351	398	3.2	12,749	83.6	(7)	0	12,742	83.5
5. 2008	29,269	17,742	1,277	7.2	19,019	65.0	3,939	170	23,128	79.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Dental Only

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid 1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	51,504	51,524	51,584	51,586	51,586
2. 2004	18,259	20,511	20,570	20,578	20,578
3. 2005	XXX	25,221	28,065	28,085	28,086
4. 2006	XXX	XXX	35,177	38,235	38,244
5. 2007	XXX	XXX	XXX	39,123	41,065
6. 2008	XXX	XXX	XXX	XXX	22,173

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 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	51,517	51,525	51,584	51,586	51,586
2. 2004	20,434	20,521	20,570	20,578	20,578
3. 2005	XXX	29,062	28,073	28,085	28,086
4. 2006	XXX	XXX	38,370	38,248	38,244
5. 2007	XXX	XXX	XXX	43,521	41,082
6. 2008	XXX	XXX	XXX	XXX	24,207

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. 2004	29,686	20,578	663	3.2	21,241	71.6			21,241	71.6
2. 2005	41,263	28,086	869	3.1	28,955	70.2			28,955	70.2
3. 2006	50,825	38,244	1,148	3.0	39,392	77.5	0	0	39,392	77.5
4. 2007	60,911	41,065	1,323	3.2	42,388	69.6	17	1	42,406	69.6
5. 2008	32,912	22,173	2,838	12.8	25,011	76.0	2,034	377	27,422	83.3

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

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

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	2,917,743	2,917,741	2,916,989	2,916,673	2,916,441
2. 2004	983,691	1,112,379	1,113,398	1,112,882	1,112,791
3. 2005	XXX	1,045,438	1,167,825	1,168,373	1,168,039
4. 2006	XXX	XXX	1,101,484	1,247,007	1,248,077
5. 2007	XXX	XXX	XXX	1,205,791	1,355,481
6. 2008	XXX	XXX	XXX	XXX	1,283,267

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

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
Year in Which Losses Were Incurred	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	2,919,854	2,917,742	2,916,989	2,916,674	2,916,441
2. 2004	1,114,831	1,115,524	1,113,398	1,112,882	1,112,791
3. 2005	XXX	1,188,573	1,169,197	1,168,373	1,168,039
4. 2006	XXX	XXX	1,253,701	1,248,409	1,248,077
5. 2007	XXX	XXX	XXX	1,380,549	1,358,688
6. 2008	XXX	XXX	XXX	XXX	1,441,838

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. 2004	1,161,884	1,112,791	35,900	3.2	1,148,691	98.9			1,148,691	98.9
2. 2005	1,250,939	1,168,039	36,168	3.1	1,204,207	96.3			1,204,207	96.3
3. 2006	1,295,757	1,248,077	37,469	3.0	1,285,546	99.2	0	0	1,285,546	99.2
4. 2007	1,426,028	1,355,481	43,680	3.2	1,399,161	98.1	3,207	119	1,402,487	98.3
5. 2008	1,480,392	1,283,267	27,883	2.2	1,311,150	88.6	158,570	3,701	1,473,421	99.5

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 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	15,878	15,881	15,872	15,872	15,872
2. 2004	1,309	2,660	2,661	2,660	2,660
3. 2005	XXX	6,035	6,060	6,062	6,070
4. 2006	XXX	XXX	11,560	11,561	11,572
5. 2007	XXX	XXX	XXX	11,035	12,368
6. 2008	XXX	XXX	XXX	XXX	12,402

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 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	16,132	15,880	15,872	15,872	15,872
2. 2004	3,844	3,810	2,661	2,660	2,660
3. 2005	XXX	9,707	6,060	6,062	6,070
4. 2006	XXX	XXX	16,569	11,561	11,572
5. 2007	XXX	XXX	XXX	14,784	12,724
6. 2008	XXX	XXX	XXX	XXX	15,897

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. 2004	9,581	2,660	86	3.2	2,746	28.7			2,746	28.7
2. 2005	12,540	6,070	208	3.4	6,278	50.1			6,278	50.1
3. 2006	19,540	11,572	347	3.0	11,919	61.0	0	0	11,919	61.0
4. 2007	23,963	12,368	399	3.2	12,767	53.3	357	13	13,137	54.8
5. 2008	21,331	12,402	1,851	14.9	14,253	66.8	3,495	246	17,994	84.4

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 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	4,714,668	4,716,319	4,715,124	4,714,840	4,714,662
2. 2004	1,563,199	1,754,503	1,756,305	1,755,876	1,755,851
3. 2005	XXX	1,801,951	2,003,873	2,006,078	2,006,276
4. 2006	XXX	XXX	1,960,181	2,194,429	2,197,245
5. 2007	XXX	XXX	XXX	2,238,623	2,480,044
6. 2008	XXX	XXX	XXX	XXX	2,261,041

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 2004	2 2005	3 2006	4 2007	5 2008
1. Prior	4,718,491	4,716,321	4,715,124	4,714,842	4,714,662
2. 2004	1,789,925	1,760,439	1,756,305	1,755,876	1,755,851
3. 2005	XXX	2,046,669	2,006,687	2,006,078	2,006,276
4. 2006	XXX	XXX	2,222,726	2,196,973	2,197,245
5. 2007	XXX	XXX	XXX	2,534,420	2,485,086
6. 2008	XXX	XXX	XXX	XXX	2,527,596

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. 2004	2,032,399	1,755,851	56,629	3.2	1,812,480	89.2	0	0	1,812,480	89.2
2. 2005	2,256,326	2,006,276	64,793	3.2	2,071,069	91.8	0	0	2,071,069	91.8
3. 2006	2,456,530	2,197,245	65,964	3.0	2,263,209	92.1	0	0	2,263,209	92.1
4. 2007	2,815,029	2,480,044	79,919	3.2	2,559,963	90.9	5,044	188	2,565,195	91.1
5. 2008	2,743,995	2,261,041	74,829	3.3	2,335,870	85.1	266,554	9,934	2,612,358	95.2

UNDERWRITING AND INVESTMENT EXHIBIT

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

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other
1. Unearned premium reserves	0								
2. Additional policy reserves (a)	0								
3. Reserve for future contingent benefits	0								
4. Reserve for rate credits or experience rating refunds (including $ .... for investment income)	455,674,687	0				455,674,687			
5. Aggregate write-ins for other policy reserves	0	0	0	0	0	0	0	0	0
6. Totals (Gross)	455,674,687	0	0	0	0	455,674,687	0	0	0
7. Reinsurance ceded	0								
8. Totals (Net) (Page 3, Line 4)	455,674,687	0	0	0	0	455,674,687	0	0	0
9. Present value of amounts not yet due on claims	0								
10. Reserve for future contingent benefits	0								
11. Aggregate write-ins for other claim reserves	0	0	0	0	0	0	0	0	0
12. Totals (Gross)	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded	0								
14. Totals (Net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501. 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.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3	4	5
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
1. Rent ($ .... for occupancy of own building)	2,417,557	6,899,358	6,437,904		15,754,819
2. Salaries, wages and other benefits	16,356,427	52,905,135	53,402,571		122,664,133
3. Commissions (less $ .... ceded plus $ .... assumed			66,723,683		66,723,683
4. Legal fees and expenses	2	2,993	2,761,310		2,764,305
5. Certifications and accreditation fees			0		0
6. Auditing, actuarial and other consulting services	141,531	34,978	2,532,161		2,708,670
7. Traveling expenses	175,652	579,176	1,592,613		2,347,441
8. Marketing and advertising			2,367,372		2,367,372
9. Postage, express and telephone	258,361	5,795,489	4,075,344		10,129,194
10. Printing and office supplies	181,655	1,486,684	2,097,799		3,766,138
11. Occupancy, depreciation and amortization			0		0
12. Equipment	16,608	248,842	2,284,113		2,549,563
13. Cost or depreciation of EDP equipment and software	1,523,146	4,150,903	22,016,393		27,690,442
14. Outsourced services including EDP, claims, and other services	3,313,461	19,769,587	23,895,401		46,978,449
15. Boards, bureaus and association fees	48,157	16,067	1,803,101		1,867,325
16. Insurance, except on real estate	209,837	812,079	570,676		1,592,592
17. Collection and bank service charges	4,874	40,087	262,802		307,763
18. Group service and administration fees			18		18
19. Reimbursements by uninsured plans	(9,597,542)	(20,023,486)	(45,730,414)		(75,351,442)
20. Reimbursements from fiscal intermediaries					0
21. Real estate expenses					0
22. Real estate taxes			186,303		186,303
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes					0
23.2 State premium taxes			22,640,181		22,640,181
23.3 Regulatory authority licenses and fees	8,293	9	2,417,881		2,426,183
23.4 Payroll taxes	1,029,386	3,107,302	2,861,869		6,998,557
23.5 Other (excluding federal income and real estate taxes)	10,925	31,923	239,396		282,244
24. Investment expenses not included elsewhere				1,372,803	1,372,803
25. Aggregate write-ins for expenses	(7,635)	(6,462,117)	8,542,230	0	2,072,478
26. Total expenses incurred (Lines 1 to 25)	16,090,695	69,395,009	183,980,707	1,372,803	(a) 270,839,214
27. Less expenses unpaid December 31, current year		10,120,800	107,065,377		117,186,177
28. Add expenses unpaid December 31, prior year	0	8,827,800	88,848,986	0	97,676,786
29. Amounts receivable relating to uninsured plans, prior year	3,810,310	12,594,982	39,317,060	0	55,722,352
30. Amounts receivable relating to uninsured plans, current year	2,847,103	12,278,817	32,553,717		47,679,637
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	15,127,488	67,785,844	159,000,973	1,372,803	243,287,108
DETAIL OF WRITE-INS					
2501. Charitable contributions	220	100	7,882,960		7,883,280
2502. Service charges Inter-plan bank	9	5,596,025	(44,801)		5,551,233
2503. IPSBB Inter-plan bank ITS		11,301,200	(10)		11,301,190
2598. Summary of remaining write-ins for Line 25 from overflow page	(7,864)	(23,359,442)	704,081	0	(22,663,225)
2599. Totals (Line 2501 through 2503 plus 2598)(Line 25 above)	(7,635)	(6,462,117)	8,542,230	0	2,072,478

(a) Includes management fees of $ 171,372,576 to affiliates and $ .... to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 7,419,315	6,070,532
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)	(a) 28,789,049	29,232,877
1.3	Bonds of affiliates	(a) 0	
2.1	Preferred stocks (unaffiliated)	(b) 564,093	554,836
2.11	Preferred stocks of affiliates	(b) 0	
2.2	Common stocks (unaffiliated)	3,639,566	3,643,686
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) 2,398,560	2,343,729
7.	Derivative instruments	(f)	
8.	Other invested assets		
9.	Aggregate write-ins for investment income	0	1,812,776
10.	Total gross investment income	42,810,583	43,658,436
11.	Investment expenses		(g) 1,372,803
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h) (52,967)
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		0
16.	Total deductions (Lines 11 through 15)		1,319,836
17.	Net investment income (Line 10 minus Line 16)		42,338,600
	DETAILS OF WRITE-INS		
0901.	Misc interest/other income		911,116
0902.	Security lending income		901,660
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	1,812,776
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		0
1599.	Totals (Lines 1501 through 1503) plus 1598 (Line 15, above)		0

(a) Includes $ (371,714) accrual of discount less $ (113,993) amortization of premium and less $ 9,357,234 paid for accrued interest on purchases.
(b) Includes $ 9,264 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 $ .... paid for accrued interest on purchases.
(d) Includes $ .... for company's occupancy of its own buildings; and excludes $ .... interest on encumbrances.
(e) Includes $ .... accrual of discount less $ .... amortization of premium and less $ .... paid for accrued interest on purchases.
(f) Includes $ .... accrual of discount less $ .... amortization of premium.
(g) Includes $ .... investment expenses and $ .... investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes $ .... interest on surplus notes and $ .... interest on capital notes.
(i) Includes $ .... depreciation on real estate and $ .... depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5. Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds	9,770,417		9,770,417	(2,147,142)	
1.1	Bonds exempt from U.S. tax	0		0		
1.2	Other bonds (unaffiliated)	190,115	(13,841,000)	(13,650,885)		
1.3	Bonds of affiliates	0	0	0	0	0
2.1	Preferred stocks (unaffiliated)	46,624	(3,136,519)	(3,089,895)	(1,248,149)	0
2.11	Preferred stocks of affiliates	0	0	0	0	0
2.2	Common stocks (unaffiliated)	9,094,320	(24,649,690)	(15,555,370)	(20,835,911)	(373,266)
2.21	Common stocks of affiliates	0	0	0	5,127,460	0
3.	Mortgage loans	0	0	0	0	0
4.	Real estate	0	0	0		0
5.	Contract loans			0		
6.	Cash, cash equivalents and short-term investments			0		
7.	Derivative instruments			0		
8.	Other invested assets	0	0	0	0	0
9.	Aggregate write-ins for capital gains (losses)	0	0	0	0	0
10.	Total capital gains (losses)	19,101,476	(41,627,209)	(22,525,733)	(19,103,742)	(373,266)
	DETAILS OF WRITE-INS					
0901.						
0902.						
0903.						
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999.	Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	0	0	0	0	0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash (Schedule-E Part 1), cash equivalents (Schedule-E Part 2) and short-term investments (Schedule DA)	0	0	0
6. Contract loans	0	0	0
7. 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	717,613	0	(717,613)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	0	0	0
13.3 Accrued retrospective premiums	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	844,756	417,999	(426,757)
16.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
16.2 Net deferred tax asset	136,664,227	3,773,362	(132,890,865)
17. Guaranty funds receivable or on deposit	0	0	0
18. Electronic data processing equipment and software	62,031,946	52,165,966	(9,865,980)
19. Furniture and equipment, including health care delivery assets	4,625,895	5,531,366	905,471
20. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
21. Receivables from parent, subsidiaries and affiliates	15,990	15,990	0
22. Health care and other amounts receivable	4,495,621	3,482,321	(1,013,300)
23. Aggregate write-ins for other than invested assets	67,972,746	25,860,956	(42,111,790)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	277,535,461	91,414,627	(186,120,834)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
26. Total (Lines 24 and 25)	277,535,461	91,414,627	(186,120,834)
DETAILS OF WRITE-INS			
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	67,972,746	25,860,956	(42,111,790)
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)	67,972,746	25,860,956	(42,111,790)

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

	Total Members at End of					6
Source of Enrollment	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	Current Year Member Months
1. Health Maintenance Organizations	41,442	46,894	46,690	47,396	48,728	566,256
2. Provider Service Organizations	0					
3. Preferred Provider Organizations	727,091	737,349	742,977	749,770	757,607	8,935,800
4. Point of Service	101,359	102,719	102,794	105,044	106,148	1,247,840
5. Indemnity Only	21,726	21,206	20,896	16,501	16,392	225,961
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	891,618	908,168	913,357	918,711	928,875	10,975,857
DETAILS OF WRITE-INS						
0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page	0	0	0	0	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	0	0	0	0	0	0

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Accounting Practices

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

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

For the years ended 2008 and 2007, there were no differences in net income and surplus between NAIC SAP and practices prescribed by the District of Columbia.

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), uncollected premiums, amount recoverable from reinsurers, amounts receivable relating to uninsured plans, federal income tax recoverable, receivables from parent, subsidiaries and affiliates, health care and other amounts receivable, other assets, aggregate health policy reserves, premiums received in advance, general expenses due or accrued, amounts due to parent, subsidiaries and affiliates, ceded reinsurance premiums payable, liability for amounts held under uninsured plans, 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 other than temporary impairment of investments of $41,626,000 and $4,836,000 for the years ended December 31, 2008 and 2007, 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 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.

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 $2,374,400,000 and $2,240,167,000 as of December 31, 2008 and 2007, respectively. The unaudited amounts being held in the contingency reserve are $5,284,003,000 as of September 30, 2008 and $5,048,031,000 as of December 31, 2007. 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 $455,675,000 and $384,456,000 as of December 31, 2008 and 2007, 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 $1,493,793,000 and $1,439,371,000 for the years ended December 31, 2008 and 2007, 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 $71,593,000 and $67,921,000 for the years ended December 31, 2008 and 2007, respectively.

2. Accounting Changes and Corrections of Errors

Not applicable.

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

The Company has a direct investment in a limited partnership. The Company has no investments in Limited Partnership that exceed 10% of its admitted assets.

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

7. Investment Income

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

B. No amount of investment income due and accrued was non-admitted and excluded from surplus as of December 31, 2008.

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, 2008	Dec. 31, 2007
Total of gross deferred tax assets	$147,802,812	$15,969,812
Total of deferred tax liabilities	(2,243,465)	(5,284,496)
Net deferred tax asset	145,559,347	10,685,316
Deferred tax asset nonadmitted	(136,664,227)	(3,773,363)
Net admitted deferred tax asset	8,895,120	6,911,953
(Increase) decrease in nonadmitted asset	($132,890,864)	$(49,522)

The provisions for incurred taxes on earnings:

	Dec. 31, 2008	Dec. 31, 2007
Federal provision	$7,571,329	$15,182,545
Federal income tax on net capital gains	(4,504,957)	294,511
Federal income taxes incurred	$3,066,372	$15,477,056

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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, 2008	Dec. 31, 2007
Deferred tax assets:		
Accounts Receivable	$2,211,855	$630,885
Investments	4,883,090	1,700,066
Benefit Obligations	15,446,956	3,989,744
Accrued Expenses	5,359,587	4,626,705
Unpaid Claims	2,765,134	1,503,611
AMT Credits	108,230,741	0
Nonadmitted deferred tax assets and other	8,905,449	3,518,802
Total deferred tax assets	147,802,812	15,969,812
Nonadmitted deferred tax assets	(136,664,227)	(3,773,363)
Admitted deferred tax assets	11,138,585	12,196,449
Deferred tax liabilities:		
FAS 115	0	(4,294,979)
Other	(2,243,465)	(989,517)
Total deferred tax liabilities	(2,243,465)	(5,284,496)
Net Admitted deferred tax assets	$8,895,120	$6,911,953

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

	Dec. 31, 2008	Dec. 31, 2007	Change
Total deferred tax assets	$147,802,812	$15,969,812	$131,833,000
Total deferred tax liabilities	2,243,465	5,284,496	3,041,031
Net deferred tax asset(liability)	$145,559,347	$10,685,316	134,874,031
Tax effect of unrealized gains(losses)			(8,611,565)
Change in net deferred income tax			$126,262,466

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: principally as a result of 833(b) deduction, mark-up for intercompany services, changes in tax contingency reserves and valuation allowance.

The Company has accumulated Alternative Minimum Tax (AMT) credits of approximately $108,231,000 at December 31, 2008. 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 2008 and 2007 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.

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 CFBC operations is vested in CFI, the Company has determined that neither the Company nor CFMI exercise control over CFBC.

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.

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 income from operations from this cross-jurisdictional business would be transferred via a quota share reinsurance contract from the company that earned them to the company in whose service area they were earned. The Company received regulatory approval for these earnings redistributions, effective January 1, 2008, and the amounts were recorded in 2008. The

NOTES TO FINANCIAL STATEMENTS

Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. This agreement resulted in GHMSI ceding a net loss of approximately $713,000 for the year ended December 31, 2008 (See Note 22).

Also in 2006, the Boards of CFI, CFMI, and GHMSI approved earnings redistributions to evenly share changes in the statutory surplus of CFBC. In 2008, the Boards approved in principle the creation of a new holding company, CareFirst Holdings, LLC. (CHC), which would be owned 50%/50% by CFMI and GHMSI, respectively. Following regulatory approval, the establishment of CHC would satisfy the earning redistributions of CFBC.

Effective January 1, 2005, a new subsidiary of GHMSI was created to operate the Federal Employee Program (FEP) Operations Center, which had previously been operated by GHMSI under a contract with BCBSA. The newly created subsidiary, Service Benefit Plan Administrative Services Corporation (SBP), is 90% owned by GHMSI and 10% owned by BCBSA.

The Company holds an investment in The GHMSI Companies, Inc. (GHMSI Companies), a downstream noninsurance holding company, with a carrying value of $179,364,000 and $174,237,000 at December 31, 2008 and 2007, respectively. The GHMSI Companies wholly-own Capital Area Services Company, Inc., National Capital Administrative Services, Inc., National Capital Insurance Agency, Inc. and own 40% of CFBC. The 2008 and 2007 financial statements of the GHMSI Companies have not been subject to an audit, so the value reported on the balance sheet—statutory basis is limited to the values reported in the audited financial statements of GHMSI in accordance with SSAP No. 97, *Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 88*. Additionally, all liabilities, commitments, contingencies, guarantees or obligations of the GHMSI Companies are reflected in the carrying value.

As of December 31, 2008 and 2007, the Company's investment in the GHMSI Companies exceeded 10% of the Company's admitted assets. Financial information for the GHMSI Companies is summarized as follows *(in thousands)*:

	December 31	
	2008	**2007**
Investments	**$ 170,545**	$ 173,030
Other assets	**17,522**	7,145
Total admitted assets	**$ 188,067**	$ 180,175
Other liabilities	**$ 8,703**	$ 5,938
Capital and surplus	**179,364**	174,237
Total liabilities and capital and surplus	**$ 188,067**	$ 180,175

	Year ended December 31	Year ended December 31
	2008	2007
Net income	$ 8,909	$ 32,879

During 2008 and 2007, 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 $95,767,000 and $69,303,000 during the years ended December 31, 2008 and 2007, 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 $39,572,000 and $35,470,000 during the years ended December 31, 2008 and 2007, 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 $1,189,000 and $1,324,000 during the years ended December 31, 2008 and 2007, respectively. Additionally, in accordance with the Company's quota-share reinsurance contract with FirstCare, the Company assumed $1,523,000 and $1,512,000 of general and administrative expenses ceded by FirstCare during the years ended December 31, 2008 and 2007, 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

NOTES TO FINANCIAL STATEMENTS

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.

At December 31, 2008 the Company reported $8,896,000 and $12,103,349 as amounts due from and due to affiliates, respectively. These amounts are settled monthly.

11. Debt

None

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 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. The Company funds postretirement benefits as benefits are paid.

In November 2007, the Company approved a freeze to the Plan, effective January 1, 2009, whereby employees hired on or after January 1, 2009, will no longer be eligible to participate in the Plan. These employees will participate in an enhanced 401(k) program.

A summary of assets, obligations and assumptions of the Pension Plans, which include the qualified and nonqualified pension plans described above, and the Other Postretirement Benefit Plan are as follows at December 31 (in thousands):

	Pension Benefits		Other Postretirement Benefits	
	2008	**2007**	**2008**	**2007**
Change in projected benefit obligations				
Benefit obligations at beginning of year	**$ 232,775**	$226,023	**$ 17,458**	$ 16,527
Service cost	**7,235**	6,971	**1,267**	1,588
Interest cost	**14,260**	12,985	**1,030**	941
Actuarial gain (loss)	**1,995**	(3,834)	**(397)**	(396)
Benefits paid	**(10,552)**	(9,649)	**(1,263)**	(1,202)
Plan change	**1,719**	279	**(354)**	–
Benefit obligations at end of year	**$ 247,432**	$ 232,775	**$ 17,741**	$ 17,458
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 253,358**	$250,089	**$ –**	$ –
Actual return on plan assets	**(61,451)**	11,163	–	–
Employer contribution	**38,029**	1,755	**1,263**	1,202
Benefits paid	**(10,552)**	(9,649)	**(1,263)**	(1,202)
Fair value of plan assets at end of year	**$ 219,384**	$ 253,358	**$ –**	$ –
Funded status	**$ (28,048)**	$20,583	**$ (17,741)**	$ (17,458)
Transition (asset) liability not yet recognized	**(41,361)**	(42,539)	**1,420**	2,118
Unamortized prior service cost	**1,660**	131	–	11
Unrecognized net loss (gain)	**113,683**	30,229	**(1,919)**	(1,522)

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Prepaid pension assets or (accrued) liabilities prior to additional liability	**45,934**	8,404	**(18,240)**	(16,851)
Additional liability	**(23,175)**	(855)	–	–
Prepaid pension assets or (accrued) liabilities	**$ 22,759)**	$7,549	**$ (18,240)**	$ (16,851)
Accumulated benefit obligations (vested portion)	**$ 245,481**	$230,957	**$ 16,197**	$ 16,141
Accumulated benefit obligations (non-vested portion)	**$ 447**	$4,800		
Benefit obligations (non-vested portion)			**$ 10,128**	$ 10,753

The estimated transition asset, net actuarial loss and prior service asset for the defined benefit pension plans that will be amortized into net periodic benefit costs over the next fiscal year are $2,481,000, $1,730,000 and $190,000, respectively. The estimated transition liability and net actuarial gain for other postretirement benefit plans that will be amortized from accumulated other comprehensive loss into net periodic benefit costs over the next fiscal year are $355,000 and $15,000, respectively.

An additional pension liability is required when the actuarial present value of accumulated benefits obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2008, and 2007, additional liabilities of $23,175,000 and $855,000, respectively, were recorded. In connection with the additional liabilities, intangible pension assets of $289,000 and $285,000, respectively, were recorded and nonadmitted.

	Pension Benefits		**Other Postretirement Benefits**	
($ in thousands)				
	2008	**2007**	**2008**	**2007**
Components of net periodic benefit cost				
Service cost	**$ 7,235**	$6,971	**$ 1,267**	$ 1,588
Interest cost	**14,260**	12,985	**1,030**	941
Expected return on plan assets	**(20,427)**	(19,148)	–	–
Amortization of unrecognized transition obligation	**(1,178)**	(2,415)	**355**	424
Amortization of prior service cost	**190**	15	–	2
Amount of recognized losses	**419**	2,140	–	–
Total net periodic benefit cost	**$ 499**	$ 548	**$ 2,652**	$ 2,955

Weighted-average assumptions for all plans are as follow as of December 31:

	Pension Benefits		**Other Postretirement Benefits**	
	2008	**2007**	**2008**	**2007**
Discount rate – benefit obligation	**6.50%**	6.25%	**6.50%**	6.25%
Discount rate – net benefit cost	**6.25%**	5.75%	**6.25%**	5.75%
Rate of compensation increase	**4.50%**	4.50%	**N/A**	N/A
Expected long-term rate of return on plan assets	**8.50% / N/A***	8.50% / N/A*	**N/A**	N/A
Annual rate of increase in the per capita cost of covered health care benefits	**N/A**	N/A	**6.00%**	6.00%

* As of December 31, 2008 and 2007, the expected long-term rate of return on plan assets is 8.50%, for qualified pension benefits, and N/A for nonqualified pension benefits. The Company contributes to the nonqualified pension plans as benefits are paid.

The discount rates used to determine the Company's pension and other postretirement plan obligations were based on a hypothetical do Aa yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the yield curve is required to be non-callable and have a rating of Aa or better by Moody's Investor Service, Inc. or a rating of AA or better by Standard & Poor's. The yields are used to discount future pension and postretirement benefit plan cash flows at an interest rate specifically applicable to the timing of each respective cash flow. The sum of these discounted cash flows are totaled into a single present value and an equivalent weighted-average discount rate is calculated by imputing the singular interest rate that equates the total present value of the stream of future cash flows. This resulting interest rate, rounded, is used by the Company as its discount rate.

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.

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The Company's pension investment policy, as established by the CareFirst, Inc. Retirement Committee, is to provide for growth of capital with a moderate level of volatility by investing assets 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:

		December 31	
	Target Allocation	**2008**	**2007**
Domestic equity securities	30%–50%	**32%**	35%
International equity securities	15%–25%	**17**	21
Emerging markets	0%-10%	**2**	4
Real estate	0%-10%	**6**	5
Debt securities	25%–35%	**25**	33
Cash and cash equivalents	Residual	**18**	2
Total		**100%**	100%

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

	Pension Benefits	**Other Postretirement Benefits**
2009	$ 19,668	$ 1,378
2010	19,503	1,516
2011	20,116	1,655
2012	20,918	1,784
2013	23,441	1,893
2014 through 2018	118,418	11,922
	$ 222,064	$ 20,148

The Company expects to make contributions of $659,000 and $1,378,000, respectively, to the pension benefit plans and the postretirement benefits plan during 2009.

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 $1,437,000 and $1,169,000 for the years ended December 31, 2008 and 2007, respectively.

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

	1 Percentage Point Increase	1 Percentage Pont Decrease
Effect on total service and interest cost	$39,294	$(34,273)
Effect on postretirement benefit obligations	$653,056	$(570,865)

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 cumulative net unrealized gains is $131,122,000.

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.

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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. The court order related to this lawsuit was signed on April 19, 2008. The court order did not include a specific settlement date as an appeal was submitted by several physicians.

Effective November 2, 2006, the contract of the President and Chief Executive Officer (CEO) 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 is subject to review and approval by the MIA and may be subject to review and approval by the District of Columbia Department of Insurance, Securities and Banking. Pursuant to a hearing, the Insurance Commissioner for the State of Maryland allowed a portion of the proposed payment to the former President and CEO and disallowed the remainder. The former President and CEO has appealed the Insurance Commissioner's decision to the Circuit Court of Maryland and initiated an independent action under the Employee Retirement Income Security Act of 1974, as amended (ERISA) in Federal Court to compel full payment. The former President and CEO is also maintaining an action against CFI to compel full payment under his contract. In 2008, the Company paid the amount authorized by the Maryland Insurance Commissioner.

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, 2008 or 2007, as management believes that the relevant triggering events have not occurred.

In June 2008, the District of Columbia Attorney General office filed suit against CFI and GHMSI alleging the breach of GHMSI's federal charter as a "charitable and benevolent" institution. Also, the District of Columbia's City Council Committee on Public Services and Consumer Affairs (D.C. City Council) launched an investigation of and issued a subpoena to GHMSI and CFI regarding various items including the accumulation of statutory surplus, rate setting, executive compensation, and community benefits. CFI has responded to these parties and has provided the information requested. In addition, the D.C. City Council has introduced legislation giving the District of Columbia's Insurance Commissioner authority to cap those GHMSI statutory reserves attributable to the District of Columbia and compel the offering of an expanded open enrollment product in the District of Columbia. The legislation was passed by the D.C. City Council in December 2008. CFI is of the opinion that it is in a good position to effectively defend against the Attorney's General action.

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 consolidated financial statements; however, there can be no assurance in this regard.

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

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

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

During 2008, the Company made a commitment to fund a limited partnership in the amount of $7,500,000. The amount of the unfunded commitment was $6,994,000 at December 31, 2008. The Company anticipates that the additional amount will be invested in the limited partnership over the next five years.

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, 2009.

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 2008 or 2007.

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, 2008 *(in thousands)*:

2009	$ 9,891
2010	9,463

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2011	9,724
2012	9,616
2013	5,933
Thereafter	4,269
Total minimum payments	$ 48,896

Rent expense for operating leases, net of amounts allocated to affiliates, was $11,121,000 and $11,469,000 for the years ended December 31, 2008 and 2007, 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, 2008 and 2007 *(in thousands)*:

	2008	2007
Gross reimbursement for medical costs incurred	$ 1,015,216	$ 878,078
Gross administrative fees accrued	75,352	67,678
Gross expenses incurred	(1,103,837)	(955,218)
Operating loss, before stop loss	(13,269)	(9,462)
Stop loss, net	5,926	11,872
Proforma operating gain (loss)	$ (7,343)	$ 2,410

The stop loss amount reported represents stop loss written for the ASC business shown above. For the year-end December 31, 2008, GHMSI ceded an ASC underwriting loss of $4,191,000 to CFMI and assumed an ASC underwriting gain of $2,854,000 from CFMI for a net underwriting gain of $7,045,000.

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

Not applicable.

20. Other Items add subprime mortgages

(A) Extraordinary Items

Not applicable

(B) Troubled Debt Restructuring: Debtors

Not applicable

(C) Other Disclosures

Not applicable

(D) Uncollectible Balances

Not applicable

(E) Business Interruption Insurance Recoveries

Not applicable

(F) State Transferable Tax Credits

Not applicable

(G) Hybrid Securities

Not applicable

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(H) Subprime Related Risk Exposure

(1) The Company categorizes mortgage securities with an average FICO score of less than 675 (credit score) as a subprime mortgage security. The Company has no subprime mortgage securities as of December 31, 2008.

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

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

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, 2008 and 2007.

The Company assumed risk premiums in the amount of $6,624,000 and $6,090,000, and incurred an underwriting loss in the amount of $546,000 and $409,000, for the years ended December 31, 2008 and 2007, respectively, as a result of the quota-share reinsurance contract with FirstCare.

The Company entered into a quota share cross-jurisdictional reinsurance agreement with CFMI, effective January 1, 2008 (See Note 10). As a result of this reinsurance, the following amounts were assumed from and ceded to CFMI *(in thousands)*:

	Year Ended December 31, 2008
Premiums assumed	$ 68,439
Premiums ceded	(386,713)
Premiums, net	(318,274)
Cost of care assumed	53,934
Cost of care ceded	(317,320)
Cost of care, net	(263,386)
General and administrative expenses assumed, net	(55,601)
Net loss ceded to CFMI	$ 713

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. During 2008, the amount of net premiums written that was subject to retrospective rating features was $20,483,000, which represented 0.7% of the total net premiums written during 2008.

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 $28,474,000 from $307,168,000 in 2007 to $278,694,000 in 2008 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 known regarding individual claims.

25. Intercompany Pooling Arrangements

Not applicable.

NOTES TO FINANCIAL STATEMENTS

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
12/31/2008	$5,659,431	$5,659,431	$ –	$ –	$ –
9/30/2008	5,659,431	5,659,431	2,867,930	-	-
6/30/2008	5,875,909	5,875,909	5,468,967	292,311	-
3/31/2008	5,324,394	5,324,394	5,155,339	70,247	160
12/31/2007	$ 5,477,373	$ 5,477,373	$ 3,571,981	$ 1,954,286	$ –
9/30/2007	5,804,812	5,804,812	4,811,309	957,268	–
6/30/2007	5,414,574	5,414,574	5,161,900	251,205	3,902
3/31/2007	5,074,760	5,074,760	5,051,351	12,718	(21,866)
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

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 (in thousands):

Year incurred	
2007	$ 2,469
2008	$2,310

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

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

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

2.2 If yes, date of change: 09/22/2008

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

3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2003

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

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

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

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

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

4.12 renewals? Yes [ ] No [X]

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

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

4.22 renewals? Yes [ ] No [X]

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

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

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

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

6.2 If yes, give full information

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

7.2 If yes,

7.21 State the percentage of foreign control

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

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

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

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

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

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

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

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
ERNST & YOUNG, LLP, 621 EAST PRATT STREET, BALTIMORE, MD 21202

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
PAULA HOLT, FSA, MAAA, ASSOCIATE VICE PRESIDENT, ACTUARY, 10455 MILL RUN CIRCLE, OWINGS MILLS, MD 21117

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?
Not Applicable.

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 [ ]

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

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

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

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

e. Accountability for adherence to the code.

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

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

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? (other than securities lending programs addressed in 22.3) Yes [X] No [ ]

22.2 If no, give full and complete information relating thereto:

22.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 16 where this information is also provide)

Not Applicable.

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

22.5 If answer to 22.4 is YES, report amount of collateral $

22.6 If answer to 22.4 is NO, report amount of collateral $

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 and 22.3) Yes [ ] No [X]

23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Subject to repurchase agreements $
- 23.22 Subject to reverse repurchase agreements $
- 23.23 Subject to dollar repurchase agreements $
- 23.24 Subject to reverse dollar repurchase agreements $
- 23.25 Pledged as collateral $
- 23.26 Placed under option agreements $
- 23.27 Letter stock or securities restricted as to sale $
- 23.28 On deposit with state or other regulatory body $
- 23.29 Other $

23.3 For category (23.27) 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. $ 2,075,969

GENERAL INTERROGATORIES

26. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - 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	1111 EAST WARRENVILLE RD. , NAPERVILLE, IL.60563 - 1493
10578	CALAMOS INVESTMENTS	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 Extended Market Index Fund	29,840,793
27.2002.	922040-10-0	Vanguard Institutional Index Fund	34,519,483
27.2003.	921909-80-0	Vanguard Institutional Develop Markets Index Fund	36,253,578
27.2999	TOTAL		100,613,854

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 Extended Market Index Fund	Genentech Inc	707,117	12/31/2008
Vanguard Extended Market Index Fund	Visa Inc	343,725	12/31/2008
Vanguard Extended Market Index Fund	Delta Air Lines Inc	126,476	12/31/2008
Vanguard Extended Market Index Fund	Bunge LTD	116,189	12/31/2008
Vanguard Extended Market Index Fund	First Solar Inc	104,691	12/31/2008
Vanguard Institutional Index Fund	Exxon Mobil Corp	1,818,837	12/31/2008
Vanguard Institutional Index Fund	Proctor and Gamble	826,937	12/31/2008
Vanguard Institutional Index Fund	General Electric	762,017	12/31/2008
Vanguard Institutional Index Fund	AT & T Inc	752,439	12/31/2008
Vanguard Institutional Index Fund	Johnson and Johnson	743,570	12/31/2008
Vanguard Institutional Develop Markets Index Fund	Nestle	1,042,046	12/31/2008
Vanguard Institutional Develop Markets Index Fund	BP PLC	954,546	12/31/2008

GENERAL INTERROGATORIES

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 Develop Markets Index Fund	HSBC Holdings	824,381	12/31/2008
Vanguard Institutional Develop Markets Index Fund	Novartis	818,596	12/31/2008
Vanguard Institutional Develop Markets Index Fund	Total SA	811,726	12/31/2008

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	717,283,967	691,607,594	(25,676,373)
28.2 Preferred stocks	5,385,403	5,446,323	60,920
28.3 Totals	722,669,370	697,053,917	(25,615,453)

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

Custodian Bank

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 exceptions:

OTHER

30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? $ 1,436,455

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	1,036,834

31.1 Amount of payments for legal expenses, if any? $ 2,549,470

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
Hogan Hartson, LLP	1,937,638

32.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ 2,762,180

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
	0

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

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

1.2 If yes, indicate premium earned on U. S. business only $ 29,269,374

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. $ 22,960,504

1.6 Individual policies:

Most current three years:

1.61 Total premium earned	$ 1,637,880
1.62 Total incurred claims	$ 2,436,602
1.63 Number of covered lives	835

All years prior to most current three years:

1.64 Total premium earned	$ 27,631,494
1.65 Total incurred claims	$ 20,523,902
1.66 Number of covered lives	4,997

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	$ 2,793,883,285	$ 2,689,122,457
2.2	Premium Denominator	$ 2,815,214,151	$ 2,713,085,834
2.3	Premium Ratio (2.1/2.2)	0.992	0.991
2.4	Reserve Numerator	$ 727,271,477	$ 682,796,250
2.5	Reserve Denominator	$ 727,271,477	$ 682,796,250
2.6	Reserve Ratio (2.4/2.5)	1.000	1.000

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

3.2 If yes, give particulars:

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

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

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

5.2 If no, explain:

5.3 Maximum retained risk (see instructions)

5.31 Comprehensive Medical	$
5.32 Medical Only	$
5.33 Medicare Supplement	$
5.34 Dental and vision	$
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. and Group Hospitalization and Medical Services, Inc.

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

7.2 If no, give details:

8. Provide the following information regarding participating providers:

8.1 Number of providers at start of reporting year	32,912
8.2 Number of providers at end of reporting year	34,682

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

9.2 If yes, direct premium earned:

9.21 Business with rate guarantees between 15-36 months	0
9.22 Business with rate guarantees over 36 months	0

GENERAL INTERROGATORIES

10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider 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. $110,888,548

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
Virginia: the cities of Alexandria and Fairfax; the town of Vienna; Arlington County; the areas of Fairfax and Prince William Counties in Virginia lying east of Route 123.

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

$2,713,085,834	Prior Year's Premiums Earned
1,326,978,986	Less: FEP Premiums Earned
1,386,106,848	Prior Year's Risk Premiums
8%	Applicable Rate for the District of Columbia
$ 110,888,548	Minimum Statutory Reserve Requirement

Maryland: $ 110,888,548 Minimum Statutory Reserve Requirement: calculated as 8% of prior year's risk premium

Virginia $157,133,095, calculated as 45 days of anticipated operating expenses and incurred claims expenses generated from subscription contracts.

	Incurred Claims	Operating Expenses
Total	$2,478,528,630.00	$269,466,411.00
Less: FEP	1,418,987,790.00	54,483,259.00
Incurred	1,059,540,840.00	214,983,152.00
Divided by	365 days	365 days
Times	45 days	45 days

$ 130,628,323 plus $ 26,504,772 Total=$157,133.095
(claims) (O/E)

FIVE-YEAR HISTORICAL DATA

	1 2008	2 2007	3 2006	4 2005	5 2004
Balance Sheet (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	1,772,935,052	1,699,544,305	1,690,628,372	1,528,767,661	1,418,674,490
2. Total liabilities (Page 3, Line 22)	1,086,155,336	945,985,383	1,027,621,966	967,800,516	917,660,025
3. Statutory surplus	110,888,548	93,244,845	80,588,629	69,641,210	67,448,771
4. Total capital and surplus (Page 3, Line 31)	686,779,718	753,558,921	663,006,406	560,967,145	501,014,465
Income Statement (Page 4)					
5. Total revenues (Line 8)	2,757,511,007	2,828,482,064	2,457,593,879	2,257,444,351	2,032,740,253
6. Total medical and hospital expenses (Line 18)	2,478,528,630	2,507,343,711	2,177,416,445	2,015,011,301	1,770,492,676
7. Claims adjustment expenses (Line 20)	85,485,704	82,496,274	73,978,438	68,696,090	63,143,405
8. Total administrative expenses (Line 21)	183,980,707	197,711,266	157,162,197	138,372,112	120,558,205
9. Net underwriting gain (loss) (Line 24)	9,515,966	40,930,813	49,036,799	35,364,848	78,545,967
10. Net investment gain (loss) (Line 27)	24,318,770	42,124,827	34,165,096	31,127,098	34,724,817
11. Total other income (Lines 28 plus 29)	(3,237)	550,806	201,917	2,026,458	338,720
12. Net income (loss) (Line 32)	26,260,170	68,423,901	64,622,913	54,397,489	93,527,673
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	21,617,038	(20,974,725)	115,522,247	73,421,738	104,103,854
Risk - Based Capital Analysis					
14. Total adjusted capital	686,779,718	753,558,921	663,006,406	560,967,145	501,014,465
15. Authorized control level risk-based capital	81,253,875	82,303,273	69,443,956	62,787,823	52,666,787
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7)	928,875	846,805	810,150	756,919	737,769
17. Total member months (Column 6, Line 7)	10,975,857	9,972,510	9,399,669	8,876,205	8,659,572
Operating Percentage (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus 19)	90.3	89.1	88.6	89.3	0.0
20. Cost containment expenses	0.6	0.7	0.7	0.6	XXX
21. Other claims adjustment expenses	2.5	2.2	2.3	2.4	0.0
22. Total underwriting deductions (Line 23)	100.1	99.0	98.0	98.5	96.2
23. Total underwriting gain (loss) (Line 24)	0.3	1.5	2.0	1.6	3.9
Unpaid Claims Analysis					
(U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13, Col. 5)	249,272,344	238,284,957	205,342,625	198,890,746	224,856,148
25. Estimated liability of unpaid claims – [prior year (Line 13, Col. 6)]	298,340,241	265,360,719	250,652,812	230,548,146	244,289,500
Investments In Parent, Subsidiaries And Affiliates					
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)	179,364,063	174,236,603	140,973,988	114,524,084	102,040,196
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
31. All other affiliated		0	0	0	0
32. Total of above Lines 26 to 31	179,364,063	174,236,603	140,973,988	114,524,084	102,040,196

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

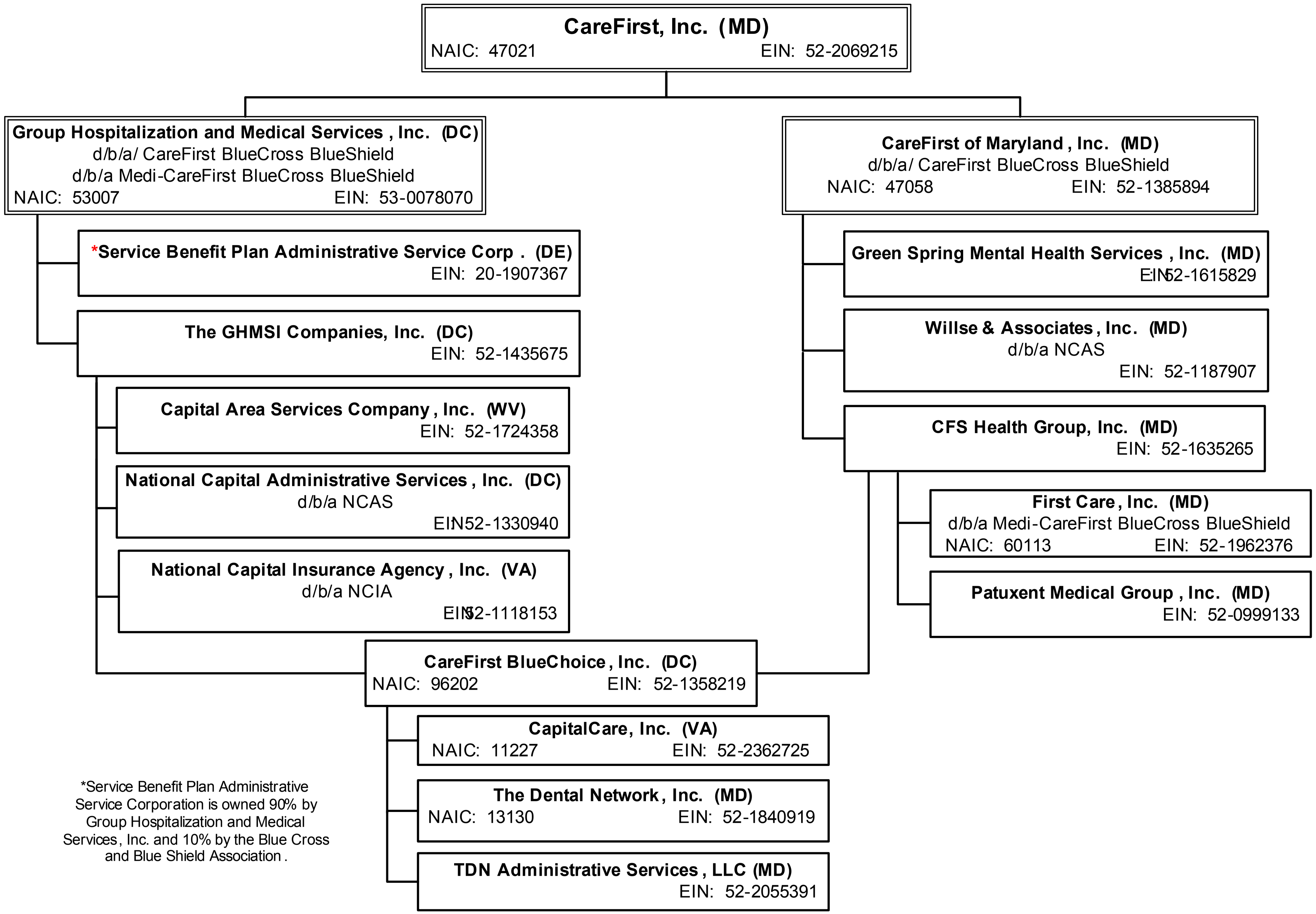
States, Etc.	1 Active Status	Direct Business Only 2 Accident & Health Premiums	3 Medicare Title XVIII	4 Medicaid Title XIX	5 Federal Employees Health Benefit Program Premiums	6 Life & Annuity Premiums & Other Considerations	7 Property/ Casualty Premiums	8 Total Columns 2 Through 7	9 Deposit-Type Contracts
1. Alabama AL								0	0
2. Alaska AK								0	0
3. Arizona AZ								0	0
4. Arkansas AR								0	0
5. California CA								0	0
6. Colorado CO								0	0
7. Connecticut CT								0	0
8. Delaware DE								0	0
9. District of Columbia DC	L	415,103,408			1,551,610,700			1,966,714,108	0
10. Florida FL								0	0
11. Georgia GA								0	0
12. Hawaii HI								0	0
13. Idaho ID								0	0
14. Illinois IL								0	0
15. Indiana IN								0	0
16. Iowa IA								0	0
17. Kansas KS								0	0
18. Kentucky KY								0	0
19. Louisiana LA								0	0
20. Maine ME								0	0
21. Maryland MD	L	721,416,563	38,704					721,455,267	0
22. Massachusetts MA								0	0
23. Michigan MI								0	0
24. Minnesota MN								0	0
25. Mississippi MS								0	0
26. Missouri MO								0	0
27. Montana MT								0	0
28. Nebraska NE								0	0
29. Nevada NV								0	0
30. New Hampshire NH								0	0
31. New Jersey NJ								0	0
32. New Mexico NM								0	0
33. New York NY								0	0
34. North Carolina NC								0	0
35. North Dakota ND								0	0
36. Ohio OH								0	0
37. Oklahoma OK								0	0
38. Oregon OR								0	0
39. Pennsylvania PA								0	0
40. Rhode Island RI								0	0
41. South Carolina SC								0	0
42. South Dakota SD								0	0
43. Tennessee TN								0	0
44. Texas TX								0	0
45. Utah UT								0	0
46. Vermont VT								0	0
47. Virginia VA	L	438,659,661						438,659,661	0
48. Washington WA								0	0
49. West Virginia WV								0	0
50. Wisconsin WI								0	0
51. Wyoming WY								0	0
52. American Samoa AS								0	0
53. Guam GU								0	0
54. Puerto Rico PR								0	0
55. U.S. Virgin Islands VI								0	0
56. Northern Mariana Islands MP								0	0
57. Canada CN								0	0
58. Aggregate Other Alien OT	XXX	0	0	0	0	0	0	0	0
59. Subtotal	XXX	1,575,179,632	38,704	0	1,551,610,700	0	0	3,126,829,036	0
60. Reporting entity contributions for Employee Benefit Plans	XXX							0	
61. Total (Direct Business)	(a) 3	1,575,179,632	38,704	0	1,551,610,700	0	0	3,126,829,036	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	
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX	0	0	0	0	0	0	0	

Explanation of basis of allocation by states, premiums by state, etc.

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

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

PART 1 - ORGANIZATIONAL CHART



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

ALPHABETICAL INDEX

(http://www.naic.org/committees_e_app_blanks.htm)

ANNUAL STATEMENT BLANK

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK (Continued)

ALPHABETICAL INDEX

ANNUAL STATEMENT BLANK (Continued)