



HEALTH ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2003
OF THE CONDITION AND AFFAIRS OF THE

Group Hospitalization and Medical Services, Inc.

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

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

Country of Domicile United States of America

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

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

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

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

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

Internet Website Address www.carefirst.com

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

Policyowner Relations Contact 840 First Street NE
(Street and Number) 800-321-3497
Washington, DC 20065 (Area Code) (Telephone Number) (Extension)
(City or Town, State and Zip Code)

OFFICERS

President William Lockwood Jews Secretary John Anthony Picciotto
Treasurer Gregory Mark Chaney

VICE PRESIDENTS

<u>Eric Randolph Baugh M.D.</u>	<u>David Donald Wolf</u>	<u>Gregory Mark Chaney</u>
<u>Gregory Allen Devou</u>	<u>Leon Kaplan</u>	<u>John Anthony Picciotto</u>
<u>Booker T. Carter, Jr.</u>	<u>Michael Bruce Edwards</u>	<u>Mary Anne Heckwolf</u>
<u>Patricia Ann Malone</u>	<u>Gwendolyn Denise Skillern</u>	<u>Edward William O'Neil</u>
<u>Pamela Sue Deuterma</u>	<u>Michael John Felber</u>	<u>Robert James Huber</u>
<u>Michael A. McShane</u>	<u>William Vincent Stack</u>	<u>Raymond Wayne Blossel</u>
<u>Livio Renato Broccolino Esq.</u>	<u>Andrew James Fitzsimmons</u>	<u>Sharon Jean Vecchioni</u>
<u>Judy Stocker</u>	<u>Janice Elizabeth Carman</u>	<u>Rita Ann Costello</u>
<u>Frances Price Doherty</u>	<u>Ann Teat Gallant</u>	<u>Jeanne Ann Kennedy</u>
<u>Joseph Gabriel Rampone</u>	<u>Jack J. Nelson</u>	<u>Jeffrey Scott Joy</u>

DIRECTORS OR TRUSTEES

<u>Father William James Byron S.J.</u>	<u>Michel Llewellyn Daley</u>	<u>Floretta Dukes McKenzie Ed.D.</u>
<u>Sister Carol Ann Keehan RN,MS</u>	<u>George Burch Wilkes III</u>	<u>Edward John Baran</u>

State of }
County of } ss

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

William Lockwood Jews
President

John Anthony Picciotto
Secretary

Gregory Mark Chaney
Treasurer

Subscribed and sworn to before me this
_____ day of _____, 2004

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

ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D).....	465,678,514		465,678,514	341,290,016
2. Stocks (Schedule D):				
2.1 Preferred stocks	9,159,961		9,159,961	7,493,517
2.2 Common stocks	150,635,618		150,635,618	105,196,003
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 (\$(41,770,714) , Schedule E, Part 1), cash equivalents (\$3,999,286 , Schedule E, Part 2) and short -term investments (\$29,076,859 , Schedule DA).....	(8,694,570)		(8,694,570)	63,936,986
6. Contract loans, (including \$premium notes)			0	0
7. Other invested assets (Schedule BA)	0	0	0	0
8. Receivable 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)	616,779,523	0	616,779,523	517,916,522
11. Investment income due and accrued	5,405,553		5,405,553	3,916,110
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection	570,753,370		570,753,370	493,912,344
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$earned but unbilled premium).....			0	0
12.3 Accrued retrospective premium.....			0	0
13. Reinsurance:				
13.1 Amounts recoverable from reinsurers			0	0
13.2 Funds held by or deposited with reinsured companies			0	0
13.3 Other amounts receivable under reinsurance contracts			0	0
14. Amounts receivable relating to uninsured plans	43,348,288		43,348,288	30,362,806
15.1 Current federal and foreign income tax recoverable and interest thereon	8,529,624		8,529,624	1
15.2 Net deferred tax asset.....	15,321,145	6,679,843	8,641,302	1,928,267
16. Guaranty funds receivable or on deposit			0	0
17. Electronic data processing equipment and software.....	40,539,217	36,924,412	3,614,805	5,992,292
18. Furniture and equipment, including health care delivery assets (\$)	12,290,529	12,290,529	0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
20. Receivables from parent, subsidiaries and affiliates	4,239,823	176,631	4,063,192	2,834,098
21. Health care (\$27,019,280) and other amounts receivable.....	27,019,280	1,280,075	25,739,205	20,782,847
22. Other assets nonadmitted	4,071,213	4,071,213	0	0
23. Aggregate write-ins for other than invested assets	24,620,864	18,917,956	5,702,908	10,081,723
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	1,372,918,428	80,340,659	1,292,577,769	1,087,727,010
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
26. Total (Lines 24 and 25)	1,372,918,428	80,340,659	1,292,577,769	1,087,727,010
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 thru 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. Deposits and prepaid expenses.....	17,520,501	17,520,501	0	0
2302. Miscellaneous accounts receivable.....	3,707,041	199,176	3,507,865	7,989,073
2303. Other Assets.....	2,278,872	83,829	2,195,043	2,092,650
2398. Summary of remaining write-ins for Line 23 from overflow page	1,114,450	1,114,450	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	24,620,864	18,917,956	5,702,908	10,081,723

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ reinsurance ceded)	244,289,500		244,289,500	237,430,531
2. Accrued medical incentive pool and bonus amounts			0	0
3. Unpaid claims adjustment expenses	7,897,600		7,897,600	7,547,996
4. Aggregate health policy reserves			0	0
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	440,348,277		440,348,277	381,055,714
9. General expenses due or accrued	68,966,186		68,966,186	65,389,308
10.1 Current federal and foreign income tax payable and interest thereon (including				
\$ on realized capital gains (losses))	0		0	(566,244)
10.2 Net deferred tax liability			0	0
11. Ceded reinsurance premiums payable			0	0
12. Amounts withheld or retained for the account of others	16,893,364		16,893,364	8,628,142
13. Remittance and items not allocated			0	0
14. Borrowed money (including \$ current) and interest thereon \$ (including \$ current)			0	0
15. Amounts due to parent, subsidiaries and affiliates	59,636,207		59,636,207	26,656,546
16. Payable for securities	0		0	5,000,000
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 accident and health plans			0	0
21. Aggregate write-ins for other liabilities (including \$ current)	62,538,475	0	62,538,475	65,811,992
22. Total liabilities (Lines 1 to 21)	900,569,609	0	900,569,609	796,953,985
23. Common capital stock	XXX	XXX		0
24. Preferred capital stock	XXX	XXX		0
25. Gross paid in and contributed surplus	XXX	XXX		0
26. Surplus notes	XXX	XXX		0
27. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
28. Unassigned funds (surplus)	XXX	XXX	392,008,160	290,773,025
29. Less treasury stock, at cost:				
29.1 shares common (value included in Line 23 \$)	XXX	XXX		0
29.2 shares preferred (value included in Line 24 \$)	XXX	XXX		0
30. Total capital and surplus (Lines 23 to 28 Less 29)	XXX	XXX	392,008,160	290,773,025
31. Total liabilities, capital and surplus (Lines 22 and 30)	XXX	XXX	1,292,577,769	1,087,727,010
DETAILS OF WRITE-INS				
2101. Miscellaneous	3,233,785		3,233,785	7,920,127
2102. Provision for experience rated refunds	20,122,093		20,122,093	13,678,283
2103. FEP Advances	7,912,597		7,912,597	8,818,917
2198. Summary of remaining write-ins for Line 21 from overflow page	31,270,000	0	31,270,000	35,394,665
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above)	62,538,475	0	62,538,475	65,811,992
2701.	XXX	XXX		
2702.	XXX	XXX		
2703.	XXX	XXX		
2798. Summary of remaining write-ins for Line 27 from overflow page	XXX	XXX	0	0
2799. Totals (Lines 2701 thru 2703 plus 2798) (Line 27 above)	XXX	XXX	0	0

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months.....	XXX	8,643,336	8,857,516
2. Net premium income (including non-health premium income).....	XXX	1,891,194,684	1,719,875,820
3. Change in unearned premium reserves and reserve for rate credits	XXX		0
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	0	0
7. Aggregate write-ins for other non-health revenues	XXX	0	0
8. Total revenues (Lines 2 to 7)	XXX	1,891,194,684	1,719,875,820
Hospital and Medical:			
9. Hospital/medical benefits		819,930,757	712,729,762
10. Other professional services		275,374,449	286,368,925
11. Outside referrals			0
12. Emergency room and out-of-area		185,745,747	139,034,475
13. Prescription drugs		393,743,254	404,822,736
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)	0	1,674,794,207	1,542,955,898
Less:			
17. Net reinsurance recoveries			0
18. Total hospital and medical (Lines 16 minus 17)	0	1,674,794,207	1,542,955,898
19. Non-health claims			
20. Claims adjustment expenses	0	66,080,866	61,042,868
21. General administrative expenses.....		97,393,255	83,549,487
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)	0	1,838,268,329	1,687,548,253
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	52,926,355	32,327,567
25. Net investment income earned		23,236,934	21,154,754
26. Net realized capital gains or (losses)		3,843,191	(6,311,516)
27. Net investment gains or (losses) (Lines 25 plus 26)	0	27,080,125	14,843,238
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	(112,064)	660,546
30. Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	79,894,416	47,831,351
31. Federal and foreign income taxes incurred	XXX	7,364,354	8,922,341
32. Net income (loss) (Lines 30 minus 31)	XXX	72,530,062	38,909,010
DETAILS OF WRITE-INS			
0601.	XXX		
0602.	XXX		
0603.	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	XXX	0	0
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 thru 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 thru 1403 plus 1498) (Line 14 above)	0	0	0
2901. Miscellaneous.....		(112,064)	660,546
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above)	0	(112,064)	660,546

CAPITAL AND SURPLUS ACCOUNT

	1 Current Year	2 Prior Year
CAPITAL AND SURPLUS ACCOUNT:		
33. Capital and surplus prior reporting period	290,773,025	273,984,510
GAINS AND LOSSES TO CAPITAL & SURPLUS:		
34. Net income or (loss) from Line 32	72,530,062	38,909,010
35. Change in valuation basis of aggregate policy and claim reserves	0	0
36. Net unrealized capital gains and losses	35,884,182	14,214,164
37. Change in net unrealized foreign exchange capital gain or (loss)	0	0
38. Change in net deferred income tax	2,629,288	10,237,389
39. Change in nonadmitted assets	(9,808,395)	(37,635,448)
40. Change in unauthorized reinsurance	0	0
41. Change in treasury stock	0	0
42. Change in surplus notes	0	(8,936,600)
43. Cumulative effect of changes in accounting principles	0	0
44. Capital Changes:		
44.1 Paid in	0	0
44.2 Transferred from surplus (Stock Dividend)	0	0
44.3 Transferred to surplus	0	0
45. Surplus adjustments:		
45.1 Paid in	0	0
45.2 Transferred to capital (Stock Dividend)	0	0
45.3 Transferred from capital	0	0
46. Dividends to stockholders	0	0
47. Aggregate write-ins for gains or (losses) in surplus	0	0
48. Net change in capital & surplus (Lines 34 to 47)	101,235,137	16,788,515
49. Capital and surplus end of reporting period (Line 33 plus 48)	392,008,162	290,773,025
DETAILS OF WRITE-INS		
4701.		
4702.		
4703.		
4798. Summary of remaining write-ins for Line 47 from overflow page	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above)	0	0

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance.....	1,873,646,221	1,702,577,258
2. Net investment income.....	24,702,169	21,570,795
3. Miscellaneous income.....	0	12,445,780
4. Total (Lines 1 to 3).....	1,898,348,391	1,736,593,833
5. Benefits and loss related payments.....	1,674,171,671	1,509,079,761
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions.....	166,549,569	143,388,606
8. Dividends paid to policyholders.....	0	0
9. Federal and foreign income taxes paid (recovered) \$ net tax on capital gains (losses)	15,327,734	6,120,703
10. Total (Lines 5 through 9).....	1,856,048,974	1,658,589,070
11. Net cash from operations (Line 4 minus Line 10).....	42,299,417	78,004,763
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	308,228,117	286,046,522
12.2 Stocks.....	16,839,623	12,851,226
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 and short-term investments.....	94,788	0
12.7 Miscellaneous proceeds.....	0	(1,860,788)
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	325,162,528	297,036,960
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	432,627,438	314,588,771
13.2 Stocks.....	28,282,011	24,982,669
13.3 Mortgage loans.....	0	0
13.4 Real estate.....	0	0
13.5 Other invested assets.....	0	0
13.6 Miscellaneous applications.....	5,000,000	(4,421,155)
13.7 Total investments acquired (Lines 13.1 to 13.6).....	465,909,449	335,150,285
14. Net increase (or decrease) in policy loans and premium notes.....	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14).....	(140,746,920)	(38,113,325)
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....	0	(8,936,600)
16.2 Capital and paid in surplus, less treasury stock.....	0	0
16.3 Borrowed funds received.....	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....	0	0
16.5 Dividends to stockholders.....	0	0
16.6 Other cash provided (applied).....	25,815,946	30,195,864
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6).....	25,815,946	21,259,264
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17).....	(72,631,557)	61,150,702
19. Cash and short-term investments:		
19.1 Beginning of year.....	63,936,987	2,786,285
19.2 End of period (Line 18 plus Line 19.1).....	(8,694,570)	63,936,987

ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS (Gain and Loss Exhibit)

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-term Care	Other Health	Other Non-Health
1. Net premium income	1,891,194,684	788,619,286	19,725,452	25,351,716		1,048,085,048			9,238,898			174,284	
2. Change in unearned premium reserves and reserve for rate credit	0												
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	0	0	0	0	0	0	0	0	0	0	0	0	XXX
6. Aggregate write-ins for other non-health care related revenues	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6)	1,891,194,684	788,619,286	19,725,452	25,351,716	0	1,048,085,048	0	0	9,238,898	0	0	174,284	0
8. Hospital/medical/ benefits	819,930,756	315,545,644	5,869,877	0	0	494,771,613	0	0	3,827,650	0	0	(84,028)	XXX
9. Other professional services	275,374,448	100,294,839	1,865,715	14,840,519	0	157,261,049	0	0	1,139,034	0	0	(26,708)	XXX
10. Outside referrals	0					0							XXX
11. Emergency room and out-of-area	185,745,747	71,732,133	1,334,383	0	0	112,475,085	0	0	223,248	0	0	(19,102)	XXX
12. Prescription Drugs	393,743,254	152,240,530	2,832,025	0	0	238,711,240	0	0	0	0	0	(40,541)	XXX
13. Aggregate write-ins for other hospital and medical	0	0	0	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)	1,674,794,205	639,813,146	11,902,000	14,840,519	0	1,003,218,987	0	0	5,189,932	0	0	(170,379)	XXX
16. Net reinsurance recoveries	0												XXX
17. Total medical and hospital (Lines 15 minus 16)	1,674,794,205	639,813,146	11,902,000	14,840,519	0	1,003,218,987	0	0	5,189,932	0	0	(170,379)	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19. Claims adjustment expenses	66,080,866	45,136,782	1,439,861	2,049,576	0	17,454,647	0	0	0	0	0	0	
20. General administrative expenses	97,393,256	66,524,826	2,122,139	3,020,767	0	25,725,524	0	0	0	0	0	0	
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	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22)	1,838,268,327	751,474,754	15,464,000	19,910,862	0	1,046,399,158	0	0	5,189,932	0	0	(170,379)	0
24. Total underwriting gain or (loss) (Line 7 minus Line 23)	52,926,357	37,144,532	4,261,452	5,440,854	0	1,685,890	0	0	4,048,966	0	0	344,663	0
DETAILS OF WRITE-INS													
0501.													XXX
0502.													XXX
0503.													XXX
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0601.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.		XXX	XXX	XXX	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	XXX	XXX	XXX	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	0	XXX	XXX	XXX	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	0	0	0	XXX
1399. Totals (Lines 1301 thru 1303 plus 1398) (Line 13 above)	0	0	0	0	0	0	0	0	0	0	0	0	XXX

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STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 1 - PREMIUMS

Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Ceded	4 Net Premium Income (Cols. 1+2-3)
1. Comprehensive (hospital and medical)	788,619,286			788,619,286
2. Medicare Supplement	19,725,453			19,725,453
3. Dental Only.....	25,351,716			25,351,716
4. Vision Only.....				.0
5. Federal Employees Health Benefits Plan	1,048,085,048			1,048,085,048
6. Title XVIII - Medicare .....				.0
7. Title XIX - Medicaid.....				.0
8. Stop Loss	9,238,898			9,238,898
9. Disability Income .....				.0
10. Long-term care .....				.0
11. Other health.....	184,837	283,440	293,993	174,284
12. Health subtotal (Lines 1 through 11)	1,891,205,238	283,440	293,993	1,891,194,685
13. Life .....				.0
14. Property/Casualty.....				.0
15. Totals (Lines 12 to 14)	1,891,205,238	283,440	293,993	1,891,194,685

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - Claims Incurred During the Year

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non- Health
1. Payments during the year:													
1.1 Direct	1,667,935,238	638,056,427	12,702,000	15,357,519		997,088,987			4,639,931		120,753	(30,379)	
1.2 Reinsurance assumed	0												
1.3 Reinsurance ceded	0												
1.4 Net	1,667,935,238	638,056,427	12,702,000	15,357,519	0	997,088,987	0	0	4,639,931	0	120,753	(30,379)	0
2. Paid medical incentive pools and bonuses	0												
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct	244,289,500	95,064,722	2,670,000	1,595,000	0	143,180,000	0	0	1,490,133	0	239,645	50,000	0
3.3 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
3.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
3.4 Net	244,289,500	95,064,722	2,670,000	1,595,000	0	143,180,000	0	0	1,490,133	0	239,645	50,000	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												
4.4 Net	0	0	0	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year	0												
6. Amounts recoverable from reinsurers December 31, current year	0												
7. Claim liability December 31, prior year from Part 2A:													
7.1 Direct	237,430,531	93,308,000	3,470,000	2,112,000	0	137,050,000	0	0	940,133	0	360,398	190,000	0
7.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
7.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
7.4 Net	237,430,531	93,308,000	3,470,000	2,112,000	0	137,050,000	0	0	940,133	0	360,398	190,000	0
8. Claim reserve December 31, prior year from Part 2D:													
8.1 Direct	0	0	0	0	0	0	0	0	0	0	0	0	0
8.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
8.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
8.4 Net	0	0	0	0	0	0	0	0	0	0	0	0	0
9. Accrued medical incentive pools and bonuses, prior year	0	0	0	0	0	0	0	0	0	0	0	0	0
10. Amounts recoverable from reinsurers December 31, prior year	0	0	0	0	0	0	0	0	0	0	0	0	0
11. Incurred Benefits:													
11.1 Direct	1,674,794,207	639,813,149	11,902,000	14,840,519	0	1,003,218,987	0	0	5,189,931	0	0	(170,379)	0
11.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
11.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
11.4 Net	1,674,794,207	639,813,149	11,902,000	14,840,519	0	1,003,218,987	0	0	5,189,931	0	0	(170,379)	0
12. Incurred medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0	0	0	0

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STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - Claims Liability End of Current Year

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Medical & Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Reported in Process of Adjustment:													
1.1. Direct	6,169,251	2,398,769	67,372	40,247		3,612,863						50,000	
1.2. Reinsurance assumed	0												
1.3. Reinsurance ceded	0												
1.4. Net	6,169,251	2,398,769	67,372	40,247	0	3,612,863	0	0	0	0	0	50,000	0
2. Incurred but Unreported:													
2.1. Direct	238,120,249	92,665,953	2,602,628	1,554,753		139,567,137			1,490,133		239,645	0	
2.2. Reinsurance assumed	0												
2.3. Reinsurance ceded	0												
2.4. Net	238,120,249	92,665,953	2,602,628	1,554,753	0	139,567,137	0	0	1,490,133	0	239,645	0	0
3. Amounts Withheld from Paid Claims and Capitations:													
3.1. Direct	0												
3.2. Reinsurance assumed	0												
3.3. Reinsurance ceded	0												
3.4. Net	0	0	0	0	0	0	0	0	0	0	0	0	0
4. TOTALS:													
4.1. Direct	244,289,500	95,064,722	2,670,000	1,595,000	0	143,180,000	0	0	1,490,133	0	239,645	50,000	0
4.2. Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
4.3. Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4. Net	244,289,500	95,064,722	2,670,000	1,595,000	0	143,180,000	0	0	1,490,133	0	239,645	50,000	0

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

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

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability Dec. 31 of Current Year		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year		
1. Comprehensive (hospital and medical)	80,878,520	557,177,907	2,079,245	92,985,477	82,957,765	93,308,000
2. Medicare Supplement	2,520,726	10,181,274	54,350	2,615,650	2,575,076	3,470,000
3. Dental Only.....	1,652,084	13,705,435	12,896	1,582,104	1,664,980	2,112,000
4. Vision Only.....					.0	.0
5. Federal Employees Health Benefits Plan Premiums	121,247,640	875,841,347	1,185,408	141,994,592	122,433,048	137,050,000
6. Title XVIII - Medicare .....					.0	.0
7. Title XIX - Medicaid.....					.0	.0
8. Other health	430,850	4,299,455	149,013	1,630,765	579,863	1,490,531
9. Health subtotal (Lines 1 to 8).....	206,729,820	1,461,205,418	3,480,912	240,808,588	210,210,732	237,430,531
10. Other non-health.....					.0	
11. Medical incentive pools, and bonus amounts .....					.0	.0
12. Totals (Lines 9 to 11)	206,729,820	1,461,205,418	3,480,912	240,808,588	210,210,732	237,430,531

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A – Paid Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	.68	.77	.4
2. 1999 .....	.0	.0	.714	.915	.778
3. 2000	XXX	.0	49,417	50,555	50,596
4. 2001	XXX	XXX	374,565	439,842	440,863
5. 2002	XXX	XXX	XXX	482,109	562,100
6. 2003	XXX	XXX	XXX	XXX	557,213

Section B – Incurred Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	.68	.77	.4
2. 1999 .....	.0	.0	.714	.915	.778
3. 2000	XXX	.0	50,425	50,555	50,596
4. 2001	XXX	XXX	445,939	441,080	440,863
5. 2002	XXX	XXX	XXX	574,179	564,178
6. 2003	XXX	XXX	XXX	XXX	650,200

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 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. Prior to 1999	XXX			XXX	.0	XXX		.0	.0	XXX
2. 1999 .....	.0	.0	.0	0.0	.0	0.0	.0	.0	.0	0.0
3. 2000 .....	.0	.0	.0	0.0	.0	0.0	.0	.0	.0	0.0
4. 2001 .....	.0	.0	.0	0.0	.0	0.0	.0	.0	.0	0.0
5. 2002	681,254	562,100	21,701	3.9	583,801	85.7	2,077	498	586,376	86.1
6. 2003	788,619	557,213	17,540	3.1	574,753	72.9	92,987	2,727	670,467	85.0
7. Total (Lines 1 through 6)	XXX	1,119,313	39,241	XXX	1,158,554	XXX	95,064	3,225	1,256,843	XXX
8. Total (Lines 2 through 6)	1,469,873	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

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STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A – Paid Health Claims - Medicare Supplement

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	.19	.20	.19
2. 1999 .....	.0	.0	.85	.110	.110
3. 2000	XXX	.0	2,472	2,597	2,600
4. 2001	XXX	XXX	13,894	15,788	15,826
5. 2002	XXX	XXX	XXX	10,372	12,853
6. 2003	XXX	XXX	XXX	XXX	10,181

Section B - Incurred Health Claims - Medicare Supplement

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	.19	.20	.19
2. 1999 .....	.0	.0	.85	.110	.110
3. 2000	XXX	.0	2,592	2,597	2,600
4. 2001	XXX	XXX	17,540	15,888	15,826
5. 2002	XXX	XXX	XXX	13,742	12,907
6. 2003	XXX	XXX	XXX	XXX	12,797

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 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. Prior to 1999	XXX			XXX	.0	XXX			.0	XXX
2. 1999 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
3. 2000 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
4. 2001	18,516	.0	.0	.0	.0	.0	.0	.0	.0	.0
5. 2002 .....	.0	12,853	496	3.9	13,349	.0	54	13	13,416	.0
6. 2003	19,725	10,181	320	3.1	10,502	53.2	2,616	77	13,195	66.9
7. Total (Lines 1 through 6)	XXX	23,034	816	XXX	23,850	XXX	2,670	90	26,611	XXX
8. Total (Lines 2 through 6)	38,241	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A – Paid Health Claims - Dental Only

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	.2	.4	.4
2. 1999 .....	.0	.0	.18	.26	.27
3. 2000	XXX	.0	1,297	1,318	1,329
4. 2001	XXX	XXX	14,410	16,522	16,548
5. 2002	XXX	XXX	XXX	16,439	18,083
6. 2003	XXX	XXX	XXX	XXX	13,676

Section B – Incurred Health Claims - Dental Only

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	.2	.4	.4
2. 1999 .....	.0	.0	.18	.26	.27
3. 2000	XXX	.0	1,297	1,318	1,329
4. 2001	XXX	XXX	16,231	16,522	16,548
5. 2002	XXX	XXX	XXX	18,551	18,096
6. 2003	XXX	XXX	XXX	XXX	15,258

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

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. Prior to 1999	XXX			XXX	.0	XXX			.0	XXX
2. 1999 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
3. 2000 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
4. 2001 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
5. 2002	24,593	18,083	698	3.9	18,781	76.4	13	3	18,797	76.4
6. 2003	25,352	13,676	430	3.1	14,106	55.6	1,582	46	15,734	62.1
7. Total (Lines 1 through 6)	XXX	31,759	1,128	XXX	32,887	XXX	1,595	49	34,531	XXX
8. Total (Lines 2 through 6)	49,945	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

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

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

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	(1,297)	(1,312)	(2,856)
2. 1999 .....	.0	.0	705	602	(554)
3. 2000	XXX	.0	110,236	113,316	112,485
4. 2001	XXX	XXX	744,512	865,530	868,456
5. 2002	XXX	XXX	XXX	801,787	923,638
6. 2003	XXX	XXX	XXX	XXX	875,842

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

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	(1,297)	(1,312)	(2,856)
2. 1999 .....	.0	.0	705	602	(554)
3. 2000	XXX	.0	111,666	113,316	112,485
4. 2001	XXX	XXX	867,346	867,138	868,456
5. 2002	XXX	XXX	XXX	937,229	924,823
6. 2003	XXX	XXX	XXX	XXX	1,017,837

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 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. Prior to 1999	XXX			XXX	.0	XXX			.0	XXX
2. 1999 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
3. 2000 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
4. 2001 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
5. 2002	986,328	923,638	35,658	3.9	959,296	97.3	1,185	284	960,765	97.4
6. 2003	1,048,085	875,842	27,569	3.1	903,411	86.2	141,995	4,165	1,049,571	100.1
7. Total (Lines 1 through 6)	XXX	1,799,480	63,227	XXX	1,862,707	XXX	143,180	4,449	2,010,336	XXX
8. Total (Lines 2 through 6)	2,034,413	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

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STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A - Paid Health Claims - Other

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	.11	.41	.41
2. 1999 .....	.0	.0	.281	.11	.11
3. 2000	XXX	.0	2,422	283	283
4. 2001	XXX	XXX	.0	2,817	2,817
5. 2002	XXX	XXX	XXX	3,141	3,572
6. 2003	XXX	XXX	XXX	XXX	4,299

Section B – Incurred Health Claims - Other

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	.11	.41	.41
2. 1999 .....	.0	.0	.375	.11	.11
3. 2000	XXX	.0	3,648	283	283
4. 2001	XXX	XXX	.0	2,911	2,817
5. 2002	XXX	XXX	XXX	4,538	3,721
6. 2003	XXX	XXX	XXX	XXX	5,930

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

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. Prior to 1999	XXX			XXX	.0	XXX			.0	XXX
2. 1999 .....	.0	.0	.0	.0.0	.0	.0.0	.0	.0	.0	.0.0
3. 2000 .....	.0	.0	.0	.0.0	.0	.0.0	.0	.0	.0	.0.0
4. 2001 .....	.0	.0	.0	.0.0	.0	.0.0	.0	.0	.0	.0.0
5. 2002	9,185	3,572	138	3.9	3,710	40.4	149	36	3,895	42.4
6. 2003	9,424	4,299	135	3.1	4,434	47.1	1,631	48	6,113	64.9
7. Total (Lines 1 through 6)	XXX	7,871	273	XXX	8,144	XXX	1,780	84	10,008	XXX
8. Total (Lines 2 through 6)	18,609	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A - Paid Health Claims - Grand Total

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	(1,197)	(1,170)	(2,788)
2. 1999 .....	.0	.0	1,803	1,664	372
3. 2000	XXX	.0	165,844	168,069	167,293
4. 2001	XXX	XXX	1,147,381	1,340,499	1,344,510
5. 2002	XXX	XXX	XXX	1,313,848	1,520,246
6. 2003	XXX	XXX	XXX	XXX	1,461,211

Section B - Incurred Health Claims - Grand Total

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1999	2 2000	3 2001	4 2002	5 2003
1. Prior .....	.0	.0	(1,197)	(1,170)	(2,788)
2. 1999 .....	.0	.0	1,897	1,664	372
3. 2000	XXX	.0	169,628	168,069	167,293
4. 2001	XXX	XXX	1,347,056	1,343,539	1,344,510
5. 2002	XXX	XXX	XXX	1,548,239	1,523,725
6. 2003	XXX	XXX	XXX	XXX	1,702,022

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 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. Prior to 1999	XXX	.0	.0	XXX	.0	XXX	.0	.0	.0	XXX
2. 1999 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
3. 2000 .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
4. 2001	18,516	.0	.0	.0	.0	.0	.0	.0	.0	.0
5. 2002	1,701,360	1,520,246	58,691	3.9	1,578,937	92.8	3,478	834	1,583,249	93.1
6. 2003	1,891,205	1,461,211	45,994	3.1	1,507,205	79.7	240,811	7,063	1,755,079	92.8
7. Total (Lines 1 through 6)	XXX	2,981,457	104,685	XXX	3,086,142	XXX	244,289	7,897	3,338,328	XXX
8. Total (Lines 2 through 6)	3,611,081	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

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ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

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

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

NONE

(a) Includes \$ premium deficiency reserve.

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	1 Claim Adjustment Expenses	2 General Administration Expenses	3 Investment Expenses	4 Total
1. Rent (\$ for occupancy of own building).....	4,702,520	5,318,614		10,021,134
2. Salaries, wages and other benefits.....	68,180,654	39,849,481		108,030,135
3. Commissions (less \$ ceded plus \$ assumed).....		41,300,284		41,300,284
4. Legal fees and expenses.....	24,427	2,249,972		2,274,399
5. Certifications and accreditation fees.....				0
6. Auditing, actuarial and other consulting services.....	446,733	2,152,058		2,598,791
7. Traveling expenses.....	405,900	942,224		1,348,124
8. Marketing and advertising.....	131,730	1,761,064		1,892,794
9. Postage, express and telephone.....	6,032,768	3,637,620		9,670,388
10. Printing and office supplies.....	737,025	1,955,712		2,692,737
11. Occupancy, depreciation and amortization.....		5,016		5,016
12. Equipment.....	306,807	854,392		1,161,199
13. Cost or depreciation of EDP equipment and software.....	5,922,296	14,118,641		20,040,938
14. Outsourced services including EDP, claims, and other services.....	8,774,474	4,571,040		13,345,513
15. Boards, bureaus and association fees.....	17,733	1,336,561		1,354,294
16. Insurance, except on real estate.....	1,220,365	496,659		1,717,025
17. Collection and bank service charges.....	3,333	215,770		219,103
18. Group service and administration fees.....		0		0
19. Reimbursements by uninsured accident and health plans.....	(26,315,498)	(38,785,798)		(65,101,296)
20. Reimbursements from fiscal intermediaries.....				0
21. Real estate expenses.....	801	251,691		252,492
22. Real estate taxes.....				0
23. Taxes, licenses and fees:				
23.1 State and local insurance taxes.....				0
23.2 State premium taxes.....		8,388,622		8,388,622
23.3 Regulatory authority licenses and fees.....	1,039	1,090,575		1,091,614
23.4 Payroll taxes.....	4,545,478	2,252,343		6,797,821
23.5 Other (excluding federal income and real estate taxes).....	66,634	262,547		329,180
24. Investment expenses not included elsewhere.....			686,230	686,230
25. Aggregate write-ins for expenses.....	(9,124,354)	3,168,169	0	(5,956,185)
26. Total expenses incurred (Lines 1 to 25).....	66,080,866	97,393,255	686,230	(a) 164,160,351
27. Less expenses unpaid December 31, current year.....	7,897,600	68,966,186		76,863,786
28. Add expenses unpaid December 31, prior year.....	7,547,996	67,050,745		74,598,741
29. Amounts receivable related to uninsured accident and health plans, prior year.....		30,362,806		30,362,806
30. Amounts receivable related to uninsured accident and health plans, current year.....		43,348,288		43,348,288
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	65,731,262	108,463,296	686,230	174,880,789
DETAIL OF WRITE-INS				
2501. Charitable Contributions.....	22,840	356,775		379,615
2502. InterPlan Service Charges.....	5,698,182	8,620		5,706,803
2503. InterPlan System Processing Charges.....	6,549,311			6,549,311
2598. Summary of remaining write-ins for Line 25 from overflow page.....	(21,394,687)	2,802,774	0	(18,591,914)
2599. Totals (Line 2501 thru 2503 plus 2598)(Line 25 above)	(9,124,354)	3,168,169	0	(5,956,185)

(a) Includes management fees of \$ 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) 2,449,048	2,904,698
1.1 Bonds exempt from U.S. tax	(a) 0	0
1.2 Other bonds (unaffiliated)	(a) 15,962,738	17,076,867
1.3 Bonds of affiliates	(a) 0	0
2.1 Preferred stocks (unaffiliated)	(b) 511,103	512,136
2.11 Preferred stocks of affiliates	(b) 0	0
2.2 Common stocks (unaffiliated)	884,996	884,996
2.21 Common stocks of affiliates	0	0
3. Mortgage loans	(c) 0	0
4. Real estate	(d) 0	0
5. Contract loans	0	0
6. Cash/short-term investments	(e) 771,009	634,370
7. Derivative instruments	(f) 0	0
8. Other invested assets	0	0
9. Aggregate write-ins for investment income	0	2,403,463
10. Total gross investment income	20,578,894	24,416,530
11. Investment expenses		(g) 686,230
12. Investment taxes, licenses and fees, excluding federal income taxes		(g) 0
13. Interest expense		(h) 493,364
14. Depreciation on real estate and other invested assets		(i) 0
15. Aggregate write-ins for deductions from investment income		0
16. Total (Lines 11 through 15)		1,179,594
17. Net Investment Income - (Line 10 minus Line 16)		23,236,936
DETAILS OF WRITE-INS		
0901. Investment Income FEP		2,409,271
0902. Interest to Retro Groups		(27,142)
0903. Other Income		21,334
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	2,403,463
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		0
1599. Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		0

- (a) Includes \$ 616,944 accrual of discount less \$ 3,570,590 amortization of premium and less \$ 2,817,396 paid for accrued interest on purchases.
 (b) Includes \$ accrual of discount less \$ 1,033 amortization of premium and less \$ paid for accrued dividends on purchases.
 (c) Includes \$ accrual of discount less \$ 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 \$ 95,677 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 Increases (Decreases) by Adjustment	4 Net Gain (Loss) from Change in Difference Between Basis Book/ Adjusted Carrying and Admitted Values	5 Total
1. U.S. Government bonds	329,270				329,270
1.1 Bonds exempt from U.S. tax					0
1.2 Other bonds (unaffiliated)	1,512,721	0	0		1,512,721
1.3 Bonds of affiliates					0
2.1 Preferred stocks (unaffiliated)	(55,231)	(125,397)	0		(180,628)
2.11 Preferred stocks of affiliates					0
2.2 Common stocks (unaffiliated)	2,826,364	(1,478,219)	0		1,348,145
2.21 Common stocks of affiliates					0
3. Mortgage loans					0
4. Real estate					0
5. Contract loans					0
6. Cash/Short-term investments	0				0
7. Derivative instruments	0				0
8. Other invested assets	1,893,734				1,893,734
9. Aggregate write-ins for capital gains (losses)	0	(1,060,051)	0	0	(1,060,051)
10. Total capital gains (losses)	6,506,857	(2,663,667)	0	0	3,843,190
DETAILS OF WRITE-INS					
0901. Warrants		(1,060,051)			(1,060,051)
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	(1,060,051)	0	0	(1,060,051)

EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS

	1 End of Current Year	2 End of Prior Year	3 Changes for Year (Increase) or Decrease
1. Summary of Items Page 2, Lines 12 to 20, Column 2	56,071,415	46,169,805	(9,901,610)
2. Other Non-Admitted Assets:			
2.1 Bills receivable.....	1,280,075	0	(1,280,075)
2.2 Leasehold improvements.....	4,071,213	3,996,291	(74,922)
2.3 Cash advanced to or in hands of officers and agents.....		0	0
2.4 Loans on personal security, endorsed or not.....		0	0
2.5 Commuted commissions.....		0	0
3. Total (Lines 2.1 to 2.5)	5,351,288	3,996,291	(1,354,997)
4. Aggregate write-ins for other assets.....	18,917,956	20,366,168	1,448,212
5. Total (Line 1 plus Lines 3 and Line 4)	80,340,659	70,532,264	(9,808,395)
0401. Deposits and Prepaid Expenses.....	17,520,501	19,101,078	1,580,577
0402. Miscellaneous Accounts Receivable.....	199,176	0	(199,176)
0403. Other Assets.....	1,198,279	1,265,090	66,811
0498. Summary of remaining write-ins for Line 4 from overflow page	0	0	0
0499. Totals (Lines 0401 thru 0403 plus 0498) (Line 4 above)	18,917,956	20,366,168	1,448,212

ANNUAL STATEMENT FOR THE YEAR 2003 OF THE Group Hospitalization and Medical Services, Inc.

EXHIBIT 2 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations.....	.0	17,290	17,164	18,204	18,518	214,875
2. Provider Service Organizations.....	.0					
3. Preferred Provider Organizations.....	617,956	607,329	605,381	597,714	596,212	7,216,923
4. Point of Service.....	85,969	76,401	73,829	71,074	69,998	877,574
5. Indemnity Only.....	44,341	26,534	26,033	25,657	26,195	333,964
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	748,266	727,554	722,407	712,649	710,923	8,643,336
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 thru 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. (the Company) are presented on the basis of accounting practices prescribed by the District of Columbia Department of Insurance and Securities Regulation (the Department).

The Department 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.

Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of admitted assets, liabilities, revenues and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from those amounts provided in the accompanying statutory basis financial statements.

Accounting Policy

Fair Value of Financial Instruments

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

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

The Company periodically evaluates whether any declines in the fair value of investments are other than temporary. This evaluation consists of a review of several factors, including but not limited to: length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery of the market value of a security; and the intent and ability of the Company to hold the security until the market value recovers. Declines in value below cost for debt securities where it is considered probable that all contractual terms of the security will be satisfied, the decline is due primarily to changes in interest rates (and not because of increased credit risk), and where the Company intends and has the ability to hold the investment for a period of time sufficient to allow a market recovery, are not assumed to be other than temporary. Unrealized losses related to equity securities greater than one year are not significant. The unrealized losses related to equity securities less than one year, except as discussed below, have not been deemed to be other than temporary impairments. 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 impairments of \$1,663,000 and \$10,497,000 for the years ended December 31, 2003 and 2002, respectively.

Bonds

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

Preferred Stocks

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

Common Stocks

Common Stocks consist of mutual funds, investments in non-affiliated publicly traded companies and investments in subsidiaries valued in accordance with the NAIC SAP.

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.

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. Unearned premiums represent prepayments of premiums for future health care coverage and Federal Employee Program unearned premiums.

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

The Company participates with other Blue Cross and Blue Shield plans in administering the health care benefit plans of various national accounts. Administrative fees are generally recognized and earned on a monthly basis for the period the participating agreement is in effect.

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.

Federal Employee Program

The Company participates in the Blue Cross and Blue Shield Federal Employee Program (FEP), which is one of the plans offered through the Federal Employee Health Benefits Program (FEHBP), administered by the Office of Personnel Management (OPM). Claims incurred on behalf of FEP are also reported as revenues during the period in which the claims are incurred. The related administrative fees are recognized as revenues as they are earned during the contract period. The Blue Cross and Blue Shield Association (BCBSA) manages FEP and provides information to the Company for inclusion in the accompanying statutory basis financial statements.

OPM holds certain reserves on behalf of the Company to provide funding, if necessary, for excess claims costs, subject to certain limitations. The Company records its allocable share of amounts held by OPM as an asset, with an equivalent amount recorded as premiums received in advance. These amounts are \$396,040,000 and \$319,689,000 as of December 31, 2003 and 2002, respectively, and are included in other assets and premiums received in advance in the accompanying statements of assets, liabilities, capital and surplus--statutory basis. The current contract expires December 31, 2004.

FEP revenues were \$1,023,102,000 and \$959,946,000 for the years ended December 31, 2003 and 2002, respectively.

FEP Operations Center

The Company performs certain administrative functions as the national operations center for the FEP under a cost reimbursement contract with BCBSA. The reimbursement of allocable costs under this contract is recorded as a reduction of general and administrative expenses. The FEP reimbursed the Company for costs incurred in connection with this agreement totaling \$55,896,000 and \$56,114,000 for the years ended December 31, 2003 and 2002, respectively.

The Company has been notified by BCBSA that this cost-reimbursement contract, which expires December 31, 2004, will not be renewed under its present structure. Currently, the Company is negotiating with BCBSA to obtain renewal of this contract. In the event that the Company is unable to obtain this renewal, certain transition costs would be necessary to transfer this operation to BCBSA or a replacement carrier. The Company expects that all significant transition costs would be reimbursed by BCBSA. Given the uncertainties, the potential financial impact of the loss of this contract, if any, is not determinable.

NOTES TO FINANCIAL STATEMENTS

2. Accounting Changes and Corrections of Errors

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

During the year ended December 31, 2003, the Company adopted SSAP No. 89, Accounting for Pensions, A Replacement of SSAP No.8. SSAP No. 89 requires changes in additional minimum pension liabilities to be reported as a component of capital and surplus, net of resulting tax benefits. As a result of implementing SSAP No. 89, the Company recorded a minimum pension liability adjustment related to the supplemental retirement benefit plans of \$1,115 directly to capital and surplus for the year ended December 31, 2003. This was equal to an intangible asset of \$1,115 which was recorded and nonadmitted.

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

Repurchase Agreements

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

6. Joint Ventures, Partnerships and Limited Liability Companies

Not applicable.

7. Investment Income

Not applicable.

8. Derivative Instruments

Not applicable.

9. Income Taxes

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

					Dec. 31, 2003	Dec. 31, 2002
Total of gross deferred tax assets					\$ 19,586,191	\$ 14,041,289
Total of deferred tax liabilities					(4,265,046)	(1,349,432)
Net deferred tax asset					15,321,145	12,691,857
Deferred tax asset nonadmitted					(6,679,843)	(10,763,590)
Net admitted deferred tax asset					8,641,302	1,928,267
(Increase) decrease in nonadmitted asset					\$ 4,083,747	\$ (10,711,211)

The provisions for incurred taxes on earnings:

					Dec. 31, 2003	Dec. 31, 2002
Federal provision					\$ 6,595,716	\$ 10,184,644
Federal income tax on net capital gains(losses)					768,638	(1,262,303)
Federal income taxes incurred					7,364,354	8,922,341

NOTES TO FINANCIAL STATEMENTS

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

						Dec. 31, 2003	Dec. 31, 2002
Deferred tax assets:							
	Allowance for Bad Debt					\$ 1,259,069	\$ 997,253
	Accrued Vacation					800,671	866,630
	Contingent Liability					2,984,115	2,512,920
	Depreciation					3,573,052	
	Discounted Unpaid Losses					1,821,437	2,295,768
	FAS 106					2,278,158	1,915,751
	FAS 115 unrealized losses					1,950,094	2,099,457
	Pension Liability					32,039	39,263
	Nonadmitted assets and other					4,887,556	3,314,247
		Total deferred tax assets				19,586,191	14,041,289
		Nonadmitted deferred tax assets				(6,679,843)	(10,763,590)
		Admitted deferred tax assets				12,906,348	3,277,699
Deferred tax liabilities:							
	FAS 115 unrealized gains					\$ (2,917,873)	\$ (271,764)
	Prepaid Pension Costs					(1,198,306)	(858,306)
	Other					(148,867)	(219,362)
		Total deferred tax liabilities				(4,265,046)	(1,349,432)
		Net Admitted deferred tax assets				8,641,302	1,928,267

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

				Dec. 31, 2003	Dec. 31, 2002	Change
Total deferred tax assets						
				\$ 12,906,348	\$ 3,277,699	\$ 9,628,649
Total deferred tax liabilities						
				4,265,046	1,349,432	2,915,614
Net deferred tax asset(liability)						
				8,641,302	1,928,267	6,713,035
Tax effect of unrealized gains(losses)						
						2,917,873
Change in net deferred income tax, net of nonadmitted deferred tax assets						
						9,630,908

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

				Dec. 31, 2003	Effective Tax Rate
Provision computed at statutory rate					
				\$ 15,978,883	20.00%
				12,428	0.02%
Deferred gain on building sale					
				(570,562)	-0.71%
Investments					
				(149,363)	-0.19%
				216,235	0.27%
				(55,602)	-0.07%
				(2,260,113)	-2.83%
Nonadmitted assets and other					
				261,816	0.33%
Total					
				(6,069,369)	-7.60%
				7,364,354	9.22%
Federal income taxes incurred					
				\$ 7,364,354	9.22%
Change in net deferred income taxes					
				(9,630,908)	-12.05%
Total statutory income taxes					
				(2,266,554)	-2.84%%

The Company has regular tax loss carryforwards of approximately \$48,478,000 at December 31, 2002, which expire between 2004 and 2009, and accumulated Alternative Minimum Tax (AMT) credits of approximately \$52,243,000 at December 31, 2003. Both the carryforward and the credits can be used, in certain circumstances, to offset future regular taxable income and tax, respectively. As a result of the affiliation with CFMI, the usage of the Company's net operating loss carryforwards are limited under Section 382 of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS

The Company is included in the consolidated federal income tax return of CareFirst, Inc.. For federal taxes, the Company benefits from a special deduction provided to certain Blue Cross plans under Internal Revenue Code Section 833(b) (the 833(b) deduction). Due to the 833(b) deduction, the Company has effectively incurred federal taxes at AMT rates. The Company could lose the benefit of the 833(b) deduction in the future if the Company ceases to be not-for-profit, if the Company's reserves reach certain levels, or if certain other events occur. The statutory AMT rate was 20 percent during 2003 and 2002. CareFirst, Inc. has a written agreement, approved by the Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidated return. The agreement calls for an allocation based on the Company's pre-tax income after affecting for permanent differences at the AMT rates. The federal tax allocation for both 2003 and 2002 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 and capital and surplus account--statutory basis. Amounts due from the subsidiaries for federal income taxes are settled monthly.

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

10. Information Concerning Parent, Subsidiaries and Affiliates

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 and health benefits administration, and also has an investment in a health maintenance organization (HMO). These products and services are provided to individuals, businesses and governmental agencies primarily in the Washington, D.C. metropolitan area and in some portions of the State of Maryland and the Commonwealth of Virginia.

The Company and CareFirst of Maryland, Inc. (CFMI) are both affiliates of a not-for-profit parent company, CareFirst, Inc. These affiliates do business as CareFirst BlueCross BlueShield. On March 22, 2000, CareFirst, Inc., also entered into a business affiliation with BCBSD, Inc (BCBSD).

On October 10, 2002, one of CFMI's wholly owned subsidiaries, CFS Health Group, Inc. (CFS) transferred the net assets of certain of its subsidiaries, including FreeState Health Plan, Inc (FSHP), Delmarva Health Plan (DHP) and Preferred Health Network of Maryland, Inc. (PHN) to CareFirst BlueChoice, then a wholly-owned subsidiary of the Company. In exchange, CFS obtained a 60% equity interest in, with the remaining 40% retained by the Company. To achieve the respective equity interests anticipated with this transaction, the CareFirst BlueChoice paid a dividend to the Company of \$30,860,000 as additional consideration.

On November 20, 2001, WellPoint Health Networks, Inc. (WellPoint) and CFI signed a definitive agreement to merge. Under the agreement, as amended in January 2003, WellPoint agreed to acquire CFI and its affiliates for \$1.37 billion following CFI's conversion to for-profit status and pending approval from various regulatory agencies. The purchase price would be provided to benefit residents in CFI's three principal operating areas: Maryland, Delaware and the District of Columbia. As of December 31, 2002, the merger was subject to ongoing regulatory review.

On March 5, 2003, the application for conversion to for-profit status and to merge with WellPoint was denied by the Maryland Insurance Administration (MIA). In May 2003, the Maryland General Assembly passed legislation affecting CFI and its affiliates and subsidiaries. The new legislation, among other things, mandated replacement of all 12 CFMI board members on the CFI board of directors, which represent a majority of the 21-member board, and created certain oversight committees to monitor CFI. As of January 1, 2004, CFI had elected five replacement directors to the CFI board of directors. By July 1, 2004, the CFI board is scheduled to elect the other seven replacement directors to the CFI board. The other nine CFI directors will remain on the CFI board until the expiration of their respective terms and their respective successors are appointed, unless any such director earlier resigns, dies or is removed. The new legislation also prohibited CFI or any of its affiliates from implementing a conversion to for profit status for a period of five years. The legislation led BCBSA to terminate the service mark licenses of CFI and its affiliates. The licenses were reinstated retroactively pursuant to a consent decree settling the litigation over the license terminations.

In response to the 2003 Maryland legislation and the reactions to this legislation by the District of Columbia Department of Insurance and Securities Regulation and the Delaware Department of Insurance, the CFI board of directors approved a change in its affiliation status with each of GHMSI and BCBSD and their respective affiliates, in each case subject to appropriate regulatory or other approvals. The CFI board of directors has approved, among other things, granting greater authority to the GHMSI representative directors on the CFI board regarding the nomination and removal of individuals to and from the GHMSI board of trustees, but has not approved any changes related to its membership interest in GHMSI. The CFI board of directors also has approved, among other things, the relinquishment of its sole membership interest in BCBSD and the creation of a new administrative services agreement between CFI and BCBSD. As of December 31, 2003, CFI had not received the regulatory approvals necessary to effect these changes in affiliation status with GHMSI and BCBSD. Further, there are ongoing discussions among the parties, as well as a proposed March 9, 2004 hearing in Delaware, regarding possible changes to the Maryland legislation and other possible changes in the affiliation arrangements. There is no certainty at this time as to how these various matters will be concluded. As a result, the future impact, if any, of the above actions by the regulatory departments in Maryland, Delaware and the District of Columbia on the accompanying financial statements cannot be determined.

During 2003 and 2002, the Company incurred certain costs on behalf of CFMI, including costs of salaries, claims processing, and professional fees. Similarly, certain costs were incurred by CFMI 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 were \$41,288,000 and \$68,241,000 during the years ended December 31, 2003 and 2002, respectively.

The Company also has an operating relationship with subsidiaries and other affiliates whereby the Company provides substantially all non-medical administrative and corporate services which are allocated to the subsidiaries and affiliates under management agreements. Total allocations to the subsidiaries and affiliates, excluding CFMI, for all services provided by the Company to these affiliates were approximately \$282,000 and \$48,830,000 during the years ended December 31, 2003 and 2002, respectively. These allocations are netted against general and administrative expenses in the accompanying statements of revenue and expenses and changes in capital and surplus—statutory basis.

For certain fully insured point-of-service health care programs, the Company bears all of the out-of-network (indemnity) underwriting risk

NOTES TO FINANCIAL STATEMENTS

and CareFirst BlueChoice, Inc. (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, is shared equally between the two companies.

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

CFMI has maintained a commitment to support the operations and liquidity of a related professional association. Through October 9, 2002, this funding was provided by FSHP, which merged into CareFirst BlueChoice on October 10, 2002. The funding commitment was not transferred to CareFirst BlueChoice. In January 2004, CFMI received notification from the MIA stating that this funding was not appropriate under the Maryland Insurance Code, and that its affiliates must terminate the commitment with the related professional association and that any expenses incurred by the Company in connection with the funding since January 1, 2003, should be charged to CareFirst BlueChoice. Management believes that approval of the DISR, CareFirst BlueChoice's primary regulator, would be required before any such expenses could be charged to CareFirst BlueChoice. Such approval of the DISR has not yet been requested or received. CFMI intends to pursue resolution of this matter through negotiations with MIA and DISR and is still contesting the MIA's position regarding whether the funding of this related professional association represented a violation of the Maryland Insurance Code. If the 2003 commitment was charged to CareFirst BlueChoice, of which the Company owns a 40% interest, the potential impact on the accompanying financial statements would be a decrease of approximately \$2.6 million in net income. Management believes the outcome of this matter will not have a significant impact on the accompanying financial statements.

At December 31, 2003 the Company reported \$59,636,207 and \$4,063,192 as amounts due to and due from affiliates, respectively. These amounts are settled monthly.

During 2002, CFI developed a new regional PPO network and introduced CareFirst BluePreferred, a new product by the Company that offered the PPO network throughout the State of Maryland. As of December 31, 2003, the Company had approximately 12,200 BluePreferred contracts, representing approximately 23,900 members, outside the historic Company service area in Maryland. The related revenue and underwriting gain for these contracts in 2003 was \$79.1 million and \$1,125,000, respectively. In addition, there are non-risk accounts outside the historic Company service area of approximately 7,300 contracts and 15,000 members as of December 31, 2003.

11. Debt

Not applicable.

12. Retirement Plans and Other Post-retirement Benefit Plans

Prior to December 31, 2002, the Company had a qualified noncontributory defined benefit retirement plan covering substantially all full-time employees (GHMSI Plan). Effective on this date, the GHMSI Plan merged with a qualified noncontributory defined benefit retirement plan maintained by CFMI (CFMI Plan) to become the CareFirst, Inc. Retirement Plan. Although CareFirst, Inc. merged the CFMI and GHMSI plans, it has committed to maintain separate recordkeeping of plan assets and benefit obligations so that it will comply with certain regulatory restrictions that apply to the Company and CFMI. Consistent with the standards for multiple-employer plan accounting, the Company and CFMI will account for its respective pension obligations as if the merger had not occurred and the individual 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 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 non-qualified 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 reach early retirement age while working for the Company and have at least ten years of service. 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 does not expect to adjust the amount of the credit to provide for the impact of medical inflation.

NOTES TO FINANCIAL STATEMENTS

A summary of assets, obligations and assumptions of the qualified and non-qualified pension and post-retirement benefit plans are as follows at December 31, 2003:

(in Thousands)

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Accumulated Benefit Obligation	\$ 222,115	\$ 1,275	\$ 9,691
Change in benefit obligation:			
Benefit obligation at beginning of year	\$ 207,441	\$ 1,422	\$ 8,737
Service cost	5,975	11	1,401
Interest cost	14,028	83	637
Actuarial loss (gain)	12,059	(52)	765
Plan amendments	316	–	–
Benefits paid	(8,129)	(188)	(371)
Benefit obligation at end of year	\$ 207,440	\$ 1,276	\$ 11,170
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 202,910	\$ –	\$ –
Actual return on plan assets	44,313	–	–
Employer contribution	1,700	188	371
Benefits paid	(8,129)	(188)	(371)
Fair value of plan assets at end of year	\$ 240,794	\$ –	\$ –

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Funded status	\$ 8,653	\$ (1,276)	\$ (11,170)
Unrecognized net loss (gain)	58,912	81	(4,307)
Transition liability (asset) not yet recognized	(61,913)	1,141	4,066
Unamortized prior service cost (asset)	339	(106)	20
Prepaid Asset(nonadmitted) or additional liability	5,991	(160)	(11,391)
Additional Liability	–	(1,115)	–
	\$ 5,991	\$ (1,275)	\$ (11,391)
Components of net periodic benefit cost:			
Service cost	\$ 5,975	\$ 11	\$ 1,401
Interest cost	14,028	83	637
Expected return on plan assets	(20,188)	–	–
Amortization of prior service cost (asset)	28	(10)	3
Amortization of unrecognized transition obligation	(337)	67	451
Amount of recognized (gains) and losses	494	1	(309)
Total net periodic benefit cost	\$ –	\$ 152	\$ 2,183

An additional pension liability is required when the actuarial present value of accumulated benefits exceeds plan assets and accrued pension liabilities. As of December 31, 2003, an additional liability related to the other pension benefit plans of \$1,115,000 was recorded. This liability was equal to an intangible pension asset of \$1,115,000 which was recorded and nonadmitted.

NOTES TO FINANCIAL STATEMENTS

Weighted average assumptions as of December 31, 2003:

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Discount rate – benefit obligation	6.25%	6.25%	6.25%
Discount rate – net benefit cost	6.75	6.75	6.75
Rate of compensation increase	4.50	4.50	4.50
Expected long-term rate of return on plan assets	8.50	8.50	N/A

As of December 31, 2002, pension benefit obligations and postretirement benefit obligations for nonvested employees were \$4,078,000 and \$12,421,000 respectively.

For measurement purposes related to postretirement plan, a 6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2003.

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

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total service and interest cost	\$ 24,825	\$ (21,850)
Effect on postretirement benefit obligation	\$ 379,948	\$ (330,230)

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. On January 12, 2004 the FASB Issued FSP 106-1, *Accounting Disclosure Requirements – Medicare Prescription Drug Benefit Act* which permits the sponsor of a postretirement health care plan a one-time election to defer accounting for the effects of the Act. The Company has elected such deferral and thus the benefit obligation and net periodic postretirement benefit costs above do not reflect the potential effects of the Act. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information.

The Company sponsors 401(k) plans for the benefit of all eligible employees. The Company contributes to this plan and recognized expenses of \$2,180,000 and \$1,909,000 for 2003 and 2002, respectively.

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 or reduced by each item below is as follows:

Net unrealized losses:	\$ 47,996,182
Non-admitted asset values:	\$(80,340,659)

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.

A federal grand jury subpoena was served on CFI, its subsidiaries and affiliates, requesting information and documentation pertaining to the attempted conversion and sale of those companies to WellPoint (see Note 10). The subpoena covers the time period from January 1, 1998 to August 1, 2003. The companies are producing the documents specified in the subpoena and providing them to the U.S. Attorneys Office in Baltimore.

Various lawsuits, including class action lawsuits and other claims, occur in the normal course of business and are pending against the Company. 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 financial statements.

NOTES TO FINANCIAL STATEMENTS

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 upon a change in control of CFI. Some of the aforementioned payments would be payable based on a change of control only, while others would be payable upon termination or substantial modification of employment following a change of control, as defined. These aforementioned potential incremental payments have not been accrued at December 31, 2003, as management believes the change of control events have not occurred.

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.

CFI and its affiliates also have a retention bonus plan whereby certain officers and other employees are entitled to certain payments following a sale or disposition of CFI and its affiliates or under certain other circumstances. The payment of any of these amounts is subject to regulatory and legislative approval of such a transaction and/or the resolution of other legal issues. As such, no portion of the aforementioned potential retention bonus payments, which have been estimated at \$8,400,000 in total for CFI and its affiliates, have been accrued at December 31, 2003.

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 April 30, 2004.

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. There have been no draws made on this line of credit during 2003 or 2002.

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, 2003:

2004	\$ 17,578,000
2005	17,644,000
2006	16,843,000
2007	16,374,000
2008	15,407,000
Thereafter	64,617,000
Total minimum payments	\$ 148,463,000

Rent expense for the years ended December 31, 2003 and 2002, for operating leases was \$12,770,000 and \$11,416,000 respectively.

Sales-leaseback of headquarters building

On December 3, 1998, GHMSI sold its headquarters building in Washington, D.C. The sale resulted in a realized gain, based on depreciated cost of \$41,079,000. In connection with the sale, GHMSI entered into a five-year leaseback, which expired during 2003, for all of the net rentable space in the building. The purchaser had the right to recapture a portion of the space upon notice to GHMSI at various points in time during the leaseback period. Due to the leaseback arrangement, approximately \$25,019,000 of the realized gain from the sale of the building was originally recorded as a deferred liability in the accompanying balance sheets-statutory basis and was amortized over the leaseback period in proportion to the lease payments. The originally recorded deferred gain was equal to the net present value of the future lease payments, using a discount rate of 6.5%. The deferred gain has also been adjusted downward through other income in periods in which the purchaser exercised its recapture rights. The remaining liability of \$2,853,000 at December 31, 2002 was fully amortized against rent expense during 2003. Amortization during the year ended December 31, 2002 was \$2,818,000.

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.

NOTES TO FINANCIAL STATEMENTS

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 during 2003:

	2003	2002
Gross reimbursement for medical costs incurred	\$ 673,330,000	\$ 665,800,000
Gross administrative fees accrued	65,101,000	61,996,000
Gross expenses incurred	(741,549,000)	(726,715,000)
Operating (loss) gain, before stop loss	(3,118,000)	1,081,000
Stop loss	2,773,000	3,701,000
Proforma operating (loss) gain	\$ (345,000)	\$ 4,782,000

The loss from operations of uninsured ASC plans during 2003 increased in comparison to 2002 because general administrative and claim adjustment expenses associated with this business, including personnel and real estate costs, as well as expenses for HIPAA compliance and other corporate system initiatives, increased at a higher rate than the increases achieved in administrative fees. Stop loss is included above as the stop loss coverage is written on the ASC business.

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

Not applicable.

20. September 11 Events

Not applicable.

21. Other Items

Not applicable.

22. Events Subsequent

Not applicable.

23. Reinsurance

Not applicable.

24. 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.

25. 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 \$21,219,799 from \$237,430,531 in 2002 to \$210,210,732 in 2003 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.

26. Intercompany Pooling Arrangements

Not applicable.

27. Structured Settlements

Not applicable

NOTES TO FINANCIAL STATEMENTS

28. Health Care Receivables

Pharmaceutical Rebates

The Company has a contract which requires its pharmacy vendor to pass back certain pharmacy rebates. These are estimated based on experience and are required to be paid to the Company by certain contractual due dates.

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
12/31/2003	\$ 960,000		\$ -	\$ -	\$ -
9/30/2003	900,000		340,000	-	-
6/30/2003	780,000		335,000	680,000	-
3/31/2003	690,000		295,000	670,000	-
12/31/2002	690,000		254,000	577,000	-
9/30/2002	630,000		263,000	507,000	-
6/30/2002	630,000		215,000	526,000	-
3/31/2002	610,000		207,000	430,000	-

29. Participating Policies

Not applicable

30. Premium Deficiency Reserve

Not applicable

31. Salvage and Subrogation

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

Year incurred	
2002	\$ 2,681,033
2003	1,884,740

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. Treasury securities	43,571,140	7.064	43,571,140	7.064
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	1,714,295	0.278	1,714,295	0.278
1.22 Issued by U.S. government sponsored agencies	38,290,000	6.208	38,290,000	6.208
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)	0	0.000	0	0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	348,375	0.056	348,375	0.056
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	0	0.000	0	0.000
1.43 Revenue and assessment obligations	0	0.000	0	0.000
1.44 Industrial development and similar obligations	0	0.000	0	0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA	11,470,738	1.860	11,470,738	1.860
1.512 Issued by FNMA and FHLMC	106,239,623	17.225	106,239,623	17.225
1.513 Privately issued	0	0.000	0	0.000
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC	27,728,737	4.496	27,728,737	4.496
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC	10,046,618	1.629	10,046,618	1.629
1.523 All other privately issued	0	0.000	0	0.000
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	226,268,988	36.686	226,268,988	36.686
2.2 Unaffiliated foreign securities	0	0.000	0	0.000
2.3 Affiliated securities	0	0.000	0	0.000
3. Equity interests:				
3.1 Investments in mutual funds	35,949,035	5.829	35,949,035	5.829
3.2 Preferred stocks:				
3.21 Affiliated	0	0.000	0	0.000
3.22 Unaffiliated	9,159,962	1.485	9,159,962	1.485
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated	0	0.000	0	0.000
3.32 Unaffiliated	26,607,414	4.314	26,607,414	4.314
3.4 Other equity securities:				
3.41 Affiliated	85,107,160	13.799	85,107,160	13.799
3.42 Unaffiliated	2,972,009	0.482	2,972,009	0.482
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated	0	0.000	0	0.000
3.52 Unaffiliated	0	0.000	0	0.000
4. Mortgage loans:				
4.1 Construction and land development	0	0.000	0	0.000
4.2 Agricultural	0	0.000	0	0.000
4.3 Single family residential properties	0	0.000	0	0.000
4.4 Multifamily residential properties	0	0.000	0	0.000
4.5 Commercial loans	0	0.000	0	0.000
4.6 Mezzanine real estate loans	0	0.000	0	0.000
5. Real estate investments:				
5.1 Property occupied by the company	0	0.000	0	0.000
5.2 Property held for the production of income (includes \$0 of property acquired in satisfaction of debt)	0	0.000	0	0.000
5.3 Property held for sale (\$0 including property acquired in satisfaction of debt)	0	0.000	0	0.000
6. Policy loans	0	0.000	0	0.000
7. Receivables for securities	0	0.000	0	0.000
8. Cash and short-term investments	(8,694,570)	(1.410)	(8,694,570)	(1.410)
9. Other invested assets	0	0.000	0	0.000
10. Total invested assets	616,779,524	100.000	616,779,524	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [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? MARYLAND
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No [X]
- 2.2 If yes, date of change:
 If not previously filed, furnish herewith a certified copy of the instrument as amended.
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.12/31/1999
- 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.12/31/1999
- 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).12/18/2001
- 3.4 By what department or departments? DISTRICT OF COLUMBIA DEPARTMENT OF INSURANCE AND SECURITES REGULATION
- 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? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) 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 or government, manager or attorney in fact).

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

(continued)

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [] No [X]
 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [] No [X]
 8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.]

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

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
 ERNST & YOUNG, LLP, 621 EAST PRATT STREET, BALTIMORE, MD 21202
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with a(n) actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
 EDWARD W. O'NEIL, FSA, MAAA, SENIOR VICE PRESIDENT AND CHIEF ACTUARY, 10455 MILL RUN CIRCLE, OWINGS MILLS, MD 21117
11. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
 11.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?
 NOT APPLICABLE
- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [] No [X]
 11.3 Have there been any changes made to any of the trust indentures during the year? Yes [] No [X]
 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? Yes [] No [] NA [X]

BOARD OF DIRECTORS

12. 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 []
 13. 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 []
 14. 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 which is in or likely to conflict with the official duties of such person? Yes [X] No []

FINANCIAL

- 15.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- | | | |
|--|---------------------------------------------------------|-----------|
| | 15.11 To directors or other officers .. | \$0 |
| | 15.12 To stockholders not officers ... | \$0 |
| | 15.13 Trustees, supreme or grand (Fraternal only) | \$0 |
- 15.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- | | | |
|--|---------------------------------------------------------|-----------|
| | 15.21 To directors or other officers ... | \$0 |
| | 15.22 To stockholders not officers | \$0 |
| | 15.23 Trustees, supreme or grand (Fraternal only) | \$0 |
- 16.1 Were any of the assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in this statement? Yes [] No [X]
- 16.2 If yes, state the amount thereof at December 31 of the current year:
- | | | |
|--|----------------------------------|-----------|
| | 16.21 Rented from others | \$0 |
| | 16.22 Borrowed from others | \$0 |
| | 16.23 Leased from others | \$0 |
| | 16.24 Other | \$0 |
- Disclose in Notes to Financial the nature of each obligation.
- 17.1 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]
- 17.2 If answer is yes,
- | | | |
|--|------------------------------------------------------|-----------|
| | 17.21 Amount paid as losses or risk adjustment | \$0 |
| | 17.22 Amount paid as expenses | \$0 |
| | 17.23 Other amounts paid | \$0 |

GENERAL INTERROGATORIES

(continued)
INVESTMENT

18. List the following capital stock information for the reporting entity:

Class	1	2	3	4	5		6	
	Number of Shares Authorized	Number of Shares Outstanding	Par Value Per Share	Redemption Price if Callable	Is Dividend Rate Limited?		Are Dividends Cumulative?	
					Yes	No	Yes	No
Preferred	0	0	0.000	0	[]	[X]	[]	[X]
Common	0	0	0.000	XXX	XXX	XXX	XXX	XXX

19.1. 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, except as shown by Schedule E - Part 3 - Special Deposits? Yes [] No [X]

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

20.1 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, except as shown on the Schedule E - Part 3 - Special Deposits; 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 16.1) Yes [X] No []

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

20.21	Loaned to others	\$
20.22	Subject to repurchase agreements	\$
20.23	Subject to reverse repurchase agreements	\$
20.24	Subject to dollar repurchase agreements	\$
20.25	Subject to reverse dollar repurchase agreements	\$
20.26	Pledged as collateral	\$2,181,093
20.27	Placed under option agreements	\$
20.28	Letter stock or other securities restricted as to sale ...	\$
20.29	Other	\$

20.3 For each category above, if any of these assets are held by other, identify by whom held:

20.31	20.35
20.32	20.36 Bank One.....
20.33	20.37
20.34	20.38
	20.39

For categories (20.21) and (20.23) above, and for any securities that were made available for use by another person during the period covered by this statement, attach a schedule as shown in the instructions to the annual statement.

20.4 For category (20.28) provide the following:

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

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

21.2 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.

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

22.2 If yes, state the amount thereof at December 31 of the current year \$0

GENERAL INTERROGATORIES

(continued)

INVESTMENT

23. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1 – General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes [] No []

23.01 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 AVENUE NW, WASHINGTON, DC 20005.....
BANKONE.....	707 VIRGINIA AVENUE, CHARLESTON WV 25301.....

23.02 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)

23.03 Have there been any changes, including name changes, in the custodian(s) identified in 23.01 during the current year?

Yes [] No []

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

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

23.05 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
109256.....	WESTLB ASSET MANAGEMENT	5555 SAN FELIPE, 20TH FLOOR, HOUSTON, TX 77056-2723.....
104596.....	DODGE & COX.....	ONE SANSOME STREET, 35TH FLOOR, SAN FRANCISCO, CA 94104.....
107293.....	DENVER INVESTMENTS.....	17TH STREET PLAZA, 1225 17TH STREET, 25TH FLOOR, DENVER, CO. 80202.....
105758.....	CALAMOS INVESTMENTS.....	1111 EAST WARRENVILLE ROAD, NAPERVILLE, IL 60563-1493.....

24.1 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 [] No []

24.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
9999999. TOTAL		0

24.3 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

GENERAL INTERROGATORIES

(continued)

OTHER

25.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any?.....\$1,634,783

25.2 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
Standard and Poor's Rating Service.....	53,700
BlueCross BlueShield Association.....	1,152,994

26.1 Amount of payments for legal expenses, if any?.....\$0

26.2 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
.....	
.....	

27.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?.....\$0

27.2 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
.....	
.....	

GENERAL INTERROGATORIES

(continued)

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	\$	19,725,456
1.3	What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?	\$	0
	1.31 Reason for excluding		
1.4	Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above	\$	0
1.5	Indicate total incurred claims on all Medicare Supplement Insurance.	\$	11,902,000
1.6	Individual policies:		
	Most current three years:		
	1.61 Total premium earned	\$	1,490,902
	1.62 Total incurred claims	\$	1,414,667
	1.63 Number of covered lives	\$	805
	All years prior to most current three years:		
	1.64 Total premium earned	\$	18,234,554
	1.65 Total incurred claims	\$	10,487,333
	1.66 Number of covered lives	\$	6,909
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	2
		Current Year	Prior Year
2.1	Premium Numerator	\$ 1,891,020,400	\$ 1,719,683,772
2.2	Premium Denominator	\$ 1,891,194,684	\$ 1,719,875,820
2.3	Premium Ratio (2.1/2.2)	1.000	1.000
2.4	Reserve Numerator	\$ 244,289,500	\$ 235,940,000
2.5	Reserve Denominator	\$ 244,289,500	\$ 237,430,531
2.6	Reserve Ratio (2.4/2.5)	1.000	0.994

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 departments been filed with the appropriate regulatory agency?	Yes [X]	No []
4.2	If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?	Yes []	No [X]
5.1	Does the reporting entity have stop-loss reinsurance?	Yes []	No [X]
5.2	If no, explain:		
5.3	Maximum retained risk (see instructions)		
	5.31 Comprehensive Medical	\$	
	5.32 Medical Only	\$	
	5.33 Medicare Supplement	\$	
	5.34 Dental	\$	
	5.35 Other Limited Benefit Plan	\$	
	5.36 Other	\$	
6.	Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements: Intercompany agreement with CFMI and BCBSD.		
7.1	Does the reporting entity set up its claim liability for provider services on a service data 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		25,005
	8.2 Number of providers at end of reporting year		27,312
9.1	Does the reporting entity have business subject to premium rate guarantees?	Yes []	No [X]
9.2	If yes, direct premium earned:		
	9.21 Business with rate guarantees between 15-36 months		
	9.22 Business with rate guarantees over 36 months		

GENERAL INTERROGATORIES

(continued)

PART 2 - HEALTH INTERROGATORIES

- 10.1 Does the reporting entity have Incentive Pool, Withhold and 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 []
- 11.13 An Individual Practice Association (IPA), or, Yes [] No []
- 11.14 A Mixed Model (combination of above) ? Yes [] No []
- 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. \$58,683,808
- 11.5 Is this amount included as part of a contingency reserve in stockholders 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
STATE OF MARYLAND
DISTRICT OF COLUMBIA
NORTHERN VIRGINIA: PORTIONS EAST OF RTE 123 AND THE INCORPORATED CITIES OF FAIR FAX AND VIENNA.....

11.6 Minimum Net-Worth Requirements

The Company is licensed to conduct business in the states of 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

\$1,719,875,821	Prior Year's Premiums Earned
986,328,220	Less: FEP Premiums Earned
733,547,601	Prior Year's Risk Premiums
8%	Applicable Rate for the District of Columbia
58,863,808	Minimum Statutory Reserve Requirement

Maryland \$58,683,808, calculated as 8% of prior year's risk premium

Virginia \$97,627,708, calculated as 45 days of anticipated operating expenses and incurred claims expenses generated from subscription contracts

	Incurred Claims	Operating Expenses	=Total
Total	\$1,674,794,207	\$163,474,121	
Less: FEP	1,003,218,967	43,180,171	
Incurred	671,575,240	120,293,950	
Divided by	365 days	365 days	
Times	45 days	45 days	
	\$ 82,796,708	plus \$ 14,830,761	= \$97,627,708

FIVE-YEAR HISTORICAL DATA

	1 2003	2 2002	3 2001	4 2000	5 1999
BALANCE SHEET ITEMS (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	1,292,577,769	1,087,727,010	927,379,289	779,154,261	644,652,098
2. Total liabilities (Page 3, Line 22)	900,569,609	796,953,985	653,394,779	531,152,006	457,806,563
3. Statutory surplus	58,683,808	0	0	0	0
4. Total capital and surplus (Page 3, Line 30)	392,008,160	290,773,025	273,984,510	248,002,255	186,845,535
INCOME STATEMENT ITEMS (Page 4)					
5. Total revenues (Line 8)	1,891,194,684	1,719,875,820	1,509,283,240	1,243,945,601	1,076,588,930
6. Total medical and hospital expenses (Line 18)	1,674,794,207	1,542,955,898	1,357,572,301	1,116,040,521	975,773,647
7. Total administrative expenses (Line 21)	97,393,255	83,549,487	87,203,819	53,065,590	45,830,187
8. Net underwriting gain (loss) (Line 24)	52,926,355	32,327,567	27,900,833	33,133,713	16,392,086
9. Net investment gain (loss) (Line 27)	27,080,125	14,843,238	28,861,365	24,869,747	19,988,225
10. Total other income (Lines 28 plus 29)	(112,064)	660,546	(1,185,574)	1,635,165	464,555
11. Net income (loss) (Line 32)	72,530,062	38,909,010	55,576,624	59,638,625	36,844,866
RISK - BASED CAPITAL ANALYSIS					
12. Total adjusted capital	392,008,160	290,773,025	273,984,510	248,002,255	186,845,537
13. Authorized control level risk-based capital	49,799,523	45,255,447	36,845,312	29,311,712	19,267,133
ENROLLMENT (Exhibit 2)					
14. Total members at end of period (Column 5, Line 7)	710,923	748,266	712,541	0	0
15. Total member months (Column 6, Line 7)	8,643,336	8,857,516	8,472,885	0	0
OPERATING PERCENTAGE (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5)					
16. Premiums earned (Lines 2 plus 3)	100.0	100.0	100.0	100.0	100.0
17. Total hospital and medical (Line 18)	88.6	89.7	89.9	89.7	90.6
18. Total underwriting deductions (Line 23)	97.2	98.1	98.2	97.3	98.5
19. Total underwriting gain (loss) (Line 24)	2.8	1.9	1.8	2.7	1.5
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
20. Total claims incurred for prior years (Line 12, Col. 5)	210,210,732	198,269,793	166,681,137	137,229,670	156,925,847
21. Estimated liability of unpaid claims – [prior year (Line 12, Col. 6)]	237,430,531	203,554,394	159,812,944	158,479,677	109,525,592
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
22. Affiliated bonds (Sch. D Summary, Line 25, Col. 1)	0	0	0	0	0
23. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1)	0	0	0	0	0
24. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2)	85,107,160	71,590,117	81,301,101	64,244,537	43,046,944
25. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11)	0	0	0	0	0
26. Affiliated mortgage loans on real estate	0	0	0	0	0
27. All other affiliated	0	0	0	0	0
28. Total of above Lines 22 to 27	85,107,160	71,590,117	81,301,101	64,244,537	43,046,944

SCHEDULE D - SUMMARY BY COUNTRY

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

Description	1 Book/Adjusted Carrying Value	2 Fair Value (a)	3 Actual Cost	4 Par Value of Bonds
BONDS				
Governments (Including all obligations guaranteed by governments)	1. United States .....90,574,789 2. Canada .....0 3. Other Countries .....0 4. Totals .....90,574,789	89,649,925 0 0 89,649,925	90,867,018 0 0 90,867,018	86,800,634 0 0 86,800,634
States, Territories and Possessions (Direct and guaranteed)	5. United States .....348,375 6. Canada .....0 7. Other Countries .....0 8. Totals .....348,375	367,788 0 0 367,788	348,144 0 0 348,144	400,000 0 0 400,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States .....0 10. Canada .....0 11. Other Countries .....0 12. Totals .....0	0 0 0 0	0 0 0 0	0 0 0 0
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States .....143,910,691 14. Canada .....0 15. Other Countries .....0 16. Totals .....143,910,691	143,910,691 0 0 143,910,691	144,315,339 0 0 144,315,339	140,678,231 0 0 140,678,231
Public Utilities (unaffiliated)	17. United States .....1,011,234 18. Canada .....0 19. Other Countries .....0 20. Totals .....1,011,234	1,011,234 0 0 1,011,234	1,024,730 0 0 1,024,730	1,000,000 0 0 1,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....229,833,422 22. Canada .....0 23. Other Countries .....0 24. Totals .....229,833,422	237,751,008 0 0 237,751,008	231,316,345 0 0 231,316,345	226,625,015 0 0 226,625,015
Parent, Subsidiaries and Affiliates	25. Totals .....0 26. Total Bonds .....465,678,511	0 472,690,646	0 467,871,576	0 455,503,880
PREFERRED STOCKS				
Public Utilities (unaffiliated)	27. United States .....0 28. Canada .....0 29. Other Countries .....0 30. Totals .....0	0 0 0 0	0 0 0 0	0 0 0 0
Banks, Trust and Insurance Companies (unaffiliated)	31. United States .....784,000 32. Canada .....0 33. Other Countries .....0 34. Totals .....784,000	784,000 0 0 784,000	747,349 0 0 747,349	
Industrial and Miscellaneous (unaffiliated)	35. United States .....8,375,961 36. Canada .....0 37. Other Countries .....0 38. Totals .....8,375,961	8,683,363 0 0 8,683,363	7,845,497 0 0 7,845,497	
Parent, Subsidiaries and Affiliates	39. Totals .....0 40. Total Preferred Stocks .....9,159,961	0 9,467,363	0 8,592,846	
COMMON STOCKS				
Public Utilities (unaffiliated)	41. United States .....0 42. Canada .....0 43. Other Countries .....0 44. Totals .....0	0 0 0 0	0 0 0 0	
Banks, Trust and Insurance Companies (unaffiliated)	45. United States .....4,406,967 46. Canada .....0 47. Other Countries .....0 48. Totals .....4,406,967	4,406,967 0 0 4,406,967	4,231,839 0 0 4,231,839	
Industrial and Miscellaneous (unaffiliated)	49. United States .....61,121,477 50. Canada .....0 51. Other Countries .....0 52. Totals .....61,121,477	61,121,477 0 0 61,121,477	56,873,995 0 0 56,873,995	
Parent, Subsidiaries and Affiliates	53. Totals .....85,107,160 54. Total Common Stocks .....150,635,604	85,107,160 150,635,604	39,088,325 100,194,159	
	55. Total Stocks .....159,795,565 56. Total Bonds and Stocks .....625,474,076	160,102,967 632,793,613	108,787,005 576,658,581	

(a) The aggregate value of bonds which are valued at other than actual fair value is \$290,658,951 .

SCHEDULE D - VERIFICATION BETWEEN YEARS

1. Book/adjusted carrying value of bonds and stocks, prior year .....462,265,128	6. Foreign Exchange Adjustment:
2. Cost of bonds and stocks acquired, Column 6, Part 3 .....460,356,029	6.1 Column 17, Part 1 .....0
3. Increase (decrease) by adjustment:	6.2 Column 13, Part 2, Sec. 1 .....0
3.1 Column 16, Part 1 .....(1,100,836)	6.3 Column 11, Part 2, Sec. 2 .....0
3.2 Column 12, Part 2, Sec. 1 .....708,262	6.4 Column 11, Part 4 .....0
3.3 Column 10, Part 2, Sec. 2 .....25,201,757	7. Book/adjusted carrying value at end of current period .....625,474,093
3.4 Column 10, Part 4 .....(731,885) .....24,077,298	8. Total valuation allowance .....0
4. Total gain (loss), Col. 14, Part 4 .....2,948,450	9. Subtotal (Lines 7 plus 8) .....625,474,093
5. Deduct consideration for bonds and stocks disposed of Column 6, Part 4 .....324,172,812	10. Total nonadmitted amounts .....0
	11. Statement value of bonds and stocks, current period .....625,474,093

SCHEDULE T PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

States, Etc.	1 Guaranty Fund (Yes or No)	2 Is Insurer Licensed? (Yes or No)	Direct Business Only					
			3 Premiums	4 Medicare Title XVIII	5 Medicaid Title XIX	6 Federal Employees Health Benefits Program Premiums	7 Life & Annuity Premiums & Deposit Type Contract Funds	8 Property/ Casualty Premiums
1. Alabama AL	No	No						
2. Alaska AK	No	No						
3. Arizona AZ	No	No						
4. Arkansas AR	No	No						
5. California CA	No	No						
6. Colorado CO	No	No						
7. Connecticut CT	No	No						
8. Delaware DE	No	No						
9. District of Columbia DC	Yes	Yes	260,644,120			1,048,085,048		
10. Florida FL	No	No						
11. Georgia GA	No	No						
12. Hawaii HI	No	No						
13. Idaho ID	No	No						
14. Illinois IL	No	No						
15. Indiana IN	No	No						
16. Iowa IA	No	No						
17. Kansas KS	No	No						
18. Kentucky KY	No	No						
19. Louisiana LA	No	No						
20. Maine ME	No	No						
21. Maryland MD	Yes	Yes	315,661,020					
22. Massachusetts MA	No	No						
23. Michigan MI	No	No						
24. Minnesota MN	No	No						
25. Mississippi MS	No	No						
26. Missouri MO	No	No						
27. Montana MT	No	No						
28. Nebraska NE	No	No						
29. Nevada NV	No	No						
30. New Hampshire NH	No	No						
31. New Jersey NJ	No	No						
32. New Mexico NM	No	No						
33. New York NY	No	No						
34. North Carolina NC	No	No						
35. North Dakota ND	No	No						
36. Ohio OH	No	No						
37. Oklahoma OK	No	No						
38. Oregon OR	No	No						
39. Pennsylvania PA	No	No						
40. Rhode Island RI	No	No						
41. South Carolina SC	No	No						
42. South Dakota SD	No	No						
43. Tennessee TN	No	No						
44. Texas TX	No	No						
45. Utah UT	No	No						
46. Vermont VT	No	No						
47. Virginia VA	No	Yes	266,815,048					
48. Washington WA	No	No						
49. West Virginia WV	No	No						
50. Wisconsin WI	No	No						
51. Wyoming WY	No	No						
52. American Samoa AS	No	No						
53. Guam GU	No	No						
54. Puerto Rico PR	No	No						
55. U.S. Virgin Islands VI	No	No						
56. Canada CN	No	No						
57. Aggregate other alien OT	XXX	XXX	0	0	0	0	0	0
58. Total (Direct Business)	XXX	(a) 3	843,120,188	0	0	1,048,085,048	0	0
DETAILS OF WRITE-INS								
5701.								
5702.								
5703.								
5798. Summary of remaining write-ins for Line 57 from overflow page			0	0	0	0	0	0
5799. Totals (Lines 5701 thru 5703 plus 5798) (Line 57 above)			0	0	0	0	0	0

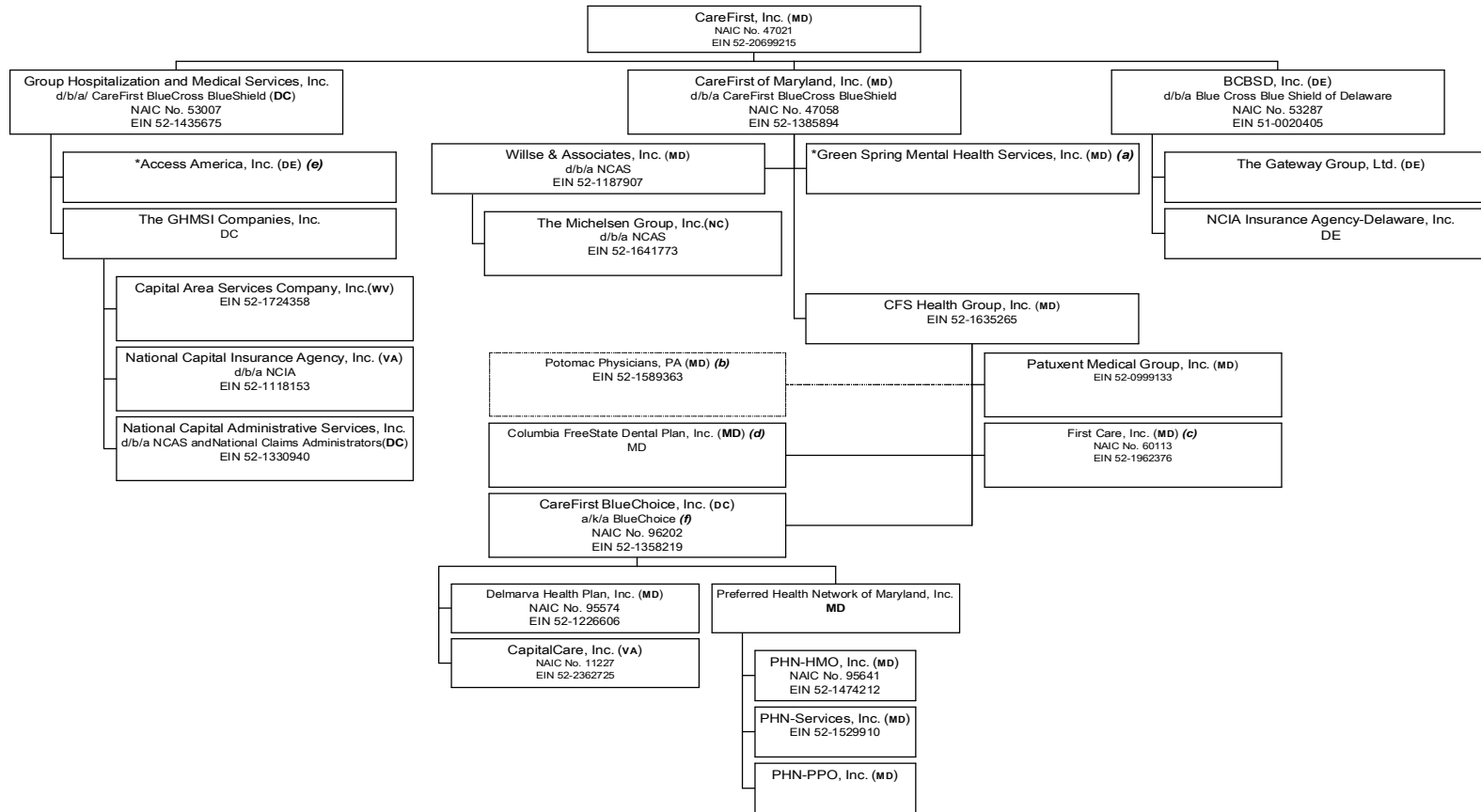
Explanation of basis of allocation by states, premiums by state, etc.:

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

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

PART 1 - ORGANIZATIONAL CHART

CareFirst, Inc. Organizational Chart
 Schedule Y
 CareFirst of Maryland, Inc.; Group Hospitalization and Medical Services, Inc.; and, BCBSD, Inc
 Modified: May 13, 2003



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

PART 1 - ORGANIZATIONAL CHART

**CareFirst, Inc. Organizational Chart
CareFirst of Maryland, Inc.; Group Hospitalization and Medical Services, Inc.; and BCBSD, Inc.**

Legend

- a. Corporate existence continued for purposes of maintaining mental health services contracts;
- b. Potomac Physician's Professional Association - stock held by Physicians affiliated with CFS Health Group, Inc.; and CFMI
- c. Corporation formed March, 1996 with no activity through the present;
- d. Corporate existence continued pending decision regarding establishment of dental HMO;
- e. Currently has no operations and is in the process of liquidation;
- f. The GHMSI Companies maintains 40% ownership interest of CareFirst BlueChoice. As a result of the corporate "repositioning," CFS Health Group maintains 60% interest.