REPORT ON EXAMINATION

OF THE

COVENTRY HEALTH AND LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

COVENTRY HEALTH AND LIFE INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Sonia C. Harris

Date: 29 June 2009

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29th day of June 2009.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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AS OF

DECEMBER 31, 2007

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 29th day of June, 2009

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SALUTATION

April 21, 2009

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Bureau of Insurance
PO Box 1157
Richmond, VA 23218

Honorable Karen Weldin Stewart, CIR-ML
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Honorable Joel Ario
Secretary, Northeastern Zone (I), NAIC
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, PA 17120

Honorable James J. Donelson
Secretary, Southeastern Zone (II), NAIC
Louisiana Department of Insurance
1702 North Third Street
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Honorable Merle D. Scheiber
Secretary, Midwestern Zone (III), NAIC
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capitol Avenue
Pierre, SD 57501-3185

Honorable Morris J. Chavez
Secretary, Western Zone (IV), NAIC
Department of Insurance
State of New Mexico
Post Office Box 1269
Santa Fe, NM 87504-1269

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 08.042, dated December 2, 2008, an Association examination has been made of the affairs, financial condition and management of the

COVENTRY HEALTH AND LIFE INSURANCE COMPANY

hereinafter referred to as "Company" or "CHLIC" incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 6705 Rockledge Drive, Suite 900, Bethesda, Maryland 20817. At the Company's request, the examination was conducted off-site at the Harrisburg Customer Service Center of Coventry Health Care, Inc., located at 3721 Tecport Drive, Harrisburg, PA 17111. The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination of the Company was conducted as of December 31, 2003. This examination covers the period since that date through December 31, 2007, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed during the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

This examination was conducted in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners ("NAIC"). No other states participated in the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the NAIC and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware.

The Company's independent accounting firm made available for review, all workpapers pertinent to its audit of the Company's financial statements for the year ended December 31, 2007. The workpapers of the independent accounting firm were reviewed in order to ascertain its analysis, audit procedures and conclusions. To the extent possible, these workpapers and analyses were utilized in the examination.

In addition to items hereinafter incorporated as a part of this report, the following were reviewed without exception and made part of the workpapers of this examination.

Fidelity Bonds and Other Insurance
Statutory Deposits
Corporate Records
Officers, Employees and Agents' Welfare
NAIC Ratios
Legal Actions
All Asset & Liability items not mentioned

HISTORY

The Company was incorporated in 1968 under the laws of the State of Texas as a stipulated premium company with the name American Service Life Insurance Company. The Company was converted by charter restatement in 1984 as an old-line legal reserve life insurance company operating under the provisions of Chapter 3 of the Texas Insurance Code.

On September 27, 1987, Coventry Corporation, a Delaware corporation and the then ultimate parent corporation in the Insurance Holding Company System, acquired all the issued and outstanding stock of the Company. On April 16, 1991, Coventry Corporation became a publicly held corporation.

On November 17, 1997, Coventry Corporation formed Coventry Health Care, Inc. ("CHC") as its wholly-owned subsidiary. On April 1, 1998, in a business combination, Coventry Corporation became a subsidiary of CHC, and CHC became the publicly held corporation and the ultimate parent of the Insurance Holding Company System. On June 22, 2000, Coventry Corporation was merged with and into CHC, with CHC becoming the direct parent of the Company.

The Company's Articles of Incorporation and bylaws were amended in December 1995 to change the name of the Company to its present name, Coventry Health and Life Insurance Company.

As a Texas domicile, the Company was originally admitted by the State of Delaware on December 30, 1982 to transact the business of Life Insurance, including Annuities and Health. A new Certificate of Authority was issued on August 26, 1999, which stated that the Company was originally admitted on December 30, 1982 as a Texas corporation and that effective May 14, 1999, the Company re-domesticated from Texas to Delaware.

A "Certificate of Domestication" was filed with the Secretary of State of the State of Delaware on May 14, 1999, under which the Company re-domesticated from Texas to Delaware pursuant to 18 Del.C. §4946. A "Certificate of Incorporation" and a "Restated Certificate of Incorporation" were also filed with the Secretary of State of the State of Delaware on May 14, 1999.

CAPITALIZATION

Common Capital Stock and Paid-in Surplus

The Second Amended and Restated Certificate of Incorporation provided that the authorized capital stock of the Company shall be 1,000 shares of $2,500 par value common stock. At December 31, 2007, all shares were issued and outstanding, resulting in total capital stock of $2,500,000. All shares were held by the Parent. Refer to the "Management and Control" section of this Report, under the caption "Certificate of Incorporation and Bylaws" for details regarding the second amendment to the Certificate of Incorporation.

During the period under examination, the Company did not receive any capital contributions from its Parent.

Dividends

The Company paid $16,000,000, $20,000,000, $0 and $50,000,000 in stockholder dividends in 2004, 2005, 2006 and 2007, respectively, to its Parent. All dividends paid during the examination period received proper regulatory approval from the State of Delaware, as required under 18 Del.C. §5004(e)(1), which states,

"(e) Reporting of dividends to shareholders. –

> (1) Subject to §5005(b) of this title, each registered insurer shall provide notice to the Commissioner of all dividends and other distributions to shareholders within 5 business days following the declaration thereof and at least 10 days prior to the payment thereof."

Reconciliation of Capital and Surplus

The following reconciliation of capital and surplus for the period from its last examination as of December 31, 2003 to December 31, 2007, was extracted from the Company's filed Annual Statements:

Capital and Surplus, December 31, 2003		$50,406,352
Net income	$163,688,445	
Change in net deferred income tax	6,536,916	
Change in non-admitted assets	(11,349,663)	
Change in asset valuation reserve	36,095	
Cumulative effect of changes in accounting principles	(24,883)	
Dividends to stockholders	(86,000,000)	
Aggregate write-ins for gains and losses in surplus		
Adjustment for CY IMR release from reserve	8,686	
	$72,895,596	
Capital and Surplus, December 31, 2007		$123,301,948

MANAGEMENT AND CONTROL

Stockholder

In accordance with the Company bylaws, annual meetings of the stockholder shall be held at 9:00 o'clock, a.m., on the second Tuesday in April of each calendar year, at the Home Office of the Company. Special meetings may be called by the President, Board of Directors, or the holders of not less than 1/10 of all the voting shares. During the period under examination, written consents of the Company's sole stockholder in lieu of the annual meetings were reviewed and accepted for each year under examination.

Board of Directors

The Company's bylaws provide that the business and affairs of the Company shall be managed by its Board of Directors ("BOD"). The Company's bylaws stipulate that the BOD shall consist of not less than five (5) but not more than ten (10) members. Directors are elected annually by the stockholder, and hold office until their successors are respectively elected and qualified. Special meetings of the BOD may be called by (1) the President on three days notice to each Director, or (2) by two Directors on like notice. During the period under examination, written consents of the Company's BOD in lieu of the annual meetings were reviewed and accepted for each year under examination.

At December 31, 2007, the members of the BOD together with their principal business affiliations were as follows:

Name and Date Appointed	Principal Business Affiliation
Dale B. Wolf (1) December 31, 1996	Chief Executive Officer and Director - CHC
Shawn M. Guertin April 9, 2002	Executive Vice President, Chief Financial Officer and Treasurer - CHC

Francis S. Soistman January 1, 2005	Executive Vice President - CHC
John J. Stelben January 1, 2005	Senior Vice President - CHC
Thomas C. Zielinski January 1, 2005	Executive Vice President and General Counsel - CHC
Cynthia A. Finter July 2, 2007	Senior Vice President, Western Region - CHC

(1) Resigned from CHC effective January 30, 2009

Committees

The BOD may, by resolution, adopted by a majority of the entire board, designate two or more Directors to constitute an Executive Committee, which shall have and may exercise the powers of the BOD in the management of the business and affairs of the Company. As of December 31, 2007, the BOD did not have an Executive Committee.

Officers

The Company's bylaws stipulate that the officers of the Company shall include a President, one or more Vice Presidents, a Secretary, a Treasurer, and such Assistant Treasurers, Assistant Secretaries or other officers as may be elected by the BOD. Any of two (2) or more offices may be held by the same person except the President and the Secretary shall not be the same person.

At December 31, 2007, the Company's principal officers and their respective titles were as follows:

Officer:	Title:
Shawn Michael Guertin	President
Francis S. Soistman	Executive Vice President
Mary Louise Osborne	Executive Vice President
Shirley Ann Roquemore Smith	Vice President and Secretary
John Joseph Stelben	Treasurer
Tuvy Guss	Actuary
John Joseph Ruhlmann	Corporate Controller

Thomas Adam Davis	Vice President
Michael Teachout	Vice President
George B. Wheeler, Jr.	Vice President
David Garber	Vice President
William M. Scheerer	Vice President
Cosby M. Davis, III	Vice President
Tracy Hilton Baker	Vice President
Timothy E. Nolan	Vice President
Michael D. Bahr	Vice President
E. Harry Creasey, III	Senior Vice President
Timothy Guarneschelli	Vice President
Marc A. Malloy	Vice President
Roman T. Kulich	Vice President
Robert J. Starman	Vice President
G. Kenneth Robinson, III	Assistant Treasurer
Peter Warren Chauncey	Assistant Secretary
Deanna Hilda Gray	Assistant Secretary
Jonathan D. Weinberg	Assistant Secretary
Hassan S. Rifaat	Interim Vice President

In addition to the above officers, additional vice presidents, assistant vice presidents and other assistant officers were also appointed.

Numerous changes in directors and officers occurred during the period under review. As required, proper notification was provided to the Delaware Department of Insurance with minor exception.

Conflicts of Interest

All directors and officers of CHLIC are required to complete an annual "Director/Officer Disclosure of Conflict of Interest" of possible conflicts of interest in accordance with its adopted and amended "Code of Business Conduct and Ethics" policy regarding business conduct and conflicts of interest.

A review of executed disclosure statements was conducted during the examination period without material exception.

Certificate of Incorporation and Bylaws

A review of the Company's Certificate of Incorporation revealed that the Certificate was amended on September 1, 2006 to (i) reduce the number of authorized shares of common stock from 2,500,000 to 1,000, (ii) correspondingly, in order to maintain the same basis in the shares outstanding, to increase the par value of Common Stock from $1.00 per share to $2,500.00 per share, (iii) to make minor corrections and changes, and (iv) to bring the Certificate current.

No changes were made to the bylaws during the examination period.

HOLDING COMPANY SYSTEM

As noted above, the Company is a direct wholly-owned subsidiary of CHC. CHC is a managed health care company which provides insured coverage to over 4.6 million members through three divisions – Commercial, Individual Consumer & Government, and Specialty – providing a full range of products and services, including group and individual health insurance, Medicare and Medicaid programs, and coverage for specialty services such as workers compensation. These products and services are provided through nineteen (19) health plans in 20 states. CHC trades on the New York (NYSE) stock exchange under ticker symbol CVH.

As of December 31, 2007, the Coventry Health Care group of companies had total assets of approximately $7.2 billion, shareholder equity of $3.3 billion, and earned net income of $626 million on total reported revenues of $9.9 billion.

A review of the Company's Insurance Holding Company Annual Registration Statement filing (Form B) for all years under examination was performed without material exception.

Organization Chart

The following presentation of the holding company system reflects the identities and interrelationships between the Company, its Parent, affiliated insurers and other members of the holding company system as of December 31, 2007:

Company	Domicile	% own
Coventry Health Care, Inc.	Delaware	
Coventry Financial Management Services, Inc.	Delaware	100%
Coventry Health Care of Delaware, Inc.	Delaware	100%
Coventry Health Care of Georgia, Inc.	Georgia	100%
Coventry Services Corporation	Delaware	100%
Coventry Health Care of Iowa, Inc.	Iowa	100%
Coventry Health Care of Nebraska, Inc.	Nebraska	100%
Coventry Health Care of Pennsylvania, Inc.	Pennsylvania	100%
Coventry Health Care of Louisiana, Inc.	Louisiana	100%
HealthAmerica Pennsylvania, Inc.	Pennsylvania	100%
HealthAssurance Pennsylvania, Inc.	Pennsylvania	100%
Coventry Prescription Management Services, Inc.	Nevada	100%
Coventry Health and Life Insurance Company	Delaware	100%
Coventry Health Care Investment Corporation	Delaware	100%
Southern Health Services, Inc.	Virginia	100%
Coventry Transplant Network, Inc.	Delaware	100%
Group Health Plan, Inc.	Missouri	100%
HealthCare USA of Missouri, LLC	Missouri	100%
Coventry Health Care of Kansas	Kansas	100%
Coventry Management Services, Inc.	Pennsylvania	100%
Carelink Health Plans, Inc.	West Virginia	100%
Coventry Healthcare Management Corporation	Delaware	100%
WellPath Preferred Services, Inc.	North Carolina	100%
WellPath Select, Inc.	North Carolina	100%
CHC Casualty Risk Retention Group, Inc.	Vermont	100%
First Health Group Corp.	Delaware	100%
First Health Strategies, Inc.	Delaware	100%
FHC, Inc.	Ontario, Canada	100%
Claims Administration Corp.	Maryland	100%
First Health Life & Health Insurance Company	Texas	100%
First Health Services Corporation	Virginia	100%
First Health Services of Florida, Inc.	Delaware	100%
Health Care Management, Inc.	Delaware	100%
First Health Services of Montana, Inc.	Delaware	100%
First Health Services of Arkansas, Inc.	Arkansas	100%
American Life and Health Insurance Company	Missouri	100%
Cambridge Life Insurance Company	Missouri	100%
WellPath of South Carolina, Inc.	South Carolina	100%
PersonalCare Insurance of Illinois, Inc.	Illinois	100%
OmniCare Health Plan, Inc.	Michigan	100%
Altius Health Plans, Inc.	Utah	100%

HealthAssurance Financial Services, Inc.	Delaware	100%
HealthCare USA of Tennessee	Tennessee	100%
Provider Synergies, LLC	Ohio	100%
Coventry Specialty Services, LLC	Maryland	100%
Coventry Health Care National Accounts, Inc.	Delaware	100%
Coventry Health Care National Network, Inc.	Delaware	100%
Coventry Product Services, Inc.	Delaware	100%
Coventry Health Care Workers' Compensation, Inc.	Delaware	100%
MetrComp, Inc.	Connecticut	100%
Medical Examinations of New York, P.C.	New York	100%
FOCUS Healthcare Management Inc.	Tennessee	100%
FHM Business Corporation	Delaware	100%
First Script Network Services, Inc.	Nevada	100%
Florida Health Plan Administrators, LLC	Florida	100%
Vista Healthplan, Inc.	Florida	100%
Vista HealthPlan of South Florida, Inc.	Florida	100%
Vista Insurance Plan, Inc.	Florida	100%
Summit Healthplan, Inc.	Florida	100%
Coventry Consumer Advantage, Inc.	Delaware	100%

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2007, the Company is licensed to underwrite life and health business in the District of Columbia, and thirty-four (34) states. In 2008, the Company became licensed in Florida and Maine.

Plan of Operation

For the year ending December 31, 2007, approximately sixty-nine percent (69.8%) or $970,390,650 of the Company's direct premium was written in five states: West Virginia, 24.4%; Missouri, 22.8%; Pennsylvania, 10.0%; Virginia, 7.0%; and Kansas, 5.6%. Direct written premiums of the Company's thirty (30) other jurisdictions amounted to approximately 30.2% or $418,175,951.

The Company is marketed as part of the Coventry Group of companies under its parent company, CHC. A portion of the Company's business includes underwriting managed indemnity products marketed through affiliated health maintenance organizations. Services are typically provided under one-year contracts with employers under which the Company insures the health benefits of the employees who elect this coverage. The Company is also in the business of providing reinsurance services to its affiliated health maintenance organizations/plans.

The Company's direct business is comprised of risk and fee-based managed care products and services, including health maintenance organizations (HMO), preferred provider organizations (PPO), point of service (POS), Medicare Advantage, Medicare Prescription Drug Plans (Medicare Part D), Medicaid (reinsurance premiums on health plan Medicaid business only), and Medicare Private Fee-For Service Plans to a broad cross section of individuals, employer and government funded groups, government agencies, and other insurance carriers and administrators. In addition, the Company offers specific and aggregate stop-loss coverage where the insured has a high retention limit.

Business is primarily acquired through the use of independent agents/brokers, benefit consultants and directly to employer groups. The Company does not have any employees, employee agents or own any agencies. The Company has agreements with its affiliates, who employ a sales force that sell and service CHLIC products to these various channels. The Company and CHC do not use the services of any exclusive agents pursuant to 18 Del.C. 4921. The approximate total number of appointed agents at December 31, 2007 was 19,562.

Medicare Part D

The Medicare Part D program, which gives beneficiaries access to prescription drug coverage, took effect January 1, 2006. The Company has been awarded contracts by the Center for Medicare & Medicaid Services ("CMS") to offer various Medicare Part D plans on a nationwide basis, in accordance with guidelines put forth by the agency.

Medicare Advantage Private Fee For Service

Commencing January 1, 2007, the Company began offering Medicare Advantage Private Fee For Service ("PFFS") plans in several states under the name Advantra Freedom. These plans are offered under contracts with CMS and provide enrollees with all benefits they receive under original Medicare as well as benefits such as preventative care, eyeglasses/hearing aid coverage, and pharmacy benefits. Enrollees are not limited to network providers and may utilize any provider willing to accept the plan's terms and conditions. Providers generally receive the same reimbursement as under original Medicare.

Best's Rating

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the life and health members of Coventry Health Care Group, which operate under a group structure, the Company was assigned a Best's rating of A- (Excellent) for the year ending 2007.

GROWTH OF THE COMPANY

The following information was extracted from copies of the Company's filed Annual Statements, for each year indicated, and covers the period from the Company's last examination.

Year	Net Admitted Assets*	Total Liabilities*	Total Capital and Surplus*	Changes in Capital and Surplus	Total Revenues	Hospital and Medical	Net Income
2007	399,540,322	276,238,376	123,301,949	5.94%	1,363,831,774	1,086,550,348	62,611,497
2006	397,429,195	281,041,419	116,387,777	36.67%	943,984,164	725,367,849	43,610,110
2005	178,809,512	105,110,534	73,698,978	23.54%	525,589,327	361,488,009	35,567,158
2004	125,863,676	69,515,352	56,348,324	10.55%	336,703,411	210,175,843	21,899,680
2003	103,168,924	52,762,570	50,406,352	19.47%	260,430,521	175,008,073	34,710,163

* Does not include adjustments as a result of the prior or current examinations

During the past four years the Company has experienced significant growth in assets, liabilities and surplus, as well as revenues. Since the last examination, net admitted assets have increased by 287.3% while total liabilities increased by 423.6%. Over the same period, total capital and surplus increased by 144.6%. Total revenues and benefits have advanced by 423.7% and 520.9%, respectively, since December 31, 2003.

The Company has grown its core health care business (PPO, POS, and HMO) partially as a result of parental acquisitions that allowed the Company to expand into new territories; however, significant growth in the Company occurring over the two most recent years was unrelated to parental acquisitions. In 2006, the Company began offering Medicare Part D, which brought in an additional $216 million and $276 million in premiums in 2006 and 2007, respectively. In 2007, the Company began offering a Medicare PFFS product, which brought an additional $166 million in premiums. In addition, premiums increased in the Company’s PPO/POS and Medicare Part D due to membership increases of approximately 30% across the country. During the exam period, the Company's membership has increased to 595,056 members as of December 31, 2007, from 76,973 members as of December 31, 2004, representing an increase of approximately 673.0%. Benefit Cost Incurred increased as a result of the increased membership and normal fluctuations that occur year to year. Medicare PFFS business contributed an additional $152 million in medical benefit cost incurred. Operating costs were also higher as a result of the increase in membership, including Medicare PFFS. The Company’s combined ratio has increased from prior year end to 94.4% as of December 31, 2007.

REINSURANCE

Following is a summarization of the various reinsurance contracts in place as of December 31, 2007.

<u>Assumed</u>

Internal

The Company provides reinsurance to the various CHC health plans through its corporate business unit. No assumed reinsurance is provided to unaffiliated external parties. During the examination period, reinsurance services were offered to the affiliates listed below, unless otherwise noted.

- Wellpath Select, Inc.
- Coventry Health Care of Delaware
- Coventry Health Care of Pennsylvania
- Coventry Health Care of Georgia
- HealthAmerica Pennsylvania
- HealthAssurance Pennsylvania
- Carelink Health Plans
- Coventry Health Care of Iowa
- Coventry Health Care of Kansas
- Coventry Health Care of Louisiana
- Coventry Health Care of Nebraska
- Southern Health Services
- Group Health Plan
- Personal Care
- Altius Health Plans
- Healthcare USA (Medicaid)
- Omni Care, Inc. (Medicaid)

The assumed reinsurance program covers claims with service dates from April 1st through March 31st of each year, with a run out period of six months after the end of a plan year. Rates charged to each health plan vary by product and by year.

Reinsurance is assumed from affiliated health plans on an excess of loss basis, assuming a portion of each health plan's liability for health services provided to their members. All reinsurance agreements contain a deductible amount depending upon the health plan reinsured ranging from $175,000 to $600,000 of eligible charges per member. Once the member deductible has been reached, the Company pays 80 to 90 percent of the excess over the deductible amount up to $1,000,000, the maximum reinsurance coverage payable per eligible member under any of the assumed health plan reinsurance agreements.

Assumed reinsurance premiums from CHC's health plans are actuarially determined based on a blending of individual health plan and Coventry wide experience, and are generally adjusted on an annual basis. The final premium charged to the individual health plans contains a provision for the Company's administrative expenses and risk margin. Annually, the assumed reinsurance premium rates for each health plan are approved by each respective state's Department of Insurance.

Insurance Assignment and Assumption Reinsurance Agreement

Under an Insurance Assignment and Assumption Reinsurance Agreement ("Assignment and Assumption Agreement") effective April 25, 2007, and made part of the Purchase Agreement between Mutual of Omaha Insurance Company and United of Omaha Insurance Company ("Sellers"), and the Company, CHC, First Health Life & Health Insurance Company, and Coventry Health Care of Nebraska, Inc. ("Buyers"), the Company assumes novated (transferred and assigned) PPO policies from the Sellers under the Purchase Agreement. The Company accepts the assignment of and assumes all of the Seller's obligations in connection with, relating to, or arising out of the novated PPO policies on a first dollar 100% co-insurance basis. The Assignment and Assumption Agreement shall remain in force and in effect until such time as all obligations and all PPO policy liabilities, and all obligations of the parties under the agreement having been satisfied, discharged and extinguished in full. For details regarding the aforementioned purchase agreement, refer to the "External Agreements" section of this Report, under the caption "Purchase Agreement."

<u>Ceded</u>

Under various quota share reinsurance agreements, the Company cedes certain lines of business to external reinsurers; however, it is noted that in 2007 the Company did not take any reinsurance reserve credits stemming from these reinsurance agreements.

Medicare (Pharmacy) Part D

Effective January 1, 2006, the Company ceded on a quota share basis to Bankers Life & Casualty Company individual stand alone prescription drug policies issued under Part D of a Medicare Program with the Centers for Medicare and Medicaid Services ("CMS"). Effective January 1, 2007, the Company began ceding this program to Bankers Life & Casualty Insurance Company for business sold in the state of New York. Under the agreements, the Company's retained liability and reinsurer limits are 50% retained and 50% ceded with a slight variation for the computation of the Medicare Risk Share Corridors as shown below:

Risk Share Corridor	Company Retained Risk	Reinsurer Risk Coverage
>105%	80%	20%
>102.5% to 105%	75%	25%
99% to 102.5%	0%	100%
<99%	80%	20%

Effective January 1, 2006, the Company ceded to Continental General Insurance Company on a quota share basis, individual stand alone prescription drug policies under Part D of a Medicare Program with CMS. The Company's retention is 75%, with the reinsurer assuming 25% of the ceded liabilities. This contract was terminated December 2006.

Medicare Advantage Private Fee For Service ("PFFS")

Under a quota share reinsurance agreement effective January 1, 2007, the Company ceded to Bankers Life & Casualty Company and Bankers Conseco Life Insurance Company (collectively reinsurers), the risks under its Advantra Freedom Plans, namely the Medicare Advantage PFFS plans within its Medicare Program with CMS. The Company's retained liability and reinsurer limits for the various quota share years were as follows:

QS Year	Company Retention	Reinsurer Coverage
2007	47%	53%
2008	40%	60%
2009	33%	67%

Effective January 1, 2007, the Company ceded to Colonial Penn Life Insurance Company on a quota share basis, the risks under its Advantra Freedom Plans, namely the Medicare Advantage PFFS plans within its Medicare Program with CMS. The Company's retained liability and reinsurer limits for the various quota share years were as follows:

QS Year	Company Retention	Reinsurer Coverage
2007	47%	53%
2008	40%	60%
2009	33%	67%

For details regarding the Medicare contracts with CMS, refer to the "External Agreement" section of this Report, under the caption "Centers for Medicare and Medicaid Services Agreements."

West Virginia Public Employee Insurance Agency (PEIA)

Under a quota share reinsurance agreement effective July 1, 2007; the Company ceded to Bankers Life & Casualty Company the risks under its Medicare Advantage PFFS plans sold to the West Virginia PEIA under the terms of an employer group insurance contract. The Company's retained liability and the reinsurer limits under the initial term of the quota share is 50% each. Under the terms of the agreement, the Company may recapture up to the below percentages of quota share split in subsequent years as follows:

Term	Company Retention	Reinsurer Coverage
Initial Term (7/1/07 - 6/30/08)	50%	50%
1st Renewal Term	50-60%	50-40%
2nd Renewal Term	50-75%	50-25%
Optional 3rd Renewal	50-80%	50-20%

INTERCOMPANY AGREEMENTS

The Company had the following intercompany agreements and arrangements in effect as of December 31, 2007:

Service Agreements

As of December 31, 2007, the Company had a total of twenty-one (21) intercompany service agreements, consisting of: one management service agreement, twelve administrative service agreements, one service agreement (terminated effective March 31, 2008), and five administrative services and underwriting agreements in place with its affiliates, and two management service agreements in place with its parent, CHC. Of the above agreements, seven were entered into during the current examination period consisting of two management service agreements, two administrative services agreements, one service agreement, and two administrative and underwriting service agreements, summarized as follows:

- Effective January 1, 2006 and as amended, the Company entered into a management services agreement with Coventry Health Care, Inc. for Prescription Drug Plan ("PDP") business for the management of PDP business offered by CHLIC to Medicare Beneficiaries that enrolled in such coverage. The Company has another management services agreement with CHC for non-Medicare related business effective January 1, 1999; however, the members of this agreement will not be included in the 1999 agreement, and the members of the 1999 agreement will not be included in this agreement.

- Effective January 1, 2006 and as amended, the Company entered into a management services agreement with Coventry Management Services, Inc. ("CMS") for the management of PDP business offered by CHLIC to Medicare Beneficiaries that enrolled in such coverage.

- Effective April 1, 2006, the Company entered into an administrative services agreement with HealthAmerica Pennsylvania, Inc. ("HAPA") to furnish certain administrative services for CHLIC Medicare Advantage (formerly Medicare+Choice) PPO members and providers in the states of West Virginia and Ohio.

- Effective November 1, 2006, the Company, Cambridge Life Insurance Company and First Health Life & Health Insurance Company entered into a services agreement with American Life Insurance Company for the purpose of limited commissions' payment services for Cambridge, First Health and the Company. This agreement was subsequently terminated effective March 31, 2008.

- Effective August 1, 2007, the Company entered into an administrative services agreement with Coventry Health Care National Accounts ("CHCNA") to furnish certain administrative services for CHLIC's PPO product offered by employers who are located in the states of Tennessee, Mississippi, and Arkansas.

- Effective August 1, 2007, the Company entered into an administrative service and underwriting agreement with Altius Health Plans, Inc. ("Altius") to provide certain administration services for a PPO product offered in the state of Utah that provides both the health maintenance organization coverage offered by Altius and the indemnity group health insurance coverage underwritten by CHLIC, but administered by Altius. Effective January 1, 2009, business in the state of Nevada was added.

- Effective August 1, 2007, the Company entered into an administrative service and underwriting agreement with Altius to provide certain administration services for a POS product offered in the state of Utah that provides both the health maintenance organization coverage offered by Altius and the indemnity group health insurance coverage underwritten by CHLIC, but administered by Altius.

In addition to the agreements noted above, amendments to other agreements were made to incorporate Medicare and PFFS business and other changes as deemed necessary and appropriate. For all of the above agreements, and amendments to agreements entered into prior to January 1, 2004, the Company submitted notification to, and received approval from the Delaware Insurance Department in accordance with 18 Del.C. §5005(a)(2)(d).

All twenty-one agreements in place as of December 31, 2007 require monthly settlement based on a per member per month ("PMPM") fee, and include an appropriate termination clause. Refer to the "Subsequent Events" section of this Report, under the caption "Intercompany Service Agreements – Subsequent to December 31, 2007" for details regarding additional intercompany agreements entered into subsequent to December 31, 2007.

Insolvency Continuation Agreements

As of December 31, 2007, the Company had two insolvency continuation agreements in place with its affiliates as follows:

- Effective June 1, 2002, the Company entered into an insolvency continuation agreement with its affiliate WellPath Select, Inc. ("WellPath") for the purpose of continuing WellPath's plan benefits up to $5 million with respect to all plan members on or after the insolvency of WellPath.
- Effective October 1, 2004, the Company entered into an insolvency continuation agreement with its affiliate OmniCare Health Plan, Inc. ("OmniCare") for the purpose of continuing OmniCare's plan benefits up to $5 million with respect to all plan members on or after the insolvency of OmniCare.

Parental Guarantee Agreement

Effective February 9, 1999, the Company entered into a guarantee agreement with CHC to maintain the company's capital and surplus position at or above the Company Action Level (200%) as defined by RBC. The agreement continues in effect indefinitely until terminated with 90 days notice to the Delaware Department of Insurance.

Amended and Restated Tax Sharing Agreement

Effective for the tax year ending December 31, 2004 and for each tax year thereafter, the Company entered into a tax sharing agreement with CHC and each of its subsidiaries, whereby the parties to the agreement file a consolidated federal income tax return. The Company's tax liability is calculated based upon separate stand alone returns, with the current credit for the tax benefit of net losses or current charges for taxes incurred on net income being charged to the Company. Pursuant to the agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses that it may incur or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. Intercompany tax balances are settled on a monthly basis. Additional settlements are made once each year's tax returns have been filed with the applicable taxing authorities.

Subsequently, effective for the tax year ending December 31, 2005 and for each tax year thereafter, the tax sharing agreement was restated to incorporate subsidiaries acquired by CHC as of December 31, 2008.

EXTERNAL AGREEMENTS

In addition to the above intercompany agreements, the Company had the following external agreements in effect at December 31, 2007:

Custodial Agreements

The Company is party to two custodial agreements for the purpose of safekeeping invested assets. A review of these agreements showed them to contain necessary and required safeguards protecting the Company's investments being held by the custodian. The agreements in place at December 31, 2007 are as follows:

- Effective June 13, 2006, the Company entered into a custodial agreement with Citibank N.A. ("Citibank") for the purpose of safekeeping a portion of the Company's invested assets held in the name of the Company, but for the benefit of business written by the various health plans for the Company.
- Effective January 8, 2004, amended February 28, 2005, the Company entered into a custodial agreement with Bank One Trust Company N.A., c.k.a. JPMorganChase ("JPMorgan") for the purpose of safekeeping a portion of the Company's invested assets held in the name of the Company but for the benefit of business written by Carelink Health Plans, Inc.

Asset Management Agreements

The Company is party to three asset management agreements for the purpose of managing its investment portfolios held by Citibank and JPMorgan. The agreements in place at December 31, 2007 are as follows:

- Effective February 28, 2003, CHC, on behalf of its affiliates, entered into an Asset Management Agreement with Conning Asset Management Company for the purpose of investment management, investment accounting and recordkeeping functions for investment portfolio assets held by Citibank, but for only investments held in the CHLIC-Kansas custodial account.
- Effective April 1, 1999, the Company entered into an Investment Management Agreement with New England Asset Management for the purpose of investment management, investment accounting and recordkeeping functions for certain investment portfolio assets held in both the Citibank and JPMorgan custodial account.
- Effective June 13, 2006, the Company entered into an Investment Management Agreement with Western Asset Management for the purpose of investment management, investment accounting and recordkeeping functions for certain investment portfolio assets held in the Citibank custodial account.

Managed Prescription Drug Program Agreement

Effective July 1, 2000 and as amended, the Company entered into a Managed Prescription Drug Program Agreement with Caremark Inc., for the purpose of Caremark administering Coventry Health Care, Inc. and its subsidiaries prescription drug program for individuals and health plan groups covered under Coventry Health Plans. The original agreement was for a term of three years from inception with the option to extend the agreement for two immediately succeeding one (1) year periods commencing with the third anniversary of the effective date unless cancelled. The agreement was amended twice, extending the term of the agreement through December 31, 2009.

Centers for Medicare and Medicaid Services Agreements

The Company is party to four Private-Fee-For-Service contracts (three effective January 1, 2006, and one effective January 1, 2007), and one prescription drug plan contract (effective January 1, 2007) with the Centers for Medicare and Medicaid Services ("CMS"), for the purpose of the establishment and operation of certain Medicare Advantage Private Fee for Service plans, and a Medicare Part D voluntary prescription drug plan. The agreements are renewed annually upon approval by CMS.

Underwriting/Administrative Management Agreement

The Company is party to two underwriting/administrative management agreements with Medical Risk Managers as the underwriting and administrative manager for and on behalf of the Company for Specific and/or Aggregate Stop Loss Medical policies selected and submitted by any of the Coventry Health Plans and issued directly, by the Company on Self-Insured Medical expense business. The first agreement is effective August 1, 2002, and covers business written between August 1, 2002 and September 30, 2005. The second agreement is effective October 1, 2005, and covers business written or renewed on or after October 1, 2005.

Lease Agreements

The Company is party to a lease agreement for office space in Oklahoma City, MO, and a lease agreement for office space in Memphis, TN, which was acquired through an Assignment and Assumption Agreement with Coventry Services Corporation. Both agreements provide for lease extension prior to termination.

Broker/Agent Compensation Agreements

As of December 31, 2007, the Company had three types of broker/agent compensation agreements: Standard, Preferred and Elite. Though there are no hard guidelines defining which agreement a broker/agent is to be given, the majority of brokers/agents were appointed using the Preferred agreement. Beginning in 2008, these agreements were replaced with a standard contract.

Purchase Agreement

Effective April 25, 2007, the Company, along with its parent, Coventry Health Care, Inc., First Health Life & Health Insurance Company, and Coventry Health Care of Nebraska, Inc. entered into a Purchase Agreement with Mutual of Omaha Insurance Company ("Mutual") and United of Omaha Insurance Company ("United") to acquire certain assets and liabilities of Mutual and United (including business in Nebraska and Iowa), and all the outstanding stock of Exclusive Healthcare, Inc. ("Exclusive"). The Purchase Agreement closed on July 1, 2007. As part of this agreement, the Company assumed novated PPO policies per the Assignment and Assumption Agreement discussed in the “Reinsurance” section of this Report, under the caption “Insurance Assignment and Assumption Reinsurance Agreement.”

ACCOUNTS AND RECORDS

Accounting System and Information

During the examination period, all necessary accounting records of the Company were maintained on electronic data processing equipment (“EDP”). The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for Generally Accepted Accounting Principles.

Independent Accountants

The Company’s financial statements are audited each year by the firm of Ernst & Young or “E&Y”, of Baltimore, MD. The examiners reviewed the audited statutory financial statements for all years under examination. For all years under review, E&Y issued an unqualified opinion. The examiners reviewed E&Y’s 2007 workpapers, and incorporated their work and findings as deemed pertinent to the current examination.

Actuarial Opinion

The Company’s loss reserves and related actuarial items were reviewed by Tuvy Guss, Vice President, ASA, MAAA, who issued a statement of actuarial opinion, based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were fairly stated and met the requirements of the insurance laws of the state of Delaware.

Accounts and Records Findings

The following findings, recommendations and comments were noted during the examination and pertain to the Company’s overall level of records maintenance and filed Annual Statement:

With regards to the filed 2007 Annual Statement, presentation discrepancies were noted. These discrepancies related to both financial and non-financial reported information. The exceptions identified represent noncompliance with 18 Del.C. §526(a).

It is recommended that the Company complete its annual statement blank in accordance with NAIC *Annual Statement Instructions* and 18 Del.C. §526(a), verifying that all financial and non-financial data is reported accurately, completely, and appropriately.

Reinsurance

The following comments and findings were noted during the current examination, and pertain to the Company's overall reinsurance program:

- With regards to the various assumed reinsurance agreements with affiliates in effect during the examination period, it was noted that three were not signed or fully executed by all parties to the agreement, and the execution date of eight agreements was left blank. Similarly, with regards to the Company's ceded reinsurance agreements, four agreements and four amendments to the original agreements were not signed or fully executed by all parties to the agreement.

  It is recommended that the Company comply with 18 Del.C. §1002 (5.1 and 5.2) whereby reinsurance agreements must be dully executed by both parties no later than the "as of date" of the financial statement. In the case of a letter of intent, the reinsurance agreement or amendment must be executed within a reasonable amount of time, not exceeding ninety (90) days from the execution date of the letter of intent in order for credit to be granted for the reinsurance ceded.

- In Schedule S, Part 1 and Part 3, the Company reported reinsurance contracts with incorrect effective dates. Additionally, the Company reported two separate and distinct ceded reinsurance agreements as one in Schedule S, Part 3.

It is recommended that the Company complete its Schedule S in accordance with SSAP No. 61, Paragraph 24, NAIC *Annual Statement Instructions* and 18 Del.C. §526(a), verifying that all financial and non-financial data is reported accurately, completely, and appropriately.

- All ceded reinsurance agreements in effect during the examination period did not contain an "Insolvency Clause" as required by 18 Del.C. §1003 (13.1.1) which stipulates that credit will not be granted to a ceding insurer for reinsurance effected with assuming insurer unless the reinsurance agreement includes a proper insolvency clause pursuant to 18 Del.C. §914.

It is recommended that the Company amend its ceded reinsurance agreements to include an Insolvency Clause pursuant to 18 Del.C. §914 and 18 Del.C. §1003 (13.1.1).

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2007, as determined by this examination, along with supporting exhibits as detailed below:

Assets, December 31, 2007
Liabilities, Capital and Surplus, December 31, 2007
Statement of Revenue and Expenses, December 31, 2007
Capital and Surplus Account, December 31, 2007
Schedule of Examination Adjustments

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. The narratives on the individual accounts, with the exception of the reserve related balances, are presented on the "exception basis" in the Notes to the Financial Statements section of this Report.

Assets
As of December 31, 2007

	Assets	Non-admitted Assets	Net Admitted Assets	Notes
Bonds	$155,384,080		$155,384,080	
Cash	30,296,071		30,296,071	
Short-Term Investments	160,949,109		160,949,109	
Investment income due or accrued	2,182,923		2,182,923	
Uncollected premiums and agents' balances	17,058,334		17,058,334	
Amounts receivable relating to unisured plans	1,376,840		1,376,840	
Net Deferred Tax Asset	7,032,102	$415,782	6,616,320	
Furniture and equipment, including health care delivery ass	180,995	180,995	0	
Receivable from parent, subsidiaries and affiliates	29,703,241	7,092,440	22,610,801	
Health care and other amounts receivable	3,068,612	2,768	3,065,844	
Aggregate write-in:			0	
Deposits	1,860,940	1,860,940	0	
Prepaid rent	7,939	7,939	0	
Prepaid other expenses	2,014,942	2,014,942	0	
Prepaid postage	2,000	2,000	0	
Totals	$411,118,128	$11,577,806	$399,540,322	

Liabilities, Capital and Surplus
As of December 31, 2007

	Covered	Uncovered	Total	Notes
Claims unpaid	$168,452,559	$2,078,092	$170,530,651	1
Accrued medical incentive pools and bonus amounts	3,813,726		3,813,726	2
Unpaid claims adjustment expense	2,939,170		2,939,170	3
Premiums receive in advance	7,286,078		7,286,078	
General expenses due or accrued	12,268,746		12,268,746	
Current federal and foreign income tax payable	5,131,734		5,131,734	
Ceded reinsurance premiums payable	21,657,819		21,657,819	
Amounts withheld or retained for account of others	292		292	
Amounts due parent, subsidiaries and affiliates	15,350,532		15,350,532	
Payable for securities	542,415		542,415	
Liability for amounts held under uninsured plans	36,624,387		36,624,387	
Aggregate write-ins for other liabilities:			0	
Abandon property liability	92,826		92,826	
Total liabilities	$274,160,284	$2,078,092	$276,238,376	
Common Capital Stock			2,500,000	
Gross paid in and contributed surplus			31,450,000	
Unassigned funds (surplus)			89,351,949	
Total capital and surplus			$123,301,949	
Total liabilities, capital and surplus			$399,540,325	

Statement of Revenue and Expenses
As of December 31, 2007

Member months		6,559,414
Net premium income		$1,363,754,783
Aggregate write-ins for other health care related revenues		
Management fee income		76,991
Total revenues		$1,363,831,774
Hospital and Medical:		
Hospital/medical benefits		$698,245,461
Prescription drugs		388,204,106
Incentive pool, withhold adjustments and bonus amounts		100,781
Totals		$1,086,550,348
Less:		
Net reinsurance recoveries		(45,038,577)
Total hospital and medical		$1,131,588,925
Claims adjustment expenses		14,121,508
General administrative expenses		142,225,651
Total underwriting deductions		$1,287,936,084
Net underwriting gain or (loss)		$75,895,690
Net investment income earned		$19,654,968
Net realized capital gains (losses)		2,651
Net investment gians		19,657,619
Net gain or (loss) from agents' or premium balances charged off		($2,090,885)
Aggregate write-ins for other income or expenses		
Market conduct assessments		(350,000)
Net income or (loss) after capital gains tax and before all other federal income taxes		$ 93,112,424
Federal and foreign income taxes		$ 30,500,927
Net income		$62,611,497

Capital and Surplus Account
As of December 31, 2007

Capital and surplus prior reporting period		$116,387,775
Net income		$62,611,497
Change in net deferred income tax		4,906,990
Change in non-admitted assets		(10,604,314)
Dividends to stockholders		(50,000,000)
Net change in capital and surplus for the year		$6,914,173
Adjustment to surplus as a result of December 31, 2007 Examination		0
Capital and surplus end of reporting period		$123,301,949

SCHEDULE OF EXAMINATION ADJUSTMENTS

There were no financial adjustments to the Company's balance sheet as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Liabilities

General

As of December 31, 2007, the Company held liabilities for a diversified mix of managed care products for employer/employee groups. The Company offers products in 14 states which minimizes geographic and regulatory risk. The Company is one of the top carriers in many of these states. The Company holds full-risk capitation arrangements with provider groups. These full-risk arrangements effectively transfer the medical claims liability for the associated members (full-risk members) to the respective provider groups. The Company also has Medicare Part D, Medicare Private-Fee-For-Service and a reinsurance program for CHC's health care subsidiaries. Refer to the "Reinsurance" section of this Report, under the caption "Assumed-Internal" for details regarding the CHC health care subsidiary reinsurance program.

Effective with the first quarter of 2005, the Company switched from filing Life and Health Blanks to Health Blanks. As such, at December 31, 2007, several prior year and prior year-to-date numbers were reclassified for comparison with current year categories.

The Company prepared an Actuarial Memorandum as of December 31, 2007. Since the memorandum was not required, it addressed only the adequacy of the liabilities but did not discuss the assets backing the liabilities. However, the Company's appointed actuary concluded that the liabilities held were adequate, and the Consulting Actuary has accepted that conclusion for the purpose of this report. The Consulting Actuary noted that the liabilities are short-term and that there are sufficient short-term assets to match the liabilities.

Data Validity

The examiners tested the validity of the valuation data; no errors were found. The examiners performed inclusion testing on the premium and claims paid. The inclusion tests indicated that the valuation files were complete.

Substantive Analysis

The claims unpaid liability is held for small (under $225,000) and large incurred but not reported ("IBNR") medical claims and explicit margin, reinsurance assumed, stop loss, pharmacy, claims processing and miscellaneous claims payable. The Consulting Actuary performed a retrospective analysis on the small and large claim IBNR and reinsurance assumed liability and found them adequate. The Company provided workpapers supporting the adequacy of the reinsurance assumed, stop loss and pharmacy. The remaining items, which were considered inventory, were reviewed by the examiners and found reasonable.

The Company held an accrued medical incentive pool and bonus amounts and a loss adjustment expense liability for expenses associated with the payment of the small IBNR claims at December 31, 2007. Each of the above liabilities appears to be reasonably stated; however, the Consulting Actuary has determined that the Medicare Part D liabilities were not reported in the correct lines on Page 3 of the December 31, 2007 Annual Statement.

It is recommended that the following reporting changes associated with Medicare Part D prescription drug coverage is made in future Annual Statements in accordance with NAIC INT-05-05, and further interpreted by the "Medicare Part D Accounting Practice Note – Exposure Draft – January 2008," (pages 9 - 11) issued by the American Academy of Actuaries:

1. **The Risk Sharing liability should be reported on Page 3, Line 4.**
2. **The Reinsurance Subsidy and Low Income Cost Subsidy liabilities should be reported on Page 3, Line 20.**

In addition to the loss and claims reserves review, the Consulting Actuary also performed a review of the Company's premiums received in advance and uncollected premiums and found them both reasonable.

Summary

The Consulting Actuary's review verified that the items enumerated in the examination scope appear fairly stated. The validity tests indicated a general absence of material errors in the underlying data used for valuation. Valuation data files also appear to be complete. Therefore, the items covered by the current examination have been accepted as stated by the Company.

(1) Claims Unpaid ($170,530,651)

The above-captioned amount is the same as reported by the Company, and has been accepted for examination purposes.

This liability is reported on Page 3, Line 1 and in Underwriting and Investment Exhibit, Part 2A of the Annual Statement. The liability consists of the following components:

Reinsurance assumed	$ 27,474,805
Stop Loss	6,269,881
IBNR small claims *	107,856,782
IBNR large claims	6,110,839
Pharmacy IBNR	10,008,447
Other claim accrual not tested	12,809,903
Total	$170,530,657

* Gross claims ($124,193,966) less reinsurance ceded ($16,337,184)
Differences due to rounding

An analysis of the individual components comprising this liability was performed by the Consulting Actuary. The analysis included a review of various supporting documentation prepared by the Company, actuarial analysis, and a review of the Company's reserving methodologies as of December 31, 2007. In addition, the Consulting Actuary performed a trend analysis of the prior year claim adequacy test, from the five-year historical data, for years from 2005 to 2007. For all years, the liability appears adequate. This is a further indication that the Company calculates an adequate liability.

Based on the review and analysis performed, the Consulting Actuary concluded that the claims unpaid liability as reported by the Company on Page 3, Line 1 and in the Underwriting and Investment Exhibit, Part 2A of the December 31, 2007 Annual Statement appears fairly stated.

(2) <u>Accrued Medical Incentive Pool and Bonus Amounts</u> (<u>$3,813,726)</u>

The above-captioned amount is the same as reported by the Company, and has been accepted for examination purposes. As of December 31, 2007, this liability consisted of $100,781 for Incentive Pool Payable and $3,712,944 for Risk Sharing Liability.

The Risk Sharing Liability is an outstanding balance for CHLIC health plans that had risk sharing agreements with the Center for Medicare & Medicaid Services ("CMS") in 2004, as part of their participation in the Medicare PPO demonstration or the Alternative Payment Demonstration regarding the status risk sharing reconciliation process. CMS delayed the final risk share settlement, and the Company holds this liability until the final settlement is reached. The Incentive Pool Payable ("IPP") consists of several commercial and Medicare incentive plans. Based on materiality, no additional testing was deemed necessary for IPP.

The liability was examined for consistency by performing a trend analysis over the examination period. The results of that analysis indicated a level pattern since 2004, which appears reasonable. No further analysis was deemed necessary for this liability.

Based on the above review and analysis, the Accrued Medical Incentive Pool and Bonus Amounts as reported on Page 3, Line 2 of the December 31, 2007 Annual Statement appears fairly stated.

(3) Unpaid Claims Adjustment Expenses ($2,939,170)

The above-captioned amount is the same as reported by the Company, and has been accepted for examination purposes. As of December 31, 2007, this liability represents expenses associated with the payment of the incurred but unreported claims.

The Company provided supporting workpapers for the loss adjustment expense liability was calculated as approximately 2.5% of the base IBNR liability. The 2.5% factor used is within the industry range of 2% to 10%. The Consulting Actuary reviewed the Company's calculation methodology and found it reasonable.

The liability was examined for consistency by performing a trend analysis over the examination period. The results of that analysis indicated an increasing pattern, which is consistent with the Company's growth in business. These patterns appear reasonable. No further analysis was deemed necessary for this liability.

Based on the above review and analysis, the Unpaid Claims Adjustment Expenses amount as reported on Page 3, Line 3 of the December 31, 2007 Annual Statement appears fairly stated.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regard to prior examination report comments and recommendations.

Management and Control:

Prior Exam Comment: It is recommended that the Company comply with it bylaws regarding the number of directors in accordance with 18 Del. C. §4903.

Current Exam Finding: As required per Article III, Section 1 of the Company's bylaws, the number of directors is to be not less than five, but not more than ten. During the exam period, the Company had the following number of Directors: 2004 – 4; 2005 – 5; 2006 – 5; 2007 – 6. Although the Company was in non-compliance as of December 31, 2004, in subsequent periods the Sole Shareholder brought the number of directors into compliance. Based on documentation provided, the Company has complied with the prior exam report finding.

Territory and Plan of Operations:

Prior Exam Comment: It is recommended that the Company ensure all business is correctly allocated to each state in accordance with the NAIC Life and Accident and Health annual statement instructions and 18 Del. C. §526.

Current Exam Finding: Beginning in 2004, the Company began classifying all stop loss premiums as reinsurance; the above finding is no longer applicable. This finding has been corrected for examination purposes.

External Agreements:

Prior Exam Comment: It is recommended that the Company formalize an agreement for accounting services reflecting the duties and responsibilities provided by Conning Asset Management to CHLIC and formalize a process to properly charge the Company based on contract terms.

Current Exam Finding: Subsequent follow up with the Company during the current examination noted that the Conning Agreement was amended on September 7, 2007 to include CHLIC as an entity to which Conning is to provide investment accounting, and again on November 13, 2007 to include asset management / investment advisory but for only the Kansas market business unit of CHLIC. Based on documentation provided, the Company has complied with the prior exam report finding.

Prior Exam Comment: It is recommended that the Company ensure compliance with the terms of its underwriting and administrative management agreement with Medical Risk Managers.

Current Exam Finding: Based on documentation provided, the Company has complied with the prior exam report finding.

Accounts and Records:

Prior Exam Comment: It is recommended that the Company reflect the gross IBNR and the ceded IBNR portion separately in the Company financial records in accordance with SSAP #61 and 18 Del. C. §526.

Current Exam Finding: The prior exam report comment was with regards to stop-loss business ceded to Everest Re; however, Company non-renewed the reinsurance agreement with Everest Re in October 2005, and therefore, by 2006, the Company was 100% liable for all stop loss claims. As a result, this finding was no longer applicable.

Prior Exam Comment: It is recommended that the Company insure that Exhibit 8, Part 2 and Schedule H, Part 8 are prepared properly and only include business assumed from and ceded to other entities in accordance with the NAIC Life and Accident and Health Annual Statement Instructions and 18 Del. C. §526.

Current Exam Finding: Beginning in 2005, the Company switched to a Health Blank. As a result, this finding was no longer applicable.

Cash; Receivable/Payable to/from Parent, Subsidiaries and Affiliates

Prior Exam Comment: It is recommended that the Company ensure all of its bank accounts are in the Company's name and Tax ID, to properly identify and classify related party receivables and payables. The Company should be aware of the importance of safeguarding the Company's assets, maintaining a separation of assets between related parties and to eliminate any perception of impropriety as it relates to related party transaction.

Current Exam Finding: The examiners reviewed all bank accounts to insure that each was in the name of the Company. Based on this review, it was noted that accounts reported as owned by the Company were in the name of the Company. The Company has complied with the prior exam report comment.

Investment Income Due and Accrued

Prior Exam Comment: It is recommended that the Company take steps to insure that its investment income due and accrued on bonds in default are non-admitted in accordance with SSAP #4 of the Accounting Practices and Procedures Manual and 18 Del.C. §526.

Current Exam Finding: A review of the December 31, 2007 Schedule D, Part 1 did not reveal any investment income due and accrued on bonds in default. The Company has complied with the prior exam report comment.

Receivable from Parent, Subsidiaries and Affiliates

Prior Exam Comment: It is recommended that the Company takes steps to ensure that the CHC NE POS out of network balances are settled in a timely manner and to settle the 2003 balance in accordance with 18 Del. C. §5003. The SHS balance is commented on in the Cash Note 1.

Current Exam Finding: The Company has complied with the prior exam report comment with one caveat. As of December 31, 2007, the Company had erroneously reported receivable balances from its Parent that were greater than 90-days past due. Due to the materiality of these over 90 balances, and the fact that the external CPA identified this issue as a significant (control) deficiency, the Company amended and refiled its 2007 Annual Statement. Additionally, the Company implemented corrective action to address the significant deficiency by creating a new G/L account to track intercompany management fees separately from other intercompany items, allowing the Company to more readily identify settlement issues before they become an over 90-day issue. Based on a review of the Company 2008 intercompany balance reconciliations verifying corrective action taken by the Company, no additional recommendation will be noted for this exam.

IMR Calculation

Prior Exam Comment: It is recommended that the Company group its capital gains/(losses) according to the NAIC Life and Accident and Health annual statement instructions as required by Delaware Law 18 Del. C. §526.

Current Exam Finding: Finding no longer applicable as the Company switched to a Health Blank that does not require the calculation of IMR.

SUMMARY OF RECOMMENDATIONS

1. It is recommended that the Company complete its annual statement blank in accordance with NAIC *Annual Statement Instructions* and 18 Del.C. §526(a), verifying that all financial and non-financial data is reported accurately, completely, and appropriately. (See Accounts and Records: Accounts and Records Findings, page 27.)

2. It is recommended that the Company comply with Title 18 Del.C. §1002 (5.1 and 5.2) whereby reinsurance agreements must be dully executed by both parties no later than the "as of date" of the financial statement. In the case of a letter of intent, the reinsurance agreement or amendment must be executed within a reasonable amount of time, not exceeding ninety (90) days from the execution date of the letter of intent in order for credit to be granted for the reinsurance ceded. (See Accounts and Records: Reinsurance, page 27.)

3. It is recommended that the Company complete its Schedule S in accordance with SSAP No. 61, Paragraph 24, NAIC *Annual Statement Instructions* and 18 Del.C. §526(a), verifying that all financial and non-financial data is reported accurately, completely, and appropriately. (See Accounts and Records: Reinsurance, page 28.)

4. It is recommended that the Company amend its ceded reinsurance agreements to include an Insolvency Clause pursuant to 18 Del.C. §914 and 18 Del.C. §1003 (13.1.1). (See Accounts and Records: Reinsurance, page 28.)

5. It is recommended that the following reporting changes associated with Medicare Part D prescription drug coverage is made in future Annual Statements in accordance with NAIC INT-05-05, and further interpreted by the "Medicare Part D Accounting Practice Note – Exposure Draft – January 2008," (pages 9 - 11) issued by the American Academy of Actuaries:

   - The Risk Sharing liability should be reported on Page 3, Line 4.
   - The Reinsurance Subsidy and Low Income Cost Subsidy liabilities should be reported on Page 3, Line 20.

   (See Notes to Financial Statements: Liabilities: Substantive Analysis, page 34.)

CONCLUSION

The following schedule shows a comparison of the results from the December 31, 2003 examination to the 2007 Annual Statement balances, with changes between:

Description	**December 31, 2003**	**December 31, 2007**	**Increase (Decrease)**
Assets	$125,863,686	$399,540,322	$273,676,636
Liabilities	$69,515,352	$276,238,376	$206,723,024
Common Capital Stock	2,500,000	2,500,000	0
Gross Paid In and Contributed Surplus	31,450,000	31,450,000	0
Unassigned Funds (Surplus)	22,398,324	89,351,949	66,953,625
Total Capital and Surplus	$56,348,324	$123,301,949	$66,953,625
Total Liabilities, Capital and Surplus	$125,863,676	$399,540,325	$273,676,649

* Differences due to rounding

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, E&Y, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

Keith E. Misenheimer, CFE, ALMI
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

Intercompany Agreements - Subsequent to December 31, 2007:

Subsequent to December 31, 2007, the Company entered into the following intercompany agreements with affiliates:

- Management Services Agreement with Coventry Product Services, Inc. ("CPS") effective January 1, 2008. CPS Advertising and Marketing, Member Appeals and Grievances Services, Medical Management and Pharmacy Services. First amendment effective January 1, 2009 to (i) reduce the current monthly management fees under the agreement with respect to the Medicare Part D and Medicare Private Fee-For-Service plans; (ii) add a fee for the management and administration of a PPO network build-out; and (iii) add a fee for the management and administration of a Medicare Advantage expansion.
- Administrative Out-of-Network Services Agreement between The Company and HealthCare USA of Missouri, LLC ("HCUSA") effective March 15, 2008. The Company

is to underwrite the out-of-network expenses and losses for HCUSA in certain counties in the state of Missouri where HCUSA's Insure Missouri network is not yet developed.

- Management Agreement between the Company and Florida Health Plan Administrators, LLC ("FHPA") effective May 5, 2008. The Company will pay FHPA 11% of its Florida premium for services provided by FHPA for its Florida business. Services shall include, but are not limited to, executive management and administration services; marketing services; accounting and financial support services; claims processing and administration services; claims analysis and statistical reporting services; utilization management services; and provider and member relations services.
- Global Capitation Network Participation Agreement between the Company and MHNet Specialty Services, LLC ("MHNet"), effective June 1, 2008. MHNet will provide behavioral health management services, including behavioral health utilization management, network contracting and credentialing, and claims processing. Service area to include health plans issued by Coventry Health Care of Kansas, Inc. (all benefit plans) and CHLIC–Kansas (benefit plans offered to groups or individuals in Kansas, Oklahoma and Missouri that are administered by Coventry Health Care of Kansas, Inc). First Amendment effective August 1, 2009 to include business in the states of Maryland and Delaware. Second Amendment effective August 1, 2008 to include Florida business.
- Managed Behavioral Health Agreement between the Company and MHNet with respect to the Company's insurance products offered in Pennsylvania and certain parts of West Virginia and Ohio effective September 1, 2008.
- Management Services & Global Capitation Network Participation Agreement effective January 1, 2009 between the Company and Group Dental Services, Inc. ("GDS"). Under the agreement, GDS will provide dental benefit plan management and administration

services including dental utilization management, network contracting and credentialing, and claims processing. The Agreement contemplates a one (1) year term, beginning on January 1, 2009, with automatic renewals. The compensation in the agreement is based on (i) a percentage of premium/capitation and (ii) fixed fee (per member per month) compensation, depending on the type of product.

Intercompany Reinsurance Agreements:

Subsequent to December 31, 2007, the Company entered into reinsurance agreements with affiliates, which were acquired by CHC during 2008. These affiliates are: Vista Health Plan, Inc., Vista HealthPlan of South Florida, Inc., Vista Insurance Plan, Inc., and Summit Health Plan, Inc. with an effective date of September 1, 2008; and First Health Life and Health Insurance Company with an effective date of November 1, 2008. The agreements follow the same format as other affiliated reinsurance agreements which are discussed in the “Reinsurance” section of this Report, under the caption “Assumed.”

Merger of Vista Insurance Plan, Inc. into Coventry Health and Life Insurance Company:

On June 10, 2008, the Company entered into a merger agreement with its affiliate, Vista Insurance Plan, Inc. (“VIP”), with CHLIC being the surviving entity and assuming all business written by VIP. On August 8, 2008, the Delaware Insurance Department granted approval of the proposed merger. The transaction was accounted as a statutory merger; no additional shares of Company stock were issued. As of December 31, 2008, VIP’s full 2008 net income (loss) was recorded on the Company’s statements.

Capital Contribution:

On December 5, 2008, the Company received a $57 million capital contribution from its Parent to maintain the Company's RBC at or above 200%, in accordance with the Parental

Guarantee discussed in the “Intercompany Agreements” section of this Report, under the caption “Parental Guarantee Agreement.”