



smile

A healthier life.

Confidence in your health care.

More to feel good about.



sleep



think



walk



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2007. A year to feel good about.

MESSAGE FROM THE BOARD CHAIRS

There are many reasons why CareFirst BlueCross BlueShield (CareFirst) has long maintained its position as the Mid-Atlantic region's preferred choice for health insurance. With an array of health plans to meet the needs of individuals, families, and businesses at every stage in their development, and a unique not-for-profit mission that drives us to keep care affordable and accessible, CareFirst is like no other organization of its type in the region.

With the naming of a new President and Chief Executive Officer—Chet Burrell—in 2007, we are confident that CareFirst is poised to build on its already unmatched ability to meet the health insurance needs of our members. Chet brings us an accomplished background in health care public policy, previous Blue Cross Blue Shield CEO experience, and substantial expertise in health care information technology—an area critical to our plans to further improve our services in the near- and long-term.

Finding better ways to serve the Maryland and National Capital Area communities that we call home is at the very heart of what we do. As this report highlights, we are taking steps to help members better manage and improve their health status. We are actively working with the health care community on initiatives to improve the quality and efficiency of care. And, we are forging ever-stronger links in the District of Columbia, throughout Maryland and in Northern Virginia with organizations working daily to improve the region's quality of life.

We believe this is the start of an exciting era for CareFirst and everyone with whom we work and serve. We hope you will take the time to read about the work we did on many fronts in 2007 to put the company in a strong position to serve you in 2008 and beyond.



left to right:

*Natalie O. Ludaway, Esq.
Chairperson, National
Capital Area Affiliate*

*Michael R. Merson
Chairman, CareFirst, Inc.
Board of Directors*

*Michael J. Kelly
Chairman,
Maryland Affiliate*

We believe this is the start of an exciting era for CareFirst and everyone with whom we work and serve.



A healthy future to feel good about.

MESSAGE FROM THE PRESIDENT & CEO

Most annual reports look back at the year just concluded. Pausing to reflect on the accomplishment and challenges of the past year can be a valuable exercise and one that provides an opportunity for us to share the many accomplishments that allow us to better serve our members, customers, partners and community. You'll learn much about the strides CareFirst BlueCross BlueShield made in 2007 in this report.

The successes of CareFirst's past certainly played a role in attracting me to the organization, but it's probably no surprise that I am more focused on our future—particularly on improving our use of technology to better serve our members. CareFirst continues to improve its standing as the region's leader in a very competitive health insurance marketplace. Our strength, stability and not-for-profit status puts us in an excellent and unique position to serve a higher purpose than those companies with whom we compete.

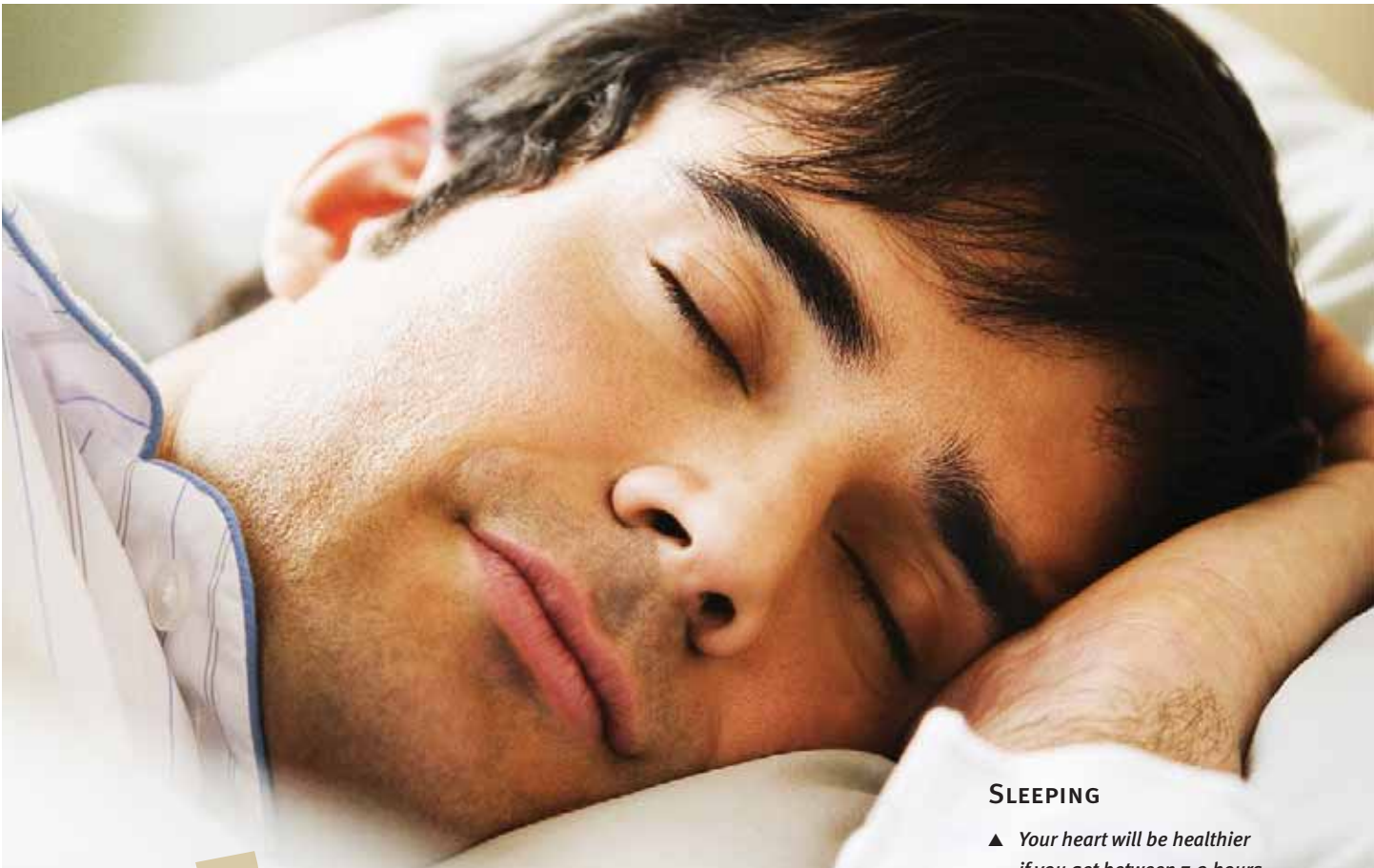
What do I mean by a higher purpose? I mean that CareFirst can play a catalytic role in bringing about changes that can benefit both our 3.2 million members and the broader community that we serve. By working with the community, we can develop improvements in delivery, quality and insurance coverage that benefit everyone—CareFirst member or not. No other insurer has stronger ties to physicians and hospitals in this region, which means CareFirst is better positioned than commercial carriers to collaborate on regional health care quality improvement. And, in forging even stronger ties with government and health organizations in the region, CareFirst will be at the table when efforts to expand access to health insurance for residents of Maryland, Washington, D.C., and Northern Virginia are discussed and debated.

It is frequently said that the past is prologue. That's never been truer than right now at CareFirst. CareFirst has been an integral part of the community for more than 70 years, and we are poised to make that bond even stronger.



Chet Burrell
*CareFirst President &
Chief Executive Officer*

By working with the community, we can develop improvements in delivery, quality and insurance coverage that benefit everyone—CareFirst member or not.



SLEEPING

- ▲ *Your heart will be healthier if you get between 7-9 hours of sleep each night.*
- ▲ *Getting more quality sleep will help you remember and process things better.*
- ▲ *Stealing a nap during the day can actually lower stress and make you more productive.*

Sleep



There's nothing more important than good health—yours and your family's. And nothing lets you sleep better than knowing that you're covered by CareFirst. CareFirst covers more residents in the region than any other insurer. And it's easy to see why.

Members and their families rest easier with our coverage.

HELPING YOU STAY HEALTHY

Through our *CareEssentials* program, we offer our members information and assistance designed to help them lead healthier lives. Whether it's our *Great Beginnings* program for expectant mothers, lifestyle coaching to identify potential health risks, or services to help members manage conditions like diabetes, asthma or heart disease, CareFirst is an active partner in our members' health.

HELPING MEMBERS HELP THEMSELVES

Many of us need a healthy "nudge" every once in a while—even to do things we know we should. During the 2007 session of the Maryland General Assembly, CareFirst was the moving force behind successful legislation to allow the payment of incentives to members who take certain steps—such as filling out a personal health assessment—to improve their health. Incentives can play a key role in engaging individuals in improving their health.

A VITAL LINK FOR HEALTH

CareFirst's award winning *Vitality* magazine is delivered to all of our members. New e-mail supplements to the publication and the addition of online healthy cooking videos are delivering even more healthy news to our members.

NATIONALLY RECOGNIZED BY CONSUMERS

A leading national consumer magazine named CareFirst's Preferred Provider Organization (PPO) as the nation's best in a biennial reader survey of PPO and HMO performance. Based on 37,000 responses rating health plans on factors such as choice of doctors, access to and care provided by physicians, billing, and desire to switch plans, CareFirst tied for the top spot ahead of 44 other plans nationwide.

MEETING DIVERSE MEMBER NEEDS

CareFirst's Maryland and National Capital service areas include some of the nation's fastest growing Latino communities. CareFirst is working on a number of fronts to create access for and better serve Latinos in the area. We introduced a free weight-loss program offered to area Latinos—CareFirst members and non-members alike—to test the effectiveness of online and traditional health interventions in this population.





SMILING

- ▲ *Smiling can boost your immune system and lower your blood pressure.*
- ▲ *Smiling releases endorphins which can make you feel better.*
- ▲ *Smiling lifts your face and makes you look younger, more positive, and successful.*

Smile

Smiling has real health benefits. And choosing CareFirst as the health plan for your employees gives you plenty of reasons to smile. More doctors, more choices, and more to feel good about.

Employers are **beaming** over the benefits they can offer employees.

THE PLAN EMPLOYERS AND EMPLOYEES KEEP

Employers and employees are frequently confronted with a choice of health plans. There's no better measure of how much customers trust a plan than choosing that plan year after year. CareFirst is proud to have won a 2007 Blue Cross and Blue Shield Association Brand Excellence Award for high performance on member retention. It's evidence that we continue to provide a market-leading combination of high-quality, affordable care.

MORE BROKERS RECOMMEND CAREFIRST

When employers turn to insurance brokers for recommendations, they want to know which health plan can best meet their specific needs. CareFirst's annual survey of brokers and administrators found that they would recommend CareFirst over other health insurers by a two-to-one margin. The majority of brokers also cited CareFirst as having the best physician and hospital networks and best product portfolio in the region.

MAKING THE PLANS YOU WANT MORE AFFORDABLE

Over the last several years, CareFirst has introduced a suite of BlueFund Consumer Directed Health Plans. The plans, for individuals and groups, couple affordable low premium plans with tax-advantaged health savings accounts (HSAs) and health

reimbursement arrangements (HRAs). To make the plans even more affordable for employers, CareFirst in 2007 eliminated some startup and monthly fees associated with HSAs and HRAs.

FIGHTING FRAUD FOR YOU

Health care fraud costs everyone. According to the National Health Care Anti-Fraud Association, such fraud costs every insured American \$200 a year. CareFirst was honored with a Blue Cross and Blue Shield Association Blue Works award—presented in conjunction with the Harvard Medical School Department of Health Care Policy—for its efforts to reduce fraud, which have produced more than \$21 million of savings since 2006.

NATIONALLY RECOGNIZED FOR QUALITY

Employers looking for health plans that focus on the delivery of quality care need look no further than CareFirst. In 2007, the National Committee for Quality Assurance (NCQA) and Bridges to Excellence (BTE)—leading national organizations focused on improving care quality—lauded CareFirst. BlueChoice HMO and BluePreferred PPO received NCQA's highest ratings. Meanwhile, Bridges to Excellence made CareFirst the first health plan in the nation to receive its endorsement for physician incentive and reward programs designed to improve health care quality.





THINKING

- ▲ *Positive thinking decreases negative stress, builds resistance to colds, and gives a sense of well-being.*
- ▲ *Mentally stimulating activities strengthen brain cells and may even create new nerve cells.*
- ▲ *Keeping your brain engaged can recharge your mental batteries and prevent age-related "brain drain."*



When you think about it, networks of physicians, hospitals and other health care providers are at the core of CareFirst’s ability to serve its members. Improving and expanding ways in which we work with health care professionals pays dividends for CareFirst members and the community we serve.

Providers understand how much we value their relationship.

CAREFIRST QUALITY REWARDS

CareFirst has established itself as a national leader in pay-for-quality programs—efforts to reward physicians for taking measurable steps to improve health care effectiveness and affordability. Shaped with the input of physicians throughout the region, CareFirst Quality Rewards will allow physicians to earn as much as seven percent over standard CareFirst reimbursements by meeting certain standards established by leading national clinical quality organizations and CareFirst.

TRAINING FUTURE NURSES

In Maryland and nationwide, a shortage of nursing faculty is contributing to a shortage of nurses. Through its innovative “Project RN” effort, CareFirst is helping to train new faculty throughout the region. The nearly \$1 million effort provides \$40,000 annual stipends for two years to help graduate nursing students complete their degrees. Program participants make a commitment to teach in a nursing school in the region for at least three years.

HELPING PROVIDERS SERVE A CHANGING COMMUNITY

CareFirst’s new Center for Provider Education and Training provides online training for physicians and their office staff about CareFirst products and procedures. In addition, CareFirst made available free, Web-based cultural competency training to help caregivers navigate the cultural differences and language barriers that can stand in the way of effective treatment. The medical societies of Maryland and District of Columbia endorsed CareFirst’s efforts on this front.

FIGHTING “KILLER” BACTERIA

The scientific name is methicillin-resistant *Staphylococcus aureus* (MRSA), but local and national news reports often refer to MRSA as a “killer” bacteria. This strain of infection is resistant to many common antibiotics, often acquired in the hospital setting and can in fact be fatal. The good news is that many common practices—such as hand washing by health care professionals—can dramatically help reduce infections. CareFirst has funded efforts through the Maryland Patient Safety Center to help hospitals throughout the region effectively combat MRSA.





walk



WALKING

- ▲ *Walking is one of the simplest and safest aerobic exercises you can do.*
- ▲ *On average, every minute of walking can extend your life by 1.5 to 2 minutes.*
- ▲ *Walking an extra 20 minutes each day will burn off 7 pounds of body fat per year.*

CareFirst Commitment. It's our name for the myriad activities undertaken by CareFirst to improve health care quality, access and affordability. In 2007, we committed more than \$9 million to programs and organizations that take steps every day to help residents of the region lead healthier lives.

We're taking determined **strides** to improve our community.

CARE AND A CLIP

On the heels of a successful program launched in Baltimore, CareFirst funded the creation of a Hair, Heart & Health program in Washington, DC. The program—in partnership with MedStar Research Institute—relies on a network of hair salons and barbershops to deliver potentially life-saving health care screening and information. Participating barbers and stylists are trained to conduct blood pressure and obesity screening right in their shops to help identify individuals at risk for heart disease, stroke, and end-stage kidney disease. Together, the programs in Baltimore and Washington have screened thousands of individuals who would otherwise have limited access to care.

BOLSTERING COMMUNITY CARE EFFORTS

This year, CareFirst supported a number of programs that help deliver better, more effective care to communities and individuals throughout the region.

Baltimore Medical Systems—A multi-year program with this inner-city health care provider is specifically designed to combat health issues such as obesity, physical inactivity, diabetes and heart disease among the Latino and African-American populations served by the clinics. The program includes the use of community health workers—or promotoras—to take important health information into patients' homes.

Arlington Free Clinic—Electronic medical records help health care providers better track care, monitor patient progress, and encourage timely follow-up to keep patients healthy and better manage chronic conditions. For the staff at Arlington Free Clinic—handling more than 8,000 medical visits a year—improving medical records translates into better care for the community. CareFirst's support will help the clinic serve the community's low-income and uninsured residents.

Franciscan Center—Baltimore's Franciscan Center offers emergency services to city residents living below the poverty line. The organization's Health Support Initiative will benefit from CareFirst support and allow the Franciscan Center to provide health, dental and prescription drug assistance to its clients.

Columbia Road Health Services (CRHS)—CRHS is a nonprofit community health center serving Northwest Washington, providing comprehensive, culturally sensitive primary care to individuals lacking health care coverage. A grant from CareFirst is helping CRHS develop a diabetes data registry to better track and manage care for its diabetes patients.

HELPING YOUTH "GROW STRONG"

The Girl Scouts of the National Capital Area's "Grow Strong" program is a year-long effort to teach young girls about the significance of strong self-image and healthy lifestyles. Support from CareFirst will help the group extend the program to serve 4,200 at-risk girls in the Greater Washington Metropolitan area.



The leadership to provide the best to our community.

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December 31, 2007

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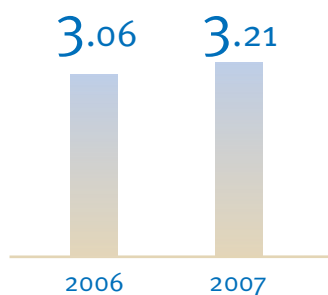
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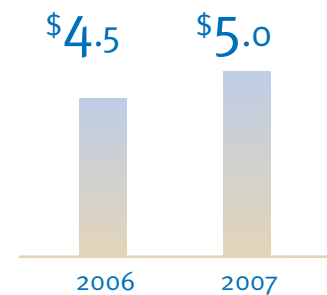
2007 financial highlights

TOTAL MEMBERSHIP in millions



CareFirst solidified its position as the Mid-Atlantic's preferred health insurer during 2007, ending the year with 144,000 more members than the prior year. Importantly, CareFirst continued its strong financial performance. Sound financial performance is critical in ensuring that CareFirst can meet its members' needs today and tomorrow—while fulfilling its unique mission as the region's largest not-for-profit health insurer.

MEDICAL CARE SPENDING in billions

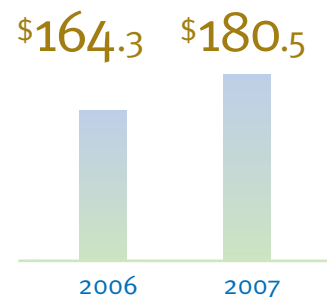


REVENUE in billions



Complete financials can be found at www.carefirst.com.

NET INCOME in millions



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Serving Maryland, the District of Columbia and portions of Virginia. CareFirst BlueCross BlueShield is the shared business name of CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc.

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