



**HEALTH ANNUAL STATEMENT  
FOR THE YEAR ENDING DECEMBER 31, 2004  
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)  
Owings Mills, MD 21117 410-581-3000  
(City or Town, State and Zip Code) (Area Code) (Telephone Number)

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

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

Internet Website Address www.carefirst.com

Statutory Statement Contact William Vincent Stack 410-998-7011  
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(Street and Number)  
Washington, DC 20065 800-321-3497  
(City or Town, State and Zip Code) (Area Code) (Telephone Number) (Extension)

**OFFICERS**

Name	Title	Name	Title
<u>William Lockwood Jews</u>	<u>President &amp; CEO</u>	<u>John Anthony Picciotto</u>	<u>Corp. Secretary, Exec. VP &amp; Gen. Counsel</u>
<u>Jeanne Ann Kennedy</u>	<u>Corp. Treasurer &amp; VP</u>		

**OTHER OFFICERS**

<u>Eric Randolph Baugh M.D.</u>	<u>Sr. VP, Chief Medical Officer</u>	<u>David Donald Wolf</u>	<u>Exec VP, Med Sysys, Corp Dev</u>
<u>Gregory Mark Chaney</u>	<u>Exec. VP &amp; CFO</u>	<u>Gregory Allen Devou</u>	<u>Exec VP, Chief Mktg Office</u>
<u>Leon Kaplan</u>	<u>Exec VP, Operations</u>	<u>Gwendolyn Denise Skillern</u>	<u>Sr. VP and General Auditor</u>
<u>Edward William O'Neil</u>	<u>Sr. VP, Chief Actuary</u>	<u>Michael John Felber</u>	<u>SVP, Sales</u>
<u>Livio Renato Broccolino Esq.</u>	<u>Deputy General Counsel</u>	<u>Sharon Jean Vecchioni</u>	<u>Exec VP, Chief of Staff</u>
<u>Rita Ann Costello</u>	<u>Sr. VP, Strategic Marketing</u>	<u>Joseph Gabriel Rampone</u>	<u>Sr. VP, Operations</u>

**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 R.N.,M.S.</u>
<u>George Burch Wilkes III</u>	<u>Edward John Baran</u>	<u>Robert Marcellus Willis Esq.</u>	

State of .....

**ss**

County of .....

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

William Lockwood Jews  
President & CEO

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

Jeanne Ann Kennedy  
Corp. Treasurer & VP

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

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

**ANNUAL STATEMENT FOR THE YEAR 2004 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).....	442,770,711		442,770,711	465,678,514
2. Stocks (Schedule D):				
2.1 Preferred stocks .....	5,818,526		5,818,526	9,159,961
2.2 Common stocks .....	177,751,966		177,751,966	150,635,618
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 (\$ .....(57,993,335) , Schedule E, Part 1), cash equivalents (\$ .....9,719,330 , Schedule E, Part 2) and short-term investments (\$ .....127,772,076 , Schedule DA).....	79,498,070		79,498,070	(8,694,570)
6. Contract loans, (including \$ .....premium notes)			0	0
7. Other invested assets (Schedule BA) .....	168,794	168,794	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) .....	706,008,067	168,794	705,839,273	616,779,523
11. Investment income due and accrued .....	4,656,257		4,656,257	5,405,553
12. Premiums and considerations:				
12.1 Uncollected premiums and agents' balances in the course of collection .....	622,526,145	111,512	622,414,633	570,753,370
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 .....	39,790,440	117,080	39,673,360	43,348,288
15.1 Current federal and foreign income tax recoverable and interest thereon .....	3,582,770		3,582,770	8,529,624
15.2 Net deferred tax asset.....	12,937,227	6,294,851	6,642,376	8,641,302
16. Guaranty funds receivable or on deposit .....			0	0
17. Electronic data processing equipment and software.....	45,609,665	43,338,368	2,271,297	3,614,805
18. Furniture and equipment, including health care delivery assets (\$ ..... ) .....	10,973,429	10,973,429	0	0
19. Net adjustment in assets and liabilities due to foreign exchange rates .....			0	0
20. Receivables from parent, subsidiaries and affiliates .....	2,967,491	7,837	2,959,654	4,063,192
21. Health care (\$ .....31,585,479 ) and other amounts receivable.....	31,616,624	3,176,797	28,439,827	29,247,070
22. Other assets nonadmitted .....	20,789,113	20,789,113	0	0
23. Aggregate write-ins for other than invested assets .....	3,299,295	1,104,252	2,195,043	2,195,043
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	1,504,756,523	86,082,033	1,418,674,490	1,292,577,769
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
26. Total (Lines 24 and 25)	1,504,756,523	86,082,033	1,418,674,490	1,292,577,769
<b>DETAILS OF WRITE-INS</b>				
0901. ....				
0902. ....				
0903. ....				
0998. Summary of remaining write-ins for Line 9 from overflow page .....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0	0
2301. Other Assets.....	2,326,056	131,013	2,195,043	2,195,043
2302. Intangible Assets.....	973,239	973,239	0	0
2303. ....				
2398. Summary of remaining write-ins for Line 23 from overflow page .....	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	3,299,295	1,104,252	2,195,043	2,195,043

## LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ ..... reinsurance ceded)	230,548,145		230,548,145	244,289,500
2. Accrued medical incentive pool and bonus amounts	0		0	0
3. Unpaid claims adjustment expenses	6,426,800		6,426,800	7,897,600
4. Aggregate health policy reserves	6,685,215		6,685,215	4,350,132
5. Aggregate life policy reserves	0		0	0
6. Property/casualty unearned premium reserves	0		0	0
7. Aggregate health claim reserves	0		0	0
8. Premiums received in advance	486,556,405		486,556,405	440,348,277
9. General expenses due or accrued	83,142,697		83,142,697	64,616,054
10.1 Current federal and foreign income tax payable and interest thereon (including \$ ..... on realized capital gains (losses))	0		0	0
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	62,463,142		62,463,142	79,431,839
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	34,919,105		34,919,105	59,636,207
16. Payable for securities	6,918,516		6,918,516	0
17. Funds held under reinsurance treaties with (\$ ..... authorized reinsurers and \$ ..... unauthorized reinsurers)			0	0
18. Reinsurance in unauthorized companies			0	0
19. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
20. Liability for amounts held under uninsured accident and health plans			0	0
21. Aggregate write-ins for other liabilities (including \$ ..... current)	0	0	0	0
22. Total liabilities (Lines 1 to 21)	917,660,025	0	917,660,025	900,569,609
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	501,014,465	392,008,160
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	501,014,465	392,008,160
31. Total liabilities, capital and surplus (Lines 22 and 30)	XXX	XXX	1,418,674,490	1,292,577,769
<b>DETAILS OF WRITE-INS</b>				
2101. ....				
2102. ....				
2103. ....				
2198. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above)	0	0	0	0
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	8,659,572	8,643,336
2. Net premium income (including .....0 non-health premium income).....	XXX	2,032,399,403	1,891,194,684
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	340,850	0
7. Aggregate write-ins for other non-health revenues .....	XXX	0	0
8. Total revenues (Lines 2 to 7) .....	XXX	2,032,740,253	1,891,194,684
<b>Hospital and Medical:</b>			
9. Hospital/medical benefits .....	265,943	768,692,842	819,930,757
10. Other professional services .....	46,848	299,680,033	275,374,449
11. Outside referrals .....			0
12. Emergency room and out-of-area .....	26,461	229,409,361	185,745,747
13. Prescription drugs .....	5,616	472,297,871	393,743,254
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) .....	344,868	1,770,080,107	1,674,794,207
<b>Less:</b>			
17. Net reinsurance recoveries .....		(412,569)	0
18. Total hospital and medical (Lines 16 minus 17) .....	344,868	1,770,492,676	1,674,794,207
19. Non-health claims .....			0
20. Claims adjustment expenses, including \$ .....14,051,753 cost containment expenses.....		63,143,405	66,080,866
21. General administrative expenses.....		120,558,205	97,393,255
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) .....	344,868	1,954,194,286	1,838,268,329
24. Net underwriting gain or (loss) (Lines 8 minus 23) .....	XXX	78,545,967	52,926,355
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....	0	22,515,282	23,236,934
26. Net realized capital gains (losses) .....		12,209,535	3,843,191
27. Net investment gains (losses) (Lines 25 plus 26) .....	0	34,724,817	27,080,125
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	338,720	(112,064)
30. Net income or (loss) before federal income taxes (Lines 24 plus 27 plus 28 plus 29) .....	XXX	113,609,504	79,894,416
31. Federal and foreign income taxes incurred .....	XXX	20,081,831	7,364,354
32. Net income (loss) (Lines 30 minus 31) .....	XXX	93,527,673	72,530,062
<b>DETAILS OF WRITE-INS</b>			
0601. FEP Operations Center Performance Incentive.....	XXX	340,850	0
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	340,850	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.....		338,720	(112,064)
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	338,720	(112,064)

**CAPITAL AND SURPLUS ACCOUNT**

	1 Current Year	2 Prior Year
<b>CAPITAL AND SURPLUS ACCOUNT:</b>		
33. Capital and surplus prior-reporting period .....	392,008,160	290,773,025
<b>GAINS AND LOSSES TO CAPITAL &amp; SURPLUS:</b>		
34. Net income or (loss) from Line 32 .....	93,527,673	72,530,062
35. Change in valuation basis of aggregate policy and claim reserves .....		0
36. Net unrealized capital gains and losses .....	23,810,679	35,884,182
37. Change in net unrealized foreign exchange capital gain or (loss) .....		0
38. Change in net deferred income tax .....	(2,383,920)	2,629,288
39. Change in nonadmitted assets .....	(5,741,374)	(9,808,395)
40. Change in unauthorized reinsurance .....	0	0
41. Change in treasury stock .....	0	0
42. Change in surplus notes .....	0	0
43. Cumulative effect of changes in accounting principles .....		0
44. Capital Changes:		
44.1 Paid in .....		0
44.2 Transferred from surplus (Stock Dividend) .....		0
44.3 Transferred to surplus .....		0
45. Surplus adjustments:		
45.1 Paid in .....		0
45.2 Transferred to capital (Stock Dividend) .....	0	0
45.3 Transferred from capital .....		0
46. Dividends to stockholders .....		0
47. Aggregate write-ins for gains or (losses) in surplus .....	(206,751)	0
48. Net change in capital & surplus (Lines 34 to 47) .....	109,006,307	101,235,137
49. Capital and surplus end of reporting period (Line 33 plus 48)	501,014,467	392,008,162
<b>DETAILS OF WRITE-INS</b>		
4701. Correct salvage/subrogation to correct DTL.....	29,376	0
4702. Change in accumulated other - pension.....	(170,551)	0
4703. Difference in AON schedules -- 2003.....	(65,576)	0
4798. Summary of remaining write-ins for Line 47 from overflow page .....	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above)	(206,751)	0

## CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance.....	2,029,169,838	1,873,646,221
2. Net investment income.....	26,600,287	24,702,169
3. Miscellaneous income.....	340,850	0
4. Total (Lines 1 to 3).....	2,056,110,975	1,898,348,391
5. Benefits and loss related payments.....	1,788,800,230	1,674,171,671
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions.....	148,071,912	166,549,569
8. Dividends paid to policyholders.....	0	0
9. Federal and foreign income taxes paid (recovered) \$ ..... net of tax on capital gains (losses)	15,134,979	15,327,734
10. Total (Lines 5 through 9).....	1,952,007,121	1,856,048,974
11. Net cash from operations (Line 4 minus Line 10).....	104,103,854	42,299,417
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	516,113,334	308,228,117
12.2 Stocks.....	32,303,820	16,839,623
12.3 Mortgage loans.....	0	0
12.4 Real estate.....	0	0
12.5 Other invested assets.....	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	(57,423)	94,788
12.7 Miscellaneous proceeds.....	9,850,340	0
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	558,210,071	325,162,528
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	491,352,861	432,627,438
13.2 Stocks.....	28,121,300	28,282,011
13.3 Mortgage loans.....	0	0
13.4 Real estate.....	0	0
13.5 Other invested assets.....	168,794	0
13.6 Miscellaneous applications.....	0	5,000,000
13.7 Total investments acquired (Lines 13.1 to 13.6).....	519,642,955	465,909,449
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).....	38,567,116	(140,746,920)
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....	0	0
16.2 Capital and paid in surplus, less treasury stock.....	0	0
16.3 Borrowed funds.....	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....	0	0
16.5 Dividends to stockholders.....	0	0
16.6 Other cash provided (applied).....	(54,478,329)	25,815,946
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6).....	(54,478,329)	25,815,946
<b>RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash and short-term investments (Line 11 plus Line 15 plus Line 17).....	88,192,640	(72,631,557)
19. Cash and short-term investments:		
19.1 Beginning of year.....	(8,694,570)	63,936,987
19.2 End of period (Line 18 plus Line 19.1).....	79,498,070	(8,694,570)

**ANNUAL STATEMENT FOR THE YEAR 2004 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	2,032,399,403	813,059,890	18,187,576	29,686,206	0	1,161,884,273	0	0	9,402,609	0	0	178,849	0
2. Change in unearned premium reserves and reserve for rate credit	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Fee-for-service (net of \$ medical expenses)	0	0	0	0	0	0	0	0	0	0	0	0	XXX
4. Risk revenue	0	0	0	0	0	0	0	0	0	0	0	0	XXX
5. Aggregate write-ins for other health care related revenues	340,850	0	0	0	0	0	0	0	0	0	0	340,850	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)	2,032,740,253	813,059,890	18,187,576	29,686,206	0	1,161,884,273	0	0	9,402,609	0	0	519,699	0
8. Hospital/medical/ benefits	768,692,842	271,135,786	5,221,443	0	0	487,218,578	0	0	5,035,393	0	0	81,642	XXX
9. Other professional services	299,680,034	98,655,894	1,899,883	20,693,782	0	177,280,118	0	0	1,132,003	0	0	18,354	XXX
10. Outside referrals	0	0	0	0	0	0	0	0	0	0	0	0	XXX
11. Emergency room and out-of-area	229,409,361	81,124,376	1,562,266	0	0	145,776,785	0	0	930,842	0	0	15,092	XXX
12. Prescription Drugs	472,297,871	167,706,799	3,229,642	0	0	301,361,430	0	0	0	0	0	0	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	0	0	0	0	0	0	0	0	0	0	0	XXX
15. Subtotal (Lines 8 to 14)	1,770,080,108	618,622,855	11,913,234	20,693,782	0	1,111,636,911	0	0	7,098,238	0	0	115,088	XXX
16. Net reinsurance recoveries	(412,569)	(412,569)	0	0	0	0	0	0	0	0	0	0	XXX
17. Total medical and hospital (Lines 15 minus 16)	1,770,492,677	619,035,424	11,913,234	20,693,782	0	1,111,636,911	0	0	7,098,238	0	0	115,088	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
19. Claims adjustment expenses including \$ 14,051,755 cost containment expenses	63,143,404	29,150,830	1,522,410	2,006,169	0	30,463,995	0	0	0	0	0	0	0
20. General administrative expenses	120,558,203	91,482,472	1,836,718	3,650,571	0	25,747,442	0	0	0	0	0	(2,159,000)	XXX
21. Increase in reserves for accident and health contracts	0	0	0	0	0	0	0	0	0	0	0	0	XXX
22. Increase in reserves for life contracts	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
23. Total underwriting deductions (Lines 17 to 22)	1,954,194,284	739,668,726	15,272,362	26,350,522	0	1,167,848,348	0	0	7,098,238	0	0	(2,043,912)	0
24. Total underwriting gain or (loss) (Line 7 minus Line 23)	78,545,969	73,391,164	2,915,214	3,335,684	0	(5,964,075)	0	0	2,304,371	0	0	2,563,611	0
<b>DETAILS OF WRITE-INS</b>													
0501. FEP Operations Center Incentive	340,850	0	0	0	0	0	0	0	0	0	0	340,850	XXX
0502.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0503.	0	0	0	0	0	0	0	0	0	0	0	0	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)	340,850	0	0	0	0	0	0	0	0	0	0	340,850	XXX
0601.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0602.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0603.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
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.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1302.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1303.	0	0	0	0	0	0	0	0	0	0	0	0	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

7

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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) .....	812,485,576	574,314		813,059,890
2. Medicare Supplement .....	18,187,576			18,187,576
3. Dental Only.....	29,686,206			29,686,206
4. Vision Only.....				0
5. Federal Employees Health Benefits Plan .....	1,161,884,273			1,161,884,273
6. Title XVIII - Medicare .....				0
7. Title XIX - Medicaid.....				0
8. Stop Loss .....	9,402,609			9,402,609
9. Disability Income .....				0
10. Long-term care .....				0
11. Other health.....	178,849			178,849
12. Health subtotal (Lines 1 through 11) .....	2,031,825,089	574,314	0	2,032,399,403
13. Life .....				0
14. Property/Casualty.....				0
15. Totals (Lines 12 to 14)	2,031,825,089	574,314	0	2,032,399,403

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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 .....	1,783,821,462	623,888,211	12,063,234	20,099,780		1,121,566,911			6,098,238			105,088	
1.2 Reinsurance assumed .....	412,569	412,569											
1.3 Reinsurance ceded .....	0												
1.4 Net .....	1,784,234,031	624,300,780	12,063,234	20,099,780	0	1,121,566,911	0	0	6,098,238	0	0	105,088	0
2. Paid medical incentive pools and bonuses .....	0												
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct .....	230,548,145	89,799,365	2,520,000	2,189,002	0	133,250,000	0	0	2,490,133	0	239,645	60,000	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 .....	230,548,145	89,799,365	2,520,000	2,189,002	0	133,250,000	0	0	2,490,133	0	239,645	60,000	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	0	0	0	0	0	0	0	0	0	0	0	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 .....	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
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 .....	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
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 .....	1,770,080,107	618,622,854	11,913,234	20,693,782	0	1,111,636,911	0	0	7,098,238	0	0	115,088	0
11.2 Reinsurance assumed .....	412,569	412,569	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 .....	1,770,492,676	619,035,423	11,913,234	20,693,782	0	1,111,636,911	0	0	7,098,238	0	0	115,088	0
12. Incurred medical incentive pools and bonuses .....	0	0	0	0	0	0	0	0	0	0	0	0	0

6

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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 .....	2,393,111	932,125	26,158	22,722		1,383,147			25,848		2,488	623	
1.2. Reinsurance assumed .....	0												
1.3. Reinsurance ceded .....	0												
1.4. Net .....	2,393,111	932,125	26,158	22,722	0	1,383,147	0	0	25,848	0	2,488	623	0
2. Incurred but Unreported:													
2.1. Direct .....	228,155,034	88,867,240	2,493,842	2,166,280		131,866,853			2,464,285		237,157	59,377	
2.2. Reinsurance assumed .....	0												
2.3. Reinsurance ceded .....	0												
2.4. Net .....	228,155,034	88,867,240	2,493,842	2,166,280	0	131,866,853	0	0	2,464,285	0	237,157	59,377	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 .....	230,548,145	89,799,365	2,520,000	2,189,002	0	133,250,000	0	0	2,490,133	0	239,645	60,000	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 .....	230,548,145	89,799,365	2,520,000	2,189,002	0	133,250,000	0	0	2,490,133	0	239,645	60,000	0

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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) .....	74,084,558	550,216,222	1,340,957	88,458,408	75,425,515	95,064,722
2. Medicare Supplement .....	2,339,651	9,723,584	102,426	2,417,575	2,442,077	2,670,000
3. Dental Only.....	1,840,652	18,259,129	13,670	2,175,332	1,854,322	1,595,000
4. Vision Only.....					.0	.0
5. Federal Employees Health Benefits Plan Premiums .....	137,876,330	983,690,581	2,109,255	131,140,745	139,985,585	143,180,000
6. Title XVIII - Medicare .....					.0	.0
7. Title XIX - Medicaid.....					.0	.0
8. Other health .....	4,894,636	1,308,690	254,013	2,535,765	5,148,649	1,779,778
9. Health subtotal (Lines 1 to 8).....	221,035,827	1,563,198,206	3,820,321	226,727,825	224,856,148	244,289,500
10. Other non-health.....					.0	.0
11. Medical incentive pools, and bonus amounts .....					.0	.0
12. Totals (Lines 9 to 11)	221,035,827	1,563,198,206	3,820,321	226,727,825	224,856,148	244,289,500

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	782	992	782	809
2. 2000 .....	.0	49,417	50,555	50,596	50,660
3. 2001 .....	XXX	374,565	439,842	440,863	441,168
4. 2002 .....	XXX	XXX	482,109	562,100	563,062
5. 2003 .....	XXX	XXX	XXX	557,213	629,935
6. 2004 .....	XXX	XXX	XXX	XXX	550,216

**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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	782	992	782	781
2. 2000 .....	.0	50,425	50,555	50,596	50,596
3. 2001 .....	XXX	445,939	441,080	440,863	440,863
4. 2002 .....	XXX	XXX	574,179	564,178	562,100
5. 2003 .....	XXX	XXX	XXX	650,200	607,323
6. 2004 .....	XXX	XXX	XXX	XXX	638,675

**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. 2000 .....	.0	50,660		0.0	50,660	0.0			50,660	0.0
2. 2001 .....	.0	441,168		0.0	441,168	0.0			441,168	0.0
3. 2002 .....	681,254	563,062	21,742	3.9	584,804	85.8	.0	.0	584,804	85.8
4. 2003 .....	788,619	629,935	20,218	3.2	650,153	82.4	1,341	37	651,531	82.6
5. 2004 .....	813,060	550,216	26,134	4.7	576,350	70.9	88,458	2,918	667,726	82.1

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	.104	.130	.129	.108
2. 2000 .....	.0	2,472	2,597	2,600	2,648
3. 2001 .....	XXX	13,894	15,788	15,826	15,824
4. 2002 .....	XXX	XXX	10,372	12,853	12,921
5. 2003 .....	XXX	XXX	XXX	10,181	12,408
6. 2004 .....	XXX	XXX	XXX	XXX	9,724

**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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	.104	.130	.129	.129
2. 2000 .....	.0	2,592	2,597	2,600	2,600
3. 2001 .....	XXX	17,540	15,888	15,826	15,826
4. 2002 .....	XXX	XXX	13,742	12,907	12,853
5. 2003 .....	XXX	XXX	XXX	12,797	12,151
6. 2004 .....	XXX	XXX	XXX	XXX	12,141

**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. 2000 .....	.0	2,648	.0	0.0	2,648	0.0	.0	.0	2,648	0.0
2. 2001 .....	.0	15,824	.0	0.0	15,824	0.0	.0	.0	15,824	0.0
3. 2002 .....	18,516	12,921	499	3.9	13,420	72.5	.0	.0	13,420	72.5
4. 2003 .....	19,725	12,408	398	3.2	12,806	64.9	102	3	12,911	65.5
5. 2004 .....	18,188	9,724	1,365	14.0	11,089	61.0	2,418	152	13,659	75.1

12

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	.20	.30	.31	.26
2. 2000 .....	.0	1,297	1,318	1,329	1,330
3. 2001 .....	XXX	14,410	16,522	16,548	16,552
4. 2002 .....	XXX	XXX	16,439	18,083	18,102
5. 2003 .....	XXX	XXX	XXX	13,676	15,494
6. 2004 .....	XXX	XXX	XXX	XXX	18,259

**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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	.20	.30	.31	.31
2. 2000 .....	.0	1,297	1,318	1,329	1,329
3. 2001 .....	XXX	16,231	16,522	16,548	16,548
4. 2002 .....	XXX	XXX	18,551	18,096	18,083
5. 2003 .....	XXX	XXX	XXX	15,258	17,759
6. 2004 .....	XXX	XXX	XXX	XXX	20,434

**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. 2000 .....	.0	1,330		0.0	1,330	0.0			1,330	0.0
2. 2001 .....	.0	16,552		0.0	16,552	0.0			16,552	0.0
3. 2002 .....	24,593	18,102	699	3.9	18,801	76.4	.0	.0	18,801	76.4
4. 2003 .....	25,352	15,494	497	3.2	15,991	63.1	14	.0	16,005	63.1
5. 2004 .....	29,686	18,259	1,799	9.9	20,058	67.6	2,175	201	22,434	75.6

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	(592)	(710)	(3,410)	(556)
2. 2000 .....	.0	110,236	113,316	112,485	112,484
3. 2001 .....	XXX	744,512	865,530	868,456	868,451
4. 2002 .....	XXX	XXX	801,787	923,638	923,698
5. 2003 .....	XXX	XXX	XXX	875,842	1,013,666
6. 2004 .....	XXX	XXX	XXX	XXX	983,691

**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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	(592)	(710)	(3,410)	(3,410)
2. 2000 .....	.0	111,666	113,316	112,485	112,485
3. 2001 .....	XXX	867,346	867,138	868,456	868,456
4. 2002 .....	XXX	XXX	937,229	924,823	923,638
5. 2003 .....	XXX	XXX	XXX	1,017,837	26,258
6. 2004 .....	XXX	XXX	XXX	XXX	1,114,831

**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. 2000 .....	.0	112,484		0.0	112,484	0.0			112,484	0.0
2. 2001 .....	.0	868,451		0.0	868,451	0.0			868,451	0.0
3. 2002 .....	986,328	923,698	35,668	3.9	959,366	97.3	.0	.0	959,366	97.3
4. 2003 .....	1,048,085	1,013,666	32,534	3.2	1,046,200	99.8	2,109	59	1,048,368	100.0
5. 2004 .....	1,161,884	983,691	27,312	2.8	1,011,003	87.0	131,141	3,049	1,145,193	98.6

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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**

	Cumulative Net Amounts Paid				
	1 2000	2 2001	3 2002	4 2003	5 2004
Year in Which Losses Were Incurred					
1. Prior	.0	292	52	52	11
2. 2000	.0	2,422	283	283	283
3. 2001	XXX	.0	2,817	2,817	2,817
4. 2002	XXX	XXX	3,141	3,572	3,654
5. 2003	XXX	XXX	XXX	4,299	9,113
6. 2004	XXX	XXX	XXX	XXX	1,309

**Section B - Incurred Health Claims - Other**

	Sum of Cumulative Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 2000	2 2001	3 2002	4 2003	5 2004
Year in Which Losses Were Incurred					
1. Prior	.0	386	52	52	52
2. 2000	.0	3,648	283	283	283
3. 2001	XXX	.0	2,911	2,817	2,817
4. 2002	XXX	XXX	4,538	3,721	3,572
5. 2003	XXX	XXX	XXX	5,930	8
6. 2004	XXX	XXX	XXX	XXX	3,844

**Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Other**

Years in which Premiums were Earned and Claims were Incurred	1	2	3	4	5	6	7	8	9	10
	Premiums Earned	Claim Payments	Claim Adjustment Expense Payments	Col. (3/2) Percent	Claim and Claim Adjustment Expense Payments (Col 2+3)	Col. (5/1) Percent	Claims Unpaid	Unpaid Claim Adjustment Expenses	Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	Col. (9/1) Percent
1. 2000	.0	283	283	0.0	283	0.0			283	0.0
2. 2001	.0	2,817	2,817	0.0	2,817	0.0			2,817	0.0
3. 2002	9,185	3,654	141	3.9	3,795	41.3	.0	.0	3,795	41.3
4. 2003	9,424	9,113	292	3.2	9,405	99.8	254	7	9,666	102.6
5. 2004	9,581	1,309	0	0.0	1,309	13.7	2,536	0	3,845	40.1

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	606	494	(2,416)	398
2. 2000 .....	.0	165,844	168,069	167,293	167,405
3. 2001 .....	XXX	1,147,381	1,340,499	1,344,510	1,344,812
4. 2002 .....	XXX	XXX	1,313,848	1,520,246	1,521,437
5. 2003 .....	XXX	XXX	XXX	1,461,211	1,680,616
6. 2004 .....	XXX	XXX	XXX	XXX	1,563,199

**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 2000	2 2001	3 2002	4 2003	5 2004
1. Prior .....	.0	700	494	(2,416)	(2,417)
2. 2000 .....	.0	169,628	168,069	167,293	167,293
3. 2001 .....	XXX	1,347,056	1,343,539	1,344,510	1,344,510
4. 2002 .....	XXX	XXX	1,548,239	1,523,725	1,520,246
5. 2003 .....	XXX	XXX	XXX	1,702,022	663,499
6. 2004 .....	XXX	XXX	XXX	XXX	1,789,925

**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. 2000 .....	.0	167,405	.0	0.0	167,405	0.0	.0	.0	167,405	0.0
2. 2001 .....	.0	1,344,812	.0	0.0	1,344,812	0.0	.0	.0	1,344,812	0.0
3. 2002 .....	1,719,876	1,521,437	58,749	3.9	1,580,186	91.9	.0	.0	1,580,186	91.9
4. 2003 .....	1,891,205	1,680,616	53,939	3.2	1,734,555	91.7	3,820	106	1,738,481	91.9
5. 2004 .....	2,032,399	1,563,199	56,610	3.6	1,619,809	79.7	226,728	6,320	1,852,857	91.2

**ANNUAL STATEMENT FOR THE YEAR 2004 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
<b>POLICY RESERVE</b>												
1. Unearned premium reserves .....	.0											
2. Additional policy reserves (a) .....	.0											
3. Reserve for future contingent benefits .....	.0											
4. Reserve for rate credits or experience rating refunds (including \$ ..... for investment income) .....	.0											
5. Aggregate write-ins for other policy reserves .....	6,685,215	6,685,215	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
6. Totals (Gross) .....	6,685,215	6,685,215	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
7. Reinsurance ceded .....	.0											
8. Totals (Net) (Page 3, Line 4)	6,685,215	6,685,215	0	0	0	0	0	0	0	0	0	0
<b>CLAIM RESERVE</b>												
9. Present value of amounts not yet due on claims .....	.0											
10. Reserve for future contingent benefits .....	.0											
11. Aggregate write-ins for other claim reserves .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
12. Totals (Gross) .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
13. Reinsurance ceded .....	.0											
14. Totals (Net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0	0	0	0
<b>DETAILS OF WRITE-INS</b>												
0501. Rate Stabilization Reserve .....	6,685,215	6,685,215										
0502. ....												
0503. ....												
0598. Summary of remaining write-ins for Line 5 from overflow page .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
0599. TOTALS (Lines 0501 thru 0503 plus 0598) (Line 5 above)	6,685,215	6,685,215	0	0	0	0	0	0	0	0	0	0
1101. ....												
1102. ....												
1103. ....												
1198. Summary of remaining write-ins for Line 11 from overflow page .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
1199. TOTALS (Lines 1101 thru 1103 plus 1198) (Line 11 above)	0	0	0	0	0	0	0	0	0	0	0	0

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

**STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2004 OF THE Group Hospitalization and Medical Services, Inc.**

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 3 - ANALYSIS OF EXPENSES**

	Claim Adjustment Expenses		3 General Administration Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$ ..... for occupancy of own building).....	1,021,246	2,248,624	8,084,173		11,354,043
2. Salaries, wages and other benefits.....	10,848,702	28,464,599	75,198,456		114,511,757
3. Commissions (less \$ ..... ceded plus \$ ..... Assumed.....)	0	0	43,101,159		43,101,159
4. Legal fees and expenses.....			2,148,588		2,148,588
5. Certifications and accreditation fees.....					0
6. Auditing, actuarial and other consulting services.....	201,512	60,545	3,340,886		3,602,943
7. Traveling expenses.....	89,397	190,273	1,353,199		1,632,869
8. Marketing and advertising.....			2,127,908		2,127,908
9. Postage, express and telephone.....	265,574	3,702,803	5,989,666		9,958,043
10. Printing and office supplies.....	147,006	335,175	2,592,852		3,075,033
11. Occupancy, depreciation and amortization.....					0
12. Equipment.....	55,966	101,936	794,993		952,895
13. Cost or depreciation of EDP equipment and software.....	282,127	2,293,849	17,068,402		19,644,378
14. Outsourced services including EDP, claims, and other services.....	237,978	4,309,240	10,372,301		14,919,519
15. Boards, bureaus and association fees.....	2,460	3,376	1,238,204		1,244,040
16. Insurance, except on real estate.....	207,146	601,405	1,276,599		2,085,150
17. Collection and bank service charges.....		962	204,377		205,339
18. Group service and administration fees.....					0
19. Reimbursements by uninsured accident and health plans.....			(60,242,642)		(60,242,642)
20. Reimbursements from fiscal intermediaries.....					0
21. Real estate expenses.....			245,652		245,652
22. Real estate taxes.....					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....					0
23.2 State premium taxes.....		0	8,160,326		8,160,326
23.3 Regulatory authority licenses and fees.....	5,653	190	1,511,265		1,517,108
23.4 Payroll taxes.....	676,662	1,809,174	4,296,766		6,782,602
23.5 Other (excluding federal income and real estate taxes).....	8,024	15,710	236,341		260,075
24. Investment expenses not included elsewhere.....				781,474	781,474
25. Aggregate write-ins for expenses.....	2,302	4,953,792	(8,541,266)	0	(3,585,172)
26. Total expenses incurred (Lines 1 to 25).....	14,051,755	49,091,653	120,558,205	781,474 (a)	184,483,087
27. Less expenses unpaid December 31, current year.....		6,426,800	83,142,697		89,569,497
28. Add expenses unpaid December 31, prior year.....		7,897,600	68,966,186		76,863,786
29. Amounts receivable related to uninsured accident and health plans, prior year.....					0
30. Amounts receivable related to uninsured accident and health plans, current year.....					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	14,051,755	50,562,453	106,381,694	781,474	171,777,376
<b>DETAIL OF WRITE-INS</b>					
2501. Charitable Contributions.....	2,302	3,283	3,597,206		3,602,791
2502. Service Charges Inter-Plan Bank.....		390,591	4,063,959		4,454,550
2503. IPSBB Inter-Plan Bank ITS.....		4,288,089	3,987,711		8,275,800
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	271,829	(20,190,142)	0	(19,918,313)
2599. Totals (Line 2501 thru 2503 plus 2598)(Line 25 above)	2,302	4,953,792	(8,541,266)	0	(3,585,172)

(a) Includes management fees of \$ .....118,218,139 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) 3,733,434	3,574,919
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 18,014,671	17,209,979
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 431,059	431,059
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	1,301,043	1,326,173
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 961,010	754,599
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	0	27
10. Total gross investment income	24,441,217	23,296,756
11. Investment expenses		(g) 781,474
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		0
16. Total (Lines 11 through 15)		781,474
17. Net Investment Income - (Line 10 minus Line 16)		22,515,282
<b>DETAILS OF WRITE-INS</b>		
0901. Misc Interest Income		27
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	27
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 \$ 383,623 accrual of discount less \$ 3,694,201 amortization of premium and less \$ 3,283,562 paid for accrued interest on purchases.  
 (b) Includes \$ accrual of discount less \$ 25,130 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 \$ 69,355 accrual of discount less \$ 122,730 amortization of premium and less \$ 45,999 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 Total
1. U.S. Government bonds	(318,062)		0	(318,062)
1.1 Bonds exempt from U.S. tax				0
1.2 Other bonds (unaffiliated)	5,481,312		0	5,481,312
1.3 Bonds of affiliates				0
2.1 Preferred stocks (unaffiliated)	233,255		149,322	382,577
2.11 Preferred stocks of affiliates				0
2.2 Common stocks (unaffiliated)	6,553,458	259,570	5,767,971	12,580,999
2.21 Common stocks of affiliates				0
3. Mortgage loans				0
4. Real estate				0
5. Contract loans				0
6. Cash, cash equivalents and short-term investments	0			0
7. Derivative instruments	0			0
8. Other invested assets				0
9. Aggregate write-ins for capital gains (losses)	0	0	0	0
10. Total capital gains (losses)	11,949,964	259,570	5,917,293	18,126,827
<b>DETAILS OF WRITE-INS</b>				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0	0	0

**EXHIBIT OF NONADMITTED ASSETS**

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks .....	0	0	0
2.2 Common stocks .....	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens .....	0	0	0
3.2 Other than first liens .....	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company .....	0	0	0
4.2 Properties held for the production of income.....	0	0	0
4.3 Properties held for sale .....	0	0	0
5. Cash, (Schedule E, Part 1), cash equivalents (Schedule E, Part 2) and short-term investments (Schedule DA) .....	0	0	0
6. Contract loans .....	0	0	0
7. Other invested assets (Schedule BA) .....	168,794	0	(168,794)
8. Receivable for securities .....	0	0	0
9. Aggregate write-ins for invested assets .....	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9) .....	168,794	0	(168,794)
11. Investment income due and accrued .....	0	0	0
12. Premiums and considerations:			
12.1 Uncollected premiums and agents' balances in the course of collection .....	111,512	0	(111,512)
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....	0	0	0
12.3 Accrued retrospective premium.....	0	0	0
13. Reinsurance:			
13.1 Amounts recoverable from reinsurers .....	0	0	0
13.2 Funds held by or deposited with reinsured companies .....	0	0	0
13.3 Other amounts receivable under reinsurance contracts .....	0	0	0
14. Amounts receivable relating to uninsured plans .....	117,080	0	(117,080)
15.1 Current federal and foreign income tax recoverable and interest thereon .....	0	0	0
15.2 Net deferred tax asset.....	6,294,851	6,679,843	384,992
16. Guaranty funds receivable or on deposit .....	0	0	0
17. Electronic data processing equipment and software.....	43,338,368	36,924,412	(6,413,956)
18. Furniture and equipment, including health care delivery assets.....	10,973,429	12,290,529	1,317,100
19. Net adjustment in assets and liabilities due to foreign exchange rates .....	0	0	0
20. Receivables from parent, subsidiaries and affiliates .....	7,837	176,631	168,794
21. Health care and other amounts receivable.....	3,176,797	1,280,075	(1,896,722)
22. Other assets nonadmitted .....	20,789,113	21,790,890	1,001,777
23. Aggregate write-ins for other than invested assets .....	1,104,252	1,198,279	94,027
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	86,082,033	80,340,659	(5,741,374)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
26. Total (Lines 24 and 25)	86,082,033	80,340,659	(5,741,374)
<b>DETAILS OF WRITE-INS</b>			
0901. ....			
0902. ....			
0903. ....			
0998. Summary of remaining write-ins for Line 9 from overflow page .....	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0
2301. Other Assets.....	131,013	83,829	(47,184)
2302. Intangible Assets.....	973,239	1,114,450	141,211
2303. ....			
2398. Summary of remaining write-ins for Line 23 from overflow page .....	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	1,104,252	1,198,279	94,027

**ANNUAL STATEMENT FOR THE YEAR 2004 OF THE Group Hospitalization and Medical Services, Inc.**

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

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations.....	18,518	19,559	19,411	24,219	24,802	263,270
2. Provider Service Organizations.....	0					7,326,007
3. Preferred Provider Organizations.....	596,212	602,145	603,820	614,053	623,858	793,221
4. Point of Service.....	69,998	66,471	65,091	65,613	66,875	277,074
5. Indemnity Only.....	26,195	25,389	25,335	22,574	22,234	
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	710,923	713,564	713,657	726,459	737,769	8,659,572
<b>DETAILS OF WRITE-INS</b>						
0601. ....						
0602. ....						
0603. ....						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 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, Securities and Banking (DISB).

The DISB recognizes only statutory accounting practices prescribed or permitted by the District of Columbia for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the District of Columbia Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP) has been adopted as a component of prescribed practices by the District of Columbia.

#### 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 recorded other than temporary impairments of \$1,663,000 for the year ended December 31, 2003. There were no other than temporary impairments of investments for the year ended December 31, 2004.

#### 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. The admitted value of the Company's electronic data processing equipment is limited to three percent of capital and surplus. Electronic data processing equipment is depreciated using the straight-line method over the lesser of its useful life or three years.

### Unpaid losses and loss adjustment expenses

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

### Revenue recognition

Revenues are recognized and earned on a monthly basis for the period the health care coverage is in effect. Premiums received in advance represent prepayments of premiums for future health care coverage and Federal Employee Program unearned premiums.

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

The Company participates with other 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.

### Claims Incurred

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

### Federal Employee Program

The Company participates in the 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 reimbursed by OPM and 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 \$442,577,000 and \$396,040,000 as of December 31, 2004 and 2003, respectively, and are included in uncollected premiums and agents' balances and in premiums received in advance in the accompanying statements of assets, liabilities, capital and surplus--statutory basis. The BCBSA contract renews automatically each year unless written notice of termination is given by either party.

FEP revenues were approximately \$1,161,884,000 and \$1,023,102,000 for the years ended December 31, 2004 and 2003, 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 \$55,803,000 and \$55,896,000 for the years ended December 31, 2004 and 2003, respectively.

During 2003, the Company was notified by BCBSA that this cost-reimbursement contract, which expired December 31, 2004, would not be renewed under its then-present structure. Effective January 1, 2005, a new subsidiary of GHMSI was created to operate the FEP operations center under a 10-year contract with BCBSA. The newly created subsidiary, Service Benefit Plan Administrative Services Company, is owned 90% by GHMSI and 10% by BCBSA. The arrangement contains automatic termination provisions upon the occurrence of certain triggering events. The creation of the new subsidiary will not have a significant impact on the accompanying financial statements.

### Reclassifications

Certain amounts from prior year financial statements have been reclassified in order to conform with the current year presentation.

## NOTES TO FINANCIAL STATEMENTS

### 2. Accounting Changes and Corrections of Errors

Not applicable.

### 3. Business Combinations and Goodwill

Not applicable.

### 4. Discontinued Operations

Not applicable.

### 5. Investments

#### Loan-Backed Securities

The company records its investment in loan-backed securities using the 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, 2004	Dec. 31, 2003
Total of gross deferred tax assets	\$ 18,567,479	\$ 19,586,191
Total of deferred tax liabilities	(6,052,713)	(4,265,046)
Net deferred tax asset	12,514,766	15,321,145
Deferred tax asset nonadmitted	(5,691,618)	(6,679,843)
Net admitted deferred tax asset	6,823,148	8,641,302
(Increase) decrease in nonadmitted asset	\$ 988,225	\$ 4,083,747

The provisions for incurred taxes on earnings:

	Dec. 31, 2004	Dec. 31, 2003
Federal provision	\$ 19,489,752	\$ 6,595,716
Federal income tax on net capital gains(losses)	2,470,710	768,638
Federal income taxes incurred	21,960,462	7,364,354

## 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:

						<b>Dec. 31, 2004</b>	<b>Dec. 31, 2003</b>
Deferred tax assets:							
	Allowance for Bad Debt					\$ 475,015	\$ 1,259,069
	Accrued Vacation					342,939	800,671
	Contingent Liability					2,822,163	2,984,115
	Depreciation					2,569,553	3,573,052
	Discounted Unpaid Losses					1,476,019	1,821,437
	FAS 106					2,558,176	2,278,158
	FAS 115 unrealized losses					1,676,216	1,950,094
	Pension Liability					53,271	32,039
	Nonadmitted deferred tax assets					3,926,829	4,074,932
	Other					<u>2,640,297</u>	<u>812,624</u>
		Total deferred tax assets				18,567,478	19,586,191
		Nonadmitted deferred tax assets				<u>(5,691,618)</u>	<u>(6,679,843)</u>
		Admitted deferred tax assets				12,875,860	12,906,348
Deferred tax liabilities:							
	FAS 115 unrealized gains					\$ (4,065,504)	\$ (2,917,873)
	Prepaid Pension Costs					(1,374,389)	(1,198,306)
	Other					<u>(612,819)</u>	<u>(148,867)</u>
		Total deferred tax liabilities				(6,052,712)	(4,265,046)
		Net Admitted deferred tax assets				6,823,148	8,641,302

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

				<b>Dec. 31, 2004</b>	<b>Dec. 31, 2003</b>	<b>Change</b>
Total deferred tax assets				\$ 12,875,860	\$ 12,906,348	\$ (30,488)
Total deferred tax liabilities				6,052,712	4,265,046	1,787,666
Net deferred tax asset(liability)				6,823,148	8,641,302	(1,818,154)
Tax effect of unrealized gains(losses)						4,065,504
Change in net deferred income tax, net of nonadmitted deferred tax assets						2,247,350

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:

				<b>Dec. 31, 2004</b>	<b>Effective Tax Rate</b>
Provision computed at statutory rate				\$ 22,721,901	20.00%
Nondeductible expenses				28,949	0.03%
Change in prior years' estimates				(595,708)	-0.52%
Investments				(1,147,631)	-1.01%
Accrued expenses				(619,684)	-0.55%
Benefit obligations				301,250	0.27%
Unpaid claims				(345,418)	-0.30%
Accounts receivable				(784,054)	-0.69%
Nonadmitted assets and other				<u>2,400,859</u>	2.11%
Total				21,960,464	19.33%
Federal income taxes incurred				\$ 21,960,464	19.33%
Change in net deferred income taxes				<u>(2,247,350)</u>	-1.98%
Total statutory income taxes				19,713,114	17.35%

The Company has regular tax loss carryforwards of approximately \$12,161,000 at December 31, 2004, which expire between 2005 and 2009, and accumulated Alternative Minimum Tax (AMT) credits of approximately \$71,632,000 at December 31, 2004. 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.. The consolidated tax return also includes the following insurance companies: CareFirst of Maryland, Inc.(CFMI), CareFirst BlueChoice, Inc. (CareFirst BlueChoice), Capital Care, Inc., Delmarva Health Plan, Inc. (DHP) and FirstCare, 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 2004 and 2003. 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 2004 and 2003 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 CFMI are both affiliates of a not-for-profit parent company, CareFirst, Inc. (CFI). These affiliates do business as CareFirst BlueCross BlueShield. CFI has 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), 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.

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.

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 Maryland domiciled 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. In June 2004, the CFI board selected the remaining mandated replacement members. The other nine CFI directors will remain on the CFI board until the expiration of their respective terms and until 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 the Blue Cross Blue Shield Association (BCBSA) to terminate the service mark licenses of CFI and its affiliates in May 2003. In June 2003, 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 DISB and the Delaware Department of Insurance, the CFI board of directors approved changes in its affiliation arrangements 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 CFI's membership interest in GHMSI. The CFI board of directors also 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, subject to approval of the appropriate regulatory authorities. Management believes that the proposed changes to the BCBSD affiliation, if approved by the regulatory authorities in their current form, would result in deconsolidation of BCBSD from CFI's consolidated GAAP financial statements on a prospective basis. On June 30, 2004, the Delaware Department of Insurance issued a ruling ordering termination of the affiliation agreement between CFI and BCBSD, but also providing that CFI could continue its affiliation with BCBSD on a contractual basis only if CFI transferred its corporate membership, BCBSA license and service mark back to the control of the BCBSD Board. CFI appealed that order to the New Castle County, Delaware Superior Court, partly on the basis that the affiliation agreement could not be changed without the Maryland Insurance Commissioner's consent. On October 4, 2004 the court ruled in favor of the Delaware Department of Insurance on all issues. That ruling was appealed to the Delaware Supreme Court which affirmed the ruling. The Maryland Insurance Commissioner has rejected the proposed amendments to the BCBSD structural relationship and stated that CFI can appeal his decision, submit a new plan of affiliation, continue to operate under the existing agreement, or apply for permission to end the affiliation. CFI subsequently filed a motion requesting that the Federal District Court in Baltimore, Maryland assume jurisdiction over this matter. All parties have agreed to a 60-day stay period, beginning January 6, 2005, pending further discussions among the parties. There is no certainty at this time regarding the conclusion of these various matters. As of December 31, 2004, CFI maintains its full membership interest in BCBSD and control over the operations of BCBSD. 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.

## NOTES TO FINANCIAL STATEMENTS

During 2004 and 2003, 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 \$54,007,000 and \$41,288,000 during the years ended December 31, 2004 and 2003, 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 \$29,919,000 and \$23,520,000 during the years ended December 31, 2004 and 2003, 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 and CareFirst BlueChoice bears the in-network (HMO) underwriting risk. Cost of care for these products is charged directly to the Company and CareFirst BlueChoice based upon the nature of the claims incurred. Premiums on these health care programs are allocated between the Company and CareFirst BlueChoice based on actual underwriting results such that the underwriting gain of the health care programs, as a percentage of premiums, is shared equally between the two companies.

The Company continues to integrate operations with CFMI. To enable this integration, certain hardware and software are 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.

At December 31, 2004 the Company reported \$34,919,105 and \$2,959,654 as amounts due to and due from affiliates, respectively. These amounts are settled monthly.

Certain business has been written by CFMI and GHMSI which represents contracts outside the historic CFMI and GHMSI service areas (cross-jurisdictional sales), respectively. The Company has agreed with the MIA and the DISB to disclose the extent of these cross-jurisdictional sales. Revenue and impact to surplus for the year ended December 31, 2004 and contracts as of December 31, 2004 were as follows:

	<u>Risk</u>		<u>Non-Risk</u>	
	CFMI sales outside historic CFMI service area	GHMSI sales outside historic GHMSI service area	CFMI sales outside historic CFMI service area	GHMSI sales outside historic GHMSI service area
Revenue	\$81,582,000	\$118,763,000	\$ 0	\$ 0
Impact to surplus	\$5,270,000	\$4,492,000	\$(905,000)	\$1,141,000
Contracts	25,800	18,000	16,900	10,400

### 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, 2004:

(in Thousands)

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Accumulated Benefit Obligation	\$ 236,496	\$ 1,406	\$ 11,752
Change in benefit obligation:			
Benefit obligation at beginning of year	\$ 232,140	\$ 1,276	\$ 11,170
Service cost	7,567	1	1,110
Interest cost	13,931	79	695
Actuarial loss (gain)	5,098	88	723
Benefits paid	(8,398)	(31)	(591)
Benefit obligation at end of year	\$ 250,338	\$ 1,413	\$ 13,107
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 240,794	\$ -	\$ -
Actual return on plan assets	18,834	-	-
Employer contribution	900	31	591
Benefits paid	(8,398)	(31)	(591)
Fair value of plan assets at end of year	\$ 252,130	\$ -	\$ -

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Funded status	\$ 1,792	\$ (1,413)	\$ (13,107)
Unrecognized net loss (gain)	63,569	170	(3,317)
Transition liability (asset) not yet recognized	(58,801)	1,073	3,615
Unamortized prior service cost (asset)	312	(96)	18
Prepaid Asset –nonadmitted or (accrued benefit costs) prior to additional liability	6,872	(266)	(12,791)
Additional Liability	=	(1,140)	=
Prepaid pension asset – nonadmitted or (accrued benefit cost in accompanying financial statements)	\$ 6,872	\$ (1,406)	\$ (12,791)
Components of net periodic benefit cost:			
Service cost	\$ 7,567	\$ 1	\$ 1,110
Interest cost	13,931	79	695
Expected return on plan assets	(20,267)	-	-
Amortization of prior service cost (asset)	28	(10)	2
Amortization of unrecognized transition obligation	(3,113)	67	452
Amount of recognized (gains) and losses	1,873	=	(267)
Total net periodic benefit cost	\$ 20	\$ 152	\$ 1,992

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

As of December 31, 2002, pension benefit obligations and postretirement benefit obligations for nonvested employees were \$4,018,000 and \$13,834,000 respectively.

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

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total service and interest cost	\$ 23,084	\$ (20,136)
Effect on postretirement benefit obligation	\$ 422,085	\$ (367,122)

On December 8, 2003 the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was enacted. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Company anticipates that the benefits it pays in 2006 and beyond will be lower as a result of the new Medicare provisions. As permitted by FASB Staff Position (FSP) 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, the Company deferred the recognition of the impact of the new Medicare provisions at December 31, 2003. During 2004, FSP 106-2 was issued and included final guidance on accounting for the provisions of this legislation, which will be required for the year ending December 31, 2005. The impact of adopting FSP 106-2, while accretive to earnings, is not likely to be material to the financial statements.

The Company sponsors 401(k) plans for the benefit of all eligible employees. The Company contributes to this plan and recognized expenses of \$2,070,000 and \$2,180,000 for 2004 and 2003, 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:	\$ 71,597,000
Non-admitted asset values:	\$(86,082,033)

### 14. Contingencies

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

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

Beginning in 1999, a series of class action lawsuits were filed against virtually all major entities in the health benefits business, including BCBSA and the BCBSA licensees. The suits allege that over a course of years the defendants have conspired to use criteria and standards for adjudication of provider claims that result in underpayment of provider claims. They allege that the defendants have been involved in a conspiracy to make false representations to providers and to conceal material information from providers about the manner in which claims are adjudicated. The plaintiffs assert that the alleged misconduct violates the Racketeer Influenced and Corrupt Organizations Act (RICO). Plaintiffs seek treble damages and injunctive relief under RICO. The Company is engaged in discovery in this matter. The Company intends to vigorously defend these proceedings; however, their ultimate outcomes cannot presently be determined. Various other lawsuits, including class action lawsuits and other claims, occur in the normal course of business and are pending against the Company. The Company records accruals for such matters when a loss is deemed to be probable and estimable. Management, after consultation with legal

## NOTES TO FINANCIAL STATEMENTS

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

CFI and its affiliates have employment contracts and other benefit arrangements with certain executives which contain provisions that could trigger the acceleration of certain benefits and/or payment of additional compensation upon a change in control of CFI. These aforementioned potential incremental payments have not been accrued at December 31, 2004, as management believes all of the triggering 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 association.

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 affiliated also have a Supplemental Value Added Bonus Plan, established in 2004, whereby certain officers and other employees are entitled to payments for certain services which have been performed through 2004. This plan is being reviewed by regulators and is subject to the possibility that the payments could be disapproved; however, as of December 31, 2004, management believes the payments under the plan are probable. Therefore, the total cost of the plan of \$8,547,000 has been accrued by CFI, a portion of which is included in the accompanying financial statements in accordance with allocation agreements in place. In the event that regulators do not disapprove of the payments under the plan, participants will be required to waive their rights under a prior retention bonus plan, established in 2002, before they receive any payments under the 2004 plan.

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, 2005.

CFI has a commitment for a credit facility with a commercial bank under which certain of its affiliates, including the Company, may borrow up to a maximum amount of \$60,000,000. There have been no draws made on this line of credit during 2004 or 2003.

### 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:

2005	\$ 17,669,000
2006	17,734,000
2007	17,097,000
2008	15,655,000
2009	15,957,000
Thereafter	<u>47,949,000</u>
Total minimum payments	\$ 132,061,000

Rent expense for the years ended December 31, 2004 and 2003, net of allocations to affiliates, was approximately \$15,869,000 and \$13,678,000 respectively.

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

Not applicable.

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

Not applicable.

## 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 for the years ended December 31, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
Gross reimbursement for medical costs incurred	\$ 709,293,000	\$ 673,330,000
Gross administrative fees accrued	60,243,000	65,101,000
Gross expenses incurred	<u>(767,377,000)</u>	<u>(741,549,000)</u>
Operating gain (loss), before stop loss	2,159,000	(3,118,000)
Stop loss	<u>2,304,000</u>	<u>2,773,000</u>
Proforma operating gain (loss)	\$ 4,463,000	\$ (345,000)

### 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 \$19,419,683 from \$244,289,500 in 2003 to \$224,869,817 in 2004 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
12/31/2004	\$ 750,000		\$ -	\$ -	\$ -
9/30/2004	900,000		267,536	-	-
6/30/2004	963,000		268,593	537,186	-
3/31/2004	972,000		331,385	536,798	-
12/31/2003	\$ 960,000		\$ 310,647	\$ 662,770	\$ -
9/30/2003	900,000		340,000	620,934	-
6/30/2003	780,000		335,000	680,000	-
3/31/2003	690,000		295,000	670,000	-

### 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	
2003	\$ 1,884,740
2004	1,190,636

## 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 .....	45,125,208	6.393	45,125,208	6.393
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies .....	42,191,930	5.978	42,191,930	5.978
1.22 Issued by U.S. government sponsored agencies .....	12,145,247	1.721	12,145,247	1.721
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 .....	198,727	0.028	198,727	0.028
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 Issued or guaranteed by GNMA .....	9,542,115	1.352	9,542,115	1.352
1.512 Issued or guaranteed by FNMA and FHLMC .....	116,087,322	16.447	116,087,322	16.447
1.513 All other .....	3,906,198	0.553	3,906,198	0.553
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA .....	16,666,829	2.361	16,666,829	2.361
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521 .....	11,935,727	1.691	11,935,727	1.691
1.523 All other .....	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) .....	183,139,598	25.946	183,139,598	25.946
2.2 Unaffiliated foreign securities .....	1,831,809	0.260	1,831,809	0.260
2.3 Affiliated securities .....	0	0.000	0	0.000
3. Equity interests:				
3.1 Investments in mutual funds .....	165,624,232	23.465	165,624,232	23.465
3.2 Preferred stocks:				
3.21 Affiliated .....	0	0.000	0	0.000
3.22 Unaffiliated .....	5,818,526	0.824	5,818,526	0.824
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated .....	0	0.000	0	0.000
3.32 Unaffiliated .....	32,754,431	4.640	32,754,431	4.640
3.4 Other equity securities:				
3.41 Affiliated .....	102,040,196	14.457	102,040,196	14.457
3.42 Unaffiliated .....	3,099,061	0.439	3,099,061	0.439
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, cash equivalents and short-term investments .....	(46,267,883)	(6.555)	(46,267,883)	(6.555)
9. Other invested assets .....	0	0.000	0	0.000
10. Total invested assets	705,839,273	100.000	705,839,273	100.000

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? ..... Yes [  ] No [  ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? ..... Yes [  ] No [  ] NA [  ]
- 1.3 State Regulating? ..... 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 [  ]
- 2.2 If yes, date of change: ..... 08/31/2004  
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. .... 12/31/2003
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. .... 12/31/1999
- 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 SECURITIES 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 [  ]  
4.12 renewals? ..... Yes [  ] No [  ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:  
4.21 sales of new business? ..... Yes [  ] No [  ]  
4.22 renewals? ..... Yes [  ] No [  ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [  ] No [  ]
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? (You need not report an action, either formal or informal, if a confidentiality clause is part of the agreement.) ..... Yes [  ] No [  ]
- 6.2 If yes, give full information .....
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? ..... Yes [  ] No [  ]
- 7.2 If yes,  
7.21 State the percentage of foreign control; .....
- 7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation or government, manager or attorney in fact).

1 Nationality	2 Type of Entity

## GENERAL INTERROGATORIES

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? ..... Yes [ ] No [ X ]
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.
- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? ..... Yes [ ] No [ X ]
- 8.4 If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.]

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

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
ERNST & YOUNG, LLP, 621 EAST PRATT 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?
- 11.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? ..... Yes [ ] No [ ]
- 11.3 Have there been any changes made to any of the trust indentures during the year? ..... Yes [ ] No [ ]
- 11.4 If answer to (11.3) is yes, has the domiciliary or entry state approved the changes? ..... Yes [ ] No [ ] NA [ ]

### 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

## 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	[ ]	[ ]	[ ]	[ ]
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 [ X ] No [ ]

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	\$	2,241,907
20.27	Placed under option agreements	\$	.....
20.28	Letter stock or other securities restricted as to sale	\$	.....
20.29	Other	\$	.....

20.3 For category (20.28) provide the following:

1	2	3
Nature of Restriction	Description	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. .... \$.....

## GENERAL INTERROGATORIES

### 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 [ X ] 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 [ X ]

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.....	1 SANSOME STREET, 35TH FLOOR, SAN FRANCISCO, CA 94104.....
118827.....	BYRAM CAPITAL MANAGEMENT.....	41 WEST PUTNAM AVE, GREENWICH, CT 06830.....
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 [ X ]

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

### INVESTMENT

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-) or Fair Value over Statement (+)
25.1 Bonds.....	570,542,787	581,039,404	10,496,617
25.2 Preferred stocks.....	5,818,526	6,011,597	193,071
25.3 Totals	576,361,313	587,051,001	10,689,688

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

Obtained values from custodian bank statements.....

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

26.2 If no, list the exceptions:

### OTHER

27.1 Amount of payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus, if any?.....\$ .....935,110

27.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to Trade Associations, Service Organizations and Statistical or Rating Bureaus during the period covered by this statement.

1 Name	2 Amount Paid
BlueCross BlueShield Association.....	879,505

28.1 Amount of payments for legal expenses, if any?.....\$ .....2,148,588

28.2 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
Piper Rudnick.....	432,419
Stevens Davis Miller.....	505,777

29.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?.....\$ .....13,374

29.2 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
Hunton & Williams.....	13,374
.....	0
.....	0

# GENERAL INTERROGATORIES

## PART 2 - HEALTH INTERROGATORIES

- 1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? ..... Yes  No
- 1.2 If yes, indicate premium earned on U. S. business only ..... \$ .....18,187,576
- 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? ..... \$ .....
- 1.31 Reason for excluding .....
- 1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. .... \$ .....
- 1.5 Indicate total incurred claims on all Medicare Supplement Insurance. .... \$ .....11,913,234
- 1.6 Individual policies:
- Most current three years:
- 1.61 Total premium earned ..... \$ .....1,499,406
- 1.62 Total incurred claims ..... \$ .....1,508,806
- 1.63 Number of covered lives ..... \$ .....783
- All years prior to most current three years:
- 1.64 Total premium earned ..... \$ .....16,688,171
- 1.65 Total incurred claims ..... \$ .....10,404,429
- 1.66 Number of covered lives ..... \$ .....6,302
- 1.7 Group policies:
- Most current three years:
- 1.71 Total premium earned ..... \$ .....0
- 1.72 Total incurred claims ..... \$ .....0
- 1.73 Number of covered lives ..... \$ .....0
- All years prior to most current three years:
- 1.74 Total premium earned ..... \$ .....0
- 1.75 Total incurred claims ..... \$ .....0
- 1.76 Number of covered lives ..... \$ .....0

2. Health Test:

	1 Current Year		2 Prior Year	
2.1 Premium Numerator	\$	2,032,220,554	\$	1,891,020,400
2.2 Premium Denominator	\$	2,032,399,403	\$	1,891,194,684
2.3 Premium Ratio (2.1/2.2)		1.000		1.000
2.4 Reserve Numerator	\$	237,233,361	\$	244,289,500
2.5 Reserve Denominator	\$	237,233,360	\$	244,289,500
2.6 Reserve Ratio (2.4/2.5)		1.000		1.000

- 3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? ..... Yes  No
- 3.2 If yes, give particulars:
- 4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? ..... Yes  No
- 4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? ..... Yes  No
- 5.1 Does the reporting entity have stop-loss reinsurance? ..... Yes  No
- 5.2 If no, explain:
- 5.3 Maximum retained risk (see instructions)
- 5.31 Comprehensive Medical ..... \$ .....
- 5.32 Medical Only ..... \$ .....
- 5.33 Medicare Supplement ..... \$ .....
- 5.34 Dental ..... \$ .....
- 5.35 Other Limited Benefit Plan ..... \$ .....
- 5.36 Other ..... \$ .....
6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:
- Intercompany Agreements with CFMI and BCBSD
- 7.1 Does the reporting entity set up its claim liability for provider services on a service data base? ..... Yes  No
- 7.2 If no, give details:
8. Provide the following Information regarding participating providers:
- 8.1 Number of providers at start of reporting year .....27,312
- 8.2 Number of providers at end of reporting year .....28,818
- 9.1 Does the reporting entity have business subject to premium rate guarantees? ..... Yes  No
- 9.2 If yes, direct premium earned:
- 9.21 Business with rate guarantees between 15-36 months .....
- 9.22 Business with rate guarantees over 36 months .....

## GENERAL INTERROGATORIES

### PART 2 - HEALTH INTERROGATORIES

- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contract? ..... Yes [ ] No [ X ]
- 10.2 If yes:
- 10.21 Maximum amount payable bonuses ..... \$ .....
- 10.22 Amount actually paid for year bonuses ..... \$ .....
- 10.23 Maximum amount payable withholds ..... \$ .....
- 10.24 Amount actually paid for year withholds ..... \$ .....
- 11.1 Is the reporting entity organized as:
- 11.12 A Medical Group/Staff Model, ..... Yes [ ] No [ X ]
- 11.13 An Individual Practice Association (IPA), or, ..... Yes [ ] No [ X ]
- 11.14 A Mixed Model (combination of above) ? ..... Yes [ ] No [ X ]
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? ..... Yes [ X ] No [ ]
- 11.3 If yes, show the name of the state requiring such net worth. .... District of Columbia
- 11.4 If yes, show the amount required. .... \$ ..... 67,448,771
- 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
District of Columbia.....
State of Maryland.....
Northern Virginia: Portions east of Route 123 and the incorporated cities of Fairfax and Vienna.....

11.6 Minimum Net-Worth Requirements

The Company is licensed to conduct business in the states of Virginia 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

\$1,891,194,685	Prior Year's Premiums Earned
1,048,085,048	Less: FEP Premiums Earned
843,109,637	Prior Year's Risk Premiums
8%	Applicable Rate for the District of Columbia
67,448,771	Minimum Statutory Reserve Requirement

Maryland \$67,448,771, calculated as 8% of prior year's risk premium

Virginia \$96,946,759, 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 2004	2 2003	3 2002	4 2001	5 2000
<b>BALANCE SHEET ITEMS (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 26) .....	1,418,674,490	1,292,577,769	1,087,727,010	927,379,289	779,154,261
2. Total liabilities (Page 3, Line 22) .....	917,660,025	900,569,609	796,953,985	653,394,779	531,152,006
3. Statutory surplus .....	67,448,771	58,683,808	0	0	0
4. Total capital and surplus (Page 3, Line 30) .....	501,014,465	392,008,160	290,773,025	273,984,510	248,002,255
<b>INCOME STATEMENT ITEMS (Page 4)</b>					
5. Total revenues (Line 8) .....	2,032,740,253	1,891,194,684	1,719,875,820	1,509,283,240	1,243,945,601
6. Total medical and hospital expenses (Line 18) .....	1,770,492,676	1,674,794,207	1,542,955,898	1,357,572,301	1,116,040,521
7. Claims adjustment expenses (Line 20) .....	63,143,405	66,080,866			
8. Total administrative expenses (Line 21) .....	120,558,205	97,393,255	83,549,487	87,203,819	53,065,590
9. Net underwriting gain (loss) (Line 24) .....	78,545,967	52,926,355	32,327,567	27,900,833	33,133,713
10. Net investment gain (loss) (Line 27) .....	34,724,817	27,080,125	14,843,238	28,861,365	24,869,747
11. Total other income (Lines 28 plus 29) .....	338,720	(112,064)	660,546	(1,185,574)	1,635,165
12. Net income (loss) (Line 32) .....	93,527,673	72,530,062	38,909,010	55,576,624	59,638,625
<b>RISK - BASED CAPITAL ANALYSIS</b>					
13. Total adjusted capital.....	501,014,465	392,008,160	290,773,025	273,984,510	248,002,255
14. Authorized control level risk-based capital.....	52,666,787	49,799,523	45,255,447	36,845,312	29,311,712
<b>ENROLLMENT (Exhibit 1)</b>					
15. Total members at end of period (Column 5, Line 7) .....	737,769	710,923	748,266	712,541	0
16. Total member months (Column 6, Line 7) .....	8,659,572	8,643,336	8,857,516	8,472,885	0
<b>OPERATING PERCENTAGE (Page 4)</b>					
<b>(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0</b>					
17. Premiums earned (Lines 2 plus 3) .....	100.0	100.0	100.0	100.0	100.0
18. Total hospital and medical (Line 18) .....	87.1	88.6	89.7	89.9	89.7
19. Cost containment expenses .....	0.0	XXX	XXX	XXX	XXX
20. Other claims adjustment expenses .....	0.0				
21. Total underwriting deductions (Line 23) .....	96.2	97.2	98.1	98.2	97.3
22. Total underwriting gain (loss) (Line 24) .....	3.9	2.8	1.9	1.8	2.7
<b>UNPAID CLAIMS ANALYSIS</b>					
<b>(U&amp;I Exhibit, Part 2B)</b>					
23. Total claims incurred for prior years (Line 12, Col. 5) .....	224,856,148	210,210,732	198,269,793	166,681,137	137,229,670
24. Estimated liability of unpaid claims – [prior year (Line 12, Col. 6)] .....	244,289,500	237,430,531	203,554,394	159,812,944	158,479,677
<b>INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES</b>					
25. Affiliated bonds (Sch. D Summary, Line 25, Col. 1) .....	0	0	0	0	0
26. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1) .....	0	0	0	0	0
27. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2) .....	102,040,196	85,107,160	71,590,117	81,301,101	64,244,537
28. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11) .....	0	0	0	0	0
29. Affiliated mortgage loans on real estate .....	0	0	0	0	0
30. All other affiliated .....	0	0	0	0	0
31. Total of above Lines 25 to 30 .....	102,040,196	85,107,160	71,590,117	81,301,101	64,244,537

**ANNUAL STATEMENT FOR THE YEAR 2004 OF THE Group Hospitalization and Medical Services, Inc.**

**SCHEDULE D - SUMMARY BY COUNTRY**

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

Description	1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
<b>BONDS</b>				
Governments (Including all obligations guaranteed by governments)	1. United States ..... 111,769,656 2. Canada ..... 0 3. Other Countries ..... 0 4. Totals ..... 111,769,656	111,777,385 0 0 111,777,385	112,056,475 0 0 112,056,475	110,617,691 0 0 110,617,691
States, Territories and Possessions (Direct and guaranteed)	5. United States ..... 198,727 6. Canada ..... 0 7. Other Countries ..... 0 8. Totals ..... 198,727	216,128 0 0 216,128	198,538 0 0 198,538	225,000 0 0 225,000
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 ..... 133,895,191 14. Canada ..... 0 15. Other Countries ..... 0 16. Totals ..... 133,895,191	134,327,578 0 0 134,327,578	134,113,624 0 0 134,113,624	129,717,062 0 0 129,717,062
Public Utilities (unaffiliated)	17. United States ..... 1,006,016 18. Canada ..... 0 19. Other Countries ..... 0 20. Totals ..... 1,006,016	1,032,700 0 0 1,032,700	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 ..... 194,069,311 22. Canada ..... 0 23. Other Countries ..... 1,831,809 24. Totals ..... 195,901,120	204,090,890 0 1,822,649 205,913,539	194,732,790 0 1,932,849 196,665,639	192,797,126 0 1,780,000 194,577,126
Parent, Subsidiaries and Affiliates	25. Totals ..... 0 26. <b>Total Bonds</b> ..... 442,770,710	0 453,267,330	0 444,059,006	0 436,136,879
<b>PREFERRED STOCKS</b>				
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 ..... 472,115 32. Canada ..... 0 33. Other Countries ..... 0 34. Totals ..... 472,115	472,115 0 0 472,115	439,953 0 0 439,953	
Industrial and Miscellaneous (unaffiliated)	35. United States ..... 5,346,411 36. Canada ..... 0 37. Other Countries ..... 0 38. Totals ..... 5,346,411	5,539,482 0 0 5,539,482	4,905,645 0 0 4,905,645	
Parent, Subsidiaries and Affiliates	39. Totals ..... 0 40. <b>Total Preferred Stocks</b> ..... 5,818,526	0 6,011,597	0 5,345,598	
<b>COMMON STOCKS</b>				
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 ..... 3,992,974 46. Canada ..... 0 47. Other Countries ..... 0 48. Totals ..... 3,992,974	3,992,974 0 0 3,992,974	2,420,642 0 0 2,420,642	
Industrial and Miscellaneous (unaffiliated)	49. United States ..... 71,718,796 50. Canada ..... 0 51. Other Countries ..... 0 52. Totals ..... 71,718,796	71,718,796 0 0 71,718,796	61,046,057 0 0 61,046,057	
Parent, Subsidiaries and Affiliates	53. Totals ..... 102,040,196 54. <b>Total Common Stocks</b> ..... 177,751,966	102,040,196 177,751,966	39,088,325 102,555,024	
	55. <b>Total Stocks</b> ..... 183,570,492 56. <b>Total Bonds and Stocks</b> ..... 626,341,202	183,763,563 637,030,893	107,900,622 551,959,628	

**SCHEDULE D - VERIFICATION BETWEEN YEARS**

1. Book/adjusted carrying value of bonds and stocks, prior year ..... 625,474,093	6. Foreign Exchange Adjustment:
2. Cost of bonds and stocks acquired, Column 7, Part 3 ..... 519,200,163	6.1 Column 15, Part 1 ..... 0
3. Increase (decrease) by adjustment:	6.2 Column 19, Part 2, Sec. 1 ..... 0
3.1 Columns 12 + 13 - 14, Part 1 ..... (959,140)	6.3 Column 16, Part 2, Sec. 2 ..... 0
3.2 Column 18, Part 2, Sec. 1 ..... 246,653	6.4 Column 15, Part 4 ..... 0
3.3 Column 15, Part 2, Sec. 2 ..... 26,745,611	7. Book/adjusted carrying value at end of current period ..... 626,341,203
3.4 Column 14, Part 4 ..... (5,680,207) ..... 20,352,917	8. Total valuation allowance ..... 0
4. Total gain (loss), Col. 19, Part 4 ..... 9,457,185	9. Subtotal (Lines 7 plus 8) ..... 626,341,203
5. Deduct consideration for bonds and stocks disposed of Column 7, Part 4 ..... 548,143,155	10. Total nonadmitted amounts ..... 0
	11. Statement value of bonds and stocks, current period ..... 626,341,203

**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	277,625,753			1,161,884,273		
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	313,458,050					
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	278,857,013					
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	869,940,816	0	0	1,161,884,273	0	0
<b>DETAILS OF WRITE-INS</b>								
5701.	XXX	XXX						
5702.	XXX	XXX						
5703.	XXX	XXX						
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX	XXX	0	0	0	0	0	0
5799. Totals (Lines 5701 thru 5703 plus 5798) (Line 57 above)	XXX	XXX	0	0	0	0	0	0

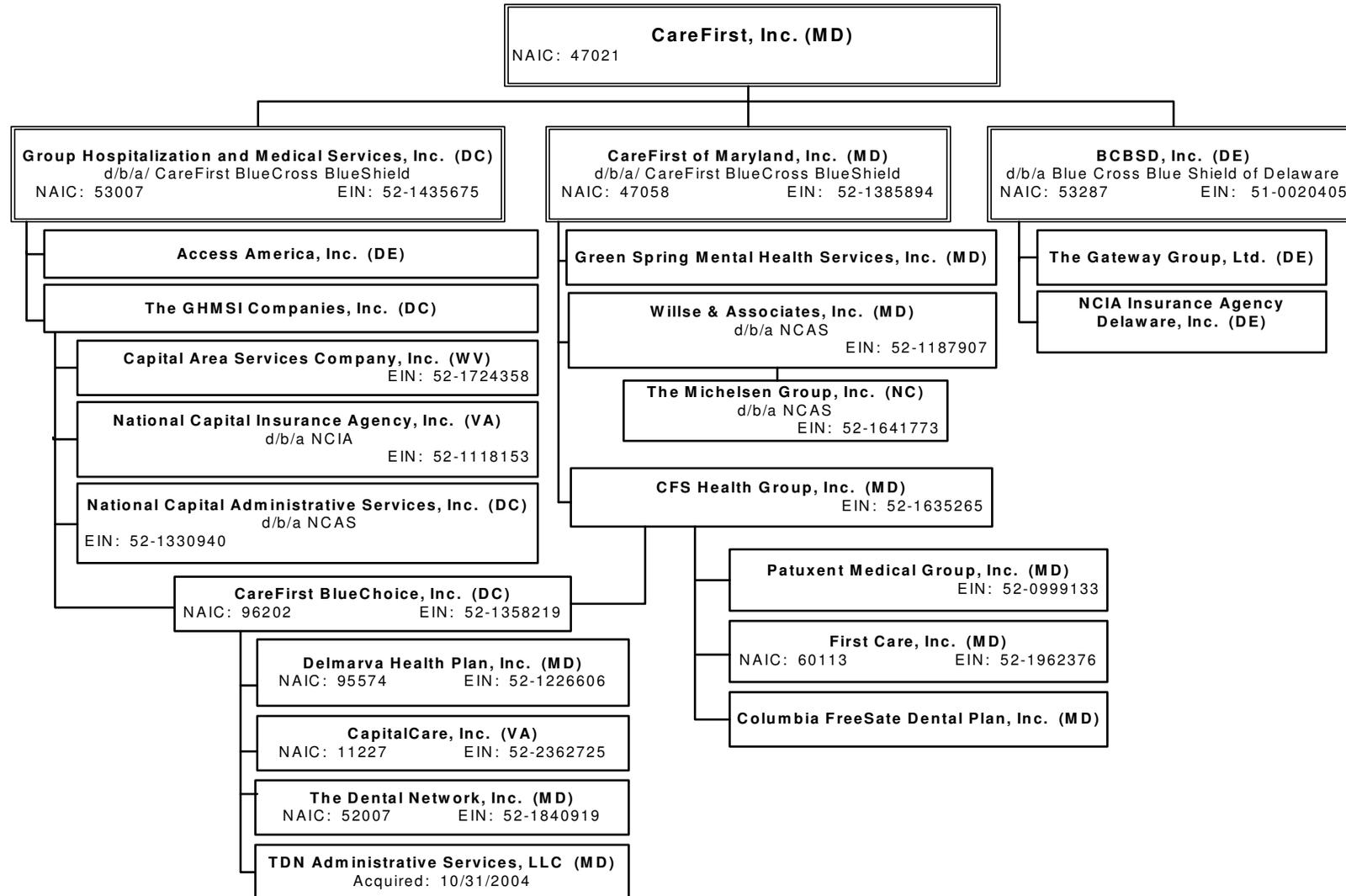
Explanation of basis of allocation by states, premiums by state, etc.:

Enrollment and billing systems capture and report premiums by group situs.

(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**



51

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

## PART 1 - ORGANIZATIONAL CHART

A new corporation, **Service Benefit Plan Administrative Services Corporation**, has been organized as a Delaware corporation to contract with the BlueCross and BlueShield Association to administer the Service Benefit Plan offered through the Federal Employees Health Benefits Program. The corporation is presently awaiting final regulatory approval and is therefore not operational as of the date of this submission. Once operations commence, the corporation will operate as a wholly owned subsidiary of Group Hospitalization and Medical Services, Inc.