



HEALTH ANNUAL STATEMENT FOR THE YEAR ENDING DECEMBER 31, 2005 OF THE CONDITION AND AFFAIRS OF THE

Group Hospitalization and Medical Services, Inc.

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

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

Country of Domicile United States of America

Licensed as business type: Life, Accident & Health [] Property/Casualty [] Dental Service Corporation []
 Vision Service Corporation [] Other [] Health Maintenance Organization []
 Hospital, Medical & Dental Service or Indemnity [X] Is HMO, Federally Qualified? Yes [] No []

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

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

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

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

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

Internet Website Address www.carefirst.com

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

OFFICERS

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

OTHER OFFICERS

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

DIRECTORS OR TRUSTEES

<u>Father William James Byron S.J.</u>	<u>Michel Llewellyn Daley</u>	<u>Floretta Dukes McKenzie Ed.D.</u>	<u>Sister Carol Ann Keehan R.N.,M.S.</u>
<u>George Burch Wilkes III</u>	<u>Edward John Baran</u>	<u>Elizabeth Lisboa-Farrow #</u>	<u>Robert Marcellus Willis Esq.</u>
<u>Natalie Olivia Ludaway Esq. #</u>	<u>James Wallace #</u>	<u>Larry Donovan Bailey #</u>	

State of

ss

County of

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

William Lockwood Jews
President & CEO

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

Jeanne Ann Kennedy
Corp. Treasurer & VP

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

a. Is this an original filing? Yes [X] No []

b. If no,

1. State the amendment number _____

2. Date filed _____

3. Number of pages attached _____

ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	4 Net Admitted Assets
1. Bonds (Schedule D).....	501,012,650		501,012,650	442,770,711
2. Stocks (Schedule D):				
2.1 Preferred stocks	10,078,126		10,078,126	5,818,526
2.2 Common stocks	226,792,672		226,792,672	177,751,966
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$ encumbrances).....			0	0
4.2 Properties held for the production of income (less \$ encumbrances)			0	0
4.3 Properties held for sale (less \$ encumbrances)			0	0
5. Cash (\$(60,188,352) , Schedule E, Part 1), cash equivalents (\$0 , Schedule E, Part 2) and short-term investments (\$100,993,267 , Schedule DA).....	40,804,918		40,804,918	79,498,070
6. Contract loans, (including \$premium notes)			0	0
7. Other invested assets (Schedule BA)	168,794	168,794	0	0
8. Receivables for securities	439,867		439,867	0
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	779,297,027	168,794	779,128,233	705,839,273
11. Title plants less \$charged off (for Title Insurers only)			0	0
12. Investment income due and accrued	4,933,283		4,933,283	4,656,257
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	656,884,803		656,884,803	622,414,633
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$earned but unbilled premium).....			0	0
13.3 Accrued retrospective premium.....			0	0
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers			0	0
14.2 Funds held by or deposited with reinsured companies			0	0
14.3 Other amounts receivable under reinsurance contracts			0	0
15. Amounts receivable relating to uninsured plans	40,227,330	1,066,392	39,160,938	39,673,360
16.1 Current federal and foreign income tax recoverable and interest thereon	4,170,447		4,170,447	3,582,770
16.2 Net deferred tax asset.....	13,413,499	6,161,557	7,251,942	6,642,376
17. Guaranty funds receivable or on deposit			0	0
18. Electronic data processing equipment and software.....	48,468,695	46,831,733	1,636,962	2,271,297
19. Furniture and equipment, including health care delivery assets (\$)	8,579,928	8,579,928	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
21. Receivables from parent, subsidiaries and affiliates	871,282	7,837	863,445	2,959,654
22. Health care (\$32,471,458) and other amounts receivable.....	37,899,790	5,428,334	32,471,456	28,439,827
23. Aggregate write-ins for other than invested assets	24,670,874	22,404,722	2,266,152	2,195,043
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	1,619,416,958	90,649,297	1,528,767,661	1,418,674,490
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
26. Total (Lines 24 and 25)	1,619,416,958	90,649,297	1,528,767,661	1,418,674,490
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above)	0	0	0	0
2301. Other Assets.....	2,266,152	0	2,266,152	2,195,043
2302. Other Assets Non-Admitted.....	21,489,029	21,489,029	0	0
2303.	915,693	915,693	0	0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	24,670,874	22,404,722	2,266,152	2,195,043

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ reinsurance ceded)	250,567,674	85,138	250,652,812	230,548,145
2. Accrued medical incentive pool and bonus amounts			0	0
3. Unpaid claims adjustment expenses	7,947,100	2,700	7,949,800	6,426,800
4. Aggregate health policy reserves	5,880,527		5,880,527	6,685,215
5. Aggregate life policy reserves			0	0
6. Property/casualty unearned premium reserves			0	0
7. Aggregate health claim reserves			0	0
8. Premiums received in advance	511,697,352		511,697,352	486,556,405
9. General expenses due or accrued	86,139,269		86,139,269	83,142,697
10.1 Current federal and foreign income tax payable and interest thereon (including \$ on realized capital gains (losses))	0		0	0
10.2 Net deferred tax liability			0	0
11. Ceded reinsurance premiums payable			0	0
12. Amounts withheld or retained for the account of others	73,779,484		73,779,484	62,463,142
13. Remittance and items not allocated	2,110,212		2,110,212	0
14. Borrowed money (including \$ current) and interest thereon \$ (including \$ current)			0	0
15. Amounts due to parent, subsidiaries and affiliates	21,681,563		21,681,563	34,919,105
16. Payable for securities	0		0	6,918,516
17. Funds held under reinsurance treaties with (\$ authorized reinsurers and \$ unauthorized reinsurers)			0	0
18. Reinsurance in unauthorized companies			0	0
19. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
20. Liability for amounts held under uninsured accident and health plans			0	0
21. Aggregate write-ins for other liabilities (including \$ current)	7,909,497	0	7,909,497	0
22. Total liabilities (Lines 1 to 21)	967,712,678	87,838	967,800,516	917,660,025
23. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
24. Common capital stock	XXX	XXX		0
25. Preferred capital stock	XXX	XXX		0
26. Gross paid in and contributed surplus	XXX	XXX		0
27. Surplus notes	XXX	XXX		0
28. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
29. Unassigned funds (surplus)	XXX	XXX	560,967,145	501,014,465
30. Less treasury stock, at cost:				
30.1 shares common (value included in Line 24 \$)	XXX	XXX		0
30.2 shares preferred (value included in Line 25 \$)	XXX	XXX		0
31. Total capital and surplus (Lines 23 to 29 minus Line 30)	XXX	XXX	560,967,145	501,014,465
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	1,528,767,661	1,418,674,490
DETAILS OF WRITE-INS				
2101. Minority Partnership Payable	8,293		8,293	0
2102. Amounts Withheld for Escheatment	7,901,204		7,901,204	0
2103.				
2198. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above)	7,909,497	0	7,909,497	0
2301.	XXX	XXX		
2302.	XXX	XXX		
2303.	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	XXX	XXX	0	0
2801.	XXX	XXX		
2802.	XXX	XXX		
2803.	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page	XXX	XXX	0	0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above)	XXX	XXX	0	0

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months.....	XXX	8,876,205	8,659,572
2. Net premium income (including \$0 non-health premium income).....	XXX	2,258,296,721	2,032,399,403
3. Change in unearned premium reserves and reserve for rate credits	XXX	(1,971,570)	0
4. Fee-for-service (net of \$ medical expenses)	XXX		0
5. Risk revenue	XXX		0
6. Aggregate write-ins for other health care related revenues	XXX	1,119,200	340,850
7. Aggregate write-ins for other non-health revenues	XXX	0	0
8. Total revenues (Lines 2 to 7)	XXX	2,257,444,351	2,032,740,253
Hospital and Medical:			
9. Hospital/medical benefits	445,563	1,156,089,779	768,692,842
10. Other professional services	117,476	283,006,232	299,680,033
11. Outside referrals			0
12. Emergency room and out-of-area	83,498	143,994,267	229,409,361
13. Prescription drugs	37,892	431,908,607	472,297,871
14. Aggregate write-ins for other hospital and medical.....	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts.....			0
16. Subtotal (Lines 9 to 15)	684,429	2,014,998,885	1,770,080,107
Less:			
17. Net reinsurance recoveries		(12,416)	(412,569)
18. Total hospital and medical (Lines 16 minus 17)	684,429	2,015,011,301	1,770,492,676
19. Non-health claims (net).....			0
20. Claims adjustment expenses, including \$13,938,647 cost containment expenses.....		68,696,090	63,143,405
21. General administrative expenses.....		138,372,112	120,558,205
22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only).....		0	0
23. Total underwriting deductions (Lines 18 through 22)	684,429	2,222,079,503	1,954,194,286
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	35,364,848	78,545,967
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		26,496,194	22,515,282
26. Net realized capital gains (losses) less capital gains tax of \$1,157,726		4,630,904	12,209,535
27. Net investment gains (losses) (Lines 25 plus 26)	0	31,127,098	34,724,817
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$) (amount charged off \$)]			0
29. Aggregate write-ins for other income or expenses	0	2,026,458	338,720
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX	68,518,404	113,609,504
31. Federal and foreign income taxes incurred	XXX	14,120,915	20,081,831
32. Net income (loss) (Lines 30 minus 31)	XXX	54,397,489	93,527,673
DETAILS OF WRITE-INS			
0601. FEP Operations Center Performance Incentive.....	XXX	1,119,200	340,850
0602.	XXX		
0603.	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	XXX	1,119,200	340,850
0701.	XXX		
0702.	XXX		
0703.	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above)	XXX	0	0
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above)	0	0	0
2901. Miscellaneous.....		2,026,459	338,720
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above)	0	2,026,459	338,720

CAPITAL AND SURPLUS ACCOUNT

	1 Current Year	2 Prior Year
CAPITAL AND SURPLUS ACCOUNT:		
33. Capital and surplus prior-reporting period	501,014,467	392,008,160
GAINS AND LOSSES TO CAPITAL & SURPLUS:		
34. Net income or (loss) from Line 32	54,397,489	93,527,673
35. Change in valuation basis of aggregate policy and claim reserves		0
36. Change in net unrealized capital gains (losses) less capital gains tax of \$ 1,839,185	7,356,739	23,810,679
37. Change in net unrealized foreign exchange capital gain or (loss)		0
38. Change in net deferred income tax	2,315,461	(2,383,920)
39. Change in nonadmitted assets	(4,567,264)	(5,741,374)
40. Change in unauthorized reinsurance	0	0
41. Change in treasury stock	0	0
42. Change in surplus notes	0	0
43. Cumulative effect of changes in accounting principles		0
44. Capital Changes:		
44.1 Paid in	0	0
44.2 Transferred from surplus (Stock Dividend)		0
44.3 Transferred to surplus		0
45. Surplus adjustments:		
45.1 Paid in	0	0
45.2 Transferred to capital (Stock Dividend)	0	0
45.3 Transferred from capital		0
46. Dividends to stockholders		0
47. Aggregate write-ins for gains or (losses) in surplus	450,253	(206,751)
48. Net change in capital & surplus (Lines 34 to 47)	59,952,678	109,006,307
49. Capital and surplus end of reporting period (Line 33 plus 48)	560,967,145	501,014,467
DETAILS OF WRITE-INS		
4701. Correct salvage/subrogation to correct DTL.....		29,376
4702. Change in accumulated other - pension.....	112,494	(170,551)
4703. Difference in AON schedules -- 2003.....		(65,576)
4798. Summary of remaining write-ins for Line 47 from overflow page	337,759	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above)	450,253	(206,751)

CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
Cash from Operations		
1. Premiums collected net of reinsurance.....	2,246,302,752	2,029,169,838
2. Net investment income.....	29,021,705	26,600,287
3. Miscellaneous income.....	1,119,200	340,850
4. Total (Lines 1 to 3).....	2,276,443,657	2,056,110,975
5. Benefits and loss related payments.....	2,000,849,584	1,788,800,230
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions.....	186,306,021	148,071,912
8. Dividends paid to policyholders.....	0	0
9. Federal and foreign income taxes paid (recovered) \$1,157,726 net of tax on capital gains (losses)	15,866,314	15,134,979
10. Total (Lines 5 through 9).....	2,203,021,919	1,952,007,121
11. Net cash from operations (Line 4 minus Line 10).....	73,421,738	104,103,854
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	915,887,362	516,113,334
12.2 Stocks.....	37,023,652	32,303,820
12.3 Mortgage loans.....	0	0
12.4 Real estate.....	0	0
12.5 Other invested assets.....	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	9,703,831	(57,423)
12.7 Miscellaneous proceeds.....	0	9,850,340
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	962,614,845	558,210,071
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	983,853,639	491,352,861
13.2 Stocks.....	74,095,251	28,121,300
13.3 Mortgage loans.....	0	0
13.4 Real estate.....	0	0
13.5 Other invested assets.....	0	168,794
13.6 Miscellaneous applications.....	11,384,565	0
13.7 Total investments acquired (Lines 13.1 to 13.6).....	1,069,333,455	519,642,955
14. Net increase (or decrease) in contract loans and premium notes.....	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14).....	(106,718,610)	38,567,116
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....	0	0
16.2 Capital and paid in surplus, less treasury stock.....	0	0
16.3 Borrowed funds.....	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....	0	0
16.5 Dividends to stockholders.....	0	0
16.6 Other cash provided (applied).....	(5,396,280)	(54,478,329)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6).....	(5,396,280)	(54,478,329)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	(38,693,152)	88,192,640
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	79,498,070	(8,694,570)
19.2 End of period (Line 18 plus Line 19.1).....	40,804,918	79,498,070

ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.
ANALYSIS OF OPERATIONS BY LINES OF BUSINESS (Gain and Loss Exhibit)

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-term Care	Other Health	Other Non-Health
1. Net premium income	2,258,296,720	937,171,332	16,383,537	41,262,856	0	1,250,938,856	0	0	12,431,145	0	20,353	88,641	0
2. Change in unearned premium reserves and reserve for rate credit	(1,971,570)	(1,971,570)							0				
3. Fee-for-service (net of \$ medical expenses)	0								0				XXX
4. Risk revenue	0								0				XXX
5. Aggregate write-ins for other health care related revenues	1,119,200	0	0	0	0	0	0	0	0	0	0	1,119,200	XXX
6. Aggregate write-ins for other non-health care related revenues	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6)	2,257,444,350	935,199,762	16,383,537	41,262,856	0	1,250,938,856	0	0	12,431,145	0	20,353	1,207,841	0
8. Hospital/medical/ benefits	1,156,089,779	451,981,181	6,684,860	0	0	689,889,221	0	0	7,572,760	0	(20,653)	(17,590)	XXX
9. Other professional services	283,006,232	99,421,752	1,470,460	29,155,489	0	151,754,094	0	0	1,210,550	0	(3,301)	(2,812)	XXX
10. Outside referrals	0	0	0	0	0	0	0	0	0	0	0	0	XXX
11. Emergency room and out-of-area	143,994,266	56,395,983	834,104	0	0	86,080,975	0	0	686,672	0	(1,873)	(1,595)	XXX
12. Prescription Drugs	431,908,607	169,965,320	2,513,809	0	0	259,429,478	0	0	0	0	0	0	XXX
13. Aggregate write-ins for other hospital and medical	0	0	0	0	0	0	0	0	0	0	0	0	XXX
14. Incentive pool, withhold adjustments and bonus amounts	0	0	0	0	0	0	0	0	0	0	0	0	XXX
15. Subtotal (Lines 8 to 14)	2,014,998,884	777,764,236	11,503,233	29,155,489	0	1,187,153,768	0	0	9,469,982	0	(25,827)	(21,997)	XXX
16. Net reinsurance recoveries	(12,416)	(12,416)							0				XXX
17. Total medical and hospital (Lines 15 minus 16)	2,015,011,300	777,776,652	11,503,233	29,155,489	0	1,187,153,768	0	0	9,469,982	0	(25,827)	(21,997)	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
19. Claims adjustment expenses including \$ 13,938,646 cost containment expenses	68,696,089	34,984,746	1,438,785	2,220,932	0	30,051,626	0	0	0	0	0	0	0
20. General administrative expenses	138,372,113	113,801,388	1,811,746	5,763,085	0	20,414,894	0	0	0	0	0	(3,419,000)	0
21. Increase in reserves for accident and health contracts	0	0	0	0	0	0	0	0	0	0	0	0	XXX
22. Increase in reserves for life contracts	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
23. Total underwriting deductions (Lines 17 to 22)	2,222,079,502	926,562,786	14,753,764	37,139,506	0	1,237,620,288	0	0	9,469,982	0	(25,827)	(3,440,997)	0
24. Total underwriting gain or (loss) (Line 7 minus Line 23)	35,364,848	8,636,976	1,629,773	4,123,350	0	13,318,568	0	0	2,961,163	0	46,180	4,648,838	0
DETAILS OF WRITE-INS													
0501. FEP Operations Center Performance Incentive	1,119,200											1,119,200	XXX
0502.													XXX
0503.													XXX
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above)	1,119,200	0	0	0	0	0	0	0	0	0	0	1,119,200	XXX
0601.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0602.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0603.		XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0698. Summary of remaining write-ins for Line 6 from overflow page	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301.													XXX
1302.													XXX
1303.													XXX
1398. Summary of remaining write-ins for Line 13 from overflow page	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1399. Totals (Lines 1301 thru 1303 plus 1398) (Line 13 above)	0	0	0	0	0	0	0	0	0	0	0	0	XXX

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STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 1 - PREMIUMS

Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Ceded	4 Net Premium Income (Cols. 1+2-3)
1. Comprehensive (hospital and medical)	937,246,998	(75,666)		937,171,332
2. Medicare Supplement	16,383,537			16,383,537
3. Dental Only.....	41,262,856			41,262,856
4. Vision Only.....				0
5. Federal Employees Health Benefits Plan	1,250,938,856			1,250,938,856
6. Title XVIII - Medicare				0
7. Title XIX - Medicaid.....				0
8. Stop Loss	12,431,145			12,431,145
9. Disability Income				0
10. Long-term care	20,353			20,353
11. Other health.....	88,641			88,641
12. Health subtotal (Lines 1 through 11)	2,258,372,386	(75,666)	0	2,258,296,720
13. Life				0
14. Property/Casualty.....				0
15. Totals (Lines 12 to 14)	2,258,372,386	(75,666)	0	2,258,296,720

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - Claims Incurred During the Year

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non- Health
1. Payments during the year:													
1.1 Direct	2,007,831,240	786,890,629	11,933,233	27,494,485		1,174,123,769			7,359,982		11,139	18,003	
1.2 Reinsurance assumed	12,416	12,416											
1.3 Reinsurance ceded	0												
1.4 Net	2,007,843,656	786,903,045	11,933,233	27,494,485	0	1,174,123,769	0	0	7,359,982	0	11,139	18,003	0
2. Paid medical incentive pools and bonuses	0												
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct	250,652,812	93,609,995	2,090,000	3,850,005	0	146,280,000	0	0	4,600,133	0	202,679	20,000	0
3.3 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
3.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
3.4 Net	250,652,812	93,609,995	2,090,000	3,850,005	0	146,280,000	0	0	4,600,133	0	202,679	20,000	0
4. Claim reserve December 31, current year from Part 2D:													
4.1 Direct	0												
4.2 Reinsurance assumed	0												
4.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4 Net	0	0	0	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year	0												
6. Net healthcare receivables (a)	(12,937,022)	(12,937,022)											
7. Amounts recoverable from reinsurers December 31, current year	0												
8. Claim liability December 31, prior year from Part 2A:													
8.1 Direct	230,548,145	89,799,365	2,520,000	2,189,002	0	133,250,000	0	0	2,490,133	0	239,645	60,000	0
8.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
8.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
8.4 Net	230,548,145	89,799,365	2,520,000	2,189,002	0	133,250,000	0	0	2,490,133	0	239,645	60,000	0
9. Claim reserve December 31, prior year from Part 2D:													
9.1 Direct	0	0	0	0	0	0	0	0	0	0	0	0	0
9.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
9.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
9.4 Net	0	0	0	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year	0	0	0	0	0	0	0	0	0	0	0	0	0
11. Amounts recoverable from reinsurers December 31, prior year	0	0	0	0	0	0	0	0	0	0	0	0	0
12. Incurred Benefits:													
12.1 Direct	2,014,998,885	777,764,237	11,503,233	29,155,488	0	1,187,153,769	0	0	9,469,982	0	(25,827)	(21,997)	0
12.2 Reinsurance assumed	12,416	12,416	0	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
12.4 Net	2,015,011,301	777,776,653	11,503,233	29,155,488	0	1,187,153,769	0	0	9,469,982	0	(25,827)	(21,997)	0
13. Incurred medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0	0	0	0

(a) Excludes \$ 23,268,869 loans or advances to providers not yet expensed.

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - Claims Liability End of Current Year

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Medical & Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Reported in Process of Adjustment:													
1.1. Direct	4,065,418	1,518,291	33,898	62,444		2,372,563			74,611		3,287	324	
1.2. Reinsurance assumed	0			0									
1.3. Reinsurance ceded	0												
1.4. Net	4,065,418	1,518,291	33,898	62,444	0	2,372,563	0	0	74,611	0	3,287	324	0
2. Incurred but Unreported:													
2.1. Direct	246,587,394	92,091,704	2,056,102	3,787,561		143,907,437			4,525,522		199,392	19,676	
2.2. Reinsurance assumed	0												
2.3. Reinsurance ceded	0												
2.4. Net	246,587,394	92,091,704	2,056,102	3,787,561	0	143,907,437	0	0	4,525,522	0	199,392	19,676	0
3. Amounts Withheld from Paid Claims and Capitations:													
3.1. Direct	0												
3.2. Reinsurance assumed	0												
3.3. Reinsurance ceded	0												
3.4. Net	0	0	0	0	0	0	0	0	0	0	0	0	0
4. TOTALS:													
4.1. Direct	250,652,812	93,609,995	2,090,000	3,850,005	0	146,280,000	0	0	4,600,133	0	202,679	20,000	0
4.2. Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
4.3. Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4. Net	250,652,812	93,609,995	2,090,000	3,850,005	0	146,280,000	0	0	4,600,133	0	202,679	20,000	0

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

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

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability Dec. 31 of Current Year		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year		
1. Comprehensive (hospital and medical)	58,633,887	728,269,157	1,580,406	92,029,589	60,214,293	89,799,365
2. Medicare Supplement	2,008,358	9,924,875	50,000	2,040,000	2,058,358	2,520,001
3. Dental Only.....	2,273,142	25,221,344	9,594	3,840,411	2,282,736	2,189,002
4. Vision Only.....					0	0
5. Federal Employees Health Benefits Plan Premiums	128,686,100	1,045,437,669	3,144,712	143,135,288	131,830,812	133,250,000
6. Title XVIII - Medicare					0	0
7. Title XIX - Medicaid.....					0	0
8. Other health	1,354,514	6,034,611	1,150,033	3,672,779	2,504,547	2,789,778
9. Health subtotal (Lines 1 to 8).....	192,956,001	1,814,887,656	5,934,745	244,718,067	198,890,746	230,548,146
10. Healthcare receivables (a).....		12,937,022			0	0
11. Other non-health.....					0	0
12. Medical incentive pools and bonus amounts					0	0
13. Totals (Lines 9 - 10 + 11 + 12)	192,956,001	1,801,950,634	5,934,745	244,718,067	198,890,746	230,548,146

(a) Excludes \$ 23,268,869 loans or advances to providers not yet expensed.

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A – Paid Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior .....	.50,199	.51,547	.51,378	.51,469	.51,508
2. 2001	374,565	439,842	440,863	441,168	441,524
3. 2002	XXX	482,109	562,100	563,062	563,218
4. 2003	XXX	XXX	557,213	629,935	630,877
5. 2004	XXX	XXX	XXX	550,216	607,357
6. 2005	XXX	XXX	XXX	XXX	715,332

Section B – Incurred Health Claims - Hospital and Medical

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior .....	.51,207	.51,546	.51,378	.50,596	.51,508
2. 2001	445,939	441,080	440,863	440,863	441,524
3. 2002	XXX	574,179	564,178	562,100	563,218
4. 2003	XXX	XXX	650,200	607,323	630,877
5. 2004	XXX	XXX	XXX	638,675	608,938
6. 2005	XXX	XXX	XXX	XXX	807,362

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Hospital and Medical

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2001.....	.0	441,524		0.0	441,524	0.0			441,524	0.0
2. 2002.....	681,254	563,218		0.0	563,218	82.7			563,218	82.7
3. 2003.....	788,619	630,877	17,276	2.7	648,153	82.2			648,153	82.2
4. 2004.....	813,060	607,357	21,877	3.6	629,234	77.4	1,580	50	630,864	77.6
5. 2005.....	935,200	715,332	31,601	4.4	746,933	79.9	92,030	3,953	842,916	90.1

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A – Paid Health Claims - Medicare Supplement

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	2,576	2,727	2,729	2,756	2,801
2. 2001	13,894	15,788	15,826	15,824	15,817
3. 2002	XXX	10,372	12,853	12,921	12,939
4. 2003	XXX	XXX	10,181	12,408	12,489
5. 2004	XXX	XXX	XXX	9,724	11,596
6. 2005	XXX	XXX	XXX	XXX	9,925

Section B - Incurred Health Claims - Medicare Supplement

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	2,696	2,727	2,729	2,600	2,801
2. 2001	17,540	15,888	15,826	15,826	15,817
3. 2002	XXX	13,742	12,907	12,853	12,939
4. 2003	XXX	XXX	12,797	12,151	12,489
5. 2004	XXX	XXX	XXX	12,141	11,646
6. 2005	XXX	XXX	XXX	XXX	11,965

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Medicare Supplement

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2001.....	0	15,817		0.0	15,817	0.0			15,817	0.0
2. 2002.....	18,516	12,939		0.0	12,939	69.9			12,939	69.9
3. 2003.....	19,725	12,489	342	2.7	12,831	65.0			12,831	65.0
4. 2004.....	18,188	11,596	418	3.6	12,014	66.1	50	2	12,066	66.3
5. 2005.....	16,384	9,925	1,300	13.1	11,225	68.5	2,040	163	13,428	82.0

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A – Paid Health Claims - Dental Only

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	1,317	1,348	1,360	1,356	1,356
2. 2001	14,410	16,522	16,548	16,552	16,552
3. 2002	XXX	16,439	18,083	18,102	18,104
4. 2003	XXX	XXX	13,676	15,494	15,512
5. 2004	XXX	XXX	XXX	18,259	20,511
6. 2005	XXX	XXX	XXX	XXX	25,221

Section B – Incurred Health Claims - Dental Only

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	1,318	1,348	1,360	1,329	1,330
2. 2001	16,231	16,522	16,548	16,548	16,552
3. 2002	XXX	18,551	18,096	18,083	18,104
4. 2003	XXX	XXX	15,258	17,759	15,512
5. 2004	XXX	XXX	XXX	20,434	20,521
6. 2005	XXX	XXX	XXX	XXX	29,062

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

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2001.....	0	16,552		0.0	16,552	0.0			16,552	0.0
2. 2002.....	24,593	18,104		0.0	18,104	73.6			18,104	73.6
3. 2003.....	25,352	15,512	425	2.7	15,937	62.9			15,937	62.9
4. 2004.....	29,686	20,511	739	3.6	21,250	71.6	10	0	21,260	71.6
5. 2005.....	41,263	25,221	2,006	8.0	27,227	66.0	3,840	251	31,318	75.9

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

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

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

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	109,644	112,606	109,075	111,928	111,928
2. 2001	744,512	865,530	868,456	868,451	868,451
3. 2002	XXX	801,787	923,638	923,698	923,698
4. 2003	XXX	XXX	875,842	1,013,666	1,013,664
5. 2004	XXX	XXX	XXX	983,691	1,112,379
6. 2005	XXX	XXX	XXX	XXX	1,045,438

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

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	111,074	112,606	109,075	112,485	111,928
2. 2001	867,346	867,138	868,456	868,456	868,451
3. 2002	XXX	937,229	924,823	923,638	923,698
4. 2003	XXX	XXX	1,017,837	26,258	1,013,664
5. 2004	XXX	XXX	XXX	1,114,831	1,115,524
6. 2005	XXX	XXX	XXX	XXX	1,188,573

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Federal Employees Health Benefits Plan Premium

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2001.....	0	868,451		0.0	868,451	0.0			868,451	0.0
2. 2002.....	986,328	923,698		0.0	923,698	93.7			923,698	93.7
3. 2003.....	1,048,085	1,013,664	27,759	2.7	1,041,423	99.4			1,041,423	99.4
4. 2004.....	1,161,884	1,112,379	40,068	3.6	1,152,447	99.2	3,145	100	1,155,692	99.5
5. 2005.....	1,250,939	1,045,438	27,145	2.6	1,072,583	85.7	143,135	3,395	1,219,113	97.5

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A - Paid Health Claims - Other

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	2,714	335	335	294	294
2. 2001	0	2,817	2,817	2,817	2,817
3. 2002	XXX	3,141	3,572	3,654	3,654
4. 2003	XXX	XXX	4,299	9,113	9,116
5. 2004	XXX	XXX	XXX	1,309	2,660
6. 2005	XXX	XXX	XXX	XXX	6,035

Section B – Incurred Health Claims - Other

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	386	335	335	283	294
2. 2001	3,648	2,911	2,817	2,817	2,817
3. 2002	XXX	4,538	3,721	3,572	3,654
4. 2003	XXX	XXX	5,930	8	9,116
5. 2004	XXX	XXX	XXX	3,844	3,810
6. 2005	XXX	XXX	XXX	XXX	9,707

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

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2001	0	2,817		0.0	2,817	0.0			2,817	0.0
2. 2002	9,185	3,654		0.0	3,654	39.8			3,654	39.8
3. 2003	9,424	9,116	250	2.7	9,366	99.4			9,366	99.4
4. 2004	9,581	2,660	96	3.6	2,756	28.8	1,150	36	3,942	41.1
5. 2005	12,540	6,035	0	0.0	6,035	48.1	3,673	0	9,708	77.4

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

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

Section A - Paid Health Claims - Grand Total

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	166,450	168,563	164,877	167,803	167,887
2. 2001	1,147,381	1,340,499	1,344,510	1,344,812	1,345,161
3. 2002	XXX	1,313,848	1,520,246	1,521,437	1,521,613
4. 2003	XXX	XXX	1,461,211	1,680,616	1,681,658
5. 2004	XXX	XXX	XXX	1,563,199	1,754,503
6. 2005	XXX	XXX	XXX	XXX	1,801,951

Section B - Incurred Health Claims - Grand Total

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2001	2 2002	3 2003	4 2004	5 2005
1. Prior	166,681	168,562	164,877	167,293	167,861
2. 2001	1,350,704	1,343,539	1,344,510	1,344,510	1,345,161
3. 2002	XXX	1,548,239	1,523,725	1,520,246	1,521,613
4. 2003	XXX	XXX	1,702,022	663,499	1,681,658
5. 2004	XXX	XXX	XXX	1,789,925	1,760,439
6. 2005	XXX	XXX	XXX	XXX	2,046,669

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Grand Total

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2001.....	0	1,345,161	0	0.0	1,345,161	0.0	0	0	1,345,161	0.0
2. 2002.....	1,719,876	1,521,613	0	0.0	1,521,613	88.5	0	0	1,521,613	88.5
3. 2003.....	1,891,205	1,681,658	46,052	2.7	1,727,710	91.4	0	0	1,727,710	91.4
4. 2004.....	2,032,399	1,754,503	63,198	3.6	1,817,701	89.4	5,935	188	1,823,824	89.7
5. 2005.....	2,256,326	1,801,951	62,052	3.4	1,864,003	82.6	244,718	7,762	2,116,483	93.8

ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

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

	1	2	3	4	5	6	7	8	9	10	11	12
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other
POLICY RESERVE												
1. Unearned premium reserves	.0											
2. Additional policy reserves (a)	.0											
3. Reserve for future contingent benefits	.0											
4. Reserve for rate credits or experience rating refunds (including \$ for investment income)	.0											
5. Aggregate write-ins for other policy reserves	5,880,527	5,880,527	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
6. Totals (Gross)	5,880,527	5,880,527	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
7. Reinsurance ceded	.0											
8. Totals (Net) (Page 3, Line 4)	5,880,527	5,880,527	0	0	0	0	0	0	0	0	0	0
CLAIM RESERVE												
9. Present value of amounts not yet due on claims	.0											
10. Reserve for future contingent benefits	.0											
11. Aggregate write-ins for other claim reserves	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
12. Totals (Gross)	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
13. Reinsurance ceded	.0											
14. Totals (Net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS												
0501. Rate Stabilization Reserve	5,880,527	5,880,527										
0502.												
0503.												
0598. Summary of remaining write-ins for Line 5 from overflow page	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
0599. TOTALS (Lines 0501 thru 0503 plus 0598) (Line 5 above)	5,880,527	5,880,527	0	0	0	0	0	0	0	0	0	0
1101.												
1102.												
1103.												
1198. Summary of remaining write-ins for Line 11 from overflow page	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
1199. TOTALS (Lines 1101 thru 1103 plus 1198) (Line 11 above)	0	0	0	0	0	0	0	0	0	0	0	0

(a) Includes \$ premium deficiency reserve.

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administration Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$ for occupancy of own building).....	1,153,410	2,577,265	9,348,601		13,079,276
2. Salaries, wages and other benefits.....	10,599,002	30,319,854	71,876,637		112,795,493
3. Commissions (less \$ ceded plus \$ Assumed.....)		0	59,487,710		59,487,710
4. Legal fees and expenses.....	2	16	2,199,756		2,199,774
5. Certifications and accreditation fees.....					0
6. Auditing, actuarial and other consulting services.....	231,325	544,273	5,477,631		6,253,229
7. Traveling expenses.....	121,608	238,436	1,683,534		2,043,578
8. Marketing and advertising.....	7,621	3,821	3,213,340		3,224,782
9. Postage, express and telephone.....	227,818	3,331,165	5,497,214		9,056,197
10. Printing and office supplies.....	130,465	267,666	2,781,414		3,179,545
11. Occupancy, depreciation and amortization.....					0
12. Equipment.....	57,165	118,306	835,361		1,010,832
13. Cost or depreciation of EDP equipment and software.....	296,969	2,393,911	18,848,870		21,539,750
14. Outsourced services including EDP, claims, and other services.....	213,557	6,194,037	14,326,675		20,734,269
15. Boards, bureaus and association fees.....	8,726	3,306	1,417,342		1,429,374
16. Insurance, except on real estate.....	215,892	628,820	1,257,528		2,102,240
17. Collection and bank service charges.....	1	88	215,185		215,274
18. Group service and administration fees.....					0
19. Reimbursements by uninsured accident and health plans.....			(65,416,848)		(65,416,848)
20. Reimbursements from fiscal intermediaries.....					0
21. Real estate expenses.....					0
22. Real estate taxes.....					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....			6,443		6,443
23.2 State premium taxes.....			9,219,216		9,219,216
23.3 Regulatory authority licenses and fees.....	2,584	148	1,704,553		1,707,285
23.4 Payroll taxes.....	666,472	1,858,164	4,084,202		6,608,838
23.5 Other (excluding federal income and real estate taxes).....	5,920	13,288	113,317		132,525
24. Investment expenses not included elsewhere.....				1,137,019	1,137,019
25. Aggregate write-ins for expenses.....	109	6,264,878	(9,805,568)	0	(3,540,581)
26. Total expenses incurred (Lines 1 to 25).....	13,938,646	54,757,442	138,372,113	1,137,019 (a)	208,205,220
27. Less expenses unpaid December 31, current year.....		7,949,800	86,139,269		94,089,069
28. Add expenses unpaid December 31, prior year.....	0	6,426,800	83,142,697	0	89,569,497
29. Amounts receivable relating to uninsured accident and health plans, prior year.....	0	0	0	0	0
30. Amounts receivable relating to uninsured accident and health plans, current year.....					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	13,938,646	53,234,442	135,375,541	1,137,019	203,685,648
DETAIL OF WRITE-INS					
2501. Charitable Contributions.....	391	15	3,463,822		3,464,228
2502. Service Charges Inter-Plan Bank.....		479,699	4,609,433		5,089,132
2503. IPSBB Inter-Plan Bank ITS.....		5,151,977	5,035,003		10,186,980
2598. Summary of remaining write-ins for Line 25 from overflow page.....	(282)	633,187	(22,913,826)	0	(22,280,921)
2599. Totals (Line 2501 thru 2503 plus 2598)(Line 25 above)	109	6,264,878	(9,805,568)	0	(3,540,581)

(a) Includes management fees of \$117,378,364 to affiliates and \$to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 4,094,411	4,229,022
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 17,674,440	17,894,023
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 256,051	466,531
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	2,152,975	2,152,975
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e) 2,439,266	2,316,219
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	0	574,444
10. Total gross investment income	26,617,143	27,633,214
11. Investment expenses		(g) 1,137,019
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		0
16. Total (Lines 11 through 15)		1,137,019
17. Net Investment Income - (Line 10 minus Line 16)		26,496,195
DETAILS OF WRITE-INS		
0901. Misc Interest Income		574,444
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	574,444
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		0
1599. Total (Lines 1501 through 1503 plus 1598) (Line 15, above)		0

- (a) Includes \$ 731,923 accrual of discount less \$ 3,324,558 amortization of premium and less \$ 8,564,057 paid for accrued interest on purchases.
 (b) Includes \$ 159 accrual of discount less \$ 210,061 amortization of premium and less \$ 578 paid for accrued dividends on purchases.
 (c) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.
 (d) Includes \$ for company's occupancy of its own buildings; and excludes \$ interest on encumbrances.
 (e) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.
 (f) Includes \$ accrual of discount less \$ amortization of premium.
 (g) Includes \$ investment expenses and \$ investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
 (h) Includes \$ interest on surplus notes and \$ interest on capital notes.
 (i) Includes \$ depreciation on real estate and \$ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	(500,765)	0		(500,765)
1.1 Bonds exempt from U.S. tax				0
1.2 Other bonds (unaffiliated)	329,380	(1,062,772)	(6,960,319)	(7,693,711)
1.3 Bonds of affiliates	0	0	0	0
2.1 Preferred stocks (unaffiliated)	(16,679)	0	(173,470)	(190,149)
2.11 Preferred stocks of affiliates	0	0	0	0
2.2 Common stocks (unaffiliated)	7,218,264	(178,798)	(2,710,164)	4,329,301
2.21 Common stocks of affiliates	0	0	12,483,888	12,483,888
3. Mortgage loans				0
4. Real estate				0
5. Contract loans				0
6. Cash, cash equivalents and short-term investments				0
7. Derivative instruments				0
8. Other invested assets				0
9. Aggregate write-ins for capital gains (losses)	0	0	0	0
10. Total capital gains (losses)	7,030,200	(1,241,570)	2,639,935	8,428,564
DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0	0	0

EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income.....	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash, (Schedule E, Part 1), cash equivalents (Schedule E, Part 2) and short-term investments (Schedule DA)	0	0	0
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	168,794	168,794	0
8. Receivables for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	168,794	168,794	0
11. Title plants (for Title insurers only).....	0	0	0
12. Investment income due and accrued	0	0	0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	0	111,512	111,512
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....	0	0	0
13.3 Accrued retrospective premium.....	0	0	0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers	0	0	0
14.2 Funds held by or deposited with reinsured companies	0	0	0
14.3 Other amounts receivable under reinsurance contracts	0	0	0
15. Amounts receivable relating to uninsured plans	1,066,392	117,080	(949,312)
16.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
16.2 Net deferred tax asset.....	6,161,557	6,294,851	133,294
17. Guaranty funds receivable or on deposit	0	0	0
18. Electronic data processing equipment and software.....	46,831,733	43,338,368	(3,493,365)
19. Furniture and equipment, including health care delivery assets.....	8,579,928	10,973,429	2,393,501
20. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
21. Receivables from parent, subsidiaries and affiliates	7,837	7,837	0
22. Health care and other amounts receivable.....	5,428,334	3,176,797	(2,251,537)
23. Aggregate write-ins for other than invested assets	22,404,722	21,893,365	(511,357)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	90,649,297	86,082,033	(4,567,264)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
26. Total (Lines 24 and 25)	90,649,297	86,082,033	(4,567,264)
DETAILS OF WRITE-INS			
0901.			
0902.			
0903.			
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998)(Line 9 above)	0	0	0
2301. Other Assets.....	0	131,013	131,013
2302. Other Assets non admitted.....	21,489,029	20,789,113	(699,916)
2303. Intangible Assets.....	915,693	973,239	57,546
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398)(Line 23 above)	22,404,722	21,893,365	(511,357)

ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations.....	24,802	23,732	22,811	24,626	33,887	296,481
2. Provider Service Organizations.....	0					
3. Preferred Provider Organizations.....	623,858	628,999	630,748	631,514	638,033	7,580,107
4. Point of Service.....	66,875	66,747	65,369	68,007	69,095	806,389
5. Indemnity Only.....	22,234	16,341	15,783	16,089	15,904	193,228
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	737,769	735,819	734,711	740,236	756,919	8,876,205
DETAILS OF WRITE-INS						
0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	0	0	0	0	0	0

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Accounting Practices

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

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

Use of Estimates in the Preparation of the Financial Statements

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

Accounting Policy

Fair Value of Financial Instruments

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

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

The Company periodically evaluates whether any declines in the fair value of investments are other than temporary. This evaluation consists of a review of several factors, including but not limited to: length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery of the market value of a security; and the intent and ability of the Company to hold the security until the market value recovers. Declines in value below cost for debt securities where it is considered probable that all contractual terms of the security will be satisfied, the decline is due primarily to changes in interest rates (and not because of increased credit risk), and where the Company intends and has the ability to hold the investment for a period of time sufficient to allow a market recovery, are not assumed to be other than temporary. Declines in fair value below cost that are deemed to be other than temporary are recorded as realized losses and are included in investment gain, net in the accompanying statements on revenue and expenses – statutory basis. Based on its evaluation, the Company has recorded an other than temporary impairment of investments of \$1,412,000 for the year ended December 31, 2005. There were no other than temporary impairments of investments for the year ended December 31, 2004.

Bonds

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

Preferred Stocks

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

NOTES TO FINANCIAL STATEMENTS

Common Stocks

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

Advances to Providers

The Company has advances on deposit with certain hospitals in the State of Maryland. These advances permit the Company to earn differentials of 2.25 and 2.00 percent of allowed inpatient and outpatient charges, respectively, by these hospitals. These provider advances are reported at their realizable value in the accompanying statements of admitted assets, liabilities, capital and surplus—statutory basis.

NOTES TO FINANCIAL STATEMENTS

Property and Equipment Admitted

Property and equipment admitted were recorded at cost and are depreciated on the straight-line method over a useful life of three years. The admitted value of the Company's electronic data processing equipment is limited to three percent of capital and surplus. Electronic data processing equipment is depreciated using the straight-line method over the lesser of its useful life or three years.

Unpaid losses and loss adjustment expenses

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

Revenue recognition

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

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

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

Certain claim payments, premium rates, administrative expense reimbursements and provider discounts are subject to review and potential retroactive adjustment by third parties. Reserves are established for potential obligations arising from such reviews. Management believes that any potential claims will not be materially different from the amounts recorded in the accompanying statutory basis financial statements.

Claims Incurred

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

Federal Employee Program

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

OPM holds certain reserves on behalf of the Company to provide funding, if necessary, for excess claims costs, subject to certain limitations. The Company records its allocable share of amounts held by OPM as an asset, with an equivalent amount recorded as premiums received in advance. These amounts are \$458,810,000 and \$442,577,000 as of December 31, 2005 and 2004, respectively, and are included in uncollected premiums and agents' balances and in premiums received in advance in the accompanying statements of assets, liabilities, capital and surplus--statutory basis. The BCBSA contract renews automatically each year unless written notice of termination is given by either party.

FEP revenues were approximately \$1,252,058,000 and \$1,161,884,000 for the years ended December 31, 2005 and 2004, respectively.

FEP Operations Center

The Company performs certain administrative functions as the national operations center for the FEP under a cost reimbursement contract with BCBSA. The reimbursement of allocable costs under this contract is recorded as a reduction of general and administrative expenses. The FEP reimbursed the Company for costs incurred in connection with this agreement totaling \$69,017,000 and \$55,803,000 for the years

NOTES TO FINANCIAL STATEMENTS

ended December 31, 2005 and 2004, respectively.

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

NOTES TO FINANCIAL STATEMENTS

2. Accounting Changes and Corrections of Errors

Not applicable.

3. Business Combinations and Goodwill

Not applicable.

4. Discontinued Operations

Not applicable.

5. Investments

Loan-Backed Securities

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

Repurchase Agreements

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

6. Joint Ventures, Partnerships and Limited Liability Companies

Not applicable.

7. Investment Income

Not applicable.

8. Derivative Instruments

Not applicable.

9. Income Taxes

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

					Dec. 31, 2005	Dec. 31, 2004
Total of gross deferred tax assets					16,885,106	17,012,316
Total of deferred tax liabilities					(3,471,607)	(4,075,091)
Net deferred tax asset					13,413,499	12,937,225
Deferred tax asset nonadmitted					(6,161,557)	(6,294,849)
Net admitted deferred tax asset					7,251,942	6,642,376
(Increase) decrease in nonadmitted asset					133,292	384,992

The provisions for incurred taxes on earnings:

				Dec. 31, 2005	Dec. 31, 2004

NOTES TO FINANCIAL STATEMENTS

Federal provision			14,120,915		17,639,924
Federal income tax on net capital gains(losses)			<u>1,157,726</u>		<u>2,441,907</u>
Federal income taxes incurred			15,278,641		20,081,831

NOTES TO FINANCIAL STATEMENTS

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

						Dec. 31, 2005	Dec. 31, 2004
Deferred tax assets:							
	Allowance for Bad Debt					680,923	475,015
	Accrued Vacation					262,327	342,939
	Contingent Liability					1,978,322	2,822,163
	Depreciation					2,206,975	2,596,553
	Discounted Unpaid Losses					1,483,559	1,476,019
	FAS 106					2,742,739	2,558,175
	FAS 115 unrealized losses					1,923,690	1,676,216
	Pension Liability					195,783	53,271
	Nonadmitted deferred tax assets					2,927,105	2,371,667
	Other					<u>2,483,682</u>	<u>2,640,297</u>
	Total deferred tax assets					16,885,106	17,012,316
	Nonadmitted deferred tax assets					<u>(6,161,557)</u>	<u>(6,294,849)</u>
	Admitted deferred tax assets					10,723,548	10,717,467
Deferred tax liabilities:							
	FAS 115 unrealized gains					(3,465,597)	(4,065,504)
	Prepaid Pension Costs						
	Other					<u>(6,009)</u>	<u>(9,587)</u>
	Total deferred tax liabilities					<u>(3,471,607)</u>	<u>(4,075,091)</u>
	Net Admitted deferred tax assets					7,251,942	6,642,376

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

				Dec. 31, 2005	Dec. 31, 2004	Change
Total deferred tax assets						
				10,723,548	10,717,467	6,081
Total deferred tax liabilities						
				<u>(3,471,607)</u>	<u>(4,075,091)</u>	603,484
Net deferred tax asset(liability)						
				7,251,942	6,642,376	609,566
Tax effect of unrealized gains(losses)						
						3,465,597
Change in net deferred income tax, net of nonadmitted deferred tax assets						
						4,075,163

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

				Dec. 31, 2005	Effective Tax Rate
Provision computed at statutory rate					
				13,936,515	20.00%
Nondeductible expenses					
				(60,905)	-0.09%
Change in prior years' estimates					
				(52,010)	-0.07%
Investments					
				599,907	0.86%
Accrued expenses					
				(924,453)	-1.33%
Benefit obligations					
				327,075	0.47%
Unpaid claims					
				7,540	0.01%
Accounts receivable					
				205,908	0.30%
Nonadmitted assets and other					
				<u>1,239,064</u>	1.78%
Total					
				15,278,641	21.93%

NOTES TO FINANCIAL STATEMENTS

Federal income taxes incurred		15,278,641	21.93%
Change in net deferred income taxes		(4,075,163)	-5.85%
Total statutory income taxes		11,203,478	16.08%

The Company has accumulated Alternative Minimum Tax (AMT) credits of approximately \$85,309 at December 31, 2005. These credits can be used, in certain circumstances, to offset future regular tax.

NOTES TO FINANCIAL STATEMENTS

The Company is included in the consolidated federal income tax return of CareFirst, Inc.. The consolidated tax return also includes the following insurance companies: CareFirst of Maryland, Inc.(CFMI), CareFirst BlueChoice, Inc. (CareFirst BlueChoice), Capital Care, Inc. and FirstCare, Inc. For federal taxes, the Company benefits from a special deduction provided to certain Blue Cross plans under Internal Revenue Code Section 833(b) (the 833(b) deduction). Due to the 833(b) deduction, the Company has effectively incurred federal taxes at AMT rates. The Company could lose the benefit of the 833(b) deduction in the future if the Company ceases to be not-for-profit, if the Company's reserves reach certain levels, or if certain other events occur. The statutory AMT rate was 20 percent during 2005 and 2004. CareFirst, Inc. has a written agreement, approved by the Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidated return. The agreement calls for an allocation based on the Company's pre-tax income after affecting for permanent differences at the AMT rates. The federal tax allocation for both 2005 and 2004 was 20 percent of pre-tax income after permanent differences. These amounts are included in provision for income taxes in the accompanying statements of revenue and expenses and capital and surplus account--statutory basis. Amounts due from the subsidiaries for federal income taxes are settled monthly.

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

10. Information Concerning Parent, Subsidiaries and Affiliates

The Company is a not-for-profit company that provides a comprehensive array of health insurance and managed care products and services primarily through indemnity health insurance and health benefits administration, and also has an investment in a health maintenance organization (HMO), CareFirst BlueChoice. These products and services are provided to individuals, businesses and governmental agencies in the Washington, D.C. metropolitan area and in the State of Maryland.

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

On October 10, 2002, one of CFMI's wholly owned subsidiaries, CFS Health Group, Inc. (CFS) transferred the net assets of certain of its subsidiaries, including FreeState Health Plan, Inc (FSHP), Delmarva Health Plan, Inc. (DHP) and Preferred Health Network of Maryland, Inc. (PHN) to CareFirst BlueChoice, then a wholly-owned subsidiary of the Company. In exchange, CFS obtained a 60% equity interest in CareFirst BlueChoice, with the remaining 40% retained by the Company.

In 2004, in compliance with certain 2003 legislation in Maryland, CFI changed the structure and membership of the CFI Board of Directors. In response to the situation which led to the governance changes of the CFI Board of Directors, the CFI and BCBSD Boards of Directors approved the restructuring of BCBSD's affiliation with CFI. On June 30, 2004, the Delaware Department of Insurance issued a ruling ordering termination of the affiliation agreement between CFI and BCBSD, but also providing that CFI could continue its affiliation with BCBSD on a contractual basis only if CFI transferred its corporate membership, BCBSA license and service mark back to the control of the BCBSD Board. That order was appealed by CareFirst and ultimately affirmed by the Delaware Supreme Court. The Maryland Insurance Commissioner rejected the proposed amendments to the BCBSD structural relationship and stated that CFI could appeal his decision, submit a new plan of affiliation, continue to operate under the existing agreement, or apply for permission to end the affiliation.

CFI subsequently filed a motion requesting that the Federal District Court in Baltimore, Maryland, assume jurisdiction over this matter. Beginning January 6, 2005, all parties agreed to several time periods during which all pending actions would be stayed to allow further discussions among the parties. In September 2005, the CFI Board agreed for BCBSD to regain its independence by allowing it to no longer be structurally affiliated with CFI, but to enter into a contractual relationship, with the ability to return to a structural affiliation at a later time if agreeable to all of the parties. The change in affiliation would involve, among other things, the transfer of BCBSD's corporate membership, BCBSA license and service mark back to the control of the BCBSD Board. The proposed change in affiliation between CFI and BCBSD is subject to approvals of the insurance commissioners in Maryland, Delaware and the District of Columbia as well as approval by BCBSA, which approvals have not yet been received. Management believes that the proposed changes to the BCBSD affiliation, if approved by the regulatory authorities and BCBSA in their current form, would result in deconsolidation of BCBSD from CFI's consolidated GAAP financial statements on a prospective basis.

NOTES TO FINANCIAL STATEMENTS

In 2005, the CFI Board approved certain proposed changes regarding the governance structure for CFI, CFMI and GHMSI. Revisions to those changes have subsequently been proposed which are now subject to approval by the CFI, GHMSI and CFMI Boards. Management believes the proposed changes would not impact CFI's control over CFMI or GHMSI. All proposed changes in governance structure are also subject to regulatory and BCBSA approval. In connection with these proposed changes, the CFMI and GHMSI Boards have agreed in principle to change the allocation of CareFirst BlueChoice net income or loss from 60% CFMI and 40%GHMSI to an equal 50% interest by each owner, retroactive to January 1, 2005. This agreement is subject to final Board, regulatory and BCBSA approval. There is no certainty at this time regarding the conclusion of these various matters. As of December 31, 2005, CFI maintains its full membership interest in BCBSD and control over the operations of BCBSD, CFMI, GHMSI and CareFirst BlueChoice. The future impact, if any, of the above actions on the accompanying financial statements cannot be determined.

During 2005 and 2004, the Company incurred certain costs on behalf of CFMI, including costs of salaries, claims processing, and professional fees. Similarly, certain costs were incurred by CFMI on behalf of the Company. These amounts were allocated between the companies based on relevant statistical measures. Net charges to the Company for services performed by CFMI were \$48,306,000 and \$54,007,000 during the years ended December 31, 2005 and 2004, respectively. The Company also has an operating relationship with subsidiaries and other affiliates whereby the Company provides substantially all non-medical administrative and corporate services which are allocated to the subsidiaries and affiliates under management agreements. Total allocations to the subsidiaries and affiliates, excluding CFMI, for all services provided by the Company to these affiliates were approximately \$42,746,000 and \$29,919,000 during the years ended December 31, 2005 and 2004, respectively. These allocations are netted against general and administrative expenses in the accompanying statements of revenue and expenses and changes in capital and surplus—statutory basis.

For certain fully insured point-of-service health care programs, the Company bears all of the out-of-network (indemnity) underwriting risk and CareFirst BlueChoice bears the in-network (HMO) underwriting risk. Cost of care for these products is charged directly to the Company and CareFirst BlueChoice based upon the nature of the claims incurred. Premiums on these health care programs are allocated between the Company and CareFirst BlueChoice based on actual underwriting results such that the underwriting gain of the health care programs, as a percentage of premiums, is shared equally between the two companies.

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

At December 31, 2005 the Company reported \$21,681,563 and \$863,445 as amounts due to and due from affiliates, respectively. These amounts are settled monthly.

Certain business has been written by CFMI and GHMSI which represents contracts outside the historic CFMI and GHMSI service areas (cross-jurisdictional sales), respectively. The Company has agreed with the MIA and the DISB to disclose the extent of these cross-jurisdictional sales. Revenue and impact to surplus for the year ended December 31, 2005 and contracts as of December 31, 2005 were as follows:

	Risk		Non-Risk	
	CFMI sales outside historic CFMI service area	GHMSI sales outside historic GHMSI service area	CFMI sales outside historic CFMI service area	GHMSI sales outside historic GHMSI service area
Revenue	\$80,077,000	\$189,518,000	\$ 0	\$ 0
Impact to surplus	\$2,758,000	\$(3,401,000)	\$59,000	\$1,639,000
Contracts	24,600	23,300	19,600	10,800

11. Debt

Not applicable.

NOTES TO FINANCIAL STATEMENTS

12. Retirement Plans and Other Post-retirement Benefit Plans

Prior to December 31, 2002, the Company had a qualified noncontributory defined benefit retirement plan covering substantially all full-time employees (GHMSI Plan). Effective on this date, the GHMSI Plan merged with a qualified noncontributory defined benefit retirement plan maintained by CFMI (CFMI Plan) to become the CareFirst, Inc. Retirement Plan. Although CFI merged the CFMI and GHMSI plans, it has committed to maintain separate recordkeeping of plan assets and benefit obligations so that it will comply with certain regulatory restrictions that apply to the Company and CFMI. Consistent with the standards for multiple-employer plan accounting, the Company and CFMI will account for its respective pension obligations as if the merger had not occurred and the individual plans remained separate.

The annual contributions are not less than the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. The plan provides for eligible employees to receive benefits based principally on years of service with the Company and a percentage of certain compensation prior to normal retirement.

The Company also has non-qualified supplemental retirement benefit plans covering certain officers, which provide for eligible employees (and former employees) to receive additional benefits based principally on compensation and years of service. These plans provide for incremental benefit payments from the Company's funds so that total benefit payments equal amounts that would have been payable from the Company's principal retirement plans if it were not for limitations imposed by income tax regulations.

The Company provides certain health care benefits for retired employees. Substantially all employees become eligible for those benefits if they reach early retirement age while working for the Company and have at least ten years of service. The Company's postretirement benefit program provides for a specific credit amount, which may be used to purchase health insurance upon retirement. The credit amount is based upon the retiree's age and years of service with the Company. The Company does not expect to adjust the amount of the credit to provide for the impact of medical inflation.

On December 8, 2003 the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was enacted. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Company believes its benefits are actuarially equivalent to Medicare Part D and therefore, it will qualify for federal subsidy. As permitted by FASB Staff Position (FSP) 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, the Company deferred the recognition of the impact of the new Medicare provisions at December 31, 2003. During 2004, FSP 106-2 was issued and included final guidance on accounting for the provisions of this legislation which was required during 2005. The impact of adopting FSP 106-2 was a decrease in 2005 net periodic benefit cost of \$316,000. The reduction in the benefit obligation as of January 1, 2005 was \$2,225,000. These reductions incorporate the expectation that the Company will be eligible for federal subsidies as a result of providing these benefits.

During 2005, in connection with the creation of SBP as described in Note 2, a separate qualified noncontributory defined benefit plan was established covering substantially all full-time SBP employees. SBP also established a Voluntary Employee Beneficiary Association ("VEBA"), a tax-exempt trust to fund certain healthcare benefits for eligible SBP employees. The transfer of assets and liabilities related to SBP employees who were previously GHMSI employees are reflected in the tables below as "transfer to SBP".

NOTES TO FINANCIAL STATEMENTS

A summary of assets, obligations and assumptions of the qualified and non-qualified pension and post-retirement benefit plans are as follows at December 31, 2005:

(in Thousands)

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Accumulated Benefit Obligation	\$ 216,712	\$ 1,416	\$ 12,158
Change in benefit obligation:			
Benefit obligation at beginning of year	\$ 250,338	\$ 1,413	\$ 13,107
Service cost	6,969	655	1,173
Interest cost	12,413	72	698
Actuarial loss (gain)	785	(651)	2,282
Transfer to SBP	(30,463)	–	(720)
Impact of Medicare D subsidy	–	–	(2,225)
Benefits paid	<u>(11,126)</u>	<u>(74)</u>	<u>(740)</u>
Benefit obligation at end of year	\$ 228,736	\$ 1,415	\$ 13,575
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 252,130	\$ –	\$ –
Actual return on plan assets	15,917	–	–
Employer contribution	2,140	74	740
Transfer to SBP	(30,128)		
Benefits paid	<u>(11,126)</u>	<u>(74)</u>	<u>(740)</u>
Fair value of plan assets at end of year	\$ 228,933	\$ –	\$ –

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Funded status	\$ 197	\$ (1,416)	\$ (13,575)
Unrecognized net loss (gain)	57,314	(483)	(2,913)
Transition liability (asset) not yet recognized	(48,611)	1,007	2,965
Unamortized prior service cost (asset)	<u>248</u>	<u>(87)</u>	<u>16</u>
Prepaid pension asset – nonadmitted or (accrued benefit cost in accompanying financial statements)	\$ 9,148	\$ (979)	\$ (13,508)
Components of net periodic benefit cost:			
Service cost	\$ 6,969	\$ 655	\$ 1,173

NOTES TO FINANCIAL STATEMENTS

Interest cost	12,413	72	698
Expected return on plan assets	(18,228)	–	–
Amortization of prior service cost (asset)	25	(10)	2
Amortization of unrecognized transition obligation	(2,717)	67	424
Amount of recognized losses (gains)	<u>3,063</u>	<u>—1</u>	<u>(158)</u>
Total net periodic benefit cost	\$ 1,525	\$ 785	\$ 2,139

NOTES TO FINANCIAL STATEMENTS

Weighted average assumptions as of December 31, 2005:

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Discount rate – benefit obligation	5.75%	5.75%	5.75%
Discount rate – net benefit cost	5.75%	5.75%	5.75%
Rate of compensation increase	4.50	4.50	N/A
Expected long-term rate of return on plan assets	8.50	N/A	N/A
Annual rate of increase in the per capita cost of covered health benefits	N/A	N/A	6.00

As of December 31, 2005, pension benefit obligations and postretirement benefit obligations for nonvested employees were \$3,179,000 and \$11,518,000 respectively.

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

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total service and interest cost	\$ 28,731	\$ (23,198)
Effect on postretirement benefit obligation	\$ 583,119	\$ (476,752)

The Company sponsors 401(k) plans for the benefit of all eligible employees. The Company contributes to this plan and recognized expenses of \$1,318,000 and \$2,070,000 for 2005 and 2004, respectively.

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

The Company has no shares authorized, issued or outstanding. The Company has no preferred stock outstanding.

The portion of unassigned funds (surplus) represented by Net unrealized gains is as follows: \$ 80,796,000

14. Contingencies

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

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

NOTES TO FINANCIAL STATEMENTS

Beginning in 1999, a series of class action lawsuits were filed against virtually all major entities in the health benefits business, including BCBSA and the BCBSA licensees. The suits allege that over a course of years the defendants have conspired to use criteria and standards for adjudication of provider claims that result in underpayment of provider claims. They allege that the defendants have been involved in a conspiracy to make false representations to providers and to conceal material information from providers about the manner in which claims are adjudicated. The plaintiffs assert that the alleged misconduct violates the Racketeer Influenced and Corrupt Organizations Act (RICO). Plaintiffs seek treble damages and injunctive relief under RICO. The Company is engaged in discovery in this matter. The Company intends to vigorously defend these proceedings; however, their ultimate outcomes cannot presently be determined. Various other lawsuits, including class action lawsuits and other claims, occur in the normal course of business and are pending against the Company. The Company records accruals for such matters when a loss is deemed to be probable and estimable. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not have a material adverse effect on the accompanying financial statements; however, there can be no assurance in this regard.

CFI and its affiliates have employment contracts and other benefit arrangements with certain executives which contain provisions that could trigger the acceleration of certain benefits and/or payment of additional compensation upon a change in control of CFI. These aforementioned potential incremental payments have not been accrued at December 31, 2005, as management believes all of the triggering events have not occurred.

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

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

The Company's professional liability coverage is on a claims-made basis. Should the claims made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. The claims made policy has been renewed through April 30, 2006.

CFI has a commitment for a credit facility with a commercial bank under which certain of its affiliates, including the Company, may borrow up to a maximum amount of \$60,000,000. There have been no draws made on this line of credit during 2005 or 2004.

15. Leases

The Company leases certain administrative facilities and equipment under operating leases. Some of these lease agreements contain escalation clauses for increases in real estate taxes and operating costs over base year amounts. These leases expire on various dates, with renewal options available on many of these leases.

Future noncancelable minimum payments for leases for which the Company is obligated, are as follows as of December 31, 2005:

2006	\$ 12,994,000
2007	12,138,000
2008	10,594,000
2009	10,806,000
2010	11,022,000
Thereafter	<u>30,491,000</u>
Total minimum payments	\$ 88,045,000

Rent expense for the years ended December 31, 2005 and 2004, net of allocations to affiliates, was approximately \$10,505,000 and \$15,869,000 respectively.

NOTES TO FINANCIAL STATEMENTS

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

Not applicable.

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

Not applicable.

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

The results from operations of uninsured ASC plans and the uninsured portion of partially insured plans was as follows for the years ended December 31, 2005 and 2004:

	2005	2004
Gross reimbursement for medical costs incurred	\$ 795,608,000	\$ 709,293,000
Gross administrative fees accrued	65,417,000	60,243,000
Gross expenses incurred	<u>(857,606,000)</u>	<u>(767,377,000)</u>
Operating gain (loss), before stop loss	3,419,000	2,159,000
Stop loss	<u>2,962,000</u>	<u>2,304,000</u>
Proforma operating gain (loss)	\$ 6,381,000	\$ 4,463,000

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

Not applicable.

20. September 11 Events

Not applicable.

21. Other Items

Not applicable.

22. Events Subsequent

Not applicable.

23. Reinsurance

Not applicable.

24. Retrospectively Rated Contracts

The Company maintains retrospectively rated contracts. For these contracts, the Company estimates accrued retrospective premium adjustments for its group health insurance business through a mathematical approach using an algorithm of the company's underwriting rules and experience rating practices.

25. Change in Incurred Claims and Claim Adjustment Expenses

Reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years has decreased by \$31,657,400 from \$230,548,146 in 2004 to \$198,890,746 in 2005 as a result of reestimation of unpaid claims and claim adjustment expenses,

NOTES TO FINANCIAL STATEMENTS

principally on group contracts, based on lower cost trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

26. Intercompany Pooling Arrangements

Not applicable.

27. Structured Settlements

Not applicable

28. Health Care Receivables

Pharmaceutical Rebates

Pharmacy Rebates receivable are based on pharmacy utilization during the quarter as well as past experience of rebates received.

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Invoice/ Confirmed	Actual Rebates Collected Within 90 Days of Invoicing/ Contractual Due Date	Actual Rebates Collected within 91-180 Days of Invoicing/ Contractual Due Date	Actual Rebates Collected More Than 180 days After Invoicing/ Contractual Due Date
12/31/2005	\$ 3,832,471	\$ -	\$ -	\$ -	\$ -
9/30/2005	3,782,748	3,832,471	748,826	-	-
6/30/2005	3,782,748	3,782,748	2,420,822	1,013,409	-
3/31/2005	1,989,707	1,989,707	1,989,707	-	-

29. Participating Policies

Not applicable

30. Premium Deficiency Reserve

Not applicable

31. Salvage and Subrogation

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

Year incurred	
2004	\$ 1,190,636
2005	3,163,354

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	64,964,458	8.338	64,964,458	8.338
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	39,627,247	5.086	39,627,247	5.086
1.22 Issued by U.S. government sponsored agencies	7,519,771	0.965	7,519,771	0.965
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)		0.000		0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	3,019,981	0.388	3,019,981	0.388
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.000		0.000
1.43 Revenue and assessment obligations	3,420,597	0.439	3,420,597	0.439
1.44 Industrial development and similar obligations		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	6,627,849	0.851	6,627,849	0.851
1.512 Issued or guaranteed by FNMA and FHLMC	146,012,391	18.740	146,012,391	18.740
1.513 All other		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	20,320,446	2.608	20,320,446	2.608
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	31,094,346	3.991	31,094,346	3.991
1.523 All other		0.000		0.000
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	178,405,560	22.898	178,405,560	22.898
2.2 Unaffiliated foreign securities		0.000		0.000
2.3 Affiliated securities		0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds	154,401,120	19.817	154,401,120	19.817
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated	10,078,126	1.294	10,078,126	1.294
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated	54,270,179	6.966	54,270,179	6.966
3.4 Other equity securities:				
3.41 Affiliated	114,524,085	14.699	114,524,085	14.699
3.42 Unaffiliated	3,187,256	0.409	3,187,256	0.409
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated		0.000		0.000
3.52 Unaffiliated		0.000		0.000
4. Mortgage loans:				
4.1 Construction and land development		0.000		0.000
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties		0.000		0.000
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company		0.000	0	0.000
5.2 Property held for the production of income (including \$ of property acquired in satisfaction of debt)		0.000	0	0.000
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)		0.000	0	0.000
6. Contract loans		0.000	0	0.000
7. Receivables for securities	439,867	0.056	439,867	0.056
8. Cash, cash equivalents and short-term investments	(58,785,046)	(7.545)	(58,785,046)	(7.545)
9. Other invested assets		0.000		0.000
10. Total invested assets	779,128,233	100.000	779,128,233	100.000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [] No []
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [] No [] NA []
- 1.3 State Regulating? Maryland.....
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No []
- 2.2 If yes, date of change:
 If not previously filed, furnish herewith a certified copy of the instrument as amended.
- 3.1 State as of what date the latest financial examination of the reporting entity was made or is being made.12/31/2003
- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.12/31/2003
- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).05/18/2005
- 3.4 By what department or departments? District of Columbia Department of Insurance, Securities and Banking
- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity), receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
 4.11 sales of new business? Yes [] No []
 4.12 renewals? Yes [] No []
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
 4.21 sales of new business? Yes [] No []
 4.22 renewals? Yes [] No []
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [] No []
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

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

1 Nationality	2 Type of Entity

ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

GENERAL INTERROGATORIES

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

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

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
ERNST & YOUNG, LLP, 621 E. PRATT ST., BALTIMORE, MD 21202
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
EDWARD W. O'NEIL, FSA, MAAA, SENIOR VICE PRESIDENT AND CHIEF ACTUARY, 10455 MILL RUN CIRCLE, OWINGS MILLS, MD. 211117
- 11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [] No [X]
- 11.11 Name of real estate holding company
- 11.12 Number of parcels involved
- 11.13 Total book/adjusted carrying value \$
- 11.2 If yes, provide explanation
12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 12.1 What changes have been made during the year in the United States Manager or the United States Trustees of the reporting entity?
- 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [] No []
- 12.3 Have there been any changes made to any of the trust indentures during the year? Yes [] No []
- 12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [] No [] NA []

BOARD OF DIRECTORS

13. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No []
14. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No []
15. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or likely to conflict with the official duties of such person? Yes [X] No []

FINANCIAL

- 16.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.11 To directors or other officers .. \$0
- 16.12 To stockholders not officers ... \$0
- 16.13 Trustees, supreme or grand (Fraternal only) \$0
- 16.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.21 To directors or other officers ... \$0
- 16.22 To stockholders not officers \$0
- 16.23 Trustees, supreme or grand (Fraternal only) \$0
- 17.1 Were any of the assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in this statement? Yes [] No [X]
- 17.2 If yes, state the amount thereof at December 31 of the current year:
- 17.21 Rented from others \$
- 17.22 Borrowed from others \$
- 17.23 Leased from others \$
- 17.24 Other \$
- 18.1 Does this statement include payments for assessments as described in the *Annual Statement Instructions* other than guaranty fund or guaranty association assessments? Yes [] No [X]
- 18.2 If answer is yes,
- 18.21 Amount paid as losses or risk adjustment \$
- 18.22 Amount paid as expenses \$
- 18.23 Other amounts paid \$
- 19.1 Does the reporting entity report any amounts due from the parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No []
- 19.2 If yes, indicated any amounts receivable from parent included in the Page 2 amount: \$0

GENERAL INTERROGATORIES

INVESTMENT

20.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits? Yes [] No [X]

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

SUNTRUST BANK

21.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on the Schedule E - Part 3 - Special Deposits; or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 17.1) Yes [X] No []

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

	21.21	Loaned to others	\$
	21.22	Subject to repurchase agreements	\$
	21.23	Subject to reverse repurchase agreements	\$
	21.24	Subject to dollar repurchase agreements	\$
	21.25	Subject to reverse dollar repurchase agreements	\$
	21.26	Pledged as collateral	\$ 2,297,613
	21.27	Placed under option agreements	\$
	21.28	Letter stock or other securities restricted as to sale ...	\$
	21.29	Other	\$

21.3 For category (21.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

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

22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [] No [] NA []
If no, attach a description with this statement.

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

23.2 If yes, state the amount thereof at December 31 of the current year. \$

GENERAL INTERROGATORIES

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

Yes [] No []

24.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
DODGE & COX.....	1 SANSOME STREET, 35TH FLOOR, SAN FRANCISCO, CA 94104.....
BYRAM CAPITAL MANAGEMENT.....	41 WEST PUTNAM AVE. GREENWICH, CT 06830.....
CALAMOS INVESTMENTS.....	1111 EAST WARRENVILLE ROAD, NAPERVILLE, IL 60563-1493.....
BLACKROCK INVESTMENT ADVISORS.....	100 BELLEVUE PARKWAY, WILMINGTON, DE 19809.....

24.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	2 Complete Explanation(s)

24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year?

Yes [] No []

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

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

24.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	2 Address

25.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])?

Yes [] No []

25.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
25.2001. 922040-10-0.....	VANGUARD INSTITUTIONAL INDEX FUND.....	54,811,159
25.2999 TOTAL		54,811,159

25.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding Of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
VANGUARD INSTITUTIONAL INDEX FUND	GENERAL ELECTRIC.....	554,383	12/31/2005.....

GENERAL INTERROGATORIES

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

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-) or Fair Value over Statement (+)
26.1 Bonds.....	602,257,411	603,574,942	1,317,531
26.2 Preferred stocks.....	10,078,126	10,609,180	531,054
26.3 Totals	612,335,537	614,184,122	1,848,585

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

VALUES TAKEN FROM CUSTODY STATEMENT.....

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

27.2 If no, list the exceptions:

OTHER

28.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?.....\$822,673

28.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
BlueCross BlueShield Association.....	785,356

29.1 Amount of payments for legal expenses, if any?.....\$2,199,774

29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Crowell & Moring.....	764,565

30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?.....\$250,903

30.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
Sonnenschein, Nath & Rosenthal.....	240,800

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [X] No []
 1.2 If yes, indicate premium earned on U. S. business only \$ 16,383,539
 1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? \$ 0
 1.31 Reason for excluding

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. \$ 0
 1.5 Indicate total incurred claims on all Medicare Supplement Insurance. \$ 11,503,232
 1.6 Individual policies:

Most current three years:
 1.61 Total premium earned \$ 1,100,704
 1.62 Total incurred claims \$ 1,489,906
 1.63 Number of covered lives \$ 705
 All years prior to most current three years:
 1.64 Total premium earned \$ 15,282,835
 1.65 Total incurred claims \$ 10,013,326
 1.66 Number of covered lives \$ 6,028

1.7 Group policies:

Most current three years:
 1.71 Total premium earned \$ 0
 1.72 Total incurred claims \$ 0
 1.73 Number of covered lives \$ 0
 All years prior to most current three years:
 1.74 Total premium earned \$ 0
 1.75 Total incurred claims \$ 0
 1.76 Number of covered lives \$ 0

2. Health Test:

	1 Current Year		2 Prior Year	
2.1 Premium Numerator	\$	2,258,187,726	\$	2,032,220,554
2.2 Premium Denominator	\$	2,258,296,721	\$	2,032,399,403
2.3 Premium Ratio (2.1/2.2)		1.000		1.000
2.4 Reserve Numerator	\$	256,533,339	\$	237,233,361
2.5 Reserve Denominator	\$	256,533,339	\$	237,233,360
2.6 Reserve Ratio (2.4/2.5)		1.000		1.000

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

4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? Yes [X] No []
 4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? Yes [] No []
 5.1 Does the reporting entity have stop-loss reinsurance? Yes [] No [X]
 5.2 If no, explain:

5.3 Maximum retained risk (see instructions)
 5.31 Comprehensive Medical \$
 5.32 Medical Only \$
 5.33 Medicare Supplement \$
 5.34 Dental \$
 5.35 Other Limited Benefit Plan \$
 5.36 Other \$

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:
 Intercompany Agreement support from CareFirst of Maryland and BCBSD
 7.1 Does the reporting entity set up its claim liability for provider services on a service data base? Yes [X] No []
 7.2 If no, give details:

8. Provide the following Information regarding participating providers:
 8.1 Number of providers at start of reporting year 28,818
 8.2 Number of providers at end of reporting year 30,090
 9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [] No [X]
 9.2 If yes, direct premium earned:
 9.21 Business with rate guarantees between 15-36 months
 9.22 Business with rate guarantees over 36 months

GENERAL INTERROGATORIES

- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contract? Yes [] No [X]
- 10.2 If yes:
- 10.21 Maximum amount payable bonuses \$
- 10.22 Amount actually paid for year bonuses \$
- 10.23 Maximum amount payable withholds \$
- 10.24 Amount actually paid for year withholds \$
- 11.1 Is the reporting entity organized as:
- 11.12 A Medical Group/Staff Model, Yes [] No [X]
- 11.13 An Individual Practice Association (IPA), or, Yes [] No [X]
- 11.14 A Mixed Model (combination of above) ? Yes [] No [X]
- 11.2 Is the reporting entity subject to Minimum Net Worth Requirements? Yes [X] No []
- 11.3 If yes, show the name of the state requiring such net worth. District of Columbia
- 11.4 If yes, show the amount required. \$ 69,641,210
- 11.5 Is this amount included as part of a contingency reserve in stockholders equity? Yes [] No [X]
- 11.6 If the amount is calculated, show the calculation.
- See footnote 11.6 below.
12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
District of Columbia.....
State of Maryland (Prince Georges and Montgomery Counties only).....
Northern Virginia: Portions east of Route 123 and the incorporated cities of Fairfax and Vienna.....

11.6 Minimum Net-Worth Requirements

The Company is licensed to conduct business in the states of Virginia and Maryland (Prince Georges and Montgomery Counties) and the District of Columbia. The minimum net worth for each of these jurisdictions is as follows:

District of Columbia: calculated as 8% of prior year's risk premium

\$2,032,399,403	Prior Year's Premiums Earned
1,161,884,273	Less: FEP Premiums Earned
870,515,130	Prior Year's Risk Premiums
8%	Applicable Rate for the District of Columbia
69,641,210	Minimum Statutory Reserve Requirement

Maryland \$69,641,210, calculated as 8% of prior year's risk premium

Virginia \$121,371,684, calculated as 45 days of anticipated operating expenses and incurred claims expenses generated from subscription contracts.

	Incurred Claims	Operating Expenses
Total	\$2,015,011,301	\$207,068,202
Less: FEP	1,187,153,770	50,466,520
Incurred	827,857,531	156,601,682
Divided by	365 days	365 days
Times	45 days	45 days

\$ 102,064,627 plus \$ 19,307,057 Total=\$121,371,684

FIVE-YEAR HISTORICAL DATA

	1 2005	2 2004	3 2003	4 2002	5 2001
BALANCE SHEET (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	1,528,767,661	1,418,674,490	1,292,577,769	1,087,727,010	927,379,289
2. Total liabilities (Page 3, Line 22)	967,800,516	917,660,025	900,569,609	796,953,985	653,394,779
3. Statutory surplus	69,641,210	67,448,771	58,683,808	0	0
4. Total capital and surplus (Page 3, Line 31)	560,967,145	501,014,465	392,008,160	290,773,025	273,984,510
INCOME STATEMENT (Page 4)					
5. Total revenues (Line 8)	2,257,444,351	2,032,740,253	1,891,194,684	1,719,875,820	1,509,283,240
6. Total medical and hospital expenses (Line 18)	2,015,011,301	1,770,492,676	1,674,794,207	1,542,955,898	1,357,572,301
7. Claims adjustment expenses (Line 20)	68,696,090	63,143,405	66,080,866	0	0
8. Total administrative expenses (Line 21)	138,372,112	120,558,205	97,393,255	83,549,487	87,203,819
9. Net underwriting gain (loss) (Line 24)	35,364,848	78,545,967	52,926,355	32,327,567	27,900,833
10. Net investment gain (loss) (Line 27)	31,127,098	34,724,817	27,080,125	14,843,238	28,861,365
11. Total other income (Lines 28 plus 29)	2,026,458	338,720	(112,064)	660,546	(1,185,574)
12. Net income (loss) (Line 32)	54,397,489	93,527,673	72,530,062	38,909,010	55,576,624
RISK - BASED CAPITAL ANALYSIS					
13. Total adjusted capital.....	560,967,145	501,014,465	392,008,160	290,773,025	273,984,510
14. Authorized control level risk-based capital.....	62,787,823	52,666,787	49,799,523	45,255,447	36,845,312
ENROLLMENT (Exhibit 1)					
15. Total members at end of period (Column 5, Line 7)	756,919	737,769	710,923	748,266	712,541
16. Total member months (Column 6, Line 7)	8,876,205	8,659,572	8,643,336	8,857,516	8,472,885
OPERATING PERCENTAGE (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
17. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
18. Total hospital and medical plus other non-health (Lines 18 plus 19)	89.3				
19. Cost containment expenses	0.6	0.0	XXX	XXX	XXX
20. Other claims adjustment expenses	2.4	0.0	0.0	0.0	0.0
21. Total underwriting deductions (Line 23)	98.5	96.2	97.2	98.1	98.2
22. Total underwriting gain (loss) (Line 24)	1.6	3.9	2.8	1.9	1.8
UNPAID CLAIMS ANALYSIS					
(U&I Exhibit, Part 2B)					
23. Total claims incurred for prior years (Line 13, Col. 5)	198,890,746	224,856,148	210,210,732	198,269,793	166,681,137
24. Estimated liability of unpaid claims – [prior year (Line 12, Col. 6)]	230,548,146	244,289,500	237,430,531	203,554,394	159,812,944
INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES					
25. Affiliated bonds (Sch. D Summary, Line 25, Col. 1)	0	0	0	0	0
26. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1)	0	0	0	0	0
27. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2)	114,524,084	102,040,196	85,107,160	71,590,117	81,301,101
28. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11)	0	0	0	0	0
29. Affiliated mortgage loans on real estate	0	0	0	0	0
30. All other affiliated	0	0	0	0	0
31. Total of above Lines 25 to 30	114,524,084	102,040,196	85,107,160	71,590,117	81,301,101

ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

SCHEDULE D - SUMMARY BY COUNTRY

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

Description	1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS				
Governments (Including all obligations guaranteed by governments)	1. United States 2. Canada 3. Other Countries	121,148,153 120,377,735	121,397,193	120,105,965
	4. Totals	121,148,153	121,397,193	120,105,965
States, Territories and Possessions (Direct and guaranteed)	5. United States 6. Canada 7. Other Countries	3,019,981	3,026,400	3,000,000
	8. Totals	3,019,981	3,026,400	3,000,000
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States 10. Canada 11. Other Countries .....	..........	..........	..........
	12. Totals	0	0	0
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States 14. Canada 15. Other Countries	169,029,869	167,040,573	164,914,158
	16. Totals	169,029,869	167,040,573	164,914,158
Public Utilities (unaffiliated)	17. United States 18. Canada 19. Other Countries	1,000,467	1,001,390	1,000,000
	20. Totals	1,000,467	1,001,390	1,000,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States 22. Canada 23. Other Countries	206,814,180	211,135,589	209,565,708
	24. Totals	206,814,180	211,135,589	209,565,708
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0
	26. Total Bonds	501,012,650	502,581,687	498,585,831
PREFERRED STOCKS				
Public Utilities (unaffiliated)	27. United States 28. Canada 29. Other Countries .....	..........	..........	..........
	30. Totals	0	0	0
Banks, Trust and Insurance Companies (unaffiliated)	31. United States 32. Canada 33. Other Countries	4,215,261	4,699,183	4,365,940
	34. Totals	4,215,261	4,699,183	4,365,940
Industrial and Miscellaneous (unaffiliated)	35. United States 36. Canada 37. Other Countries	5,862,865	6,257,398	5,622,629
	38. Totals	5,862,865	6,257,398	5,622,629
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0
	40. Total Preferred Stocks	10,078,126	10,956,581	9,988,569
COMMON STOCKS				
Public Utilities (unaffiliated)	41. United States 42. Canada 43. Other Countries .....	..........	..........	..........
	44. Totals	0	0	0
Banks, Trust and Insurance Companies (unaffiliated)	45. United States 46. Canada 47. Other Countries	4,350,402	4,350,402	2,725,909
	48. Totals	4,350,402	4,350,402	2,725,909
Industrial and Miscellaneous (unaffiliated)	49. United States 50. Canada 51. Other Countries	107,918,186	107,918,186	100,021,965
	52. Totals	107,918,186	107,918,186	100,021,965
Parent, Subsidiaries and Affiliates	53. Totals	114,524,084	114,524,084	39,097,325
	54. Total Common Stocks	226,792,672	226,792,672	141,845,199
	55. Total Stocks	236,870,798	237,749,253	151,833,768
	56. Total Bonds and Stocks	737,883,448	740,330,940	655,403,569

SCHEDULE D - VERIFICATION BETWEEN YEARS

Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year.....	626,341,203	7. Amortization of premium.....	3,534,631
2. Cost of bonds and stocks acquired, Column 7, Part 3.....	1,057,948,890	8. Foreign Exchange Adjustment:	
3. Accrual of discount.....	732,088	8.1 Column 15, Part 1.....	0
4. Increase (decrease) by adjustment:.....		8.2 Column 19, Part 2, Sec. 1.....	0
4.1 Columns 12 - 14, Part 1.....	(6,918,516)	8.3 Column 16, Part 2, Sec. 2.....	0
4.2 Columns 15 - 17, Part 2, Sec. 1.....	43,530	8.4 Column 15, Part 4.....	0
4.3 Column 15, Part 2, Sec. 2.....	15,264,184	9. Book/adjusted carrying value at end of current period.....	738,946,224
4.4 Columns 11 - 13, Part 4.....	(6,112,493)	10. Total valuation allowance.....	
5. Total gain (loss), Col. 19, Part 4.....	7,030,200	11. Subtotal (Lines 9 plus 10).....	738,946,224
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4.....	951,848,231	12. Total nonadmitted amounts.....	
		13. Statement value of bonds and stocks, current period.....	738,946,224

SCHEDULE T PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

States, Etc.	1 Guaranty Fund (Yes or No)	2 Is Insurer Licensed? (Yes or No)	Direct Business Only					
			3 Premiums	4 Medicare Title XVIII	5 Medicaid Title XIX	6 Federal Employees Health Benefits Program Premiums	7 Life & Annuity Premiums & Deposit Type Contract Funds	8 Property/ Casualty Premiums
1. Alabama AL	No	No						
2. Alaska AK	No	No						
3. Arizona AZ	No	No						
4. Arkansas AR	No	No						
5. California CA	No	No						
6. Colorado CO	No	No						
7. Connecticut CT	No	No						
8. Delaware DE	No	No						
9. District of Columbia DC	Yes	Yes	293,058,225			1,250,938,856		
10. Florida FL	No	No						
11. Georgia GA	No	No						
12. Hawaii HI	No	No						
13. Idaho ID	No	No						
14. Illinois IL	No	No						
15. Indiana IN	No	No						
16. Iowa IA	No	No						
17. Kansas KS	No	No						
18. Kentucky KY	No	No						
19. Louisiana LA	No	No						
20. Maine ME	No	No						
21. Maryland MD	Yes	Yes	407,191,415					
22. Massachusetts MA	No	No						
23. Michigan MI	No	No						
24. Minnesota MN	No	No						
25. Mississippi MS	No	No						
26. Missouri MO	No	No						
27. Montana MT	No	No						
28. Nebraska NE	No	No						
29. Nevada NV	No	No						
30. New Hampshire NH	No	No						
31. New Jersey NJ	No	No						
32. New Mexico NM	No	No						
33. New York NY	No	No						
34. North Carolina NC	No	No						
35. North Dakota ND	No	No						
36. Ohio OH	No	No						
37. Oklahoma OK	No	No						
38. Oregon OR	No	No						
39. Pennsylvania PA	No	No						
40. Rhode Island RI	No	No						
41. South Carolina SC	No	No						
42. South Dakota SD	No	No						
43. Tennessee TN	No	No						
44. Texas TX	No	No						
45. Utah UT	No	No						
46. Vermont VT	No	No						
47. Virginia VA	No	Yes	307,183,890					
48. Washington WA	No	No						
49. West Virginia WV	No	No						
50. Wisconsin WI	No	No						
51. Wyoming WY	No	No						
52. American Samoa AS	No	No						
53. Guam GU	No	No						
54. Puerto Rico PR	No	No						
55. U.S. Virgin Islands VI	No	No						
56. Canada CN	No	No						
57. Aggregate other alien OT	XXX	XXX	0	0	0	0	0	0
58. Subtotal	XXX	XXX	1,007,433,530	0	0	1,250,938,856	0	0
59. Reporting entity contributions for Employee Benefit Plans	XXX	XXX						
60. Total (Direct Business)	XXX	(a) 3	1,007,433,530	0	0	1,250,938,856	0	0
DETAILS OF WRITE-INS								
5701.	XXX	XXX						
5702.	XXX	XXX						
5703.	XXX	XXX						
5798. Summary of remaining write-ins for Line 57 from overflow page	XXX	XXX	0	0	0	0	0	0
5799. Totals (Lines 5701 thru 5703 plus 5798) (Line 57 above)	XXX	XXX	0	0	0	0	0	0

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

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

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

ANNUAL STATEMENT FOR THE YEAR 2005 OF THE Group Hospitalization and Medical Services, Inc.

**SCHEDULE T – PART 2
INTERSTATE COMPACT PRODUCTS – EXHIBIT OF PREMIUMS WRITTEN**

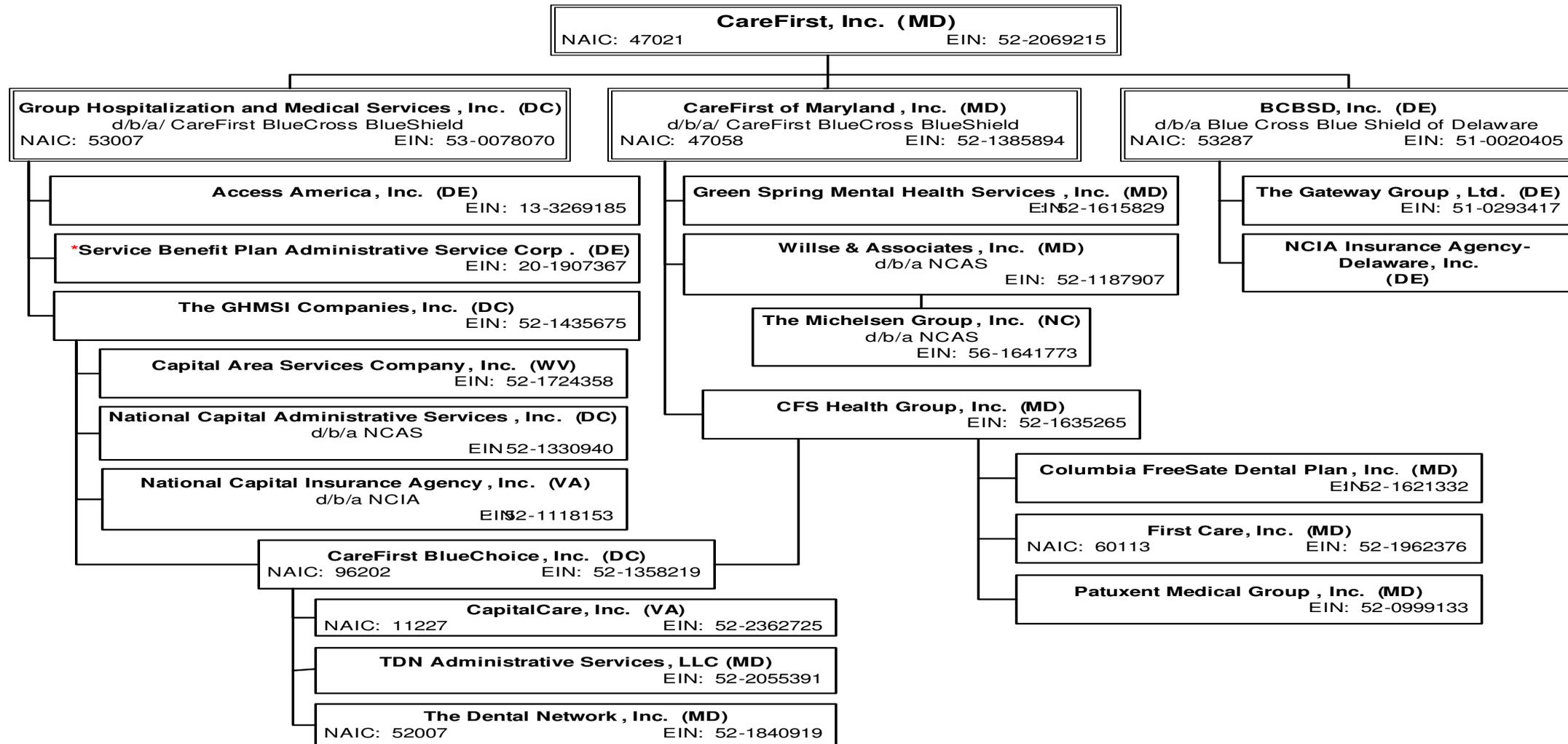
Allocated by States and Territories

States, Etc.		Direct Business Only					Totals
		1 Life (Group and Individual)	2 Annuities (Group and Individual)	3 Disability Income (Group and Individual)	4 Long-Term Care (Group and Individual)	5 Deposit-Type Contracts	
1. Alabama	AL						0
2. Alaska	AK						0
3. Arizona	AZ						0
4. Arkansas	AR						0
5. California	CA						0
6. Colorado	CO						0
7. Connecticut	CT						0
8. Delaware	DE						0
9. District of Columbia	DC						0
10. Florida	FL						0
11. Georgia	GA						0
12. Hawaii	HI						0
13. Idaho	ID						0
14. Illinois	IL						0
15. Indiana	IN						0
16. Iowa	IA						0
17. Kansas	KS						0
18. Kentucky	KY						0
19. Louisiana	LA						0
20. Maine	ME						0
21. Maryland	MD						0
22. Massachusetts	MA						0
23. Michigan	MI						0
24. Minnesota	MN						0
25. Mississippi	MS						0
26. Missouri	MO						0
27. Montana	MT						0
28. Nebraska	NE						0
29. Nevada	NV						0
30. New Hampshire	NH						0
31. New Jersey	NJ						0
32. New Mexico	NM						0
33. New York	NY						0
34. North Carolina	NC						0
35. North Dakota	ND						0
36. Ohio	OH						0
37. Oklahoma	OK						0
38. Oregon	OR						0
39. Pennsylvania	PA						0
40. Rhode Island	RI						0
41. South Carolina	SC						0
42. South Dakota	SD						0
43. Tennessee	TN						0
44. Texas	TX						0
45. Utah	UT						0
46. Vermont	VT						0
47. Virginia	VA						0
48. Washington	WA						0
49. West Virginia	WV						0
50. Wisconsin	WI						0
51. Wyoming	WY						0
52. American Samoa	AS						0
53. Guam	GU						0
54. Puerto Rico	PR						0
55. U.S. Virgin Islands	VI						0
56. Canada	CN						0
57. Other Alien	OT						0
58. Totals		0	0	0	0	0	0

NONE

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

PART 1 - ORGANIZATIONAL CHART



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

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